ROUNDTABLE
FUNDS MONITOR
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A brave new world for funds

The scope of change in funds and investment is captured as we advance further into 2021 by the contributions of seven leading figures in Ireland's funds industry, in this, the second issue of the Irish Funds Monitor. Fund managers and investors have for long anticipated the end of the pandemic, more or less since the end of Q1 2020, but the reality of buoyant markets now is the backdrop for their assessments of topics including fintech within funds, organisation change after COVID, and consideration of new opportunities and challenges in private equity, and new asset categories including the likes of NFTs and cryptocurrencies.

The Finance Dublin Funds Monitor is about the global funds industry. But it also about an outward facing global jurisdiction - Ireland - where an exciting new product has just been introduced - the Irish ILP. This issue starts with the panel's assessment of the ILP.

The Roundtable Contributors are, listed in order of their appearance in this edition: Melíosa O'Caoimh, Country Head - Ireland, Northern Trust; Claire O'Brien, Director, Global Client Coverage at RBC Investor & Treasury Services; Joanne McEnteggart, Managing Director of IQ-EQ Ireland; Brian Higgins, Partner, Asset Management and Investment Funds, & Karen Jennings, Senior Associate, Financial Regulation, Dillon Eustace; Ross McCann, Head of Fund Services, Alter Domus, Ireland; Tadhg Young, Executive Vice President, County Head – Ireland, State Street; Niamh Ryan, Partner, Funds, Simmons & Simmons, Ireland & Dirk Holz, Director, Head of Private Capital Services at RBC Investor & Treasury Services.

New Product: Ireland-the ILP

Now that the ILP has been enacted and come into effect from February 1st, and with some predicting the first Irish ILP launch in H1, or even Q1, what particular benefits for promoters do you see it providing ? Please also indicate specific areas where you can see it having effect in clients' business propositions.
b) How would you evaluate it in comparison with legal frameworks/platforms available in the other principal jurisdictions offering investment funds platforms?

Melíosa O'Caoimh, Country Head - Ireland, Northern Trust: The ILP has been the culmination of significant cooperation between the Irish industry and the authorities and we were delighted to see the legislative developments concluded in late 2020. The Irish industry has thrived over many years and is competitively positioned alongside other jurisdictions to support quality fund mandates. We had identified an opportunity to enhance the vehicles available for certain alternative fund types and, following an engagement with the regulator and Government agencies, we now have a vehicle that we believe can compete for the highest-quality alternative vehicles and strategies.


Melíosa O'Caoimh

We are seeing significant interest from our clients and contacts in ILP's potential to be a vehicle of choice for helping efficiently structure infrastructure, real estate and private capital strategies.

Claire O'Brien, Director, Global Client Coverage at RBC Investor & Treasury Services: The commencement order of the Investment Limited Partnership (ILP) was a very welcome development in Ireland in February 2021, firmly putting Ireland on the map as a location of choice for the ILP. The Investment Limited Partnership (Amendment) Act 2020 amended the Investment Limited Partnership Act of 1994 which regulates investment limited partnerships in Ireland.


Claire O'Brien

The ILP is a common law partnership and its structure is well recognised by Irish and international asset owners and buyers, General Partners (GP) and Limited Partners (LP). The predicted success of this product has been widely discussed, the main talking points focusing on structure and flexibility for private capital asset classes.

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The ILP is regulated by the Central Bank's AIF rulebook and can be established as a Retail Investor Alternative Investment Fund (RIAIF) or Qualifying Investor Alternative Investor Funds (QIAIF). The flexibility of the ILP QIAIF is likely to attract significant investment.

The ILP is formed by a GP and one or more LPs pursuant to a Limited Partnership Agreement (LPA), and amendments to the LPA can be made by the GP negating the need for an LP vote. The LP has limited liability status. The 2020 Act provides for a 'white list' of activities which does not compromise the liability status of the LP; there is no limit to the numbers of LPs.

The ILP can be formed as an umbrella structure with segregated liability between sub-funds allowing different strategies and investors to be serviced from one legal structure. The ILP QIAIF has no material investment restrictions or leverage limitations. As a regulated AIF, the ILP can avail of the AIFMD marketing passport and its associated investor protections. It is a tax transparent vehicle. The establishment of the ILP QIAIF can benefit from the fast track CBI approval process ensuring speed to market.

Ireland as a jurisdiction has a depth of experience in servicing Limited Partnerships for many years. The regulated parties required for the ILP are Depositary, Administrator, AIFM and Auditor. Ireland's established funds ecosystem with a pragmatic regulator and dynamic funds industry makes for a compelling story for new and established managers to consider the ILP product. It is predicted that managers with product in other jurisdictions will avail of the new regime in Ireland.

Ireland is now one the fastest growing European funds domiciles and we look forward to contributing to its continued success.

Joanne McEnteggart, Managing Director of IQ-EQ Ireland: The amended Investment Limited Partnership (ILP) structure gives promoters the benefit of more domiciliary choice in the private equity and real assets space. Ireland is a world leader in fund services with particular expertise in alternative assets and as a result of the changes is expected to attract more such fund promoters, particularly from the US and the UK. In addition to the legislative changes, which permit (among others) the establishment of umbrella partnerships, streamline the ease of amending LPAs and expand the list of safe harbours setting out what activities the LPs can participate in without the loss of limited liability, the Central Bank of Ireland has also updated its AIF Rule Book providing further clarity around the key features of closed-ended funds.


Joanne McEnteggart

The ILP compares well to similar partnership structures in the UK and Luxembourg following the recent legislative amendments. Designed in consultation with the industry, the changes were designed to ensure that Ireland has a suitable limited partnership vehicle to allow it to compete on a level playing field with the Luxembourg SCSp and the English and Scottish LP structure, given their popularity for private equity and real estate funds. The ILP is also a regulated vehicle, in contrast to those offered by the UK and Luxembourg, giving comfort to investors who are looking for regulatory clarity and oversight of the structure. In addition, Ireland's continued EU membership allows passporting (through the AIFM marketing passport) to the EU.

Brian Higgins, Partner, Asset Management and Investment Funds, Dillon Eustace, & Karen Jennings, Senior Associate, Financial Regulation, Dillon Eustace: The limited partnership is the preferred structure of choice for many promoters and investors in certain alternative asset classes such as private equity, real estate and infrastructure. The Irish investment limited partnership (ILP) structure offers not just tax transparency from an Irish tax perspective and all the usual features (such as closed-ended periods; capital accounting; excuse and exclude provisions; advisory committees; and distribution waterfalls) but in addition it can be established as an umbrella structure with segregated liability between sub-funds. The umbrella structure is a feature that distinguishes the Irish ILP from limited partnerships established in many other jurisdictions. It means that there is no need to establish and run a separate general partner for each new fund (which provides economies of scale and greater speed to market when compared against establishing a new structure for each fund). In addition, where the general partner is an EU authorised alternative investment fund manager, the relevant ILP can avail of the passport to be marketed throughout the EU. The long awaited introduction of this structure is timely as with factors such as low/negative interest rates and the new ESG legislative framework (which will promote investment in infrastructure within Europe) it is helpful to have this additional structure available to fund promoters.

