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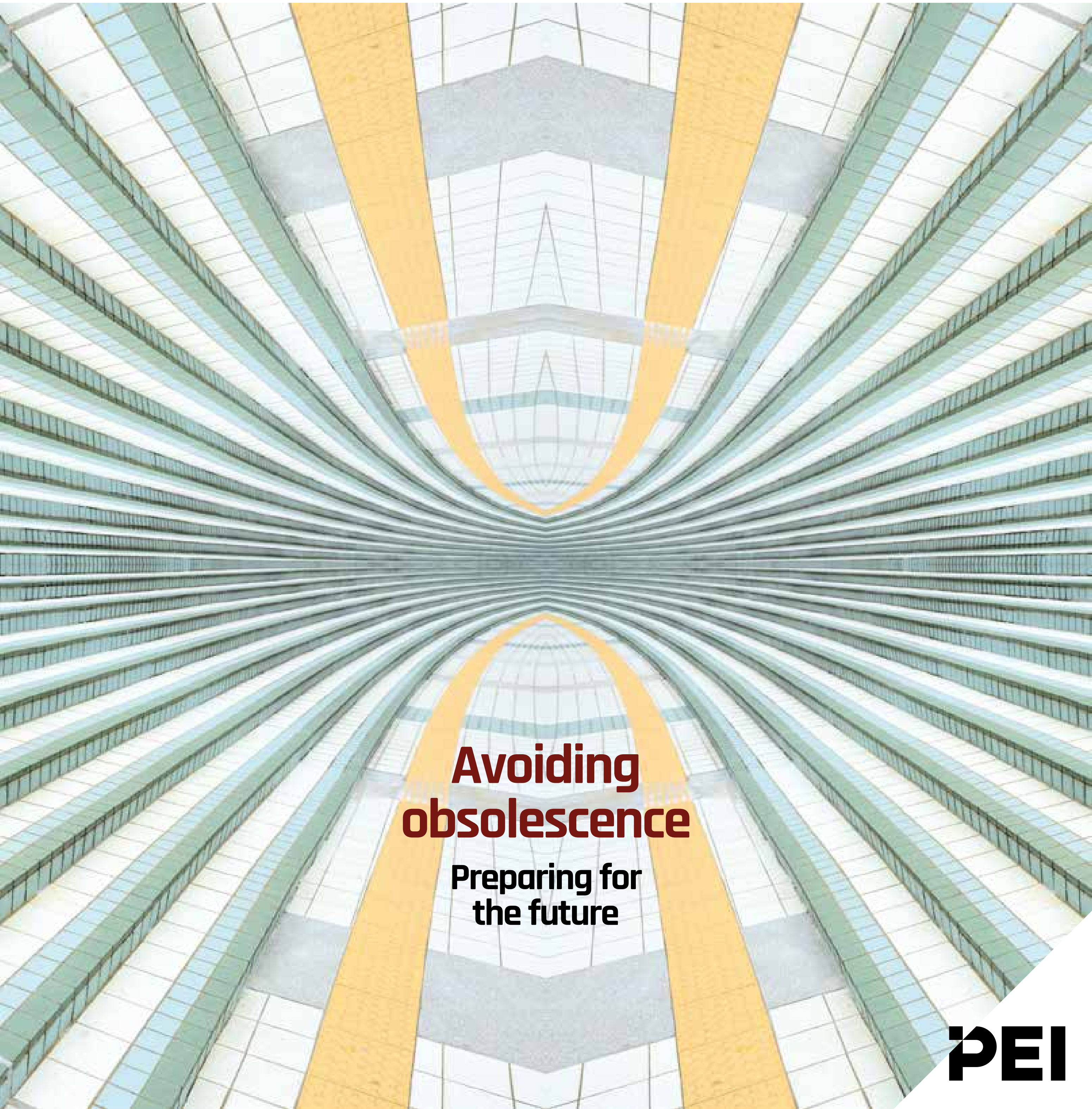

Avoiding obsolescence

Preparing for the future

KEYNOTE INTERVIEW

Targeting new markets

Managers of private funds are becoming more global with increasingly complex fund structures, while navigating new technologies, say Cyril Schopfer and Craig Williams of RBC Investor & Treasury Services

The world of asset management is shifting. Fund domiciliation strategies are evolving and the democratization of private assets is resulting in alternative fund managers turning to retail investors for growth opportunities. As the investment landscape comes to grips with these changes, tokenization and other technological developments are adding further complexities – but also creating new opportunities.

