

Privcap / Briefing

Context for Private Capital Investment

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The PE Data Tsunami

How GPs and LPs are managing the increasing flow of private equity data



Riding the Data Tsunami

Key Findings

1. Investors are demanding a “tsunami” of data and GPs are working hard to provide it
2. Portfolio company data can provide powerful insight to the broader portfolio
3. The increase in data requests is forcing PE firms to build infrastructure to handle them
4. LPs also must dedicate resources to turn data into actionable intelligence
5. Contextualizing data is vital to making good investment decisions

The Panelists



Thomas Franco
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Jay Koh
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Eduard Lemle
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1. Investors are demanding a “tsunami” of data and GPs are working hard to provide it.

Data has not traditionally held the prominent place in private equity that it has in public equity. Part of the reason is that it’s harder to come by. There is less standardized reporting on private companies than on listed companies, and there are fewer SEC requirements. But as LPs come to fully appreciate the value data can play in their decision-making process, they’re demanding that GPs give them more of it.

“There isn’t a manager on the planet in the alternative game who isn’t being inundated with data re-

quests,” said Thomas Franco of Clayton, Dubilier & Rice. He termed the trend a “tsunami”—and it’s one that won’t be ebbing anytime soon, if LPs have their way.

“LPs have information rights and, if they use them, they can get a tremendous amount of data about underlying companies,” said Jay Koh of Siguler Guff & Co. “How you standardize that, how you analyze that, how you report that, those are all questions you need to answer if you want to be an active user of data to drive your investment judgment and asset-management capability.”

On the GP side, firms are working to provide the information that LPs want. It’s not easy but they real-



Thomas Franco, Clayton, Dubilier & Rice

Information Overload

Nobody denies that transparency is a good thing. But PE firms want their LPs to keep in mind that they are big-data companies. They're in the business of making good investments and delivering great returns.

"Arguably, all these data requests are taking away from the central activity of a private equity firm," Franco. "I'm not saying that's good, bad or indifferent. It's just the reality today."

He said he worries that the private equity industry is creating a massive repository of data and that it's becoming increasingly difficult to make the right connections and draw profitable conclusions from all that information.

"At the end of the day, you're looking for a needle in haystack that's becoming exponentially bigger," he said. "For example, data analysis is not particularly good at drawing conclusions about social groups. But making a 10-year-plus commitment to a GP group has a lot to do with social dynamics."

ize it must be done. "The demand for transparency is unlikely to diminish," Franco noted. "The good news is we have plenty of data. The challenge is how we roll that data up in a way that's efficient and responds to investor needs. It's just hard to generate it when you get two or three hundred due diligence questionnaires while you're out raising money."

2. Portfolio company data can provide powerful insight to the broader portfolio.

LPs know all the information in the world isn't worth much if it's not put to good use, so they've honed effective forms of data analysis to guide investment decisions. Koh said his firm relies on data when it's selecting funds and when it's looking at direct coinvestment transactions it will make on behalf of the capital it manages for its investors.

"We're not asking ourselves for hundreds of different data points, nor are we reporting hundreds of data points to our investors," he explained. "We're gathering the data points that are most relevant to us, like actual underlying performance of transactions in companies. We pay a lot of attention to those deals, because it helps us inform ourselves about what deals we should do on a direct or coinvestment basis. We actively use that data as investors at the transactional level, at the coinvestor direct level, and then we aggregate it up to the portfolio level."

Analyzing data across a portfolio enables LPs to uncover risk and make better decisions, added Eduard Lemle of AlpInvest Partners. "The best use of portfolio-wide information on the portfolio-company level is, for example, tracking metrics like debt over EBITDA, to see if things are getting to unhealthy levels. As a next step you could do stress-test scenarios like, assume that anything that is over seven times EBITDA-levered and is not covenant-light might get into distress if things go sour over the next two years. That's a more systematic portfolio-wide perspective."

3. The increase in data requests is forcing PE firms to build infrastructure to handle them.

GPs grappling with the firehose of data requests from LPs are still building the systems they need to gather the required information, process it, and pass it on. This is often a difficult and expensive task.

"It's a challenge," Franco said. "We're evolving to be more efficient. It's an area where there has been more investment. You need to have people and resources to

process the requests. Then you have to have individuals within the organization—whether it’s finance, compliance, or the deal teams themselves—to find the data within the system. And finally, you have to put it into a format that’s particular to the LP who’s requesting that information, and that takes time.”

4. LPs also must dedicate resources to turn data into actionable intelligence.

As one of the world’s largest PE managers, AlpInvest collects an immense amount of data. The firm spends significant resources to turn all that information into actionable intelligence.

