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Communication through technology

By A. Paris

The way investment professionals work has changed. Hybrid business practices are coming into play, following successful vaccine roll-outs in many parts of the world, and the financial industry is adjusting to this new reality. The year has seen digitisation accelerating across the hedge fund world, with investor relations (IR) and capital raising teams becoming accustomed to handling their business remotely. Raising capital through virtual media has been another challenge managers have had to wrangle with.

Clear and concise communication is the bedrock of successful investor relations and buoyed successful managers through 2020, especially in the early months when the pandemic first broke out. Investor expectations and needs heighten in times of crisis and therefore it is through these periods that investor relations teams are most under pressure.

The shift in due diligence processes and communication with investors, both existing and potential, is something IR teams had to contend with. The 2020 Global Alternative Fund Survey by EY finds that nearly 60 percent of investors surveyed experienced, at least, minor disruptions to due diligence processes as a result of going remote. "Newer relationships were most strained with 30 percent of managers responding that travel restrictions caused major disruption to prospective limited partners," the report outlining the survey results details.

In an article written for the Alternative Investment Managers Association (AIMA), Ron Biscardi, CEO, iConnections says: "With physical meetings and conferences being put on hold, the industry has had to find new ways to reignite activity and match allocator capital with investment strategies. The key to success has been combining human investor relations expertise with the tools and data already at our fingertips. By harnessing technology to enhance rather than replace the human touch, investor relations teams around the world have been able to use information to help managers and allocators understand how to connect with the right partners."

Technology has a critical role to play in navigating the landscape. Aaron Steinberg, Head of Prime Services Sales and Relationship Management at BNY Mellon Pershing outlines in an article: "It is advised that managers today do not neglect their tech stack, but conversely invest in outsourced fund admin providers, which can help offset fee compression headaches, as well as CRM tools that can be additive in a digitised cap intro process."

In conjunction with the increased use of technology solutions to manage investor relations, the industry witnessed a rise in uptake of capital introduction platforms. For example, Goldman Sachs' Marquee Connect, launched in July 2020 has reportedly seen business picking up. Hedge Connection also launched a new virtual conference and enhanced online capital introduction technology platform last year.

Don Steinbrugge Agecroft Partners writes: "Hedge fund capital introduction events, in which investors and fund managers meet in a speed-dating environment, have increased in popularity within the past decade." The firm expects both prime brokerage and independent cap intro events to continue to be popular with alternative investment managers and investors, despite in-person conferences starting to take place again. ■

The evolution of investor relations in capital raising

By Emer McGuckin

This Hedgeweek report looks at how manager-investor relations are evolving in the hedge fund world, and the role that service providers and vendors can play in facilitating innovative tools and techniques to aid capital raising, due diligence and investor reporting.

What has the pandemic changed most in terms of the manager-investor relationship?

Investors continued to demand higher levels of transparency from managers throughout 2020 on their Environmental, Social and Governance (ESG) principles, processes and procedures.

The increased presence of ESG factors in the investor relations process has been steadily gathering pace since 2019, but the effects of Covid-19 and its myriad of social responsibility and governance concerns have accelerated the process in 2021. The net result is that ESG considerations are now firmly entrenched in the investor relations process. For some investors, managers' operational performance on ESG became as important as their investment performance.

Covid-19 has not only impacted the big trends, such as ESG considerations, but the most basic actions associated with investing in the alternatives sector: namely, if managers do not update their technology capabilities, they will have to physically print, sign, scan and email subscription forms, redemption requests and other fund documents while working from home.

The pandemic has highlighted how investments in the alternatives sector can diversify portfolios and protect against market downturns. Understandably, managers are continuing to explore the ability to attract subscriptions with minimal impact to investors.

But how can an investor execute capital allocations or redemptions while WFH, without access to a printer/scanner? Just as importantly, what are the security risks associated with emailing sensitive financial information that could be repurposed by unrelated parties?

The short answer to the former question is, it is extremely difficult to complete these tasks without a fully digital user experience. The reality on the latter issue is there are grave implications to e-mailing sensitive data, which can be repurposed for fraudulent activity. Going forward, we believe secure and remote, online solutions to resolve such critical business needs will remain paramount for the foreseeable future.

