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Introduction

Turn complexity to your advantage with flexibility

Complexity is a growing characteristic of today’s investment environment – and an almost inevitable hurdle on the hunt for growth. Whether you’re servicing a new combination of asset classes, or managing risk and compliance requirements across a range of jurisdictions, the constant struggle to stay ahead of the pack can complicate and strain your operations.

But where there’s challenge, there’s opportunity – and today, the ability to get to grips with operational intricacies is an important differentiator for fund administrators. In this eBook, we explore the specific complexities of servicing illiquid assets as part of a liquid fund wrapper to deliver so-called “liquid alpha”, and of administrating both offshore and onshore funds. With a look at the new General Data Protection Regulation, and a video interview with a leading fund servicer, we also show how strong but flexible operations can help you profit from complexity and outpace the competition.
Go with the Flow to Actively Support Liquid Alpha

Amid the continually rising tide of passive tracker funds and robo-advisors, a new wave of active investing is also gaining momentum. To improve portfolio returns, more asset managers are looking to inject the outperformance potential of alternative, often illiquid assets into their liquid fund wrappers. But are your fund administration operations fluid enough to service liquid alpha strategies?

Scale over skill – the ebb and flow of active and passive asset management

The low costs of passively managed, index-tracking funds have made them an increasingly attractive proposition for fee-conscious investors, driving exponential growth. In 2017, rating agency Moody’s predicted that passive asset management would overtake active management in terms of U.S. market share by 2024 at the latest.¹

As advances in automated technology continue to reduce the need for manual intervention, passively managed funds can now compete aggressively on fees, charging under 15 basis points for following an index. The cheaper that these vehicles become, and the more efficiently they are serviced, the more assets they can attract – giving them enough scale to rival the revenue of an actively managed fund that commands far higher commissions to outperform the benchmark.

¹Financial Times, Active management stages a comeback, August 13, 2017
Outperformance isn’t an option for index funds, which neither beat nor fall behind their market. And today, even the job of constructing a carefully balanced portfolio of indices can fall to a robo-advisor. But despite the growing automation of asset management, there is still room and demand for the skills of the active fund manager, whose knowledge, flair and instincts can play a new role in the industry’s survival – and help rise to the challenges faced by modern investors.

Looking to new horizons

Innovative technology has helped create a new generation of investors, who themselves are taking a more active approach to managing their wealth. As well as lowering costs, index funds and robo-advisors offer daily insight into fund performance, typically across a range of mobile and desktop devices. This high level of constantly updated transparency encourages constant monitoring – and, in turn, an essentially short-term approach to investment.

Simply to survive, the asset management industry must help shift this mentality. Thanks to shrinking employer budgets and the demise of final salary pensions and defined benefit schemes, today’s individual investors must take more responsibility for their financial security than previous generations and plan carefully for different stages of their lives and retirement. And that means looking beyond immediate investment returns to longer-term goals.

The signs are that the tide is already turning. A new style of strategy is starting to steer investors back towards longer horizons of five years and beyond – with active management of funds at the helm.

When an investment strategy has years to achieve its objectives, it can embrace a greater range of asset classes, with varying degrees of liquidity. By adding alternative investments such as complex derivatives to its multi-asset mix, and creating sub-portfolios of illiquid private equity, real estate and infrastructure assets, a fund is more likely to outperform benchmarks than with traditional instruments alone – and to deliver what is therefore becoming known as “liquid alpha”.

In their bid to outperform markets over time, while reducing volatility and drawdown, liquid alpha strategies are profiting from – if not increasing – demand for alternative investment products. In a recent survey by Ignites, more than 89 percent of respondents “expect investors to pay more attention to alternatives now that markets are more volatile.”

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2 Ignites, Alt Managers to Advisors: You’re Judging Us All Wrong, March 13, 2018
Also in Ignites, alternative managers warn against judging the performance of their funds based on three- or five-year track records, which can give an incomplete picture. According to Highland Capital Management portfolio manager Michael McLochlin, "The lower volatility of some liquid alt products means they’re designed for absolute returns over time...Instead of looking at short-term performance relative to the stock market, advisors should consider a fund’s volatility, its correlation to equities, performance over a bear market and other factors."3 With their emphasis on long-term results, liquid alpha strategies are the perfect expression of this approach.

