2015 GP SURVEY

Reporting, Data Security & Deal Flow Management

PRESENTED BY INTRALINKS AND PITCHBOOK

INTRODUCTION

As the debate around transparency intensifies, clarifying the key issues and concerns of both limited partners (LPs) and general partners (GPs) becomes increasingly important. Perhaps the paramount concern to both investors and fund managers is the proper management and dispersion of the correct information. There is plenty of concern around information sharing both internally and between portfolio companies. Both parties are paying increased heed to security, and rightly so, as every other week seems to bring new reports of confidential information being laid bare by external hacks or internal leaks. And that's just one important matter to bear in mind. Intralinks conducted a survey of LPs last year, resulting in a variety of findings. The primary observations from that report were that the general industry trend is toward greater communication and transparency, even if there remains considerable progress to be made. Finally, implementing better programs for electronic reporting of quantitative information was a key concern.

With so many issues to consider, it seemed worthwhile to once again conduct a survey, assessing what common ground has been established and what further issues need to be addressed. This time around, GPs were surveyed, in order to provide a different perspective on these issues as well as a greater breadth of data. In addition, it seemed fitting to go further in depth with regard to specific communication and information sharing issues, such as whether data safety and security trump investor reporting as concerns. Intralinks and PitchBook conducted a survey in August and September of 2015, collecting over 100 responses from a variety of industry professionals. The following report includes a sampling of the full array of questions.

A few of the findings:

- 82% of respondents—primarily deal execution professionals—spend at least 25% of their time communicating with investors

- Over half of GPs spend as much as a quarter of their time communicating with portfolio companies

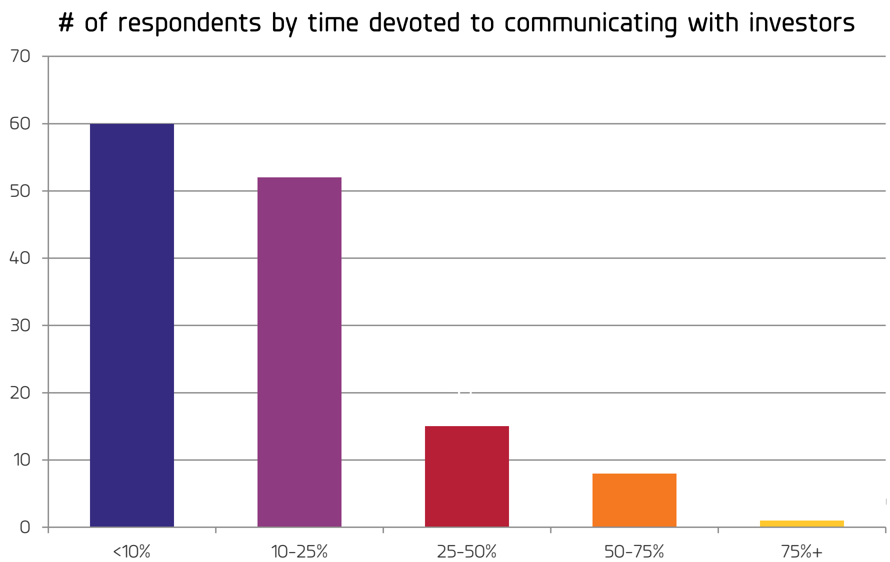
- 40% of respondents indicated their firm restricts access to filesharing platforms such as Dropbox

- About two-thirds of respondents indicated that nearly all deals that made it to negotiations closed—about 90%

