CITCO

CITCO FUND SERVICES

The Future of Private Equity Fund Administration 2025



July 2021

INTRODUCTION

Two years ago we wrote a white paper on the four key changes happening in the private equity industry's operating models.

How communication was moving from unstructured and insecure to structured and digitised. How process specialisation was being driven by growth. How low levels of automation presented opportunities for disruption. How globalisation was driving the need for standardisation.



Nikolaos Perros
Head of Private Equity,
Citco Fund Services (USA), Inc.

With a robust uptick in digitization driven by these factors over the last two years, we are now starting to see consensus appear in the industry around the operating models of the future.

After interviewing our subject matter experts, we saw a consistent convergence in the digitisation plans around a 2025 date, a time when the majority of their clients would have digitised/data driven workflows in their area. It led us to believe that, in 2025, operating models will be led by two main principles:

DATA INTEGRATIONS

Driven by the need for automation and cybersecurity, structured data exchange will be the norm by 2025. Structured inputs are critical to enabling process automation. Moving data exchange from insecure tools, such as email, to encrypted processes is key to maintaining security. It applies both ways, managers must supply administrators with structured inputs and admins must provide managers with structured outputs. In general, the theme is more data and linkages. Everything will require more data points, attributes and ways of linking payments to deals, such as ESG ratings. Each event will need more tagging and the ability to link through the systems will be key.

One of the most important enablers of this will be golden record data – for example, holding a record of a deal, a director, an expense, or capital event – which is fed downstream to all parties involved is the foundation on which automation is built.

COLLABORATIVE PLATFORMS

The private equity industry has, at its heart, flexibility – an ability to have the right setup for any investment opportunity or investor need. This flexibility requires that many processes are collaborative efforts between managers, lawyers, accountants and investors. By 2025, we will be using a set of tools that digitise these interactions, keeping track of who is working on what, the data input and the review status. These platforms will structure, authenticate and guide the process of creating golden data. Examples will include an online subscription tool that structures the gathering of investor information and an invoice management tool that extracts data from PDFs and uses it to power online approvals and payments.

The Citco group of companies (Citco) has many years' experience helping private asset managers from around the world digitise their operating models. In this primer, we explain the details behind models we have built for our clients and hope that readers will see the applicability to their businesses.

The operating model of 2025 is starting to come into focus. Many of the leaders in the private equity industry have spent the last few years putting in place the foundations of these new ways of working. They are now starting to see the rewards from their efforts.

1. Defeating Fraud on Investment Payments

A greater focus has been placed on end-to-end security of payments as the private equity industry has grown in size and complexity.



