

A Simplified Solution

Stockholm (HedgeNordic) – What will investment fund managers do differently in the future compared to today? An intriguing and indeed timely question. One that GRIT Governance, a provider of fund structuring & administration and compliance related services in the Nordics, asks itself everyday with the motto of “helping the daring build legendary investment businesses.” With a long history in the hedge fund industry, dating as far as the early 90s, GRIT Governance has over recent years dedicated considerable resources into identifying the factors that really matter to asset managers and investors, and separating the rest into a streamlined mechanism that “should just work.”

According to Mathias Österberg (*pictured*), CEO of GRIT Governance, the hedge fund industry has maintained a key role in pioneering new technologies, investment strategies, and innovations; and will most likely continue to do so. “From an asset managers perspective, most operational and compliance aspects deviate only slightly and fundamentally remain quite standard,” says Österberg, specifically referring to the structure, administration and the compliance characteristics of investment funds. However, “digging through the massive amount of legislation applicable locally and EU-wide in order to find the parts relevant for the way you want to handle your asset management can be a truly monumental task. Getting it wrong is not an option, and getting it right requires significant time that is likely better spent on investment decisions or in investor responsibilities.”

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A megatrend within asset management over the last decade has been the increasing regulatory and governance obligations towards asset managers. For instance, between 2008 –2016, the total number of regulatory publications changes and announcements per year (globally) grew by an astounding +503%¹. Consequently, the implication for asset managers is rising compliance costs. For EU asset managers, the one-off compliance costs increased by 395% whereas the ongoing compliance costs increased by 145% between 2008-2017². In short, established investment fund managers are experiencing tightening margins as a result of these increasing costs while new managers are challenged with heightened barriers to overcome when entering their respective fields.

The continued evolution of regulatory and compliance parameters has paved the way for Österberg to further steer GRIT Governance’s agenda in the development of reliable and cost-efficient solutions overcoming this challenge. Today, GRIT Governance manages 15 individual funds with these solutions, catering to the distinct and specific conditions of each partnered manager. The most recent example of this is a collaboration between GRIT Governance and Innolab, a Danish fintech company, with their launch of the GRIT Innolab AI Equity Arbitrage alternative investment fund.

The solution for GRIT Innolab AI Equity Arbitrage AIF was such that GRIT Governance set up its subsidiaries to execute both portfolio management and the fund management for the fund. The value add of such a proposition comes from greater focus on the end customer – the investor. In this circumstance, Innolab can dedicate its attention to the actual value-adding activities such as: investment strategy development and serving its investor base.

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According to Österberg, the solutions that GRIT Governance have identified and proposed mean that *“It is simpler and more cost efficient to set up a fund than it may seem.”* With the appropriate guidance, infrastructure and experience in place, you are less prone to tripping up and rather get it right the first time. *“It is a true “win-win” situation for all parties,”* says Österberg, comparing the solution with today’s standard activity of accounting. Few do it themselves and instead let specialized professionals take over.

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When asked to predict the future growth of financial service providers such as GRIT Governance, Österberg believes that the trend will only become increasingly common amongst asset managers, particularly in the Nordics. The reason for this is predominantly accessibility. Given the cost efficiency and convenience of partnering with service providers catering to these functions, asset managers are presented the luxury of being able to focus on the core of their business while the likes of GRIT Governance serve as the backbone operationally.

Why do we expect more fund launches specifically in the Nordics? According to Österberg, professionals within investment finance in the Nordics, and particularly those functioning within Fintech and Regtech, are ahead of the curve with regards to innovation. It is common practice to think outside of the box and pursue the infinite possibilities within regulatory and compliance frameworks, as opposed to settling on one default and have that be the *modus operandi*. Referring once more to Innolab, it serves as a fitting example of an asset manager, or “a pure technology company” as they would refer to themselves, that is on the forefront of leveraging these new and superior solutions and concepts, ultimately paving the way to entering the markets ahead of competition. Österberg goes as far as to state that *“new innovative solutions, delivered with a short time to market, and maintaining agility to react to a changing market environment rather than being bogged down in operational or compliance hassle is a clear competitive advantage for a manager.”* Transitioning towards more lean, agile, and focused company structures is often regarded a formidable strategy in business development.

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The future of regulatory and compliance obligations is difficult to predict, given their continued evolution. Whatever the case may be down the road, it is fundamental to prioritize accordingly. *“For asset managers aspiring to grow beyond their current means, it is of the utmost importance to dedicate one’s time and attention accordingly,”* Österberg concluded his thoughts on the discussion, namely the management of one’s assets and the continued dedication to the investor base.

¹Gomedici, 2018, link: <https://gomedici.com/how-european-banks-are-using-regtech-solutions/>

²EU publications 2019 – Study on the costs of compliance for the financial sector, link: <https://op.europa.eu/en/publication-detail/-/publication/4b62e682-4e0f-11ea-aece-01aa75ed71a1>