



The Data “Train Has Left the Station” PE’s Bold New Era of Transparency

David Snow, Privcap: Today, we’re joined by Steven Millner of Gen II Fund Services, Scott Zimmerman of EY and Ian Cameron of the Washington State Investment Board. Welcome to Privcap. Thanks for being here.

Unison: Thanks, David.

Snow: Let’s talk about the challenge that private equity faces in the form of data. There’s a ton of data that could be collected and shared. There’s a huge demand for data about the portfolio companies and many other aspects of the private equity business and yet, there’s a real challenge in actually sharing it in a useful fashion with regulators, with investors. Scott, your firm, EY, has done a survey recently. What did it learn about the way investors viewed the challenge of data?

Scott Zimmerman, EY: I think the conversation to this point has been very logical and sets it up nicely. I mean, the survey focuses on seismic shift and disruption, which is regulatory. Then, it talks about transparency and the reporting burdens and just how much work they have to do. Then, it talks about how there aren’t really any solutions out there from systems or technology, so where does it end? It ends in data. That’s where we see data. We see data as now where everyone’s focused and we see the answer to the problem as those who can harness that data the best.

Steven Millner, Gen II Fund Services: We still don’t have good standards. ILPA and others are starting to think about that, but for large consumers of data, they’re actually putting out their own requests and saying, “Here’s what we’d like to see and here’s when we’d like to see it.”

Snow: Ian, speaking of large consumers of data, your organization—Washington State Investment Board—is one of the largest LPs in the world. You have relationships with many managers. Talk about the challenge of sorting all the data that comes your way, making it useful and sharing it where it’s necessary.

Ian Cameron, Washington State Investment Board: We're looking at our entire portfolio, all the asset classes, and we're looking and examining risks across all of them. In order to be able to have private equity feed into that—beyond the operational information we need to know how that fund is functioning—we need to get down to portfolio-level data. That has to be available to us so we can look at our concentration risk. We can look at liquidity risk, leverage and all those different things. That's what's really shifting in the pension space. I think sovereigns are probably a bit ahead of us, but that's where you're seeing an accumulation of that data in order to analyze your entire portfolio and make sure your risk-weighted returns are where they want to be.

In order to get that—how we get that and how we process it—our challenge is trying to figure that out. We've actually developed a data warehouse at the SIB that we utilize extensively. We use Tableau as a tool to draw that information and put it in a useable format for our investors. But I think that's the key—private equity funds need to be able to provide that data in a timely way, first of all, and in a common format that can be easily uploaded and brought in. And the struggle with private equity is always timeliness because you're going to get some lag factors. But we can factor that in. It's about grabbing that data force and bringing it into our warehouse first so that we can use it.

Snow: Steve or Scott, do either of you see resistance from either GPs or the portfolio companies in sharing data in a useful and a timely manner?

Millner: There are a couple of driving issues. We have some clients, private equity fund clients, who may own 25% or 30% of a portfolio company (i.e., they're not in control). They have a different seat at the table in terms of asking for information than someone who's a control investor. Separate and apart, we fill out something called a Form PF, private fund, in an SEC filing. Depending on the size of the fund, the data actually gets into the portfolio companies. So, when we try to get the data from the portfolio companies, there is sometimes reluctance. Where is this data going, what's it going to be used for and can my competitors see it?

Snow: Ian, you work for a public institution that is subject to Freedom of Information Act requests. Is there ever a tension between the idea of sharing data with partners and the thought that this might get out there from a Freedom of Information Act request?

Cameron: If I was a GP, I'd absolutely be concerned about it. There are exemptions, though, that protect trade secrets and protect competitive advantages that GPs may have. So, it doesn't become immediately publicly available and that's helpful to us. It's not beyond reason where everything is going to go into the public domain, but I understand that. That's what GPs are trying to balance—how much transparency can I provide into the marketplace without giving up the “secret sauce” that makes me a special GP that you want to be a part of?

Zimmerman: Ian may have a certain data set that's really important to him. The management may have another one. Those that are resisting transparency—I think historically transparency tends to win and those that embrace it early tend to get ahead of the market and figure out how to use that transparency to their own advantage versus resisting it.

Cameron: I agree. I think what we're talking about here is it's a moving train and if you're getting on it, that train's going to keep going forward. I think it is digitization. I mean, think about some of the processes that still exist in private equity—how capital call notices are delivered, all those things are just ripe for change. Then, the next step for us—once we are able to gather this data and put it into a useable format—right now, probably desktop application is what we're talking about. But ultimately, our investment team travels like any investment manager: they're going to want it on mobile devices and to be able to access this. I think that's exactly what Scott's talking about as this moves forward.

Millner: I agree. We're early innings on this, but the train has left the station.

Zimmerman: I think they are very much in the sweet spot of where things are going to go. I love what you just said. The train has left the station. It's moving. Who's going to jump on and who's going to get there first?