

SPECIAL REPORT

The velocity of change

- Digitising for efficiencies
- Dreaming of utilities



FundsTech Forum 2024

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Technology is decisive factor in asset management success

Could it be a coincidence that technology is so central to two of the largest asset managers in Europe - or is it more likely that it is the technology itself that explains how BlackRock and Amundi have grown to such colossal size?

BlackRock, the largest asset manager in the world, and Amundi, the largest in Europe, both run their own portfolio management systems. BlackRock's Aladdin sits within a dedicated risk management division, BlackRock Solutions, while Amundi's Alto sits within Amundi's dedicated technology business, Amundi Tech.

If the firms' success does correlate to their spend on technology, then it shows how technology could be a

decisive factor for any asset manager's business, particularly for global expansion and scalability.

Which brings us to FundsTech Forum, a day-long conference organised by Funds Europe in April 2024. A few years ago the FT said the funds industry's digital transformation was proceeding at a "glacial" pace. At the FundsTech Forum 2024 we sought to establish whether this was still true.

Throughout our panels, we discussed how regulation and innovation match-up to each other. We discussed to what extent automation and standardisation are possible in the arcane and opaque world of private markets. And we discussed how far the industry has come in creating utility-like frameworks to bring greater



efficiencies and cost-savings.

Blockchain and tokenisation naturally got more than just a passing mention.

In this special report, we focus on two discussions: digitisation for efficiencies and growth; and we consider why the funds industry has not succeeded in creating a utility. A utility would enhance standardisation, data sharing and foster greater automation.

Fantastic speakers

FundsTech Forum also had some fantastic participants. For example, Dr Carolina Minio-Paluello, who at the time was chief executive officer of Arabesque AI, spoke with us about what it means to be an AI-powered asset manager and also how AI and data could be used to bring separately managed accounts to smaller investors.

We spoke with Belinda Souter, head of business transformation at CBRE Investment Management. On her panel, among other topics, we asked if private-markets firms could ever offer a retail-like experience.



And we spoke with Karen Sands, private equity COO at Federate Hermes about strategic priorities and how technology might help.

In a series of break-out panels, audience members joined in with conversations. One of these was about the actionable steps that firms need to implement in order to achieve data standardisation. Audience members were also asked to think about how asset managers could embrace tomorrow's investment models if their technology belongs in the past.

Technologists at board level

We polled the audience, too, throughout the event. We found that 96% of delegates who voted said they felt technologists were under-represented at board level across the industry. This scarcity of tech senior managers highlights a gap in leadership and perhaps explains why the industry's level of technological transition is slow.

Those leaders are needed in order to empower individuals within firms to implement digital programmes without

fear of hard consequences, like losing their jobs. Fear of being sacked was also said to be a reason why few firms felt comfortable making meaningful strides with technology.

A year later, FundsTech 2025 will continue with these themes. But what about our initial question: Has the pace of digital transformation within asset management increased?

Absolutely, yes, it has. And what else has increased is the inexorable power of BlackRock to Hoover up assets. In the third quarter of 2024 the firm saw \$221 billion of net inflows. Any asset manager managing that kind of number for their total AUM would be considered as large, never mind the fact that this inflow helped take BlackRock's overall AUM to a staggering \$11.5 trillion.

The link between technology and growth in asset management seems certain and the firms leading are the firms where technology leadership has a prominent presence at the highest level.

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A midst regulatory uncertainty and potential gaps in understanding demand, the FundsTech panel ‘Tokenisation: the teenage years of development’ held in London during April examined whether tokenisation is a solution in search of a problem. If not, where should fund firms and providers set their sights next?

The panel was attended by Arnaud Misset, chief digital officer, Caceis; Dr Ian Hunt, author and designer of FundAdminChain’s funds ledger, FundAdminChain; Laurence Smith, senior market strategist, ConsenSys and moderated by Chris Mills, managing director, Citisoft.

In response to Mills’ question on the progress of the regulatory environment for tokenisation and digital assets in the last couple of years, Arnaud Misset described the European regulatory landscape as “fragmented”.

Acknowledging MiCA (Markets in Crypto-Assets) – an EU regulation aimed at providing a comprehensive regulatory framework for crypto-assets and their service providers that covers tokenisation, defining rules for issuers and service providers while ensuring consumer protection and market integrity in the crypto-asset space, as “a positive development”, he added: “While MiCA is a positive development harmonising every digital asset rule, not sure the same rules will apply to all assets.”