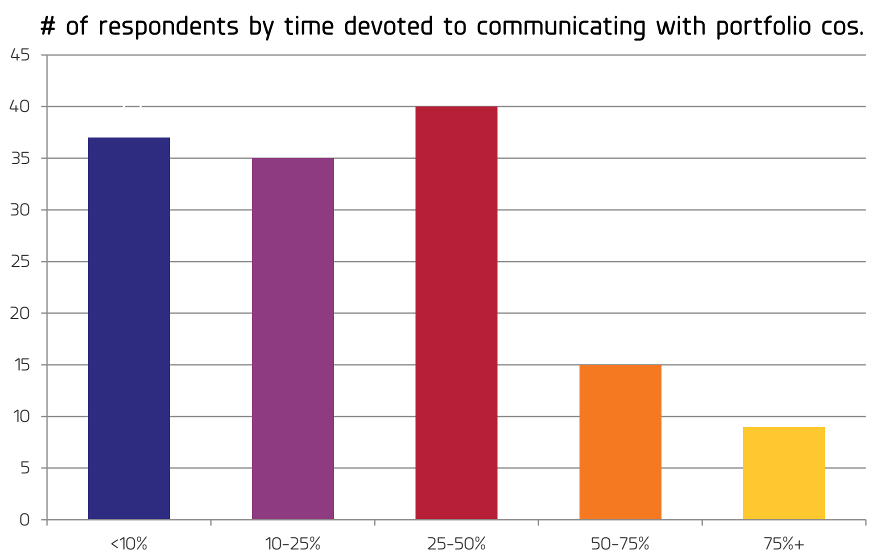
- Key concerns for respondents were timeliness and clarity, with 69% combined stating those two areas are where their firm's reporting could improve

The common thread running among all these responses was that although a majority of respondents are satisfied with current information security policies and practices at the firm level, there is room for improvement on multiple levels. This survey will hopefully contribute to the ongoing dialogue in the industry on what information policies and systems can best serve all concerned parties, as well as which issues should be addressed next.

Q1: What % of your time is spent communicating with your investors?



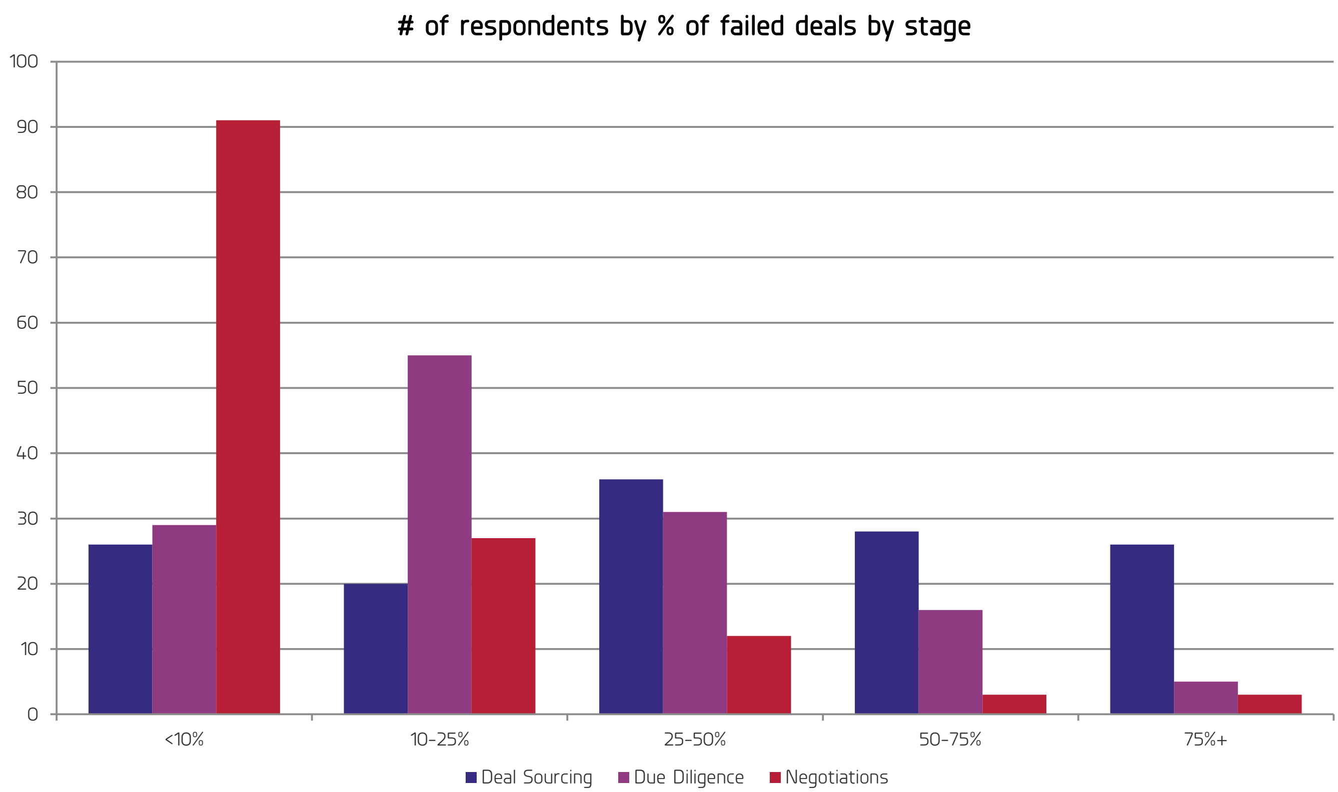
Q2: What % of your time is spent communicating with your portfolio companies?



