CSC

SPV Global Outlook 2024: Charting the Course for Growth in Private Markets

Introduction

Special purpose vehicles (SPVs) have long underpinned and facilitated capital flows across borders and helped private investors access new markets, simplify processes, mitigate risks, optimize capital flows, and enhance returns.

In Q1 2024, CSC commissioned independent research among C-suite level executives and other senior professionals in the real estate, infrastructure, private equity, and private debt sectors in the U.K., Europe, North America, and Asia Pacific. We asked them about the critical role SPVs play in their markets and across fund strategies, the challenges and opportunities that come with using SPVs, how technology and outsourcing are simplifying administration and driving growth, and expectations for the future.

Our report comes at a difficult time for many firms. Facing a slowdown in dealmaking and exit volumes after several challenging years, private fund managers are increasingly searching for new opportunities and asset sales, while looking to effectively deploy record dry powder.

Fund structures and transactions have also grown more complex. A rapidly evolving global regulatory environment, enhanced reporting, demands for ever more granular data, and new themes such as ESG, among other factors, have combined to create a much more sophisticated environment and additional risks for managers to guard against.

Highlights of the research

We surveyed 400 respondents across the world. Key findings included:

Most executives are optimistic that market conditions will improve.

76%

expect market conditions for deal making and deployment of SPVs to improve in two-to-five years or sooner.

Regulations and regulatory planning are front of mind for private market managers.

60%

of respondents proactively identify and plan for potential regulatory changes as early as possible.

But

34%

leave the planning to just before implementation.

Talent and regulation are top challenges.

71% said access to suitably qualified staff has become a significant challenge in terms of setting up and running SPVs.

Technology will deliver the biggest improvements to SPV management.

59% said technology is key to having a single view of all SPVs.

Critical SPV services include technology, trust, and timeliness.

65% said technology and reporting data should single out the ideal SPV administrator.

64% said speed and timeliness of bank accounting opening and onboarding were vital.

Outsourcing has become fundamental, but firms need to consolidate.

Respondents expect to have three or more outsourcing partners in five years' time, up from two on average today. **But for many one can be enough.**

Overview of our survey respondents

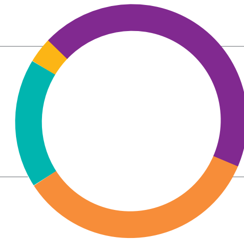
Regional split of respondents

33.4% Asia

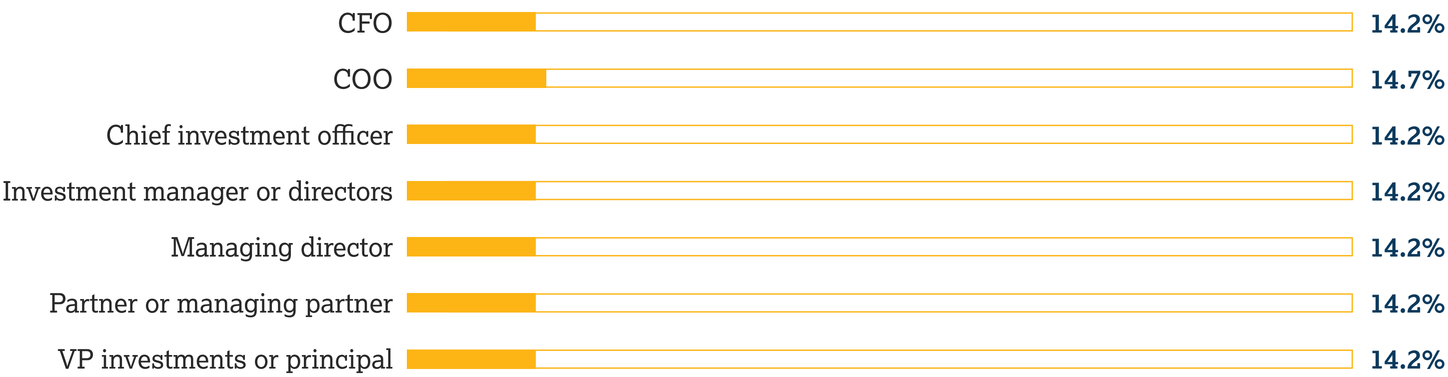
33.4% U.K. and Europe

33.2% North America

Split of firm's total AUM



Job title of respondents



Sectors in which respondents work

24.9% Private equity

25.2% Private credit/debt

24.9% Real estate

24.9% Infrastructure

Our experts

Thijs van Ingen
Global Market Leader, Corporate and Legal Services, CSC

Delphine Jones
Managing Director of Client Solutions, CSC

Robert-Jan Bertina
Head of Corporate Services, Europe, CSC

Bas Coenen
Head of Fund Solutions, Europe, CSC

Private markets experienced some tough years but have strong long-term prospects

Private markets including private equity, private credit, venture capital, infrastructure, real estate, and natural resources continue to grow, despite well-publicized headwinds in recent years. For example, high inflation rates have impacted sentiment and the post-pandemic work from home boom has distressed much of the office market.

