

2024

The State of Applied AI in Fund Administration: An In-Depth Industry Survey



In association with



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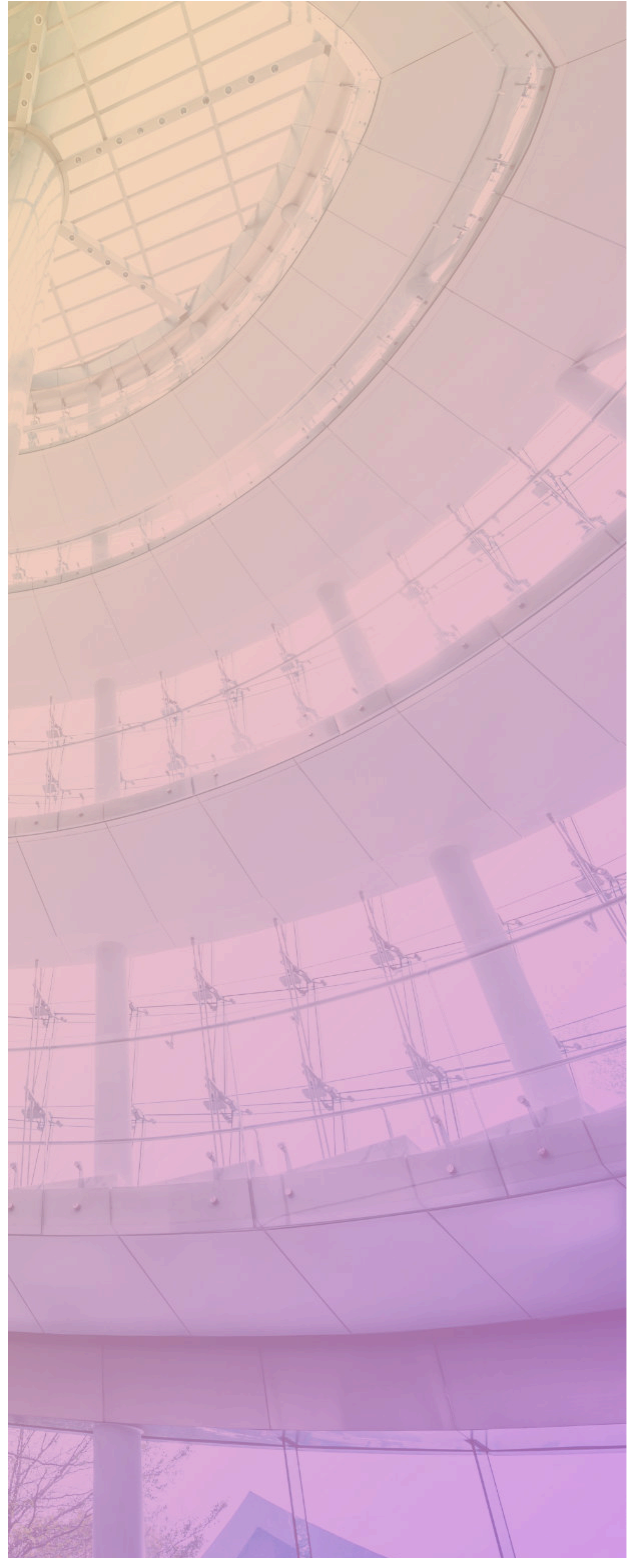
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Fund Administrators Ponder the Possibility of AI: A DwellFi/Alternatives Watch Survey

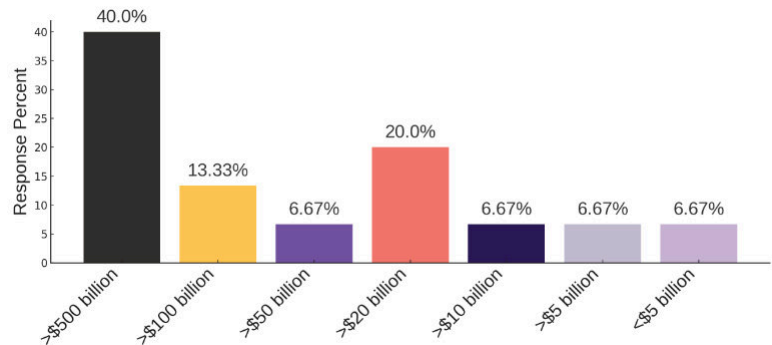
Introduction

Applied AI specialist DwellFi commissioned *Alternatives Watch* to survey fund administrators on their previous usage of artificial intelligence tools and their plans to use AI in the future.

