

# Defining Digitization in Private Equity

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How unlocking data will change  
the way the industry works



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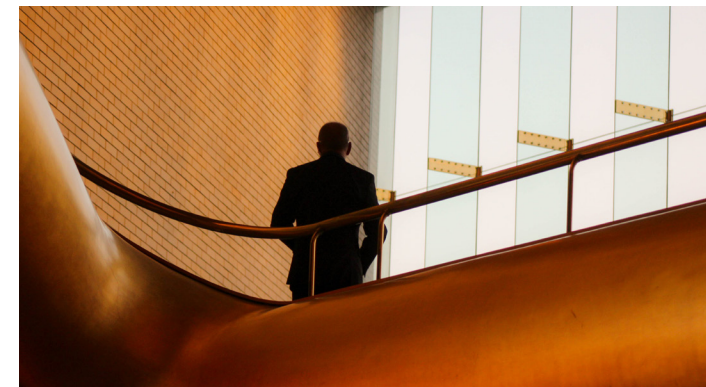
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# The back office moves to the frontline

If you're not digital you can't compete. That's the point we've reached in private equity.



Investor expectations have never been higher in private equity, and neither has the competition.

LPs are taking a deeper look at operations, asking questions beyond fund performance and want immediate answers. And they won't just take a GP's word for it; they want data to back their decisions.

Getting access to that data requires a transformation in fund administration. It starts with digitizing information through new technologies to enhance processes, upgrade experiences and uncover new value-producing opportunities.

And, as deals are closing faster than ever, fund managers have to keep up or be left behind.

If you can't give LPs a full view into their investments and a way to get information quickly, they'll move on to a fund manager who can. Digitization is the way to both satisfy them and gain competitive advantage.

## Catching up to the rest of the world

The majority of industries are ahead of private equity when it comes to digital transformation. People are used to getting what they need (whether

for work or personal) at a click or swipe, in an instant — including LPs. They expect their investment experiences to be like what they get in other industries — or better, considering the amount of capital involved.

Seamless journeys and frictionless transactions — meaning the path to getting what you need is clear and data is readily available — are table stakes. A bespoke experience takes it further. It's convenient, flexible and personalized. For private equity, this means returns alone no longer define "best-in-class."

When it comes to fund administration, the status quo of manual processes, where data often remains unstructured, buried in emails and spreadsheets — won't cut it anymore.

Raw data tells no tales. Fund managers need user-friendly digital tools to efficiently turn information into meaningful insights and give LPs what they want. Digitization makes data usable, helps create a single source of truth and puts data in the hands of GPs as well as at investors' fingertips.

The back office is leading the charge, moving operational data to the frontline, where advanced technology will bring the speed and accuracy needed to win in today's market environment.



"When it comes to fund administration, the status quo of manual processes won't cut it any more."



Digitizing private equity puts new data into the hands of GPs, helping them gain insights and get an edge over the competition



# Are you leaving money on the table?

While private equity experiences explosive growth, there is still room to discover a new competitive edge



Just-in-time processing opens up new investment opportunities

In the last six years, the “average” private equity firm has grown in size by 60%, according to [McKinsey](#). Yet, most funds don’t have the infrastructure or internal expertise to scale fund administration.

McKinsey writes, “In most industries, scale begets greater operating efficiency and higher profit margins. In private markets investing, however, operating leverage has been elusive. Increased operational complexity—driven by additional asset classes and geographies, more fund vehicles and separate accounts, and a larger and more diverse set of limited partners (each with a growing set of bespoke reporting demands)—has mitigated the extent to which large GPs benefit from scale economies.”

For private equity funds, anything outside of sourcing new deals, driving portfolio growth and realizing investments is a distraction. In other words, manual processes and in-house fund administration leave money on the table. There’s no chance to be predictive or proactive. In the digital world, reactivity is too late. In private equity, it’s also riskier.

On the other hand, digital processes are agile and intuitive. They’re responsive enough for new investor demands, including faster turnaround times and more transparency into the underlying fund investments.

## Giving investors what they want

Overall, digitization gives investors greater access to data in a usable format — i.e., immediate access to both foundational and deeper information — from accounting, contributions, distributions and current net asset value to portfolio company detail and ESG.

Significant growth in access vehicles are also enabling retail investors to invest in fund vehicles. These types of investments require “just in time” processing to closely monitor performance.

And while access and speed are now must-haves, they matter little if you don’t have the right data. Most private equity funds do, but they don’t know how to use it.

With digitization, fund managers can develop a data strategy and generate meaningful insights from previously unstructured data.