Ross McCann, Head of Fund Services in Alter Domus, Ireland: The enhanced ILP has greatly added to Ireland's QIAIF product offering as the country seeks to promote itself as a gateway to fundraising in Europe, aimed at non-EU managers, particularly those based in the US, UK and Asia. These managers can benefit from Ireland's AIFMD passporting ability when promoting throughout the EU. The ILP is regarded as closing a gap in Ireland's offering when it comes to real assets and private equity, focussing on closed-ended QIAIFs. For Anglo-American managers, the limited partnership structure is their 'go-to' model. It is what they are most familiar and comfortable with and it is therefore important that Ireland updated its ILP legislation to incorporate all the features and flexibility managers and investors want within a regulated product.


Ross McCann

> **"The ability to use ILP as an umbrella structure is a compelling and differentiating feature that should prove highly attractive to promoters planning to launch multiple funds with different investor groups or strategies in a cost-efficient way. The legislative updates are complemented by regulatory guidance on share classes specific to closed-ended QIAIFs, issued by the Central Bank of Ireland in February 2021."**

The ability to use ILP as an umbrella structure is a compelling and differentiating feature that should prove highly attractive to promoters planning to launch multiple funds with different investor groups or strategies in a cost-efficient way. The legislative updates are complemented by regulatory guidance on share classes specific to closed-ended QIAIFs, issued by the Central Bank of Ireland in February 2021. These developments have been long anticipated, and we look forward to seeing the first launches in the coming weeks. Indeed, there is also strong scope for the migration of existing funds to the ILP

with more managers considering onshoring for a variety of reasons.

Tadhg Young, Executive Vice President, County Head – Ireland, State Street*: The new ILP has been designed with a market-leading structure, providing the flexibility and benefits seen in partnerships in more traditional private equity fund domiciles (such as variable fee arrangements, distribution waterfalls, facility for flexible allocations of ownership and excused participations) but within a regulated on-shore vehicle in a common law jurisdiction that may avail of the European Union's Alternative Investment Fund Managers Directive (AIFMD) marketing passport. The ILP legislation has also incorporated some important elements that support greater efficiency of structure, such as the facility to establish umbrella partnerships and the absence of a requirement for each ILP's general partner to be a regulated Alternative Investment Fund Manager (AIFM), although the fund still requires an appointed AIFM.


Tadhg Young

"The ILP is a tax transparent vehicle that is not subject to Irish withholding taxes on distribution and retains the value added tax (VAT) exemptions enjoyed by other regulated Irish funds. In addition, similar to the Irish Collective Asset Management Vehicle (ICAV), which has proven to be very popular with investors in the United States, the ILP has "check the box" capability in relation to US tax reporting".

The ILP is a tax transparent vehicle that is not subject to Irish withholding taxes on distribution and retains the value added tax (VAT) exemptions enjoyed by other regulated Irish funds. In addition, similar to the Irish Collective Asset Management Vehicle (ICAV), which has proven to be very popular with investors in the United States, the ILP has "check the box" capability in relation to US tax reporting.

With the benefits of the structure, and the projected continued growth of the private markets sector globally (including the more traditional private equity, real estate and especially the higher growth infrastructure and private credit asset classes), we would expect the new ILP to be very attractive to managers, particularly from North America and the United Kingdom who are looking to access the European market.

Despite the fact that the ILP has only very recently been approved, State Street has already seen interest from several existing clients as well as prospects exploring the use of the ILP structure for their products.

How would you evaluate the ILP in comparison with legal frameworks/platforms available in the other principal jurisdictions offering investment funds platforms?

Ross McCann, Alter Domus: We believe the ILP compares very favourably when making international assessments. The Irish funds industry, working closely with all stakeholders, undertook an extensive process to review comparable structures and associated features in order to identify the updates needed in the existing legislation. This was done to ensure the ILP was not just brought into line with current international practice but offered a product aimed at being best in class for the industry into the future.

The ability to use an umbrella structure is one such feature which will have universal appeal. The fact that it is a common law partnership structure is also a differentiator which aligns favourably to US and UK managers and investors. The ability to register an alternative foreign name for an ILP is a new feature designed principally for Asian managers. Above all though, the ILP is compelling as it is a regulated product in a reputationally strong and highly regarded domicile. Managers are increasingly driven by the increasing influence of their keystone investors – often highly regulated institutions in their own right – who need their investments to be domiciled in a reputable and regulated location.

ESG

With EU's SFDR guidelines on the imminent agenda, and industry sources coming up with the idea of providing broader standards than envisaged in the SFDR guidelines, such as those of the CFA with its GIPS standard, (see below link) do you think that such broader approaches should also be embraced within EU27 and beyond it?
Specifically do you think that offering the ability to deliver such wider standards on a voluntary level at individual institution level (such as your own) can help contribute to Ireland's reputation as a jurisdiction that is not just about minimalist adherence to compliance standards such as SFDR?
https://www.cfainstitute.org/en/ethics-standards/codes/esg-standards

Joanne McEnteggart, IQ-EQ: With scores of different ESG standards currently in practice, there is a clear need and desire to establish one set of broad industry standards that is voluntarily followed by all market participants; the main aims being to promote top-of-the-line ESG practices that make all businesses operate responsibly in society, allow stakeholders to compare one against another and reward those that are following the best ESG benchmarks in their true letter and spirit.

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Many different organisations are coming together to achieve this goal with varying degrees of success. However, it still remains to be seen how quickly a result can be produced that meets the urgency expressed by various stakeholders, including many governments, investors and society as a whole. SFDR and the EU's upcoming

Taxonomy regulation represent efforts to prevent 'greenwashing' of investment products and channel financing towards more sustainable activities. While these initiatives do have a limited scope, they have been welcomed by various groups of stakeholders as they will likely quicken the process of establishing a single yardstick that enables comparison of the ESG-related credentials of different financial products.

In the long run, the organisations that follow ESG principles in their broadest definitions are the ones expected to reap the most benefits for themselves and for the communities/jurisdictions in which they operate. These businesses will be the ones that not only gain directly from such factors as energy conservation, good governance and creating a motivated workforce, but will also be the ones that everyone wants to be associated with – including customers, investors and other stakeholders.

At IQ-EQ, we are taking our commitment to ESG standards a step further by enabling other businesses to find direction on their ESG journey (through our new IQ-EQ Compass offering), thus providing a multiplier effect for the markets and countries where these businesses operate. We would certainly argue that, when jurisdictional businesses exhibit exemplary behaviours and practices, those jurisdictions steadily gain an advantage over the competition and become preferred bases for other businesses to operate from.

Brian Higgins and Karen Jennings, Dillon Eustace: The European Union has introduced a suite of legislation (with further legislation to follow) in relation to sustainable investment (the ESG Framework). An important piece of the ESG Framework is the Regulation on Sustainability-related Disclosures in the Financial Services Sector (SFDR), which came into effect on 10 March 2021. SFDR seeks to ensure that there is a harmonised and consistent approach to investor disclosure regarding the integration of sustainability risk in investment products within the EU. In advance of SFDR becoming effective, fund managers had to carry out a significant amount of work to ensure they had the necessary procedures in place to categorise and operate their funds in a manner which is appropriate and consistent with these new investor disclosure requirements.


