INSIGHT REPORT

FROM COAL TO DIAMONDS

2020 VISION – THE FUTURE FOR FUND ADMINISTRATORS

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Executive Summary

In an asset management industry that constantly changes, what could the next decade hold for fund administrators, and how should they adapt. New research by FIS™ examines the challenges that administrators face and the opportunities they must seize to prepare for 2020. With competition rife and margins under pressure, their mission is to transform a traditionally commoditized business model into a rich source of added value.

Our findings help to plot a potential course for fund administration over three sections:

1. Prospecting in a new industry terrain – the challenges of change and complexity

To keep pace with regulation and the due diligence demands of investors, 89 percent of fund administrators anticipate having to make investments in new systems and technologies before 2020.

As demands for data continue to grow, firms are also expected to administer not only more complex instruments but also multi-asset products. But 33 percent are unable to cater fully to the latter, including 18 percent with limited or no capacity in this area.

As well as managing variety, they must also deliver velocity, as asset managers demand faster valuations across all the funds they manage, even in non-mainstream asset classes. For example, by 2020, 43 percent of administrators say they will be expected to value hedge funds within 24 hours of the close of trading. As yet, however, few are currently able to offer close to that level of service functionality.

2. Joining forces at the coalface – fund administrators as business partners

With the possibility of technology firms entering the market, 82 percent of fund administrators believe competition from another sector is somewhat or highly likely by 2020. But there are mixed views on fees, with 39 percent expecting them to come down and 42 percent envisaging an increase. In this uncertain, newly competitive environment, automation can help administrators protect their margins by enabling them to cut costs and increase scale.

But forward-thinking firms have also identified the opportunity to add value at the service level and redefine themselves as business partners to asset managers. By understanding managers' strategic direction and working closely with them to develop supportive technologies, fund administrators can empower their clients and achieve differentiation.

3. Digging deep to add value – 24-carat opportunities for fund administration

The market trends thought to have the biggest impact on fund administrators, including pressure to deliver transparency (49 percent) and real-time data (30 percent), also indicate where they could truly add value for asset managers and cement lasting partnerships. Nearly a quarter (23 percent) expect to be affected by their clients' increased appetite for risk insight, presenting a premium service opportunity for fund administrators in the form of big data analytics and segmentation. However, 27 percent say they currently offer no data analysis tools at all, and more than a third have no plans to do so within the next two years.

And although social media, cloud computing and big data are acknowledged as important trends, they are not being prioritized for investment by 30, 18 and 14 percent of administrators, respectively.

All these trends and more have one key enabler in common: technology. Those administrators that do not invest in innovative technology could fail to provide the new and improved tools that asset managers are looking for – and risk being left behind.

Introduction

In 2016, the fund administration sector is in a state of flux. As regulators focus their attention increasingly on the buy side, asset managers are in turn demanding far more of their administrators and, above all, the data they provide.

We see these developments as both a challenge and an opportunity for fund administration. On the one hand, administrators must adapt their operations to manage a range of new pressures. But on the other, they also have a chance to transform their traditionally commoditized and often low-margin services into a premium proposition and increase their competitive edge.

A SunGard study[1] published in 2014 found that there is much to play for: 34 percent of fund managers expect to move toward more centralized processing, but 65 percent still work with between two and five fund administrators. But the possibility of winning that new business has a flipside, as two-thirds of asset managers said they planned to reassess their back-office technology strategy within three years.

Read on to find out how today's administrators can reinforce their position in the market and usher in a new, glittering era for fund administration.

Almost

9 in 10

fund administrators expect to have to make investments in new systems and technologies before 2020.

ABOUT THIS RESEARCH

This research is based on a survey of 57 management executives in the fund administration profession serving the global asset management industry. It was conducted by Longitude Research during September and October 2015. The survey focused on firms in Asia Pacific, Europe, North America and South Africa, in the mid-to-large size category (tier 1-4 administrators). The respondents were responsible for administering a diverse set of funds, from mutual funds and multi-asset funds to hedge funds and private equity funds, among others.

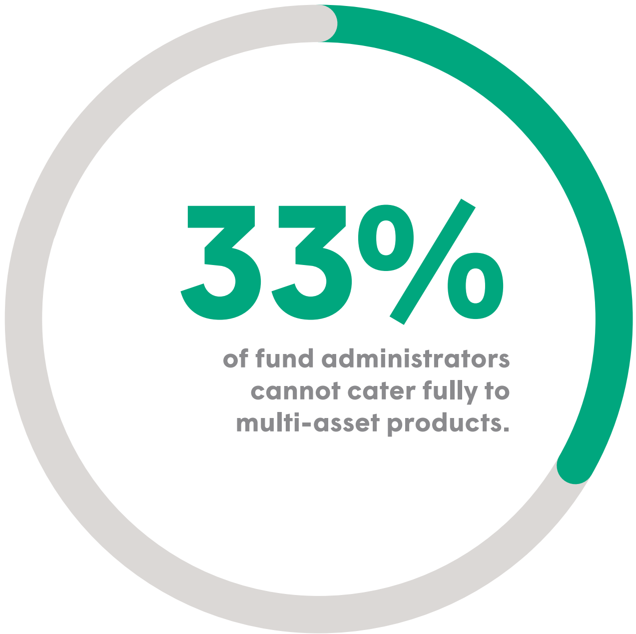
In addition, Longitude Research interviewed more than 15 leading asset managers, fund administrators and other subject experts in order to add qualitative insights to the quantitative data produced by the survey. The authors would like to thank all those who participated for their time, including:

- Jacqui Bungay, fund operations specialist, Investment Association
- John Campbell, head of Global Services for UK, Middle East and Africa, State Street
- Peter Cherecwich, head of Global Fund Services, Northern Trust
- Jean Devambez, global head of Product and Clients Solutions, BNP Paribas Securities Services
- Ann Doherty, managing director, Investor Services, J.P. Morgan
- Theresa Hamacher, president, Versanture Consulting
- Jeremy May, president, ALPS Fund Services, Inc.
- Amin Rajan, chief executive, CREATE-Research
- Chris Sims, head of IT and Investment Operations, Ignis Asset Management
- Mike Tumilty, director of Operations, Standard Life Investments

FOR MORE INFORMATION, SEE RESPONDENT DEMOGRAPHICS, PAGE 19.

[1] GLOBAL ASSET MANAGEMENT STUDY, SUNGARD, 2014.

Prospecting in a New Industry Terrain – The Challenges of Change and Complexity



Fund administrators must adapt to survive

The asset management industry as a whole is changing fast, creating new pressures for fund administration. To keep pace with regulation alone, almost nine in 10 (89 percent) fund administrators expect to have to make investments in new systems and technologies before 2020.

As asset managers become more demanding and the regulatory environment continues to evolve, 40 percent foresee significant changes ahead. Four-fifths (81 percent) anticipate having to adapt their business processes. So, with evolution an inescapable fact, fund administrators must adapt their business models to keep their services fit for purpose. Those that fail to keep pace with change risk obsolescence.

Demands on data are growing

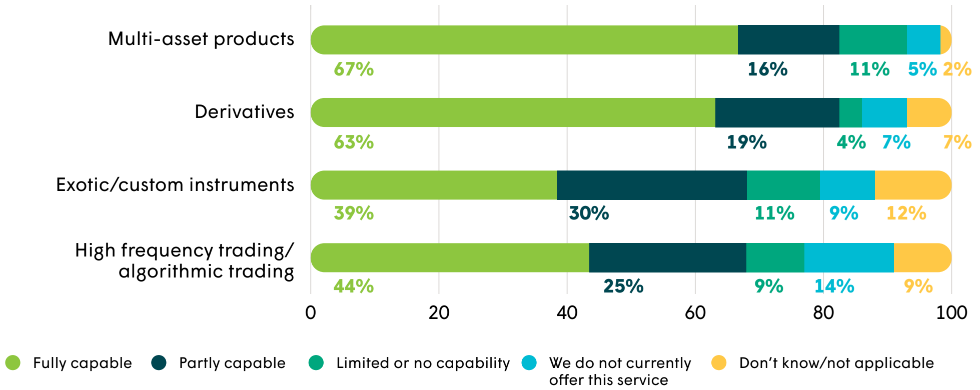
Regulation will clearly play a fundamental role in shaping the future of fund administration and the systems that support it. As asset managers pass on new requirements for disclosure and transparency, it is very often the administrator that must bear the brunt of regulatory change. Unsurprisingly, more than half of administrators (51 percent) predict that the need to keep pace with regulation will have the greatest impact on their activities between now and 2020, making it the most significant asset management trend of the next four years (see Chart 7 on page 12 for the full list of trends).