Providing a UK perspective, Dr Ian Hunt opined that there is little going on in funds tokenisation. “There is some activity in money market funds, but not much. With the Treasury Taskforce in action, we know what to do without breaching rules, but the definitions are limited. The focus has been on the tokenisation of conventional assets, not the cash side. The use cases are limited, but it has surely opened the door for legislative clarity,” said Hunt.

The ecosystem of a single operating model across all asset classes is the need of the hour, he added. “If you tokenise a bond, it is still a bond. The difference is only in a digital way of owning a conventional asset.”

The teenage years of tokenisation

Tokenisation is both challenging and eagerly awaited, much like parenting a teenager.
Special report from FundsTech Forum

Web3 transcends boundaries

Shedding light on web3, a new iteration of the World Wide Web which incorporates concepts such as decentralisation, blockchain technologies and token-based economics, Laurence Smith emphasised that it is all about participation and empowering communities. Highlighting advantages such as accessibility, fractionalisation and transparency that come with real time data token/blockchain provides, he underscored: “Web3 transcends global boundaries and hence, is more accepting.”

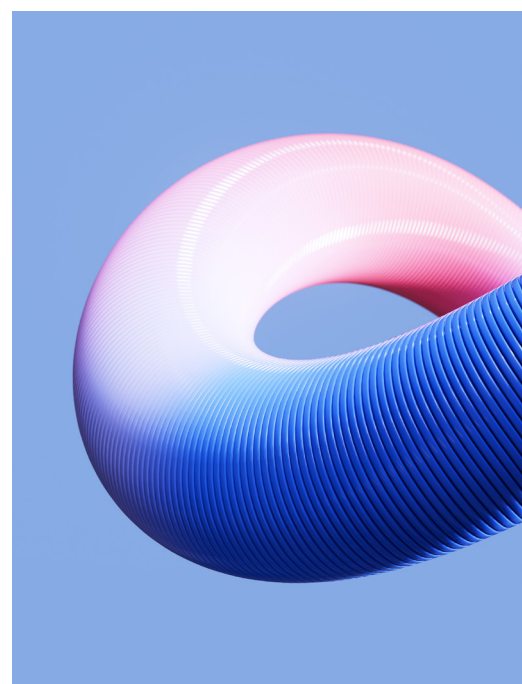
As per Misset, the key to building trust is helping clients understand why they need to get through “pain points” in the first place. “We need the cash leg and secondary market. Besides, there should be a focus on the benefits of technology and how it can be used for collateral management.”

Commenting on the business case for tokenisation and the demands fuelled by it, Hunt highlighted the standard benefits of blockchain – immutable history of the transaction, and distributed ledger technology (DLT) enabling data sharing between participants in real time securely.

“In the funds’ world, there are benefits of having self-maintaining registers and owning funds tokens in the wallet. With regulators’ approvals in place, one doesn’t need a TA to maintain a ledger as long as the regulator allows. Additionally,

tokenising cash eliminates settlement risk to offer simplified cash management.”

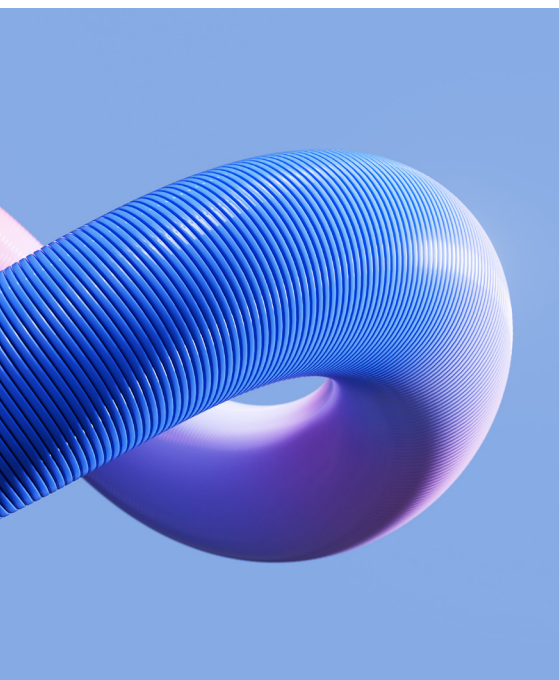
However, tokenisation still doesn’t change the way to do fund administration, pointed out Misset – one still has to manage taxes. “We have to take the big picture with tokenisation. At the start, many thought there would no longer exist the need for middlemen or a custodian – then FTX happened. Despite its benefits, tokenisation doesn’t revolutionise the entire ecosystem.”



