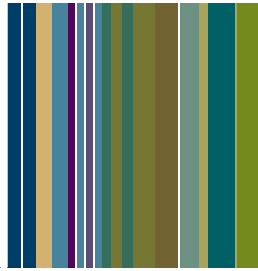




SUNGARD INVESTRAN



WHITEPAPER

General Partners: Greater Transparency

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Introduction

In today's competitive climate investors of all types are seeking greater transparency and detailed insight into the performance of their investments and this includes private equity investors.

Along with more favorable agreements and reduced management fees, investors are requesting comprehensive information about their GPs' portfolio company positions, valuations and exposures, as well as other pertinent details. No longer is historical performance a sufficient enough rubric for gaining new investment capital; if a GP wants the job, investors must be given the data.

A middle-market executive attending last January's 2010 Private Equity International CFOs and COOs Forum put it bluntly: "There is pretty much nothing that our investors could ask for that we wouldn't give them."

As part of its "Private Equity Principles" set of standards issued late last year, the Toronto based Institutional Limited Partners Association (ILPA), a non-profit association serving limited partner investors in the global private equity industry, included the following transparency guidelines:

- Fee and carried interest calculations should be transparent and subject to limited partner and independent auditor review and certification
- Detailed valuation and financial information related to the portfolio companies should be made available as requested on a quarterly basis
- Investors in private equity funds should have greater transparency as requested with respect to relevant information pertaining to the general partner
- All proprietary information should be protected from public disclosure.

This means that GP's must have robust and reliable systems to meet the ever growing demands for information. The days of relying on spreadsheets and archived information are gone as new information requirements are a daily event so it is essential to be able to respond in a timely manner.

Whilst this requirement is coming from LPs it is becoming a more common requirement from all investors. This means that GP's must have robust and reliable systems to meet the ever growing demands for information. The days of relying on spreadsheets and archived information are gone as new information requirements are a daily event so it is essential to be able to respond in a timely manner.

For GPs, the key challenge is having the right mix of resources to compile and process relevant information for its investors and fund managers, using the most appropriate and secure communication channels possible. In today's information age this requires the intelligent application of technology.

"Investors today demand to see private equity develop into an industry in which risks are systematically controlled, systems are demonstrated in use, investors are consistently kept abreast of developments good and bad, and value is added by dint of the GPs being smart, not lucky."

David Snow, editor-in-chief, PEI Media

More Transparency

Despite recent setbacks, private equity continues to gain favor among institutional investors. Surveys reveal that investors that have been active in the business for several years continue to be enthusiastic about private equity as an asset class, and will either remain at current levels or, in some instances,

may increase their allocations over the near term. Additionally, new pockets of capital are beginning to open up worldwide. Like their counterparts in the west, sovereign-wealth funds, pension funds and other investors in various emerging markets are seeking higher returning asset classes, and are looking to private equity to meet their needs.

At the same time, the events of the recent past have compelled these same investors to demand increased transparency and better reporting. "Investors want much more data, including information about portfolio companies, the status of other limited partners, as well as more detailed forward-looking information," said PEI's Snow in a recent interview. "And they want it sooner and also presented in a better format than has previously been the case."

General partners understand that meeting these demands requires substantial investments in technology and personnel. At the same time, GPs face substantial budgetary headwinds, including considerable pressure from investors to re-examine how management fees are calculated. All of which means that, going forward, GPs will likely have to learn to do more with less, while providing better services at the same time.

The vast majority of the market is comprised of middle-market and smaller firms, which, unlike their larger, better established peers, may find it more challenging to cope in an environment with lower fees and, consequently, fewer resources with which to adequately serve their investor client base. Hence, these companies are more likely to retain an outsourced service provider to upgrade current systems in order to improve the way they report and store information.

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David Snow, editor-in-chief, PEI Media

Moving away from Excel spreadsheet usage, to date the default method of disseminating private equity based information is a key part of this effort. "Different firms will reach pain points at different times, and therefore will upgrade based on individual need," says Snow.

Customize Me

While their needs may vary, most GPs can agree on one thing: one-size-fits-all solutions are not acceptable. Says Snow, "In addition to the upgraded technology, firms also need real customization, not to mention a fair amount of hand-holding. And because there is no mandated standard, everyone is going to approach the business a bit differently – as a result, they will benefit from the kind of new technology system that can be customized to the experiences and the preferences of the individual firm."

At a SuperReturn private equity conference held in Berlin earlier this year, LPs voiced their concerns over issues related to GP transparency. While the flow of information has increased, many LPs say there is still plenty of room for improvement, particularly in areas such as portfolio performance and new deals. Attendees at January's PEI Forum concurred that GPs need to boost their accounting and valuation capabilities, including more frequent financial reporting which will reduce reporting windows to below 30 days.

Conclusion

Unlike the heady climate that produced the huge gains pre-crisis, today's private equity returns are much more modest, and are largely generated by real market fundamentals. Understandably, investors now expect much more thorough servicing in order to justify the expense and energy needed to maintain a private equity program.

Consequently, investors are being far more selective about where their money goes. "Investors are basically doing an evaluation

of the firm itself in order to determine the quality of the firm's infrastructure," remarked an executive attending the January PEI Forum, "and if the investor doesn't like what it sees, the GP may not get the commitment."

So what's in it for GPs? A lot more equity, say experts, who argue that investors who receive the information they need and in a timely manner will be much more willing to make fresh commitments of investment capital.

In order for private equity firms to continue to be successful fundraisers, they will be compelled to meet the many due diligence requirements of their investors. Says PEI's Snow: "Before any investor makes the decision to commit funds to a particular GP, the first thing they are likely to say is, 'Show me your systems, because I'm not going to hand over the money unless I'm sure I have the transparency into the content and material you are going to deliver, and in a timely fashion as well.' Investors want to be much more active and involved, they want to fully understand the dynamic of the funds at hand – the days of the 'passive investor' are really over."

Armed with the right kind of technology, general partners can deliver what their investors want when they want it.

In short, using a streamlined front, middle and back-office integrated system can pave the way for the kind of timely and comprehensive reporting mechanisms that will continue to be a leading requirement of investors as the industry moves forward – and, in turn, create a far more collaborative and harmonious relationship between GP and investor.

How SunGard Can Help

SunGard's Investran can help GP's alleviate frustration around the ever-increasing flow of information and data requirements.

Supporting 300+ global clients of all shapes and sizes, Investran is a fully integrated solution encompassing front-, middle- and back-offices for private equity and alternative assets firms. An independent services provider, SunGard Investran is sensitive to changing market requirements, with a client base that includes 140+ GPs. Over 13 years of experience has provided the Investran team with a unique perspective and ultimately delivered a solution that can answer both parties challenges with full transparency and comprehensive reporting.

Investran is fully web-enabled, with centralized portfolio and investor accounting and reporting, giving a single entry point for data firm wide. Investran provides users a with on-demand access to more detailed, granular reports (which include accounting data commitments, capital balances, financial statements, IRR's and time weighted returns).

Investran's robust back-office functionality for accounting and reporting maintains a true physical general ledger and embodies an in-depth knowledge of the entire accounting process to increase GP efficiencies.

For more information on Investran and SunGard's portfolio of alternative investment solutions, visit:

www.sungard.com/investran/learnmore