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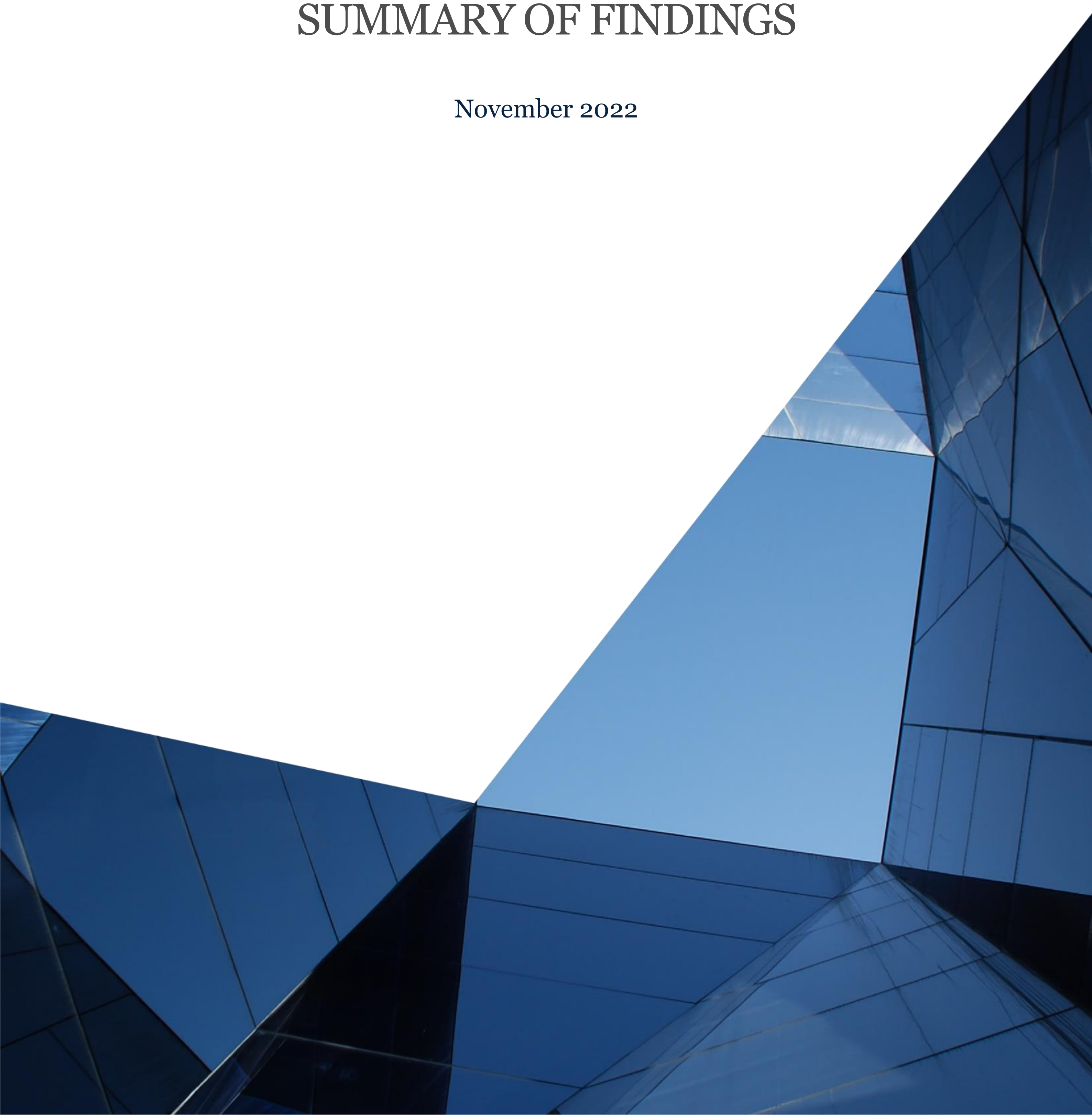
PORTFOLIO MONITORING ROUNDTABLES

SUMMARY OF FINDINGS

November 2022



Executive Summary

Introduction

Lionpoint have hosted a series of roundtable sessions discussing Portfolio Monitoring ("PM") across the Private Equity industry. Invited participants work in a variety of roles from a large sample of Private Equity firms, all of which have a constant relationship with PM. The objective across the three sessions was to share experiences, both pain points and positive, and to engage in constructive discussion on the topic of PM, its technology, and its use cases.