## Defining digital strategy

“A data strategy is a plan of data management projects that support business goals. This strategy includes technology, along with improvements or changes to the organization, processes and policies.” Source: [Gartner](#)

INSIGHTS

# Record growth

## \$9.8T

in assets under management (AUM) across private markets (as of June 30, 2021)

| Year | Value of assets under management |
|------|----------------------------------|
| 2021 | \$9.8T                           |
| 2020 | \$7.4T                           |

## 16.6%

increase in dry powder from the 12 months prior

## Since 2016

- 19% increase in AUM
- 6% growth in the number of PE firms per year
- 60% how much larger the average firm is

Source: [McKinsey](#)



# Operational data is the new currency

Fund administrators are ideally placed to unlock missing value



The right fund administrator will be a true business partner, improve service, elevate investor experience and increase performance

Yet, it's operational data that will fuel a new competitive edge. Until now, it was an industry currency whose value hadn't been fully unlocked.

Digitalization is the key.

Sophisticated fund administrators know this and are applying advanced technology to the flow of data from start to finish. No longer are they just manufacturers of data, they're conduits to knowledge. This frees funds to focus on what matters most: making investors happy.

So what defines digitization in private equity? The capabilities that lead to results.

Taken together, digitization enhances service levels, delivering elevated investor experiences and increased fund performance. It's also a means to

## BENEFITS OF DIGITIZATION

| Feature               | Benefit             |
|-----------------------|---------------------|
| Easier access         | More control        |
| Clearer data          | Critical insights   |
| More timely reporting | Highest standards   |
| Greater efficiency    | Greater scale       |
| Fund legitimization   | Investor confidence |
| Built-in security     | Lower risk          |
| Expert partner        | Reduced costs       |



competitive edge. There's simply no other way to realize fund data value and facilitate (previously unattainable) insights.

Funds will be able to easily analyze trends and begin to predict behaviors — estimating how much a certain person is likely to invest or figuring out how particular types of companies perform versus those in a peer fund, as examples.

Providing this type of foresight is quickly becoming standard operating procedure, as will issuing ESG and DEI data, which is not possible through unstructured data.

### This is no time to do it yourself

But building a digital solution in-house is expensive, resource intensive and requires specialized expertise. Funds that have to worry about infrastructure, staffing and training are then distracted from making more deals.

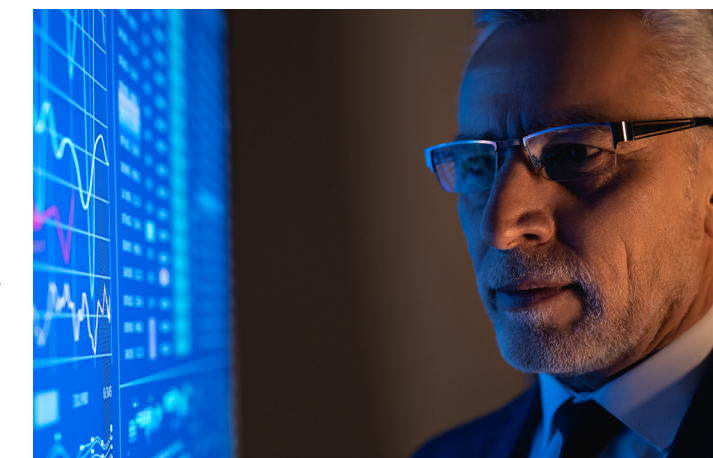
A fund administration partner with advanced technology eliminates the repetitive work that funds shouldn't have to do, like data processing. Then, a fund can focus on analysis to serve investors and on closing more — all while still maintaining control of information.

In fact, digital tools heighten control. Dashboards provide 24/7 access to information, which is delivered in an immediately usable format.

“Emerging manager prospects are performing deeper due diligence on fund administrators and service providers across the spectrum. Their questions reflect a far deeper understanding of the drivers of operational success and a broader set of imperatives from the GP and LP view.”

— Jeff Gendel, Principal, Gen II

Source: Gen II [Emerging Managers Report](#)



Private equity needs to advance faster than investors' expectations, keeping fund administration in house is likely to slow down advancement



# Don't be a legacy system laggard

Transforming fund administration removes barriers to success, fast

As the pace of digital technology quickly surpasses legacy fund administration processes, GPs that cling to legacy processes will be left behind.

At the same time, digitization is a journey, so they need specialized expertise to help them keep pace. They shouldn't have to worry about back-office staffing, training or turnover when expanding into new geographies, employing new strategies or simply conducting daily business.

A high-performing fund administrator — that is, one with advanced digital technology — can help quickly navigate today's steadily rising stakeholder expectations, overcome ever-increasing operational complexities and meet myriad regulatory requirements.