But even if regulators weren't pushing for greater openness and accountability, administrators would still be under pressure to deliver more data, because end investors also want access to more detailed and sophisticated information. Following the financial crisis, investors are no longer willing to take asset managers' claims at face value and are focused on scrutinizing their investments.

"What the regulators want is more and more data, and we have to provide that for our clients," says Peter Cherecwich, head of Global Fund Services at Northern Trust. "But, potentially more importantly, investors themselves are doing more and more due diligence on providers. It's no longer good enough for asset managers to simply promise to generate a return from their black box, even if they have a long-term track record of doing so."

Areas such as systems failure are a focus for regulators and investors alike, who are concerned by technology backup systems, for example, according to Jacqui Bungay, fund operations specialist at the U.K. funds group Investment Association. "Administrators increasingly offer automated straight-through processing, but what happens if the system goes down?" she asks. "Can the administration then be processed manually in a time-effective manner? All administrators should have a business recovery plan in place, and the first thing they would do is to attempt to bring their systems back up in a timely fashion."

Chart 1: To what extent is your organization capable of dealing with each of the following, currently?



Fund administrators must adapt their business models to keep their services fit for purpose. Those that fail to keep pace with change risk obsolescence.

Administrators are struggling to support complexity

As well as being more highly regulated, the global investment environment is increasing in complexity. According to PwC[2], alternative assets will account for 13 percent of all assets under management by 2020, up from 10 percent today. Passive management, meanwhile, where mandates are concentrated among relatively few asset managers, is set to double from 11 to 22 percent over the same time period.

As many fund managers move away from a business model designed around a single asset class, such as equities and fixed income, fund administrators will need to adapt accordingly. They will be expected to administer funds holding less conventional investments – including hedge funds, derivatives and real estate, for example – and offer a wide range of services to support asset management's migration to multi-asset offerings.

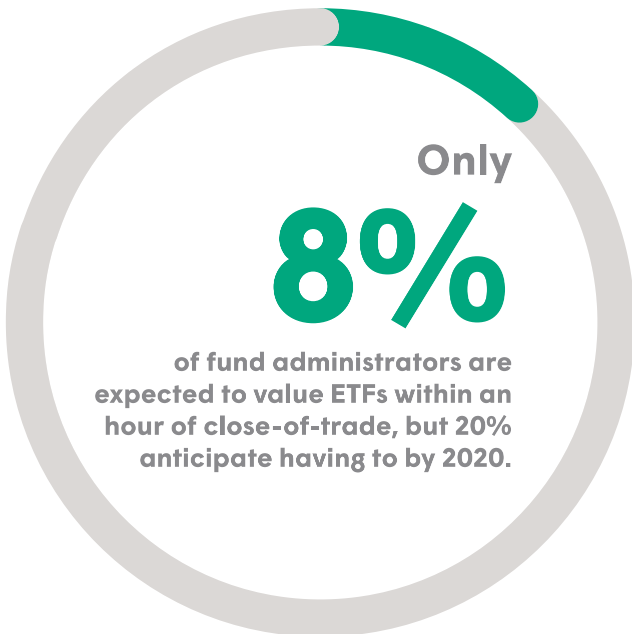
At present, though, fund administrators are not fully capable of meeting such needs. A third (33 percent) say they are not able to cater fully to multi-asset products, for example, including 18 percent who concede either that they have limited or no capacity in this area or simply do not offer such a service.

Similarly, many firms are not yet able to deal with evolving trading strategies, even increasingly prevalent practices such as high-frequency trading. Just 44 percent of administrators say that they are fully capable of servicing clients that invest this way.

Jean Devambez, global head of solutions for Asset and Fund Services at BNP Paribas Securities Services, says administrators have the opportunity to expand their range of services to support their client development in new areas and new asset classes. It will no longer be enough to offer a limited service to just one segment of the market.

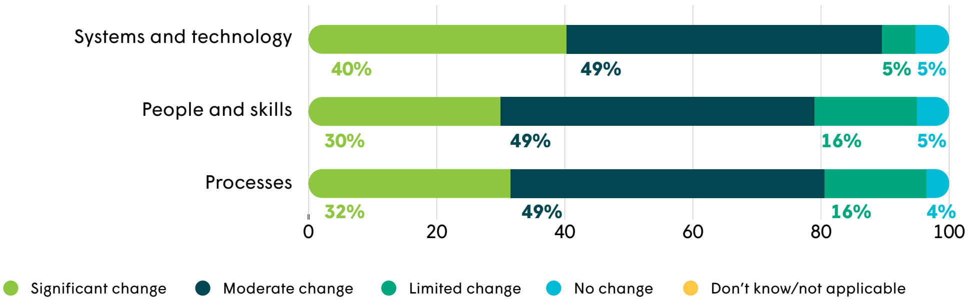
"We see a trend for convergence between traditional asset managers and alternative asset managers in private equity and real estate, for example," Devambez explains. "Traditional asset managers want to offer access to these alternative strategies, and the alternative managers are considering ideas such as liquid alternatives to access a broader client base."

To manage more complex strategies and the demands of new markets, administrators will need to keep on improving both their platforms and the capabilities of their people. As Chart 2 on page 5 shows, 79 percent of administrators are aware of the need to sharpen their skills base: a process that FIS executive vice president Tony Warren believes is well under way.



[2] ASSET MANAGEMENT 2020 – A BRAVE NEW WORLD, PWC, 2014.

Chart 2: To what extent do you anticipate having to adapt your systems and technology, people and skills, and processes, in order to cope with changing regulatory demands between now and 2020?



DUE TO ROUNDING, NUMBERS MAY NOT ADD UP TO 100%.

"As a traditionally low-margin business with commoditized job functions, fund administration has often struggled to attract and retain a highly educated workforce," says Warren. "So, there's a key opportunity for fund administrators to provide a more challenging and interesting place to work every day. I'd say the skill set is now increasing all the time, in line with the increased complexity that today's administrators strive to support."

As asset managers enter new markets, the issue of regulation again rears its head, giving administrators another chance to offer valuable support. Their challenge will be twofold: They should enable asset managers to comply with regulation as it evolves in the markets they operate in, while also smoothing the way into new markets. "We're going to see an increasing drive by regulators to apply rules established for more regulated functions to a much broader range of asset classes," says Martin Boyd, head of Asset Management and Insurance at FIS. "The opportunity is to ensure compliance without having to reinvent the model every time."

Amin Rajan of CREATE-Research argues that the combined effect of regulatory change and asset management industry evolution will require administrators to transform. "We're going to see new strategies deployed within complex instruments to generate more predictable outcomes," he says. "This is going to call for strategic collaboration between asset managers and their administrators on a scale far greater than now."

Manual processes are hampering multi-asset servicing

Asset managers that offer investors access to different types of assets are no longer as happy to employ a range of administrators with specialist expertise. "In the past, no one ever sat down and said, 'I really need a multi-asset-class platform that can handle everything,' but that is now changing," says Northern Trust's Peter Cherecwich.

