carne

Supermodel

The great evolution in asset management

Insights from 200 global leaders on how the changes in fund innovation to distribution are transforming our industry.

Unity through simplicity™

Contents

Introduction:
A new super evolution is underway

The asset management industry has been transformed over the last two decades by a wave of innovation in product development and distribution.

The 2000s and 2010s represented a major evolution for the industry as index ETF and passively managed assets grew exponentially and powerful tailwinds propelled private equity investment to new heights.

That product-driven evolution has continued to accelerate over the last few years, notably within private credit – which reached the $2trn milestone in 2023[1] – and active ETFs, which reached $1trn in assets this year[2]. While global fund assets across core private markets sectors more than doubled in the four years up to 2024: from $7.4trn at the end of 2019, to $15.1trn by Q4 2023 (see table below).

At the same time, both traditional and alternative asset managers have expanded their distribution horizons in the hunt for growth. Today's managers are increasingly seeking to sell a broader, more complex product range across global regions – and targeting wealth as well as institutional client segments.

These shifts have reshaped the industry's growth landscape but have also resulted in huge complexity and cost – while operating model transformation has struggled to keep pace with product and distribution innovation.

To grow market share in these new domains, while maintaining competitiveness in core product areas, managers need leaner, more agile operating models that will allow them to focus on performance, product development, distribution and the client experience.

This demands a new super evolution within the industry: a radical change to operating models.

Third-party management companies are playing an increasingly important part in that evolution. And it is no coincidence that they have quietly amassed an estimated €1.6trn of UCITS and AIF assets within Ireland and Luxembourg alone. This represents 12.3% of the circa €13trn UCITS and AIF assets overseen in Europe's leading management company domiciles – up from 8.5% at the end of 2018[3] – an almost 50% increase.

This latest research from Carne provides in-depth insight into how asset managers are future-proofing their operating models, including the evolving role of management companies. During Q3 2024, we surveyed 200 industry executives to investigate:

1 The outlook for profit margin erosion

2 How growth strategies are changing the demands on operations

3 Where operating models are coming under greatest strain

4 How managers are future-proofing models – and the evolving role of management companies

[1] The rise and risks of private credit, International Monetary Fund, April 2024
[2] ETFGI data, October 2024
[3] Data from Monterey Insight (Ireland source date: 30/06/2023; Luxembourg source date: 31/12/2023); Carne Group analysis

Table 1: Growth in global fund AUM across private markets (2019-2023)

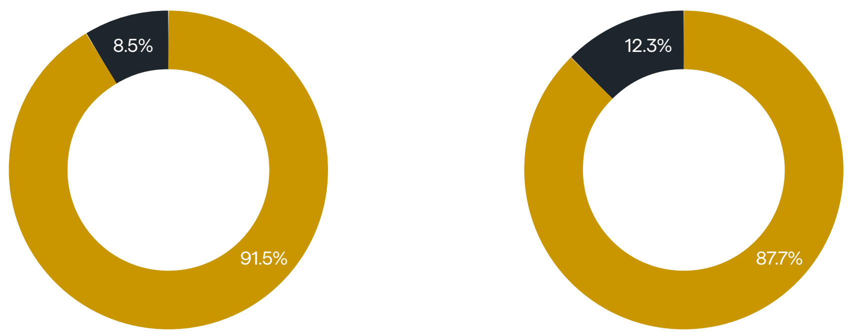
	Assets Under Management (USD bn)				
Date	**Infrastructure**	**Private Debt**	**Private Equity**	**Real Estate**	**Venture Capital**
Sep-23	$1,376.2	$1,672.5	$7,525.6	$1,755.3	$2,786.9
Dec-22	$1,180.1	$1,445.5	$6,471.9	$1,601.3	$2,472.7
Dec-21	$989.1	$1,201.6	$5,982.1	$1,363.1	$2,060.7
Dec-20	$803.3	$1,003.5	$4,936.8	$1,149.8	$1,337.5
Dec-19	$670.0	$818.0	$3,896.1	$1,041.7	$1,000.2

Source: Preqin data; Carne Group analysis

Growth in share of Ireland and Luxembourg assets overseen by third-party management companies*

2018
91.5% Proprietary management companies
8.5% Third party management companies

2023
87.7% Proprietary management companies
12.3% Third party management companies



* Source: Data from Monterey Insight; Carne Group analysis. Share of assets based on UCITS and AIF assets overseen by management companies in Ireland and Luxembourg over the five-year period from end 2018 to end 2023.
* Percentages may not total 100% due to rounding

Carne Group partnered with CoreData to survey 200 asset management executives during Q3 2024, gaining insights into their firms' growth priorities and operational transformation strategies. The survey includes both traditional and alternative asset managers, and targeted senior leaders within operations, finance, risk and distribution functions. This report also includes insights from a series of in-depth qualitative interviews with senior leaders at global asset management firms.

Headline findings

Margin pressures are intensifying for traditional and alternative managers

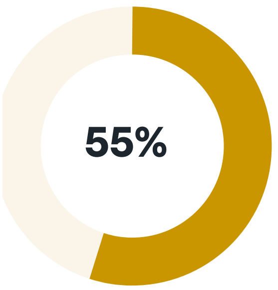
Nearly two-thirds (65%) of industry executives expect a significant rise in the margin pressure facing their firm over the next two years. Public markets and sustainable funds are predicted to be hit hardest. Regulation, rising fixed costs and elevated interest rates mean alternative managers are not immune to margin erosion either.

65%
expect a significant rise

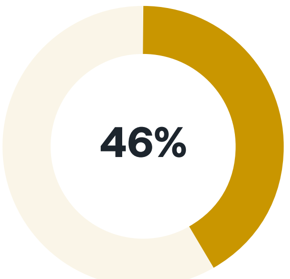
Growth strategies are stretching operations

Entering new asset classes (55%) and expanding sustainable investment products (46%) are cited as the most challenging growth strategies to support from an operations perspective. Alternative managers are also struggling with new demands relating to their push to attract more wealth clients (52%).

New asset classes



Sustainable investment products



Operations teams are treading water on regulatory reporting, compliance and distribution administration

Our analysis identifies regulatory reporting and compliance and monitoring as areas with relatively inefficient operations, difficulty scaling – and where complexity is also rising quickly. Further, less than half (45%) of firms are satisfied with the operational efficiency of their fund registration processes, and just 51% say this about due diligence of distribution partners.