Today's investors have come to expect granular information in near real time about prospective deals. A digital platform is the first step.



Partnering with fund administration specialists helps private equity firms focus on what they're good at — maximizing fund performance



Data at your fingertips is the secret to unlocking the golden opportunity hidden in the back office

“Private funds touch so much of our economy. So it is worth asking ourselves at the SEC whether we’re meeting our mission with respect to this important slice of the capital markets. Are we protecting investors? Are we facilitating capital formation? Are we maintaining fair, orderly, and efficient markets in the middle?”

— SEC Chair Gary Gensler

Source: [Remarks at ILPA Summit](#)

## Q&A

with Michael Pollack, Head of Client Delivery and Innovation, Gen II

How much should GPs expect to control the process when they engage a third party to tackle the administration?

Control is key, especially if a firm has historically handled the books for the management company themselves.

They don't want to lose access to data. And they shouldn't. We offer self-service dashboards that grant access 24 hours a day, seven days a week. That's not to say they don't have access to staff to answer a question, but that's in addition to being able to view or download what they need, anytime they need it. And any service provider should offer that.

Outsourcing should never make the GP feel like they've been locked out from their data. But I'd also like to add that it's not enough to merely grant "access" to that data, where clients are left to download massive information extracts that leave them hunting for what they need. "Access" should mean access to information that is necessary in a usable form that can be obtained with ease.

Source: [Private Funds Management Report](#)



# Digitizing private equity: from 45 days to 45 seconds

As the asset class matures, the speed of information continues to accelerate

Data needs to be accessible when investors and GPs need it; not just when it's ready

The industry has reached a time when there's nowhere to go but digital. And yet getting there isn't the point. It's about being digital and what happens next.

Where a digital foundation can take the industry remains untold, but here's a forward looking scenario. Most of the financial world moves in seconds or less already. Take the stock market and something as standard as a ticker, which provides instant data to inform decisions. What's the private equity industry's equivalent? There is none — not yet.

A public stock has an almost imperceptible amount of latency between a buy and a sell price. Private equity can take months to get information. Even the best fund typically provides information 45 days after the end of a quarter.

That's not sustainable as a mature asset class.

## Digitize to compete

With more and more of investor asset allocation going into private assets, the need for parity with the rest of the market is imminent.

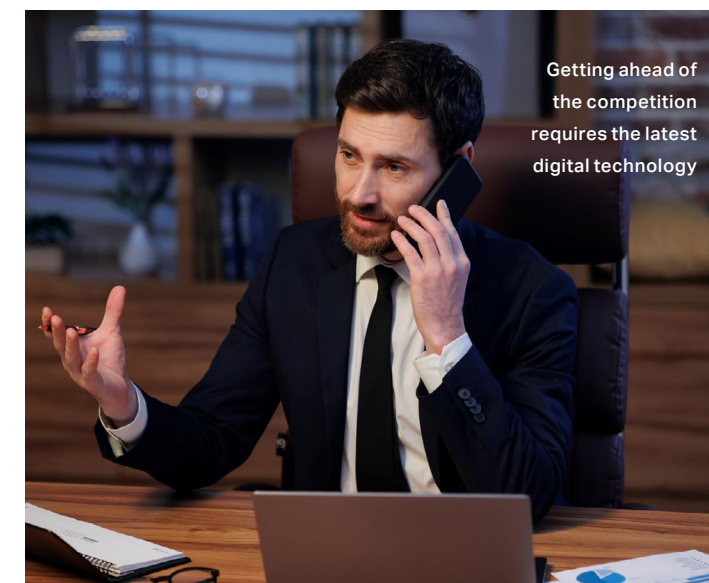
With the right digital tools and processes in place, 45 days could someday turn into 45 seconds. In other words, digitization can provide instant access to all fund data.

At Gen II, our next-generation, web-based reporting solution offers dynamically generated performance metrics. Sensr® gives you aggregation and drill down capabilities across your funds, investments and investors. See how our platform can give you a competitive advantage, fast.

To find out how to take the next step, contact [info@gen2fund.com](mailto:info@gen2fund.com) or call 888-GEN2-001.

“When you use data as a strategic asset — that’s digitalization. You’ll get to visualize information in a way that you never thought possible. You’ll have actionable information at your fingertips that will inform your decision making and provide investors valuable insights into your portfolio. And you’ll leap ahead of your competition.”

