THE DRAWDOWN

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OPERATIONAL TECHNOLOGY REPORT **2024**

RealDeals

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◆ **Solving the private wealth puzzle** Tokenisation could provide the solution

◆ **The impact of a digital strategy** How to create new sources of value

The EDITOR

JESSICA NANGLE

Welcome

Our *Operational Tech Report* celebrates the ever important role technology plays for operational professionals in the midmarket private equity industry. From conversations with key market players and the innovative solutions continuously hitting the market, it is clear that in order to keep up, you must stay ahead.

This market is no longer far behind its fellow sectors in the private markets; professionals operating in the space have a wide variety of options to select from to streamline processes and conduct optimal decision-making across their portfolios. This publication is the second instalment of our new *Technology Report* series, which was created to shine a spotlight on tech adoption and innovation across the industry against a backdrop of persistently difficult macroeconomic conditions.

A highlight of this edition is our showcase of the most innovative service providers and individuals in the fourth iteration of our popular Techwork list, which showcases the experience and achievements of some of the industry's top tech talent. Turn to *page 18* to find out more.

We finish this future-forward issue with a glance back at the past, showcasing what hit the headlines in the April 2021 issue of *The Drawdown*. Back then, the industry was recovering from the Covid-19 pandemic and still finding its feet amid the new normal. It serves as a reminder of how far we, collectively as an industry, have come and provides an exciting outlook for future progression.

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PRIVATE EQUITY'S OPERATIONAL UPGRADE

Private equity firms used to be able to run on spreadsheets and small back office teams. But as regulation intensifies and investor expectations rise, the legacy private equity operating model requires improvement

By Nicholas Neveling

The operational aspects of running a private equity firm used to be much simpler. For years, most GPs ran single investment strategies, usually in a single region, and managed money for the same institutions through the same fund structures. Reporting requirements were consistent from fund to fund, and could be more than adequately serviced off basic operational tools.

As the industry has grown and evolved beyond all recognition in the last decade however, the stakes have risen and the private equity operating model that worked so well for so long has had to evolve.

The industry now manages more than three times the assets under management (AUM) than a decade ago, according to Bain & Co's 2024 *Global Private Equity Report*. This growth in AUM has in part been driven by a more global and diverse investor base. Instead of producing the same reports for the same set of investors, private equity back offices have had to adapt to service a more diverse LP base with different regulatory and tax priorities. Co-investment and special account fund structures have become the norm; and with more funds at work, investor reporting requirements have become more bespoke and sophisticated.

GP back offices have also had to adapt to increasing regulatory oversight and reporting. In the US, the Securities and Exchange Commission has adopted new rules mandating private funds managers to provide audit and quarterly performance statements, as well as more detailed reporting on fund expenses. In Europe, meanwhile, managers are preparing for the implementation of the next phase of the Alternative Investment Fund Managers Directive (AIFMD II) in 2026, which will add to reporting and disclosure obligations.

Add in the reporting and compliance obligations around ESG and DE&I, and there can be no argument that the back office workloads firms are processing today are unrecognisable from what the industry would have been accustomed to a decade ago.

"The demands on the private equity back office today versus a decade ago are like night and day," says Yuriy Shterk, chief product officer at private markets software developer Allvue Systems. "The GP back office was much simpler. Firms could run with a small team of accountants, spreadsheets and a simple accounting package. They cannot anymore."

Technology transformation

Technology and digitalisation have become the key enablers for the alternatives industry to keep pace against a backdrop of increasing workloads and regulatory demands.

"When I first started working in PE, the admin teams could frequently be found burning the midnight oil, feeding endless piles of paper into fax machines to send out drawdown notices. Fast forward to today, and we have embraced secure portals to communicate with investors as much as possible. It is not just about convenience; it is about enhancing usability, security and portability," says Matt Horton, group head of private equity at fund administrator Aztec Group.

"In the back office, the core principles of accounting and governance remain unchanged, but the tools we use have transformed dramatically. Today's software

and systems are much more integrated and automated. We have been able to cut repetitive tasks and reduce the margin for error, which means less risk and more efficiency," he adds.

As technology has evolved and become more powerful, managers have been able to take more control of their data, accelerate response times and work with fund service providers in new ways.

"In an industry where there is more competition for deals and more competition for fundraising, you have to be able to answer queries and respond to situations quickly. That means you have to own your data and have access to technology that enables you to make sense of that data," Allvue's Shterk says.

Investment data warehousing technology and expertise has seen firms take big steps forward in this regard, and moved the industry on from the days when data would have been scattered across firms in the spreadsheets and emails of individual employees.

Chris Conradi, chief digital officer at FSN Capital, has overseen the implementation of a data warehouse that has transformed FSN's data handling capability.

> "In the back office, the core principles of accounting and governance remain unchanged, but the tools we use have transformed dramatically
>
> **MATT HORTON**
> **Aztec Group**

"Our data warehouse has grown into a pretty massive dataset, and we have built an application programme interface on top of that so that we can receive and serve data from multiple sources," Conradi says. "Managers used to just throw lots of manpower at answering a question about a fund or portfolio company. Now we can run queries from investors and other stakeholders through the data warehouse with very rapid response times."

Co-sourcing climbs

Technological advancements have also opened up new ways of thinking about partnerships between managers and third-party asset servicing partners.

For years, outsourcing fund accounting and reporting to fund administrators has given managers the freedom to focus on their front office functions of deal origination and rely on outsourcing experts to provide cost-effective back office support at scale.

The emergence of tech-enabled fund services, however, has provided managers with even greater optionality and choice when it comes to working with fund administrators. The co-sourcing operational model is an example of how technology has facilitated new ways of working and allowed managers to take ownership of their technology and data, while continuing to benefit from the scale and expertise that fund administration specialists can provide.

In a co-sourced model, a manager's data is not held on an outsourcer's on-premise infrastructure, but in a cloud environment that can be accessed by both the manager and the administrator. Managers can go into a co-sourced platform to access their data as they require it, and change providers if required without having to undertake complex and potentially costly data migration exercises.

With data held in one central environment, managers can simply overlay a reporting tool over their data and then have the flexibility to either outsource all fund administration work, or do a mixed model where some reporting work is outsourced and a proportion is kept in-house. The model also means that managers have access to data and can respond to investors queries directly, rather than having to put a request into a fund administrator and wait for an answer.

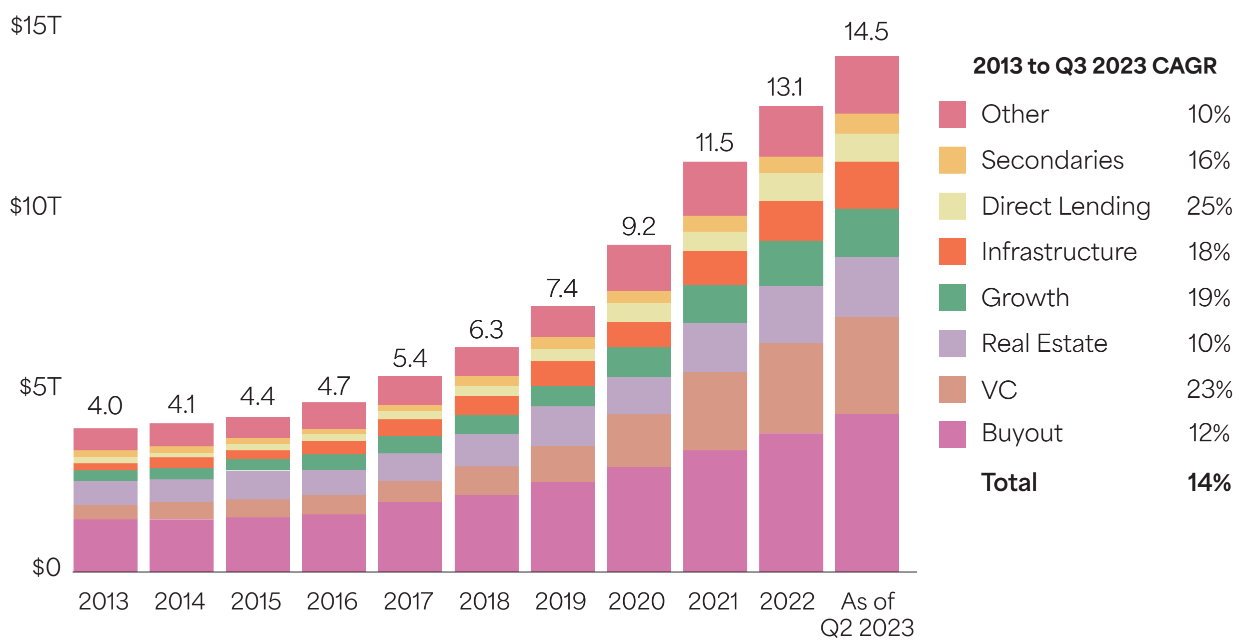
> The beauty of today's tech is that different environments can exist side by side. This means we can mix and match the best of what each environment offers, depending on the task at hand
>
> **CHARLES SWAINSTON**
> **Aztec Group**

"A decade or so ago, co-sourcing was more of a 'maybe' than a 'definitely,' mainly because it meant physically moving our team to the client's location. It was all about geography," says Charles Swainston, Aztec Group's director of technology. "The beauty of today's tech is that different environments can exist side by side. This means we can mix and match the best of what each environment offers, depending on the task at hand. With integrated systems, we are able to fine-tune our controls and workflows, making co-sourcing a well-oiled machine that does not hinge on just adding more people or tech."

The next frontier

Developments in the areas of data warehousing and co-sourcing already represent significant steps forward in private equity operational models when compared to 10 years ago, but the operational transformation of the asset class is still developing, with artificial intelligence

Global AUM, by asset type



Notes: Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager funds; secondaries includes real estate secondaries, infrastructure secondaries, direct secondaries (PE), and secondaries (PE) fund types; other category includes fund-of-funds, mezzanine, natural resources, hybrid, private investment in public equity, and real assets; excludes distressed private equity
Source: Bain & Company's Global Private Equity Report 2024, Preqin

presenting further opportunity for managers to collect, organise and provide data to stakeholders at greater scale and speed.

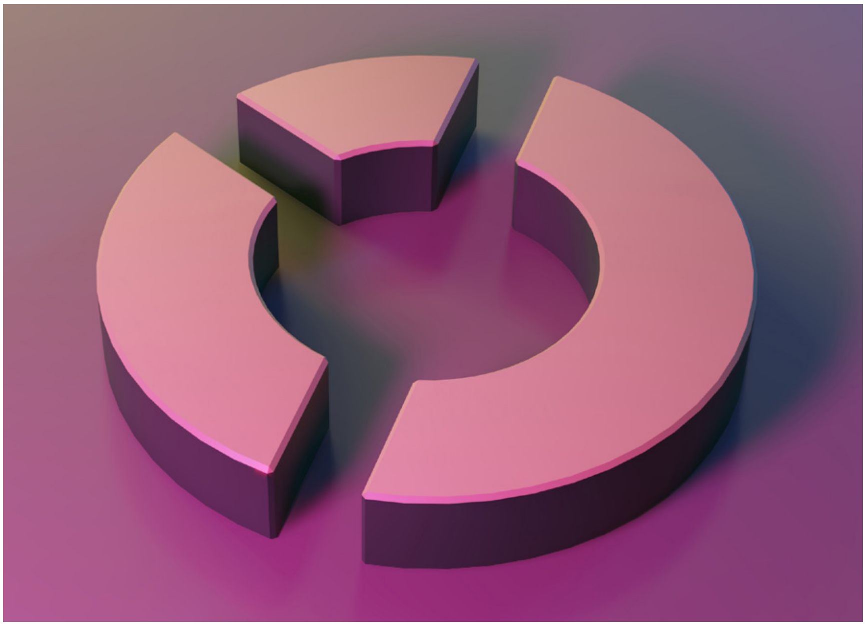
"With the integration of advanced technology, including AI that speeds up data collection and enables predictive analysis, private market analysts can now examine different investment approaches and possibilities while assessing market situations with more efficiency and scale," says Justin Mayer, managing director and global head of alternatives data and analytics solutions at Aladdin, the investment management software business of BlackRock.

For Justin Partington, global head of fund and asset managers at fund administrator IQ-EQ, generative AI and natural language models are empowering the asset class to move beyond striving for industry-wide standardised reporting into the realm of "system-driven customisation".

"From my personal perspective, the concept of standardising reporting has failed to gain traction in the industry," Partington says. "There are various reasons for that. Some managers still see the way they report as a USP and way to stand out, while on the LP side you still request for non-standard reports all the time. For me, the debate has to move away from the concept of standardised, fixed reporting, to an industry where we have system-driven customisation."

Partington says customising data had always been a manual process, but in the last 24 months, new tools had made system-driven customised reports a reality.

"There is a big shift underway. It used to be the case that if a deal partner or investor wanted to know how a deal was performing, a call would go into an analyst, who would do a lot of work on their own spreadsheet and then revert back with answers," Partington says. "The next development is self-service data, where natural language models will allow LPs or deal partners to type queries into a system and get the exact answers they are after."



"A stakeholder could use technology like Tableau, for example, to gather information using natural language, like you would on a search engine. You could say 'build me a 90-day cash forecast for the last two vintage funds' and the system would produce it. We should not be pushing for standard reporting. We should be pushing for system-driven customisation with self-serve data access. We are not there yet but this is where the industry is going."

