

The Real Cost of Growth

A framework for understanding what investment operations really cost and how those costs change as the business grows

Toolkit



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01

Introduction

Your Operating Model May Look Efficient. Until You Ask It to Do Something New

Most hedge funds have a reasonable view of what they spend on operations.

They know the technology budget, headcount, fund accounting costs, market data, infrastructure, compliance, and external service providers.

But that is not necessarily the same as knowing what the operating model actually costs. The real test usually comes when the business changes.

A new strategy is approved. A PM wants to trade a new asset class. The firm enters a new market. A large investor requires more complex reporting. Assets and transaction volumes grow. A new regulatory requirement arrives.

Then the question becomes:

What has to happen behind the scenes to make that possible?

Do you need to:

- Hire additional people?
- Add another vendor?
- Build another integration?
- Pull engineers away from other priorities?
- Redesign a process?
- Delay a launch while infrastructure catches up?

Or can the operating model absorb the change without materially increasing cost or complexity?

Traditional total cost of ownership (TCO) exercises tend to focus on visible costs: technology, infrastructure, implementation, and headcount.

While those costs matter, they do not tell the whole story.

An operating model can appear efficient at its current scale while becoming increasingly expensive every time the business grows, diversifies, or changes.

Those costs do not always appear as a discrete line item on a budget. They show up as additional hiring, integration projects, manual workarounds, technology upgrades, delayed launches, and increasing reliance on specialist knowledge.

Individually, these may look like ordinary operational friction. Collectively, they reveal the economics of the operating model itself. This toolkit provides a framework for examining those economics.

The central question moves from:

What does our technology cost?

To: **What does it cost to run the way we operate today and what will it cost when the business needs to do more?**

Is Your Operating Model Getting More Expensive?



Chapter 02

Is Your Operating Model Getting More Expensive?

A five-minute diagnostic

Before calculating the cost of a particular technology platform or operating model, start with a simpler question:

Is the way we operate becoming more expensive as the business grows?

This diagnostic is not intended to produce a precise TCO calculation. It is designed to identify where costs, complexity, and dependencies may be accumulating beneath the surface.

For each statement, consider whether it happens **Rarely**, **Sometimes**, or **Often**.

Statement	Rarely	Sometimes	Often
Growth in AUM, volume, or product complexity typically requires additional operational headcount	☐	☐	☐
Launching a new strategy, asset class, or fund structure requires changes across multiple systems or vendors	☐	☐	☐
Teams spend significant time reconciling, validating, or moving data between systems	☐	☐	☐
A small number of individuals hold critical knowledge about key processes or integrations	☐	☐	☐
Technology teams spend more time maintaining existing infrastructure than building new capabilities	☐	☐	☐

Is Your Operating Model Getting More Expensive?

Statement	Rarely	Sometimes	Often
Projects frequently become more complex because of dependencies discovered after work has begun	☐	☐	☐
Operational or technology constraints have delayed a business initiative or launch	☐	☐	☐
A significant regulatory or market change would require a substantial internal technology or operational project	☐	☐	☐
It is difficult to calculate the full cost of supporting a new strategy or business initiative before committing to it	☐	☐	☐
If transaction volumes or business complexity doubled, significant additional people or infrastructure would be required	☐	☐	☐

What your responses may indicate

Mostly Often: Your responses suggest that the cost of your operating model may extend well beyond visible technology and headcount. Complexity may be accumulating through manual effort, coordination, maintenance, specialist dependencies, and the cost of adapting to change.

Mostly Sometimes: Your operating model may be working today, but there are signs of friction that could become more costly as the business grows or changes. The framework that follows can help you identify where those costs may be accumulating and where they could become more significant over time.

Mostly Rarely: Your operating model may currently absorb growth and change without significant operational friction. Even so, it is worth testing that resilience against future growth, new strategies, or unexpected disruption to understand where hidden costs or dependencies could emerge.

A Better Way to Look at Total Cost of Ownership (TCO)



Chapter 03

A Better Way to Look at Total Cost of Ownership (TCO)

Cost to Run vs. Cost to Change

Most TCO calculations focus primarily on the cost of running the business today.

That includes visible costs such as technology, infrastructure, people, market data, and external service providers.

A more complete view also considers the cost of changing the business as requirements evolve.

This creates two distinct dimensions of operating cost.

 Cost to Run	 Cost to Change
Technology and vendor fees	Integration and implementation work
Operational and technology headcount	Engineering and development capacity
Infrastructure and market data	Process redesign
External service providers	Testing, upgrades, and training
Ongoing maintenance and support	Vendor coordination
Routine operational processing	Hiring and specialist expertise

03

A Better Way to Look at Total Cost of Ownership (TCO)

Two firms may have similar operating costs today while facing very different future economics.

