Introducing the Halo Framework

Our next-gen operating framework that encircles every aspect of your private capital fund

intertrust GROUP
A CSC COMPANY

THE HALO FRAMEWORK

Explore our extensive research into how private capital funds will operate in the future, with detailed analysis of our best-in-class framework

Foreword

Welcome to the Halo Framework. This report identifies and describes a best-in-class, next-generation fund operating framework for private capital.

That sounds ambitious. And it is – deliberately so. At Intertrust Group, we believe private capital is at a crossroads. Managers want to scale at pace but are held back by back-office functions that struggle to keep up.

Private capital is becoming more complex, and complexity adds cost. Operational challenges can no longer be solved by short-term measures. Instead, we believe the private capital operating framework requires a complete recalibration. Our research, conducted by Everest Group, suggests that fund managers feel the same way.

That means adopting systems and processes that are best for your needs, combined with strategic outsourcing to help you unleash the potential. Our framework combines people, process and technology in a seamless, cost-effective operational engine, overlaid with effective governance and the judicious use of trusted partners.

This is not a one-size-fits-all approach. Our blueprint is flexible and customisable, and it covers the entire fund life cycle. We think an optimised back office is an imperative need and a driver of growth for the industry and for private capital funds.

In the following pages we detail the results of this extensive research covering more than 150 leaders and heads of private capital firms, and set out the next-generation operating framework for private capital.

We hope this comes at the right time – as you are thinking through your growth plans for 2023 and beyond – and gives you some great insights to leverage as you formulate your strategy. We would love to hear from you if you have any questions or considerations.

Chitra Baskar
President, Fund Solutions

Implementing the Halo Framework

Futureproofing and encircling every step of your private capital operations

Develop a robust operating framework

Empower your people

Use technology to drive efficiency

Nurture effective partnerships

Embed streamlined, scalable processes

Prioritise governance and compliance

THE HALO FRAMEWORK

Checklist to the Halo Framework

Empower your people

- [ ] Recruit from all backgrounds. Be prepared to hire able generalists and upskill as necessary. Then develop skills and knowledge with a strategy that prioritises continual learning. 42% of respondents in our research say they face “extreme difficulties” finding talent.
- [ ] Create a programme that immerses employees in different value streams and fully engages them in core projects, giving experience that is wide and deep. Encourage rising talent to act as business owners, take decisions at the right level and be responsible.
- [ ] Build a knowledge-exchange system. Make information-sharing dynamic.

Use technology to drive efficiency

- [ ] Over half (53%) of respondents consider data management issues as one of their top three technology challenges. Use master data management to validate, organise and share better quality data.
- [ ] Use data warehousing to support business intelligence activities. Automate processes, and associated checks, to help manage business expansion (49% of our respondents say a lack of automation is a serious challenge).
- [ ] Reduce cost, enhance security and improve collaboration with cloud platforms.

Embed streamlined, scalable processes

- [ ] According to 51% of our respondents, a lack of process standardisation is holding them back. Create processes that are standardised but flexible enough to scale with your business.
- [ ] Utilise lean process management to support continuous improvement. Minimise hand-offs to save time and cost.
- [ ] Ensure all change management processes are coordinated across the business, and the associated implications and risks are understood and mitigated.

Nurture effective partnerships

- [ ] Move from simple ad hoc service arrangements to a co-sourcing/partnership model. Half of our respondents consider onboarding an outsourcing partner as one of their top two priorities.
- [ ] Look to partners who align with your culture, understand your business and market, and prioritise clear lines of communication. Over half (53%) of respondents say achieving an “optimal outsourcing mix” is a key priority.
- [ ] Choose partners with flexible solutions who continually benchmark processes and resolve complex governance and compliance issues across their client base.

Checklist to the Halo Framework (contd)

Prioritise governance and compliance

- Continually track regulatory, contractual and legal obligations to create a robust compliance framework and avoid financial and reputational damage. Choose partners that will help you meet the ever-changing pace.
- Regularly audit such processes to discover areas of improvement and evaluate whether they operate as prescribed.
- Develop deep regulatory knowledge and monitor global legal developments. Growing regulatory scrutiny and reporting requirements are making it difficult and expensive to manage compliance in-house – in fact, 14% of our respondents said this was their primary reason for outsourcing.

Develop a robust operating framework

- Align your middle- and back-office strategy with the growth of the investment management teams.
- Provide for dynamic and agile teams to keep pace with accelerated deal flow across your various investment strategies and asset classes.
- Identify the correct mixture of technology, outsourcing and governance requirements for your operating framework.

Decoding the Next-generation Fund Operating Model for Private Capital

Pranati Dave, Practice Director
Kriti Seth, Senior Analyst
Pooja Mantri, Senior Analyst

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Introduction

The private capital market is changing rapidly due to the evolving industry and macroeconomic landscape. Fund managers are facing increasing margin pressures due to investor demand for lower fees and rising competition from non-traditional players inhibiting their ability to charge a premium. To tackle this challenge, funds are trying to improve their top lines by targeting newer investor types, entering different jurisdictions, and growing their product suites, while being mindful of their bottom lines through efficiency improvements.

However, this aggressive expansion needs to be carried out keeping in mind the many local and cross-border regulatory requirements, which are gradually becoming more complex. Additionally, funds are reporting rising instances of breaches, leading to massive fines, and investors are demanding transparent and customized reporting that provides clear information on the risks that the management firm undertakes and their impact on portfolios. Private capital firms are also facing increasing pressure from regulators and investors alike to incorporate Environmental, Social, and Governance (ESG) parameters in their investing decisions and reporting (for example, the EU Sustainable Finance Package, MiFID II compliance).

The private capital market is on a growth trajectory as demand increases for alternative asset classes such as private equity, private debt, private real estate, private infrastructure, collectibles, and digital assets such as cryptocurrencies and NFTs, as well as structured products. In fact, the market is experiencing a record-breaking capital inflow as investors look to hedge against volatility in the stock and bond markets due to an erratic macroeconomic environment and rising interest rates. At the same time, the industry is increasingly consolidating – private capital firms and hedge funds are on an M&A spree to keep up with their strategic growth plans. Some examples illustrating heightened consolidation in the market are PineBridge Investments' acquisition of Benson Elliot Capital Management to expand its offerings in alternatives (mainly private real estate), CVC Capital Partners' acquisition of Glendower Capital to propel growth in the secondaries market, BlackRock's acquisition of eFront to expand its alternatives and multi-asset capabilities, and Ares Management's acquisition of Landmark Partners to enhance capabilities in the alternative asset management space (primarily secondaries). Exhibit 1 depicts the top strategic priorities of private capital firms and the major challenges in achieving them.

Our findings here and elsewhere in the study are based on interviews with industry experts and a survey conducted among more than 150 leaders and business heads of private capital firms, hedge funds, and private wealth managers.

EXHIBIT 1

Top strategic priorities of private capital firms, hedge funds, and private wealth managers

Source: Everest Group (2022)

Seminal shifts and primary factors driving meaningful alterations to private capital markets						
Margin pressure	Consolidation in the industry	Change in investor preferences	Regulatory changes	Rise in competition	New growth areas in alternatives	Talent war

KEY TENETS TO TRANSFORM INTO A FUTURE-READY FUND MANAGEMENT BUSINESS

Associations | Budgets | Change management | Data and technology | Employees

xx% of respondents who selected the listed strategic goal as part of their firm's **top two** priorities

The survey respondents highlighted the top strategic priorities of private capital market firms as illustrated below. Working on the ABCDE of transformation will help them achieve these goals:

63%	55%	54%	53%	49%	49%	47%
Drive business growth	Improve stakeholder experience	Operational efficiency and cost optimization	Achieve optimal outsourcing mix	Tackle increased competition	Address changing regulations	Technology adoption

Whether compelled by compliance needs, market conditions, or investor demands, private capital firms globally are re-evaluating and optimizing their operating models to be ready for the future.

