

You're Navigating Major Changes in Private Markets

Shift to Modern Administration



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Modern Administration

It's never been harder to be an investment manager.

Private markets are changing fast and investors are demanding more from their investment managers than ever before. When GPs fall short of rising expectations, investors are unforgiving. They have plenty of investment options—ETFs, municipal bonds, large buyout funds, syndicated venture deals, emerging market stock exchanges, fine art, and fractional ownership of second homes all accessible at the click of a few buttons—and it's easier than ever to re-allocate their portfolio.

Aside from your relationships with LPs, the rest of your business is becoming more demanding to run. Deals get done faster. Data is everywhere. Stakeholders expect meaningful insights, immediately. And all of these changes are happening against a backdrop of globalizing capital markets and complex domestic and international regulations.

Just reading this is exhausting! No wonder it feels challenging to run your investment firm.

For many GPs, the solution is to outsource administration. However, the traditional administration model—generally scoped to include only financial reporting, accounting, and other administrative workflows—is limited and not adaptive enough to respond to changes in private markets.

Yes, it provides investors with peace of mind knowing that a third party is managing the books and it offers GPs other administrative support. But with both the industry and the world rapidly evolving, GPs need their administration partner to help them navigate these changes.

Fundamentally, GPs need their administrators to be an ally—one who not only meets their needs today, but enables them to survive and even thrive years into the future.

01 / A new underwriting logic for choosing an administration partner

“All right,” you may say, “I need to look for an administrator that is prepared for the future and aligned with the needs of my business and my investors. But how exactly can I ensure I’m selecting the right partner?”

Put on your investing hat for a moment. You start with an investment thesis and then screen for opportunities that fit that thesis. If an investment opportunity makes the first cut, you begin underwriting.

Most underwriting models transform relatively consistent inputs to produce relatively standard outputs (IRRs, multiples, etc.). But there’s no similar underwriting framework for evaluating your administration partners.

You could start with a series of boxes they need to check with their services. You need them to produce financial statements. Check. You need them to manage treasury and send reports. Check.

Those capabilities are table stakes. But to prepare for the future, you need a partner with a forward-thinking approach to administration, not just a series of checkmarks next to a list of activities.

You need modern administration.

Modern administration is more than a list of administrative outputs. It’s an approach to administration that takes responsibility for navigating GPs through a changing environment, focuses on business drivers, and is built on top of the culture, technology, and skills needed to deliver compelling solutions to emerging challenges.

Through our work with more than one thousand GPs and counting, we’ve developed a deep understanding of what they need to administer their investments, impress investors, and optimize their operations against a backdrop of rapid change. We’ve also seen more than a few occasions when things have gone awry.

Whether you’re a first-time fund manager or you’ve worked with the traditional administration shops, whether you manage funds or invest deal by deal, we’ve found that market-leading managers overweight these factors when searching for an administration partner:

- Anticipates investor demands and provides the technology and support so GPs can actively strengthen relationships with LPs
- Adapts to a world of data ubiquity by structuring data and emphasizing security, aggregation, and reporting
- Responds to demands for automation while enhancing controls
- And critically, has the culture and the skills required to tackle over-the-horizon challenges

02 / Deliver a better investor experience with the support of modern administrators

