The electronic ties that bind

There's no doubt technology has played a massive role in enhancing the LP-GP relationship in recent years. But what are its limits when it comes to investor relations? And how might the industry tackle some of these shortcomings in the near future? To answer these questions, and more , we brought together four industry experts on the topic to explore how GPs are utilizing today's systems and gadgets to improve their LP communications

by NICHOLAS DONATO

photography by MARK BYRON

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Believe it or not, some LPs look back with a degree of fondness on the time when fax machines ruled the day for sending and receiving information.

"Granted, back then an investor would have to take every document faxed and manually re-key it into their own system – but at least there was one convenient place for the LP to search for all their capital calls and distribution notices," says Mike Elio, a partner at global private markets firm StepStone Group who focuses on advisory, co-investment and secondary opportunities. He's only half-joking.

> "The data process often takes up too much time, energy and focus in the [LP-GP] relationship"

Today's picture is very different. Sophisticated dashboards and investor portals have made screeching fax machines obsolete. Without a single page of paper consumed, LPs can download fund documents in PDF or Excel that can be more easily converted into their own data systems. But at the same time, LPs managing scores (even hundreds) of GP relationships must now regularly screen their inboxes for emails notifying them of a new document uploaded into a shared portal. On the off chance a message is missed, LPs can scour the investor-only sections of GP websites to double-check that no important document has escaped their attention.

As CFOs are all too aware: "It's not that things have gotten less efficient, it's that the level and detail of data requested by LPs has increased exponentially in the last five years", says Jay Cipriano, a managing director with SEI who helps oversee the fund administrator's private fund clients. To better manage and consume the mountains of data they collect, LPs are investing in new systems and technology – which don't always exactly sync with the software GPs have purchased themselves to efficiently deliver these much bulkier information packets.

Indeed, technology "has been absolutely necessary" in allowing the LP-GP relationship to advance as much as it has, says Andre Boreas, director of alternative investments marketing for global technology provider Intralinks. "No fax machine can handle the hundreds of quarterly reports LPs now process."

This idea – that technology has become a fundamental component of any successful GP's investor relations strategy, despite the issues around communication and data exchange – was the predominant theme of *pfm*'s investor relations roundtable, which took place late April in mid-town New York.

For the most part, our panel of experts agreed that today's systems and gadgets make it possible for private fund professionals to do neat things – like build controlled data pipelines that run straight from a portfolio company to a LP's computer screen, or share sensitive fund documents with investors in online secured datarooms.

However, in some areas, the technology still leaves a little to be desired. It's a problem that our roundtable acknowledges – before moving on to brainstorming potential solutions for the industry in the coming years.

Gazing into a digital crystal ball

Some of the challenges that inevitably spring from innovative technological advances have quick-fix solutions. For instance, Elio says many LPs now gather and store GP communications in group email addresses (think PEgroup@pensionplan.org) to keep better track of capital call notices and other fund documents they receive.

But in other areas finding a solution isn't as easy. In an ideal world, for instance, LPs would be able to access a single database into which all their GPs would input the same comprehensive and timely data, allowing them to drill down into (say) the debt covenants and gross and equity fair value of assets one minute, before taking a 30,000-foot perspective of the LP's exposure to US or Asia hospitality across all its managers – all at the click of a button.

Is this sort of on-demand data still just the stuff of LP dreams? Not necessarily, says Matthew Pedley, a principal in the investor relations and business development unit at The Blackstone Group.

Blackstone has kick-started its own process by developing an interactive LP portal that allows the firm's investors to view their exposure to Blackstone funds and deals across asset classes, geographies and sectors.

This system, called BXAccess, is certainly not revolutionary in terms of the technology it utilizes; web-based dashboards like this are found in most major financial institutions. What could be considered more revolutionary, though, is the fact that LPs can view

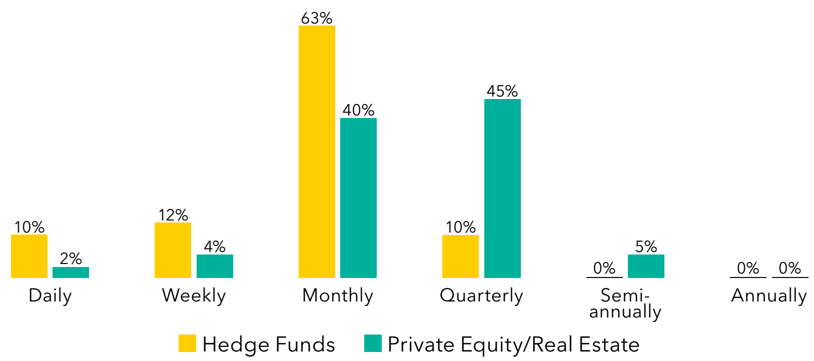
fund data in an extremely interactive way. Rather than relying on static PDFs, for example, LPs are "able to view, aggregate and analyze the underlying data of their Blackstone investment according to more than 200 data points, across the real estate, private equity and credit asset classes and numerous sectors globally," says Pedley. Ultimately this level of technology reduces the number of ad-hoc information requests that can eat into a CFO's day.

Of course, that's not to say these more interactive systems can satisfy every curiosity. But when these extra information requests do come in, smart technology can be a saving grace here too, says Cipriano. "If you have to manually pull all this information together by combing through a massive Excel-based database or clicking through multiple, different online folders, you're wasting hours to handle just one data request."

