

## KEYNOTE INTERVIEW

## Why tech transformation is 'critical' to growth



*The pandemic has underlined the power of digitisation in the private equity industry, says Intertrust Group's Chitra Baskar*

As the world contends with the impacts and uncertainties of the covid-19 pandemic, we asked Chitra Baskar, global head of funds at Intertrust Group, how deployment of new technologies can contribute to operational efficiencies and growth across the private equity industry.

### Q Is the private equity industry opening up to digital transformation?

Historically, the private equity industry has not been particularly tech savvy. Firms were happy using Excel, emails and Word documents as they made and tracked investments. However, as the growth of private markets

has accelerated, so too has digitisation. This has been driven by the imperative to handle data more systematically to create meaningful insights and inferences. In the wake of covid-19, digital platform usage is growing quickly as firms seek out ways to share information across multiple locations and geographies for several people to work on collaboratively. At the same time, structural changes in the way private capital managers invest has introduced a high level of complexity that is reinforcing this trend.

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### Q What daily challenges are managers facing?

Private capital transactions are now multi-dimensional. For a manager raising capital, investors from all over the world can commit to their fund, using different currencies and complying with various tax and regulatory requirements. The manager needs to accommodate that. Increasingly, larger investors are demanding the creation of separately managed accounts that invest alongside the main fund. That requires separate documentation and the proportion of their investment and distribution needs to be calculated. And then, in order to invest in assets in different jurisdictions, managers typically

set up separate entities in those locations. Some private funds have hundreds of entities that need to be administered and monitored to a high level of compliance.

At the portfolio company level, for funds investing across geographies and industries, the reporting parameters vary depending on the asset. For instance, the financial dynamics and accounting requirements for a German IT services company are very different from, say, a healthcare company involved in drug discovery in the US.

Data and information need to flow from all these entities into the main fund vehicle, where it is consolidated onto one balance sheet. That requires currency consolidation, and Generally Accepted Accounting Principles normalisation, etc. The investor sees one statement that captures its share of capital and the P&L. But it takes a lot of work to get there.

### Q How can technology help managers overcome these challenges?

As fundraising and investing become more demanding, fund managers are becoming more comfortable with outsourcing rather than doing everything in house and focusing instead on what they do best – investing. During fundraising a manager can use a third party to source capital and pitch to investors and another third party to undertake Know-Your-Customer work, LP due diligence and subscription documentation. Managers outsource fund domiciliation and the establishment of special purpose vehicles. Depending on the underlying investments the accounting needs will vary, as well as the need for information. For instance, a GP typically appoints a property manager to oversee its real estate assets. However, in the case of private equity or private debt investments, accounting performance or cash flows all become relevant to consolidate and monitor.

Over the course of the pandemic, technology has become a critical factor,

bringing people together across time zones and allowing them to work on the same documents and transfer data internally and externally. Digitisation has facilitated workflows. Investors can upload their KYC documents and commit to a fund without sending papers by mail, and that information can be validated online. Managers can complete the entire investment process, including due diligence, from home.

Firms are using portals and dashboards to display data, and software to manage accounting and perform fund tasks such as setting up numerous entities and making the investments. Investors are also able to digitally reach out to managers, make their investments and obtain their ownership statements all with increasingly complex waterfall calculations. We also see the adoption of cloud services, which are becoming increasingly relevant when staff are working remotely and may not have access to an internal server room.

### Q How does digitisation contribute to growth?

At the portfolio company level, in addition to financial statements, managers need information on sales growth, cash flow collections, debt-to-equity ratios and other financial health parameters that indicate how the business is performing. There is rising pressure on management teams to submit these numbers on a more-timely basis and with more meaningful inference. Digitisation creates efficiencies and can reduce costs. As the company improves its processes and deliverables, it will attract better clients and grow its market share. And the manager will benefit from higher quality information with which to monitor their investment.

At the fund level, software helps a manager gain control and comfort with the numbers and better awareness of the fund's risk profile, which is essential. It aids communication with investors by improving monitoring and measurement of the portfolio and facilitates the provision of information

to LPs in an easily digestible format. Greater transparency is key to keeping investors happy and open to re-investing in the manager's next vehicle.

### Q What protections can technology offer in a downturn?

Information gathering is beneficial in good or bad times. Typically, when a manager outsources to a fund services provider, the vendor supplies the technology that supports processes and collects, collates and distributes data. The provider is the one who has invested, for the benefit of all its clients, in the latest software and systems to keep pace with best practice. This means the GP has, to some extent, de-risked the fund by not committing capital and headcount to this function. In the event of a downturn, managers are free of the drag of sunk costs. At the same time, if a fund is shrinking as economies decline, access to good data and software that can analyse it in different ways in response to market trends is critical to adjusting the investment model.

### Q To take advantage of new technology, what skills do operating partners need?

First, they need the right accounting and domain knowledge to understand underlying portfolio risk management. Second, they need a strong technology solution group that can anticipate problems and keep ahead of industry trends. For instance, we see the private capital market shifting from closed-end funds to a hybrid format that permits investors to enter and exit when they want. This introduces new complexities regarding fund valuations and distributions, which need to be addressed.

Currently, at Intertrust Group, we are busy building hybrid waterfalls and fee calculations. We are also investing more broadly in technology to increasingly embrace digital delivery and data management solutions for our clients as we continue to expand the number of locations we serve. ■