BITE
alternative investments

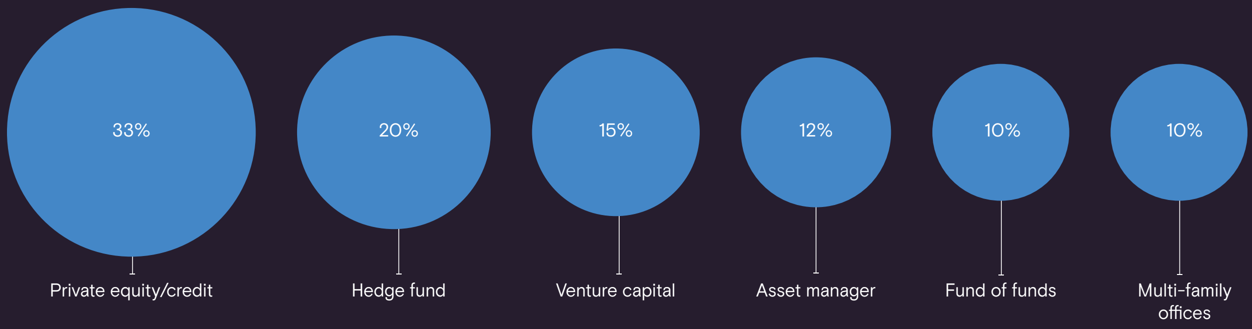
The Tech's Factor 2023:
The digital (r)evolution in private markets

Contents

Methodology
In the fourth quarter of 2022, Mergermarket, on behalf of Bite Investments, surveyed 100 senior executives based in the US from middle-market boutique funds and asset managers on the topic of digitalization of the private markets. One third of respondents represented firms with AUM of US$25 million to US$500 million (referred to as "smaller firms" in the report), another third represented firms with AUM between US$500 million and US$1 billion (referred to as "mid-sized firms" in the report), and the remaining third of respondents were from firms with AUM of more than US$1 billion (referred to as "larger firms" in the report).

The survey included a combination of qualitative and quantitative questions. All interviews were conducted over the telephone by appointment. Results were analyzed and collated by Mergermarket, and all responses are anonymized and presented in aggregate.

Which of the following best describes your organization?



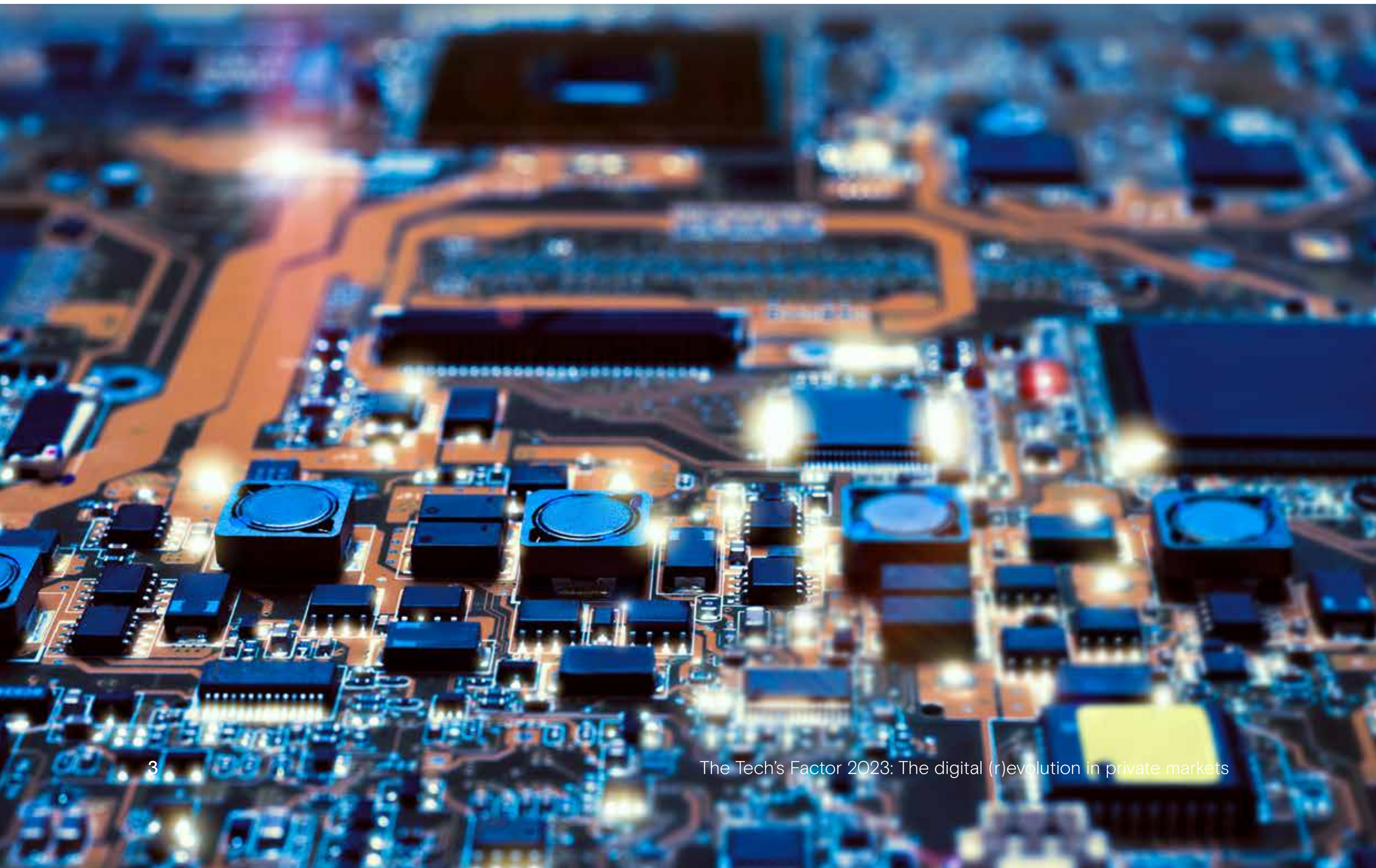
Foreword

Private equity and other alternative asset management firms are experiencing a sea of change as digitalization continues to disrupt traditional business models and transform the way that firms operate for the better. With the rise of fintech and increasing pressure from clients to adopt new technologies, firms must fully embrace digitalization to remain competitive and relevant. With its Software-as-a-Service (SaaS) investment management and solutions software, Bite Stream, Bite Investments is enabling its clients to achieve this transformation by compliantly streamlining and scaling the distribution of private markets investment products in a simple, secure, and efficient way.

In this report, we examine the impact of digitalization on the industry and our survey findings offer a unique perspective on the current state of play. Our research confirms that the digital revolution is having a direct, positive impact on profits and that keeping ahead of the curve in terms of technological capabilities is now a top priority for most organizations.

The findings also show that firms of all sizes are pursuing digitalization for very diverse reasons, including enhanced data access, meeting rising client demands, and improving investor retention. However, the divide between larger and smaller industry players found in our last report continues, suggesting there is still an opening for smaller firms to get ahead of their direct competition, one that has yet to be fully embraced.

Naturally, there are challenges to overcome. Our report finds that integrating new systems is a primary concern. With so many benefits on offer, it is crucial that firms can overcome these hurdles to maximize the impact of digitalization on their operations. This review of progress made to date and future intentions should serve as a roadmap for navigating the increasingly digital alternative asset management landscape as the industry continues to unlock the full potential of technology.



Digitalization becomes not only an advantage, but a must in private markets

Digital disruption is sweeping the traditional operations of private equity (PE) and other alternative asset management firms, revolutionizing the way they conduct business and interact with clients. We examine how the industry is adopting technology to take its services to a new level.

Key findings

01 Digitalization has had a direct, positive impact on profits, with a majority of respondents agreeing that keeping ahead of the game with regard to technological capabilities at their organization is a top priority.

02 Almost half of the respondents representing firms at the largest and smallest ends of the AUM scale believe they are, at best, keeping up with the market average in their digitalization efforts. When compared with their competition, almost a quarter of those from small and mid-sized firms believe they are lagging in this area. Even with investment, more than half of firms of all sizes believe they will just be keeping up with the competition in the next two years.

03 Firms of all sizes are pursuing digitalization to enhance data access and improve transparency to meet investor demand. Demand from investors of the largest firms is particularly strong and essential for investor retention.

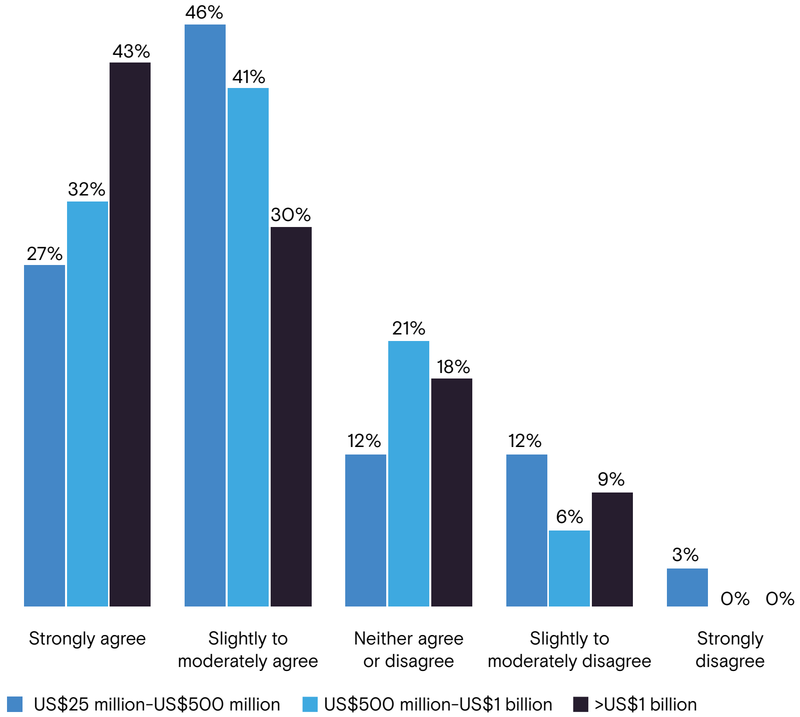
04 While instant access to data and information via digital platforms is the most important benefit of digitalization to investors, smaller firms are more focused on the faster deployment of investment funds – speed and agility aided by technology are key.

05 When it comes to the challenges of digitalization, integrating new systems is the foremost concern.

Are firms staying ahead of the digitalization game?

Data-driven decision-making is fast becoming the norm in the private capital industry, as a growing ocean of information affords new opportunities to identify potential investments and stay ahead of market trends. More automation is allowing firms to streamline due diligence, portfolio management, risk assessment, and reporting processes, thereby reducing costs and enhancing operational efficiency. In addition, digital platforms are connecting firms with investors and clients, facilitating distribution and onboarding, offering real-time investment performance data, fostering stronger relationships, and meeting rising investor demand for transparency.

To what extent do you agree that keeping ahead of the game in regard to technological capabilities at your organization is a top priority?



Combined, these advances are transforming the industry from slow, manual, opaque operators to organizations that are agile, automated, and transparent. Those taking the initiative to pursue digitalization are also seeing positive financial results – our research shows that 79% of respondents overall agree that digitalization has had a direct, positive impact on their organization's profit.

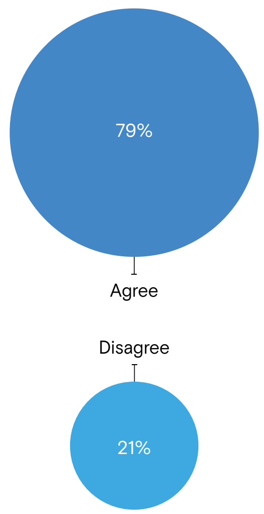
"The way the alternative asset management industry has worked is very manual, with lots of disparate systems in place. This complex landscape adds cost and time to these key processes. By centralizing onto a single platform, firms can reduce their total cost of operation," says Tom Hamilton, chief information officer of Bite Investments. "If you can also make the process of onboarding investors as frictionless as possible, that is beneficial for everybody and can ultimately help a firm to increase its AUM."

Our research also reveals that larger firms are more likely to recognize the benefits of this digital metamorphosis. More than two-fifths (43%) of respondents representing larger firms strongly agree that keeping ahead of the game with regards to technological capabilities is a top priority, falling to 27% of firms at the smaller end of the scale. Overall, 73% of firms, regardless of their size, agree to some extent that leading over their competitors in digitalization is necessary – a clear recognition of the ongoing shift that is in play.

Progress is relative

Progress on digitalization depends on various factors, including firm size and investment focus. For example, larger global PE and asset management firms are often at the forefront, leveraging their economies of scale to invest in technology and automate processes. Tech-focused firms also understand these benefits, many having already collaborated with digitally enabled companies,

"Digitalization has had a direct, positive impact on our organization's profit"



79%

of the respondents say that digitalization has had a direct, positive impact on their organization’s profit.

while younger firms without legacy systems to upgrade are often eager to build these foundations from day one.

