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Change2024 Report

The measure of a moving industry

Unity through simplicity™

400 leaders on the future of asset management.

Contents

Introduction

Carne Group is an expert and pioneer in fund regulation and governance solutions. With a track record of two decades of thought leadership, we have grown to become Europe's leading third-party management company and also provide regulatory solutions and technology to support fund managers in running their in-house management companies. We work for 650+ global clients with $2 trillion assets in 160+ jurisdictions and have a network of 11 global offices.

As part of that commitment, we have commissioned two major pieces of international research through the independent research company Pureprofile with 201 institutional investors responsible for a total of $1.7 trillion and 201 fund managers responsible for a total of $1.6 trillion.

201
global institutional investors

$1.7
trillion assets

201
global fund managers

$1.6
trillion assets

The research provides an in-depth study into what fund managers and institutional investors are thinking about for the year ahead and what challenges they're facing with a focus on regulation, governance and outsourcing.

Executive Summary

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The studies show high levels of optimism about fund flows over the year ahead after a tough 2023 as well as an expectation of a surge in fund launches.

2

Fund managers will increasingly look to branch out into new jurisdictions, such as Luxembourg and Ireland, during 2024 in order to raise capital.

3

Increased fundraising is anticipated across different asset classes, with hedge funds, venture capital and private equity expected to see the most growth.

4

Institutional investors expect a rise in volatility feeding through to greater interest in alternative assets.

5

These growing challenges mean that 91% of fund managers questioned expect to increase their use of third-party service providers over the next 12 months, with 41% anticipating a dramatic increase.

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There are increasing concerns about the impact of regulation in the fund management industry and the effects it is having.

7

As an example, the survey findings highlight concerns from the industry around a lack of access to qualified staff due to the depth of talent pools and budget constraints.

8

Corporate governance is another major issue as it gains more regulatory attention and scrutiny.

9

Given the many challenges the fund management sector is facing, the research points to increased levels of consolidation in the sector.

10

To address all of these issues, fund managers will need to explore new operating models, and innovate more in order to differentiate their propositions.

Fund managers are optimistic about the year ahead*

Fund managers are forecasting strong growth in 2024 after a tough 2023 with increased flows of new capital into their investment vehicles and more new funds launching. Our study found 83% expect the flow of new capital into their funds and segregated accounts to increase this year. Around one in 12 (8%) expect significant growth.

Nearly three out of four (73%) surveyed expect the number of new funds launching in their sector this year will be higher than in 2023. Around one in seven (14%) predict a dramatic increase in the number of launches. The study found 62% of fund managers surveyed expect the number of segregated accounts launched in 2024 to be higher than in 2023 with 14% expecting it to be significantly higher.

Looking in detail at the sectors and asset classes they focus on, 57% of the fund managers interviewed expect to see their markets enjoy increased inflows of capital of between 10% and 25% this year when compared to 2023, and 26% expect it to be even higher.

