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THE DRAWDOWN

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The CONVERSATION

BREAKFAST BRIEFING

Go with the flow

At a recent Breakfast Briefing event held in London, our expert panel discussed the complexities and challenges of information flows from portfolio companies through to investors

The Drawdown (TDD): Can you tell us about your current information flow to your investors? And where would you like it to be?

John Horton (JH): We have a number of external administrators who deal with the day-to-day fund accounting and with the financial reporting to all of our investors. We also have an investor relations team that's largely focused on fundraising. The finance team is also quite heavily involved in dealing with investor specific matters.

In terms of the technology to provide that information for the administrators, it's a combination of email and Excel, which I suspect is pretty common. We have an investor portal, which we use across a number of our funds. On top of that, the portal allows us to provide other information to the investors, particularly where they ask common questions.

Leanne England (LE): Similarly, we have administrators with some of our funds; they produce all the information on their systems and then pass it to us to upload onto our online document portal. With the other funds we do the work in house but still use the same method of delivery.

For us, the information flow gets more complex around investor requests, which is a lot more email driven. Taking it back to the beginning of the information flow; we get the information from portfolio companies, we put it into various spreadsheets and various systems, and then whenever we get information requests, we have to go and extract the specific bits of information we need and pull it together and then format it.

My ideal set up, from that respect, would be a portal where investee companies could input the information directly or provide an upload file for the system that works for ESG, portfolio metrics, accounting, everything. Investors would then have access to a live data portal where they could effectively slice and dice the data to get the information they need through a self-serve capability.

Dimitris Matalliotakis (DM): What has been described is absolutely standard in the industry, which is largely Excel based, with some specific tools for investor communications, or for data collection and processing aspects. The challenges GPs face are much more complex than installing some piece of software, or trying to replace Excel with something else. It's more a challenge of having a true golden copy of data that can be fed to a multitude of reporting and investor relations channels seamlessly.

TDD: What are the biggest hurdles around collecting data and data management?

JH: The key system that we all use to basically do everything, is Excel. It's the one system that everybody understands, or purports to understand, even though it has many limitations, particularly over data quality, and integrity.

For us, the challenges are several. One of them is as a venture firm, we have 100 plus portfolio companies. We're attempting to collect data from them and they vary from relatively large companies with sophisticated finance departments who are able to deliver the data, to very small teams where the CFO or FD has many other hats to wear.

It's also making sure that we collect the right data from the right investments. In a venture portfolio, you probably run on an 80:20 rule; 20% of the investments deliver maybe 80% of your returns. So you're trying to work out the ones that are going to be the winners, rather than tracking the data from every single one. But that often meets with a challenge from our limited partners, who typically want data on 100% of the portfolio companies. There's a mismatch of expectations between what we need to collect internally to manage our portfolio companies with what our investors sometimes necessarily want us to report.

THE PANEL

Moderator
Alice Murray
The Drawdown

Leanne England
Finance Director,
ETF Partners

John Horton
Finance Director,
DN Capital

Dimitris Matalliotakis
CTO & CPO,
AssetMetrix

Other challenges include the fact that data quality is necessarily variable. In an ideal world, all your portfolio companies would fill in a standard spreadsheet or put numbers into reports. But some are more willing to do that, and others where we are a minority investor, we can ask them nicely, and they often comply, but it's not within our remit to force them to do things. Very often, we're interpreting management packs to try and make sure we can extract the right data. And as with all these companies, they often present numbers in a variety of different scenarios using differing GAAP and in more than one currency. So it's a case of making sure they report the numbers consistently and in a way that makes sense to us.

DM: I think it's an illusion that we will eliminate Excel from this industry. But we do need to reach a level of more automation and more integration. We need to make it as easy as Excel or as ubiquitous as Excel.

The next step might be platforms that are intelligent enough to facilitate data collection as easily as Excel and have them already connected with other systems. It would help a lot to have the flexibility to connect Excel templates to standardised systems, even if there are different templates, like each portfolio company may have an Excel which is already connected to their internal systems and producing the reporting data. Ideally, we will one day go to a single platform where portfolio companies would upload the relevant data and GPs can manage the data points.

TDD: What about less structured data, namely ESG. How does that kind of reporting requirement and portfolio management impact this information flow?

LE: I think the problem at the moment is nobody actually knows what ESG information they want and so they're asking for everything. And once you start giving people that much data, you're never going to be able to roll it back. The data we're receiving from our portfolio companies is structured as they're providing it in Excel, like the number of female employees. You get that from your portfolio companies and you can input that into the system, you can structure that data.

TDD: What are the key considerations when selecting which technology to use?

JH: A big challenge is getting buy-in from your team, particularly if they are the ones that developed the Excel spreadsheet in the first place. So they like it, they're very familiar with it, and it sort of works for them. But you're conscious from a back office perspective that there may be better and more secure ways of doing the same sort of thing.

Cost is also an important consideration, particularly if you're in the venture segment of the industry, because we tend to raise smaller funds. Also, trying to make sure that you have a properly integrated solution. Do you go for the best of breed, or do you go for one that links in with some of your other reporting systems?

LE: Technology is meant to make things more efficient, more accurate and give you more control. So you can have a nice all singing all dancing system, but it's taking you three times longer to use it because you don't know how to use it. It's also how easy it is to fix when it goes wrong. And how easy it is to train yourself and your team to reduce key man risk.

It's trying to find one solution that fixes as many of the problems that you have as possible. But when you're looking for a solution that will do three, four different things, such as the ESG data, the portfolio monitoring data, the accounting data, what I'm finding at the moment is that nothing does everything well.

DM: For us at AssetMetrix, we are trying to shield our clients from the complexity of technology and data processing. We don't deliver a piece of software or a platform and then leave our clients to integrate it with other systems. That's the managed part of the services we are offering; making sure that what we deliver actually delivers the value that our clients are expecting, by having technology and business experts who understand the requirements.

TDD: We're in a very interesting environment at the moment. How do you think the developing macroeconomic picture will impact how you interact with your LPs and their information demands?

LE: We've started to get more requests around cashflow forecasting over the next 12 months; those requests have probably gone up 500% in the last month or so.

JH: There will be an increased focus by limited partners on the portfolio companies, particularly upon valuations. I expect increasing demands for information and justification for valuation calculations.

DM: The message we're getting from the majority of funds we speak to is how important automation is going to be in the next year or so. The data that is being managed and collected and processed and delivered is becoming increasingly important, not just in terms of fundraising, but also in terms of compliance and reporting afterwards. So I think, for many reasons, but even stronger in both the macroeconomic environment and the regulatory expansion that we're facing, functioning processes and technology in terms of automation and machine learning intelligence are key to that. ◆

From left: Leanne England, John Horton and Dimitris Matalliotakis