EXPERT INSIGHTS:

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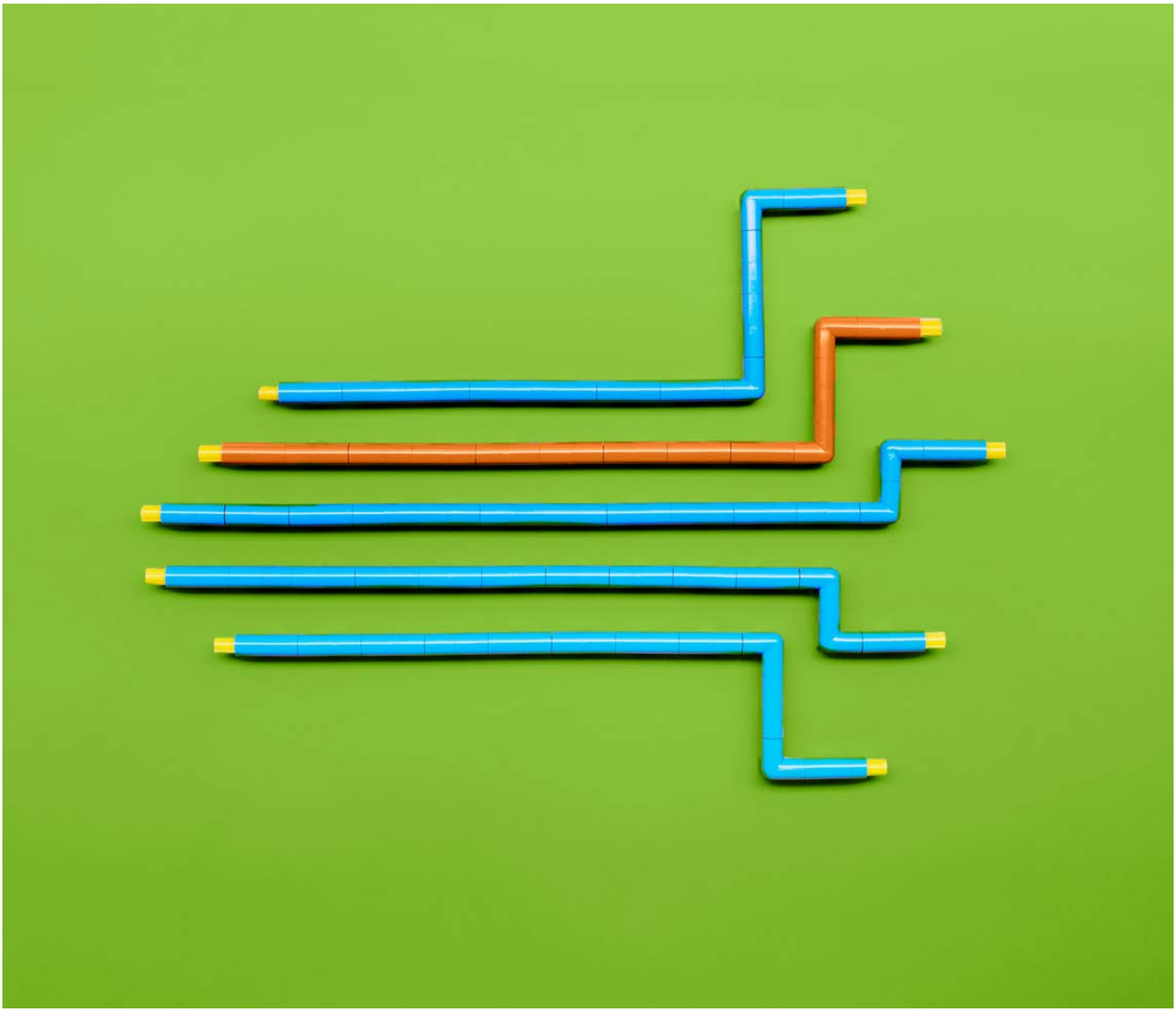
Keeping pace with fast-evolving private market funds.



Extraordinary growth in private markets over recent years is a familiar story for investors.

With an average growth rate of 20% per annum since 2018, alternative assets under management grew to $16.4 trillion globally in 2024.[1] Private assets have proved attractive for their potential to outperform public market assets and serve as a direct way to invest in key growth areas, such as infrastructure development, real estate, and credit.