What have been the impacts on capital raising of the move to virtual interaction?

In this new environment, the industry will need to transform the initial subscription and capital commitment process into the digital space – completely removing paper from the process while simultaneously improving the quality of the information supplied by investors. Managers will need to gauge investor sentiment with live usage reporting on which potential investors are engaging with fund offering materials, and where investors stand in the multi-phased subscription process.

Nowhere is this more prevalent than in the private equity industry. Preqin predicts the sector to receive the largest inflows within alternative finance – doubling assets to USD9.1 trillion globally by 2025 – which will place pressure on GPs to capitalise. The responsibility to digitise their IR workflows will separate those who sink from those who swim, and those who fail to advance beyond emails, paper postage and sub-par cybersecurity will struggle to differentiate themselves in an era where institutional due diligence is only intensifying.

What are the new developments in technology to support IR teams within hedge funds – and to improve investor communications, transparency and reporting?

With technology playing a bigger role in fund administration, operational vulnerabilities are changing, driving fund administrators toward a more holistic understanding of the evolving risks. Cybersecurity concerns, for example, are now top of mind and will be into the foreseeable future. This has spurred significant attention toward secure online transmission of investor documents across investor portals.

A tool which simplifies and automates the management of prospective investors and placement of initial investments, using electronic document execution will be critical to underpin this digital transformation. The CitcoConnect™ platform was launched to provide managers with a virtual data room that is simple to set up and makes information readily-available to interested parties during fund launches, closings, side letter document management and ongoing reporting. Automatic e-mail notifications, user activity metrics, document security and watermarking helps managers to focus more on a meaningful investor experience and less on administration.

CitcoConnect™ is a secure portal for all communications, thus eliminating the complexity of dealing with a cumbersome array of emails, and all users are enrolled into the Citco group of companies (Citco)'s Security Program using a comprehensive, defence-in-depth strategy. This strategy includes security controls and processes aligned with industry standards to ensure that our clients' data and personal privacy are protected against threats and unauthorised access.

ESG reporting: what information do allocators now expect from their managers?

There was a shift in focus from environmental issues to social responsibility following the onset of the Covid-19 pandemic. More specifically, Covid-19 introduced additional scrutiny over governance considerations, namely how managers have supported their employees during the pandemic through remote working practices, workplace safety and future flexible working policies. Social factors grew in significance, given the implementation of social distancing and sustainable health practices for those remaining in the workplace, as well as increasing attentiveness to employee well-being across organisations.

Throughout this period, the role of investor relations has been significant. Institutional investors, as well as family offices, endowments and foundations, have continued to request increasingly detailed information in their Due Diligence Questionnaires (DDQs) and as part of their overall Operational Due Diligence (ODD) processes. They demand that managers have an ESG policy and provide regular metrics on the performance of activities outlined within said policy.

It is now clear that a manager's operations – in addition to their investment decisions – are being scrutinised through the lens of ESG. ODD professionals have increasingly emphasised the need for managers to demonstrate evidence of fair hiring policies and governance in order to improve overall diversity and inclusion, which has been linked to improved business operations and investment performance. Within investment due diligence, investors have become increasingly wary of 'greenwashing', and look to uncover a tangible commitment to sustainable ESG practices as a critical factor in the manager selection process.

Asset servicers are helping investment managers' investor relations teams to meet these demands, and are playing an increasingly crucial role. The vast amounts of data collected by asset servicers on the funds they administer means they are perfectly placed to contribute to further ESG transparency. Asset servicers have an opportunity to lead the charge in creating overall sustainability reporting metrics and bespoke solutions that transparently and consistently evaluate and report on a manager's ESG strengths. ■

Emer McGuckin
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Emer McGuckin is a Managing Director at Citco (Canada) Inc. who oversees and advances investor relations globally. With over 15 years of experience in fund administration, Emer has been driving the evolution of Citco's IR technology. She graduated from University College Dublin with a Bachelor of Business and Law degree and went on to qualify as a management accountant. Prior to joining Citco, she spent six years in a product control role in a large London-based investment bank.