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# KEYNOTE INTERVIEW

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## Why data mastery is mission critical for PE



*Nimble data systems can help managers keep pace with regulatory, tech and operational developments while they focus on growing their portfolios, says IHS Markit's Dalen Chow*

**Q As private markets portfolios continue to expand, how will the GP-LP relationship evolve and what challenges or opportunities will that create for fund managers?**

Over the last few years, private capital markets have become increasingly competitive as investors look to drive alpha. The GP-LP relationship continues to ebb and flow depending on the supply and demand for capital. As LPs demand more transparency, that requires GPs to develop greater information capabilities in order to meet their needs. This has been the case for the last few years, and ESG regulation and the pandemic have increased that

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trend. Funds are formulating their reporting packages ahead of deadlines for regulatory scrutiny and scrambling to figure out what their ESG policies and processes should be.

LPs will continue to increase their demand for more data transparency and, at the same time, some will continue to expand their direct portfolios. The recent emergence of special-purpose acquisition companies highlights another friction point. There are competing priorities for a firm managing their traditional fund while also using

fund resources to raise SPACs which do not benefit the LP base. There is also concern around potential competition between funds and SPACs for the best deals, especially when the fund and SPAC have overlapping strategies. This will maintain the real and perceived tension that GPs face, which is continuing to provide more transparency to a market that might well be competing with GPs in direct deals.

As the lines between partners and competitors blur, better relationships will only come through transparency. Those with the strong systems and data in place to respond and adjust in a competitive environment will find themselves ahead.

**Q Given the fast-moving operational, regulatory and technology landscape, where will managers need to focus their investment to stay competitive?**

There are many topics that are relevant here, perhaps the biggest of which is ESG. As ESG regulation continues to grow in complexity, it will have an impact across the investment management lifecycle. The EU Sustainable Finance Disclosure Regulation is just the latest example of that. As sustainability becomes more prominent, GPs will need the reporting power to respond across asset allocations, due diligence, data management, portfolio reporting and all aspects of risk. There is strong interest in sustainability and future-proofing portfolios from an ESG and reputational risk perspective.

For the large multi-strategy private equity firms we work with, there are several challenges. The first is around internal resources – often firms need to procure resources to collate and benchmark this data. Then firms need to determine their approach – do you centralise the function or embed skills within the various strategies, and do you adopt one of the well-established ESG frameworks or create your own, for example. How do you think about the ESG footprint of an entire portfolio in addition to the underlying assets, for example.

Other considerations are how you integrate that into the underwriting process, how you handle internal training, what data points you report on, how you address diverse LP requests and how you benchmark against peers.

Concerns are coming into focus and best practice is emerging. There are several ways in which firms are investing to address these growing challenges, first focusing on the foundations around the ESG policy, the technology framework, and then being realistic about the data points for investor reporting. The hardest part is often determining the best framework and collecting that data.

**Q What should firms be prioritising in their data strategies in order to future-proof their operations?**

The biggest challenge is agility. During the pandemic, there was a sudden need for data on cashflow, liquidity positions and even the viability of their portfolio companies. It is mission critical for GPs to have access to all that portfolio data, and without the use of technology some firms will struggle to streamline that and capture both structured and unstructured datasets. For many, the key first step is transitioning from a spreadsheet-based system to a specially designed platform.

Larger firms continue to hunt for an edge through data, while smaller firms need to find tools to stay relevant. For most firms, though, just staying attuned to data mastery is prominent; that means standardising datasets between various systems, so that you can extract themes and drive business decisions. Unless you have the breadth of data to really extract insights, you can spend a lot of time, money and resources on analytics without the data to back it up.

**Q As managers look to scale their businesses, how might they leverage the expertise of external providers?**

Firms should stay focused on investing and not on the data infrastructure. We see firms forced to manage old tech stacks, and that becomes more and more challenging as new technology emerges. As the pace of evolution of technology exponentially increases, firms should lean on industry providers to remain nimble and keep up with market trends.

Often the path to developing a data system can be a winding one and leave a firm with temporary gaps during the buildout. Once up and running, that system can quickly lose its sheen and struggle to keep up with market parity, fundamentally leading to suboptimal

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user adoption and data quality. Using a market-leading system that offers the flexibility of customisation but also the standardisation of industry best practice provides the best chance of success.

**Q How do you think a business like IHS Markit will need to develop its technology and knowhow over the next five years to respond to future PE market demands?**

Private markets are continuing to demand more transparency, enhanced reporting for LPs, ESG disclosure and the democratisation of alternatives for retail investors. We have a depth of insight from the public markets that we can bring into private markets, such as on ESG, for example.

As an organisation providing unique workflow tools that are powered by strong data capabilities, we are in a unique position to help the industry with data mastery, to allow firms to be nimble in pursuit of alpha-generating data. IHS Markit will continue to bring together industry-leading software with more data, deep industry reach and public market expertise that we can bring into private markets. ■

Dalen Chow is an executive director and head of GP commercial strategy at analytics and solutions provider IHS Markit