A recent discussion panel, co-hosted by Alvarez & Marsal, DealCloud and Cobalt GP entitled "Embracing Technology to Meet the Changing Needs of the Private Equity (PE) Market," discussed how PE funds can leverage technology to counter the squeeze on margins. The panel comprised Cole Corbin, Head of Fund Analytics and Reporting Services at Alvarez & Marsal, Saar Menachemi, Senior Vice President of Client Development and Marketing at DealCloud and Drew Pearson, formerly a Managing Director at General Atlantic. The panel was moderated by John Blaine, Vice President of Sales at Cobalt GP.

Panelist Bios

Cole Corbin is a Senior Director of Alvarez & Marsal Valuation Services in New York. He advises clients with defining, designing, implementing, and integrating financial software to assist in the processes of portfolio monitoring, valuation, and fund performance and analysis. Prior to joining A&M, Mr. Corbin served as a Director at Berkeley Research Group and was the VP of Portfolio Analytics at Cerberus Capital Management.

Saar Menachemi is responsible for Marketing, Business Development, Inside Sales and Sales Engineering at DealCloud. He has an established track record of more than 13 years of providing technology solutions to the financial services industry. Mr. Menachemi was previously Senior Director, Client Solutions for Ipreo Private Capital Markets, where he was responsible for all client-facing presentations of Ipreo technology.

Drew Pearson was most recently a Managing Director and the Global Head of Portfolio Management at General Atlantic LLC. Mr. Pearson joined the firm in 1996 and spent over 22 years at the firm. He led GA's portfolio management process and was responsible for assessing portfolio company performance, executing liquidity transactions, and risk management. Prior to this, Mr. Pearson was a Business Analyst at McKinsey & Company, Inc.

John Blaine is the Head of Sales at Cobalt GP. He is responsible for ensuring that clients are able to collect, analyze, and communicate their value through data. John has 20+ years of FinTech experience at multiple, successful early-stage startups. Prior to this, Mr. Blaine served as the Director of Corporate Sales & Services at AlphaSense and was the Global Head of Quantitative Strategy at Thomson Reuters.

Below is the edited transcript from the panel held on March 28, 2019.

John Blaine: So, we think this is a timely topic. Technology is moving, this industry needs to embrace it, and we're met by an esteemed panel that's going to help us. To frame this a little bit first. Purchase prices are up, profits are down, deals are crowded, and your LPs are more demanding than ever. By the way, that's the good news. If anybody caught the interview a couple weeks ago that CEO Carlisle said, the past ten years have been easy. The next ten are the hard ten. So, what's a GP to do?

Well, today's panel really is here to try to help you with that. Of course, we think that embracing technology is one of the keys to that and that's what we want to get into today. This group hopefully will be interactive. We're not here to hear each other talk, we're to address questions and concerns that you have. So, let me introduce the panel, kick it off with a couple of questions, and then please raise your hand. If you want the microphone, certainly we'll deliver it to you. But if you don't have a microphone, just stand up when you ask your question so we can capture it and the whole room can hear it, okay?

So, let's start off introducing the panel here. Cole is with Alvarez & Marsal, and he heads up the firm's Financial Analytics and Reporting services. He has deep experience in the industry helping clients integrate technology across the organization, and he's going to share with us some of his insights.

Saar Menachemi is the head of business development and engagement at DealCloud. Prior to DealCloud, Saar spent a number of years with Ipreo on the private market side as well, and he's got an awful lot of experience to share with us.

And last, but not least, we've got Drew Pearson. Drew has probably been in your seat in the past as well. 20-plus years at General Atlantic, where he headed up portfolio management and engagement for that firm. He comes with a wealth of experience. Prior to General Atlantic, he was also at McKinsey as well. And we're very excited to have the entire panel here to share their experiences.

The topic today is embracing technology to meet the changing needs of the PE market. Let's start with you, Saar. Obviously, your company's doing something right. You're getting a lot of engagement in the market right now, and you're dealing with clients every single day who are grappling with, what do we do with technology. Can you give us a little bit of the thought of what's happening out there in the market and what you're seeing?

