

The evolution of Real Assets and the key to overcoming growing complexity



Joep Hamers,
Co-Head of Real Assets, Senior
Executive Vice President, Citco
Nederland B.V.,

Real assets fund managers are pursuing ambitious growth targets the coming years to stay ahead of competitors in today's market, however, they are also facing increasing complexity in their operations and reporting requirements to support such growth ambitions.

This complexity is driven by several key factors, including geographic expansion, asset-level intricacies, growing regulatory burdens, and evolving investor & data demands for greater transparency.

In this rapidly evolving landscape, areas such as Real Estate and Infrastructure are experiencing unprecedented transformation and so fund managers targeting significant portfolio expansion must now navigate a complex web of challenges across the globe and in relation to specific asset types within their portfolios.

As the complexity of portfolios and asset types grows, the role of specialized asset servicers has become increasingly crucial for fund managers striving to meet those targets.

Increasing investor demand

As the Real Assets landscape evolves, real estate sectors like data centres and healthcare are gaining momentum compared to traditional mainstream asset types such as office and retail, and so it is crucial that managers implement the right operating model and infrastructure to enable them to enter new asset classes while maintaining transparency throughout.

Yet, as the complexity of asset classes increase, so too do investors' needs for accessible data and streamlined processes. Investors are demanding greater transparency and agility, and so managers now need to adopt an increasingly data-centric approach to investment decision-making.

The ability to respond to individual investor obligations – whether that be single investment mandates and/or bespoke side-letter reporting requirements – swiftly and efficiently means that managers need to have robust, flexible operations & infrastructure in place to be able to comply with these ever-growing data demands.

By pairing deep real estate accounting expertise with industry-leading technology, assets servicers can assist by providing tailored global and local accounting and reporting solutions that optimize operations, reduce risk, and allow managers to focus on competitive investment activities that drive value for their end investors whilst also delivering the transparency required.

Successfully navigating new markets

As managers look to generate investor returns, tapping new growth regions is a core strategy many are pursuing.

If we look at Japan, market reforms and the dismantling of cultural and economic barriers have piqued global investors' interest in the region, with many experts claiming that the world's third-largest economy is the most exciting market globally.

However, despite progress made in recent years, there are certain nuances of operating in Japan. The region is not as digitalized as others in areas such as banking, with physical offices still being a key component of doing business there.

Culture is also very important, and managers and asset servicers alike must tailor their approach to operating in Japan, rather than assuming the model they use elsewhere can simply be overlaid into Japan.

Navigating markets like Japan can therefore hinge on the culture of a company, and its ability to connect at a local level - via regional offices staffed by experienced teams, for example – with those failing to do this likely to struggle.

However, as well as challenges, regions like Japan and others also present opportunities, both domestically and internationally. By partnering with specialists who understand the evolving landscape and can deliver the local operational support needed, fund managers can focus on generating returns for their clients while adapting to Japan's distinct economic environment.

Technology to generate scale

A key component to handling complexity and generating scale is technology prowess. The approach to embedding technology in a firm begins with deciding whether the manager wants to proceed with full outsourcing from day one or retain some functions in-house. This decision extends beyond technology – it affects the firm's core operations and its interactions with investors and possibly portfolio companies

where relevant.

The recent acceleration of AI and machine learning is reshaping the industry across the board. At an operations level, for example, technology is proving to be a critical lever for change, whether that be leveraging cloud platforms to centralise data and deploy advanced analytics for real-time strategic insights or streamlined reporting, or to automate processes and detect any errors in investor reporting – all of which frees capacity and enables firms to concentrate on value added activities.

However, a misstep in AI-driven compliance or reporting can have serious consequences and so the combination of fund reporting expertise and AI is particularly powerful. At Citco, we launched the first 'AI Plus Human' platform – Citco Document Intelligence (CDI). The tool transforms documents into discoverable insights, with high accuracy, through its scalable combination of AI coupled with subject matter expertise oversight to mitigate any potential liabilities.

For Real Asset managers, outsourcing their technology stack will enhance data structures, streamline workflows and enhance reporting efficiencies.

The path forward

Over the long-term horizon, Real Assets remain a highly attractive asset class and investment strategy for funds seeking to diversify their portfolios and build exposure to assets that offer inflation protection and stable, uncorrelated investment returns.

In an environment where complexity and growth opportunities coexist, asset servicers play a pivotal role in enabling these funds to focus on their core investment activities while ensuring operational excellence. Their combination of technological capabilities, global expertise, and specialized back-mid-office services provides the foundation necessary for successful navigation of today's challenging investment landscape.

An asset servicer with a global presence and widespread, multi-asset class expertise can provide knowledge of best practices beyond a manager's traditional focus, enabling them to focus on what they do best – generate growth.

CITCO