Karen Jennings


Brian Higgins

The technical standards that support SFDR are expected to come into effect from the start of 2022. SFDR is intended to work together with other aspects of the ESG Framework. This includes the Taxonomy Regulation, which will become effective on a phased based commencing at the start of 2022. As recently as 15 March 2021, the European Securities Authorities (ESAs) issued a consultation paper on taxonomy-related sustainability disclosures. This consultation will be open until May of 2021. It is interesting to note that this consultation process is not limited to the Taxonomy Regulations, but also the technical standards to be issued under SFDR (for example it suggests further amendments to the disclosure templates which the ESAs included in their final report on the draft SFDR Regulatory Technical Standards in February 2021).

Clearly, this is an area that is still evolving at a European Level. I would therefore suggest that, at this juncture, it would be important to allow fund managers and investors the time to fully adopt to this new legislative process. In addition, in other jurisdictions such as the US (who are coming back into the Paris Climate Accord), we can also expect ESG disclosure legislation to follow. It would benefit all stakeholders (including fund promoters; third party data providers and investors) if the international regimes were to be as similar as possible as this will help efficiencies and would allow for consistency in respect of investor disclosures.

Ross McCann, Alter Domus: It's clear that, as with all regulations, SFDR will be subject to evolution in tandem with how ESG evolves. ESG is a relatively new and fast-moving area, therefore broader standards could actually help support firms with the changes needed in keeping up with that evolution. They could also offer the flexibility needed for firms depending on their strategic requirements. Maintaining a high level of transparency of a firm's position is key for investors to make informed choices. As a result, this may involve a higher level of governance to ensure firms are held accountable so there is a balance to strike between flexibility and cost.

Niamh Ryan, Partner, Funds, Simmons & Simmons, Ireland: The enhanced Irish ILP regime creates a more comprehensive fund offering in Ireland and for many promoters who have chosen Ireland as a home for their EU hub it creates more viable options to facilitate the consolidation of their structures in a single location. This is particularly relevant for US-based promoters who have a preference for a regulated ILP vehicle and wish to establish parallel European structures to their pre-existing offshore funds for distribution to European investors via the AIFMD marketing passport.


Niamh Ryan

"The type of assets an ILP may hold is not restricted and it can invest in long-term investments such as renewable energy, energy efficiency, carbon capture and climate transition finance projects making the ILP a popular regulatory category in the sustainable finance space.....ILP funds are expected to be at the forefront of alternative sustainable investment funds in the near future."

The speed at which An ILP authorised as a QIAIF can be brought to the market, availing of the Central Bank's enhanced 24 hour authorisation process (subject to certain exceptions), is particularly beneficial. As a regulated vehicle established in an OECD onshore jurisdiction, the ILP is attractive for raising capital from institutional investors who are often restricted on the extent to which they can invest in unregulated vehicles or offshore vehicles.

Given the EUs ESG initiative, the

enhancements to the ILP have been well timed. Investors are increasingly looking at ways to invest in sustainable products and as a result sustainable asset classes are one of the fastest growing assets class in Europe. Flexibilities in borrowing, speed-to-market, and lack of material investment restrictions make ILPs an attractive option for alternative ESG focused funds. The type of assets an ILP may hold is not restricted and it can invest in long-term investments such as renewable energy, energy efficiency, carbon capture and climate transition finance projects making the ILP a popular regulatory category in the sustainable finance space. With the European Commission's Green Deal to make Europe the first climate-neutral continent by 2050, ILP funds are expected to be at the forefront of alternative sustainable investment funds in the near future.

Tadhg Young, State Street: The European financial services sector has just gone through significant efforts to implement the SFDR requirements with more work likely to be required as further details on the level two measures materialise. While regional efforts such as the SFDR are positive, climate change is a global risk that requires global solutions. This also applies to addressing the persistent lack of meaningful, comparable and consistent data – an important impediment in the area of sustainable finance. The adoption of global standards and frameworks for such data and disclosures will result in all relevant stakeholders having access to relevant data that is not only comparable across sectors but also across different locations.

"At State Street, we believe that in the area of corporate disclosures, relevant frameworks are already available: the Sustainability Accounting Standards Board and the Taskforce on Climate-related Financial Disclosures have developed such frameworks and we strongly support their broader adoption and implementation."

However, with data having been identified as a key area, we are seeing the emergence of a multitude of standards and frameworks across the globe. While these efforts are to be welcomed, a consensus is needed on which of these standards to adopt. At State Street, we believe that in the area of corporate disclosures, relevant frameworks are already available: the Sustainability Accounting Standards Board and the Taskforce on Climate-related Financial Disclosures have developed such frameworks and we strongly support their broader adoption and implementation.

As countries consider how to position themselves in the area of sustainable finance going forward, adopting and following global standards is key. In the case of Ireland, it should continue to pursue its thoughtful approach to implementing regulation when considering SFDR and other ESG-related disclosures to ensure that funds and their investors benefit from both a qualitative and quantitative assessment of best practices. While this can also include allowing for the adoption of wider standards on a voluntary level at individual institution level, it has to be ensured that such standards are widely adopted and that they add real value for relevant stakeholders.

Covid Transition

Where do you see the largest permanent gains to the investment funds and asset management industry arising from Covid?

Melíosa O'Caoimh, Northern Trust: The past year has forced us to think about introducing change that previously may have likely taken longer to implement. Our teams appreciate opportunities for flexible working and historically the programmes we ran in this area have been very popular. Hybrid working arrangements are now a normal part of the working experience.


Melíosa O'Caoimh

Of course, not everyone enjoys the same levels of logistic and environmental flexibility to enable them to work from home. A continuing focus for us will be to create tools, technology and other facilities to help our staff in the most appropriate manner befitting their circumstances.

We will also be engaging directly with clients and industry peers on evolving how we work. While widespread use of video communication has been important and useful, it is not seen as a total substitute for in-person engagement. Naturally, we will engage with our clients sensibly to figure out the optimal engagement model for them and us.

"The past year has forced us to think about introducing change that previously may have likely taken longer to implement. Our teams appreciate opportunities for flexible working and historically the programmes we ran in this area have been very popular. Hybrid working arrangements are now a normal part of the working experience."

Claire O'Brien, RBC Investor & Treasury Services: The circumstances resulting from COVID-19 had immediate and lasting impacts, and drove the industry to implement efficiencies, automate processes and leverage technology to digitise client and investor experiences. Some of the largest gains and efficiencies we've seen are within operational resilience, overall business processes and digitisation.


Claire O'Brien

What was most surprising was the speed at which many changes and efficiencies occurred. Seemingly overnight, we went from a paper-based industry to nearly paperless.

Throughout this pandemic period, the high number of people and businesses operating remotely required businesses to implement many contingency measures. Business continuity plans had to be revisited due to restrictions on employees travelling to physical or secondary sites. Additionally, organisations needed to assess and strengthen their cybersecurity programs and make any necessary changes to accommodate a predominantly at-home workforce to prevent attacks that could be detrimental.

While managing social distancing requirements, strong connectivity with clients remained crucial. New methods of communication became the norm as face-to-face meetings were replaced with phone and video calls.

From an operational standpoint, asset managers considered their operating models and the capacity to handle increased volumes and volatility. While uncertainty remains, the ongoing challenge will be to frequently assess and revise the operational enhancements made as needed.