Theresa Hamacher, president of Versanture Consulting and a former president of the National Investment Company Service Association, warns that administrators who can service more unusual requests have often developed capabilities on a piecemeal and partly manual basis. "It is not as if administrators haven't dealt with these asset types," she says. "The issue is automation: When you are doing it for a few funds, you can do it manually, but that is not possible if you're dealing with many clients."

FIS' Tony Warren agrees. "The administrator needs to be able to do multi-asset servicing for hedge funds, private equity, institutional and retail as a one-stop shop," he says. "The expectation is common output now as well, so you can start to bring the service together and deliver timeliness, accuracy and frequency."

> We're going to see new strategies deployed within complex instruments to generate more predictable outcomes. This is going to call for strategic collaboration between asset managers and their administrators on a scale far greater than now.
>
> **AMIN RAJAN,** CHIEF EXECUTIVE, CREATE-RESEARCH

Asset managers expect velocity as well as variety of service

Administrators are also conscious of having to accelerate the pace at which valuations become available and to do so across all of the funds they manage.

This is another reason why administrators are being forced to invest in process and technology, says John Campbell, head of Global Services for U.K., Middle East and Africa at State Street. “People want more, and they want it more regularly, with strike prices throughout the day, which is why we’re putting such a huge amount of money into digitization,” he says .“That helps us to speed up delivery, reduce risk and move towards meeting asset managers’ expectations, which ultimately is going to be for real time.”

While only 8 percent of administrators say they are currently expected to provide valuations for ETFs within an hour of the end of the trading day, 20 percent anticipate being expected to meet this deadline by 2020. Just 15 percent of asset managers currently provide mutual fund valuations within hours of the end of the trading day; by 2020, 27 percent expect to have to deliver at this speed.

Even in alternative asset classes where valuation data is harder to process and verify, administrators are feeling the pressure. While only 33 percent of administrators currently provide valuations of hedge funds within 24 hours, 43 percent are expecting to have to do so by 2020, including 16 percent who think they will have to do so within hours of the end of the trading day. The demands on administrators of multi-asset funds are also intensifying.

To meet these demands, more administrators will need to follow the example of leading players, whose “follow-the-sun” operations ensure 24-hour business continuity across all time zones. “We have global clients who need a global service on an integrated single platform,” says State Street’s John Campbell. “We begin at the opening of Asia’s markets, move on to Europe and are still available when the U.S. closes.”

This, however, is likely to be just the beginning, according to FIS’ Martin Boyd. He envisages a time when asset managers will want instant access to up-to-date valuation on any product in any market. “What people really want is an online view in real time of all the activity that’s happening throughout the day,” he says. As Charts 3a and 3b on page 7 show, few administrators are currently anywhere near being able to offer that level of service functionality.

> What people really want is an online view in real time of all the activity that’s happening throughout the day.

MARTIN BOYD, HEAD OF ASSET MANAGEMENT AND INSURANCE AT FIS

Chart 3a: How quickly are you expected to deliver valuations at the end of a trading day today?

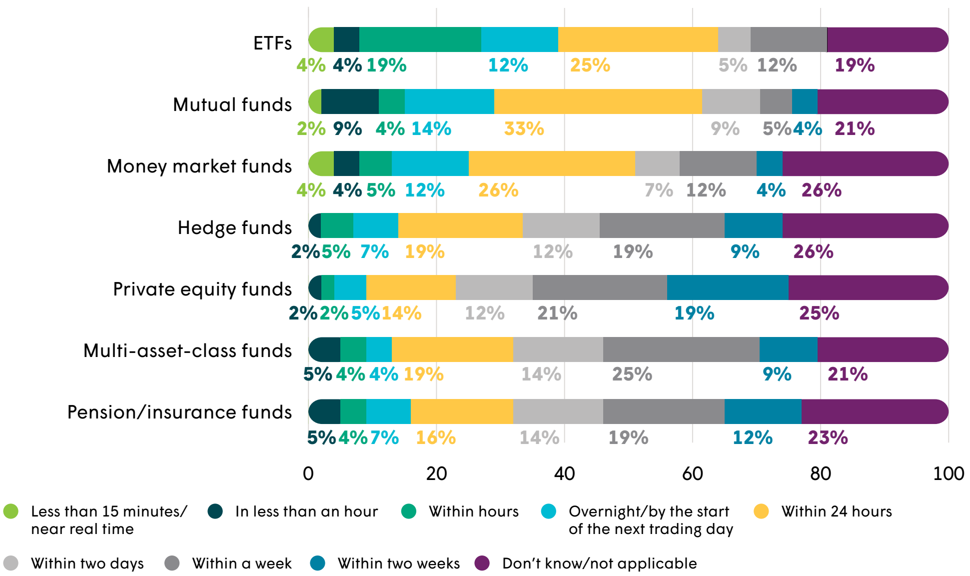
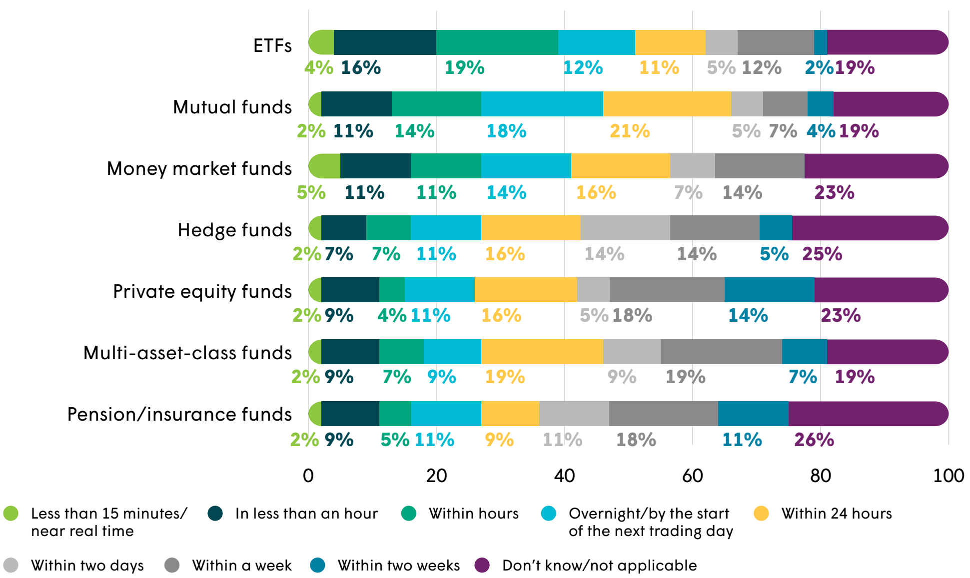
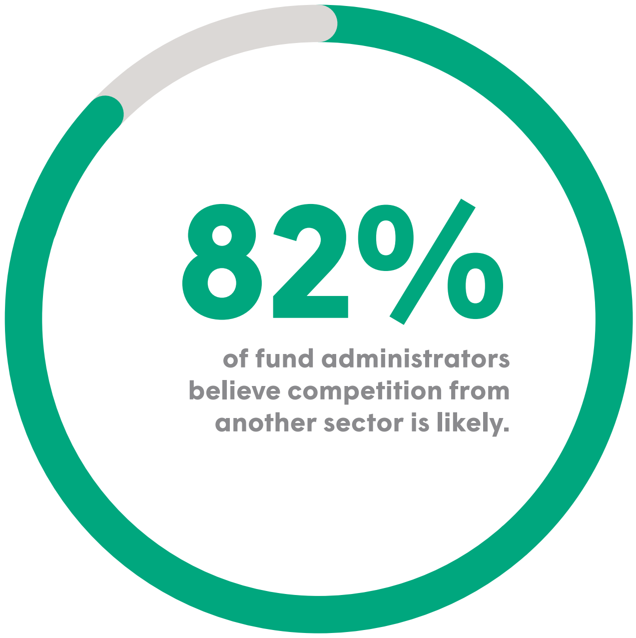


Chart 3b: And how quickly do you expect to have to do so by 2020?



