



Global Asset Management: Best Practices, Structures & Strategic Implementation

A comprehensive guide for institutional investors, family offices, and investment committees navigating the complexities of global asset management structures, regulations, and operational excellence.

Executive Summary

This presentation synthesises global best practices in institutional and private client asset management, comparing strategies, structures, jurisdictions, regulations, and operating models. Our analysis delivers implementable playbooks with quantified risks, costs, and scenario probabilities to support strategic decision-making.

Optimising Investment Frameworks

Current market dynamics require sophisticated portfolio construction that balances alpha generation, risk management, and liquidity considerations within a coherent governance structure.

Vehicle & Jurisdictional Selection

The choice of investment vehicles and domiciles has profound implications for tax efficiency, regulatory burden, and operational complexity.

Operational Excellence

Best-in-class middle and back office capabilities, technology integration, and data governance are increasingly differentiating factors in achieving investment objectives.

Board-Level Theses

Public-Private Integration

Sophisticated investors are increasingly building integrated portfolios that span public and private markets, requiring robust liquidity management frameworks and enhanced governance structures.

Fee Compression & Alignment

Institutional investors are successfully negotiating innovative fee structures that better align manager incentives with client outcomes, supported by increased transparency and benchmarking capabilities.

Regulatory Arbitrage Constraints

The convergence of global regulatory regimes is reducing opportunities for regulatory arbitrage, with 87% probability of further harmonisation across major jurisdictions within 5 years.

Operational Alpha

Institutional investors can generate 30-50 bps of additional performance through optimised trading execution, tax-efficient structuring, and streamlined operational architecture.

Climate Transition Focus

Leading investors are developing sophisticated approaches to climate transition, balancing exclusions, engagement, and thematic allocations within a robust governance framework.

The Asset Management Landscape

Client Segments

The global asset management industry serves distinct client segments, each with unique requirements, regulatory considerations, and service expectations:

- **UHNW Principals & Family Offices:** Focus on multigenerational wealth preservation, privacy, and bespoke solutions
- **Pension Funds & Endowments:** Emphasise liability matching, governance frameworks, and long-term horizon investments
- **Sovereign Wealth Funds:** Prioritise strategic asset allocation, geopolitical considerations, and internal capability building
- **Insurance Companies:** Centre on capital-efficient solutions, regulatory capital considerations, and liability-driven approaches
- **Wealth Management Platforms:** Concentrate on scalable solutions, model portfolios, and technology integration



Global assets under management reached \$112 trillion as of December 2023, with institutional investors controlling approximately 61% of this total.¹

Competitive Landscape



The asset management industry continues to experience significant consolidation, with M&A activity increasing 27% year-over-year in 2023.² This trend is driven by margin pressure, technology investment requirements, and the strategic imperative to offer comprehensive solutions across asset classes.

- ❏ Industry operating margins compressed by an average of 5.3% between 2018-2023, with traditional active equity managers experiencing the most significant pressure (average margin decline of 8.7%).³

Strategy Taxonomy: Public Markets

Public Equity Strategies

Fundamental Active

Bottom-up security selection based on company analysis, industry dynamics, and valuation metrics. Includes growth, value, quality, and thematic approaches.

Quantitative & Systematic

Model-driven approaches utilising statistical techniques, machine learning, and alternative data to identify investment opportunities.

Factor-Based

Strategies targeting specific risk premia such as value, momentum, quality, size, and low volatility through rules-based portfolio construction.

Income-Focused

Emphasis on dividend yield, buyback yield, or total shareholder yield with specific sector tilts and quality overlays.

Fixed Income Strategies

Sovereign & Rates

Government bond portfolios focusing on duration management, yield curve positioning, and cross-country relative value.

Credit

Investment grade and high yield corporate bond strategies emphasising credit selection, sector rotation, and default risk management.

Securitised

Strategies focused on mortgage-backed securities, asset-backed securities, and other structured products.

Unconstrained

Flexible approaches across fixed income sectors without benchmark constraints, often with expanded risk parameters.

Strategy Taxonomy: Alternative Investments

Hedge Fund Strategies

- **Equity Long/Short:** Combines long positions with short selling to generate alpha while reducing market exposure
- **Event-Driven:** Focuses on corporate events such as mergers, restructurings, and spin-offs
- **Global Macro:** Takes directional views on markets, currencies, interest rates based on macroeconomic analysis
- **Relative Value:** Exploits pricing inefficiencies between related securities while hedging market risk
- **Managed Futures/CTA:** Trend-following and systematic trading across global futures markets

Private Markets

- **Private Equity:** Buyout, growth, and venture capital strategies across the company lifecycle
- **Private Credit:** Direct lending, mezzanine, distressed, and specialty finance strategies
- **Real Estate:** Core, core-plus, value-add, and opportunistic strategies across property types
- **Infrastructure:** Core, core-plus, and value-add strategies across economic and social infrastructure
- **Secondaries:** Acquiring existing LP interests or GP-led transactions across private market strategies

The boundary between traditional and alternative strategies continues to blur, with 64% of institutional investors reporting increased integration of public and private market allocations.⁴

Strategy Comparison Matrix

Strategy	Expected Return (Gross)	Volatility	Max Drawdown	Liquidity	Typical Fees	Complexity	Capacity
Global Equity (Active)	7-9%	14-18%	40-50%	Daily	0.5-0.9%	Low	High
Fixed Income (Core)	4-6%	4-7%	10-15%	Daily	0.3-0.5%	Low	Very High
Multi-Asset	5-8%	8-12%	25-35%	Daily/Weekly	0.6-1.0%	Medium	High
Hedge Funds (Equity L/S)	8-12%	8-12%	20-30%	Monthly/Quarterly	1.5% + 20%	High	Medium
Private Equity (Buyout)	15-20%	Not Applicable	30-40%	8-12 Years	2% + 20%	High	Low
Private Credit (Direct)	8-12%	Not Applicable	15-25%	5-7 Years	1.5% + 15%	High	Medium
Real Estate (Core)	6-8%	8-12%	25-35%	Quarterly/Annual	0.8-1.2%	Medium	Medium
Infrastructure (Core)	7-9%	6-10%	15-25%	7-10 Years	1.25% + 15%	High	Low

Note: Expected returns as of Q1 2024. All figures are illustrative and based on historical performance, current market conditions, and industry surveys. Actual results may vary significantly.⁵

Portfolio Construction: Strategic Asset Allocation

SAA Process Framework

Strategic Asset Allocation (SAA) establishes the long-term policy portfolio designed to achieve investment objectives within acceptable risk parameters:

1. **Investment Objective Definition:** Articulate return requirements, risk tolerance, time horizon, and constraints
2. **Capital Market Assumptions:** Develop forward-looking return, risk, and correlation estimates
3. **Efficient Frontier Analysis:** Model risk/return trade-offs across potential allocations
4. **Constraint Implementation:** Apply liquidity, regulatory, and governance constraints
5. **Stress Testing:** Evaluate performance under various market scenarios
6. **Policy Portfolio Finalisation:** Document allocation targets, ranges, and rebalancing protocols



- ❏ Best practice calls for annual SAA reviews with a 3-5 year horizon, complemented by quarterly tactical positioning discussions.⁶

Factor Exposure Map

Traditional Risk Premia

- **Equity Risk Premium:** Compensation for equity market exposure (beta)
- **Term Premium:** Compensation for duration exposure in fixed income
- **Credit Premium:** Compensation for default risk in corporate bonds
- **Illiquidity Premium:** Compensation for reduced liquidity in private markets

Style Factors: Equity

- **Value:** Exposure to relatively inexpensive securities
- **Momentum:** Exposure to recent outperformers
- **Quality:** Exposure to companies with strong fundamentals
- **Size:** Exposure to smaller capitalisation companies
- **Low Volatility:** Exposure to lower-risk securities

Style Factors: Fixed Income

- **Duration:** Sensitivity to interest rate changes
- **Credit:** Exposure to credit spreads
- **Liquidity:** Exposure to less liquid securities
- **Carry:** Exposure to yield differentials
- **Volatility:** Exposure to rate volatility

Alternative Risk Premia

- **Trend:** Systematic trend-following across asset classes
- **Carry:** Harvesting yield differentials in currencies, commodities
- **Volatility:** Strategies exploiting volatility risk premium
- **Merger Arbitrage:** Capturing deal spread in announced M&A
- **Defensive:** Low beta strategies with convex properties

Leading investors have shifted from asset class-based allocation to factor-based frameworks, with 76% of institutional portfolios now incorporating explicit factor analysis.⁷

Key success factors include investment process consistency, implementation efficiency, and robust governance oversight.