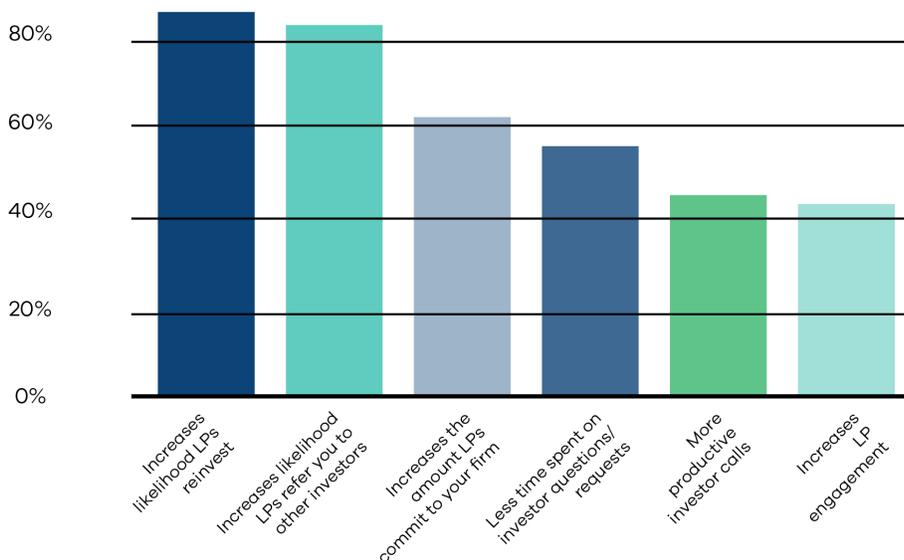
Investors have been conditioned by our digital world and ever-present consumer technology to expect an intuitive, secure, and visually appealing experience when managing their investments. And these expectations will only increase as new generations of talent become the decision-makers for how both individual and institutional capital is managed.

Those decision-makers have an ever-increasing array of both exotic and traditional investment offerings. Ultimately, all of these options compete for the same investment dollars that you do. While some of today's new investment strategies may not endure, one thing is here to stay: technology is enabling the proliferation of investment opportunities and making it easier than ever before to access and manage those investments. Plus, the experience investors have managing their investments is continually improving.

More and more GPs are stepping up to meet the expectation of a better investor experience. In the process, they are fostering deeper relationships with their LPs. Delivering an exceptional experience at each touchpoint in the investor relationship will engender trust, loyalty, and can lead to referrals—a chief driver of growth for investment firms.

Investing in the LP experience is worth it

What impact does a great LP experience have on your business?



Craft the experience

Investment management is like any relationship—a strong first impression followed by ongoing cultivation is what leads to a successful partnership.

That first impression ideally forms in a face-to-face meeting. But in an increasingly digital-first world, that first impression often happens over a screen followed up with electronic information about your firm, your track record, and an upcoming deal or fund. Use technology to solidify that positive first impression with deal rooms that are attractive and professional. Make them easy to navigate and content rich. And signal that you take data and cybersecurity seriously.

Once a prospect completes their diligence and you both agree there is a fit, the next step is to formalize the relationship. Subscriptions can—and should—be the celebration of the beginning of a multi-year relationship with your investors. You should be able to give your investors a digital subscriptions workflow that's easy to follow and allows them to involve other people connected with their account in the process (because you want their accountants, lawyers, family members, and advisors to also leave with a good impression of your firm). Doing subscriptions well builds on the early momentum you've created with your investors. It also just makes administrative sense by streamlining workflows and cleanly structuring your data for future reporting.



The idea of handing over your subscription process to a third party may seem hard at first. It's your first touch point with an investor who is potentially investing millions of dollars with you. It's natural for firms to want to manage their subscriptions internally and make sure everything is perfect. But we found that having an extra set of eyes actually exposed problems and inefficiencies.



Jeff Goldstein
Director of Finance,
ACRE Management

In a world where your digital presence can decide relationships, you should impress increasingly tech-savvy clients efficiently and at scale. An investor portal is a must have, and it must be more than a repository of PDF statements. Ideally, it's designed from an LP's perspective, intuitive, easy to use, friction free, and provides insightful content that's uniquely relevant to the client, and accessible anytime, anywhere on any device. And you should expect a portal with demonstrable improvement over time.

Great investment firms put their investors first. But crafting the LP experience requires focus, and it's just one of many responsibilities GPs are managing. Find an administrative partner who shares that investor-first mindset and brings ideas, perspectives, and data to help you deliver experiences that keep your investors engaged and committed. When you've found this, you can feel confident that you're allied with a modern administration provider.

Strengthening the LP-GP Relationship

IRA Capital (IRA) is a fast-growing private equity firm based in Southern California. IRA prides itself on building strong investor relationships based on a foundation of trust and mutual respect. An investor portal has been an instrumental tool in supporting the unwavering commitment IRA has for its clients, which are a mix of domestic and internationally based pension funds, institutions, family offices, and high net worth individuals. "The comprehensive and customizable digital presence is what today's modern investor is looking for. We now get calls and emails from investors that say the investor portal is amazing and exactly what they were looking for. They tell us it's leaps and bounds ahead of what we did before, especially in terms of reporting and access to information," says Principal Amer Malas.



