



The journey to a mutually beneficial model for transparency

Global AM Perspectives — Podcast transcript

Speakers:

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Announcer:

Hello, and welcome to “Global AM Perspectives”, a new KPMG podcast series for asset managers, fund managers and investors around the world. Through discussions with leaders from KPMG and major market players, this series will include short episodes that look at some of the most pressing issues, emerging trends and market opportunities within the asset management, real estate and private equity industries.

In this episode we discuss the strategic report KPMG and Private Capital Data Standards Alliance (PCDS) recently collaborated on. The report considers developments that would support a journey towards a mutually beneficial, data-enhanced outcome for both investors and managers. It showcases the views of global investors and asset allocators who manage over \$1.24 trillion in assets under management. We are I'm delighted to be joined by Zeynep Meric-Smith Partner, Wealth and Asset Management Consulting & Head of Private Assets Consulting KPMG in the UK and Lorelei Graye President of Private Capital Data Standards Alliance (PCDS) with us to discuss some further insights and benefits found in the report.

With that, Zeynep and Lorelei on behalf of our listeners, I would like to welcome you to the podcast. Zeynep if I can come to you first, what are the drivers from the market for this initiative?

Zeynep Meric-Smith

So, I think it's fair to say, as, as listeners are only too aware, one of the main challenges ongoing that's faced by limited partners, (LPs) in supporting their own investment and operational decision-making capability, is that ability really to review their portfolio with a very clear and unobstructed view of granular details around their capital and cash flows as it pertains to their investments. And, frankly, often the consistency, timeliness and necessary detail in relation to these investment life cycle events, and the associated cash

flows alongside that, such as fees and charges or information around the underlying portfolio companies in a distribution, it, it simply doesn't provide LPs with sufficient transparency. You know, often there are inconsistencies in the quality of the data received, and it's very frequently provided in a very wide variety of formats, such as PDF or Excel spreadsheets, and a lot of manual effort goes into more — on a more and more frequent basis, in fact, to clarify, revalidate, you know, ingest, scrub and then reconcile those data issues in order to allow the LPs to meet their needs of their stakeholders, including the likes of the trustee boards and the pension fund participants. But clearly this isn't just an issue for LPs, right? So the general partners, the GPs, the managers too, are having to dedicate significant resources and time to complete templates in order to provide this data, and, and in fact time that could better be spent focusing on those greater value added activities.

Zeynep Meric-Smith

One global institutional investor told us that, all things being equal, they were clearly more likely to reinvest with a manager who they felt was easier to work with! But this isn't new, right? So over the years there have been various initiatives to tackle the challenges, and issues faced by both LPs and GPs alike and, and largely, frankly, through standardizing Excel templates. And that's helped somewhat to improve consistency of data, where managers are able to provide information, for example, based on investor driven templates such as the Iipa templates that we have, which, frankly, has received most of the uptake in the sort of template landscape to date. But it's also fair to say that populating or extracting information from those templates still requires considerable manual effort and there's often inconsistent adoption and application of those templates, often, you know, stakeholders using additional customized versions of those templates, in order to get what they need. And, in fact, on average our survey respondents suggested that, at best, half of the GPs provided responses in the Iipa format and of that there was a skew towards the larger

managers with sufficient resources. Another area of improvement is, that we've seen in the industry, is the use of portals, which in theory allows LPs to pull information directly for themselves. However, most of those portals are currently document repositories rather than providing LPs with kind of any ability to sort of pull and play from the underlying data held at the GPs, and also often requiring sort of individual access by each manager. So I think overall it's fair to say that there is much more to do in this space and, and really sort of the key driver for us supporting and collaborating with PCDS on this thought leadership paper really aiming to understand these issues in greater detail, and then going on to present a clear path of options, based on, for example, work done in other parts of our FS eco system, in order to be able to define a mutually beneficial way for these actors to exchange timely, accurate and granular data, in order to support their activities and, frankly, ultimately realize the benefits that that presents them.

Announcer

And Zeynep what would you say is KPMG's role in this initiative?

Zeynep Meric-Smith

So it's part of our dedicated focus to supporting clients across the private markets, whether that be in consulting, deals advisory, tax and assurance related services. We are crystal clear that we are in an opportune position supporting our industry as it responds to market dynamics and, in particular, as it relates to innovation and increased digitization in our sector and Covid, of course, has only accelerated those developments. With our particular expertise and experience in areas such as data and analytics or technology enablement, and sector wide initiatives, I'm, frankly, really delighted that we have the opportunity to help our clients and wider stakeholders in benefiting from our insights and from our collaboration with PCDS. So, yeah, very critical to us as, as a firm, but also really supports our, our vision and our ambition to really spearhead change and progress that helps all actors across the value chain.

Announcer

Lorelei coming to you, what do you see as the benefits of getting involved versus the risks of not doing so, from an investors and a general practitioners' point of view?