Joining Forces at the Coalface – Fund Administrators as Business Partners



Competition is rife. Adaptation is critical

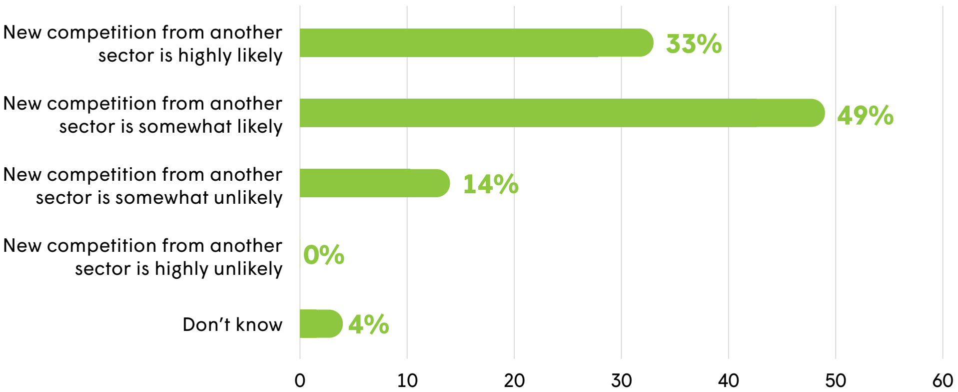
In a rapidly changing industry landscape, competition is an issue that few fund administrators can afford to ignore. Barriers to entry to the sector may be relatively high, because fund administration requires specialist financial services expertise, a high degree of regulatory compliance and established relationships. But there is widespread nervousness about the possibility of tech sector disruptors using their IT skills to deliver the value-added services that asset managers will increasingly require, particularly in areas such as analytics. With scope for these new entrants to forge partnerships with existing players, almost half of respondents believe competition from another sector is somewhat likely and one-third say it is highly likely.

New entrants may come from different places, from outside of the sector altogether and also from related disciplines. For example, Chris Sims, head of IT and Investment Operations at Ignis Asset Management, says, “There are software vendors that are trying to move into the fund administration space because they’ve got the technology to do it. If this is a business based on IT and service, why shouldn’t a software vendor be able to do it?”

> If this is a business based on IT and service, why shouldn’t a software vendor be able to do it?

CHRIS SIMS, HEAD OF IT AND INVESTMENT OPERATIONS, IGNIS ASSET MANAGEMENT

Chart 4: To what extent do you expect new entrants to move into the fund administration sector by 2020?



> When technology tools are centered around exception management and workflow, it elevates the role of the fund administrator, who is freed up to add more value at the service level.

TONY WARREN,
HEAD OF STRATEGY AND SOLUTIONS MANAGEMENT,
ASSET MANAGEMENT AND INSURANCE, FIS

What is clear is that the status quo is not an option. Either administrators improve margins by charging more for new value-added services or they reduce their costs through additional scale, or both. "As a low-margin activity, the key driver of profitability is going to be scale," says Amin Rajan of CREATE-Research. "But margins on activities such as valuations of complex instruments, or risk analytics, say, are much higher."

In fact, fund administrators are split on how fees are likely to develop leading into 2020. More than a third (39 percent) expect fees to come down, while four in 10 (42 percent) expect to see an increase (see Chart 5). This divergence underlines the continuing difference of opinion in the industry. Some administrators believe the current race to the bottom on charges will persist as consolidation delivers margin gains. Many more, though, expect administrators to move away from commoditization towards value-enhanced services.

Automation and outsourcing are key to cutting costs and increasing scale

Despite mixed views about fees, fund administrators across the industry have started and will continue to protect their margins by investing in automation and, through outsourcing arrangements, more effective business processes. "The fact of the matter is that we've all become more efficient, primarily because of technology," says Jeremy May, president at ALPS Fund Services, Inc., a fund administrator. "Our margins, quite honestly, haven't gone down, because we've found better ways of doing things."

For businesses processing tens or even hundreds of millions of daily trades, automation is vital. But leading administrators also recognize the economic sense of basing their operations in cost-effective locations close to clients in order to deliver 24-hour service. "You must have a location strategy where you utilize labor," says Peter Cherecwich of Northern Trust, which has administration operations beyond the major financial hubs in locations including the U.S., Ireland, India and the Philippines.

Such a strategy requires scale, and with asset managers having already outsourced many administration tasks in recent years, seeking ever lower costs, consolidation has been a consistent theme in the industry. However, more than half of administrators (60 percent) now see scope for expansion of the marketplace, perhaps as new entrants emerge in particular niches or existing players broaden their service offerings (see Chart 6 on page 10).

Chart 5: How do you expect typical fund administration fees to change by 2020?

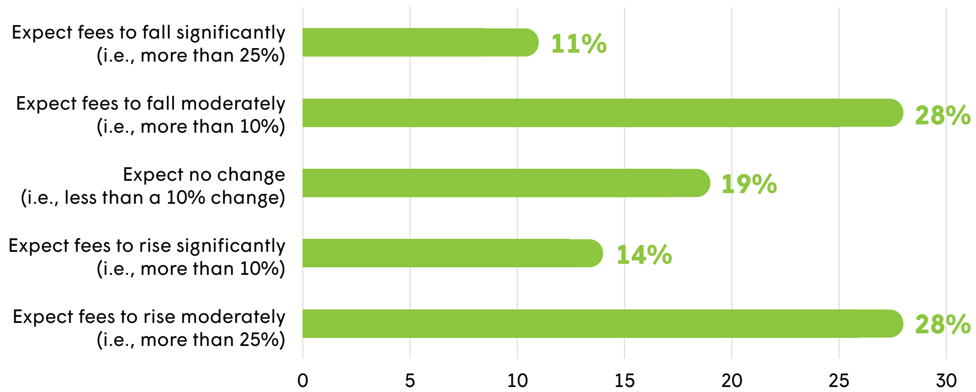
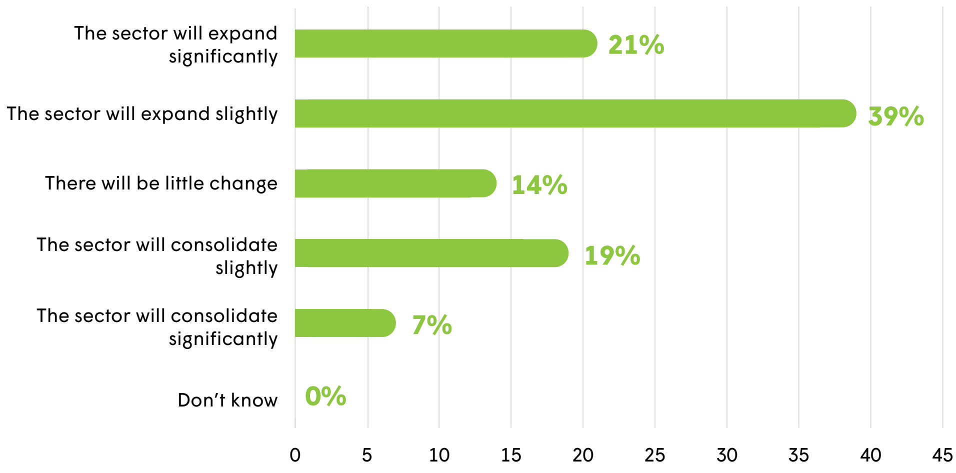


Chart 6: Do you expect to see the fund administration sector consolidate or expand by 2020?



