

AUTOMATION HELPS FUEL LP DRIVE TOWARDS ALTERNATIVE INVESTMENTS



PAYMUN SAKET

Managing Director of LP Products
Allvue Systems

While institutional investors have been tilting towards increased allocation in alternatives, the market turbulence sparked by the COVID-19 pandemic further increased diversification into this asset class as a way to achieve required returns in low interest-rate markets. At the same time, the pandemic served notice to limited partners that while these asset classes have grown, they don't really have a good way to manage them, said Paymun Saket, managing director of LP products at technology solutions provider Allvue Systems. These factors have led to the demand for fast and flexible access to different types of data and information on alternative investments, accelerating a digital transformation in the alternatives space.

"The need for better data solutions became even more apparent during the pandemic, when any delay in information or data error in fast-moving, volatile markets could have huge implications for limited partners or institutional investors in private equity funds," Saket said.

LPs already faced challenges in understanding the risks in their portfolios and in potential future investments in the private markets. "Despite the challenges, however, forward-thinking LPs also saw 2020 as a unique opportunity to boost investments in alternatives, particularly those who had the liquidity to move capital quickly as opportunities arose," according to Saket.

LPs with larger alternative asset exposures faced challenges in measuring, tracking and monitoring their investments — especially with a remote, distributed workforce, he said. "You need to have a system that can handle all of the data that comes with alternative investments. You need to have people to enter the data, make sure it's accurate — and have a way to consume this information to be able to make the right decisions about your investments."

In the past, the solution for many LPs was to outsource much of their data work, losing some control over it in the process, Saket pointed out. Increasingly, though, LPs are turning to technology to bring data management in-house. They can now use automation to help organize ever-growing amounts of data and extract the relevant information necessary for them to understand and analyze current and future investments.

BETTER MONITORING

The availability of such solutions has also made it much easier for LPs with smaller exposures to expand their allocation to alternative assets across different geographies and to add strategies that were previously inaccessible, Saket said. "LPs of all sizes can now also perform in-house tasks that were previously outsourced. Automation not only reduces the number of resources required to manage investments, it also provides more holistic control over an LP's alternative investment strategy, allowing LPs to focus on more value-added activities such as portfolio construction, monitoring risk, and pipeline management."

Another reason that interest in technology has increased among LPs is that the technology itself has improved dramatically in recent years, making it possible to read quarterly, monthly, or daily statements and pull out the most important

Automation not only reduces the number of resources required to manage investments, it also provides more holistic control over an LP's alternative investment strategy.

information, Saket said. Technology allows an LP to not only extract data, but to slice and dice it to suit their specific investment needs. "This lets LPs better track and access highly-granular data on their investments without increases in staffing, which may be cost-prohibitive to some. The results are cost efficiency and improved workflow, eliminating potential errors at each stage of a deal."

"LPs can set specific workflows, ensuring consistent, quality data with checks and balances, including all required information before moving to the next step," said Saket. "They can also work off the cloud, accessing their data from anywhere without having to worry about safety and security."

Another benefit of the current digital transformation of private equity deal data for LPs is the ability to look at a portfolio in its entirety — including both public and private investments — to see how much exposure they have to a specific industry or geography across asset classes.

"Traditionally it's been difficult to get data from alternative investments and combine it with the rest of the portfolio," Saket added. "Technology has made this process easy and, in many ways, automated it, allowing LPs to understand their total exposures instead of looking at investments in silos. LPs are also able to consume external market data when reviewing their alternative investments, bringing in benchmarking and public market performance to better understand how their investments are performing and where and to whom they should be deploying capital."

Robust reporting, combined with data availability, will allow individuals on LP teams to drill down into the data and sort it on various factors such as country, industry or asset class, he said. "This will allow them to answer questions as they arise and respond quickly to new opportunities, changes in the market, or questions from internal or external stakeholders without needing to request this data from another team member."

SPEED AND FLEXIBILITY

The latest technology solutions not only organize and surface relevant data, but they also do it at record digital speeds. Information that might have previously taken days or weeks for a human analyst to collect and quantify can be completed nearly instantaneously by an automated solution.

Investors no longer need to build a model in Excel and can instead access technology solutions to quickly determine how a new investment will perform, or how various scenarios

could play out, Saket said. Technology solutions can also reduce errors and eliminate the resources needed to maintain these complex models.

"You can adjust models more easily, with today's technology, to the portfolio change you're considering, whether it's an increase in allocation to private equity or adding a new asset class like infrastructure," he said. "It's all updated automatically now, so you can have the flexibility and speed to make decisions."

Furthermore, market conditions are not static, and technology can help LPs understand the impact on their portfolios through scenario analysis. "LPs can monitor their liquidity needs and prepare for situations that could impact their cash flow needs. Being able to leverage opportunities presented to them during times of market turmoil is crucial."

COMPETITIVE ADVANTAGE

Saket said he believes that the technology available to LPs will continue to improve, and those who embrace it will have a competitive advantage over their peers.

"We're going to see more value-added functionality and capability in tying together all of these different workflows and aspects that you have in the system," he said. "Rather than just grabbing data or visualizing data, it will be more analytical, with tools designed to check the accuracy and validity of data. You'll be able to track your investments from the moment you hear about them, pre-closing, all the way to maturity. You'll also have access to all updates, cash flows, relevant documents, meetings and more, in one location. This will tremendously reduce the burden on investors, allowing them focus more on portfolio construction and risk management, which will also be assisted by the new technology available to LPs."

For LPs who want to access the new technology, either as a new purchase or to enhance their current capability for alternative assets, Saket advised they should consider not only the current needs of their portfolio, but also future needs as their investment universe expands.

For example, an investor might only need an accounting system now, but in the future their needs could expand to include a deal and a portfolio management system. "Some solutions might require you to buy additional systems or bring in an additional provider," Saket said. "So, it's important to look for a solution that's flexible and can grow with you."

In addition, LPs should look for a technology partner that understands the industries in which they invest. Data being tracked for real estate investments will be very different than those of private equity or timber. "It's important to work with someone who has the depth and breadth of the knowledge of the market," Saket said. "Because they will know what you're looking for and speak the same language as you." ■

sponsored by:

ALLVUE

www.pionline.com/allvue_automation21