Ross McCann, Alter Domus: There is no doubt that, like many others, firms in this industry will have lower office footprint requirements in the future as WFH will feature much more prominently. For managers who typically occupy prime office space in the most expensive cities, this opens up a real permanent opportunity to reduce some overhead costs, which may go some way to offset the increasing cost of regulation and downward pressure on fee margins. There are also big benefits to attracting and retaining talent where resources are constrained. Employees do not necessarily need to be within a daily commute of the office, allowing firms to cast wider nets to attract the people they need. The transformative leap in reliance on video conference technology not only allows managers and others to better connect with existing global clients and businesses but also seek out new opportunities and clients with better marketing and distribution networks. This may also replace some travel time and overheads in the future. Face-to-face contact and interaction are essential for building culture and relationships. However, firms will need to figure out how to prioritise this and get the balance right. A large element of the informal on-the-job training and knowledge/idea sharing is lost from the typical office environment when people are remotely connected. To counter this, firms will need policies and technology to bridge the gaps in terms of process automation, training, and cyber security, and this has indeed been accelerated in the past year.

Tadhg Young, State Street: When the COVID-19 triggered market crisis hit the fund management industry last spring, most firms were already engaged in a process of digitisation.

The increasing use of technology to automate manual processes – in particular those involving data management – has been a goal of the industry for several years now.

The pandemic, however, forced large numbers of staff out of their offices at once and required firms to come up with technology-based, remote working solutions at short notice (and for many firms across a global range of locations at once).


Tadhg Young

In the longer term, this focus on remote working appears to have made some changes to asset managers' approach to using technology.

In State Street's fourth annual *Growth Study*, a survey of senior executives from more than 600 investment institutions worldwide that included 213 asset managers, respondents claimed the experience of the pandemic had altered their future priorities for internal investment in operations and technology.

"a surprisingly large number of asset manager respondents (57 percent) anticipated "all or most" of their staff will continue working from home "all of the time", post-pandemic."

When asked, "Which areas will your organisation prioritise for its technology spending and upgrades over the next 12 months? Also, which areas may become deprioritised as a result of COVID-19?" more than a third of asset managers (37 percent) said they will spend more on cyber security than previously planned.

This is understandable in an environment where far more sensitive information is being discussed using web-based communication platforms, and especially given a surprisingly large number of asset manager respondents (57 percent) anticipated "all or most" of their staff will continue working from home "all of the time", post-pandemic.

But the other areas of investment getting a boost from COVID-19 were automation-focused too: 30 percent plan to spend more than they had been on investment analytics tools, and 29 percent on digital distribution and client experience functions.

Our previous growth studies have shown that these were already priority areas for asset managers (especially cyber security and investment analytics). But the crisis has clearly necessitated invention, forcing firms to accelerate their digitisation plans..

Technology

Drawing on the experiences from within your own organisation, and from the lessons of the past year across the world, where do you see real advances in end client benefits from with the funds industry? Reference can be made to Big Data and AI in investment analysis, and, for example, Blockchain developments and applications in risk management solutions.

Melíosa O'Caoimh, Northern Trust: The digitalisation of investment management offers potentially transformative benefits for our clients and their investors. We have developed our enhanced digital technology platform, Northern Trust Matrix™ to help our clients embrace the power of digitalisation and continue to roll out its functionality beginning with our servicing for European transfer agency clients.

However, the pandemic accelerated the trend towards increased use of digital tools across our industry, including the replacement of manual processes and paper-based communications methods with new types of online experiences.

We also expect the investor market to evolve rapidly as investors become more confident in their use of technology, resulting in-part from their experiences in using digital tools for everyday tasks through the pandemic. There will likely to be increased interest in direct investment, which can be facilitated by digitalisation, and we expect to see asset managers rethink their distribution models to this end. Through Matrix™ we will be able to offer asset managers a seamless route for distributing their funds directly to investors via our digital capabilities.

Claire O'Brien, RBC Investor & Treasury Services: The situation brought about by COVID-19 has been a catalyst to accelerate digitisation of manual processes and legacy technologies across the industry. This new environment highlighted some inefficiencies in the value chain, and businesses had to move quickly to introduce solutions in a work-from-home environment. From a service standpoint at RBC Investor & Treasury Services (RBC I&TS), this environment provided the opportunity to leverage our

technology and expertise to ensure continuity of our service while implementing new enhancements.

Some examples of digital enhancements we made in light of COVID-19 were: digital automatic payments, digital oversight reports/automated reporting, e-signature tools, enhancements to the RBC One client portal, the implementation of real time live data dashboards and more.

To continue on this digital path, we will continue to reimagine the client experience and reduce the number of manual processes in our solutions.

Joanne McEnteggart, IQ-EQ Ireland: With the Covid-19 volatility from last year in mind, 2021 will see more businesses taking smarter approaches to information to increase transparency and facilitate informed investment decision-making. In the alternative assets sphere specifically, detailed real-time data is key for fund managers as they come under pressure from investors to deliver greater returns. We anticipate the intelligent use of data will continue to grow as firms look for better and more in-depth insights to support their portfolio decisions and add further value for their clients.


Joanne McEnteggart

At IQ-EQ, we're already supporting this trend with our proprietary IQ-EQ Cosmos platform, which is unique in the market as a fully customisable, multi-asset class reporting tool that turns real-time data into crucial investment intelligence with the support of in-house technical and technological experts. It also allows insights to be clearly communicated to key stakeholders through data visualisation, which is another element we believe will really take off in 2021.

IQ-EQ is committed to investment in technology as a way of providing the very best client experience and driving continued growth. Tech innovation has been one of our key priorities throughout 2020 and remains so. We've introduced bespoke platforms, developed existing systems and are finding tech-enabled solutions to enhance operational efficiencies for our business and for clients, for example using robotic process automation (RPA) and blockchain technologies. We strive to be a data-led organisation and are actively looking at how we can harness AI and machine learning as it relates to the servicing of funds and SPVs.

Ross McCann, Alter Domus: From our own perspective which is essentially focused on closed-ended or private asset funds, the advancements for end clients—namely managers and their investors— are around data access. Our sector of the industry has historically been higher up the chain when it comes to AI, primarily due to the lower volume, higher complexity levels of tasks and transactions with a much greater focus on relationships. However, the power of AI has accelerated and in recognition of this, our business has employed a growing team of AI automation experts and engineers to scope and implement AI into all areas across the business. Investor relationships for private asset funds, for example, represent a much more intimate proposition and human interactions within service provision are always going to be important. However, investors, particularly institutional investors, are increasingly looking for more detailed, bespoke reporting and wider access to data. To meet these demands, significant investment in our client and investor reporting platforms is providing investors with quicker access and viewing control over larger amounts of data. Our business is also benefitting from an increased use of 'bots' providing more automation of manual tasks thereby saving time and reducing risk. Ultimately, this feeds into more time for higher value-added tasks, particularly regarding client and investor relationships.

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Niamh Ryan, Simmons & Simmons, Ireland: The financial services industry has seen drastic technology-led changes over the past few years however, the use of technology is not limited to financial institutions, law firms and regulators now also need to be innovative and embrace technology in order to stay in tune with the technological advances taking place.


Niamh Ryan

Technology presents opportunities for clients and gives clients a clear advantage over others. In the legal sector technology allows us to delivers smarter solutions for our clients and drive change for the better in the legal market. The potential to deploy data science, technology and design to reimagine the delivery of legal services can positively impact every legal professional and business and in turn create real advances for our clients.