One may be able to support a new strategy by configuring existing infrastructure and reallocating capacity.

Another may require additional hires, a new vendor integration, months of engineering work, and new processes to connect the strategy to the rest of the organization.

Their current budgets may look similar.

Their ability to change is not.

The economics of an operating model depend on both its cost to run and its capacity to support change without creating disproportionate new cost and complexity.

Five forces can increase that cost.



Five Forces That Shape the True Cost of Investment Operations



Chapter 04

Five Forces That Shape the True Cost of Investment Operations



1. The Complexity Tax

Fragmentation increases the cost of coordination

Complexity rarely arrives as a single large expense. It accumulates over time.

- One additional vendor
- One more integration
- A manual control created to address an exception
- A spreadsheet used to bridge two systems
- A specialist who becomes the only person who understands a particular workflow

Each decision may be rational in isolation. Over time, however, they can create an operating model where the cost of coordination steadily increases.

This is the complexity tax. The issue is not simply what each individual system or vendor costs. It is what it takes to coordinate them.

Assess the coordination burden

1. How many systems and teams have to coordinate before we can make a meaningful change?
2. How often does a project become more complex because of dependencies discovered after it begins?
3. How much time do our people spend moving, checking, or reconciling information between systems?
4. When something changes in one system, how many downstream processes need to be reviewed?

A useful measure of complexity is not just the number of systems in place, but the effort required to coordinate them.



Five Forces That Shape the True Cost of Investment Operations



2. The Capacity Trap

When growth requires disproportionate increases in headcount

Headcount is one of the most visible costs in investment operations.

The more important issue is whether additional capacity reflects the natural growth of the business or an operating model that relies on people to absorb increasing volume and complexity.

There will always be areas where growth requires additional expertise and capacity. But when every increase in transaction volume, product complexity, reporting requirements, or AUM automatically creates a hiring requirement, the cost base can become increasingly difficult to scale.

Look for the signals

- Month-end takes longer as volume increases
- New products require dedicated operational specialists
- Senior people become bottlenecks for routine processes
- PTO or employee turnover creates material disruption
- Teams spend increasing amounts of time resolving exceptions rather than preventing them

The underlying cost is not simply the salary attached to each new role.

It is the amount of manual or specialist capacity required to keep the operating model functioning as the business grows.



Five Forces That Shape the True Cost of Investment Operations



3. The Change Tax

The cost of adaptation is often hidden in internal capacity

Change is a constant in investment operations.

New regulations, instruments, markets, counterparties, investor expectations, and technology requirements all create pressure on the operating model.

Every firm has to adapt. The differentiator is where the cost and effort of that adaptation sit.

In some operating models, that cost sits primarily with the firm.

- A regulatory requirement becomes an internal technology project
- A platform upgrade requires testing, reconciliation, and engineering capacity
- A new asset class triggers significant development and process redesign

In other models, more of that work is absorbed by the technology and operating infrastructure supporting the firm. That changes the economics of ownership.

Evaluate the cost of change

1. What did our last major technology upgrade actually cost, including internal time?
2. How much engineering capacity is currently allocated to maintaining existing infrastructure?
3. What changes have we postponed because they would be too disruptive or resource-intensive?
4. If a significant regulatory change arrived tomorrow, who would be responsible for implementing it?

The change tax is easy to overlook because it is not always recurring. It can remain largely invisible until a major business or regulatory event requires significant internal capacity.

Five Forces That Shape the True Cost of Investment Operations



4. The Dependency Risk

What happens when a critical person, vendor, or process is no longer available?

Most firms have dependencies that are well understood internally but rarely quantified.

- The engineer who understands the integrations
- The operations specialist who knows how to resolve difficult month-end exceptions
- The vendor relationship managed through one key individual
- The spreadsheet that nobody wants to modify

These dependencies may not create an immediate problem. But they can increase operational exposure and make change more difficult long before an actual disruption occurs.

The cost of dependency includes the effort required to maintain workarounds, protect institutional knowledge, and recover when a critical person, process, or system is no longer available.

Assess the exposure

1. Could our most critical processes continue without the people who currently operate them?
2. How much institutional knowledge is documented versus embedded in individuals?
3. How many people could explain how the full operating and technology stack fits together?
4. Where would we only discover a dependency after the person responsible had left?

A resilient operating model reduces the number of places where business continuity depends on knowledge held by a small number of individuals.