According to Cyril Schopfer, RBC Investor & Treasury Services' head of client coverage for the US, and Craig Williams, head of product and profitability for Private Capital Services, regulators are recognizing the need to adapt to these developments. Asset managers must also respond to the changing environment, keeping investor needs front-of-mind to deliver a positive, holistic experience across their fund domiciles.

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Q How are fund managers shifting their fund domiciliation strategies and what is driving this trend?

Cyril Schopfer: The landscape is shifting, driven by regulatory, tax and structural changes. We have seen a sustained trend toward jurisdictions that offer greater transparency and enhanced investor protection. The focus on private assets, including demand for new products and push for local content have driven countries to update their regulation.

Craig Williams: We are witnessing increased competition for fund managers with the ability to cover global structures. Also, global funds currently require multiple administrators, and this can add to the funds' complexity and cost. We are seeing a desire for fewer parties in order to simplify the structure.

CS: As asset management becomes increasingly complex and global, the needs of managers are changing to meet investor needs and to support investments. When it comes to entering a new jurisdiction, we have found that investor demand is generally the main driver. Investors want to know that their money is based in a jurisdiction that is well-known and well-connected to the country in which they live. They want to feel comfortable that the jurisdiction is politically, fiscally and legally stable. They may also require alignment of the country's ESG principles and practices with their own.

Q Which jurisdictions are currently favored by managers for private assets?

CS: The last survey we performed in 2021, which focused on the intentions of asset managers regarding their next fund domicile, highlighted that Delaware, Luxembourg and the Cayman Islands were popular choices. While these domiciles remain popular, additional trends have emerged regarding other jurisdictions.

For example, there was the long-awaited overhaul of the Irish Limited Partnership in 2020 and, on the back of that, we are seeing increasing flows toward Ireland – albeit at an early stage. Although the breakaway from the EU was seen as an opportunity to establish the UK as a fund center, this market also remains in its infancy. Looking to Asia, Singapore is taking steps to make the jurisdiction appealing to the alternative investment management community. In 2020, they unveiled the Variable Capital Company act, which has received a significant amount of attention since its launch.

At the end of the day, when managers are looking at new fund domiciles, they must consider whether the benefits of a particular fund domicile outweigh the additional costs of conducting business there.

CW: We are seeing more global fund structures coming through. The question is: can service providers, including custodians, depositories and fund administrators, support the global structure in all their potential locations and services – or is there a gap?

CS: In terms of technology, a particular focus of asset managers has been enhancement of the investor experience, with the aim of providing a holistic and digitalized experience across the various domiciles. Collection of data at the investment level, supported by advanced reporting and value-add analytics, is also important for meeting investor needs and those of alternative funds.

As a result, we are witnessing a trend toward outsourcing, driven by the requirement for managers to become more efficient. The cost of keeping certain activities in-house, in terms of labor and technological development, can increase rapidly. To meet these rising costs, managers are more and more looking for creative solutions that can support fund structures both horizontally and vertically.

Q What is driving demand for the democratization of private assets? Do you see any current trends continuing?

> *"We are seeing increased interest in ELTIFs, which are becoming a key tool in support of the retailization of private assets"*
>
> CRAIG WILLIAMS

CS: Individual investors are attracted to the potential for alternative investments to provide above-average returns in the context of public market volatility, high inflation and the need for portfolio diversification.

We have seen significant growth in AUM for alternative asset management, mostly coming from institutional investors. In recent years, the largest and most successful asset managers have been assessing what is on the horizon – what the next source of capital will be, how they can grow their businesses and how they can diversify. Managers are seeking to broaden their client base in a highly competitive environment.

One of the ways for managers to achieve their goals is to tap into the retail market, which has broadly gone unutilized by alternative asset managers. According to a *PERE* survey published in the fall of 2021, over half of managers expect their retail investor base to increase in the next five years.

Regulators are also recognizing the importance of offering easier access to private markets for retail investors, providing an additional source of capital for the economy. We believe that the opportunity is significant and have been very active in this space. In our view, it is a trend that is here to stay.