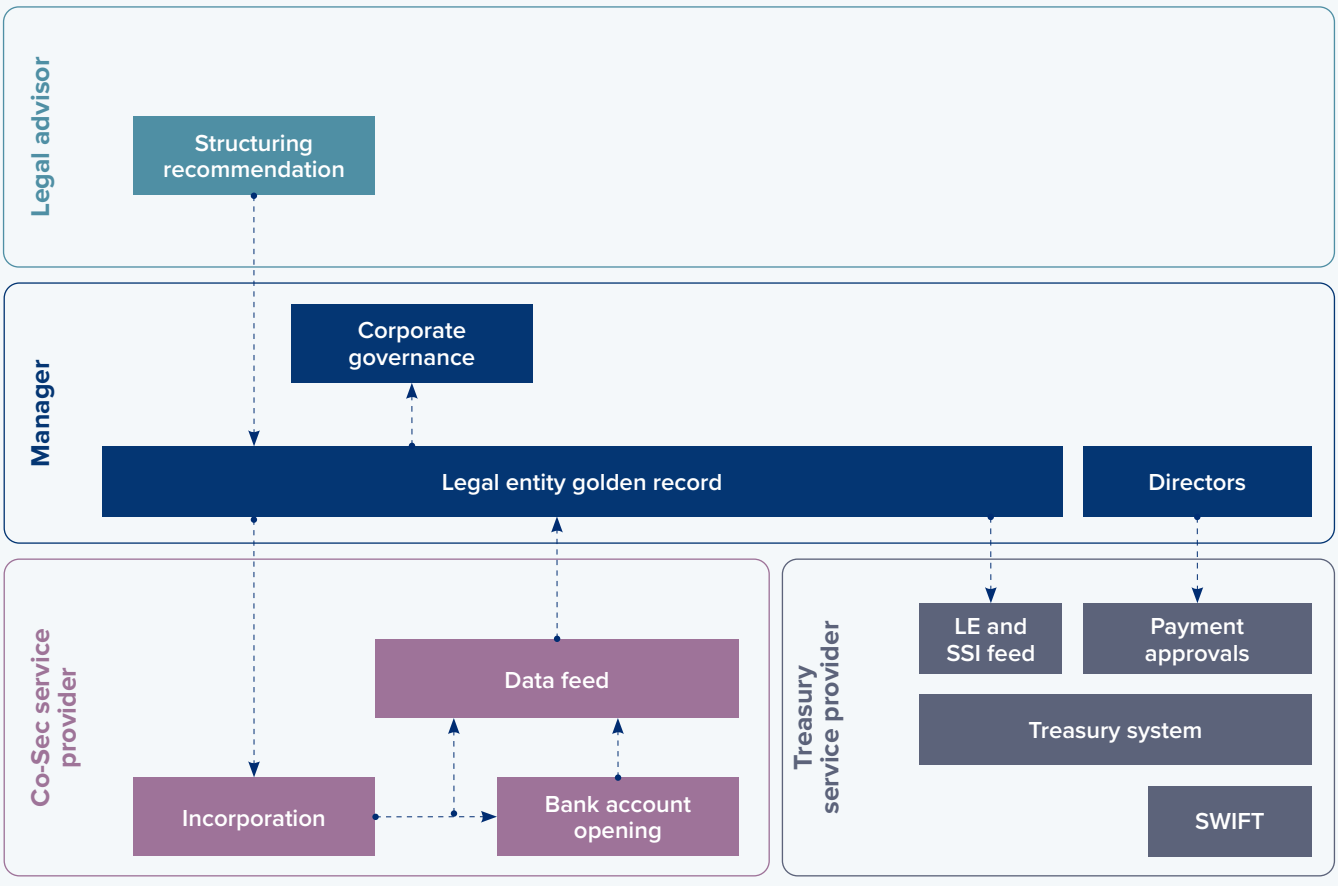
Sam Metland
Product, Citco (UK) Limited

The need to securely capture payment details and approvals without a reliance on Excel and email is critical to avoiding fraud.

During time sensitive processes such as investment acquisitions, having a single payment system which tracks all payments in real time can make the difference between settling on the due date and multi-day delays.

Citco enables this protection for its clients by providing a single treasury system that manages all bank accounts and centralises settlement instruction and payment approval.

1. **Lawyers recommend structures to be created.**
2. **Manager needs a system of record for all entities, existing or in setup; for example, with directors, meetings, legal records and bank accounts.**
3. **The individuals completing co-sec work must ensure resulting data populates a legal entity golden record, helped by the manager.**
4. **This allows managers to ensure control around corporate governance; for example, a director has left and we know exactly which entities he has resigned from and when, or who must sign to open a new bank account for a particular entity.**



2. Automate Accounts Payable

Accounting has historically relied on emails, PDFs and physical signatures. In our new remote, global, tech-led world, this has changed.



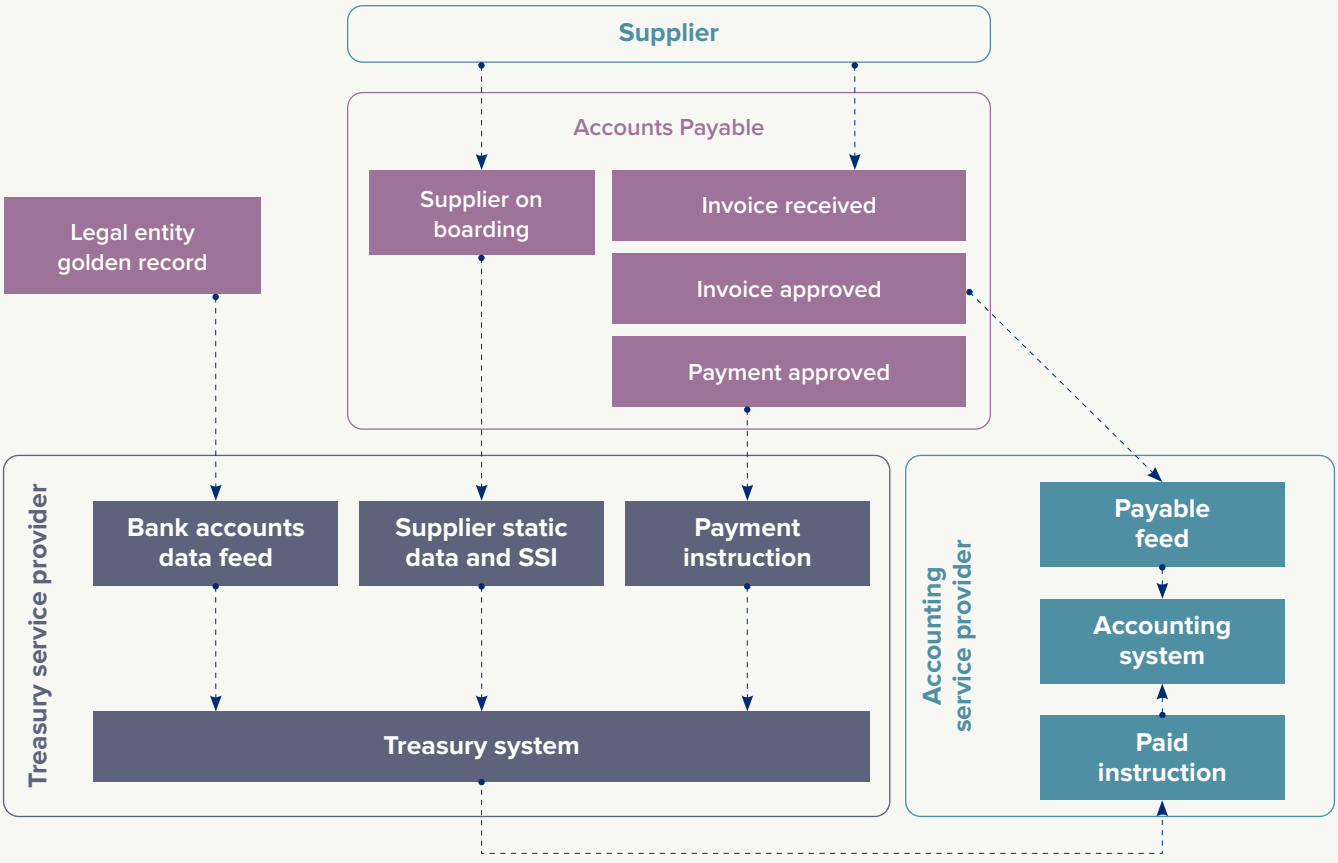
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For example, the correct set of tools and data integrations can automate accounts payable by flowing an invoice all the way from receipt, through approvals to payment and accounting, in a secure and automated fashion. This reduces the risk of fraud and frees up staff time.

