PRIVATE EQUITY WIRE

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Technological Transformation in Private Markets: Unveiling New Frontiers and Taking Control of the Future

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The prolonged period of low interest rates can be considered one of the key catalysts for the exponential growth seen in private markets over the past few years, as investors sought return-generating, alternative assets. But even in the current higher interest rate and inflationary environment, these assets remain attractive as they continue to offer the potential for higher return, inflation hedging, and the ability to generate alpha and create value in volatile markets.

Though once considered to be the domain of institutional investors, the tides are shifting and the dynamics of the private markets industry are transforming. This report will highlight the key changes taking place in this formerly opaque industry and the role technology is playing in driving a paradigm shift in the space.

The democratisation of private markets has been on the cards for some time, however, several factors caused the delivery of this to be a challenge. These obstacles have been upended by recent technological developments and the advent of alternative investing platforms. This progress, together with regulatory change, has allowed a wider range of investors to participate in these markets. Retail participation in private markets also encourages a more inclusive investment environment, levelling the playing field and diversifying investor portfolios.

Technology has been a critical driver in opening the doors to private markets and in addition to supporting broader distribution, technological developments are also enhancing investment processes. From deal sourcing to financing, advanced technology solutions are changing the way private markets operate.

With the advent of blockchain technology, smart contracts, and digital securities, the private markets are experiencing a seismic shift towards increased efficiency, transparency, and security. These technological advancements have not only accelerated investment processes but are also helping to foster trust among market participants, stimulating further growth and innovation.

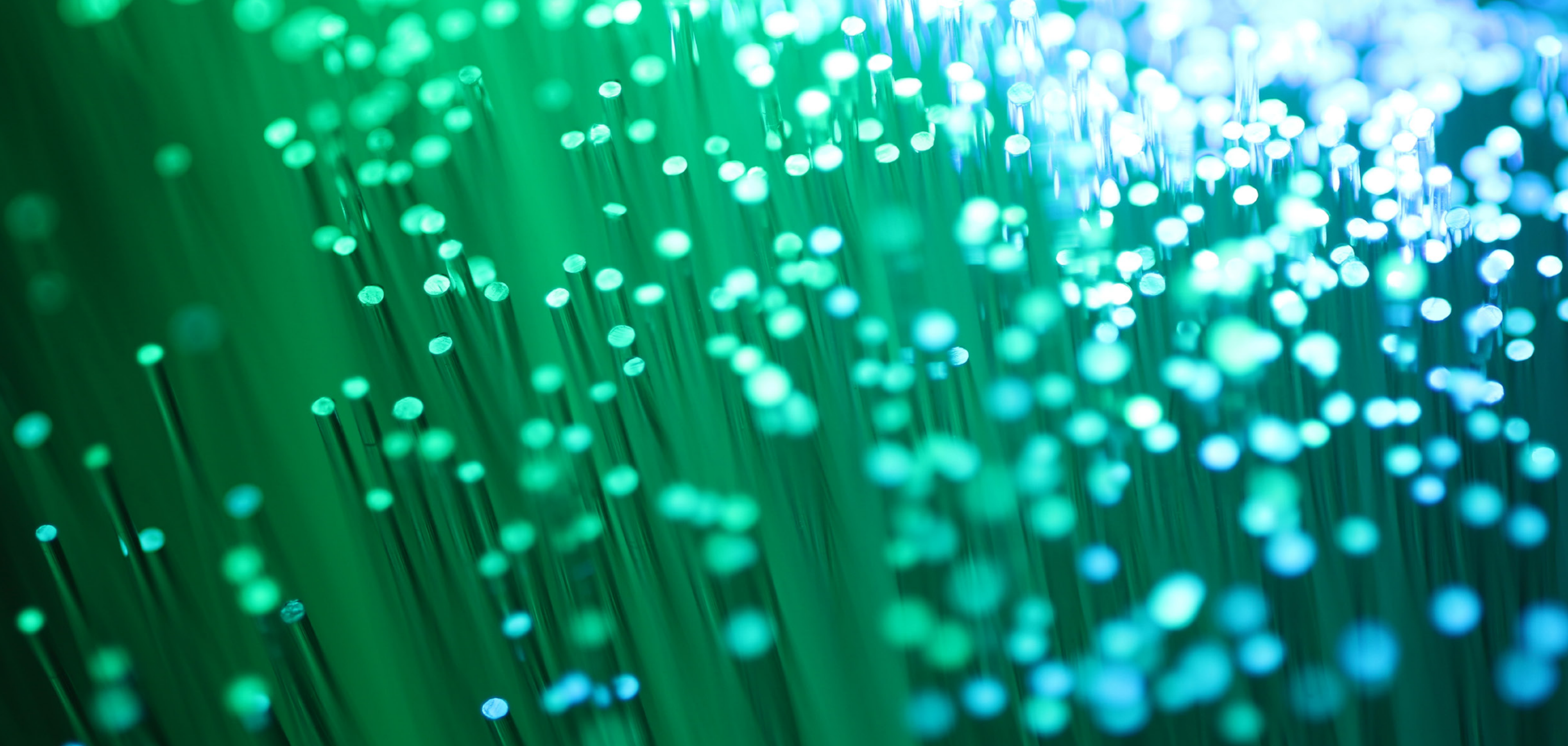
Taking an even deeper look into the use of technology, applying advanced portfolio analytics can further enhance an investor's choices and portfolio management. These tools can help investors assess risk, optimize investment strategies, and make better-informed decisions. By using data-driven statistical models, investors can also identify trends, hence locating untapped investment opportunities. The predictive capabilities these models also provide can support investors in their forecasts of cashflows and long-term performance expectations.