Value starts with a partnership approach

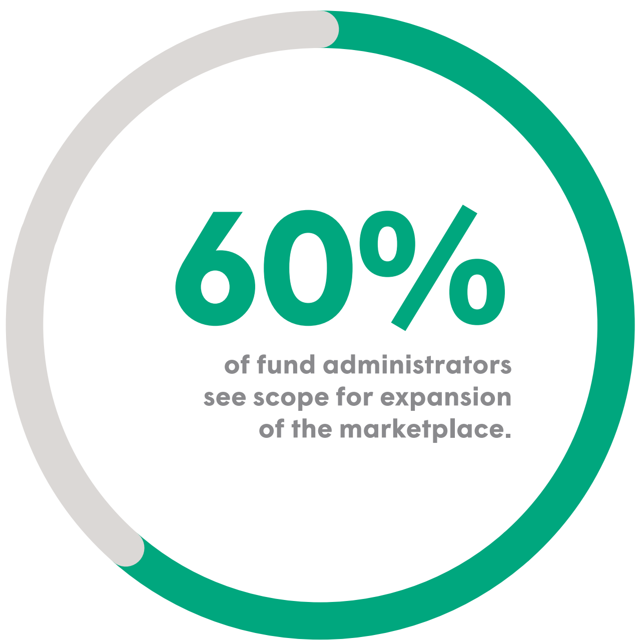
In addition to reducing costs and supporting scale, high levels of automation and efficient outsourcing arrangements can open new, potentially valuable possibilities for fund administrators. "The way to derive more opportunity is a combination of technology and process whereby you commoditize and scale the every day," believes FIS' Tony Warren. "When technology tools are centered around exception management and workflow, automating standard processes, it elevates the role of the fund administrator. Freed up to work with asset managers on more complex scenarios, administrators can begin to take on the role of a business partner and add value at the service level."

Forward-thinking administrators agree and see clear opportunities to transform their traditionally commoditized, potentially vulnerable business model by establishing stronger partnerships with their asset management clients. In practice, they must assess the directions that managers are taking and find new ways to support and empower them.

Often that will involve building tools and technologies alongside asset managers, rather than presenting them with the finished product. "We are co-building our reporting capacity with some pilot clients in order to get the inputs and the feedback in real time as we develop," says Jean Devambez of BNP Paribas Securities Services. "This isn't something which is supposed to just be provided by us. Rather, it's a set of tools developed between us and our clients."

"Active managers are under pressure to differentiate themselves, particularly in the face of competition from passive exchange-traded funds, and they have to bring unique products to the marketplace," adds Jeremy May of ALPS Fund Services. "So, for example, we are spending a lot of time helping hedge fund managers bring their strategies into the mutual fund industry to create new and different products for that marketplace."

At the same time, administrators must continue to deliver the same core competencies on which they have built their relationships and extend that into these new areas. "The challenge is to present back to customers something that looks comprehensive and consistent, even though it may require different servicing economics. It's sometimes more difficult for a larger organization to be as nimble as is needed when it comes to new asset class types," says FIS' Martin Boyd. This could be one area where smaller new entrants to the sector could gain traction if established players do not counter the threat.



Asset managers appreciate investment and expect integrated solutions

As they strive to add value and establish partnerships, administrators may no longer be content to offer just one or two basic products to clients. Some firms may be prepared to work only with clients that agree to take a bundle of services – from basic fund accounting to multi-asset mandates –including those offering higher fees.

Fund managers expect such a shift. “Realistically, we are going to have to be far more appreciative of the amount of investment these administrators are making on our behalf, and cannot expect significant downward pressure on fees,” says Mike Tumilty, director of Operations at Standard Life Investments, an asset management firm. “Firms will be less willing to offer components, and they’ll be looking at more bundled propositions.”

> If we can be easy to work with as an organization, and if taking more services from us is painless, we think that clients are more likely to take us up on what we have to offer.
>
> **ANN DOHERTY,**
> MANAGING DIRECTOR OF INVESTOR SERVICES, J.P. MORGAN

“People are going away from the best-of-breed approach where they work with six or seven vendors,” adds Martin Boyd of FIS. “In the past, they have dumped everything into a data warehouse so they can consolidate reports, but this isn’t perfect. More firms want an integrated solution model.”

Ann Doherty, managing director of Investor Services at J.P. Morgan, agrees. “Our strategy has been to build a component-based business on an architecture of scale, and a complete end-to-end process around it, so that clients have a consistent level of service no matter how many products they require,” she says. “If we can be easy to work with as an organization, and if taking more services from us is painless, we think that clients are more likely to take us up on what we have to offer.”

Whatever the service architecture, the priority for fund administrators is to develop sustainable, yet highly flexible, relationships with their clients. Those that are aware of how asset managers are reshaping their businesses, and align their development strategies with those of asset managers themselves, will be in the strongest position to respond and succeed. Rather than merely reacting to their demands, many are working closely with clients to proactively support that evolution and anticipate industry trends. And in those very trends lies a mine of further potential for fund administration.

Digging Deep to Deliver Value – 24-carat Opportunities for Fund Administration

> Our most profitable clients buy multiple products from us.
>
> **PETER CHERECWICH,** HEAD OF GLOBAL FUND SERVICES, NORTHERN TRUST

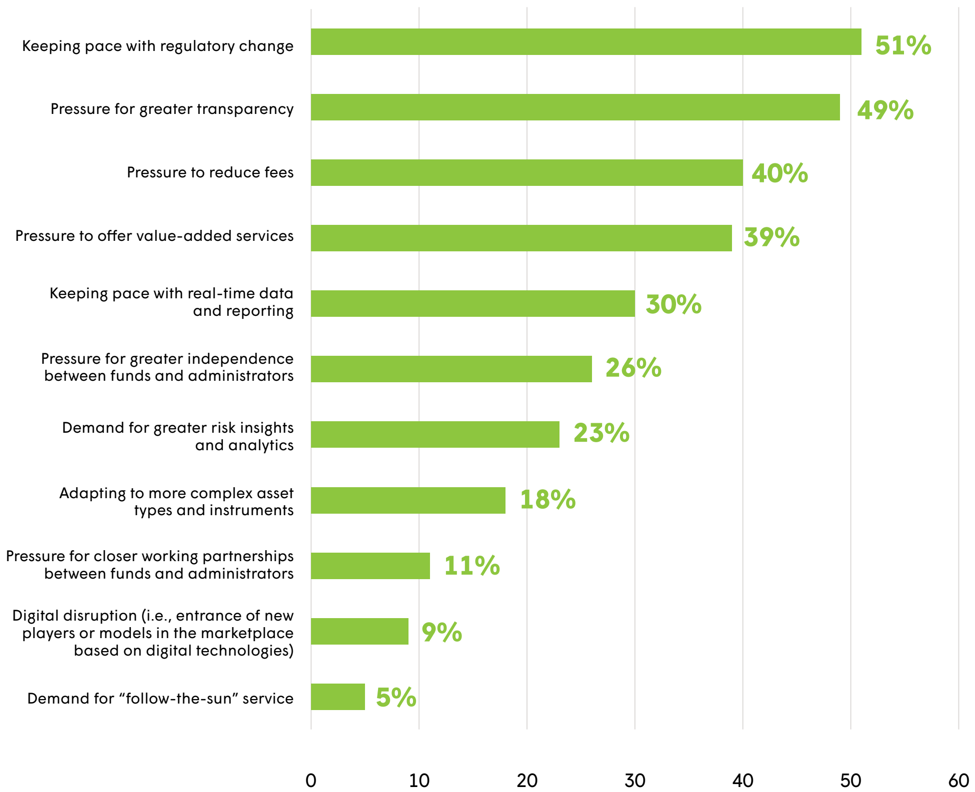
Asset management trends hold the key to lucrative partnerships

The development of the asset management industry is driving fund administrators towards a service pitched on value, quality and functionality rather than price. Regulation, as noted, has had a major impact on the industry's recent evolution, but a number of additional trends point to where administrators could add value and cement lasting partnerships with asset managers.