The invitees are at various stages of PM maturity, or of a vendor selection lifecycle. This opened the room for colleagues to learn from experiences that others have recently embarked on and seek answers to questions that they may not have confidence receiving from their prospective vendors themselves.

Naturally, the discussion of PM and how it is: utilised, reported against, and tooled for in different firms followed a few key themes: **Data Collection, Data Management, Data Analysis & ESG, and Reporting**. These will act as the foundation for this report.

Conclusion

Regardless of size or process preference between firms represented, one unanimous agreement across the roundtable sessions was that PM, and the data model that surrounds it, is becoming more and more prevalent within Private Equity firms' strategic thinking. There is an understanding across the industry that investment into a robust model across people, process, data and technology is a key foundation for success across the full span of Private Markets investments.

The market has reacted to this heightened role of importance that PM and data holds, and we are seeing an influx of new entrants offering increasingly impressive tech functionality. As the pool of choice becomes larger, it becomes increasingly important to run a robust selection process to accurately tie the requirements of a firm to the capabilities of the technology, and its future state plans across asset classes, reporting, ESG etc.

Throughout the three roundtable sessions, it proved clear that all firms want to achieve the same end goal. This being a robust data enterprise model with a strong Portfolio Monitoring sat on top of it which can ingest variable data sets, highlight issues early, produce dynamic reports and risk metrics, tied up in a user-friendly workflow. However, the way they achieve and operate this varies slightly, and it is in these variances that makes selecting the correct technology vital.

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1.0 Current State Analysis

What is the current state of Portfolio Monitoring usage, and what future plans are in place?

This question generated a multitude of responses. There are various reasons why a company may require to run a vendor selection on a new PM tool, whether it be that "*The relationship with [their] incumbent vendor has broken down"* or, more commonly we heard, that there is a requirement to keep momentum with ever-changing reporting technologies and requirements due to the fact that "*PM is becoming more complex, [they] are looking at how to capture and report against more qualitative metrics across ESG and furthe*r".

Within the roundtable sessions it transpired that:

- 20% of participants are currently implementing a new tool (and are at different stages of this)
- 35% are not happy with their current PM tool and are actively seeking change
- 20% are using an in-house tool, with varying levels of success
- 25% are not necessarily unhappy with their current capabilities but were keen to know more about current market offerings

A key consideration agreed across the groups was the changing definition and scope of what a PM tool means, and what it can bring to a business. Focus on data collection and storage was a common theme, with firms realising the increased potential of moving to a data warehouse and single source of the truth approach to data management with growing complexity of metrics and KPIs being collected across portfolio companies. This was discussed heavily during the three roundtable sessions, and is detailed further into this report.

Prior to attending the session, each participant was invited to complete a questionnaire, the results have been curated into the four major themes and will presented and discussed in this report.

2.0 Data Collection

The starting point of the PM lifecycle has become more prevalent at the top of priority lists during vendor selection programs recently, predominantly due to the importance of accurate and consistent data. Beginning the process with poor standard data coming in reduces accuracy and ultimately leaves confidence in the remainder of the lifecycle waning.

