
# A BENCHMARKING AND EVALUATION GUIDE FOR GENERAL PARTNERS

## Fund Administration Goes High Tech

**Technology adoption among the private capital markets is trending up sharply, and nowhere is that more evident than in the back office.**

According to an EY survey, two-thirds of CFOs are investing in or planning to invest in next-generation technology, including advanced predictive analytics and robotics.1

The fund administration function has been slower to take advantage of the benefits of technology than other areas, but it has caught up quickly in the last few years. Spurred on by the realities of narrower margins, higher investor expectations, and more complex reporting requirements, General Partners (GPs) are increasingly turning to technology to help the back office keep pace.

Excel spreadsheets and paper processes are being replaced by state-of-the-art accounting, reporting, and analytics platforms that enable every type of fund strategy to be administered more efficiently, accurately, securely, and transparently.

But this transition can be a challenging one, and the best way forward isn't always clear. GPs need to carefully evaluate the options in order to make a wise investment that aligns with their business goals and realities.

In this white paper, we'll look at how GPs can benchmark their digital maturity, evaluate their technology requirements, and select the options that best meet their internal requirements and investor expectations.

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1 EY, Operational Excellence: One Path or Many? Key Findings from the 2018 Global Private Equity Survey

# Benchmarking Technology Adoption

**While the adoption of fund administration technology is accelerating, many GPs - and even some third-party fund administration firms - still rely on manual processes to administer funds.**

Despite the rapid advances in fund accounting and reporting technologies, a 2019 EY report revealed that 42% of fund managers still rely on spreadsheets to perform fund accounting.2

For those that are adopting new technologies to replace manual and spreadsheet-based processes, areas such as fund accounting and investor reporting top the list.

Fund accounting technology is the most widely adopted among backoffice technologies, with 66% of all private equity firms having made an investment in this technology area in the past three years, according to the latest data from EY. This is significantly higher than the number of firms that have invested in technology solutions for treasury, valuation, and tax functions (43%, 36%, and 24%, respectively).3

The second most popular area for a technology investment is investor reporting. Close to half of all private equity firms (46%) have invested in tailored investor reporting software. Of those that have not yet made the investment, 42% are actively considering it. For those that currently use a technology solution for investor reporting, 84% share investor statements, fund notices and administrative documents, 79% share quarterly performance statements, 43% share portfolio analytics, and 31% share fee disclosures.4

In addition to being the most widely adopted, fund accounting and investor reporting technologies also have the highest satisfaction levels: 87% of firms that adopted fund accounting technology and 81% of firms that used an investor portal reported that it met or exceeded their expectations.5

***66% of all PE firms have adopted fund accounting tech, and 46% have invested in investor reporting tech.***

**2 EY, Global Private Equity Survey, 2019**
**3 EY, How Do You See the Opportunity in Your Obstacles? 2019 Global Private Equity Study.**
**4 Preqin, Digitization of Private Capital Operations, 2018.**
**5 Preqin, Digitization of Private Capital Operations, 2018.**

# Investor Reporting: Evolving Expectations

**The investor reporting function has transformed over the past decade in response to rising investor expectations.**

Whereas reporting was seen as a pro forma activity in years past, today it is a vital, complex, and often highly customized process and an integral part of an investor's due diligence criteria.

Limited Partners (LPs) are demanding more control over the types of fund data they receive and the format in which they receive such data, with levels of reporting frequency and customization increasing over time. According to EY, 29% of investors make frequent requests for specialized annual or quarterly reports, and 27% request customized templates.6 Trying to keep up with these demands using nothing more than spreadsheets and email is likely to consume too many back-office resources. This exposes the reporting process to unacceptable security risks and compromises accuracy.

But investors don't just want access to a wider range of data, they also want real-time access to the data sourced directly from the books and records of the fund, and delivered in more flexible formats that allow them to drill down into portfolio-company details and analyze trends and performance across the portfolio. In fact, 87% of investors want to receive reports through digital portals.7

Unfortunately, few GPs are keeping pace with those preferences: more than half (54%) offer only “limited flexibility” in their investor reporting and 22% offer no flexibility at all.8

Similarly, research from Preqin found that only 42% of fund managers offer investors a tailored reporting software package, and only 18% offered access to both an investor portal and portfolio analytics.9 GPs that offer these advantages are ahead of the curve in offering a service that tops the priority list for today's investors.