45%
operational efficiency satisfaction

51%
due diligence of distribution partners

Proprietary management companies are struggling to scale technology infrastructure and meet new data demands

Scaling up IT infrastructure (52%) is the most prominent technology challenge facing proprietary management companies, and nearly half (47%) cite data centralisation as a significant challenge. As firms enter new asset classes and pursue growth across wealth and institutional client segments, integrating systems and achieving economies of scale through technology is crucial to control costs and manage risk – but far from straight forward to achieve.

There is strong appetite for managed services – regulatory reporting and distribution are top candidates to outsource

Over half (51%) of firms with proprietary management companies plan to outsource more functions through a managed services model over the next two years – regulatory reporting (41%), sustainable investment support functions (39%) and distribution (37%) are among the top candidates.

51%
Planning to outsource

41%
Regulatory reporting

39%
Sustainable investment

37%
Distribution

Full outsourcing of management company responsibilities is set to accelerate – particularly in supporting new products and asset classes

Nearly a fifth (19%) of firms with proprietary management companies plan to fully outsource these responsibilities to a third-party partner over the next two years.

Proprietary management companies currently oversee **89%** of the industry's $16.45trn in assets

Given that proprietary management companies currently oversee 89% of the industry's $16.45trn in assets across Ireland, Luxembourg and the UK,[4] this would represent substantial growth in the third-party asset pool. Meanwhile, 29% say they are likely to fully outsource management company responsibilities specifically to support new products and asset classes.

[4] Data from Monterey Insight (Ireland source date: 30/06/2023; Luxembourg source date: 31/12/2023; UK source date: 31/12/2022); Carne Group analysis

Margin pressures intensify

Traditional asset management models have come under increased strain over recent years as passive ETFs have rapidly accumulated assets, and operating expenses have continued to rise.

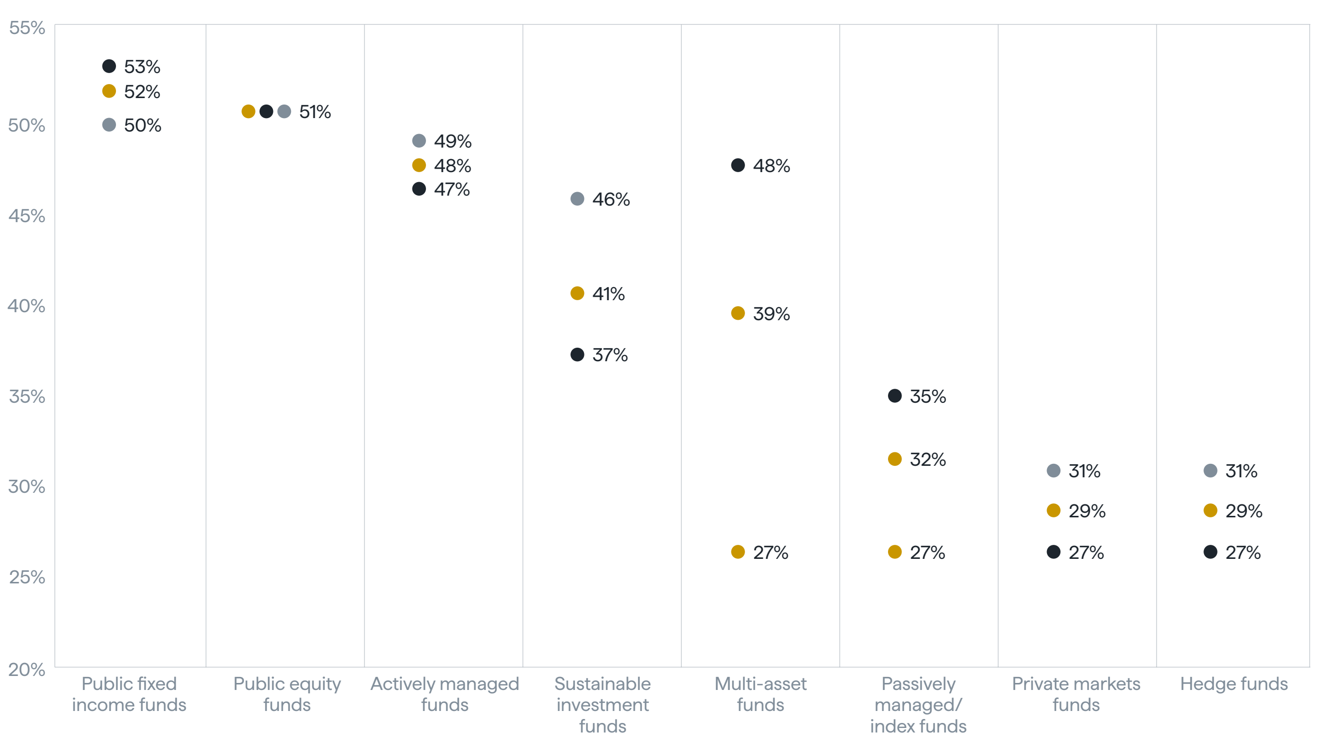
Analysis from consultancy group Bain & Company suggests that average profit per assets under management fell from 15 basis points in 2007 to 8 basis points in 2022.[5]

"Managers are seeing their long-only actively managed equity businesses dying because of the pressure of ETFs. The fees have been crushed and the performance story hasn't helped."
Partner, global alternatives manager

Industry executives in our survey expect the thinning of operating profit margins to intensify, particularly for actively managed funds in public markets.

Traditional managers also expect margins within multi-asset funds – which fared better than equity and bond funds last year[6] – to come under significantly greater pressure over the next two years.

Figure 1: Expectations for pressure on profit margins to increase over next 2 years (% high extent)



5 Avoiding Wipeout: How to Ride the Wave of Private Markets, Bain & Company, August 2024
6 Mixed asset funds deliver highest margins for fund managers, Funds Europe, February 2024