> **"We are seeing more FinTech businesses breaking through into the financial services industry. An example of this is in the crypto-assets space. While the Central Bank is engaged with innovation and FinTech, it like many other regulators, it has refrained from developing a specific domestic regulatory regime for crypto-assets. "**

The Central Bank has been proactively seeking to understand and anticipate how innovation is changing financial services provision. The Central Bank wants to understand the threats to the sustainability of existing business models, how technology is driving change, the business models of potential new entrants and the implications for the financial services system and consumers of financial services and products. This has an overall benefit to the market at large as it increases the awareness among supervisors and builds on their existing knowledge of innovative activity in financial services.

We are seeing more FinTech businesses breaking through into the financial services industry. An example of this is in the crypto-assets space.

While the Central Bank is engaged with innovation and FinTech, it like many other regulators, it has refrained from developing a specific domestic regulatory regime for crypto-assets. On a positive note however, the European Commission aims to bring crypto-assets into the regulatory sphere on a harmonised basis across the EU following the publication of the draft Markets In Crypto-Assets Regulation by the European Commission.

Tadhg Young, State Street: Data: - This is where the biggest advances in technology have occurred recently and where the funds industry has reaped the greatest rewards. But fragmented, siloed approaches to data management produce redundant and sometimes conflicting results.

Asset managers need: Simplified data management - By consolidating data sources and systems onto one platform, managers benefit from fewer manual reconciliations, an increase in data timeliness and accuracy, and greater collaboration across their organisation.

Faster, more efficient investment decision-making: Frictionless access to the right information helps managers take action on that data quickly. Institutions need to incorporate data from their own systems and preferred providers, making all of their information available across the investment lifecycle in near real time.

Increased focus on innovation: – Less time spent managing data means more time spent on activities that make a difference to fund investors: generating enhanced returns and developing new investment products.

This is why we developed the State Street AlphaSM Data Platform. It's a data platform with frictionless integration to the front office that can help reduce the cost and risk associated with today's data complexities.

The Alpha Data Platform leverages Microsoft Azure and Snowflake® to provide a centralised data management solution that aligns with an asset manager's environment, delivers data in near real time and integrates with third parties. The platform provides full transparency into data availability, definitions, usage and lineage. It also uses cloud-native technology with the scale and flexibility to meet the demands of today's shifting markets. The extensible data model facilitates data sharing across ecosystems, with a framework to integrate third-party data sets. Furthermore, the Snowflake® Data Marketplace expands access to data sources and allows fund managers to uncover unique insights.

By enhancing and simplifying their data integration, asset managers can reduce both time-to-market and operational costs.

Business Development

In which of the following areas do you see Asset Managers reaping the greatest rewards from outsourcing in the coming years, given increasing regulatory and risk demands in markets: Securities Lending; FX Services Trade execution; Collateral Management ; Transfer Agency; Middle office; Mancos/ACDs; 'Other'?

Claire O'Brien, RBC Investor & Treasury Services: Against the backdrop of increased regulatory compliance, fee compression and growing competition, asset managers face demands from their investors to provide enhanced offerings at a lower price point. For asset managers, outsourcing will result in increased efficiency and capacity, ultimately leading greater focus on strategy and growth.


Claire O'Brien

Across many products, data visualisation tools and dashboards are being developed to provide greater insights and oversight, which can lead to more strategic decision making for an asset manager.

From an FX currency hedging perspective, asset managers will realise benefits of outsourcing in the form of reduced operating costs, minimised operating and trading risks, and ability to free up key resources to refocus on core investment activities, while maintaining controls via our leading digital oversight, analytics and execution transparency.

From a middle office perspective, evolving technology has led to traditional middle office functions being automated, resulting in an abundance of data that can deliver significant insight.

The opportunity cost associated with relying on outdated practices and legacy technology by asset managers can be projected by losses from using outdated systems leading to security and calculation errors, time expenditure to manually input data and siloed data not being reconciled and utilised to provide value.

An outsourced middle office solution helps asset managers to improve operational and financial efficiencies, providing valuable rich datasets to inform the front office and the assurance that they have the relevant oversight to meet compliance obligations.

> **"An outsourced middle office solution helps asset managers to improve operational and financial efficiencies, providing valuable rich datasets to inform the front office and the assurance that they have the relevant oversight to meet compliance obligations."**

For transfer agencies, while manual processes remain a part of the investor experience, automation is a huge focus. The account opening process for example is one of the activities still heavily reliant on manual processing. But manual processes can result in delays which does not translate to a positive investment experience for the investor. Ensuring the most efficient on-boarding process and the most optimal investor journey will be paramount, and this will come with providing a more digital experience for investors.

From a securities finance perspective, agent lenders are automating services to improve efficiency, accommodate new regulation and provide tailored programs to clients to meet asset managers' increasingly diverse and demanding securities lending needs. In addition, new regulatory requirements for enhanced transparency, along with improved access to data and technology capabilities, have increased lender expectations around data availability and heightened the importance of extracting actionable insights from this data.

Brian Higgins and Karen Jennings, Dillon Eustace: At both European level and domestic level there has been a general ratcheting up of the substance and delegation requirements applicable to management companies. To a large extent, this has been triggered by concerns over Brexit. Notable developments during 2020 included ESMA's 18 August 2020 letter to the European Commission on its review of AIFMD and the subsequent letter issued

by the Central Bank in October 2020 indicating the Central Bank's expectation for effective governance, management and organisation of Irish UCITS management companies/AIFMs and self-managed funds.

The expanded substance requirements, together with the resultant costs, mean that many smaller management companies and self-managed funds are restructuring. This includes the use of white-label service providers whereby small to medium sized asset managers utilise the services of large third party UCITS management companies/AIFMs to provide a platform to set up fund(s) at the initiative of the asset manager, with the portfolio management functions being outsourced back to the relevant investment manager.


Brian Higgins

In tandem with the shift towards the use of fund platforms provided by third party managers, there is an increasing need to ensure that effective governance and risk management arrangements are in place in respect of outsourcing arrangements implemented by such third party managers. The Central Bank has undertaken a significant programme of work in relation to outsourcing and the management by regulated firms of risks presented by outsourcing arrangements. This has resulted in the publication by the Central Bank of a discussion paper 'Outsourcing – Findings and Issues for Discussion' in November 2018, which was followed in March 2021 by the publication of Consultation Paper 138 entitled "Cross-Industry Guidance on Outsourcing". Ultimately, boards and senior management of UCITS management companies/AIFMs retain responsibility for the functions and services that are outsourced and are responsible for the management of risks associated with outsourcing. In the context of third party manager platforms, the importance of selecting the right commercial partner for the venture is of the utmost importance.

Ross McCann, Alter Domus: The use of third-party ManCos is set to increase significantly as a consequence of growing regulatory demand on managers, particularly around substance and reporting requirements. For many smaller managers, the cost of setting up and running their own shop, for example, in an EU location for the purposes of passported fundraising, was already prohibitive in the face of growing regulatory burden. Now, only the largest managers have the scale to continue running their own ManCo. This has presented a big opportunity for the service industry to provide the necessary support to managers through outsourcing. We have seen major growth in existing Super ManCos, particularly in Ireland and Luxembourg, and many new ones coming into the market, typically from service providers offering existing services such as fund administration and depositary. Managers not only benefit from significant cost savings under this model but can also utilize the systems, technology, expertise, and experience of these providers, allowing them to focus on their core business – fundraising, transaction opportunities and asset management. In many cases, use of reputable and regulated outsourced service providers will both lend credibility to the manager and provide comfort to investors around areas such as operational and regulatory risk.

