IQEQ and Citisoft

Alternative Investments

Using data to drive growth

Preface

By 2027, 55% of all global asset management revenues will come from alternative assets. [1] The demand and market share for alternative investments has risen steadily for the last ten years despite ever-present market volatility, higher cost of debt and inflation. Investment in alternatives is expected to continue its growth as asset managers diversify their holdings, hedge against inflation, and seek alpha through private market investments. Alternative assets represented 21% or more than $20 trillion of global AUM as of year-end 2022 and is expected to have a CAGR of 7% over the next five years.

As trusted advisors in technology, operations, and services for alternative investment firms, IQ-EQ and Citisoft have collaborated to understand specifically what alternative asset investment firms are considering as they prepare their businesses for the future. To gather this insight, we interviewed over a dozen senior leaders across North America and Europe to clarify their priorities and focus. The leading topic of conversation centered on the ability to source and access consistent and reliable data in a timely fashion. Maintaining quality data is critical to generating insights to drive investment decisions and optimize operations. To facilitate this decision-making chain, managers are looking to implement innovative tools for predictive analytics and pattern/trend identification that could transform the way their businesses are run.

This report's focus is about using data in alternative investment firms to drive growth, based on the insights gained from conversations with leading professionals in the alternative asset arena. We thank all those who participated in this research for their candor, support and for helping to make this report a reality. To our readers, we hope that you enjoy and find the insights useful.

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[1] Global Asset Management 2023: The Tide Has Turned. McIntyre et al.
https://www.bcg.com/publications/2023/the-tide-has-changed-for-asset-managers

Introduction

To manage data effectively as a strategic asset often requires changes to/in an organisation. IQ-EQ and Citisoft recently interviewed a dozen senior leaders in both private equity General Partner firms (“GPs”) and the investors’ Limited Partner firms (“LPs”) in EMEA and North America to discuss exactly where and how organisations are leveraging data to drive growth and also what are the best practices in data governance and management.

With the current high level of uncertainty driven by increasing cost of debt, market volatility and inflationary pressures, the search for stable returns and alpha/growth is more demanding than ever. This challenging environment compels Alternative Investment Managers (AIMs) to make the best use of their assets, capabilities and intellectual property as possible. And data is one of the most important resources that an organisation has. For data to help

TOPICS DISCUSSED

drive investment strategy and returns requires it to be accurate, consistent, and accessible.

Investors are increasingly augmenting traditional public investments with alternative investments in their search for yield. Investors are also looking to integrate environmental, social and governance (ESG) considerations into their investment processes. Conventional data sources are being augmented with alternative data for differentiating analysis and insights. A growing number of clients are requesting data for their own reporting and analysis. These factors have significantly increased the information flows and everyone now requires increasingly complex information delivered faster in a way that suits them. Data transparency, consistency and quality are key.

Alternatives Market Growing but Challenges Exist

Alternative investments refer to financial investments made in assets outside of the traditional equity, fixed income and cash categories. The main types of alternative investments are private equity, real assets, debt and hedge funds. Investors in alternative assets are looking to diversify their portfolios, hedge against inflation and make better returns than are available from the traditional asset classes.

The market for alternatives has grown significantly over the past 10 years and the importance of alternative investments as part of an overall asset allocation continues to grow. PwC expects alternative asset classes will more than double in size by 2025, accounting for 15% of global AUM[1], and Preqin expects AUM to rise to $23.3tn by 2027, a compound annual growth rate increase of 9.3% from 2021.[2]

[1] Forbes, "Alternative Assets On The Rise: Redesigning Your Investment Portfolio", May 23, 2023

[2] Preqin, "Preqin Global Report 2023: Alternative Assets

There are some major challenges that are being faced right now, especially by GPs. A high level summary of these challenges are listed below:

1. With the curb in LPs' appetite for new capital commitments, GPs are finding fundraising more challenging resulting in the time frames moving out and the fund sizes getting bigger. One fund manager even said that they used placing agents for the first time, and that the placing agent interviewed the company before signing on so that they could ascertain the likelihood of finding investors before committing. With revenues being squeezed at this time, firms need to be careful about what they spend money on so any portfolio company investments must deliver relatively fast revenue increases, cost reductions or efficiency gains to be considered.