For a baseline, it seemed worthwhile to establish just how much time fund managers utilize in communicating with investors, as well as portfolio companies. The results are intriguing: The vast majority of respondents indicated they spend up to a full 25% of their time communicating with investors. The proportions shifted somewhat when it came to portfolio companies, with no less than 29% spending between a quarter to half their time communicating with their investments.

On the surface, these results indicate fund managers do spend less time communicating with LPs than they do portfolio companies, but with so much time devoted to communication in general, the clarity and scope of information flow is a priority. With prior findings indicating that investment committees now want more regular updates—even extending to a monthly basis, when it comes to the private markets—there still is likely a disconnect between the expectations of portfolio managers and fund investors when it comes to the regularity and comprehensiveness of communication. But with GPs now looking for the best methods of sharing more information more frequently in order to address the concerns of their investors, improved reporting and collaboration systems remain in high demand, especially as the GPs that can do so will enjoy better relationships with their investors.

Q3: When thinking about your pipeline, what % of your deals fail during deal sourcing, due diligence or negotiation/closing?



As was to be expected, by the time most deals make it to the negotiating table, fewer than 10% fail. With nearly a fifth of deals failing during the deal sourcing process, according to a majority of respondents, but only 4% during due diligence, dealmakers seem to be exercising a fairly judicial eye even in the early stages of the deal flow pipeline. This is more a reflection of how investors in the private markets are tending to err on the side of caution nowadays, more than anything else. But even that caution could be leading to something of a disjunction in viewpoint, at least when it comes to bidders and targets. Given that fully 20% of respondents indicate anywhere between 10% and a quarter of their deals fail during negotiations, perhaps firms are growing increasingly wary and less willing to pay the types of multiples seen as of late. However, this could also indicate a failure to communicate in full on the part of multiple parties. With due diligence periods rising, given investor caution, and more information being shared, things can fall through the cracks unless there are comprehensive, standard baselines for datasharing. Deals falling apart in due diligence could be due to a simple lack of efficient, accurate information flow. Furthermore, expeditious distribution of information can help improve the diligence process as well, leading to greater productivity and deals closing faster.

Q+A

MEGHAN MCALPINE DIRECTOR, PRODUCT MARKETING FOR ALTERNATIVE INVESTMENTS, INTRALINKS

Q: What were some of your biggest takeaways from the survey dataset?

GPs are spending a large portion of their time communicating with portfolio companies and sharing sensitive information outside of their firm. Given that data security is of the utmost importance to GPs, it's critical that they have systems and technologies in place that create efficiencies, but also provide a level of security required to maintain increasingly stringent internal policies and controls.

Having a system in place to centralize portfolio company information and collect periodic reports can be helpful down the road when it comes time to sell the portfolio company. All important information will already be organized in one place, allowing for faster time to market.

Technology can also play a key role in making processes more efficient and helping to deliver more transparent data to investors in a timely fashion. A system should be easy to use and navigate for investors. Without these two characteristics, GPs spend more time responding to one-off, customized requests outside of that system making the process cumbersome and inefficient.

Was there anything you were surprised to see, such as a concern you thought respondents would rate higher, or something of that sort?

I was surprised to see that 39% of respondents said that their portfolio companies shared information with each other. The types of information that was mostly shared was industry information and third-party consultant data and recommendations.

We didn't ask how they were sharing that information, but I'd be interested to understand that. Given that 40% of respondents blocked access to certain consumer-grade file sharing systems (such as Dropbox and Box), some of them may email the information out. Given that data security was the most important topic to the respondents, they should consider using a secure technology to share that information.

