

WHITE PAPER

# THERE'S A NEW TREND IN PRIVATE EQUITY INVESTOR RELATIONS: INCREASED DATA REQUESTS FROM INVESTORS



## THE NEXT GENERATION OF IR PLATFORMS FOR GENERAL PARTNERS (GPs) WILL HAVE TO DO SUBSTANTIALLY MORE THAN TRACK CONVERSATIONS AND MANAGE THE FIRM'S ONLINE PRESENCE.

In the past ten years, Private Equity (PE) Investor Relations (IR) has moved from a paper-based function into a world of investor portals and e-documents. That migration was only the first step, as the evolution of IR communications continues unabated. Because the investor community is gaining unprecedented access to data consumption and analytics capabilities, the next generation of IR platforms for General Partners (GPs) will have to do substantially more than track conversations and manage the firm's online presence. Let's examine the trends driving the alternative investment industry to rethink how they keep their investors informed and the associated best practices that are emerging.

### 1. THE IMPACT OF THE CLOUD

The recent migration of Information Technology (IT) systems to cloud-based platforms has provided PE and Venture Capital (VC) firms with a wealth of opportunities. The ability to eliminate internal IT footprint while adding capability has proven alluring, not only from an investment standpoint, but also from the lens of consumers of subscription-based services. The growth of SaaS has significantly lowered the cost of access to sophisticated data management tools and services. Now that even the smallest of family offices can have a customized database at their disposal, they suddenly have an unprecedented appetite for data to improve their own reporting and decision-making activities.

Who do these family offices, and other newly empowered investors, believe should be satisfying their new data requirements? Logically, the investor's preference is to get the data from the keepers of the primary data: the PE firm. In other words, they want the beneficiaries of their investment capital to share all the relevant data points with their limited partners and related third parties. Currently, most PE IR managers will only respond to the data requests of their most significant or strategic investors. However, as select firms begin offering greater transparency as a method of differentiation, it is only a matter of time before market pressures encourage widespread adoption.

### 2. THE RISE OF THE ANALYST

If having database-armed analysts requesting greater access to data wasn't enough to move the needle on IR 2.0, consider that there will be more analysts than ever before! This is another macro-trend which is driven by smaller, yet prevalent, micro-trends. One such trend is the rise of the Family Office: as wealth accumulation at the top of the economy continues, many investors will graduate from HNW to UHNW (High Net Worth to Ultra High Net Worth) status. In 2016, Family Offices accounted for 9% of PE investors, more than double what they were 5 years ago. Where HNW investors commit their capital and then passively wait for GP communications, a Family Office is staffed with investment officers whose primary post-investment responsibility is monitoring investments, consolidating reporting, and understanding risk exposure in order to shape future decisions. Simple quarterly reports are insufficient for the kind of deep analysis their clients require.

Similarly, Fund of Funds managers are consistently required to justify their fee structure. The ability to provide meaningful analysis by considering a portfolio across all the underlying data points is essential for their value-add proposition. Parallel scenarios can be found in the world of endowments, pensions, and other institutional Limited Partners (LPs).

# WHAT CAN PRIVATE EQUITY INVESTOR RELATIONS DO TO GET AHEAD OF THE TREND?

In order to formulate a response to this trend, it is useful to consider how the PE industry is currently satisfying their investors. The most common LP communication tool across all flavors of PE (Buyout, Real Estate, and VC) is the use of the Quarterly Report. At its simplest, the Quarterly Report provides both qualitative and quantitative data points about each Fund investment as well as messaging concerning any external factors that may explain past or influence future performance. The quantitative data points should be consistent from quarter to quarter so as to allow the consumer to discern trends for themselves. It is also beneficial to revisit the initial thinking that drove the investment team’s hypothesis and update the investors as to the execution or revision of the strategy.

The next generation of reporting requires the IR team to collaborate with the Portfolio Managers (PMs) as well as their investors in order to rethink exactly what information an LP Analyst requires to best serve their various stakeholders. For instance, it is helpful to provide a portfolio summary across a variety of relevant parameters to enable the LP to consolidate exposures across their entire portfolio of GP. A simple example would be a PE Real Estate Fund sharing data points detailing the value of each investment by geography (see Figure 1). This would allow the investor to aggregate exposures across all their managers in order to better understand their overall portfolio risks. Other metrics of interest may include high-level financial data points and key KPI’s for each portfolio investment (see Figure 2). Special attention should be given to the information that best reflects how the portfolio managers are measuring value creation.

