Infrastructure Q&A:

Addressing Investors' Demands for Better Reporting with Smarter Data Tools

As investors seek portfolio diversification and return, new asset classes are attracting more attention. One such asset class is infrastructure, which provides returns similar to private equity funds and are expected to see new growth opportunities given projected government shortfalls in funding infrastructure projects and the need for private investment to meet the demand.

BNY Mellon's *Race for Assets* survey confirms this interest. Over the last two years, infrastructure funds globally have attracted record levels of investor capital, with US$54.3B raised in 2017 and US$55.6B in 2016. This continuing growth brings to light new challenges, and for infrastructure funds in particular, there is an increasing need for better, more usable data to provide the analytics, transparency and reporting investors demand—yet made all the more difficult to satisfy due to the distinctiveness of infrastructure funds.

These challenges have infrastructure fund managers seeking answers. We spoke with two experts, Alan Flanagan, Global Head of Private Markets and Dermot Finnegan, EMEA Head of Private Markets, to discuss the current landscape, the technologies being developed to address these challenges, and what the future may hold.

What challenges are unique to managing infrastructure funds?

Alan Flanagan: There are two main challenges facing fund managers today. One is from the asset management side. It's a "race for assets," and fund managers are tasked with finding infrastructure projects that meet their investment profile. Then there is the challenge from the operational side. Infrastructure investments are a constant work in progress, which presents more challenges to value over long periods of time. There's also a significant amount of upfront cost associated with projects, while the payoff could be quite far out. These factors present challenges for valuation and reporting.

How do infrastructure fund managers meet investor demands given these challenges?

Dermot Finnegan: Top of mind for investors is transparency and liquidity. We're seeing investor demand for these two things increase across all funds, but as Alan alluded to, infrastructure funds are inherently difficult to manage against these types of expectations. There's little trading, and the underlying assets don't lend well to liquidity. Due to the length of time that infrastructure projects typically take, they're difficult to budget accurately for as well.

How do these demands create pain points for the fund manager?

Alan Flanagan: Technology and talent play a huge part. Finding talent that understands the operational requirements of infrastructure funds can be a challenge. As an asset class, infrastructure has very specific operational requirements, and the right talent is required to deliver on execution. The talent pools are shallow and competition is high. The staff in turn needs technology to properly work on due diligence, regulatory requirements, investor relations and other functions. The number one complaint we hear from fund managers is that they can't focus on front-office activity because middle- to back-office setup is taking up a significant portion of their time.

How can a fund administrator help?

Dermot Finnegan: We're actually going very granular within our data technology. We're using automation to take the heavy-lifting out of the day-to-day operational work like reconciliation, payment matching, invoicing—all necessary but extremely time consuming. A level above that, we're working on data mining, aggregating and harmonizing data within an ever-shortening period of time.

What services in particular have proven to be valuable for fund managers?

Alan Flanagan: Previously we focused on purely financial information, but now we pull non-financial data, things like environmental, social and governance (ESG) considerations or contextual details. And we track these non-financial elements within data sets that we can play back to client data lakes and feed directly into their own models. For infrastructure funds, financials are not enough and don't exist in a vacuum—we need to support fund managers and their modeling requirements with additional non-financial information that assist them in their efforts to provide a holistic representation and evaluation.

How does BNY Mellon approach these challenges in a different way?

Dermot Finnegan: BNY Mellon has a proprietary aggregation tool that has the ability to aggregate data, both financial and non-financial, from third parties. Deploying this tool allows us to run a quality review, both qualitative and quantitative checks, to clean and refine the data at a base level. This provides more control to infrastructure funds on the quality of the data input and output.

What does the future hold?

Dermot Finnegan: Everyone's talking about blockchain for a reason, and the technology has a lot of use cases. We see a practical application for infrastructure funds. One difficulty we encounter with these funds has been achieving one version of the truth regarding data—there could be a lot of competing numbers when describing the fund, and that makes data analysis extremely challenging. You could approach it on a case-by-case basis, but there's no good way to scale. This is where blockchain can provide a single, agreed-upon version of data points allowing investment managers to enrich and to study their valuation models.

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