Saar Menachemi: We're definitely seeing a change in the number of firms that are looking to educate themselves on technology platforms. Before joining Ipreo and before that iLEVEL, I was also, for many, many years, at Intralinks. So, I've been sort of in about around the private equity software space for a long time. And the number one thing that I think has been consistent over the last, let's call it 17 years, that I've been doing this is if a fund manager buys a portfolio company, and they're operationally focused, usually the number one thing that they'll tell that company is, you should buy technology or you should evaluate efficiencies, and you don't have to hire 15 people to do something. But it's generally, historically, been the last thing that a fund sponsor would look to do for themselves.

And I'm starting to see that changing, right? We're seeing a lot of people want to at least educate themselves on what they're doing. I think the number of things that are still being done the quote/unquote old way is still very high, and I think this is one of the only industries where that's still the case.

John Blaine: Drew, you've got experience here directly in the market, what do you make of that?

Drew Pearson: I totally agree. I'm a firm believer that technology will be one of the biggest drivers of change in the private equity industry in the next decade. I joined General Atlantic in 1996, and the firm was about a billion dollars in assets, now it's $30 billion in assets. And if you look at how we make decisions at General Atlantic, it's basically the same now as it was 20 years ago. I mean, technology has had very little impact on the fundamental part of the business. I think that's going to change. And really, in the past five or six years, I've started to see a change.

If you look historically, that technology spending was all infrastructure spending, it was all laptops, and PCs, and god forbid you have any latency when you video conferenced between Mumbai and the U.S. So, it was all about getting that working. And if you look over the past five years, I think, as more stuff moving the Cloud, the cost has come down and that. And so, more of the technology budget has been allocated to more strategic projects.

And for us, that usually fell into two buckets. It was how do you improve performance or how do you reduce risk? And that was the lens we were looking at everything through, can we make things fall into one of those two buckets?

And if we can, there was a lot of enthusiasm for it. If you couldn't, there wasn't. And over the next half hour or so, I'll try to walk through how we thought about that. But a lot of it was using technology to identify biases that deal people were making when they were doing deals. It was about identifying losers earlier, it was about evaluating incremental rates of return, it was about doing better pipeline management. And those were some of the initiatives we were spending time thinking about.

John Blaine: And, Cole, your firm and you are on the front lines every day with this group. What's your impressions of this?

Cole Corbin: To dovetail with what Saar had said earlier, there's been a progression, certainly, and it's been kind of speeding up, I think, over the past three to five years what we've seen. Where technology's been kind of slowing being ... been embraced over the past 10 years, it's been primarily focused on transparency to this day and age. And now, we're really beginning to see, I think, a formation of business intelligence at the actual managers, right, at manager level, which really didn't exist before. And I think those firms that actually need to embrace the idea of business intelligence at that level are the ones that are going to kind of see a lot of the things that Drew was talking about here, which is not just using technology for transparency sake and sort of like clarity into how the investments are doing and identifying, but actually using it to solve for other things, other needs, including the needs of the front office and asset management. I think that's going to be a key factor going forward.

So, when you talk about the next 10 years, yeah, the next 10 years are going to be harder because I think we're going to now look to technology to solve much more complex problems. And the transparency issue, it's always there, but I think by and large that's been mostly solved for a lot of folks.

John Blaine: Let's talk a little bit about transparency. Immediacy of data is ubiquitous to the market. Any of us who have teenagers certainly understand, the need for information is at everybody's fingertips these days. But around your organizations, there is need to access information, the transparency, the ability to collaborate, so what's happening in the marketplace right now?

Maybe I'll start with you, Drew. You've seen this span of time, go back 10 years compared to what it is today, what's driving that?

Drew Pearson: I mean, I think everyone's more sophisticated. So, the users of technology are more sophisticated. So, our deal professionals wanted immediate access to data, our finance team wanted data, the LPs were always demanding more transparency, more real-time access to data. And so, it just puts pressure on the organization to provide that.

And I think the getting the data and putting the platform in place is necessary but not sufficient. You have to do that, you have to create the transparency. But I don't think the IRRis really driven from that, from creating the transparency. It's from the analytics you do once you have the data, and that's where I think you can really move the needle. And that's, again, where I'd say our industry's probably behind a lot of other industries, is kind of using that data to drive decisions and to change how you think about things.

Drew Pearson: We had a six-person investment committee and we always talked about, the dream was you want to have a seventh person that just walks in, and you have a computer that's sitting in a chair, and they'll get a vote. And it'll spit out all the investments we've done in the past, and where it's located, and what our history's been, they've have a vote to determine. I think we're years away from having anything like that, but the technology's pretty much there, right, to figure out attributes are correlated with a successful investment, and to have that as a tangible input to the decisions that you're making.