FSN's Conradi says firms leading the way on digitalisation are already "very, very close" to being in a position to provide self-service data functionality powered by a natural language model. It is important for the industry to move with care as it deploys AI-powered technology, however.

"Information that comes back from a generative AI tool still has to be sense-checked and tested, and you also have to be very careful about the information exposed on a self-service data platform. Individual salaries, for example, will exist in the dataset but you would not want this kind of confidential personal information shared," Conradi says.

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>
> **JUSTIN PARTINGTON**
> **IQ-EQ**

Aladdin's Mayer agrees that human expertise will still be required to oversee data safety and supervise workflows, adding that AI stacks will have to be deployed in protective environments to ensure that data is not shared outside of approved user groups. According to Mayer, with the right guardrails in place, generative AI could have a transformative impact on how managers think about operational models and the user experience for all stakeholders.

"Adding co-pilots to analytical back office technology platforms will help clients gain new efficiencies and discover useful information instantly, while ensuring they work in a secure data environment. This can help asset managers stay informed and make data-driven investment choices," Mayer says.

The private equity back office has come a long way during the last decade, as firms have recognised the imperative to upgrade operational models to handle the growing volume of reporting and regulatory disclosure facing GPs.

Managers have taken the first steps towards streamlining manual processes and driving organisational efficiency, but this is a journey that is only just beginning.◆

The OVERVIEW

A SNEAK PEEK INTO THE DRAWDOWN'S TOP TECH NEWS

Five minutes with... Myles Milston

Jon Whiteaker spoke to the co-founder and CEO of Globacap, to discuss the story behind the London-based software company, how fund admins are a target market and what the secret is to stand out in a crowded marketplace

Check out the full story on **the-drawdown.com**, but here is a snippet from the discussion...

TDD: Retailisation is an increasingly hot topic in private markets but do you think midmarket PE firms are well placed to manage the regulatory and operational burden required to pursue retail investors?
If it were easy, the appetite would be huge. For a midmarket PE firm to be able to drop down the minimum subscription level and access a much bigger pool of investors is very attractive.

Obviously, there are operational and regulatory hurdles, as you say.

Operationally though, that is solved and something we do. For example, constructing a nominee or feeder vehicle, that is very simple. Then managing all of the capital calls, distributions and drawdowns is something we have built software around to enable you to do efficiently and at scale. We are regulated by the FCA as an arranger of securities as well as a custodian. So we can sit in the middle and collect and distribute the cash in a fully automated manner.

On the regulatory side, there is a threshold of what we call retail investors that fund managers would and would not want to target. The classification varies between jurisdictions but as a general rule, high-net-worth or sophisticated individuals are absolutely investors we believe midmarket managers should expand their pool into.

As the sophistication of an investor decreases, the regulatory burden goes up. So there is definitely a threshold where it no longer makes sense. ◆

CITCO LEVERAGES AI FOR LAUNCH

Matthias Plötz covered the launch of Citco Document Intelligence (CDI), which grabbed our readers' attention as it explained that Citco now offers document management services delivered – in part – by artificial intelligence.

Nick Eisenlau, head of institutional services, Citco Fund Services (USA), claimed that the CDI "provides a single, quality-controlled source for all external documents", and reportedly provides:

- A granular library for streamlined document management
- Automated document capture, information extraction and document indexing
- Data mining from investments
- Discoverable structured data
- Straight-through processing
- Delivery methods, including API and client-facing UI.

Turn to *page 36* where Tim Eberle from the Citco group of companies (Citco) emphasises the importance of continually assessing challenges and changes in the marketplace.

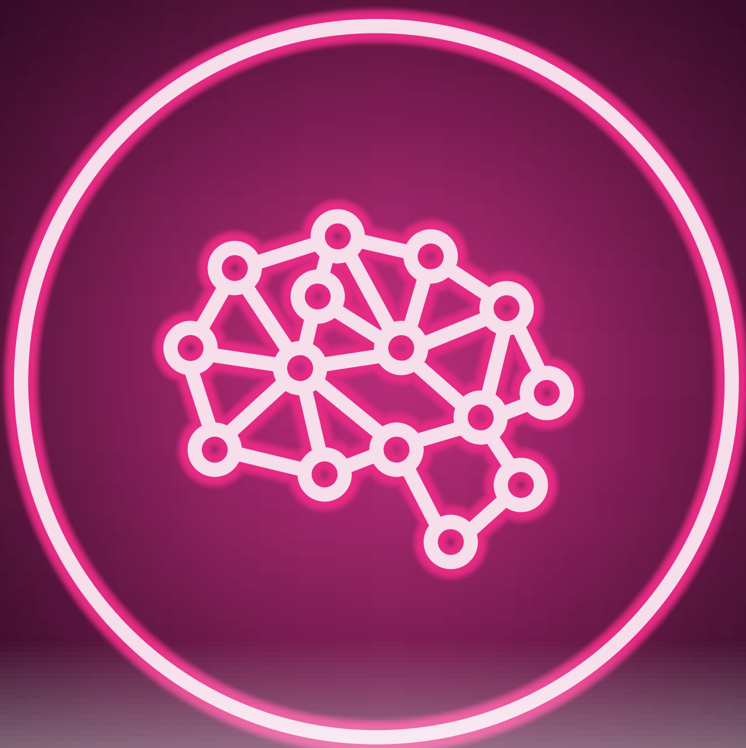
51%

The proportion of managers surveyed that expressed they were somewhat satisfied with their current portfolio monitoring process

Source: Acuity Knowledge Partners' Global Private Markets Outlook 2024

What the AI?!... Tamarix Technologies

Here is an excerpt from *Silvia Saccardi*'s interview with *Andrea Carnelli Dompé* from Tamarix Technologies earlier this year



TDD: What does AI mean to you?

I come from a statistical and econometrics background. There is a lot being done in AI and machine learning, which has developed in isolation from econometrics and statistics.

Traditional statistical techniques will come up with theories of what to expect and then look for data to confirm this hypothesis. When it comes to machine learning and AI, everything is flipped on its head.

AI makes very few assumptions about how data should behave. You let the data drive you and you're not absolutely opinionated when modelling something. Data is what informs your model, so initially it has to be very flexible, 'non-linear' in technical terms, and you just let the data shape it up. It's a very flexible way to describe any pattern using data alone.

This is at least what AI means in practice today. But ultimately, what do we mean by intelligence? If we think about intelligent human beings, some of the things that distinguish them from the rest is the ability to recognise patterns, to generalise, to use inductive and deductive reasoning, and to apply logic.

We would like to go in the direction of replicating all of this with AI, but I think today's state-of-the-art technology is really about recognising patterns in the data and extrapolating them to new observations – sometimes with extraordinary results! ◆

30%

The proportion of managers dissatisfied with the manual effort required to manage their third-party portfolio monitoring tools

Source: Acuity Knowledge Partners' Global Private Markets Outlook 2024

The EXPERT

FUND FINANCING 2.0

The rapid evolution in the space calls for more robust tech capabilities to fully harness its potential

During the past decade, the fund finance market has experienced explosive growth, driven by investors seeking alternative avenues for deploying their capital, beyond the confines of public markets. According to McKinsey's global private markets review from March 2023, this surge has led to a substantial expansion of the private markets, ballooning to an impressive $11.7trn in size. Investors who ventured into the private markets have subsequently reaped the rewards, enjoying robust performance across various asset classes.

Amid a backdrop marked by elevated interest rates and the departure – or compelled divestiture – of three major financial providers, the ability and willingness of banks to extend credit have faced obstacles. Regulatory capital requirements and a reduced appetite for risk, particularly when it comes to middle-market participants, have posed unique challenges. In this environment, private credit is well poised to step in and fill the void. According to Preqin, a significant uptick in private credit AUM is expected at an impressive CAGR of 11.1%. Its projections indicate that the private credit market is poised to nearly double in value, reaching a substantial $2.8trn.

In a CNBC interview in December 2023, Ken Kencel, CEO of Churchill Asset Management, offered an insightful perspective. He accurately characterised the current period as a "golden age" for private credit. Kencel noted that the previous decade had seen the institutionalisation of private credit, but he anticipates a significant shift towards its democratisation in the upcoming decade. This transformation is driven by the vast pool of roughly $180trn in unallocated capital held by retail investors, which alternative asset managers, including private credit, stand to benefit from. The unfolding landscape promises a dynamic and promising future for private credit.

The fund financing options available to GPs have also undergone significant evolution in terms of both types and complexity. The options available include subscription line facilities, NAV and assets lines, and even hybrid structures that combine elements of these instruments. Such diverse financing solutions offer GPs increased flexibility, enabling them to fund deals, leverage investments to enhance returns and fulfil everyday liquidity requirements.

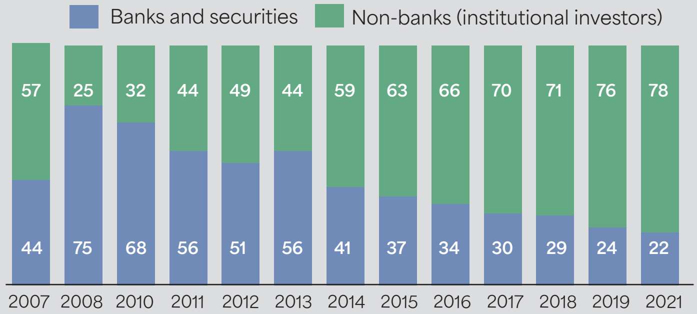
Tracking, monitoring and executing credit transactions have become complex tasks for private credit lenders and borrowers alike. C-suite executives and fund accountants are tasked with the responsibility of meticulously tracking the various facilities; comprehending the intricate terms of agreements, calculating and monitoring the often varying borrow base requirements imposed by different lenders. This operational intricacy can be a significant challenge.

Accuracy is paramount in this process, as any oversight or breach in terms, fees or conditions can lead to substantial fines and other adverse consequences. The multitude of variables involved makes centralised management a formidable challenge for GPs.

Moreover, GPs must have a real-time understanding of their available credit lines, as any liquidity crisis could have far-reaching implications. Historically, bank reporting on credit facilities was limited, with some reports even generated in basic formats like Excel or PDFs, often on a monthly basis. This lack of transparency created a blindspot for GPs, necessitating the development of in-house shadow accounting systems, typically reliant on Excel, which often contained gaps due to the absence of benchmark data feeds required for accurate interest and fee calculations. The absence of a centralised system to consolidate balances, forecasts and available credit has compounded these challenges significantly.

Additionally, it's crucial to note that each lender maintains its own unique format and specific documentation requirements for capital drawdowns and repayment notifications. Many borrowers engage with multiple lenders simultaneously, making the collation of pertinent information, securing the right signatures and maintaining a comprehensive audit

Banks now account for less than 25% of financing in both the US and Europe



Source: Pitchbook LCD

trail a labour-intensive process prior to submission.

Private credit managers face the formidable challenge of maintaining meticulous forecasts to predict and calculate vital metrics such as coverage ratios, LTV ratios and various other key performance indicators. Additionally, they must remain agile to respond promptly to redemptions and unforeseen events. The critical task of monitoring the credit risk associated with underlying borrowers or assets is both intricate and demanding.

In today's technologically advanced landscape, the burden of these operational tasks can be significantly alleviated through automation. Therefore, it is imperative that private credit lenders implement robust systems to monitor cash flows effectively. These systems serve as a sentinel, capable of swiftly detecting early warning signs, including delayed or defaulted interest payments and repayments. Leveraging technology to streamline these processes not only enhances efficiency but also bolsters risk management practices.

Role of technology

The encouraging news is that, as fund finance markets have evolved, so has technology. The capabilities now accessible to GPs and top-level executives for efficiently managing these operationally risky processes are maturing, thanks to a select group of technology vendors.

Cloud-hosted SaaS fund services platforms have emerged as game-changers. These solutions seamlessly centralise all cash balances, integrate data from various systems, and generate forecasts – all of which tend to be neatly presented on a single dashboard, ushering in a level of transparency previously unattainable. The fact that such platforms can be hosted in the cloud ensures swift and hassle-free implementation across different locations.

Building a comprehensive tech stack not only serves as a single source of truth for cash and forecasting transparency, but also empowers users to conduct transactions based on the latest available information, including intraday balances. This capability extends to interacting with multiple banking partners without the need to log into each bank's portal individually.

The best-in-class solutions can offer a dedicated credit management product seamlessly integrated with transaction manager and liquidity and cash planning tools. This centralises all credit agreements, whether on the lender or borrower side, and meticulously tracks the terms and conditions associated with each agreement, including thorough borrow-base monitoring. It is particularly important to not only track borrow base but also integrate it into the liquidity planning solution, enabling borrowers to take prompt action when it falls below current credit facility limits.

Other benefits of these fund finance platforms include the ability to handle multiple financing series, incorporate benchmarks and accurately calculate daily accruals while tracking various types of fees. Its sophisticated optimisation presents information concisely and generates cash transactions for interest repayment and notional draws.

Crucially, the right fund finance software can automate the generation of lender notices, tailoring them to client letterhead templates and digitalising these bespoke lender notifications, including the application and approval of necessary signatures. This not only eliminates the cumbersome and operationally risky task of manual processing but also establishes robust, controlled processes while systematically capturing a comprehensive audit trail.

Furthermore, using such a platform streamlines the often time-sensitive process, reducing the need for staff to physically collect signatures in the office. This efficiency becomes paramount when swift access to capital is essential, especially in last-minute deals that demand speedy payment.

