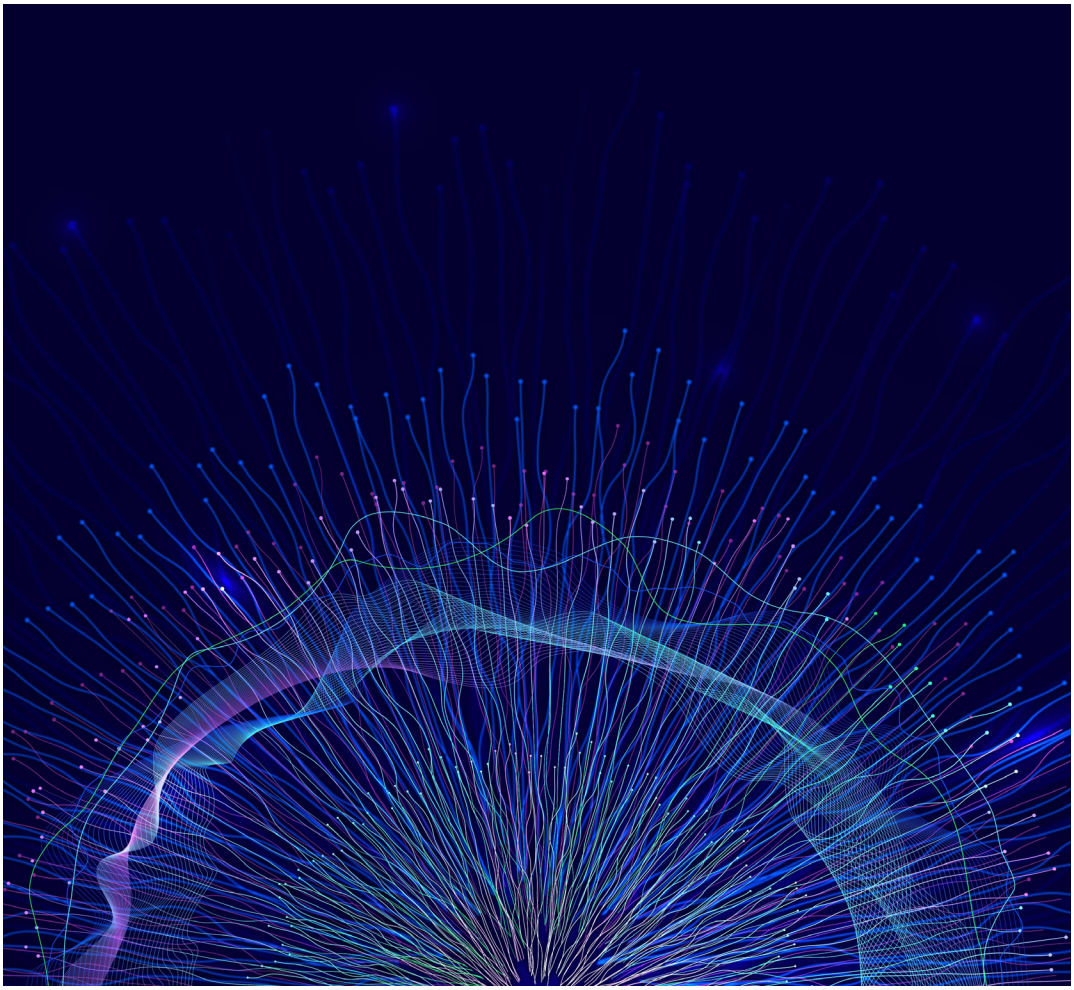


THE COMPETITIVE EDGE: INNOVATIVE TECHNOLOGY AND PRIVATE MARKETS

A look at how private equity firms are adapting their operations to keep pace with shifts in the industry

PRIVATE EQUITY WIRE

- Data management, reporting and compliance are the top tech investment areas for firms
- Static files remain the main form of communication with investors, although portals are on the rise
- Portfolio monitoring and investor servicing are two functions that most managers would never outsource

Fundraising challenges persist in the world of private equity (PE) – cited by nearly half (46%) of the 60+ respondents to Private Equity Wire's Q4 2024 General Partner (GP) survey as a significant headwind facing the industry, and ranking first on the list. Growing pressure on returns, accentuated by a muted deal landscape, ranked second, cited by 34%. And, in a market where the supply of capital and quality assets are both constrained, increasing competition (14%) is also a growing concern.