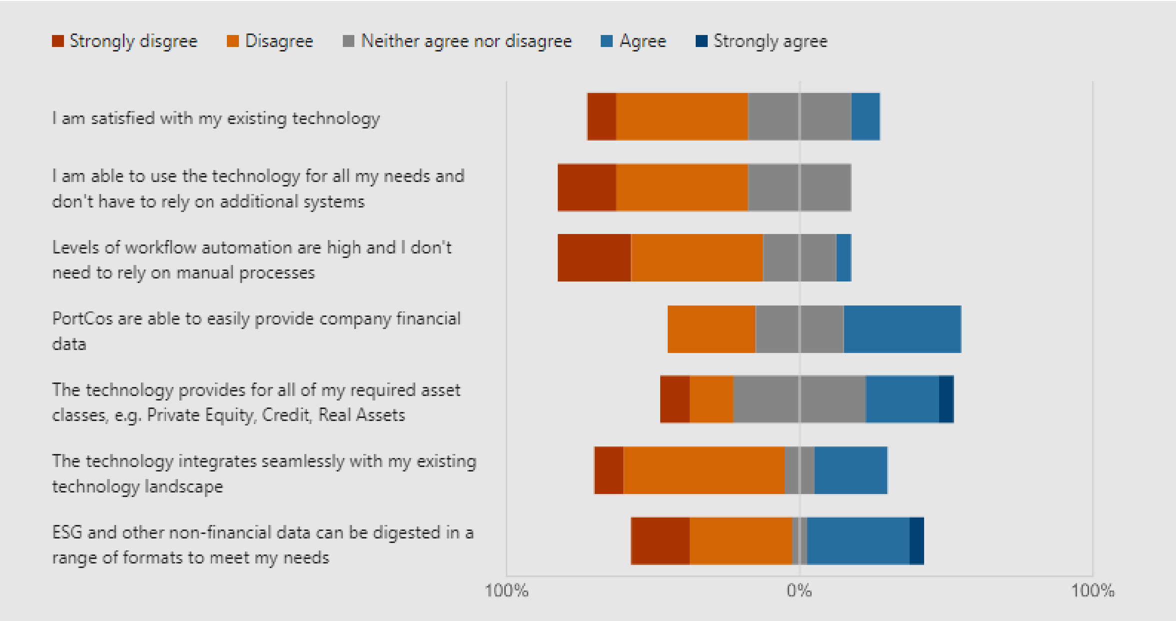

Fig.1 Questionnaire responses on Data Collection

As the graphic shows, the consensus amongst respondents is that their current technology does not allow them to operate at the level they desire when it comes to collecting data from their portfolio companies.

Ever-increasing complexity requires a flexible ingestion model?

The ever-increasing scope and landscape of requirements to report against drives the need amongst users to assess and enhance their data collection capabilities with some gathering over 300 data points from their portfolio companies regularly.

This poses the question, should firms be looking for a market-leading data ingestion tool that allows full autonomy and flexibility in the data gathering metrics and formats? Or is a more standardised, Excel input approach more sensible and manageable? This debate offered split opinions between the attendees, and between teams within firms internally, as was discussed.

Deal teams are pushing for more bespoke KPIs to be collected from their portfolio companies, they want to utilise new technologies and their capabilities to ingest varying formats and metrics across differing companies. This is particularly true and useful for cross-industry collection.

However, although receiving bespoke KPIs allows deal teams to better understand the specific or even unique value identifiers from their portfolio companies, it creates a level of data complexity that becomes increasing difficult to manage. Lionpoint's Travis Broad posed the question regarding a move to the data warehouse model, asking *"If we are looking to move to a data warehouse, do all these bespoke KPIs come with us, creating a huge challenge in standardizing a data model, or do they stay within the PM tool, making the PM tool start to become a duplicated data storage too? This needs to align with a firm's guiding Data Governance principles."*

Although deal team members do not need to spend time and energy concerned about the complexities of the wider firm's data sets, it is imperative that the internal teams do. This explains why most PM managers, IT managers, and similar are arguing for a standardised approach to data collection. ***Thirty-eight percent*** of questionnaire respondents ***agreed*** that "PortCos are able to easily provide company financial data" with only ***Twenty-eight percent disagreeing***. This suggests that the appetite for change toward a highly-flexible data collection capability model is not there from those who use it most.

In addition, a highly discussed topic within the sessions was the move to a data warehouse model, with a participant stating, *"Moving to a data warehouse places more stress on data consistency than portfolio company reporting flexibility."*

Another consideration that was raised throughout the sessions was that the decision is not always in the Private Equity firms' hands. Some attendees were from funds which predominantly held minority stakes in their companies, and this forces their hand as they cannot press these companies into a customised reporting approach and must take what they are given. This is where a PM (and / or data collection) tool that offers functionality to ingest various formats and languages on data, and curate them into a single format for the deal teams to digest becomes valuable.