2. GPs have been branching out into different asset classes to meet investor demand, increasing competition. One of the interviewees said they are looking at new growth credit, impact funds and value enhancement strategies to increase the diversity of their offerings. More GPs offering the same types of strategies will reduce the uniqueness across companies and place even more emphasis on differentiating aspects such as ESG capabilities and the investor experience.

3. There is increasing emphasis on the investor experience in terms of the access to data, timeliness of data, self-service end-user reporting and analytics and transparency (e.g., look-through into underlying funds, ESG, etc.). To provide the requested client experience, AIMs are looking at how to best aggregate information across different siloed data stores. Meeting these requirements will require more investment in people, operations and technical solutions.

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4. The amount and type of data now available for alternative assets is expanding rapidly and is therefore becoming even more critical for generating insights. As such, producing and providing consistent and quality data in a timely manner has become key to business growth in AIMs. Manual processes and siloed data is making this more difficult.

One common denominator to all these challenges is the need to effectively manage data.

KEY TAKEAWAYS

- GPs are finding fundraising more challenging with the time frames moving out and the fund sizes getting bigger.
- GPs are facing more competition as other GPs branch out into different asset classes to meet customer demand.
- Increasing emphasis on the client's experience will require more investment in people, operations and technical solutions.
- Producing and providing consistent and quality data in a timely manner has become key to business growth.

Data Drives it All

Data is the oxygen of an organisation. It is a strategic corporate asset that is used to generate information which provides the knowledge to create the insights that drive decisions. Those decisions drive growth, revenue and profitability. But the primary data needs to be "healthy" to be effective. Data is "healthy" when it is correct, consistent, accessible and easy to understand across the organisation. If data is not easy to find and use in a timely fashion, or is not trusted when it is found, it is not adding value to analysis and decision-making processes and therefore does not add value for internal clients or external investors.

Both GPs and LPs source, produce, consume and analyse a massive amount of data, both structured and unstructured, externally sourced and internally generated. The data that is used, and its required breadth, depth and quality levels, is different for each distinct alternative product type and for the teams that manage them (e.g., Investment Team, Deal Execution Team, Operations Team, etc.). The sources (e.g., data providers, service providers, internal teams, etc.) and structure of the sourced data (e.g., PDF, Excel spreadsheet, data feed, etc.) is also diverse and adds to the complexity.

These data characteristics have contributed to the following data management issues that most GPs and LPs are facing to some degree.

- Numerous, unconnected data stores by product type, team and/or usage that may contain duplicated data, do not provide access to the data and do not follow the organisational standards for data management. Some common reasons behind this happening are the use of transaction systems as data stores, existing systems not having the functionality or analytical capabilities needed to do everything required and unstructured data (e.g., meeting notes, reports, statements, etc.) being kept on individual devices for easy access by the user.

Siloed data is a risk. Enterprise data management is not possible with siloed data, impeding regulatory compliance, opening the door to misuse of sensitive data and increasing the risk that the results generated using this data are not accurate or consistent. The basic rule of "garbage in, garbage out" has not changed, so it is important to have a certain level of quality control.

- The extensive use of Excel is one of the biggest challenges because the data stored in spreadsheets is rarely controlled for quality using a structured process and made available to the rest of the organisation to use. But Excel is still the most popular application for providing insights. The utopian ideal is a world without Excel, but that will likely not be achievable. The best that can be hoped for is to reduce the perceived need to use Excel or that the data in the Excel spreadsheets is incorporated into the organisation's data architecture.

  Disparate data repositories, especially on Excel spreadsheets, makes it more difficult and time consuming to answer investor queries, generate reports, provide transparency and give timely and accurate information/data about investments.