These conditions have been constant over the past 18-24 months, bringing a fair share of operational challenges. Innovations in technology, however, can help fund managers ease the growing pressure on their operations teams and make their investment strategies – and their investors' money – work harder. Ferhat Ansari, Head of Private Capital Markets at FIS®, says: "Today's private equity operations are certainly under pressure. But as these survey findings show, fund managers are looking to innovative technology to not only ease the burden but also unlock more opportunities for growth."

A major driver of operational challenges has been the increased diversification of investment portfolios, with our survey revealing that 39% of funds are focused on the diversification of assets and 36% on expanding their retail investor base. Fund managers that meet the operational demands of diversification will be in a stronger position to drive growth.

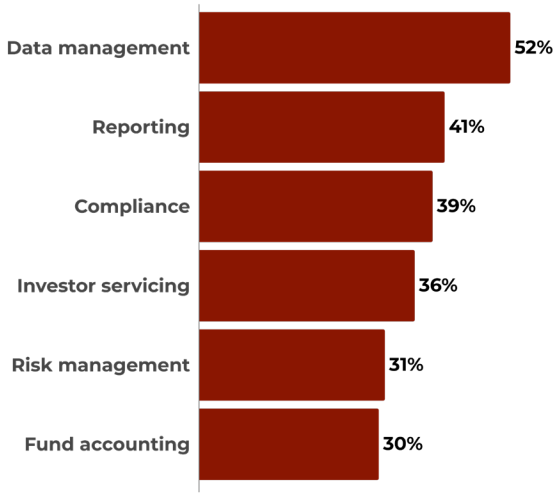
CAPACITY BUILDING

As firms move to offer a wider range of products and asset classes – credit, secondaries, and continuation funds being notable examples – and look to service a higher volume of investors, comparisons are being drawn between the operational intensity of the modern PE market with that of public markets.

What follows is a focus on technology to streamline an increasingly intensive operational burden. Our survey reveals clear intent in this direction – with data management (52%), reporting (41%), and compliance (39%) being cited by most firms as their priorities when it comes to tech investments over the next 6-12 months. Around a third each of firms also plan to build out their investor servicing (36%), risk management (31%), and fund accounting (30%) functions through technology.

Keeping tabs on both risk and performance across increasingly complex portfolios appears to be the

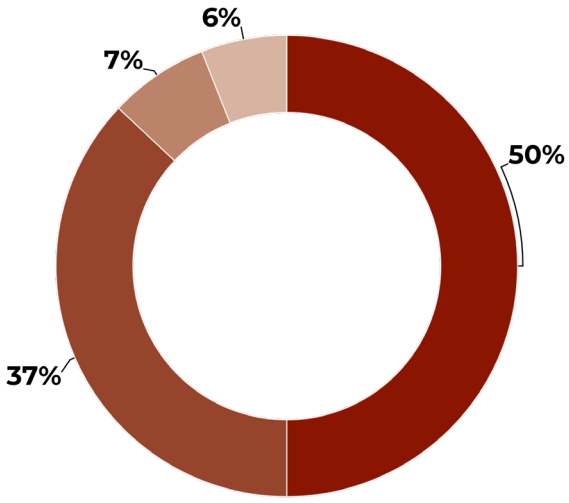
Figure 1 Top six areas for tech investments (next 6-12 months)



Analysts note: Respondents could choose multiple options.

Sources: *Private Equity Wire GP Survey Q4 2024*

Figure 2 Preferred mode of investor communications



Sources: *Private Equity Wire GP Survey Q4 2024*

need of the hour. Managers are also prioritising a modern and sophisticated limited partner experience – further evidenced by a quarter of firms planning to spend more on investor onboarding tech in the near-to-medium term.

Ansari says: "In a tough and highly competitive market, GPs are under increasing pressure to raise funds and win and retain investors – and technology can help them meet these objectives. It is no coincidence that fund managers are focusing much of their investment in technology that improves the investor experience and put investors' money to work.

"With the latest solutions for data management and reporting, for instance, firms are in a stronger position to deliver real-time insights to investors on demand. And with integrated tools for compliance checks and other parts of the onboarding processes, they can help get relationships off to the best start."

