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What if Luxembourg Takes the Lead in Private Asset Data Standardisation?

A more professional approach to asset servicing is required as global demand for private asset fund investments continues to grow. Investors have the right to demand regular, comparable updates of financial and qualitative data about their holdings. Greater standardisation of industry KPIs would make a major contribution to such an upgrade.

The Private Equity industry has thrived for decades on a foundation of mutual trust between general and limited partners. Such “club deals” are lubricated by semi-formal conversations and email exchanges between long-standing trusted colleagues, ensuring that portfolios are serviced in line with mutually understood values. Formal reporting tends to be of a relatively basic nature.

Fast changing industry

This personal approach works well when a fund has a handful of investors, but this reality has been changing quickly over recent years as demand for private assets has boomed. It is now common for funds to have dozens or hundreds of investors, and this could become thousands if the process of “democratisation” of alternative funds takes full flight.

There is no pressing need for regular updates when investors have implicit trust in personal relationships, with these being acceptable every quarter or even longer. However, things are different in today’s more impersonal

global market, where many investors are attuned to the reporting rhythms of liquid assets, and thus have similar expectations for alternatives.

Adapting to new investor demands

Globally dispersed investors require data they can trust and compare, not least to satisfy the regulatory compliance and risk management requirements that come with being listed, regulated institutions. They often demand granular data to fulfil their in-house KPIs, and this requires high degrees of transparency in the relationship and the way data is shared.

Hence there is demand for more regular updates of a range of data points, as well as investors now seeking monthly and even fortnightly NAVs, ESG and other qualitative data needs reporting as soon as facts change or new metrics come available. This is a relatively complicated process for assets that are by their nature private, with data not readily available on terminal screens.

Changed expectations

For example, updated NAVs are generally estimates and extrapolations made by valuers working for the asset manager. There are also expectations that valuation numbers will change at the completion of transactions such as capital calls; reporting that has traditionally been taken on trust in this industry. ESG methodology and data change daily, as does the unique nature of each private asset. All of this also needs to be communicated quickly to investors.

Investors also need a timely flow of qualitative data about each asset. Information such as whether sales targets are on course and if staff-recruitment is going to plan provide vital context to understanding each asset. This includes ESG criteria such as estimates of the carbon footprint data, HR diversity achievements, social impact performance and so on.

Improving on bilateral exchanges

At present, this information is mostly communicated on a bilateral basis, with asset managers giving updates ad hoc via non-standardised, unstable formats such as Excel and email.

Efficiency and accuracy would improve substantially if the PE sector could embrace standardised reporting processed via central hubs.

As well, limited partners appreciate being able to “look through” reports to see the performance of underlying assets. Often information is given at the global, fund level but this frequently masks what is happening on the ground. Well curated data delivered effectively by efficient IT systems gives the transparency investors require.

Luxembourg in the driving seat, LPEA co-pilots

As the leader at the heart of the European private assets space, with its products distributed globally, Luxembourg is well positioned to be at the forefront. Players here understand investor needs, the range of data collected by asset managers, and the potential technology solutions that could enable this data to be shared efficiently. The country could drive the creation of norms that could become widely accepted in Europe and even across the world. With its globally respected brand name, the Luxembourg industry could help this work gain widespread recognition.

A fresh, technical approach

This would go beyond the processing and ordering of how data is presented, but going deep into the technicalities of how KPIs are calculated. Investors will often have their own unique ways of assembling these indicators and metrics, and so require data at the right

level of granularity. Not all methodologies can or should be standardised, but Luxembourg can provide the lead on setting standards for how certain calculations could be made.

For example, metrics such as the internal rate of return (IRR) are widely recognised in the industry, but players often have their own understanding of this measure, particularly in their own internal definitions of gross and net returns. While funds have good reasons for creating these as they see fit, this heterogeneity does not help investors understand the positions they hold.

Reputation building and preservation

Potentially, failure to act could reflect poorly on the Luxembourg fund sec-

tor. General and limited partners know that much of the data they require is collected from multiple sources and is passed through administrators in Luxembourg. They could reasonably expect administrators in this country to process this information in a more professional manner, resulting in greater transparency and reduced administration costs.

Greater standardisation would be no panacea. Private assets remain relatively hard to quantify and fund administration in this space will require careful curation for some time to come. However, the industry should seize every chance to move in the direction of greater normalisation to facilitate higher levels of automation and efficiency. ●

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LPEA BACKS THE FUTURE FOUNDATIONS PROGRAMME

Through its Market Practice & Operations Committee, the LPEA feeds into the Future Foundations Programme. More on this industry reshuffling initiative:

In Luxembourg, private market and alternative investment players are on the hunt for smart solutions to navigate stricter demands from investors and regulators. They’re shaking things up, aiming to streamline operations both inside and out. A pioneering program is underway to position Luxembourg as a leader in Europe’s private markets. The goal? To embrace new tech and financial systems. These players would need to team up and invest together to get ahead. Enter the Future Foundations Programme, a game-changer sparked by the ‘Haut Comité de la Place Financière’ (HCPF). Backed by key industry names and government bodies, this initiative, under the Luxembourg House of Financial Technology (LHoFT), is all about tackling the tough challenges faced by financial institutions. Running for 18-24

months, this program is an opportunity not to be missed. The LHoFT will soon launch a call for applications, seeking out top talent to solve for the first challenge identified by the SteerCo, namely ‘Institutional Investor Onboarding’. Benefits for participants include financial incentives and proof-of-concept opportunities. Once selected, participants will dive into a week-long boot camp where they’ll get hands-on advice and insights from industry experts. Then it’s go time! Applicants must submit their proposals with a chance to win a grant. But what’s on the agenda? Well, topics are hot and varied. There is plenty to sink your teeth into. Excited? You should be! This program is a game-changer. So, if you’re looking to get involved, reach out to info@lhoft.lu or swing by <https://lhoft.com/events/> for more details. It’s time to bring collective intelligence to Luxembourg’s financial scene!

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