Private markets in the age of transparency

Having spent years demanding greater transparency from their GPs, many LPs lack the ability to interpret and act on the large volumes of data they receive. S&P Global Market Intelligence's Chris Sparenberg explains how LPs can turn the data deluge into actionable insights.

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Private markets are approaching an age of unprecedented transparency. Over the past 15 years, as investors' allocations to the asset class have tripled on average, the need for more information on the metrics underlying fund performance has increased in-kind.

Investors now require ever more granular metrics to understand the drivers of returns and exposures, as well as the types of risk metrics they are accustomed to for their long-only portfolios. A set of data requests that was once reserved for pre-commitment quantitative due diligence has now become part of the quarterly monitoring process. And GPs are increasingly showing a willingness to meet these expectations, sharing significantly higher volumes of data with their investors. The question is, are LPs ready and able to turn that data into meaningful insight? The answer, in many cases, is "no".

Turning the data deluge into actionable insight
Having spent years demanding greater transparency from their GPs, LPs are realising they need to acquire new capabilities to interpret and act on the data they receive. For many, the problem is twofold. First, fund and portfolio data is often delivered in unstructured formats such as PDFs, which make it difficult to navigate and analyse. Second, even when the data is delivered in structured formats, LPs don't always have the digital tools needed to manipulate that data and generate the insights they need.

In short, monitoring the liquidity, exposures and valuation of funds and their underlying assets is a tall order, and a task for which spreadsheets are increasingly unfit.

At S&P Global Market Intelligence, we help thousands of private markets participants create greater levels of transparency with our data, software, services and subject matter expertise. Our work with this diverse group has uncovered five key capabilities that can help LPs get more value out of the data they receive from GPs.

1) Put performance in context.
The availability of a wider range of fund and portfolio data along with the development of robust benchmarks for private markets has given LPs the tools they need to contextualise the performance of a specific fund with reference to their total

portfolio and broader industry benchmarks. For example, iLEVEL – our portfolio monitoring solution for private investments – enables LPs to evaluate portfolios and individual funds against benchmarks from a leading third-party provider or their own custom standards.

2) Understand the drivers of return.
Monitoring performance at the portfolio level – by legal entity, strategy and vintage year – is a crucial part of monitoring investment returns. With portfolio monitoring software, LPs can now go further in terms of understanding and optimising performance drivers at a granular level. Options include monitoring the performance of underlying holdings, identifying the trends and sectors that demonstrate higher-than-average growth potential, and stack-ranking assets in the portfolio by performance.

These activities are especially critical given the regulatory activity on the horizon. The FCA, for example, has signalled that in addition to examining the use of leverage across portfolios, they're taking a close look at the valuation practices of GPs. Meanwhile, in the US, although the SEC's PFA Rule has been struck down, it has nevertheless helped to solidify overall expectations regarding reporting and transparency. In this environment, and in the context of high interest rates and low liquidity, it is clear LPs need to be more diligent in monitoring the valuation of the assets their funds hold—especially those that are longer-lived.

3) Manage risk.
In a market whipped by tailwinds, balancing the portfolio and managing overexposure and illiquidity risk requires vigilant oversight. LPs need to be able to see underlying assets and analyse exposures to specific industries and geographic regions at the fund and portfolio-company level. They also need to be able to identify long-lived assets and plan for liquidity, especially at a time when exits are being delayed across the board.

4) Forecast liquidity events.
More than ever, LPs need to be able to forecast cash flow, including drawdowns, commitments and distributions. Whether you choose to rely on the Takahashi Alexander model, an adjusted model, or an entirely bespoke approach, these cash-flow calculations need to be performed regularly and compared to the historical data for your own holdings as well as comparison data for the wider private markets. For example, iLEVEL enables LPs to use their preferred approach and leverage out-of-the-box scenarios based on S&P Global

private markets data for private equity, real estate and secondaries to forecast cash flow, commitment pacing, drawdowns and distributions.

5) Report and inform.
The ability to access and analyse investment data is only one part of the equation. LPs need to be able to apply those insights and analyses downstream to generate detailed, bespoke reports and data visualisations that can be used to deepen the understanding internally and inform external stakeholders.

The next frontier for transparency
The impact of illiquidity, volatility and regulatory change in today's private markets is building an even stronger case for greater transparency between GPs and their investors. This is a time for LPs to know what they hold, which means having access to their fund portfolio and fund holdings data and the digital capabilities required to monitor, interpret and share it.

Of course, artificial intelligence (AI) has an important role to play in helping LPs consume and analyse the increasing volumes of data they now receive from GPs. Our solutions and services are already harnessing the potential of AI. For example, iLEVEL uses AI to collect a wide range of client portfolio data at scale. The platform automates the collection, centralization, and normalization of critical information that firms need to scale, creating a centralized repository that drives portfolio monitoring, analytics, valuation, and reporting on-platform. We are building on this by rolling out the use of AI to streamline other aspects of the workflow, such as data ingestion.

In private markets, it has become apparent that more data does not automatically equal more transparency. Ultimately, it's the ability to consolidate, normalise, analyse and derive actionable insight from that data that will give LPs the levels of oversight and insight they need to monitor their investments and maximise returns.

Learn more: www.spglobal.com/iLEVEL

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