The use of sophisticated analytics is becoming increasingly important in navigating this terrain as private markets become more complex.

This growing complexity must also be tackled within a private markets firm's business operations. Although the front office often steals the limelight when discussing investment, middle office functions are essential to achieving operational success. Middle office capabilities have been growing as more complex transactions need higher quality data, communication, and streamlined processing.

Technological improvements have been assisting with this as new levels of automation have been allowing middle office employees to boost compliance and reporting capabilities while streamlining operations and increasing operational efficiency.

Private markets are being transformed as established practices are being renewed and the industry is offering new opportunities for managers and investors. Technology is leading the charge as market participants embrace these new tools to prosper in this dynamic environment.



TECHNOLOGY AS THE CATALYST FOR GROWING DEMOCRATISATION OF PRIVATE ASSETS

Demand for private assets is not new. The search for uncorrelated investments and enhanced returns has been a consistent quest for most investors, many of whom had their hands burned during the Global Financial Crisis of 2008.

Fifteen years after the crisis and exposure to private capital has risen steadily, as has the investable universe available. Gone are the days when private assets consisted solely of private equity and real assets, with areas like infrastructure and private debt coming to the fore.

The investor base has also evolved. Liquidity issues and complex structures in this market have traditionally meant it was the realm of the institutional investor – but a world of low rates, sharp bouts of volatility, and concerns about the correlation in the performance of bonds and equities in times of stress have made private assets more attractive to the individual investors from high net worth and mass affluent cohorts.

However, uptake could have been faster among these groups as numerous barriers to entry have stymied the tide of retail assets. The most obvious of these is the "liquidity mismatch" between these types of assets and the need for shorter time horizons and greater liquidity among retail investors. This has been highlighted in the property market in recent years – with forced sales of real estate assets resulting in a significant loss in value.

Other challenges include regulation around private assets, fee structures, financial transparency, and technology. But things are changing to make private assets more attractive for individual investors – this comes at a time when public markets are contracting and private markets continue to grow.

BREAKING DOWN BARRIERS

Regulatory reform has helped clear one of the primary hurdles curbing the desire to democratise private assets globally. This has been driven not only by demand within the industry, but also the need of governments across the globe to find capital for infrastructure spend. Be it roads, airports, hospitals, or schools, infrastructure is an essential element of modern society and plays a major role in the global economy, which will always need to be built and renewed.

