

# The Future of Data and Reporting in Private Equity

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An expert discussion about how technology and standards will further deepen GP/LP relationships

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# The Future of Data and Reporting in Private Equity

An expert discussion about how technology and standards will further deepen GP/LP relationships

## The Panelists



**Jim Rutherford**  
Managing Director & Head of IR  
Pine Brook



**Neal Prunier**  
Director, Standards & Best Practices  
Institutional Limited Partners Association  
(ILPA)



**Meghan McAlpine**  
Director, Strategy & Product Marketing  
SS&C Intralinks

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**Privcap: How has the COVID crisis furthered trends in investor relations that were already in motion?**

**Neal Prunier, ILPA:** What we've seen is an increase in communication and interaction between GPs and LPs. Travel has been reduced and the need to do video sessions significantly increased. Both parties have jumped into this and welcomed the opportunity to find new ways to communicate and interact. During this time of stress and concern, the information flow has increased to make sure that both parties are feeling comfortable about the current environment and the decisions that are taking place. It's been an opportunity for everybody to rise to the occasion.

**Privcap: Jim, I'm guessing your airline points have dropped significantly during this period?**

**Jim Rutherford, Pine Brook:** Yes, my airline miles have indeed dropped to basically zero. Hopefully, they will return in the near future. We all went through an adoption period, getting used to Zoom and other platforms. I've gotten quite used to that. And, although some people are complaining of Zoom exhaustion, it's proved to be pretty useful to everybody. Even as we get back to normal, whatever that means, some of that will be here to stay. There has been an increase in contact and it's given people more permission, particularly the early days of COVID, to communicate without knowing all the answers. That's an issue that some of us often grapple with—telling people that there's something going on and you don't know all the facts yet. We've gotten good feedback from our LPs on that level of transparency. Having a little bit about uncertainty is not a bad thing.

**Meghan McAlpine, SS&C Intralinks:** As the industry found itself working remotely, LPs have definitely become more receptive to the concept of GPs outsourcing technology. We actually do a survey of LPs every year, and we asked LPs to rank the importance of GPs' outsourced technology capabilities. More than 90 percent ranked it as either "important" or "very important." Obviously, this pandemic has brought the need for communicating better information.

GPs are looking for ways to connect with their LPs since they obviously can't have that in-person interaction anymore, finding ways they can deliver information in some sort of interactive way. This could mean Q&A on their portal or a virtual AGM. The due diligence process also has changed a lot. In-person meetings aren't happening. Fund managers do need to be careful about what they're sharing digitally, that they may have done in person before, particularly anything that might be proprietary. You need to make sure that you have the right tools in place to share sensitive data.

**Prunier:** When COVID first hit, there was an immediate increase in the amount of communication, which is great. But, at times, this meant sending daily or weekly emails for the point of checking off a box. It was saying a lot without really saying anything meaningful or important.

LPs would rather get less frequent updates, but actually have them be more actionable, more impactful, more direct to what's important to us.

**Privcap: What is the range of sophistication that exists among GPs in how they communicate with their LP?**

**Prunier:** At my previous work for Cambridge Associates, as recently as 2018, I saw GPs that were using fax. And that was the primary means of presenting the information. Obviously, a little bit better than through the mail, but still very antiquated. So, you have that end of the spectrum all the way through to GPs who have very impressive investor portals that LPs can log into, download reports, set up automatic feeds, decide between Excel or PDF, etc.

**Privcap: Jim, are you surprised to hear that some GPs are sending their investors faxes?**

**Rutherford:** When I got into this business in 2004, there was one notable GP who refused to use email because they thought it was better to send their reports out in hard copy. Some GPs have been very, very slow to adapt. But technology adoption now is moving at a much quicker pace. COVID may help to accelerate that.

**McAlpine:** There's definitely a wide range of reporting capabilities from GPs. Some are still using email. Some are using interactive portals. Some are even just using consumer-grade sharing systems.

Investors have become more sophisticated and have been demanding more transparency and data over the years. They want a technology platform that can give them what they need, with as much transparency as possible, and be easy to use.