***87% of investors want to receive reports through digital portals.***

**6 EY and Private Equity International, 2016 Global Private Equity Fund and Investor Survey.**
**7 EY and Private Equity International, 2016 Global Private Equity Fund and Investor Survey.**
**8 EY, Global Private Equity Survey, 2018.**
**9 Preqin, Digitization of Private Capital Operations, 2018.**

## NEW REPORTING STANDARDS

Standards such as the Institutional Limited Partners Association (ILPA) templates and the Global Investment Performance Standards® (GIPS®) are quickly gaining traction among investors because they offer deeper visibility into a fund's performance, clarify the allocation of fees and expenses, and provide greater transparency around the levels of risk and exposure.

Adoption of these reporting standards is accelerating: in a 2019 eVestment survey, 80% of fund administrators reported a rise in usage of the ILPA template.10 Similarly, 75% of consultants expect alternative asset managers to comply with GIPS, and an equal number only include fund managers who claim compliance with GIPS when searching for investment opportunities.11

As these standards move from the fringes to the mainstream, they are adding pressure on GPs to automate and digitize the collection and dissemination of fund data.

## CFO REQUIREMENTS EVOLVE

Investors aren't the only market participants demanding flexible access to a wider range of data points. GPs are also adopting an increasingly data-driven approach. Nearly half (48 percent) of fund administrators say that asset management clients already routinely request or expect analytics and segmentation services as standard.12

Just as investors expect greater visibility into fund performance, CFOs now seek on-demand, transparent access to their accounting data, including all financial statements, with the ability to drill down to transaction-level detail.

Dashboard technologies make this type of data available on demand in a format that's highly visual and easy to consume on screen, while also enabling users to export the data to Excel for additional analysis and reporting.

**10 eVestment, Alternative Fund Administration Survey, 2019.**
**11 eVestment, The Value of GIPS Compliance: 2018 Manager and Consultant Survey.**
**12 Longitude Research, From Coal to Diamonds: 2020 Vision – The Future for Fund Administrators, 2016.**

## Strengthening Security

**Digital vulnerability is a very real threat for the alternative asset community, and many fund managers struggle to protect themselves and their investors.**

In a recent survey by EY, nearly one-quarter (22%) of fund managers admitted that they have recently experienced a cybersecurity breach, and over half (58%) of those breaches were considered at least moderately serious.13

LPs are acutely aware of the problem: EY found that only 7% of investors are satisfied with the current cybersecurity policies of fund managers.14 And a survey by Coller Capital found that while only 20% of investors currently require GPs to undertake cybersecurity risk assessments for their management companies, 55% of LPs say they will do so within 3–5 years.15

## 22% of fund managers have recently experienced a cybersecurity breach.

Yet many GPs continue to rely on spreadsheets and email to support their critical back-office processes, exposing themselves and their LPs to unacceptable risks. An EY survey found that almost 80% of CFOs cited the use of spreadsheets as data sources as a top management concern.16 Yet according to a Forrester survey, nearly 50% of companies still rely on spreadsheets alone to do their auditing and controls, and more than 35% of finance and accounting departments regularly use spreadsheets to fuel their decision making.17 By transitioning away from spreadsheet- and email-based processes to technologies that support automation, consolidate data, and provide secure access to data and documentation, firms can significantly reduce the risks posed by human error and digital vulnerability.

**13 EY, Global Private Equity Survey, 2018.**
**14 EY and Private Equity International, 2016 Global Private Equity Fund and Investor Survey.**
**15 Coller Capital, Global Private Equity Barometer, Summer 2017.**
**16 EY, Operational Excellence: One Path or Many? Key Findings from the 2018 Global Private Equity Survey.**
**17 Forrester, The Forrester Opportunity Snapshot: Think Spreadsheet Risk Isn't a Threat? Think Again, 2019.**

# Tech Adoption Challenges

**Technology is having a transformative impact on private market operations, but that transformation is not without its challenges.**

Implementing and maintaining advanced technologies can require a significant financial commitment, the acquisition of new skill sets, and an organization-wide commitment to change.