3.0 Data Storage & Management

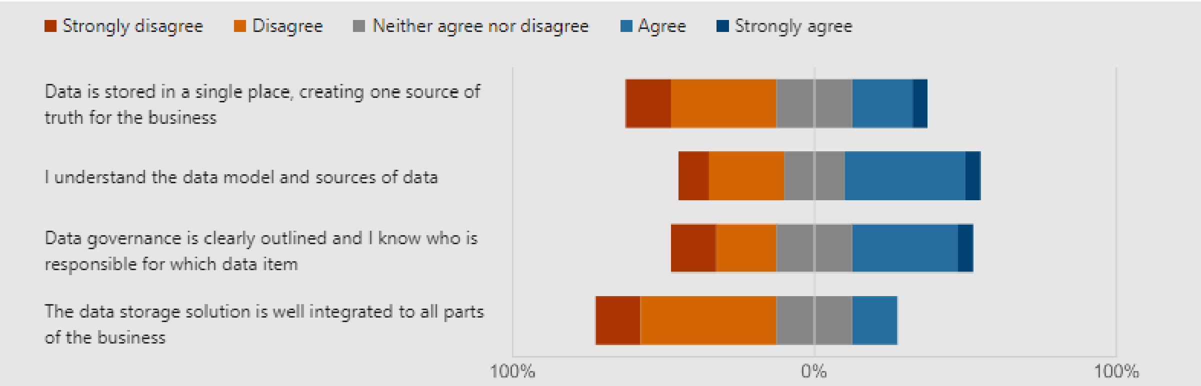

Fig.2 Questionnaire responses on Data Storage & Management

Is obtaining a single source of the truth essential in portfolio management?

The responses here highlight the fact that, currently, there is a need for a single data storage solution that is well integrated into the business. A solution to this, and a topic that was discussed within the roundtable sessions, is a move to a data warehouse model.

As discussed in the Data Collection section of this paper, many firms are prioritising a move toward a data warehouse model for their business. Why is this? The principal benefits of adopting a data warehouse are increased speed (and ease) of access and improved accuracy, both key metrics at the top of any data manager's priority list. In addition to this, participants in the roundtable session discussed how it will be used to aid with the valuation process and beyond.

However, some representatives in the room explained that they currently operate with a data warehouse but not many people in the business know how to effectively use it and get the desired data out of it, highlighting the fact that people and process change management cannot be left behind amongst technology transformation.

Who owns the data workflow? And who is accountable for accuracy?

When asked who owns the data collection, management, quality assurance and any subsequent adjustments, it revealed that different firms are taking different approaches here. For some participants' firms, it was strictly the deal team who managed this and insisted they are "*heavily opposed to outsourcing this*."

However, with the majority of firms represented at this event, the deal team had little to no interaction with the data collected until it was packaged into the relevant reports and / or dashboards used at portfolio review meetings. It was pointed out that this model leaves key person dependencies for one of the participants' teams, an issue confined to the smaller teams perhaps. A larger firm's representative explained that their firm has created a team of resources dedicated solely to data collection, before collaborating and passing through the PM teams. This was a model that other participants are looking to replicate as the task grows ever bigger. A driver behind separating the deal team from the data collection and management process was that dedicated resources will naturally have more incentive towards accuracy as it is a key metric of their success.

It was emphasized by all teams that a strong and consistent channel of communication between the PM teams and deal teams is essential. Lionpoint's Travis Broad pointed out that *"The need to feed the data into a centralized data warehouse is a consideration as it flows through teams within the firm – at what point are reviews being made and commentary being added?".*

Is a robust governance model the bedrock to secure data management?

Everyone in the discussion was in agreement that a robust data governance model is essential as firms move towards a data enterprise strategy. However, many admitted to not being at the level of maturity they should be, a likely indication of the market as a whole. One firm had *"recently adopted a data maturity framework which revealed that their data maturity was below the level they expected with governance and quality the weakest points"* and have since prioritised fixing this.

Other firms that have leant on the more liberal side of the standardised or not collection argument as discussed earlier are finding that *"due to varying definitions and governance control, many variances in reports and financial definitions started to emerge"* which has driven them to begin the process of more stringent and determined data governance.

Although at many different maturity stages, it is clear that all firms are realising the significance of data governance and control and are actively kicking off or accelerating their process to achieve this. An area all Private Equity firms witness that is key to have control in is the pre-reporting adjustments process; this was discussed between the groups, again with a shared mindset, but not always a shared approach.