Lorelei

As Zeynep mentioned, we are together pursuing a mutually beneficial way to move the industry forward and KPMG's doing a fantastic job spearheading this effort. Just in this joint thought leadership report alone, it really isolates some of these key points. But for investors, specifically, the benefit is the improvement that they can bring about together. Zeynep was just

talking about supporting our industry and then an industry wide approach. We all talk about the inefficiency of the current data exchange that must be mitigated through technology and considerable manual effort. KPMG's report nails down this perceived lack of transparency due to factors in the reporting that Zeynep just mentioned about different formats and presentation of data and certain inconsistencies from one report to the next that hinder automation. So, let me be clear, this inefficient data exchange is not something that creates a competitive edge for one investor over another, this is a, mutually beneficial initiative, because it solves for or it elevates every investor. Not to mention that funds can operate more efficiently too and, eventually, drive higher returns for all investors. PCDS is an opportunity for investors to bring this higher level of operations about together. And the risk to investors is very simple, it's a continuation of the cost for gaps in automation, and our position is it's time to make that change. Now for GPs, the opportunity is to be architects of the taxonomy. PCS is a non-profit, serving the interest of each stakeholder group, and GPs have equal representation in the development of these electronic reporting standards. Now is the time for your input and standing on the sideline simply means that our team may be missing your perspective and your needs for consideration in the development of this taxonomy. And, more importantly, as we roll out this common language of tagging, if you're not plugged in it could mean lagging a bit, your peers are being less competitive if there's this struggle to keep pace with the changing baseline technology, and, very clearly, opportunities for automation. Zeynep really did point out how great templates that have had a lot of uptake, like the ILPA template, are, are being adopted and utilized by a large segment of the industry, and they really move us forward in thinking about labels, or tags, and definitions, but the next leap is automation and that only comes about through a taxonomy.

Zeynep Meric-Smith

It's worth jumping in, Lorelei, and, and adding to your points there, one of the things that we were very keen to do in this paper is really put forward a path for development going forward, and, as Lorelei has articulated, clear standards or, or clear agreement around data taxonomies is, is a critical component of that. So, as part of the paper, you'll see that we talk about the use of a common language, and we refer to experiences and work that's been done in other parts of our financial services eco system, as I alluded to earlier, but great examples from a both a reg driven but also from a voluntary uptake perspective around setting and, applying and implementing these types of frameworks. The second area that the paper really does drill down into is around the automation of that data transfer, again, as Lorelei highlighted, really being a critical component. The third aspect that I think is also important to highlight that we articulate, is around establishing a buffer really to protect sensitive data and there we call upon some of the developments

that we've seen in the banking space, with regards to the establishment of data utilities or data trust, really allowing a common software platform to act as a central interface between the various actors in play. So, essentially what we try to do is really, as well as identifying the challenges as they exist, is really to put forward a view, a vision, of what is possible over the next 3 to 5 years, as we move forward in our industry.

Announcer

Lorelei for our listeners, what would you say the call to action is?

Lorelei

Well, number one, do not miss this research data presented in the KPMG report. Download it because we do not have the opportunity to cover all of what you need to know in this podcast. The models that Zeynep's just mentioned are really key, because they do outline a path forward.

And two, really important here, join PCDS! We are a member driven organization, a true non-profit, and your membership accelerates this core mission. You want to be perfectly positioned to drive progress in our industry as well as your organizations and pivot as automation emerges along with more resilient processes. I would say, let's speak the same language electronically.

Announcer

So Zeynep, how can KPMG support its clients with this?

Zeynep Meric-Smith

Well, first and foremost, it's really about raising awareness. as we are founding members of PCDS,

across our, our global and LP and, and GP client place, awareness. as we are founding members of PCDS, across our, our global and LP and, and GP client place, we're in a really unique position really to, to drive this agenda forward. And we have a responsibility, frankly, to further causes that help create data consistency, and accuracy, that reduce the drain on our clients' resources and allow them to focus on value added activities and, and ultimately improve the investor experience in this market. So, I'd echo Lorelei's points about the call to action, the fact that this is an opportune moment to get involved, you know, raising awareness, but that also really thinking about how this relates and, you know, impacts them as a business, because clearly ultimately, as we've said before, this is about ensuring that there is beneficial outcomes for both sides, but also for the wider industry at large and ultimately the stakeholders beyond just the individual actors that we've outlined here. So, we are delighted to have the opportunity to support this and we hope that the benefits and the opportunities that it presents are clear to all of our colleagues and our clients in the market as well.

Announcer

Zeynep, that's great. Thank you to both you and Lorelei for taking the time to join us on the podcast today.

To let us know what you think about this episode, or if you have any ideas for future episodes, please email us at assetmanagement@kpmg.com. And remember, you can find our latest publications, articles and other material on kpmg.com/assetmanagement.

Join us again next time as we'll continue to explore other top of mind issues within the asset management, real estate and private equity industries so stay tuned. Thanks for listening.

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