Overall, technology stands as the catalyst for a profound transformation in how fund managers conduct their operations. It empowers managers to implement systematic controls, mitigating risk and averting the financial penalties, fines and reputational damage that can result from manual oversights, such as tracking terms or late paydowns. Technology simultaneously streamlines diverse processes, enhances operational efficiency and affords staff the opportunity to redirect their focus toward more impactful tasks.

Fund financing options available to GPs have also undergone significant evolution

Phil McKendry, Hazeltree

This strategic shift not only enables scalability but also aligns seamlessly with the current market dynamics, indicating a promising trajectory of sustained growth. It becomes abundantly clear that harnessing the right technology is instrumental in achieving the desired scalability in this evolving landscape. To find out how Hazeltree's Fund Services platform can help you on that journey, do not hesitate to get in touch. ◆

IN ASSOCIATION WITH

HAZELTREE

The PODCAST

Operational utopia

What if you were to create a private equity firm that outsourced its entire investment function and focused solely on operations?

Stephen Branagan of Pantheon Ventures believes it might not be such a crazy concept as it first appears.

With LP and regulatory demands ever increasing and tech stacks increasingly complex, a firm specialising in ops could have an advantage when marketing to investors.

Scan the QR code to listen to Branagan and *The Drawdown* team discuss the pros and cons of an operations-first approach and whether this dream could ever become reality. ◆

CLICK ON THE QR CODE BELOW TO LISTEN

HOT TAKE

HOW CAN TECHNOLOGY STREAMLINE MARKET PROCESSES FOR OPERATIONAL PROFESSIONALS?

Implementing and updating digital strategies not only enhances value creation but creates new sources of value, writes *Beth Brearley*

The challenging environment for fundraising of late has prompted private market firms to seek the edge over competitors by refining the investor experience. Using technology to streamline protracted operational processes has been identified as a way of increasing their engagement with investors.

In a forward-looking article published in December last year, EY predicted firms would double down on value creation in 2024 as they focus on strategic and operational improvements in lieu of exit opportunities.

Technology vendors operating within the private equity space cover a wide scope of solutions and services tailored to private equity firms' operations, such as deal sourcing, due diligence, portfolio management, investor relations, regulatory compliance, cybersecurity and data analytics.

Deal sourcing

While traditionally deal sourcing hung on referrals, intermediaries and personal connections, new technology such as AI can swiftly analyse swathes of information to identify potential investment opportunities and enable private equity firms to approach

target companies more efficiently.

Indeed, EY listed AI as number one in its top five private equity trends for 2024, predicting that "AI implementation will quickly shift from automating back-office functions to automating enterprise-scale platforms".

Conducting due diligence on potential investments by analysing the associated financial, operational, legal and environmental risks can be laborious when executed manually. However, new technologies such as cloud computing and blockchain can simplify the process by automating data gathering, analysing financial statements and assessing market trends.

Tech innovations

Monitoring and optimising investments and supporting portfolio management teams can also benefit from technological innovations, such as financial reporting tools and performance tracking systems, while AI algorithms can locate weaker areas of the business where cost savings can be made.

Efficiencies can also be made in the final stages of the private equity ownership period using technology. Analytics can evaluate market conditions, while technologies such as social media and other online platforms can help identify potential buyers or acquisition targets to support firms' exit strategies.

Cybersecurity

Of course, as technology establishes a chokehold on the industry, the prospect for cyberattacks increases, making the case for investing in robust cybersecurity measures ever more important.

Technology such as encryption and intrusion detection systems can help safeguard against data breaches, making the investment essential. ◆

LEVERAGING POTENTIAL

Tim Friedman, head of commercial at private equity consulting firm Holland Mountain, explains how technology can support the market

How does technology have the potential to streamline market processes and create value for operational professionals?
Tim Friedman: The way to think about technology is to consider the insights you can get from having the right technology in place. Where leveraging technology can add value is through the alignment of such tech with what is important for the business.

For example, thinking about the right technologies to support specific activities such as sourcing deals, executing deals and managing the portfolio. Technology firms should be driven by internal perspectives and a strategic roadmap based around the business. Such companies need to figure out what is important to them, not what technology is available.

What key areas are GPs are assessing when considering in-house operations versus outsourcing?
Friedman: A consideration we are seeing is employee retention; keeping employees happy and engaged in a competitive market. GPs are considering which non-core tasks can be taken away from employees and how to leverage outsourcing so employees can focus their time on doing the things that matter the most.

Have the difficult wider market conditions impacted Holland Mountain?
Friedman: It has been somewhat of a positive year for us insofar as the amount of interest we have had in providing services to firms that might have had a hiring freeze, for example. These firms are not looking to add headcount currently but they are still growing complexity in the business. Despite challenging conditions, we have been proving the value of leveraging consultants to help with technology and operations.

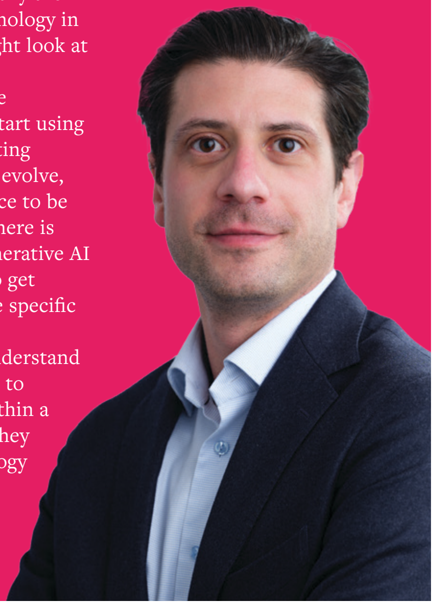
What role does AI play in the private equity sector and how can it shape the landscape in the future?
Friedman: When people talk about AI today, they are referring to generative AI. My view is that there seems to be a general belief in the industry that all firms should have some kind of AI strategy. But it is not immediately clear what the case for generative AI is and where the real value is going to be.

Firms need to identify the potential for the technology in the same way you might look at something like Excel.

They should get the technology in place, start using it and get used to writing prompts, so as things evolve, they are in a good place to be able to leverage AI. There is huge potential for generative AI but we do not need to get bogged down with the specific uses for it yet.

Firms must also understand that there are options to leverage platforms within a SaaS wrapper where they can access AI technology in the same way they would purchase any other kind of software, and leave it to the professionals to get the most value from what AI can offer.

Have you identified future trends in the private equity market?
Friedman: Businesses are keen to put in place a more robust and strategic view towards their data. This is important when we are talking about things such as generative AI and being able to derive insights from all the data you have. There is far more demand for firms to have an enterprise data management solution plan, roadmap and platform so they are able to effectively leverage new technology as it is coming out. Firms are looking for more agility to use new technologies and not become tied to any specific vendors when it comes to certain workflows they need to complete. ◆



The EXPERT

QUALITY CONTROL

Tech advances are opening up opportunities for private equity firms to leverage the power of data. Adopting new tools to enable access and provide insight and analytics can give a competitive advantage. However, ensuring the quality of underlying data is vital, say Lantern's *Charlie Markham* and Aztec Group's *Matt Horton* and *Geraldine O'Rourke*

How sophisticated is the private equity industry today when it comes to harnessing the power of data?

Charlie Markham: We see real appetite and ambition for adopting modern technologies such as data lakes, real-time analytics and co-pilot. It is true that private equity has historically lagged when it comes to tech adoption, but there is a notable acceleration taking place.

In particular, we are seeing a focus on real-time data that is not only backward-looking, but that can be used to inform the future too. In that sense, private equity's relationship with data is changing. This opens up many opportunities but as major financial decisions are increasingly being made based on insights gleaned from data, it is also putting significant pressure on the quality of the underlying data.

Geraldine O'Rourke: Private equity has always used data to support decision-making but tech advances mean that firms are now able to access and analyse more data and integrate more sophisticated data solutions that can deliver timely, quality data required to offer enhanced insight and, ultimately, competitive advantage. Data is now seen as a strategic asset.

Matt Horton: I agree. Data on its own is not enough. GPs need to be able to turn that data into useful insight. That requires robust, scalable and flexible solutions that can facilitate the collection, analysis and distribution of data throughout our organisation, client organisations and those of third parties such as law firms and placement agents.

What are the key challenges that GPs face in turning data into actionable insights?

O'Rourke: The biggest challenge is undoubtedly ensuring the quality of the data; that is paramount. In addition, GPs are dealing with vast amounts of fragmented data across different systems, some of which are not digitalised. Consolidating data from a range of sources and extracting key information, while ensuring data quality, is a key challenge.

We continue to develop our data strategy and tools, and are working closely with GPs to provide them with access to their data and the ability to integrate it into their own systems, as well as platforms such as Lantern. Enhancing data discoverability and accessibility to quality data in this way encourages innovation and collaboration around data and data products, which is key to turning data into actionable insights.

Horton: The traditional GP hierarchy has analysts at the bottom and the CFO and deal partners at the top. Platforms such as Lantern enable the right people to have access to insight whenever they need it. They are not beholden to an analyst being available or being able to get hold of a specific spreadsheet. It makes access to data far more democratic.

What are GPs' options when it comes to addressing the data quality issue and what do you consider to be best practice?

Markham: We prioritise establishing a data governance framework, with clear policies around data collection, data validation and data usage. We address the question of data validation head on by validating raw data against trusted financial statements and quarterly reports. We have advanced systems and a talented team focused on reconciling that information and putting together a clear view of the client's data. In addition, we have forged partnerships with high-quality service providers, such as Aztec, that are able to seamlessly provide us with quality information.

Finally, I would point to our underlying tech platform, which helps us validate data using a multi-layered model made up of an extensive suite of tests, humans-in-the-loop, supervised machine learning and other innovative technologies that we have been rolling out and look forward to continuing to roll out in the future.

O'Rourke: I would add that we believe that it is critical to create a culture within the organisation that values data accuracy and transparency, and then to foster that data-driven mindset and behaviours within the team, including ensuring that the right training is in place.

Markham: Absolutely. It comes back to the old adage of people, process and technology. Lantern is a tech delivery business but knowing that our partners on the fund administration side have top-quality people, processes and systems to ensure that the data coming through to us is spick and span, is paramount.

What are some of the common pitfalls that you observe in this process?

Markham: We typically work with CFOs and even they may initially show some reluctance when it comes to democratising data across the firm, until they can really trust the data. GPs spend an inordinate amount of time collecting, normalising and validating data. But they can move beyond that point. Through a combination of high-quality administrators such as Aztec and the technology that Lantern can offer, we can hopefully start to build that initial trust that can then enable them to do far more with the data that they hold within their firms.

Indeed, we have seen this happen first-hand with clients. Once they build faith in the data, then slowly that democratisation process unfurls and significant financial decisions can be made based on insights gleaned. In that context, we do not see ourselves as a system of record, but rather a system of trust, where we are able to support decision-making using forward-looking analytics and historic reporting.

How can a focus on data quality positively impact different stages of the private equity lifecycle?

Horton: The impact of quality data can be felt across the entire investment lifecycle and investment ecosystem, from deal origination to building credibility with investors. It is also important when it comes to valuations. While there have been significant improvements over time in this regard, a focus on quality data and even benchmarking will only make valuations more reliable going forward. Furthermore, with greater access to data, valuation no longer needs to be a quarterly exercise.

Data quality is equally important when it comes to portfolio management, meanwhile, where it can be used for effective monitoring and strategic decision-making. This ultimately enhances returns for investors at exit.

There is a lot of hype around artificial intelligence today. To what extent is data quality a prerequisite for leveraging the potential of AI?

Markham: We have all heard the maxim – garbage in, garbage out. If the quality of the data being used to train AI models is not good enough, then the system will make poor predictions and trust will be lost. That applies not only to the raw data going in but also to the way you interact with the model and provide feedback.

When it comes to the hype around AI, I also think it is important to ensure you are dealing with people who really understand private equity and the problems that need to be solved, and who then use that knowledge to identify the right tools to address those challenges. That will not always involve artificial intelligence.

Too often, AI is being viewed as this stellar technology that an organisation is determined to find a use for. We see that particularly around ChatGPT. We prefer to draw from market insights, conversations with customers and years of accrued experience within our team and that of our partners, to find the best possible solution. The solutions we bring to market are solving real-world problems for customers and giving them a competitive advantage as a result.

O'Rourke: For me, AI and automation are all about improving and enhancing our processes, empowering our people and supporting clients in smarter decision-making – and that means they must be grounded in high-quality data. Otherwise, any insight gleaned is going to be nonsense and any automation will not work. There is a vast opportunity ahead but any attempts to leverage that opportunity must have data quality at their heart.

How do you see GP demands evolving going forward and how are you responding?

O'Rourke: GPs will continue to seek to gain competitive advantage through data-led decision-making. So for us, using and continuously developing and enhancing tools that enable us to collaborate and work together with our clients as real partners is key. We are committed to evolving our services, our data programme and our client portal to meet those needs, so that both we and our partners can be more innovative and efficient, with data quality as the foundation.

Markham: From a Lantern perspective, we are focused first on data consolidation, combining an increasing amount of data from multiple administrators in a single source for our customers, so that we are not only able to provide the suite of products that they are expecting, but also, as Apple would say, "to surprise and delight".

