

From Alternative *to Mainstream*

Going and Growing Digital

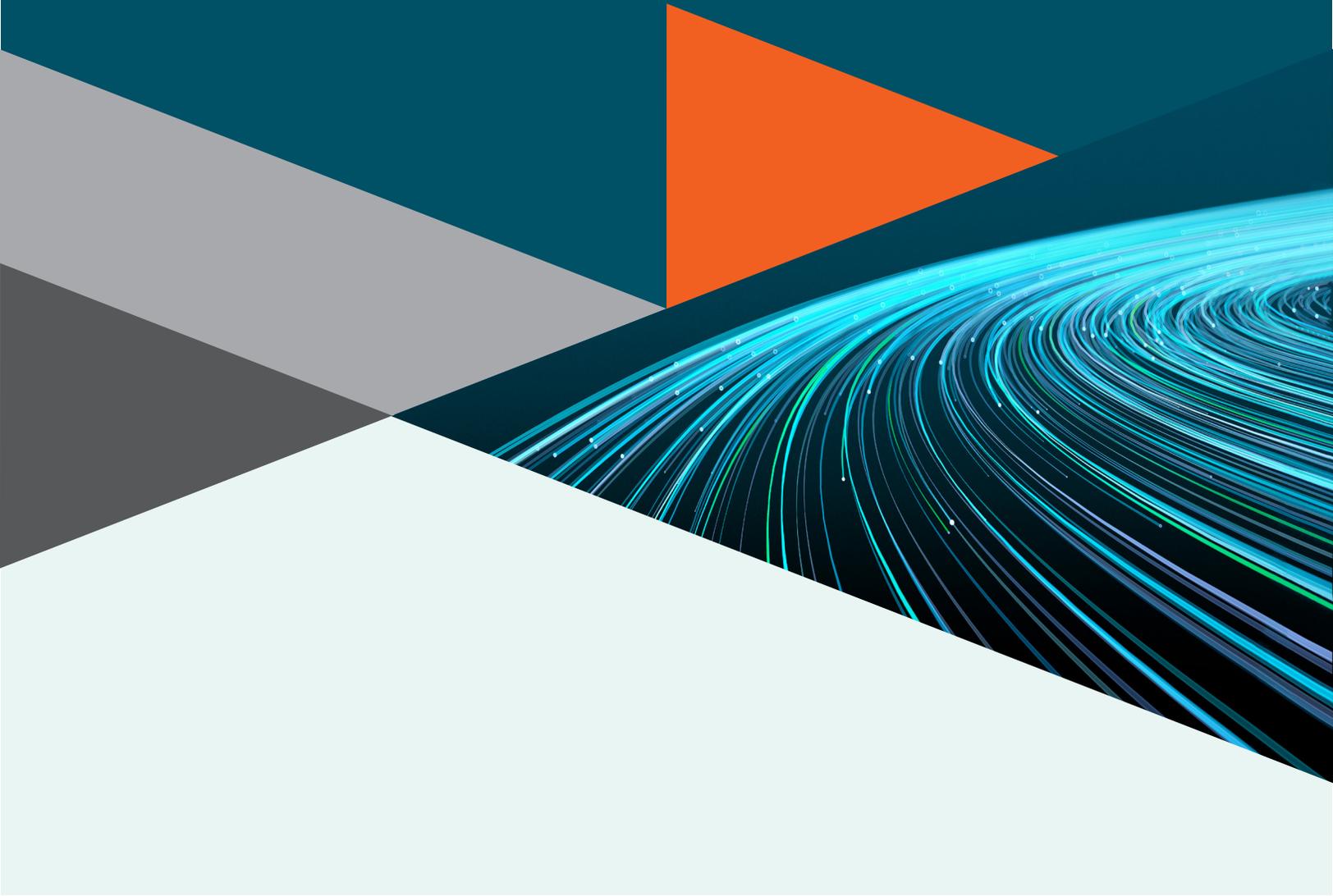
The background features a dark teal color with abstract geometric shapes in shades of grey and orange. A prominent feature is a glowing digital data stream composed of many thin, curved lines in shades of blue and cyan, creating a sense of motion and connectivity.

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Foreword

Earlier in 2021, BNY Mellon surveyed 100 institutional investors and 100 alternative asset managers about their current and future alternative asset allocations and their views on various sub-asset classes. We conducted this research in conjunction with Mergermarket. We also interviewed alternative asset managers on their current and future priorities to provide a perspective on whether the two sides are moving in the same direction.¹

The resulting report, *From Alternative to Mainstream*, reveals alternatives as an increasing component of investors' efforts to diversify their portfolios, minimize volatility and seek out resilience and increased returns.

In the first two chapters of *From Alternative to Mainstream*, we provided in-depth data and analysis on alternative asset classes ([Chapter 1: Alternatives Ascending](#)) and asset managers' strategic priorities for pursuing growth ([Chapter 2: Getting Ready for Growth](#)). In this next chapter, we explore the critical role played by data, technology and outsourcing as alternatives move to the mainstream.

¹Note: This report is the latest study on alternative investments from BNY Mellon. The first was in 2016, *Split Decisions* and the second, *Race for Assets*, was conducted in 2017. These studies portray an investor base clamoring for alternatives as a means of generating strong returns at a time of continued low interest rates and yield.

Chapter 3:

Going and Growing Digital

Data, technology and outsourcing are the future of asset management. These imperatives will reshape alternatives as they move towards the mainstream.

The Digital Shift

Digital transformation is sweeping across industries the world over. Alternative asset management is no exception. Well before the pandemic, many alternative asset managers started shifting towards digital and data management systems to drive efficiencies and innovation. In our research, we focused on why both short-term and long-term pressures make the adoption of new technologies more urgent than ever.