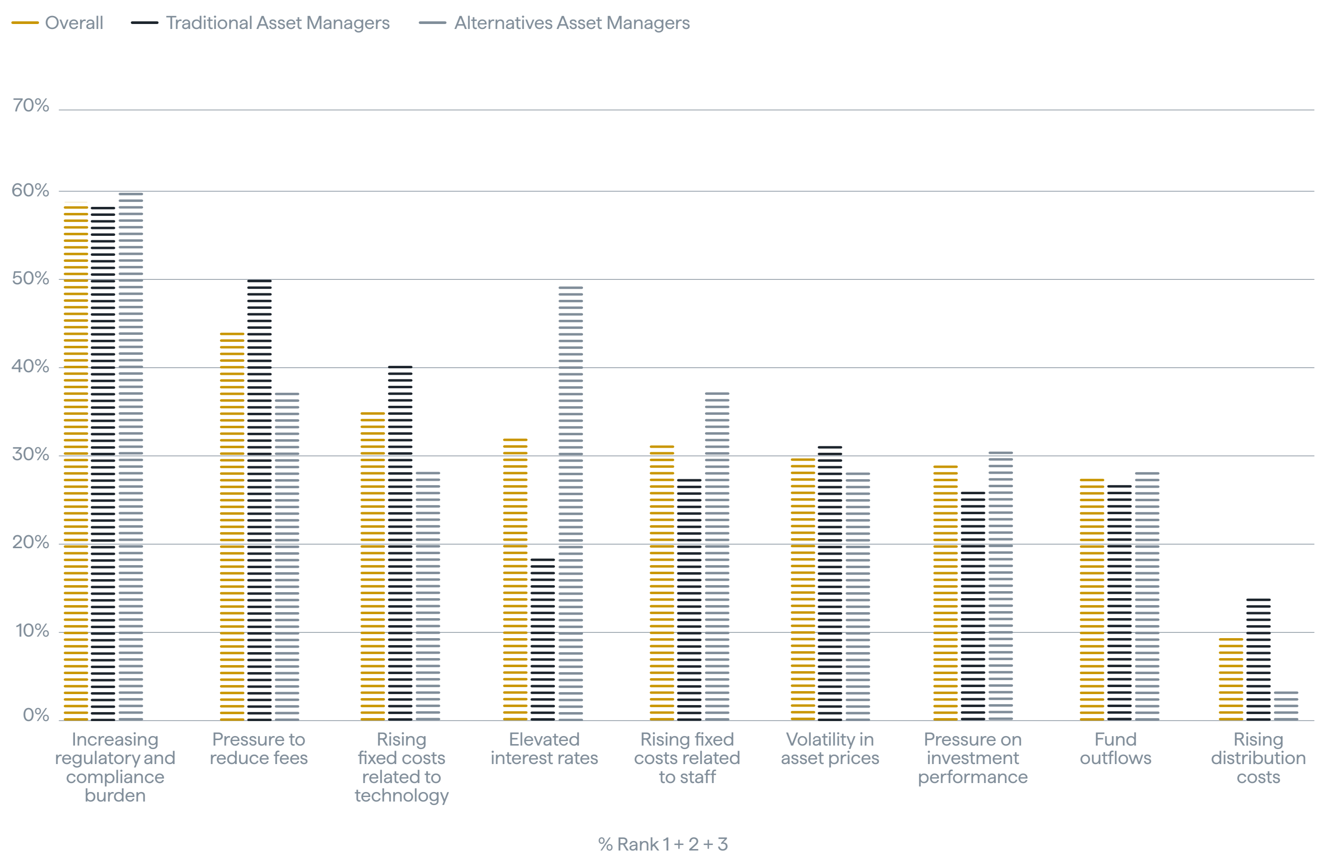
While the outlook is more optimistic for alternative managers, they are not immune to fee pressure, a majority (56%) of the alternative managers we surveyed still expect pressure on their firm's profit margins to increase significantly over the next two years (versus 72% of traditional managers that say the same).

Our survey results also highlight that an increasing regulatory burden is pushing up operating expenses for both traditional and alternative managers. Alternative managers also cite elevated interest rates as a significant contributor to margin pressure. Those whose investment strategies rely on leverage are particularly affected, as they are subject to higher borrowing costs.

"Private credit has gone viral because the returns are really compelling, but I'd be surprised if that level of enthusiasm and acceptance of fee levels is maintained over the next decade. Management fees and carry are a polarising issue – if you look at equity hedge funds then that is no picnic either."
Managing Director, global alternative manager

In summary, our findings highlight more acute pressure on traditional asset management business models, which is expected to intensify, and indicate that conditions are tightening for alternative managers too – albeit at a more gradual pace.

Figure 2: Factors contributing most to increased profit margin pressure over next two years



Growth strategies stretch operations

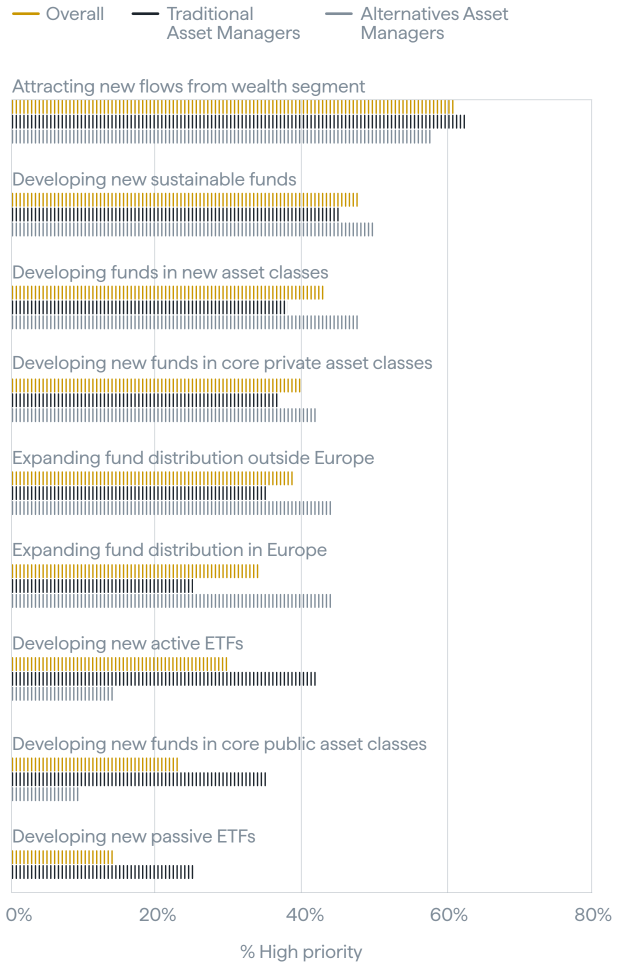
Faced with continued margin erosion and weaker inflows into actively managed public markets products, traditional managers are turning to sustainable funds, active ETFs and private markets in the hunt for growth.

"Privates are certainly top of our list, with some new offerings that we will deliver through our more retail-oriented distribution engine. And we have a healthy active ETF business in the US so we're hoping to build that in Europe now too. We're trying to be in more of those market growth areas."
Operations Executive, traditional global asset manager

Meanwhile, alternative managers are putting strong emphasis on developing products to grow their presence in the wealth segment and on entering new asset classes, as they pursue adjacent opportunities.