Whether it involves AI or other technologies, we are looking forward to providing GPs with innovations that they had not even realised they needed, but that ultimately prove to be game-changers within their firms. ◆

Private equity has historically lagged when it comes to tech adoption, but there is a notable acceleration taking place

Charlie Markham, Lantern

IN ASSOCIATION WITH

LANTERN

TECHWORK2024

AGENTS OF CHANGE

The private funds market used to be perceived as antiquated compared to other areas of private markets, with a clear lack of tailored tech solutions available to streamline processes and improve operational flaws. Slowly, tech solutions began to appear that were far from optimal but that had the backing of a majority of private funds thanks to the lack of alternative options.

Fast forward to present day and options abound, with many solutions promising to fix operational deficiencies and provide firms with all the to ols required for efficient decision-making across all portfolios.

The products available are multiplying and it has been up to the people that make up the private funds sector to match this pace of change by embracing the technology solutions on offer to achieve optimal results. This has been no mean feat, as tech professionals remain in relatively short supply and work alongside investment professionals, who can be misaligned in their approaches.

Because of this, there are still gaps to be bridged. The potential of AI continues to be identified and discussed, particularly when it comes to cyber resilience for operational firms. Similarly, debate around digital integration and onboarding the best technology provider that fits the unique needs of each firm persists.

Regardless of the solutions still to be found, looking at the shortlist of tech solutions for The Drawdown Awards shows that private funds' digital upgrade is well underway and headed in the right direction.

Continued collaboration is key and is one of the main reasons we created the Techwork list; to serve as a network for tech professionals to compare how challenges were overcome and to highlight the achievements of their peers in a market that continues to evolve. ◆

FIND OUT MORE

SCAN THE QR CODE TO WATCH THREE OF OUR AGENTS OF CHANGE SPEAKING TO *THE DRAWDOWN* AT THE 2024 TECH INNOVATION CONFERENCE

TECHWORK2024

LISTING

HENRIK BERG

CHIEF TECHNOLOGY OFFICER, VERDANE

EXPERIENCE

Henrik Berg is a seasoned technology expert with over 24 years of experience in leading and scaling growth businesses and software development organisations.

Having held the role of chief technology officer at Verdane since June 2020, he is responsible for supporting the companies in Verdane's portfolio with all their technology needs. Armed with a MSc degree in computer science and mathematics from Uppsala University in Sweden, what he pursues in his job is, he says, "helping companies deliver innovative technology supporting the business goals". Meanwhile, what drives him "is seeing people and teams evolve while working towards a common goal – I really enjoy the combination of technology and business".

He continues: "Successful growth companies need to ensure scalability across two parameters: their technology, which allows them to deliver a consistent performance or end-user experience in the face of rapidly increasing numbers of users; and scalable methodology, which is about managing how the team itself needs to grow, prioritise and handle requirements and product management for their growth vision to become possible."

Sorting out any potential technical debt or challenges to growth further down the line as soon as possible is also an important part of his role, he adds: "My job is to help our companies that want to assess their maturity across those parameters [to] identify what needs to be done to achieve sufficient maturity, and then help them execute their plan to get there."

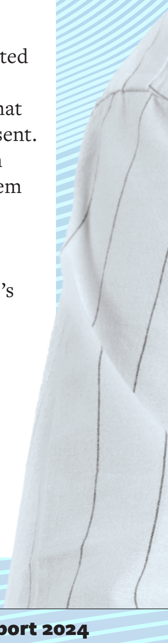
Since starting to work in private equity and venture capital, networking has been an important part of his role: "I spent my first years within the private equity space building out a good network of private equity peers. *Real Deals*' conferences have been a great place to network, and I have also had the opportunity to join a couple of smaller private networking groups offered through partners that have provided great contacts."

ACHIEVEMENTS

Berg lists his main achievements in his role as successfully insourcing technical due diligence through building a small team of product and technology experts, while at the same time finding a strong set of external advisers to support portfolio companies. "We have built good partnerships with most of the big infrastructure providers, selected cybersecurity vendors offering different capabilities, nearshoring partners and product management tooling," though, he adds: "We are both vendor- and tooling-agnostic as way of working and process excellence is of higher importance."

During the last year, he has concentrated in particular on building support for portfolio companies around the issues that generative AI and cybersecurity can present. He hopes to work further on AI adoption strategies and also data strategies for them in the future.

As chief technology officer, Berg also serves as a connection point for those working with technology across Verdane's portfolio. He enjoys the fact that he can "support multiple growth journeys simultaneously" and has been able to foster "cross-pollination between product and development departments [across the portfolio] through sharing best practice and by building a network of highly skilled and knowledgeable contacts".



STÉPHANIE HUIBAN

HEAD OF INFORMATION SYSTEMS, SOFINNOVA PARTNERS

EXPERIENCE

Stéphanie Huiban's entire career has involved driving operational efficiency and high standards at Sofinnova Partners. With a master's degree in banking and finance from Rennes University in France, Huiban brings a solid academic foundation to her job at the firm. However, her focus has always been on delving into the technical aspects of the private equity and venture capital industries, and finding business-oriented solutions.

A key part of Huiban's role is to ensure that the firm's technological systems keep up with the growth of Sofinnova Partners. She also ensures that these systems are aligned with new strategies and user needs at the firm, while keeping herself attuned to the changing technical landscape of the wider market. "Combining these elements, I consider myself as a strategic business partner, tackling major challenges such as security, agility – and AI of course – head-on," she says.

Under her leadership, Huiban's team is currently working on building robust new methodologies and leveraging AI to enhance productivity and efficiency within Sofinnova's IT platform, embracing innovative approaches to work. "Looking ahead, my plan is to prioritise people and science – the very essence of Sofinnova Partners," she says. "This entails fostering a culture that values both human capital and cutting-edge scientific advancements, ensuring that we continue to push boundaries and drive innovation."

Networking and interacting with other professionals working in the private equity industry, particularly within venture capital, are also an important part of Huiban's work. "The venture capital landscape presents unique challenges and aspirations, making it an exciting environment for sharing ideas, rethinking existing paradigms and collectively shaping the future," she says.

"I am deeply passionate about engaging with my peers and contributing to the collective intelligence of the Sofinnova Partners team."

ACHIEVEMENTS

Huiban has played a key role in developing and administering internal databases and reporting systems at Sofinnova Partners. In addition, her strategic management of relations with external IT providers has ensured the effective integration of new technology products. "In terms of software solutions and technology providers, we are committed to using best-in-class products to manage our network, opportunities pipeline and data effectively. Our goal is to provide and make available the most accurate information to optimise our performance," she says.

In reflecting on her career to date, Huiban says: "Every single day I am honoured to serve this firm's amazing ambition to create a better future through our endeavours, by guiding a 'bigger-than-me' project."

VALÉRIE LEGAT

HEAD OF DIGITAL, ASTORG

EXPERIENCE

Valérie Legat's journey in the digital landscape began when she co-founded Business Lab, a digital agency focused on developing digital ecosystems for various industries. Business Lab's success led to a partnership with McKinsey & Company, where Legat served as an expert associate partner and co-leader of McKinsey Digital Labs Paris. In that role, she led the launch of the digital business building and innovation practices, demonstrating her ability to drive digital innovation.

In 2020, Legat moved to the corporate world, joining Carrefour Group as chief digital factory officer. There she established the first digital factory model in France, overseeing the development and operation of digital assets for e-commerce, financial services, marketing and stores. "This model is currently being scaled to other countries and is one of my proudest achievements," says Legat. In January 2024, Legat embarked on a new chapter in her career, joining Astorg as its inaugural head of digital. "I am excited to apply my years of experience to a new challenge and help Astorg and its portfolio companies implement successful digital transformation," she says.

"Joining Astorg has been my first foray into the world of private equity and having the support of my wider network has been invaluable as I have settled into my new role," says Legat. France Invest's Digital Squad and Operating Partner Club have been, she says, valuable resources in building her understanding of the industry's nuances. "This group of peers working across the private equity space have created an open environment for information sharing and inspiration gathering," she adds.

ACHIEVEMENTS

As Astorg's head of digital, Legat has aimed to create and implement a comprehensive digital transformation strategy for the firm and its portfolio companies. She has initiated several initiatives to help achieve this goal, including the rollout of the *(Gen) AI Acceleration Playbook* with a portfolio company, aimed at accelerating its GenAI execution capabilities. "After four weeks of collaborative work between the portfolio company, our team and our data partner, we identified the highest priority GenAI use cases for the company and have already kicked off implementation for the most promising ones," she says.

Also in relation to GenAI, Legat recently held the inaugural DigiTalk event, which she describes as an inspirational, hands-on session focused on this area, which she plans to expand into a comprehensive training programme for Astorg and its portfolio companies. She has also launched initiatives such as a digital workplace for the firm and its portfolio companies, and a redesign of dealflow solution integration, further enhancing operational efficiency.

Currently, Legat is preparing for the launch of Astorg's client portal, aimed at providing investors with a holistic view of fund and asset performance. She is also leading the introduction of GenAI for the firm's deal teams and identifying talent to expand its digital team.

Legat is particularly interested in accelerating digital support for the firm's portfolio companies. "Our vision," she says, "is to provide support around three different axes: building an expert community within our teams of chief technology officers, chief data officers, and chief operating officers; offering on-the-ground support for all digital stakes – from e-commerce, to data, to AI; and creating an off-the-shelf catalogue of cherry-picked solutions and vendors for our portfolio companies."

IAN LILLEBY

CHIEF TECHNOLOGY AND INFORMATION SECURITY OFFICER, WAYSTONE

EXPERIENCE

For over 25 years, Ian Lilleby has been a driving force in value creation, digital transformation, business optimisation and cybersecurity within complex, regulated environments for portfolio companies, scale-ups and FTSE 250 organisations. His expertise comes from work in a range of sectors, including capital markets, banking, fintech, energy and utilities. Throughout his career, Lilleby has demonstrated his proficiency across various enterprise technologies and AI, data and cloud solutions.

Lilleby's engagement with the use of technology in private equity extends beyond his immediate responsibilities, as he regularly collaborates with other private equity professionals, participates in key industry forums and attends networking events.

He holds an MBA from Durham University, a BSc in social science, economics and informatics from the University of KwaZulu-Natal in South Africa, and a certification in applied machine learning and artificial intelligence from Microsoft via EdX, the Harvard University and MIT-backed digital learning platform.

ACHIEVEMENTS

In his role as chief technology and information security officer at Waystone, Lilleby leads technology and security initiatives across the organisation. His leadership extends both internally and externally, across product and service lines including regulated funds, administration, corporate services, compliance, and distribution.

Lilleby's tenure at Waystone has been marked by some notable achievements. He successfully managed the integration of multiple acquisitions while streamlining and optimising the firm's technology infrastructure to realise synergies across the organisation. Despite the demanding pace of organisational growth, Lilleby ensured operations continued to run smoothly through his good management of the integration of numerous enterprise systems, corporate data, operating platforms and other complex integrations, and the simultaneous onboarding of hundreds of new users within short target timeframes.

A former colleague concurs on his abilities, describing him on LinkedIn as "instrumental in delivering a robust digital strategy that enabled the business to grow quickly", and adding: "I always found him to be a positive force for change, results-focused and pragmatic when it came to juggling priorities. His strong technical capabilities and delivery focus were an asset to the team."

Currently, Lilleby is working on further enhancing cybersecurity measures to fortify Waystone's defences against evolving threats. Doing so includes consolidating and enhancing current cyber defences while introducing new capabilities to mitigate risks across various fronts, including cloud computing, networks, infrastructure and data loss protection.

Lilleby is also driving Waystone's efforts to transform its IT offering in order to enhance service delivery for product development and business operations, aligning the firm's technology with the future needs of the organisation. This initiative includes eliminating non-strategic platforms and rationalising existing ones, with the goal of delivering new strategic platforms that will optimise operational efficiency across the business by the end of 2024.

In the coming months, Lilleby is overseeing Waystone's investments in data, AI and digital resilience, while ensuring compliance with upcoming regulatory requirements including DORA and NIS2. This process will extend to the introduction of new innovative capabilities to enhance service delivery and the rollout of new products and services across Waystone's core markets.

BRIAN MASON

GROUP CHIEF TECHNOLOGY OFFICER, BC PARTNERS

EXPERIENCE

Having begun his career in the British army, Brian Mason moved to the finance technology sector in the early 2000s. After 20 years of experience in technology across banking, asset management and private equity, Mason joined BC Partners in January 2022 as head of technology, subsequently becoming group chief technology officer. In his current role, Mason oversees all aspects of the firm's technology, including transformation initiatives, infrastructure management and cybersecurity measures.

Mason's expertise has been enhanced and supported by his participation in various networking events, conferences and strategic partner gatherings, which enables him to make connections and stay abreast of industry trends. For instance, Mason is an integral part of a chief technology officer private equity network, which holds regular discussions to exchange insights and best practices for technology management in the private equity industry.

ACHIEVEMENTS

Mason has led several transformative initiatives during his time at BC Partners, driving the firm's technological evolution. Under his stewardship, BC Partners has seen significant advancements in technology adoption and digitalisation in various areas. Notable achievements include defining the firm's technology strategy and delivery roadmap, which has paved the way for the successful implementation of many important platforms and solutions.

During the past two years, Mason has overseen the adoption of several critical technologies, including SourceScrub for direct sourcing and investment universe management, DealCloud as a CRM solution, and ChatBCP for internal communication. In addition, Mason led the development and deployment of DeFinitiv, the firm's own Azure-hosted data platform, which integrates all third-party data requirements. Mason has also driven initiatives to enhance cybersecurity and to digitalise cybersecurity training globally, strengthening the firm's resilience against cyber threats.