In the web3 domain, Smith highlighted the growing popularity of social media/ gaming application popularity. “The younger demographic shows a preference for self custody systems, digital wallets and other such ways to avoid brokerage, etc. The KYC challenge is relatively minor, making the barrier for entry low and more accessible in what is now a \$3 tn dollar market.”

In conclusion, Misset said that trial and error is the way to improvement. According to Hunt, “Digital cash we can trust is a must. The finance sector still doesn’t trust crypto as a settlement currency. Atomic settlement is the way forward in the short term, whereas the demand for the longer term is to create a purely digital environment that is self-executed by getting rid of intermediaries such as in the UK equity ISA.”

Smith, who considers governance and capital formation two crucial factors driving the success of tokenisation, also cited the example of Index Cooperative – a decentralised autonomous organisation maintaining top crypto indices on the market that allows users a platform to vote and share feedback on various parameters.



The need for automation in private markets

The use of artificial intelligence has as much capacity to benefit private as public markets, according to Karen Sands, the chief operating officer for private equity at Federated Hermes.

The more secretive aspects of private equity, compared with public markets, has fed a common but inaccurate perception that private equity is more conservative in embracing technology compared with public markets.

Speaking at the FundsTech Forum in London, Sands told delegates that investment due diligence, reporting, the onboarding of clients, anti-money laundering, know-your-client and marketing were all aspects of private markets that could benefit from the greater use of technology.

Federated Hermes uses AI to extract data from investment documents, enabling employees to focus on higher value activities.

“Part of the challenge with private equity, and the clue’s in the name, is that unless you’re in the sector, it’s

quite hard to assess how far AI is being used, whereas in public markets it’s more open,” Sands said.

“AI lends itself very well I to tasks that are data heavy and require a lot of manual input. It will allow us to assess information, assimilate information and produce summaries much quicker.

“In turn that allows our employees to work on more value-added tasks. It will augment the way that we work, as opposed to replace human intervention. And I think that’s because of the way that humans have the ability to understand emotion.”

On the issue of standardisation, Sands said that, similar to some of the taxonomy of ESG reporting, standardising terminology would be helpful in private markets by introducing greater consistency.

ILPA, IPEV the BVCA and Invest Europe provide useful tools and guidance to support standardisation, but the nature of private equity structures and operating models means it will never be possible to standardise everything.

Assessing the volocity of digital change

Facing pressure to prove value, fund managers increasingly turn to digitisation for efficiency and cost reduction, the FundsTech Forum hears

As digital sophistication correlates with performance, has the industry caught up with banking's advancements in recent years?

The FundsTech Forum panel that discussed digital transformation included Edouard Legrand, chief digital and data officer at BNP Paribas Asset Management; Martyn Cuff of Cuff Consulting, who is also a former regional COO & global head at Allianz Global Investors, and Pascal Stegmann, digital architect at ARK Investment Management.

Digital transformation can have various meanings, but what does crystallising the topic in the context of investment funds management mean? According to Cuff: "Transformation is an abused word – you can use digital to do things better or do better things. The goal should be doing new things not doing things."

Legrand shared that the way BNP Paribas Asset Management views it: digital transformation is a journey – a continuous process with a focus on the long run.

Stegmann emphasised that discussions on digital transformation should encompass the entire value chain. Drawing from his firm's US experience launching a venture strategy for retail investors, he highlighted the collaboration with a fintech firm to democratise the process.

The moderator – Nick Fitzpatrick, editor of Funds Europe – posited that the last great innovation in the funds industry was more than 25 years ago with the invention of the ETF. Does that imply the funds industry is not good at transformation?

Acknowledging that transformation has indeed occurred, Cuff argued: "There is no reason we shouldn't do more." Citing recent research, he also pointed out that only one-third of chief information officers and chief technology officers had technology associated with their titles – about two-thirds did not have any technology-focused representative at the top table.

According to Stegmann: "The highest value people are the translators – one can't expect everyone on the frontline to be a techie."

Futuristic technology

Embracing technology is pivotal, emphasised Cuff. Old industries must be renewed and new ones created. "Over the next decade, democratising access to private markets would be fantastic progress. The key is how to protect investor money by leveraging tech."

Additionally, Legrand speculated that the digital transformation landscape over the next decade would involve investing in technologists and funding long-term investment, with restructuring leadership being a challenge to resolve.

Opining that consumers are indifferent to how backend operations function, Stegmann concluded: "The objective is to bridge the gap between current infrastructure and futuristic technology."