"The European wealth segment is a huge pot of money. If US pension money is quite fixed and you're not seeing growth, you're going to seek out those new markets and segments around the world – even if it involves a greater degree of difficulty."
Partner, global alternatives manager

Figure 3: Strategies being prioritised for revenue growth over next two years

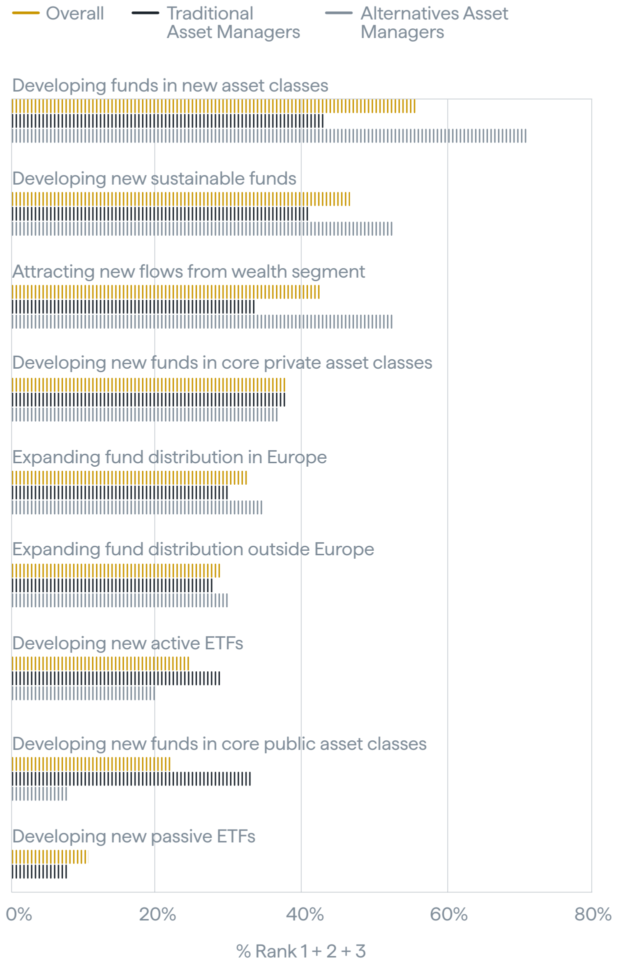


For operations teams, however, supporting growth strategies – that encompass new asset classes, product vehicles and client segments – in a cost constrained environment, means managing greater complexity with limited and potentially inexperienced resources.

"Despite all efforts, it can feel that growth is synonymous with complexity, with operations required to absorb and support ever increasing product and client complexities. The operational demands resulting from growth strategies generally result in the need for resources to divert to initiatives deemed a priority of business development and fundraising."
Operations Executive, global alternatives manager

Over half (52%) of respondents say new operational demands driven by their firm's growth strategies are leading to increased operational inefficiencies.

Figure 4: Growth strategies most challenging to support from an operational perspective



Entering new alternative asset classes is creating the most acute operational challenges for traditional managers, as they adjust to different data and reporting demands, regulatory requirements and fund structures.

"Public markets technology and operating models are pretty distinct from private market models – privates often have specialty systems attached to them. I think we're going to end up having an operating model which is tuned to long-only and an operating model which is tuned to our private markets investments. But data clearly needs to come together across all of those things as if I'm a retail investor, my interaction model with you needs to be unified."

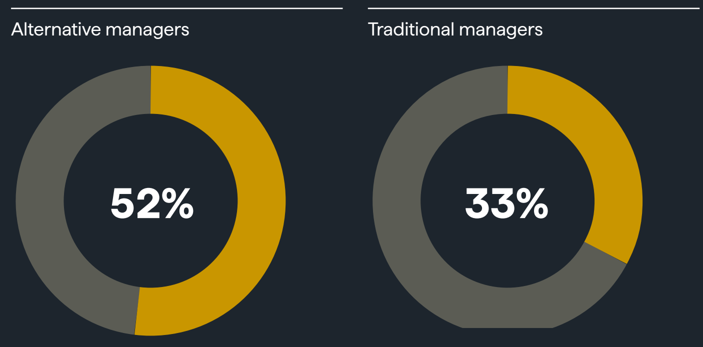
Operations Executive, traditional global asset manager

Sustainable fund launches are another key driver of complexity, as operations teams try to keep pace with changing regulations and minimise compliance risk.

"The requirements coming out of SFDR [Sustainable Finance Disclosure Regulation] are a big challenge for the industry in terms of getting the data and meeting the reporting that the Commission has asked for. You've got different service providers giving you data through different lenses, and then obviously concerns around greenwashing. If you're an Article 8 or 9 fund, the data has to be there to demonstrate compliance with qualifying investment thresholds – otherwise you're exposed to a high level of regulatory and reputational risk."

Managing Director, traditional global asset manager

The push to attract more wealth clients is a much bigger driver of operational complexity for alternative managers (52%) than it is for traditional managers (33%).



Distribution has been identified as a key source of complexity within the alternatives space.

"The challenge is, market by market in Europe, there are different distribution arrangements that cut into margin. Alternative managers are used to getting two and twenty and running a very simple fund structure, but if they have to build feeders and onboarding for 30 distributors and have 30 different fee arrangements that are generally lower, that's a less attractive model. So, retail or wealth distribution entails lower margins and a greater degree of difficulty."

Partner, global alternative manager

Furthermore, a combination of a more intermediated market, the role of private banks and different structuring preferences across European jurisdictions drives up complexity.

"You go into this wealth world, and you've got so many more intermediaries before you actually get to the client. The fund administrator puts out the data to a distribution agent or a platform, and then you get to the private bank that wants the documents standardised in their format – for a private equity or debt fund that is not so easy. Countries are also more focused on having their own fund structures for wealth, so we may have to come up with a whole new structure for some jurisdictions. It just makes you more choosy about what you do in-house in order to get that scale."

