EXPERT INSIGHTS:
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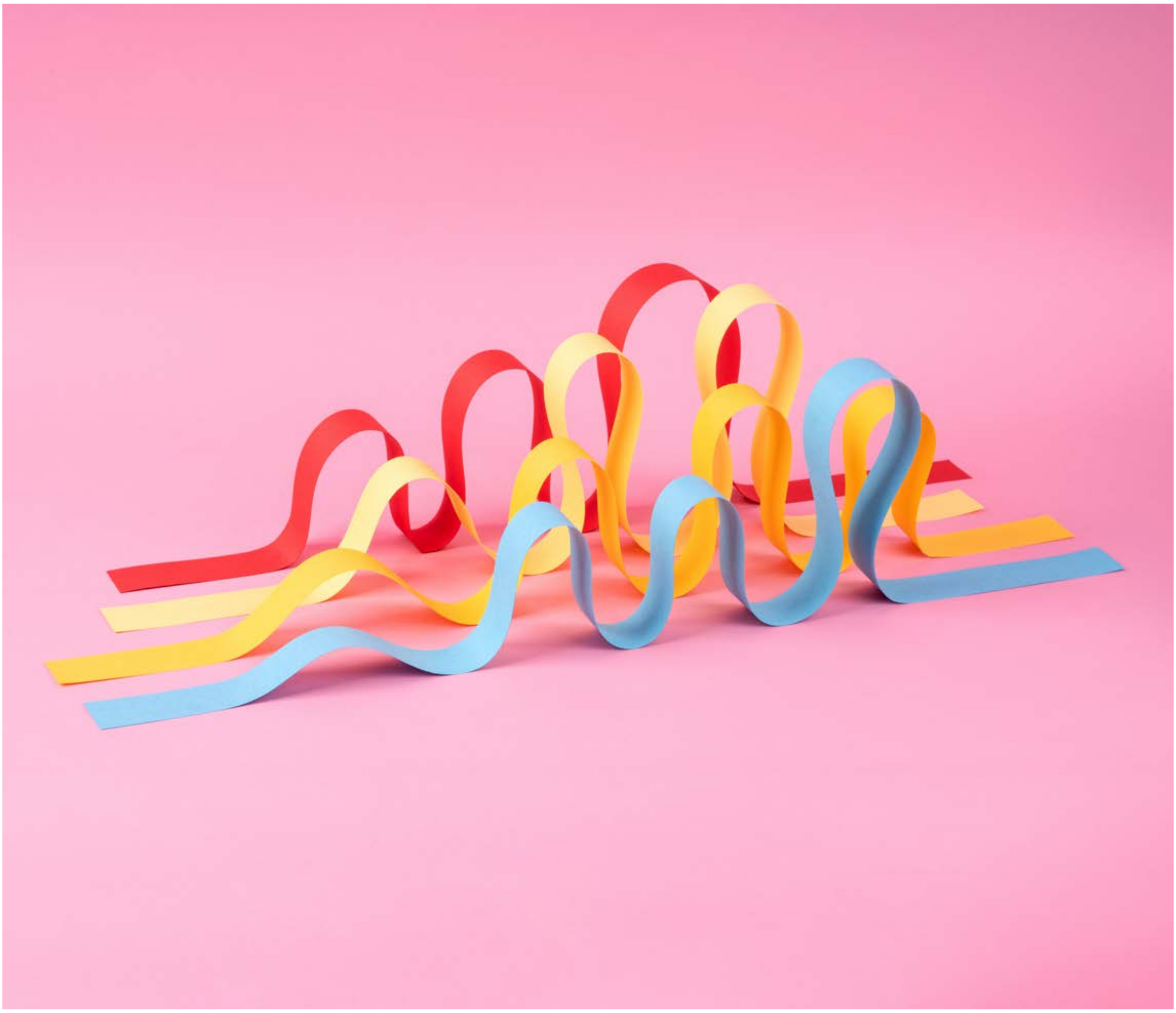
Navigating NAV in alternatives.



Delivering timely and accurate NAV is among the largest challenges facing the alternative funds industry today, but it can be managed with the right expertise.

