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Thinking from IntraLinks

Build vs. Buy

The investor
portal's role
in growing
business

Funds that fail to make the investment necessary to keep up with the pace of change could find themselves looking like a Walkman in an iPod world.

The phrase “past performance is no guarantee of future returns” is well known to investors. Today’s fund manager is learning a new mantra: “An investor’s past experience can impact their decision to re-invest in your next fund.” This new mantra is the result of the pendulum swinging toward investors and the creation of market conditions that favor them.

A reporting portal that increases transparency and promotes the fund’s brand can produce a positive experience for the investor. It will increase the likelihood that they’ll re-invest in your next investment vehicle — and decrease the likelihood that they’ll make a redemption. However, continually expanding investor requirements and technology has made providing an effective portal a challenge. Investors now require more frequent information from funds; they want data they can query and export similar to online banking.

Investors also want proof that a fund has the operational processes and controls in place to run their business. Mobile technology is crucial to many investors who want to access their capital calls, statements, and investor letters from their mobile devices (iPad,[®] iPhone,[®] and BlackBerry[®]). The same is true of data encryption — investors want to know that their personal information contained on documents hosted on the fund’s reporting portal are protected, eliminating the risk of identity theft.

There are two schools of thought when it comes to deploying an online portal or upgrading from existing systems: build it yourself or buy it from an outsourced technology provider. This white paper will discuss both options and assess the benefits and challenges of each.

Don’t be a Walkman in an iPod™ world

The investor reporting system is the manifestation of many moving parts. A successful online investor portal provides existing investors access to performance and risk data along with information on the value of their investment in a fund. It should be available 24-7, 365 days a year, provide multi-lingual support, and provide best of breed security. The system must be intuitive and accessible from anywhere.

Building an online reporting solution is not a static, one-time expense; it requires on-going investment since the criteria for success is constantly changing. In the recent past, the iPad didn’t exist. Today 63 percent of investors surveyed expect the iPad to become a common tool for accessing investment information¹. The continual evolution of investor requirements and technology can generate unbudgeted expenses in both technology and staffing. Funds that fail to make the investment necessary to keep up with the pace of change could find themselves looking like a Walkman in an iPod world.

The alternative to building an investor portal in-house is to purchase one from an outside vendor, converting technology and staff expenses from fixed to variable costs. It also affords access to a stable of developers who are focused on keeping up with the changing demands of investors as well as the constant evolution of technology.

¹ IntraLinks survey of 327 investors, April 2011

Meeting the challenge

The success of any business depends on keeping existing clients while attracting new ones. That's easier said than done. Today up to 87 percent of Limited Partners (LPs) expect to refuse a General Partner (GP) reinvestment request. That's as many as a one in four increase since 2006, when about 63 percent of GPs expected to refuse a reinvestment request.² Also, in the post-2008 economy, stakeholders want to know that the fund has the appropriate processes and controls in place to operate the business before they invest.

A fund's online reporting portal is a key tool for creating better transparency between the fund and its investors. Furthermore, the investor portal is often the primary contact point between a firm and its stakeholders. The online experience investors have — especially if it delivers the transparency they expect — can influence them to reinvest with the firm.

Hedge funds and private equity investment firms have traditionally small staffs which are limited both in terms of size and focus. Outsourcing the development of the investor portal could bring enough advantages to buck the old adage that you should only buy non-essential activities.

Remember: The investor portal is not just a means to reach out to existing stakeholders, but also a means to win allocations from new investors. When it comes to reporting, a good reporting portal can convince prospects that the fund has the operational competency to manage growth.

Investor focused reporting

Over the last three to five years investors have gained the upper hand and reshaped the terms, returns, and transparency they expect from funds. They've done the same for reporting — the content, detail, and frequency of information provided via a reporting system a year or two ago is now obsolete. In addition, the technology with which that information is delivered to stakeholders is changing by the day.

The criteria for an investor focused reporting portal is constantly evolving, and firms need to tailor their solution to meet the needs of investors. Outsourcing enables firms to better keep up with requirements including:

- Greater transparency on performance and risk between a fund and its investors
- Data investors can filter, query, and easily insert into their reports and models
- Access reports from the road via an iPad or mobile device of choice
- Certification that processes in place can properly support fund's business and technology
- Reduce headline risk by eliminating information leaks
- Protect personal data from identity theft
- 24/7/365, multi-lingual support
- User interface in native language of investors

The online banking experience serves as a model for investor expectations. More than half of investors, 58 percent, say that retrieving information about their fund should be similar to online banking⁴. Why? Online banking provides them with more detailed information that they can manipulate (i.e. filter data across time periods). In addition mobile banking apps for smartphones such as the iPhone or Android™ devices provide much of the same information and capabilities, and work seamlessly with online banking. In addition, users want a single ID to access information from multiple funds. In fact, according to an IntraLinks survey, 83 percent of investors consider it inconvenient when they have to visit multiple sites to access their reports⁵.