Operations Executive, global alternative manager

Operational transformation radar

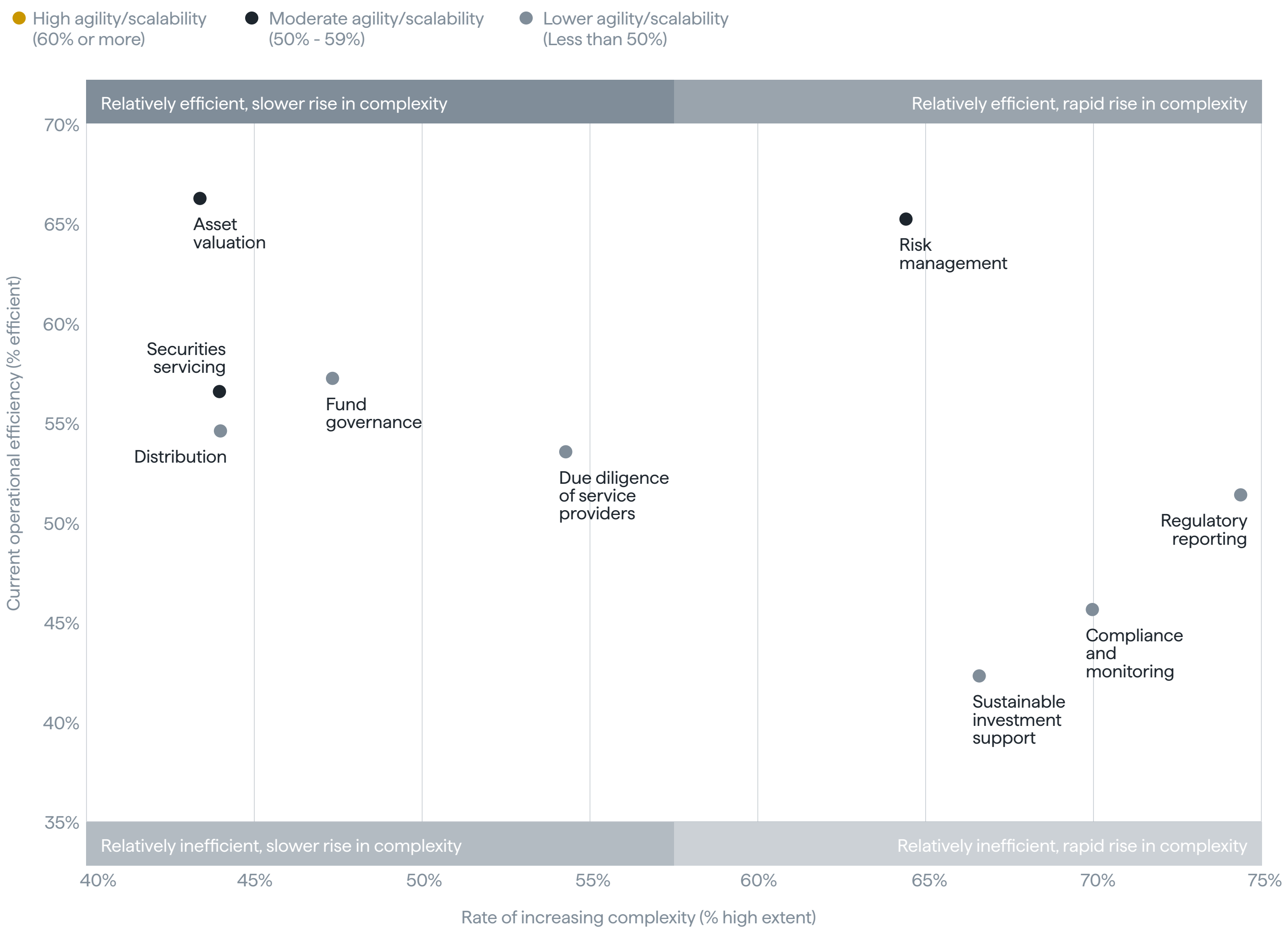
The rise in operational complexity facing asset managers is being driven not only by growth strategies, but also external factors such as regulatory change and shifting client needs.

To be fit for purpose amid this changing landscape, asset managers' operating models need to become more cost efficient, to achieve healthier profit margins, and scalable, to meet new demands.

We analysed the operating models of the firms in our survey across the dimensions of efficiency, scalability and rising complexity, to identify the areas in most urgent need of future-proofing.

Our analysis identifies compliance and monitoring, sustainable investment support functions, and regulatory reporting as areas with relatively inefficient operations, which have difficulty scaling – and where complexity is also rising quickly.

Figure 5: Operational transformation radar



"Investor demands for customisation are a key factor in driving the increased middle and back-office burden for us. They might request for a strategy to be levered, or to introduce a level of interest rate hedging, or currency hedging – and that leads to more monitoring demands from a compliance and risk management perspective."
Partner, European alternative manager

Distribution and fund governance are also reported as areas where efficiency and scalability are relatively weak, while complexity is perceived to be rising more steadily for these functions.

That said, operational headaches surrounding fund launch and distribution processes are a drag on speed to market and can eat into profit margins.

Nearly two-thirds (63%) of firms in our survey say a typical fund launch now takes 10 months or longer. Legal and regulatory administration and due diligence of distribution partners are rated as the least efficient parts of the process.

"It's a different process than getting one approved in the US – we're getting a lot of questions from the regulators and it's taking longer than we would ideally like it to, and there are new skill sets to build, so there's a bit of hiring needed to bring in some people with that knowledge base in Europe."
Operations Executive, traditional global asset manager

The difficulty of obtaining regulatory approval to launch an Irish or Luxembourg-domiciled active ETF presents a challenge for asset managers.

Figure 6: Operational efficiency in supporting fund launch and distribution

Future-proofing and the evolving role of management companies

There is a clear acknowledgement among the leaders in our research that operating models are becoming increasingly stretched – and further transformation is needed to support asset growth and retain long-term profitability.

Executives view the modernisation of technology infrastructure – including deeper automation, adoption of advanced tools such as machine learning and AI, and centralising data management – as central to addressing margin challenges.

Figure 7: Operating model transformation initiatives deemed most effective in addressing margin pressures

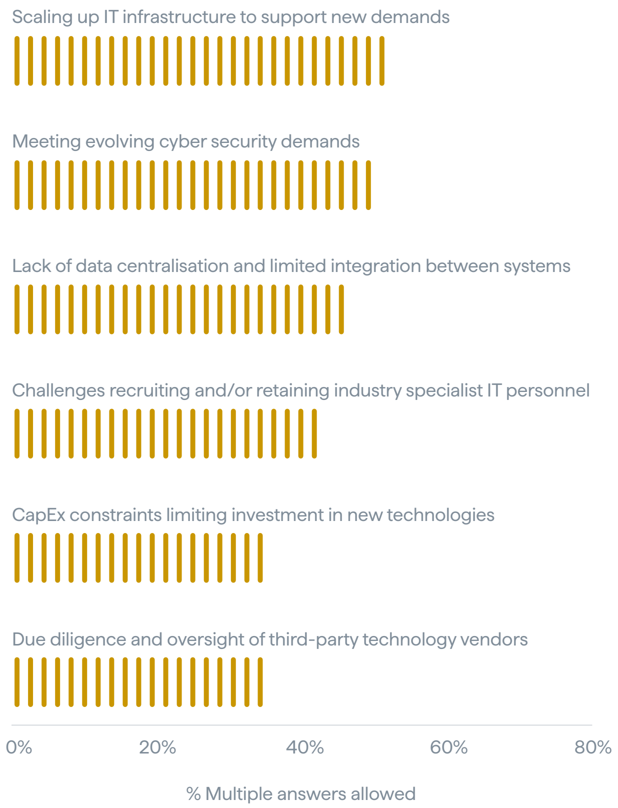
Further technology-driven efficiency gains are not simple to achieve, however, with low-hanging fruit from automation often having been targeted already, and a still limited understanding within many firms of the potential use cases of AI.