- There are many manual processes in the alternatives world from sourcing the data needed to populating internal systems to creating investor reports. Technology will help with some of the activities but due to the illiquid and non-public nature of alternative investments, there will inevitably continue to be some level of manual work that needs to be done.

  This situation increases the chance of human error and diverts resources away from potential revenue-generating actvity. caactivities, impacting profitability.

"Data is the starting point for knowledge—and in our business, accurate, real time and meaningful data and information contribute to investment success."

Anton Knecht, Founder & Managing Partner at Dara Capital.

KEY TAKEAWAYS

- Data needs to be "healthy" to be effective. Data is "healthy" when it is correct, consistent, accessible and easy to understand across the organisation.
- The data that is used, and its required breadth, depth and quality levels, is different for each distinct alternative product type and for the teams that manage them. The sources and the structure of the sourced data is also diverse.
- Unconnected data silos, the extensive use of Excel and difficulties in sourcing alternative investment data lead to increased risk, increase in manual processing and potentially investor dissatisfaction.

ESG is a Game Changer

There is an increasing demand for ESG information from institutional investors, not only in traditional investments but also in alternatives. Recent fundraising has seen the average ESG fund size increase from $399.3mn in 2017 to $590.3mn in 2021 and $575.0mn in 2022, with private equity and infrastructure funds dominating.[3] So far in 2023, ESG-related fundraising has been much slower, reflecting a broader trend across alternative investments.[3] According to Preqin, investors are the key driver for more ESG transparency in private markets, with 72% of investors believing that fund managers are adopting ESG policies because of pressures from existing and prospective LPs.[4] Whether ESG helps drive longer-term returns remains a contentious issue. However, what is clear is that ESG does affect investors' willingness to do deals. The Preqin survey also showed that 29% of investors reported having turned down a deal over ESG concerns while another 43% reported they would do so.[3]

[3] Preqin Insights+, "ESG in Alternatives 2023"

[4] Preqin, "Preqin Investor Outlook: Alternative Assets, H1 2022", March 16, 2022

In the interviews, both the GPs and LPs recognised ESG as an important investment theme. Some AIMs even see ESG as a potential form of tactical differentiation as part of their growth strategy and have, or are looking to, set up their own sustainability team.

For Palatine Private Equity, ESG is a central strategy for their company. Their website even states that it is in their DNA. Sebastien Lesueur, CTIO of Sienna Investment Managers, said that "ESG is looked at as a game changer." Jimmy McDonald, CFO and CCO for BP Energy Partners, indicated that when they fund raise, investors always ask to see the ESG policy and ask what drives the investment strategy.

However, with ESG comes increased data demands from both GPs and LPs. GPs have additional ESG-related information that must be sourced, consumed, confirmed and managed. Investors now want to understand more about how ESG is embedded in the investment strategy, practices and statements and are demanding additional transparency into their holdings (e.g., into the asset level of the underlying funds in an alternative fund of funds structure). This is not different from what it being asked of traditional investment managers, but ESG data for private assets is very difficult to get due to the information not being publicly available (in some cases resulting in proxies needing to be built using listed assets) and there not being a clear and consistent approach across the different asset types. This situation impacts both GPs and LPs. LPs have difficulty seeing detailed and comparable ESG data across their portfolios and GPs are struggling with increasing volumes of bespoke ESG data requests.

ESG could be a game changer but providing transparency is one of the rules of the game.

There are, however, some projects underway to help improve this situation. For example,

- The Principles for Responsible Investment (PRI) organisation provides standards and guidance to help understand and evaluate the processes for integrating ESG factors into the alternative investment processes.
- The Institutional Limited Partners Association (ILPA) provides an ESG Assessment Framework that includes standards for LPs to help evaluate and compare the ESG integration of different GPs and will also help GPs to get an insight into what their investors may ask them.
- The ESG Convergence Initiative was set up "to drive convergence around a standardised set of ESG metrics and a mechanism for comparative reporting to benefit all stakeholders in the private markets."