An effective fund operating model comprises the three pillars of people, process, and technology, and is enveloped by a layer of governance and robust partnerships. There is no one-size-fits-all operating model in the fund management business, though a change strategy around the three pillars can help define a fund manager's roadmap to deliver better value. The need for optimum value delivery becomes even more important as fund managers scale their businesses through product innovation, enter newer jurisdictions, and target new client types.

This research highlights the various elements that private capital firms should focus on to futureproof their operations, including:

- Overhauling the business and operating processes
- Revamping the talent management strategy
- Developing agile systems that support frequent regulatory changes
- Tapping into technology for differentiation, efficiency, and scale
- Building an ecosystem of trusted partners

This viewpoint will help fund managers and their co-sourcing partners understand the operating model challenges facing the market and the industry best practices to address them. The insights will help firms define their strategic roadmaps and be ready for a future marked by change.

For a majority of the survey respondents, revamping middle-/back-office operations is among the top two strategic priorities for their firms in the next two years, indicating a push toward achieving operational efficiency.

Factors driving growth in the fund management business

A growth that demands operational excellence

The value of private capital AUM has increased exponentially in the past couple of years, driven by factors such as globalization, low interest rates, and growing asset class diversification by investors. Large fund managers, pension funds, insurance firms, endowments, and foundations, among others, are progressively investing in private capital to access broader opportunities and secure higher returns. Additionally, high-net-worth individuals and family offices are collectively managing trillions of dollars in private capital investments. There is a significant transfer of capital underway out of the traditional wealth management industry into alternative assets. Sun Life Financials' recent acquisition of Advisors Asset Management illustrates its efforts to take its alternative products to retail clients. Similarly, KKR's announcement to roll out private equity and infrastructure-focused products for individual investors displays the industry's growing interest in launching democratized products. As the industry matures and investors become more sophisticated and aware, private capital firms are looking at product innovation and creating better investor experiences.

> Democratization of private markets, as and when it happens, will bring a step change in the fund operating model. It is slowly and incrementally happening already where private markets investments are starting to look and feel more like public markets investments.
>
> – Head of Operations, Swiss-based private markets firm with more than US$130 billion in AUM

Additionally, the appetite for diversification has shifted investors' attention to relatively newer areas, such as digital assets, growth equity, real estate, infrastructure, direct lending, distressed and special situations, and sustainable investing. We believe that investors will continue to demand creative and flexible capital solutions in the coming years, and, hence, product innovation is here to stay in the private capital industry. Fund managers are also capitalizing on the growing investor appetite to expand to newer geographies.

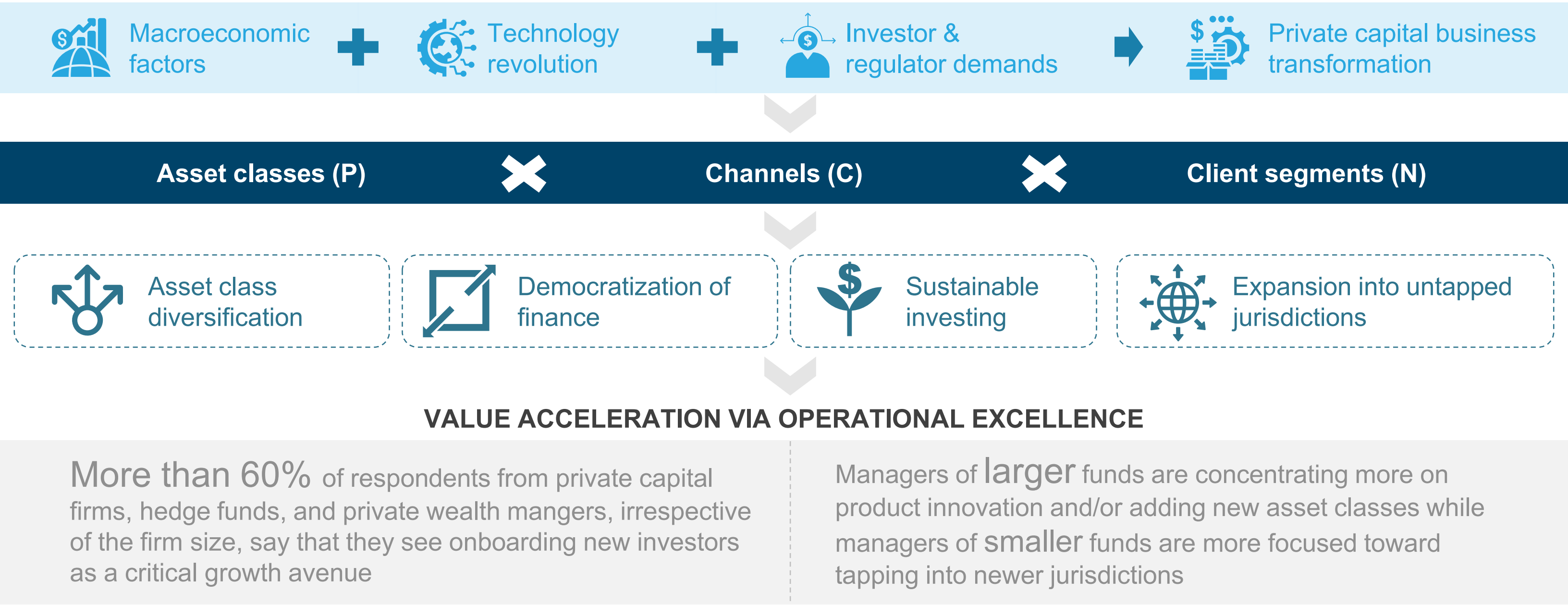
Notably, the industry is focusing on three growth opportunities – asset classes, channels, and client segments – while addressing the volatility due to macroeconomic situations, such as the pandemic, geo-political uncertainty, high inflation and interest rates, and supply-chain disruptions. Exhibit 2 illustrates this growth equation.

> Large firms in private markets are looking to function at an enormous scale, and they are turning to their operations as a lever to do this effectively. They will be entering into more external partnerships simply to do more.
>
> – Head of Operations, leading global private markets firm with more than 700 institutional clients

EXHIBIT 2

Growth in the private capital markets supported by operational excellence

Source: Everest Group (2022)



The private capital market has proved to be successful and resilient even in trying times, as indicated by the unparalleled capital inflow during the pandemic. Success brings growth, but it also brings added complexities and challenges as businesses scale. Findings from our interviews suggest that fund managers and administrators are constantly trying to achieve commoditization in the fund management business for better gains. However, clients of private capital market firms, particularly large clients, expect highly tailored and bespoke experiences. The challenge, hence, these firms face is managing the tailored nature of a fund transaction with the rising investor volumes. Fund managers of the future will have to think through and plan for these challenges. One of the ways in which they will be able to overcome them will be through building operational excellence.

In subsequent sections, we examine seminal shifts in the fund operating model as fund managers face an extremely competitive environment driven by unpredictability and continuous change.

While mid-/back-office operations and technology are an important parts of firms' overall strategies, close to 27% of respondents also focus on streamlining their core business functions.

Defining the fund operating model

A fourth dimension to the "golden triangle"

A synergistic approach to managing various business elements and operations within a private capital firm is to follow the golden triangle framework centered on people, process, and technology. Fund managers should equip people with domain and techno-functional skill sets and implement processes that help them take actions while leveraging technology to enhance and streamline these actions.

The future of fund operations will involve alignment and the right balance between these three fundamental pillars. Organically, a fourth dimension has emerged as an important aspect of the fund operating model: partnership. To focus on the core aspects of the business that directly generate revenue, private capital firms and asset managers are increasingly outsourcing certain functions to third-party providers. Such engagements require immense trust and clear lines of communication. In fact, they require a specific mindset for the fund manager – to make the outsourcing partner a trusted extension of the fund manager's team, which, in turn, helps reassure investors.

