

Fund of Funds in Focus - Drilling down into portfolio company performance

Fund of funds managers operate in a complex investment landscape. While their primary focus is on selecting and allocating capital to the best-performing general partners (GPs), there is a growing need to look beyond fund-level data and drill down into the performance of the underlying portfolio companies.

In this article we'll discover how information on the financial health, risk exposure, and operational performance of each individual company can provide deeper insights for the fund of funds manager into the overall portfolio, enhancing decision-making, and improving risk management. Achieving this level of transparency comes with challenges that require innovative solutions, including technology-driven data aggregation and analysis.

The value of detailed portfolio company performance data

Traditionally, fund of funds managers have evaluated GPs based on their track record, strategy, and fund-level performance. While this remains critical, a fund's success ultimately depends on the performance of the underlying portfolio companies. Ignoring this data can expose investors to unforeseen risks, such as concentration in underperforming sectors, liquidity issues, or misalignment with environmental, social, and governance (ESG) considerations.

- **Gain a deeper understanding of investment risks** - a GP's fund performance might look strong at a high level, but a deeper dive into portfolio companies could reveal overexposure to struggling industries, financial distress in key holdings, or potential regulatory risks.
- **Improve decision-making for capital allocation** - comparing portfolio company performance across different GPs allows fund of funds managers to make more informed allocation decisions, identifying which managers are consistently delivering value.
- **Enhance ESG and compliance oversight** - with growing investor and

regulatory focus on ESG, fund of funds managers must ensure that underlying companies align with sustainability goals, ethical business practices, and regulatory requirements.

- **Strengthen investor confidence and reporting** - investors increasingly demand greater transparency into how their capital is deployed. Providing insights at the portfolio company level can improve reporting quality and build trust.

Challenges in tracking portfolio company performance

However valuable having this data might be, fund of funds managers face several challenges in accessing and analyzing this information.

- **Limited transparency and data availability** - unlike publicly traded companies, private market portfolio companies often have limited disclosure requirements. GPs may not always provide granular insights into individual company performance, making it difficult for fund of funds managers to assess risks and opportunities at a deeper level.
- **Data standardization issues** - portfolio companies report financial and operational metrics in different formats, making it difficult to aggregate and compare data across multiple funds. Without standardized reporting frameworks, fund of funds managers struggle with inconsistent and incomplete data.
- **Lag in data reporting** - private equity investments operate on longer timelines, and portfolio company data is often reported with a significant time lag. By the time fund of funds managers receive and analyse data, market conditions may have changed, limiting the ability to act proactively.
- **Overcoming resistance from GPs** - some GPs may be reluctant to share detailed portfolio company data, viewing it as proprietary or fearing increased scrutiny. fund of funds managers must balance the need for greater transparency with maintaining strong relationships with GPs.

Typical portfolio company metrics fund of funds

managers track

While the level of granularity varies depending on GP reporting standards, industry norms, and regulatory requirements, most fund of funds managers aim to track a core set of financial, valuation, risk, and operational metrics. A typical scenario involves receiving quarterly fund-level reporting with summarised portfolio company data, while annual reporting or ad-hoc disclosures provide deeper company-specific insights.

Financial performance metrics

Most commonly requested in GP reports:

- **Revenue growth** – a key indicator of a company's market strength and ability to scale.
- **EBITDA (earnings before interest, taxes, depreciation, and amortization)** – used as a benchmark for operational profitability.
- **Net profit margin** – provides insights into cost efficiency and profitability.
- **Cash flow generation** – important for assessing liquidity and sustainability.
- **Debt-to-equity ratio** – a common risk indicator measuring financial leverage.

Typical scenario:

Fund of funds managers receive revenue, EBITDA, and net profit margin figures as part of quarterly fund performance reports. Cash flow and leverage data are often included annually or when a significant event (e.g. refinancing, acquisition) occurs.