In response to this, various initiatives are being launched across the globe to make private assets more accessible. In March 2023, Schroders launched the UK's first long-term asset fund (LTAF). Backed by the UK government, LTAFs are regulated open-ended investment vehicles designed to enable a broader range of investors, with longer-term horizons, to invest efficiently in illiquid and private assets. It follows a similar initiative in the EU, where the European long-term investment fund (ELTIF) is in operation.

Other parts of the world are also making changes to open up the market to retail investors. Soumendra Ghosh, chief investment officer, Vivriti Asset Management, says the securities regulator in India previously had a minimum investment threshold of $150,000 for private asset investors. He adds: "It was to ensure only sophisticated and deep-pocketed investors had access. Now, with increasing financialization of savings and awareness, there is an accreditation process underway which, through a number of factors, will allow investors who understand these risks but would like to invest smaller sums, to test the waters."

Investors in private markets employ numerous techniques, such as arbitrating and active shareholding to capture value in illiquid assets. While past performance is no guide to future returns, figures from Preqin show private equity has comfortably outperformed large and small-cap equities over five, 10, and 20 year timeframes*.

There are two further points to consider. Firstly, the potential upside opportunity in the private market. For example, there are almost 36,000 medium-sized businesses in the UK, yet less than 2,000 are currently listed on the London Stock Exchange – a far smaller pool to invest in. Private markets also offer a greater opportunity for investors to shape the future of a company.
While the volume of information is not necessarily as concise when compared to public markets – when evaluating an investment, investors receive information on financial health, culture, and management practices – all of which they can use to shape a private company both operationally and from an ESG standpoint. The latter is arguably the fastest growing trend in markets today.

Meir Rabkin, founder and partner, Blue Vision Capital says: "If you buy an ESG fund investing in publicly traded securities for instance – what impact are you really having? If you're investing in a venture capital fund you are actually investing in the creation of a new company and you have a more direct impact."

AUTOMATION KEY TO BROADER DISTRIBUTION

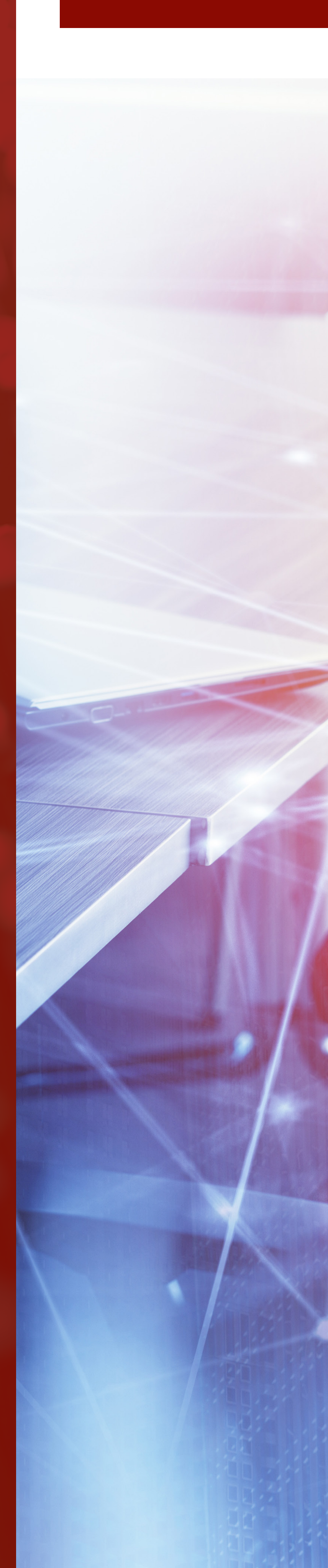
Technology will also play a major role in increasing exposure to private assets, particularly with regards to speed and scalability of smaller payments. This is where FinTech platforms come to the fore, improving the onboarding process, managing lower minimum investments, and connecting asset and wealth managers to fund managers.

Georg Wunderlin, global head of private assets, Schroders, believes that as digitised or tokenised assets grow in importance, many more assets will become set up 'on chain'. He says this could be the key to overcoming the "bite size" problem. Adding that we could see a doubling, or more, of private markets over a five-to-10 year time horizon**.

Kevin Gruber, partner research/asset management at private equity investor Circle Eleven, believes managers need to have a completely optimised and streamlined administration process to be successful in this market. He says: "The importance of this tech is intertwined with regulation – groups will need to stick to rules around know your customer and tax implications.