The survey consisted of multiple-choice questions and was conducted on the SurveyMonkey platform. The survey was conducted anonymously to ensure that fund administrators would feel comfortable disclosing operational information.

More than one-third of the respondents (40%) work at firms with over \$500 billion in assets under administration (AUA), while 13.33% work at firms with AUA in the range of \$100 billion to \$500 billion. Almost one-third of respondents (26.67%) work at firms with AUA in the range of \$20 billion to \$100 billion.

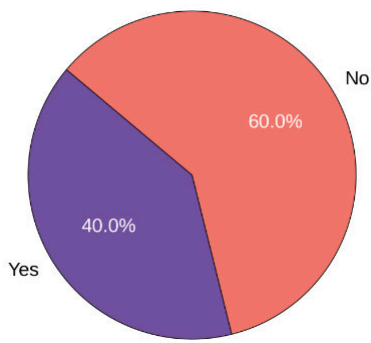
Distribution of AUA for firms



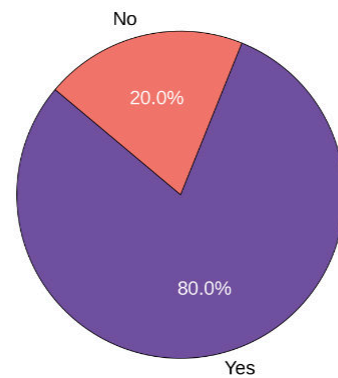
AI adoption to rise fast over next year

Fund admins who have already used Gen AI to serve their clients are in the minority (40%). But that is set to change fast, as 80% of respondents said they plan on using AI over the next 12 months, and our findings reveal that many firms are already taking concrete steps to implement AI.

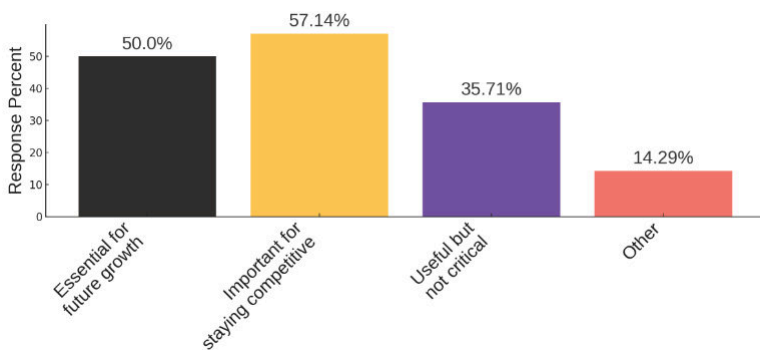
Current use of Gen AI tools to serve clients



Plan to expand the use of Gen AI in the next 12 months



Perceived competitive value of Gen AI



The majority of fund admins understand that Gen AI adds competitive value to their offerings, with 57.14% of respondents saying the technology is “important to stay competitive” and exactly half saying it is “essential for future growth.” A little over one-third (35.71%) labeled the technology as “useful but not critical.”

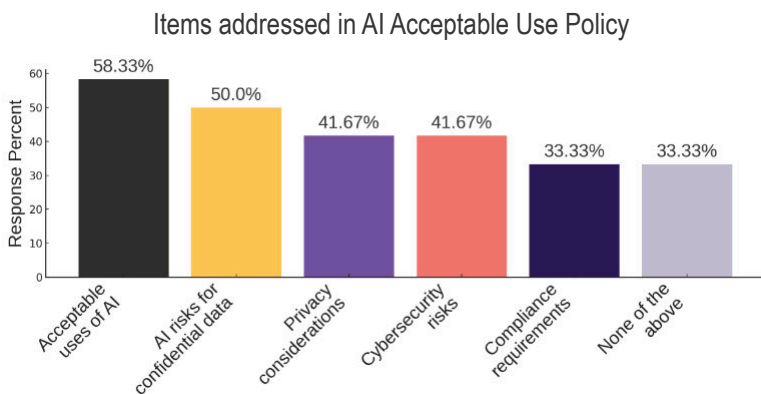
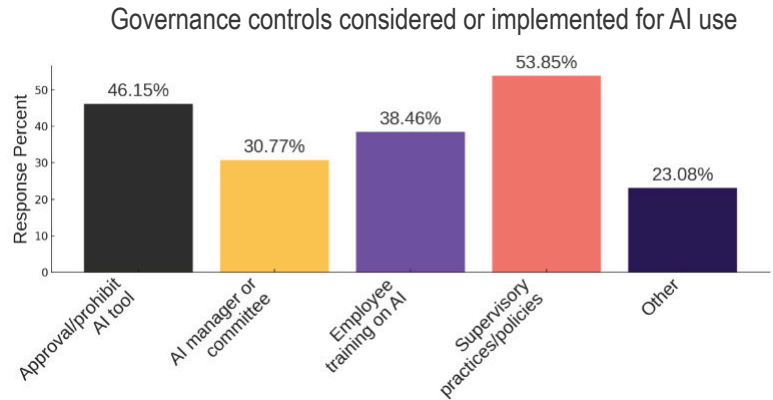
Laying the groundwork