**Privcap: It seems that the next wave of resistance might come around the PDF. When a GP sends an LP a PDF-based report, it requires the LP to basically deconstruct what's in the PDF and enter it into a new format.**

**McAlpine:** PDF files don't cut it anymore. Having a solid technology in place is really important, where LPs can extract data digitally. But there are so many LPs out there that are receiving PDF statements instead of like portal-driven analytics. But that's a place we're moving toward and where the biggest advancements can be made in the short term.

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Our LP survey showed that LPs are only moderately satisfied with their GPs' reporting technology capabilities. Eighty-four percent of the respondents said this was either "important" or "very important." LPs have very limited resources and they need to get the information as quickly and easily as possible, particularly in this environment where they have more liquidity risk and need more information on short-term cash flows and other metrics.

**Rutherford:** This may sound old-fashioned, but there are some perceived compliance issues around the difference between a PDF, which cannot be changed, and Excel, Word or PowerPoint documents, which can be changed. Compliance officers have resisted sending out Excel documents.

So, there may be some education to do around the security and compliance issues.

**Prunier:** Let's step back and walk through the process of how a PDF gets created: putting information into a PDF, then sending it via a portal or email to an LP who needs to then take that PDF, sometimes uses scraping technologies or manual entry to put it in their own system. The PDF is the barrier between one system and the other. We really have to work on standardization and a clearer methodology. And that is where the industry is going.

**Privcap: Jim, talk about the rise of ad hoc reporting and the opportunity for digital data to be a more efficient form of this type of communication.**

**Rutherford:** Even before COVID, there was an astronomical increase in the amount of data being requested from LPs on a variety of topics—everything from the traditional capital statements to ESG to advanced benchmarking.

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—Jim Rutherford, Pine Brook

It's become so voluminous that, at least at Pine Brook, we have a full-time position that does nothing but respond to ad hoc requests. What frustrates a lot of people on my side of the table is that we're often getting very similar requests, but in slightly different formats. Many of my colleagues are all for standardization. If somebody sends us a different format, we'd like to say, "No, we're going to give you the ILPA template." As we get into ESG and diversity within portfolio metrics, a lot of us would like to see less bespoke requests. I know some of the consultants feel that they have a secret sauce. But there is no secret sauce at the data level. It's how you interpret it. At the end of the day, it's a drain on resources that could be otherwise devoted to investing.

**Privcap: Speaking of standards, what are the latest initiatives from ILPA, which has long been an advocate for standardization in private equity reporting?**

**Prunier:** On the macro level, it's really important for us to work together towards alignment of interest, governance and transparency. We don't take this responsibility lightly.

We understand the impact of putting out new standards and the time it takes for GPs and service providers to update their reporting capabilities, or the time it takes for LPs to be able to digest information. We've launched an LP insights efforts with our members. In 2020, we've had over 200 calls. We have a number of internal working groups that are focused on specific guidance to come out. We also have regular discussions with GP service providers. It's really important for us not to come out with something that is overwhelmingly LP centric and going to make it very difficult and time-consuming for the GPs. Since this is a constantly evolving and dynamic industry, we first seek to raise awareness of an issue, then to provide guardrails, then monitor, and eventually provide even more direct recommendations toward that standardized approach.

Our recent release of subscription lines guidance in June 2020 is a great example of this. We initially released guidance back in 2017 that sought to educate on the issues and opportunities that can be created with the use of sub-lines. We stayed connected to our members and the industry to see what the response was and what was still needed. Our updated 2020 guidance provided much more clear recommendations on quarterly and annual transparency. Other things on our current docket are updating the DDQ—a standard set of questions that are well-established now.

We want to work on creating greater adoption and greater use of our standards so that, once they are out in the industry,

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there are going to be fewer ad hoc requests. We want LPs to realize there's probably not a secret sauce, and to recognize that it's a two-way street.

**McAlpine:** At Intralinks, we are incorporating the reporting templates directly into our platform. We really want to be part of that push to standardize the industry because, overall, it's going to make everyone more efficient.

