

Data: What LPs want

Want to survive in a hypercompetitive fundraising market expected in 2015? Your X factor may be smart technology able to effectively communicate with investors, according to Intralinks Andre Boreas and iCapital's Dan Vene.

“If you don't move forward with the times someone else will,” warns Dan Vene, co-founder and managing partner of iCapital, an industry network that connects LPs to GPs via an online platform. “What am I, as a GP, doing that is compelling enough to get that LP allocation? Additional levels of disclosure and tools to keep your LPs more informed initially appear forward thinking, but soon will become requirements of all LPs.”

Vene is talking about getting GPs to the cutting edge of investor communications. And by investor communications, Vene is talking about something much more than simply reaching out to new LPs.

Prompting the observation is today's increasingly competitive fundraising arena. LPs are much pickier about who they partner with, meaning any mark in the “no” column is all it takes to make or break a commitment.

“It has certainly hit a high water mark in terms of number of funds that are on the road,” says Andre Boreas, director of alternative investments marketing for global technology provider Intralinks, which recently partnered with iCapital as a way of providing its clients fundraising documents directly through the iCapital Network. The idea is to create a comprehensive fund profile for qualified investors, allowing GPs a wider network of LPs to meet digitally. Nifty technological tools that can facilitate greater LP communications can be especially vital to smaller fund advisors, who have a greater challenge in getting their

message out and telling a story, Vene and Boreas comment.

The pair says that as the industry has matured there has been an influx of new entrants to the market, both on the LP and GP side, which has changed the way the industry communicates.

“If you go back 10 or 15 years it was only a handful of LPs, mainly corporate pension plans, and there was really no penetration by private equity into family offices, endowments, insurance companies, and certainly nowhere near the current scale of HNW investor interest,” says Vene. “Communicating was an easy job. 100 LPs and 150 GPs or so could use an old school rolodex and thumb through and make the calls and you would know who was interested. It was a very digestible universe.”

Today when LPs are handling thousands of quarterly reports and marketing materials from a myriad of GPs, they have begun to look at technology as a way to alleviate the burden. Many LPs, for instance, now gather and store GP communications in group email addresses to keep better track of fund documents they receive.

But Vene says a more ideal world would see LPs able to access a single database into which their GPs have input the same comprehensive and timely data, allowing them to drill down and compare and contrast managers – all at the click of a button.

This is no longer an LP pipedream either, adds Vene. “We have done an extensive amount of work to create an apples for apples environment on iCapital's network. All of the benchmarks on iCapital come from



Boreas: technology key to meeting LP demands

Burgiss Group, which is widely accepted as the leading benchmark, but not because it has more data points than anyone else but because it doesn't suffer from self-selection bias.” In other words, the benchmark prevents GPs from only contributing data when they want to – which is generally when they are raising money or experiencing solid performance. Because Burgiss draws data from LPs, it avoids this self-selecting bias.

Vene says that LPs value consistency in how performance is tracked. Many managers claim top quartile stats based on cherry-picked methodologies and benchmarks. Accordingly, iCapital's platform has the same performance and track record section for every kind of manager, so everyone has a net IRR, a net multiple of invested capital, a TVPI and so on. “That way we get the salient data points on each manager so LPs have a common metric for evaluating,

rather than the GP choosing to go with a time weighted return, gross return, or whatever metric casts them in the best light,” says Vene.

Data: More, faster

Of course, not just any performance metric will do these days. Vene says that although iCapital allows LPs to group GPs who match their investment strategy, risk/return profile, geographical reach and so on, investors then want to do a deep dive into the numbers that a benchmark like Burgiss provides and know how their GPs create “alpha.” By one interpretation, that means LPs simply want to see more portfolio-level data.

Giving prospective and existing investors this information is clearly far from an easy task – and one the industry is not getting quite right. Around half of LP respondents in a recent Intralinks survey, which gathered more than 100 responses from institutional, family office and ultra-high net worth investors, said that overall GP transparency levels are not currently sufficient.

“Post-investment and on the due diligence side, LPs dig very deep into information on portfolio companies,

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previous portfolio companies and more detail about what the GP’s strategy is and how it creates alpha going forward,” says Boreas. “That is the engine. That is what moves the needle in terms of success going forward.”

Boreas adds that LPs expect this data to be delivered quickly. “The whole time management aspect of communicating with LPs is key. It used to be 45 days after the end of a quarter the LP gets their report and they can do that analysis. That time has been compressed. We have seen some quite honestly ridiculous asks from LPs.”

The bravest GPs are trying to stem this information tide. Some GPs question if investors even make use of the information. One US-based CFO speaking to *pfm* on the matter called most information requests a “check the box” exercise for LPs. “What are they really going to do with operational data? They are a limited partner; they can’t say ‘I think we should sell this investment, or I think we should fire the head of sales because the top line is not growing fast enough.’”

Another reason that most GPs don’t like providing investors, especially prospective investors, portfolio company data is that it can often be commercially sensitive. “This is where it gets tricky, especially on the venture side,” says Boreas. “Investing in early stage companies means fund managers are aware of lots of proprietary information that if it fell into the wrong hands could really harm the investment process.”

“Take email. You send an email, that is gone. That information is out. It’s not necessarily that you don’t trust your client but let’s face facts here, it’s the information superhighway, things can move around, and it takes one click for that information to get out to whomever.”



Vene: finding safer ways to send sensitive data

Vene says that iCapital runs into these situations where the GP wants to share more detailed information but is nervous about it getting leaked somehow. “GPs say, ‘I want to communicate more but don’t want all my sensitive information out there,’ therefore at iCapital we use a level of security that is far more secure than emailing your sensitive information to contacts via email and through attachments.”

“We have bank-grade security which allows you to control users and control documents that have been sent out to people, so you can turn permissions on and off so users can’t save them or forward them or download them. There is just a massive amount of control you get over your fundraise.”

And investor communications is clearly not something most GPs can afford to get wrong in today’s crowded marketplace. As the Intralinks survey revealed, 71 percent of private equity and real estate investors have not invested in a fund due to a perceived lack of transparency. A sobering thought for any investor relations team. ■