

The five key trends shaping the future of infrastructure fund operations

As part of our ‘The changing face of infrastructure’ report, Chris McErlane, our Head of Real Assets - Guernsey, revealed the key operational trends that infrastructure fund managers need to know.

1

The back office will be viewed as more than just a back office

I’ve always had a bit of a problem with the term back office. It implies operational and finance teams play a secondary role in the success of the fund and are detached from investment decision making. In my view, nothing could be further from the truth.

At a high level, managers are responsible for sourcing, deploying and ultimately realising investor capital, whereas the operational and finance teams are responsible for facilitating that process, and are arguably the glue that holds it all together. Often the face of the client to their investors, managers are entrusting their “back office” with their reputation and this is why they play a key role throughout the fund life cycle.

Managers are also increasingly recognising that quality reporting informs decision making, and because of that they’re bringing their operational and finance professionals (and their systems) onto the front line. The days of financial reports simply being filed away upon receipt are over – managers want to interrogate, challenge and get the most comprehensive performance picture possible.

2

Multi-jurisdictional structuring will be seen as the norm

Over the last few years, we've really seen multi-jurisdictional structuring take centre stage. It's now more common than not to see a fund structure spanning multiple jurisdictions – i.e. the fund may be domiciled in one jurisdiction, while a parallel structure and corporate vehicles may be set up in another.

Tax efficiency and passporting are two of the more obvious reasons for this trend, but increasingly we are seeing investors influence the decision as to where the fund may be domiciled.

What does all of this mean? In short, if the manager is operating across different regulatory environments, then there are different compliance and operating requirements in play. So, cross-border expertise becomes critical. Yet regardless of how many borders a structure spans, it is still one fund, and the reporting and the administration activities must still be carried out in a consistent fashion. That's what investors and all stakeholders expect.

That's why working with an outsourcing partner is the preferred route for many managers – they bring multi-jurisdictional resources, expertise and operating controls to the table, and are experienced in supporting managers with cross-border structures, so can advise on, and apply, best practice.

3

Technology has become front and centre of fund operations

Technology already pervades all aspects of fund operations, and it's set to play an even bigger part in the coming years. Today's manager is completely in tune with benefits that market-leading systems can bring in terms of enhanced security and control, accurate reporting and more efficient operations.

One area in particular where we are seeing our clients' needs evolve is in relation to self-service. Managers and investors increasingly want 24/7 access to data such as call and distribution notices, capital statements and underlying portfolio data through secure self-service portals. In fact, it's no longer seen as something that's a nice to have, but an imperative.

There is also a greater desire and need from managers and investors to be able to analyse the investment portfolios in much more detail across areas such as operational data, financial performance and risk management including jurisdictional, sector and currency exposures. The ability to provide managers with real time access to this data allows them to act quickly and efficiently in response to changes in the market.

4

Regulation's on the rise

We've seen an avalanche of new laws, directives and regulation in recent years. AIFMD, DAC6, FATCA, CRS, Dodd Frank are just a few of the acronyms and terms you'll hear banded about, collectively covering tax, regulatory and financial reporting and disclosures. The game changer that deserves a special mention is SFDR (Sustainable Finance Disclosure Regulation), which, in basic terms, means that managers will no longer just be able to talk about their ESG credentials. They will need to demonstrate them.

This is before you even get onto the local compliance, AML and reporting requirements, which are a whole other regulatory ballgame. The simple point I am trying to make here is that regulation is a big part of fund operations, and it's only getting bigger. Failure to meet your compliance obligations can result in substantial fines and considerable reputational damage. Investors undertake extensive due diligence on managers these days with compliant operations being very much on their radar.

On the face of it, regulation may seem burdensome, but ultimately it's there to protect investors and maintain the integrity of the industry and the protect the reputation of the fund jurisdictions. The goal for fund managers has to be to ensure that their fund operations can deal with it in the most seamless manner

possible – i.e. ensuring they have ready access to expertise, and the systems and controls in place to minimise its impact on a manager’s ability to operate nimbly and efficiently.

5

Information security to remain high on the agenda

Last, but not least, is information security. I was initially going to cover this under technology, but I recognised that this was a topic that needed its own air time.

Why? Every time we speak to clients and potential clients about fund operations, information security is a major discussion point. The funds industry is an obvious target for hackers and fraudsters, and they’re becoming ever more sophisticated with their tactics.

Having a secure IT environment and infrastructure, robust controls and a team alert to potential information security risks is crucial. ISO 27001 has become the gold standard for information security and the accreditation that all managers should strive for.

If you haven’t read the report, it’s not too late - download now!

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