> **"Now, only the largest managers have the scale to continue running their own ManCo. This has presented a big opportunity for the service industry to provide the necessary support to managers through outsourcing."**

Tadhg Young, State Street: The outsourcing landscape of the future will look very different from today's as asset managers start to take a more strategic view of the practice.

The historic approach has been somewhat piecemeal, with investment institutions identifying an area of their business that they feel they can benefit from handing over to a third party for a variety of reasons (cost savings, improved performance, the desire to focus on core business, etc.).

When selecting a provider, firms have typically assessed partners on their ability to manage specific operations being outsourced.

This is backed by research: according to the most recent *State Street Growth Study*, the substantial majority of investment industry outsourcing is done with "many different technology providers".

For back office operations 43 percent of asset managers said this was the case, compared to 33 percent who said they use "just one or two strategic partners" who can take on multiple operations (the remainder said "mainly in house").

In the middle office, 47 percent used multiple providers, while 27 percent took the strategic approach, and the ratio for front office functions was 55 percent: 33 percent in favour of many providers.

However, this appears to be changing. More than half of asset managers (59 percent) are actively preparing to outsource more, while two thirds (67 percent) are conducting assessments of their in-house versus outsourced business.

And furthermore, 54 percent are planning on "consolidating or reducing the number of outsourcing partners we use to focus on deeper and more strategic relationships", while "robustness" and "size or scale" both scored highly as top factors for choosing an outsourcing partner.

In terms of areas to be outsourced, investment risk monitoring (57 percent), investment analytics (56 percent) and regulatory reporting (52 percent) were the top choices for asset managers, suggesting a growing focus on the front and middle offices.

Private Markets

Where does your company see developments in the next two years, citing examples from your company's own business strategy. How can these offerings provide value for clients at the end of the distribution chain: Real Estate; Infrastructure; Private Equity; Private Credit/Debt; 'Other' ?

Melíosa O'Caoimh, Northern Trust: We have witnessed continued growth in alternative assets globally, driven by opportunities for enhanced performance and risk diversification. The trend is accompanied by demand for greater transparency from investors and a broader range of investment options – both in terms of asset types and fund structures. This has translated into our clients requiring easy access to a broader range of data, support for new or evolving fund structures and rapid time to market.


Melíosa O'Caoimh

We continue to build solutions to meet those future needs, illustrated by the deployment of a state-of the-art loan administration platform to support the growth in private debt. More broadly, across the whole private capital class we are investing in the "user experience" for both the manager and the investor, to support their data and transparency needs.

As asset servicer to global investment companies, our job is to help make our clients' – and their investors' – lives easier through our services and solutions. Alternative structures and private capital especially continue to be part of the growth strategy among our client base. Through a consultative and collaborative approach, we engage with our clients and their investors to understand what is going to be important to them, so that we can be prepared to meet those needs when required. A recent example is the recent revision to the Irish Limited Partnership regime.

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Dirk Holz, Director, Head of Private Capital Services at RBC Investor & Treasury Services: RBC is increasingly seeing demand from asset managers looking for additional services across the value chain of outsourced administration. Managers are looking to the market to help them deal with rapid growth in assets under management, strategies and jurisdictional footprints, whilst tackling cost base challenges. The ability of a fund admin to be able to work closely with their clients and also partner with other specialist providers on end-to-end service delivery, will support asset managers' rapid growth plans.

Technology and data will continue play a huge part in how asset managers think about their operating model and the development of the industry over the next few years. Managers are looking to understand and analyse the rich data source from their investments to make better decisions and focus on their core activities. Therefore the ability to leverage technology to standardise and where possible automate the processing and administration of funds and provide clean, useable data will be critical to success.


Dirk Holz

People and their knowledge will be essential in supporting the industry in a post COVID-19 world. The ability to understand clients' underlying investors' needs and work collaboratively towards them, increases value add across the fund lifecycle. With the ongoing net inflow of institutional capital in to private capital, and increasing investor sophistication, investors are demanding more and more from their fund managers. Greater transparency from data and more frequent reporting is critical as they manage their private capital commitments.

Another investor trend we see is the growing appetite for private capital funds for retail investors, opening up a greater pool for asset managers to fund raise from. With this, we see an increased need for technology to process the volumes of investors and to provide a seamless onboarding and AML / KYC service in line with what retail investors experience today from mainstream funds. Our ability to partner with our clients to support their data and reporting needs both internally and for their underlying clients (investors) is an increasingly important part of being a fund administrator, and we only see this trend growing as more and more capital pours into the private markets.

Joanne McEnteggart, IQ-EQ Ireland: Where does your company see developments in the next two years, citing examples from your company's own business strategy. How can these offerings provide value for clients at the end of the distribution chain?

Private debt has emerged as an asset class of choice throughout the Covid-19 turmoil, performing well despite pandemic-induced economic slowdown. According to the findings of our recent private debt white paper, 95% of managers and investors predict that the market will continue to grow to record heights over the next three years. Similarly, the latest report on private debt published by Preqin in November 2020 highlights that 91% of the investors they spoke to will either maintain or increase their allocation to private debt over the longer term.

This is reminiscent of what happened during the global financial crisis, which saw a real surge in distressed funds. Private debt as an asset class tends to fare well during periods of economic uncertainty. As such, we're seeing a number of private equity managers setting up a debt fund or a parallel debt fund and we believe this is a trend that's here to stay.

As private debt becomes a more significant part of investor portfolios and as structures develop across multiple jurisdictions, the associated strategies, accounting, analysis and reporting become more complex. There is also increased need for technology to support the specific requirements of the asset class, for example around loan agency and loan management services. To this end, IQ-EQ has recently launched an enhanced Global Private Debt & Credit Desk, which builds upon our existing private debt/credit offering and provides clients a dedicated and globally integrated team of experts as well as leading software solutions tailored for the asset class.

Beyond private debt, at IQ-EQ we are also seeing more clients setting up hybrid funds with illiquid infrastructure or real estate assets in a more open-ended fund structure that provides a measure of liquidity to investors. These structures demand a degree of flexibility, both in terms of a service provider's operational delivery and the regulatory requirements that traditionally bifurcate into open-ended liquid vs. closed-ended illiquid strategies. Further, we are seeing more evergreen funds that are open-ended with no planned termination date.

Ross McCann, Alter Domus: There are a number of developments expected over the next couple of years as the world emerges out of the Covid-19 pandemic. Immediate focus will be given to the ability of economies and sectors within to bounce back. Many businesses have survived thus far due to state interventions, but with support schemes expected to wind down in the second half of 2021, debt markets are bracing for a surge in corporate defaults, insolvency proceedings and debt restructuring. Private credit/debt has a massive opportunity to support businesses in a way that traditional lenders simply aren't able

or willing to do. The flexibility of private capital is also important for supporting the acceleration of ESG related projects, such as infrastructure and renewables, which will take prominence in economic recovery. The real estate market is a little more unpredictable and likely to see major variances in sub-sectors, for example with softer demand for retail, contrasting with major demand for logistics and warehousing. All to say the immediate future for the private fund markets looks very strong, globally and locally. Consequently, the service provider market is seeing new entrants and existing parties adding to their product suite, often through acquisition. Our own business, which is focussed solely on the private fund sector, is strongly positioned both globally and in Ireland, offering a fully integrated service solution covering fund and corporate services, depositary, and AIFM.