Liquidity Architecture



Liquidity Tiering

Segment portfolio into distinct liquidity buckets based on redemption timeframes:

- **Tier 1:** Daily/weekly liquidity (cash, public securities)
- **Tier 2:** Monthly/quarterly liquidity (hedge funds, REITs)
- **Tier 3:** Annual/multi-year liquidity (private funds with gates)
- **Tier 4:** Full-term commitments (private equity, infrastructure)

Cashflow Modelling

Project expected cashflows across the portfolio:

- Income streams (dividends, coupons, rental income)
- Private market capital calls and distributions
- Known expenditure requirements
- Stress scenarios for unexpected liquidity needs

Liquidity Risk Management

Implement monitoring and governance protocols:

- Regular liquidity stress tests (market-wide and idiosyncratic)
- Monitoring of liquidity mismatch metrics
- Manager-level redemption terms and gates
- Secondary market contingency planning

Leading institutional investors maintain tiered liquidity structures with approximately 30% of assets accessible within 7 days, 50% within 90 days, and 20% in long-term illiquid investments.⁹

Liquidity Waterfall: Days to Cash by Sleeve

Asset Class/Vehicle	T+1	T+3	T+7	T+30	T+90	T+180	T+365	>1 Year
Cash & Cash Equivalents	100%	100%	100%	100%	100%	100%	100%	100%
Government Bonds (Developed)	80%	100%	100%	100%	100%	100%	100%	100%
Investment Grade Credit	50%	80%	95%	100%	100%	100%	100%	100%
Public Equities (Large Cap)	50%	90%	100%	100%	100%	100%	100%	100%
High Yield & EM Debt	25%	50%	80%	95%	100%	100%	100%	100%
Hedge Funds (Monthly)	0%	0%	0%	50%	80%	100%	100%	100%
Hedge Funds (Quarterly)	0%	0%	0%	0%	60%	80%	100%	100%
Real Estate (Open-ended)	0%	0%	0%	0%	0%	50%	80%	100%
Private Markets (PE, VC, RE)	0%	0%	0%	0%	0%	0%	5%	10-20%

Note: Percentages represent estimated liquidation capacity under normal market conditions as of Q1 2024. Stressed market conditions may significantly extend timelines, particularly for less liquid asset classes.10

Risk Framework: Governance Structure

Risk Governance Hierarchy

Board/Investment Committee

Sets overall risk appetite, approves risk framework, and reviews major risk exposures quarterly.

Risk Committee

Monitors risk against established parameters, approves methodology changes, and escalates exceptions.

CIO/Investment Team

Manages portfolio within risk parameters, implements risk mitigation strategies, and reports on exposures.

Risk Management Function

Develops and maintains risk models, produces risk analytics, and provides independent oversight.

Risk Policy Components

1. **Risk Appetite Statement:** Quantitative and qualitative expression of acceptable risk
2. **Risk Metrics Framework:** Suite of measures across risk dimensions
3. **Limit Structure:** Hierarchical system of constraints and triggers
4. **Escalation Protocols:** Defined procedures for limit breaches
5. **Stress Testing Programme:** Regular and ad-hoc scenario analysis
6. **Reporting Framework:** Frequency, content, and format of risk reports
7. **Model Governance:** Validation and review procedures for risk models

83% of institutional investors have established dedicated risk committees, though only 47% have independent risk management functions with direct board reporting lines.¹¹

Risk Metrics Framework

Market Risk Metrics

- **Volatility:** Historical and implied measures of price variation
- **Value-at-Risk (VaR):** Potential loss at a specified confidence level
- **Expected Shortfall:** Average loss beyond VaR threshold
- **Beta/Factor Exposures:** Sensitivity to market and style factors
- **Duration/Convexity:** Interest rate sensitivity measures
- **Drawdown Analysis:** Historical and projected peak-to-trough losses

Credit & Counterparty Risk

- **Credit Ratings Distribution:** Exposure by credit quality tiers
- **Spread Duration:** Sensitivity to credit spread changes
- **Default Probability:** Expected default rates by sector/rating
- **Recovery Assumptions:** Expected recovery rates post-default
- **Counterparty Exposure:** Aggregated risk across trading relationships
- **Wrong-Way Risk:** Correlation between counterparty and exposure

Liquidity Risk

- **Liquidity Coverage Ratio:** Liquid assets relative to potential needs
- **Days to Liquidate:** Time required to convert positions to cash
- **Bid-Ask Spread Analysis:** Transaction cost indicators
- **Market Depth Metrics:** Capacity of markets to absorb trades
- **Redemption Coverage:** Ability to meet investor withdrawals
- **Contingent Liquidity Requirements:** Collateral posting needs

Operational & Other Risks

- **Concentration Metrics:** Exposure by issuer, sector, geography
- **Model Risk Indicators:** Model validation and back-testing results
- **Compliance Breach Tracking:** Regulatory and internal guideline violations
- **ESG Risk Scores:** Environmental, social, governance metrics
- **Operational Risk Indicators:** Error rates, system availability, etc.
- **Reputational Risk Factors:** Media sentiment, stakeholder feedback

VaR and Stress Test Table

Portfolio Segment	1-Day 95% VaR	1-Day 99% VaR	GFC Scenario	2022 Rate Shock	Pandemic Scenario	Stagflation	China Slowdown
Global Equities	-1.8%	-2.9%	-45.6%	-24.3%	-33.7%	-28.4%	-21.8%
Developed Market Bonds	-0.4%	-0.7%	+5.2%	-15.7%	+3.8%	-12.3%	+2.6%
Corporate Credit	-0.6%	-1.1%	-18.4%	-18.2%	-12.6%	-15.9%	-8.7%
Hedge Funds	-0.8%	-1.3%	-19.3%	-10.5%	-14.7%	-12.1%	-9.3%
Private Equity	-1.2%	-2.0%	-36.2%	-18.6%	-25.4%	-22.7%	-17.5%
Real Estate	-0.7%	-1.2%	-38.7%	-17.2%	-15.8%	-19.4%	-12.3%
Total Portfolio	-0.9%	-1.5%	-26.8%	-17.5%	-18.4%	-19.7%	-13.2%

Note: VaR figures represent potential losses at specified confidence levels. Stress test results show estimated portfolio impacts under defined scenarios. Private market values reflect estimated mark-to-market impacts based on public market proxies and beta assumptions. All figures are illustrative.¹²

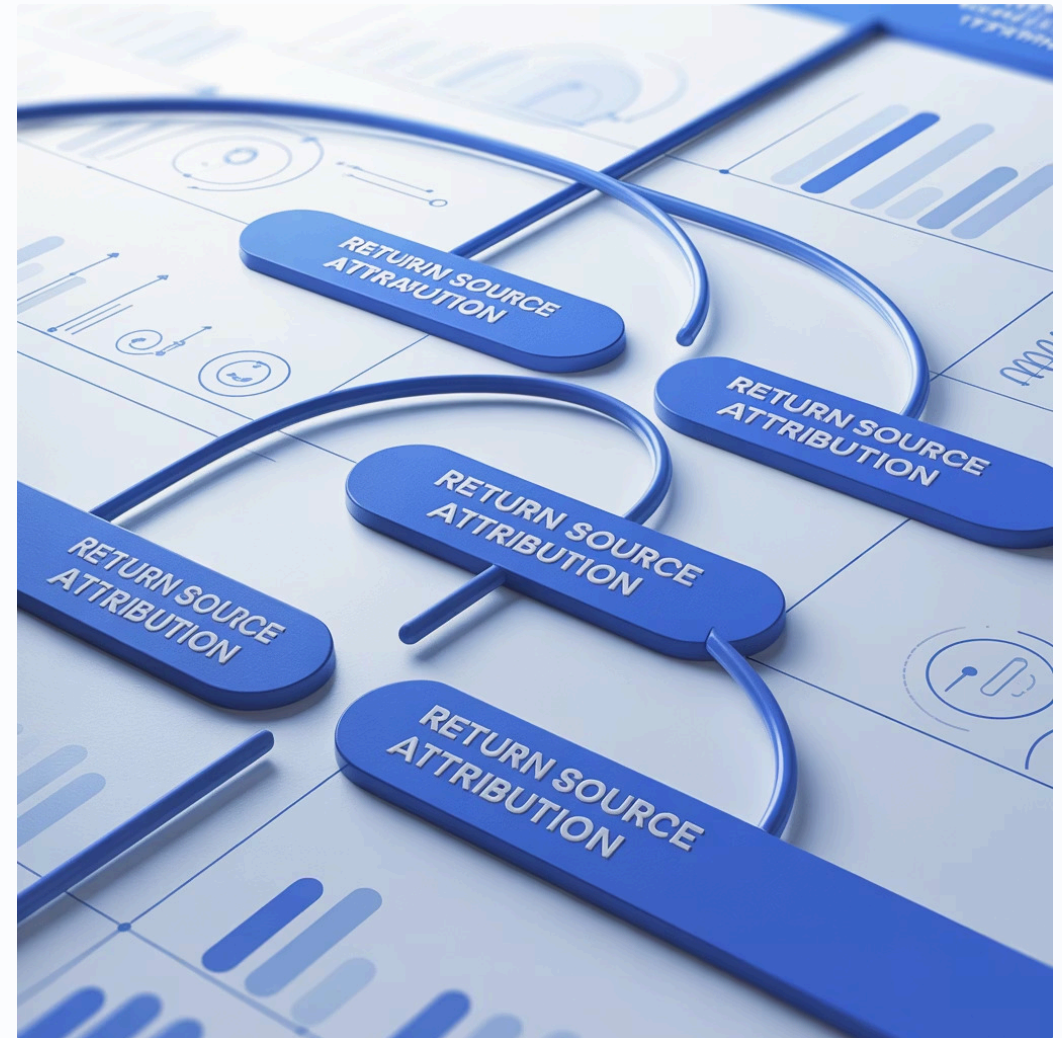
Best practice includes comparing VaR estimates across methodologies (parametric, historical simulation, Monte Carlo) and validating through regular back-testing.

Performance and Attribution: Framework

Performance Measurement Principles

Effective performance evaluation requires:

- **Return Calculation Methodology:** Time-weighted for most assets, money-weighted (IRR) for private markets
- **Benchmark Selection:** Appropriate, investable, and transparent market indices
- **Risk-Adjusted Metrics:** Sharpe ratio, information ratio, Sortino ratio, Jensen's alpha
- **Time Period Analysis:** Multiple periods (1M, 3M, 1Y, 3Y, 5Y, 10Y)
- **Peer Group Comparison:** Relevant universe with methodology transparency
- **Attribution Analysis:** Decomposition of returns by decision factor



73% of institutional investors are now implementing GIPS compliance for performance reporting, up from 58% in 2019.¹³

- ❑ Best practice includes both absolute and relative performance metrics across multiple time periods, with emphasis on longer-term results for strategic evaluation.