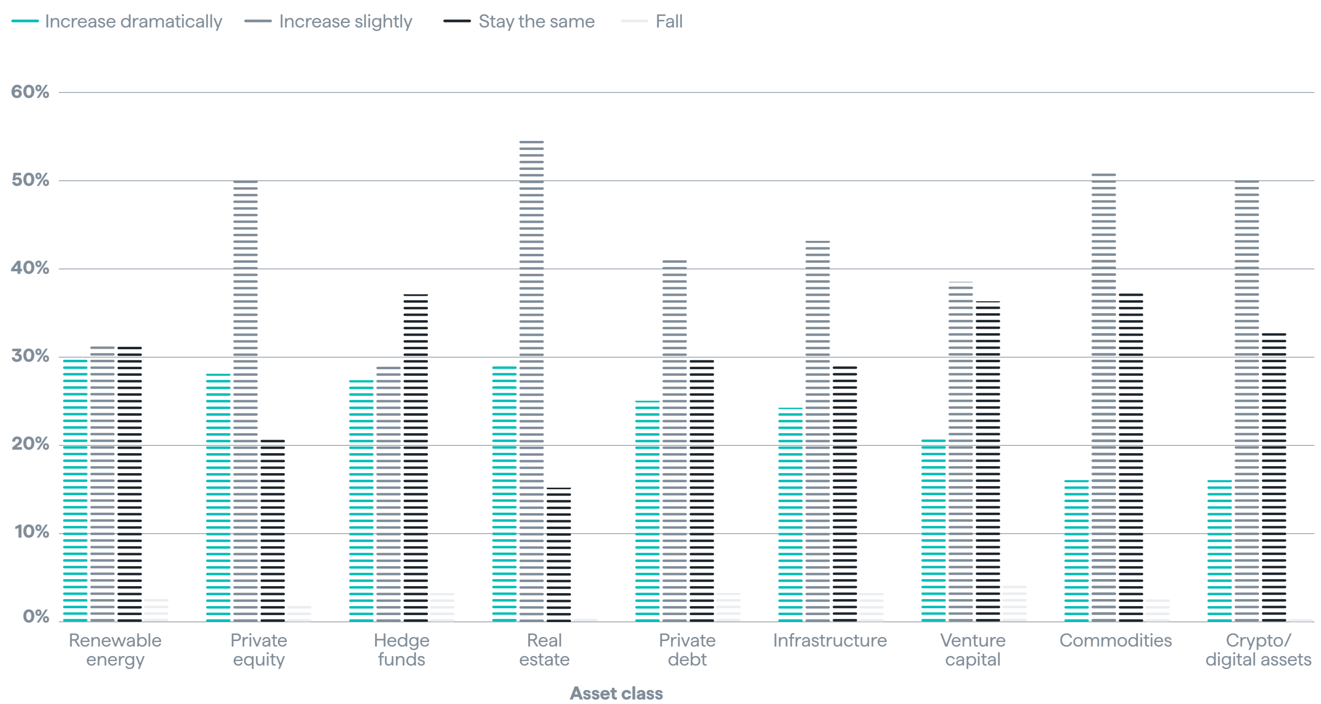
In the alternative asset space, private equity is the asset class expected to see the biggest increase in fundraising this year followed by renewable energy and hedge funds.

Overall, 28% of the fund managers interviewed expect the level of fundraising by private equity firms in 2024 to increase dramatically this year compared with last year while 50% anticipate a slight rise. The corresponding figures for renewable energy are 30% and 31%, and for hedge funds they are 27% and 29% respectively.

Some 66% of fund managers surveyed also expect capital raising by private debt funds to increase, which follows strong inflows into this asset class over the past few years as some banks retreat from certain sectors of the market or as companies see funds as an alternative to banking finance.

* NB: the research was conducted in December 2023 and early January 2024 when expectations of cuts in interest rates were higher as a result of inflation seemingly coming under control.

Expected level of capital fundraising in 2024 compared to 2023



Source: Carne Group commissioned independent research with 201 senior executives working for fund managers across Europe with a total of $1.577 trillion assets under management.

Alternatives continue to gain momentum

Institutional investors are increasingly attracted to alternative asset classes whose short-term valuations are generally less affected by volatility in stock markets this year, our study found. Around two out of three institutional investors (67%) believe the level of volatility in stock markets will rise this year, with 6% predicting a dramatic increase. The anticipated rise in stock market volatility is driving increased interest from institutional investors in alternative asset classes, which are generally less affected by volatility.

The study with pension funds, family offices, insurance asset managers, wealth managers and consultants to insurance asset managers and institutional investors found 88% believe their organisation's appetite for risk will be higher this year. Around 11% said it will be much higher.

Considering pension funds alone, 92% expect risk appetite to be higher, with 6% expecting it to be much higher; while among family offices the corresponding figures are 83% and 20% respectively.

Around 86% of insurance asset managers expect an increased risk appetite, with 6% saying it will be much higher; while for wealth managers the figures are 85% and 14% respectively, and for consultants they are 96% and 13%.

Due to expected continued market volatility over the next five years, the asset classes most likely to see strong growth in inflows are hedge funds, venture capital and private equity, the study found. Around 65% of institutional investors interviewed chose hedge funds among the top three private asset classes for growth in inflows from institutional investors, while 57% selected venture capital and 56% named private equity among their top three for growth. Despite its tremendous growth over recent years, private debt continues to have strong support from institutional investors with 30% expecting to see further allocation to this asset class.

Number of institutional investors forecasting the asset class that will be among the top three for attracting institutional inflows over the next five years

Source: Carne Group commissioned independent research with 201 investors working for pension funds, family offices, wealth managers, insurance asset managers and consultants to institutional investors and asset managers across Europe with a total of $1.723 trillion assets under management.