One agreement amongst all those interviewed about ESG, however, was that the primary objective is still to make a good return and investors will not invest unless they do. The challenge therefore is to maintain the reliability and growth of revenue while still working towards the ESG goals. Jimmy McDonald of BP Energy Partners remarked that, in general, the GPs and LPs take a balanced view on ESG. For example, LPs are more willing to now invest in energy companies because of the returns and because they realise that fossil fuels cannot just be shut off. So, investors look at how these types of companies are trying to become more carbon neutral and cleaner.

ESG is a struggle for alternative asset managers due to data availability, data quality, lack of standardisation and the required use of manual processes, but this investment theme cannot be ignored. The modernisation of IT tools and the use of new technologies will be required to scale the ESG business. The GP's views on the urgency and profitability of ESG-related business will determine how fast this will happen.

KEY TAKEAWAYS

- There is an increasing demand for ESG assets from institutional investors.
- ESG does affect investors' willingness to do deals. The survey also showed that 29% of investors reported having turned down a deal over ESG concerns while another 43% reported they would do so.[3]
- AIMs see ESG as a potential form of tactical differentiation as part of their growth strategy.
- Investors now want to understand more about how ESG is embedded in the investment strategy, practices and statements and are demanding additional transparency into their holdings.
- ESG data for private assets is very difficult to get due to the information not being publicly available and not having a clear and consistent approach across asset types.
- The primary investor objective is still to make a good return. The challenge therefore is to maintain the reliability and growth of revenue while still working towards the ESG goals.

Investors are Demanding More from GPs

Clients are asking for more information from the GPs. For example:

"What are my investments on a line-by-line basis?"

"What are the GP's controls, frameworks, data, etc.?"

"Can I drill down into underlying funds to the asset level to get specific information like ESG ratings?"

"Can I see one consolidated report showing where my risk and exposure is across both direct and indirect investment portfolios?"

"Can I see the value of my investments on both a cost and fair value accounting basis?"

"Can you provide up-to-date information on a more frequent basis?"

"Please produce this report(s)/ data feeds in this format."

The LPs want this type of information for their own risk management, liquidity management and reporting purposes and to mitigate their own operational and regulatory risks.   Like GPs, LPs also have challenges with manual processing and would like their GPs to help reduce it by providing the information they need in the formats they require.

Heli Khandelia, Head of International Change/ Transformation at Apollo Global Management, says, "our clients have their own regulatory requirements to satisfy, such as Solvency II or Article 8 reporting, and these are very heavy data-driven exercises that get passed down to us as the investment manager."

LP ad hoc requests add to the challenge. Each bespoke request often requires time-consuming manual effort for the GP to answer. Some investors have even outsourced dealings with the GPs to an external service provider to simplify and standardise their information gathering. Individual GPs are often too small to have any leverage to push back on these LP requests with the outsourced provider, so end up having no choice but to give the LP what they are asking for, regardless of the effort and time required.

For many GPs, the solution to deal with this situation is to increase and/or re-deploy headcount and work longer hours until the investor requests are completed. Technology solutions that support flexible creation and delivery of customised reports and data feeds and enable self-service access to slice and dice data, drill-down, generate reports, etc. are game changers for meeting client expectations. However, to support these technical solutions requires the ability to access different types of data from across the organisation in a timely fashion. This is one reason why AIMs are looking at ways to unify their individual data stores. This could be by implementing a centralised data store, either in-house or using a service provider, or by using a solution to combine data from the individual data stores when required.

"Investors impose their regulatory requirements on you."

Heli Khandelia, Head of International Change/Transformation, Apollo Global Management

Adil Minhas, Director for Business Data and Analytics at Northwood Investors, remarked that it takes time to become a data-driven organisation as the typical approach is to put more people on the problem. "We have a dedicated data team at Northwood, but it takes time to grow the team to be able to satisfy all queries, especially the ad-hoc ones from the business users."