Over two-thirds (69.23%) of fund admins said their firm already has a data strategy in place that can provide a foundation for Gen AI implementation.

Our findings indicate that whether or not firms are planning to use AI over the next year, they already have designed or created an acceptable use policy for the technology. We asked fund admins to choose all answers that apply, and exactly half said their firm's policy specifically addressed risks of AI regarding the protection of confidential, proprietary, and/or other sensitive firm information; 41.67% said it addressed cybersecurity risks, and one-third (33.33%) said it addressed privacy considerations and record retention obligations.

Our findings also suggest most firms have already considered, designed or implemented governance controls around use of AI.

We asked fund admins to choose all answers that apply, and nearly half (46.15%) of respondents said their firm had established a process or mechanism for the firm to approve or prohibit an AI tool, as more than half (53.85%) have established practices or policies regarding supervising and/or policing use of AI within the firm. Only 23.08% said their firms had not yet established any governance controls.



Additionally, nearly one-third (30.77%) said their firm had named an AI manager or AI committee, and 38.46% said their employer had established policies regarding employee training around the use of AI.

Steps to implementation

The majority of fund administrators (86.67%) said they are consulting with AI experts to learn about Gen AI. Fund admins are also educating themselves on the topic by attending industry conferences (46.67%) and taking webinars and online courses (46.67%).

Some respondents elaborated on specific steps their firms are taking. “Collaborative research initiatives, client engagement for greenfield use cases, in-house fundamental AI research,” said one. Another respondent said their firm had engaged in acquisitions related to AI, without naming names.

“We're trying to stay current with regard to the conversation, but we'll let others lead the way. We strongly believe it'll be impactful, but not exactly sure where it'll start on day 1.”

Our findings suggest there is also widespread agreement regarding which steps are necessary to successfully implement AI. Nearly three-fourths (71.43%) of respondents said their firm is investing in AI tools and infrastructure. Nearly two-thirds of respondents also said they are collaborating with AI vendors and partners (64.29%) and developing a clear AI strategy (64.29%). More than half (53.85%) said their firm was training staff on AI capabilities.

Again, some respondents provided illuminating details. One said steps taken by their firm included “a dedicated AI Center of Excellence, partnership with online learning platforms for staff training, insider talk series with industry experts.”

Another respondent indicated their firm was interested but “[m]ore or less taking a wait and see approach. We're trying to stay current with regard to the conversation, but we'll let others lead the way. We strongly believe it'll be impactful, but not exactly sure where it'll start on day 1.”

Use cases

The two most popular use cases, cited by the same percentage (57.14%) of respondents, are investor onboarding, such as leveraging AI and blockchain to process unstructured data into a digital investor workflow at scale; and using AI tools to derive actionable insights from fragmented data sources.

