KEYNOTE INTERVIEW

Dealing with data

Regulatory complexity, ESG challenges and increasingly demanding investors mean it is time for private markets to finally move beyond Excel, says State Street senior managing director Cesar Estrada

Q What do you see as the main challenges facing private markets when it comes to dealing with data?

The data challenges have been growing exponentially over the past few years and the reasons are many. The increased complexity of the regulatory landscape; a growing emphasis on cybersecurity, sustainability and other ESG; the demands of ever-more sophisticated LPs; and even the demands of internal constituents, requiring access to better and more timely information, are all increasing the pressure on managers to get their approach to data right. And yet the industry continues to struggle to address these challenges in a systematic and scalable way.

Data sources still tend to be siloed and, by and large, the private markets industry continues to rely heavily on spreadsheets. There are a growing number of fintech players providing point solutions for specific functions, but manual processes and disconnected data still serve as the glue that binds it all together. This is not helped by the fact that there is no industry standard widely and consistently adopted, despite the efforts of various industry bodies. All of this leads to inefficiencies and the possibility of data entry mistakes, omissions, and inconsistencies that can ultimately lead to misinformed decisions.

Q How are managers addressing these issues?

There is an understanding now that managing data is a strategic imperative, but results so far have been mixed. The biggest firms are all at different stages of their digital transformation journeys. Some have started out by hiring a chief data officer for the first time, others have hired consultants to help evaluate their current and target state, while others are engaging with firms like ours to serve as their data platform or help execute on aspects of their data strategy.

Meanwhile, small and mid-cap firms are less likely to be on a formal transformation path and rely on the CFO or COO to drive data strategy forward. They are more likely to be tackling these issues day by day, trying to figure out how to sustain their growth while dealing with that looks like a collection of point solutions across the front, middle and back office, all tied together in Excel.

Q How can the digitisation of fund administration support managers and their underlying investors?

The digitisation of private markets fund administration is a core part of what we do. Our main aim is to enhance the manager and investor experience and to help the CFO syndicate themselves more broadly across a growing set of data and analytical demands.

However, increasingly, it is not only the CFO that we need to cater for. An investor relations professional on the road may want to have a snapshot of any given client at their fingertips, while a portfolio management executive may want to understand whether or not they are in the carry for a specific sub set of deals. We are continually iterating to enhance the experience for a number of different personas.

Q What are the specific challenges faced by multi-asset class platforms?

We are increasingly working with managers that may have started out in one asset class before expanding into others, either organically or through acquisition. That brings its own set of challenges on the data side. Consistency across business lines is imperative to sustain their next leg of growth. Furthermore, LPs may also be cutting across different funds and asset classes and will be looking for a consistent experience.

Nonetheless, the different asset classes have different data sets that cannot be made to fully overlap. There will be different types of information required to assess and monitor performance. It is important, therefore, to create data models that can facilitate the aggregation and normalisation of data to allow for portfolio monitoring and stress tests within and across asset classes.

Q What should managers take into account when deciding to buy or build?

It all starts with the trade-off between perceived control and access to data, versus the total cost of ownership of having everything done in house. Managers should also consider the associated distraction from the core business of fundraising and investment when assessing buy versus build.

Q How will technology change the role of fund services providers in the future?

At State Street, we see our role as expanding beyond core fund administration to satisfy a broader enterprise-wide set of service, data and analytics, and financing and liquidity needs across private markets firms. The banner under which we capture these aims is State Street Alpha^{SM}. Our vision is to cut across all aspects of the fund and investment life cycle. We have done this by developing a platform that brings asset and portfolio transparency to support a number of functions from asset management to ESG monitoring and investor reporting.

What the platform enables us to do is ingest the data from multiple sources and in multiple ways, whether it is template-driven or API or message-based. It allows us to validate and clean the data using business rules and automated workflows, and to enrich those data sets and provide a central data repository to support all functions 'front to back' across all asset classes.

> *"There is an understanding now that managing data is a strategic imperative, but results from GPs have been mixed"*

Q What types of use cases are you seeing?

Some of the practical challenges that we are addressing include the ability to conduct portfolio management in a more dynamic way, whether that involves an infrastructure asset, or a piece of real estate, a private equity portfolio company or even a fund of funds portfolio. For example, it allows for valuations to be housed in a controlled environment that can offer a layer of audit trail, as well as help facilitate the production of materials for investment committees and valuation committees, downstream from the valuation process itself.

Q What emerging technologies do you expect to play an important role in the future?

I certainly think that new technologies will have an increasingly meaningful role to play as private markets asset classes continue to grow rapidly. That might include digital smart contracts, robotic process automation (RPA), tokenisation and blockchain, for example.

Some of these could be particularly interesting in developing a more liquid secondary market, which could lead to a democratisation of the asset class, taking private markets from being exclusively available to institutional investors and opening them up to individuals.

Meanwhile, we have been exploring different theses when it comes to the distributed ledger, including the case for using blockchain to immutably house all the pertinent AML and KYC information for investors and enabling them to use it as they deploy capital across geographies and asset classes.

Finally, I think RPA will become increasingly important. When you are dealing with a funds of funds operations, for example, the volume of correspondence and the number of capital events is immense. All of that data has to be tagged and filed so that it can be extracted. That type of activity is ideally suited to RPA, and that is the direction we are moving in. ■