


SUNGARD

DOING MORE WITH LESS - THE KEYS TO PRIVATE EQUITY EFFICIENCY

AN INVESTRAN WHITEPAPER

Doing More with Less - The Keys to Private Equity Efficiency

INVESTRAN QUICK FACTS

- 9 out of the top 10 PEI 300 use Investran
- 45% of Committed Capital on the PEI 300 is supported on Investran
- 1 Trillion USD are managed on Investran directly by GP's
- All 13 members of the Private Equity Council use Investran

KEY COMPONENTS


- Front-office portfolio and investor relationship management
- Centralized portfolio and partnership accounting and reporting system
- Web-based investor relations and portfolio monitoring tool

The uncertain nature of capital calls, as well as a fall-off in distributions, has been a source of uneasiness for private equity investors still reeling from the market dislocations of several years ago. Ongoing weakness in IPO and M&A activity – which, by reducing the frequency of private equity distributions directly impacts liquidity – has only heightened these concerns.

Reallocating assets so that potential capital calls on new partnerships could be funded by distributions of older partnerships has been a plausible defense mechanism for private equity investors, who may also choose to keep higher-than-normal cash balances on hand as an extra safety precaution. And yet this strategy often comes at a price, said Raj Vora, vice president of private equity at Chicago-based Northern Trust. "That is because investors usually hold the extra money in highly liquid, but low-yielding investments. With private equity investments, there's a high level of illiquidity and limited partners (LPs) can't count on selling just because they need the cash."

Hence, the need for more efficient and timely information gathering and disseminating methodologies persists, and today, limited partners are increasingly looking to their general partners (GPs) to provide them with models, scenarios and other prognosticating tools capable of forecasting the frequency and timing of capital calls, distributions and related activity. LPs are also taking a closer look at how efficiently private equity companies make use of management fees. Going forward, LPs and GPs will have to do more with less—while providing better services at the same time.

Ongoing regulatory changes worldwide have only accelerated the streamlining trend. Newly minted standards issued by the Toronto-based Institutional Limited Partners Association (ILPA), a non-profit association serving limited partner investors in the global private equity space, include templates covering capital calls, distribution notices and reporting of portfolio company financial information, part of an overall effort to improve efficiency while reducing the cost of private equity investment administration and monitoring.



“Streamlining data flow gives LPs more incentive to make fresh commitments of investment capital.”

Technologies That Address Inefficiencies

Solutions providers can help GPs boost efficiency on several fronts. First and foremost, they can employ automation to refine private equity accounting capabilities. This covers partnership accounting duties including partner transfers, subsequent fund closes, waterfall and carry calculations, as well as investment accounting activities like mark-to-market portfolio calculations, unrealized gain/loss calculations for market and FX movements, as well as income accruals for debt investments.

Commenting on behalf of Northern Trust, Steven N. Kaplan, professor of entrepreneurship and finance at the University of Chicago, suggested that having a private equity liquidity model on board could help investors more efficiently manage cash flows while allowing them to be better prepared for capital calls, rather than scrambling to boost liquidity at an inopportune time. “The limited partners want a sense of when cash is going to be called and when it will come back,” argues Kaplan.

Technology companies can also provide tools that can enhance private equity investor correspondence, giving users global online access to crucial data on-demand and around the clock, with the ability to manage content through an intuitive administration console. Replacing Excel spreadsheet usage – which, for many private equity companies, continues to be the chief method of data delivery – with a centralized multi-directional hub that can quickly prepare reporting related to portfolio company performance and other integral data is a major part of the streamlining initiative. But it doesn’t end there; augmenting e-mail storage, or installing a finely tuned customer relations management database, serve as additional resources for managers requiring greater efficiency.

Though the benefits of using private equity specific products are vast, these are not “plug and play” solutions, notes 4vco, the London-based private equity consultancy firm. Hence, a careful selection process, as well as a thorough understanding of the preparation and stages of implementation involved, is key to a successful outcome.

Efficiency Boosts the Bottom Line

A leading objective of any top-tier private equity firm is to bring greater operational efficiency to its portfolio of investment companies. Simply put, “GPs are now being asked to do the same for their own investors, which involves using systems that can support these needs,” remarked an industry spokesperson.

Meeting these demands requires substantial investments in time and technology. While facing considerable pressure from investors and regulators, GPs must at the same time grapple with substantial budgetary constraints. Particularly as fees continue to contract, firms will have no choice but to transition to a much smaller – and more efficient – business model. These and other pressures will compel GPs to transfer a greater portion of the firm’s day-to-day business processes to third-party providers. GPs stand to benefit in the long run, as investors are more likely to consider firms that have retained an independent party to help perform accounting and other administrative duties.

Above all, by improving efficiency through efforts such as portfolio construction optimization, as well as expanding and enhancing the flow of communications, private equity firms make it possible for investors to more efficiently monitor and manage their investment exposures. In the end, LPs that receive the information they need in a timely manner will be much more willing to make fresh commitments of investment capital.

Despite the wealth of solutions currently available, research from 4vco suggests that, to date, many private equity firms have yet to fully utilize the benefits of specialized software capable of improving internal and operational inefficiencies. However, as GPs continue to undertake “a healthy degree of introspection,” operational processes are now moving to the “sweet spot” of private equity firms’ attention.

“Initial resistance is often a sign of great need, and the switch away from a typical spreadsheet-based environment requires a significant level of focus and commitment,” says 4vco director Tony Piper. “But experience shows that early adopters of technology have gone on to receive handsome dividends from a relatively small initial investment.”

How SunGard Can Help

Supporting 300+ customers in over 20 counties, SunGard’s Investran is a fully integrated software suite that simplifies the workflows of fund investing, facilitating each step of the investment lifecycle from fundraising to project due diligence/evaluation to ongoing portfolio monitoring. The integrated front to back-office solution contains a true general ledger at its core that physically stores all of a firm’s investment and cash flow activity, empowering users with the accuracy of information, transparency into data and holdings, and foresight they need to proactively adapt investment strategies.

Over 13 years of experience has provided the Investran team with a unique perspective and ultimately delivered a solution that provides full transparency and comprehensive reporting.

For more information on Investran visit www.sungard.com/investran/learnmore.

SUNGARD INVESTRAN

ai.solutions@sungard.com

Americas:

340 Madison Avenue
New York
NY 10173
USA
Tel: +1 646 445 1018

Middle East:

Knowledge Village
Block 2A
Dubai
United Arab Emirates
Tel: +971 4 3911180

Europe:

25 Canada Square
London
E14 5LQ
UK
Tel: +44 20 8081 2720

Asia:

71 Robinson Road
#15-01
Singapore 068895
Tel: +65 6308 8000

100 Queen's Road Central
Central
Hong Kong
Tel: +852 3719 0800
Fax: +852 2869 6272

Australia:

Level 12
9 Hunter Street
Sydney, NSW 2000
Australia

About SunGard's Investran

SunGard Investran is an integrated application suite that automates front-, middle- and back-office processes for private equity and alternative investment firms. Investran helps improve business efficiencies to facilitate collaboration, support deal flow and automate accounting. Firms rely on Investran's integrated capabilities to help meet their needs in the entire investment life-cycle, including relationship management, reporting, monitoring, accounting, fund raising and deal pipeline management.

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Investran awarded **Software Provider of Year 2009 and 2010** by Private Equity News

About SunGard

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