

The logo for iCapital, featuring the word "iCapital" in a white, sans-serif font. The background is a dark blue with abstract digital patterns, including a glowing line graph and various light effects.

The Hidden Opportunity in Private Markets: Data

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Data management is a challenge for any investment business, but it's particularly acute for those in the private markets space. All product forms, for which there are many, have a much more complex and harder-to-standardize data set. The investment structure, gating provisions, IRA eligibility, targeted close dates, subscription minimums, redemption frequency, lock up details, service providers, capital call notice periods, and K1 timing are just a few data points that are unique to private market investments and necessary for client servicing, regulatory inquiries and operational support.

The vast and unique nature of private market product data has created a proliferation of storage methods and systems to handle it. A recent commissioned survey study conducted by Forrester Consulting on behalf of iCapital suggests that on average firms are using 12 separate and disparate tools to support these products. Tools typically include a mixture of databases, spreadsheets, various e-doc formats, emails and even physical paper.

A few firms have tried to shoehorn private markets data into security master platforms that were designed for public market securities. As you would imagine, this leads to gaps, mischaracterizations, and unintended downstream processing of information meant for unrelated purposes.

The net result is that crucial and time sensitive information is difficult to locate and verify. Firms lack visibility into potential conflicts of interest, concentration risks and areas of unintended exposure. And investment teams lack the ability to consistently compare products. All of which infringes on the firm's ability to service their clients, manage risk and operate efficiently.



What's Needed

As the popularity of these products grow and the structures continue to evolve and diversify, the challenges of managing them grow exponentially. It won't be sustainable for firms to enter the same information about a fund into multiple applications, and to keep such information current and synchronized. It will be untenable to react to client requests when information required to support such requests exists in unmanaged spreadsheets. And it will be devastating when market dynamics require immediate action to be taken while staff is manually paging through offering materials looking for information to identify exposure.

Firms should therefore consider implementing a fit-for-purpose system that can accommodate the unique and proliferating set of private market data into a standardized repository with appropriate access rights, governance controls and API accessibility to feed other mission critical applications that rely on this information.

Operational efficiency

In the absence of a security master designed specifically for private markets, and one that can feed data to other applications, operational teams are forced to enter information about a product into multiple systems. This duplication of effort wastes time and is ripe for error. It also makes it nearly impossible to track who entered each piece of information, and whether that person had the authority to do so. This inefficiency becomes even more pronounced when information needs to be updated and reconciled. Every minute spent on such activities is time taken away from delivering real value to clients.

The use of a singular and centralized private markets security master allows for all relevant information to be stored in one place, with governance features that allow firms to control access rights and maintain full audit records. And if it has API connectivity, it allows information to flow seamlessly across the tech stack.

Enhanced data quality and enrichment

It's not uncommon for the number of individual reference data points to number in the hundreds for each product. But that only counts the data that is defined by the product itself. Most asset and wealth management

firms typically assign additional data points that are only relevant to their internal operation and other applications. In many cases, this can double the number of data points that need to be tracked.

And so, firms also need a way of creating customized data points to more fully operationalize the support of these products.

Compliance, security and risk management

A single consolidated data repository has major advantages over fragmented data storage as it relates to compliance, security and risk management. Tasks such as proper segregation of data access rights and regulatory reporting are far more straightforward when a centralized data view is immediately available. Navigating regulatory and compliance matters can be especially problematic without consolidated data and can have damaging consequences if reports are subsequently found to be defective or inaccurate.

Another compliance concern is managing conflict-of-interest circumstances appropriately. When data is in disparate systems, it is difficult to discover which external providers are providing which services across the entire enterprise. This can give rise to inadvertent conflicts, such as appointing the same entity to audit a fund that is already providing consulting services for another business unit within the same fund management firm. Here again, a centralized data store with flexible reporting capabilities can identify such issues accurately in seconds.

There are also key risk management considerations associated with these products. Banking services are a case in point. Every fund a provider offers will have a bank account, but in the event of a potential bank failure, fragmented systems will cause a manual effort to gain any insight as to the level of potential exposure across products. With centralized data, bank concentration risk can be viewed and managed in near real time, thus pre-empting obvious risks and accelerating response times.

Multiple data systems require multiple log ins, which can easily lead to substandard security practices, such as credential sharing. They also create additional workload for security personnel who have multiple systems to monitor and secure. By concentrating data in one system, firms can narrow their purview of access and data control.

Conclusion: The Problem Will Only Get Worse

Private market products, or “alternatives”, are becoming a lot less “alternative”. They are growing in popularity, are being included in standard asset allocation models, and proving to be valuable drivers of diversification, income enhancement and growth in client portfolios. At the same time, the number and nature of these products is evolving to meet the needs of both institutional and retail clients. The net effect will be more clients using more products that firms need to support. If the problem isn’t already weighing you down, it will be soon enough.



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