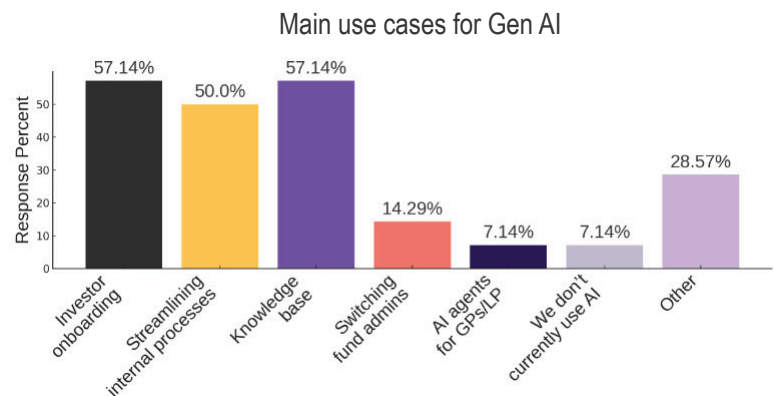
Respondents were asked to name their top three choices, and another popular use case (50%) include streamlining internal fund administration processes such as automating cash reconciliation, financial statements, capital calls, distributions, waterfall calculations and payments.

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Smaller percentages of respondents expressed interest in using AI to streamline the process of transferring and reconciling fund data from one administrator to another (14.29%) and using AI in investor relations (7.14%).

Some respondents offered interesting specifics. One said their firm was using AI to review KYC (Know Your Customer) documents. Another said their firm is developing “AI agents to augment human activity across fund administration functions, primary focus is AI agents researching and closing process exceptions.”

Almost two-thirds of fund admins (64.29%) said their firms are considering using blockchain or tokenization technologies alongside AI.



Fund valuation and AI

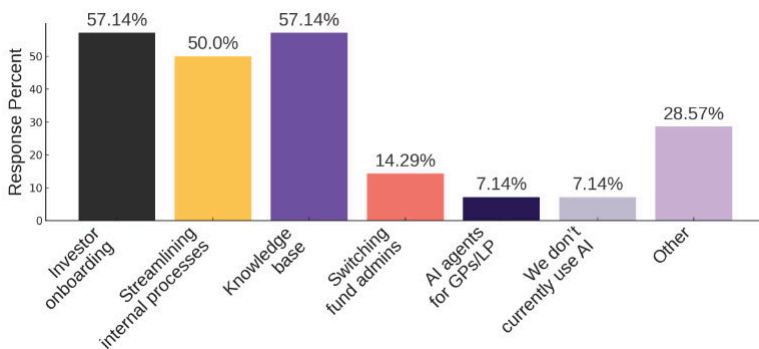
The percentage of fund admins that have considered using Gen AI to assist in the application of valuation methodologies for Level 3 assets in their fund's NAV process totaled 78.57%.

Narrowing down to specifics, all of those respondents expressed an interest in using Gen AI to identify anomalies in valuation data, while 75% are considering using AI to aggregate and manage data required for valuations and identifying anomalies or unusual patterns in valuations. And 25% said they were considering using AI for three purposes: automating the application of third-party valuation methodologies, providing real-time valuation updates and documenting and reporting on the valuation process.

One respondent offered a wealth of detail, saying their firm was training Gen AI systems “to apply complex valuation models consistently across different assets. These systems can process large datasets and apply multifactorial valuation techniques we are exploring discounted cash flow (DCF) analysis or option pricing models, with efficiency and accuracy.”

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Ways Gen AI is being considered for Valuation Methodology



AI Rewrites the Fund Administration Narrative

By Susan Barreto, Editor of *Alternatives Watch*

The artificial intelligence (AI) we are seeing today is basically a platform shift. This time it's different – especially when it comes to financial services, according to DwellFi Founder and CEO Kumar Ujjwal, a seasoned veteran of big data and machine learning.

Ujjwal, who boasts two AI/machine learning patents, is the first to admit that the world we are moving into over the next five years will look like we have progressed 100 years, he said in a recent interview with *Alternatives Watch* about what is on the AI horizon.

“The first platform shift can be traced back to the boom-and-bust cycle of the beginning days of the internet,” Ujjwal said. “Fortunes were made and lost despite the certainty that the future would be online and monetizable. The second shift we may all remember as we increasingly bought and depended on our smartphones.”

He described a third fundamental platform shift underway fueled by computing power and rapid innovation and application of AI/ML to business and even within the life sciences.

Ujjwal further clarified, “Today's AI is really good at doing any repetitive task. Once an AI is trained it can outperform a human on a specific task, which has the potential to reshape the world quickly.”

Skyler Steinke, who joined DwellFi earlier this year after decades in the fund administration business, added: “In fund administration, Applied AI is a game-changer. It takes on repetitive, detail-oriented tasks with unmatched precision. But its true value emerges when it works alongside human expertise—enhancing decision-making, boosting productivity, and ultimately driving a competitive edge in a way that neither AI nor humans could achieve alone.”