What trends are you seeing emerge in GP-LP engagement that you think will shape the next few years?

LPs are definitely looking for more transparency and more customized data from GPs. In a separate survey that Intralinks completed last year to investors, only half of the 100 respondents said they were getting an appropriate level of transparency. 71% of LPs said they hadn't invested in a fund due to lack of transparency. As a result, GPs have seen increasingly more customized requests from LPs—with 44% receiving custom requests on a quarterly basis. This has definitely increased the time that GPs spend communicating with investors. Implementing a system that can help share pertinent information with LPs in a timely fashion can save fund managers time and make the process more efficient.

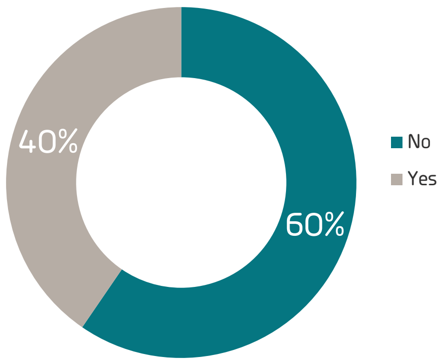
From the GPs' perspective, given the competitive fundraising market, it's become increasingly important for them to engage fully with investors—even when they're not in the middle of a fundraise. The saying: "you're always fundraising" really holds true. GPs are looking to share more rich content with investors and maintain meaningful dialogue—which is critical to retaining key investors for the long term.

In your opinion, what are some of the biggest challenges and opportunities for collaboration platforms such as Intralinks nowadays?

I think a collaboration platform must be easy to use. If the system is complicated, LPs won't adopt it and it will definitely make life more challenging for fund managers. A system should be an extension of the GP's brand and a place they can share rich content with investors so they can engage fully.

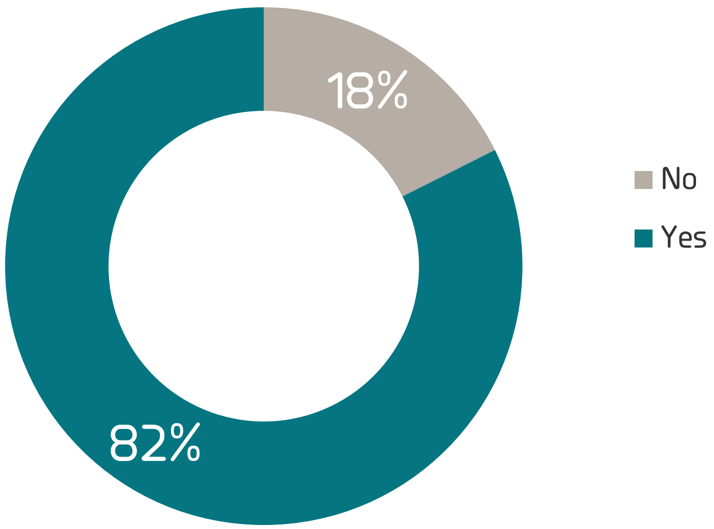
With a collaboration platform like Intralinks, GPs can easily share information with investors, portfolio companies and external parties while keeping sensitive information secure. The platform also allows for improved communication with investors giving GPs better insight into LP interest levels during fundraising and making sure that investors are viewing time-sensitive documents like capital call notices in a timely fashion. It also allows for better portfolio company interaction, while helping with deal sourcing, tracking and portfolio company exits. Overall a platform should be secure, easy to use and well adopted to make sense for GPs.

Q4: Is your firm restricting access to any "shadow IT" document-sharing websites (Dropbox, Box, etc.)?