² Collier Capital Barometer Summer 2011, p. 5

⁴ IntraLinks survey, April 2011

⁵ IntraLinks survey, May 2010

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Widespread adoption of a particular solution might indicate that it is a mature product, and that it's been developed to meet the specific needs of the industry.

A private equity firm or hedge fund is at its heart a small company, and as a result the staff available to develop an investor reporting system is a sparse resource. By partnering with an established firm to deploy and maintain an investor portal, a fund is able to leverage a more diverse pool of resources. A third-party provider also brings best practices learned through working closely with top firms around the world.

Information management in the age of Wikileaks

Not a week goes by without major data breaches and sensitive information leaks dominating headlines and e-mail alerts. We now live in a world where names like Anonymous, Wikileaks, and LulzSec have gained notoriety by breaking and entering, and often publishing sensitive information from the likes of HBGary Federal, Bank of America, and Sony Computer Entertainment America.

While the most notable of data leaks make headlines, no company is necessarily safe from similar attacks on its proprietary information. Ensuring that confidential information remains that way can become an endless and expensive challenge. Investors expect their fund managers to provide options for deployment that include the latest advances in security technology. Essential features, range from watermarking proprietary documents to reducing headline risk, to encrypting individual investors' personal data to protect them from the threat of identity theft.

The average cost of a data breach in 2010 was \$7.2 million, with the most expensive costing more than five times the average⁶. The challenge of managing content and taking the task of building advanced security measures around document management into one's own hands can be costly and time consuming.

Taking the first steps

Keeping with all the elements that comprise a modern investor portal in mind — from cross-platform capabilities and the cost of maintenance to a streamlined dashboard and best-in-class security — the next item on the agenda is to come up with a working solution that can be implemented quickly. Ultimately, preparation is the first step toward a successful deployment of any online tool. Whether you build it on your own or buy it from a technology provider ask yourself:

- Do you have the IT resources to design, build, document, and maintain a reporting portal?
- Can you generate greater value to the business by deploying your IT talent in other areas (i.e. trading)?
- What limitations — expertise and time — does your IT team have?
- What are the business implications of launching a reporting solution in weeks rather than months?
- Does the firm have the capacity to provide exceptional 24-7, 365 support to all of its investors?

When evaluating whether a service provider is the right partner to provide your reporting portal the following questions are critical to making an informed decision:

- How widely used is the solution within your industry?
- Does their client service team have the resources and domain expertise to support your investors?
- How easy is the solution to implement, and how robust are integration solutions to ensure the solution fits seamlessly into your overall enterprise infrastructure?
- What is the full scope beyond integration? In other words, how long will it take to transition from existing solutions, set up, train users on, and then actually use it?

⁶ Ponemon Institute, March 2011

Widespread adoption of a particular solution might indicate that it is a mature product, and that it's been developed to meet the specific needs of the industry. It also shows that other firms have had a certain level of success in implementing the solution to coexist with the IT infrastructure already in place. At the same time, the time-to-market and the ease of transition from the old solution to the new one are also worth consideration.

Benefits of buying technology and how IntraLinks can help

Several key advantages arise in selecting a trusted partner to provide and tailor the solution to your firm's specific needs, particularly when weighed against the many factors that equate success in providing an investor portal.

Funds that partner with IntraLinks to launch their investor reporting portal are able to:

- Provide a feature rich platform that promotes investor satisfaction and reinvestment
- Launch their portal in a matter of weeks rather than months
- Reduce the risk of low investor adoption due to widespread familiarity with IntraLinks
- Ensure that the platform remains leading edge throughout the life of the fund
- Eliminate capital expenses
- Convert fixed costs to variable costs

Calculating the direct costs of building a portal

Building an online reporting portal generates four types of direct costs:

- Application development
- Hardware purchases
- Implementation
- Staff

The process and direct costs of creating a reporting application involves much more than just writing code. Business requirements must be gathered, the system has to be designed, the application code has to be written, and then that code has to go through a rigorous quality assurance process to ensure that it works flawlessly for your investors. Even after an application is created, additional investment is needed to update it to meet new market requirements. Funds that don't invest to meet their investor's evolving requirements may find that their reporting portal has turned from an asset into a liability.