After regulation (see Chart 7), 49 percent of fund administrators believe the pressure to provide greater transparency will affect them the most between now and 2020. Many also point to increasing pressure to offer value-added services (39 percent) and the need to keep pace with real-time data and reporting (30 percent).

It is in these areas that administrators will be required to evolve their service offerings, adding new tools and functionality to support asset managers. "In this business, the name of the game is to establish relationships and then cross-sell both existing and new products as asset managers' needs evolve," says Northern Trust's Peter Cherecwich. "Our most profitable clients buy multiple products from us."

Chart 7: Which of the following trends playing out in the asset management industry do you believe will hold the greatest impact for you between now and 2020?



RESPONDENTS WERE ASKED TO SELECT AS MANY TRENDS AS THEY FELT APPLICABLE.

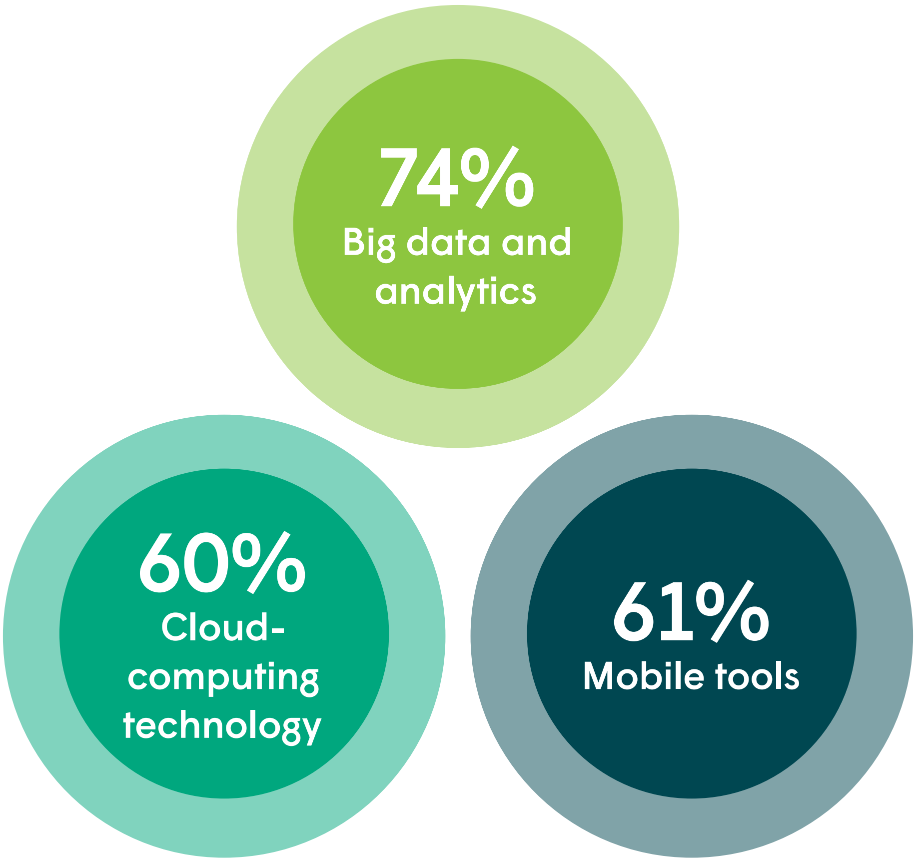
Fund administrators will become managers' partners in analytics

Notably, nearly a quarter of fund administrators (23 percent) expect to be affected by asset managers' increased appetite for risk insight and analytics tools. Asset managers increasingly believe they will be able to secure competitive advantage from turning raw "big data" into actionable business insight in areas such as risk management and investment performance. For administrators, which are exposed to so much fund data flow, this is a premium opportunity.

"Big data will recalibrate the value chain of asset management, and proactive administrators will be at the cutting edge of this transformation," says Amin Rajan of CREATE-Research, who believes this is one area where the risk of consolidation is high. "The rest will wither away as part of an extensive consolidation."

Some administrators have recognized the imperative to deliver analytics and segmentation of data. Almost one in six (16 percent) believe they have tools that are sufficiently sophisticated to provide them with genuine competitive edge. Almost a third (30 percent) believe the functionality they currently offer will be enough to satisfy their customers for at least the next two years. But it will be important to guard against complacency, particularly in an area of technology that is especially fast moving.

To add value, fund administrators are prioritizing investments in:



Other providers, however, have much further to travel. More than a quarter (28 percent) concede that they only have basic tools in place and will need to invest in this area. A further 27 percent say they currently offer no data analysis tools at all, and more than a third have no plans to do so within the next two years (see Chart 8).

Being a late mover in this regard is already looking like a mistake, with asset managers increasingly assuming that analytics and segmentation services are already available. Nearly half (48 percent) of administrators say that asset management clients routinely request or expect them as standard. This is likely to increase: a further 30 percent say this is something asset managers are increasingly looking for (see Chart 9).

"The investment management community has a constant thirst for good quality data," says Standard Life Investments' Mike Tumilty. "Such a huge part of that is going to come from your fund administrator, so they can be a massive enabler to the asset management community."

> The investment management community has a constant thirst for good quality data. Such a huge part of that is going to come from your fund administrator.

MIKE TUMILTY,
DIRECTOR OF OPERATIONS,
STANDARD LIFE INVESTMENTS

The development of the asset management industry is driving fund administrators towards a service pitched on value, quality and functionality, rather than price.

Chart 8: To what extent are you able to analyze and segment the data from the funds you administer?

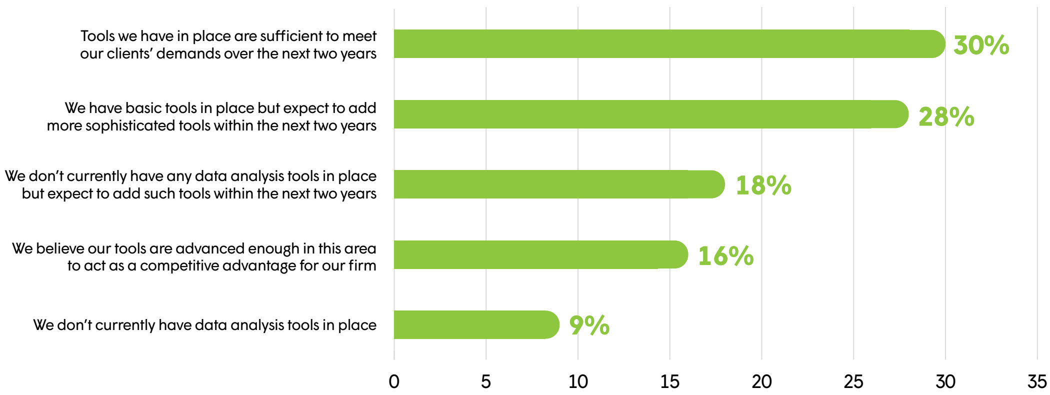
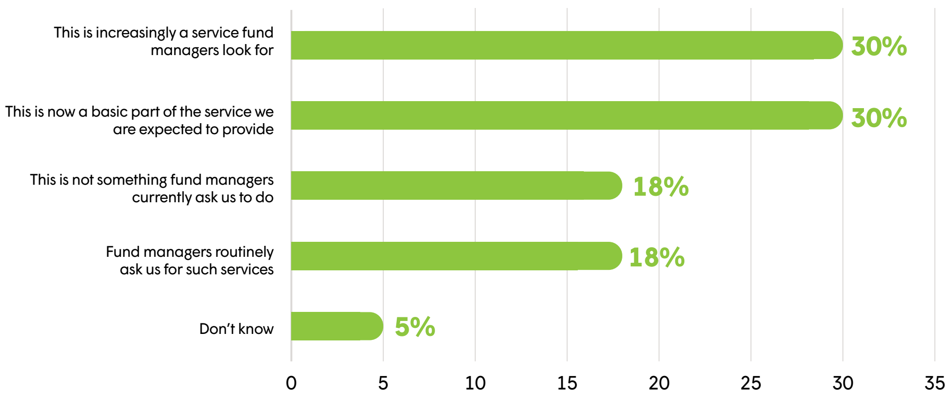


Chart 9: To what extent are fund managers asking for analysis and segmentation of the data from the funds you administer?



