

KEYNOTE INTERVIEW

Why data is the new differentiator



As private markets become more data-rich, managers need to shift from gathering and reporting it to using it to improve performance, says [Karine Litou](#), head of private capital at BNP Paribas' Securities Services business

Q Private markets have traditionally lagged behind public markets in terms of the quality and quantity of data available. Would you say they have now caught up?

Private markets managers are undoubtedly now producing more data, and of higher quality, during the fund due diligence process and when reporting to their LPs.

For instance, quarterly reporting is much more detailed than it was in the past. Guidelines from the Institutional Limited Partners Association have had a significant impact on what is included in quarterly reports, particularly on fee

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transparency and carried interest calculations. There is full P&L transparency and detailed capital account disclosure. The granularity of data on individual portfolio company performance has also increased by an order of magnitude.

When comparing the data available in private markets to public markets, the question is not quality and quantity, but availability. Private markets data is not accessible in the way that public markets data is. Specialist providers are capturing some private markets data,

large listed private markets managers will report publicly on fund and underlying portfolio company performance, and information on vehicles distributed to retail investors will also be fully disclosed. However, it is still challenging to build a full picture of the market. This is where the gap between public and private markets remains, but both data providers and service providers are starting to make great inroads in terms of accessing more data sources and building these into their operational models.

Q Now that GPs are producing more data of

higher quality, has information initially provided primarily for reporting also translated into better portfolio management?

In order to generate returns, you have to have a skilled front-office team, and that team can make for better portfolio management and investment decisions when it is equipped with better information.

The role that good data management can play in expediting distributions is not to be underestimated either. When your data is organised, your capacity to distribute capital back to LPs earlier is enhanced, as you are in a position to calculate waterfalls and the amount you are able to distribute much faster. That is significant in the current market, where there is pressure from LPs to show distributed to paid-in capital.

Q How does the growth of evergreen fund structures change managers' data needs and their ability to optimise their portfolio?

Platform readiness and functionality, rather than just the data itself, are vital when it comes to operating evergreen structures effectively.

Evergreen structures have emerged for two audiences, and the different structures involved have different routes to market and redemption mechanisms.

Retail-focused evergreens require good connectivity into wealth management distribution networks and the capacity to accommodate lower investment minimums and provide frequent liquidity, offering redemptions on a quarterly, or sometimes even monthly basis. There are strict caps on redemptions as a percentage of NAV, and these are prorated when redemption requests are oversubscribed.

Institutional evergreens, by contrast, are characterised by higher investment thresholds, customised redemption caps and different mechanisms for supplying liquidity. When an institutional investor makes a redemption request that an evergreen can't meet immediately

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using natural fund liquidity, one option is for the fund to convert the applicable shares into run-off shares that are no longer deployed into new investments, with capital returned as the relevant assets are sold or generate liquidity.

So, there is not a one-size-fits-all structure for evergreens. We see a huge range of requests from large GPs with institutional evergreen funds, who need to set up different reporting and liquidity mechanisms based on the underlying asset characteristics and investor needs. That's why it's vital that the provider's platform is sufficiently agile, with the right technology and human expertise to address this complexity and set up different liquidity and redemption mechanisms.

A strong control framework and clear processes linked to data are also key if managers are to be able to respond to more frequent and detailed requests, whether that's for redemptions, data or reports. A GP can't afford to wait until the end of each quarter to collate their data and get organised, and should ideally be in a position of readiness on a day-to-day basis.

Q How can GPs leverage AI to manage large private markets data sets? Where can AI add the most value?

AI is a very powerful tool for extracting data from documents and organising large amounts of unstructured data.

Any given LP, for example, will be receiving large volumes of information in PDF documents, including management reports and capital account statements, covering underlying portfolio company earnings, and sector and geographical exposure. AI can extract this data very quickly at a much lower cost than doing it manually.

This can significantly truncate the time it takes to compile reliable performance data across private market investments, facilitating the monitoring of an entire portfolio on a genuine look-through basis. This enables investors to see any sector overlaps between public and private markets portfolios, while also providing a clearer picture of geographical and currency exposure, and tracking any potential liquidity mismatches.

If you are not equipped with the right tools to extract this data, it is impossible to do this kind of monitoring. This is where AI can add significant value, unlocking material efficiencies in data extraction to provide decision-makers with superior information to monitor investment portfolios with a complete view.

Q What else have you observed around how both GPs and LPs are leveraging and utilising data to bring value to their portfolios?

As mentioned, GPs and LPs are still very much in private mode when it comes to sharing and communicating data. This positions large managers, especially those operating in the secondaries market, at a significant advantage, because they have access to proprietary data on hundreds and hundreds of funds and underlying portfolio companies.

Access to this data can open up information gaps between those that have the data and those that don't, and act as a real differentiator. Access to information is the true operational alpha that enables teams to monitor portfolios more effectively, value assets more quickly and sharpen performance. ■