"You need an efficient subscription process – so clients signing up, onboarding them, cash management, and payments all in place. There are also certain reporting requirements to consider."

The challenge now is how the mix of



institutional and private investors will work for providers. Private investors have quicker investment cycles and smaller lump sums to invest – meaning their needs are fundamentally different.

Michael Frankel, founder and managing partner, Trajectory Capital, says if an institution invests $300 million and a private investor has $100,000, the former is going to want a lot more information. "But would the selling company be comfortable sharing this same information with individual investors? That opens up the potential for news being leaked. So there is still a tech problem with having a lot of individual investors, alongside business and regulation challenges, but I'd argue the tech problem is being solved faster," he adds.

Gruber says retail investors are unlikely to want an information overload – principally because they do not need it. He says: "Firms like ourselves are pooling the money from retail investors and then write a larger cheque to a provider. That puts us into a position where we get most of the information we need, and only pass on the essential information needs to the end investor." Rabkin says automation will be key, adding that if you have hundreds of individual investors you don't want to be following up with every single one of them for the likes of cash calls.

Frankel says it is inevitable technology will accelerate change with more people investing and financial institutions offering access more freely – potentially by bundling these funds together. He says: "An asset manager might say that if they could go out to 10,000 individuals, they may prefer that to a single institution offering $50 million (of private assets) to them, but they have to find the large volume interest in an efficient way. If we solve the tech, regulatory and business problems of mass investment, that could see the industry evolve very quickly."

Marco Belletti, chief executive officer, Azimut Libera Impresa, says around two-thirds of the bank's client base are individual investors, meaning they have already laid down groundwork for the future growth in exposure to private assets. From his perspective, the adjustment to be made is more about education of this cohort and building distribution deals.

He says: "Our familiarity with individual investors has meant we've already made distribution deals with big names, like BlackRock, to make private asset solutions available to clients. But we've also hired around 60 people across the likes of private equity and infrastructure, who are responsible for half of our funds. So we have both internal and external solutions."

Research from BCG indicates individual investor exposure to private equity funds is set to double in size between 2022 and 2025, to around $1.2 trillion of assets – significantly outpacing institutional growth – but even at this point individual investors will account for only 10.6% of capital raised by private equity investments***. The opportunity is vast, but with changes being undertaken on a country-by-country basis, providers will need to take advantage of technology to keep pace with the changing needs of various types of investors.

**Source: Preqin, Schroders Capital, figures to September 2022 – figures are net of fees*
***Source: Schroders: How democratisation is revolutionising private assets*
****Source: Boston Consulting Group – The Future is Private – Unlocking the Art of Private Equity in Wealth Management – March 2022*

THE RISE OF AI AND TECHNOLOGY IN PRIVATE CAPITAL MARKETS

The rise of innovative artificial intelligence (AI) technologies, such as ChatGPT, has been one of the leading stories of 2023, but despite the growing awareness of its benefits, it continues to polarise opinion. For each person who sees it as a way of both solving problems faster and overriding human error – there is another who believes that AI will take away jobs, lacks logic and – perhaps most worrying of all in the case of many science fiction movies – potentially take over or destroy the world.

The role of AI in private capital markets is nothing new, but the emergence of Generative AI (this is any AI system that can create new text, data, code and imagery) is a significant step forward given traditional algorithms and smart searches assessed, analysed and organised existing data.

The reality is this is only the tip of the iceberg – for many, AI was initially being used to tackle mundane and administrative tasks quicker, the benefit being to allow decision makers to focus on higher value opportunities. But this is changing and these tools are now ready and able to tackle some of the core issues facing private capital markets.

Last year, a survey of 30 senior executives from US PE firms with at least $2 billion in assets under management found more than half now leverage machine learning (60%) or AI (57%) in investment processes – essentially to help them make better investment decisions*. These can range from improved analysis; improved due diligence (such as increasing automation and efficiency); cost reductions; and – perhaps most importantly – portfolio management through greater insights and optimised asset allocation.