Mason is currently working on digitalising BC Partners in alignment with the firm's technology strategy, with a particular emphasis on using digital, AI and data-driven tools for deal sourcing and diligence, portfolio management, and operations and data initiatives. "We have created a 'big model of everything' approach assessing all our processes, ensuring we have a continuous evolution of the best technology to keep the firm cutting edge – be it digital, AI, infrastructure or cybersecurity – for our private equity, real estate and credit businesses," he says.

"Cybersecurity continues to be a primary focus," he adds. "Keeping the firm safe from threats with a solid security posture gives our investors confidence." Meanwhile, he says: "Like most firms, we are in the phase of experimentation with AI, and the AI products that can be market disruptors. This could be aligned to productivity and unlocking that additional 20% for deals or value creation, providing us that edge over competitors."

Mason is also committed to ensuring the successful execution of BC Partners' multi-year digital, AI and data strategy. He is also keen to invest in his team, making sure they have the skills and autonomy to deliver on their commitments to the firm's technology strategy. Further in the future, he predicts more transformation of operational processes, driven by developments in AI.

DEE PAREKH

HEAD OF CYBER AND IT INFRASTRUCTURE, BGF

EXPERIENCE

Dee Parekh's experience in the realm of IT management and cybersecurity spans more than two decades. Currently serving as the head of cyber and IT infrastructure at BGF, Parekh's tenure at the investment firm began in April 2012 when he joined as the firm's inaugural IT operations manager. Before joining BGF, Parekh held senior IT leadership roles within the publicly funded economic regeneration sector.

Throughout his career, Parekh has remained committed to professional development, evident in his gaining of industry certifications including Certified Information Systems Security Professional (CISSP), ITIL Expert, Advanced Programme Management Practitioner, and Security Manager.

Networking has also contributed to his expertise. "There is a vibrant private equity chief technology officer networking group that collaborates regularly," he says, adding that he is also part of other networks that help him stay at the forefront of cyber resilience.

ACHIEVEMENTS

"First and foremost, I am immensely proud of leading a team that has actively played its part in helping scale a startup to becoming one of the most active growth capital investors across the UK and Ireland," says Parekh.

His versatility and inquisitive nature have led his involvement in a range of cross-functional technology-related projects. For example, during the past year Parekh has led several initiatives aimed at bolstering cyber resilience and enhancing operational efficiency at both BGF and its portfolio companies.

Notable examples include the launch of a new cyber and data privacy strategy that ensures cyber resilience within BGF and is part of a wider initiative designed to build cyber maturity across the portfolio. Parekh has already launched a cyber assessment test for portfolio companies and integrated a cyber KPI dashboard into wider risk management initiatives.

In addition, Parekh is an active member of the firm's supplier assurance working group where his work in designing, developing and implementing a new system in this area has streamlined vendor approval processes. He has also led the procurement, testing and onboarding of a brand protection service enabling technology, legal and marketing teams to detect and rapidly take down malicious or brand-infringing websites and content.

As the firm's acting data protection officer, Parekh oversees critical data security and privacy risks, providing valuable insights and expertise to navigate complex legal and regulatory landscapes. "Recently, this involved acquiring HR, talent and learning management systems, and conducting detailed security architecture reviews," he adds.

Parekh is currently working on enabling firm-wide transformation through AI adoption. "Emphasising AI's role in enhancing employee productivity, optimising capability in existing vendor platforms and developing custom solutions with rigorous due diligence, the strategy prioritises the principles of governance, ethics and data security while promoting adoption through learning and development initiatives," he says. He has also significantly updated the firm's network architecture, ensuring it is fit for purpose today and ready to adapt to future technological developments.

Finally, he is working on enhancing managerial skills within his team. Doing so gives him time to "collaborate more effectively with investment colleagues in evaluating cyber/technology deals and prioritising cyber maturity initiatives for our portfolio's value creation," he says.

DAVID POOLE

PARTNER, STANLEY CAPITAL

EXPERIENCE

With over two decades of experience in business process outsourcing and managed services sector leadership, David Poole is at the helm of Stanley Capital Partners' digital capabilities. His previous roles include senior positions at Sutherland Global Services, Serco, Capgemini and PwC. Poole's academic credentials include an MBA from Imperial College London and a degree in European finance and accounting from Leeds Metropolitan University. He is also a qualified accountant.

At the core of Poole's career is a commitment to helping corporations grow through digitally-enabled process management and virtualisation of the workplace. He co-founded Symphony Ventures, a consultancy specialised in robotic process automation-driven digital transformation, which, at the end of his chief executive tenure from 2014 to 2019, was acquired by Sykes Enterprises, a US-headed multinational business process outsourcing provider.

ACHIEVEMENTS

Since his move to Stanley Capital Partners in 2022, Poole has led the development of a robust framework of digital services for the firm that enriches the private equity lifecycle – from research and origination to due diligence, onboarding and value creation.

"Our use of technology has mitigated multiple typical pain points in the deal origination process," Poole told *The Drawdown* earlier this year. "For a start, our digital origination and transformation capabilities look totally differentiated to [those of] our competitors, immediately creating a competitive advantage intended to give us an edge when it comes to communication with sellers and management teams in processes. We undertake subsector landscape research promptly, recognising opportunities in minutes as opposed to months, which provides maximum visibility on the target market, and we review higher quality and more relevant opportunities. This sharpens Stanley Capital Partners' focus from an early stage onto only the investments that we want and have a right to win, and avoids wasting time on businesses outside our investment strategy. All of this leads to a higher conversion rate on opportunities, which is a key differentiator for us."

This framework employed by Stanley Capital's team also includes enhancing digital transformation and efficiency across its investment portfolio. Poole has built a large network of technology solutions professionals, including 120 automation and AI experts from Cognition, a company he co-founded in 2020. This network supports not just the portfolio companies but also 60 external clients, offering deep technical and sector-specific insights.

In addition, Stanley Capital Partners collaborates with specialised AI consultancies to find and use advanced proprietary AI tools that bolster the capabilities of its investment teams and portfolio companies.

Poole's current focus is on making use of generative AI to revolutionise professional advisory services within the pharmaceuticals sector. For example, Qinecsa, a Stanley Capital Partners portfolio company providing clients with pharmacovigilance technology and services, was able to use the firm's AI technology to execute five bolt-on acquisitions in less than 18 months.

"Key to this execution was the use of Insight," says Poole, "which enabled us to identify each investment ahead of making the initial platform investment. This meant a well planned and seamlessly executed buy-and-build programme was possible." He also has a keen interest in pioneering AI-enabled 'technology as a service' models in emerging market sectors.

HARRY VANDER ELST

HEAD OF DATA SCIENCE, CLIPWAY

EXPERIENCE

Harry Vander Elst has played an interesting role in shaping the data analytics landscape within private equity. He has a PhD in statistics and machine learning, which he followed with a stint at Coller Capital where he honed his expertise before venturing into entrepreneurship.

In 2020, Vander Elst founded RockSling Analytics, aimed at introducing disruptive approaches to analysing portfolios of LP interests.

Three years later, he joined forces with a seasoned team from prestigious institutions including Ardian and NYC Retirement Systems to establish Clipway. At Clipway, Vander Elst and his team developed the Tech-Enabled Secondaries System (TESS), a groundbreaking technology that enables LP portfolios to be analysed and priced with unprecedented granularity and speed.

Interacting with others working in private equity technology has been, and is, an important part of Vander Elst's career. Clipway has a strategic partnership with General Atlantic, a global technology investor, which further enhances the business's capabilities, as the alliance provides it with access to extensive expertise and a vast network of technology professionals.

Vander Elst actively engages with data scientists working for both LPs and GPs, gaining useful insights and alternative perspectives on industry challenges. He also participates in industry events and conferences – for example, he recently took part in a panel about AI at the SuperReturn Secondaries conference in London.

ACHIEVEMENTS

Vander Elst's main achievements at Clipway centre around the development and implementation of TESS. Recognising the limitations of manual and Excel-based processes in the data-intensive LP-led secondaries market, Vander Elst and his team invested heavily in technology to create TESS. This proprietary web app automates portfolio data extraction and utilises machine learning models to analyse and price LP portfolios, revolutionising Clipway's investment decision-making process.

Today, TESS enables Clipway to conduct all of its analysis outside of Excel, significantly improving the quality and speed of its assessments. With TESS, "our team can screen a much larger spectrum of transactions, perform detailed bottom-up analysis, and quickly select the opportunities worth focusing on", he says.

This process, he continues "decreases the traditional selection bias of secondaries buyers towards existing coverage grounded in heuristic assumptions by putting data at the heart of the analysis", adding: "Our investment professionals focus the majority of their time on origination, negotiation and conducting deep due diligence to refine their underwriting assumptions on underlying portfolio companies, rather than extracting raw data manually from PDFs and piecing together analysis from siloed Excel files."

Currently, Vander Elst and his team are working on enhancing TESS's analytical capabilities: "The objective is to build a tool capable of analysing alternative assets extremely precisely and at scale. Using machine learning techniques, we can help our team and the TESS tool learn from past behaviour, correct any bias and increase conviction." Looking further forward, says Vander Elst, "our intention is to transform LP secondaries investing by applying the full potential of data analytics and machine learning techniques".

SHIRIN VEERAN

CRM AND DATA MANAGER, HG

EXPERIENCE

Shirin Veeran joined Hg in 2021, taking on the role of CRM and data manager. She has an extensive background in this area of over 11 years, including work with CRM platforms including Salesforce, Oracle and Microsoft Dynamics, and also with custom technology solutions, looking at strategy, governance, platform management and adoption, integration, migration and automation.

Veeran has developed a speciality in analytical and automation roles, concentrating on implementing CRM platforms and integrating ERPs and business intelligence, and marketing platforms. With a bachelor's degree in commerce and an MBA in marketing from the University of Calicut in India, and having completed the Oxford Finance Executives Series & Fintech Programme, Veeran brings a robust skillset and a wealth of knowledge to her role at Hg.

Actively participating in various private equity networks, including technology roundtables and conferences, has been integral to Veeran's professional growth. These activities have provided a platform for staying updated on industry trends. "Through these interactions, I gain valuable knowledge exchange opportunities with peers and insights into technological evolution that allow me to drive innovation and position Hg at the forefront of technological advancement," she says.

Alongside her technology-related work at Hg, Veeran is also a trustee at Pioneer Educational Trust, a non-profit educational organisation committed to providing equal access to quality education. She advises the trust on its governance and strategic direction, and also works on other areas, currently including diversity, equality and inclusion-related issues.

ACHIEVEMENTS

Since joining Hg, Veeran has been instrumental in developing and leading its CRM and data strategy, aiming to establish the platform as the "single source of truth" for the investment and client service teams. "My first step," she says, "was to simplify the technology architecture and maintain it regularly in order to create a dynamic and scalable platform ecosystem. Consequently, I was able to digitalise processes for a variety of edge cases. By using CRM capabilities, we automated information flow from multiple platforms, reduced data entry and reduced siloed Excel processes."

Utilising low-code and no-code platforms, alongside API integrations, Veeran and her team have successfully developed analytical reports, interactive dashboards and in-house functionality to meet operational requirements at the firm faster. Gaining deeper insights, building trust in the data, and monitoring and improving data quality have all been key priorities. As a result of these efforts, Hg has seen an increase in technology engagement and adoption across the organisation, says Veeran.

"The key to maximising data value is understanding how people work, how technology can be used to make their work easier and how best to address their challenges," adds Veeran. By aligning the data strategy with operational needs and focusing on enhancing user experience, she has been able to maximise value derived from data assets, driving operational efficiency and strategic decision-making at Hg.

PARTNER CONTENT

The EXPERT

FORGING THE PATH TO DEMOCRATISATION

Providing all types of investors, from institutional to retail, with access to alternatives is vastly increasing the administrative burden on back and middle offices. But technology can provide a solution, says Anduin's *Eliot Hodges*

There has been a lot of talk about the democratisation of private markets, but what have been the main drivers for providing private individuals access to alternatives?

Eliot Hodges: One of the primary drivers has been the significant increase in demand for alternatives that we have seen from these private individuals. It is no secret that smaller investors want access to the diversification and returns that private markets asset classes can offer. The traditional 60:40 split of equities to fixed income in a portfolio no longer has the same appeal as it once did.

At the same time, we have seen the evolution of technology capable of reducing the friction that has historically been associated with accessing alternatives – friction that has made it prohibitive, or at the very least extremely painful, for smaller investors to participate. Those two trends collided when the denominator effect meant many institutional investors began rebalancing their portfolios and the SEC modernised the definition of an accredited investor, so suddenly more individuals could participate. GPs have now realised that technology is absolutely necessary to be able to go after new pools of capital and types of investors in an efficient and effective way.

In what ways is technology reducing the friction involved in working with a larger number of smaller investors?

Hodges: We are seeing technology playing a role in smoothing the process at all points of the investor funnel, from pre-investment, through to onboarding – where Anduin plays today – all the way through to post-investment. There are two primary ways in which technology is making this happen. The first is through the provision of workflows that allow investors to self-serve and streamline communications, meaning the middle and back office are no longer being burdened with incremental tasks.

The second big lever is that technology can harness the power of data. Middle and back office functions no longer have to manually key in all information from scratch for every single transaction and follow up with investors on their subscriptions, etc. Instead, investors can now store their data associated with each of their investment vehicles to reuse for future sub-docs and other forms.

