



# Fund solutions for a new breed of investor

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ith Defined Contribution plans now favoured over Defined Benefit pension schemes, there is a marked shift towards outcome-oriented investing. Investors are increasingly seeking to access better engineered, innovative multi-asset products to provide reliable investment returns over their lifetime that will ultimately provide an appropriate income in retirement.

The industry's response to this demand has been the development of fund solutions. In recent history, this may have been achieved through diversification, facilitated through investments in multi-manager funds. However, this type of product has found only limited success; a one size fits all design, high fees and a lack of transparency has resulted in a lack of investor demand that, in turn, has led to the widespread closure of many multi-manager funds over the last eight years.

Increasingly, European institutions are marketing fund solution products that are tried and tested in more mature DC markets such as the US, South Africa and Australia. These products attempt to consider the investor's personal circumstances and include lifestyle and target date funds. These funds are fund-of-fund solutions which blend underlying asset class funds using glide paths and asset allocation structures and are designed to take people up to and through their retirement.

What is limiting the creation of these types of multi-asset fund solution products? The standout factor is high administration costs and technology constraints. Arguably, this is a space the new breed of robo-advice firms is expected to tackle. However robo-directed solutions are mostly limited to investing in a basket of passive exchange traded ETFs, rather than blended active cross-asset class,

cross-manager funds built for a specific purpose and targeted return. The rationale for robo-directed solutions exclusively offering only a blend of passive ETFs, is in all likelihood, that they face the same technology constraints and administration costs as their traditional peers.

### Complexity and Scale

The administration requirements of fund product solutions that the DC market is increasingly demanding has run ahead of the industry's current administration capability. The organisations manufacturing, managing or administering these new solutions have typically failed to grasp the possibility of adapting to these new demands at a technological level. Many are simply accommodating these new requirements as best they can within old operational infrastructure.

For example, to manage and administer a custom target date product, the administration solution must be able to deal with complex, multi-tiered fund structures, requiring sophisticated cash allocation and rebalancing processes and the ability to manage the processing dependencies that multi-tiered fund of fund structures create. Additionally, the solution must be scalable due to the 'building-block' nature of these products - the potential number of investor outcome solutions for different cohorts that can be manufactured over a set of underlying building block funds is beyond the scope of today's infrastructure.

However, the paradigm of administering NAVs over the last 40 years has been to 'manufacture' daily NAVs of mutual funds in an increasingly high volume/low cost standardised fashion. Existing processes and systems do not tend to cope well with the requirements of fund-of-fund structures or highly bespoke fund solutions, and if there is support, it tends not to scale.

### Using Building Blocks to enable a Fund Solutions Platform

However with the appropriate infrastructure and technology in place, a range of underlying asset class funds and portfolios can be used to create an unlimited range of fund product solutions. Rather than remaining a challenge, creating multi-asset funds as fund-of-fund solutions that blend these building blocks can support the creation of highly personalised, targeted multi-asset solutions for a much more granular cohort of investors.

For example, asset class funds and mandates >



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can become the building blocks of sector-specific fund-of-fund solutions which can, in turn, be combined as building blocks into a range of diversified multi-asset funds with different risk/return profiles targeted at different groups of investors.

The building block approach shown in Figure 1 below can also allow organisations to be prepared for significant market events like Brexit, which may require underlying funds and mandates to be switched from 'off shore' to 'on shore' depending on how the regulatory and passporting relationship looks after the UK's exit negotiations have completed. End investors need not be aware of any switching of underlying building blocks as all units are held in the fund-of-fund solutions.

To support the administration of the fund-of-funds in this building-block approach, the underlying administration platform technology must support the automation and industrialisation of all daily

administration processes; from daily cash allocation, rebalancing and order management to daily NAV calculations and reconciliations, whilst be designed specifically to deal with the complexity of multi-tiered fund-of-fund structures and their processing dependencies, look-through and other requirements that come with these types of structures.

Milestone Group has been a pioneer and evangelist in technology-based enablement of these multi-tiered fund-of-fund structures. Its pControl Multi Asset platform has been purpose built to address the operational requirements of managing multi-asset fund solution products designed to utilise multi-tiered investment structures. As Milestone's growing client base in this area globally attests, the convergence of a firm's multi-asset front, middle and back office requirements onto a single administration platform creates material processing efficiencies, new product capabilities and supports the scale required to meet the fund product needs of the modern financially astute investor.

FIGURE 1: VISUALISATION OF THE 'BUILDING BLOCK' APPROACH

