Custodian banks are winning back the private funds market

Pascal Hernalsteen - 03 August 2026

After a decade of losing private funds mandates to professional depositaries, custodian banks are back in serious contention.

I run selection processes for investment managers and advise the providers who bid on them, and the way managers buy has shifted. They bought convenience for years; now they buy quality.

How the market opened

Before 2013, European fund regulation focused on the fund itself, and custodian banks sat in the middle of everything. Their operating models were built for UCITS: large investor populations, high transaction volumes, liquid securities, daily pricing.

Then came AIFMD, the 2013 European directive governing alternative funds such as private equity, private debt and real estate. It created new categories of provider, including professional depositaries, firms licensed to safekeep fund assets without holding a banking license. Closed-ended funds investing in illiquid assets no longer needed a traditional custodian bank. A new generation of depositaries took share.

The numbers tell the story. Luxembourg's private-equity-related fund assets climbed from 58 billion euros in 2017 to roughly 1.1 trillion euros in 2024, and their weight in the country's fund assets rose from 1.5 percent to 18.7 percent, according to LPEA data compiled with PwC Luxembourg. That is the wave professional depositaries rode.

The one-stop shop and its limits

The new market made a clean offer: fund administration, depositary services, the AIFM and corporate services from one provider, sometimes banking too. One company, one relationship manager, one escalation path. For first-time managers, international sponsors and smaller shops, that took real complexity off the table.

Then scale pressure hit. Clients pushed hard on pricing, shareholders demanded better margins, and providers moved substantial portions of the work to lower-cost countries. Offshoring reduced costs and bolted on a different kind of complexity. Processes spread across countries, escalation paths multiplied, and data ownership fragmented. Some of the savings got eaten by rising coordination costs.

Clients now flag the same five purchasing criteria in every process I run: accuracy, timeliness, consistency, flexibility and service. Price wins the mandate. Quality issues end it. A growing number of managers question whether one provider can be the best at administration, depositary, oversight and corporate services all at once. The objective moved from minimizing coordination to maximizing quality.

Three forces pulling custodian banks back

First, cash accounts. A modern private markets structure needs an extraordinary number of bank accounts: the fund, its general partner, holding companies, SPVs, portfolio companies, co-investment vehicles. Few banks will open standalone cash accounts because it is low-income, high-risk work. Whoever can fold banking into the offer holds a real edge.

Second, convergence. Retail funds and alternative funds used to live in separate universes, with different managers, different rules and different providers. Those universes are merging. Public and private managers are combining through M&A, hybrid funds hold listed securities, and semi-liquid funds that let investors redeem periodically are multiplying, helped by Europe's revamped rules for long-term investment funds. All of them must appoint a custodian bank. The prize is large: alternative funds managed from Luxembourg reached 2.7 trillion euros at the end of 2025, and 18 of the 20 largest private equity managers operate there.

Third, fee structure. In many selection processes, I see custodian banks pricing below professional depositaries. That looks counterintuitive until you remember what banks sell around the account. Credit facilities, foreign exchange and other banking services carry far better margins than safekeeping ever will.

Where this leaves providers

There is room for both models if each picks its lane. Custodian banks rarely offer AIFM services, and independent AIFMs prefer partnering with banks because the two do not compete. For providers, the decision is where to compete on quality, where to bundle banking and where to partner instead of building. That is a go-to-market call before it is an operations call.

The market bought convenience for a decade. It buys quality now. Custodian banks have the cash accounts, the convergence tailwind and the fee structure to meet it.

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