Amer Malas
Principal,
IRA Capital

Questions to ask an administrator:

- How do you handle subscriptions from a returning investor?
- Tell me about the last investor-facing enhancement you released?
- How do you assess where there are opportunities to create a better experience for my investors?
- How would you recommend I improve my investors' experience?

03 / Modern administrators make data work for you

Billion-dollar companies have emerged because of the data they can secure, provide, or manage. But data is like water—it's necessary to thrive, but it can be tricky to manage and requires proper plumbing and infrastructure.

Without a plan for managing data, you can easily feel like you're at its mercy, trapped for hours in data purgatory, rather than feeling like it's responsive to your expectations.

Great investment firms have a strategy for managing data from start to finish. That strategy must address at least three primary concerns: security, aggregation, and reportability. But as any true data expert would attest, there's far more to it than that when it comes to data management.

Security comes first. You're the guardian of investor information, and protecting it is paramount. Any administration partner should have a technical and behavioral strategy for security of your data. Protections like two-factor authentication should be standard, and you need to be able to audit what's going on in the system. Emailing private investor information in unprotected PDFs, failing to control changes to payment instructions, or having a high turnover of people who can access your accounts are all security vulnerabilities that you can—and should—avoid. Dig deeper to make sure security is part of an administrator's DNA.

Investment firms are learning that aggregating data can be a case of 1+1=3. For example, pairing investor CRM data with financial position data means an out-of-the-blue phone call from an investor to your Head of IR doesn't lead to a scramble of running down the hall or typing chats back and forth to get information from a co-worker. It shifts the conversation from the tactical "can I get the data" to the strategic.



We handle a lot of sensitive data such as personal tax and subscription information, and we are always looking for better ways to securely transfer that information. We never want to trade convenience for security, and this helped solve that for us.



Joe Stampone
Director of
Investments,
Atlas Real
Estate Partners



Once data is secured and aggregated, the best firms are delivering rich reporting to multiple stakeholders. They provide their internal teams with fundraising analytics on a modern business intelligence dashboard within their investment management system and they ensure their investors have the details they need about the portfolio.

According to our recent Investment Operations and Administration survey, nearly 60% of GPs expect LPs to increase the breadth and depth of their reporting requests. An effective administration partner can help you address those requests so that you save time on reporting activities and give your investors the intelligence they need. This could include in-system generation of ILPA capital activity supplements or other common industry reports. With structured data and in-system aggregation and reporting, you're closer to a world where your data really does work for you, rather than you working for it.