Nevertheless, paper-based systems remain commonplace in some parts of the alternatives universe, such as real estate. It is still not unusual for private equity firms to rely on spreadsheets for data management and analysis. Many of our survey respondents highlight the urgency of adopting new technologies, with the pandemic only increasing the pressure to digitalize.

For instance, in situations where physical or “wet” signatures were once the norm, such as filing tax-related forms, digital signatures are now taking over, driven by restrictions on travel and in-person contact. Regulators are expected to expand the use of e-signatures and even make such changes permanent.

More broadly, mastering digital technologies is essential to industry priorities, especially by reducing operating model costs, creating a data management model to support growth and supporting risk management analysis.²

² See Chapter 2: *Getting Ready for Growth* for further context on these and other strategic priorities.

“The pace of digital innovation has increased substantially. With many firms in the sector opting for digital transformation strategies, it has become evident that we cannot do without these up-to-date systems.”

—Managing Director (Real Estate Fund), United States



The Cloud Is *the Foundation*

Alternative asset managers have several types of technology on their minds, ranging from cloud computing to more nascent technologies such as blockchain and robotics. Staying on top of developing technology is crucial.

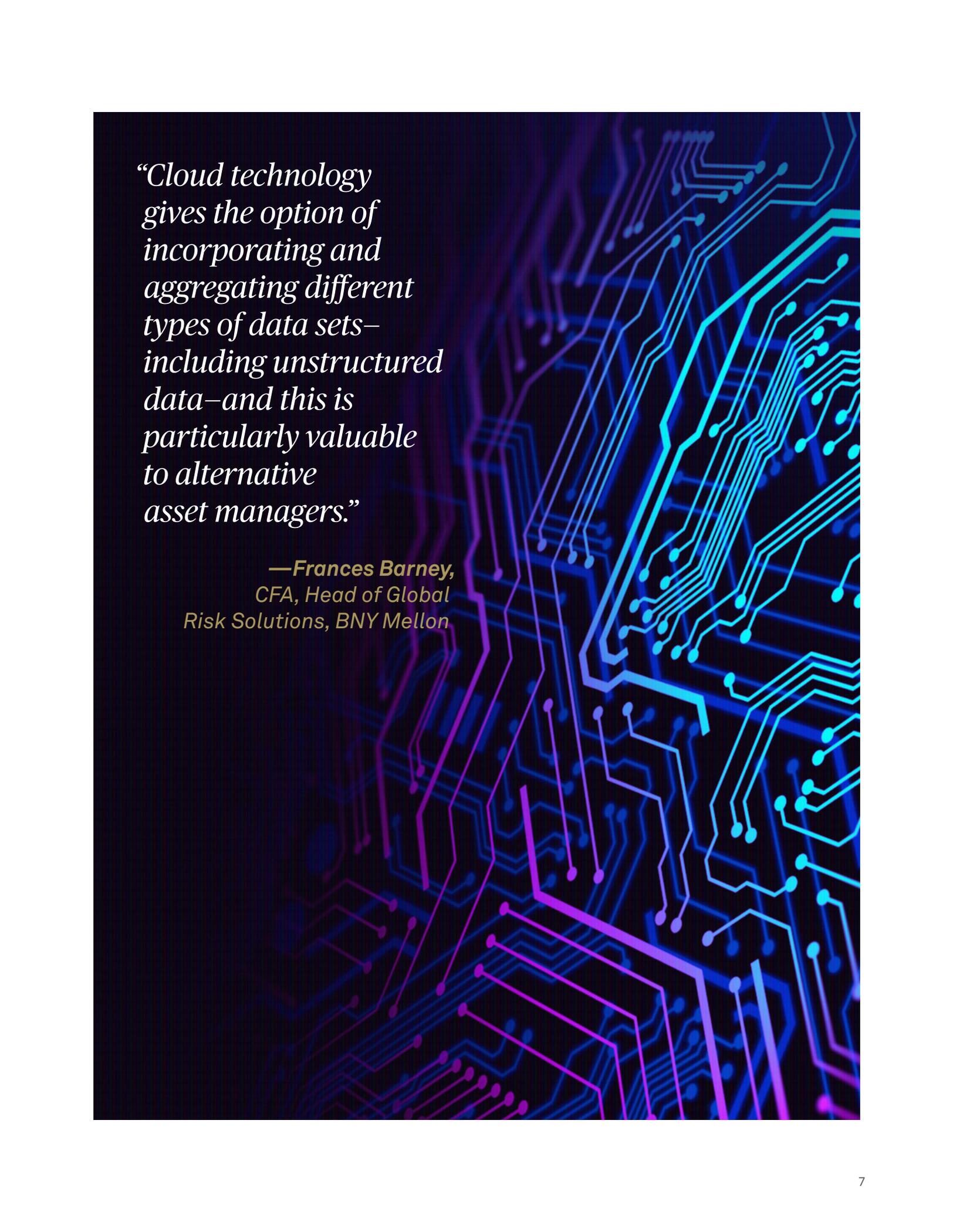
Our parallel study of the broader asset management industry³ finds that increasing adoption of cloud-based solutions is the first step towards digitalization. Almost all respondents in that survey (96%) said they believe cloud computing will drive digital and operational transformation in their organizations.

Quotes from participants in our alternative assets study echo that finding. Cloud computing can serve as a point of departure for organizations as they add new digital services or products and wean themselves off paper-based processes or spreadsheet-based analytics. More broadly, it becomes the foundation for smoother collaboration between staff, a major benefit for large and multinational organizations.

“Innovation has become a huge part of the digital environment. For any purpose or transaction, having the latest digital technology is important for the competitive edge to show.”