THE AI POSTER CHILD AS TECH RISE SHOWS NO SIGNS OF SLOWING DOWN

AI is just a part of the rapid technological change taking place in private capital markets in the past decade or so. Gone are the days when it was perceived simply as a way of creating cost-cutting efficiencies – it is now a value creator. Internet research,

web scraping, social media and expert networks were the drivers of forward-thinking investors in technology back in 2010.

Things have changed markedly since; they have been forced to do so due to disruptors now rife in the market. A famous Hollywood actress once said "Standing still is the fastest way of moving backwards in a rapidly changing world," and this is certainly true when it comes to the use of technology in private markets.

In a nutshell, private capital markets have been lagging behind their public counterparts. Part of this is down to mindset, where managers considered alternative transactions to be either too complex to automate or too sparse to result in significant investment. But headwinds, like increasing regulation and the rise of ESG investing, coupled with the growing move of investors from liquid markets – resulting in the need for more transparency and reporting – have made the focus on technology a greater priority.

Figures from Accenture show the disparity between expectations and execution from private equity providers. Research from 2022, found that almost six in 10 (58%) of PE leaders believed their technological capabilities were advanced**. The reality was only one in three projects met their initial goals and was also delivered on time and within budget constraints. One of the principal reasons for this failing was many firms' existing playbooks didn't address technology strategy and any related issues.

Deal making, automation and big data

Fintech platform Moonfare says the impact of technology is seen throughout the deal-making process – but the biggest impression is felt at the start, when investment teams commit huge resources towards finding the best opportunities. The firm points to research from 2010 which showed PE firms would need to analyse around 80 opportunities before closing a single deal***.

By contrast, many general partners (GPs) now leverage big data and AI to help them both streamline and identify better deals at an earlier stage. Moonfare investment manager Victoria James says: "These software tools can ingest many types of data, often enhanced by machine-learning models and automated visualisation, which can help investment professionals identify top-performing companies based on certain metrics. These platforms can analyse vast amounts of information, including financial metrics, credit card data, web page users or app users. To do that they scrape public and paid-for sources to cover thousands of companies and their associated data points."

Private capital markets have typically been associated with manual processes and workflows. But today's investors expect more streamlined information – something which has been accelerated by the democratisation of the asset class (see page 4 for more on this). Using technology has facilitated this and tackled the biggest bottlenecks in these processes and the types of data needed to deliver an investment strategy. Automation has solved numerous challenges related to investment communications, capital calls and distributions, portfolio monitoring and reporting. This automation has allowed private capital market firms to reduce errors and improve efficiency, while also allowing staff to focus on more strategic tasks.

Big data and data analytics have become more important over the past few years. Previously, the data collected by private capital providers was considered to be unstructured and unworkable. But technological innovation has allowed them to remove redundant data, address inconsistent metrics and spot and correct errors. The speed of delivering real-time data is also an integral part of using big data – particularly in the case of the automation client reporting. For example, would you rather have an analyst using big datasets to create a report that gets sent to a client on a monthly basis? There is a strong chance that by the time it is compiled, checked and sent it may no longer be real-time and accurate.

WHAT DOES THE FUTURE HOLD?

According to a KPMG survey of PE firms and portfolio companies****, over three quarters (77%) plan to invest more in digital transformation (with 28% investing substantially more). With similar numbers planning on investing in the likes of data analytics (75%), cyber security (71%) and digital transformation (back end) processes (66%). Indicating this is just the start of the journey to improve efficiency and tackle the threat of disruptors in the market.

Fintech businesses are likely to play an integral role in this future by offering software platforms which can streamline complex workflows, ensuring compliance and reducing costs, and result in improved returns. Good examples include the use of Cloud tech – which offers firms an agile way to access real-time data and improving data sharing. Other solutions include the likes of platformification – these are plug-and-play service delivery models designed to take away the burden of offering new products by offering third-party services.

The final point is the use of microservices architecture, these result in reduced coordination efforts between teams and facilitate faster software development. Using microservices significantly reduces large-scale disruption of overall systems caused by single-failure points and allows firms to decrease internal system dependencies. Private capital managers are having their eyes opened to the need to continually evaluate their technological infrastructure to stay ahead of the game. The window to get systems and processes in order is closing fast as the need to use technology across each facet of their business – from identifying new deals and investment opportunities to reporting performance to investors – becomes an integral part of any successful business model in the future.

