



ARTICLE

PRIVATE EQUITY

GETTING PRIVATE EQUITY DATA IN ORDER: REAL-TIME INTELLIGENCE FOR LIMITED PARTNERS

For effective portfolio management, LPs need to understand their risk exposure and performance not only at fund level but also that of underlying holdings.

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For private equity limited partners (LPs), timely access to accurate, detailed information on their portfolio is key to making wise investment decisions. But as they strive to digest reports from multiple general partners (GPs), a lack of standardization can make for a challenging data management process.

The way the world accesses financial data has changed irrevocably. Only 15 years ago, a quarterly paper statement from a bank or broker was the customary, perfectly adequate means for individuals and institutions alike to stay up to date with and reconcile accounts, or analyze the performance of their investments. Today, bank and broker account details are not only available on demand, online, but also in real-time. Typically, they can be sliced and diced for further analysis, too. What's more, whether at home or at work, we now expect to access all our information – personal, business and financial – from one device, in a format that suits us. Data, in short, must be easy to get to and understand.

The ability to “help themselves” to real-time data and reports, as and when required, empowers today's investors, giving them new levels of transparency and insight into their portfolio. With data management central to their portfolio management activities, private equity LPs know better than most the power of real-time data. With up-to-date intelligence at their fingertips, LP portfolio managers can act with far greater agility on behalf of their stakeholders, make investment decisions more rapidly and respond in good time to market events, shocks and changes.

So, in the modern world of self-service data, what is standing in their way?

The data analysis challenge

For effective portfolio management, LPs need to understand their risk exposure and performance not only at a fund level but also for that of underlying holdings. The ability to easily analyze data from GPs, and drill down into its detail, is therefore critical.

Recent research by TABB Group indicates that, while many GPs have made investments in reporting technology over recent years, document management and data dissemination still pose significant problems for 60 percent of firms¹. Help, however, is at hand: the latest generation of reporting portals responds directly to GPs' challenges by offering not only accessibility but also interactivity. This is good news for the LP community. Rather than just storing static PDFs, an interactive reporting portal gives LPs the opportunity to access real-time data on demand, then slice and dice it as they see fit, to the level of detail they require. However, although 70 percent of GPs believe it is important to provide investors with interactive reporting, only 23 percent presently offer this capability to LPs¹.

Meanwhile, for LPs, access to information is only part of the problem. The real challenge is being able to make sense of the data they receive – and turn it into usable, actionable intelligence. From the LP perspective, managing reports from GPs with varying levels of detail, consistency and completeness continues to be a tricky and inefficient process. In 2011, the Institutional Limited Partners Association (ILPA) published private equity reporting guidelines which were endorsed by more than 250 firms: a resonating response from the private equity sector that highlights the need for consistency and standardization in reporting. According, again, to TABB Group: “most (firms) agree that increased standardization is necessary and beneficial to allow for improved comparability and analysis of data included in investor reports!”

As with many areas of back-office operations, a range of managed services are available to take data management processes off firms’ hands altogether. Making best use of their own core competencies, technology providers can give private equity professionals all the details they need to make the right decisions, without the effort involved in delivering them. With the tools, time and expertise to pull disparate reports into meaningful shape, these information and IT experts are best placed to transform data into actionable intelligence. And by offering scalable, cost-effective outsourcing solutions, they can free up LPs’ own stretched resources and allow them to concentrate on what they do best: portfolio management.

Too much data, too little time

The fact is that, in whichever way they receive data from GPs, LPs struggle to process and manage it efficiently. Most simply don’t have the back-office support they need to normalize, structure and validate large amounts of disparate data, from a wide range of sources and in a variety of formats, in a short period of time. They may use a range of third parties and service providers to help collect information, for example on underlying holdings. But a high degree of fragmentation makes it difficult to gain a holistic, aggregated view of their portfolio and analyze it to the right level of detail, or measure performance and exposure against targets.

In recognition of these challenges, the private equity industry has set up the AltExchange Alliance, a not-for-profit body that aims to define, maintain and promote a single data standard for sharing information between all industry participants. For LPs, use of the AltExchange standard will streamline the entire data management process, saving time, reducing errors and enabling data to be quickly aggregated and made available for analysis.

Imperative as it is, AltExchange represents a long-term goal, and an automated flow of fully standardized data could take up to a decade to embed across the industry. In the meantime, however, LPs no longer have to grapple alone with their data processing problems.

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