Cipriano argues that GPs should instead be able to quickly pull information from a data warehouse that can be displayed through an online dashboard. "The manner in which technology has evolved allows us to aggregate and store data in an efficient cloud-based solution that includes and supports the dashboard. The fact that data, pulled from disparate systems, can be accessed from one place, 24/7, has

More data please

How frequent LPs expect portfolio updates:



Source: Intralinks 2014 investor survey "Let's Be Clear…"

been a real positive change over the last few years in the industry."

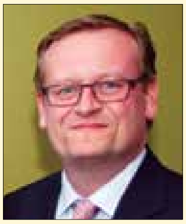
Defining transparency

A related challenge that will need to be resolved in the near-term, however, is defining exactly what type of information LPs want to consume and in what fashion. "The most successful LP-GP relationships tend to have some baseline objectives for reporting and communication," says Boreas.

In fact, just recently, Intralinks surveyed the LPs themselves about this particular reporting challenge. The troubling news is that while investors recognized a general trend towards greater transparency, half the respondents in the survey still felt that it is was currently insufficient. Indeed, the research found that almost three out of four LPs have turned down at least one fund manager because of concerns over disclosures and reporting.

On an unsurprising note, the survey also found that over 85 percent of investors would like to have their information delivered in an electronic format to help facilitate their due diligence and portfolio monitoring responsibilities. What was surprising, though, was that almost half of the LPs said their managers currently did not offer this convenience.

Around the table



Andre Boreas is director of alternative investments marketing for global technology provider **Intralinks**, where he leads the product strategy efforts in delivering information exchange capabilities for the private equity and hedge fund markets. He has over 15 years of experience as both a fund manager and investor.

Jay Cipriano is vice president and managing director of business development for **SEI's** Investment Manager Services division. He is responsible for new business development for SEI's US-based alternative investment manager clients. Previously, Cipriano was managing director of SEI's solutions team, among other roles.

Mike Elio is a New York-based partner at **StepStone** who focuses on global investments. Prior to StepStone, Elio was a managing director at the Institutional Limited Partner Association (ILPA), where he led ILPA's programs around research, standards and industry strategic priorities.

Matthew Pedley is a principal in the investor relations and business development unit at **The Blackstone Group**. Since joining Blackstone, Pedley has been involved in fundraising for Blackstone's private investment funds and maintaining relationships with the firm's limited partners. Before joining Blackstone, he worked as a vice president in the venture capital arm of Alliance Bernstein.

"Both investors and fund managers need to be up front with expectations of reporting and communication going forward, post-investment," says Boreas. "Both sides should articulate as clearly as possible what information can be expected, when it will be delivered and in what format. With new relationships, fund managers might very well decide that they will 'tier' their transparency, providing more information to prospects and investors after a level of comfort has been established around the sharing of sensitive data."

Hearing this need, some GPs have taken LP reporting and communication into the technology age – and then some. Blackstone for instance no longer prints hard copy materials for its annual meetings, says Pedley.

"Everything is done on iPads, which we provide if the LP doesn't have one.

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The devices have this annotation feature that allows investors to take notes and email the whole PDF to themselves, notes included. With this measure alone we've saved hundreds of thousands of dollars per year on paper costs, and it also prevents LPs from having to walk around with 10 pounds of printed materials from the meeting that they would have to somehow get back to their office. It's proven to be a really popular strategy."

Speaking the same language

On the topic of reporting, the roundtable noted a lack of standardization in how information is currently shared or solicited – for example during LPs' due diligence process.

A lot of time and effort (on the part of both manager and investor) goes into creating and processing investors' due diligence questionnaires. Yet when it comes to basic firm information, they all tend to capture the same details. The result is a ton of redundant paperwork for the CFOs and COOs responsible for filling out all the various questionnaires, with their different styles and templates. If there was a way to standardize some of the process, the reduced administrative burden would be serious cause for celebration.

The good news is that the Institutional Limited Partners Association (ILPA) recently unveiled a standard list of due diligence questions that is gaining some industry-wide traction, says Elio, who spearheaded the DDQ project during his previous role with ILPA. "In the first month it was made available online, it was downloaded over 1,000 times."

Pedley adds that Blackstone, which processes hundreds of DDQs a year, created a DDQ template similar to ILPAs that covers "about 85 percent of what we now know LPs are going to be interested in".

Inevitably, these questionnaires will continue to arrive in different formats. However, working with a trusted service provider is one viable way to reduce the workload, suggests Cipriano. "Working with a wide cross-section of GPs, we have acquired insight and intelligence about what certain LPs are going to be asking for, and thus can more quickly and readily access that for the benefit of our clients."

Boreas adds that a challenge the industry still struggles with is providing DDQ responses in a way that allows LPs to easily compare and contrast GPs. Investors reviewing different GPs' operating partners, say, must develop some sort of system that allows them to remember each firm's strength and weaknesses. With more standardization, and the right kind of technology, this kind of problem could be minimized, says Boreas.

"Given the advances in technology and SaaS-based offerings, managers have little excuse not to provide investors with the information they need in a format and timeliness with which they need it."

Software limits

Ultimately, what's important to remember is that technology is only a tool for enhancing your investor relations, the roundtable stresses.

As Boreas puts it: "In this tight-knit industry especially, all the technology in the world doesn't change the fact you should get on a plane to shake hands with your LPs in person."

Expanding on that point, Cipriano says a better way to view technology's role in investor relations is as a tool to provide a better end-to-end experience, by automating as much of the information flow as possible.

"The data process often takes up too much time, energy and focus in the relationship, and technology can be used to make it more productive and useful. That means a GP can spend more time differentiating themselves and handling the parts of their job that no technology could perform adequately: the personal touch, the client customization, the insight – basically the reasons that investors are entrusting them with their money in the first place." ■