And that, is really the power of what, once you get this data in place and create the transparency, what you can do with it.

John Blaine: Saar, what do you say with transparency and collaboration, with respect to how it's tied with decision making?

Saar Menachemi: Historically the topic was, oh, the deal teams aren't going to use the system or we'll never get the deal teams to do something. I've seen that change quite a bit in the last few years, especially if the deal team has a lot of associates or analysts and they're 22 to 25 years old, they expect to be able to do things on things on their phone, right, remotely, or just to have access to something. They can order anything they want from their phone, but they can't look up anything work related from their phone?

I would also say we're seeing a big trend in a lot of start-up or spin out funds that are leaving kind of flagship funds and moving on. Instead of waiting to buy a system, right, historically it was oh, we're too small to use a system, we're seeing those firms use a system from day one to institutionalize kind of going forward, which I think speaks to the importance of transparency and the need for it.

John Blaine: Is there a disconnect between firms or groups that want to throw people at the problem versus an embracement of technology, or is it disconnect, Cole, that you're seeing?

Cole Corbin: The biggest challenge when I come in and I'm seeing a lot of clients, and whether it be through an implementation of the software or an assessment, is it's really a change management issue. Managing change is now the critical aspect of what we work on when we're working with clients. And it may not be something that they think of right away, but it's usually acknowledged pretty quickly that when you take these technologies and put them in place, you can't just plug them in and expect your old processes to really kind of work as well. Your old processes were not meant to do that.

So, for us it's really about kind of educating not just the groups that are, I think, the primary users of it, but also all the constituencies throughout the group. Decision usually revolve around the front office guys and the deal guys. And I've seen, in the past three years, more buy in from the deal guys at really large funds than I have probably in the previous 10 years combined. So, I think that that has really been kind of a focus.

At A&M, we really focus in on that idea of change management whenever we take on an engagement because we know that's going to be a critical key to the success of the implementation.

Drew Pearson: I totally agree with that. I think that's probably one of the biggest barriers to implementation, probably one of the biggest causes of failure, is the failure to do that. And I think there's an art and a science to most technology implementations. I think the science is pretty straightforward. Most firms can do a good needs analysis, and you can get the technology working, and plug it in, and do all the API. But usually I think where it fails is the ability to drive the cultural change needed to make it fail.

Someone told the IT department, you need to have a pipeline management system, they went and got SalesForce. It wasn't really driven...there was no business owner. And so, it worked, everything was linked together, but it never had the user adoption and so it failed. Then we re-launched it, we re-launched it, and that change management piece is so critical in getting to work.

Cole Corbin: If you are tasking your IT group with business intelligence solutions, you're going to have a problem and it's likely going to fail. IT serves a specific function, let them serve that function. If you really want good business intelligence, you really need to focus on having a BI team to drive that functionality.

John Blaine: The market looks to invest in disruptive technologies, but don't always necessarily embrace that technology for their firms. So, is technology for the GP a disrupter or is it a necessity going forward? What's the take? I mean, this is an industry that's driven, as you know, in many respects on relationships, but how is technology changing the face of this industry?

Saar Menachemi: There are 2,400 firms globally that have raised more than $200 million over the last 10 years. And I think between Cobalt GP, and DealCloud there's about a thousand firms that are using our software. I think it's beyond getting a competitive advantage at this point. I think it's table stakes to be able to use technology to your advantage, otherwise you're falling behind.

I think maybe five years ago it could have been a competitive advantage, but I think those days are sort of over.

Drew Pearson: We really prided ourselves on our low loss ratio. By looking at the leading variables we could track a growth decay curve on revenue. So, we knew that the average company, when we did an investment, would have 50 percent growth, in year two would have 35 percent growth, then 25 percent growth. So, we had a typical growth decay curve. And we found if companies were in the fourth quartile in terms of how growth was decaying, that was a leading indicator of a fourth quartile investment. And so, we would try to identify those early and get it out of the portfolio.

Now, the challenge was more cultural. Again, I ran the data, I was highly comfortable in the statistics behind it. But then, to go to the deal guy and say, okay, I'm confident your company's a pig, we've got to get it out of the portfolio, it wasn't ... it didn't result in agreement. And so, it's the cultural side of thing that is hard and that's where the changed management links into it. But, I mean, that sort of analysis and the data is readily available today. It links, into identifying biases that deal people, and that's just human nature, right? Every deal guy's going to have biases in how they make decisions. And having the technology to create that conversation can result in a disruptive and differentiating technology.

