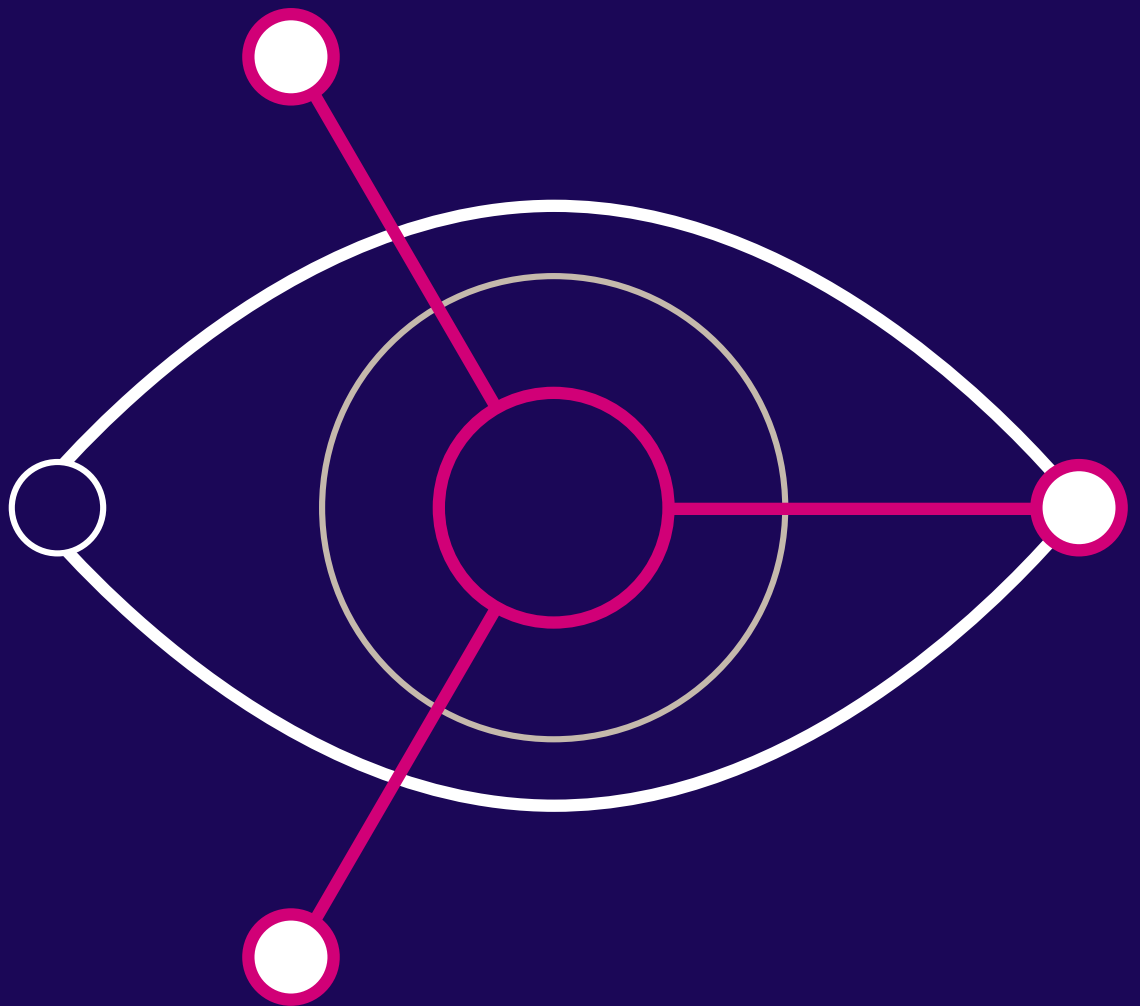







LP Portfolio Monitoring System: Buyers Guide



Contents

This guide is for firms who are thinking about buying a portfolio monitoring system for the private markets. It outlines the key stages you need to consider and includes expert advice for those looking to purchase a best-in-class system.