—Investment Director, United Kingdom

³ <https://www.bnymellon.com/us/en/insights/asset-management-transformation-is-already-here/survey-research-series-overview.html>



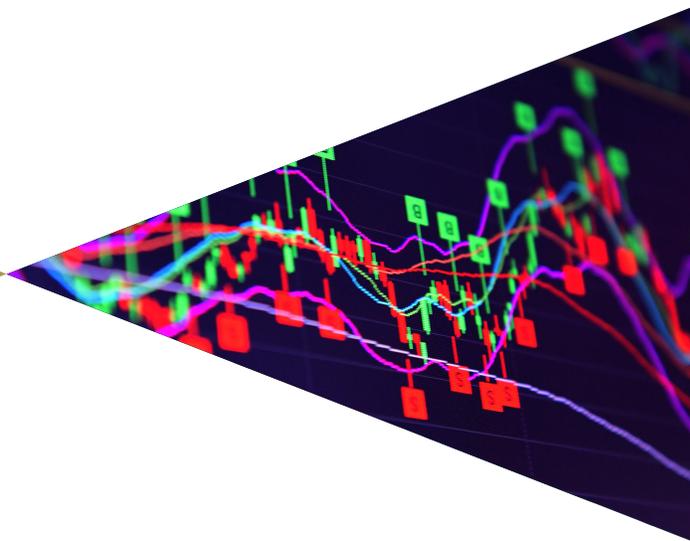
“Cloud technology gives the option of incorporating and aggregating different types of data sets—including unstructured data—and this is particularly valuable to alternative asset managers.”

*—Frances Barney,
CFA, Head of Global
Risk Solutions, BNY Mellon*

The Unseen Value *in Data*

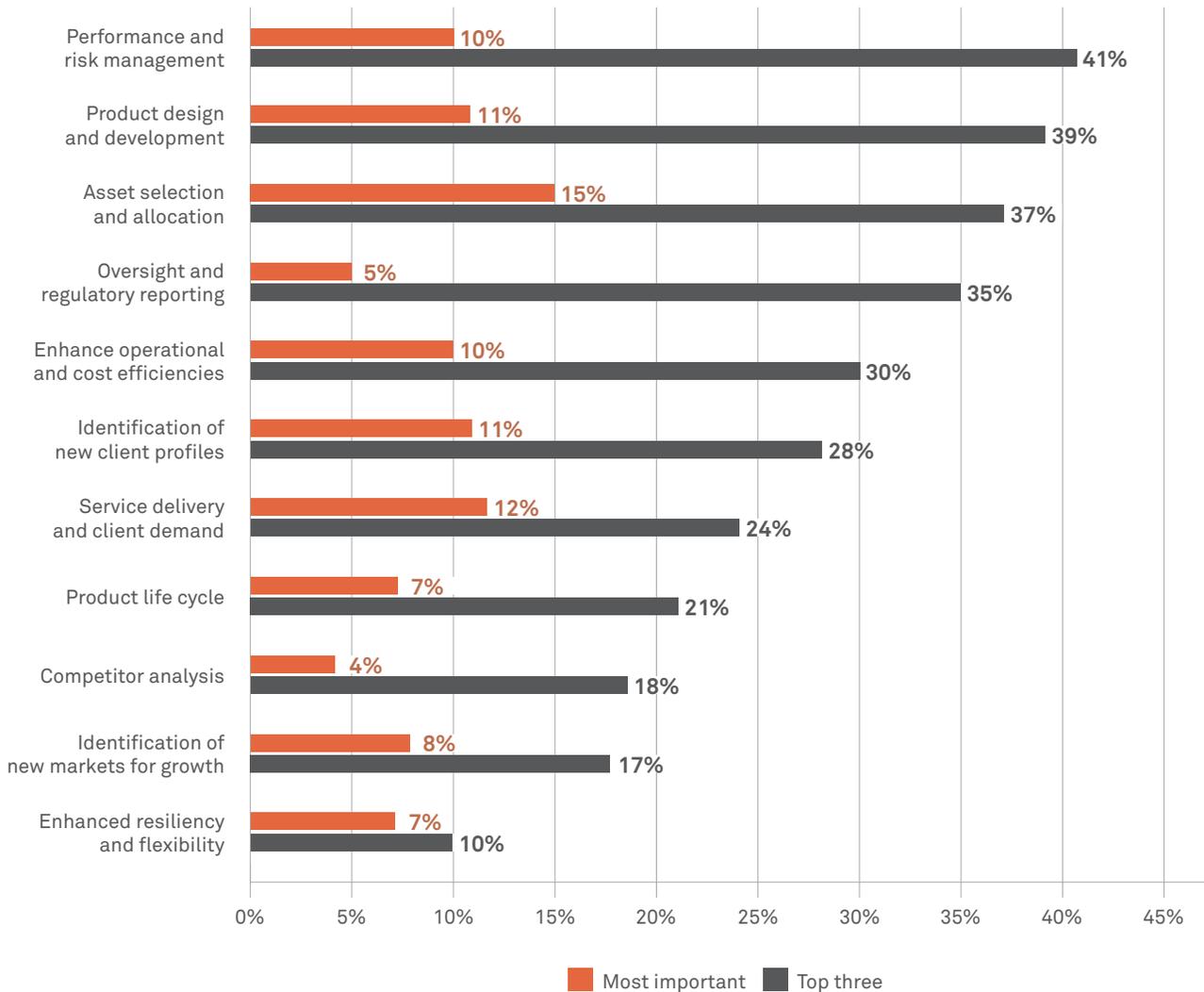
As we found in our broader asset management study², asset managers are trying to harness digital technologies to support a data-centric world while growing and serving their investors with agility. Data is also critical to their performance and risk management and asset selection and allocation functions.