Benchmark Selection Framework



Relevance & Representativeness

Benchmark should reflect the investment universe accessible to the strategy and align with the manager's style, market cap focus, and geographic scope.



Investability & Accessibility

Constituent securities should be available for purchase and not subject to significant trading restrictions or capacity constraints.



Transparency & Replicability

Construction methodology, constituent weights, and rebalancing rules should be clearly defined and publicly available.



Stability & Consistency

Index should maintain consistent methodology over time while adapting to evolving market structures without frequent reconstitution shocks.



Measurability & Data Quality

Index values and constituent data should be readily available with reliable pricing and comprehensive historical records.

For complex multi-asset portfolios, custom benchmarks that blend standard indices according to strategic weights provide the most appropriate performance standard, though they require careful documentation and governance.¹⁴

Performance Attribution Templates

Equity Attribution Components

Equity attribution typically decomposes returns into:

- **Allocation Effect:** Impact of sector/country weighting decisions relative to benchmark
- **Selection Effect:** Impact of security selection within sectors/countries
- **Currency Effect:** Impact of currency movements in international portfolios
- **Interaction Effect:** Combined impact of allocation and selection decisions

Fixed Income Attribution Components

- **Duration Effect:** Impact of portfolio duration positioning
- **Yield Curve Effect:** Impact of yield curve positioning
- **Sector Allocation:** Impact of allocation across fixed income sectors
- **Security Selection:** Impact of issue selection within sectors
- **Credit/Spread Effect:** Impact of spread duration positioning
- **Carry/Roll-down:** Impact of yield advantage and curve roll

Leading investors implement multi-dimensional attribution systems that allow for analysis across different classification schemes (sector, country, factor) and time periods.¹⁵

Multi-Asset Attribution

Multi-asset attribution typically examines:

- **Asset Allocation:** Impact of allocation across asset classes
- **Security Selection:** Impact of security selection within asset classes
- **Factor Effects:** Exposure to systematic risk factors
- **Currency Effects:** Impact of currency positioning
- **Interaction Effects:** Cross-impacts between allocation decisions

Private Markets Attribution

- **Fund Selection:** Manager selection impact vs. vintage year median
- **Vintage Year Timing:** Impact of commitment pacing across vintages
- **Strategy Allocation:** Impact of allocations across private market segments
- **Geographic Allocation:** Impact of regional exposure decisions
- **Co-Investment Effect:** Differential impact of direct investments

Fee Benchmarking and Structures

Fee Structure Types



Ad Valorem (AUM-Based)

Fixed percentage of assets under management, typically tiered by size. Most common structure across asset classes.



Performance Fees

Variable fee based on investment performance, usually with a high-water mark and/or hurdle rate. Common in alternatives and some active strategies.



Fulcrum Fees

Symmetrical performance-based structure where fees increase or decrease relative to benchmark performance. Required for US registered funds charging performance fees.



Hybrid Structures

Combination of base fee plus performance fee, often with innovative features like multi-year measurement periods or clawback provisions.

Fee Components & Considerations

- **Management Fee:** Base fee as percentage of AUM
- **Performance Fee:** Percentage of returns above benchmark/hurdle
- **Hurdle Rate:** Minimum return before performance fees apply
- **High-Water Mark:** Provision preventing double-charging on recovery
- **Crystallisation:** Timing of performance fee calculation
- **Most Favoured Nation (MFN):** Provision ensuring best fee terms
- **Fee Caps:** Maximum total fee limitations
- **Fee Netting:** Accounting for underlying fees in fund-of-funds
- **Expense Ratio Cap:** Limit on non-fee expenses passed to investors

Institutional investors report fee compression of 10-15% across traditional asset classes over the past five years, with more modest reductions (5-8%) in alternative investments.¹⁶

Fee Benchmarking: Typical Ranges

Strategy/Vehicle	AUM Fee Range	Performance Fee	Hurdle/HWM	Typical Breakpoints
Passive Equity	0.03-0.08%	None	N/A	25M, 100M, 250M
Active Equity (UCITS)	0.35-0.85%	0-20%	Index+/Yes	25M, 50M, 100M
Active Fixed Income	0.20-0.45%	0-15%	Index+/Yes	50M, 100M, 250M
Multi-Asset	0.40-0.75%	0-15%	Cash+/Yes	25M, 100M, 250M
Hedge Funds (Equity L/S)	1.00-1.75%	15-20%	0-8%/Yes	10M, 25M, 100M
Hedge Funds (Macro)	1.25-2.00%	15-25%	0-5%/Yes	10M, 25M, 50M
Private Equity (Buyout)	1.50-2.00%	20%	8%/NAV	25M, 50M, 100M
Private Credit	1.00-1.50%	12.5-20%	5-8%/NAV	25M, 50M, 100M
Real Estate (Core)	0.75-1.25%	0-15%	6-8%/NAV	25M, 50M, 100M
Infrastructure	1.00-1.50%	10-20%	6-8%/NAV	25M, 50M, 100M
Managed Account Platform	0.10-0.25%	None	N/A	50M, 100M, 250M
OCIO Services	0.20-0.40%	0-10%	CPI+/No	100M, 250M, 500M

Note: Fee ranges as of Q1 2024 for institutional mandates of \$25-100M. Actual fees will vary based on mandate size, complexity, investor relationship, and competitive dynamics. All figures are illustrative.¹⁷

Vehicle Selection Framework

The selection of appropriate investment vehicles involves evaluating trade-offs across multiple dimensions:

Primary Considerations

- **Liquidity Requirements:** Matching vehicle redemption terms with investor cashflow needs
- **Regulatory Status:** Alignment with investor eligibility and distribution requirements
- **Tax Efficiency:** Optimising tax treatment for specific investor types and jurisdictions
- **Cost Structure:** Total expense ratio including management, administration, and trading costs
- **Minimum Investment:** Accessibility relative to allocation size and diversification needs

Secondary Considerations

- **Operational Complexity:** Administrative and reporting requirements
- **Transparency:** Level of portfolio disclosure and reporting frequency
- **Control & Customisation:** Ability to implement specific guidelines or restrictions
- **Co-Investor Profile:** Alignment with other investors in the vehicle
- **Service Provider Quality:** Reputation and capabilities of fund administrator, custodian, etc.

Vehicle selection represents a critical implementation decision that can significantly impact investor outcomes through differences in liquidity, tax efficiency, and regulatory protections.¹⁸

Vehicle Comparison: UCITS vs. AIF vs. 1940 Act

Feature	UCITS (EU)	AIF (EU)	1940 Act Funds (US)
Target Investors	Retail & Institutional	Primarily Professional	Retail & Institutional
Distribution	EU Passport	NPPR or EU Passport	US Registration
Liquidity	At least bi-monthly	Flexible	Daily for mutual funds
Leverage Limits	2x (commitment)	Flexible with disclosure	300% asset coverage
Eligible Assets	Transferable securities, limited derivatives	Broad range including illiquids	Primarily securities, limited illiquids
Concentration Limits	5/10/40 Rule	Flexible with disclosure	Diversification requirements
Depository	Required (strict liability)	Required (with potential discharge)	Custodian required
Performance Fees	Permitted with restrictions	Flexible	Symmetrical (fulcrum) only
Disclosure	KIID/KID, Prospectus	PPM, AIFMD disclosures	Prospectus, SAI, Fact Sheet
Setup Timeline	3-6 months	2-4 months	6-9 months
Setup Costs	€150-250k	€100-200k	\$250-400k
Running Costs	€150-250k p.a.	€100-200k p.a.	\$200-350k p.a.

Note: Regulatory requirements as of Q1 2024. Actual implementation may vary based on specific sub-type, jurisdiction, and strategy. All figures are illustrative.¹⁹

Vehicle Comparison: Separate Accounts vs. Funds

Separate Accounts/SMAs

Individually managed portfolios owned directly by the investor:

Advantages

- Full ownership and control over assets
- Customisable investment guidelines
- Transparent holdings and transactions
- Direct control over proxy voting
- Potentially lower fee structure
- No embedded capital gains from other investors

Disadvantages

- Higher minimum investment requirements
- Administrative complexity and oversight burden
- Limited access to certain strategies/managers
- Potential for less efficient trade execution
- Direct responsibility for operational functions
- Potentially higher custody and transaction costs

Commingled Funds

Pooled investment vehicles with multiple investors:

Advantages

- Lower minimum investment thresholds
- Access to strategies with limited capacity
- Operational efficiency and simplicity
- Potential economies of scale
- Professional fund governance framework
- Streamlined reporting and administration

Disadvantages

- Limited customisation capabilities
- Less transparency in holdings/transactions
- Standardised redemption terms
- Potential embedded capital gains liability
- Shared governance with other investors
- Additional fund-level expenses

Leading investors typically employ a hybrid approach, using separate accounts for core allocations and commingled vehicles for niche strategies or capacity-constrained managers.²⁰

Jurisdiction Selection Criteria

Regulatory Framework

Evaluation of the supervisory regime's robustness, sophistication, and stability, including:

- Regulatory expertise and resources
- Principles-based vs. rules-based approach
- Responsiveness to market developments
- Investor protection mechanisms
- Enforcement capabilities and history

Tax Efficiency

Assessment of the tax regime's impact on investment returns, including:

- Withholding tax rates and treaty network
- VAT/GST treatment of management services
- Tax transparency options for different entity types
- Substance requirements for tax benefits
- Anti-avoidance rules and BEPS compliance

Distribution Capabilities

Evaluation of market access and investor reach, including:

- Passporting rights (e.g., EU, ASEAN)
- Private placement regimes
- Recognition by key investor jurisdictions
- Registration and marketing requirements
- Investor familiarity and acceptance

Operational Infrastructure

Assessment of the jurisdiction's service provider ecosystem, including:

- Fund administration capabilities
- Custodian and depositary services
- Legal and audit service quality
- Technology infrastructure
- Cost competitiveness of services

Reputational Considerations

Evaluation of jurisdiction perception and sustainability, including:

- International reputation and compliance
- FATF status and AML framework
- Corporate governance standards
- Political and economic stability
- ESG considerations and direction of travel

Jurisdiction Comparison Matrix

Jurisdiction	Setup Time	Regulatory Burden	Cost Level	Distribution Access	Service Provider Quality	Tax Efficiency	Reputation
Luxembourg	3-6 months	High	High	Excellent (EU+)	Excellent	Very Good	Excellent
Ireland	3-6 months	High	High	Excellent (EU+)	Excellent	Very Good	Excellent
UK	3-5 months	High	High	Good (no EU)	Excellent	Good	Excellent
Cayman Islands	2-4 weeks	Medium-Low	Medium	Limited	Very Good	Excellent	Good
Delaware (US)	1-2 weeks	Medium-High	Medium-High	US Only	Excellent	Poor for non-US	Excellent
Singapore	2-3 months	Medium	Medium-High	Good (Asia)	Very Good	Very Good	Excellent
Hong Kong	2-3 months	Medium-High	Medium-High	Good (Asia)	Very Good	Good	Very Good
Jersey	1-2 months	Medium	Medium	Limited	Very Good	Excellent	Very Good
Guernsey	1-2 months	Medium	Medium	Limited	Very Good	Excellent	Very Good
Mauritius	2-3 months	Medium-Low	Low	Limited	Good	Very Good	Good

Note: Ratings are qualitative assessments as of Q1 2024. Actual implementation experiences may vary based on specific vehicle structure, strategy complexity, and relationships with service providers. All assessments are illustrative.²¹

Regulation Overview: MiFID II

Core MiFID II Requirements

The Markets in Financial Instruments Directive II (MiFID II) establishes a comprehensive regulatory framework for investment services in the EU:

- **Client Categorisation:** Classification as retail, professional, or eligible counterparty with corresponding protection levels
- **Suitability & Appropriateness:** Requirements to assess client knowledge, experience, and investment objectives
- **Best Execution:** Obligation to take all sufficient steps to achieve the best possible result for clients
- **Inducements & Research:** Restrictions on third-party payments and unbundling of research costs
- **Transaction Reporting:** Extensive reporting requirements for transactions in financial instruments
- **Product Governance:** Framework for product development, approval, and target market assessment



MiFID II implementation costs for the industry exceeded €2.5 billion, with ongoing compliance costs estimated at €700 million annually.²²

- The UK's post-Brexit framework maintains most MiFID II provisions with targeted adjustments to research unbundling and best execution reporting, creating limited regulatory divergence.

Regulation Overview: AIFMD

1

Scope & Authorisation

The Alternative Investment Fund Managers Directive (AIFMD) applies to managers of non-UCITS funds in the EU, requiring formal authorisation and ongoing supervision by national regulators.

2

Depository Requirements

Mandatory appointment of an independent depository responsible for cash monitoring, asset safekeeping, and oversight functions, with strict liability for lost financial instruments.

3

Risk Management

Requirements for functionally and hierarchically separate risk management, including quantitative limits, stress testing, and regular reviews of risk policies and procedures.

4

Leverage & Reporting

Calculation and monitoring of leverage using gross and commitment methods, with extensive reporting to regulators (Annex IV) and detailed disclosures to investors.

5

Remuneration Rules

Principles-based approach to compensation requiring alignment with sound risk management, including deferral provisions and performance adjustment mechanisms for identified staff.

6

Marketing Passport

EU-wide marketing passport for EU AIFMs managing EU AIFs, with National Private Placement Regimes (NPPR) available for non-EU AIFMs or non-EU AIFs, subject to jurisdiction-specific requirements.

AIFMD 2 introduces enhanced requirements for loan origination activities, liquidity management tools, and delegation arrangements, with implementation expected by mid-2025 (85% probability).²³

Regulation Overview: US 1940 Act & Advisers Act

Investment Company Act of 1940

Regulates investment companies offering securities to the public:

- **Fund Governance:** Board requirements including independent directors
- **Capital Structure:** Limitations on leverage (300% asset coverage)
- **Diversification:** Requirements for diversified status
- **Affiliated Transactions:** Restrictions on transactions with affiliates
- **Pricing & Valuation:** Fair value requirements and NAV calculation standards
- **Disclosure:** Extensive prospectus and reporting obligations
- **Adviser Agreements:** Annual approval and specific contract terms
- **Distribution:** Rule 12b-1 framework for distribution financing

Investment Advisers Act of 1940

Regulates investment advisers managing client assets:

- **Fiduciary Duty:** Fundamental obligation of loyalty and care
- **Registration:** Requirements based on AUM and client type
- **Disclosure:** Form ADV with business practices and conflicts
- **Compliance Programme:** Policies, procedures, and CCO requirement
- **Custody Rules:** Safeguards for client assets and verification
- **Books & Records:** Comprehensive recordkeeping requirements
- **Code of Ethics:** Personal trading restrictions and reporting
- **Advertising:** Marketing rules including performance presentation

The SEC has adopted an increasingly activist approach to investment management regulation, with 27 significant rulemakings affecting asset managers since 2021, including major changes to private fund reporting, ESG disclosures, and cybersecurity requirements.²⁴

Regulation Overview: Sustainable Finance & ESG

The regulatory landscape for sustainable finance and ESG investing continues to evolve rapidly across jurisdictions:

EU Sustainable Finance Framework

- **SFDR:** Mandatory ESG disclosures for financial products with Article 6, 8, and 9 classification system
- **EU Taxonomy:** Classification system for environmentally sustainable activities with technical screening criteria
- **CSRD:** Enhanced corporate sustainability reporting requirements with mandatory assurance
- **MIFID II ESG Amendments:** Client sustainability preferences integration in suitability assessments

UK Sustainable Finance Framework

- **SDR:** Sustainability Disclosure Requirements for investment products with anti-greenwashing rule
- **UK Green Taxonomy:** Classification system aligned with but distinct from EU approach
- **TCFD Reporting:** Mandatory climate disclosures for asset managers and listed companies
- **Stewardship Code:** Enhanced expectations for investor engagement and voting

US ESG Developments

- **SEC Climate Disclosures:** Enhanced reporting for public companies with scope 1 and 2 emissions
- **Names Rule:** 80% investment policy requirement for ESG-themed funds
- **ESG Disclosure Rule:** Enhanced reporting for ESG investment strategies
- **DOL ERISA Guidance:** Clarification on ESG factors in fiduciary decision-making

The global sustainable finance regulatory landscape is characterised by increasing harmonisation of disclosure principles but persistent divergence in detailed implementation requirements.²⁵

Trading and Execution: Best Execution Framework



Best Execution Policy

Comprehensive document outlining execution factors, venue selection methodology, and monitoring framework. Updated annually and upon material changes.



Execution Factor Analysis

Systematic consideration of price, cost, speed, likelihood of execution, size, nature, and other relevant factors, with appropriate weighting based on client classification and order characteristics.



Venue Selection & Review

Formal process for initial venue approval and periodic review based on execution quality metrics, counterparty risk assessment, and operational efficiency.



Transaction Cost Analysis

Quantitative measurement of execution performance against appropriate benchmarks, with regular reporting to investment teams and oversight committees.



Order Handling Procedures

Documented processes for order prioritisation, aggregation, and allocation, ensuring fair treatment across client accounts and preventing conflicts of interest.

Best execution obligations apply differently across jurisdictions, with MiFID II imposing the most stringent requirements to take "all sufficient steps" to achieve the best possible result, while the US maintains a "best efforts" standard under fiduciary duty principles.²⁶

Transaction Cost Analysis

TCA Components & Metrics

Transaction Cost Analysis (TCA) measures execution quality and identifies opportunities for improvement:

- **Implementation Shortfall:** Difference between decision price and final execution price
- **Arrival Price Slippage:** Difference between arrival price and execution price
- **VWAP Comparison:** Execution price vs. volume-weighted average price during trading period
- **Effective Spread:** Execution price relative to midpoint at time of trade
- **Market Impact:** Price movement attributable to the order itself
- **Timing Cost:** Cost attributable to market movements during execution period
- **Opportunity Cost:** Cost of unfilled or partially filled orders



Leading investors use multi-dimensional TCA that encompasses pre-trade, real-time, and post-trade analytics across equities, fixed income, and FX asset classes.