The architecture of a reliable reporting platform must include a core infrastructure, backup infrastructure, and a failover environment to accommodate both. An estimate of the direct costs associated with building your own reporting platform must include the hardware to support this architecture.

The estimated direct cost of building a reporting portal in-house, summarized in Table 1 (below), is \$1.4M over a five-year period. This does not include any advanced capabilities such as iPad access, document encryption, interactive dashboards, tools to split a master document into many investor specific reports, and automatic audit trails.

A reporting portal can help increase re-investment levels and decrease redemptions by improving transparency and reinforcing a fund's relationship with investors.

**THE INTRALINKS
ALTERNATIVE INVESTMENT
COMMUNITY**

Investors recognize IntraLinks and the funds that do business with it as market leaders

Over 450 private equity firms and hedge funds trust IntraLinks to report to investors, raise funds, divest of assets, and manage their material information. In addition, more than 100,000 investors at more than 25,000 organizations have an IntraLinks ID, and are familiar with its platform. IntraLinks is part of the daily workflow of:

- **230 of the 250** largest institutions
- **19 of the 25** largest sovereign wealth funds
- **19 of the 25** largest PE firms in the US
- **14 of the 25** largest hedge funds

Table 1

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
SOFTWARE	\$78,409	\$25,091	\$25,091	\$25,091	\$25,091
HARDWARE	\$39,603	\$5,003	\$5,003	\$5,003	\$5,003
IMPLEMENTATION	\$117,614	N/A	N/A	N/A	N/A
STAFFING	\$216, 500	\$216,500	\$216,500	\$216,500	\$216,500
TOTAL	\$452,126	\$246,594	\$246,594	\$246,594	\$246,594

*Source: Forrester Benchmark Study

Staff to keep the online reporting platform up and running along with people to answer calls from investors are by far the biggest expenses associated with building a reporting platform in-house.

Often when building a solution initial costs are only the tip of the iceberg, future costs remain an unknown and often exceeds a firm’s initial estimates. In contrast, a solution purchased from a technology partner provides a certain amount of predictability. Since the platform and upgrades are managed by a third party, it is easier for a fund to predict what their costs will be now and in the future based on their service agreement.

Support and regulation

An effective reporting portal is about providing exceptional service to your clients as much as it is about technology. A trained client service professional must be available to pick up every call immediately and resolve it in a way that is satisfactory to the investor. When “going it alone,” a fund must be honest about its ability to provide exceptional client service — a disgruntled investor is a cost no fund can or should bear. Buying a solution from a proven technology partner with extensive experience supporting investors insulates a fund from this risk.

Private equity firms and hedge funds are facing unprecedented regulatory oversight in the form of the Alternative Investment Fund Managers (AIFM) Directive, Massachusetts Privacy Law, and the United States’ requirement that managers register as investment advisors. As the firm seeks to keep up with the demands of regulation they need a partner that can do the same.

Conclusion

A reporting portal can help increase re-investment levels and decrease redemptions by improving transparency and reinforcing a fund’s relationship with investors. The challenge is that investor requirements and technology are continually changing making it complex and costly to build your own reporting portal.

The direct costs of building an investor reporting portal — especially staffing — can be substantial. Even if a fund can bear the cost of building a reporting portal they need to question whether they *should* build it. Partnering with the right provider gives funds access to the advanced technology and global client service organization needed to launch a reporting portal that helps increase re-investment and decrease redemptions. Buying a solution from a partner that focuses on alternative investment firms ensures that the reporting portal has the capabilities investors demands now and in the future. It also reduces the risk associated with introducing new technology to investors, accelerates the solution’s time to market, converts fixed costs to variable ones, and eliminates capital expenditures.



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IntraLinks is a leading global provider of Software-as-a-Service solutions for securely managing content, exchanging critical business information and collaborating within and among organizations. More than 1 million professionals in industries including financial services, pharmaceutical, biotechnology, consumer, energy, industrial, legal, insurance, real estate and technology, as well as government agencies, have utilized IntraLinks' easy-to-use, cloud-based solutions. IntraLinks users can accelerate information-intensive business processes and workflows, meet regulatory and risk management requirements and collaborate with customers, partners and counterparties in a secure, auditable and compliant manner. Professionals at more than 800 of the Fortune 1000 companies have used IntraLinks' solutions. For more information, visit www.intralinks.com or blog.intralinks.com. You can also follow IntraLinks on Twitter at www.twitter.com/intralinks and Facebook at www.facebook.com/IntraLinks.

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