The same is true for alternative asset managers, especially as alternatives continue on their path towards the mainstream. Among alternative asset managers, the top three use cases for data and analytics are performance and risk management, product design and development and asset selection and allocation. These use cases are all core competencies integral to generating returns for investors.



² See Chapter 2: *Getting Ready for Growth* for further context on these and other strategic priorities.

What are your top use cases for deploying data and analytics?



“Data analytics offer asset managers enormous opportunities to streamline their business end-to-end, drive investment performance and assess risk. They will make workflows faster and offer better ways of measuring success from the front right through to the back office.”

**—Kenny King, Managing Director, Asset Servicing,
Global Head of Alternatives, BNY Mellon**

It is increasingly important to ensure that data is accessible across an entire enterprise as alternative asset managers work to derive the greatest value from the data they hold. Wider access, or data democratization, represents a sea change in how organizations distribute data, both within their enterprise and in communications with clients. It requires not only technology solutions but also cultural evolution within organizations.

Still, while the benefits of democratizing data are clear, alternative asset managers have no illusions. Creating the right architecture will be challenging.

Reflecting themes that are common across asset management³, the most-cited obstacle to effective data management for alternative asset managers is the difficulty of aggregating data across fragmented systems, with 48% of survey respondents placing it in their top three challenges (see chart on page 11). In today's environment, there are a plethora of systems used across different fund management functions. This issue is often even more acute in alternatives, where many platforms are necessarily bespoke or specialist.

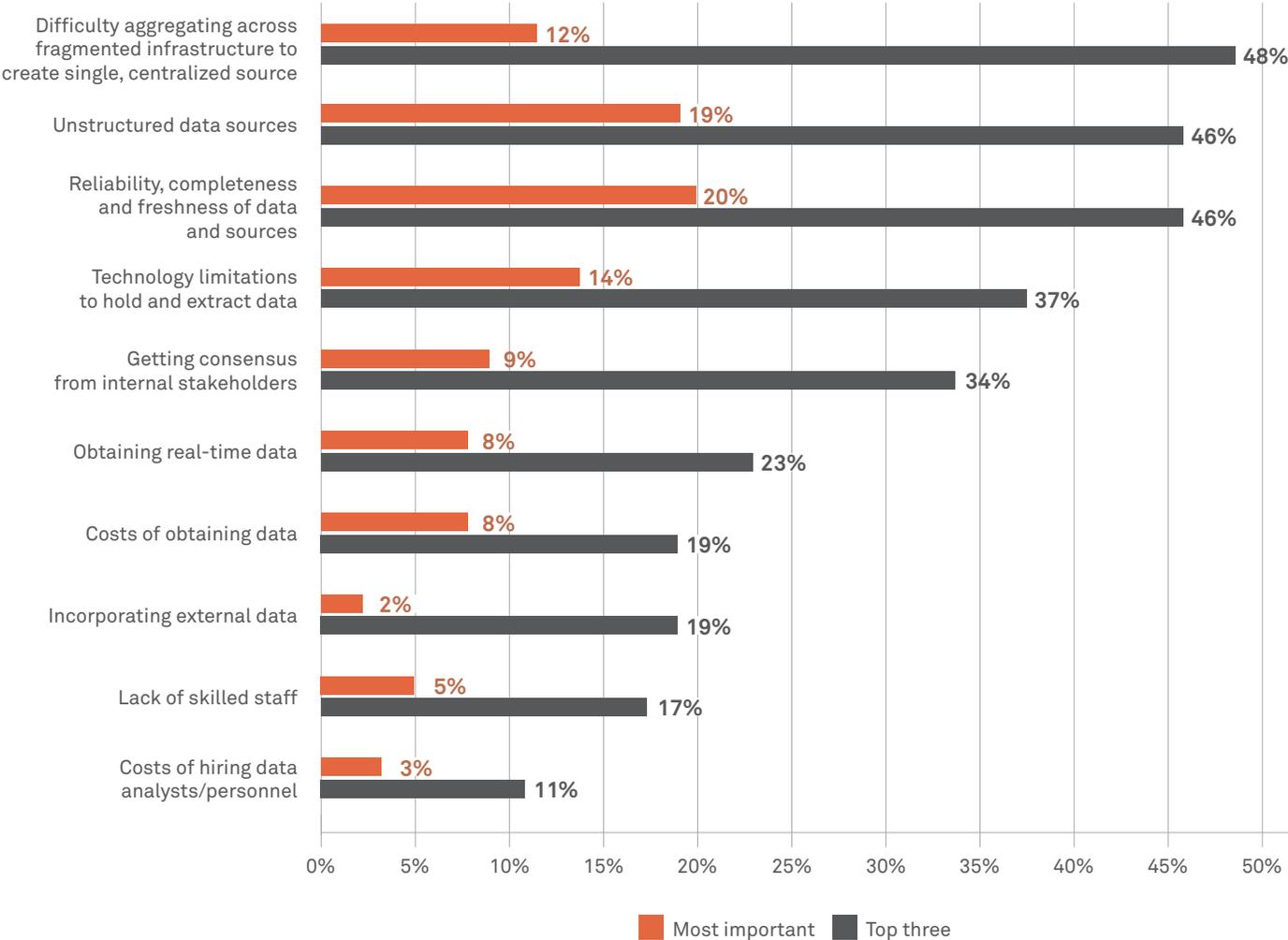
Unstructured data sources and the reliability, completeness and freshness of data are also obstacles to effective data management, with 46% of managers rating both as top three issues (see chart on page 11). Again, alternative asset managers are likely to struggle more than most with this, given that private equity, private debt and real estate rely heavily on unstructured data.

³ <https://www.bnymellon.com/us/en/insights/asset-management-transformation-is-already-here/survey-research-series-overview.html>

“Having a single source of truth is the most important factor in generating data on which we can base decisions. Unless this is present, the data processing and analytical results are not applicable. Data management platforms are also not consistent—they don’t offer the ways of analyzing data we require.”