— Steve Millner, CEO, Gen II Fund Services, LLC



## Customer Spotlight

### KEY METRICS

- 4 asset classes across 27 funds
- \$4B AUA (private capital under administration at Gen II)
- 18 funds transitioned onto Gen II’s platform

### CHALLENGE

After years of managing fund administration in-house, a leading firm recognized that continued success would depend on outsourcing. The firm needed a partner, one that offered asset class and industry expertise, effective quality control and operational efficiencies to administer its range of private equity, venture capital, real assets funds and private debt with their complex structures and fee arrangements.

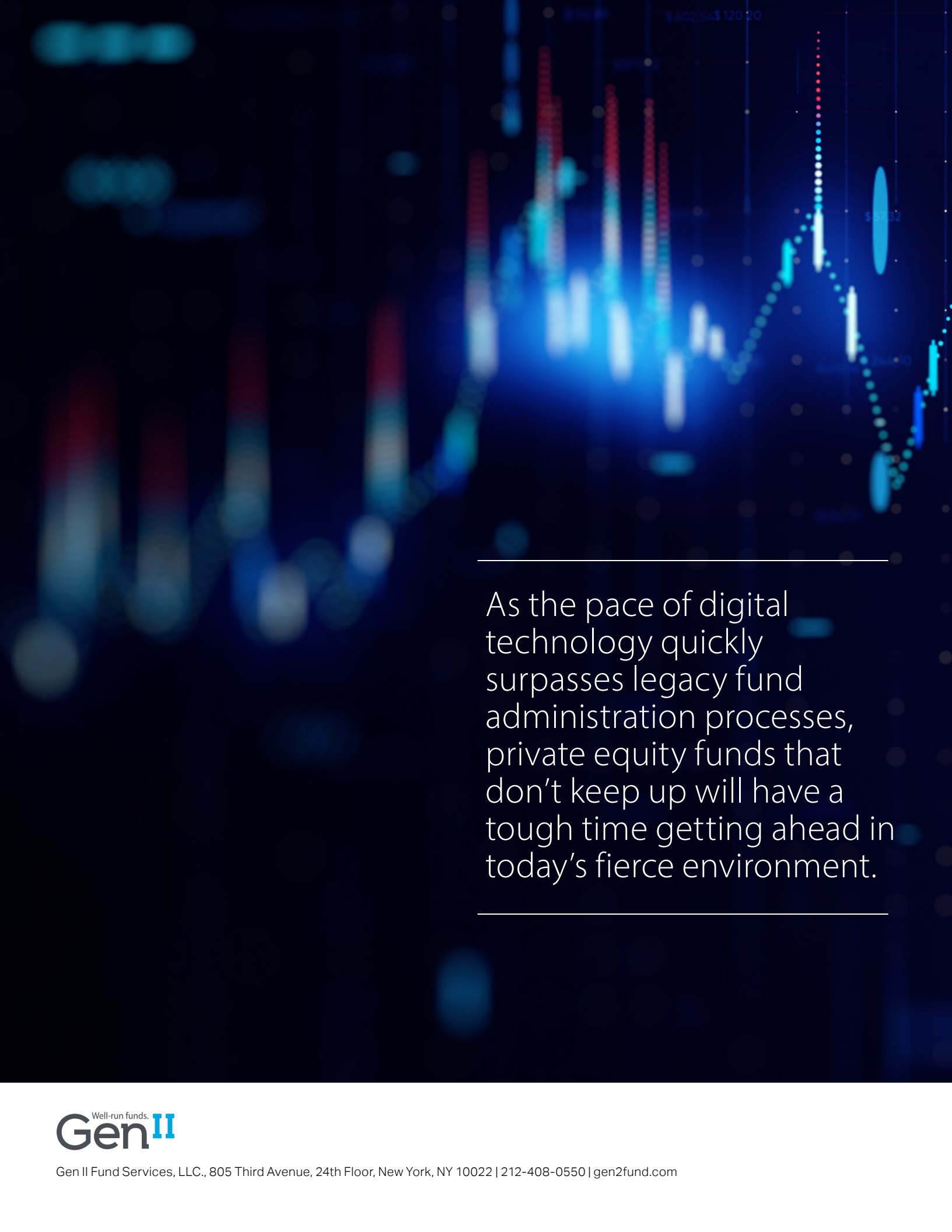
### SOLUTION

As this was the firm’s first time using an outsourced administrator, Gen II and the firm collaborated to structure a phased and timely data transfer onto Gen II’s platform. The time and resource savings were immediate: the investment manager recognized the firm’s internal teams could address their leading priorities, prompting the decision to transfer 18 funds and to launch 9 new funds on the Gen II platform.

#### Top benefits:

- Streamlined process
- Lower cost
- Reduced risk





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As the pace of digital technology quickly surpasses legacy fund administration processes, private equity funds that don't keep up will have a tough time getting ahead in today's fierce environment.

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