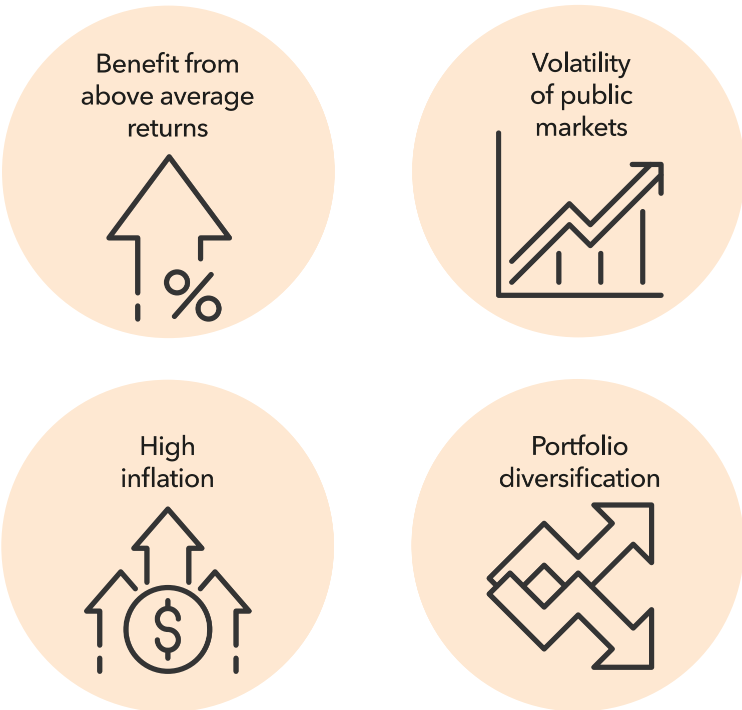
CW: In terms of investor demand, we are experiencing quite a transformation whereby the previous distribution network is now being applied to private markets. The operating models and other developments we have seen over the years are now being used to service these new private structures.

Q Are there any fund types appropriate to support this democratization trend?

CS: In the US, managers have been bringing products that target the retail end of the spectrum to market for longer than other parts of the world. Popular US fund types, including interval funds, tender offer funds, BDCs

Q What is driving the demand from retail investors to invest in private markets?

CW: By combining our specialist product and service offerings for transfer agency and private assets, we facilitate retail investor access and enable alternative asset managers to democratize their private asset strategies through global structures.



and private REITs, all come with different features to support liquidity and to target slightly different types of investors.

In Europe, innovative open-end funds for asset classes such as private equity, private credit and real assets have come to market over the past two years. The funds feature monthly or quarterly subscription and redemption cycles with additional mechanisms to limit redemptions. Liquidity comes from subs and reds, investment distributions, liquidity sleeves invested in more liquid instruments and fund-level credit facilities.

It is important for asset managers to partner with the right service providers, who can support an often complex distribution network of sophisticated intermediaries, bringing a large number of investors with specific reporting needs in terms of frequency and transparency. With alternative asset management embracing the retail segment, we have also learned that, for those managers that have historically operated in the institutional space, a fair amount of handholding is required, along with educational support and the right technology.

Q European Long-Term Investment Funds (ELTIFs) were first introduced in 2015, but only a modest number have been launched since then. Why do you think this is the case?

CW: I would agree that ELTIFs have only achieved modest success. The issues have been somewhat wide-ranging, including restrictions on eligible investments, concentration limits, diversification limits and limited borrowing. The European Union's ELTIFs 2.0 regulatory reform is addressing many of these challenges.

The ELTIF is the only alternative investment fund that can be marketed to retail investors in Europe under a specific marketing passport regime. We are seeing increased interest in ELTIFs, which are becoming a key tool in support of the retailization of private assets, and a healthy pipeline exists for these funds.

Q There is a lot of industry discussion on tokenized assets. How quickly do you expect interest in tokenized assets to grow?

CW: The fintechs that we are seeing in the market today are generally still in the pilot stage. They are approaching different custodians and other service providers to find the right market fit. If you look at the compliant tokenization platforms that exist today, there are questions about the ability of fund administrators to connect to a particular platform. The benefits of tokenization may be obvious, but questions remain around connectivity and time-to-market. For us, tokenized products are likely to be some time away, but this is certainly an exciting area.

CS: The private market is historically known for being inefficient and opaque, which presents a very strong case for tokenization. In 2022, a study by the Boston Consulting Group projected the value of tokenized assets at approximately $16 trillion by 2030. So, the opportunity is significant. However, the need for regulation across key markets is an important consideration for tokenization and digital assets going forward. ■