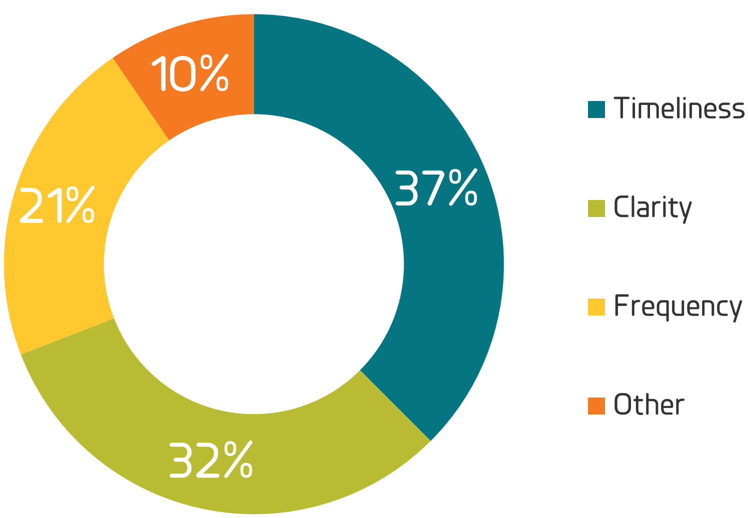


A considerable proportion of firms restricts access to filesharing websites, possibly due to security concerns. But a third-party collaboration platform designed to handle multiple use cases within a particular industry can provide a significant advantage when it comes to secure access to and centralization of information. Outside data breaches may garner more attention than internal leaks, but the latter by far pose a more significant problem across multiple industries. The sensitive nature of data reported in communication between GPs and LPs, not to mention portfolio companies, makes this a crucial issue to resolve. One solution is contracting with only one particular third party, whose solution can address all aspects of a business. Especially given the complex needs of PE firms, introducing a third party is the best course of action, given the volume, frequency and sensitivity of the data that needs to be shared. In-house solutions require considerable resources to develop and maintain, so contracting with an outside provider can result in greater efficiency and savings. And, since so many fund managers restrict access to consumer-grade systems, it is important to implement a fileshare system with a high level of security that won't be restricted. In fact, we expect that more and more GPs will begin restricting access to consumer-grade systems, looking instead to reliable third parties that can meet the full gamut of their needs.

Q5: Are you satisfied with your firm's current information security policies?



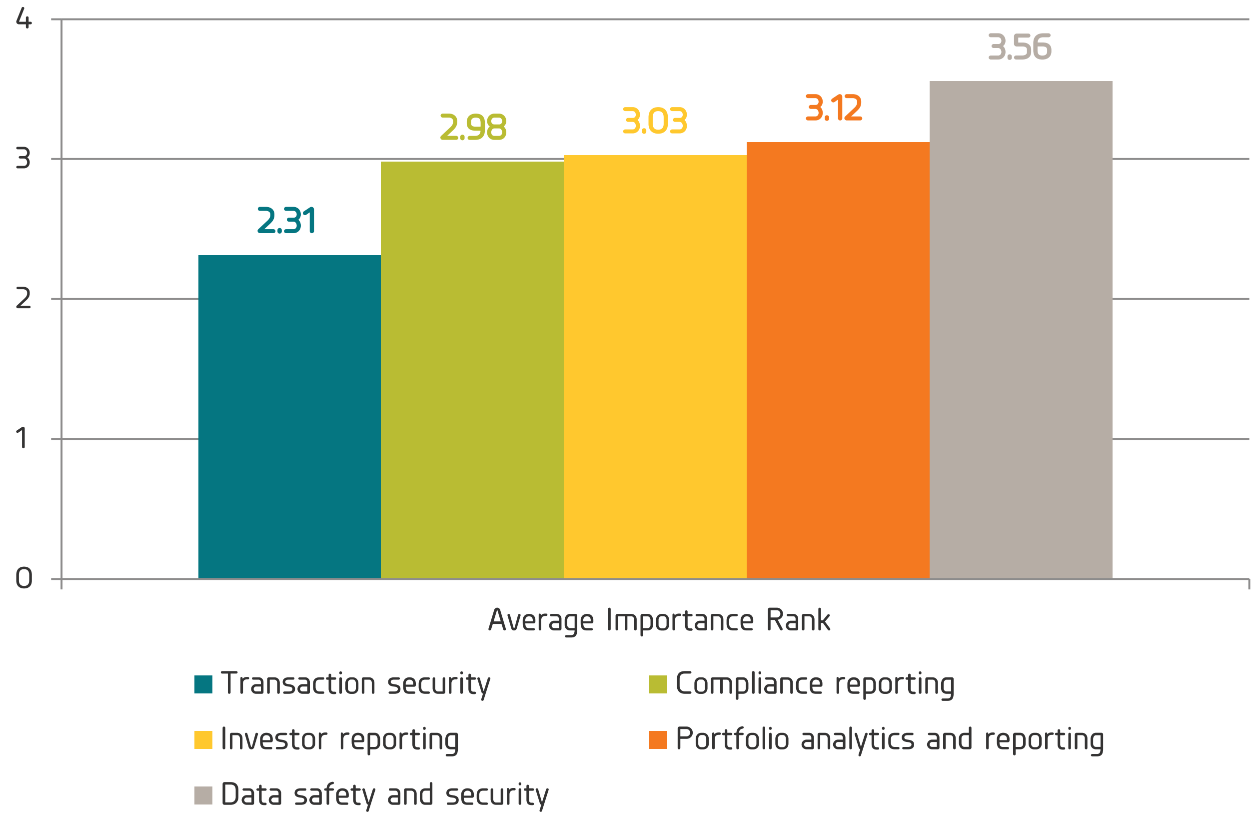
Q6: Where can your firm's reporting improve?



