Finding Opportunity by Freeing up the Middle and Back Office

Increased regulatory requirements and global market changes are translating into much more complicated and costly middle and back office functions for alternative investment funds. Institutional investors are only adding to those complexities, as their push for greater transparency around fees, performance calculations and fund structures create additional work for funds. The challenges in the market have certainly caused alternative fund managers to look for cost-savings measures, turning to outsourcing to handle many of their middle and back office functions.

But cost-savings measures don't need to be the only driver for outsourcing functions such as risk and compliance, fund accounting or trade and settlements. It can also be an essential driver of business during a time of industry expansion. Positive industry indicators for 2018 and the additional opportunities ahead for hedge funds and private equity will also mean a subsequent opportunity for outsourcing the growing work of the middle and back office.

A Stronger 2018

If 2017 is any indication, prospects for 2018 appear to be good. Hedge funds finished 2017 with some of the strongest returns in years, ending in much better shape than many might have predicted. According to the HFR Global Hedge Fund Industry Report, "hedge funds concluded 2017 with the strongest capital inflows since 2015 driving total assets to a new record, while completing the first performance year without a monthly decline since 2003". The report indicated that total hedge fund industry capital grew by $59 billion to $3.21 trillion, making it the sixth consecutive quarterly record for total industry capital.

Rising investor confidence, increasing volatility and US tax changes are all positive indicators for hedge funds and private equity in 2018. The outlook for private equity remains strong, given its growth in 2017. The 2018 Preqin Global Private Equity Report indicated that the industry reached a record $2.38tn in assets under management as of the end of June 2017. According to the data for the period, global private equity AUM increased $248bn from the end of 2016, with the industry growing by approximately 10% in six months.

Positive Industry Trends

The growth of emerging technologies and trends, from blockchain to crytocurrencies, is helping to drive opportunities for private equity and hedge funds. And, the year ahead is predicted to be an active one for corporate M&As, with deal flow projected to increase. While all of this is good news for the alternatives business, the middle and back offices are sure to feel the strain. Firms that outsource some of these functions will not only mitigate some of the pressure, but will also be able to capitalize on market opportunities.

Thinking & Planning Ahead

It's very much a collaborative process for fund managers and service providers looking to solve critical middle and back office demands. According to the KPMG 2018 study "Alternative Investments 3.0: Digitize or Jeopardize," hedge funds have more consistently outsourced "noncore investment activities" than private equity managers. Whether its p&l, trade processing, fund accounting, investor services, treasury management, compliance, or financial statement and risk management, hedge fund managers are seeing the value of service providers that can ease the middle and back office pressures. But private equity will need to pick up the pace, if the industry is looking to take full advantage of the opportunities ahead in 2018.

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