**Source: S&P Global Intelligence*
***Source: Accenture*
****Source: Moonfare*
*****Source: KPMG 2022 – Market Insights Survey*

TRANSFORMING DECISION-MAKING THROUGH ADVANCED ANALYTICS

Competition has continued to ramp up across the private capital industry and as the pace of change remains relentless, Limited Partners (LPs) are looking for ways to make investment decisions more efficiently, with more information at their disposal, and better manage their portfolio's risk/return profile.

Predictive analysis and scenario modelling are fast becoming indispensable tools in this context. They allow investors to forecast fund performance and enable better-informed decision-making. In addition, the advent of advanced analytics, artificial intelligence, and machine learning has helped LPs further leverage data-driven insights to optimise their allocation strategies and manage risk. The way these technologies are being used is reshaping the industry and how LPs invest in private equity – giving them access to clear insight which can be applied to their investment process, strengthening the case for the decisions they take.

GROWTH OF SOPHISTICATED TOOLS

Faced with challenging decisions around asset allocation and investment selection, investors value additional insight and information which can provide them with additional certainty and support for their choices.

Performance and cashflow forecasts are two essential pillars of LPs' investment process and the use of robust statistical models can play a crucial role in the successful application of advanced analytical tools to assist with these functions.

Such models, tailored specifically to the needs of private equity investors, allow them to predict short-term liquidity needs and build long-term performance outlooks. "By incorporating statistical models into the forecasting process, investors gain valuable insights into both expected performance and cash flow variability, mitigating the risks associated with an uncertain future," Christian Tausch, Product Owner Analytics, AssetMetrix, explains.

Further, as a result of the persistent volatility and macro-economic uncertainty, investors have also been placing a greater focus on risk. The availability of advanced analytical tools has been supporting this development, enabling them to home in on the risk component of their investment decisions and move beyond only considering the expected return.

"Traditional theoretical models have given way to more sophisticated tools that offer probability bands and risk assessment capabilities, empowering investors to make well-informed decisions," Tausch says.

CASH-FLOW IS KING

In addition to building out a more complex risk profile of a portfolio, advanced analytical tools also allow LPs to optimise their portfolio allocations. The cash flow component, mentioned briefly above, is critical here. "It's not just about risk/return optimisation, which is the dominant model in the public equity or public markets world. The key to this lies in building cash flow models which consider the interaction between cash flows to date, current net asset values, and future portfolio projections," Tausch explains, "Reliable and sophisticated cash flow forecasts allow LPs to effectively plan their portfolio allocations and project the impact of various macro-economic factors and stress events."

The use of such tools signifies a considerable shift from previous methods. Historically, cash flow predictions were calculated manually, based on bespoke modelling done by individual employees. These calculations were then used to formulate an allocation plan.

The trouble with this approach is that LPs would need to update their files regularly, using manual processes. This has fast become unsustainable and potentially unreliable. "LPs want solutions that are available as out-of-the-box online services and that they can access instantly. This would give them very easy access to data and allow them to compare different scenarios in a straightforward manner," Tausch points out.

BUILDING CONFIDENCE

The move away from legacy processes and the transition to using technology must also come hand in hand with a culture shift.

A KPMG report revealed that only a third of organisations trusted the analytics they generate from their business operations. And in order to extract full value from analytics tools, LPs must trust the data they are inputting into such systems.

In this quest to build trust and grow confidence in the insights generated through portfolio analytics, data transparency and governance play a critical role. "We want to be transparent with our models and the techniques we are using and communicate this very clearly. We also do this by publishing academic papers and by engaging in constant dialogue with stakeholders. By actively seeking feedback and addressing concerns, we build trust and foster a collaborative relationship with investors," Marcus Pietz, Head of Analytics at AssetMetrix outlines.

Although LPs are becoming more open to adopting advanced analytics and AI in relation to their private equity investments, they value tangible results and evidence of effectiveness.