Valuation and exit metrics

Commonly tracked by fund of funds managers to assess investment outcomes:

- **Enterprise value (EV) and valuation multiples** – helps assess how GPs are valuing portfolio companies compared to industry benchmarks.
- **Realized vs unrealized gains** – indicates how much value has been crystallised through exits versus paper gains.

- **Exit routes (IPO, M&A, secondary sales)** - provides insight into GP strategy and market conditions for liquidity events.

Typical scenario:

Valuation updates typically occur quarterly, with additional insights provided when a portfolio company exit event takes place.

Risk exposure metrics

Used to identify vulnerabilities across portfolio companies:

- **Sector and geographic concentration** - helps assess diversification across industries and regions.
- **Customer and supplier dependency** - a high reliance on a single customer or supplier can pose significant risks.
- **Regulatory and legal risks** - compliance with evolving regulations, particularly in heavily scrutinised industries such as healthcare and finance.

Typical scenario:

Fund of funds managers analyse diversification metrics quarterly, while deeper due diligence on regulatory risks may be done annually or during a fund review.

Operational performance metrics

Assesses business efficiency and scalability:

- **Revenue per employee** - measures workforce productivity and efficiency.
- **Customer retention and growth metrics** - indicates long-term viability and competitive positioning.
- **Product development and R&D spend** - signals innovation potential and future growth opportunities.

Typical scenario:

GPs typically provide only high-level operational performance data unless a fund of funds manager negotiates enhanced reporting access.

ESG and sustainability metrics

Growing in importance due to investor and regulatory pressures:

- **Carbon footprint and sustainability initiatives** - key for funds with ESG mandates.
- **Diversity, equity, and inclusion (DEI) statistics** - helps assess social impact and governance practices.
- **Compliance with ESG Frameworks (e.g. UN PRI, SFDR, TCFD)** - ensures alignment with regulatory and investor expectations.

Typical scenario:

Larger institutional investors and impact-focused fund of funds demand more frequent ESG reporting, but for most, these disclosures occur annually or upon request.

The transformative role of technology

Technology is playing a transformative role in helping fund of funds managers overcome these challenges and gain better visibility into portfolio company performance.

Here's how:

- **Automated data aggregation** - APIs and optical character recognition (OCR) allow fund of funds managers to extract structured data from GP reports, financial statements, and regulatory filings, reducing reliance on manual data entry.
- **AI-driven analytics and machine learning** - machine learning models can analyze vast amounts of data, detect anomalies, and identify patterns that may signal financial distress or growth potential within portfolio companies.
- **Real-time performance dashboards** - cloud-based portfolio monitoring platforms provide fund of funds managers with real-time financial and operational data, improving responsiveness to market changes.

Drilling down into portfolio company performance is no longer just an option for fund of funds managers - it is a necessity. As investors demand greater

transparency, ESG considerations are more important, and market risks more complex, fund of funds managers must go beyond high-level GP reporting and analyse the underlying assets driving returns.

By leveraging technology and focusing on key financial, risk, operational, and ESG metrics, fund of funds managers can gain a competitive edge, optimise risk management, and ultimately enhance returns for their investors.

How Aztec can help

Aztec Group is at the forefront of technology designed to “simplify scale” and help fund of funds managers better manage data volume, while incorporating the composition and performance of portfolio companies.

Powered by AI and machine learning, our end-to-end data management solution, **Aztec Xtract**, automates the collation, extraction, and standardization of fund and portfolio company data for fund of funds structures.

Once processed, the data undergoes rigorous validation by our teams of expert accountants, ensuring accuracy and consistency. It is then seamlessly delivered through a secure, intuitive dashboard, enabling real-time analysis and reporting at the click of a button.

The result is reliable, structured, and decision-ready data that empowers fund of funds managers to act with speed and confidence.

To learn more about Aztec Xtract and how we’re supporting fund of funds managers with their data management and broader operational requirements, please contact [James Duffield](#), [Metz Vara](#), or [Ore Adegbotolu](#).



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