



Crucial and customised

As the private equity industry continues to evolve and GPs test new waters, so must their IT platforms be robust and flexible enough to support their activities. By Judy Kuan.

When it comes to managing their increasingly complex and voluminous fund administration needs, what private equity general partners most often highlight is that having the right information technology platform in place is mission-critical for running their businesses.

"GPs are demanding a more integrated and solid flow of information, which is why platforms that allow them to have a repository of information from which they can share are getting to be quite important," says Alan Routledge, business manager of UK-based private equity technology provider eFront Financial Solutions.

At the same time, "more and more [GPs] are looking to automate and streamline the IR function and use stand-alone CRM technology or integrated CRM technology with fund accounting solutions," notes Deloitte & Touche senior manager Justin Nuccio.

In terms of other areas receiving increasing attention from GPs, one is gathering and consolidating portfolio company metrics. "Especially among the larger funds, GPs are asking themselves, 'How do we look at our entire portfolio from a portfolio company perspective?'" says Nuccio. For example, a GP will want to analyze which sectors it is involved in, identify the key metrics for

those industries, and how portfolio companies are performing relative to those metrics.

Online reporting to LPs, including sharing capital account statements and other types of communication between GPs and LPs, is also continuing to gain in popularity, says Nuccio. This type of online document service has been around for a few years, but is now linking better with the front office part of GPs' operations, he says.

"More and more investors and CFOs expect to get online and get their data," says Frank Vitiello, president of New York-based private equity software solutions provider Vitech. "Electronic interchange is certainly an emerging trend. If a GP has a fund of funds client, the client would love to be receiving information on fund investments electronically and automatically."

"Private equity is becoming mainstream," says Vitiello. Particularly at large financial institutions, investors and sponsors are increasingly seeking to integrate the system that they use to track and process private equity portfolio data into broader areas of their organizations, Vitiello notes. For instance, a financial institution might want to show all of its investments—including its private equity holdings, its mutual fund holdings, etc—on a single statement.

CUSTOMISATION IS KEY

At the same time that GPs' expectations for IT functionality and support are rising, the level of diversity found among GPs—including their focus, geography, size, and style—continues to grow, while even more differentiating factors on the structural front are coming into play—including GPs' listing on public markets, toeing the hedge fund line, setting up real estate investment vehicles, and creating other sorts of hybrid vehicles.

"One of the issues for private equity is that everyone does the same thing differently," says Nuccio. "Because you don't really have a highly regulated environment, you have a lot of flexibility around how operations are conducted, and that adds to the customisation required for any accounting solution."

"You can't have the same data capture platform, especially if you have both liquid and illiquid investments," says Jayesh Punater, president of Gravitas Technology, a New York-headquartered integrated IT service provider focused on the hedge fund and private equity fund spaces. "Infrastructure, security, and disaster recovery can be homogeneous [across investment types], but from the application perspective, GPs need different accounting systems and holding databases that are more specialised to those businesses."

TRACKING COSTS

As the product offering has developed, the metrics for IT performance have changed dramatically. "Processes that would take an organization a week to complete can now get done in an hour," says Vitiello. "We commonly see that dramatic impact."

However, leaps forward in efficiency come at a cost. "Spending on the whole is increasing," says Punater, with reference to the cost of setting up an IT platform. He points to the much larger private equity funds – many with a global reach – that are being raised, as well as the custom-developed software that tends to be required for these firms. Such customised products tend to be costlier than off-the-shelf products.

Vitiello agrees. "We've certainly seen the average project cost increase, reflective of the fact that GPs are getting more sophisticated in what they want," he says. IT platforms are now expected to handle increasingly complex and geographically diverse data sets, as well as provide broad sets of users with access to that data.

The cost of implementation boils down to a couple of key factors. First, the complexity of the fund and firm, as well as the nature of what is being automated – such as making waterfall calculations or producing capital account statements – will strongly influence the cost. Second, the volume of data conversion required will have a significant impact on determining costs. Clearly, the resources required for tracking and processing the data of two-dozen funds will be far greater than that required for one fund.

Once it has set its IT course, how much flexibility a GP has in converting from

one IT platform to another rests heavily on how high the switching cost is, notes Nuccio. "If a GP has embedded an entire business on a platform, then the cost would be prohibitive. If they've just dipped their toe in the water, and just one fund uses that platform, then the cost wouldn't be that high," he says. However, he adds: "Most companies end up choosing a platform and putting everything on it, so they are 'stuck' to a degree."

Nonetheless, the economies of scale involved in incorporating another office or fund into a system appear to be fairly manageable. "It's pretty easy to integrate additional office locations into the platforms," says Vitiello. "We recommend either Citrix or browser-based solutions to do that."

THE PRIVATE EQUITY FRONT

As the private equity industry continues to evolve, so too will new issues and liabilities emerge that will need to be addressed on the IT front.

For instance, for GPs with international operations, their accounting and finance functions tend to be centralized in a city, says Nuccio. "Right now, [most GPs] haven't needed to have an administrative professional access the information from overseas. That hasn't been an issue yet although I think down the road, it might become more of an issue," – particularly if a GP is managing funds that are incorporated in more than one jurisdiction and is therefore subject to dealing with multiple accounting standards.

Vitiello also notes the following shift: "We're seeing a move from back office requirements to middle and front office requirements. Through the years, many organisations have looked to private equity-specific software and

now many organisations have in place back offices that do the tracking and processing for the capital raising process and the investing process. Now we're starting to see GPs use these systems in the front office too, for repeatable business processes and tracking deal-making activities."

As more advanced technology is adopted, there is the risk management aspect for GPs to consider as well. "Technology platforms themselves do create risk – the more organised and longer kept, the more available the data is for discovery, be it through FOIA or government authorities, which has created consternation among some international GPs," says Vitiello. "Financial disclosures are creeping into private equity, and if you have a computer system, it can be very easy to comply, and that, to some extent, creates liability." In fact, notes Vitiello, some GPs have chosen to physically house their IT systems offshore, as a means of mitigating this type of risk.

When it comes to market conditions for IT solutions providers themselves, the fund accounting space has not witnessed many new software entrants, notes Nuccio. "What I think is going to happen is a trend towards some consolidation in the next year or two," he predicts.

At the same time, while the universe of IT vendors focusing on the private equity space continues to be small, those who are active in the space are seeing an up-tick in demand for their services and products, a growth that is parallel to the expansion of the private equity industry. "As the money moves to different asset classes, you see the demand for technology following that," says Punater. "We see our business growing in the private equity space, and we are starting to focus specifically on private equity and its needs." □