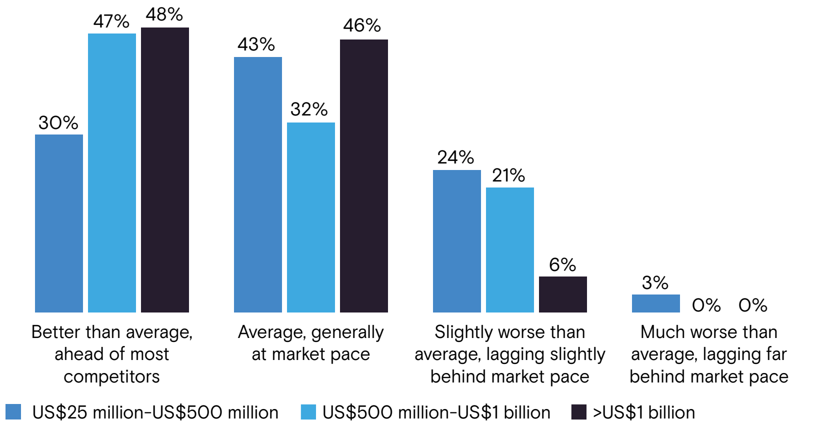
In general, larger firms and those with more revenue-generating assets under their management see themselves as having made better progress relative to the market. For example, 48% of survey respondents from larger firms believe they are better than average, versus 30% of those from smaller firms.

Conversely, only 6% of those from larger firms think they are lagging, compared with 27% of respondents representing smaller firms, who perceive themselves as digital laggards. However, similar proportions of those in organizations at both ends of the scale believe they have made average progress to date.

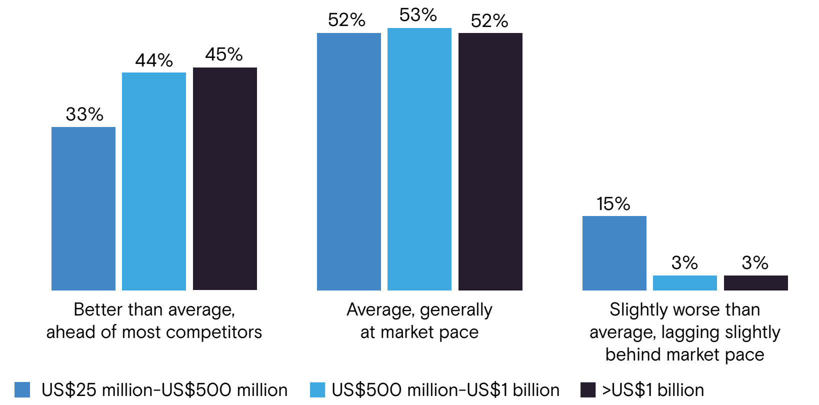
"A different level of business agility is associated with firms of different sizes," says Hamilton. "Larger organizations often have more stakeholders and use more systems and that typically makes for a more complex landscape. Bigger firms often find there is a significant opportunity to simplify their systems and operations and thus save considerable time and money, while providing a significantly improved customer experience."

Looking to the future, more than half (52%) of respondents overall say they will just be keeping up with the pace of the market when it comes to digital adoption in the next two years, even with ongoing investment into digitalization. Those in larger firms tend to have a more optimistic view of their anticipated position in the next two years, with 45% saying they will be ahead of most competitors, compared with 33% of those from smaller firms.

How do you believe your organization currently compares to its competitors in regard to its digital adoption? (Select one)



After your organization's investment in digitalization, how do you believe it will compare to its competitors in regard to its digital adoption in two years from now?



"Bigger firms often find there is a significant opportunity to simplify their systems and operations and thus save considerable time and money, while providing a significantly improved customer experience."

Tom Hamilton, chief information officer of Bite Investments

This investment requires careful consideration, particularly on the external-facing investor relations side. Firms must identify where the industry is heading and how best to serve investor needs and expectations before committing to a complete system upgrade.

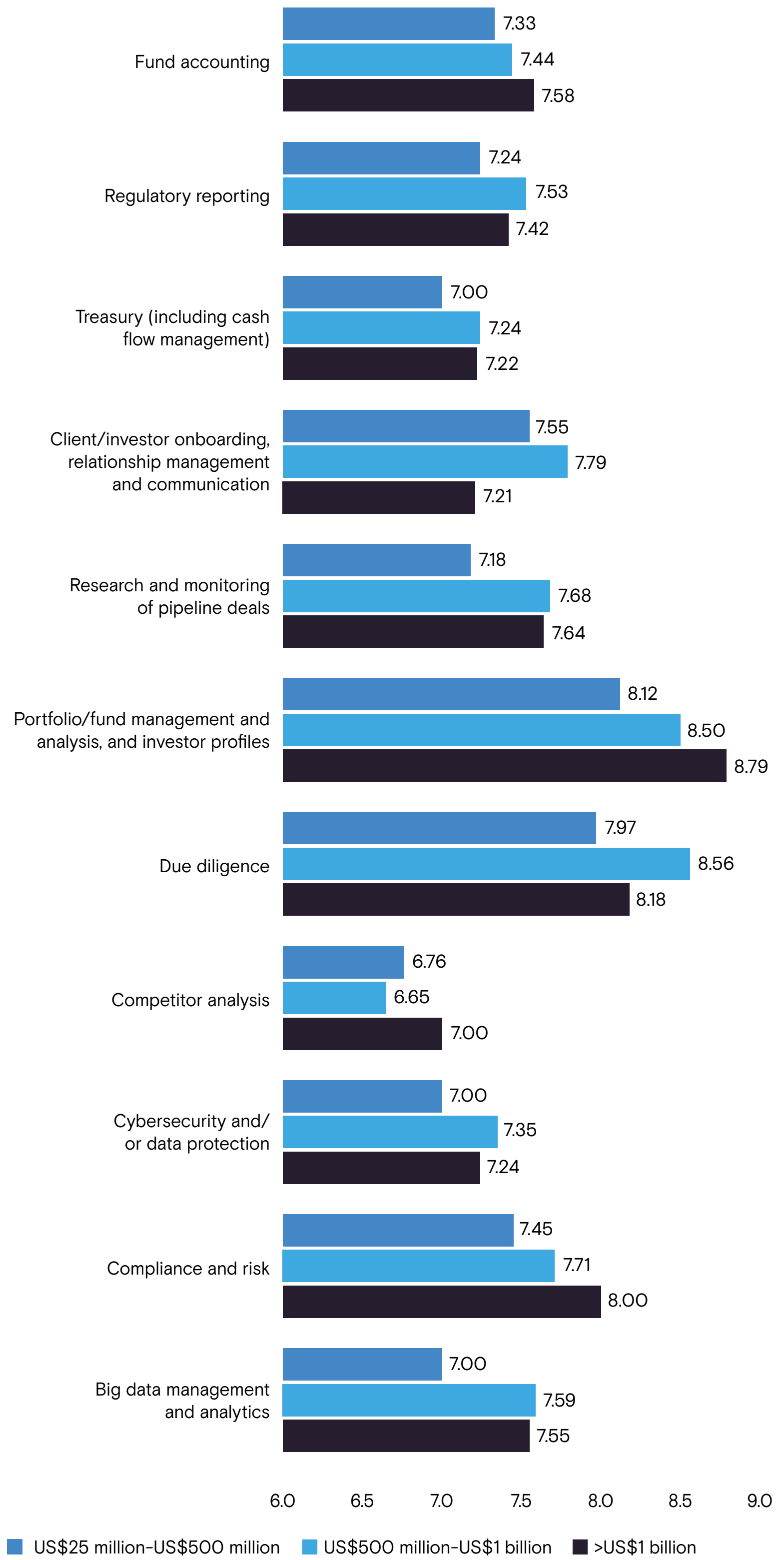
As the CFO and partner in a US venture fund says: "In the next two years, we will be focusing on significant improvements in investor-facing tools. It is evident that we have to comprehend client expectations well before designing new solutions."

Laying the groundwork at the outset can save time and, crucially, avoid unnecessary costs.

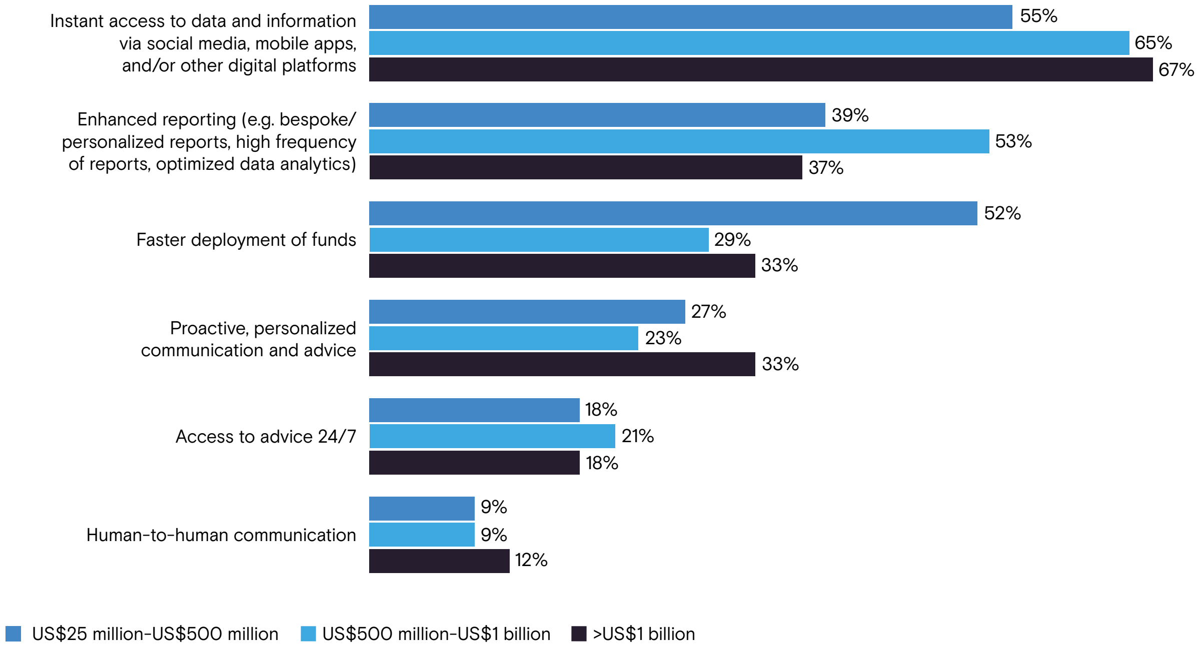
What is making customers unhappy, digitally speaking?
Across the board, respondents share that they are mostly satisfied with their array of existing digital solutions – but only moderately. There is significant room for improvement here. In general, respondents representing the smallest firms are the least satisfied with their current capabilities and identify the weakest areas as competitor analysis tools, big data management and analytics, and cybersecurity and data protection. The highest-scoring areas are portfolio and fund management, along with due diligence.

One of the first areas of asset management activities to be digitalized was back-office functions, such as fund administration, compliance, and reporting, as firms sought to improve efficiency and reduce costs, as well as to provide more timely and accurate information to investors and regulators. In recent years, digitalization has extended to other areas such as investment analysis, investor onboarding, due diligence, and fund management.

On a scale of 1 to 10, how satisfied are you with the digital solutions your organization currently utilizes in the following areas? (Answer a number 1-10, where 9-10 is very satisfied, 7-8 is slightly to moderately satisfied, 5-6 is neither satisfied or dissatisfied, 3-4 is slightly to moderately dissatisfied, and 1-2 is very dissatisfied)



Which of the following do you see as the most important to your clients? (Select top two)



Investor relations is increasingly becoming digitally enabled and is one area that firms need to get right if they are going to retain credibility among their clients. Putting a foot wrong here can be costly and feedback from our respondents' experience of their existing systems was not all positive.

"We need an investor portal that is more comprehensive," says the CFO of a US PE firm. "Overall, there are very few functions that the current portal can handle. Also, it can only manage a limited number of users at any given time."

This is echoed by the CFO and COO of a US hedge fund, who says: "The chat box function is not very practical, in my opinion. We are using very outdated systems. The automated responses are not streamlined, and users are not happy with the service overall."