There is still much to be positive about. Dry powder levels are at record highs globally as deal making has begun to pick up steam; inflation rates have begun to fall in many regions; and new legislation such as the European Long-Term Investment Fund (ELTIF) 2.0 is highly supportive of increased activity and cross-border investments.

According to McKinsey, private market assets under management totaled $13.1 trillion as of June 30, 2023, having grown nearly 20% per annum since 2018. It stated that dry powder reserves increased to $3.7 trillion, marking the ninth consecutive year of growth.

Separately, a report from Bain & Co said that while 2023 was tough, with deal values falling by 37%, record dry powder is stacked and ready for deployment.

"Private markets remain highly attractive to investors," said Thijs van Ingen, global market leader, Corporate and Legal Services at CSC. "The market is adapting, maintaining demand, and will continue to adapt. In real estate, for instance, core plus type strategies are offering better yields because, given current interest rates, core is not presently appealing to investors. Appetite has shifted away from core and core plus strategies into more opportunistic strategies, which shows investors are focused on capital appreciation over stable income generation.

The market is adapting, maintaining demand, and will continue to adapt.

"The environment suits the growth of more opportunistic strategies that we are seeing globally. Infrastructure continues to appeal investors because of the strong push towards clean energy and assets like wind farms and solar parks."

CSC's study shows a high degree of market optimism

According to CSC's research, most respondents are optimistic that market conditions will improve. Almost half (47%) said they expect to see market conditions for deal-making and deployment of SPVs in their sector improve over the next two to five years. More than one quarter (29%) believe it will improve in less than one year or that it is already happening.

When do you see market conditions for dealmaking and deployment of SPVs improve?*

6.5% It's already happening

47.1% 2 to 5 years

22.2% Less than 1 year

24.2% Over 5 years

Global across all sectors

Our Asia-Pacific respondents were the most cautious, with only 16% saying they believed that market conditions will improve in less than one year or it is already happening. This is probably not too surprising given the dramatic fall in fundraising in Asia Pacific. Regional demand fell 72% in 2023 (compared to 22% globally).

Those working in real assets were generally more optimistic than those in other asset classes. More than one-third (35%) said they believe market conditions will improve in less than one year or that it is already happening vs. 22% globally, respectively.

When do Private Market respondents expect to see conditions improve?

Real assets repondents	Private debt and Private equity respondents
9.5% It's already happening	**3.5%** It's already happening
26% Less than 1 year	**18.4%** Less than 1 year
43% 2 to 5 years	**51.2%** 2 to 5 years
21.5% More than 5 years	**26.9%** More than 5 years

The growth of private debt and the role of SPVs in that growth stood out for Delphine Jones, managing director of Client Solutions.

"Our research found that two-thirds (67%) of debt professionals believe dealmaking and SPV deployment will increase over the next two years. This is the highest percentage among the sectors and supports the trend we are seeing more generally in the market towards private debt."

Fundamental role of SPVs in managing complex transactions in a complex world

SPVs have long been mainstream structures at the center of a mature global investment ecosystem. CSC's research found drivers for the use of SPVs across all markets and investment classes including their proven ability to ringfence and protect a parent company's assets and liabilities; to deliver effective portfolio diversification; and in making it easier to sell assets.

Over the past five years, what have been the biggest drivers behind the increased use of SPVs in your sector?

32.7%

Easier to exit and sell assets

47.4%

Protection of parent company's assets and liabilities

49.4%

Ringfencing of individual assets and their performance

34.2%

Portfolio diversification

23.7%

Tax efficiency

56.9%

Increasingly easy to set up and run

38.2%

Availability of outsourced solutions

5.2%

Easier to set up co-investments and joint ventures

What's changed over the past decade is the degree of complexity in establishing, managing, and utilizing SPVs productively in what has become an increasingly complex world. The industry is using more SPVs, for instance, while working through more regulations, and creating a huge operational burden in the process. Speed to market has escalated in importance, so delays in forming SPV structures during a transaction can cause major problems.

This ongoing, fundamental role of SPVs as well as the accelerated challenge of complexity was emphasized by both our respondents and the team at CSC.

"SPVs remain fundamental because cash needs to be deployed and investments need to be properly structured. Institutional investors continue to allocate to private equity, private debt, infrastructure, and real assets. Asset managers have clients looking to spend money, they need to deploy funds, and they will need SPVs," said Robert-Jan Bertina, head of Corporate Services, Europe.

If you look back 20 years, these structures were simpler to set up and maintain compared to today.

"Large asset managers in particular have increasingly complex cross-border investment strategies, often in joint ventures. SPVs not only provide greater efficiency and more effective reporting, they also help in terms of cost management."

Delphine added, "SPVs were originally developed to protect the parent company assets by isolating financial risk, so the fact that this is a key reason to establish an SPV is expected. However, I think it's important to emphasize that we have seen the SPV ecosystem becoming relatively inefficient, with a lot of unnecessary complexity and too many outsourcing partners. It makes a great case to centralize with CSC."