RESPONDENTS WERE ASKED TO SELECT AS MANY TRENDS AS THEY FELT APPLICABLE.

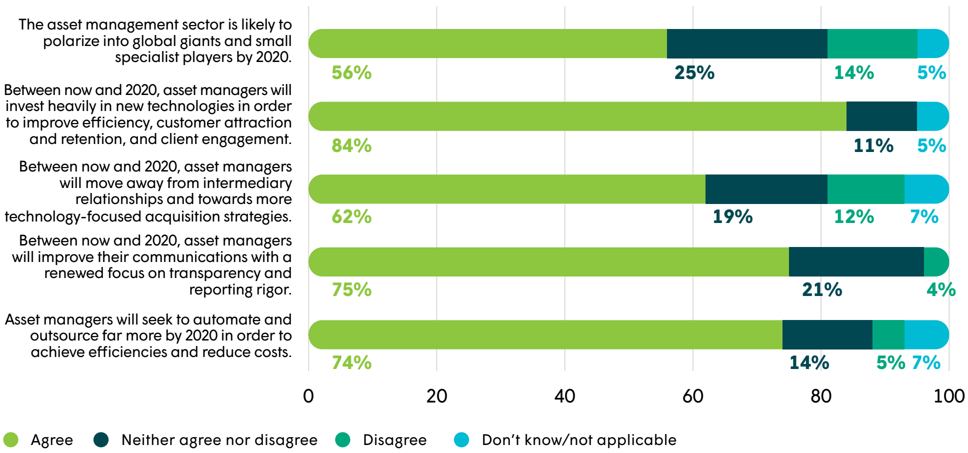
Five predictions about asset managers in 2020

Whatever the direction, technology will pave the way

Given the current pace of change, the asset management market could look very different by 2020. In addition to current market drivers, how could the potential trends of the future help shape today's fund administration business models? In Chart 10, five telling predictions of their clients' expected strategic directions give fund administrators further useful guidance.

As 56 percent forecast a polarization into global giants and smaller specialists by 2020, administrators will be pitching for both very large contracts covering a broad range of asset classes and smaller deals for more bespoke mandates. Almost three-quarters (74 percent) of administrators expect to see further automation and outsourcing from such managers. Meanwhile, nearly two-thirds (61 percent) expect to see asset managers move away from relationships with intermediaries towards more technology-focused acquisition strategies. The "robo-adviser" is one such example. The trend of greater transparency is expected to continue, with 75 percent of administrators expecting to see asset managers focus on better communications with their investors.

Chart 10: Do you agree or disagree with the following statements?



All of these trends have one key enabler in common: fund administration technology. Transparent asset management will depend on transparent fund administration. The move towards automation will be undermined by relationships with administrators that require a high degree of manual intervention. In addition, improved communication will often be fueled by what is available from the administrator – in some cases directly from the administrator via client-facing dashboards, for example.

"There is high demand for an investor portal," says Northern Trust's Peter Cherecwich. "We're talking about state-of-the-art tools that provide detailed information and give the asset manager the ability to pick and choose what level of transparency they want and how often they want it."

State Street's John Campbell agrees. "In delivering our warehouses and technologies and sharing those with our clients, they can be as bespoke as they wish," he says. "It's less about us doing multiple things for multiple clients and more about us producing data in a format they can then customize for themselves."

There will also be a need to move toward new areas. For example, ALPS Fund Services believes it has a role to play in helping asset managers exploit their distribution channels more effectively. "We try to add as much value as we possibly can on distribution," says the company's president, Jeremy May. "We are continuously engaged with our clients on not just sales reporting but solutions – how can we use analytics to create predictive sales reporting?"

Cloud technologies are growing in importance too, emphasizes Tony Warren of FIS. "From an asset manager's perspective, they want to be able to do what they do best rather than worry about the technology, so installing vendor software on site makes less sense," he says. "Instead, they're exploring the hosted model." Some three-quarters of FIS' clients make this choice.

Administrators must get their priorities right

The top three trends in asset management that administrators see as most relevant to them – big data and analytics, the increasing use of mobile technology and the ongoing move toward cloud computing – are all areas they are currently prioritizing for investment (see Chart 11b on page 17).

Still, sizeable numbers of administrators appear to be in no great rush to move this way. For example, 18 percent of firms currently see mobile technology as a low priority for investment. Almost a fifth (18 percent) aren't prioritizing cloud computing, while 14 percent say they are in no hurry to invest in big data and analytics tools. In other areas, too, administrators aren't always reacting. In social media, for example, 30 percent of administrators are not prioritizing investment (see Chart 11b on page 17).

Some of this caution is related to anxiety about risk, particularly in the context of cybersecurity and the threat of online attack. "The more data you put out, the more access you give people," warns John Campbell of State Street. "The more immediate the world becomes with the technology, whether it's social media technology or mobile, say, the greater the potential for attack, and this is something we are all going to have to face."

Technology is the great differentiator

"The key element for me is how a fund administrator differentiates itself from other fund administrators in the future," says FIS' Martin Boyd. "The only viable alternative, unless you have massive scale, is on service and value, and the only way you're going to be able to do that cost effectively is to use technology."

In short, those administrators that do not use new tools and technologies will risk being left behind. Technology holds the key to providing the new and improved services that asset managers are looking for.

Chart 11a: Between now and 2020, which of the following trends in asset management do you believe will hold greatest significance for fund administrators?

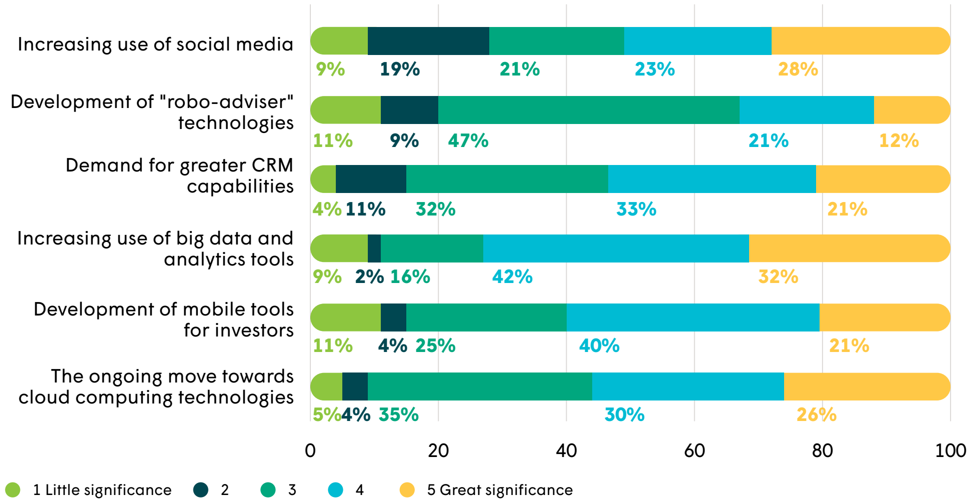
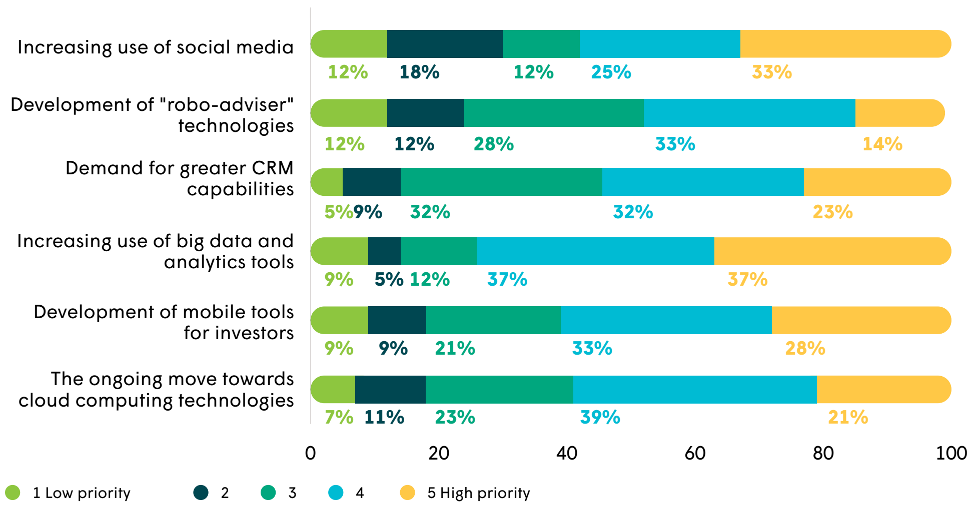


Chart 11b: And which of these trends will be a priority for investment for your firm?