Alternatives: A rapid evolution

Alternative investments have rapidly expanded in recent years, and that trend is set to continue or even accelerate. Key drivers of this expansion include growing demand for investment in infrastructure and the energy transition, as well as investors seeking longer-term investments with lower correlation to volatile public markets.

The 2024 barometer from PwC Luxembourg's Observatory for Management Companies found alternative investment funds accounted for 35.8% of the total assets under management in Luxembourg in 2023 and 21.8% in 2020.[1]

But an equally significant change is the widening of the investor base to include both institutional and retail investors. Europe has taken important steps in this direction with the launch of European Long Term Investment Funds (ELFITs). As a centre of fund administration, Luxembourg's fund sector is at the leading edge of fund launches as well as providing administrative and depositary services to support this growth.

The rapid evolution of alternative investment funds and the growing interest from a new market of investors brings new challenges and obligations—not least of which is the need to deliver timely and accurate data on net asset value (NAV).

Institutions such as pension funds that are showing an increasing interest in alternatives are typically bound by legal requirements—and certainly trustee expectations—to have an accurate assessment of fund values and risks. Meanwhile, regulators, notably the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg and the European Securities and Markets Authority (ESMA) across the wider EU, place a high priority on protection of investors.

Grasping the opportunity requires a sophisticated partner

Alternative investment fund managers (AIFMs) are required to seek independent valuation of assets, typically through an external valuer with expertise in the specific assets in question.

Depositary service providers, such as SEI, have their own oversight obligations—not to carry out their own valuations but to ensure the AIFM's valuation has been carried out properly and independently, using an appropriate methodology. Depositaries also have oversight obligations on due diligence behind transactions and risk assessments. These requirements are not to be taken lightly or left to anyone but the most professional partner.

In Luxembourg, the CSSF has carried out on-site visits to depositary services providers and has focused on valuations, taking a deep dive into due diligence processes. They expect a risk rating to be given to the fund, and they take a close interest in the frequency in which depositary oversight controls are applied.

In July 2024, the CSSF also reminded depositaries that pre-checks must be done before funds make new investments. This in turn means AIFMs must provide draft documents and memos relevant to a transaction before it takes place. This allows depositaries to perform a pre-check, ensuring the transaction is in line with the fund's stated policy and strategy, and verifying the ownership of the asset purchased.

These types of requirements mean that, in practice, even though a fund's NAV may only be required to be published quarterly, the depositary is carrying out regular controls on cash-flow monitoring based on bank statements and assets.

The depositary oversees the fund's cash flow and ensures that transactions are consistent with the fund's NAV, in compliance with regulations.

These processes represent a significant responsibility that some might view as overly burdensome. However, they are the inevitable corollary of protecting investors and expanding the alternative assets sector to a wider investor base.

Luxembourg's leadership

The fund administration sector in Luxembourg is a highly competitive market. At the same time, it is a community and network of expertise that shares best practices, which benefit the entire sector and enable the smoothest possible engagement with regulators.

Because these regulatory requirements are of utmost importance, it is critical that fund managers are supported by a highly capable and experienced partner who can oversee the necessary tasks. This strategic partnership leaves fund managers to focus on their core job of effective and value-creating investment.

The SEI difference

Built on over 50 years of experience, including 30 years providing technology and operational solutions to European fund managers, SEI has established itself as a leader in the industry. Clients have access to a single client relationship manager who can help smooth the path of the administrative and depositary functions that are essential to accurate and timely NAV reporting. These include monitoring investment restrictions, transactions, income distributions, subscriptions/redemptions, and NAV reviews.

SEI clients have a single relationship manager to help smooth accurate and timely NAV reporting.

Claire Matteucci
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Claire joined SEI in 2024 with 19 years of experience in the funds industry. She was previously Head of Depositary at Standish Management in Luxembourg, where she established and managed depositary activity. Claire also spent 10 years at PwC in Luxembourg as an external auditor of UCITS and alternative investment funds, and six years as a risk assurance senior manager.

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Source

[1] "Observatory for Management Companies: 2024 Barometer," PwC Luxembourg, 27 September, 2024.

Important information

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