In view of this, transparency, open communication, and proof of positive outcomes through data visualisation and interactive reporting tools are critical for fostering trust and confidence among investors.

While developments in AI and machine learning offer immense potential to enhance decision-making in private equity investment, Pietz highlights the need for caution. "These technologies can increase data processing efficiency and provide decision-makers with faster and more comprehensive information. However, they should be viewed as tools that support decision-making rather than replace it." The black-box nature of AI algorithms and the inherent uncertainties surrounding their outcomes warrant a measured approach, he adds.

DYNAMIC DECISION-MAKING

The appetite for analytical tools to enhance investment decisions is not due to abate any time soon. An EY study found 93% of companies indicated they plan to continue to increase investments in the area of data and analytics. And as the space grows in sophistication, with new developments coming to market in a consistent stream, the desire for this additional edge is bound to continue rising.

By integrating advanced analytics and AI tools into their investment processes, LPs are elevating their decision-making capabilities. This includes more robust performance and cashflow forecasts together with more accurate risk management, made possible through harnessing the power of strong statistical models.

Pietz envisions a future where advanced analytics and AI will continue to play a pivotal role in the way LPs invest, by enhancing their existing processes. As the industry embraces these technologies, investment decision-making is bound to become more informed, efficient, and dynamic.

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[1]https://assets.kpmg.com/content/dam/kpmg/ie/pdf/2019/03/ie-building-trust-in-analytics-data.pdf

[2]https://www.ey.com/en_us/ccb

ENHANCING OPERATIONAL EXCELLENCE – LEVERAGING TECHNOLOGY TO STREAMLINE MIDDLE OFFICE FUNCTIONS

Growing complexity and mounting regulatory requirements coupled with rising investor demand for tailored solutions has meant private equity managers are having to transform their business processes to remain efficient.

Navigating more complex structures has sharpened the need for customised solutions to support growth in specific asset classes, geographic regions and investment strategies. In this context, efficient and effective middle office operations are becoming paramount.

"The need for middle office operations has really risen as a result of growing complexity, additional regulatory and administrative burdens," explains Jonathan Balkin, co-founder and executive director of Lionpoint. In order to remain competitive, PE firms must adapt to the new environment, ensuring diligent data collection and management, a focus on risk and a timely response to investor needs.
Indeed, effective management of middle office functions and processes can streamline a PE firm's operations and drive success.

"The middle office sits at a crossroads within a private equity firm, connecting various parties – from the investment professionals to the investors and other third parties like accountants, depositories etc. The role of this function is to coordinate the information flow and make sure operations are executed and booked correctly," says Patrycja Dos Santos, middle office specialist at AssetMetrix.

She adds that the role of the middle office is to provide efficient and transparent information flow to the right people. It ensures that operations are executed, controls are in place, and decisions can be made based on accurate and timely information.

OUTSOURCING FOR SMOOTH OPERATIONS

Despite being of critical importance, these processes do not fall into a PE manager's core competencies of as investment analysis, deal sourcing and value creation. This has generated an uptick in the outsourcing of middle office operations, allowing PE firms to allocate more resource and attention to their strategic objectives. Expert service providers can help firms optimise operational efficiency without compromising on the quality of the processes involved.

In fact, delegating these tasks to a third party also provides managers with access to specialised expertise which may be challenging to develop in-house. Cost optimisation and risk mitigation are other factors driving the appeal of outsourcing here.

PE firms also face mounting pressure in relation to regulatory compliance and in this context, third party partners can support managers in ensuring they comply with reporting requirements which are becoming ever-more complex.

Regulations like the Alternative Investment Managers Directive (AIFMD) and its soon-to-be issued review, the Sustainable Finance Disclosure Regulation (SFDR) and Anti-Money Laundering regulations are just a few examples of legislation which has necessitated the smooth operation of middle office functions.

THE NEED FOR SPEED

The pace of information exchange has also accelerated, with the need for data and knowledge sitting at the heart of the middle office evolution.

"The current priorities of middle office professionals are to drive faster and more comprehensive information flow. Information needs are going deeper and cover regulatory requirements, ESG qualifications, and portfolio analysis, among other things," Dos Santos observes.