> "The outsourcing model or, more appropriately, the co-sourcing model, is the future of the fund operating model.
>
> – Global Head of Operations, leading private investment firm with more than US$150 billion in AUM

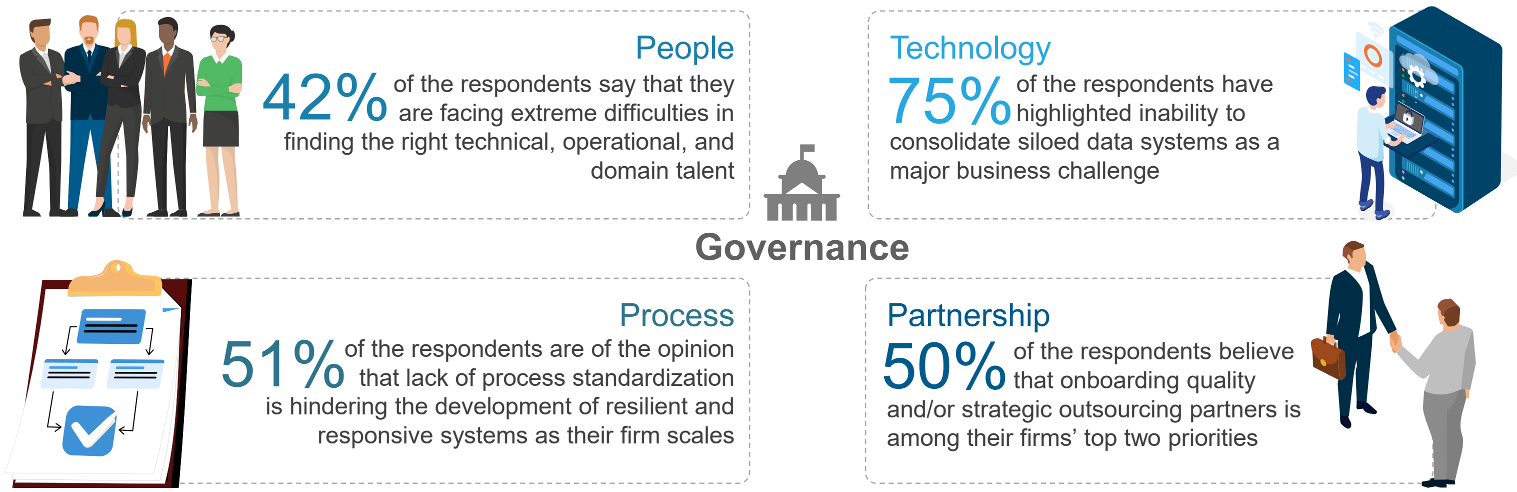
Fund managers are looking for solution-oriented business partners that bring in the right technology, domain expertise, cultural alignment, and market understanding to their business.

A robust governance layer commanded by the fund manager’s vision, strategy, values, and culture wraps the overall operating model, as Exhibit 3 illustrates.

EXHIBIT 3

Defining the fund operating model

Source: Everest Group (2022)



The need for change in private capital firms’ operating processes

The 2S2R framework

While the private capital industry’s long-term growth rate has been promising, enterprises need to do more to facilitate processes that are standardized, seamless, responsive, and reviewed in a timely manner to sustain the growth momentum. Exhibit 4 depicts various parameters – Process Standardization, Process Seamlessness, Process Review, and Process Responsiveness or 2S2R – changes to which will define the future of fund operating processes.

EXHIBIT 4A

The 2S2R framework

Source: Everest Group (2022)

Process review	Process responsiveness	Process seamlessness	Process standardization
Regular reviews of processes to ensure compliance with laws, regulations, contractual obligations, KPIs, and SLAs.	Process responsiveness Ability to provide near real-time and on- demand access to data and information to investors, regulators, employees, and other stakeholders of the fund management business.	Flexible and scalable processes that are easily adaptable to frequent changes in regulations, investor demands, asset classes & jurisdictions, and employee movements	Achieving a standard global operating model that provides scale benefits (newer jurisdictions or asset types or rise in investor volumes), yet it is flexible enough to accommodate regional-/product/client-specific differences.

EXHIBIT 4B

Respondent perspectives on the evolution of the fund operating model's processes and procedures

Source: Everest Group (2022)

MORE THAN	MORE THAN	JUST	ONLY
51%	42%	19%	11%
of respondents, whose firms regularly review/benchmark their processes, involve a third-party for the reviews	of respondents say that reducing the response time of their systems and processes as per evolving market demands has been a major challenge for the firm	of respondents believe that they have achieved Straight Through Processing (STP) with minimum handoffs across the fund management process life cycle	of respondents believe that they follow standardized processes across the business while offering flexibility in the consumption or reporting layer

Most leaders who we surveyed or interviewed highlighted that their firms have announced enterprise-wide data management and transformation initiatives, showing that private capital firms increasingly realize the need to streamline and standardize their processes. Data consolidation is the first initiative that they undertake to achieve this objective. The following section describes the process-related changes that private capital leaders are considering as part of enhancements to their operations.

Process standardization in fund management processes

The standardization of data and processes was long overdue in private markets with the industry's rapid growth and changing institutional investor demands. However, increasing focus on cost and efficiency in the last couple of years has created an urgency to standardize processes. Furthermore, the industry's growing investments in technology and digitalization to generate value at scale will be effective when there is a reasonable degree of standardization and when these processes have structured data as their inputs.

We believe that fund managers with globally standardized operating models overlaid with a reporting layer that is flexible enough to accommodate region/product/client-specific differences will be able to achieve the most benefits of scale.

Additionally, as data is the core element to enable process standardization and flexibility, it is vital for firms to manage this in a dynamic and intelligent manner to process variations and complexity. Given the interconnectedness of processes between managers and administrators, any standardization effort will require both parties to work closely to develop joint roadmaps.

Cost savings and efficiency through seamless processes

The establishment of clear ownership of individual tasks and smooth transition across the fund life cycle – fund establishment, deploying capital, investment monitoring and reporting, and realization of investments – help achieve operational excellence. Minimizing handoffs during any business and/or operational workflow saves time and costs significantly.

Low response times and better insights

Investors in private markets are increasingly demanding a near real-time view of their portfolios and better analytics/scenario building on the underlying investment data. To provide such visibility, fund managers will have to simplify the data environment to generate deeper insights from the investment information generated through internal and external sources. Data management issues are more prevalent in cross-jurisdiction investment management. Another major challenge that fund managers face, especially when using multiple systems, is the rapid duplication of information (such as the name of the investment and geography) across these systems. A consolidated view of enterprise data and a comprehensive governance system also help co-sourcing partners better serve fund managers. Achieving near real-time responsiveness from these systems and procedures is a priority for fund managers as they look to revamp their operating models.

> “The key for the co-sourcing fund operating model to be successful in any shape or form is data – clean, well-organized, consolidated, consumable, and accessible.
>
> – Managing Director, one of the world’s leading private investment firms with approximately US$160 billion of AUM

Timely reviews and obligation monitoring

Fund managers should regularly evaluate the processes and procedures aspect of their operations to ensure they cover all eventualities, conform to all contracts, and serve newly established product offerings, laws, and regulations. They should regularly audit such processes to discover areas of improvement and to ensure they perform as documented. Our findings suggest that fund managers are increasingly partnering with third-party providers for timely reviews. Also, only specific functions are prioritized and reviewed annually by firms on a need basis. A more rigorous and comprehensive end-to-end review is performed once in 24-36 months.

More than 90% of survey respondents indicated that building responsive systems and providing customized offerings are the top two focus areas of their investor servicing and communications strategies.

Around 75% of financial services firms that we surveyed actively benchmark their operations and technologies against their peers.