KEY TAKEAWAYS

- LPs are demanding more information from their GPs to manage their own risk, liquidity and reporting requirements and to mitigate their own operational and regulatory risk.
- Technology solutions that support flexible creation and delivery of customised reports and data feeds and enable self-service are game changers for meeting client expectations.
- Some investors have outsourced their dealings with their GP making it difficult for the GP to refuse requests due to lack of leverage with the service provider.

Enabling the Business Through Appropriate Technology Investments

An observation made by many of the interviewees was that technology and data management has not kept up with the growth of the firm and this has led to an increase in the manual processing required. This is especially so in smaller companies. One person likened the current technology to a duck – serene on top, but with legs kicking like crazy underneath the water.

There were two primary data-related objectives that were consistently mentioned to address this situation:

1. To responsibly democratise the data in the organisation through unifying the various data silos or aggregating as much of the data as possible into a centralised data store. Ensuring that the data is managed properly and can be used by other systems as a source of accurate, consistent and reliable data is critical.

2. To implement specialised technology solutions that minimise the manual efforts required. This will allow the company to release staff to work on more revenue-generating activities. There is, however, a realisation that eliminating manual work completely will not be possible due to the characteristics of alternative investments.

There was general agreement amongst the participants that although private investment is a people and relationship business, that will only take you so far. A solid technology and data strategy is also needed. Technology is a facilitator of capability and data is the foundation. To create information from primary data, then turn that information into knowledge which enables insights, requires the appropriate technical environment and the right data platform.

It is challenging to choose a solution that is easy to use, can get data into and out of easily, provides the needed flexibility and includes the functionality required by all the business users. Some companies use a mixed approach where they outsource where they can (e.g., fund accounting), buy when they need to and build when there is a strategic reason to do so. For example, building the investor portal in-house because it provides a competitive advantage.

Historically, companies sought a single, one-size-fits-all solution that provided the full suite of alternatives functionality. With generally very small technology teams, this approach was attractive though perhaps aspirational. The implementation timelines could be an issue however, especially if the required data availability was not addressed first. One of the people interviewed said that it took so long to implement a full suite solution that it was obsolete before it started to be used because of new regulations, new product types, new structures, etc. Differing levels of functionality across the system modules also could cause issues. Often systems started out doing one thing very well. For example, fund of funds, hedge funds, etc. To enhance their market share, these systems then layered in other alternative investment functionality and capabilities but sometimes these new modules did not meet expectations.

These two challenges started a shift towards a point solution "best of breed" strategy. Using this strategy meant that existing systems that still worked well did not need to be replaced. The best of breed system was very good at addressing the specific need(s) it was being brought in for. And the implementation was less complex, delivery was faster and upgrades were simplified. This multi-system, component-based environment, in turn, shifted the focus towards how to best link those systems together to enable event-driven processing, consistent data quality, data aggregation, etc. (i.e., interoperability) to speed up and automate processing and reduce manual efforts.

However, more systems result in more data silos. Unless this is addressed, it will likely increase manual efforts as data will need to be taken from multiple locations for investor queries, reporting, etc.; it will make any efforts at enterprise-wide data governance and data management more difficult, which could impact data quality; it may hinder the development of investor self-servicing applications (e.g., to slice and dice their own data for analysis); and it may limit the ability to adopt new technologies, like artificial intelligence and machine learning.

To resolve the multiple data store issue, a high priority identified by the interviewees was to move to a data warehouse model rather than a system model. That is, to create one or more cloud-based data repositories to store, process and secure the structured and unstructured data that is created by the various data-producing transactional and operational systems and collected or generated by the business teams. Whether one or multiple data repositories are used, the key is to provide a unified source of quality data for the users. Different companies had different strategies for implementing this solution. Build internally, generally using a cloud-based database platforms, or outsource to a service provider.