—Partner (Private Equity Fund), United States

Which of the following are the main barriers to managing data (i.e. collect, store, clean) effectively?

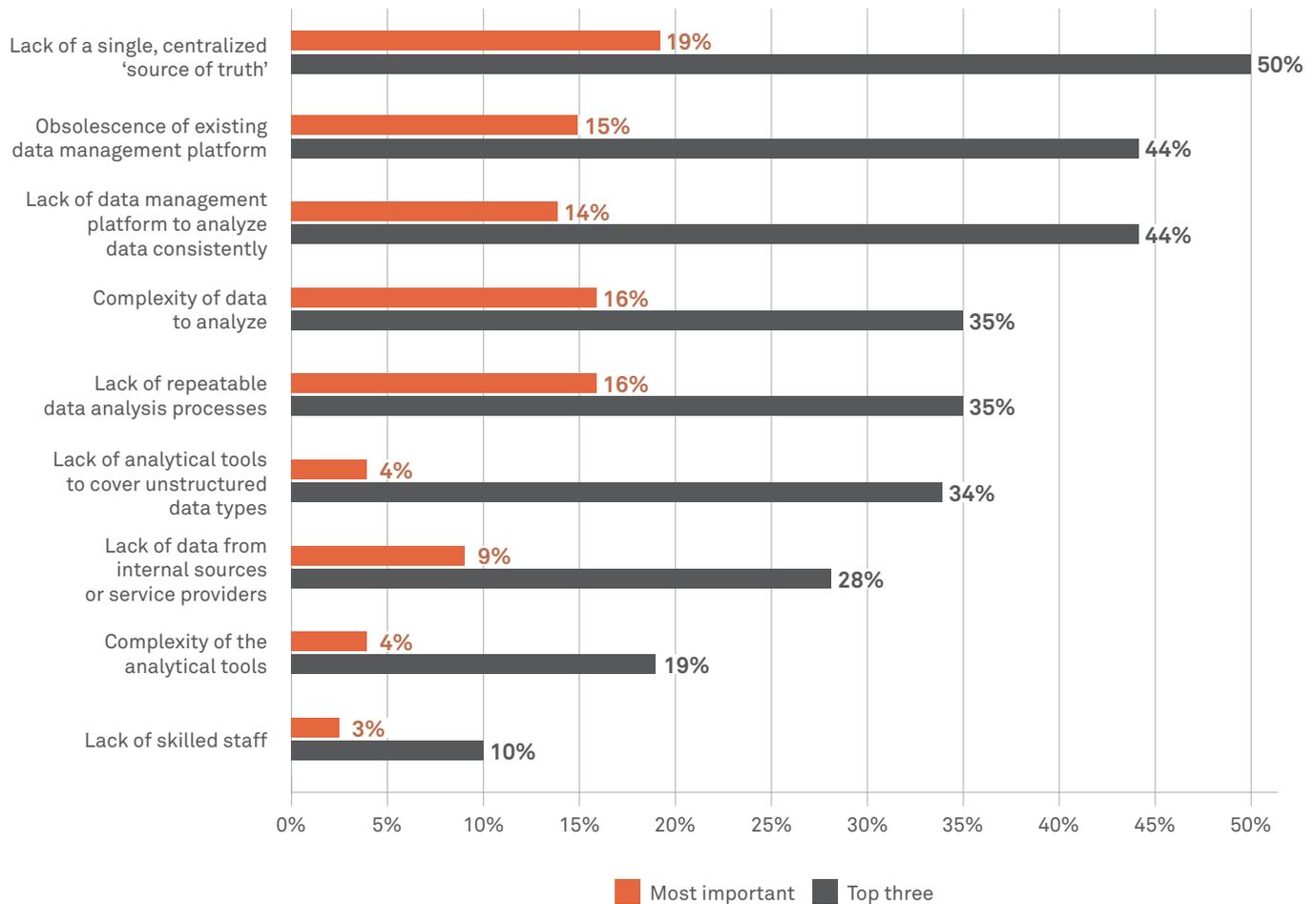


When it comes to extracting meaningful insights from data, alternative asset managers face similar challenges, constraining their ability to make data-driven decisions. Again, lack of a single, centralized source of truth is the biggest such challenge, with half placing it in their top three. They also face issues of obsolescence in their existing data management platform (see chart on page 13).

Given the more bespoke systems that alternatives require, alternative asset managers also flag as challenges the lack of a data management platform to analyze data consistently and the dearth of analytical tools that cover unstructured data types.



Which of the following are the main barriers to extracting meaningful insight from your data?