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-  Why invest in portfolio monitoring?
-  Benefits of a portfolio monitoring system
-  Different portfolio monitoring target operating models
-  Evaluation process

Private equity fund landscape

Buyers Tips

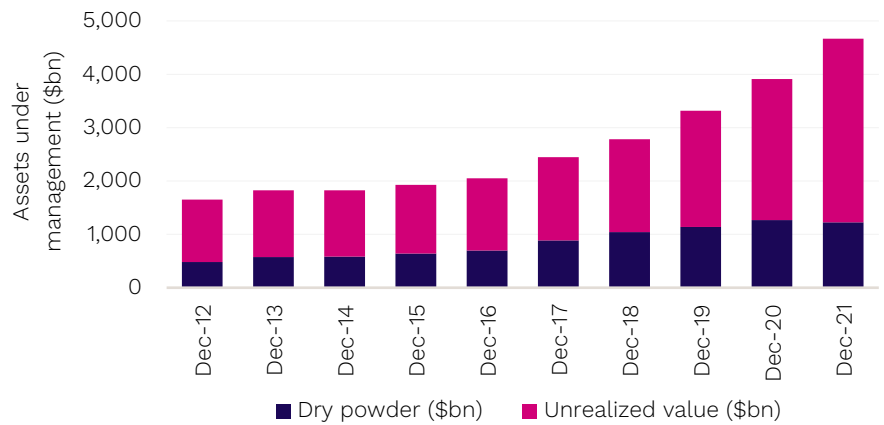
With so much data to navigate within the private markets implementing the right portfolio monitoring system can give you the control and visibility you need to gain insight and make decisions in real-time.

Investing in private equity (PE) funds is a long-term strategy, with 10 years typically being the full term of a fund.

Many institutional investors, such as pension funds, invest in PE funds to diversify their portfolios across regions and sectors. According to Preqin’s H1 Investor Outlook for 2022, 86% of investors plan to invest the same or more in private capital over the next 12 months.

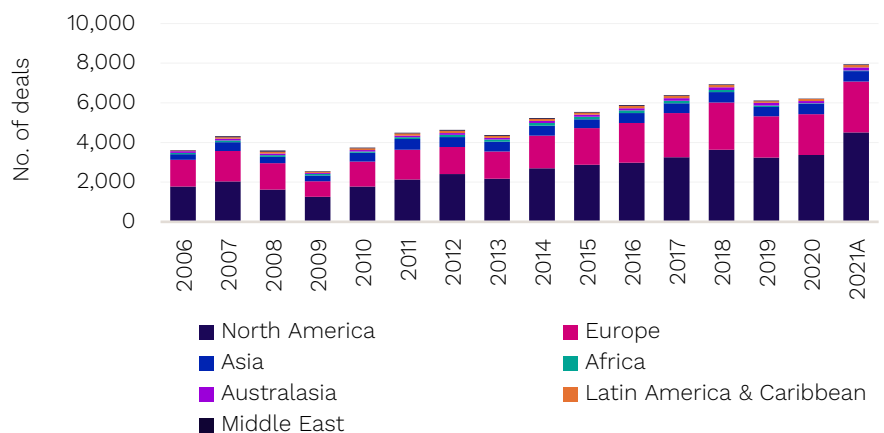
Investing in PE has grown in both volume (Fig. 1) and complexity, including diversity in regions and sectors (Fig. 2).

Fig. 1: Private equity: assets under management, 2009 - 2021



Source: Preqin Quarterly Update: Private Equity Q2 2022

Fig. 2: Number of Private Equity-Backed Deals by Region, 2006 - 2021A



Source: Preqin Global Private Equity Report 2022



Why invest in portfolio monitoring?

Buyers Tips

A portfolio monitoring system will enable you to determine where value is being generated (i.e., regions, sectors, specific GPs), help you track and validate overall performance and compare against benchmarks, forecasts, and other GPs. You can also monitor and estimate the impact of political and economic events and create insights that inform your future investing strategy.

| Fiduciary responsibility

LPs have a responsibility to monitor and analyze the financial reports provided by the GP over the life of the investment. They are required to demonstrate appropriate oversight in sufficient detail to stakeholders who include:

- **Constituents**—who rely on the future income stream of the investments (e.g., pensioners).
- **Board of Directors**—who have a responsibility for oversight on behalf of shareholders.
- **Auditors**—who have the responsibility to report on the fair value of the financial statements (a common question asked by auditors is “what reasonable amount of work have you done to assess the fair value of your portfolio?”).

| Performance tracking

Performance tracking

LPs should monitor the portfolio’s ongoing performance and assess the impact of any significant economic or political events. Although LPs will not have the detailed information required to revalue the investments on their own, it is vital that they are able to size the investments affected and take a reasonable approach to assessing the impact on underlying portfolio companies. Having this portfolio company information at your fingertips enables LPs to quickly identify the GPs with whom to follow up for calls or to request additional information.

Recent examples of impactful events include the COVID-19 pandemic and the Russian invasion of Ukraine. If we take the latter example, you may want to quantify the number and value of oil or wheat investments in your portfolio. You may also be interested in determining the magnitude of investments in the nearby regions. Your Board of Directors will be interested in the magnitude at risk and what type of work you will do to assess the fair value of the investments.