Whatever method was selected, the main purpose was for authorised individuals and consuming systems to be able to easily source quality-controlled data from across the organisation rather than having to collect it from individual applications and spreadsheets and then manually put it together to be used. This is "responsible data democratisation" in action.

Andrew Haywood, CFO of Park Square Capital, recounted that when he started in 1999 it was revolutionary to put information into Excel from printouts and create graphs, analysis, etc. electronically. Now it is expected to have multiple data feeds pass the information to dashboards almost immediately. Separate systems with Excel model outputs, which is the current way of working, will need to be phased out if client expectations are to be met.

Simon Bowley, Technology Director at 17 Capital, remarked that in the last 5 years we've seen the democratisation of technologies across all industries. Technology has transitioned from the computer we use to the tools that we can take advantage of to analyse our data and for end users to self-serve.

To enable this technology transition towards a more tool-based future, the required data must be accessible and of good quality. The hub-and-spoke integration model has several characteristics that can help to achieve this. An appropriate data governance and data management methodology is easier to implement, and this would enhance the data quality and consistency overall. Data access and distribution can be more standardised. It would be easier to implement or build end-user self-service applications that require aggregated or combined data, which could result in enormous cost savings. It would make it easier to experiment with new technologies, like artificial intelligence, without impacting existing transactional or operational systems.

Unfortunately, for private assets, manual activities will not be eliminated completely, even with best of breed applications and unified data stores. But the typical approach of collecting data and then throwing people at it to perform the analysis, create the report, etc. will be reduced.

Andrew Haywood refers to these types of solutions as "human-enabled technology". You always rely on some labour at the beginning. The system does most of the work, but a human is still needed to verify and understand the data correctly. For example, what geography or sector a specific target company is in may need human effort to determine because of the complexity of the organisation, at least initially.

KEY TAKEAWAYS

- Technology and data management has not kept up with the growth of many firms.
- Two primary data-related objectives are (1) unifying the various data silos or aggregating into a centralised data store, and (2) implementing specialised technology solutions that minimise the manual efforts required.
- Historically, companies looked to having a single, one-size-fits-all solution that provided the full suite of alternatives functionality but are now moving towards a best of breed model.
- For private assets, manual activities will not be eliminated. "Human-enabled technology" will remain.

Trusting the Data is Key

Mindset, behaviour and organisational culture are as important as technology when looking at potential solutions for the data challenges described previously. There are two main cultural challenges that must be addressed:

1. Changing the behaviours and beliefs of people who have "always done it that way" and believe that only they can do it properly; and
2. Earning the trust of the users that the enterprise data is complete and accurate through appropriate data management and governance processes and providing transparency.

This is a chicken and egg scenario. If people do not trust the enterprise data, they will continue to create their own data silos in Excel spreadsheets, etc. as they have always done. This leads to the enterprise data not being complete and not being verified, leading to it not being trusted so people do it themselves, and so on.

Fighting misconceptions and pre-conceptions to change the behaviours and beliefs of people is one of the most challenging aspects of data governance. But, if people continue to keep their own data in their Excel spreadsheets or on their computers without entering it into the enterprise data systems, then any investment in the latest technology or implementing a comprehensive data management approach is wasted.

"Using enterprise-processed data combined with individual team information also helps to make the decision-making process more scientific thereby reducing the emotional aspect",

says Andrew Hayward, CFO of Park Square Capital.

Ensuring all the data is captured into the required repository is a critical step in proving capability and establishing trust and there must be consequences for keeping siloed data to make sure this is done. But trust is not just given. It must be earned. This is done by establishing and following appropriate data management and governance processes to ensure quality, enabling easy access to information, and providing transparency into where data comes from, any modifications done, and how it is used to generate insights.

One of the people interviewed commented that if you ask a group of people what the true NAV is, you will likely get more than one answer. This does not generate much trust in the data. Each piece of data should have an owner that can say, "I am accountable for it, it comes from this system, and this is how I defined it."