Citco provides this automation to our clients with an automated connection to our proprietary accounts payable system and an API-driven interface for clients' accounts payable systems.

1. **A formal setup process for a supplier is required to ensure suitable due diligence has occurred.**

   This process must also ingest payment details and supply them to the payments system to be stored as SSIs.
2. **A digital process for ingesting invoices, extracting data and obtaining approvals must exist.**
3. **The invoice data, plus digital approvals, should be systematically combined with the SSIs in the treasury system to create a SWIFT payment into the network.**
4. **This avoids the risk of fraudulent instructions and simplifies controls over access to bank accounts.**
5. **Data sent to the accounting platform should be from the same sources and routes.**



3. Simplify Data Collection

There may be good reasons why different entities in a fund or management structure have different accounting providers.



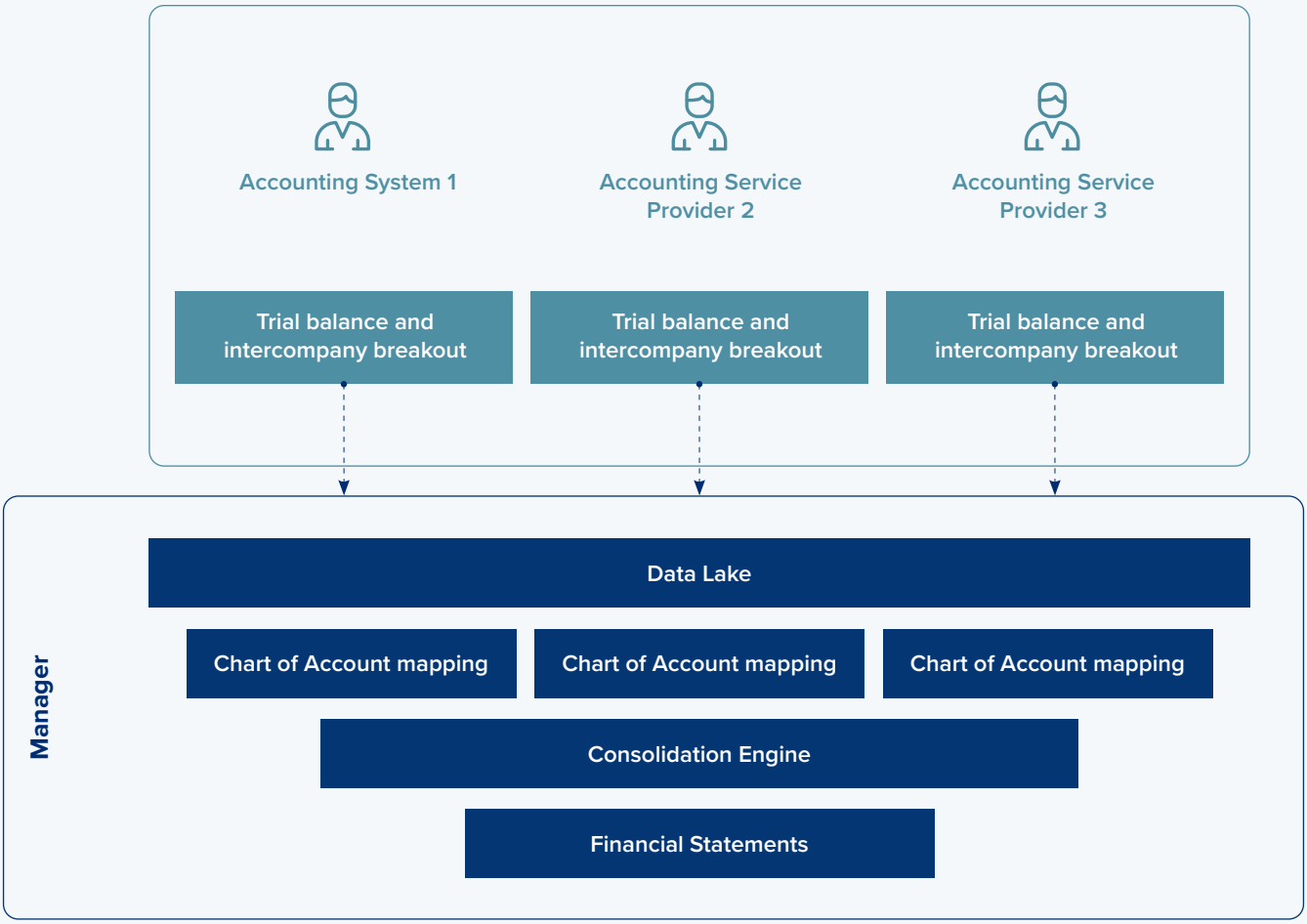
Renata Okunevic
Accounting, Citco Fund Services (Luxembourg) S.A.