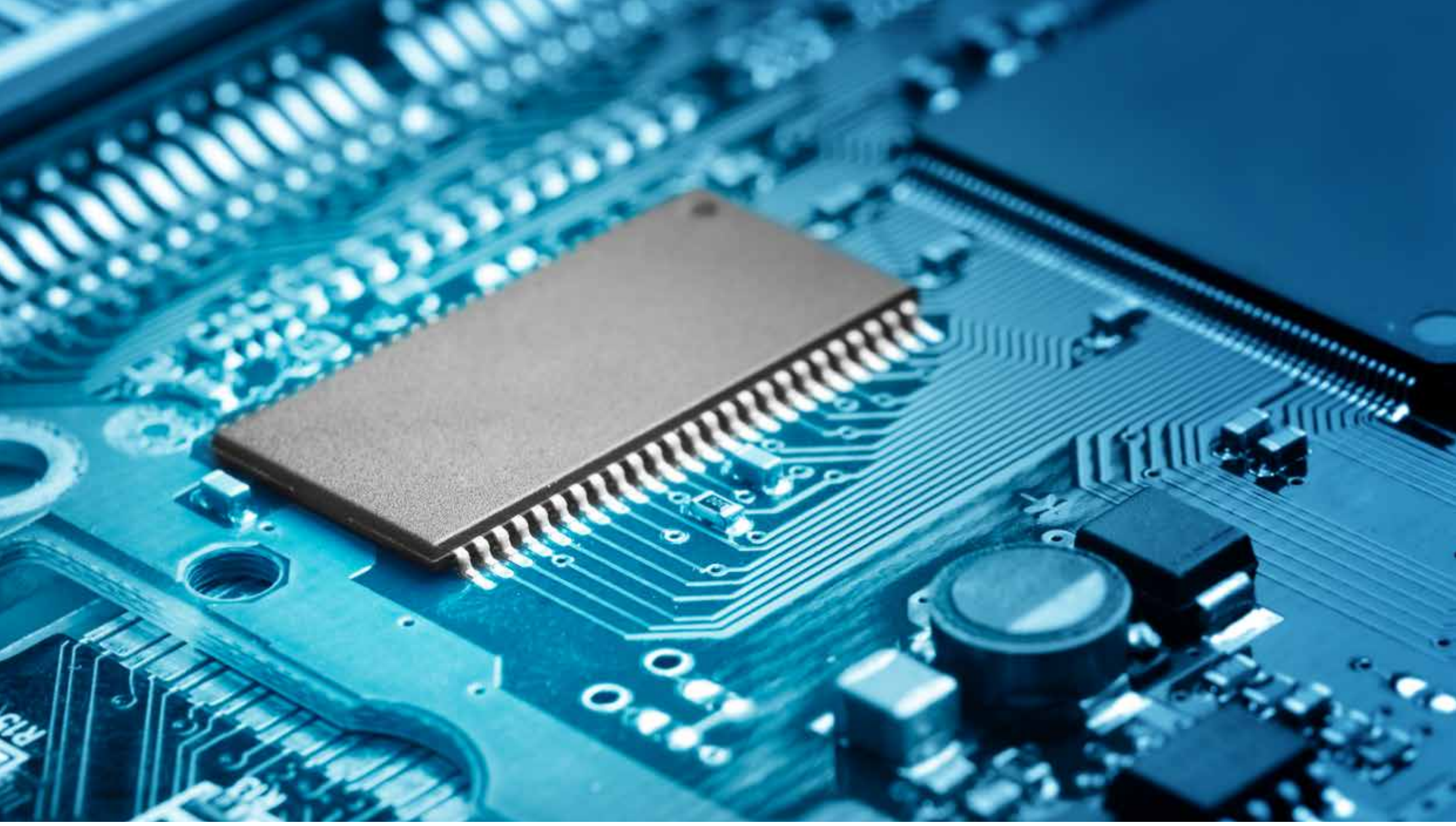
Therefore, satisfaction with digitalization is not always guaranteed. It is critical that firms understand their audience and their demands to guide their choice in digital service providers before investing.

Current macro and market conditions are far less forgiving than they were just a year ago. Investors need quick and easy access to the information and data required to make informed decisions about their investments.

The results of our survey reveal that, overall, respondents most commonly see instant access to data and information via digital platforms as most important to their investors, ranging between 55% and 67% for each AUM bracket group. Comparatively, in our previous edition of the survey, published in 2022, enhanced reporting was cited as the most important aspect for investors. Although it still ranks highly, with 43% of respondents agreeing, it is clear that the importance of access to data and information at the touch of a button has risen in recent times.

"It is not only limited partners (LPs)* that want granular data in their reporting and greater transparency. The ability of a general partner (GP) to capture data on their existing investors and prospects is absolutely crucial," says Henry Reynolds, COO of Bite Investments. "There is a lot of detail around how that data is captured and how it is stored and used. As long as you have the correct security and legal parameters in place, that data becomes incredibly valuable to a GP to understand trends within their LP base and which indicators can tell them whether an investor is likely to commit to their fund."

*Per the Institutional Limited Partners Association, LPs are investors in a limited partnership and are not involved in the day-to-day management of the partnership and generally cannot lose more than their capital contribution. The GP is the managing partner in a PE firm who has unlimited personal liability for the debts and obligations of the limited partnership and the right to participate in its management. The GP is the intermediary between investors with capital and businesses seeking capital to grow.

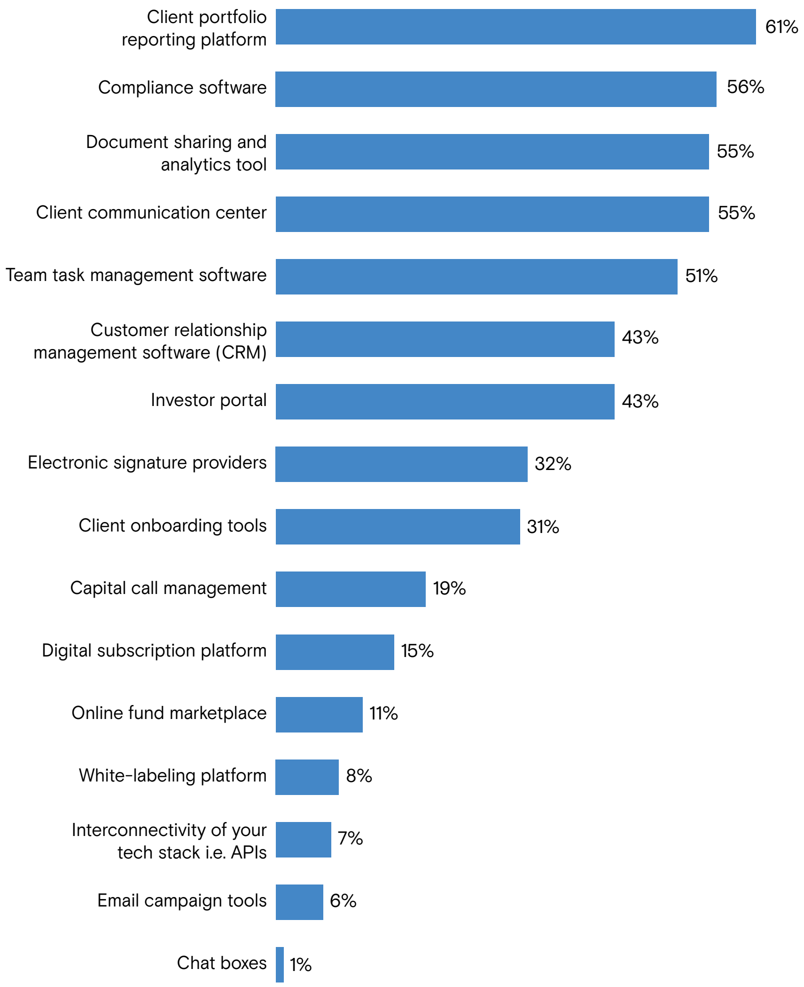


It is not just about access to information. Just over half (52%) of respondents representing smaller firms note that the ability to quickly and smoothly deploy their capital to the fund was also a top priority for their investors. PE firms should plan their capital calls in advance to allow sufficient time for LPs to respond and can use technology to automate the drawdown process, including the calculation of investors' pro rata obligations, the distribution of call notices, and communication with limited partners. Automation can greatly streamline the process, reduce the risk of errors, and improve transparency.

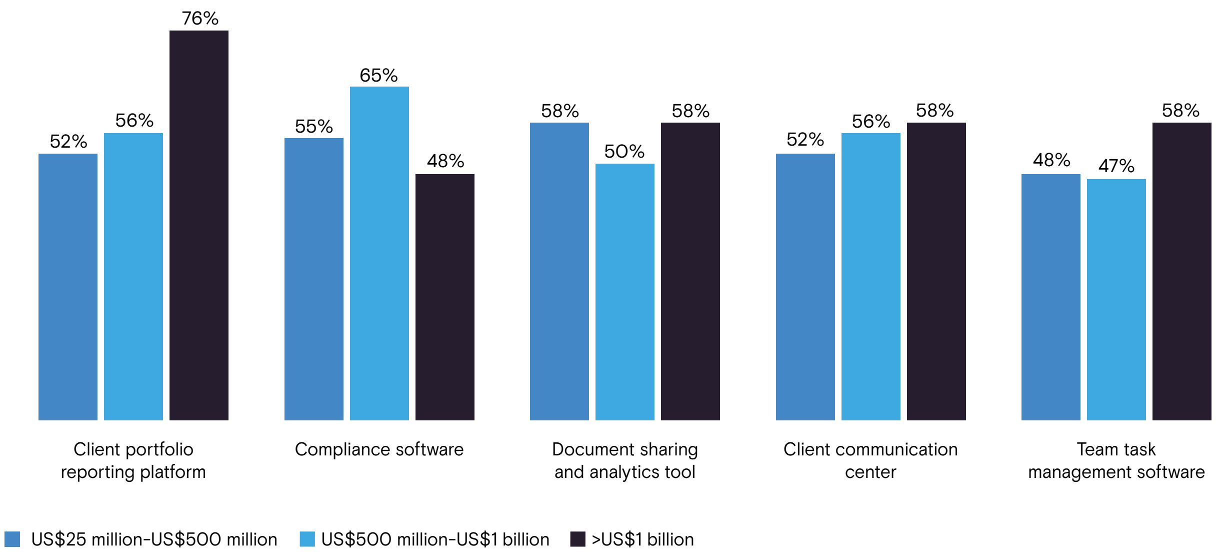
Finding the right tools for the job is fundamental

Fund managers have their own requirements that need to be met, from front-of-house to back-office activities. Overall, respondents are putting their investors first and understand the need to provide high-quality, frictionless portfolio monitoring capabilities. Our survey shows that investor portfolio reporting platforms are the most important tool for firms of all sizes, with 61% of respondents agreeing.

Which of the following are the most important for your company? (Select top five)



Which of the following are the most important for your company? (Select top five, top five responses shown)



For respondents in larger firms, the importance of client portfolio reporting platforms is even more pronounced – 76% cite them as the most crucial area of digitalization. These firms recognize the value of real-time access to data and allowing investors to make informed decisions about their investments.

For 65% of respondents representing mid-sized firms, meanwhile, compliance software is the most important tool. These firms value the need to stay on the right side of laws and regulations and may find themselves crossing regulatory thresholds as they grow, not to mention the fact the goalposts are constantly moving.

Larger firms with a broader range of investment strategies and a higher AUM are generally subject to more regulation and consequently may already be better adapted to manage this challenge. However, mid-sized firms must factor in more compliance management as their assets under management grow and they add new investment strategies or set up outposts in new countries. Software to manage compliance can be a critical tool in the digital arsenal.

"It is essential that we optimize our regulatory reporting procedures," says the head of investor relations at a US PE and credit firm. "Automated and streamlined reporting functions would be ideal and this would improve our compliance levels also."

There is also typically significant overlap between a firm's various activities. For example, investor reporting must meet certain regulatory requirements, making it simultaneously a client and compliance consideration. Organizations that take an integrated, holistic approach to digitalization will find the greatest benefits from upgrading their firm-wide operations.

Keeping investors informed and engaged is another core motivator for adopting new digital tools.

More than half of firms (55%) across AUM sizes say that client communication centers are among the top five most important areas of digitalization within their organizations. Secure online portals with targeted email campaigns enable PE firms to provide investors with comprehensive information about their investments, performance, and risks, while also allowing them to keep their investors engaged and informed when new products launch. They also allow firms to collect data on the best ways to communicate with investors, identifying what works and resonates and what does not.

By using these centers and enhancing their communications, PE firms can not only reduce overhead costs but improve their brand perception. This commitment to transparency fosters trust with investors, thereby allowing GPs to cultivate stronger relationships with their LPs, which can lead to more successful fundraising outcomes the next time a manager seeks re-ups for their follow-on funds.

55%

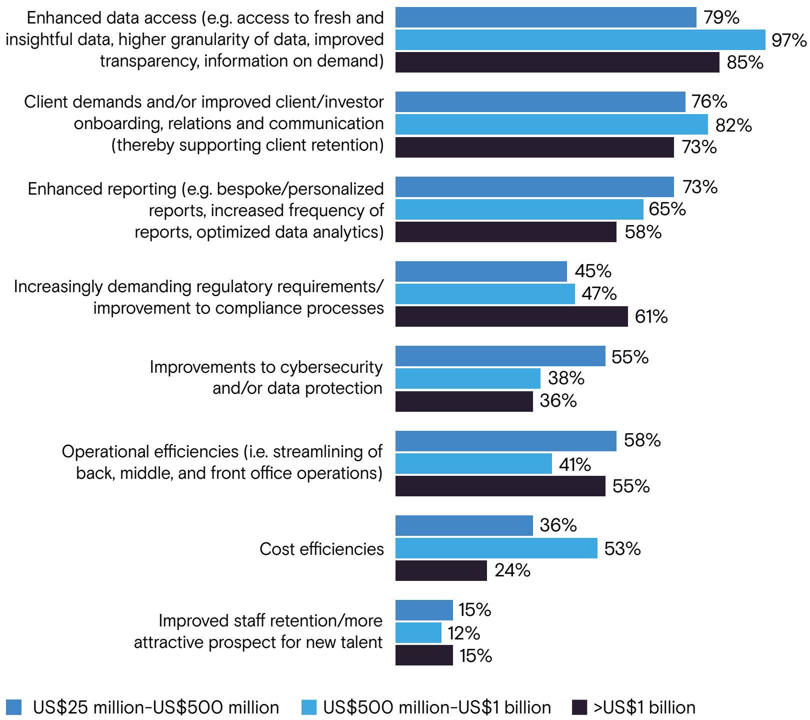
of respondents across AUM sizes say that client communication centers are among the top five most important areas of digitalization within their organizations.

What is driving digitalization investment?
Data is the fuel of digitalization. Access to this rich asset and the capabilities to better analyze it allows for better risk-adjusted decision-making. This applies to both fund managers in their deal analysis and their investors for the purpose of allocation decisions and managing their portfolios.