What will the benefits be by spending the money and time to do all of this? Having comprehensive, clean, accurate and trusted data feeding transactional, operational and analytical systems can have a significant impact on organisational efficiency, provide faster insight generation and improve decision-making, as reinforced by the comments below.

Andrew Haywood, the CFO of Park Square Capital, mentioned that over the last 5 to 10 years, they have seen a big change in the openness of the business teams within the alternative investment firms to use enterprise data. Ten years ago, investment teams would think they have to do everything totally bespoke and assume no one else was able to provide them with insights on how the business works. Now they are more open to trusting data and learning what else is available. Less effort being spent preparing data means that more effort can be given to evaluating opportunities.

KEY TAKEAWAYS

- Mindset, behaviour and organisational culture are as important as technology when looking at potential solutions for the data challenges.
- Fighting misconceptions and pre-conceptions to change the behaviours and beliefs of people is one of the most challenging aspects of data governance. But if this is not addressed, any investment in the latest technology or implementing a comprehensive data management approach will be wasted.
- Ensuring all the data is entered into the repository is a critical step in proving capability and establishing trust and there must be consequences for keeping siloed data to make sure this is done.
- Trust is earned by establishing and following appropriate data management and governance processes to ensure quality, enabling easy access to information and providing transparency.

Is Artificial Intelligence the Future?

Microsoft calls artificial intelligence (AI) the "defining technology of our time."

AI is the ability of a system or a program to think and learn from experience. It is a combination of machine learning techniques, deep learning using computer algorithms which are designed to imitate how humans think and learn, natural language processing, robotics, expert systems and computer vision.

AIMs can see the potential value in using AI to streamline their operations, help them to identify opportunities, and support regulation and compliance processes without needing to add more people. Data is the key however, as this is needed to train the models (pre-set or internal), linking back to the importance of having a comprehensive set of high-quality data.

Sebastien Lesueur, CTIO of Sienna Investment Managers, mentioned that they have been experimenting with some AI use cases to streamline the due diligence process, which has already been producing impressive results on eligible investment targets.

"The availability and application of AI will probably have the biggest impact on changes in investment management in the future."

Anton Knecht, Founder & Managing Partner at Dara Capital

Some of the other potential uses for AI that were mentioned are:

- Evaluating KPIs for credit risk assessments for assets to fast track the process.
- Sourcing and capturing data, both structured and unstructured.
- Analysing large amounts of data to identify potential investment opportunities.
- Comparing companies for determination of the best proxies.
- Identifying potential LPs for future networking and fundraising opportunities.
- Verifying, validating and reconciling data.
- Drive actionable insights from the available data sets.
- Identifying potential regulatory or compliance issues.
- Converting unstructured data (e.g., reports, documents, financial profiles, etc.) into structured data that can be combined with market data sources.
- Quantitative funds, a hedge fund strategy that uses computers to automatically invest based on algorithms and identify potential opportunities faster.

Is AI the future or a flash in the pan? If it can be used to make operations more efficient, enhance customer service and help find potential revenue generating opportunities, then it will be difficult to ignore.

KEY TAKEAWAYS

- The availability and application of artificial intelligence (AI) will probably have the biggest impact on changes in alternative investment management in the future.
- AIMs can see the potential value in using AI to streamline their operations, help them to identify opportunities, and support regulation and compliance processes.
- Quality data is the key to AI as this is needed to train the models.

Looking Forward

Changes to the AIMs' data strategies is being driven by increasing investor demands. When looking into the future, there are several general themes that GPs will be pursuing.

When looking into the future, there are several general themes that GPs will be pursuing.

- Moving data from data-producing systems, Excel spreadsheets, individual data stores, etc. into a data warehouse, data lake, data lakehouse, generally on the cloud, will be the first step and is one that several GPs are already working on. Removing individual data silos that make it difficult to meet the investor demands mentioned above is the target. These repositories will be cloud based and either built in-house, or outsourced to a service provider.

