

How Technology Is Changing Manager Operations

We speak to Dimitris Matalliotakis from next generation service provider AssetMetrix about the key motivations driving managers to adopt new processes, and what's next for digitization in the industry

How has the adoption of technology within private equity (PE) evolved?

Despite the technology sector being a crucial area of PE investment, the PE industry itself has traditionally been quite a low-tech industry. And for many reasons. PE organizations such as pure asset managers are home to smaller teams, which lack the technology teams to support them. The amount of data being managed in the PE industry is more 'small data' than 'big data,' especially compared to liquid assets. The industry has therefore historically utilized low-tech products such as Excel to manage data.

There are, of course, exceptions. Several players in the market have relational databases in place and advanced managers have even developed proprietary applications that go well beyond data management in Excel or relational databases. Yet others have chosen to license applications from software vendors in the industry. So there is quite a range in terms of technology adoption across the industry.

What is driving managers to adopt technology?

The adoption of technology in PE has been driven by three factors.

First, the success and growth of the PE industry have led to more and larger funds being managed by asset managers. As a result, they are dealing with more clients, more service providers and more data, all of which is more difficult to manage in a low-tech environment. As more data is gathered and processed and a higher number of reports need to be delivered in better quality, the pressure to adopt modern technologies rises.

Secondly, the adoption of technology has been driven by client demand, especially among regulated investors



Dr. Dimitris Matalliotakis

Head of Information Systems, AssetMetrix

such as pension funds, insurance companies, and other institutional investors. The big players are under stronger regulatory regimes, requiring a wide range of reports and analysis to fulfill their regulatory obligations. Fund managers have been put under increasing pressure to adopt reporting technology to satisfy investor demands.

Finally, the overall advancement of technology obviously plays a major role as well. The spread of digitization has quickly outdated many processes within PE. The exchanging of PDF reports over email now looks archaic when compared to other industries with fully digitized processes and seamless flows of data.

What solutions are investors and fund managers looking for?

What we're seeing the most demand for now is really the base level of technology adoption. A solution that allows fund managers to efficiently and reliably process data in a highly automated manner, producing any firm-specific KPIs, consolidations or aggregations that are required. We're also seeing strong demand in the digital universe. This revolves around real-time reporting channels, digital workflows and digitizing the

exchanging of data and documents based on web and mobile technologies.

The next step in adoption is data-driven insights. Creating harmonized and streamlined data on digital platforms allows you to perform analysis that goes well beyond aggregations of historical data. Fund managers will be able to look into the future with forecast models and risk analysis delivered on a platform. Such models can provide, for example, value-at-risk analysis that is compliant with regulatory requirements in a similar way to liquid assets – at the click of a button.

How do fund managers approach becoming more technologically advanced?

Many PE organizations are simply not big enough and don't have the in-house competencies to successfully adopt sophisticated technology. It's not as if all fund managers have the resources of an investment bank or insurance company to help with the implementation of technology.

Specialized providers that both understand PE and possess the technological skills are therefore becoming increasingly more important in the market. Fund managers are looking for firms that are able to combine knowledge of the requirements of fund managers and private funds, with an understanding of how advanced technological offerings can provide value.

Specialized providers reduce the time taken to adopt new technologies; organizations don't have to invest money today and wait two, three, or five years before harvesting the outcome of these systems. Providers also have scale effects and efficiencies that isolated PE organizations may not be able to reproduce.

What's next for PE and the future of technology in the industry?

The industry will obviously become more technologically advanced as technology develops.

We will see progression in machine learning and artificial intelligence (AI) in the coming years; fund managers will increasingly see the benefits that these

systems can provide in processing both structured and unstructured data. We're now seeing cloud technologies conquering financial markets. Previously we saw that issues surrounding data residency and confidentiality slowed this adoption, but this is now changing as the industry's perception of cloud technologies becomes increasingly positive.

Also, robotic automation in PE processes is becoming more popular. Advances in this space and will combine everything that we see on the machine learning and AI front to deliver a next level of efficiency in automation.

Then you have the more unclear disruptors of blockchain and distributed ledgers. Interesting technologies that might find an application in PE, in particular in managing transactions of all sorts more efficiently.

Looking a few years forward we expect to see technology transform PE at an accelerated pace. The basis for this will be technology-assisted harmonized data exchanging that will permit the creation of what I call true "data supply chains" – the seamless integration of specialized, value-adding "component providers" in uninterrupted, readily available data flows. Pretty much as supply chains work in manufacturing and elsewhere today. Industry-adopted standards in data exchange and machine learning will address the toughest challenge in this: data harmonization. Approaches for data ownership and confidentiality will also need to mature. Progress along these lines will, by the way, allow for genuinely novel digital business models to rise and digital market places for PE to materialize.

Beyond that, trends already visible today, often more predominantly in the liquid-assets universe, will become more widely adopted in PE as well. Those include data-driven investment decisions, potentially all the way to robotic investment offerings, self-optimizing quantitative models and machine-reading from paper-like reports – with all of that on top of innovative cloud technologies that will make functionality more scalable, more easy-to-adopt, more commodity-like.

AssetMetrix

AssetMetrix is Europe's leading next generation asset servicer. We offer modular outsourcing solutions for private capital investors: front-, middle- and back-office solutions for Limited Partners and General Partners. Our services enable private capital investors to free up their own resources for making investment decisions, benefit from our secure IT system and state-of-the-art analytics, and increase in-house transparency for optimal decision-making.

www.asset-metrix.com