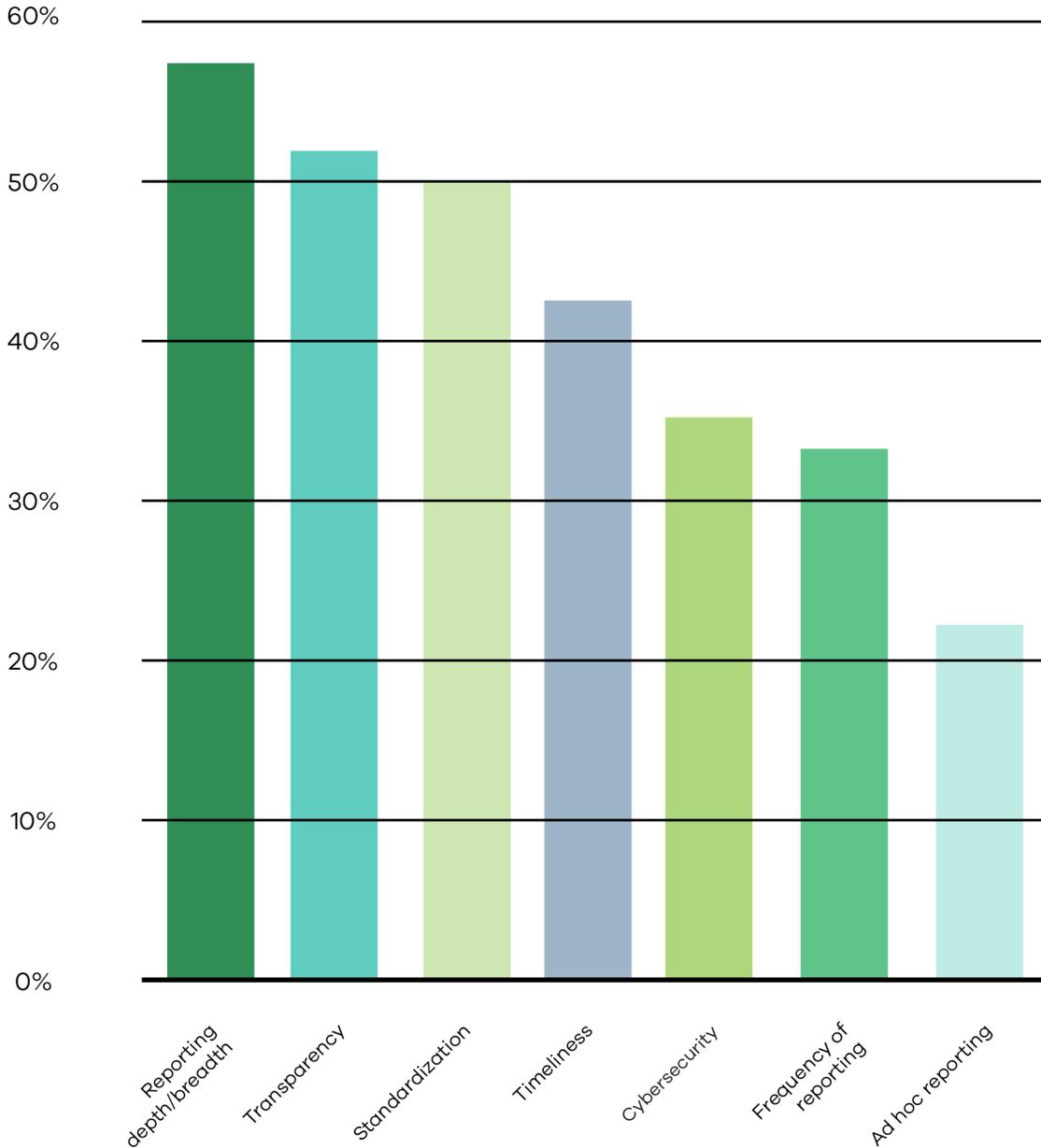
Make sure you have a modern administration partner who can be both a motivator and an ally in structuring, managing, and finding value in your data.

Questions to ask an administrator:

- Can you share your framework for data security?
- How can you help me find value in my data?
- How do you integrate CRM data with my financial data?
- How do you translate data into reports and insights for my end users?
- How have you seen LP reporting expectations change?

Reporting demands expected to increase

Which investor-driven demands do you expect to increase over the next 12 months?



04 / Modern administrators build for automation while enabling controls

In today's world, we rely constantly on automated systems. Whether it's booking a hotel online, plotting a route to avoid the rush hour traffic, or causing a package to magically appear at your door in two hours, the ability to automate previously manual processes has altered entire industries (many of which may be in your portfolio or lease space in your buildings).

However, there are certain cases where people generally want to be able to verify that automated processes are working correctly. Financial matters are one of those. Take credit cards, which while they make it much easier to pay for any number of items, sometimes require a second review. That's why credit card companies have designed their systems to be easily auditable, by allowing you to view a record of your transactions simply by logging into an app. And some even go the extra mile, proactively asking you to verify certain transactions that look suspicious.

Finance professionals understand that automation can reduce risk. Tasks done "in the system" are stable, consistent, and formulas can't be fat-fingered or broken when columns move and someone used vlookup instead of index match. Automatic waterfall engines, capital call calculators, in-system statement creation, and direct links between your portal and your investment statements reduce the chance for errors. Automation can also make it easier to report to investors, close the books, or speed up distributions.