  The ease of connecting to data-producing systems to populate the repositories and then accessing the data in the repository will be a key consideration when selecting a solution. GPs will need to implement appropriate data governance and management processes to ensure that trust in the data is maintained. Excel will not disappear but there will be a significant effort to reduce its use as applications using the centralised warehouse come on board and trust in the data increases.

- The best of breed, component-based system strategy that is becoming more popular will continue. GPs will not necessarily decommission and replace legacy applications that are meeting the majority of their needs. Point solutions that provide the required additional functionality will be integrated instead. Firms will build internally for strategic applications if they can, and will buy or outsource for the more common solutions. With this strategy, the focus for GPs will move more towards how to effectively link these applications together to provide the various end-users with the data and capabilities they require.

- Investor self-service is the way forward. Reducing the manual effort required to answer ad hoc queries, produce bespoke reports, drill down into underlying holdings, slice and dice data for clients, etc. by providing a method for the investor to do it themselves is the goal. This capability would reduce manual processing and thereby the need for adding more headcount in the GP, improve the timeliness of data for the investor, and be a differentiator in the market. It would be a game changer for investor servicing and satisfaction.

- For individual investors, there is a paradigm shift happening as generations change. Younger investors have grown up using smart technologies and are used to getting real-time information and significant capabilities on their mobile devices. Personal capabilities are being demanded in the professional setting. This means that the self-service discussed in the last bullet point cannot just be on a computer but will also need to be available on mobile devices. And this will impact both GPs and LPs.

- Although the take-up will be slower, especially for the smaller AIMs, AI will start to be used throughout the organisation, from generating insights to regulatory reporting. The efficiency gains in going through large amounts of data using AI to identify potential issues or potential opportunities is too great to ignore. Using AI will reduce manpower requirements while increasing service quality.

Ad hoc requests, investor-specific reporting, increased regulatory reporting, demand for new investment strategies and alternative products, enhanced transparency demands, self-service requirements, different ways to access investment data, improved timeliness for responses, and, of course, increasing returns for investors, are putting more and more pressure on GPs. With competition increasing and the uniqueness across GPs reducing as more GPs offer the same types of strategies, GPs will need to find ways to differentiate themselves. Asset management firms are realising that utilising their data more effectively is a key component in doing that.

ABOUT CITISOFT

Since 1986, we've solved complex technology and operations challenges for the investment management industry. With a team of over 85 dedicated consultants in North America and the UK, we're committed to working with asset managers and asset servicers globally on projects of every scope. From guiding complete business transformation programs to on-the-ground delivery, our team is equipped to fulfill any strategic or tactical need.

To learn more about our Advisory and Delivery Services or to leverage the legacy scale in your organization, contact us at insights@citisoft.com or visit us at www.citisoft.com.

ABOUT IQ-EQ

IQ-EQ is a global, top-tier investor services group with an unrivalled offering to meet the administration, compliance and reporting needs of the investment sector in full and worldwide.

Above all, what makes us different is our people. Operating as trusted partners to our clients, we deliver intelligent solutions through a combination of well-honed technical expertise and strong relationships based on deep understanding. We're driven by our Group purpose, to power people and possibilities.

We make life easier, more efficient and cost effective for our clients – be they fund managers, multinational companies, family offices or private individuals – by providing everything in one place. Our services are underpinned by a Group-wide commitment to ESG and best-in-class technology including a global data platform and innovative proprietary tools supported by in-house experts.

With bespoke development programmes, progression opportunities, flexible working policies and open communications, we're an employer of choice in our sector with the highest Glassdoor rating among our direct competitors.

We employ a global workforce of 5,000+ people across 25 jurisdictions and have assets under administration (AUA) exceeding US$750 billion. We work with 11 of the world's top 15 private equity firms. To find out more visit iqeq.com.

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