"Regardless of whether they are a real assets fund managers, private equity managers or manage a fund of fund portfolio, their basic needs in data management and workflows are the same."

Tadhg Young, State Street: At State Street, we envision that we will be asked to expand our scope of services beyond fund administration to private market firms to include data and analytics, as well as financing and liquidity services. Through interactions with our diverse private market clients, we see an expectation of general partners (GPs) to conduct portfolio management in a more dynamic way.

Regardless of whether they are a real assets fund managers, private equity managers or manage a fund of fund portfolio, their basic needs in data management and workflows are the same. With our platform, State Street Alpha, the goal is to incorporate and service data at all stages of a fund's lifecycle and to add support and transparency across asset management, portfolio monitoring, ESG reporting and dynamic investor reporting.

Our platform allows us to consume data from various sources, normalise and clean the data through the use of business rules and automated workflows, enriching the data through its lifecycle at each stage. By acting as the data backbone for a GP's operations, State Street Alpha will support all asset classes and their front-to-back requirements.

The short term, and longer term outlook

With interest rates low or negative globally, equities and real estate have been strong. This has been accompanied by strength in ETFs and private equity flows, yet issuers have been slow to resort to public markets, to the chagrin of regulators such as outgoing SEC chairman Jay Clayton.
A possible sign of this since the start of 2021 has been the spectacle of small investors resorting to platforms such as Reddit and Robinhood and investments such as Gamestop to vent their frustrations, prompting a comment from another former SEC chair Harvey Pitt about the phenomenon: "You can sell garbage to the public as long as you say to the public 'this is garbage' and you'd be an idiot to buy it, but would you like to buy it"?
How do you see the asset management industry playing the role it can to help bridge these potentially emerging gaps?

Longer term, what do you think are the major risks for the industry in the next 3 years?
(please comment referencing the below aspects).
The Impact of Social media on Investment Markets
The Impact of Competition on Fee margins
Failure to integrate ESG into workable business models
Disruption to mainstream institutions by challenger funds promoters, boutiques, new entrants
Cyber Security threats
Post Brexit, in Europe, financial services regulatory nationalism (like the reported 'vaccine nationalism' we saw in early 2021).
Distortion of Investment Markets by the Covid-19 economic recovery
Distortion of Business Management and Cybersecurity by Covid-19 reorganisation matters.

Melíosa O'Caoimh, Northern Trust: We continue to watch the global economy with interest. Equity markets have been growing, especially in the US, and interest rates have remained low. We will be watching how those market moves impact the commercial realities of the fund manager and servicing commercial footprint: for example, would choppier financial markets lessen the impact of passive investing?

Will an increase in interest rates change the way that clients and investors behave?

These will be critical questions for us to discuss with our clients in terms of how the macro environment will shape their investment thinking in the next three to five years. We are also aware that EU fund structures operate in an environment now where a large proportion of the world's investor base and investment talent are outside the bloc yet using EU funds. From a political and regulatory perspective, how various international bodies think about these ever-more complex relationships will help define how the industry and our business will evolve.

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Ross McCann, Alter Domus: The industry's major risks are those it cannot fully see or adequately plan for. Political shifts and associated instability may create different market dynamics in the future and the increasing influence of social media will contribute to this. We have already witnessed a number of populist 'shocks' in recent years which have tended to be more nationalistic in nature. The next three years, for example, will tell us a lot about the longer-term relationship between the EU and UK. Will the UK stay relatively aligned with the EU or will we see significant divergence begin? Will financial services regulatory nationalism, backed by political nationalism, lead to a 'race to the bottom'? This could lead to a risk in stability where investors, particularly institutional ones, crave stability. EU countries benefit from regulatory alignment, allowing passporting


Ross McCann

and barrier-free access to each other's markets. There are also alignments and collaboration in terms of security, including cyber security. Brexit has removed what was arguably the lead EU player in terms of financial services, which undoubtedly raises risks of exploitation when it comes to cyber security. There has also been a well-documented rise in cyber security attacks and scams in the wake of the Covid-19 pandemic which regulatory authorities will have to address by adapting and changing WFH policies.

"In regard to integrating ESG into business models, I don't believe this represents a risk to the market. Some managers will undoubtedly find it more challenging to incorporate ESG than others and it will indeed open the door to new managers with no 'baggage', which should be viewed as healthy."

We did not foresee the magnitude of the Covid-19 pandemic, and there is a reasonable risk of further pandemics which, depending on the nature of the virus, could have quite different impacts. Outsourcing is an effective way to mitigate risks caused by pandemics as a well-resourced third-party service provider should in theory be able to maintain BAU functions. In contrast, managers have much smaller teams with individual absences more keenly felt.

Falling fee margins combined with greater regulatory barriers to the market will see continued consolidation in the market through M&A activity, particularly for third-party service providers. As mentioned, falling margins may be somewhat offset by outsourcing technology, and lower post-covid overheads.

In regard to integrating ESG into business models, I don't believe this represents a risk to the market. Some managers will undoubtedly find it more challenging to incorporate ESG than others and it will indeed open the door to new managers with no 'baggage', which should be viewed as healthy. Of greater concern would be differing geographic ESG standards and accountability, and ease of implementation of standards. In this regard it is important for regulators, politicians, and the industry to work closely together to ensure the market has both transparency and choice.

Tadhg Young, State Street: The funds industry is facing a challenging environment over the coming years. On a micro level, the sector faces a number of regulatory challenges: following the UK's departure from the EU, the sector continues to adjust to the evolving nature of the UK-EU relationship and its implications on how the wider financial services industry operates across Europe, including ongoing focus on delegation arrangements. In addition, there remains strong focus on financial stability and the potential risks presented by the asset management sector. Work continues on the International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB) level, in particular with regards to money market funds and liquidity risk management, and possible measures should become clearer in the course of this year. Not to mention the various European initiatives that will be of relevance, such as the reviews of AIFMD and Markets in Financial Instruments Directive (MiFID). These various regulatory changes occur against a background of increasing industry consolidation, fee pressures and challenges from new market entrants.

On a macro level, a major financial risk is debt levels as a result of the injections of monetary and fiscal stimulus used to stabilise economies during the pandemic-induced shutdown of economic activity. Sovereign and corporate debt issuance has been at record levels, fuelled by low interest rates and the pandemic. The challenge for policymakers over the next few months will be to calibrate additional stimulus to support recovering economies, while avoiding the risks of overheating and feeding excessive inflation.

The major medium-to-long term systemic financial risk we all face is of course climate change. Despite clear evidence of various climate-related risks, it appears that little of this risk has been priced into markets. More work needs to be done in this area together with more global harmonisation of data and disclosure standards.

Ireland – Jurisdictional Overview.