This competitive advantage can be seen clearly when a fund administrator is trying to scale, such as when acquiring new clients. Historically, growth required rapidly hiring additional staff to manage manual operational workflows, often involving complex data management through Excel spreadsheets and other labor-intensive processes. AI optimizes these workflows, thus removing a barrier to growth for fund admins, especially in an environment with a flurry of M&A activity. If a fund accountant services 10 funds on a monthly basis, they could now service 50 funds or more with less work and more output, potentially catapult a fund administrator's growth goals.

At DwellFi, the team has taken some of the most manually intensive workflows (e.g., portfolio reconciliation, investor onboarding, fund conversions, RFPs, due diligence questionnaires) and automated the time-consuming assessment, review, and aggregation of knowledge processes. Clients are able to leverage DwellFi's enterprise and secure custom AI platform that is trained on their business data, creating capacity and scale for their teams/organizations.

Making sense of data, and how AI can distill the complexity in fund administration

Steinke noted that AI can also solve for the vast amounts of unstructured data associated with these operationally intensive departments. He furthered this point by stating, "Most firms are trying to stitch together all their disparate data silos from PDFs to Excel spreadsheets so that they can attempt to understand the big picture of their client's funds."

Ujjwal gave this example to illustrate AI's power to distill the complexity of data-intensive operations, "You give 10,000 broker statements to an AI, it will read and learn in like five seconds. A human can read nine billion words and doesn't know how much they comprehend it and keep the information, but a LLM in one month can be trained on nine trillion words and they can comprehend 100% of the data."

Ujjwal noted that the implementation of AI is crucial to its ability to create impact. Steinke added that where most are just taking a general large language model and applying it, DwellFi is actually training their model on the business data set, specifically on the actual business data that is heavily focused.



Susan Barreto is an award-winning journalist who has worked for a number of global financial publications, including Pensions & Investments, HFM Week, Absolute Return, InvestHedge and Lipper HedgeWorld. Much of her career has been covering the global finance industry with an institutional investment focus covering pensions, endowments, foundations and family offices for more than two decades. She has covered hedge fund strategies most recently as Editor-at-Large for HFM Global.

The Growing Role of AI and Blockchain in Fund Valuation

By Joseph Cassano, Partner, Withum

In the evolving landscape of financial services, fund administrators are increasingly turning to cutting-edge technologies like artificial intelligence and blockchain to enhance the accuracy, efficiency and transparency of their operations. Recent insights shed light on the transformative potential of AI and blockchain, as well as the challenges that come with their adoption.

Blockchain and tokenization: The future of transparency

Blockchain technology, with its promise of immutable and transparent records, is gaining traction among fund administrators. According to the survey, 69.23% of respondents indicated that their firms are considering the use of blockchain or tokenization technologies alongside AI. This combination could revolutionize the way assets are tracked and managed, offering a level of transparency that traditional methods simply cannot match. Blockchain's ability to create a permanent, tamper-proof record of transactions can be particularly valuable in the valuation process, where accuracy and reliability are paramount.

Tokenization, a process that converts rights to an asset into a digital token on a blockchain, can further enhance this transparency. By tokenizing assets, firms can create a digital representation of ownership that is easily transferable and verifiable. This not only simplifies the trading and settlement process, but also ensures that the underlying asset's value is accurately reflected in real-time. As firms continue to explore these technologies, the potential for increased transparency and efficiency in fund management becomes increasingly apparent.

AI in valuation: A game-changer for accuracy and efficiency

The survey highlights a growing interest in AI as a tool for improving valuation methodologies, particularly for Level 3 assets, which are notoriously challenging to value, due to their illiquid nature. A significant 78.57% of fund administrators reported that they have considered using AI to assist in the application of valuation methodologies for these assets. AI's ability to process vast amounts of data and to apply complex valuation models consistently across different assets, makes it an invaluable tool for fund administrators.

One respondent provided a detailed account of how their firm is developing AI systems to apply multifactorial valuation techniques, such as discounted cash flow (DCF) analysis and option pricing models. These AI systems are capable of processing large datasets with efficiency and accuracy, offering a level of consistency that is difficult to achieve through manual methods. By including this level of automation in the valuation process, AI can reduce the potential for human error and bias, providing stakeholders with more reliable and objective valuations.