Talent management as a key priority for fund managers

Private capital firms’ strategies to combat the Great Resignation

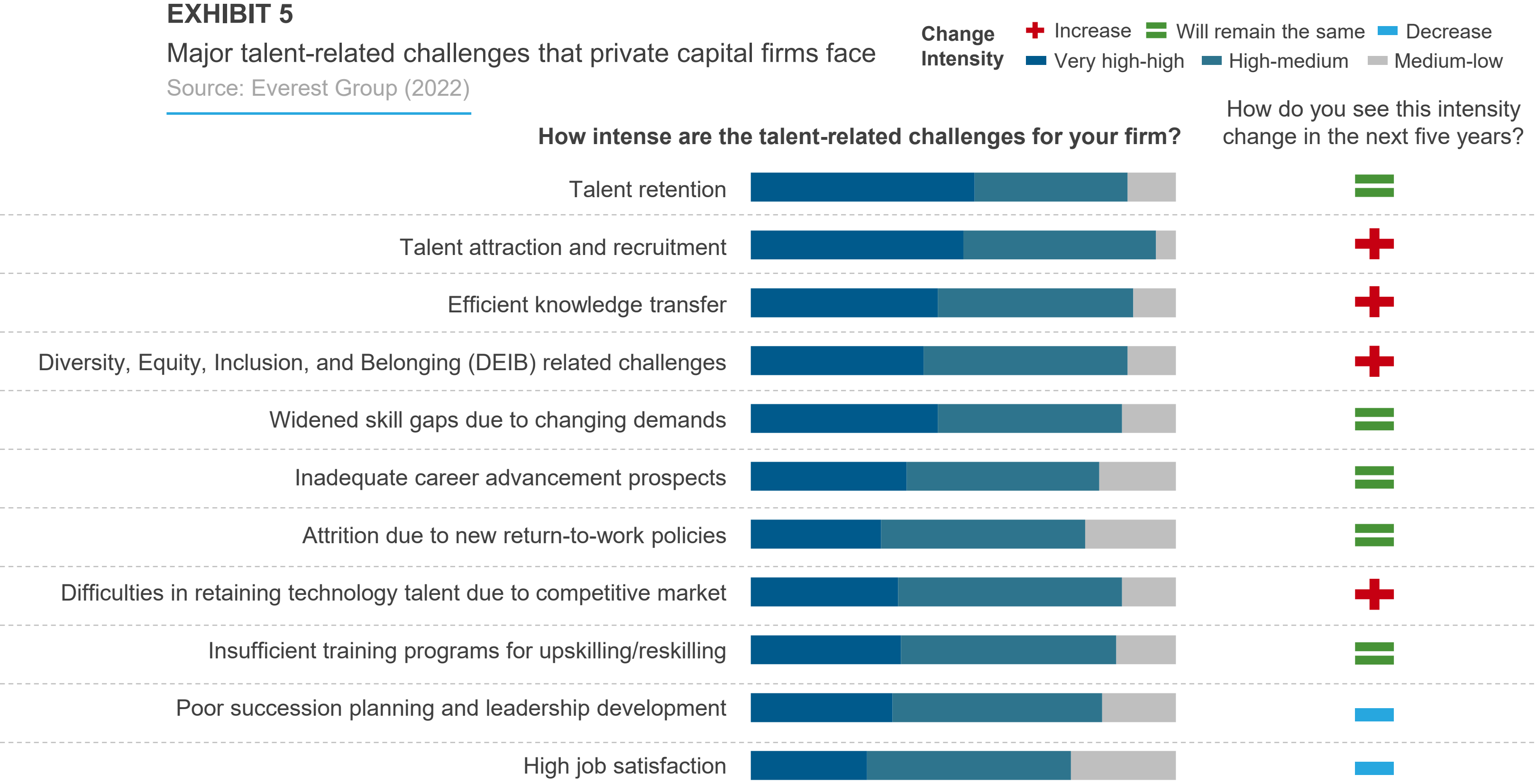
Private capital firms are making huge investments in improving their middle-/back-office operations and technology to support their growth mandates. Notably, a forward-looking and structured talent management strategy is an integral part of their operating models.

The industry remains a people-first business, hence attracting and retaining techno-functional talent is one of fund managers’ biggest priorities. The private capital industry is also struggling to cope with the Great Resignation and its accompanying challenges. Exhibit 5 depicts the top talent management challenges (and their intensity) that respondent firms face and how they see that intensity changing in the future.

EXHIBIT 5

Major talent-related challenges that private capital firms face

Source: Everest Group (2022)



We believe that firms can tackle these challenges by focusing on:

Appropriate transition planning and management to retain investor trust

Transition planning is inherently difficult in any type of organization, but more so for private capital firms. The exit of key leaders in the absence of the right people to fill their shoes can make the firm and investors anxious. Therefore, firms should build effective and realistic changeover plans early on to make these transitions smooth.

A purpose-driven Diversity, Equity, Inclusion, and Belonging (DEIB) framework to build a sustainable private capital brand

Fund managers that do not take a proactive approach to hiring people in line with the demographics of the workplace – which include ethnicity, gender, race, sexual orientation, nationality, disability status, skills, and many other factors – will soon lag their peers and come under investor scrutiny, risking capital losses.

Robust documentation and knowledge management systems

The industry is grappling with an acute talent shortage on the one hand and trying to effectively engage and retain skilled talent on the other. Ensuring business continuity during attrition becomes critical and the situation is exacerbated for small teams if employees well versed with certain functions leave the firm.

To address this challenge, private capital firms are increasingly working to build robust documentation management systems and repositories. Their primary goal is to build a process map within each business function to minimize risks, shorten timelines, and ease the hand-off process. Additionally, firms are coming up with common definitions for fund concepts to drive standardization and avoid confusion.

Our primary interactions with leading fund management firms highlight the need to build a knowledge-exchange management system. Such systems enable information sharing within the organization and help resolve challenges related to knowledge retention as the firm scales. A knowledge-exchange system is different from a knowledge-transfer system as it allows a constant feedback loop for fund managers to capture their business understanding and experiences. Thus, it further eases transition management and makes knowledge transfer and onboarding more efficient. Interviewees also highlighted the need to build a mechanism through which their different partners can use the same data in a shared way. This is becoming critical since private markets is a complex business and involves working with multiple counterparties such as custodians, administrators, and firms managing tax and compliance.

New working models and the role of strategic outsourcing partners

The private capital industry's operating environment, like that of other industries, has seen a shift over the last two years, with firms being compelled to embrace remote working arrangements. Even as the market starts returning to normal, private capital firms should not expect most of their employees to work from the office. Private market firms need to develop both an effective return-to-work policy and a robust hybrid-working model.

The role of strategic partners in providing access to the right talent can become a game-changer for private capital firms. Firms struggle to build relevant talent pools in specific jurisdictions. They are looking for partners that could offer techno-functional skills relevant to a newer jurisdiction which could serve the entire process value chain. This also shifts the burden of knowledge transfer to the service providers, who typically build capacity and institutional know-how well in advance as this is their core business. These partnerships will fundamentally shift the way private capital firms recruit talent or source people from their outsourcing partners.

Roughly 43% of the surveyed financial services firms believe that more than a quarter of their workforce will work remotely in the future. **For over one-third** of respondents, the figure was more than half of their workforce.

Hiring and retaining talent with the right skills

The biggest private equity firms in the US, such as Blackstone, KKR, Carlyle, and Apollo, reported a significant increase in employee salaries in 2021, which points to the competition in the industry to recruit and retain top talent.

With fund managers adding niche products or entering new jurisdictions, they need people who understand the new domains and complexities. Additionally, they require people who are proficient in using next-generation technologies. During our interviews, industry leaders constantly emphasized that they were facing challenges in finding relevant talent in new jurisdictions.

> “The private capital industry might shift to onboarding people with generalized skill sets as opposed to specialists. This calls for a more formalized onboarding process and frequent talent development programs.
>
> – Head of Technology and Operations, global asset management firm with more than US$150 billion in AUM

Findings from our survey suggest that fund managers are no longer insisting on specialized skills but are looking for a more generalized skill set and investing in upskilling/reskilling to train their workforce across multiple domains/functional areas and enhance rotation. However, this shift is a long-term journey. Presently, organizations desire certain high-in-demand skills for which recruitment challenges are more acute than others. These are the areas for which private capital firms need to innovate hiring and seek support from their strategic outsourcing partners. Sophisticated service providers invest a substantial amount in ongoing training and competency-building within their teams. Our interactions with industry leaders suggest that fund managers are increasingly checking with their partners on whether they are hiring and training talent with new types of skill sets. Fund managers want their partners to move up the value chain, move away from standard administration, and provide more expertise within the process.