Assessing the general level of satisfaction with current standards is a bit tricky, as a fair amount of bias can be introduced, not to mention differences of interpretation. Since the overwhelming majority responded that they were generally satisfied, it would seem likely that even if current policies aren't stellar, they are at least workable. But that doesn't mean they are ideal solutions.

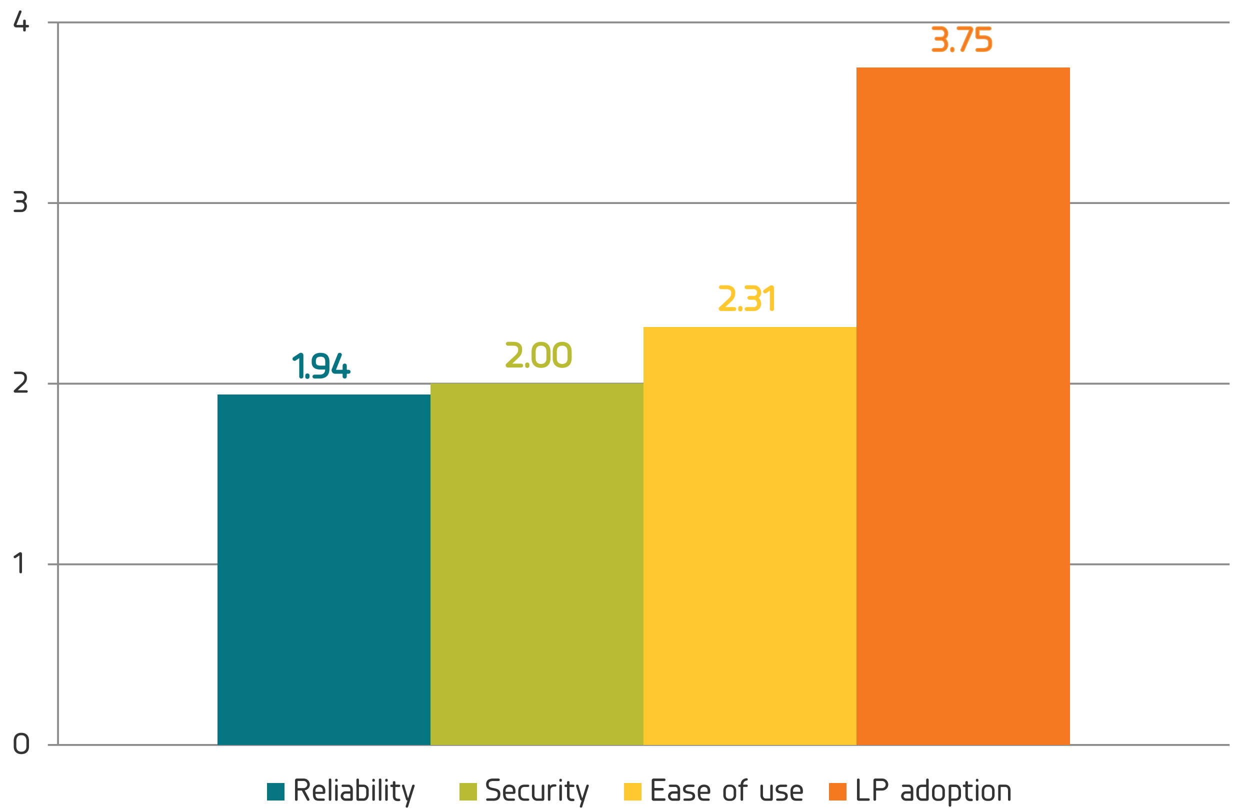
When asking respondents what could improve in terms of reporting, timeliness and clarity appear to be the primary concerns. Given the increased frequency with which LPs seem to be expecting updates, the preponderance of timeliness makes sense. The clarity speaks more to the lack of widely used baselines for data standardization—an increasingly prominent concern. In fact, given the conclusion of the prior edition of this survey—which found that there was plenty of confusion over the types and formats of information investors want on a daily basis—and the latest findings of the Institutional Limited Partners Association, the need for common reporting guidelines is probably the biggest and most pressing concern for both investors and fund managers currently. When it comes to multi-manager environments, dealing with a variety of types of data reported in different formats can increase the incidence of errors, so instituting standardization could prove highly useful.