In fact, the majority of GPs report that they find it challenging to implement new technologies. In terms of fund administration technologies, 83% of private equity firms say that fund accounting is difficult to implement, and 75% find that management reporting is difficult to implement.18

**Cost** is a major consideration, with one in four PE firms that invest in fund accounting technology reporting that operating expenses increased due to implementation costs.19 Many firms fail to fully budget and account for the true cost of implementation or the ongoing costs of maintenance, including training, testing, updating, and troubleshooting.

**Skill level** can also inhibit the success of a new technology adoption. The technical proficiency and data skills required to manage and use advanced technologies are considerable, and many GPs don't have people with the right skill sets and experience on staff. While these skill sets are top of mind for most private equity firms, it can take more time and effort than expected to change the way they hire, train, and develop their staff.

Given the resources required, maintaining in-house fund administration technology tends to be more feasible for larger GPs. While 80% of private equity firms with over $15B AUM manage fund accounting software in house, that percentage dips to 59% for firms with under $2.5B AUM.20

## 83% of private equity firms say fund accounting is difficult to implement.

**18 EY, Operational Excellence: One Path or Many? Key Findings from the 2018 Global Private Equity Survey.**
**19 EY, How Do You See the Opportunity in Your Obstacles? 2019 Global Private Equity Study.**
**20 EY, How Do You See the Opportunity in Your Obstacles? 2019 Global Private Equity Study.**

# Outsourced Solutions

**Given the resources required to implement and maintain specialized fund accounting and investor reporting technologies in-house, a growing number of firms are choosing to take advantage of outsourced options.**

The trend toward outsourcing fund administration has grown rapidly among private equity firms. eVestment data showed alternative assets under outsourced administration (AUA) jumping 18.78% from 2017 to 2018, to reach a high of $10 trillion.21

Many factors are fueling the trend, including the rising need for specialized expertise as compliance and reporting requirements become more complex, but gaining access to technology is recognized as an increasingly attractive benefit. While not every fund administrator supports service delivery with advanced accounting and reporting technologies, many do, which has enabled GPs to benefit from the considerable advantages without investing in the infrastructure and upkeep required to maintain these technologies in-house. According to Preqin, only 17% of GPs now manage a fund accounting system in-house.22

Accessing the benefits of these technologies through outsourcing offers many advantages, including avoiding startup and maintenance costs, gaining access to the requisite technical skills to manage the technology, and ensuring the highest levels of data and system protection.

## Only 17% of GPs now manage a fund accounting system in-house.

**21 eVestment, Alternative Fund Administration Survey, 2019.**
**22 Preqin, Digitization of Private Capital Operations, 2018.**

# Outsourced Tech - Key Benefits

**Understanding the advantages of outsourcing the implementation and management of fund administration technology can help firms make a more informed decision.**

**No startup costs:** one. Few firms have the time, budget, or inclination to research, evaluate, customize, implement, and troubleshoot specialized fund accounting and investor reporting platforms. In addition, many firms fail to calculate the time required to migrate data to the new system and provide staff training. By partnering with the right fund administrator, your firm can avoid this resource-intensive process and see the benefits of a technology-assisted service from day one.

**No maintenance costs:** The annual costs of maintaining and supporting in house software typically represent 20-25% of the total purchase price - a hefty line item that many firms forget to include in the calculation of the total cost of ownership. On top of regular maintenance, there may also be training costs associated with staff turnover.

**Access to technical skills:** As accounting and reporting technologies for the private markets mature, they need to be managed by users with more advanced technical and data analytics skills. For many firms, attracting and retaining this type of talent is a challenge, whereas a partnership with a fund administrator provides access to both the technology and the specialized skill set required to maintain and get the best out of it.