The charts show more than half (55%) selected renewable energy (excluding infrastructure) among their top three.

The study found that the credentials of the main person running the fund was the key driver for deciding to invest for institutional investors, followed by the depth of the overall fund management team.

Performance of the fund was ranked third when selecting funds to invest in, followed by the size and liquidity of the fund.

Longevity of the fund was rated fifth, while the strength of the brand of the firm running the fund was rated the sixth most important driver for institutions, which means large traditional firms should not underestimate the challenge of growing their private asset businesses or breaking into this sector. A fund's ESG credentials was rated seventh while the competitiveness of fees was rated eighth for importance, possibly indicating that investors are more focused on performance rather than just low fees despite the huge regulatory focus on the issue.

Regulatory complexity increasingly a factor in the consolidation of the industry

Over the next two years, fund managers believe it will become harder for them to navigate regulatory complexities, which will be a factor in increased consolidation across the industry as companies seek scale.

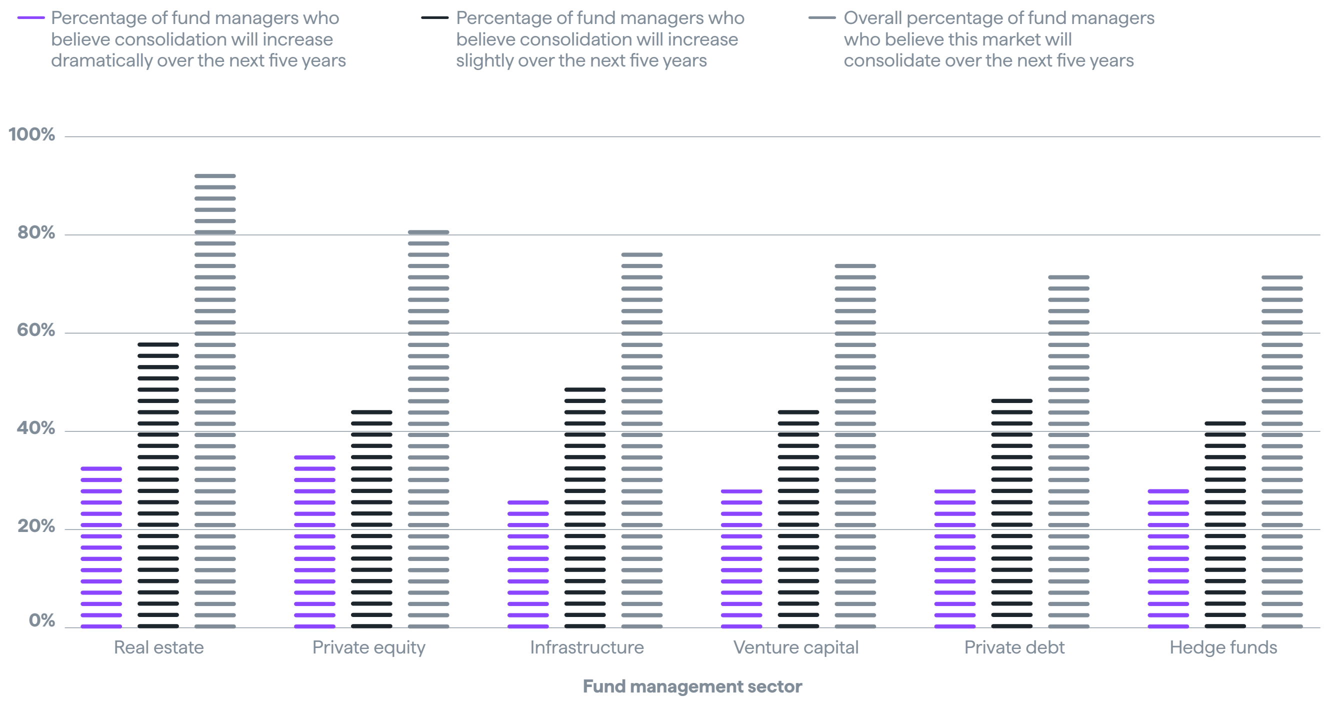
Almost all (98%) questioned agree that regulatory complexity will increase over the next two years with more than one in five (22%) strongly agreeing with that view.