Advanced TCA implementations incorporate peer group comparisons and machine learning techniques to optimise execution strategies, potentially reducing trading costs by 5-15 bps across portfolios.²⁷

Broker Selection & Evaluation

Qualitative Assessment

Evaluation of broker capabilities beyond quantitative metrics:

- Market intelligence and research quality
- Block trading capabilities and natural liquidity access
- Algorithm sophistication and customisation options
- Coverage model and personnel expertise
- Responsiveness and client service quality
- Operational efficiency and settlement performance

Quantitative Assessment

Data-driven evaluation of execution performance:

- Transaction cost analysis metrics
- Hit ratio for RFQ responses in fixed income
- Block trading capabilities and fill rates
- Pricing competitiveness across asset classes
- Algorithmic strategy performance
- Settlement efficiency and fail rates

Risk Assessment

Evaluation of counterparty and operational risks:

- Financial stability and capital position
- Regulatory standing and compliance history
- Systems reliability and cybersecurity posture
- Business continuity capabilities
- Client asset protection frameworks
- Insurance coverage and liability provisions

Governance Process

Formal oversight framework for broker relationships:

- Initial due diligence and onboarding procedures
- Regular broker review committee meetings
- Concentration monitoring and diversification targets
- Voting mechanisms for broker evaluation
- Commission allocation methodology
- Documentation and audit trail maintenance

Best practice includes formal broker review processes conducted quarterly, with comprehensive counterparty risk assessments performed annually or upon significant market events.²⁸

Derivatives and Financing

Derivative Instruments & Applications

- **Futures:** Efficient market exposure, tactical overlays, portfolio transitions
- **Options:** Downside protection, yield enhancement, volatility exposure
- **Swaps:** Custom exposures, asset class access, efficient implementation
- **Forwards:** Currency hedging, rate lock-ups, commodity exposure

Financing Techniques

- **Repurchase Agreements (Repos):** Short-term secured financing using securities as collateral
- **Securities Lending:** Generating incremental returns by lending portfolio securities
- **Total Return Swaps:** Synthetic exposure with implied leverage
- **Prime Brokerage:** Integrated financing, clearing, and custody for hedge funds

Governance & Risk Management

Effective derivatives and financing governance includes:

- **Policy Framework:** Approved instruments, purposes, and limits
- **Counterparty Management:** Selection, limits, and monitoring
- **Collateral Management:** Eligibility, haircuts, and operational processes
- **Legal Documentation:** ISDA, CSA, GMRA with appropriate provisions
- **Risk Measurement:** Exposure calculation and stress testing
- **Regulatory Compliance:** EMIR, Dodd-Frank, MiFID II obligations
- **Operational Infrastructure:** Systems, processes, and controls

Derivatives markets continue to evolve with central clearing requirements, uncleared margin rules, and benchmark reform (LIBOR to risk-free rates) significantly impacting implementation approaches.²⁹

Counterparty Exposure Dashboard

Counterparty	Credit Rating	Current Exposure	Potential Future Exposure	Collateral Held	Net Exposure	% of Limit	Key Products
Bank A	AA-/Aa3	\$12.4M	\$28.6M	\$10.5M	\$30.5M	61%	IRS, CDS, FX
Bank B	A+/A1	\$8.7M	\$16.2M	\$7.3M	\$17.6M	44%	Repos, TRS, FX
Bank C	A/A2	\$15.3M	\$22.8M	\$14.1M	\$24.0M	80%	IRS, Futures, Options
Bank D	A+/A1	\$5.6M	\$14.7M	\$5.0M	\$15.3M	38%	FX, Repos, Options
Prime Broker A	A+/A1	\$22.1M	\$35.6M	\$20.4M	\$37.3M	75%	Securities Lending, Margin
Prime Broker B	A/A2	\$18.9M	\$26.7M	\$15.8M	\$29.8M	60%	Margin Financing, Swaps
CCP A	AA/Aa2	\$45.2M	\$65.8M	\$52.3M	\$58.7M	59%	Cleared Swaps, Futures
CCP B	AA-/Aa3	\$37.6M	\$54.3M	\$42.1M	\$49.8M	50%	Cleared Swaps, Options

Note: Exposure figures as of [date]. Current Exposure represents mark-to-market value. Potential Future Exposure represents estimated maximum exposure over the life of transactions based on 97.5% confidence level. All figures are illustrative.30

Operations Blueprint

Trade Execution & Capture

Order management, execution, and trade confirmation processes across asset classes and venues.

Reporting & Oversight

Performance measurement, client reporting, regulatory filings, and governance processes.

Transfer Agency

Investor record-keeping, subscription/redemption processing, and distribution management.



Clearing & Settlement

Trade matching, affirmation, clearing, and settlement processes, including management of failed trades.

Custody & Safekeeping

Asset safekeeping, corporate actions processing, income collection, and reconciliation procedures.

Fund Accounting & NAV

Security valuation, expense accruals, NAV calculation, and unit/share pricing processes.

Leading asset managers implement a "three lines of defence" model for operational risk management:

First Line: Business Operations

- Day-to-day control execution
- Process documentation and maintenance
- Error identification and resolution
- Reconciliation and exception management

Second Line: Risk & Compliance

- Control framework design
- Policy development and implementation
- Independent monitoring and testing
- Risk assessment and reporting

Third Line: Internal Audit

- Independent assurance
- Systematic control evaluation
- Process efficiency assessment
- Remediation oversight

NAV Controls & Valuation Governance

NAV Control Framework

Robust NAV production requires multi-layered controls:

1. **Input Validation:** Verification of security prices, FX rates, corporate actions, and expense accruals
2. **Reasonableness Checks:** Automated and manual reviews of NAV movements, yields, performance, and asset-class returns
3. **Reconciliations:** Custodian, administrator, and investment manager position and cash reconciliations
4. **Exception Processing:** Documented procedures for investigating and resolving discrepancies
5. **Oversight Controls:** Independent review of NAV by control functions
6. **Escalation Protocols:** Clear thresholds and processes for escalating issues

Valuation Governance

Structured approach to security valuation, particularly for less liquid instruments:

Valuation Policy

Comprehensive document defining valuation methodologies, sources, and hierarchies by asset class and market condition.

Valuation Committee

Cross-functional body providing oversight of pricing decisions, methodology changes, and fair value determinations.

Price Verification

Independent validation of security prices using alternative sources, models, or third-party services.

Fair Value Procedures

Documented approach for valuing securities when market prices are unavailable or deemed unreliable.

NAV errors exceeding predefined materiality thresholds (typically 0.5% for equity funds and 0.25% for fixed income funds) generally require investor compensation and regulatory notification.³¹

Operations RACI Matrix

Function	Investment Team	Operations	Risk & Compliance	Fund Admin	Custodian	Depository	Board/IC
Investment Guidelines Setup	R	C	A	I	I	I	A
Pre-Trade Compliance	R	C	A	I	I	I	I
Trade Execution	R/A	C	I	I	I	I	I
Trade Confirmation	C	R/A	I	C	C	I	I
Settlement	I	C	I	C	R/A	I	I
Reconciliations	I	R	C	R	R	A	I
Security Pricing	C	C	A	R	C	C	I
NAV Calculation	I	C	C	R	I	A	I
Performance Calculation	C	C	C	R	I	I	A
Corporate Actions	C	C	I	R	R	C	I
Subscriptions /Redemptions	I	C	I	R	C	A	I
Regulatory Reporting	C	C	R	C	I	A	A
Vendor Oversight	I	R	C	I	I	C	A

- R** = Responsible (performs the work)
A = Accountable (ultimately answerable)
C = Consulted (provides input)
I = Informed (kept updated)

Note: Specific responsibilities may vary based on operating model, outsourcing arrangements, and regulatory environment.32

Technology Stack & Data Governance

Core Technology Components

- **Portfolio Management System (PMS):** Central investment book of record supporting portfolio construction and monitoring
- **Order Management System (OMS):** Trading workflow, compliance, and allocation engine
- **Execution Management System (EMS):** Connectivity to trading venues, algorithmic trading, and TCA
- **Risk Management System:** Risk analytics, scenario analysis, and limit monitoring
- **Data Warehouse:** Centralised repository for position, transaction, and reference data
- **Performance & Attribution:** Returns calculation and decomposition tools
- **Client Reporting Platform:** Customisable reporting for investors and stakeholders

Data Governance Framework

Effective data governance includes:

1. **Data Ownership & Stewardship:** Clear assignment of data domain responsibilities
2. **Data Quality Management:** Controls, metrics, and remediation processes
3. **Metadata Management:** Documentation of data elements and relationships
4. **Master Data Management:** Golden source definition and maintenance
5. **Data Security & Privacy:** Protection of sensitive information
6. **Data Lifecycle Management:** Retention, archiving, and disposal policies
7. **Data Architecture:** Design principles for data storage and movement

Leading asset managers are increasingly investing in data lakes, cloud infrastructure, and AI/ML capabilities, with technology budgets growing at 8-12% annually versus 3-5% for overall operating expenses.³³

ESG and Stewardship

ESG Integration Approaches

Methodologies for incorporating ESG factors into investment processes:

- **Exclusionary Screening:** Eliminating specific sectors, companies, or practices based on values or norms
- **Best-in-Class Selection:** Preferring companies with superior ESG performance within sectors
- **Thematic Investing:** Targeting specific environmental or social themes
- **Impact Investing:** Seeking measurable positive outcomes alongside financial returns
- **ESG Integration:** Incorporating material ESG factors into fundamental analysis
- **Risk-Based Approaches:** Using ESG factors primarily for risk mitigation

80% of institutional investors report implementing formal ESG integration in their investment processes, though methodologies and depth vary significantly across organisations.³⁴

Stewardship Framework

Active ownership practices to influence corporate behaviour:

- **Engagement Policy:** Objectives, priorities, and escalation approach
- **Direct Engagement:** Meetings and correspondence with management
- **Collaborative Engagement:** Participating in investor coalitions
- **Proxy Voting:** Developing and implementing voting guidelines
- **Shareholder Resolutions:** Filing or co-filing proposals
- **Policy Advocacy:** Engaging with regulators and standard-setters
- **Reporting & Transparency:** Disclosure of activities and outcomes

Manager Selection & Due Diligence



Manager Sourcing & Initial Screening

Identification of potential managers through databases, networks, and capital introduction events, with initial filtering based on strategy alignment, track record, minimum AUM, and organisational stability.