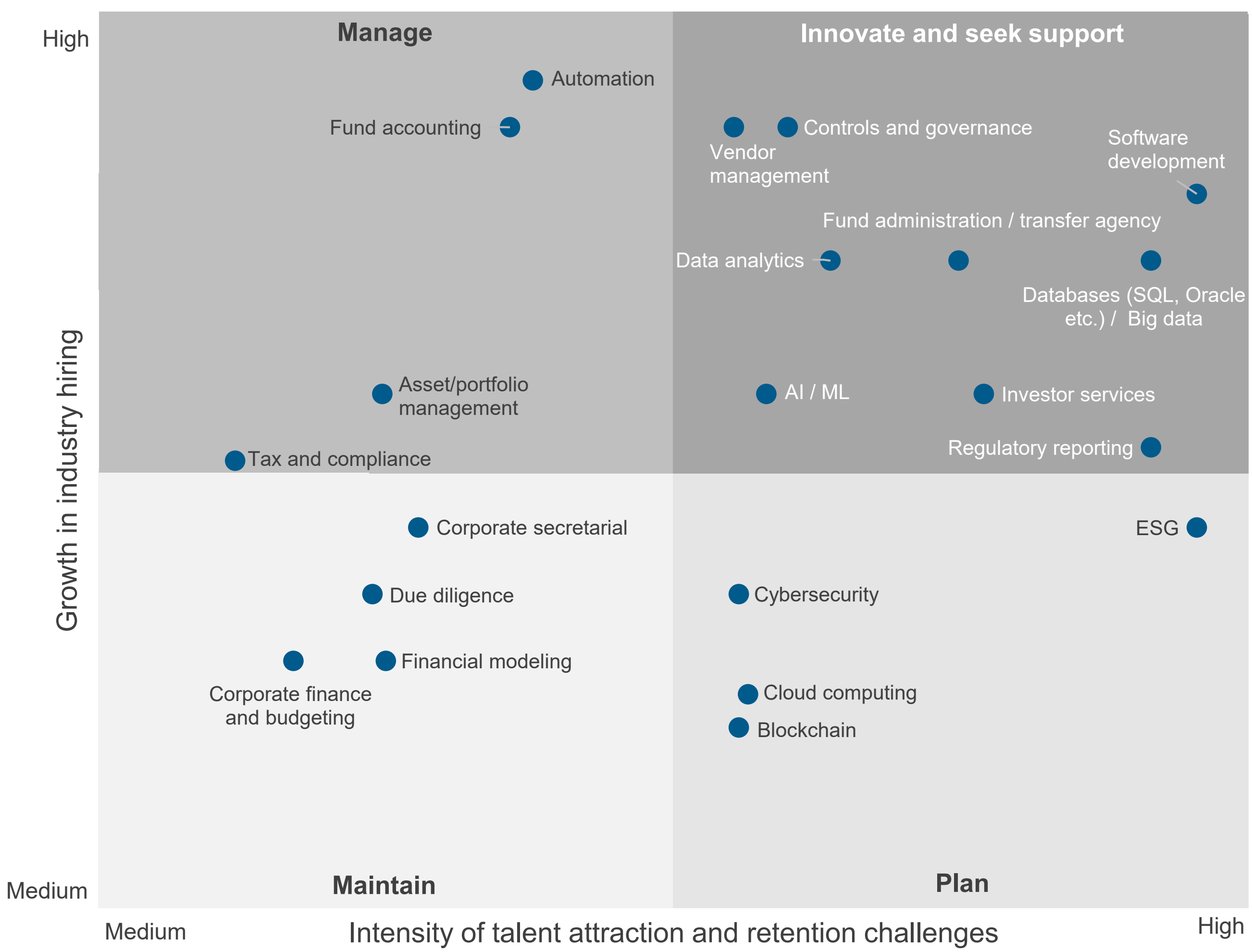
Private capital firms are also finding it difficult to retain top talent. They need to plan for measures such as timely rewards and recognition to retain members from the leadership team. Strategic partners can help fund management firms differentiate themselves in business segments such as deferred compensation plans for trustee and administration services by managing these complex and high-value plans and providing efficient payroll services. Partners could also help manage complex reward dynamics as the enterprises scale.

Private capital firms are on a journey of business and technology landscape transformation. To succeed, they will need people who understand next-generation technology systems, different alternative asset classes, regulations, risk management, data analytics, and middle-/back-office operational aspects, among other things. Exhibit 6 shows the prevalent operations and services tasks in which fund managers are facing intense hiring challenges and how they need to manage, maintain, plan, and innovate to obtain access to superior talent.

EXHIBIT 6

Private capital firms need to manage, maintain, plan, and innovate for the below techno-functional skills

Source: Everest Group (2022)



Technology driving differentiation in private markets

Technology equips the fund operating model's people and processes

Private capital firms are increasingly leveraging technology as they revamp their processes and talent strategies to cope with the changing macroeconomic conditions. However, such improvements are accompanied by additional complexities and challenges. Exhibit 7 depicts the major technology-related challenges that make respondent firms nervous.

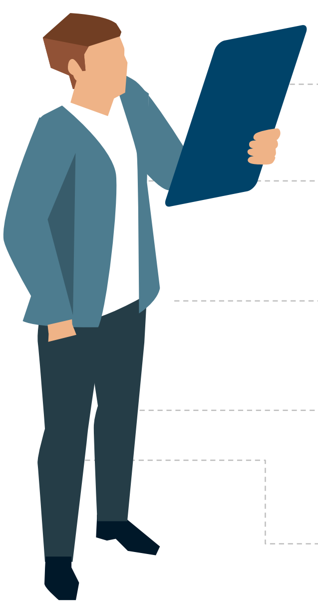
EXHIBIT 7

Top technology-related challenges facing private capital firms

Source: Everest Group (2022)

xx% percentage of respondents who selected the listed challenge as part of their firm's **top three** technology-related challenges

6% of the private capital leaders believe that they have an "evolved" and mature technology model with rapid adoption of next-generation technology across the firm; Most of them are in the "ad hoc" or "exploratory" stages of technology adoption maturity



64%	**Talent issues –** inability to scale and retain skills for data analytics and next-gen technologies
56%	**Disruptive technologies –** newer technologies such as blockchain putting additional pressure on compliance
53%	**Data management issues –** data siloes resulting in inefficient analytics and reporting
49%	**Lack of automation –** leading to increase in operational costs and lower efficiency
47%	**Security concerns –** increase in cybersecurity and data privacy-related breaches

Data siloes, legacy systems, lack of standardization, low technical know-how, added compliance and security issues, comfort with spreadsheet-based manual processes, and the inability to charter robust transformation plans are various factors inhibiting the adoption of next-generation technologies in the private capital industry. We take a closer look at the current state of adoption and challenges in adopting different technologies:

- **Data and intelligence:** Private capital firms are struggling to consolidate data across multiple disparate sources and asset classes to achieve a single source of truth. Functions such as deal sourcing and evaluation, due diligence, deal-making, and post-deal activities can substantially benefit from AI-/ML-driven tools, which can help improve efficiency, insights, transparency to investors, and performance time; facilitate automated reporting; reduce manual tasks; and better manage structured and unstructured data.

Executives in the private capital industry have highlighted that poor data quality and organization are the biggest barriers to digital innovation. Our research suggests that a connected and real-time Master Data Management (MDM) system will be key to this transformation. A robust MDM system will enable better data organization and holistic access to data across all lines of business to derive more insights. Additionally, better quality and holistic data in more hands across the organization would mean improved business decisions. Market growth in this industry will be increasingly linked to finding new investor relationships and preferences.