Regardless of whether the reasons are jurisdictional, regulatory, based on expertise or history, this leads to complex data collection and aggregation requirements.

Historically, consolidation across different accounting providers has been a question of joining up large Excel workbooks. A process led by modern data tools can smooth this process.

Citco helps our clients digitise and automate their consolidation processes by providing a full dataset through a modern cloud-based data lake.

1. **Manager provides a defined template for the gathering of transaction data, including intercompany identifiers.**
2. **All service providers complete the template and deliver it to the manager's data lake at an agreed time.**
3. **The mapping routine runs and moves transactions to the manager's standard accounting.**
4. **All entries are pushed into the manager's accounting system.**



4. Digitise Capital Events

Managing time-critical capital events feels rushed and lacks transparency for the manager.



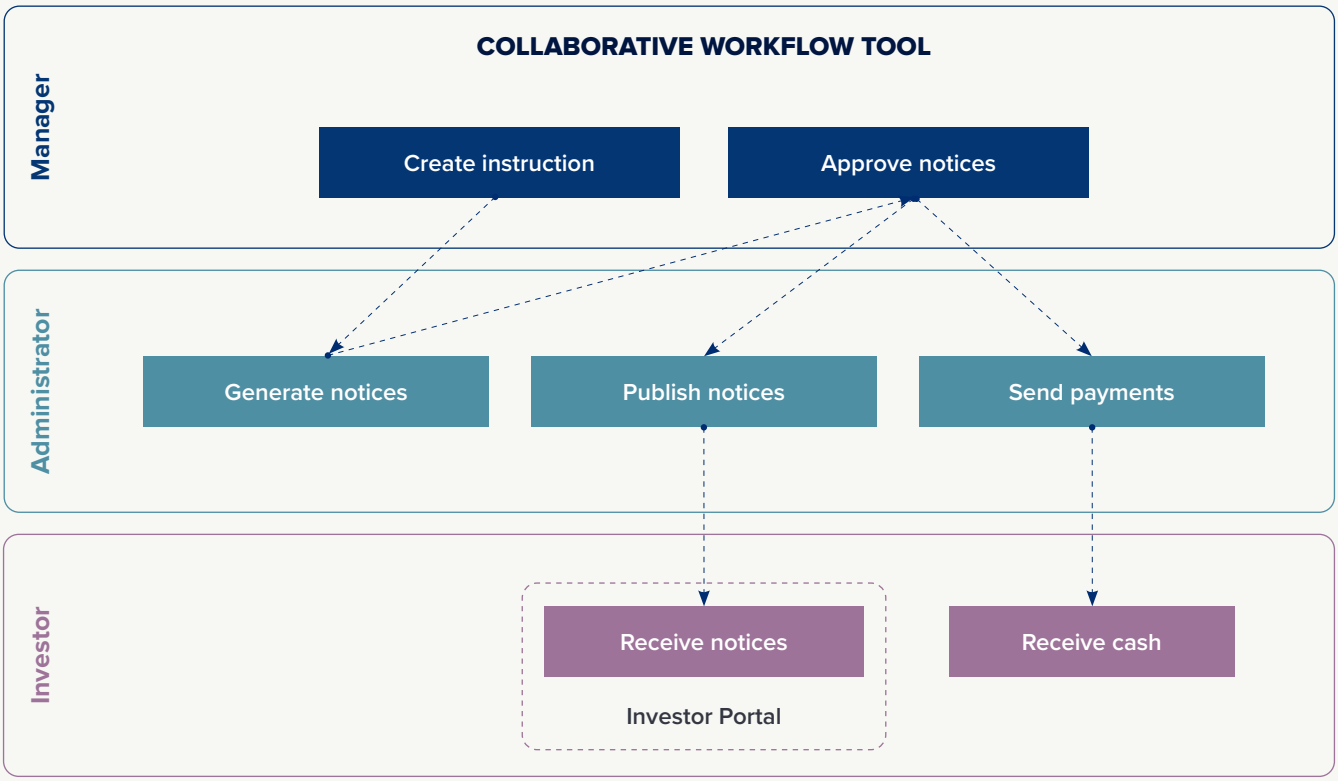
Sheilagh Caufield
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Citco Fund Services (USA) Inc.