Thijs agreed, stating, "SPVs have become more complex, and far more work needs to be done to keep them in good standing, particularly if you factor in new regulations and new requirements."

Regulations and regulatory planning are front of mind for all stakeholders

In today's world, regulation remains a focal point for managers and investors, particularly as the regulatory landscape becomes ever more complex. It is both a head and tailwind for managers.

Legislation such as the Inflation Reduction Act in the U.S. and ELTIF 2.0 in Europe could spearhead greater global investment in infrastructure and real assets and as such is seen as a strong tailwind. But regulation also remains jurisdiction-dependent, with sponsors needing to be aware of all regulatory developments in multiple jurisdictions, adding significantly greater complexity.

Thijs said, "Regulation is driving complexity. There's just so much regulation and it's constantly changing.

"While fund managers are very good at finding and investing in the most appealing and profitable investments, they are not necessarily specialized in all the regulatory requirements in the applicable jurisdictions where the SPVs and investments are—and this can be a major risk as the ultimate compliance, governance and risk responsibility remains with the manager. And there are multiple levels of regulations that are being put on these structures, from the fund level to the SPV level to the actual investment itself."

Bas Coenen, head of Fund Solutions, Europe, added "Regulation continues to be a challenge for many market parties in the form of regulatory compliance developments and most prominently in economic substance requirements."

> **There's just so much regulation and it's constantly changing.**

Our study found that in terms of global respondents' broad approach to addressing regulatory challenges, the majority proactively identify potential regulatory changes as early as possible and plan for their implementation in advance of the deadline (60%). However, more than a third (33.4%) admit to leaving the planning until just before implementation.

How would you describe your firm's broad approach to addressing regulatory changes?*

60.1% We proactively identify potential regulatory changes as early as possible and plan for their implementation in advance of the deadline

33.4% We tend to know about regulatory changes early on but leave the planning until just before implementation.

4.2% We do not monitor regulatory changes ourselves, rather wait for our advisers to notify us of any changes and respond as late as possible

2.2% Don't know

*Global across all sectors

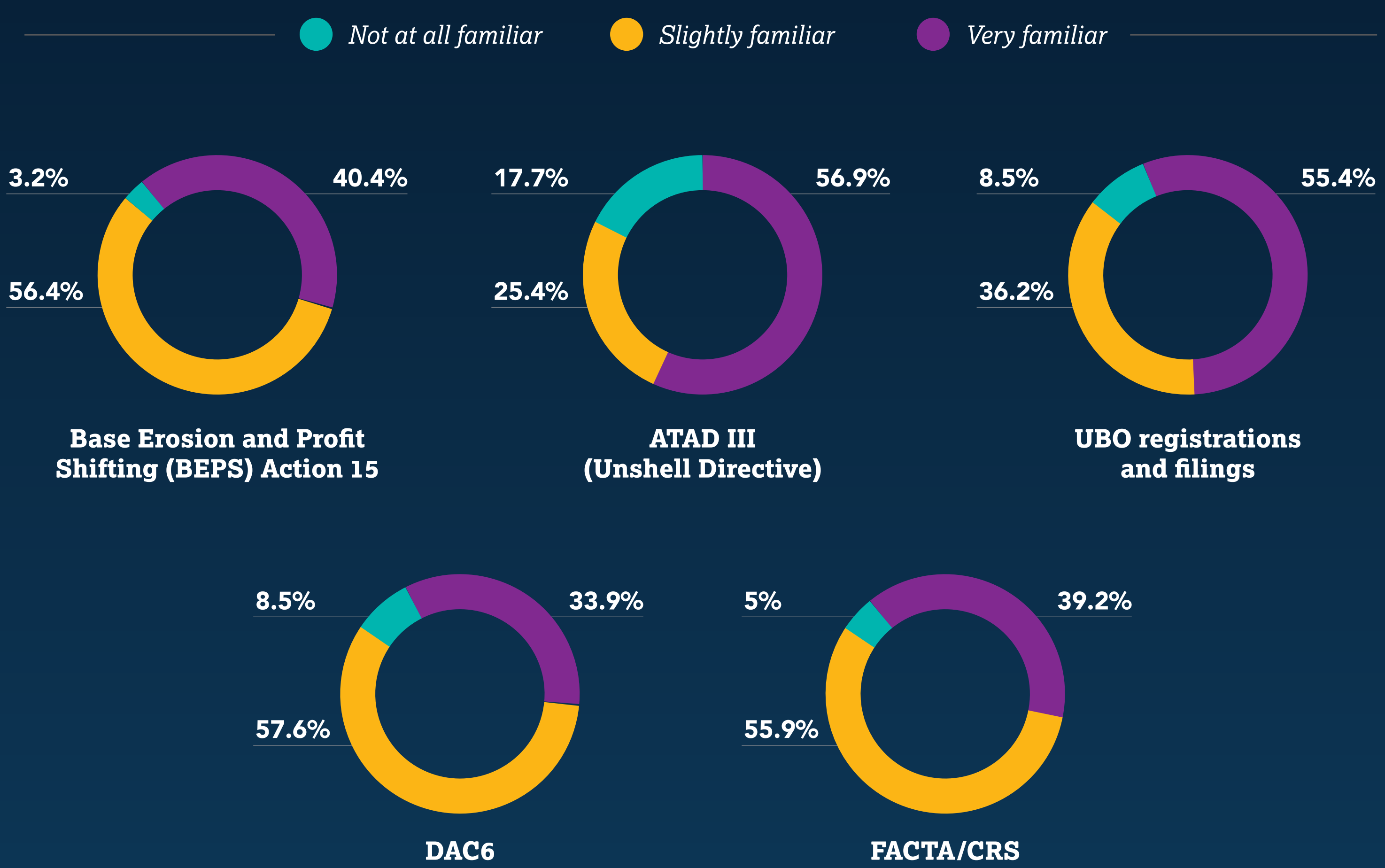
Respondents in Asia Pacific felt the most prepared, with two thirds (66%) proactively identifying changes early on and planning for implementation ahead of the deadline.