> “A big shift for the private capital industry is not to view data as a by-product but as an asset. This requires a fundamental change in thinking.
>
> – Head of Fund Management Operations, global investment manager with more than 1,000 employees and ~US$150 billion in AUM

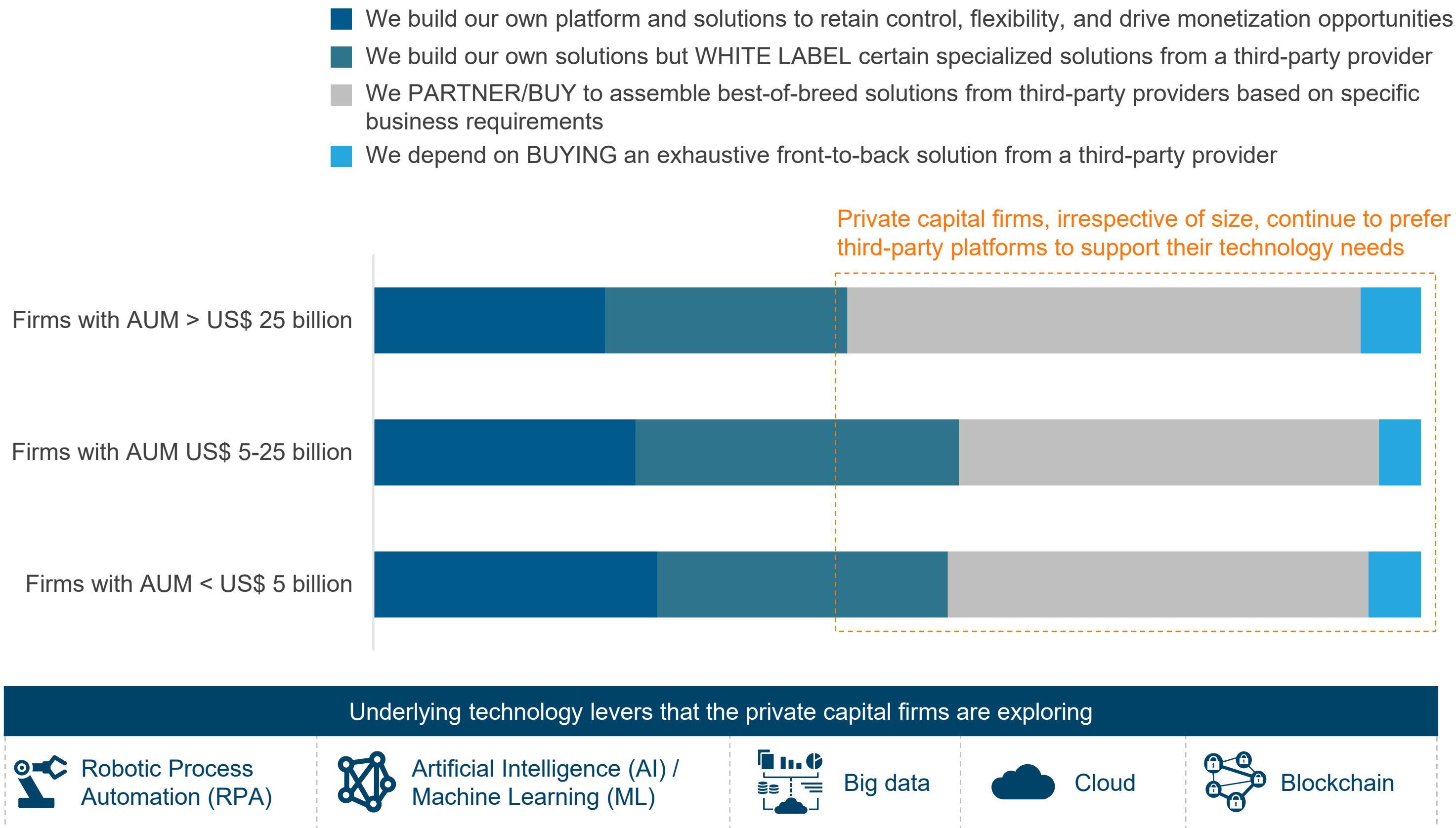
- **Robotic Process Automation (RPA):** Automation will help private capital firms manage the added volumes and complexities of business expansion. They are already using bots in functions that are tedious and time consuming, such as investment screening, data aggregation, quarterly reporting, and due diligence. However, the lack of a standard and streamlined process, prevalence of spreadsheets, and siloes between different functional teams/departments are hindering the scaled adoption of automation.
- **Cloud:** By migrating workflows to the cloud and embracing Software-as-a-Service (SaaS) platforms, private capital firms will not only be able to reduce the cost of maintaining their IT infrastructures, but also be able to enhance their data security systems that store sensitive information and improve collaboration in a post-pandemic landscape. However, migration to the cloud will be the next best action only once these firms have a progressive technology modernization strategy in place.

As private capital firms move up the technology maturity curve, they are increasingly looking for trusted third-party vendors and partners that can provide established platforms and solutions to support their technology needs. Integrating the platforms with existing internal systems is the next big task. Exhibit 8 illustrates this preference for buying (third-party platform licenses) and partnering over building one’s own solutions. This is a massive shift from the traditional thinking of building platforms in-house for better control and flexibility. However, this change will be gradual, and findings from our research indicate that technology and service providers will prefer to manage the end-to-end operations for an existing legacy environment or build a hybrid way of working to ensure business continuity in the short to medium term.

EXHIBIT 8

Private capital firms' preferred technology adoption models

Source: Everest Group (2022)



> Historically, private capital firms have preferred to build technology solutions in house. Lately, there has been a shift toward buying (such solutions) and/or partnering (with third-party providers). Firms are not only buying the best-in-class solution for a particular activity or function, but they are buying solutions that integrate well with the existing architecture.
>
> – Head of Technology and Operations, global investment manager specializing in alternative investments with US$160 billion in AUM

The role of partners in ensuring operational efficiency

Marked shifts in outsourcing in the fund management business

Reliable and efficient fund operations and administration are vital for a successful fund establishment. A robust and cost-effective middle-/back-office service facilitates smooth operations for a fund. Various internal and external challenges are pushing private capital firms to onboard trusted partners that can assist in managing these operations.

More than 58% of respondents believe that their firms are likely to significantly increase outsourcing of their fund operations in the short to medium term.

However, **64% of respondents** believe the cost to transition when onboarding a third-party partner will be higher than expected.

Private capital firms are now very clear about, and focused on, their place in the value chain. Hence a lot more non-core activities will be outsourced to external partners as and when these partners build the required capabilities and are seen to be ready.

– Global Head of Operations, private equity firm with more than US$130 billion in AUM

Exhibit 9 presents our survey findings on:

- Why private capital firms are more likely to increase outsourcing today
- Who they are partnering with and the factors influencing partner selection
- Private capital firms' outsourcing-related inhibitions and how third-party partners can help them overcome these
- Fund operations that are more likely to be considered for outsourcing

EXHIBIT 9A

Decoding outsourcing in private capital fund operations: the who, why, what, and how of outsourcing

Source: Everest Group (2022)