Five Forces That Shape the True Cost of Investment Operations



5. The Opportunity Cost of Operational Friction

Operational friction can constrain business capacity

This is often the hardest cost to calculate – and potentially one of the most consequential.

When operations slow the business down, the impact rarely appears on the operations budget. It may appear as:

- A strategy that launches later
- A market opportunity that passes
- A PM waiting for infrastructure
- A new product delayed
- Technology talent focused on maintaining existing systems rather than building new capabilities

These costs may sit outside traditional operating budgets, but they can directly affect the firm's ability to act.

Evaluate the business impact

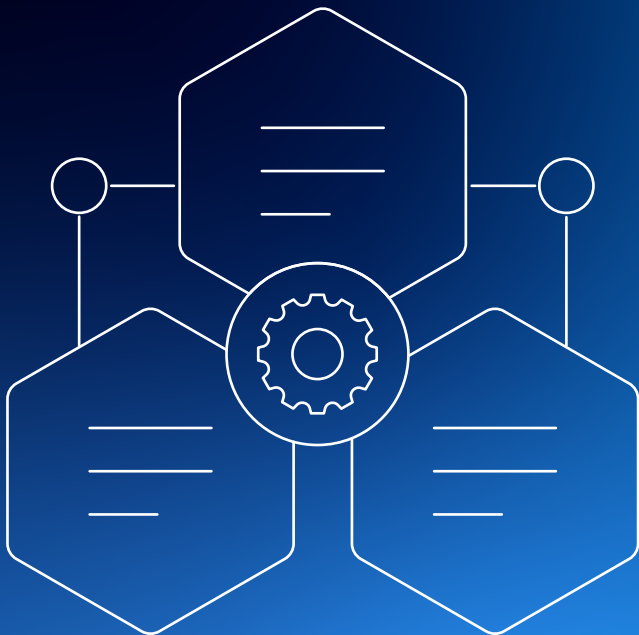
1. What business initiatives have been delayed because operations or technology were not ready?
2. How long does it take to move from a business decision to operational readiness?
3. Which opportunities would be easier to pursue if the infrastructure were already in place?
4. What could the technology team focus on if less capacity was required to maintain existing systems?

This expands the TCO discussion beyond cost reduction to operating capacity.

The objective is to build an operating model that allows the business to grow and change without creating a new layer of cost and complexity every time it does.



Apply the Framework to Three Scenarios



Chapter 05

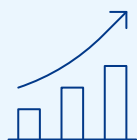
05

Apply the Framework to Three Scenarios

The purpose of these exercises is to identify the costs that may otherwise be missed when evaluating growth, expansion, or operational risk.

For each scenario:

1. Choose a realistic business event
2. Map what would need to change
3. Identify internal and external resources required
4. Separate one-time costs from ongoing costs
5. Ask how much of the cost is inherent to the opportunity, and how much is created by the current operating model



Scenario 1: Growth

Test the impact of a meaningful increase in scale

Consider a realistic growth scenario, such as:

- AUM increases by 50% or 100%
- Transaction volumes double
- The number of strategies increases
- Assets grow across additional funds or accounts



05

Apply the Framework to Three Scenarios

Scenario 1: Growth: Map the operational impact for each area.

Area	What changes?	Additional resources or investment required?	One-time or ongoing?
Operations			
Fund accounting			
Technology			
Data and reporting			
Infrastructure			
Vendors			
Compliance			

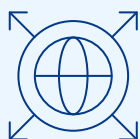
Assess:

1. How many additional people would be required?
2. Would existing systems support the additional scale?
3. Would operational timelines change?
4. At what point would new technology or vendors become necessary?
5. Which costs would scale gradually, and which would arrive as a significant step change?

Growth should increase business capacity without automatically requiring a proportional increase in operational infrastructure.

05

Apply the Framework to Three Scenarios



Scenario 2: Expansion

Map the cost of supporting something new

Choose a realistic business initiative, such as:

- Launching a new strategy
- Adding a new asset class
- Entering a new jurisdiction
- Introducing a new fund structure
- Supporting more complex investor or reporting requirements

Include:

- Internal engineering and technology capacity
- Operational process design
- New headcount or specialist expertise
- Vendor implementation and integration
- Testing and parallel runs
- Training
- Ongoing maintenance

The assessment should separate the requirements created by the opportunity itself from those created by the limitations or fragmentation of the current operating model.



05

Apply the Framework to Three Scenarios

Scenario 2: Expansion: Map what would need to change.