It is clear that larger managers are getting bigger and that as consolidation in the industry accelerates it is going to be difficult for small- and medium-sized managers to compete despite, in many cases, their specialised nature. Ninety-eight per cent of fund managers surveyed agreed for instance that the cost of regulation made competition harder.

However, in Carne's experience both large and small managers can utilise the capabilities of specialist regulatory firms to navigate this complex landscape while remaining nimble and lean.

Our study looked at how that affects different sectors and found that 91% believe consolidation in the real estate fund management sector will increase over the next five years. The corresponding figures for private equity and infrastructure are 81% and 75% respectively. We can already see the impact of that with deals like BlackRock's acquisition of GIP.

Likelihood of future consolation across sectors



Source: Carne Group commissioned independent research with 201 senior executives working for fund managers across Europe with a total of $1.577 trillion assets under management.

Innovation in the fund management industry is needed

The research found that fund managers must focus on ways to become more efficient, but also more innovative. When asked to select the three factors they believe will have the biggest impact on innovation in their market, 69% stated advances in technology, 62% cited growth in the use of alternative data from non-traditional sources, followed by 50% who selected greater data on how different alternative asset classes perform.

Nearly half of survey respondents (48%) specified growing pressure from investors to find new solutions as one of the top three factors driving innovation in fund management, followed by artificial intelligence (cited by 46%), regulation (chosen by 20%) and ESG (selected by 4%).

69%
stated advances in technology

62%
cited growth in the use of alternative data

50%
selected greater data on alternative asset classes performance

Fund managers and institutions are increasingly turning to third-party service providers

More than nine out of 10 (91%) fund managers questioned expect to increase their use of third-party service providers over the next 12 months, with 41% anticipating a dramatic increase.

The main reason why fund managers expect to do this is because of the difficulty around recruiting appropriate staff, followed by the growing burden of regulation, and operating in more jurisdictions.

It is a similar story for institutional investors as concerns grow about increased regulatory complexity, our study found. Almost all (94%) questioned agree that navigating regulatory complexity will become harder over the next two years, with 22% strongly agreeing with that view.

Institutions are meeting the challenge by increasing their use of third-party providers such as specialist regulatory expertise and technology support.

Nearly two out of three (64%) will increase outsourcing in the year ahead, with 20% planning to dramatically increase their use of third-party service providers. Around one in seven (15%) will bring in additional third-party providers, while 33% will switch to an alternative provider.

Where is outsourcing focused?

Nearly two out of five (36%) fund managers surveyed are seeing a dramatic increase in the industry's focus on ensuring greater independence for its governance structure and for managing conflicts, while a further 62% are seeing a slight increase.

36%
see a dramatic increase

62%
see a slight increase

79%
expect an increase in outsourcing

Overall, nearly four out of five (79%) of those surveyed expect an increase in the level of outsourcing the management company requirements to third-party specialist providers between now and 2026. The three main reasons for this identified by the research are the ability to launch different product sets, speed to market, and ensuring that they can offer stronger fiduciary management of the fund.

The key reason institutional investors are making more use of outsourcing is the difficulty they face in recruiting appropriate in-house staff, while the demand for higher standards, better reporting and more transparency from clients is the second biggest reason for increased use of third-party services.

The study shows that the growing burden of regulation is the third main reason for increased outsourcing by institutional investors. The fact they are now operating in more jurisdictions is also a major reason for outsourcing.

Corporate governance still a major issue

Concern among institutional investors about corporate governance at funds is increasing and there is a growing trend of asset owners refusing to invest in them because of those concerns.

Our study found that 89% say the rate at which asset owners are rejecting funds over corporate governance concerns has increased across the industry. Nearly a fifth (17%) say it has increased dramatically. Corporate governance concerns focus on issues such as the independence of directors at funds, the regularity of board meetings and how many funds directors are on the board of funds.

Around 73% of institutional investors say fund governance has become more of an issue for their organisation in the past three years, and 86% say their focus on the issue will increase over the next three years.

Almost all (96%) questioned say there is a general move by institutional investors to put more pressure on funds to ensure greater independence and 75% expect that focus to increase over the next three years.