What does this shift mean for the future of these middle and back office functions?

Hodges: Firstly, we believe the nomenclature of the middle and back office is wrong. It implies a hierarchy in which all of the value creation takes place in the front office, with the middle and back offices merely playing a supporting role. We think a far more apt way to view the situation is as a three-legged stool that supports the modern GP organisation. Yes, investment takes place in the front office, but an incredibly strong capital base is required to enable that investment to happen. A strong capital base needs great people, it needs great processes but it also, of course, needs great technology.

The broader challenge emerging in this democratised, realised world of alternatives is that there is a tsunami of work heading towards these middle and back offices, which are already resource-constrained. As we move from an era of a small number of big cheques coming from institutional investors to one characterised by a large number of small cheques, the workload those functions face is inevitably going to intensify. Critically most of these teams are not going to be in a position to add significant headcount to keep up with the increase in work.

To present a real-world example: I recently had an investor operations executive at a major firm tell me she was dealing with 100 or more closes a year. She wanted to be able to go after new pools of capital but was constrained by human resources. As a result, she needed to be able to rely on technology to support this step change in investor onboarding, as well as critical post-investment processes. I think that is reflective of what the market as a whole is experiencing.

Is this kind of investor onboarding technology exclusively geared towards the biggest firms?

Hodges: Not at all. Interestingly, Anduin originally got a lot of traction from emerging managers that were beginning to raise in 2020-21. These firms were keen to offer their investors a strong onboarding experience and they were not saddled with legacy technology.

As Anduin has continued to advance and grow its offerings, we are now most active with firms with $1bn (€930m) AUM and above – approximately the top 500 GPs. Those are the sponsors that really seem to be looking to invest deeply in the digital transformation of their middle and back offices for the long term.

What challenges exist when it comes to encouraging LPs to adopt new technology and how can these be addressed?

Hodges: There is always going to be a spectrum of adoption with any new technology. In the case of Anduin, we found that 80% of investors who receive an invitation move ahead with the digital process, and that the overwhelming majority have an extremely positive experience. That then raised the question, of course, of what was happening with the remaining 20%.

We identified two reasons why some investors were hesitant to use the technology. The first was that they were inherently paper-based people, uncomfortable with any tech solution. The second was they had already been exposed to other technologies and had sub-optimal experiences. The onus was then on us to help them realise there was a better experience to be had.

We did so by leading with education – arming GPs with the messaging and materials to be able to explain the benefits of the technology to their investors. But first and foremost, it was critical that we had a strong value proposition for LPs in the first place. For example, we launched investor passports that enable LPs to save their data and AML/KYC documents from any investment vehicle on Anduin into a master profile. These profiles then handle all the form-filling associated with onboarding into a fund going forward and make it easier for the LP to subscribe to multiple funds across a variety of firms. Effectively, we were able to tell them that with Investor Access this would be the last sub-doc they were ever going to have to complete and that resonated strongly.

Finally, I would add that it is important to be able to meet your LPs where they are. For example, we have recently rolled out an AI-enhanced optical character recognition (OCR) tool that can extract all the relevant inputs from a subscription document that has been submitted offline. This allows the GP to upload those documents so all their investors are on Anduin and can better track the close from start to finish. Even if an investor is unable or unwilling to adopt the technology, the GP can close the loop and continue to drive those critical processes with that investor digitally.

Where else does technology have a role to play within private markets?

Hodges: Our entry into private markets has been around LP onboarding, which has become a high urgency problem for a lot of firms, particularly those looking to attract private wealth investors. However, the challenges do not stop there. If a firm is now onboarding hundreds or even thousands of investors, they then also need to be able to cope with all the administrative work that's entailed post-investment, from reporting through to LP transfers.

These are not just funds being collected, they are long-term relationships that firms are looking to build; nothing is static. GPs need technology to support these post-investment processes efficiently so that they can focus their valuable human resources on cultivating relationships and ensuring that LPs are primed and excited to invest in future funds.

Ultimately, Anduin is a platform. LP onboarding is our first workflow. We are now collaborating with customers on new and exciting workflows, ranging from redemptions to LP transfers and LP voting – all of these are critical tasks that will need to be managed at increasing volumes going forward.

You mentioned that you have already incorporated AI into part of your offering. How transformative do you think this technology will be for private markets in the future?

Hodges: We are already using AI for some of our form-building processes internally and have released our AI-enhanced OCR product. OCR allows GPs to automatically digitalise any subscription documents submitted offline and seamlessly extracts data from tax forms too. This empowers GPs to retroactively and electronically onboard any past investor and bring them into Anduin for overall fund tracking and a holistic view of their raises, and can also help them with their tax monitoring and compliance purposes.

Going forward, I think AI is going to be transformative for private markets. But I would say that its adoption so far has been uneven. Many firms are experimenting with AI in front office functions, including origination. But we are not yet seeing AI being widely adopted in the middle and back office.

GPs have realised technology is absolutely necessary to go after new capital and investor types efficiently

Eliot Hodges, Anduin

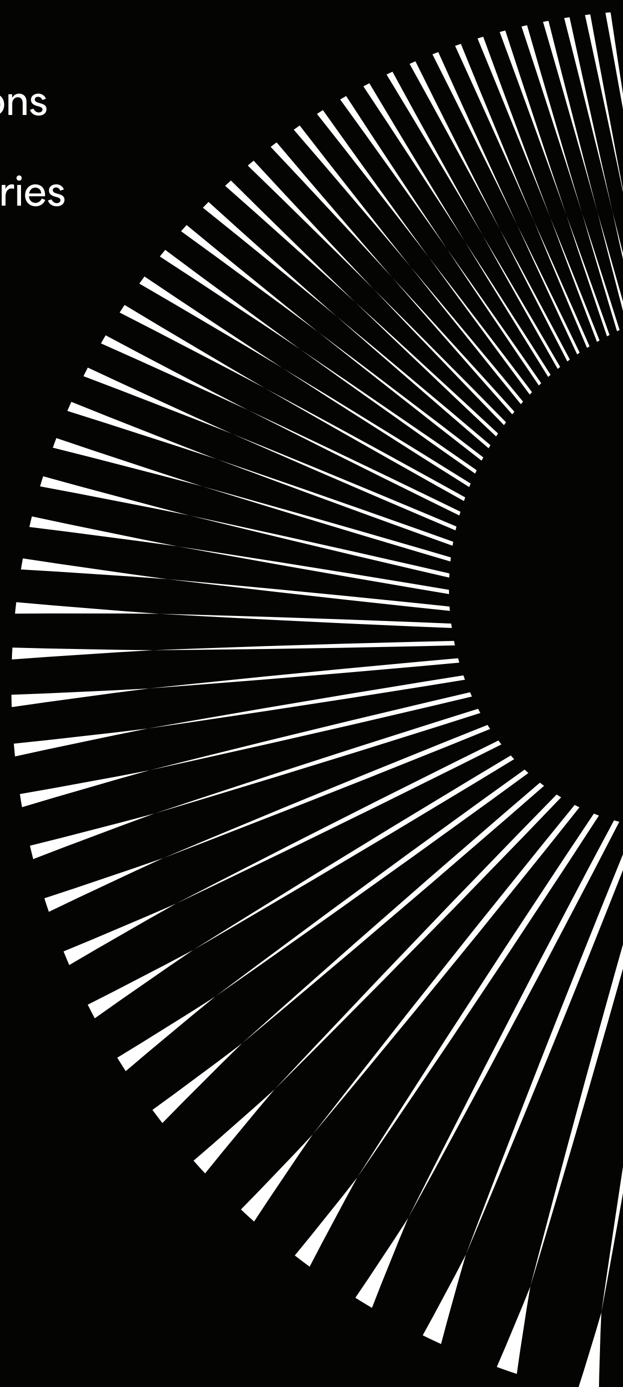
There are a number of reasons why this might be the case. Nonetheless, there is no doubt AI is going to be incredibly important to the evolution of private markets and we see our role as being a guide. We have an excellent team of engineers and, with their expertise, we will seek to connect our customers with the best that AI has to offer.

We are not interested in AI for AI's sake, but rather AI that supports great business outcomes. ◆

By Silvia Saccardi

Second(aries) to none

The pros and cons of tokenisation for the secondaries market



Industry participants such as Bain & Company have heralded tokenisation as one of the ways in which to open up private markets to a wider range of individual investors, typically prevented from accessing the asset class.

In the consultancy's 2023 report, *How Tokenization Can Fuel a $400 Billion Opportunity in Distributing Alternative Investments to Individuals*, the technology is lauded as being "a potential solution to the challenges of fragmented, non-standardised processes across multiple participants in the alternatives value chain".

The belief is that liquidity is provided to investors via better transfer workflows, making it easier to buy and sell assets. But the report acknowledges that a developed buyers' market is essential for this endeavour to work – liquidity is not guaranteed.

Tokenisation tends to divide the industry. Critics deem its purpose futile, while supporters see it as the next competitive advantage.

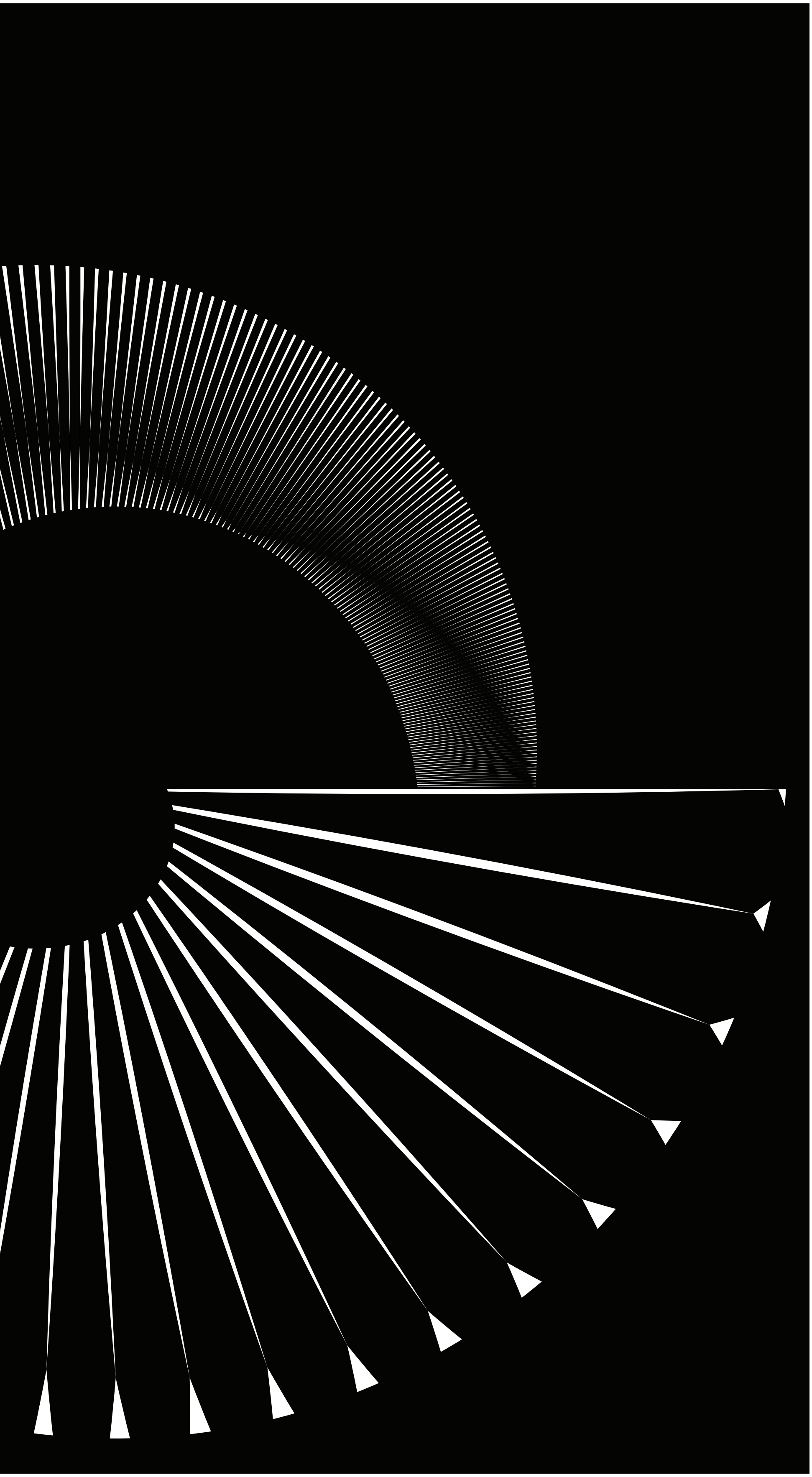
Token gesture

Paris-based sustainable investment firm and affiliate of Natixis Investment Managers, Mirova, is examining the possibility of creating an evergreen fund-of-funds structure, which will invest in a number of non-listed assets in its portfolio of funds, which might include transition capital, natural capital and private equity. The fund-of-funds might include listed assets too. The firm is considering whether the ELTIF 2.0 structure is appropriate but is also considering other fund structures.

According to Guillaume Abel, deputy CEO at Mirova, the firm is also working hard to understand whether implementing the tokenisation of funds is another appropriate way to generate liquidity. Abel says: "Several years from now, I think it will be possible to use tokenised assets to create a secondary market for retail investors." It is seen as a way to offer liquidity to a traditionally illiquid asset class.