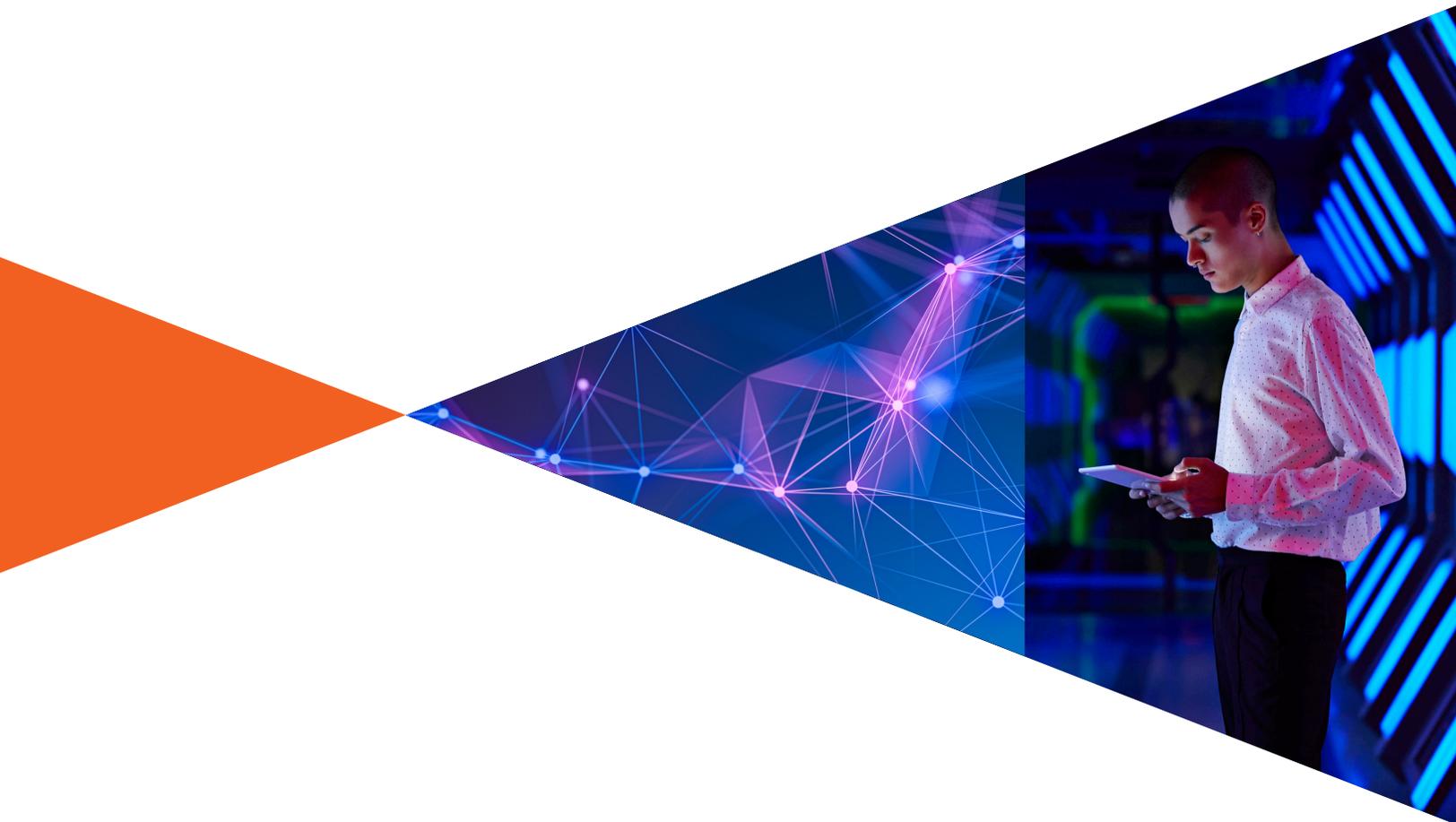


“There are multiple barriers that affect extraction of useful information. Integrating new platforms and solutions into our existing data platform takes time and expertise to complete.”

—Managing Director, Private Equity Fund, South Korea

Unwinding these challenges will require building a single repository of information that simplifies retrieval and gives the right people access to the right information. Common technology solutions include data warehousing or so-called data lakes, which store and manage raw data from multiple sources and in multiple formats, including unstructured data.

However, conversion risks can be high, and the process far from pain-free. A clear view of what the organization is trying to accomplish and access to the right resources and partners are essential to smooth the path.



Outsourcing *Unlocks Opportunity*

Alternative sub-asset classes are at differing points in their outsourcing evolution.

New governance requirements after the Madoff scandal in 2008 drove hedge funds toward more outsourced models earlier than other alternative asset managers. Private equity and real estate, meanwhile, have traditionally kept more functions in-house. However, as they branch out into more complex products, look to scale up and, in some instances, reduce costs, managers of those two sub-asset classes increasingly see outsourcing as a way of removing some of the pain points associated with setup and ongoing operations.

Among those looking to expand their outsourcing relationships, most are looking at risk, compliance and performance monitoring. This development may reflect the concerns around keeping pace with changing regulation that we covered in the previous chapter of this research series².

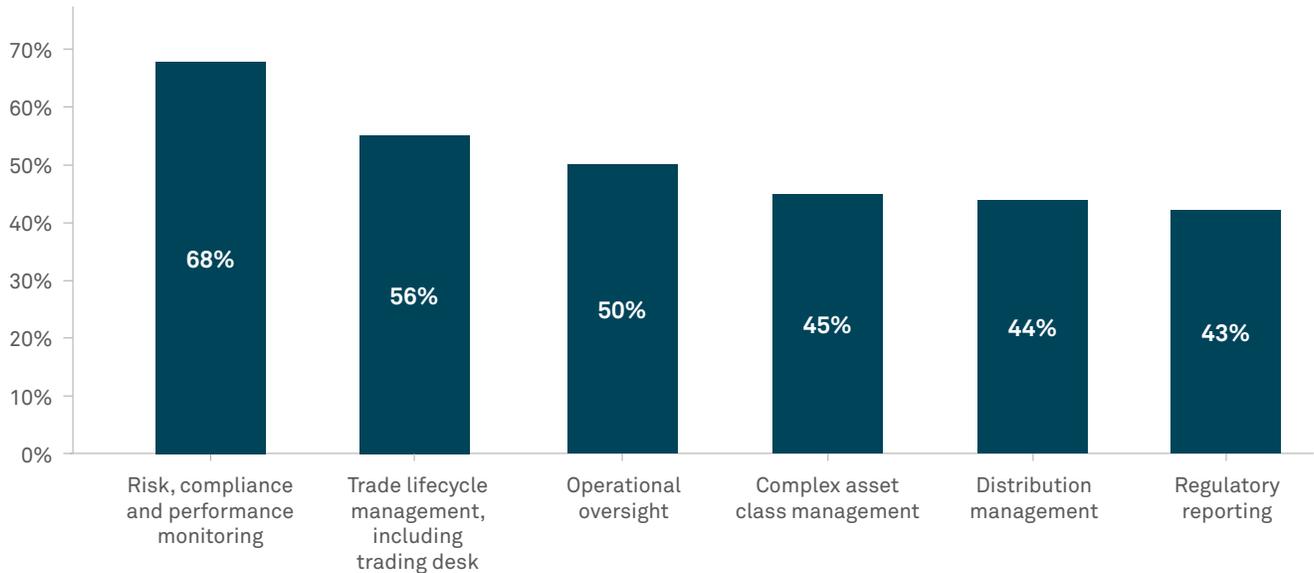
Trade life cycle management, including trading desk, is the second most popular option for outsourcing. Most of these needs are naturally likely to be relevant for hedge funds, which are increasingly looking at shifting traditionally front-office functions to the back and middle office as they focus on enhancing investment performance.