But spreadsheet-based work offers the calming reassurance that, upon inspection, errors can be found and results replicated. Plus, the annual audit is always lurking in the back of the minds of fund managers.

Administrators need to help you prepare for external reviews and their technology should deliver the accuracy and efficiency benefits of automation while still enabling the controls you expect.

Automation is the future, but make sure your administrator enhances your responsibilities as the reviewer. Consider asking potential administrators the following questions:

- What calculations are automated in the system today?
- What preparation would be required to hand these calculations over to our auditors?
- How am I involved in the review process?
- What gives you confidence in your ability to automate additional activities?

05 / Modern administrators
have the mindset, culture,
and skills to solve
upcoming challenges

As a GP, you're acutely aware of the importance of talent and culture. You understand that you need the right skills in a variety of domains (underwriting, investor relations, legal, finance, etc.), but to generate great returns, you need more than just a collection of CVs. To succeed in investing, you need an organization and a team that can select and manage investments and is thinking ahead to solve future challenges.

You should think of administrators the same way you think of your own firm. Yes, an administrator needs to have sufficient resources with the relevant skills to perform the tasks required. But in the face of managing more data, rising to heightened investor expectations, and operating within an evolving financial landscape, that expertise alone isn't enough. You need an administration partner with an adaptive mindset whose organization has been designed from the ground up to solve over-the-horizon challenges.

How do you know an administrator possesses these traits? Look for things like whether they pair deep domain expertise with a high value on learning. Do they have both the incentives and the capabilities to undertake thoughtful but prudent experimentation and boundary stretching? Do they always operate with the presumption that a better approach exists than the status quo, especially as new challenges and opportunities alter the landscape?

It's critical that your administration partner has subject matter experts in finance and accounting who can solve your administration challenges. And a truly modern administrator can hire great talent in those areas since the people who know the administration industry best are often the most frustrated by its archaic processes.

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Our partner is intuitive. Their software clearly reflects an understanding of investment accounting and their investor portal features were compelling for the future.



Jake Roland
Senior Director
of Finance,
Greystar

You should also look for an administrator who convenes teams of leading engineers, product managers, and design experts to solve administration challenges. By bringing together people who specialize in innovation and building technology with people who know the financial side of the business down to the penny, a modern administration partner can both conceive of and execute on novel approaches to problems that its competitors may not even realize exist.

By selecting an administrator who combines financial expertise with leading innovation/technology capabilities, you can expect that what you're getting today will be even better one to two years down the road. Plus, it's extra assurance that you have a well-rounded support team in place to help you maneuver through emergent challenges in investment management. And you can rest easy that your administrator is unlikely to be blindsided or caught flat footed in response to new developments.

Questions to ask an administrator:

- What skills do you think GPs will need to administer their investments as private markets become more open and accessible?
- How have you structured your hiring strategy to deliver those skills?
- Tell me more about the technical and design functions at your organization.
- Tell me about some recent cross-functional initiatives where finance worked with other teams in the organization.

06 / Confidently navigate changes in private markets

Private markets are changing fast, pushing old assumptions and mindsets past their limits. GPs who don't update their thinking or their businesses accordingly risk falling behind.

GPs need administrators who take a modern approach to administration, and underwriting them requires a new mindset and new criteria. The most successful managers in the future will seek out administration partners that demonstrate that they have the culture, technology, and skills to continually adapt to the changes you're facing. And their primary focus needs to be on pushing your business forward.

With a modern administration partner at your side, you can confidently navigate changes in today's private markets. Finding that right partner should be like finding your prized investment, the one you plan to hold for the long term.

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Our administrator is a natural extension of our firm. Their integrity, attention to detail, and alignment with our interests makes it feel like everyone is pulling the oar in the same direction. From our investor interface to fund administration, they are truly a part of our investor relationship team and we couldn't be happier.



Michael Hoffenberg
Managing Partner,
Trevian Capital

Questions to ask an administrator:

- What challenges do you think I'll face in the future?
- What do GPs need to do to be prepared?
- How do you view your role as an administrator?