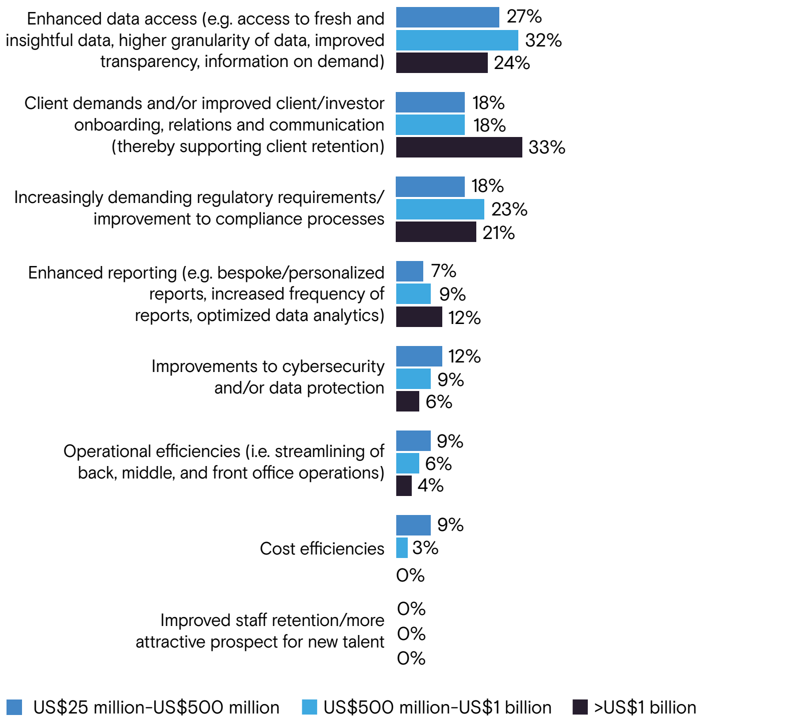
Enhanced access to fresh, insightful, and more granular data – including information on demand – is cited as a driver of digitalization investment plans by 79% of the smallest firms and by 97% of mid-sized ones. Meanwhile, 73% of the largest and 82% of medium-sized firms cite investor demands and improved investor onboarding, relations and communication, thereby supporting investor retention as among their key digitalization drivers.

Asked what the single biggest driver is, enhanced data access and investor demands were top choices. A third (33%) of larger firms cited these demands as the most important driver for investment, compared to 18% of each of the other two AUM groups, for whom data access is the motivation for digital investment. In today's challenging fundraising market, maximizing fund distribution, enabling swift and seamless onboarding of investors, and providing them with clear and timely automated portfolio data for enhanced transparency has never been more important.

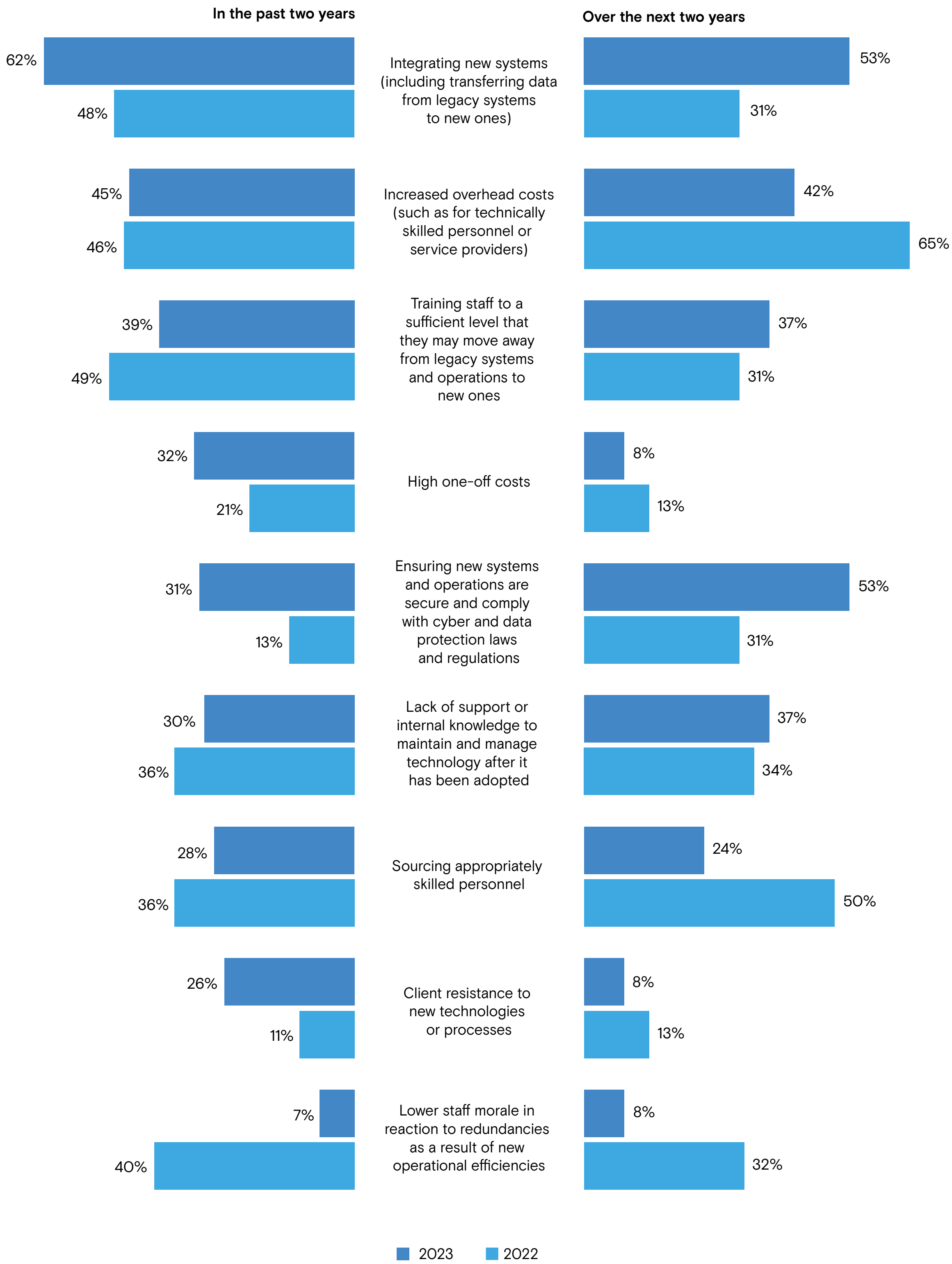
Which of the following are driving your plans for investment in digitalization at your organization? (Select all that apply)



What is the most important driver for investment in digitalization at your organization? (Select one)



What have been the top challenges faced as a result of your organization's adoption of new technologies in the past two years? And what do you expect will be the top challenges faced as a result of your organization's adoption of new technologies over the next two years? (Select up to three for each)

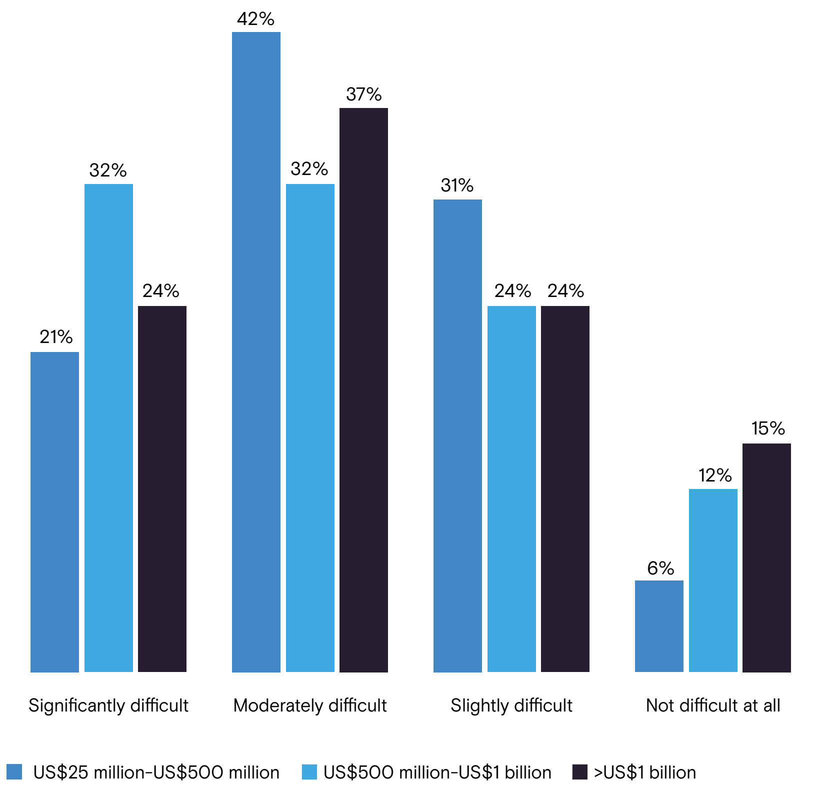


Challenges: Digital expectations versus digitalization realities
The process of embedding new digital platforms is not always easy. One of the biggest challenges is integrating new software with legacy infrastructure, which can be resource-intensive if not approached diligently. Careful software provider selection and choosing a highly compatible product are essential to avoid these issues.

"The investment journey for an LP crosses five different technology verticals: know your customer (KYC), data rooms, e-subscription, reporting, and communications. In many cases, GPs recognized that they had antiquated systems and tried to solve these areas one by one but wound up building a stack that was not integrated properly," says Charles von Moll, Head of Bite Stream, Bite Investment's fundraising and investor management software. "It is important that fund managers think carefully about their needs and find a SaaS partner that has a team of application programming interface (API) engineers that can seamlessly integrate the firm's existing architecture and data into an end-to-end platform that covers all of the necessary verticals."

However, firms have been having difficulties in this regard. Indeed, digital integration is the top challenge identified by respondents from firms of all sizes (between 58% and 68%) due to their adoption of new technologies in the past two years. In our previous survey, 48% of respondents overall cited integrating new systems as the top challenge, but this has now climbed to 62% overall. The same proportion of all respondents also tell us they have found integration of new technologies to be moderately to significantly difficult.

How challenging has the integration of new technologies been over the last two years?



Integration headaches are expected to continue being the primary challenge for 53% of respondents overall in the next two years – though 67% of those representing firms at the small end of the scale agree that "ensuring new systems and operations are secure and comply with relevant laws and regulations" will be their top challenge for new tech adoption versus just 30% at the largest end.

This is a marked shift from our previous survey, in which 65% of all respondents said their top challenge in the next two years would be "increased overhead costs (such as for technically skilled personnel or service providers)" followed by "sourcing appropriately skilled personnel" at 50%. Integrating new systems was cited by just 31% of all respondents at the time and was on par with several other concerns.

As they say, prevention is better than cure and before taking the leap with a digital upgrade, firms need to understand the potential limitations of their existing systems and how seamlessly this infrastructure can be plugged into a new system.

"Before firms set about integrating new platforms, it is important that they understand what it is they are trying to achieve. That is not just from an IT perspective – the business case is key," says Hamilton. "What is driving the decision to digitalize and does the firm have the resources from an integration point of view?"

There is still time to capture missed opportunities

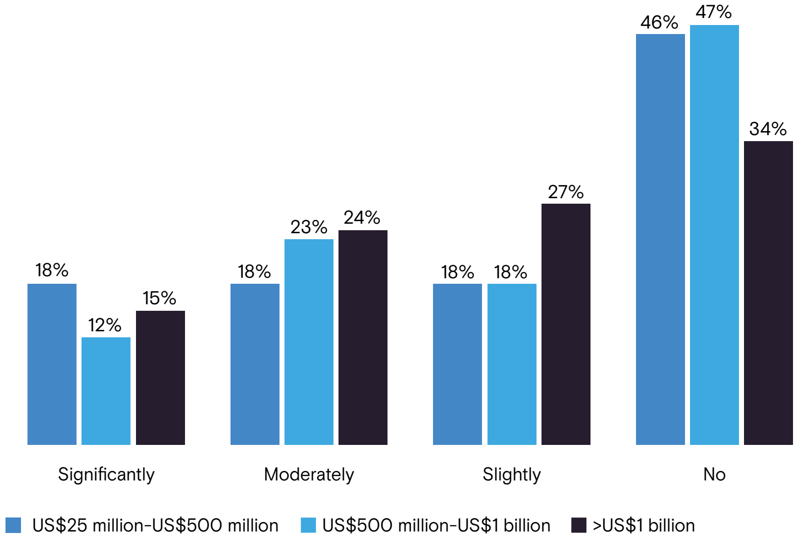
The disruption brought about by the COVID-19 pandemic accelerated the pace of digitalization in various industries, including PE and other alternative asset classes. Tools were adopted to facilitate remote work and improve communication with investors and stakeholders. One of the most significant impacts was the increased use of virtual dealmaking tools due to travel restrictions and social distancing measures, supporting due diligence and seamless online investment. Additionally, digital communication via video conferencing and messaging apps became a necessity. Recognizing the benefits of these adaptations, many digitally led changes have become embedded even as the threat of the pandemic has receded.

Not all firms seized upon this opportunity, though. A third of respondents from larger firms have not increased their pace of digitalization since the pandemic began, rising to 47% among those from mid-sized firms, and 46% at the smaller end of the scale.