John Blaine: So, if it's cultural, what holds firms back from moving in this direction? Cole, you're there all the time, they're bringing you in early, doing an assessment, doing a plan, what gets them to that point and what holds them back from succeeding?

Cole Corbin: Well, it gets them to the point. I mean, pretty much everybody they look at all the data, they look at all the Excel sheets, and then they kind of realize that what they've done for Fund 1 is not going to work for Fund 2, 3, 4, and so on. It's not so much anything that holds them back, it really is just that transition. We talk about the implementation. It's going from the implementation to what I think is really the management of the platform. That's where the disconnect occurs because people tend of think it's like Excel, I'm just going to learn how to use it. You're going to put it on my computer, and it's going to be there, and then I'll just use it. But it doesn't necessarily always work that way, and you have to change your processes internally, and people just will resist change mainly because it's just something that they're afraid of.

And so, there are two ways that this can happen. I mean, one is top down. One is the sea level, the managing partners, are on top of this and then they push it down. I've seen that happen at a big fund a couple of times. Usually it doesn't happen. Usually it's they say it, they say it once and they never say it again, and everybody forgets about it two months later, and then everything kind of falls back into the same routine.

There must be senior level support, there has to be a top down push at some point, but it really is then reaching out to those constituencies and bringing them in early, making them feel like they can actually see the benefit of it on themselves. And I've seen now even more companies looking to allow portfolio companies to have their own pages on certain reporting platforms, so that they can see the use of it as well. That really kind of changes things, it changes the dynamic between the asset manager and the portfolio company, the management of the portfolio company as well. So, it kind of changes a little bit of the dynamic in that relationship so there's a little bit more connectivity, live connectivity.

And that's the kind of thing that we see and we like to kind of push up there, sort of organically, and allow that to work. And that allows you to get into that real platform management that is somewhat seamless. The worst-case scenario is that you have this great implementation, it works great at the time, and as soon as the implementers leave, it goes dark. And then, six months later the technology is dark and then it ends up being a failed or stalled implementation.

John Blaine: Drew, I see you nodding here.

Drew Pearson: Yes, the fear of change, I think, is huge among most people particularly finance people who might be dealing thirty years and thousands of lines of data. And the guy who runs that model, firstly, it's his job and he doesn't want to be fully automated. But the risk of a screw-up up through trying to automate it, that's a career ending thing for him. And so, he knows how it works and he doesn't want to risk doing that. And, again, there's not that top level push to make the change, so this momentum has a scary way of just perpetuating itself.

Saar Menachemi: I don't know if there's ever a good time. It's not like tomorrow you're going to wake up and you're going to be like, I have nothing to do at work for the next three days. I think it's just a matter of carving out the time to evaluate what the options are, even if it's not to displace somebody's career. There's probably a lot of solutions out there that can solve very basic problems very quickly, that you might not even know are available.

John Blaine: So, Saar, what are the technologies that you're seeing and you're confronting out there? What are clients excited about these days, more holistically about their firm?

Saar Menachemi: The vast majority of prospects and clients we've talked to are looking for kind of new data providers, whether it's information about portfolio companies, market transactions, benchmark data, right? I think a lot of firms are embracing the need to take the information they have right there in IRR workbook, but compare it to how other companies have done in the market. And use that probably for fundraising, benchmarking, and internal compensation discussions.

John Blaine: And, Drew, from the top down, build it with what starts it, what does senior management think about, okay, all of these things we could do, we can bring in AI, we can do machine learning, we can ... what are they thinking about with respect to technology?

Drew Pearson: My favorite way to use technology was as a tool to drive accountability. And so, a lot of the stuff we were doing, it was just ways to get to create transparency, to drive collaboration, to hold people accountable for what they were saying they were going to do.

Every new deal we do, we do an investment memo, the bottom line says we're going to get 25 percent returns on the deal. If everyone does what they say they're going to do, any fund could be in business forever. The reality is that that doesn't usually happen, and it drives CEOs crazy, right? Well, we spent a lot of time, we spent millions of dollars in diligence doing this deal, we put together this beautiful memo and it says we're going to derive 25 percent returns, why didn't we do that?