"Typically, asset management is so behind in technology, and there's very little advanced automation, but for a lot of roles we have across Europe, it's more about qualitative rather than quantitative input. I'm sure there's a bigger role for automation and AI, but it can be hard to identify which aspects of governance and regulatory compliance can really be transformed as you have to know the rules inside out in Europe."

Managing Director, traditional global asset manager

Firms with proprietary management companies report the ability to scale-up infrastructure in line with new demands and a lack of data centralisation and integration as two of the main technology challenges they are grappling with.

Figure 8: Most significant technology challenges facing proprietary management companies



Another challenge for proprietary management companies is funding the investment needed to keep pace with the speed at which new technologies are evolving.

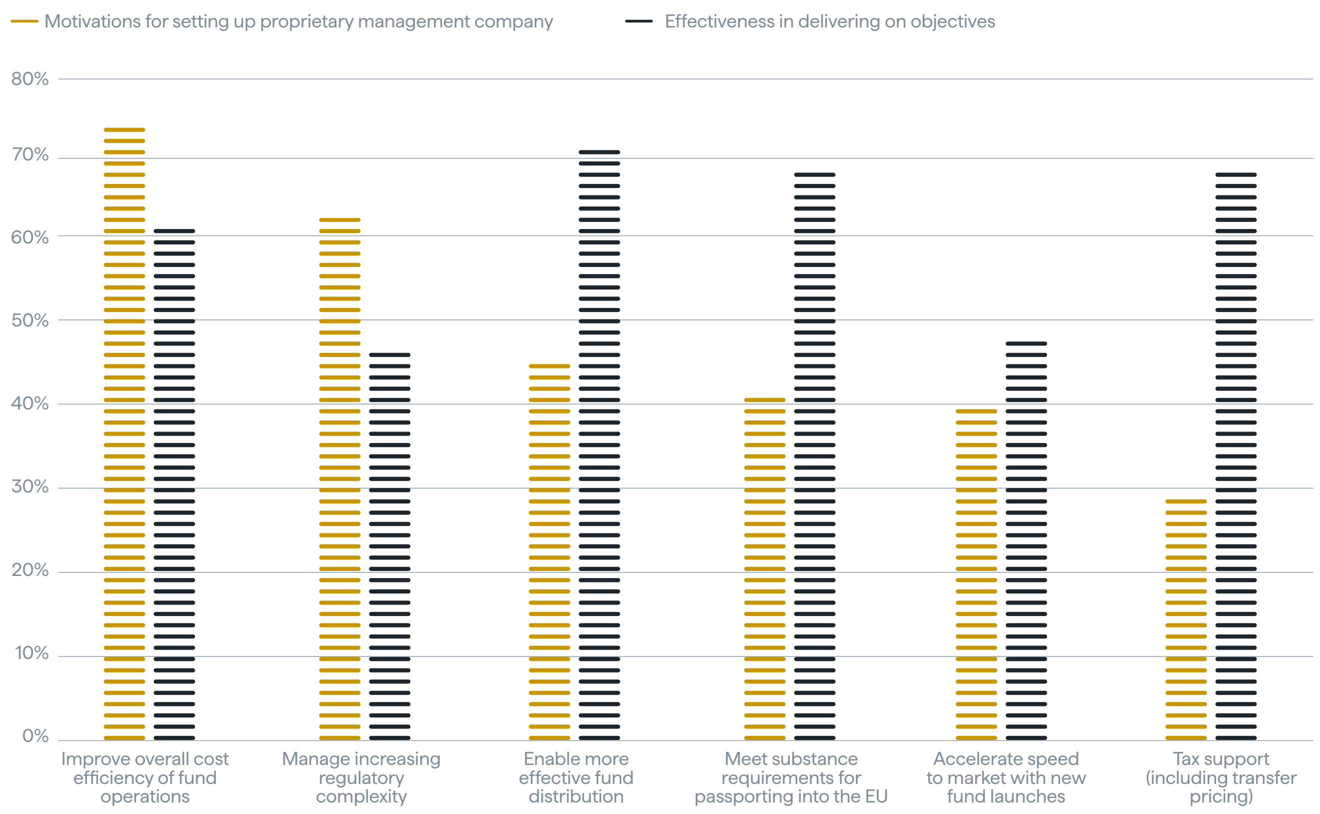
"It's difficult to obtain the necessary CapEx for that ongoing investment in technology, which is really what enables a continuous improvement in efficiency. That's a driver to outsource to an at-scale partner, because you're essentially handing over that investment responsibility."

Partner, global alternative manager

Many firms are underway with digital transformation projects within their proprietary management companies, but these are often multi-year projects. And they are having to adapt existing systems to new workloads along the way as growth strategies, regulations and client demands continue to evolve.

Some proprietary management companies are becoming overwhelmed as a result and are struggling to deliver on objectives around cost efficiency, managing regulatory complexity and accelerating speed to market.

Figure 9: Motivations for establishing proprietary management companies versus effectiveness in meeting objectives



This has two important implications for outsourcing strategies. Firstly, half (51%) of firms running proprietary management companies plan to outsource more specific functions using a managed services model over the next two years. And secondly, nearly a third (29%) of firms want to fully outsource management company responsibilities specifically to support new products.

"To me there are two categories of manager where the business case to outsource management companies is very strong. You've got firms entering new markets, which includes the alternative managers who are now starting to do retail or wealth funds, and you've got established managers that have a challenged business model, where growth has slowed, and there's an urgent need to improve margins."

Partner, global alternative manager

Figure 10: Likelihood to increase the use of outsourcing models over next two years

51%
Managed services

29%
Full outsourcing to third-party management company specifically to support new products

19%
Full outsourcing of proprietary management company responsibilities to third-party management company

Some traditional, global asset managers have taken the decision to outsource management company responsibilities to support a newly launched active ETF fund range.