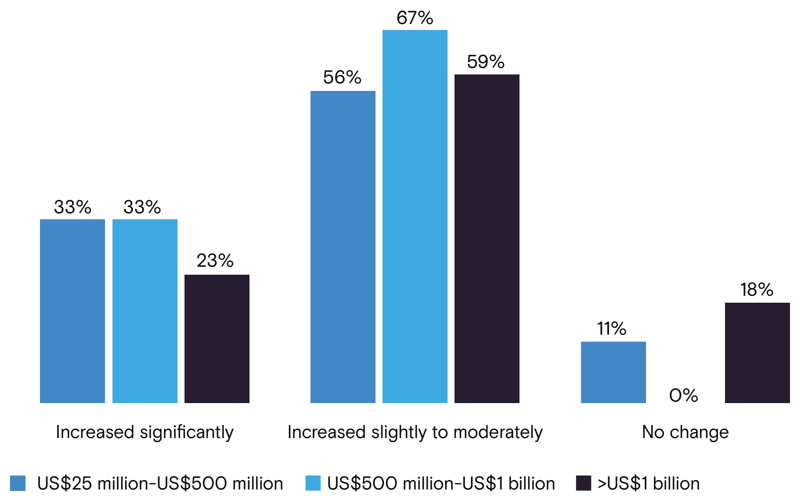
Of those that have increased their pace, 33% of respondents from the smallest and mid-sized firms and 23% of those from the largest firms significantly increased their annual spending. Although the majority made advances during the disruption caused by the pandemic, a sizable proportion failed to capitalize on it and therefore there is still potential today for them to get ahead of much of the competition by investing in their digitalization journey.

"COVID-19 was a massive catalyst to move what was a very outdated analog fundraising process to a much more efficient and quicker digitally enabled process," says von Moll. "That shift was already

Since COVID-19, has your organization increased its digitalization?



If yes, what has been the overall impact on your annual spending costs (i.e., after taking into account new overhead for third-party supplier and new cost savings yielded)?



"COVID-19 was a massive catalyst to move what was a very outdated analog fundraising process to a much more efficient and quicker digitally enabled process."

Charles von Moll, Head of Bite Stream

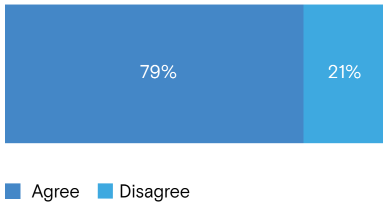
underway, but the pandemic accelerated it. There is no going back and there has been a huge first-mover advantage for those that adopted this approach. Now nobody wants to be left behind."

Do your homework for the best results

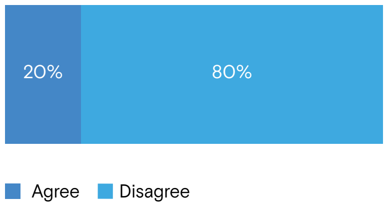
Digital investment is crucial for success, and this is why it is paramount that firms get it right from day one. A fifth of firms say they have disposed of some of the tech in which they invested in the past two years or have plans to do so. This eventuality is easily avoidable if fund managers research the tools available on the market and partner with a provider who can deliver tools that meet firms' precise needs and can be integrated with minimal friction.

Setting aside the integration challenges that firms commonly report coming up against, a massive 79% of respondents have seen a direct positive impact on their organization's profit from the digital investments they have made. Digitalization is not only about efficiency gains and reducing long-term costs. Firms can achieve better access to investors through fund distribution platforms and attract more capital by offering improved portfolio monitoring and reporting.

"Digitalization has had a direct, positive impact on our organization's profit"



"Our organization has disposed of or plans to dispose of some of the technology it invested in (including third-party services) during the COVID-19 pandemic"



“Everything is digitalized, from A to Z”

Amir Weitmann, managing partner of Champel Capital, a venture capital firm, offers his perspective on the ongoing evolution of digitalization on PE and VC firms.

> “We use a program for all our deal flow management to help track and manage investment opportunities.”
>
> **Amir Weitmann, managing partner, Champel Capital**

Q. Access to enhanced data is becoming more important for fund managers and is informing their decisions when investing in digitalization. In what ways are you using data to improve your operations or create value?

We use data all the time. For example, we use a program for all our deal flow management to help track and manage investment opportunities. That streamlines the sourcing process, centralizing and organizing all the information about potential deals in one place. Using software helps PE and VC firms to curate the best deals by tracking various metrics and key performance indicators. Everything is digitalized, from A to Z. Once we have made our investments, all of that is reported digitally via our administrator. In that sense, everything is digitalized.

Q. The pandemic had a clear impact on digitalization across various industries, including private capital management. Fundraising was carried out remotely during travel restrictions, for example. Was there an impetus for your firm to adopt more digital tools during this time?

Most of our operations were digitalized already, but we started using Bite around a year and a half ago. That has meant that everything is now end-to-end. Whether it is the onboarding process using Bite, the investor reporting via our fund administrator or the deal flow management, we now have everything in place. We could potentially look to develop what we have further, but there is currently nothing that we feel needs to be digitalized. For now everything is working how we want it to.

Q. What prompted you to adopt a SaaS solution – what were you looking to achieve?

The idea was to try to increase the outreach and have access to more LPs, and help existing LPs to onboard in an easier and smoother way. We have around 30 LPs and some of these relationships were made using the Bite platform.

At the end of the day, digital processes are what is expected from us and LPs want better options. Investors don’t want to have to deal with unnecessary paperwork and digitalizing the onboarding processes is leaner and easier for everyone. An LP is not always going to commit to a fund via digital routes though. Investors want to have a personal relationship with managers, so there are times where offline and more traditional practices have to work side by side with technology. However, overall, it is a net benefit because it acts as a funnel that brings in more prospects. It helps to make that initial connection, which can then be converted into a commitment.

Q. As a VC fund manager, you are investing directly into tech. Does your firm itself currently use advanced technologies such as AI or the internet of things?

Not currently but pretty much all our portfolio companies are using these tools. Everybody is using AI in one way or another today and we have companies that operate in those fields. But in terms of what we use for the management of our own firm, we have no need for these. I hear that others in the broader industry are using them and so there is clearly potential there. However, this seems to be more relevant for larger fund managers – we are a relatively small firm. We will see how the situation develops.

“A digital platform is effective for client acquisition”

Isola Capital Asset Management*, a multi-family office asset management platform, serves family offices, ultra-high-net-worth clients and entrepreneurs. The firm’s managing director, David Zhang, shares what he believes is driving digitalization across private fund distribution and investor onboarding.

Q: What is the significance of the digitalization of fund marketing, distribution and investor onboarding in your eyes?

As a multi-family office asset manager, we believe strongly in tech and B2B fintech development. Adopting a platform that acts as a digital fund marketing and distribution platform made perfect sense as that is an area that the industry is not well equipped to address. Typically, smaller firms do not have huge resources and staff in their teams in terms of client servicing and origination. That applies to a large number of PE and VC firms.

One of the trends we have tried to address in the past five to 10 years is the increasing popularity of private investments among high-net-worth investors. For example, these include accredited investors in a US or Singapore regulatory context, and professional investors (PIs) in Hong Kong. We are talking about the wealthier middle class where, on a per-investment, per-fund basis, they can probably write an investment check for US$50,000 to US$500,000, rather than what we typically see from a family office investor in the range of US$10m to US$20m as a comparison. And the minimum investment for some of the PE/VC funds could be in the US$100m-plus range.

From a KYC, anti-money laundering, onboarding, and investment processing standpoint, small and medium-sized asset managers like Isola have not traditionally been very well equipped to take in a large number of smaller investors. It is equally impractical for these firms to hire a new team to handle that segment of the market. For us as a family office, our typical investor’s investment amount is well over US$10m, so going down one or two levels was not something we had the resource to do institutionally. We started to experiment with platforms that could maximize our investor inflows while simultaneously building our brand exposure among this market segment.

Q: How did you settle on a platform in the end?

We explored various alternatives. Some products offer feeder funds that allow you to tap these high-net-worth investors, but those are largely proprietary platforms where you are more dependent on a third party, rather than a white label product that we could integrate into our own operations.

> “As a multi-family office asset manager, we believe strongly in tech and B2B fintech development.”
>
> **David Zhang, managing director, Isola Capital Asset Management**

"A digital platform is effective for client acquisition and as a marketing tool. You can discover who is interested in a particular product without the need to hire a team of relationship managers tasked with securing these smaller sized investments."

David Zhang, managing director, Isola Capital Asset Management

We went through a process of evaluating different digital solution proposals for us and decided that Bite was the best option. We have been experimenting with the product and have been very impressed with what they have achieved in the past two years.

Q: What do you think is driving this shift toward smaller investors wanting and demanding access to PE in a digital format?

For marketing and distribution of a private investment opportunity, an investor will have lots of questions about fund duration, investment pipeline, historical performance, and the track record of the GP, etc. Traditionally, it is difficult for an individual investor to find the relevant information because these type of products are required to be "marketed and sold" and the information is often buried in the pages of marketing and subscription documents.

However, a digital platform is effective for client acquisition and as a marketing tool. You can discover who is interested in a particular product without the need to hire a team of relationship managers tasked with securing these smaller sized investments. Ultimately, there is an economic rationale behind all of this and, for a firm like Isola, building these capabilities from scratch would not be cost effective. Digitalization really serves that purpose well and helps to unlock access to those new investor inflows that would not otherwise be possible.

There is huge potential here, but we need to be very careful about who we are marketing to and onboarding – these are accredited investors and PIs. I would estimate that around 10%-15% of the overall inflows for private investments could come from this investor segment in the next three to five years, which is meaningful.

**Isola Capital is an indirect shareholder in Bite Investments, through one of its investment partner funds.*

Investments in digitalization are increasing on all fronts

Firms of all sizes plan to invest more in digitalization in the years ahead, hoping to tap into all of the benefits on offer, from enhanced security to greater operational efficiencies.

Key findings

01 Most firms expect to invest more in digitalization in the next two years, with more capital being deployed toward the digitalization of both internal operations and processes and external, customer-facing activities.

02 Firms flag cybersecurity and data protection, due diligence, and compliance and risk as priorities for their digitalization, but investment is also expected to include investor onboarding, relationship management, and communication.

03 Technologies designed to improve efficiencies, cybersecurity, and communication are all high on the agenda, with many firms planning to use the Internet of Things (IoT), blockchain, social media, mobile, and other collaborative technologies in the next two years for the first time.

04 Use of specialist third-party software service providers is set to increase in the next two years, with a focus on cybersecurity, due diligence and client/investor onboarding.

05 Major perceived benefits of digitalization include access to enhanced quality and quantities of data, cybersecurity-related benefits, and the ability to compare favorably against competitors.

06 Operational efficiencies remain one of the most important long-term effects of planned increased digitalization, offering long-term cost savings as well as enhanced investor onboarding and investor relations.

Investment plans: Scale and scope

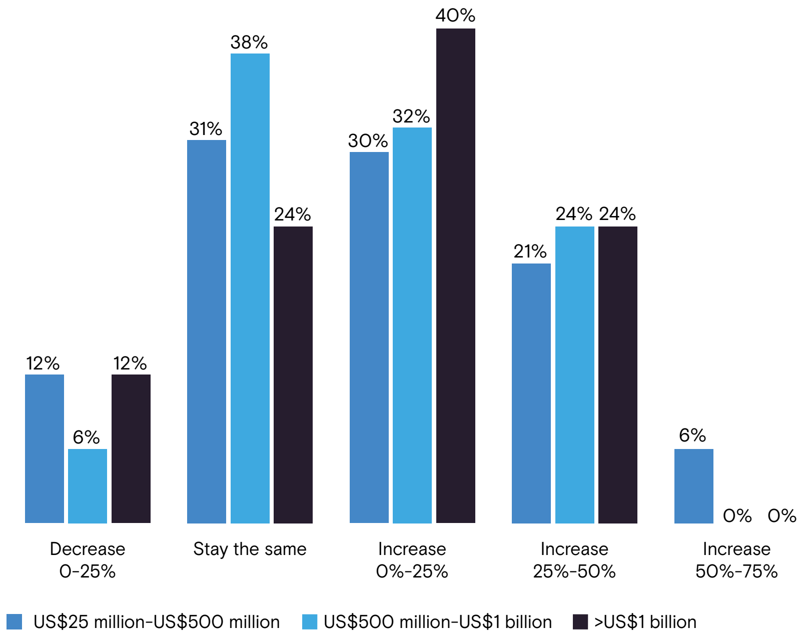
Given the outsized levels of investment that larger firms have already made in digitalization, it is not surprising that respondents from these organizations expect to ramp up their allocations the most in the next two years. Nearly a quarter (24%) of those representing larger firms say they expect their investment to increase by 25% to 50% during this time, while 40% see an increase of up to 25%.

Just as they have made less progress to date on average, smaller firms are also generally more conservative in their digitalization investment plans. In fact, 31% of respondents from these firms expect the level of investment in digitalization to stay roughly the same as it is now, and 30% anticipate an increase of less than 25% over the next two years.