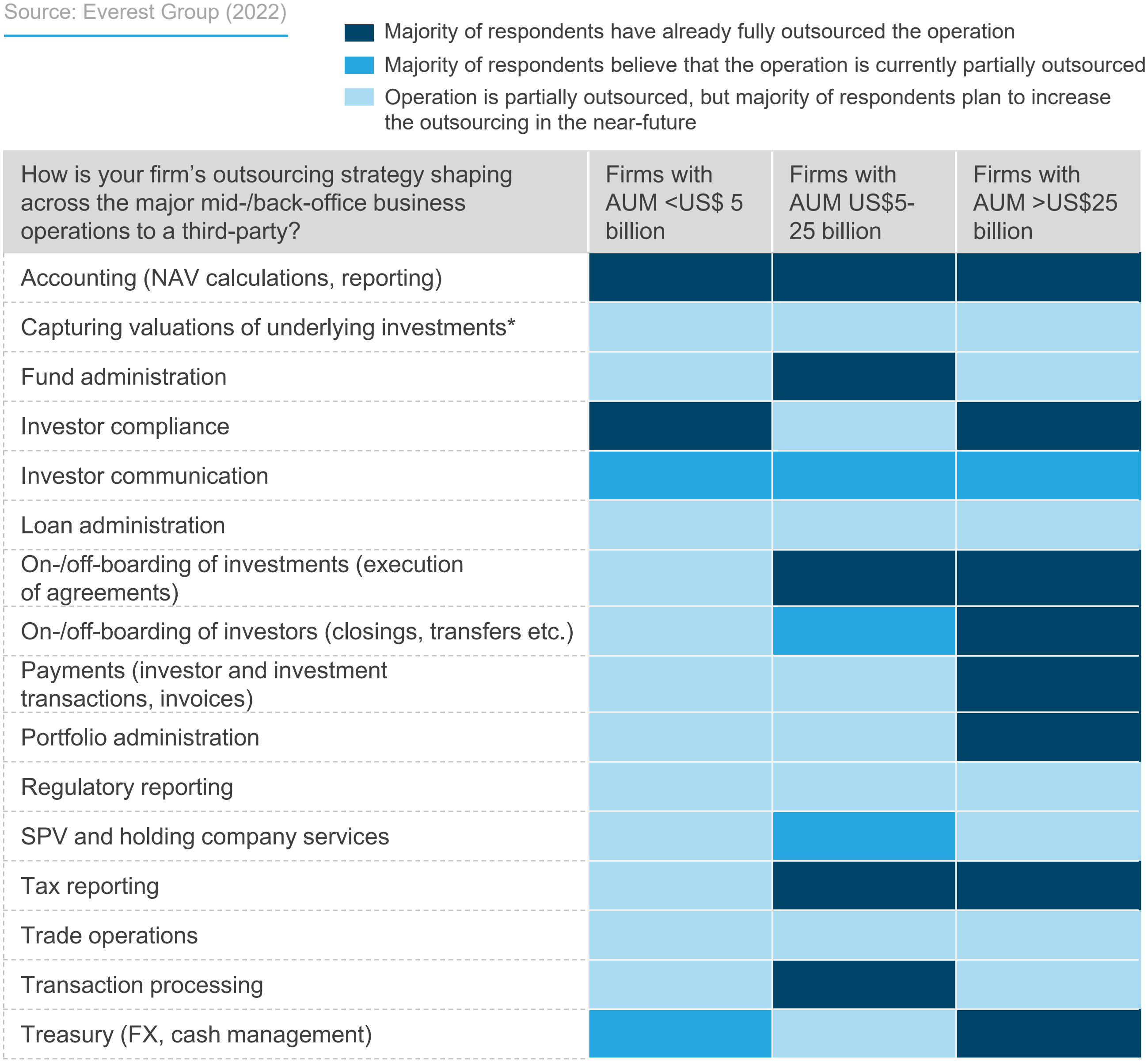
Decreasing order of importance

Reasons for outsourcing operations by private capital firms (Why outsourcing?)	Differentiating factors that influence the selection of their partners for outsourcing (Who to outsource to?)	Top challenges faced by private capital firms while outsourcing operations (What are the inhibitions to outsource?)
Cost savings and efficiency gains	**Pricing** Competitive pricing is even more crucial for small-/mid-tier firms which consider outsourcing expensive; large firms look for innovation	Cost of transition is higher than expected
Access to people with specialized skills	**Cultural fit and reputation** Consider partners as an extension of their team, so cultural alignment between their core values and industry accreditations become critical	Change management issues, lack of desired skillsets
Better handling of complex regulations	**Regulatory expertise** Deep regulatory knowledge, ability to administer complex structures	Inability to achieve globally coordinated risk and compliance programs, cybersecurity related issues
Access to advanced technology	**Proprietary end-to-end technology solutions** Plug and play capabilities with ability to customize, cloud readiness, access to next-gen tech themes (AI/ML, RPA, NLP, blockchain), data management capabilities, innovation/digital labs, security	Challenges related to integration of technology and data with the firms' own systems
Desire to focus on core services	**Range of services offered** Partners' existing client portfolio, suite of offerings, expertise in specific niche functions, partnerships, and industry experience is core to the selection process	Lack of responsiveness from the partner, poor transition planning
Ease of scalability	**Size and presence** Partner's global presence, total funds serviced, AUM of assets serviced, local expertise in various fund jurisdictions, globally consistent service deliveries	Loss of control, administrator inflexibility to support changing business requirements

EXHIBIT 9B

Decoding outsourcing in private capital fund operations: the who, why, what, and how of outsourcing

Source: Everest Group (2022)



Outsourcing has evolved from simple support in fund accounting into a complex and tailored delegation of operational workstreams to trusted partners that possess experts and sophisticated technology platforms. In the interviews we conducted, leaders at private capital firms talked about their intent to outsource more back-/middle-office operations, such as administrative legal work, compliance, reporting, collateral management, trade settlement, cash reconciliation, loan origination, corporate actions processing, and network monitoring. However, firms still want to retain their control over aspects such as managing investor relations since it requires a very high degree of trust between fund managers and their partners. Access to specialized talent and technology, difficulties in navigating local nuances, and the ability to scale cost-effectively are the primary factors driving the shift toward more outsourcing of operations. We discuss some of these driving factors in detail in the next section.

* excluding determination of investment value

Surge in regulations and reporting

Growing regulatory scrutiny and reporting requirements such the Alternative Investment Funds Managers Directive (AIFMD), the Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS), AML/CFT standards, and, more recently, the implementation of ESG standards (for example, the EU SFDR) are making it difficult and expensive to manage these regulations in-house. Fund managers are increasingly realizing that independent third-party outsourcing can cost-effectively provide specialist resources and tools to remain compliant while helping mitigate the risks and burden of staying on top of ever-changing regulations.

Only 21% of respondents believe that their firms are completely prepared to manage the upcoming ESG and crypto regulations.

About 30% of survey respondents stated that cryptocurrencies are already a part of their product suites, and they have plans to expand on this offering.

Focus on core activities amid rising investor demands

Investors are increasingly demanding transparency, independent reporting, customized services, and real-time responses from their fund managers. They also expect accounting, taxation, and other administrative functions to work seamlessly. The lack of a robust partnership ecosystem can put fund managers at risk of losing investors. Fund management firms would prefer to keep a razor-sharp focus on their core activities, such as raising capital and portfolio management, and outsource the rest to trusted partners. The right outsourcing partner that specializes in a process or service that is not strategic for a private capital firm could help that firm achieve higher productivity, efficiency, and quality. It could also provide a competitive advantage to the firm through the knowledge and skills it brings across the process value chain. Moreover, such a partner helps fund management firms become more flexible and agile in adapting to changing market conditions.

> “The biggest factor influencing the decision to partner with an external provider is culture. Being able to scale together, transparency, alignment to our strategic roadmap, and intent to invest in the relationship is what we look for in our partners.
>
> – Head of Operations, global private markets firm with over US$130 billion in AUM

Costs and economies of scale

With growing regulatory complexity and increased investor demands, it has become costly and resource intensive for fund managers to handle fund operations. Additionally, rising margin pressures are compelling them to consider outsourcing as a more effective option. Furthermore, scalability is a key driving factor for a fund manager that is looking to grow. The optimal outsourcing mix provides the right infrastructure, systems and tools, data, and people to assist with the complete fund management life cycle as the business scales.

Access to specialized technology and talent

Amid intense competition between fund services companies, technology and people are proving to be the key differentiating factors. The ability to provide state-of-the-art investor/LP/GP portals offering data and analytics, computational engines, fundraising tools, investor onboarding platforms, and workflow tools etc. is an important criterion for fund managers while selecting their operations partners. Additionally, fund managers want their outsourcing partners to function as an extension of their businesses, and hence people and cultural alignment is important, too.