Currently the private assets industry tends to rely on Excel calculation sheets with many versions and PDF notices being emailed between parties for approval. This often leads to completeness and version control issues.

Deploying a modern collaborative platform allows documents and calculations to be shared and reviewed securely with no versioning issues, also with automated checks carried out.

Citco enables smooth event management through a proprietary collaboration platform to facilitate joint working between administrator and manager.

1. **Manager completes capital event instruction in a secure platform.**
2. **Platform rules ensure all data provided is correct and no misinterpretations can take place.**
3. **Administrator reviews instruction, which then flows to the system and generates calculations for review and approval.**
4. **After the calculations are reviewed and approved, the system generates notices with supporting documents, which will be published to the secure portal for manager review.**
5. **Manager reviews and approves a specific set of notices on the secure portal and the administrator publishes these without manual intervention.**
6. **The same dataset used to create the notices is sent to the treasury system to generate SWIFT payments for distributions, or used to match the cash payments received by investors for capital calls.**



5. Simplify Performance Fees

Carried interest waterfall distributions are complex and nuanced.



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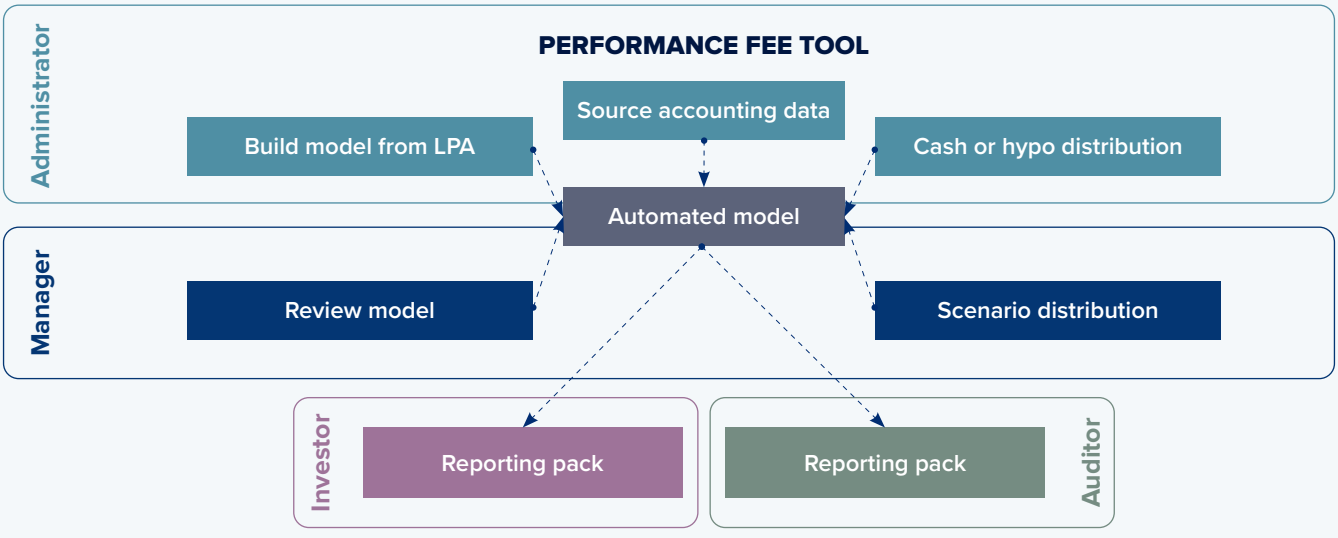
Building the models in a tool like Excel is time-consuming, manual, and non-scalable. Consolidating and uploading data from the accounting system into the model introduces operational risk every time a distribution has to run. Automation is crucial to simplifying the process while adding in much-needed controls.

An automated solution should enable users to build waterfall structures via a standardized process while still accounting for the variations found within LPAs. This ensures consistency, scalability, and accuracy. Direct connectivity with the core accounting system is also paramount to safeguarding the integrity and accuracy of the data used for cash, hypo, and scenario distributions. Whenever possible, the system should use the golden records. Secure access for all parties (management, investors and auditors) is also required to create an environment of transparency and accountability.

By automating performance fees, teams can shift their focus from inputting data and verifying calculations to analysis and projections.

Citco's cloud native waterfall tool puts the model and data in the hands of administrator and manager, ensuring all parties have complete transparency.

1. **Structure a waterfall model based on the Limited Partnership Agreement which is reviewed and agreed upon by all stakeholders upfront.**
2. **Build the Waterfall model in a tool that provides flexible setup configurations and on-demand calculations for any distribution type (cash, hypo, or scenarios).**
3. **Update the model for any bespoke terms within investor side letters.**
4. **Ensure the tool has connectivity with the core accounting system and downstream systems to sync data and push results without manual intervention.**
5. **Generate a standardized result package that is auditable, transparent, secure, and meets the reporting needs of multiple stakeholders (managers, auditors, and investors).**



6. Use Data to Oversee Vendors

As managers grow in size and complexity, the challenge of overseeing vendors increases.

