By: Amy Small, executive vice president, executive director of institutional custody at UMB Bank.

The investments industry is in the midst of an evolution. Advisors, fund managers and investors are increasingly seeing the value of diversifying portfolios through real estate investment trusts and limited partnerships, hedge funds and private equity funds. Now, evolving industry expectations and the growing demand for data are driving major trends in custody offerings for these investment types.

One size no longer fits all

Technology is the increasingly becoming the foundation of the service industry, and continuous technological
innovation has become an expectation for custodians. However, fee pressures often force many alternative investment funds to accept one-size-fits-all solutions.

In order keep their costs competitive, partners and fund managers are settling for custody services that often don’t fit their needs. A custody partner should be able to deliver both the innovative technologies alternative investment managers expect and the high-quality service they deserve—minus the price tag.

The importance of innovative technology

New and improved tools in the custody space, from online portals to straight-through processing and point-to-point system integrations, are delivering efficiency and moving the industry forward where possible.

Accessibility and transparency are top of mind for today’s advisors, and new technology provides easy access to their custody account holdings, providing transparency and control in a self-service framework.

What’s more, real-time access allows for speedier turnaround times and on-demand trade status updates. Leading custody providers also offer additional services such as performance reporting, data extract capabilities, tax lot information and historical data.

The goal of straight-through processing is to convert trades with minimal-to-no manual intervention, therefore ensuring accuracy and improved speed of completion. Many custodians provide electronically enabled systems that allow for industry-standard formatted messaging.

However, some programs require a “spreadsheet” type of environment, which enables nimble and customizable information flows. By providing flexibility on implementation of technology - whether by means of uploading files, customizing transmissions, or the combination of online platforms - alternative investment clients are equipped to access and act upon data based on their varying levels of sophistication.

Thriving through change

Alternative investment managers and service providers benefit from the ability to quickly adjust their approach and adapt to the ever-changing environment. The rising popularity of alternative investments and increased regulatory changes are causing pivots and innovations in servicing.

Custodians are finding themselves in a unique situation: they must continuously offer the best standardized, straight-through services afforded by the latest technology, while also being adaptable enough to adjust to regulatory, operational and market demands. This includes being flexible and easy to work with on ancillary services and agreements such as with lending agents and control agreements.

Creating custom solutions

Although providers all dream of standardized industry practices, within the alternatives space there is still a need for individualized solutions that can meet the needs of each firm. Boutique-type offerings are en vogue.
Alternative investment programs exist in all shapes, sizes, and strategies. They require providers who can deliver superior customer experiences by being adaptable when necessary; they also must deliver industry standard procedures when needed.

Alternative product offerings, such as private equity and hedge funds, also have specific needs in addition to traditional custodial clients. Increased demands on anti-money laundering (AML) protocols require a hands-on approach to fulfilling AML requests and comfort letters.

Additionally, with the enhanced lending practices, the custodial control of assets is key in working with lenders to provide tri-party and collateral agreements.

Because providers are seemingly always hiking fees and forcing standardized solutions, service paired with technology remains the key differentiator. Increased technology should not automatically come with a high price tag and lower service levels; tech offerings must include the human element.

Alternative investment managers should expect support from a responsive service team that can quickly work to resolve concerns and understand the nuance of their business.

Selecting the Right Partner

When selecting a partner, it is important to work with a custodian that understands a cookie-cutter approach won’t work in today’s environment. A custody program should be structured to fit your alternative investment needs and help ensure a simple and seamless experience.

With constantly evolving technology solutions, open communication and exceptional service should be mandatory. During the selection process, technology and service should be top-of-mind to ensure you are set up for success. Service and technology work in tandem with neither being a substitute for the other.

In the evolving alternative investments industry, the only constant should be a custody partner that offers tailored, innovative solutions for your unique needs.

UMB has more than 70 years of custody servicing experience with domestic and global transaction processing with straight-through processing, a robust security master that can accommodate data requirements of complex holdings, integration with large accounting providers, corporate actions processing, securities lending partnerships, as well as cash management services.

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