

Asset management industry: Top issues for 2024

Transcript

SPEAKER:

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NARRATOR: Welcome to the Industries podcast series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

MICHAEL PATANELLA: Hello everyone and welcome to our Asset Management Grant Thornton podcast. My name is Michael Patanella. I am the National Managing Partner for Asset Management at Grant Thornton. We'll talk a little bit about interest rates, the impact it has had on asset managers, and the evolution in running your business.

We'll also talk a little bit about technology, including AI, and then also cybersecurity and the different ways that firms are looking at their spends. And lastly, we'll talk a little bit about some of the new regulatory issues that are ahead. It is extremely important to have a solid set of controls and also dialogue with your third-party advisers to make sure that you are capturing both your local and also your global requirements.

So with that, I'll start with interest rates. Interest rates has been a highly publicized topic. The Fed has given various levels of indication throughout the year on raising, done raising and so forth.

But the way that it's impacting asset managers is in a couple of different ways, one on the investment side which will impact to a certain extent revenue. A lot of investors are putting money on the sidelines in money markets and T-bills and other non-risky, no-risk, if you will, type of investments, waiting to see the market turn, waiting for interest rates to start coming down and going through that very cyclical investment thesis that I think a lot of individuals follow and that has proven itself over the decades prior.

In doing that, asset managers have focused on maybe some different sectors that have become a little bit more prevalent. One, specifically is credit. Credit, because these higher interest rates and some changes in the banking industry have created an opportunity for alternative investment vehicles to be created to effectively handle that void in the market for different companies that need to raise, capital

And in certain areas, real estate has started to get some additional momentum. So when prices have come down a bit in certain areas, if commercial real estate is now being changed to

residential, or overall, just residential building, which looked like it was stopping at one point for a very short period of time but now is really ramping up — these various opportunities, asset managers have opened up new funds based on those opportunities

But the interest rates and overall equity has also affected asset managers. Sales are starting to pick up for the first time, but they have been slow and a lot of asset managers, until there is a liquidity event, they're not taking their carry. They're not taking some of their fees. So in turn, they need alternative financing and they have looked at different ways of doing that.

Cash flow is something that impacts our asset managers because they have to pay out bonuses, they have to remain competitive and there's different ways that we're working with our clients and putting that together.

Now all of this, all levers that you can use in your in your business. In certain cases, these are ones that you need to put forth some planning with. In other ways, budgeting and focus on actual needs versus wants is something that we talk a lot about.

In this environment, it's extremely important to talk about technology and cybersecurity. When I think about cyber, this is something that maybe you're not willing to stop your spending on or not allocate very specific amounts of dollars to because of the risk. If there is a breach — and even with the best security and the best focus, there could be breaches — you will have a very big drain on your business. It could be assets being taken from you. It could be your investors losing faith in your business. So you really obviously want to prevent that. So that's not an area where you would maybe pull back spending.

One area that we do see in certain cases, depending on a business, that pullback is within technology. And that really is something that you have to think about because the competition, and many advisors are really focusing on technology and AI. And there are a very good amount of positive things that will impact your business such as improved internal controls and overall processes.

Investors want additional types of reports. They have additional needs, and having the ability to use technology and AI for them is very important. And in certain cases it could be now within your investment decisions so that you're using AI and some of the sources of information and analyzing that information.

Now there is a new term that has recently come out in the news by Gary Gensler relating to AI wash. So just like ESG and other real main areas of focus, wanted to make sure that whatever you are using from a technology and AI perspective, you are absolutely running separate controls and the oversight over that is heightened.

There was some conversation about some more overall oversight that will be coming. Maybe it is as fast as 2024. It could be further, but it is something that we absolutely want to stress here that is something to pay close attention to.

The last item that I'll talk a little bit about today are regulatory changes. And some of these regulatory changes we've been talking about for a good amount of time.

We've spoken to clients and it's been in the news that certain cybersecurity disclosures are coming. Certain reviews that are going to be needed will be happening. And for some companies and larger managers, the SEC's long-delayed climate disclosure will be coming soon.

There has been a lot of talk and even litigation relating to the private fund rule, and that rule is encompassing a lot of types of asset managers and it will have an impact on your financial reporting.

It will have an impact on your chief compliance officer and your accounting officer, and depending on how you tackle that new rule and you put it in force, could get back to what we mentioned earlier, utilizing technology and/or a third party and making sure that you're monitoring that third party and the technologies very carefully because those types of disclosures relating to fees going to your investors needs to be precise and well thought-out. Well, hopefully some of the items that we covered today will put your firm in good position and give you some good ideas and things to look at in 2024.

NARRATOR: Thanks for listening. Find out how Grant Thornton goes beyond expectations at [GT.com](https://www.gt.com).