Fund managers are looking overseas and to new investors

96%
fund managers will look overseas

41%
plan to raise capital in the UK

34%
plan to raise capital in the EU

Some 96% of alternative asset, equity and fixed income fund managers surveyed said they will look overseas in 2024, with 41% saying they planned to raise capital in the UK for the first time, as did 34% who said the same about raising capital for the first time in the EU.

In terms of fundraising from different investor types, 91% of fund managers surveyed said in their markets, they expect new fundraising from pension funds to increase over the next 12 months. Around 71% said in their markets they expected new fundraising from retail investors to increase over the next 12 months while 69% said the same about insurers, 67% about fund of funds and 62% about private banks.

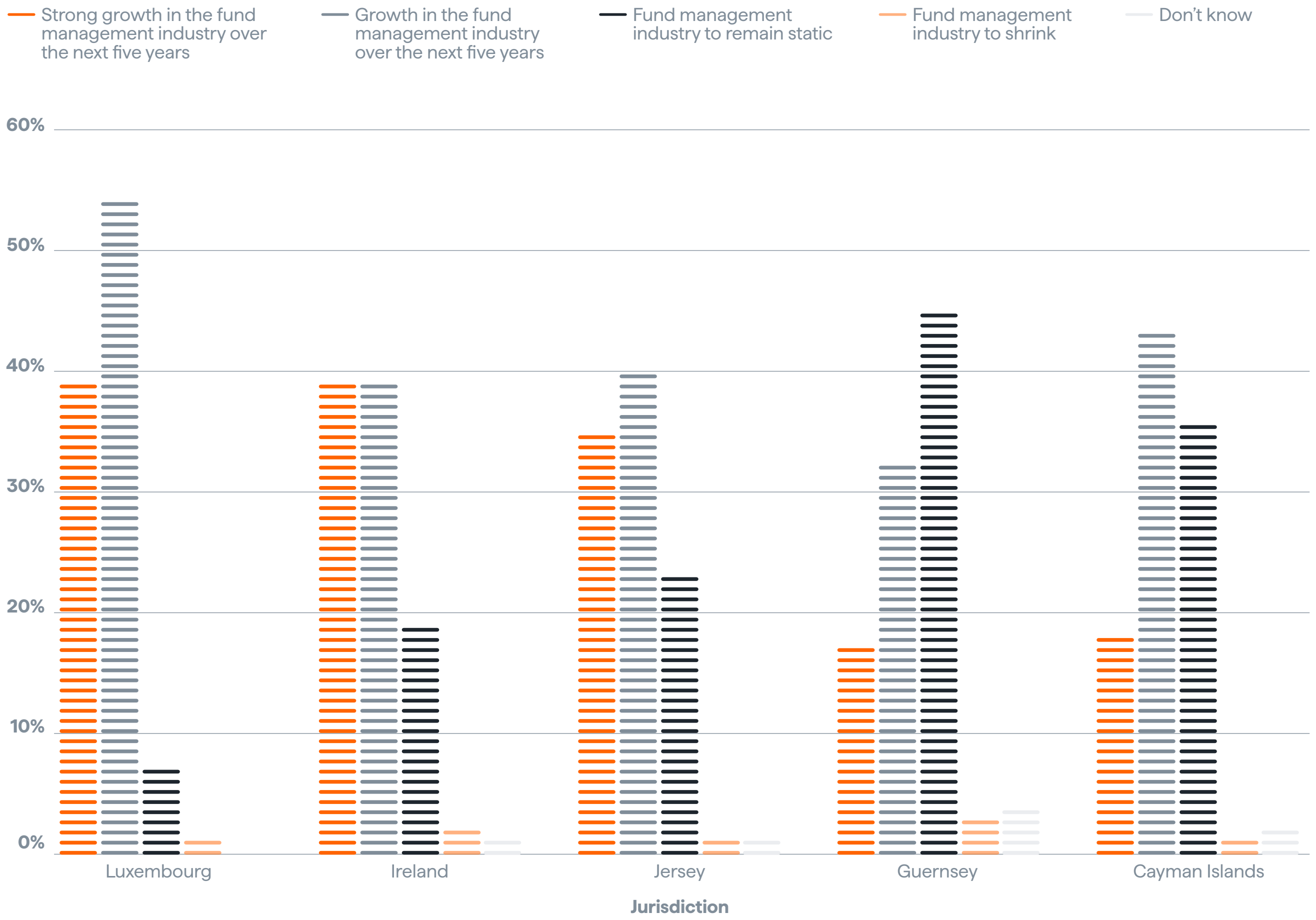
Challenges and methods

But there are challenges facing fund managers raising capital, with the regulatory environment cited as the biggest one by survey respondents, followed by corporate governance, issues around reporting, fees and expenses, and then operational costs.