Moreover, AI's predictive analytics capabilities allow firms to project future performance based on historical data and market trends. This can be particularly useful in identifying potential risks and opportunities, enabling fund administrators to make more informed investment decisions.

Challenges and considerations: Data quality and human oversight

While the potential benefits of AI and blockchain are clear, the survey also highlights some of the challenges that firms face in the implementation of these technologies. A key concern is ensuring the quality of the data used in AI models. Poor-quality data can lead to inaccurate valuations, undermining the reliability of the entire process. As such, maintaining high data quality is crucial for firms looking to leverage AI in their valuation methodologies.

Despite the advancements in AI technology, human oversight and judgment remain essential elements of the valuation process. For example, financial reporting standards require an accredited valuation professional to review and sign off on the reasonableness of the methodologies and key assumptions relied upon in the valuation.

Conclusion

As the financial services industry continues to evolve, the integration of AI and blockchain into fund valuation processes is likely to become more widespread. Successful implementation will require careful consideration of data quality, human oversight, and development of solutions to the unique challenges associated with the implementation of these technologies. For those willing to navigate these complexities, the rewards could be substantial, paving the way for a new era of innovation in fund management.



Joe Cassano is an Audit Partner at Withum, bringing over 20 years of comprehensive experience in both audit and tax, particularly within alternative investments. His diverse expertise spans across a wide range of clients, from \$5 million to \$5 billion, encompassing various strategies, structures and jurisdictions. Joe's proficiency covers a broad spectrum of trading instruments, from standard equities to intricate structured products, private investments and digital assets. Recognized by clients and the market as an industry expert, Joe is adept at advising and collaborating with fund managers at any stage of their lifecycle. His approach is rooted in a

deep understanding of the unique challenges and opportunities within the alternative investment space. Joe holds emerging managers and seasoned industry veterans in equal regard, emphasizing the importance of relationships in fostering positive client and personal experiences. He is known for his ability to translate complex financial concepts into actionable insights, making him a trusted advisor to his clients. Joe is a regular speaker at industry events, where he shares his extensive knowledge on the development of best practices, institutionalization and the evolving regulatory landscape. His thought leadership extends to contributing articles and is a frequent contributor to Withum's video series, *The Alternative Route*. In addition to his client-facing role, Joe is a key developer of Withum's in-house training programs. These programs are instrumental in cultivating the next generation of talent within the financial services group, ensuring that Withum's team remains at the forefront of industry knowledge and expertise.

AI Considerations for SEC compliance

By John Araneo, Partner at Cole-Frieman & Mallon

The allure of Artificial Intelligence (AI) has permeated nearly every industry, including investment management, where it is embraced as a transformative tool. Fund managers, under relentless pressure to achieve new performance milestones, and high-water marks, largely view AI as a sophisticated means to gain a competitive advantage. However, the integration of AI into investment management requires careful oversight to ensure compliance with regulatory standards and ethical practices.

The Securities and Exchange Commission (SEC) has articulated several concerns regarding AI's use by fund managers through proposed rules, enforcement actions and other regulatory dicta. These guidelines highlight critical considerations and potential pitfalls for fund managers incorporating AI into their operations. To navigate this complex landscape, investment advisers must design an AI Acceptable Use Policy that addresses several core issues in light of the SEC's current policies. To do that, there are several key considerations to keep in mind:

1. Fiduciary Duty:

Fund managers must ensure that any AI application aligns with their fiduciary duty to act in the best interests of clients. This involves understanding how AI-generated investment theses differ from traditional assessments and ensuring alignment with client objectives. Managers must also protect the firm's intellectual property, sensitive information, and maintain non-disclosure obligations and privacy considerations.

2. Disclosure Requirements:

The SEC emphasizes the necessity of full disclosure regarding AI use. Advisers must clearly communicate how AI is utilized in investment management, ensuring transparency for clients and regulators about the technology and its implications.

3. Conflict of Interest:

Firms must identify, evaluate, and mitigate conflicts of interest arising from AI use. It is crucial to ensure that AI does not prioritize firm interests over those of investors.

4. Governance Controls:

The SEC expects managers using AI to develop appropriate governance controls. This includes designing tailored policies and procedures, articulating the objectives of each AI tool, creating oversight mechanisms such as an AI manager or committee, implementing employee training, maintaining records, and conducting annual reviews.