**Rutherford:** There are a lot of great technology providers out there, like SS&C Intralinks. There needs to be some degree of standardization, some degree of common vocabulary, as in, "This is what we mean when we say these words." There's a lot of confusion out there on how you define certain terms; a common vocabulary would help.

**Prunier:** We've got a lot of LPs that are requesting the OPA template. We've got other LPs that are requesting the template and then six or seven other data points. As much as both sides of the table can come to the standardization, the more everybody's going to benefit.

**Privcap: Certain areas of the financial industry are much more advanced as far as standardized data and reporting is concerned. Mutual funds come to mind. Give us a sense of how standardized reporting is done in more mature corners of the market.**

**Prunier:** Across the equity side and the fixed income side, it's important that reporting is coming from a trusted source.

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Essentially, what is done is you set up data feeds—a standard set of inputs where investors receive it at a set interval. You're going to receive something that always looks the same. You're going to have column A, B and C, and A will always be the ticker symbol, B will always be ISIN, and C will always be the exchange market. This is standard, consistent, enforceable. You will receive it in the same format every time and you can then set up easy rules to test and validate large data sets on a daily basis, on a live basis, to make sure everything has been pushed through directly and correctly. You set up the frequency by which you receive the data: it can be live, it can be intraday, it could be monthly or quarterly at a set time.

This requires defined fields with industry accepted definitions. You can also get information like PE ratios, since this is defined and standardized across a wide breadth of mutual fund data feeds.

If you think about banking, how do we do online transactions? Those are, in essence, different data feeds. There's efficiency gains on both sides. There are security improvements on both sides when this is getting sent through from one trusted source into your system in an automatic fashion.

Going back quickly to the sub-lines example: in the most recent June 2020 guidance, we asked for net IRR without the use of facility. We couldn't actually provide the specific methodology for calculating this information, since there's not an agreed-upon, industry-wide accepted methodology for providing that IRR. Jim mentioned the idea of a common vocabulary—so, instead of asking for a specific format, we ask for transparency into how the data is being captured. Hopefully, in the future, we will be able to provide specific guidance on how to mechanically calculate this field.

This type of definition across various fields would be necessary to fully move into an environment where feeds are as prevalent as they are and the traditional mutual fund space.

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Today, if you're invested across 20 different GPs, you're typically going to be getting 20 different formats of information in terms of look and feel. At times, even the data points themselves are going to be calculated differently—it's not always apples to apples from GP to GP. So, we as an industry need to be able to come together to get industry-wide accepted definitions for these various fields in order to move to a space where some of this information can be submitted and provided more directly.

There needs to be significantly more standardization and consistency in how the data is calculated and how the data is provided.

**Privcap: ESG is a relatively new form of investment consideration. Will this be a test case for how the industry can come together and try to define the various fields of reporting?**

**Rutherford:** There are three elements to ESG, but until recently, a lot of people have focused entirely on the environmental part, talking about the carbon footprint. If people want to say they care about the carbon footprint of an energy company versus a tech company, there are differences in terms of changes in those numbers. You have to grapple with multiple industries. And then with the S and G, there's increased focus on a lot of the social aspects, but what are we measuring? Is it head count on diversity? If that's what people want, then you can standardize that question. Governance is a much tougher measure.

There's been a lot of progress on ESG over the past 10 or so years, but figuring out what to report against and across different geographies, different industries and across all three elements of ESG is tough.

It's a great opportunity for ESG consultants to help try to solve this problem.

**Privcap: Are there any GPs providing API access to LPs? Should there be standards around that?**

**McAlpine:** APIs are definitely an important part of any technology solution. Having robust APIs in place can definitely help facilitate the flow of data. We have definitely built up our APIs and made sure that they are robust. We do actually have a lot of LPs that are using APIs to pull documents directly from our platform into their own platforms. They want to do that with data as well, because that's what the LPs are really looking for: the data, as opposed to the PDF.

Artificial intelligence (AI) is definitely an important part of the industry as well. We're working on ways to enable AI in our own platform, particularly when there isn't standardization. Many LPs are using AI to scrape the information from a capital call to process it much more quickly instead of having to re-key the PDF, and having high success rates there. ■

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