Requirement	Current capability	What needs to change?	Internal resources required	External cost
Data				
Operations				
Accounting				
Technology				
Reporting				
Compliance				
Vendor infrastructure				

Apply the Framework to Three Scenarios



Scenario 3: Operational Disruption

Assess the impact of a critical dependency failing

Choose a realistic disruption, such as:

- A key employee leaving
- A critical vendor changing its product roadmap
- A system outage affecting a core process
- A regulatory requirement requiring rapid implementation
- A major integration fails or requires significant rework

Scenario 3: Operational Disruption: Assess the exposure.

Dependency	What process does it support?	Who or what is dependent on it?	What happens if it fails?	Estimated recovery effort

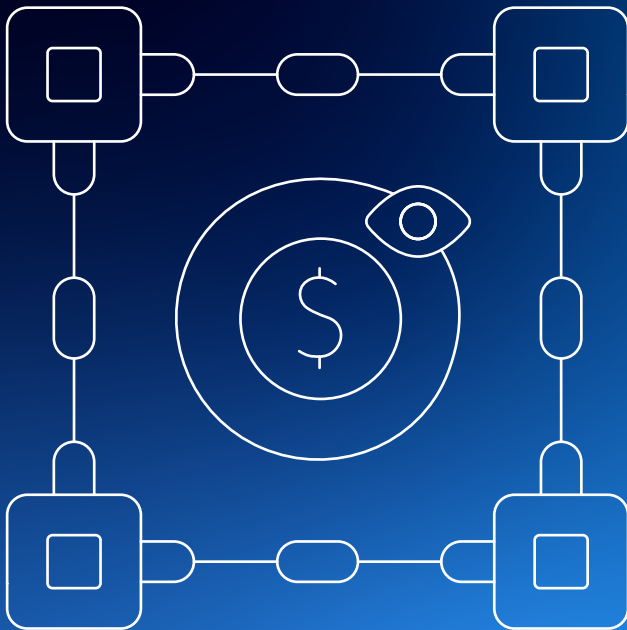
Assess:

- How quickly could the firm recover?
- How much institutional knowledge would need to be replaced?
- Would other processes be affected?
- What would the disruption cost in time, resources, or business impact?
- Is the dependency visible in the firm's existing TCO model?

A complete TCO model accounts for the effort required to maintain and recover the operating model not only the cost of running it under normal conditions.

Applying the Framework:

A More Complete View of TCO



Chapter 06

Applying the Framework: A More Complete View of TCO

A TCO assessment is most useful when it starts with the firm's operating model rather than a comparison of individual vendor or technology prices. Bring together leaders across operations, finance, technology, and business management to examine three dimensions.



The cost to run the current model

Look beyond individual technology and service-provider costs to include:

- Internal and external headcount
- Technology and infrastructure
- Market data and third-party services
- Ongoing maintenance and support
- Operational overhead



The cost to support meaningful change

Review a recent example, such as:

- A new strategy
- A new asset class
- A significant regulatory requirement
- A major technology upgrade
- A new investor or reporting requirement

Include direct costs as well as internal time, coordination, specialist expertise, and opportunity cost.



What will this model cost at the next stage of growth?

Test the model against realistic growth, expansion, and disruption scenarios.

Identify where additional cost, complexity, or dependencies would emerge if the business needed to operate at greater scale or move more quickly.

Together, these dimensions provide a more complete view of TCO.

TCO includes the cost of running, maintaining, adapting, scaling, and recovering the operating model over time.

The lowest visible cost today is not necessarily the lowest cost over the life of the model.

A resilient operating model is one that can absorb growth and change without requiring disproportionate increases in infrastructure, coordination, or specialist capacity.

How Arcesium Can Help

The purpose of this framework is not to suggest that every firm should replace its existing infrastructure.

It is to help leadership teams understand the full economics of the model they have today and the trade-offs involved in maintaining, improving, or changing it.

Arcesium can help firms apply this framework to their own operating environment and evaluate how the economics of their current model may change as the business grows.

That assessment can include:

- The current operating architecture
- The technology and service-provider landscape
- The internal resources required to maintain it
- Where complexity and manual effort are accumulating
- Critical dependencies and operational exposure
- The cost and effort required to support future business change

From there, firms can evaluate whether their current model continues to support their needs and how a more unified approach could affect the cost and complexity of running and evolving investment operations.

The goal is to understand the full economics of the operating model: what it costs to run today, what it takes to change, and how those costs evolve as the business grows.

That is the conversation this toolkit is designed to start.



Interested in assessing where your organization stands across these five dimensions?

Visit arcesium.com or contact us directly to start the conversation.



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