

Pressure mounts to improve IT systems

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Fund administration software has undergone significant development over the years as the private equity industry has grown more institutionalised, but buyout firms face further demands for improvement in response to calls for better transparency and risk management.

Such issues are among the biggest pressures the buyout industry has faced since the onset of the financial crisis, and were highlighted by the European Commission's approved text of the Alternative Investment Fund Managers directive, which requires greater transparency.

Elspeth Goodchild, managing director at software provider 3i Infotech, said some of the pressure for greater transparency had come from investors, who are keener to know more about their investments and private equity firms' portfolio companies.

She said: "[It is about] being able to respond quickly and accurately to requests you get from investors and enabling the technology to provide that without having to go back to the supplier all the time." She highlighted the growing importance of portals to give investors easier access to data online.

David Bailey, a managing partner at Augentius Fund Administration, said: "There will be additional reporting. This is probably just the tip of the iceberg of the regulation of the alternative investment industry."

Justin Partington, commercial director at fund administrator Ipes, said: "The investors want to know if there is a problem at the portfolio level earlier; their core issue is transparency – for example with debt covenant ratios – at the first sign of a problem they want to know how it will be addressed including when that debt needs to be refinanced, and how."

Emanuel Mond, president of the alternative investments business at SunGard, a technology provider owned by a consortium of buyout firms including Blackstone Group, Kohlberg Kravis Roberts, Silver Lake Partners and TPG Capital, said risk management had become more important in the past year. He said: "There is a lot more interest in risk management.

That has become an important area, along with the concept of cashflow forecasting. These are areas where demand is increasing and there is definitely an increased appetite for people to understand more about these concepts."

Olivier Dellenbach, founder and chief executive of software provider eFront, called risk management "the missing part of the system".

However, there are concerns over whether technology will be able to cater for this need.

Partington said: “We have to get systems to track new concepts on how risk is managed. Some of these concepts such as exit prospects, key-man risk and refinancing risk are not well-suited to a system anyway – the data sets are now more judgments than calculations.”

With the increasing focus on software during the crisis, technology providers have turned their attention to improving systems to cope with tax accounting changes and complex deal structures.

Chris Adams, head of product in the alternative investment managers business at BNP Paribas Securities Services, said: “What we are seeing are players in the industry increasingly demonstrating to our clients they are heavily investing in this sector.”

Paul Compton, head of product management in the alternative investments business at SunGard, said customers had increased appetite for hosted systems, whereby the client uses an internet-based product instead of managing it in-house.

He said this required fewer resources at the buyout firm and was particularly attractive to small funds with lean operations.

The private equity fund administration market is dominated by a handful of providers, according to administrators and technology companies such as SunGard, eFront and 3i Infotech.

SunGard was founded in 1982 and taken private in 2005.

Its private equity package, Investran, aims to address a buyout firm’s requirements across a house’s entire life cycle, including relationship management, reporting, monitoring, accounting, fundraising and deal-pipeline management.

Investran comprises three products – Investran Accounting (for transactions), Investran CRM (for client information) and SunGard DX (for web-based investor relations).

3i Infotech has more than 1,500 customers in more than 50 countries and its private equity-focused system is called Framework.

Used by firms collectively managing more than \$200bn of alternative assets, Framework’s functions include relationship and dealflow management and investment monitoring.

eFront’s main offering is FrontInvest, which covers all alternative assets. Jeff Green, head of business development at eFront, said FrontInvest’s best features were its reporting capabilities, its dashboard – which enables executives to build an easily accessible list of a firm’s most important issues – and its cashflow forecasting, which consolidates Excel documents into a single system.