In a world of regulatory change and sophistication, outsourcing the management and administration of SPVs to specialists can mean sponsors stay current with all regulatory developments and reporting requirements across jurisdictions, radically simplifying one of the most significant and risky elements of using SPVs.

On the issue of regulation, Robert-Jan said, "Regulation is a challenge. Digitalization has brought a lot of good, allowing clients to stay ahead of regulations. But the world is rapidly changing. For instance, the introduction of Ultimate Beneficial Ownership registers in Europe and other jurisdictions like the U.S. is a new element to consider, with differences across markets such as different filing deadlines."

> **Digitalization has brought a lot of good, allowing clients to stay ahead of regulations. But the world is rapidly changing.**

Levels of familiarity with the following regulatory frameworks*



*Global across all sectors

Talent and regulation are top challenges in the context of SPVs

As the use of SPVs has grown, so have the challenges. Access to suitably qualified staff has become one of the most significant concerns in terms of setting up and running an SPV and was cited by 71% of respondents when asked about specific issues and challenges.

Leading on from the previous chapter on regulation, complying with economic substance regulations was cited by 69% as a top challenge while the same percentage said it was responding to regulatory changes. In Asia Pacific, dealing with multiple stakeholders in different jurisdictions was cited by three quarters (75%) as a major challenge.

Issues such as finding suitable talent and economic substance, among others, have resulted in momentum and focus on the benefits of outsourcing to established third-party specialists able to effectively manage and resolve such concerns.

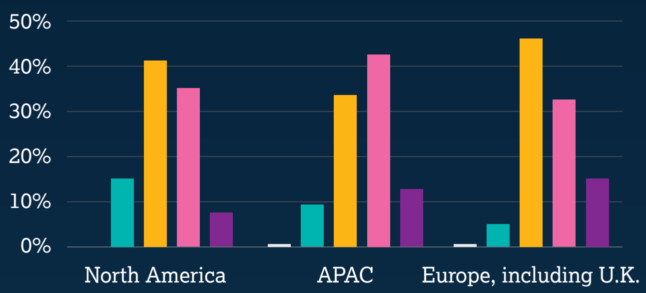
Pressures on staff was highlighted by CSC's team as a common issue for the firm's clients. Thijs, for instance, noted that, "SPVs can be seen as a hallmark of a great financial center. In Asia, Singapore is a super popular fund entry and SPV entry jurisdiction. Singapore is a true 'gateway jurisdiction' to enter the wider Asia-Pacific market. As we see in other jurisdictions, that also puts huge pressure on local resources, for instance, to find qualified staff. This is a major reason for the growth in outsourcing."

Bas added, "Technology and staff are core points and sore points for many private capital managers. Finding and maintaining the right tech remains a challenge; finding and retaining quality people in a tight labor market is equally significant. Automation and tech are important and will help cushion a tightening labor market."

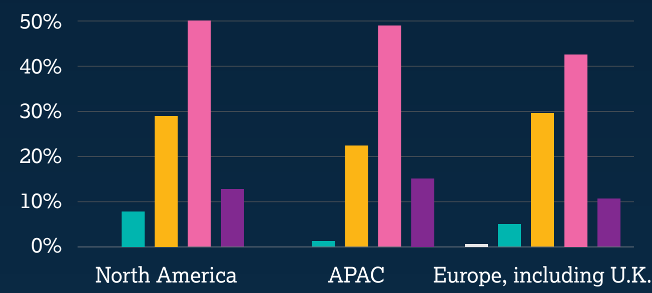
Biggest challenges to setting up and running an SPV across North America, Asia Pacific, and Europe (including U.K.)

