



Increasing Investor Capital Drives Fund Operations Expansion

PERSONNEL, TECHNOLOGY AND DATA HOLD THE KEY TO UNLOCKING OPERATIONAL ALPHA IN PRIVATE EQUITY AND REAL ESTATE

Investments are pouring into Private Equity and Real Estate funds driven by increased investor demand for products, strong returns on investment portfolios and changes in investment and redemption processes. Fueled by an infusion of new capital, managers are looking to diversify into new asset classes, geographies and products.

But it's not as simple as identifying the best investment opportunities or new markets. Successful expansion requires the right operational support to ensure investment manager and investor transparency, and that reporting requirements are addressed, among other issues. This has many managers asking: Do I have the operational framework I need to expand my business?

In this regard, these are unprecedented times for managers. Through June 2017, driven by record fundraising, the industry expanded by 9.6% and total assets under management for the private equity industry grew to \$2.38 trillion, according to [Preqin's 2018 Global Private Equity Report](#). This continues nine consecutive years of expansion in the wake of the global financial crisis. The ongoing combination of low interest rates and high valuations have continued to fuel allocations to private equity, with investors seeking return premiums associated with longer-term investing. Real estate funds are anticipating increased allocations as well. 56% of global investors plan to increase their exposure to real estate, targeting an average 10.2% of total capital allocation, according to data from the [Global Investment Intentions Survey 2018](#), published by INREV, ANREV and PREA.

To accommodate the flow of new allocations, investments in people, technology and data—and finding the right operational partner to ensure implementation—will be crucial to the future success of Private Equity and Real Estate funds. Done right, a fund can achieve the scale and operational excellence required to meet market and investor demand. Conversely, failing to address these needs and implementation at the front

end could end in disaster for the fund. Underinvestment in any area could lead to problems such as faulty investor reporting, legacy systems incapable of supporting new investment types and the lack of properly trained people or sufficient staffing to meet increased investor demands. These are the critical factors to examine in each area to maximize the fund expansion opportunity.

People: Technology and data investments enable firms to scale rapidly but with scale comes resourcing constraints, and most firms are not set up to significantly increase headcount quickly. Despite the advancement of technology, these businesses are still very people oriented at the core. Establishing the right team is the first step to ensuring operational excellence. A well-chosen operational partner is crucial to providing PE/RE firms external expertise for the needed skill sets, specialist perspectives, and to build versatile teams. This enables investment firms to deploy internal resources on higher-value tasks, such as relationship management, sales, and investment management. This frees human capital from core processing. The value-added functions also place a greater emphasis on hiring the resources to create higher investment return to the benefit of investors.

Technology: Technology is playing a major role in operational improvements and cost reduction. With the arrival of automation, new analytical tools and artificial intelligence, the cost of running many functions in a typical firm—from the front- to back-office—can be reduced. State-of-the-art technology empowers firms to grow faster and diversify more easily. From seamless APIs to streamlined systems, the right



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technology can bring much-needed scale combined with the financial benefits of IT efficiency. Further, institutional investors increasingly want more control over investment direction and fees, as well as more transparency into where their money is going, according to [BNY Mellon's survey](#) conducted in partnership with FT Remark. Managers are listening—98% of managers say that investor demands are leading them to focus on how technology infrastructure can help support operational efficiencies. It's essential that firms remain flexible to change and innovation, taking advantage of industry disruptions instead of fearing them. One challenge has been to strike the balance between the high upfront cost of implementation against the long-term benefits. Platform models, which share infrastructure across multiple providers, with their own segregated data and investment platforms, can provide economies of scale difficult to achieve from a single source.

Data: Growth and diversification have led to a proliferation of data—both financial and non-financial. Firms are increasingly challenged with managing the volume and diversity of data, and consolidating and consuming that data. When involving multiple parties and providers, controlling and standardizing data further becomes an issue. It has now become critical to establish data requirements and work with partners that can help manage data both internally and externally. Increasing and more varied investor demands on data reporting have also made it difficult for Private Equity and Real Estate managers to handle requests. The consequences of inaction or delays in updating data systems have the potential for loss of investment as investors move to more technologically advanced firms. To

avoid this concern, managers need to invest in systems that unite investment data inputs with investor reporting, to create operational harmonization across the data framework.

In the current low-interest environment where returns are hard to come by, yield-hungry institutional investors are expanding their allocations to Private Equity and Real Estate. Now is the time for fund managers to make the necessary investments to capitalize on inflows and take advantage of investor interest. The key to capitalizing on this interest and scaling fund operations is building an operational framework for growth. Where any one of these initiatives could be a massive investment and undertaking for a Private Equity and Real Estate fund, the right operations partner brings cutting edge technology, data and people to address issues of scale for investment funds today and in the future. Free of the constraints associated with scaling operations, fund managers can focus on creating more value for investors through investment decisions and portfolio return.

Interested in hearing from our experts?

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