FCA “agnostic” on which technology firms use

The UK’s financial regulator the FCA is continually monitoring for systemic risk in the funds industry, the FCA’s head of asset management & pensions Nike Trost, said, following a warning from the Bank of England recently that high interest rates could cause havoc in the £6.5 trillion private equity industry with dire knock-on effects for the wider economy.

Asked at the inaugural FundsTech Forum conference whether the FCA shares the Bank of England’s concerns over systemic risk in the private equity sector, Trost said that, while the FCA was, as a regulator, more focused on the funds industry than the Bank of England, “this [systemic risk] is something that we are looking at very closely”.

As high interest rates raise the risk of losses for banks and the private equity sector

is heavily reliant on debt, regulators are stepping up their scrutiny of private equity markets.

Trost also told the conference that the FCA was “tech agnostic” about technology around tokenisation and that it is not the purpose of the regulator to be prescriptive about technology adoption.

Trost said that the FCA was “open-minded” about the technology that the industry chooses to use: the regulator’s main concern was making sure that systems were resilient and that data was safe.

“There are real questions around how can changing technology be accommodated by regulation and uncertainty about whether what we have in the framework now might stop people from adopting new technology.”

“Transformation is an abused word – you can use digital to do things better or do better things. The goal should be doing new things not doing things”

Martyn Cuff, Cuff Consulting



Nike Trost

Why is the funds industry so bad at creating a utility?

Utilities in the funds industry would remove frictions and complexity. *Nicholas Pratt* hears why the funds industry has a terrible track record at collaborating to build them

When three of the biggest names in asset management – JP Morgan Asset Management (JPMAM), State Street Global Advisors and BlackRock – announced they were leaving the UN-led climate change alliance Climate Action 100+, it sparked a number of theories from industry observers. Perhaps it was an example of ‘greenhushing’ – whereby firms downplay their ESG credentials in fear of a right-wing backlash. Or maybe the firms never intended to stick with it and only signed up for the marketing boost.

A more credible interpretation was that the withdrawals highlighted one of the funds’ industry’s biggest failings: an inability to collaborate or develop industry-wide bodies. Instead of developing utilities, asset managers seem all too happy to do their own thing, as is suggested in the statement issued by JPMAM in the wake of its withdrawal from Climate Action 100+.

“The firm has built a team of 40 dedicated sustainable investing professionals, including investment stewardship specialists who also leverage one of the largest buy side research teams in the industry. Given these strengths

and the evolution of its own stewardship capabilities, JPMAM has determined that it will no longer participate in Climate Action 100+ engagements.”

According to Per-Otto Wold, an investor in climate tech and a co-founder of analytics firm Zerolytics, JPMAM’s actions reflect a broader trend “where large asset managers are seeking to individualise their approach to sustainability, which ultimately, risks fragmenting efforts and diluting the collective impact needed for meaningful environmental change”. »

“If directors or senior executives commit to these projects, they run the risk of losing their job if they don’t eventually succeed”

Bill Gourlay, managing director, Independent Consultants Network



Pictured l-r: Thomas Tilley, Bill Gourlay, Revel Wood (One Group) and Simon Swords



Bad at setting up utilities

It is not just climate change where there is a lack of collaboration in the funds industry. It is everywhere, especially in the operations world.

“It is a fair shout to say that the funds industry is bad at setting up utilities,” says Bill Gourlay, managing director of Independent Consultants Network and former regional head of fund and investment management markets at financial cooperative Swift. “The problem is that there have always been too many vested interests and no one with either the credibility or authority is willing to pull all of the different players together.”

He refers to previous efforts to establish a national or pan-European funds processing model, particularly those involving an industry-owned, not-for-profit body.

“The opportunity was an open goal in my view but, incredibly, the entities I approached chose not to pursue it,” says Gourlay. “There was an innate lack of vision and inability to work together amongst several of the market participants, which we were trying to resolve, but unfortunately the likely suspects who could have resolved this as the trusted party in the middle declined to take part.”

An eye on the opposition

Gourlay adds: “Unfortunately, when these sorts of discussions get underway you often find several people in the room specifically there to disrupt or just keep an eye on the opposition. We have also seen a number of instances where you see a good initiative get underway, but then you end up with another one trying to compete to exercise control, or protect vested interests, resulting in confusion and killing all momentum.”

In his time at Swift, one of the few well-established, global cooperatives in the financial services sector, Gourlay was in the midst of the battle between EMX and Swift, two rival electronic messaging systems. EMX launched in 2000 and in 2007 was acquired by Euroclear, but the uncertainty caused by the two competing offerings brought unnecessary costs to the industry for

“Efama got involved because it is important that the asset management industry stays on top of this”

Thomas Tilley,
senior economist, Efama

several years.