5. Operational and Security Risk Assessments:

Conducting periodic risk assessments focusing on operational, security, or other business risks associated with AI is essential. These assessments should identify critical business systems, potential disruptions, cybersecurity threats, data privacy breaches, unintended algorithmic biases, and compliance with emerging regulatory requirements.

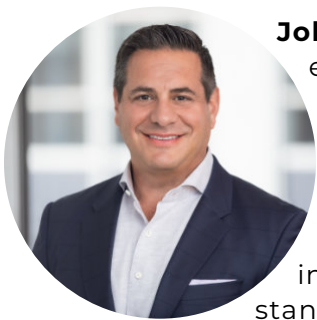
6. Ethical Principles and Bias Mitigation:

Firms should establish ethical principles for AI use, addressing transparency, fairness, accuracy, and appropriateness. Measures to mitigate biases and defects in AI algorithms are essential.

7. Employee Training, Monitoring, and Compliance:

As AI proliferates, the act of “inputting” evolves as a standalone skill. Employees must be mindful of risks such as protecting the firm’s intellectual property, avoiding infringement on third-party IP, and not violating confidentiality or non-disclosure obligations.

By addressing these key areas, investment advisers can craft AI policies that comply with SEC regulations and protect client interests. AI's potential in investment management is vast, offering opportunities for efficiency, customization, and agility. However, its integration must be approached thoughtfully and with diligence, to ensure ethical and lawful use. As the industry continues to evolve, the role of AI will become increasingly significant, necessitating ongoing attention to regulatory compliance and ethical considerations.



John Araneo is an investment management attorney with over 25 years of experience, specializing in cybersecurity compliance for investment advisers since 2014. A recognized expert in this field, John leads the Cybersecurity Law practice at Cole-Frieman & Mallon LLP and frequently advises fund managers on navigating complex cybersecurity regulations. John has authored widely cited cybersecurity primers published by Lexis/Nexis and co-founded the first managed IT services firm specifically designed to help investment advisers meet the regulatory and operational due diligence (ODD) standards relating to cybersecurity. With over 20 years of experience, John helps his fund manager clients design and maintain model cybersecurity programs, conduct assessments, and oversee incident response activities. As a partner at the firm, he also advises a range of investment advisory firms on legal, compliance, and operational matters.

About Us

About *Alternatives Watch*



Alternatives Watch is a leading online news service dedicated to institutional investment in alternative investments including hedge funds, private equity, private credit, real estate, infrastructure and real assets. Our goal is to create an uncompromising 360-degree view of the marketplace by covering trends, new fund offerings and institutional investor activity on a daily basis. Learn more at www.alternativeswatch.com.



About DwellFi

DwellFi is an AI-first company in the Fintech sector specializing in the fusion of AI, blockchain, and tokenization technologies to support the asset management industry's scale, productivity, and growth challenges. Our award-winning SOC-2, Type II SaaS platform caters to Fund Administrators, Family Offices, and Private Funds across every asset class and management scenario.

About Withum



In today's dynamic marketplace, alternative investment firms require top-tier service providers to deliver audit, tax and advisory services with expertise, accurate technical guidance and timely execution. With over 50 years of experience, Withum offers the benefits of a large organization while maintaining the personal attention and service typically expected from a local firm. With offices in key cities and financial hubs nationwide, our team of professionals are equipped to help you navigate the challenges of starting or managing your fund.

About Cole-Frieman & Mallon



Cole-Frieman & Mallon LLP is a leading investment management law firm known for providing top-tier, innovative, and collaborative legal solutions for complex financial services matters. Headquartered in San Francisco, Cole-Frieman & Mallon LLP services both start-up investment managers and multibillion-dollar funds. The firm provides a full suite of legal services to the investment management community, including fund formation (hedge, VC, PE, real estate), investment adviser and CPO registration, counterparty documentation (digital and traditional prime brokerage, ISDA, repo, and vendor agreements), SEC, CFTC, NFA and FINRA matters (inquiries, exams, and compliance issues), seed deals, cybersecurity regulatory matters, full-service intellectual property counsel, manager due diligence, employment and compensation matters, and routine business matters. The firm also publishes the prominent [Hedge Fund Law Blog](#). For more information, please add us on [LinkedIn](#), follow us on [X \(formerly Twitter\)](#), and visit us at colefrieman.com.

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