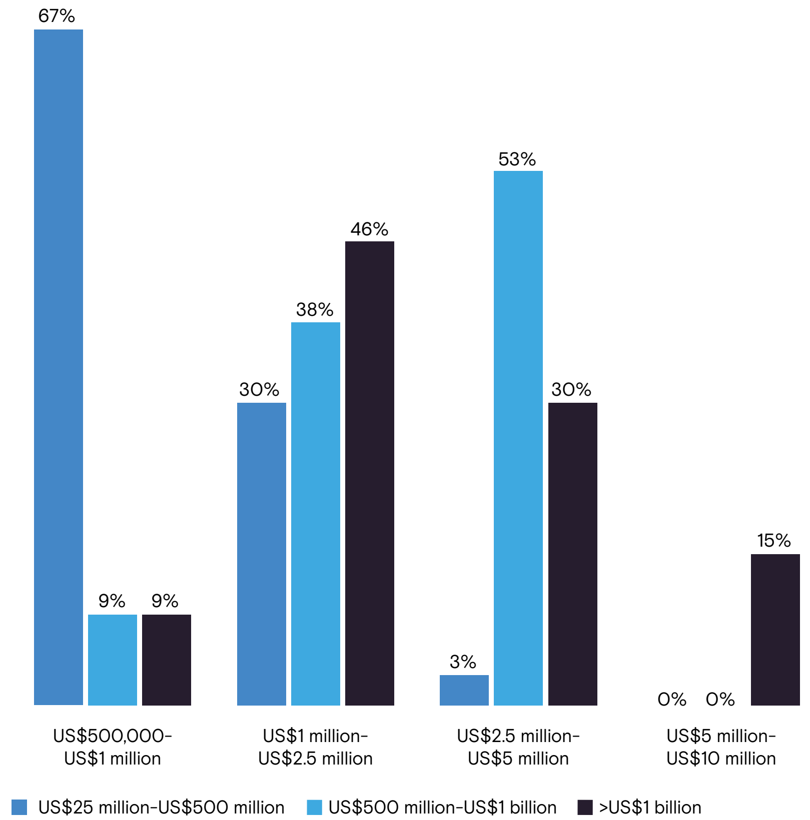
It is important to note that digital investment is not the preserve of large-scale investment firms. A lot can be achieved with relatively little outlay and these sunk costs will typically be recovered within the first two years of investment. Setting clear goals and running a cost-benefit analysis can expedite the return on investment.

Just over two-thirds (67%) of respondents from smaller firms expect to invest between US$500,000 and US$1 million on internal digitalization in the next two years, such as on new in-house systems and talent recruitment. More than half (53%) of respondents from mid-sized firms expect to spend between US$2.5 million and US$5 million on internal digitalization, and 15% of larger players see themselves spending between US$5 million and US$10 million in this area, reflecting their bigger fee streams and available cash resources.

By how much do you expect your organization's level of investment in digitalization to increase or decrease over the next two years compared with the previous two years?



What level of investment do you expect your organization to deploy for internal digitalization over the next two years?



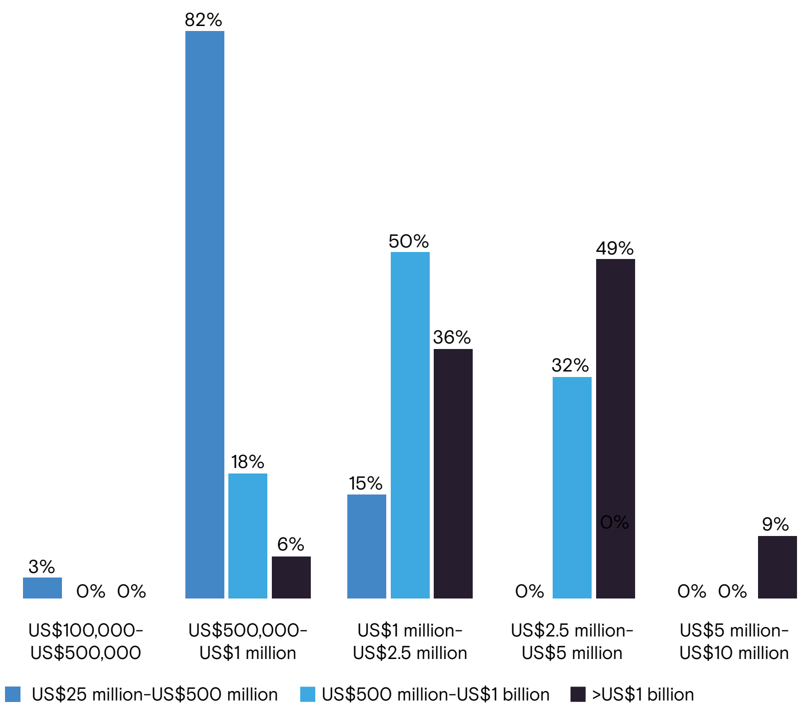
It is important to note that digital investment is not the preserve of large-scale investment firms. A lot can be achieved with relatively little outlay and these sunk costs will typically be recovered within the first two years of investment. Setting clear goals and running a cost-benefit analysis can expedite the return on investment.

The same trend is observed for investment in outsourced digital solutions, from advisors to software service providers. Close to half (49%) of those from large firms anticipate spending between US$2.5 million and US$5 million, and 9% will put between US$5 million and US$10 million toward this. Smaller firms may have smaller budgets, but they have clear targets set for their investment over this near-term period, with a full 82% of respondents from these organizations expecting to spend between US$500,000 and US$1m on external digitalization.

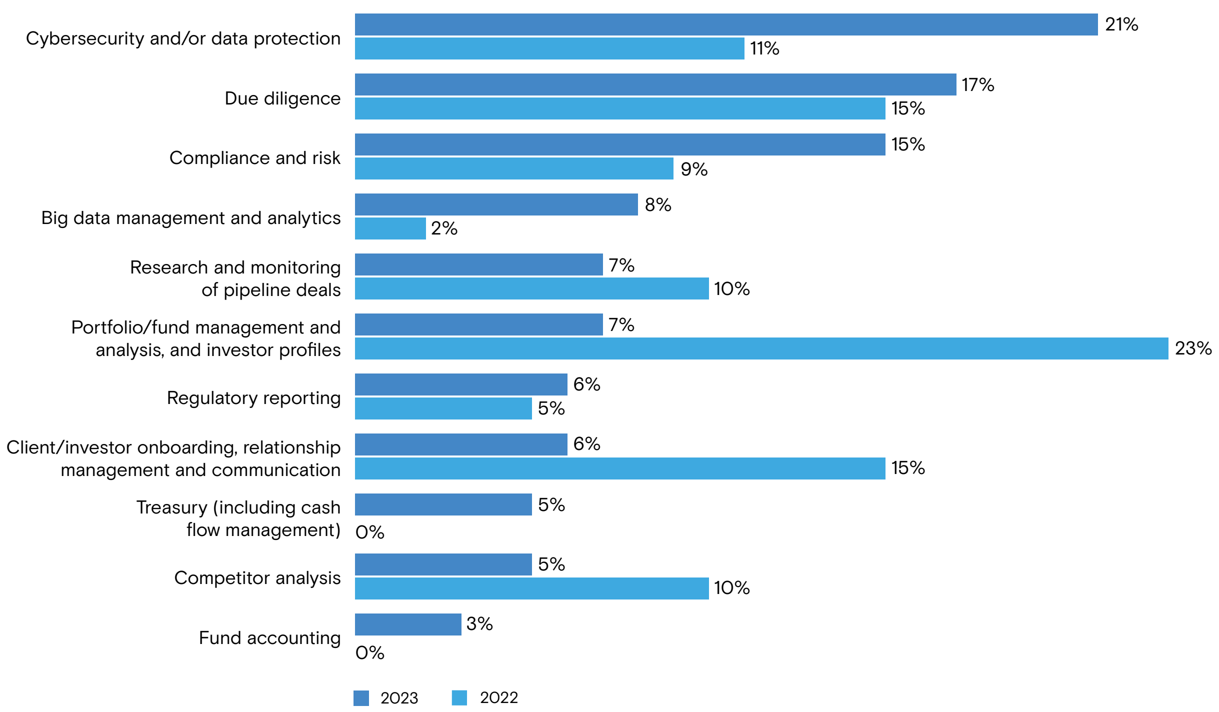
Digitalization priorities may vary

Regarding the specific business functions that respondents are prioritizing for digitalization investment or where it would provide the most benefit, most select cybersecurity and data protection (21%), followed by due diligence (17%), and compliance

What level of investment do you expect your organization to deploy for external digitalization over the next two years?



Which of the following business functions have been flagged as top priority for where digitalization investment is needed or would provide the most benefit at your organization?



and risk (15%) as most important. By comparison, in our previous survey, just 11% ranked cybersecurity as a top priority, while 15% pointed to due diligence, and 9% highlighted compliance and risk. All three were topped by portfolio fund management and analysis, and investor profiles at the time.

Cybersecurity has been an important area for some time and, as firms scale, they must ensure their increasingly digital operations and expanded digital footprint are secure against attacks. This makes cybersecurity a perennial area of attention as well as a moving target. Fund managers need to keep at least some of their digital expenditure fixed to ensure their defenses are up to date and sufficiently resilient.

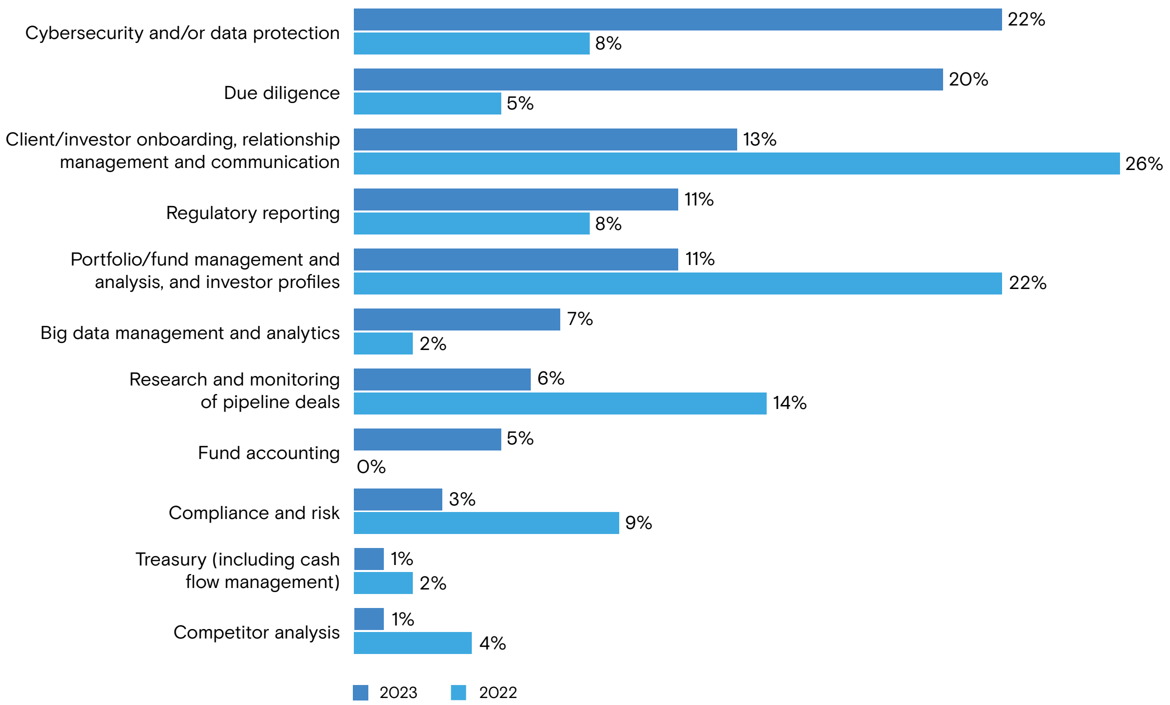
"We have to consider all aspects of the digital framework across our investment," says the managing partner of a US PE firm. "If we reduce the IT budget, we can expose ourselves to greater risk and the threats are constantly changing, so we are always spending in this area as we expand digitalization across various functions."

Firms continue to double down on their digitalization investment but are shifting some of their priorities. Cybersecurity is expected to remain top of mind, with 22% saying this is the business function that will receive the most investment for the purposes of digital transformation in the next two years. However, this is closely followed by 20% who say due diligence will be where investment is directed and 13% who single out investor onboarding as an area of near-term investment. The latter topped the list in our previous survey at 26%, followed by portfolio management and analysis, and investor profiles (22%).