Buyers Tips

Outsourcing the data extraction of GP reports can save a huge amount of time and free up resources to focus on more valuable tasks. When looking for a provider it's paramount that you ask the right questions to ensure your data will be handled securely and delivered to you accurately.

| Data and process challenges

Volume

The main difficulty with PE fund monitoring is the sheer volume of portfolio company data available, especially if an LP has several funds, each with multiple portfolio companies. When conducted in-house, portfolio monitoring can be managed as a supplementary task. It commonly takes the form of large spreadsheets which can be subject to errors. If an LP has a process to collect some portfolio company data, the job of extracting the data will likely be time-consuming and restricted to very few data points.

Format

GPs send information to their investors in a variety of ways, including embedded links, written content, or PDFs. Most of the information is contained in quarterly or annual investor reports. Without a standardized data format, the important information is not easily accessible, and data extraction and consolidated analysis becomes a time-consuming and complicated task.

Lack of standardized reporting

A standard data reporting format for PE investments doesn't exist. This makes the data collection process difficult to fully automate due to:

- Inconsistent data reporting as GPs have full discretion over how and what they report, and may alter reporting in any period. Some GPs report every data point associated with an investment, while others only report a few key metrics.
- Follow-ups with GPs which are often required via emails or phone calls to request missing data or ad hoc reporting.
- Lack of industry-defined definitions for data points which make it difficult to know if you're comparing apples with apples when comparing data between GPs.

Benefits of a portfolio monitoring system

Buyers Tips

An LP can simply purchase the technology used to collect and store PE data, but there will always be a manual follow-up component to the process. This process can either be undertaken in-house or outsourced to a service provider. Outsourcing the data servicing will come at a cost, but it should be compared against an LP having to hire and maintain resources for repetitive input roles. In addition, reducing low-value work will free up resources to focus on more important analysis.

The primary benefit of a portfolio monitoring system is the ability to access, analyze and report the portfolio company data metrics captured in GP reports at a point in time or across time periods:

- **Access**—Via a database solution where the data is input and stored and can be accessed with various tools. Or via the data being fed directly into an investor's own system.
- **Analysis**—Delivered through various dashboard options. This includes slicing and dicing the data as needed to answer granular questions, such as “What is my exposure to China?” or “What is the magnitude of our investments in oil and gas?”
- **Reporting**—Reports can be created with downloads into Excel for flexibility, or through custom-built system reports. These standard reports save time and ensure consistency from period to period.

Portfolio monitoring is comprised of a technical and a service component, both of which are aimed at tackling the challenges mentioned above. The technical aspects include artificial intelligence (AI) that assists with the capture of data, as well as a robust, secure data repository and reporting tools. The service aspect takes the form of follow-ups on missing or incomplete data, and investigation of variances.

Buyers Tips

Confirm a potential provider's data collection process is robust and has associated service level agreements. The data collection is arguably more important than the front-end analytical tools!

Check with the provider if their teams are qualified to securely collect your data. There are various international assurance standards that focus on information security, and this will give you peace of mind that your data is going to be handled following the correct protocol.

| Trends in portfolio monitoring

By far the greatest overall trend in PE portfolio monitoring is the increased supply of data, as investments and reporting demands increase.

The COVID-19 pandemic is the ultimate example of the need for easily accessible information. With the impact on the economy from business disruption and factors such as remote working, the need for agile portfolio monitoring tools has become more evident than ever.

As PE investing continues to grow, so does the volume and depth of information requests from external stakeholders. Look-through reporting for underlying portfolio company metrics is becoming a requirement as opposed to a nice to have. Investors want information available on-demand as opposed to periodic reporting.

One example is the growing demand for Environmental, Social and Governance (ESG) information. GPs are beginning to report this information in various forms, and a portfolio monitoring system is an effective and efficient way to track it. Increased demand for information is a certainty for the future. Reporting demands from stakeholders within organizations are also increasing, and they vary with responsibility. For example, investment teams have various analytics/dashboard goals which can only be achieved with accurate and deep datasets around returns, while investment risk teams may be focused on debt levels. Delivering different sets of data is challenging and generally falls to operations teams who might not have the capacity to capture the required data.

Different portfolio monitoring target operating models

There are several options to consider when shopping for a portfolio monitoring tool/provider. This decision really boils down to how much work an LP is willing or able to undertake themselves. If they have budget to hire staff for both the technical database build and maintenance, as well as the manual follow-ups with GPs, then they can simply integrate the data from a provider. On the other end of the spectrum, a fully outsourced model may be the best option if internal resources are more limited. Alternatively, a hybrid model may also be effective.