**Geography - Allocation, %**  
October-2016

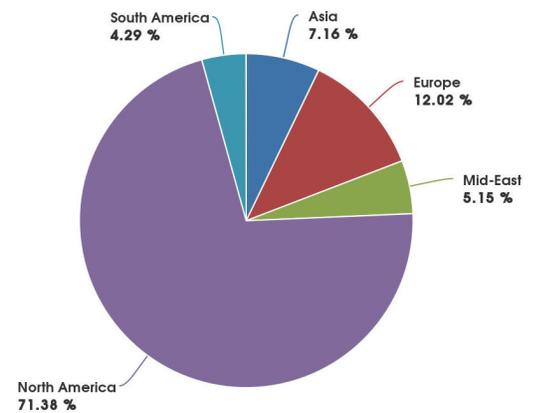


FIGURE 1: Example PE Real Estate Fund report detailing exposures by geography.

Company Detail	Co-Investors	Valuation	Financial	Board Members	Quarterly Reporting
<b>Quarterly Financials</b>					
	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
EBITDA:	63,000,000	65,874,152	7,895,654,163	9,658,425,847	650,000,000
Revenue:	3,659,000	4,556,321	21,216,598	1,200,000,000	800,000,000
YTD '16 over YTD '15:	925,000	1,235,478	16,516,988	24,158,884	20,000,000
Net Income / Loss:	2,321,500	3,254,156	35,158,884	2,134,158	0
Cash-on-Hand:	125,000,000	123,647,898	32,188,994	216,388	480,000,000
Long Term Debt:	500,000	500,000	500,000	500,000	500,000
Monthly Cash Burn:	-750,000	-1,500,000	285,000	545,650	789,250
# Subscribers:	118,000	115,000	100,000	75,000	72,000

FIGURE 2: High-Level Financial Data Points and Key KPI’s

Once the PE Manager determines which information is to be shared, they must decide how to best collect, organize, publish, and disseminate the data in a way that can be universally consumed, yet not overwhelming. Fortunately, today’s advanced PE operating platforms can help. The new generation of PE-specific offerings are able to unite Portfolio Monitoring, Performance Reporting, and Investor Relations. Though these solutions were designed to unify multiple systems for a GP office, the same data flow benefits are easily extended to the LPs.

If the GP's IR team can directly access the raw portfolio data from within their preferred IR platform, they should be able to modify their Quarterly Reporting process to include raw, yet structured, data in a format appropriate for importing into the LP's platform. The final delivery of this data can be via Excel spreadsheet or integrated investor portal. Alternatively, many of today's more advanced portals enable investors to view data on-screen with download options available.

## A NEW LEVEL OF AGILITY

As the information revolution continues unabated, the utilization of data has transformed nearly every aspect of our economy. The PE industry has benefited greatly from the opportunities introduced by this disruption. Ignoring how this trend will impact the relationship between GP and LP will prove impossible; the market waits for no one. The time has come for PE firms to determine whether they will lead the revolution, and gain the accompanying prestige and capital flows, or play catchup, which may prove more disruptive as the change will be externally dictated instead of self-directed.

Fortunately, the systems and technology are available to help PE firms respond agilely to these new demands for data. As leading-edge PE firms make the leap to increased business agility, they will reap the rewards in the form of investor loyalty, increased investment capital, and expanded market share.



**IN SUMMARY:**

**MARKET FORCES, INCLUDING MOVING TO THE CLOUD,** the rise of data analysts employed by investors, and their increased ability to consume data will create a tidal wave of data requests for Private Equity firms.

**PRIVATE EQUITY INVESTOR RELATIONS CAN GET AHEAD OF THE TREND** by collaborating with their LP investors to put in place next-generation reporting capabilities.

**BY THINKING ABOUT WHAT LP DATA REQUIREMENTS ARE,** PE Investor Relations teams can enable their investors to understand the exposures across their entire portfolio, not just what has been invested in their specific PE fund, creating market-leading differentiation for their firms.

## ABOUT THE AUTHOR



### **Adam Pinkert** | Director of Private Equity Solutions

As Director of Private Equity Solutions, Adam Pinkert drives Backstop Solutions Group's efforts to help the Private Equity industry embrace innovation and enhance operational excellence. Adam brings extensive experience in the Private Equity Real Estate space and a passion for process and technology to his role. Prior to joining Backstop, Adam provided internet strategy consulting to such firms as Dell Computers and Aon PLC. Adam earned his M.B.A. from Columbia University.

## ABOUT BACKSTOP SOLUTIONS

Backstop Solutions Group is the leading provider of a comprehensive cloud-based productivity suite of solutions for the alternative investment industry, including hedge funds, funds of funds, pensions, endowments, foundations, private equity firms, consultants, and family offices. Founded in 2003, Backstop pioneered the industry's first cloud-based software that helps firms in the alternative investment management industry achieve greater business agility. Backstop's comprehensive suite of solutions includes Backstop CRM, Backstop IR, Backstop Research, Backstop Portfolio, Backstop Portal, and Backstop Accounting. With offices across the United States and in Europe and Asia, Backstop now serves over 700 firms worldwide, making it one of the fastest growing software providers in the financial services industry. For more information visit, [www.backstopsolutions.com](http://www.backstopsolutions.com). Or get [LinkedIn](#) with us!

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