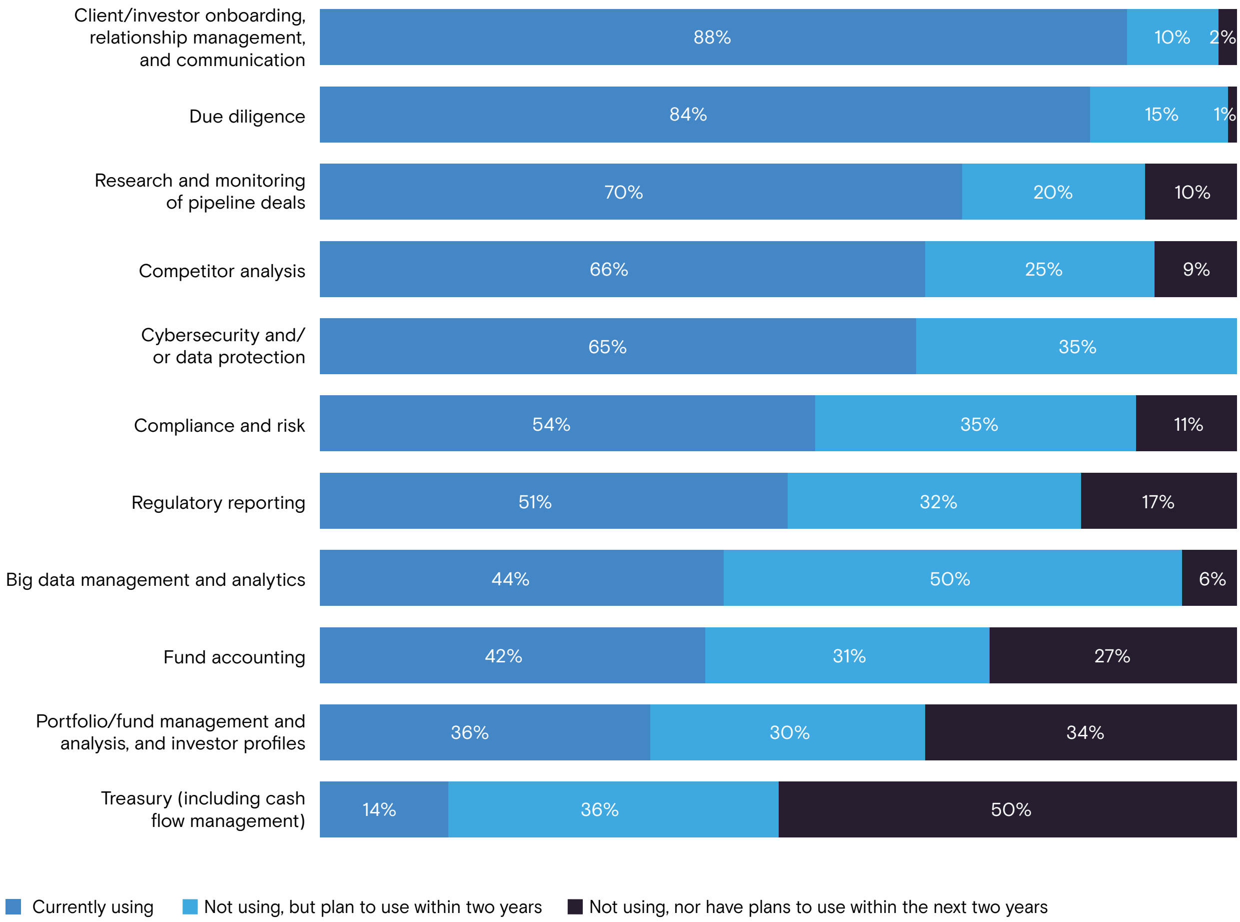
"If we reduce the IT budget, we can expose ourselves to greater risk and the threats are constantly changing, so we are always spending in this area as we expand digitalization across various functions."

Managing partner, US PE firm

Which of the following business functions will be receiving the most investment for the purposes of digital transformation at your organization over the next two years?



For each of the following business functions, do you currently use or plan to use a specialist third-party software service provider?



Many firms already have SaaS arrangements in place for their investor onboarding and relations, with a significant increase witnessed in the past year alone. Those who have not already digitalized their various investor relations activities will need to catch up quickly.

Finding the perfect partner
Outsourcing investor onboarding, relationship management, and communication to a specialist third-party software service provider is now the rule rather than the exception. As much as 88% of firms now have arrangements in place covering these activities, up from 66% in our previous survey. This shift reflects a growing recognition of the benefits of outsourcing these mission-critical processes.

For example, expediting the fundraising process and optimizing investor relations can be achieved by leveraging digital fund marketplaces, streamlining KYC and other compliance checks, and using e-subscription services and virtual data rooms. Fund managers can alleviate the operational burden of distributing their funds and onboarding new investors by automating all of this activity, while maintaining security and minimizing the risk of errors. Reducing as many friction points as possible is paramount in today's challenging fundraising market. Technology is also democratizing access to alternative assets in a way that was never previously possible, allowing firms to improve their fundraising prospects by tapping historically underserved investors.

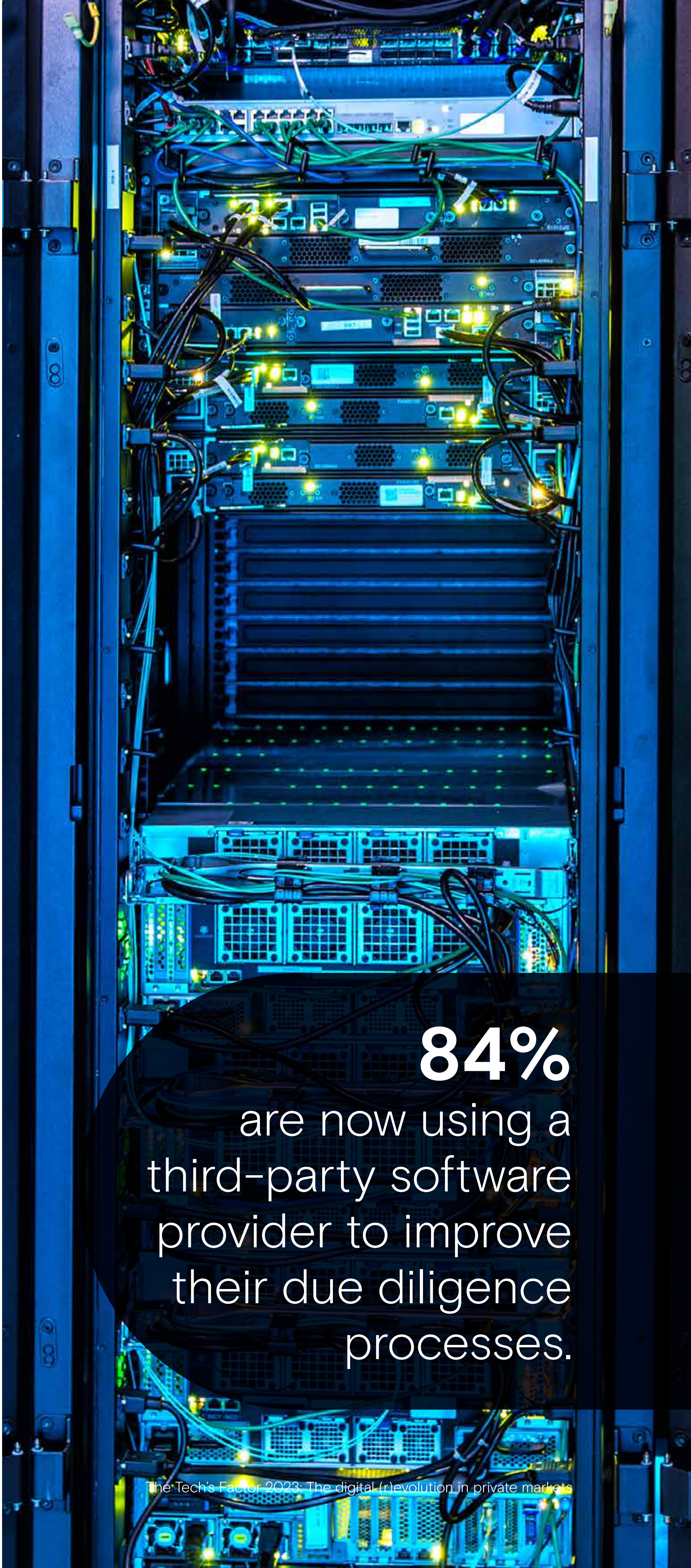
"One of the strongest trends in the alternative investment industry at the moment is the willingness of fund managers to distribute their products not only to large institutions but also now increasingly to the non-institutional investor segment," says von Moll. "GPs are actively looking for ways to distribute their funds to this market and they can only secure those numerous smaller ticket sizes through technology."

Firms embarking on this route to market must ensure that they have a SaaS system in place that covers all the bases on KYC, adds Reynolds, something that is especially important when seeking to raise capital from this class of investors.

"The lower down in size you go in terms of investor profile, the more robust all those checks need to be. A firm can't be showing these funds to everyday investors – the regulators are very much against that," he says. "Accessing non-institutional capital requires having robust gateways and it makes commercial sense to have that in a single, end-to-end SaaS platform."

Due diligence is another area in which firms have recently been scaling up their outsourcing partnerships. In this way, firms can move away from the disordered use of emails, PDFs, Excel spreadsheets, and Word documents, unifying and automating questionnaires and checklists in a single platform and better managing the vetting process of multiple deals at any one time. The goal is to ensure that due diligence processes are more organized, rigorous, and thorough. No less than 84% of respondents now use a third-party software provider for this purpose, up from 64% in the previous survey.

Looking ahead, half of respondents surveyed say they do not currently have a software partnership in place for their big data management and analytics, but have plans to pursue this in the next two years. Last year, 62% said the same. Rather than representing a change of intention, far more firms have since put these arrangements in place. Almost half (44%) have already taken this step, versus the 29% who said they were in this position a year ago. This is an important trend to watch as big data takes an increasingly central role in decision-making and the cut and thrust of dealmaking.



84%

are now using a third-party software provider to improve their due diligence processes.

Benefits of digitalization

In our previous survey, firms were focused on operational efficiencies such as the streamlining of back, middle, and front office operations – 26% of respondents cited this as the most important long-term effect of planned increased digitalization at their organization.

Operational efficiencies continue to dominate respondent thinking, cited by 70% who view this as among the biggest effects. Clearly, optimizing operations is one of several critical benefits that can be achieved that also includes long-term cost savings as well as enhanced investor onboarding and investor relations.

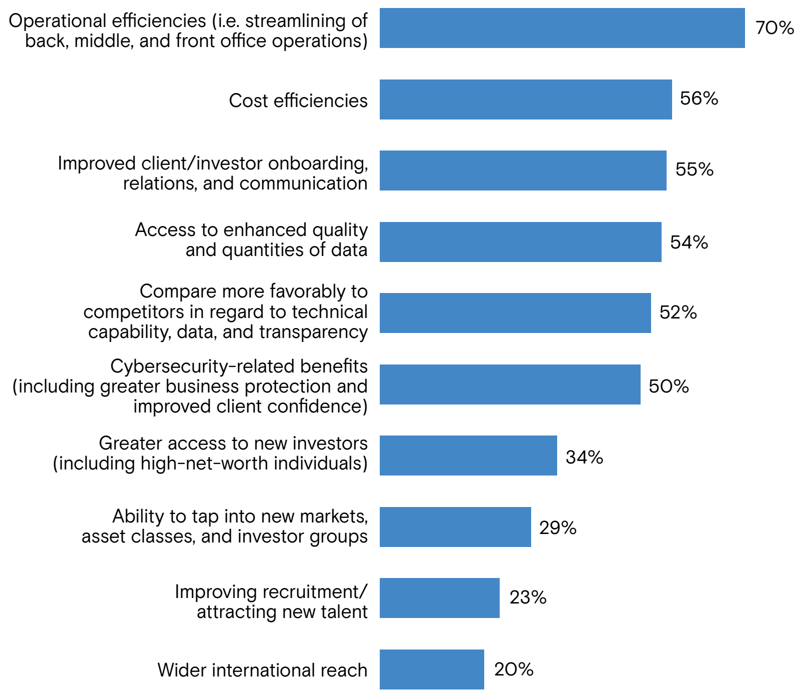
Firms are also now shifting their attention to their data as their digital maturity progresses. However, some may be struggling to bring their data together and analyze it in a meaningful way. The reasons for these gaps are varied, from a lack of talent to outdated technology or poor data management practices. In today's data-driven world, firms that fail to harness the power of their data risk falling behind their nimbler tech-savvy peers.

Ultimately, this means that they may be missing out on valuable insights that could help them make better investment decisions and gain a competitive edge.

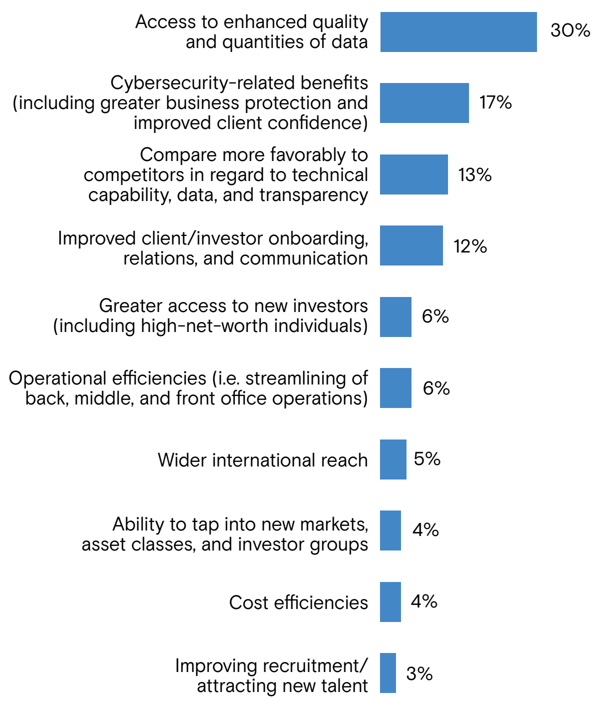
A year ago, only 15% of respondents in our survey pointed to data access as the most important anticipated impact of their digital investments.

Now, nearly a third (30%) of respondents say that access to enhanced quality and quantities of data will be the single most important long-term effect of the increase in digitalization planned at their organizations.

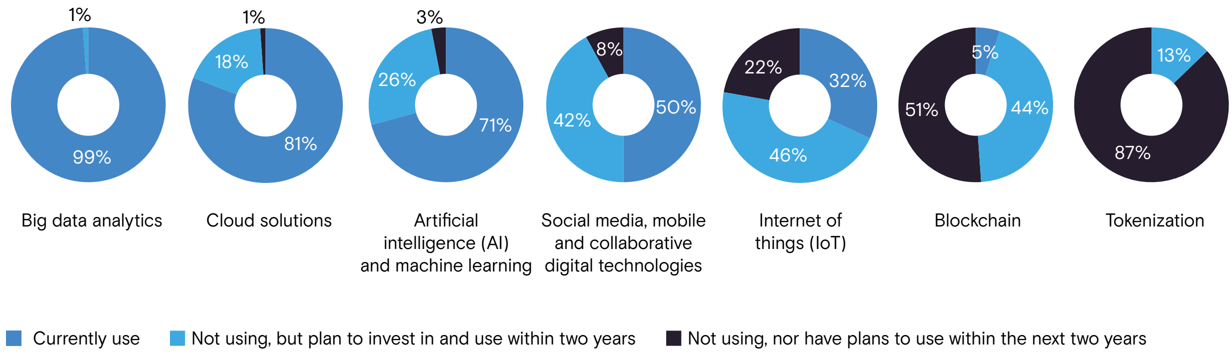
What do you expect will be the long-term effects of any planned increased digitalization at your organization? (Select all that apply)



What do you expect will be the most important long-term effects of any planned increased digitalization at your organization? (Select one)



Do you currently use or plan to use the following technologies at your organization over the next two years?