Low importance · *2* · *3* · *4* · *High importance*

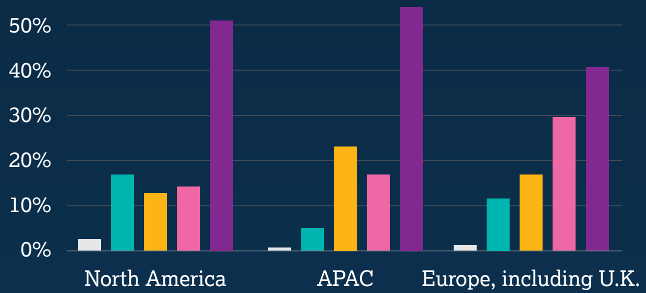
Navigating different regulatory requirements across multiple geographies



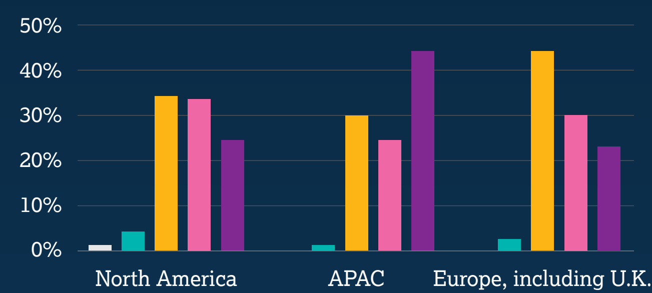
Dealing with multiple stakeholders in different jurisdictions



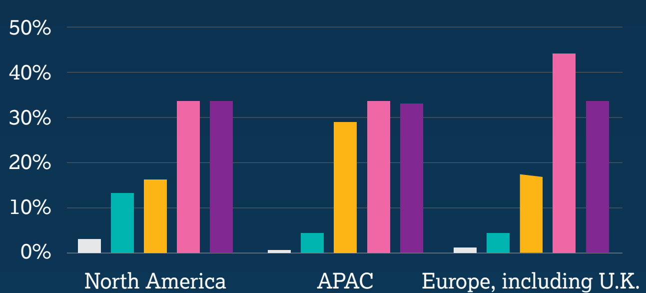
Complying with economic substance regulations



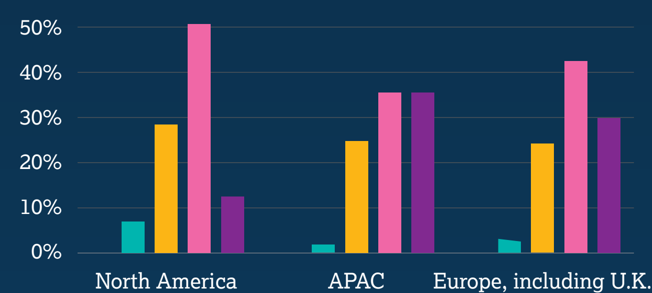
Responding to taxation changes



Responding to regulatory changes



Access to suitably qualified staff



Technology to deliver the biggest improvements in SPV management

Technology is widely seen as a means to better manage SPV portfolios and also act as a competitive advantage for those who harness it effectively. This was a key finding from our research. All respondents recognized the powerful capabilities that new technologies and digital capabilities offer.

Delphine noted that, "The private capital industry is at a place in its evolution where enhanced technology is greatly needed."

Our study found the top three areas real assets respondents would like technology to deliver improvements to SPV management are a centralized portal for single view of all SPVs (57%), efficient reconciliation of bank accounts (52%), and form and entity management systems (52%).

Areas respondents would like to see technology deliver the biggest improvements to SPV management*

16.0%	Reduced costs
16.5%	Regulatory compliance
45.4%	Cash management function
48.4%	Improved process efficiencies and costs through the implementation of artificial intelligence
49.2%	Form and entity management systems
49.9%	Efficient reconciliation of bank accounts
57.9%	Centralized portal for single view of all SPVs

**Global across all sectors*

For private markets respondents the top three areas would like technology to deliver improvements to SPV management are a centralized portal for single view of all SPVs (59%), cash management function (50%), and efficient reconciliation of bank accounts (48%). Other areas include reduced costs and better regulatory compliance.

Regardless of strategy, it is clear fund managers are looking for a tech-enabled approach and as close to an all-in-one administrative solution as they can get. Being able to efficiently monitor the status of entities and attend to corporate secretarial, directorship, bookkeeping, cash management, and tax needs are the necessary evils of maintaining SPVs.

In addition, even in its early days, artificial intelligence (AI) is seen as an exciting part of the wider technology space.

> The private capital industry is at a place in its evolution where enhanced technology is greatly needed.