Asked to rate the three most important features when launching a new fund, 73% cited the ability to meet regulatory requirements, followed by 58% who said the geographical reach for marketing and promoting a fund, and 54% who cited the ability to keep costs down. Some 53% said speed to market.

Over the next five years, 39% of fund managers surveyed expect the fund management industry in Luxembourg and Ireland to enjoy strong growth.

Expected growth in fund management by jurisdiction



Source: Carne Group commissioned research with 201 senior executives working for fund managers across Europe with a total of $1.577 trillion assets under management.

Conclusion

Fund managers globally are facing even greater regulatory challenges and our study shows they expect that trend to continue, making it increasingly challenging for them to ensure they are fully compliant.

The industry expects the level of consolidation in the sector to accelerate as a result of increased costs and increased demands placed on fund managers from regulators and investors, with only bigger firms able to afford the regulatory skills in order to stay in business. Those that survive will need to find ways in which to navigate the increasing costs driven by the regulatory environment and explore new solutions so they can innovate and differentiate themselves.

The industry will increasingly be looking to rely on specialist third parties to provide a range of services, from regulatory compliance to the marketing of its funds and fiduciary management. Our findings highlight that many organisations are struggling to recruit the staff they need in-house, especially in a cost-cutting environment where it makes more sense to outsource and 'buy in' the expertise and experience needed and drive greater efficiencies.

Corporate governance is rapidly moving up the agenda for asset owners when deciding whether or not to invest in funds and the focus will increase in the years to come. The knowledge and experience of directors is the key area for improvement identified by our study but there are wider concerns about independence of directors as well as how boards operate.

All of this is happening at a time when alternative asset classes are benefiting greatly from recent stock market volatility, which has resulted in a desire from investors to diversify their portfolios more. Sustained stock market volatility over the past few years has driven increased interest in alternative asset classes, which generally show lower levels of correlation to interest rate movements and have less short-term volatility in valuations.

It is clear from our study that institutional investors expect levels of volatility to continue to rise in the year ahead and they are developing strategies more focused on alternative assets to help address the issue. The growing focus on alternatives is not a short-term move either, with institutional investors predicting strong but selective growth in inflows to alternatives over the next five years.

The opportunities for the fund management industry are very exciting but in order to capitalise on these, fund managers need to place a strong focus on innovation and developing new approaches that differentiate their offering, drive efficiency and ultimately growth.

Key to this will be knowing what services to keep in-house and which ones to outsource, but in the long run as opportunities and challenges increase in tandem, they will need to make greater use of specialist third parties.

About the research

Carne Group commissioned the market research company Pureprofile to conduct two major surveys in December 2023 and January 2024.

The first survey interviewed 201 investors working for pension funds, family offices, wealth managers, insurance asset managers and consultants to institutional investors and asset managers in the UK, Germany, Switzerland, Italy, France, the Netherlands, Norway, Finland and Denmark with a total of $1.723 trillion assets under management.

The second survey interviewed 201 senior executives working for fund managers in the UK, Germany, Switzerland, Italy, France, the Netherlands, Norway, Finland and Denmark with a total of $1.577 trillion assets under management. The fund management sectors covered include hedge funds, private equity, real estate, infrastructure, private debt, equity, fixed income and multi asset classes.

Those interviewed included COOs, CFOs, CROs, Heads of Product, Heads of Compliance, Heads of Legal and senior fund managers

About Carne Group

Founded in 2004, Carne Group has established itself as an expert and pioneer in fund regulation and governance solutions. Building on its track record as a thought leader, Carne Group is responsible for Europe's leading third-party management company and trusted partner to the fund management industry thanks to the deep expertise and industry knowledge of its people.

Carne Group works with more than 650 clients - from boutique fund managers to global institutional investors - supporting funds distributed in over 160 countries and oversees more than $2 trillion assets under management. The company has grown from five people when it was founded, to an international company with more than 700 employees worldwide.

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