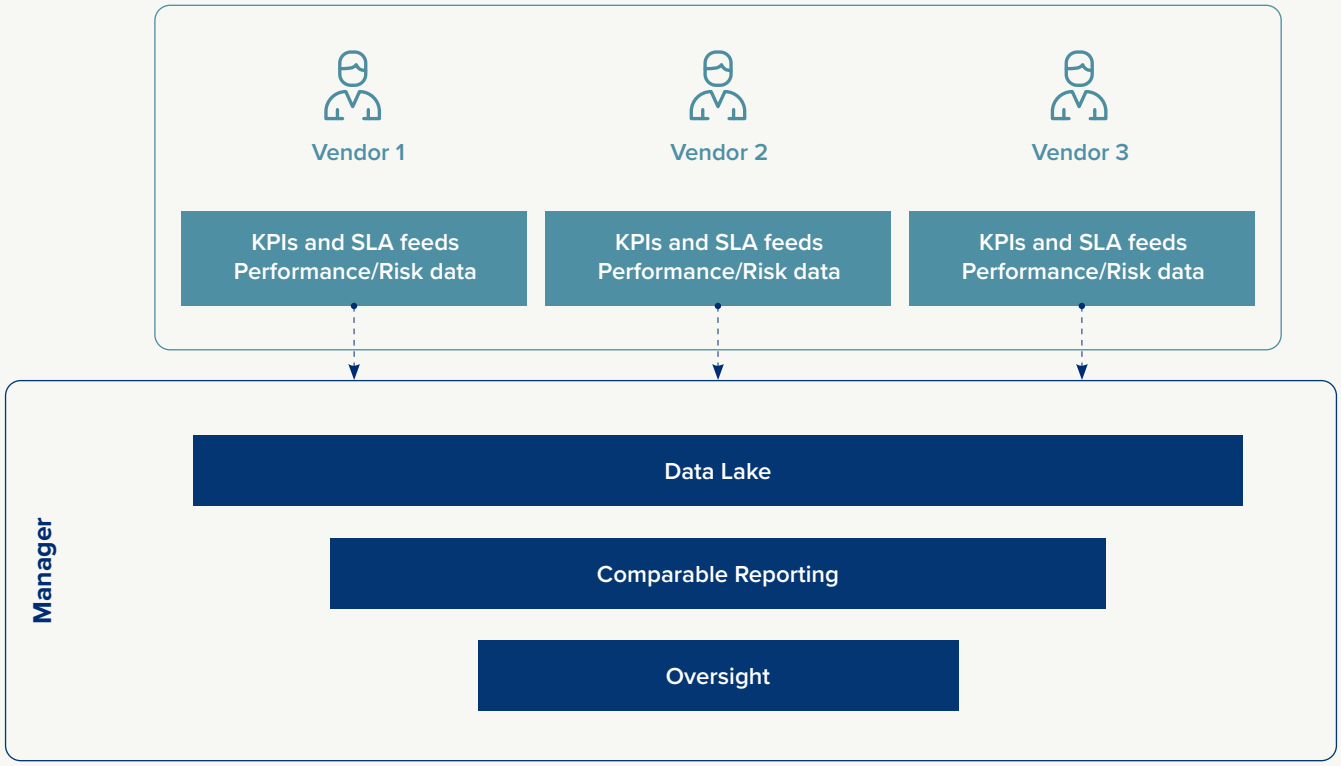


Matt Le Noury
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Number of vendors, volume of work, complexity of information... monitoring and making judgements about how your vendors are performing can no longer be based on feel or even direct experience, and instead must be rooted in data. In other words, this requires comparative analytics. The solution is to consolidate, measure and analyse through technology. For example, how well do my vendors manage investor queries? By bringing together the data from each of the vendors, regarding query numbers and response times, we can create consistent KPIs and benchmarks by which we track relative and absolute vendor performance at a glimpse.

Citco's data services toolkit ensures managers have API-led access to their data at all times and can report on the data in any format.

1. **Vendors provide the relevant data, including fund, entity and SLA data.**
2. **Data is consolidated and normalized in the data lake.**
3. **Curated data drives reporting, data-rich visualizations, dashboards and scorecards.**
4. **Define KPIs for all relevant tasks and add them to dashboards and vendor scorecards.**
5. **Leverage output to monitor and improve vendor performance and enhance the investor experience.**
6. **Consume more data, iterate on and add KPIs, continually evolve visualizations, dashboards and scorecards to continually raise the bar for excellence.**



7. Remove Headaches from Subscriptions

Smooth subscriptions are a critical part of the investor experience.