Quantitative Analysis

Rigorous performance analysis including returns, risk metrics, style attribution, peer comparison, and scenario testing. Evaluation of alpha generation, drawdowns, and factor exposures across market cycles.



Investment Due Diligence

In-depth assessment of investment philosophy, process, team capabilities, competitive advantage, portfolio construction, risk management, and ESG integration. Includes sample position deep-dives and decision analysis.



Operational Due Diligence

Comprehensive review of operational infrastructure, controls, service providers, compliance framework, valuation processes, business continuity, and cybersecurity. Includes background checks on key personnel.



Legal Review & Negotiation

Analysis of fund documents, side letter negotiation, fee structures, liquidity terms, and governance provisions. Evaluation of regulatory standing and litigation history.



Ongoing Monitoring & Review

Continuous oversight including regular calls, meetings, performance reviews, style drift analysis, operational updates, and formal annual reviews with systematic redemption triggers.

Comprehensive manager due diligence typically requires 3-6 months, with leading investors employing dedicated teams for investment and operational assessment to ensure appropriate expertise and independence.³⁵

Due Diligence Red Flags

Investment Red Flags

- Unexplained outperformance or lack of drawdowns
- Style drift or deviation from stated strategy
- Inconsistent description of investment process
- Concentrated positions beyond stated limits
- Performance attribution inconsistent with strategy
- Key person departures without succession planning
- Inconsistent risk metrics across market environments

Operational Red Flags

- Inadequate segregation of duties in key processes
- Lack of independent pricing or valuation oversight
- Frequent NAV adjustments or restatements
- Delayed or limited transparency reporting
- High staff turnover in operational functions
- Weak business continuity or cybersecurity controls
- Reluctance to provide reference checks or site visits

Legal & Compliance Red Flags

- Regulatory violations or pending investigations
- Unusual or overly restrictive confidentiality provisions
- Inadequate compliance resources or expertise
- Conflicts of interest with affiliated entities
- Resistance to standard side letter provisions
- Unusual fee structures or expense practices
- Limited or conflicted board/governance oversight

Business & Strategic Red Flags

- Assets significantly above or below strategy capacity
- Unstable or concentrated investor base
- Misalignment of manager and investor interests
- Aggressive growth in products or strategies
- Inadequate financial resources for operations
- Excessive focus on asset gathering vs. performance
- Reluctance to discuss past mistakes or failures

Comprehensive due diligence protocols identify an average of 3-5 significant red flags in 60% of manager evaluations, with 25-30% of potential investments rejected based on operational concerns despite satisfactory investment capabilities.³⁶

Private Markets Programme

Programme Design Elements

Effective private markets programmes require specialised design considerations:

- **Strategic Allocation:** Target exposure across private equity, credit, real assets, and infrastructure
- **Commitment Pacing:** Multi-year plan for capital deployment to achieve and maintain target allocation
- **Vintage Year Diversification:** Systematic commitment approach across market cycles
- **Strategy Diversification:** Balance across buyout, growth, venture, opportunistic, etc.
- **Geographic Allocation:** Exposure targets across developed and emerging markets
- **Access Vehicles:** Primary funds, secondaries, co-investments, direct investments
- **Implementation Approach:** Fund-of-funds, separate accounts, direct fund investments



Private markets allocations among institutional investors have increased from an average of 12% to 23% over the past decade, with continued growth expected.³⁷

- ❑ The illiquidity premium for private markets has averaged 3-5% annually over public market equivalents, though with significant dispersion across managers and vintage years.

Private Markets Pacing Model

Year	Starting NAV	New Commitments	Capital Calls	Distributions	Valuation Change	Ending NAV	Uncalled Capital	Total Exposure	Portfolio %
2023	\$200M	\$70M	\$45M	\$25M	\$24M	\$244M	\$140M	\$384M	12.2%
2024	\$244M	\$75M	\$65M	\$35M	\$27M	\$301M	\$150M	\$451M	14.3%
2025	\$301M	\$80M	\$70M	\$45M	\$33M	\$359M	\$160M	\$519M	16.1%
2026	\$359M	\$85M	\$75M	\$65M	\$37M	\$406M	\$170M	\$576M	17.6%
2027	\$406M	\$90M	\$80M	\$75M	\$41M	\$452M	\$180M	\$632M	18.9%
2028	\$452M	\$90M	\$85M	\$90M	\$45M	\$492M	\$185M	\$677M	19.8%
2029	\$492M	\$95M	\$90M	\$100M	\$48M	\$530M	\$190M	\$720M	20.5%
2030	\$530M	\$100M	\$95M	\$110M	\$52M	\$567M	\$195M	\$762M	21.0%

Note: Model assumes 6-year average investment period for new commitments, 12-year total fund life, and 12% gross return. Portfolio percentage based on projected total portfolio growth of 6% annually. All figures are illustrative.³⁸

Effective pacing models require regular recalibration based on actual capital calls, distributions, and portfolio growth to maintain target allocations.

Private Markets Benchmarking

Performance Measurement Challenges

Private markets performance evaluation presents unique challenges:

- **Time-weighted vs. Money-weighted Returns:** IRR and multiple-based metrics better reflect investment timing
- **J-curve Effect:** Negative early returns due to fees and delayed value creation
- **Valuation Frequency:** Quarterly valuations vs. daily public market prices
- **Valuation Subjectivity:** Reliance on manager-reported valuations
- **Vintage Year Comparisons:** Performance heavily influenced by entry timing
- **Strategy Definitions:** Inconsistent classification across managers
- **Selection Bias:** Benchmark data skewed by voluntary reporting

Benchmarking Approaches

Multiple methodologies provide complementary perspectives:

- **Absolute Return Targets:** Fixed hurdle rates (e.g., 8-10% for buyout)
- **Relative Performance:** Quartile rankings against vintage year peers
- **Public Market Equivalent (PME):** Cash flow-based comparison to public indices
- **Modified PME Variants:** KS-PME, mPME, Direct Alpha approaches
- **Custom Benchmarks:** Blended indices reflecting strategy mix
- **Peer Group Analysis:** Comparison to similar institutional portfolios



PME analysis indicates that private equity has outperformed public markets by an average of 3-5% annually over the past two decades, though with significant variation across vintages and strategies.³⁹

Real Assets: Structure & Valuation

Fund Structures

Real asset investments employ various structural approaches:

- **Closed-End Funds:** Fixed term (8-12 years) with defined investment and harvest periods
- **Open-End Funds:** Perpetual vehicles with periodic subscription and redemption windows
- **Joint Ventures:** Direct partnerships with operators on specific assets or platforms
- **Listed REITs/InvITs:** Publicly traded vehicles with daily liquidity
- **Separate Accounts:** Customised mandates managed by institutional real asset firms
- **Fund-of-Funds:** Diversified exposure across multiple underlying managers
- **Co-Investment Vehicles:** Participation alongside fund managers in specific deals

Valuation Methodologies

Proper valuation requires multiple approaches:



Leading investors implement robust valuation governance including quarterly internal marks, annual external appraisals, and valuation committee oversight with independent members.⁴⁰

LDI and Solutions-Based Approaches

Liability-Driven Investment (LDI)

LDI frameworks align investment strategies with specific liability profiles:

- **Liability Analysis:** Detailed modelling of future obligations including duration, convexity, and sensitivity to various risk factors
- **Matching Portfolio Construction:** Development of fixed income portfolios with similar risk characteristics to liabilities
- **Hedging Strategies:** Use of swaps, futures, and options to manage interest rate, inflation, and longevity risks
- **Surplus Risk Management:** Focus on surplus volatility rather than absolute return volatility
- **Glidepath Approach:** Dynamic de-risking as funding status improves
- **Completion Portfolio:** Targeted exposures to address specific liability risks

Solutions-Based Frameworks

Broader outcome-oriented approaches including:

- **Risk Parity:** Allocation based on risk contribution rather than capital
- **Target Date/Target Risk:** Age-based or risk tolerance-based asset allocation
- **Income-Focused Solutions:** Strategies designed to generate sustainable income streams
- **Inflation-Protected Approaches:** Portfolios designed to preserve purchasing power
- **Objectives-Based Allocation:** Segmentation of portfolio by specific goals
- **Factor-Based Solutions:** Allocation across risk premia rather than asset classes



LDI strategies have evolved significantly following the 2022 UK gilt market crisis, with enhanced focus on liquidity management, collateral optimisation, and counterparty diversification.⁴¹

Distribution Channels & Client Segments



Institutional Direct

Direct relationships with pension funds, endowments, foundations, sovereign wealth funds, and insurance companies.

- Customised investment solutions
- Separate account structures
- Sophisticated reporting and service model
- Consultant-driven selection process
- Lengthy sales cycle (6-18 months)



Wholesale/Intermediary

Distribution through financial advisors, private banks, and wealth management platforms.

- Model portfolio inclusion
- Platform approvals process
- Standardised fund vehicles
- Educational content and support
- Relationship-driven sales model



Sub-Advisory

Managing assets as a component of another firm's investment offerings.

- White-label or co-branded arrangements
- Integration with sponsor systems
- Tailored investment guidelines
- Rigorous oversight and governance
- Concentrated client base risk



Fund Platforms

Distribution through third-party fund supermarkets and investment platforms.