This was followed by the FTS Group where discussions commenced seeking to create structures in the UK to be the equivalent of the DTCC, a major market infrastructure provider in the US, but which foundered for the same reasons.

Now the issue of utilities is at the forefront again thanks to the growing burden of data management. When it comes to data, there are too many horses in the race currently, says Gourlay. “If I’m a data consumer, which one do I back? Are they all heading in the same direction? I don’t think so. Many of the offerings out there are primarily commercially driven and seeking to make money, so the industry will need clarity and leadership before progress can realistically be made.”

To date, there has been an unwillingness to let the industry forge its own direction, says Gourlay. “Several innovative characters have tried to initiate change but have not been given the right mandate or support. There are always interesting ideas but they often lack the authority to drive adoption or the certainty that this will be the solution for the industry to go for.”

“If directors or senior executives commit to these projects, they run the risk of losing their job if they don’t eventually succeed.”

So instead, the job goes to middle managers in these working groups who are often too nervous to risk making recommendations to their senior leadership, according to Gourlay, and he adds that if the industry is to succeed in making changes via a utility it needs to be brave and decisive, but that will require “respected entities at the heart of it to show clear support and point the way forwards”.



Standardising fund data

While utility efforts of the past focused on funds processing, the current focus is on standardising fund data. The European Fund and Asset Management Association (Efama) set up the European Fund Classification system in 2012 to ensure that investors comparing cross-border funds are comparing like with like.

“Efama got involved because it is important that the asset management industry stays on top of this,” says Thomas Tilley, senior economist at Efama. “What sets our classification system apart is that it is completely free to use and super transparent. All the information is publicly available,” says Tilley.

Another initiative is openfunds, which is designed to be an extensible and free-to-use standard for categorising investment funds. According to openfunds, it will enable the automated transfer and validation of fund data, thereby making it easier to disseminate fund information.

And then there is the European



solution ECHO in the next couple of months. Following ‘go live’, the plan is to hold a series of workshops to identify more commonalities and then commoditise that process.

‘Open asset management’

Swords says that his long-term objective is to develop an open asset management market, akin to the open banking market in the EU, where product distribution and associated factsheets and other regulatory and client reports can be produced in an open and transparent way that is industry-led, fair and affordable.

“There are challenges, of course. Firstly, a sensible balance must be struck between the utility being industry led and providing value and remaining sustainable. Secondly, finding a sufficient buy-in from asset managers to buy in to this new commoditised approach will take time,” he says.

Fortunately, the attitude across industry is changing, says Swords. “There are some economic drivers which mean that asset managers cannot just offshore everything to Portugal or India. They also recognise that the bar for ROI [return on investment] from their new and existing suppliers must be set higher, which is something we welcome.”

Adoption and access are both key to the success of any utility and regulation might help to achieve success in both areas. But, as much as Swords would like the help of regulators, he accepts that this is a lofty goal that won’t happen overnight. *fe*

•Bill Gourlay, Thomas Tilley and Simon Swords discussed funds utilities for this article ahead of speaking in a panel on the same topic at FundsTech Forum in April.

Single Access Point platform developed by ESMA, the European financial markets regulator, to improve the availability and access to financial and ESG data. It is set to be implemented later this year and has been backed by the fund associations of Germany and France, among others.

There are similar developments in the UK where The Investment Association has partnered with fintech Fundipedia to develop a platform for product data. Fundipedia was founded in 2007 with the ambition to become the leading end-to-end data management platform for the asset management industry.

“When you peel back enough layers, you recognise patterns across firms. Asset managers are drowning in client and regulatory reporting requirements and in their rush to meet reporting deadlines often double up on the data they are buying and not applying sufficient data governance or applying it retroactively due to time constraints,” says Fundipedia managing director and founder Simon Swords.

It is what Swords dubs a macro-problem. There’s no added value or secret sauce involved. Consequently, data management is another area that appears to be crying out for a utility.

A turning point for Fundipedia was its acceptance into the accelerator programme run by the IA in 2020. “Following our acceptance in to the 2020 cohort we went to the IA to see if we could agree on a standard way for storing and disseminating product data. Coincidentally, the IA had an existing benchmarking software they needed to retire so we talked about Fundipedia taking this on.,” says Swords.

Fundipedia will replace the existing

“Asset managers are drowning in client and regulatory reporting requirements and in their rush to meet reporting deadlines often double up on the data they are buying and not applying sufficient data governance or applying it retroactively due to time constraints”

Simon Swords, managing director and founder, Fundipedia