"Everybody needs to get into this active ETF space at some stage, but the ecosystem is different and the infrastructure is different. If you can use a plug and play platform while you see if it's going to work, that's really helpful. It would be too much of a distraction for our proprietary management company team to focus on a new asset class, a new jurisdiction, on top of everything else they're dealing with. If it's not mainstream, but it's complex and would take significant time and resource, outsourcing is a better operating model."

Managing Director, traditional global asset manager

A similar principle applies for traditional managers entering private markets.

"It gives you optionality in terms of resourcing, but you also want the expertise. It's very different than anything you've ever done if all you've focused on in the past is UCITS."

Partner, global alternative manager

From a managed services perspective, there is significant appetite to outsource regulatory reporting, sustainable investment support functions and distribution support to specialist third parties, to free up resource, cut costs and accelerate speed to market.

"We outsource all of our fund registrations but it is overseen by our proprietary management company. It's very complicated so you need to understand what's going on in each local market and you need the languages – you can't possibly do it all yourself."

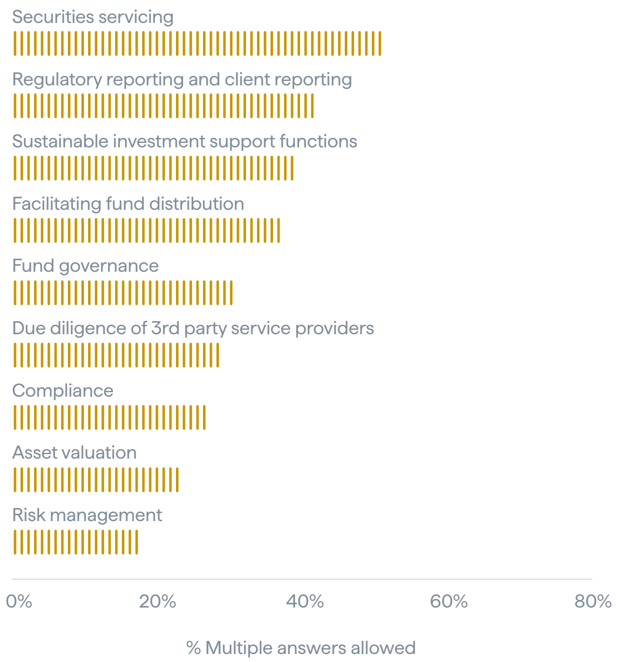
Managing Director, traditional global asset manager

Speed to market is emphasised as central to the business case.

"They do a lot more of this activity than any one asset manager would do for themselves. So they have a bit more of a factory-like process of getting a new product through the full cycle of the launch process, which ultimately gives you speed to market."

Operations Executive, traditional global asset manager

Figure 11: Functions firms are most interested in increasing outsourcing via managed services



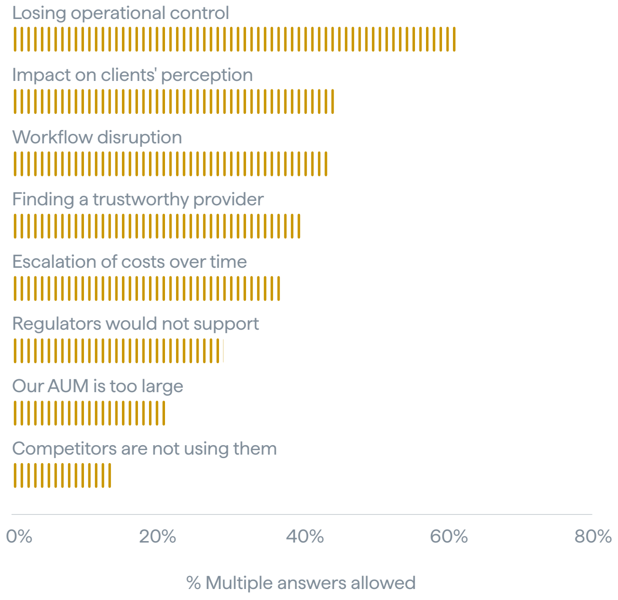
There is greater reluctance to outsource some aspects of risk management and compliance activity, however, which some attribute to client expectations:

"If you're a reasonably developed manager, the LP expects you to do it."

Partner, European alternative manager

This is also a hurdle for some firms when considering the full outsourcing of their proprietary management company responsibilities to a third party, along with the perceived loss of operational control, and disruption to existing processes and workflows.

Figure 12: Perceived challenges to fully outsourcing to a third-party management company



"I think there will be other big players in the market that start moving to the third parties, but I think a key challenge is the complexity of the proprietary management company. If that is well established and you've got add-ons within it – so it's no longer just a pure management company – trying to pick that apart is very complicated."

Managing Director, traditional global asset manager

Meanwhile, some think there is scope for third-party management companies to take on a growing share of non-core activities, providing they can demonstrate quality of service.

"We expect further consolidation in management companies in the market with the rise of a few super management companies with an extensive set of capabilities. Industry cost pressure on fees will require management companies to keep improving efficiencies, make use of technology and offer additional services."

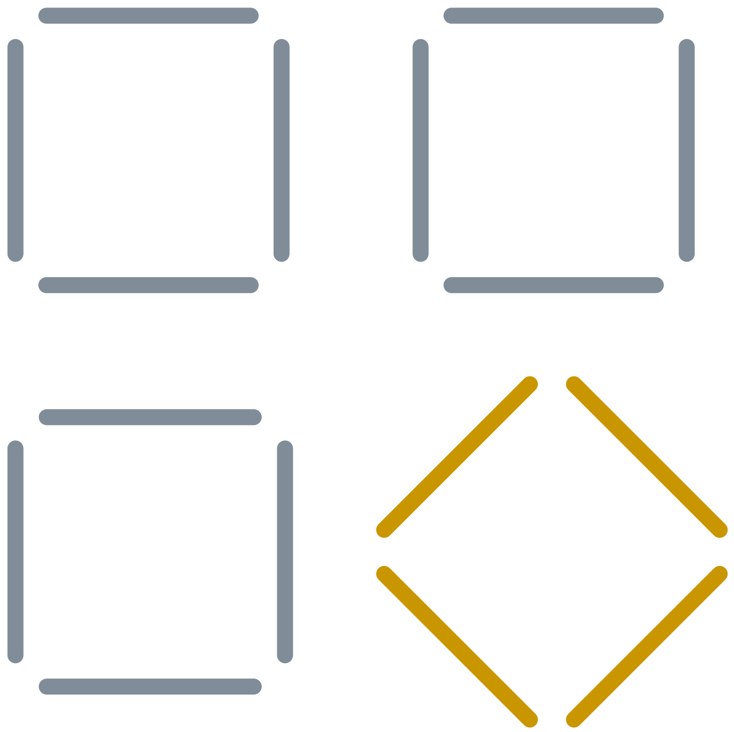
Operations Executive, global alternative manager

Conclusion:
The supermodel era

The asset management industry has gone – and is going through – a super evolution that has accelerated dramatically in the last few years.