It is well understood that *"The nature of the variety in PortCos and the data required from each of them makes it almost impossible to not expect adjustments",* and equally well agreed in the discussion that strong communication between the internal teams and company itself, and a strong audit trail are sacrosanct. However, varying maturities and approaches exist between them.

4.0 Data Analysis & ESG

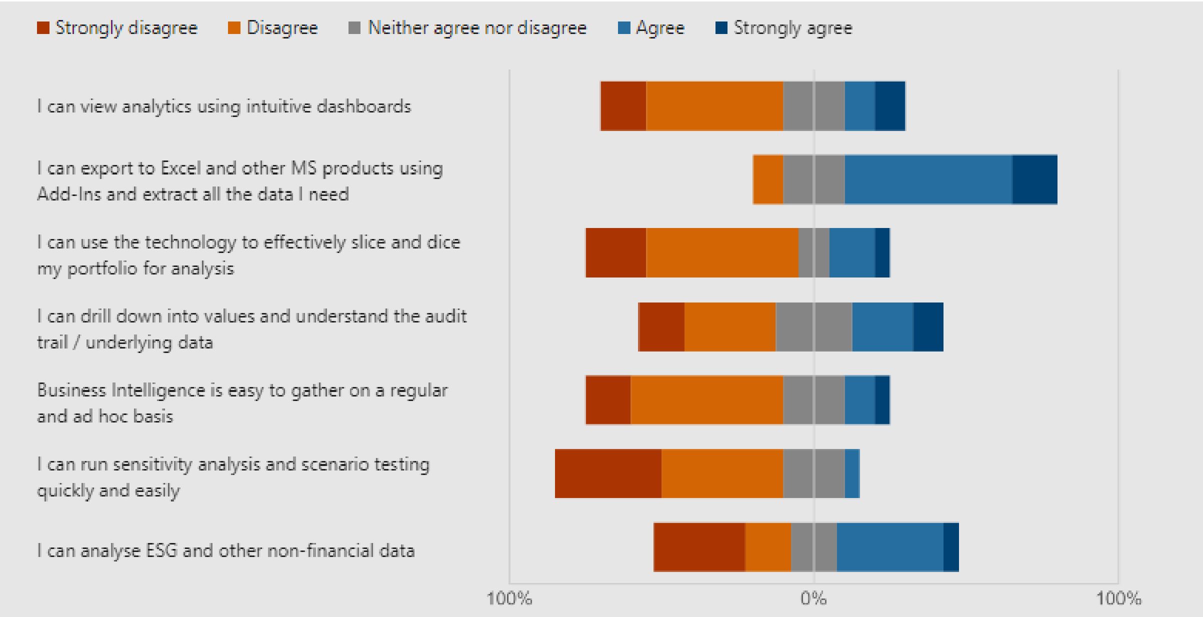

Fig.3 Questionnaire responses on Data Analysis

The feedback received from questionnaire responses on data analysis paints a damning picture of the current state of capabilities, and in doing so opens up opportunity for change and improvement.

The ability to analyse data in a live environment is becoming easier as PM tools improve their offering in this space. The fastest way to obtain adoption from the wider firm, in particular deal teams, into Portfolio Management upgrades is an impressive user experience, most notable slice-and-dice capabilities.

When it comes to valuations, all participants agreed that whether it is a central team using PM data with valuation approval workflow or not, maximising the use technology to decrease operational risk and create an audit trail of decision-making is essential.

Are we getting closer to a consistent ESG model across the industry?

A hot topic amongst the discussion, and the wider Private Equity world in recent times, is ESG. These sessions focused in on how firms are managing and applying ESG data obtained from their portfolio companies.

A big challenge all are facing is the establishment of ESG KPIs to measure against. Currently these are being devised and measured on a firm-to-firm basis, making industry benchmarking nigh on impossible. However, this is potentially going to change with the *ESG Data Convergence Project*. A number of represented firms are a part of the 200+ GPs and LPs involved this project which has the sole aim to converge measurement of ESG metrics across Private Markets. It is still early days for this project, but the impetus is definitely there and we can expect to see more consistent scoring and reporting in the near future. This consistency is key to investors when analysing and weighting their allocations on ESG.