“We’re continuously investing in systems and technology, in addition to processes and human resources,” Lemle said. “With the result that much of this is now fairly automated from the gathering to the processing to the displaying of data.”

Of course, not every LP has the resources of an AlpInvest or Siguler Guff, and those that don’t must be careful what they ask for. They could be biting off more data than they can digest.

“Long-term pools of capital—whether endowments and foundations, high-net-worth individuals, corporate plans, U.S. states, pension funds, or sovereign wealth funds—all have different fundamental human resources that they have available,” Koh said. “Many have limited staff and limited ability to contextualize geographically or by market or subsector. So, if they went to their own portfolio and said, ‘Can you give me all this information?’, they’d be left sitting with a very large database that they’d then have to interpret in some way.”

5. Contextualizing data is vital to making good investment decisions.

Data without context can be dangerous. It can be misinterpreted and lead to bad investment decisions. “The best GPs we work with provide customized interpretation of what’s happening and the context in which it’s happening in different markets,” Koh said. “For example, emerging markets where you have an



Eduard Lemle, AlpInvest Partners

Putting Data to Work

Gathering the data is just the first step. It’s what you do with the data that really counts.

AlpInvest does a lot with it. The firm has built customized databases both on the fund return level and on the portfolio company level, tracking over 10,000 underlying portfolio companies. It’s also developed easy-to-use templates that are specifically tailored to both an internal audience searching for information as well as an external audience looking for investment reporting.

Lemle noted that it’s this level of customization that has the potential to transform the industry. “Our investors want very customized, very specific ways of how their portfolio is reported to them,” he said. “So in addition to the print reports, we’ve built a very sophisticated online reporting tool that allows investors to slice and dice their portfolio based on whatever parameters they choose.”

election—South Africa, Indonesia, India, Brazil—how do you think about the performance of your portfolio in view of potentially major political changes?”

Elections impact currencies, interest rates and a range of other factors—and those impact a portfolio. An investor might have a database full of information on that portfolio but must keep in mind that the information is by nature backward-looking. It needs present-day context to perform at its peak and help the



Staying Ahead of the Puck

Data is backward-looking. It tells you what happened in the past, not what will happen in the future. Koh said Siguler Guff tries to keep that fact front of mind.

Koh used a hockey analogy. “We want to know where the puck has been. But we care more about where the puck is going.” He said data can play a part in understanding the future but data alone can’t tell you exactly what’s coming next.

“For example, in China, first-generation private equity was largely pre-IPO momentum strategies that were undifferentiated, whether a company was making cement or software or photovoltaics,” he said. “But the closure of the IPO window changed that generalized strategy completely. If you simply looked at past performance data, you would think the best strategies were still around generalized growth equity and pre-IPO plays. You wouldn’t have evolved that strategy or leapfrogged into new opportunities.”

investor discern the opportunity set going forward.

“You need to understand the narrative, you need to understand the context,” Koh said. “There is certainly an important aspect to getting more data and the ability to use technology tools and reporting to provide transparency. But it’s one piece of a much larger mosaic. You need to contextualize it and work with good partners who can tell you where to look and what part of the picture to look for. That’s going to be much more valuable.” ♦

Expert Q&A

with Hank Boggio
iLEVEL Solutions



How can iLEVEL's platform help the private equity asset class grow?

Q By providing a limited partner or an institutional investor with deeper access to data, they'll have more confidence in their data, and be able to effectively monitor and measure the performance of their portfolio, ultimately increasing their allocation to the asset class.

If you look at allocations today from an LP's perspective, they're really putting a small percentage, 6 to 10 percent, into their overall portfolio. The reason that's so limited is because they don't or they haven't had the ability to effectively look at that data to assess risk and exposure. Where do they have an issue in a portfolio? Do they have a particular allocation that's perhaps needs to be hedged against the public markets?

Talk about iLEVEL's origins within the Blackstone Group.

Q Today, more than 100 GPs use our technology. What Blackstone realized several years ago was, that it was inefficient to have data that was spread across the organization. It was prone to errors and they had difficulty trying to aggregate it. It was very time consuming. They have expensive resources on the investment teams that were spending upwards of 80 percent of their time chasing data, as opposed to doing what they're paid to do, which is essentially analyze that information, assess performance and ultimately source new deals. Having it centrally stored really gave them the ability to effectively and efficiently use that data for a variety of reporting purposes. ♦



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Series / The PE Data Tsunami



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- Riding the Data 'Tsunami'
- Does More Data Lead to Smarter Investing?
- Why is Sharing Portfolio Data So Difficult?

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