Private Equity's Continued Confidence in Fund Administration, Trust and Corporate Services

The fund administration, trust and corporate services (FATCS) sector continues to exhibit resilient growth, driven by enduring structural factors. With global capital expanding, regulatory challenges increasing and outsourcing on the rise, businesses and individuals require expert administrative support to keep pace. The complexities of globalization further underscore the need for skilled navigation of diverse regulatory landscapes. These structural drivers of growth have proven resilient through multiple economic cycles, providing a solid foundation for the sector's future expansion.

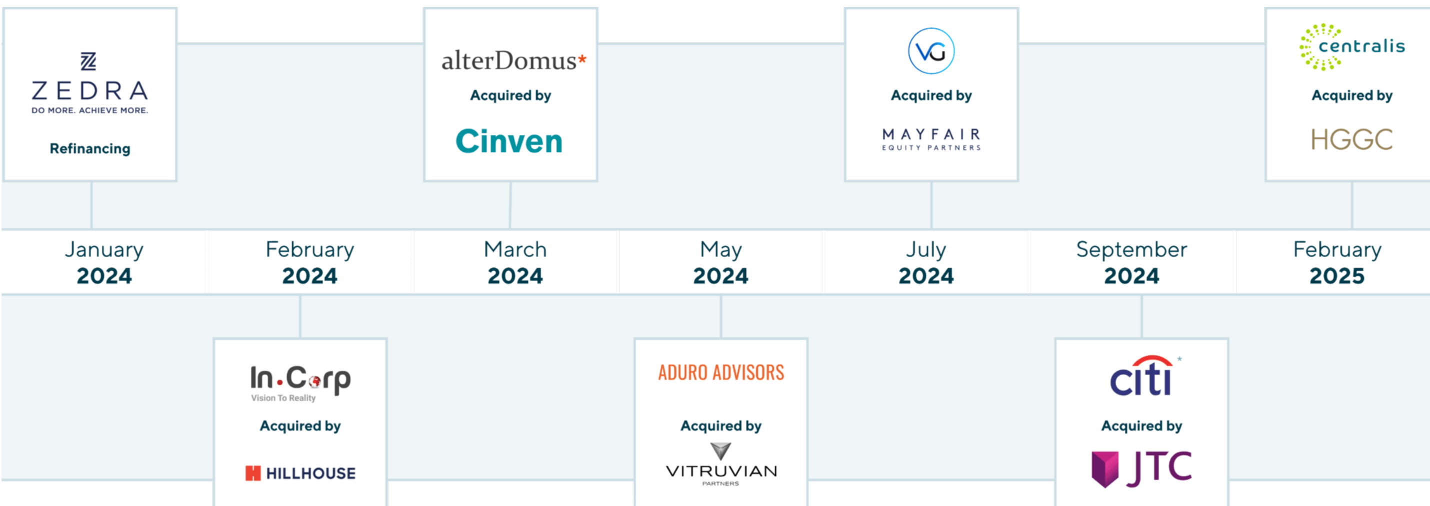
The FATCS sector delivers essential expertise, empowering clients to manage assets, maintain compliance and optimize operations worldwide. From entity management and governance to fund administration and compliance, the sector provides critical support to a wide range of clients including asset managers, corporations, financial institutions and high net worth individuals.

For private equity (PE) investors and corporate players, this presents a unique opportunity to build scale, expand service offerings and adapt to evolving client demands. Lincoln International's global team of dedicated bankers combines industry expertise with transaction execution excellence to help clients navigate these complexities with confidence.

Resilient Growth: Why PE Sees Opportunity in the FATCS Sector

Private equity investment in the sector has remained resilient, even amidst broader macroeconomic headwinds. The fundamental investment thesis is underpinned by stable, long-term client relationships with minimal attrition rates. Revenue models are predominantly based on fixed or time-based fees, while operational costs are closely aligned with revenues, ensuring stable margins and strong cash generation.

The past 12 months have witnessed significant PE activity in the space, reflecting confidence in the sector's growth trajectory. Notable transactions include Cinven's majority investment in Alter Domus which valued the business at €4.3bn, Vitruvian's acquisition of Aduro, Mayfair Equity Partner's acquisition of VG and HGGC's majority investment in Centralis.



**In reference to Citi Trust*

While 2024 presented challenges, particularly in new client onboarding, the overall outlook remains positive. The industry is characterized by a fragmented landscape with numerous small players, presenting ample opportunities for consolidation. Additionally, underpenetrated markets—notably in the U.S. and the Asia-Pacific regions—offer significant growth prospects.

The ongoing shift toward outsourcing, driven by regulatory pressures and cost-reduction strategies, further bolsters the demand for specialized administrative services. By leveraging this trend and targeting strategic acquisitions with specific jurisdictional expertise, PE firms can build global scale and unlock new growth avenues.