And so, when stuff would fall off track, and oftentimes it wouldn't be noticed until four years into it. And tools, and processes, and things that enabled him to identify when stuff's veering off plan earlier and create a warning light, I mean, that has immense, immense value. But the deal guys are all so smooth and articulate about saying why things aren't really off plan or how it's going to get back on plan. This really is facts, it's data based, it's a great way to ensure that everyone's working from the same set of data.

John Blaine: And maybe Cole or Saar, is there a different between small, mid, large firms in the market that embrace technology, or are smaller firms more nimble and ready to move ahead of their fundraising, or conversely are larger firms just stuck in their ways and saying, this is the way we've done it for 30 years, this is the way we're going to continue to do it? What do you see when you're out there in the market talking to the firms kind across the spectrum?

Cole Corbin: It's hard to put funds into two buckets anymore because I feel like there's quite a few buckets that you have. So, the $1 to $5 billion funds, you have the $5 to $40 billion, and then you have the mega-funds. You would generally think that those would, like air craft carriers, that don't really change direction necessarily as quickly and as easily. In fact, I've actually seen them embrace a lot of this technology, particularly different types of technology that I think at one point we thought were kind of competing technologies in the space for kind of portfolio monitoring technologies because they all have kind of different spins on it, different aspects.

I think Saar talked about that benchmarking is something that ... you know, bringing in different types of data, different sets of data, whether ... and Bison and Cobalt does that and kind of distinguishes stuff in the market. As well, we have ... obviously you have a high level portfolio monitoring, I would say a valuation kind of driver. And then, you have asset management software out there, as well, that really kind of gaining a lot of interest.

All of the ... you have these big funds really adapting, and putting them all together. And on the one hand, they're looking at them that maybe they'll kind of compete against each other, but I think they all kind of cover a different layer that is needed to operate that huge apparatus that they have.

Other than fund size or AUM, the differentiator is probably strategy. If you're just a buy-out fund, even if it's $20 billion and it's one strategy, then it's probably easier to roll out because there's only one language. But if you have an equity and a credit strategy, and a real estate fund, and something else, I think it's harder to normalize across those different strategies. And I think that's probably where requires a little bit more thought than a single strategy fund, regardless of size.

Drew Pearson: And one of the things I find, as we scaled, we're pretty good at doing point limitations. So, we had a pipeline management system, we had a portfolio system, we have document management systems. So, I think as we scaled we were really good at solving point solutions. Where we really failed, as we scaled, was integrating everything. We had a really hard time taking the cashflow data from one system and using that as a tool to drive forth the projections in another system we had.

Simple things like you want a description of what this portfolio company does, and marketing had a definition, and investor relations had a definition, the portfolio team had a definition. And so, simple things like that, to have a single source of truth that would reside in a bunch of systems. And I think that's where, as we scaled, we really failed or struggled was integrating all those disparate systems.

John Blaine: Any questions? Yes, please.

Audience Member: So, one thing that Saar said, you asked them 10 years ago were people ahead of the curve with technology, and now are they just trying to keep up. I'm curious Drew's take on that. If a firm is not using technology right now, how do they feel, do they feel like they're behind the eight ball, and if they don't think big, I kind of want to hear your take on that.

Drew Pearson: I guess a lot of the employees are pretty miserable, even on the compliance side. We were getting like Swedish regulators want to know the percent of revenue that a Brazilian company has in China. You get all these crazy requests... and if don't have technology, that stuff really ruins some guy's life. And that's going to be the trend, right, we look for. There's going to be more and more compliance regulatory constraints, all that stuff. Those are kind of the table stakes that if you don't have that, you're going to have a lot of unhappy employees. And, again, I think, again looking further down, there's so many exciting things you can do with it, I do think it will be competitive differentiators. I guess at this point in the industry there's not many firms you would look at and say, wow, this firm uses technology and they have 200 basis points above the metric. I don't think the industry's at that point, but I think it will get there.

Technology will never make a bad deal a good deal, but I do think it could add hundreds of basis points. And I think the environment is so competitive, hundreds of basis points can be the difference between first quartile and second quartile performance. I mean, it really can move the needle, from that sense.

Audience member: Yeah. You just mentioned integration of all these systems, I'm just curious to get more on that. Are the systems all talking to each other, and if so, how are they talking to each other?

John Blaine: That's a good question. Saar?