This top-line growth has sparked ongoing and rapid evolution in the private market industry. As new investors are drawn to the asset class, there are new expectations for liquidity and data transparency. Meanwhile, regulatory changes and fund innovation are creating new models. Both trends mean that fund managers need sophisticated technology and operations to keep pace.

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$16.4T

Alternative assets under management grew to $16.4 trillion globally in 2024[1]

Europe's fund hub

Luxembourg has long been Europe's fund hub, standing as the largest fund domicile on the continent and the second largest in the world after the US.[2] This success is due partly to Luxembourg's location at the heart of Europe, but also to its advanced regulatory environment and network of financial expertise centred on the fund sector.

SEI has been in Europe for nearly 30 years and ranks among the top two largest fund administrators for Luxembourg private credit funds.[3] Our Luxembourg office reflects the international flavour of the jurisdiction, featuring a team that speaks more than 20 languages.

Luxembourg's fund heritage is built on its long-standing leadership in the market for Undertakings for Collective Investment in Transferable Securities (UCITS). But it also extends into alternative asset funds, thanks to European Union regulations (AIFMD) and domestic Luxembourg laws (UCI Law). In particular, Part 2 of the Luxembourg's UCI Law provides fund initiators with a suitable regulation to launch European Long Term Investment Funds (ELTIF) in Luxembourg.[4] The ELTIF regulation,[5] first introduced in 2015 to provide retail access to private markets, has been reformed to ease that access further, including widening the asset classes eligible for ELTIF investments. One notable reform to the ELTIF regulation allows for more liquid fund structures—a move that relates directly to the expectations of investors and the needs of fund managers.

At SEI®, we recently completed our first close with a client utilizing a UCI Part 2 ELTIFs. We're also hearing from other clients who are considering adopting a similar structure, targeting the first quarter of 2025.

Demand for liquidity and flexibility

Two key factors are driving the evolution of private market fund structures. First, many private market funds are extending their investment horizons, with managers increasingly looking at long-term strategies that could deliver greater returns.

At the same time, investors entering private markets are looking for greater liquidity than the asset class has typically provided. Traditional private equity funds have generally required lock-ups for seven to 10 years, or even longer in some cases.

The growth in net asset value (NAV) finance is one innovation addressing these factors. Financing at the fund level rather than through portfolio company borrowing delivers greater flexibility to fund managers to apply longer-term strategies. This approach also offers the potential of greater liquidity for investors.

There is also a growing interest in hybrid funds, often described as semi-liquid funds. These structures aim to combine the benefits of open- and closed-end fund models. A wide range of structures can be called hybrid, but a typical model is a fund that starts as a closed fund while the investment manager ramps up investments. Then they enter a more frequent redemption period, allowing investors to redeem capital with fixed notice periods.

Private credit funds, which invest in company or asset debt and provide funding for NAV refinancing by private equity, have also become a growth area.

#1 largest by assets private credit fund administrator globally.[3]

Liquidity requires data and transparency

Greater liquidity brings other requirements, such as more frequent valuation data. Retail investors want to see the value of their holdings, which requires frequent and transparent valuations on the fund assets. Meanwhile, asset managers want to obtain data multiple times a day via APIs and integrate it into their systems. Delivering this capability will be an increasingly important function for investment service providers.

At SEI, we have a robust, open architecture technology platform that combines top-tier market solutions with our own tech developments, enabling us to aggregate and normalise data from a range of sources and deliver it to clients in real time. Private market funds are entering a new era that will provide further acceleration to growth. But with that evolving complexity comes a need for new levels of back-office sophistication. Plugging into a highly developed jurisdiction and an expert provider in administration will be a key differentiator for the next generation of fund operators.

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Ian oversees business management and daily operations in our Luxembourg office. Joining SEI in 2007, he has held senior positions in accounting and operations, including Senior Director in Private Equity, focused on credit products.

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Sources

[1] "Assets under management," Preqin, March 2024.

[2] "Worldwide Regulated Open-end Fund Assets and Flows: Trends in the First Quarter of 2024," European Fund and Asset Management Association (EFAMA), 25 June 2024.

[3] Preqin named SEI as the largest by assets private credit fund administrator globally, as of 31 January 2024.

[4] Law of 17 December 2010 relating to undertakings for collective investment.

[5] Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015.

Important information

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