Option	Pros	Cons
1 Receive a flat file (e.g., CSV) and feed data manually into a proprietary system	<ul style="list-style-type: none"> Fixed ingestion format and process Low-cost effort 	<ul style="list-style-type: none"> Manual nature of receiving files is cumbersome LP required to build and maintain proprietary database LP required to build and develop front-end analytics tools LP required to follow up on missing data or variances Less flexible when file formats change
2 Application programming interface (API) feeds information directly from service provider into proprietary database / system	<ul style="list-style-type: none"> Data flow is automatic Medium cost effort 	<ul style="list-style-type: none"> Requires technical build and maintenance oversight LP required to build and maintain proprietary database LP required to build and develop front-end analytics tools LP required to follow up on missing data or variances
3 End-to-end service provider solution	<ul style="list-style-type: none"> Data input into a database /cloud solution Oversight of missing or incorrect data is outsourced Less time spent on manual processes, more time for value-creation, insights, and reporting Access to professionals with expertise in private markets data (extension of LP's portfolio servicing team) Front-end analytics tools Technology is maintained with regular upgrades 	

Buyers Tips

If you don't opt for an end-to-end service provider, you will require a data repository and other technical support.

Ensure you have committed in-house support of your IT team to maintain the technology and make required changes. Budget for an outsourced provider may be regarded as a cost efficiency because employee volume and statistics are heavily scrutinized.

Be careful when price comparison shopping – the cheapest option may not be the best choice. Check the service models are the same and confirm the provider's overall process.

Evaluation process

The first step when evaluating the benefits of a portfolio monitoring system is articulating your requirements in the form of a business case. Partner with your internal departments to ensure that all needs are aligned from the front office to the back office.

Build use cases that support how the data will be used, for example:

- How will the deal team use the data?
- For the middle office – what do the risk teams want to monitor?
- For the back office – how will the back office be involved?

Identify key performance indicators (KPIs) – it's important to ensure that the provider updates the most relevant KPIs

Next, review the provider landscape. You can start by reaching out to your peers for recommendations and referrals.

Who are the main providers in the space?

- Evaluate offerings
- Do you need more than portfolio monitoring?

Finally, create a requirements document and reach out to your chosen providers.

What else should you consider when evaluating offerings?

- **Outsourcing prerequisites**—Assessing outsourcing providers may require you to reach out to someone with IT expertise. An important trend in portfolio monitoring systems is storing data on the cloud. Security of the data is key so it is advisable to compile a list of technical questions for the provider. There also may be specific questions that you may have about the different ways your users will access the data and the response time they can expect. As your teams might want to access the data out of the office, it's important to check mobile capabilities of the platform you're considering.

Governance / Relationship Management (RM) model—Having a formal point of contact through which to escalate issues is important, as are regular meetings. There should be day-to-day operational support, as well as a team through which you can escalate broader issues. An important aspect of RM support is that they will proactively meet with you to inform you about updates to existing products and new products coming to market. Questions to consider include:

- Is there a dedicated on-boarding team with project management expertise?
- What are the various touch points for support?
- What form do you want the meetings to take? In person and virtual should both be options.

Buyers Tips

If you are ready to select a portfolio monitoring solution, use our handy checklist to guide you through the buying process and make sure you take stock of all key considerations.



Training—New joiners will require training and existing staff may even want refresher training if you have been using a system for some time. Providers should be able to hold on site workshops at your offices for a reasonable fee. In addition to training new staff, workshops may be helpful if processes have changed within your company, or if new products allow you to take advantage of enhanced functionality. Workshops are also a good opportunity to meet with operational team members from the provider face-to-face to enhance the relationship and discuss common issues.

Roadmap—A provider should have a detailed roadmap that they regularly update. A good roadmap will have both short- and longer-term deliverables with associated target dates. Good practice is to have at least an annual review of the roadmap as part of your regular meetings with the RM team.

- Understand what drives the future growth of the product
- Who or what influences the product development?
- If the roadmap is investor-driven – are there product lines that might be neglected because of other investors' interests?

Summary

Spreadsheets and manual processes are not scalable, and the need to move away from them has never been more critical.

PE has an enormous amount of data to manage and requires both specialized technology and experienced support to make the process efficient and accurate. Ensure you are future-proofing your portfolio by investing in a portfolio monitoring solution that will make analysis efficient and robust – freeing up resources to make a value-add impact on your investments!

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HELIOS: Built by LPs, for LPs

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HELIOS 3.0

Our portfolio monitoring platform is constantly evolving. HELIOS 3.0 is the latest release offering a full suite of new features, datasets, advanced analyses, and benchmarks.

