

How tech is helping fund managers conquer complexity

Following on from the release of our private equity report *Conquering Complexity*, we consider the key issues managers face when it comes to meeting client demands for data, and how technology is shaping the future of fund operations.

In the recent survey Aztec carried out with 100 of Europe's private equity CFOs and CEOs, 98% told us that the need for new technology, and more efficient operational solutions was being driven directly by investors. To drill down deeper into this statistic, we followed up with several CFOs to ask them about how technology is reshaping their operations, and transforming the relationship between General Partners (GPs) and Limited Partners (LPs).

Investor demands for data have increased

One indisputable fact recognised by all the CFOs we spoke to is that investor demand for data has increased significantly in the last few years. LPs expect more data to help them make better investment decisions and to enable them to act nimbly in response to fast-changing market conditions. While part of this demand has been led by regulatory requirements, GPs believe they are now expected to provide LPs with just as much information on illiquid asset classes as is available from more easily traded assets such as equities and fixed income. As one CFO told us: "Alternative investments such as private equity used to have more room to manoeuvre, by their nature of 'being different'. But now, with increased levels of allocation into alternatives in the last two or three years – particularly from institutional investors – that need for information has sharpened".

The drive towards standardisation is still some way off

For most CFOs, their concerns over reporting centre on requirements such as the Sustainable Financial Disclosure Regulations (SFDR) and environment, social and governance (ESG). One CFO called this "not just a hot topic, but life changing".

Unfortunately, the industry is still some way off standardisation, especially when compared with other asset classes. As a result, technology must be used by fund managers to overcome that lack of standardisation and deal with ever-increasing demand.

There's been an unequivocal move towards standardised reporting within the private equity sector. For example, Invest Europe's Investor Reporting Guidelines demonstrate a commitment to transparency and set out best practice for reporting to investors, while the Institutional Limited Partners Association (ILPA) is dedicated to promoting transparency and aligning the interests of LPs and GPs. Yet while these initiatives are an encouraging step forward, they are not yet embedded across the industry, nor do they fully reflect the increasing needs of the investor base for more standardised reporting.

However, for CFOs, the drive towards standardisation appears something of a double-edged sword. On the one hand, it is seen as the key to ensuring the industry is able to operate on a level playing field, and regulation is increasing driving the requirement for standardisation. However, on the other hand, it can be challenging for firms to gather data from different sources and present it in a bespoke way to different clients. Most clients still expect to see quite specific, and sometimes quite nuanced, reporting represented in tailored ways for their consumption. These investors are often coming from a very standardised world - and that level of large-scale standardisation can be difficult for smaller fund managers to deliver, but as one CFO told us: "Investors are expecting the same amount of information on a look-through basis from private equity firms as they would expect to get elsewhere".

Fund managers need to manage their own data correctly

CFOs have also been telling us that one of the most crucial aspects is having their data stored in the right way. The companies we talk to are discussing building data warehouses on top of existing systems, and having a real time view of their data. Some sectors of the investment market are more data-driven than others perhaps, but all firms recognise it's essential to have the right systems and tools to extract data and use it to carry out rigorous and accurate analysis.

Fund administration resources can help deliver significant benefits

As fund administrators operating across a number of different jurisdictions, we have been seeing increased demand from the clients we work with for self-service data solutions, bespoke dashboards and portal access, as opposed to the provision of bespoke reports. There's always likely to be an element of tailored reporting required for investors, so from our perspective, it's about being able to accommodate this bespoke level of service and information, in ways that still make commercial and operational sense for the investment manager.

AI and automation also has huge potential

Financial reporting is obviously treated as a particular priority for CFOs. And, from an administrative perspective, it would be a welcome move if the industry could move on from the current regime of 'guidelines' to more stringent controls and instructions in how financial reporting data should be represented. There's no doubt that automation can help to create greater efficiency, particularly when it comes to processing large volumes of information. However, firms need to recognise that internally, automation may not always be welcomed with open arms, particularly as in such a people-driven industry. It's therefore important to demonstrate automation is not about getting by with fewer employees, but about ensuring people spend more of their time on those crucial value-add tasks, such as managing client relationships, rather than handling reams of data.

A time of opportunity

In many ways, the private equity industry is at an inflection point where data has become a precious commodity. How firms use technology to capture that data, and share it with clients, is going to be increasingly important in the next few years. Those that embrace the challenge both in satisfying client needs and also uncovering unique insights, will have a clear competitive advantage.