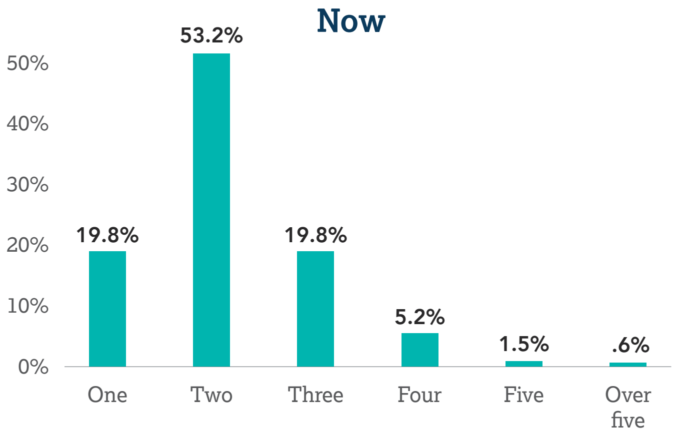
Thijs said, "The private capital sector is super interested in what technology, including AI, can do for the industry. This includes optimizing deal sourcing, investment, aiding portfolio performance, and so forth. We also see that many are concerned about the quality of in-house technology, and this is spurring interest in outsourcing to specialists. They like to keep things simple, and their teams mean and lean."

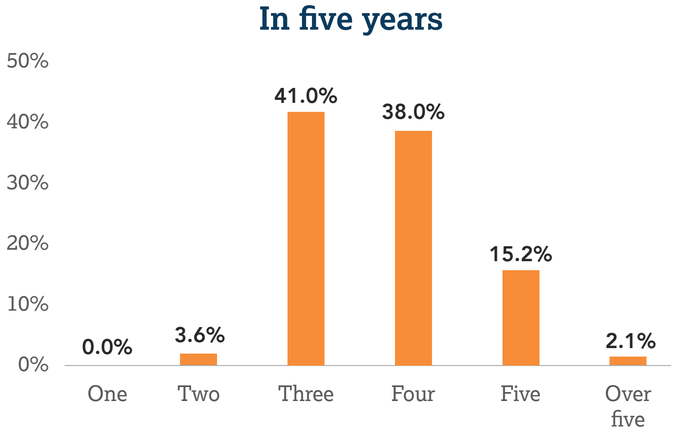
Outsourcing has become as fundamental as SPVs themselves

Outsourcing has played a growing role in how private fund managers manage SPVs, and the role of outsourcing in an increasingly complex market is getting deeper. For CSC, we think it's of paramount importance that private capital managers think about how to best use outsourcing to simplify management of their SPVs.

"Outsourcing is key, given the increased complexity of setting up and maintaining SPVs. This is leading to more demand for more outsourcing, particularly around increased resourcing and professional understanding," according to Robert-Jan.

How many outsourcing partners does your firm currently use to set up and administer SPVs? How is this expected to change in the next five years?*





**Global across all sectors of managers who outsource SPV services*

Our study showed strong support for the role of outsourcing. Almost half (49%) of respondents in Asia Pacific said the use of SPVs has become more common because there are outsourced solutions to expedite the setting up process.

However, our research found that most respondents (excluding those who handle SPV administration in-house) use two outsourcing partners. This number is expected to grow in the next five years, with respondents looking to expand to three or more outsourcing partners. From experience, this is most likely down to people committing, unwittingly, to a network of local providers put in place to facilitate local market or ad hoc, last minute needs.

> **Because CSC is a truly global provider, consolidation of service providers can happen with us.**

Today, outsourcing can be handled by one partner. The globalization of the SPV market, the complexity and sophistication of underlying vehicles, the need for a single dashboard of portfolios, and the powerful capabilities of new technologies all mean that SPV management can be handled by one partner, as long as they have the right platform.

Talking about modern capabilities in outsourcing, Delphine said: "Fund managers will continue to use SPV structures. While there are minor disparities across regions and sectors, stakeholders need to look at SPVs holistically. They should think about the top needs like better cash management and reconciliations, portal access, ease of set up and use, and the role that a one-stop-shop service provider can play."

Bas added, "Deglobalization trend effects can be curbed by appointing a global service provider that has a local presence in many jurisdictions. Because CSC is a truly global provider, consolidation of service providers can happen with us. Managers need to think about developing towards one target operating model for all SPVs globally."

What are managers looking for in SPV outsourcing services?

Considering what they look for in an outsourcing partner, the top five key selection criteria of the ideal SPV administrator for our survey respondents are reputation (66%), technology and reporting data (65%), sophisticated technology platform (64%), speed and timeliness of bank accounting opening (64%), and speed and timeliness of onboarding (64%).

The SPV services global respondents would outsource are corporate secretarial services (71%), cash management and payment support services (68%), and regulatory and compliance services (67%). Both real assets and private markets respondents highlighted regulatory and compliance services and cash management and payment support services as key.

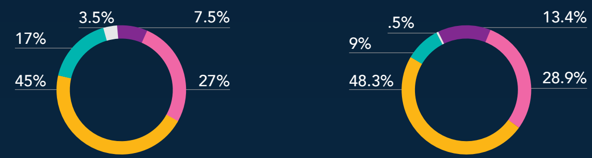
Bas noted that for global and multi-jurisdictional teams, “Reducing the burden of maintaining many service provider relationships is vital. This improves consistency in quality delivery with CSC, supported by a central service level agreement and single point of contact. In terms of tech, entity management and reconciliation tools that accommodate a unified approach across jurisdictions have also become fundamental.”