- Standardised operational interfaces
- Platform fee arrangements
- Digital marketing capabilities
- Rating agency focus
- Enhanced fee transparency

The boundaries between traditional distribution channels continue to blur, with 67% of institutional asset managers developing "democratised" versions of institutional strategies for the wealth management marketplace.⁴²

Client Reporting Framework

Reporting Components

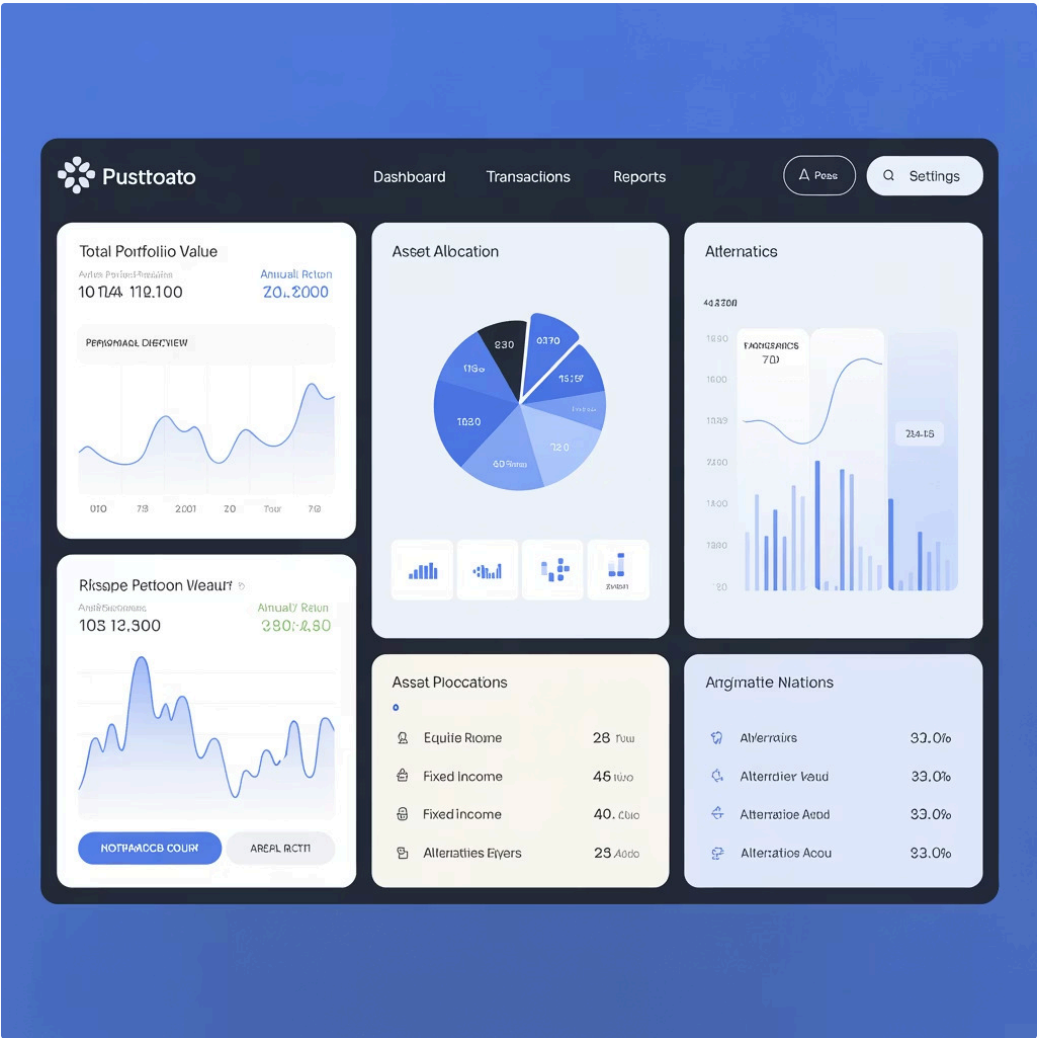
Comprehensive client reporting encompasses:

- **Performance Reporting:** Returns across time periods, attribution analysis, and benchmark comparisons
- **Risk Analytics:** Exposure metrics, scenario analysis, and factor decomposition
- **Portfolio Characteristics:** Holdings analysis, sector/geographic breakdown, and style metrics
- **ESG Metrics:** Sustainability scores, carbon intensity, and engagement activities
- **Compliance Overview:** Guideline adherence and any approved exceptions
- **Market Commentary:** Outlook, positioning rationale, and performance drivers
- **Transaction Summary:** Trading activity and significant portfolio changes

Reporting Best Practices

Leading approaches to client reporting include:

1. **Customisation Capabilities:** Tailoring content and format to client preferences
2. **Digital Delivery:** Secure portal access with interactive capabilities
3. **Timeliness:** Consistent delivery within agreed timeframes
4. **Transparency:** Clear disclosure of methodologies and limitations
5. **Data Visualisation:** Effective graphical representation of complex information
6. **Benchmarking:** Relevant and appropriate performance standards
7. **Narrative Insights:** Contextual explanations beyond raw data



70% of institutional investors now expect digital delivery of reporting with on-demand access to underlying data, customisable views, and self-service analytics capabilities.⁴³

Client Reporting Pack: Key Components

Executive Summary

High-level overview including:

- Performance highlights vs. benchmarks
- Key portfolio changes and rationale
- Significant market developments
- Forward-looking positioning statement
- Notable ESG developments or engagements

Performance Analytics

Comprehensive return analysis including:

- Time-weighted returns across multiple periods
- Attribution by sector, country, and security
- Contribution analysis for top/bottom performers
- Risk-adjusted metrics (Sharpe, information ratio)
- Rolling performance and peer group comparison

Risk Dashboard

Multi-dimensional risk assessment including:

- Absolute and relative volatility measures
- Tracking error and active share metrics
- VaR and stress test scenarios
- Factor exposures and sensitivities
- Concentration analysis by issuer and sector

Portfolio Positioning

Detailed allocation and characteristics including:

- Asset allocation vs. strategic targets
- Sector/country weightings vs. benchmark
- Style factor exposures and trends
- Key portfolio characteristics (P/E, yield, duration)
- ESG metrics and ratings distribution

Investment Activity

Transaction and decision analysis including:

- Summary of trading activity
- Rationale for significant position changes
- Case studies for key investment decisions
- Implementation efficiency metrics
- Cash flow management summary

Best practice reporting includes both standardised components for consistency and customised elements addressing specific client requirements and investment guidelines.⁴⁴

Compliance and Monitoring

Compliance Framework Components

Robust compliance programmes encompass:

- **Policies & Procedures:** Comprehensive documentation of compliance requirements and processes
- **Risk Assessment:** Systematic evaluation of compliance risks and prioritisation
- **Monitoring Programme:** Regular testing of controls and procedures
- **Training & Education:** Ongoing staff training on regulatory requirements
- **Governance Structure:** Clear oversight responsibilities and reporting lines
- **Technology Systems:** Automated monitoring and surveillance tools
- **Documentation:** Comprehensive record-keeping of compliance activities
- **Reporting:** Regular management and board-level compliance reporting

Key Monitoring Activities

Critical compliance monitoring functions include:



Investment Guidelines

- Pre-trade compliance screening
- Post-trade compliance monitoring
- Breach investigation and resolution
- Guideline coding and maintenance
- Exception approval and documentation

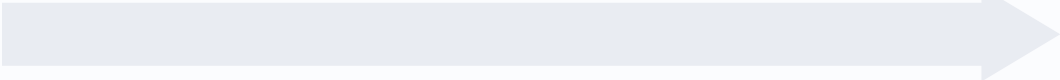


Market Conduct

- Personal trading surveillance
- Market abuse monitoring
- Best execution oversight
- Trade allocation reviews
- Conflicts of interest management

Regulatory enforcement actions against asset managers increased by 35% between 2019-2023, with particular focus on fee disclosures, ESG claims, and conflicts of interest.⁴⁵

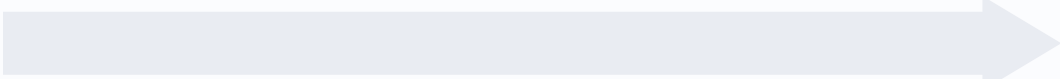
Incident Response Framework



Identification & Classification

Rapid detection and categorisation of incidents:

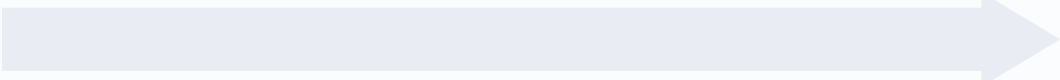
- Guideline breach detection systems
- NAV error identification protocols
- Trading irregularity flags
- Client complaint escalation
- Whistleblower mechanisms



Assessment & Containment

Evaluation of impact and immediate response:

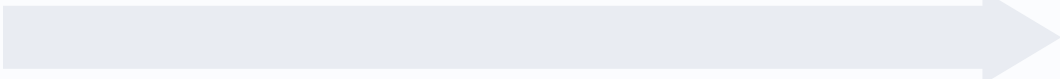
- Materiality determination
- Root cause analysis
- Preventative action implementation
- Documentation of facts and timeline
- Initial impact quantification



Resolution & Remediation

Comprehensive correction measures:

- Corrective action implementation
- Client/investor compensation
- System or process enhancements
- Control framework improvements
- Verification of effectiveness



Reporting & Communication

Transparent disclosure to stakeholders:

- Regulatory notification
- Client/investor communication
- Board/committee reporting
- Internal communication
- Documentation finalisation

Incident response effectiveness is directly correlated with formal documentation, clear escalation paths, and regular testing through tabletop exercises and simulations.