Buoying up returns for pension and sovereign wealth funds

The emergence of liquid alpha strategies coincides with the rapid expansion of two key types of institutional investor – pension funds and sovereign wealth funds. In both cases, the pressure to improve long-term returns is increasing the scope of their own investment approaches.

Since 2004, according to PwC, pension fund assets have grown from $21.3 trillion to more than $38.2 trillion – and are predicted to rise to $55.8 trillion by 2020. PwC explains this growth as being "lifted mainly by the growth of defined contribution schemes" as "both developed and developing countries are seeking to bring more of their labour forces under the umbrella of funded defined contribution retirement plans."4

But to support growth, pension funds have had to extend their portfolios beyond plain equities, bonds, futures and options. Progressively, years of low and even negative interest rates have taken their search for yield into more complex derivatives, swaps and exotic alternatives, or hedging and private equity strategies.

In the meantime, sovereign wealth funds look set to grow their assets from just $1.9 trillion in 2004 to $10 trillion by 2020.5 And again, diversification is key to their ongoing expansion, as governments sell off and privatize more assets to increase their wealth.

Saudi Arabia’s Public Investment Fund (PIF), for example, plans to nearly double its assets under management to $400 billion by 2020, by taking a multi-asset investment approach. To increase its financial clout, PIF will structure its investments in six areas: Saudi equity holdings, sector development, real estate and infrastructure, mega projects, international strategic investments and a "diversified pool" across global asset classes.6

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4 PwC, Asset Management 2020: Taking Stock, June 2017
5 NASDAQ, Saudi Arabia’s PIF aims to manage over $400 bln in assets by 2020, October 25, 2017
6 NASDAQ, Saudi Arabia’s PIF aims to manage over $400 bln in assets by 2020, October 25, 2017
Go with the Flow to Actively Support Liquid Alpha

However, to support a liquid alpha strategy of this kind, the institutional investor also needs a new style of fund servicing partner.

Take active steps to handle liquid alpha

Liquid alpha strategies make excellent use of the active manager’s skills in stock picking and asset allocation. As portfolio manager Michael McLochlin says, “We’re getting back into an environment where you’re really going to see the skill of the managers shine a lot more.” But critically, this resurgence of active management will also require many fund administrators to actively rethink their investment operations.

Historically, the alternative asset classes that feature heavily in liquid alpha strategies have been processed manually or administered in a completely different way to traditional instruments. Most notably, many firms have opted to service particular asset types with separate, dedicated accounting systems – increasing complexity and cost of ownership.

For multi-asset portfolios, this fragmented approach to technology can stand in the way of efficient processing and a clear, holistic view of performance – exactly what today’s active investors have come to expect. Hence, if you’re servicing a liquid alpha strategy, the challenge will be to make the workflows and maintenance of traditional and alternative asset classes part of the same tight, transparent, highly automated lifecycle of administration and net asset value production.

Just as digital technology has electronified and transformed the trading, processing and reporting of traditional asset classes, so it will enable the liquid alpha ecosystem. In this seamlessly integrated environment, a single platform can automate and connect the accounting, processing and reporting of not only plain equities, bonds, futures and options, but also private equity investments and complex derivatives. By allowing best-of-breed processing engines for these different asset classes to talk the same language and create a single flow of data, you can bring more asset classes together but minimize operational complexities and costs.

As a result, an institutional investor, such as a pension fund or sovereign wealth fund, will be able to view, analyze and apply risk analytics to its multi-asset portfolio as a whole, across all asset classes. And while providing consistent and consolidated accounting, risk and reporting data, one flexible platform for liquid and illiquid assets will also help enhance controls, workflow, reporting, audit and compliance.

7 Ignites, Alt Managers to Advisors: You’re Judging Us All Wrong, March 13, 2018
Go with the Flow to Actively Support Liquid Alpha

» Solid opportunities for fluid fund administration operations

Through liquid alpha strategies, there are new opportunities to construct portfolios that combine the best of active and passive investment management. But at the same time, it has never been more important to process funds efficiently and support in-depth portfolio analysis and risk management.

Modern technology makes all of this possible and removes the operational obstacles that have previously faced the administration of multi-asset-class strategies. With a fluid servicing framework, a fund administrator can help asset managers deliver both liquidity and outperformance for their investors – without diluting automation, consistency or transparency.