The regulatory changes witnessed across the financial industry has meant regulators and investors have much higher expectations related to the information they need to receive and internal teams have also become more demanding in terms of the information they need and want.

"I have seen the industry change over the course of the past 20 years. Previously, you could wait up to three months after quarter end for a report. Now, no one would agree to that. The turnaround on information is now so much faster," said Dos Santos.

But getting this faster access to information is not always straightforward. Historically, the transfer of knowledge involved several layers of manual processes; processes which are not sustainable over the long term, especially when managers are looking to scale their business.

THE TECHNOLOGY ANSWER

"Technology is the key," states Dos Santos, "However, the main challenge in the middle office is adopting technology at the right pace. Firms need the means to develop technology internally or find the right partners to support their requirements and ambitions."

Technological process has brought in a wave of transformative solutions to the private equity industry and has now been changing the delivery of middle office functions and processes. For example, artificial intelligence (AI), machine learning, and robotic process automation (RPA) offer the ability to extract and structure data efficiently.

"Technology has advanced a lot over the past several years. AI, machine learning and RPA have made significant investments in private equity to allow managers to extract that data and put it into a standardised system," explains Balkin.

Therefore, leveraging these technologies enables private equity firms to streamline data management processes, reduce manual efforts, and gain actionable insights. Technology solutions also introduced integrated workflow and task management capabilities within private equity firms, enabling streamlined collaboration and efficient task execution in the middle office.

These systems provide a centralised platform allowing teams to track, assign, and manage tasks related to trade processing, reconciliation, cash management, and other

operational activities. Such automated workflows and notifications enable middle office professionals to ensure tasks are completed in a timely manner. This also reduces the risk of bottlenecks and improves overall operational efficiency.

Progress in technology has also revolutionised managers' capabilities in relation to portfolio and risk analytics (see article on page 10 for more information). These tools offer advanced modelling and scenario analysis which helps middle office professional assess the impact of different market conditions and better evaluate risk factors, leading to an enhanced ability to take informed decisions.

Technology is playing a crucial role in streamlining middle office processes within private equity firms and therefore contributing to operational excellence across the industry. However, Dos Santos notes these solutions are not a one-size-fits-all. She says: "The technology needs to be flexible and adaptable to different organisational patterns and requirements. A game-changer in middle office development will be solutions that are specifically designed to focus on different phases of the investment process and that can be interconnected. The challenge is then integrating them into a comprehensive system while providing the flexibility to turn modules on and off based on specific organisational needs."

RISING ABOVE THE COMPETITION

Driving operational excellence can serve private equity managers well given competition is consistently on the rise. In this context, managers need to craft a compelling story to differentiate themselves in a crowded market and showcase their unique value proposition. Balkin notes: "Our clients always want to be able to tell a story around what makes their approach to investment selection and management better than their peers. They want to demonstrate both quantitative and qualitatively how they are adding value, and how their process is repeatable. In order to do that effectively across a broad set of metrics you need a broad set of data, which is consistently growing." Therefore, effective storytelling, backed by concrete data and repeatable strategies has become crucial for attracting investors and securing capital. Having a high-performing middle office can help support managers' fundraising efforts in this regard.

"Being able to combine this data with alternative datasets, using advanced analytical tools to extract data from the target portfolio company can see managers gaining a real competitive advantage," says Balkin.

Integrating data from diverse sources and benchmarking it against their portfolio can allow firms to extract valuable insights that drive investment performance. These insights mean managers are then able to make informed investment decisions, enhance operational efficiency, and deliver superior returns.

A CONSTANT EVOLUTION

Although many solutions and streamlined processes have emerged to help enhance firms' operational excellence. More is yet to come…"Middle office processes in private equity are constantly evolving to meet the challenges of information requirements and new investors entering the asset class. It's an exciting and dynamic field with many developments on the horizon," concludes Dos Santos.

In an industry characterised by increasing complexity and competition, private equity firms are fast understanding the need to leverage middle office solutions to help them thrive. By embracing technology, outsourcing non-core functions, and establishing robust data management processes, firms can enhance their operational alpha and set themselves up for success.