Leading organisations maintain dedicated incident management systems that track resolution progress, document remediation efforts, and facilitate trend analysis to identify systemic issues.⁴⁶

Scenario Analysis: Passive Share Gains

Industry Projections

Passive investment vehicles continue to gain market share across client segments and asset classes:

- Passive equity allocations projected to reach 55-60% of global equity assets by 2030 (from ~45% today)
- Fixed income passive penetration expected to increase from ~30% to 40-45% over the same period
- ETF assets under management projected to grow at 12-15% CAGR over the next five years
- Direct indexing solutions gaining traction with 25-30% annual growth rates
- Active ETFs emerging as a significant growth segment, particularly in fixed income



Strategic Implications

Asset managers must adapt to this evolving landscape:

- Fee pressure will intensify across active strategies
- Scale advantages will accelerate industry consolidation
- Technology investment requirements will increase
- Product development will focus on active/passive hybrids
- Distribution emphasis will shift toward outcome-oriented solutions

The continued growth of passive investing is reshaping market structure, with implications for price discovery, liquidity provision, and corporate governance. Probability of passive market share exceeding 60% by 2030: 75-85%.⁴⁷

Scenario Analysis: Fee Compression

Current Fee Trends

Fee compression continues across asset classes and vehicle types:

- Average active equity management fees declined 18% over the past decade
- Fixed income management fees compressed by 22% during the same period
- Alternative investment fee structures increasingly include hurdle rates and caps
- Institutional separate account fee schedules show steeper breakpoints at lower thresholds
- Retail share class expense ratios reduced by 15-25% through platform pressure

Market Drivers

Multiple factors are accelerating fee pressure:

- Passive alternatives establishing price anchors
- Purchasing power consolidation among institutional investors
- Intermediary platforms leveraging scale for client benefit
- Technology reducing operational costs and barriers to entry
- Enhanced fee transparency through regulatory initiatives

Manager Responses

Asset managers are implementing various strategies:

- Operational efficiency initiatives to reduce cost base
- Alternative fee models emphasising alignment
- Technology investment to enhance scale economics
- Expansion into higher-margin private markets
- Value-added services beyond investment management

The pace of fee compression is expected to continue but moderate, with annual declines of 2-3% for traditional strategies and 1-2% for alternatives over the next five years (probability: 70-80%).⁴⁸

Asset managers focused on clear value proposition articulation, operational efficiency, and client alignment are better positioned to maintain profitability despite fee pressure.

Scenario Analysis: Liquidity Shock

Potential Trigger Events

Various scenarios could precipitate a market-wide liquidity crisis:

- Rapid central bank tightening beyond market expectations
- Sovereign debt sustainability concerns in major economies
- Systemic failure of significant financial institution(s)
- Geopolitical conflict affecting global trade and payments
- Severe cyber attack disrupting market infrastructure
- Coordinated redemptions from fixed income funds

Liquidity Management Toolkit

Investors should prepare for potential liquidity disruptions:

Ex-Ante Preparation

Proactive measures including stress testing, liquidity tiering, cash buffer management, and predetermined escalation protocols.

Fund-Level Tools

Mechanisms such as swing pricing, anti-dilution levies, redemption gates, side pockets, and in-kind redemptions to manage outflows.

Portfolio Management

Tactical positioning through liquidity sleeves, term structure management, sector rotation, and alternative liquidity sources.

Regulators globally are implementing enhanced liquidity risk management requirements, including mandatory liquidity management tools, stress testing, and contingency planning for both asset managers and fund structures.⁴⁹

Probability of a significant market-wide liquidity event within the next 3 years: 25-35%. Probability of enhanced regulatory requirements for liquidity management: 85-95%.

Scenario Analysis: Regulatory Tightening

Systemic Risk Regulation

Enhanced oversight of asset managers and funds as potential sources of systemic risk:

- Potential designation of large managers as systemically important
- Stress testing requirements for fund liquidity and leverage
- Mandatory liquidity management tools for open-ended funds
- Increased reporting on interconnectedness and common exposures
- Probability: 70-80% within 3 years

ESG & Sustainability

Expanding disclosure and governance requirements for sustainable investments:

- Mandatory climate risk reporting across jurisdictions
- Standardisation of ESG metrics and methodologies
- Anti-greenwashing rules with enforcement actions
- Integration of sustainability risks in fiduciary frameworks
- Probability: 90-95% within 2 years

Investor Protection

Enhanced safeguards for retail and professional investors:

- Expanded fee and performance disclosure requirements
- Stricter suitability and appropriateness standards
- Enhanced governance for complex products
- Value assessment frameworks across jurisdictions
- Probability: 75-85% within 3 years

Digital Assets & Technology

Emerging regulatory frameworks for new asset classes and technologies:

- Comprehensive cryptoasset regulation
- AI governance standards for investment processes
- Data residency and sovereignty requirements
- Enhanced cybersecurity obligations
- Probability: 85-95% within 2 years

The regulatory compliance burden for asset managers is projected to increase by 15-20% over the next five years, with particular focus on data governance, risk management, and disclosure requirements.⁵⁰

Business Economics of Asset Management

Revenue Drivers

Key factors influencing asset manager revenues:

- **Assets Under Management:** Fundamental driver of fee-based revenue
- **Fee Rates:** Management fees, performance fees, and administrative charges
- **Product Mix:** Distribution across different strategies and fee levels
- **Client Composition:** Retail vs. institutional pricing dynamics
- **Performance Fee Crystallisation:** Timing and hurdle achievement
- **Distribution Channel Mix:** Direct vs. intermediated relationships

Expense Structure

- **Compensation:** Typically 45-55% of revenues
- **Distribution Costs:** 10-20% of revenues
- **Technology:** 5-10% of revenues and growing
- **Operations:** 5-10% of revenues
- **Occupancy & Infrastructure:** 3-5% of revenues
- **Other G&A:** 5-8% of revenues

Key Performance Indicators

Critical metrics for assessing asset manager economics:

Metric	Traditional Active	Passive	Alternatives
Operating Margin	25-35%	30-40%	35-45%
Revenue Yield (bps)	35-45	5-15	80-150
Cost-to-Income Ratio	65-75%	60-70%	55-65%
AUM per Employee (\$M)	\$75-150	\$500-1,000	\$50-100
Revenue per Employee (\$K)	\$500-750	\$750-1,000	\$750-1,500

Asset managers demonstrate significant operating leverage, with incremental margins on new AUM typically 50-70% depending on product type and distribution channel.⁵¹

Case Study: UCITS Expansion to AIF

Strategic Assessment

A successful European equity UCITS manager evaluated expansion into a long/short AIF product:

- Existing UCITS managed €2.5 billion with 5-year outperformance
- Client demand for less constrained strategy with shorting capability
- Team had previous long/short experience but not as a regulated offering
- Business goal to diversify revenue streams and increase fee yield

Implementation Approach

The firm employed a phased approach to the expansion:

- Initial launch as Luxembourg RAIF structure for faster time-to-market
- Parallel running of paper portfolio for 6 months before launch
- Seed capital from parent company and key institutional clients
- Leveraged existing research platform with additional resources
- Established separate risk guidelines and oversight framework

Operational Considerations

Key operational enhancements required:

- Prime brokerage relationships established with three counterparties
- OMS/EMS upgrades to support short positions and locate process
- Enhanced risk analytics for factor exposures and leverage monitoring
- Expanded compliance monitoring for short selling regulations
- Administrator with strong AIF and complex instrument capabilities

Outcomes & Lessons

Results and key learnings from the expansion:

- AIF reached €500 million within 18 months with strong performance
- Initial technical challenges with short position reconciliation
- Higher than anticipated operational costs but improved with scale
- Valuable diversification during market downturn
- Enhanced team capabilities and client relationships

Success factors included deliberate preparation, gradual scaling of positions, robust counterparty management, and clear segregation of duties between strategies.⁵²

Case Study: Private Credit Platform Launch

Background & Strategy

A mid-sized institutional asset manager with \$25 billion AUM primarily in public markets decided to establish a private credit capability:

- Strategic rationale to address client demand for yield and diversification
- Initial focus on senior secured direct lending to middle-market companies
- Target markets included North America and Western Europe
- Long-term vision to expand into specialty finance and structured credit
- Multi-fund architecture with different risk-return profiles and investor liquidity needs

Implementation Approach

- Acquisition of boutique private credit team with 10-year track record
- Retention package with long-term lockups and performance incentives
- Cultural integration programme to align investment philosophy
- Technology integration for portfolio management and reporting
- Initial closed-end fund followed by evergreen and BDC structures

Structural Considerations

The multi-fund architecture included:

Closed-End Fund

Luxembourg SCSp with Delaware feeder for US investors, 8-year term with two 1-year extensions, targeting institutional investors with \$10M minimum.

Evergreen Structure

Luxembourg RAIF with quarterly liquidity (subject to gates) focused on insurance companies and family offices with €5M minimum.

Business Development Company

US-listed BDC structure providing permanent capital and access to retail distribution channels with lower investment minimums.

The platform reached \$3.5 billion in commitments within 3 years, exceeding initial projections by approximately 40%. Key success factors included clear investment philosophy alignment, robust operational infrastructure, and diversified vehicle offerings.⁵³

Implementation Roadmap



Success factors for implementation include clear executive sponsorship, dedicated project management resources, appropriate subject matter expertise, and regular milestone reviews with adjustment capability.⁵⁴

Leading organisations establish formal transformation management offices for major implementations, with structured workstreams, accountability matrices, and regular steering committee oversight.