Technology came out strongly as a critical capability that private markets professionals look for in outsourcing partners. Some of this comes down to the need for greater data analytics and data management.

Which SPV services are most critical to outsource to corporate administrators?

Low importance · 2 · 3 · 4 · *High importance*

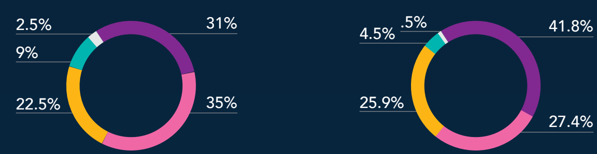
Domiciliation and registered address services



Real assets repondents

Private debt/Private equity respondents

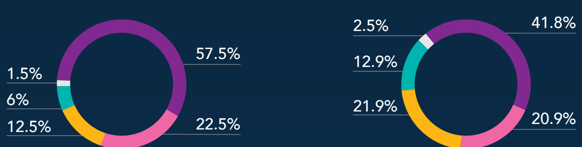
Cash management and payment support services



Real assets repondents

Private debt/Private equity respondents

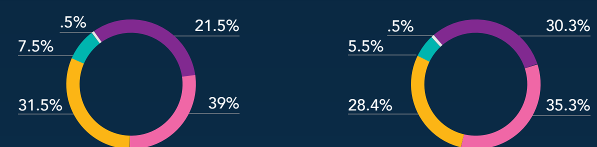
Corporate secretarial services



Real assets repondents

Private debt/Private equity respondents

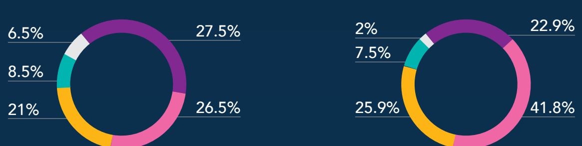
Directorship services



Real assets repondents

Private debt/Private equity respondents

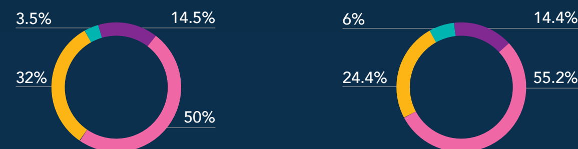
Monthly, quarterly, annual accounting, and reporting services



Real assets repondents

Private debt/Private equity respondents

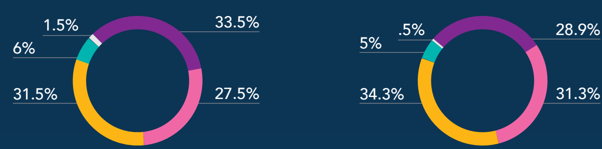
Regulatory and compliance services (e.g., FACTA and CRS, DAC 6, and UBO registrations)



Real assets repondents

Private debt/Private equity respondents

Tax services (e.g., CIT and VAT)



Real assets repondents

Private debt/Private equity respondents

Our conclusions

Despite a more challenging environment, private markets continue to grow and, as a broad asset class, attract institutional investors. Optimism remains among many stakeholders—our own survey found more than one quarter (29%) of respondents believe the market will improve in less than one year, or that it is already happening.

Use of SPVs will also grow, but the landscape will become even more sophisticated, particularly from a regulatory perspective. Jurisdictions will be under pressure to meet demand, including rules around substance requirements.

Technology is advancing quickly but is also central to effective management of complex SPV estates. We know that managers are concerned they simply don't have the in-house capabilities to meet demands from investors and stakeholders such as regulators.

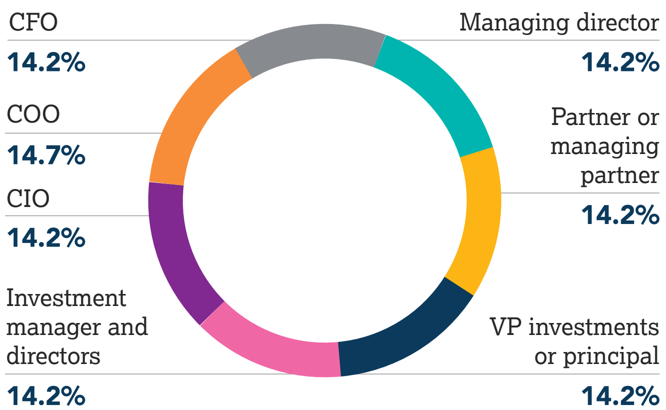
Managers looking to outsource need to consider partners that have a global network, the appropriate technology, and years of experience to not only help them manage SPVs effectively but help them leverage their advantages across jurisdictions. CSC itself provides truly global coverage and an unparalleled suite of solutions for our clients, supported with best-in-class technology. We are a one-stop shop, eliminating the need for multiple outsourcing partners.