In order to do this, Mirova is exploring the expansion of its existing relationship with its

> "Tokenisation does not get to the core of the issue, in my view
>
> **JEFF LEATHERS**
> **Tap**



> Several years from now, I think it will be possible to use tokenised assets to create a secondary market for retail investors

GUILLAUME ABEL
Mirova

fund administrator and how that aligns with the needs of its funds' custodian. The firm is also exploring alternative partnerships with technology providers before it decides on the best way forward.

A tokenised secondary market for retail investors would be attractive as it would aim to emulate the behaviour of public market stock exchanges.

Diverging views

For institutional investors in the secondary market, head of funds at Jersey Finance Elliott Refson explains how tokenisation can help provide additional liquidity: "Assets can be fractionalised into smaller amounts than traditional methods allow, thereby lowering the barriers to entry. The manager gets access to a larger market and investors get access to asset classes they might not previously have had."

However, Refson adds that although tokenisation provides the potential for increased liquidity, it does not necessarily lead to increased demand.

Jeff Leathers, CEO of secondary markets platform Tap, is sceptical of the supposed liquidity that tokenisation can bring. He believes that if GPs want to provide a market for their funds, they can do so with the appropriate technology, such as a secondaries marketplace.

"Tokenisation does not get to the core of the issue, in my view. Rather, fund managers should focus on digitalising their fund processes, for example KYC and AML processes and sub docs. This would achieve the same result without the regulatory hurdles that tokenisation brings," Leathers suggests.

Despite the diverging opinions, larger asset managers such as Hamilton Lane have already deployed a suite of tokenised options for their investors, while fund administrators such as Apex are continuing to develop their product offerings to cater to this growing demand. ◆

The EXPERT

AN INDUSTRY IN FLUX

Nicc Wright, chief operating officer at Daappa, outlines the imperative for data sovereignty, transparency and control in a tightening regulatory landscape

The Financial Policy Summary by the Bank of England for the first quarter of 2024 casts a spotlight on the private equity sector, specifically voicing concerns about transparency and asset valuations.

This announcement, aligned with the release of a working paper on operational resilience, comes in quick succession after the European Securities Markets Authority (ESMA) confirming AIFMD II rules and enhancements that coincided with the launch of ELTIF 2.0. Such a flurry of regulatory updates signals a definitive pivot for the industry. As the regulatory landscape tightens, the onus is on firms to refine their operating models to align with these elevated requirements.

Additionally, firms are dealing with a deluge of regulatory changes – from the Digital Operational Resilience Act (DORA) and the revised Markets in Financial Instruments Directive (AIFMD), to the new SEC rules for private fund advisers – which presents a formidable challenge for alternative investment managers as GPs face another demand.

Transparency and asset valuation challenges

Transparency has always been a complex issue in private equity due to the sector's nuanced asset nature. The Bank of England's caution accentuates the necessity for clearer valuation methodologies and management practices. This scenario is compounded by the industry's adjustment to a non-zero interest rate environment, where compliance costs are scrutinised closely.

The regulatory spotlight on asset valuation, while not new, has certainly intensified. Firms are now under greater pressure to ensure their valuation processes are robust enough to withstand regulatory examination and investor scrutiny. Establishing a comprehensive asset valuation framework that meets regulatory requirements and embodies financial reporting best practices is now imperative.

The accountability paradox

Many GPs and alternative investment managers are currently assessing whether their technology stack is equipped to address these emerging challenges. In recent years, a significant shift towards technology investment and an outsourcing model has been observed. However, the focus of this technological advancement has largely been tactical, aimed at addressing immediate concerns such as investor relations and CRM, deal and pipeline management, while adopting an outsourcing model for middle and back office functions such as valuations, accounting and liquidity management.

Herein lies the crux of the challenge: while you can outsource the functions, you cannot outsource the accountability. Many firms will soon find that the systems they have

> **The path forward for private equity lies in embracing technology solutions that offer clarity, control and compliance**
>
> *Nicc Wright, Daappa*

invested in are not built for purpose or require customisations and configurations that were never intended. Many will turn to spreadsheets, thinking that this is sufficient. However, as the 'Dear CEO' letters to the asset management community in the early 2010s underscored, there will be a gradual but relentless increase in demand for transparency and valuation requirements, culminating in the necessity for sophisticated software solutions capable of independent verification and comprehensive data management.

Firms aiming to be ahead of the curve will be pleased to know that a built-for-purpose software solution is available today. Drawing from our extensive experience in the asset management industry, we have anticipated these challenges and developed a solution that demonstrates to boards, regulators, auditors and clients that firms can maintain comprehensive oversight and integrity over their data and operational processes.

The Bank of England's warnings mark a critical juncture for private equity firms to reassess their approach to transparency and asset valuation. As the regulatory framework grows increasingly complex, demonstrating control, transparency and valuation independence becomes pivotal. For forward-thinking firms that want to stay ahead of the curve, Daappa stands out as an essential tool for navigating these challenges. By ensuring data sovereignty, enabling shadow accounting and facilitating comprehensive compliance and reporting capabilities, Daappa enables firms to not only meet regulatory expectations but to set new standards for industry excellence.

In an era defined by regulatory rigour and operational complexity, the path forward for private equity lies in embracing technology solutions that offer clarity, control and compliance. Daappa embodies this next step, providing the cornerstone for firms aiming to thrive in the challenging yet rewarding landscape of private equity. ◆

IN ASSOCIATION WITH

daappa

BRIDGING THE ACCOUNTABILITY GAP

Acknowledging the evolving landscape, Daappa has been at the forefront developing solutions that directly address emerging challenges

Data sovereignty

Achieving data sovereignty entails comprehensive control over data, a factor becoming increasingly critical under the scrutiny of regulators. Firms reliant on data management via outdated systems or via spreadsheets from third-party services will likely face intensified scrutiny. Daappa's DataHub product is a private equity functional data warehouse designed specifically to help firms create a single source of truth, offering seamless integration with core systems and third-party platforms, and enabling smooth data flow and interoperability. Datahub's ready-built and customisable schema is built for private equity and debt funds, and provides calculated key performance indicators including IRR, TVPI and DPI. This underpins our analytics, look-through, portfolio monitoring, valuation, compliance and reporting capabilities.

Business intelligence and reporting

This is particularly crucial for internal stakeholder reporting but also to meet the needs of regulators such as that demanded by the SEC, AIFMD and local regulators. With Daappa's private assets-specific business intelligence software, clients can have access to a library of reports and dashboards, and can easily produce branded, consolidated and customised dashboards from multiple data sources, making it simple to share this information with internal or external stakeholders.

Daappa's Extractor AI app elevates business intelligence and reporting by employing machine learning for instant, market-leading accuracy in data extraction from complex PDFs, transforming portco documents into structured, actionable data. Platforms like ours are necessary for the market as it offers operational efficiency to users and productivity of data extraction tasks; ultimately empowering clients to make swift, informed decisions across their portfolios. Daappa's platform also facilitates meeting reporting requirements within the same application, adding an additional benefit.

Operational resilience

The UK's operational resilience paper and the EU's DORA highlight the importance of having resilient operational practices, especially for outsourced functions such as fund accounting. This can be challenging if firms are relying on spreadsheets from third-party administrators to verify the fund valuations and there is typically a time lag in receiving such data, meaning firms often are obliged to pay for an enhanced service.

The lesson learnt from the asset management world is that a low-touch software solution such as Daappa – that can automate the collection and validation of data from a third-party administrator and produce an independent or shadow valuation while acting as a contingent valuation point in case of an outage – is no longer just a nice-to-have.

Transparency

Transparency can be interpreted in more than one way but really comes down to having the full picture of all investments and investors to demonstrate to regulators and investors that you are in control and are ready to head off any potential issues.

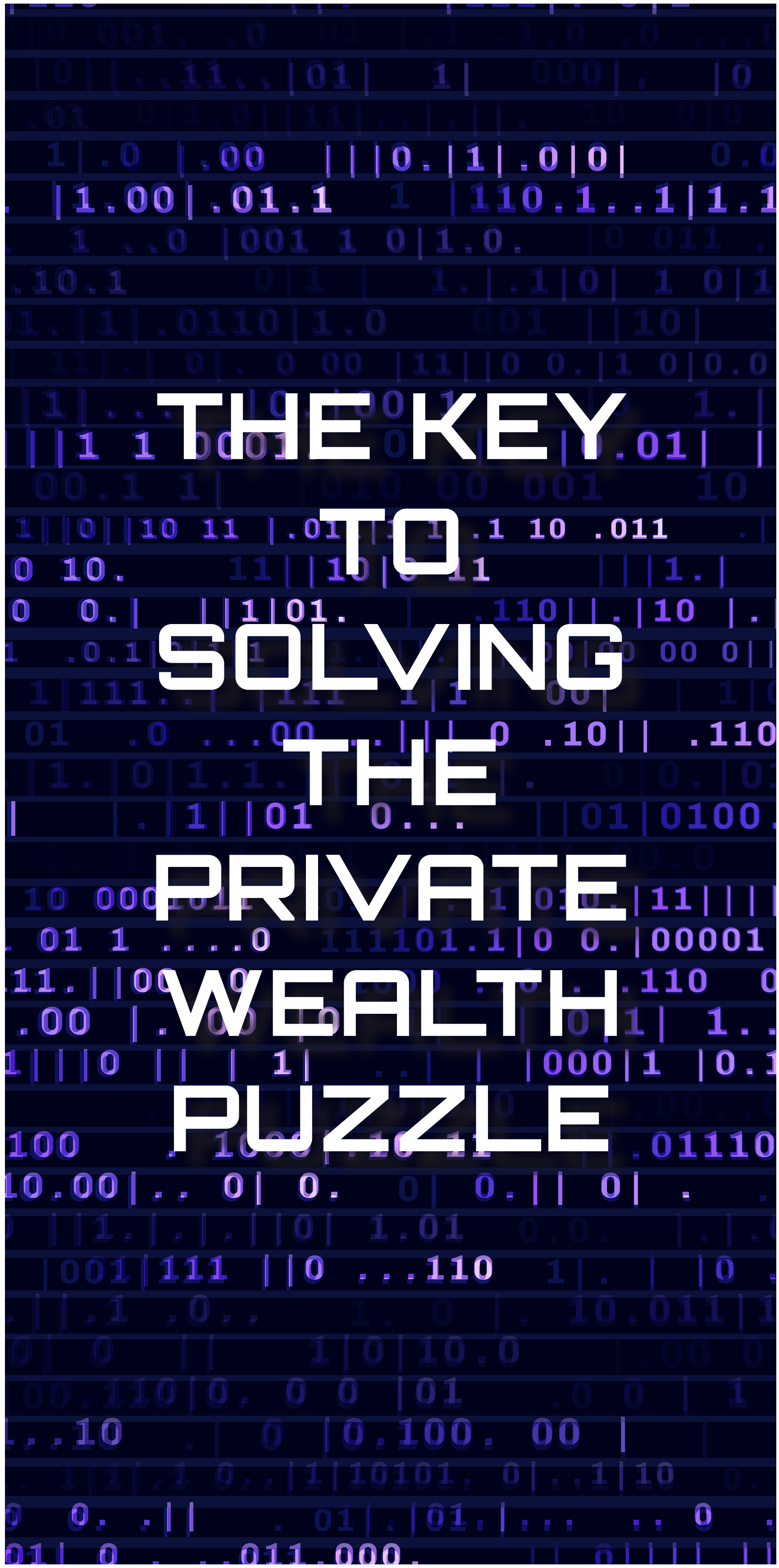
Daappa's clients are already ahead of the curve in this sense with our look-through engine that enables firms to visualise the entire investment structure, including third-party entities, and to slice and dice the views in ways that demonstrate to any internal and external stakeholders that you are in control.

This tool allows for the visualisation of the complete investment structure of any given investor, counterparty investment or fund through the display of key analytics, including exposure and multi-currency assessment for both simple and complex investment structures.

Regulatory compliance

For entities engaging with ELTIF or LTAF frameworks, adherence to specific rules, such as concentration limits, is critical. Daappa Studio+ Compliance offers a multi-criteria, rule-based engine that helps firms align portfolio exposures with regulatory mandates efficiently, ensuring compliance with ESG, mandate performance and funding risk management. ◆

THE KEY TO SOLVING THE PRIVATE WEALTH PUZZLE



Unlocking capital from non-institutional investors has always been a tough nut to crack for private equity managers, but tokenisation could provide a solution

By Nicholas Neveling

Private equity has always been an asset class geared towards institutional investors because of its inherent illiquidity and high investment minimums; its back office has been structured accordingly.

As private equity matures and seeks routes for growing assets under management (AUM) however, industry attitudes to raising more capital from non-institutional channels are changing fast, and managers are reshaping their operational models to service the huge growth potential that private wealth holds for the industry.

According to research by Bain & Co, individual investors hold about 50% of total global AUM – estimated at $290trn (€272trn) – but represent just 5% of alternative assets AUM.

Following a decade of rapid growth in fundraising from institutional investors, private equity managers see deepening penetration into the high-net-worth and potentially even retail investor markets as the next frontier of the industry's growth.

Removing friction points

Tapping into non-institutional pools of capital, however, is not straightforward.

