Cracking the Code on Automating Alternatives Data Management

SUMMARY

by Christine (Tina) M. Madel, CFA, Principal

The core pillars that back data management strategies are timeliness, accessibility and quality. However, applying these principles to alternative investments, such as private equity, can feel like collecting data from a locked safe where access is limited to those who know how to retrieve it. Once the safe is opened, operational teams cannot easily digest the contents as general partners (GPs) do not follow a standard template when providing capital statements to the limited partners (LPs). The Institutional Limited Partners Association (ILPA) has been advocating for global standardization to benefit GPs and LPs. Despite their best efforts, an infinite number of data formats persist.

At the same time, we've seen a number of technology solutions emerge in recent years that attempt to address these challenges facing Alternatives Data Management (ADM). No two tools are the same, and it's important for investment management firms to understand their capabilities. We reached out to Canoe Intelligence, a financial technology company focused on reimagining alternative investment data processes for institutional investors, wealth managers, capital allocators and asset servicing firms, for their perspective on how alternative investors and allocators manage their reporting needs.

TINA: What reporting trends are you seeing related to the timing of alternative investments? Are most firms reporting lagged data based on when information becomes available, or do they restate historical periods to reflect returns more accurately for a given period? If the latter, is unlagged feasible at scale?

CANOE: In our experience, clients want to use the most readily available data to provide timely reporting to their clients and to make more immediate investment decisions. This means that clients are often cobbling together estimates, restated, or rolled-forward values, and then reprocessing and updating previously booked information when final values become available. This process creates highly inefficient and redundant workflows and ultimately inhibits scale. As such, a key trend we're seeing is a shift away from these manual approaches toward automated technology.

With automated technologies, firms can collect documents from investor portals or email inboxes, and extract data accurately within seconds, eliminating operational redundancies and dramatically improving the speed of delivering vital client reports. Running reports based on best available data and then updating with final values becomes a differentiator, not a chore.

On top of this, we find that many OCIOs and wealth management firms are likely reporting on assets that are outside their advisement—such as legacy or held away assets—to provide a holistic picture of their clients' portfolios. While necessary, it can compound the complexity associated with reporting and, unfortunately doesn't typically generate any additional fees for the firm. With these factors at play, it is that much more important to report on them as efficiently as possible. Automation, then, becomes key to maintaining and improving operational efficiency.

At Canoe, we combine our industry expertise with sophisticated data capture technologies to automate the digitization of PDF reporting documents into actionable data and intelligence for our clients. With that in mind, we work with clients every day to streamline the way they report on alternative investments.

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TINA: Assuming your clients need to generate calculations for factors like internal rate of return and committed capital, how do you make the data available for automated ingestion?

CANOE: Canoe's technology is purpose-built to support alternative investment workflows and streamline the unique reporting needs of our clients. To accomplish this, our technology automates the retrieval of documents from multiple sources, including investor portals and email inboxes. From there, we extract the key data elements from each document, normalize and validate that data, and streamline data delivery workflows with integrations into leading downstream reporting, accounting and analytical systems like Addepar, SS&C's Black Diamond Wealth Platform, Clearwater Analytics, Cobalt LP and SEI Archway.

In most cases, the shared intelligence built into our platform supports these needs. In working with clients like Hamilton Lane, Lexington Partners, State Street and hundreds of other firms, we've built a collective fund master of more than 10,000 funds. Should clients need additional data points to drive their process or to facilitate analytical calculations, they are able to train the system to incorporate those data inputs as part of Canoe's extraction engine. More data is then immediately and subsequently available without spending the time to extract it.

We are seeing clients extract as many as 50 data points from capital call notices and more than 100 data points from account statements, which means clients now have fingertip access to not only the data they need, but also to dozens of additional data points with each document to drive additional analytical initiatives. Thinking about this over a large volume of funds and many years, our clients have access to a wealth of detail previously inaccessible. With more data unlocked from documents and the manual data entry process eliminated, firms free up time to focus on interpreting and analyzing the data, and servicing clients more efficiently.

TINA: How do you improve the quality of incoming data to build trust with consumers of ADM?

CANOE: Quality of data is paramount to our business and our clients. Having been in the shoes of our clients, we understand that data must be 100% accurate 100% of the time, and we've built the platform with this goal in mind. Our shared intelligence is continually learning and being trained by every document entering Canoe's ecosystem, improving overall speed and data integrity for all our clients. Canoe's validation rules are embedded into the technology, flagging documents that require attention to ensure our clients are made aware of potential errors in GP reports before the data is pushed into their accounting and reporting platforms. As a result, Canoe clients eliminate fat finger errors, proactively identify incorrectly reported information, and gain more confidence in the quality of their data.

SOLVING ADM CHALLENGES

If your firm is struggling to report timely, accurate and trusted data, particularly for alternatives, you're not alone. However, there is hope on the horizon. Whether it's standardization guidance from ILPA or new technology, it is possible to improve the situation for your operations teams. Through an effective deployment of these solutions, your team will be able to transition to alternative investments analysis and away from data management. There's technology out there to help, and professional consultants who can lead transformation projects to implement the most appropriate solution for your business.

Christine (Tina) M. Madel, CFA , is a Principal Consultant with Meradia who brings more than 30 years of experience in the investment management industry to her clients. She leverages her deep business and technical experience, project management acumen, and relationship-building skills to solve complex challenges for clients. She has honed the ability to gather and distill information, and then deliver executive-level communications.

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