Setting the standard

JP Morgan is helping funds with the self-service tools they need to help them interpret the relevant asset class information and data, Nicholas Granata tells pfm.

How has private equity changed over the years for general partners and limited partners?

NG: This is an industry that has matured; 25 to 30 years ago, there were fewer players in the space and the investment managers or general partners tended to be more pure-play private equity firms. Today, those firms have expanded to become broader asset managers with multiple products designed to satisfy the limited partners’ appetite for enhanced returns and diversified portfolios. As the investments and fund structuring have become more complex, the investors are demanding more data to analyze their investments, more sophisticated performance analytics, more transparency on their portfolio and they want their reporting in a shorter timeframe. This trend has opened up opportunities for outsourcing firms, as the third-party administrator can provide automation and scale to support the needs of the limited partner community.

Historically, LPs may not have been as focused on the fees they were paying because their private equity returns exceeded their expectations. But as competition increased quality assets became scarce and made it more difficult for LPs to earn the same level of return profile. As a result, the scrutiny or the level of analysis done by the LPs has changed dramatically and they’re asking the GPs, “So, help me understand exactly what’s going on with my investment.”

At which point, you naturally go back to the accounting books and records to provide more detail and transparency. For the accounting records to be relevant and meaningful to both the GP and LP or any other stakeholder, data has to be captured at each layer of the structure of the private equity investment, the deal, the holding company, the fund, the LP levels and then potentially combined or consolidated with structure or firm data. Ultimately you have to be able to publish this data in a way that can be consumed by different constituents easily. As the fund administrator it’s imperative for us to be flexible in how we’re able to present that data, which means we have to capture it right initially at all levels in a structure.

What kind of application do you use to help clients with their data?

NG: We are very focused on how we can turn the data we are capturing into more valuable information. That means leveraging data we capture in our accounting platform, Investran, and offering self-service tools for both our GP and LP clients. If you think about the cycle of the industry, it’s gone from the provision of a reporting website that provided LPs with access to fund documents generally in pdf format to providing data on our clients’ desktops or mobile devices in order for them to analyze performance of the fund at fund, deal and investor levels.

The key word is transparency. As the fund data reside on our platforms, it’s important for us to be able to provide that level of transparency to our clients by integrating our accounting, waterfall, banking, reconciliation and reporting systems.

Our operating model is designed to capture the data once and then making sure it rolls up to the appropriate transaction and account levels in our reporting application. It’s essentially moving from offering standard reports to providing a query tool so that clients can...
access their data to run their own analytics on a self-service basis.

Q: Are your clients spread out across the different alternative asset classes?
NG: JPMorgan has a robust product offering to support and service all private alternative assets for both open-ended and closed-ended products. From a private equity perspective, we service both the asset manager and asset owner client base which gives us a unique view into the demands and requirements for each group. We have experience with traditional strategies like buyout and venture capital as well as strategies that are investing in debt securities via a hybrid structure. Infrastructure continues to be a growth area for us and we are seeing more opportunities in the real estate funds space globally. Our private equity and real estate fund administration solution offers clients a flexible accounting and reporting product across all alternative asset classes.

Q: How did the fund administration service come about?
NG: We were actually one of the first administrators in the private equity space. The JPMorgan Private Equity Fund Services (PEFS) business was launched back in 2005. The business was a spin-out from JPMorgan Partners, the private equity asset management arm of the firm. The strategy was to commercialize the back-office accounting function as a third-party product offering. We have some clients which have been with us since the inception of our business.

It’s treasury. It’s escrow. It’s foreign exchange. So if a client is looking for a one-stop shop, JPMorgan can provide a solution right across the value chain.

Q: What kind of staff do you look for to help your clients?
NG: We have a deep bench of talent who are experts in private equity fund administration and who have deep knowledge and experience with the Investran application. Our staff are located in 10 locations globally with a broad range of expertise and skillsets including certified public accountants, data analytics experts, data scientists and complex waterfall experts. Our staff focus on helping clients use our technology to support their unique fund structures to leverage our best practices and scale. This enables both our clients and us to benefit from efficiency and automation.

Q: How has that helped you become more efficient?
NG: By investing in technology and robust data management we’ve reduced the timeframe and the costs associated with meeting our clients’ requests. What used to take a month or eight weeks, we can now do in less than a week. We’re now able to leverage the reports that we create for a single client across our entire client base which gives us the scale we need to grow.

The challenge with private equity is the lack of standardization, particularly in client structures, fee calculations, waterfalls and client reporting. The Institutional Limited Partners Association is working toward establishing common standards and guidelines, but adoption will take time.

We’re all about scale, and we accomplish that through our global operating model and leveraging our core technology to be flexible to handle unique client requirements, not only from a booking and processing perspective but also from a reporting perspective. ■

Nicholas Granata is an executive director for private equity and real estate services at JPMorgan Chase.