Private Markets: Technology Is Leading the Way Forward

STATE STREET

Converging business models, and diversification into different asset classes and geographies has increased the complexity of private markets fund operations. With asset valuations and dry powder at their highest levels in years, general partners are aggressively competing for attractive deals. Private markets funds fundamentally understand that they need to focus their efforts on achieving alpha.

Technology is a critical factor helping firms simplify day-to-day operations and provide a holistic view of a fund's lifecycle, while stripping out complexities. Yet many are relying on outdated legacy systems and processes.

In our 2020 Growth Readiness Study,[1] approximately two in three survey respondents from the alternatives segment said they fear falling behind competitors due to data inefficiency. They also reported that multiple, fragmented IT systems to support investment processes were a major source of frustration.

The alternatives market is expected to reach US$14 trillion in global assets by 2023, according to Preqin data.[2] With a maturing private market that's becoming more mainstream, allocators expect to see new product in their holistic portfolio. They are also looking for a longer-duration view of their products that is commensurate with returns across their passive, public and private portfolios. Firms that are embracing data and new systems to take a technology-first approach to meet the evolving needs of their clients and win new business will set themselves apart from competitors.

Recently, we connected with industry leaders to discuss the future of private markets funds and how technology is leading the way forward.

[1] State Street Growth Readiness Study 2020, conducted October and November 2019
[2] 2020 Preqin Global Alternatives Report, February 2020

The Panel

Jen Tribush
Senior Vice President and Global Head
of Alternatives Product at State Street

Jonathan Balkin
Founder and Executive Director
at Lionpoint Group

Tim Buchner
Co-Founder and Chief Operations
Officer at Mercatus

Marianne Oar
Moderator
Managing Director at State Street

Following the Industry Trends

Marianne: Technology is a key factor in allowing our industry to keep up with and accelerate growth. Tim, what are the technology trends you're seeing in the private markets sector?

Tim: Over the last couple of years, there's been a growing emphasis on data. As a result of that, we've been tracking three trends. First, organizations are fundamentally starting to integrate their data sources and decentralize systems with an emphasis around front to back so that investment operations teams are integrated with their administrators. The second trend has been around valuation exercises. Stress testing now happens almost daily, placing a heavy strain on Excel-only teams. That's forcing managers to look toward technology solutions. And then the third one I'd say is the result of having data technology now enter into centralized systems. The ability to run real-time, advanced analytics has become a huge theme where you're no longer just looking in the rear-view. To satisfy clients and investor needs, companies need forward-looking analytics capabilities.

Marianne: Jonathan, as we think about analytics and forecasting, is there anything you would add from a consultant perspective?

Jonathan: The industry is quite fragmented with regards to different technology solutions and data. While you can outsource many functions, the question is how do you actually integrate that data into your organization and align it across front-, middle- and back-office solutions? Making sure the data from different systems mesh together, and can be automated, is a core part of the challenge and opportunity ahead. Once that is done, you can blend historical and future cashflows and perform scenario modeling across the firm from the asset level up to carried interest plans.

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TIM BUCHNER

Co-Founder and Chief Operations Officer, Mercatus

Excel-erating Change

Marianne: Our industry seems to rely heavily on Excel. What technology solutions are available in the marketplace to help?

Jonathan: Organizations have to select the systems that work best for them. Private equity, credit, infrastructure and real estate each have a unique set of requirements and needs. Historically, the three data domains are CRM, portfolio monitoring and accounting. As Tim mentioned, we're seeing a big push into forecasting and future scenario modeling and calculations that will help model firm and fund economics, driven by valuations, waterfalls and management fees, as well as asset and fund models. There's a blend of different solutions that could help firms achieve their data management and decision-making ambitions.

Jen: I agree with Jonathan. I think the one thing that needs to be taken into consideration is that it's not just an accounting tool or a waterfall tool. We've got to identify the super set of data for each persona. Whether that's the front office, the risk manager, the chief financial officer or the Investor Relations team. Before those were all discrete channels, which is why people relied on Excel. As companies look for greater connectivity to their middle- and front-office analytics, data is often too big to run in Excel. This is why these tools have come to market as well.

Tim: I think there are two ways to look at it. You're either embracing Excel or completely getting out of it. The challenge lies with bespoke investment classes, especially for modeling at the asset or portfolio level. A modernized environment where you can embrace Excel and then also use it as a calculator in the cloud will be critical.

Jonathan: Organizations must democratize their data to connect their business. The nature of the alternatives business, including deals, fund structures and tax implications, is bespoke. So, when you have complex technologies, and you increase the distance between the business user and a tech team or developer, it becomes difficult to be agile. Next-generation technologies are changing the game and creating solutions that can be owned by the business users.

Marianne: Are managers starting to move beyond spreadsheets and PowerPoint to leverage new technologies or are we still under a slow burn?

Jonathan: From my perspective as a consulting firm, we are seeing an influx of smaller managers taking technology seriously.

Tim: That's a trend we're seeing, too. Companies are moving into the cloud. But Excel hasn't just been a calculator; it's also a data source. So finding ways to build out a new, modern environment is critical.

Prioritizing Technology

Marianne: In this environment, I'd like to discuss COVID specifically. How has COVID-19 affected private market managers' evaluations and the role of technology?

Tim: There's a lot of anxiety around what's next: is there a second wave and how do you prepare? I think the challenge will be for organizations that don't having modeling in place or don't have the ability to quickly run stress testing. They will have to accelerate any re-engineering to scale their business. One particularly important integration point is with your administrator, from a front-to-back perspective as well as third-party integration.

Jen: Looking at it from a valuations and price perspective, technology is going to play an important role in helping private markets funds distribute more liquid products. Digitizing the evaluation process will be how organizations scale their business.

Marianne: Jonathan where do you think organizations have to place data and technology on their priority list?

Jonathan: Our industry is delayed in its data maturity and I find that a lot of firms struggle to structure their data in a way that is more scalable, controlled and repeatable beyond Excel. But once you have that data foundation, you can move faster and begin layering in things like ESG, self-service and on-demand data. Relying more on technology will also help employees work more efficiently and manage investments more effectively, especially in a remote working environment such as we're experiencing now.

Marianne: It's all about scale, right?

"Once you have a data foundation, you can move faster and begin layering in things like ESG, self-service and on-demand data."

JONATHAN BALKIN

Founder and Executive Director,
Lionpoint Group

Looking to the Future

Marianne: Tim, if I gave you a crystal ball looking out 24 months, how will the market change in its adoption of technology?

Tim: Over the next few years, we're expecting a majority of managers to completely move away from an on-premise environment and into the cloud. We think this is mission-critical for organizations to achieve the scale, rigidity and the flexibility that's needed in this market. We also think infrastructure managers will modernize and re-engineer their systems. Legacy platforms will no longer cut it for the next wave of growth. For larger firms, advanced and forward-looking analytics will be the next wave. Having that data integrated with a fund administrator to create a single source of truth is going to be critical.

Jen: If you're going to embark on this journey, I think the first step is to do the unglamorous work of data cleansing. Take inventory of what you have today and what you still need. That will help you assess what 'good' looks like.

Jonathan: I always implore our clients to look out 18–36 months and to put those goals into manageable projects that they can achieve. With each incremental step you'll be smarter and have a better perspective on how you want to tackle that three-year plan. Organizations shouldn't use the pandemic as a reason to postpone discussions on innovation or investments in technology. Use this time to focus and prioritize business outcomes.

Marianne: Thanks everyone for joining today.

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JEN TRIBUSH

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For more information, go to:

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