While that has inevitably been led by product and distribution innovation, it is those firms that embrace a new wave of operating model innovation who will be best positioned for long-term growth.

So, how can operations leaders help to cement their firms' competitive advantage?



1. Accelerate speed to market

Speed to market is key to competitiveness as a growing number of firms – both within and outside Europe – seek to gain a foothold with new products and client segments. A lack of familiarity with regulatory requirements, a fragmented distribution landscape, and limited resources available to support new products are slowing managers down.

Business partners with expertise in dealing with local regulators and complex products can help to drive faster, more cost-effective solutions to distributing products across Europe.

2. Control what matters

Operations executives are still being pressured to retain certain functions in-house due to the perception of a loss of control were they to be outsourced, or sensitivity related to client perceptions. This has echoes of the last major operating model innovation to transform the industry: the move to outsourced fund administration and transfer agency solutions.

Outsourcing of these functions is almost ubiquitous today – and has resulted in simplification of managers' operating models and a dramatic reduction in costs. Over the coming years, firms will need to reassess which functions they want to own and control. Those which do not uniquely contribute to the firm's value proposition to clients, can be delivered more efficiently by an external provider, and present low risk to client outcomes, should be contenders for outsourcing.

3. Embrace cost-effective routes to technology modernisation

Many firms have already invested heavily in technology and data management infrastructure over recent years. But given the pace of technological advancement and rising data demands across the front, middle and back office, those CapEx pressures are forecast to continue. And firms that do not embrace technological change will likely fall behind competitors who have. Asset managers will need to outsource more of that responsibility to third parties – and select partners with the scale and expertise to stay at the forefront of emerging technology adoption.

4. Choose partners over providers

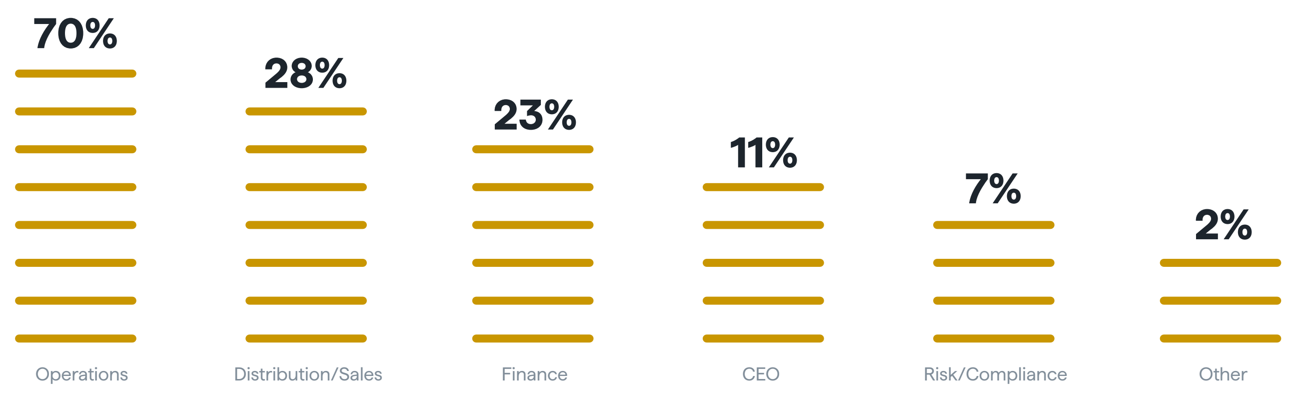
Outsourcing non-core functions should free up resources to focus on value-adding activities such as investment performance, product development and the client experience. However, if it leads to more management time and resource being taken up with overseeing the provider, or a rigid operating model which limits innovation and change, this can reduce or eliminate the benefits of outsourcing.

True business partners should be able to provide a globally consistent service model, agile technology platforms, and the ability to broaden their service offering when called upon.

About the research

Carne Group partnered with CoreData to survey 200 asset management executives during Q3 2024.

Job roles



Organisation types

45%
Traditional asset managers - Focused on public and private markets

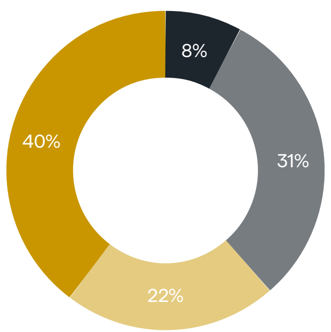
35%
Private market managers

10%
Traditional asset managers - Focused on public markets

11%
Hedge funds

AUM

8%	Less than €1bn
31%	€1bn to €10bn
22%	€10bn to €50bn
40%	More than €10bn



Management company role

75%
Proprietary management company

25%
Third-party management company

*Percentages may not total 100% due to rounding

Defining the terms used in this report

AIFM:
An AIFM is an entity authorised under the European Communities (Alternative Investment Fund Managers Directive) Regulations 2013 to engage in portfolio management and risk management services of alternative investment funds.

Third-party management company:
A separate entity set up and run by an external provider, such as Carne, that is appointed by an asset management firm to oversee the operations and governance requirements of its investment funds.

Alternative asset manager:
Fund management firms whose core business is alternative investments, including hedge funds, infrastructure, private credit, private equity and real estate.

Traditional asset manager:
Fund management firms whose core business is – or was originally – conventional investments, including cash, listed equity and public fixed income. For the purposes of this report, this category includes firms that have expanded their product ranges to include both conventional and alternative investments.

Proprietary/internal management company:
A separate entity set up by an asset management firm that oversees the operations and governance requirements of its own range of investment funds.

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About Carne Group

Carne Group takes care of the people who take care of money. Founded in 2004, today Carne is Europe's largest – and only independent – third-party management company. We support asset managers through every element of the fund lifecycle, including risk, compliance, due diligence, oversight, distribution and governance. Backed by digital capabilities and infrastructure built over two decades, our dedicated and expert team provides peace of mind for our clients and their investors, simplifying and strengthening the ways their funds operate.

We partner with around 650 clients, from boutique firms to over half of the world's 20 largest fund managers – supporting funds distributed in over 160 countries and overseeing more than $2 trillion assets under management. Carne employs more than 600 employees across eight locations globally.
www.carnegroup.com