However, when challenged on how GPs can quantify ESG metrics into financial data, Broad explained that "*this is a question that people have been trying to solve for a while. It is likely to have an immediate impact on funds raising capital, however we can expect that as SFDR comes more into play, there'll be a sudden shift to reduce reporting burden*."

In terms of industry tooling, over half of firms represented utilise a third-party tool for their ESG collection, reporting, and industry benchmarking. Others look to utilise their incumbent PM tool, with mixed results due to the complexity of the data structure. The consensus amongst the sessions was that where the market currently is, the use of ESG specific tools provides superior value and results than the incumbent PM solutions.

5.0 Reporting

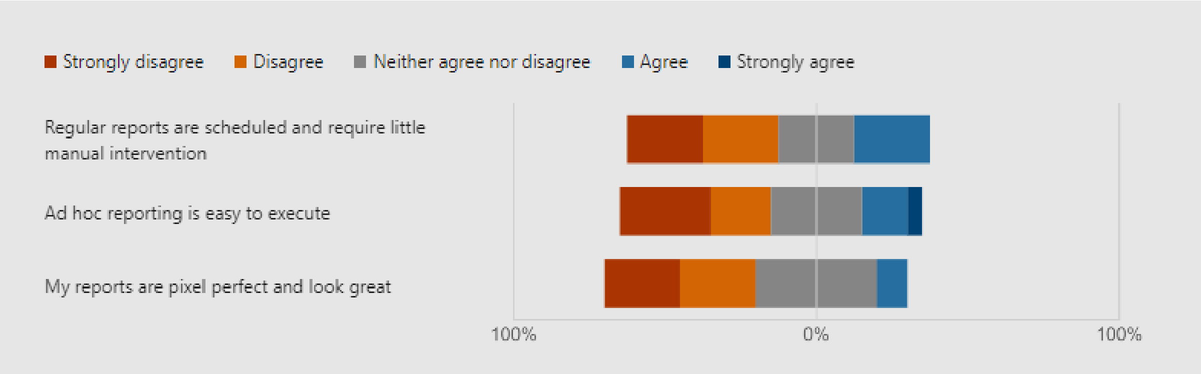

Fig.4 Questionnaire responses on Reporting

Reporting is an essential aspect to any Private Equity firm, and recent technologies have vastly improved PM tools' offerings. Perhaps these can aid with the poor response seen to question 3 in the graphic above. Amongst the participants actively looking for a new PM solution, strong reporting capabilities is consistently near the top of the wish list.

Are new technologies being utilised, or is nothing matching PowerBI yet?

Reporting is the culmination of all the groundwork laid out in the previous sections. In order to have a successful reporting function, and happy recipients of these reports, the data has to have been collected, managed, and analysed correctly. Broad noted, "*Most implementations we find begin with the reporting and ensuring the data points are accurate from the outset – the questions need to be asked whether something should be collected if it's not being used for reporting.*" With a strong data enterprise model, a team can have better flexibility when it comes to reporting requirements. This is something that was raised in the discussions that *"Internal and external reporting differ. External reporting is locked in and agreed. Internal reporting varies more, with differing requests coming in. Internal reports constantly change as a result of this."* Therefore having a tool that can allow for this is essential.

The discussions across the three sessions all led to the same question; are the reporting capabilities of PM tools better than PowerBI? This provided varied responses; some firms' solution is to utilise their PM tool for the data collection and management, and then drill straight into PowerBI for reporting purposes. However, the majority of discussion was focused on the capabilities of the PM tools themselves. Notably, those in the room who had recently been demonstrated, or are adopting the latest technology, were most vocal about the reduction in reliance on PowerBI.

6.0 About Lionpoint

Lionpoint Group is a trusted advisor among the leading private markets firms, with its consultants able to assist with a litany of use cases and throughout the entirety of the technology adoption lifecycle. From diagnosing opportunity in your firm, to system selection and implementation, Lionpoint stands alone in the market as a worldwide firm at the intersection of innovative technology and private markets.

To see how our firm can help accelerate your technology's capabilities, send an inquiry to info@lionpointgroup.com today.