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The Market Continues to Consolidate, Though the Sector End-State Remains Unclear

Despite strong ongoing consolidation driven by the search for scale, operational efficiencies and enhanced service capabilities, the ultimate market configuration remains uncertain. The industry can currently be segmented into three primary tiers based on EBITDA:

Sub- £30m	ALTUM, centralis, Equiom, Hawksford, PERMIAN INVESTMENT PARTNERS, SUNTERA GLOBAL
Up to £100m	JTC, In.Corp Vision To Reality, OCORIAN, ZEDRA DO MORE. ACHIEVE MORE.
Above £200m	alterDomus*, APEX, CSC, IQEQ, TMF GROUP Global reach Local knowledge, VISTRA

Since 2021, significant consolidation activities in the upper echelon have been few, with notable transactions including Vistra's merger with Tricor and CSC's acquisition of Intertrust. While the consolidation trajectory of the sector remains to be determined, key player IQ-EQ faces a potential ownership change—July 2024 reports indicated that IQ-EQ's owner, private equity firm Astorg, was exploring a sale.

High-level consolidation activity is scarce, as are scalable industry platforms; however, there is a well-established pathway combining organic growth with strategic mergers and acquisitions (M&A). This approach has been exemplified by firms like IQ-EQ, which has expanded its service offerings and geographic reach through targeted acquisitions, such as its recent purchase of Agama Group to enhance regulatory compliance services in continental Europe. Future industry consolidation will likely depend on the ability of larger players to integrate acquisitions and demonstrate the benefits of scale.

Investors should prioritize strategic targets with complementary services and geographic reach that can accelerate growth through cross-sell. Building scalable platforms through M&A requires significant focus and investment in operations to demonstrate post-transaction ROI to stakeholders.

Adapting to Change: Regulatory Shifts, Tech and AI are Key Investor Areas of Focus

The regulatory environment is undergoing significant changes, most notably the UK's decision to abolish the non-domiciled (non-dom) tax status by April 2025. Despite such regulatory shifts, the sector's inherent resilience continues to attract clients. Historically, service providers have adeptly adjusted their offerings to ensure compliance while still meeting client needs. Adaptability not only maintains client trust but also opens avenues for cross-selling complementary services, thereby enhancing client value and fostering loyalty.

Geographical diversification further bolsters the sector's robustness. Changes in regulatory environments can enhance or diminish the appeal of a region to clients. Firms with a global presence can navigate these changes effectively, reallocating resources and services to regions with favorable conditions.

Technological advancements, particularly in artificial intelligence (AI), are increasingly pivotal in shaping the industry's future. A well-invested technological infrastructure enhances operational efficiency, improves client experience and streamlines compliance processes. While the long-term impact of AI remains uncertain, its potential to revolutionize data management, risk analysis and client interactions cannot be ignored.

Firms that effectively leverage technology to drive efficiency and adapt to regulatory changes will likely emerge as leaders. The integration of AI into service offerings could also create new competitive advantages, particularly for firms willing to invest in innovation.

The Lines Between Traditional FATCS and Broader White-Collar Services are Increasingly Blurred

The boundaries between traditional FATCS and broader white-collar professional services are becoming increasingly indistinct. Many firms are strategically broadening their offerings to encompass Governance, Risk and Compliance (GRC) solutions, as well as comprehensive support for the "Office of the CFO". This evolution brings these firms into closer alignment with established players like Vistra and TMF Group, which already provide a wide array of services spanning international incorporation, fund administration and private wealth services.

Such diversification offers investors enhanced flexibility in steering business trajectories. By integrating services such as GRC and CFO support, firms can address a broader spectrum of client needs, positioning themselves as indispensable partners in navigating complex regulatory and financial environments. This comprehensive approach not only attracts a wider client base but also opens multiple revenue streams, strengthening the firm's market position.

However, as firms broaden their service portfolios, maintaining a clear and coherent strategy becomes imperative, especially in the context of M&A. A well-defined strategic vision ensures expansion efforts are synergistic and value-accretive, rather than dilutive. Clarity in strategy facilitates smoother integration processes during M&A activities and reassures stakeholders of the firm's long-term objectives.

Investor demand increasingly favors diversified businesses, viewing them as attractive avenues for exposure to fund administration and related services. The growing trend of consolidation across professional services, as evidenced by private equity firms investing in accounting, law, consultancy and wealth management sectors, underscores the value placed on scale and comprehensive service offerings.

Asset Servicing's Steps to the Future

The FATCS sector's future will be defined by those who are forward-thinking enough to adapt and strategic enough to consolidate. To thrive in this increasingly interconnected and competitive sector, investors must act decisively. Identifying acquisition targets with complementary capabilities, investing in technological infrastructure and leveraging M&A to build scalable platforms are critical strategies for those looking to position themselves as market leaders. Furthermore, adaptability in the face of regulatory shifts and new client expectations will be a defining trait of successful players.

Lincoln International's global team is uniquely equipped to help PE investors and corporations navigate these complexities. With a deep understanding of the FATCS sector's trends and challenges, we deliver tailored solutions that enable clients to seize opportunities and achieve superior outcomes. Connect with a Lincoln professional today to learn more.

Ready to discuss the opportunities ahead for you?
Connect with a senior professional at connect@lincolninternational.com