“With the increased opportunities to outsource and lower operations costs, we have to think about what functions we would be ready to take out of house.”

—Managing Director (Real Estate Fund), United States

² See Chapter 2: *Getting Ready for Growth* for further context on these and other strategic priorities.

If you are planning to explore or expand your relationships, in which areas of business are you most likely to outsource?



The move toward digitalization and data management will likely trigger an additional wave of outsourcing across alternatives. As we noted above, performance and risk management are the top use cases for deploying data and analytics technology.

“The industry is changing fast, and there are more opportunities to outsource processes that we lack the time or talent to manage internally.”

—Managing Director, Private Equity Fund, Australia

“Outsourcing in private markets is often less about removing cost and more about futureproofing to deal with increasing fund complexity by having access to the right technology, providing asset managers with the ability to launch new product and target new geographies.”

*—Dermot Finnegan, Global Head of Private Markets
Fund Administration, BNY Mellon*



Conclusion

Data, technology and outsourcing are the future of asset management for alternatives as well as the broader industry, and mastering digital technologies is essential to managers' priorities.

In the quest for growth and increased AUM, alternative managers will need to adapt with a sharpened focus on data management, analytics and digitalization. Only the fittest will survive by establishing the right architecture for the future.

Three key takeaways emerged from our research:

- The pandemic has increased the pressure to digitalize.
- Among alternative asset managers, the top three use cases for data and analytics are performance and risk management, product design and development, and asset selection and allocation.
- The biggest obstacle to effective data management is the difficulty of aggregating data across fragmented systems.

Coming Attractions

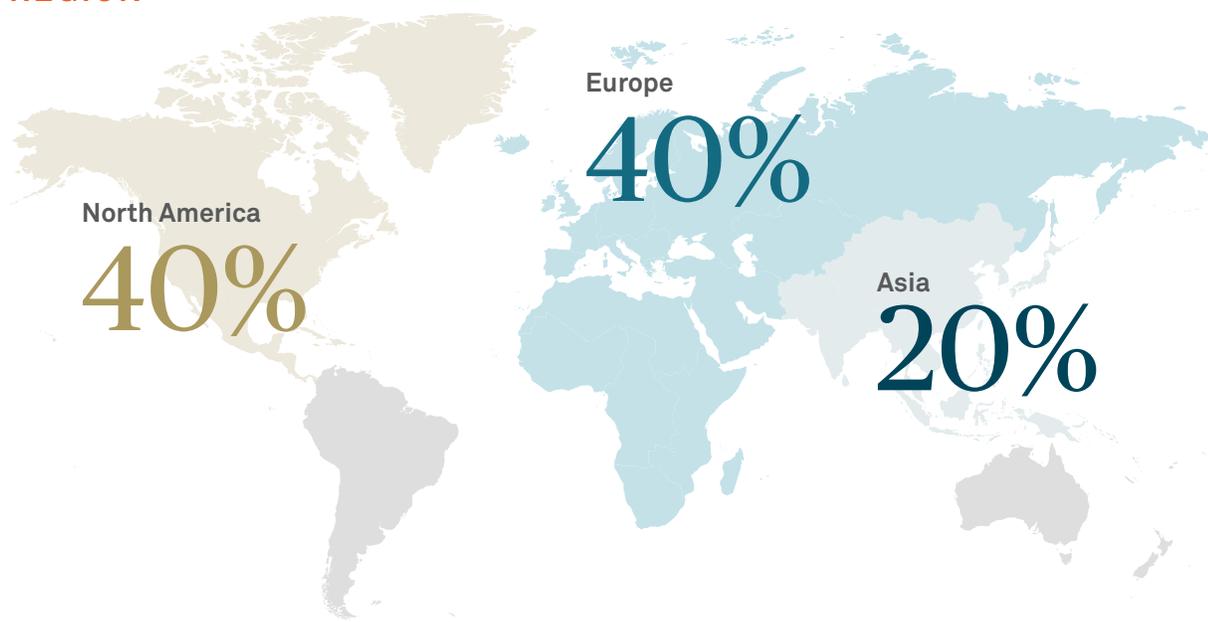
In the forthcoming final chapter of *From Alternative to Mainstream*, “Looking Toward the Future,” we will examine the new products, channels and sources of capital transforming the industry, and highlight areas where managers expect the next big market opportunities.