SO, ARE YOU READY TO DIVE INTO LIQUID ALPHA?
Onshore or Offshore, Are Your Operations on Solid Ground?

From the structuring of a fund to reporting on its performance, a series of important decisions determine how investments are managed and investors’ needs are met. But the freedom to make the right choices depends increasingly on both the strength and agility of investment operations. To flex or not to flex, that is now the question.

Facilitating choice from the start

When setting up and structuring a fund, the asset manager needs to take a number of key factors into consideration – not least where the fund should be domiciled. The choice between an onshore and offshore location will draw on the expertise of both tax and legal counsels, and rests largely on the specific investment mandate.

At the core of this decision must always be the requirements and objectives of the investors. Do they wish to defer or minimize taxes, for example, or is there a need for confidentiality or less restrictive regulation? If so, an offshore jurisdiction such as Jersey or the Cayman Islands can provide an ideal solution, with little or no corporate income tax payable and the flexibility to accommodate a wider range of investment strategies.
However, according to Banking 2020, “certain corporate investors, such as insurance companies, banks and pension funds may be sensitive to particular industry regulatory issues” and therefore “may need their fund to be domiciled in a regulated environment” or “listed for easier exchange of their interests.”

But when this isn’t the case, less regulated offshore environments can leave fund managers freer to pursue strategies that may not be viable onshore. Investment restrictions, for instance, “may be imposed on the ratio of listed to unlisted securities, the holding of a certain type of security, the holding in one single issue and the level of borrowing. The major Caribbean offshore jurisdictions do not impose investment restrictions and are generally low to semi-regulated.”

Critically, though, whatever the structure or domicile of the fund, managers and investors need confidence in the accounting and administration operations that will support their strategies – and facilitate their choices from the outset.

**Supporting flexibility with robust fund administration technology**

Whether offshore or onshore, today’s funds are under increased pressure to govern their processes and comply with strict reporting standards. Asset servicers and third-party administrators play a key role in helping fund managers meet these objectives – making fund administration technology and operations important enablers of modern investment strategies.

With clients domiciled both onshore and offshore, FIS finds that administrators typically handle funds in multiple jurisdictions, each with their own specific tax and reporting obligations. Reporting itself can be just as complex a task offshore, as well as in specialist investment fund centers like Luxembourg, whose unique combination of rigor and flexibility has made it the top location for Undertakings for Collective Investment in Transferable Securities (UCITS) mutual funds. On the one hand, Luxembourg’s regulator, the Commission de Surveillance du Secteur Financier (CSSF), gives managers considerable scope to tailor UCITS funds to the needs of their investors. But on the other, it imposes particularly complex and stringent reporting requirements.
At the same time, more funds under administration now tend to feature a range of asset types, often combining liquid and illiquid instruments. Complex multi-asset strategies introduce their own processing and reporting complexities for administrators – and strong, flexible fintech is key to managing them effectively.

And as well as reporting accurately to regulators in different regions, fund administration technology needs to flex to the secrecy requirements of some investors – especially those investing in offshore funds. Agile solutions allow administrators to protect or expose their data as required, ensuring either transparency or complete confidentiality.

Adding value with premium customer service

For the high net worth individuals (HNWIs) who most commonly invest offshore, an important choice to make is how they will earn income from a fund – e.g. as a dividend or capital gain – and when to take that income. Here, again, flexibility is key to getting the best from an investment.

But just as importantly, HNWIs – and, indeed, investors on the whole – now expect superior levels of service from fund managers at every stage of the investment experience, from tax planning to performance reporting. Established offshore hubs have evolved to meet their end customers’ demands head-on, by attracting the very best talent and expertise in the fields of fund administration, legal and tax advice, and transfer agency, shareholder and corporate secretarial services. For example, 103 top administrators are currently licensed with the Cayman Islands Monetary Authority alone, helping the Islands retain their status as the premier jurisdiction for the domiciliation of hedge funds – and deliver consistently high-quality services to all stakeholders.¹⁰

What we’re also seeing from our fund administration clients stationed both offshore and onshore is a growing need to provide more frequent updates on fund performance. As a result, intraday or near real-time reporting is gradually becoming a must-have for fund managers, enabling them to pass on timely insight to their own investors.