Q7: Rank the following in terms of importance to your firm:



Unsurprisingly, data safety and security trumped all other areas of concern. This only further underlines just how important it is to all parties to have a trusted, secure system for communication. Especially with the industry trending toward a higher, more frequent flow of information, the reliability of a third-party vendor becomes only more important. In addition, the ease of use is crucial to consider. Compliance reporting, portfolio analytics and investor reporting all rank of roughly equal importance, according to survey respondents. Consequently, since so many different types of information will have to be aggregated and processed in a timely, transparent fashion, it's imperative to make it easier for a wide number of users to access and utilize on a frequent basis. Taking such measures could only improve the LP-GP relationship, what with the proportion of GPs that have to produce customized requests for their investors. Portfolio company reporting would also be rendered that much easier. Also, it's worth reiterating that unless there is a secure method of communication that employees of both GPs and portfolio companies find easy to use, the possibility for internal leaks only rises, as consumer-grade products such as Dropbox may not be as reliable as industry-specific systems, and, in addition, some fund managers may even email out proprietary and confidential data, trusting in the security of their email systems. Such trust is probably misplaced, with most email providers lacking truly secure frameworks. In short, a dedicated platform for communication and data transfer is a much better, less risky option.

Q8: What's the most important factor when deciding on a third-party vendor?



In a sign of what will drive change in the industry regarding those issues, by far and away respondents weight LP adoption as the most significant factor when it comes to assessing a third-party vendor. It seems that if LPs lead the way, GPs will follow. It's telling to what extent they will do so, actually. The weighting of LP adoption relative to security is nearly double, with even ease of use not placing that well comparably. Of course, once LPs and GPs utilize a system in common, ease of use and security will likely become the primary areas of concern. But that just highlights how it may well fall to LPs to join together and make a decisive move when it comes to adopting not only a given third-party vendor but also a set of general reporting guidelines. After all, if GPs follow where LPs lead when it comes to which vendor they employ, for what and how they use that vendor's services seem to be the next logical step. With unceasing coverage in the industry regarding common reporting guidelines, it seems it should only be a matter of time before something more concrete emerges. On the other hand, the sheer scale and diversity of private markets data makes it quite a complex challenge, so even if an initial set of guidelines emerges, a considerable amount of revision is to be expected. The timeline remains unclear for now, but it isn't unreasonable to expect some form of reporting guidelines to coalesce over the next few years.

CONCLUSION

Surveying overall results, a few dominant points emerge:

- LP adoption is, by far and away, the key driver of GPs' choice of third-party vendors and, more likely than not, reporting standards
- Data security and safety is a prominent concern, and rightly so, given the sensitivity of the information being shared.
- With the sheer volume of time devoted to communication, ease of use will be an increasingly key consideration

In the end, with the general trend toward more transparent, frequent communication, it's highly likely there will be increasing adoption of collaboration platforms that can address all typical business use cases within the Alternative Investment industry. Additionally, if and when a common set of reporting standards begins to be utilized more frequently and widely, integration with such platforms will be easier, especially if a few key systems are used across the industry. Plus, as observed in the prior edition of this report, common standards will greatly facilitate data exchange. Much remains to be done on the part of both GPs and LPs, but there are encouraging signs and opportunities for early movers.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