**Optimal security:** While advanced technology reduces the security risks that reliance on emails and spreadsheets can expose GPs to, protecting sensitive client and financial data requires a robust security program, including a disaster recovery protocol, regular backups, updates and patches, third-party penetration testing, and cyber-security training. Many firms, recognizing the effort involved, prefer to leave these business-critical activities in the hands of outsourced professionals.

# Evaluating Outsourced Technology

**For those GPs that decide to outsource their fund accounting and reporting technologies, choosing the right outsourced provider is critical.**

While some providers have invested heavily in the technologies that support their services, others have not, and some continue to rely on spreadsheets and email as the primary tools for analysis and communication.

In fact, a Preqin survey found that more than one-third of outsourced fund administrators (38%) did not use specialized accounting software to support service delivery.23 A 2016 study by Longitude Research found that more than one-quarter of fund administrators (27%) offered no data analysis tools, and more than one third of those had no plans to upgrade their tools within the next two years.24 More recently, FIS reported that only 21% of fund administrators are fully confident that their technology is where it needs to be.25

GPs that are committed to supporting their operations with leading technology need to know how to carefully evaluate the technical capabilities of their service partners so that they can factor this evaluation into the selection of a service partner.

For a list of key considerations, see the Technology Evaluation Checklist on the following page.

**23 Preqin, Special Report: Digitization of Private Capital Operations, 2018.**
**24 Longitude Research, From Coal to Diamonds: 2020 Vision – The Future for Fund Administrators, 2016.**
**25 FIS, The FIS Readiness Report: The Hunt for Growth Across Fund Administration, 2018**

# Technology Evaluation Checklist

**Use this checklist to evaluate the technological capabilities provided by an outsourced fund administrator.**

**What type of accounting platform do you use?** Is it a generic accounting platform or specialized to the requirements of private equity fund administration?

**Is the accounting platform integrated with all fund administration processes and systems?**
If not, what processes are manual? What information is maintained outside of the core system in spreadsheets and other formats?

**How do you ensure data security?**

- Do you undergo annual, independent penetration testing to identify security vulnerabilities in your technologies?
- Do you have an incident response plan to prepare for cyber incidents?
- Is fund and portfolio company data stored on secure servers? Is it backed up daily?
- Do staff members undergo cyber security training and testing on a regular basis?

**Do you maintain an online portal for Limited Partner reporting and communications?**
**Does the portal include these features?**

- Searchable document repository
- Performance dashboards that provide DPI, RVPI, TVPI, fund multiples, and IRR
- Access to underlying, official, real-time fund data
- Individual investor commitments, contributions, distributions, and residuals
- Two-factor authentication and extended SSL certification

**Do you provide a CFO portal? Does the CFO portal include these features?**

- Interactive dashboards
- Fund details and performance metrics
- Online interactive access to all financial statements, including drill-down and export capabilities

**Which technologies are your Limited Partner and CFO portals built on?**

**How do you ensure platform performance?**

**What type of technical support do you offer to support your technology platform?**

**What types of business continuity precautions do you have in place?**

- Do you have a documented disaster recovery process in place?
- Does your platform include a production site, multiple redundant sites, and automatic daily backups?

**Do you manage and maintain your technology with an in-house IT team?**

## The Future of Fund Administration Tech

**The impact of technology on the operations of all private market participants will accelerate in the next three to five years.**

For GPs, the right accounting and reporting solutions can provide new visibility into fund performance, support industry-leading investor service, and streamline an increasingly complicated accounting and reporting process.

Firms that cling to processes driven by spreadsheet calculations and email communications will fall further behind the curve as technology adoption reaches a tipping point. The vast majority of private equity firms are now moving toward sophisticated cloud platforms and portals that support portfolio analytics, while even more advanced tech, including AI (Artificial Intelligence) and blockchain are now on the horizon for some.

By understanding the trends and key considerations impacting fund administration technology, GPs can benchmark their digital maturity, evaluate their technology requirements, and identify the solutions that will support the evolving needs of their investors and their own back offices.

For more information and insights into fund administration, visit the Thought Leadership section of the PEF Services website (pefservices.com/thought-leadership)