

MANAGING THE GROWING COMPLEXITY OF ALTERNATIVE ASSETS

YOUR CUSTODIAN COULD BE YOUR STRONGEST ALLY

Investors in alternative assets face increasing demands – both external and internal – for due diligence. Regulatory demands and the asset class’s growing complexity have further complicated reporting, translating into a need for data that can be delivered flexibly. This can result in a massive volume of data that must be sorted and disseminated in myriad ways. As an investor, you have choices about how to meet these demands, and you may find that outsourcing is the best way to alleviate them. You do not need to look any further than your custodian.

RISING TO THE CHALLENGE

Private equity, real assets and hedge funds face administrative challenges that a fund with a portfolio of marketable assets does not. Even basic data collection and document management for alternative assets can be complex. Reporting on performance, benchmarking and risk management poses additional unique challenges. Your custodian’s traditional role of recording assets, handling accounting and valuation, and reporting to investors and regulatory agencies makes it well-positioned to help with these demands. As the central repository for your data, your custodian can provide a holistic view of your entire portfolio -- your alternative assets as well as your public market assets.

Custodians have large, industry-aware teams with global reach, including experienced back office support. Tapping into this expertise saves you time and provides you access to a wealth of experience.

In addition, your custodian is required to have a greater level of data security, process integrity, and global business continuity and resilience than you would achieve in-house; more so than most technology firms or specialist providers. This assurance is particularly important in today’s regulatory environment.

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IMPROVED TRANSPARENCY

A survey Northern Trust conducted in 2017 with The Economist Intelligence Unit confirmed that transparency remains a top priority among alternative investors. Yet data collection and validation for alternative assets can be challenging, making the provision of transparency more elusive. In a process that often is manual and paper driven, your custodian serves as more than a data aggregation point. It also serves as an investor liaison, communicating with your managers and validating valuation information.

For example, your custodian can help:

- Sort and report on key data, such as vintage year, local commitment and fund type for private equity investments
- Provide clarity into the valuation collection process, tracking the arrival of statements, and pursuing those that are late
- Record cash flows as they occur and provide an adjusted valuation based on best available value plus activity on a daily basis

Your custodian can also help improve transparency as cash moves through your account, breaking down cash flows, such as capital calls, into contributions, management fees and expenses. Distributions are more than a simple wire-in amount; they contain details regarding realized gain, return of capital and callable capital. All cash activity across your portfolio, including pending activity, can be viewed in reporting to provide full transparency.

Integrated cash movement allows your custodian to facilitate appropriate accounting treatment of private equity capital calls, hedge fund subscriptions and hedge fund redemption requests. The same information seamlessly flows into accounting and performance reporting. Your custodian can look for unsubstantiated changes and confirm consistency between your manager statement and other investors' positions in the same investment. You have greater transparency into what the data represents and how it is translated into reporting.

ANALYZING PERFORMANCE

You may want to validate that your investment decisions are the right ones. Your custodian can include alternative assets in your total plan performance and provide a complete and timely performance analysis. Your custodian is able to evaluate the contribution of the alternative assets portfolio to overall performance because this data is accessible from the accounting record.

Your custodian serves as more than a data aggregation point. It also serves as an investor liaison, communicating with your managers and validating valuation information.

With access to both adjusted and final valuations, your custodian can more easily view and report performance using the adjusted valuations and the managers' final valuations. Adjusted valuation performance can be available after period end, while performance reconciled to the managers' final valuation can be created once manager values arrive. This gives you a view of your alternatives asset performance throughout the life of the investment.

Beyond standard performance reporting, your custodian provides a higher level of service and expertise for alternative assets. Your custodian can normalize the data to meet your needs by providing more look-through reporting to alternative assets, which includes data enrichment and strategy tagging to your investment portfolio.

BEYOND DATA COLLECTION

Your custodian is more than a data repository. Custodians can leverage their technology to provide capital call forecasting. Your custodian can also provide assistance with the many administrative tasks surrounding alternatives investing, such as partnership tracking, transparency analysis, and liquidity and allocation analysis.

Additional services available to you can include:

- Capital call processing service to outsource the set-up of capital calls on your behalf
- Estimated values of hedge funds to incorporate current values into performance and accounting
- Fair valuation reporting support to help you with your regulatory and financial reporting requirements
- Retention of your alternative assets documentation
- Middle office and front office solutions

These services can help mitigate risk you may encounter with alternative assets and allow you to focus more on important investment activities.

COMPREHENSIVE VIEW

The custodian has a top-down view of the industry, coupled with bottom-up expertise and the ability to evaluate your specific needs and suggest best practices implemented by investors across many segments and across the globe. In addition, custodians often provide opportunities for collaboration and peer-to-peer exchanges between institutional investors at sponsored conferences, direct summits, and participation in product concept evaluations and webinars.

Working with your custodian can give you end-to-end service that supports all your investment needs, particularly the unique needs that come with investing in alternative assets

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CUSTODY SERVICES FOR ALTERNATIVE ASSETS



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