By providing their asset management customers with an online, self-service dashboard view of their funds, constantly updated throughout the day, forward-thinking administrators are helping create the next generation of premium services for managers and investors alike. And underpinning their efforts is digital technology, which gives asset servicers the agility to not only process funds efficiently – but also transform increasingly complex data into readily available intelligence, across multiple asset classes and jurisdictions. >>

¹⁰ Cayman Islands Fund Administrators Association
Onshore or Offshore, Are Your Operations on Solid Ground?

Choose flexibility

Modern funds can take many forms which, as we have found, rely on a range of factors and take their initial cue from the interests of investors. Clearly, the decisions that fund managers make along the way will define a fund’s direction and steer it towards meeting key investment objectives. But with a robust foundation of agile fund servicing technology, managers will be in a stronger position to support their choices and make them happen.

Why limit your options when there’s flexibility at your fingertips?
Did You Know…?

- 50% of fund administrators aren’t sure that their technology can support growth.
- 53% feel the same way about their operations.
- But the hunt for growth is on and changes are coming.

In 2017:
- 67% of administrators were planning a move into new markets.
- 56% promised to strengthen their middle-office IT infrastructure in the coming year.
- 31% were piloting artificial intelligence and machine learning technologies.

What’s the state of play a year down the line? Find out in the 2018 results of FIS’ growth readiness research – coming soon.
Are You Ready for GDPR?

From May 25, every organization that does business with EU citizens, including fund administrators, must comply with the new General Data Protection Regulation (GDPR). While helping individuals better control their personal data, GDPR will have a far-reaching impact on data security as it drives firms to rethink how they manage, store and share data on their customers.

So, why not seize the regulatory opportunity to deepen your customer relationships?

Get set for compliance and beyond

FIS’ Consent Manager solution can help you not only achieve compliance with GDPR but also increase trust in your business – empowering your customers with both control over their data and enhanced, personalized services.

The solution allows business systems to maintain real-time knowledge of data rights, and makes sure that you consistently stick to your privacy promises and obligations. With immutable digital certification, Consent Manager uses distributed ledger technology to capture consent – creating a fully detailed and validated audit trail from end to end.

Find out more about GDPR and FIS Consent Manager, contact us on email getinfo@fisglobal.com. Visit our website www.fisglobal.com/gdpr/solutions
Empowering Ultimus

Since Ultimus’ founding and launch in Cincinnati in 1999, FIS has helped the firm to rapidly grow and establish itself as a leading provider of professional fund services to small and mid-sized asset managers. FIS’ integrated ecosystem of solutions for fund accounting, administration, reporting and reconciliation allowed Ultimus to provide industry-leading, fully automated operations from the start, while minimizing IT complexity and costs as the firm continues to grow and add capabilities.

**Objective**

Deploy administration tools across multiple sites in full support daily fund processing, allowing clients to deliver high-touch service.

Thanks to FIS’ continued investment in its core fund accounting platform, Ultimus has been able to develop middle-office outsourcing services for customers that offer institutional separately managed accounts.
World-Class Fund Administration from Day One

Between 2014 and 2017 alone, Ultimus has seen its assets under administration (AUA) grow from $19 billion to $55 billion while increasing from 30 customers to 80 – and funds from 65 to 225.

189% Asset Under Administration
2x Increase in Customers
3x Increase in Funds

Solution

With services that include trade processing, daily investment book of record (IBOR) delivery, performance and attribution reporting, client statements, client billing, GIPS compliance and an investor reporting platform, Ultimus is continuing to work with FIS so the firm can build stronger partnerships with customers and, by extension, help them to reinforce their relationship with their investors.

By increasing our technology investment and working closely with FIS, we’ve been able to grow without compromising the quality and customer service that have been so important to us over the years.

GARY TENKMAN, MANAGING DIRECTOR, ULTIMUS

Next-level Fund Administration – Are You Ready to Rise?

Hear from

Gary Tenkman, COO and Managing Director, Ultimus
Jason Stevens, CTO, Ultimus
Bob Dorsey, CEO and Managing Director, Ultimus
FIS Solutions

Fund Administration & Accounting

Data Exchange

Financial Reporting

For further information contact us on email getinfo@fisglobal.com

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting, and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Fla., FIS employs more than 53,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor’s 500® Index.

For more information about FIS, visit www.fisglobal.com.