Multiple factors are at play here. Institutional investors are evolving their investment operations, and baseline expectations are rising when it comes to digital infrastructure. Managers seeking the edge in a competitive environment will need to have certain features in place. In addition, a move down retail channels will push firms to mirror the consumer investment and banking experience, which is far more advanced from a digital standpoint.

OUTSOURCING PRIORITIES

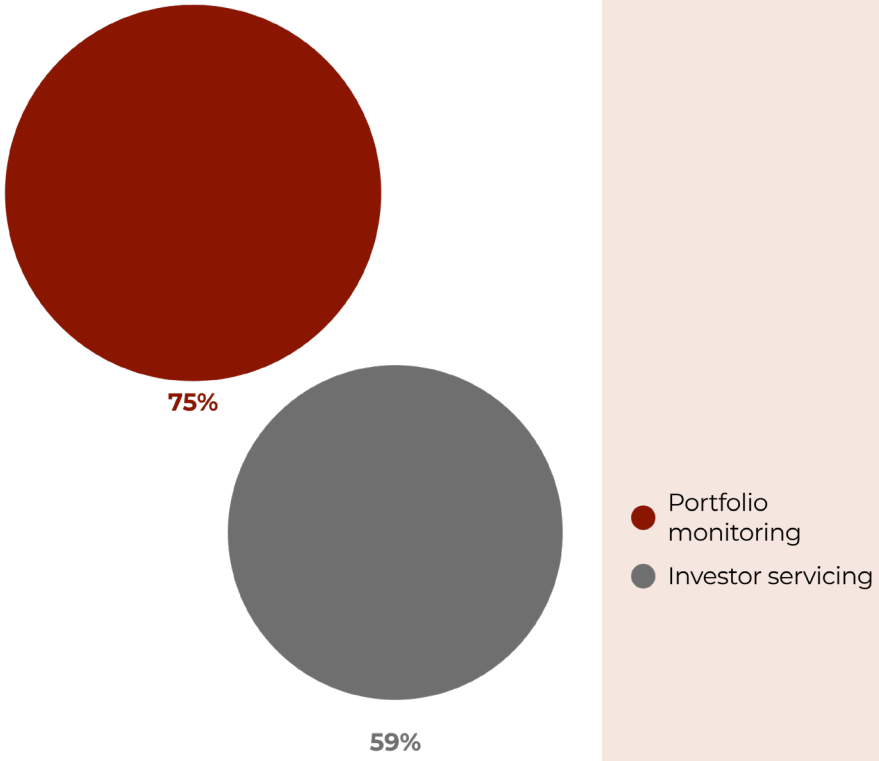
The intent to modernise is clear, though firms are looking to transform organically. Interestingly, the top two priorities – portfolio monitoring (75%) and investor servicing (59%) – are the two functions that the biggest share of firms said they would 'never outsource'.

Smaller but still significant numbers were against the idea of outsourcing valuation (38%), fund accounting (31%), and compliance (28%), while firms are largely satisfied with leaning on third parties for their tax needs – with only 10% being firmly against outsourcing tax work.

Whether firms build systems internally, work with a technology partner or outsource their operations, it's clear that the PE market of the future is one where technology will play a critical role. Amid fierce competition, a faster pace, and high customer expectations, an optimised financial ecosystem helps PE operations work in harmony from the front office to the back.

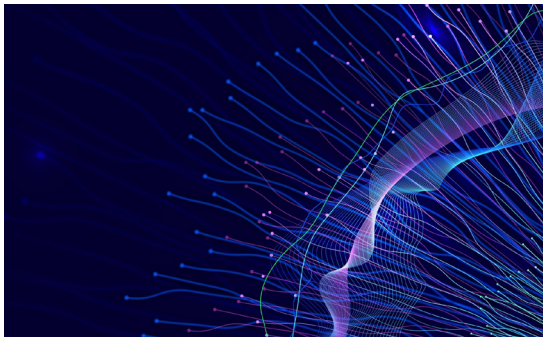
"Technology is now playing a more critical role than ever in helping GPs reinforce their fund operations and boost their competitive advantage," says Ansari. "Wherever there's an operational challenge, there's an innovative technology solution to help improve efficiency, unlock growth, and put money to work." ■

Figure 3 Top two functions GPs would never outsource



Analysts note: Respondents could choose multiple options.

Sources: *Private Equity Wire GP Survey Q4 2024*



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