Fund Management Companies (FMCs) in Ireland were asked by the Central Bank of Ireland to review, discuss and implement (at board level) the findings of the (C86) Thematic review of the governance framework for FMCs in Ireland by the end of Q1 2021. What conclusions going forward do you think firms in general might usefully implement to strengthen governance in the jurisdiction in the light of the Bank's own observations, as set out in its 'Dear CEO' letter of October 20th 2021?

Brian Higgins and Karen Jennings, Dillon Eustace: Governance has been a key issue for European and domestic regulators for some time. This has been evident within the EU in many pieces of legislation, including the various updates to the UCITS Directive and AIFMD, which, over the last number of years, have significantly increased substance and control requirements within management companies and AIFMs. Following the UK's decision to leave the EU, new fund management companies where established in a number of EU jurisdictions (particularly Ireland) and as a consequence, governance received additional scrutiny at a European level in an effort to ensure consistency of requirements and the application of same across member states. This was reflected in ESMA's Opinion of 13 July 2017 on supervisory convergence in the area of investment management and again in ESMA's letter to the European Commission of 18 August 2020 in relation to the review of AIFMD. It is in this context that the Central Bank carried out its thematic review of fund management companies' governance, management and effectiveness.


Karen Jennings

A central theme emerging from the Central Bank's review is that a fund management company must ensure that it has adequate resources and operational structures in place to ensure that it can comply with the Central Bank's governance requirements. In this respect, a key aspect from an operational perspective is that fund management companies should have the necessary resources to ensure that appropriate oversight procedures (including review, engagement and reporting procedures) are in place. The level of resources should be appropriate to the nature, scale and size of each fund management company. However, the Central Bank did confirm that it requires a minimum of three full time employees (with suitable qualification and experience) for even the smallest and simplest of entities. Further, the Central Bank has said

that management companies/AIFMs "must appoint locally based persons who conduct managerial functions", meaning that non-Irish promoters have been required to source Irish-based solutions as they seek to remain within the new regulatory requirements.

"This has resulted in the continued trend of a move away from the self-managed model, which has become more expensive to operate. Most if not all self-managed funds are now considering a move to a managed structure. While some may appoint a manager from within the promoter group, many funds would not have this option and are looking to appoint a third party manager."

This has resulted in the continued trend of a move away from the self-managed model, which has become more expensive to operate. Most if not all self-managed funds are now considering a move to a managed structure. While some may appoint a manager from within the promoter group, many funds would not have this option and are looking to appoint a third party manager.

Ross McCann, Alter Domus, Ireland: The size and makeup of FMCs in Ireland is diverse, so we would expect a similarly diverse range of proposed solutions to be implemented through 2021 as there is no 'one size fits all' solution. Given that many FMCs are relatively new to Ireland, having set up there in the past 3-4 years, the resourcing and governance question is likely to be the most pertinent. For these parties, I expect some to exit the Irish market, particularly if they already have another EU presence, for example in Luxembourg, from which they can passport or indeed outsource to an Irish or EU third-party ManCo. Others will accelerate existing hiring plans to meet the requirements in anticipation of their business levels catching up. A kind of hybrid solution is for the FMC to meet requirements through a combination of its own resources and certain outsourced support from third-parties, for example to cover compliance and regulatory reporting. It remains to be seen to what extent the Central Bank of Ireland will allow FMC outsourcing to meet its requirements, but this will become apparent over the coming months.

Tadhg Young, State Street*: The CP86 framework includes detailed requirements on organisational effectiveness, the performance of managerial functions, delegate oversight and resourcing. The review found that when applied correctly, the rules and guidance provide a framework of robust governance and oversight arrangements. However, it also found that a significant number of FMCs have not fully implemented the framework. All FMCs must assess their operations against the requirements, while taking into account the findings of the review and, where necessary, put action plans in place by the first quarter of 2021.


Tadhg Young

"At the time of writing just under half of State Street's Irish clients have chosen to establish a staffed Irish management company, while the remainder have appointed a third-party management company provider."

There are a number of resourcing options available to FMCs as they seek to ensure full and effective embedding of all aspects of the framework:

- An FMC which is currently staffed in Ireland may need to assess whether they have sufficient resources within the FMC to ensure they are in a position to fully meet the requirements of CP86 and the findings of the review. This may be of particular relevance to staffed FMCs, which were established prior to 2017.
- An FMC which is currently a Self-Managed Investment Company (SMIC) could consider employing resources within the SMIC. However, this is not an option we have seen widely implemented to date.
- An FMC which has not had staff employed previously could consider hiring staff to ensure they have resources to fully meet the requirements of CP86, including governance and oversight requirements.
- An Irish fund range could appoint a third party "management company provider" to act as FMC to their Irish funds. That third-party FMC would have responsibility for satisfying the CP86 requirements and the findings of the review.
- A fund range could use a management company already established in another EU location and "passport" the EU authorised management company in for their Irish funds.

At the time of writing just under half of State Street's Irish clients have chosen to establish a staffed Irish management company, while the remainder have appointed a third-party management company provider.

The ILP for private asset funds?

Following the updates to ILP, CBI share class guidance updates for closed ended QIAIFs and introduction of Depositaries of Assets other than Financial Instruments ("DaoFI's") Ireland now presents itself as a compelling choice for domiciling private asset funds. What key considerations should Managers consider when choosing Ireland for the first time?

Ross McCann, Alter Domus, Ireland: One of the main challenges managers coming to Ireland may face is a general unfamiliarity with the jurisdiction, especially if they come from outside Europe. Thankfully, this can be addressed by having a strong network of advisors, lawyers and service providers who can really guide and partner with them by setting up and operating in Ireland.

Getting to grips with local regulation can be a struggle, where understanding the particulars of the regulatory reporting required and other such intricacies is key. Here once again, managers will benefit from using service providers who have in-depth, local experience and can take on that type of work in the background. Our work is essentially about letting the managers continue to focus on taking advantage of opportunities and managing assets.

The ability to provide a full-service solution is a compelling component for the 1,000 or so managers who are already in Ireland and want to do business from there, both from an efficiency perspective but also in terms of depth and breadth of knowledge and experience.

Locally, we have been setting up our firm to take advantage of the anticipated

in Ireland. This has involved expanding our service line to have an even stronger administration and corporate services offering. We are also opening a ManCo business, in addition to a real assets depositary, enabling us to offer managers a one-stop-shop.

Cryptocurrencies: a new asset class?

How do you see the market in cryptocurrencies and other blockchain-based assets developing?

Brian Higgins & Karen Jennings, Dillon Eustace: If anything can be learned from recent tech developments in financial markets (such as the rise in popularity of cryptocurrencies and other blockchain-based assets, and the fall-rise-and-fall of GameStop triggered by low commission trading apps) it is that the asset management industry is in an unprecedented state of flux. The recent rise in popularity (and value) of "non-fungible tokens" could herald the growth of a new form of asset class, proving once again that where an asset is rare (even where that rarity is fabricated) it will increase the perceived worth of such an investment.

Recent history (see the examples above) has taught us that the volatility (and thus risk) of investment in "new" assets, or via new channels of investment, means that investment through a fund is somewhat niche. Nevertheless, this is an area in which we can expect growth in the coming years, even if, initially, it is only on the margins of the industry as a whole (as it is likely to take time before European regulators become comfortable with retail funds investing directly in cryptocurrencies and other blockchain-based assets).


Brian Higgins

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