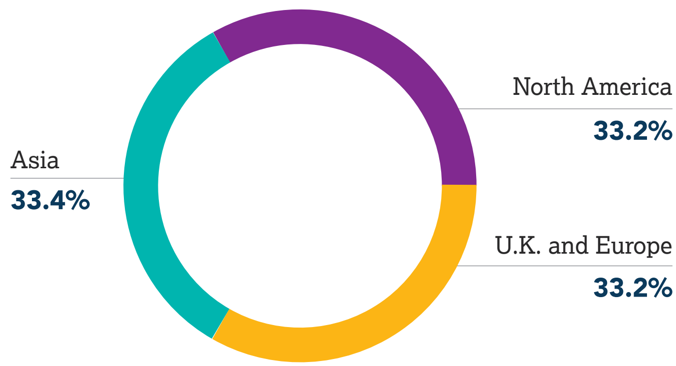
> **SPVs are here to stay and it is a discipline. They have become critical to business, it's that simple.**

Robert-Jan concluded, "SPVs are here to stay and it is a discipline. They have become critical to business, it's that simple. It remains enormously challenging for many private capital firms to manage complex SPV portfolios. SPVs are one of 20 things on the finance team's desk so the concept of outsourcing has become not just convenient but fundamental."

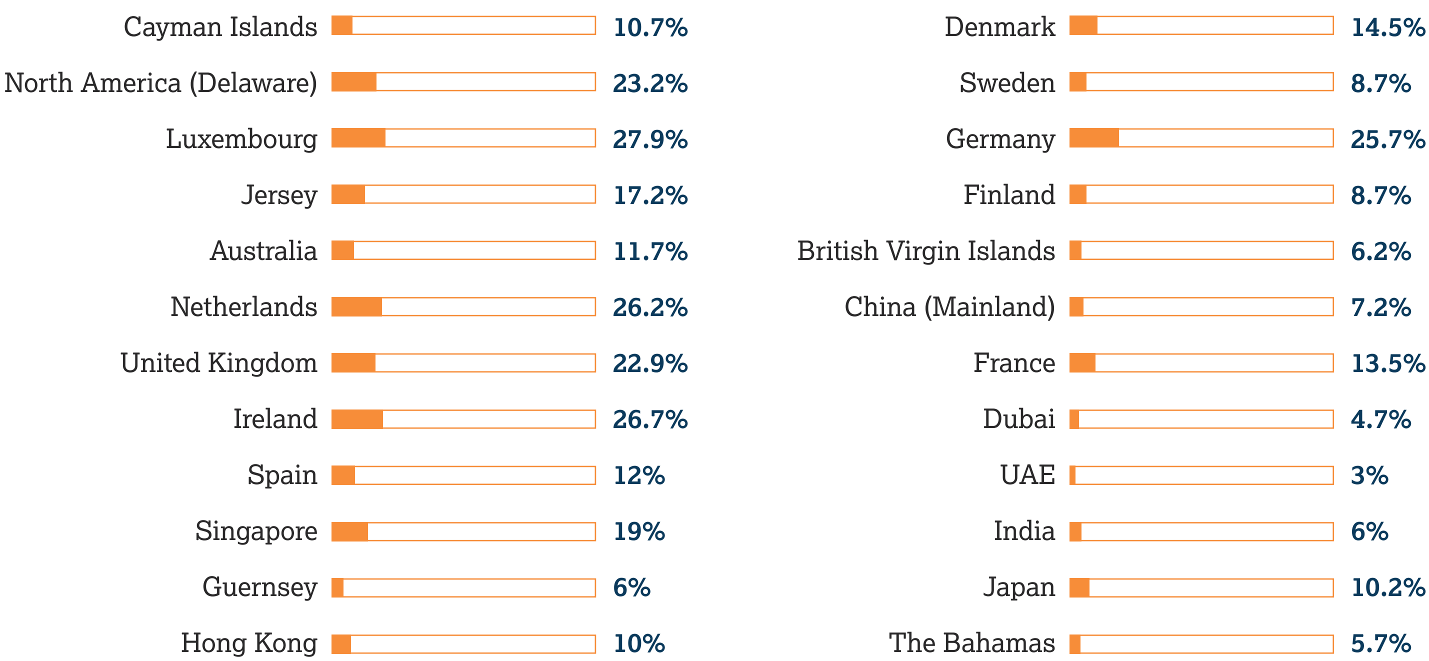
Methodology

An independent research company surveyed 400 private markets professionals in Europe, North America, and Asia Pacific via an online methodology. Survey respondents were drawn from a range of private markets sectors: private equity, private credit, infrastructure, and real assets.





Which of the following jurisdictions do you use for establishing SPVs?



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Founded in 1899, CSC prides itself on being privately held and professionally managed for 125 years. CSC has offices and capabilities in more than 140 jurisdictions across the globe. Driven by a fierce client spirit, we’re capable of doing business wherever our clients are—and we accomplish that by employing experts in every business we serve.

We are the business behind business®.

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