

GOING BACK TO YOUR



Inefficient reporting methods continue to vex LPs.
It's time to go back to the source.

LP's continued frustration over the way in which GPs are reporting - in many cases still in PDF format - highlights inefficiencies that still need addressing.

"This is an industry managing trillions of dollars but it's stuck in the dark ages with how we transfer information," says a CFO of a well-known large US-based PE firm. "GPs care about the quality of their data - they have high levels of data control and integrity; that's of huge value to the organisation. And they should care as much about the transmission of that data," he adds.

Indeed, private equity firms are well aware of the power and opportunity that can be yielded through quality data, but the trouble when it comes to communicating is one of consistency. Continued and growing appetite for the asset class has allowed private equity firms to resist pushes for standardisation. Each house has its own unique approach to data collection, and even more so when it comes to reporting. Some promote their particular reporting style as a differentiator to their competitors.

While this may benefit the individual firm, it does little to

create efficiencies for investors. "There's incredible inefficiency in this industry, which is being filled by vendors with different data requirements, resulting in GPs producing different data formats for LPs," comments an experienced operational leader at a large fund administrator.

For example, there can be huge variance in how two firms report on investment costs, with some managers including a breakdown of fees and others not.

Every LP loses out from bad data. Despite its poor quality or lack of details, bad data doesn't come for free - investors front the costs of fund software, administrators, consultants, valuations and carry calculations. It typically takes 60 days for GPs to respond to an LP request for data.

And with institutions sitting on decades of poor and unmalleable information sets, many are spending further on clean up projects. According to one source, it's highly likely that LPs are spending more on third

parties deployed to mitigate the lack of transparency than they are on management fees.

Furthermore, when financial information is delivered to investors, it then has to be translated into whatever systems or formats are suited to their requirements. Says an operational lead of a large Northern European pension fund, "Around 60% of our GPs use the ILPA template and that number is rising. But there are still problems; around half of our GPs send the report in PDF format. We have forbidden the team from manually inputting those numbers, we must automate the process," she explains.

"GPs put in a lot of effort to populate these templates, and then we spend a lot of time manually extracting the information and putting it into our system. We want to be able to use this data in our own way, and so all we need is for the data itself to be transferred," she adds.

Fixes

As mentioned, adoption of the ILPA template continues to grow but the problem - bespoke reporting - continues unabated.

Earlier this year, one of the world's largest investors - Allianz - threw its weight behind the Adopting Data Standards Initiative (ADS). The Allianz Capital Partners unit, which

manages €32bn in private equity commitments, joined a growing faction of investors supporting a new approach to transparency and reporting.

ADS seeks to define a common language for private capital markets data so that it can be transferred in its raw format for LPs to translate and interrogate as they wish.





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"This isn't revolutionary; this is how the public markets work," says a source close to the project. Essentially, the ADS wants to create a means of automatically transferring one ledger to another. By returning to the source data, the way in which it is calculated, or sliced and diced by either party is entirely based on their needs. "This takes the

poison out of bespoke reporting," they add.

According to one CFO, the ILPA template exposed an underlying problem when it comes to achieving standardised reports: "The average GP does not have their data in a format that aligns itself to the core data exchange."

According to this CFO, general

ledgers have been built based on deliverables such as dealing with capital calls. "They haven't been set up to trade data; not every ledger can explain what each capital call encompasses, each portfolio company, each fee, each offset." More than that, each new fund opens up the potential for inconsistency; each vehicle might have different accountants and

different ways of organising its data.

Against this backdrop, the ADS is currently examining huge data sets as part of an inventory process. Investors that have joined the initiative are working through their private capital funds' data and creating a catalogue of all the types of information they have received. Other member types of the initiative, including service providers and GPs, are doing the same. All are seeking the root to the source data.

Over the next year or so, the non-profit organisation will use this inventory to determine a common data taxonomy.

Speaking to various industry practitioners about the initiative, some have raised concerns. One asserts that the ability to transfer raw data is already doable, and in some cases already being done; that firms can attach the CSV file of the underlying data to their quarterly reports.

For another, there is a question over technology. That this kind of solution requires a technology platform over which the information can be transferred securely.

These are valid responses, and there will undoubtedly be many more questions and concerns raised by a serious effort to bring clarity, transparency and efficiencies to private equity investors.

But, for private equity firms, and especially for operational leaders, inconsistent approaches to reporting and rising information requests from LPs is putting major pressure on back office teams. Says one GP, "You should love what ADS is trying to achieve, this increases your data integrity and it takes the poison out of bespoke reporting."

"There's an opportunity for firms to be the vanguard; to identify their most important LPs and ask them what they can do differently to help out. Here's a way to make your and your LPs' lives easier," they conclude. ♦