What does the future hold for digitalization in private markets?
Nearly all respondents (99%) say they are already using big data and analytics to some extent. Similarly, 81% of respondents have already invested in cloud solutions. Perhaps most surprising of all is that 71% claim they are already using artificial intelligence (AI) and machine learning in some form or another, while 26% plan to do so. Only 3% envision not putting AI to use in any way over the next two years.

Firms should be aware of learning to walk before they can run. AI needs to stack on top of existing tech to function. Those who have not laid the foundations with their digitalization investments, including moving to centralized cloud-based solutions and have not considered how to piece together their infrastructure will not be able to realize the potential of AI.

One of the obvious applications of AI is to identify deal opportunities as well as potential risks that may not be apparent to human analysts. For example, firms harnessing decision support systems can analyze thousands of private companies and build pools of potential deals to target ahead of their competitors. These can then be curated by deal teams before being passed on to investment committees for review.

Blockchain applications have already made a big splash. In recent months, major firms like KKR and Hamilton Lane have launched tokenized feeder funds that give smaller investors access to their flagship funds and have the added benefit of offering liquidity, since tokens can be openly traded unlike multi-million-dollar positions in illiquid close-ended funds.

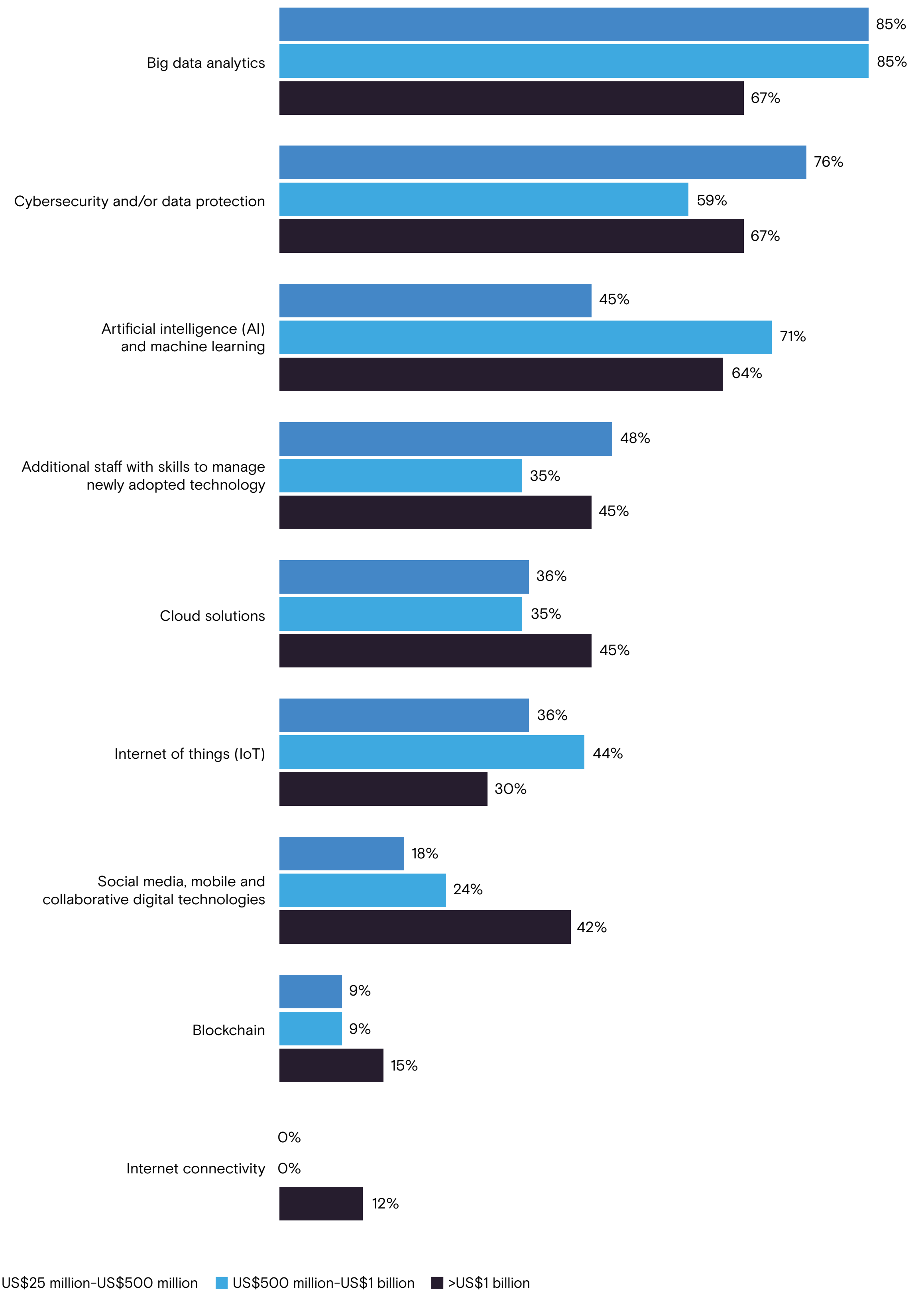
However, 87% of firms do not use and have no plans to use tokenization in the next two years and it is likely this will be limited to the largest players in the industry, at least in the first wave of adoption. The primary benefit of tokenization is that it allows smaller investors access to private asset classes. For the majority of firms, however, this can be addressed by improving their targeted marketing and fund distribution in the wealth management market using a SaaS provider, a trend that continues to democratize private equity and related assets to a sub-group of largely untapped investors.

In our previous survey, cloud solutions were the primary point of focus for increased investment, alongside social media, mobile and collaborative digital technologies and, of course, cyber. Cloud-based SaaS adoption has fast become the norm in the industry. This ranges from sector-agnostic corporate services for data storage and document sharing and collaboration, through to more bespoke subscription services that solve PE-specific challenges, such as fund distribution, investor communications, and reporting, as well as due diligence.

Firms appear now to be placing more emphasis on upgrading their data capabilities, through the analysis of vast and often disparate datasets and even the automation and deep pattern recognition.

The pace with which technology develops makes it difficult to predict how exactly it will be used. Data is playing an increasingly central role in the private market, which has traditionally relied upon human capital, manual processes, and managing limited access to often opaque information. That is already beginning to change.

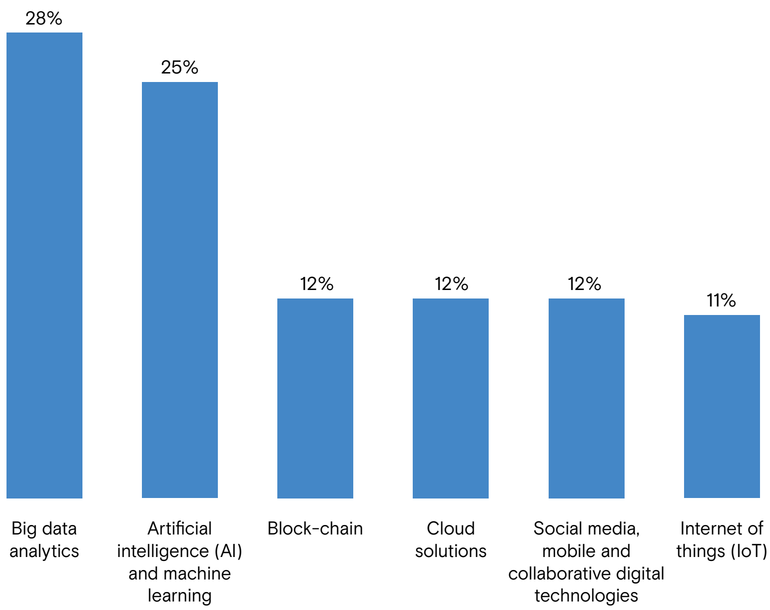
In which of the following technologies and/or related resources do you plan to increase investment over the next two years for the purposes of improving your organization's operations? (Select all that apply)



Looking ahead to the next decade and asked to project what technologies they believe will have the most impact on how PE firms operate, 28% of respondents point to big data analytics, followed by 25% who highlight AI and machine learning. This represents a marked shift from last year, when 29% said that cloud solutions would have the greatest impact in the future.

"It is easy to see how more advanced technologies will begin to be applied. There is still a long way to go for private companies, just because of the lack of data, but progress will accelerate quickly in terms of big data and market signals," says Reynolds. "You'll be able to gain a huge amount of value when it comes to the buying and selling of companies and executing synergies – all of those value-creation elements that PE firms specialize in."

Which technology do you think is going to have the most impact on how private equity firms operate over the next 10 years? (Select one)



Big data analytics and AI very much go hand in hand. Without data, AI is redundant, and the technology is an evolution of analytics, in that it involves software learning and adapting to data inputs and revealing relationships, patterns and trends via analysis that would otherwise go unnoticed. One of the biggest roadblocks to AI in PE to date is the lack of standardized data at scale, as the industry lacks defined processes, and every deal involves some degree of unique characteristics.

However, some firms are beginning to employ AI, particularly for deal origination and due diligence purposes. EQT Partners' Motherbrain, for example, tracks the connections and affiliation between people, companies, and deals and is continuously updated by its investment personnel. This confers predictive capabilities, showing when assets may be likely to be seeking investment, helping the firm to identify deal opportunities ahead of the competition.

Natural language processing can also be applied by PE firms to target companies' websites to understand how they have upskilled over time by analyzing various snapshots of team pages, or for sentiment analysis on social media to determine how a brand is performing relative to competitors. Big data analytics and AI are already reshaping PE today.

Undoubtedly the industry will look very different 10 years from now.

"There is still a long way to go for private companies, just because of the lack of data, but progress will accelerate quickly in terms of big data and market signals."

Henry Reynolds, chief operating officer, Bite Investments

Conclusion: Five trends to track in the private markets (r)evolution

As technology continues to rapidly progress and shake up various sectors, traditional processes in the private capital and asset management industries have quickly revealed themselves as outdated. Progress is already being made and firms that take a savvy, proactive approach to modernizing their operations will take home the biggest winnings. Those who stall will be left behind.

Bite Investments is at the vanguard of this disruption and playing a major role in supporting the industry's digital transition. Before you go, we leave you with the following five takeaways to prepare you for what is coming next:

01

Near-term focus on digital investment: Respondents make it clear that they expect to invest more heavily in digitalization in the next two years. The focus will mainly be on cybersecurity, due diligence, and investor onboarding, relationship management and communication. This digital transformation will continue to play a central role in improving overall profitability in these firms and it will be crucial for them to keep up with digital advancements and stay ahead of the competition.

02

Private markets open up to new investors in a competitive fundraising environment: Private capital strategies were historically the preserve of institutional investors, family offices, and ultra-high-net-worth individuals. That is rapidly changing. The ongoing adoption of technology is empowering fund managers in their investor-acquisition efforts in a way that was not previously economically viable. Digital SaaS platforms are a conduit for this new flow of capital into private markets and GPs need to seize upon this opportunity. Firms that successfully capitalize on these technologies early stand to reap the biggest rewards during this next phase of the industry's development.

03

Specialist third-party providers become the rule: The use of specialist third-party software service providers for investor onboarding, relationship management, and communication has rapidly become standard practice. In just 12 months, there has been a 33% gain in the proportion of firms that have these arrangements in place. In the coming months, attention will shift to similar arrangements with third-party providers of big data management and analytics services. In most cases, outsourcing in this way confers huge benefits at a lower cost than attempting to build technology solutions in-house.

04

Careful selection is critical: From investor-facing platforms to advanced AI applications, technology will play a growing role in what was a largely analog industry not too long ago. However, firms must choose the right outsourcing partners and tools to prevent challenges from arising during the integration process. Choosing wisely early will save time and cost, ensuring that firms realize the returns on investment that they set out to achieve.

05

Clear lines of communication: Firms understand that providing client communication centers or tools is an important part of their ongoing digitalization journeys. Over the past 12 months, and against a backdrop of falling public equity markets in the first three quarters of 2022, PE fundraising has proven to be especially challenging for smaller GPs amid unprecedented competition for capital. Secure portals that allow for clear communications with LPs can significantly improve fund managers' standing with investors and help them to build long-term relationships founded on trust.

About

Bite Investments is a global financial technology and enterprise Software-as-a-Service (SaaS) solutions company. Bite's platform (Bite Stream), an investor management and solutions software, helps fund managers and companies streamline their clients' diligence, compliance, distribution, client onboarding, and investor relations processes and workflows. Led by an international team with extensive experience in alternative investments, financial services, and technology, Bite has offices in the U.S., Europe, and Asia, catering to its clients located globally across six continents.

www.biteinvestments.com

Contact us

For further information on Bite Investments or the platform and the tech solutions, please visit our website or speak to your dedicated sales manager.

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