Conclusion

FIS' research into the current state of the fund administration sector highlights the pressures that firms face but also sets out a potential way forward for the industry: for administrators to transform into trusted business partners of their asset manager clients.

The path toward that future is becoming clearer. First, administrators must invest in automation technologies that ensure their core services require as little manual intervention as possible and can be offered at ever greater scale. Then, they must reallocate the resources freed up by automation to developing and delivering more profitable activities.

The changing nature of asset management provides the best place to begin this process. The greater transparency that both regulators and investors demand of asset managers requires administrators to deliver more sophisticated reporting through more accessible media. The move toward multi-asset strategies requires administrators to develop functionality capable of servicing alternative investments as well as mainstream asset classes in a consistent and seamless fashion. And asset managers' increasing focus on technologies such as big data, social media, mobile and cloud computing means administrators must develop solutions in these areas and do so more quickly. All of these services must be provided at an accelerated pace.

Administrators will need to be nimble to prevent new entrants exploiting the changing marketplace, with disruptive technology businesses posing a particular threat. They must also be proactive, working alongside asset managers to develop new products and services in partnership.

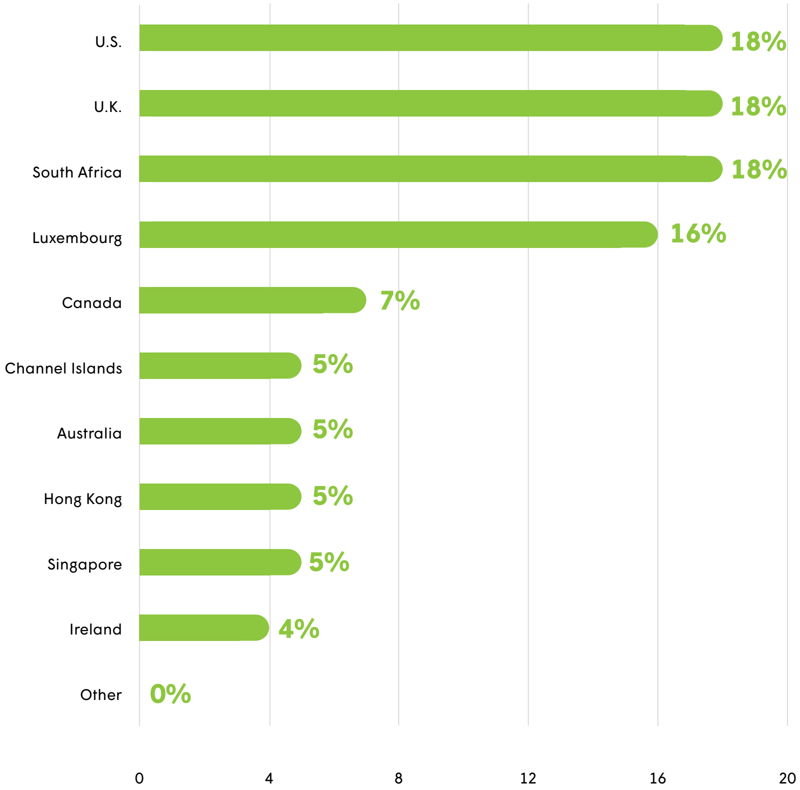
If administrators successfully align their interests with those of their clients, they will have opportunities to build mutually beneficial partnerships and increase revenue in the face of intensifying competition and pressure on fees. Technology that delivers benefits such as faster valuations and actionable data analysis holds the key for fund administrators as they seek to move from commoditization to value. With the right tools in place, business model transformation by 2020 is well within administrators' grasp.

> The key element is how a fund administrator differentiates itself. The only viable alternative, unless you have massive scale, is on service and value, and the only way you're going to be able to do that cost-effectively is to use technology.

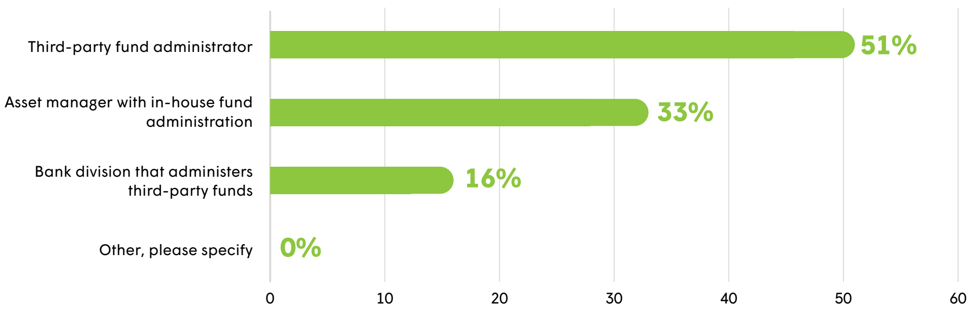
MARTIN BOYD,
HEAD OF ASSET MANAGEMENT
AND INSURANCE, FIS

Demographics

By country

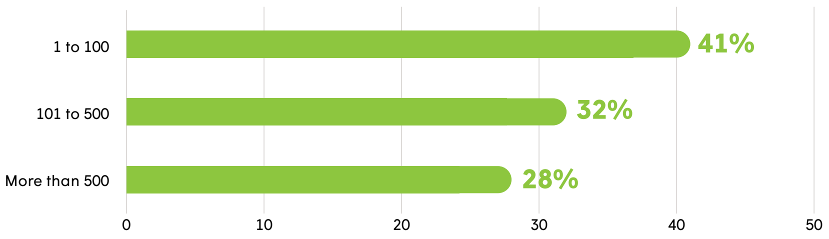


By type of administrator

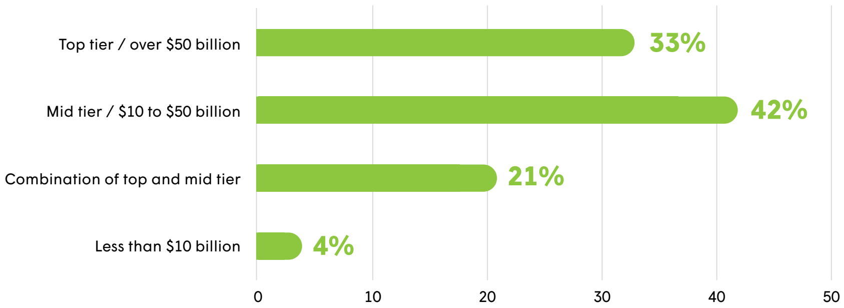


NOTE: DUE TO ROUNDING, NUMBERS MAY NOT ADD UP TO 100%.

By number of funds administered



By size of firms (AUM) serviced



NOTE: DUE TO ROUNDING, NUMBERS MAY NOT ADD UP TO 100%.

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit **www.fisglobal.com**

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