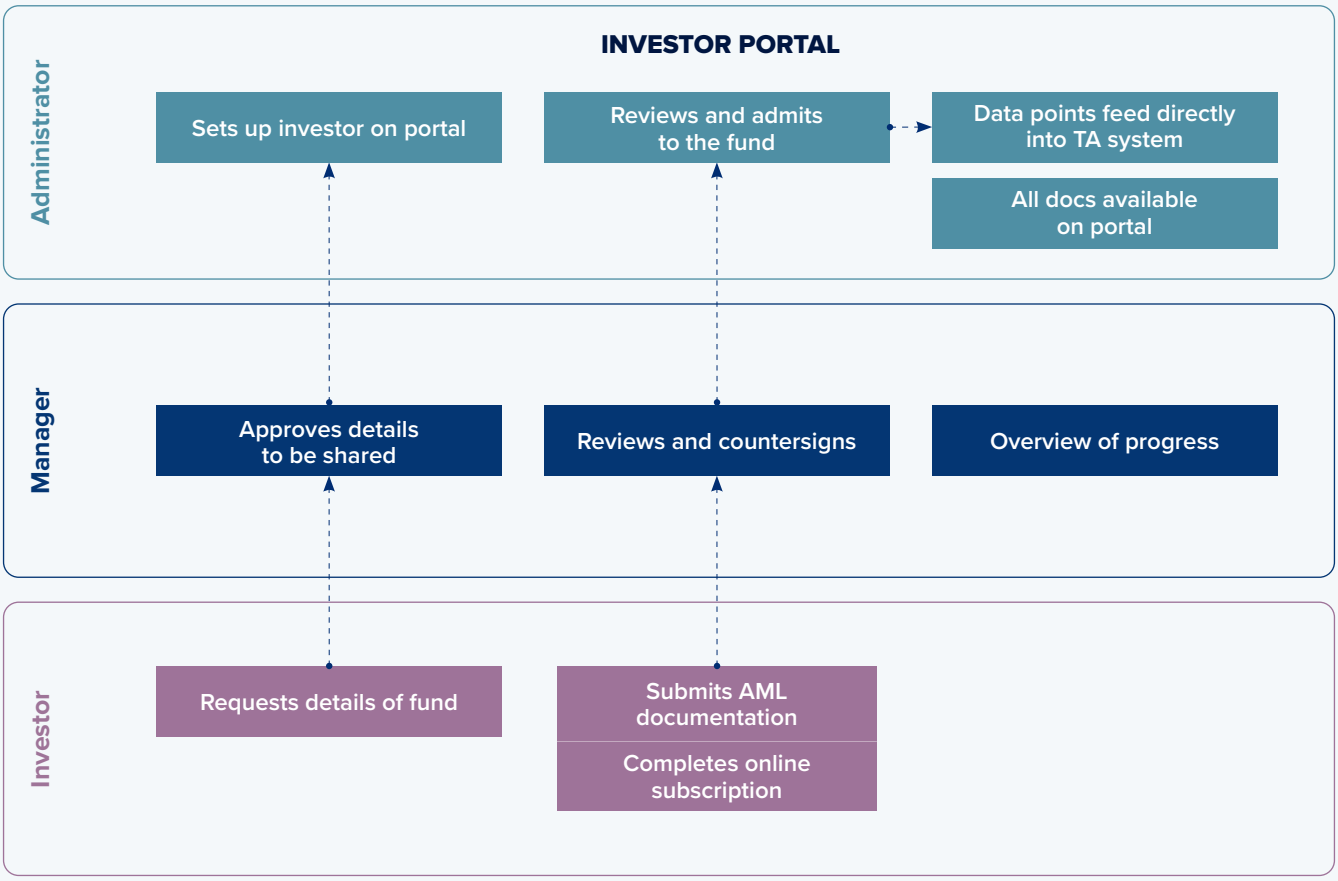
Ashleigh Hall
Investor Relations, Citco Fund Services (Ireland) Limited

Friction in the subscription process slows down capital raising and can put off investors from further commitments.

Using an online subscription process guides an investor through the process, avoids wasting their time on unnecessary questions, and simplifies their process of submitting AML/KYC documentation. It also provides transparency to all parties on progress.

Citco's Connect tool improves the investor experience and reduces time to subscribe.

1. **Manager's fundraising team identifies investors with interest in their funds and provides them with secure access to a portal for documentation.**
2. **If the investor decides to commit to a fund, they are guided through the completion of their subscription form online and provided with the ability to upload all relevant AML/KYC documentation.**
3. **Digital signatures are collected from investors and the manager.**
4. **The administrator reviews the documentation and pushes data into systems without manual entry.**
5. **All documents and processes on all subscriptions are available securely to appropriate parties throughout the process.**



8. Modern Communication Tools

Historically, email has been the default communication tool between organisations.



David Madeiros
IT, Citco Technology Management Inc.