Appendix: *Methodology*

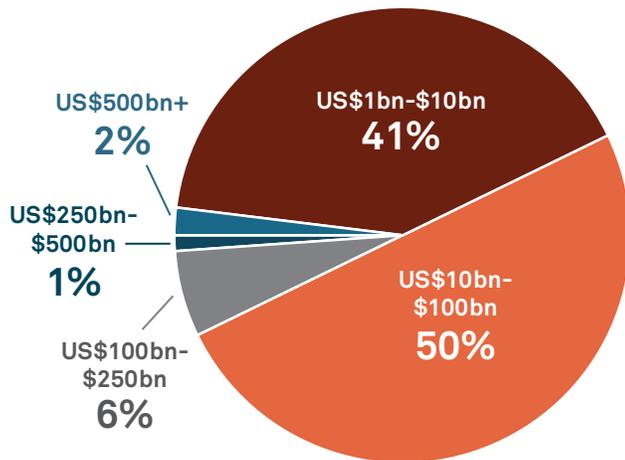
In Q3 and early Q4 of 2020, Mergermarket surveyed 100 alternative asset managers and 100 institutional investors from the US, EMEA and Asia-Pacific regions to gain insights into key trends in the alternative assets space. C-level and senior executives (job titles: Chief Executive Officer, Chief Investment Officer, Managing Partner, Partner, Managing Director and Investment Director) from alternative asset managers with AUM from US\$1 billion to US\$500 billion participated in the survey. C-level and senior executives (job titles: Chief Financial Officer, Chief Investment Officer, Managing Partner, Partner, Managing Director, Finance Director, Investment Director and Head of Investment) from institutional investors with AUM of US\$1 billion to US\$500 billion participated in the survey. All responses are anonymous. Data is presented in aggregate.

REGION

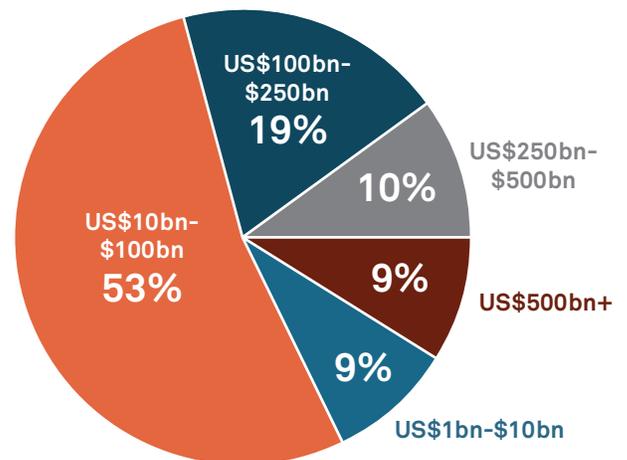


ASSETS UNDER MANAGEMENT

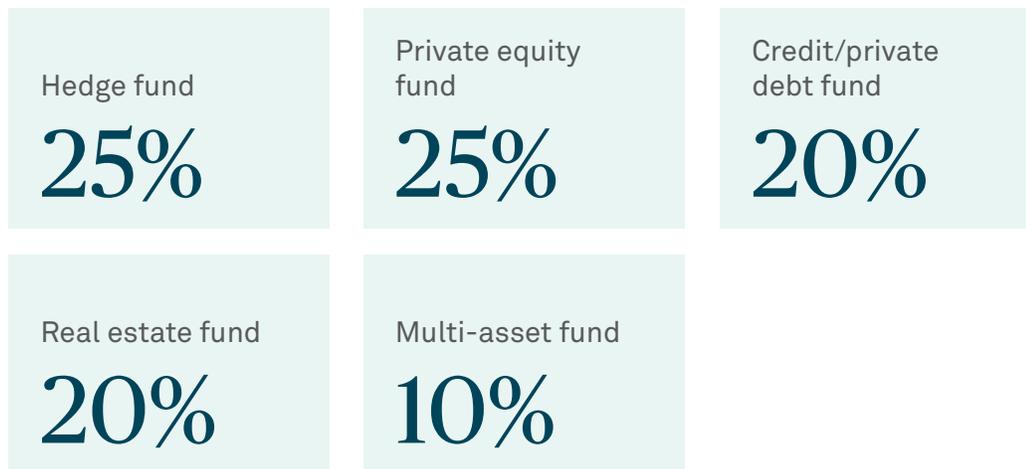
Alternative Asset Managers



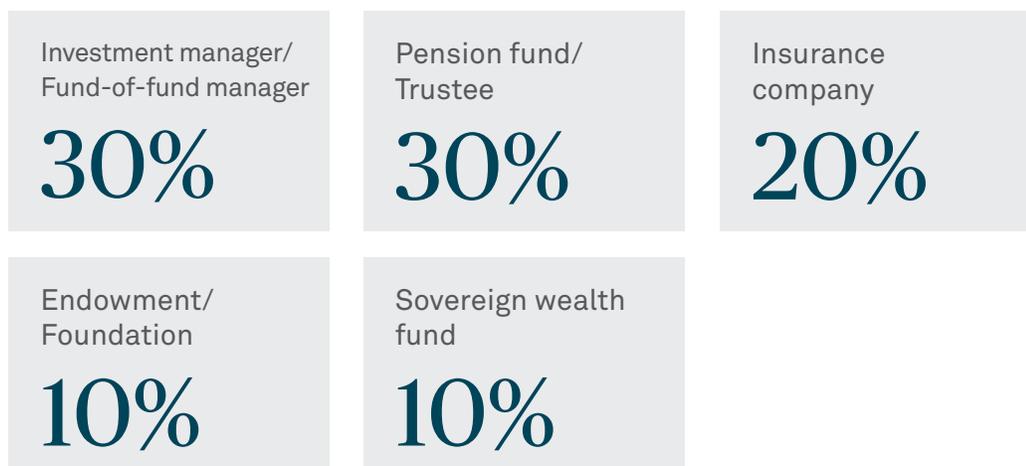
Institutional Investors



ASSET MANAGER BREAKDOWN



INSTITUTIONAL INVESTOR BREAKDOWN



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