

# **4 challenges facing U.S. fund managers - news from Private Funds CFO New York**

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- 1. Discussions in New York were dominated by regulation, fundraising, technology and outsourcing.**
  - 2. The PFA ruling and how to report correctly and what methods to use.**
  - 3. A live poll of conference attendees indicated that only 10% of managers had incorporated AI.**
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**The recent Private Funds CFO Forum New York was an opportunity for C-suite executives from across the industry to share their insights and experiences. Aztec Group's Lynne Westbrook and [Dave Naab](#) were there, and found that many conversations echoed the findings of our [recent survey](#), with the good news that solutions are on the way**

Following our conversations in New York, it's clear that U.S. fund managers are grappling with four main areas of complexity - preparing to comply with increasing regulation, managing difficult fundraising conditions, finding an optimal way to outsource operations to deliver the best results for their businesses, and finding ways to harness rapidly evolving technology and the promise of artificial intelligence to optimize the experience for investors.

Here's some of the highlights from our conversations in New York:

## **1. PFA ruling - what fund managers need to prepare for**

Compliance with the U.S. Securities and Exchange Commission (SEC) new [Private Fund Advisors](#) (PFA) ruling was a key topic of discussion at the conference. Passed by the SEC in August 2023, the ruling has been questioned by a number of industry bodies who claim the SEC exceeded its statutory authority and acted arbitrarily and capriciously in adopting the PFA Rule, so much so a lawsuit has since been filed. Despite the legal wranglings, those present in New York agreed that more detailed reporting is on the horizon and they need to prepare for this over the coming year ahead of adoption, which takes place 18 months after publication in the Federal Register.

Among the key discussion points were valuations and how the newly imposed timing of 45 days after quarter end could create constraints. Several managers indicated that they currently meet these mandated timelines but others said the logistics of using prior quarter-end data may be a potential method for meeting the requirements.

Another issue at the center of reporting discussions was how expensive it might be, with potential investment into technology required to be able to capture the granular detail required to comply with PFA. Coupled with this were discussions about how processes might have to be adapted to fulfil the requirements - another possible expense for managers as they gear up to meet the requirements. Exacerbating these concerns is the fact there is a lack of industry standard or approach to how information will be presented for compliance.

The Private Funds CFO Insights 2024 survey asked its participants if their firms had been examined by the SEC since November 2023 - only 15% of our 114 respondents said they had. Of those, the questions regarding the new marketing ruling that were most frequently asked were around performance related metrics and predecessor performance - with 3 out of 4 respondents naming these two questions as the most often asked. The next most often asked question dealt with hypothetical performance, tied with record-keeping around client communications. To read the report, download it [here](#).

To gain a better understanding of the issues and requirements around the PFA rule, listen [here](#).

## **2. Fundraising - extended timelines to raise and close**

Another theme from the conference was the current challenges in the fundraising environment. Although we are still seeing delays in fundraising and the time needed to close a fund, the CFOs in the room echoed the results from the survey on a live poll, indicating that their firms were planning to raise a fund this year with the potential for the size to surpass prior raises. This initial feedback set a positive tone that was carried forward in several of the subsequent panel sessions when discussing related topics.

To read more about the ways fund managers are adapting to the tough fundraising conditions click [here](#).

## **3. Outsourcing - regulation and lack of in-house resources**

[Outsourcing](#) is moving to the forefront for a growing number of fund managers in the U.S., especially against the backdrop of new regulations like the PFA. As complexity and compliance grow, managers agreed that expertise becomes more essential in complying both in a timely way and with accuracy. In addition, CFOs noted that they have to wear several hats at their companies. This means that their providers must do the same. They stated how important it is for the provider to be a true partner with open and clear communication, sharing best practice and getting into the 'weeds' from Day 1.

The survey results confirmed this with almost three-quarters of those surveyed already outsourcing and of those, 40% intending to outsource more of their compliance requirements in the future. Also, where CFOs saw the best places to benefit from fund administrators was in improvements in the use of technology and skills development among their people.

## **4. AI and technology - How it will change businesses is yet to be seen**

Technology, alongside data, was a pervasive subject that was mentioned in several of the panel discussions. Artificial Intelligence's (AI) potential and the benefits were an evident focus, but a live poll of conference attendees indicated that only ~10% of managers had already incorporated this into their tech stack.

However, the vast majority of fund managers agreed that this was on their list of priorities in 2024 given the advancements in this space. This reinforced the findings of the survey, with only 17% of CFOs surveyed saying that new technology, such as AI and machine learning, has been highly effective in

portfolio management so far, with only 12% saying it had been highly effective in sourcing investment deals. However, most agreed that these areas are where big gains should come.

Listen [here](#) to find out how AI could transform your business.

Data was another aspect highlighted several times. From limited partner inquiries to due diligence, to their own modelling and performance reporting, managers emphasised the need to control their own data in-house through co-sourcing or other means, along with the ability to get analytics from their service providers.

This multi-pronged approach to getting the best results from the technology, including evolving data to meet investor requirements, preparing for increased compliance and navigating tough economic conditions, is the over-arching consideration of all those who attended.

If you'd like to discuss any of the points raised in this article, please contact [Dave](#) directly.