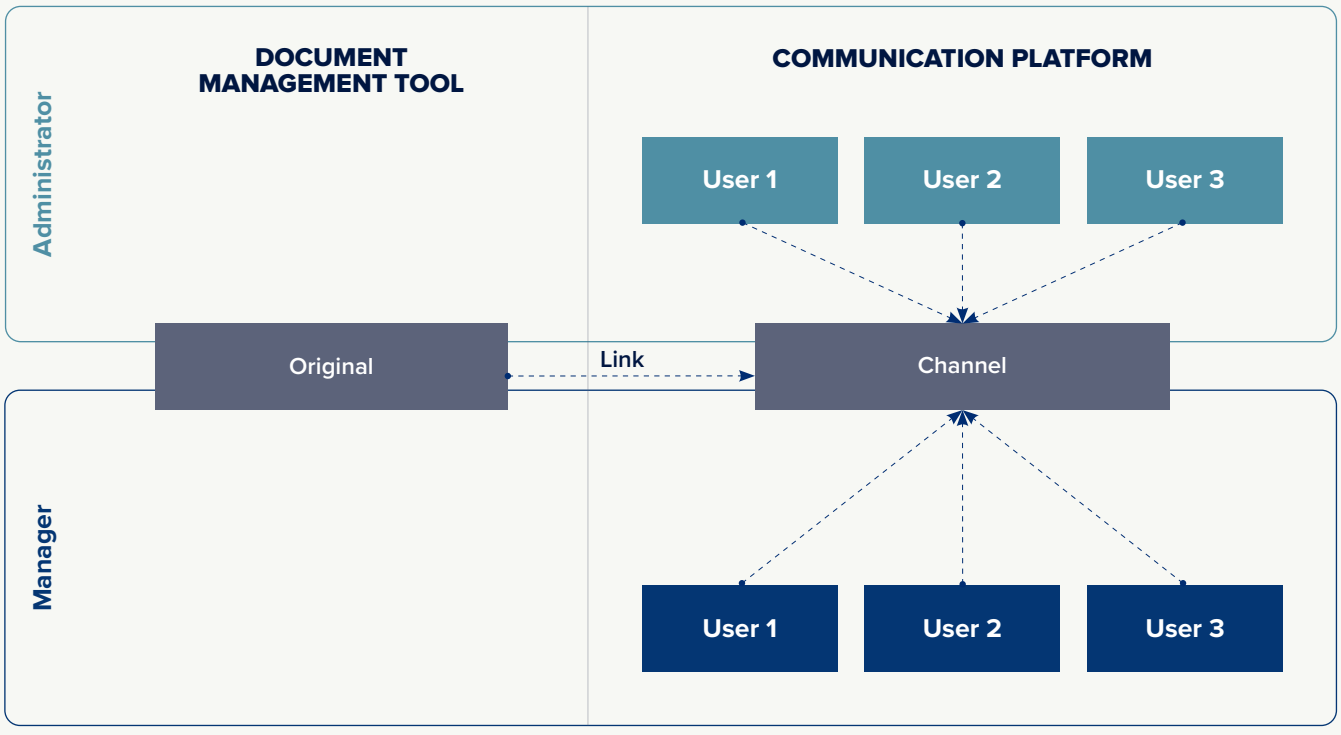
In our personal lives, we have seen email replaced by tools such as Whatsapp, iMessage and WeChat. Now the same digital disruption is happening in the corporate world.

Creating shared communication workspaces where only approved users can share messages, files and communications alleviates most of the issues with emails, while maintaining frictionless communication for all users.

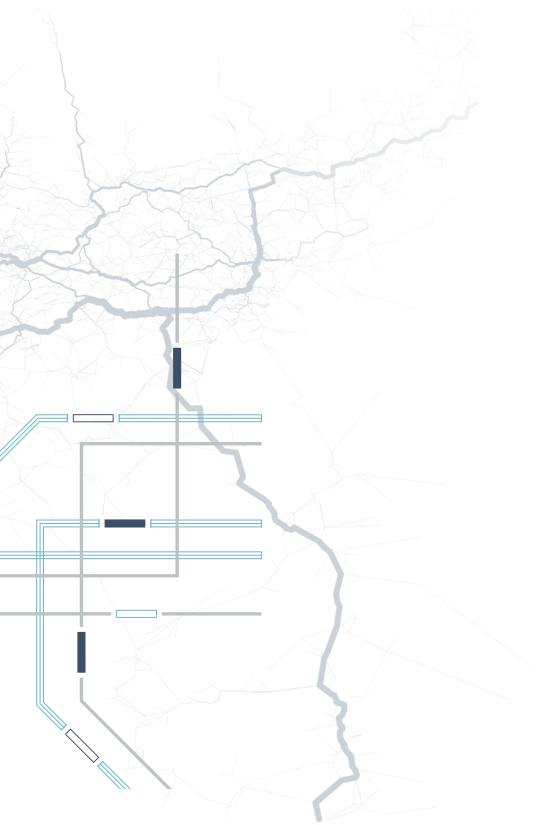
In most fund administration scenarios, client-facing teams work with a smaller number of known clients. Therefore, the ability to communicate with anyone in the world - which email offers - is not a necessity. There is more value in the security of communicating with known parties.

The concept of channels for topics is also a paradigm shift. It brings value as it ensures that all parties that need to be aware of activity around a certain function can access it. For example, a centralised place for all communication around an investment payment means no-one is left out.

Citco works with our clients on a variety of secure communication/document management platforms, enabling smoother and more secure communication between in-house and outsourced teams.



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