> “Third-party providers typically do not impress us if they have a poor technology roadmap, plain vanilla service offerings, a regional/global spread that does not match with our presence, a non-engaged senior leadership, or have constant integration issues stemming from inorganic growth.
>
> – Head of Operations, global private markets investment firm with over US$130 billion in AUM

The extent, approach, and selection model for outsourcing fund operations are unique to each firm due to differences in size, complexity, and business strategy. Most leaders from respondent firms said that they start everything in-house and gradually prioritize operations to outsource. The survey results suggest, as Exhibit 10a illustrates, that fund managers prefer to follow a balanced approach; hence, they prefer to outsource added volumes/complexity or certain parts of their business operations to a third party as opposed to following the extremes of either managing everything in-house or doing a lift-and-shift of all administration to a partner.

After finalizing the extent and approach of outsourcing, fund managers focus on building the optimal portfolio of vendor outsourcing, which should also align well with the firm’s strategy and objectives. As evident from Exhibit 10b, two primary approaches are prevalent in the private capital market from a sourcing model perspective:

- Choosing a single (or few) strategic partner(s) across all operations being outsourced
- Onboarding a best-of-breed partner for each function being outsourced

Respondent executives from the private capital industry highlighted the pros and cons of both these approaches – working with a single vendor or a few strategic partners brings in tighter yet simpler integrations and the opportunity to co-create. Meanwhile, onboarding best-of-breed partners for different functions helps avoid concentration risks. However, it increases inefficiencies and complexities due to the need to manage multiple relationships.

EXHIBIT 10A

Preferred approaches to outsource fund operations among private capital firms (% of respondents)

Source: Everest Group (2022)

38%	Outsource increased volume/complexity while building a robust oversight and control mechanism internally (OUTSOURCE COMPLEXITY)
34%	Prioritize and completely outsource certain parts of the business operations (mid-/back-office) (OUTSOURCE CERTAIN PARTS)
11%	Lift and shift part of the firms' operations to a third-party administrator (OUTSOURCE ALL ADMINISTRATION)
11%	Enroll additional operating capacity with specialized skills from a third-party administrator, as and when required, for a fixed period (ADD CAPACITY)
7%	Keep administration in-house to retain control, maintain direct communication with clients, and manage security (EVERYTHING IN-HOUSE)

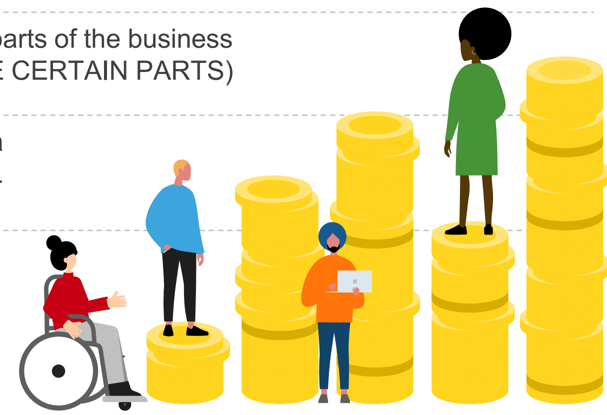


EXHIBIT 10B

Preferred vendor selection models for outsourcing fund operations among private capital firms (% of respondents)

Source: Everest Group (2022)

31%	Best-of-breed partners for each function
29%	Single or few strategic outsourcing partners
17%	Existing business partners providing administration services
15%	Fund-by-fund selection of partner
5%	Split fund and SPV administrators
3%	Country-by-country selection of partner

Conclusion

Private capital firms are increasingly focusing on running their core businesses seamlessly and efficiently to achieve sustainable growth. They are doing this amid rising investor demands and constantly evolving internal, regulatory, macroeconomic, and geo-political developments. These firms have made significant investments to expand their fund management businesses while streamlining their middle-/back-office processes.

The market is embracing the next wave of transformation by building more rigorous and mature operating models. The operating model of the future will be optimized and immersive, with a well-defined governance practice, an efficient talent management strategy, robust compliance systems, and streamlined processes. It will also optimally utilize data and technology to create superior investor experiences. Exhibit 11 illustrates different stages of the operating model maturity continuum. Each firm in the private capital market will embark on a different and unique journey of transformation and change. As we look to the future where private capital firms traverse their distinct maturity journeys, the common denominator would be the tremendous evolution of these firms' operating models.

EXHIBIT 11

The operating model maturity continuum for private capital firms

Source: Everest Group (2022)

	Level 1 Manual and unpredictable	Level 2 Managed and reactive	Level 3 Automated and responsive	Level 4 Optimized and immersive
Data	Siloed/disparate systems, data aggregation issues	Data workflows in place to provide data from source systems	Leveraging analytics to drive insights	Advanced data sciences and data governance structures
Technology	Limited or non-existent tech usage, manual processes, spreadsheets	Inefficient technology utilization; ability to meet only planned demands	IT infrastructure and applications is fully optimized to deliver predictable and stable services	Optimally leveraging automation, data. AI/ML; experimenting with cloud, blockchain and next-gen technologies
Process	Non-standardized and siloed	Process management in introduced, project success is largely unpredictable	Industry-/function-leading best practices applied widely; standardized and simplified	Global standardization with optimal flexibility, near real-time responses, straight through processing, benchmarked against industry
Compliance and Reporting	Manual and ad hoc, check-the-box with limited management involvement	Obligatory compliance with limited business use involvement; uses system generated files and manual workflows	Compliance is seen as a necessity; dedicated compliance teams; enterprise data made available for regulatory platform	Embed compliance (including ESG) principles in all decisions; real-time, automated, and customizable regulatory reporting
People	Human intensive and inefficient	Communication and coordination prioritized	Workforce planning and competency analysis; empowered workgroups	Continuous capability improvement; DEIB-focused hiring, minimal employee discontinuity and downtime during transitions, robust knowledge transfer
Governance	Lack of ownership and control	Business leaders begin to understand the value of information and data	Information management is accepted and adopted; data governance is introduced	Advanced data governance, resilient obligation/KPI/SLA tracking, well established controls with transparency
Outsourcing	Chaotic and purely contractual; a commodity supplier	Focus on successful implementation; continuous improvements needed to build trust	Conversion to a partnership – high level of trust with end-to-end orchestration; a value-add supplier	Mature relationship; strategic partnership

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With you on the journey

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Conclusion

Fund managers are struggling to implement the technology and processes that would modernise their back-office functions, due to a dearth of talent, time and holistic planning.

But, as our report shows, change is needed. Managers weighed down by new demands and expectations understand that sticking-plaster solutions are no longer enough in a world ripe with opportunity. Our report shows that 54% see operational efficiency as a strategic priority, alongside connected actions such as addressing regulatory changes (49%) and adopting technology (47%).

For these managers, doing nothing isn't an option. They know that clumsy processes and dated technology squeeze margins and slow growth. To remain competitive they need the ability to scale quickly and efficiently. An overhaul is required to create an operational model that is fit for a more complex and competitive world. Yet only 11% of our respondents say they follow standardised processes across their businesses.

With this report and the Halo Framework we show what a systematic approach to back-office modernisation looks like. We highlight the efficiencies capital funds can achieve when people, processes and technology align in an integrated, streamlined and forward-looking operations model. We show what's possible when funds adopt the operating model of the future.

That future is rapidly approaching. Private capital wants to pursue new investor groups and move into novel asset classes. Deals are increasingly complex and bespoke. The front office won't achieve its ambitions if the back office can't keep up.

This report presents the why, what and how of that race to operational efficiency. It's an important piece of research and also a practical framework for implementing an operational model that helps private capital thrive. We hope you take it away and use it as a guide.

There is certainly much to gain. A responsive, data-driven and cost-effective private capital operations model is possible. In fact, it's becoming crucial. There's no time to lose.

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At Intertrust Group our 4,000 employees are dedicated to providing world-leading, specialised administration services in over 30 jurisdictions. This is amplified by the support we offer across our approved partner network which covers a further 100+ jurisdictions.

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