"When you are raising a $500m ticket from an institutional investor, the legal fees and paperwork involved in doing the KYC and AML checks and the managing of capital calls and distributions are manageable. But when you start trying to place €100,000 or even €1m with a wealthy individual, the administrative burden starts to get very complicated and very expensive very quickly," says Thomas Olsen, who leads Bain & Co's financial market infrastructure practice and the Web3 and digital asset practices. "If you don't have a digitalised process to manage this, it becomes untenable."

Tokenisation – a process using blockchain technology to form digital representations of real things – is fast emerging as one technology that managers can use to soften the cost burdens and operational pain points that come with administering fund commitments from individual investors.

There are multiple applications for tokenisation in private markets, ranging from standardising data, automating capital calls and streamlining workflows, to making it easier to transact in the secondaries market when investors require liquidity.

"Tokenised private equities can allow private equity managers to target a larger investor base while ensuring operational efficiency," says Luc Falempin, chief executive of Tokeny Solutions, a blockchain technology company focused on the private markets. "Private equity can be fractionalised to reach broader and smaller investors while being able to be distributed to multiple trading platforms.

"In addition, automated compliance and streamlined workflow for onboarding investors and managing corporation actions enable private equity managers to handle large amounts of investors without extra manpower."

Tokenisation can also open up opportunities for managers to utilise decentralised finance tools (DeFi) – where blockchain technology is used to manage financial transactions without external agents – to provide loans collateralised against fund interests. At present, only a small number of group managers can offer this optionality and only to their wealthiest clients, because of the underwriting risk and administrative complexities.

"Tokenised private equity can provide attractive utility to private equity investors such as collateralisation in DeFi, allowing investors to use their assets to earn extra yield, such as borrowing capital, which is not available for small investors in the traditional world," Falempin says.

Tokenisation can also allow small funds and businesses to reach new potential investors and nurture investor bases. Finpeers, for example, is a Swiss-based tokenisation company that is helping emerging funds and businesses tokenise their fund structures and build communities of individuals, family offices and high-net-worths around tokens to support fundraising.

"By tokenising a fund structure, we can incentivise the investor community in a completely new way, reach a broader group of investors and foster tight relationships with investors," says Sander Andersen, the tokenisation platform's chief executive and founder. "The end goal is always to attract capital and build the community around great investment opportunities. When a fund structure is tokenised, you have the possibility to raise money more efficiently and from a broader set of investors than ever before."

Deploying tokenisation in private equity in fund structures in these various ways is nascent, but the opportunity tokenisation presents for private markets managers is significant. According to analysis from Bain & Co and bank-led blockchain platform Onyx by J.P. Morgan, harnessing tokenisation has the potential to unlock additional revenues of approximately $400bn for private markets managers.

> "When you start trying to place €100,000 or even €1m with a wealthy individual, the administrative burden starts to get very complicated and very expensive very quickly
>
> **THOMAS OLSEN**
> **Bain & Co**

Early movers

It is still early days for tokenisation but some managers have already dipped their toes in the water.

Digital securities firm Securitize partnered with KKR in September 2022 to launch a fund that tokenises interests in KKR's Health Care Strategic Growth Fund II on the Avalanche public blockchain. The tokenised vehicle attracted individual investors by lowering investment minimums, streamlining investor onboarding and forming a regulated alternative trading system to facilitate improved liquidity.

Meanwhile, Apollo partnered with J.P. Morgan in November last year to develop a proof-of-concept (POC) system in Singapore that aims to allow fund managers to tokenise funds on a blockchain platform. One of the main features of the POC will be to demonstrate functionality that enables wealth managers to purchase and rebalance holdings in tokenised assets across multiple, interconnected blockchains.

A key enabler for growing private wealth allocations to private markets will be through tokenisation lowering the administrative burden for wealth managers when distributing private markets products to individual clients, while providing the scope to wealth managers to rebalance their private markets exposure.

5%

The proportion that individual investors hold of alternative assets AUM, according to research by Bain & Co

"Most of the capital invested by individuals will be managed by private banks, wealth managers and retirement advisers, and there are benefits to doing that because individuals are also receiving some advice and reporting," Olsen says.

"You can potentially go directly to individual investors using tokenisation but the real bottlenecks that tokenisation can address are in the private wealth channel. There is demand here for technology that can stitch the distribution chain together from end to end."

Regulatory clarity

Adopting tokenisation in private markets will come with challenges; regulatory certainty and consistency are among the most pressing. Regulators and lawmakers are still grappling with how to manage identity standards, privacy and cybersecurity, and how blockchain regulation will interface with existing regulatory frameworks.

Select jurisdictions regulate financial securities differently to tokenised assets, adding additional layers of risk and complexity for individual investors. Andersen launched Finpeers in Switzerland precisely because of the regulatory framework, to give investors more certainty around the regulatory treatment of tokenised assets.

"Financial regulation in Switzerland is technology-neutral, so if the underlying asset is a security, then it is regulated as security – there is no additional risk or uncertainty for the investor," Andersen says. "We can provide investors with regulatory clarity and a very straightforward process that investors will be used to."

In addition to making private markets assets easier to hold for individuals and keeping operational expenses low for investors, tokenisation can also enable faster settlements, open access to broader sets of investors and eventually create a potential for secondary liquidity.

If used optimally, tokenisation can play a role in the evolution of private equity from a predominantly institutional asset class into one that is just as adept at raising capital as a non-institutional one.◆

PARTNER CONTENT

The EXPERT

CALCULATED RISKS

In a volatile macroeconomic environment, it is key to continuously assess challenges and changes in the marketplace, according to *Tim Eberle* from the Citco group of companies (Citco)

How is the current environment of higher interest rates impacting private equity deals and how does that correlate with LP clawbacks?

Tim Eberle: In an environment of rising interest rates, liquidations are increasingly difficult as capital is more expensive, which significantly eats into profitability. We are seeing private equity funds holding onto the investments in their portfolio companies longer than they otherwise would, in an attempt to get more value from the companies, or waiting until capital becomes less expensive and liquidations become possible. When a private equity fund delays a realisation, it increases the risk of a clawback event.

Because the preferred return is a compounding calculation, it increases exponentially every day that a fund doesn't liquidate an investment. Even if a fund liquidates an investment profitably, if the profit is not sufficient to account for that exponentially increasing preferred return, it is not considered to be a profitable realisation from the perspective of a waterfall.

How do US waterfalls compare with European-style calculations?

Tim Eberle: There is no longer a geographic component to waterfall structures. Broadly speaking, a European-style waterfall ensures the LP – the investor – is given back all their capital contributions and an associated preferred return on those capital contributions prior to the GP being eligible for an allocation of carried interest. The European-style waterfall is more conservative and generally considered to be LP-friendly.

A US-style waterfall, also known as a deal-by-deal waterfall, allows the GP to take carried interest on individual realisations without the burden of returning 100% of capital contributions to the LP. It is a more GP-friendly structure. The upside of a US-style waterfall is that it allows private equity funds to recruit and retain top investment talent because they are generally able to pay their investment professionals years earlier than a fund that has a European-style waterfall.

The downside of a US-style waterfall is that if you allow the fund to take carried interest prior to returning 100% of contributed capital to the LP, you open yourself up to the risk of being in a clawback situation if future deals do not perform as well as your initial realisation.

Are GPs cognisant of clawback risk and what measures are they taking to mitigate against it?

Tim Eberle: It is a hot topic because for the first time in a long while, GPs are facing an environment where fund realisations and portfolio company liquidations are becoming increasingly difficult, so they are opening themselves up to clawback risk that was not a top concern a few years ago.

There are a few different ways that funds can mitigate clawback risk. One is a structural mitigation that involves contractually instituted provisions in limited partnership agreements (LPAs). These entail carried interest calculations that allow a fund to have a US-style waterfall but with certain hedges against clawback events being codified into that agreement.

GPs are also interested in more practical, case-by-case ways of mitigating clawbacks that usually involve scenario modelling. Before GPs using a US-style waterfall decide whether they are going to take the carried interest they're eligible for or defer it, they can run various downside scenarios to project into the future to see what the performance of the fund would be. If they defer the carried interest, they give the money back to the LPs, which reduces the risk of a future clawback event.

Could the implementation of clawback mitigation strategies see US waterfalls adopt the attributes of European waterfalls?

Tim Eberle: I do not see US-style waterfalls going anywhere. Large funds with significant performance are always going to want to have a US-style waterfall so they can retain top investment talent. The trend we are seeing in the industry is more US-style waterfalls, not fewer. However, we do foresee the incorporation of more European-style waterfall provisions within US-style waterfall structures, which could happen in a couple of different ways.

The first is the inclusion of aggregate expense recruitment provisions within a US-style waterfall. When an LP contributes money to a private equity fund, it is put into two buckets; one is used to buy portfolio companies and the other is to pay expenses. Both buckets must be returned to the LP at some point. In a traditional US-style waterfall, expense contributions are returned to the LP as individual investments are realised. In aggregate expense, GPs would not just return expense contributions to the LPs proportionate to the investment contributions, they would give all the money back before they are eligible to take carried interest. This raises the return of capital target to the LP higher than in a traditional US-style waterfall and, again, hedges against clawback.

Another significant provision that we are seeing incorporated into LPAs that could help reduce the risk of clawback is changing the definition of preferred return.

Preferred return is a rate of return the LP must receive prior to them paying a fee to the GP, and the market standard is to calculate that as a time-weighted return that increases exponentially every day. But the preferred return could also be calculated as a multiplier on contributed capital, with the benefit that the multiplier and contributed capital doesn't change; it is a static number. That would take some time pressure off the GP, meaning they do not have to sell their investments as quickly because their preferred return burden is not increasing exponentially daily.

We predict a trend of waterfall calculations becoming significantly more complicated in the coming years and a significant reason for that is the incorporation of European-style provisions within US-style waterfall structures.

Who is most likely to benefit from changes in the near term, GPs or LPs? Are we likely to see pushback from either side?

Eberle: The most obvious benefit is to the LP because it mitigates the risk of clawback and accelerates funds to them. An important point is that clawback provisions are almost always calculated post-tax, meaning LPs are only able to claw back the money given to the GPs that exists after the associated taxes have been paid.

The GP gets the benefit of being able to maintain what is still a largely US-style waterfall, which will still allow them to take carry much earlier than they would with a European-style waterfall.

It is about aligning the interests of the GP and the LP. No-one wants to be in a clawback situation. Such circumstances often involve litigation and present significant risk to the LP-GP relationship. GPs are going to want the same LP base to invest in future funds, so they do not want anything that is going to pose a risk to that. It is a symbiotic relationship.

How costly do you think making these changes is going to be to private equity firms?

Eberle: There shouldn't be a significant additional cost to codifying structural solution provisions into the LPA because it is just changing the way fund documents are written. Where there is an additional cost is in the scenario modelling.

The analytical calculations to determine whether to take carried interest on an early realisation requires complicated maths, and it either has to be done internally, which would take up a significant amount of a person's day, or it can be done by a third-person administrator.

Where that cost can be mitigated is through using technology such as analytical platforms. Citco has its own proprietary waterfall calculation engine and there are other consultants who are willing to build out bespoke technology that assists with these analytics, without needing to have an accountant or CFO spending hours trying to figure out something in Excel.

The adoption of technology, both in terms of calculating waterfalls and carried interest, as well as employing the scenario analytics to help front office decision-making, is a way to keep the cost to GPs down while still allowing them to have a detailed understanding of what their risk of clawback is.

What other market trends do you predict over the long term?

Eberle: Credit has been the name of the game for the past couple of years and that trend is set to continue. We see more funds adopting credit strategies – whether they are originating loans or syndicating loans – as a response to higher interest rates and as borrowing money from banks becomes more complicated.

However, adopting a credit structure is the most significant way private equity funds can increase their clawback risk, because when you are loaning money to LPs, the majority of your returns is in the form of interest payments, which are extremely susceptible to clawback. As we see more funds getting into credit strategies, the ability to mitigate clawback risk is becoming significantly more important. ◆

> **"The adoption of technology, as well as employing the scenario analytics to help front office decision making, is a way to keep the cost to GPs down**
>
> *Tim Eberle, Citco*

The RETROSPECTIVE

THIS MONTH IN... 2021

We rewind to the April 2021 issue of *The Drawdown* to see what technology news was hitting the headlines and who made our first-ever Techwork list...

The inaugural Techwork list in 2021 featured 16 of the industry's top tech professionals from a variety of firms across Europe, including Pantheon's John Eggleston and Sophie Flak at Eurazeo. The list was introduced at a time when the industry's reliance on technology was paramount as it emerged from the Covid-19 pandemic.

Digital transformation

Broadridge's Next-Gen Technology Adoption Survey in 2021 revealed that just 9% of PE and private debt respondents identified as leaders when it came to using AI, blockchain, the cloud and digital. Research completed by the fintech firm the following year revealed that this figure had jumped to 21% as part of Broadridge's Digital Transformation Maturity Framework.

Greenwashing

One of the hottest topics in the private equity space at the time was greenwashing, and the regulatory steps being taken to combat the problem. This exclusive piece by The Drawdown examined what the new SFDR rules, which were introduced in March 2021 and remain a staple of common practice today, meant for operational leaders. This year, complete disclosure, including a historical year-on-year comparison, will be an expectation from all firms. ◆

> I'm supporting pre-purchase due diligence and post-deal analysis through data analytics. Data literacy is one of the key skill sets of the future and we're putting in a number of initiatives to get people up to speed and adopt new tools to replace Excel.
>
> **Permira's Andy Sobek, speaking in 2021**

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