Saar Menachemi: If you're on the first version of Investran, it's probably not the best version to integrate with a lot of other platforms. And I think a lot of firms might not know that, so they think they can just integrate everything, but the systems just aren't capable of talking to one another.

If you're using a relatively later version of most technology platforms, there is a way to do it, but it does require some element of expertise to handle it. And whether that's your internal team, or there are a lot of consultants who can help do that, and we can all point you in the right direction on who to talk to, but it does require somebody to manage those things, right? And I think everyone assumes, oh, you plug Investran into DealCloud, and DealCloud into Bison, and they all kind of talk and that's it, it's hands off. Somebody does need to maintain those things on an ongoing basis, and I think that's the part that most firms might not realize, and there is a commitment to making those integrations work even after they're up and running.

And the normalization of data was something we struggled with a lot. Again, simple things like what's the date of the investment? Well, is it the date that we signed them, is it the date that we closed? And, again, everyone would have a different definition which made sense for their job and how they view the world. But that stuff, when you start having different systems, you need to have ... something in four different systems, each one has date of investment and it's a different date, it sounds like such a simple thing, but it ... from marketing's perspective, yeah, it's the date that we announced it. From legal's perspective, it's the date that you signed the contract. So, everyone's answer is right, but when you start to try to integrate that, it's where the complexity goes kind of exponential.

That's where, again, we found using third parties was very helpful in that because so many fiefdoms internally and sometimes you needed a third party just to cut across all that and say, this is the definition of date of investment, and it kind of removed some of the internal politics. So, that helped us in a lot of cases.

John Blaine: Building off of that question, Saar, maybe, are you seeing more Chief Technology Officers or does the technology implementation fall to the COO, the CFO, the deal team, who internally ... now, you can bring Cole in, right, and he'll take care of it across the firm as you mentioned, but for this audience, who are you running into that does that implementation?

Saar Menachemi: We are definitely seeing more specialized roles within funds. I would say 5 to 10 years ago, the number of funds that had a COO was low. I think that is a relatively new role. I think for the first time this year I met a CAO at a ... what I would consider not that large of a fund. I think just the world has changed, you're seeing a lot more specialized teams. I don't know if a lot of firms had a Portfolio Operations Group 10 years ago, other than General Atlantic and a handful of others.

Not everyone has a CIO or a CTO, but we're seeing a lot more specialized roles like COO and things like that. And generally they're the ones that are picking up the task of doing the work, or at least acting as the glue.

Drew Pearson: Our IT department at GA had gotten incredibly good. If you go back 10 years, we were mainly generalists, just really smart technology guys. And pretty much any guy on the technology team you could go to, and give them your phone, and say it doesn't work, and they would solve the problem.

Nowadays, people are so specialized. You go try to get a guy or something, he's like, no, no, I'm the IOS quality assurance guy. The people have gotten really good at it, but people are much more specialized. It requires a level of management just ... I really think you do need a CIO as you scale because you need someone to sit across all that, hire the right people to make things run better.

John Blaine: Another question? Yes.

Audience Member: Just going back earlier, you have all these systems and you're trying to integrate them to talk to each other. Do you foresee any point in time, when you have a provider that can give you investor and accounting system, your CRM, one global provider that can do it across the board or are people just so entrenched in their specialties that it’s impossible?

Cole Corbin: And I've seen that, recently too, funds that are looking for that one solution for everything, and it's really ... I mean, you're just kind of really putting in a lot of square pegs into round holes. And not just one, instead you're doing it four or five different times.

At least for the foreseeable future, maybe in five years we'll be looking at something different, but I don't see anything on the horizon that's going to single solution that’s going to be easy to use. Right now, is about adopting different software for different users, that seems to be the approach. I think it allows people to be more nimble, it allows people to be more focused and to remain focused, as opposed to having to learn everything under the sun, which is just a lot to ask of your staff.

John Blaine: So, maybe turning the lens on us for a minute on this question.

Audience member: Just one thing to add to that. mean, I've been in this industry hearing the same question comes up all the time, will these systems talk with each other, and the answer is always no. So, is the solution really bots and AI, to get these systems to talk to each other and figure out how can we build bots to make this automatic? I mean, it could be as simple as just your AP process, which is probably a process that could be more automated than others.

Saar Menachemi: I do think that AI and bots in general are probably going to help solve a lot of the data normalization problems in the next, call it, five years. And I think you'll start to see a lot of that happening in the market, where software vendors are going to be releasing things that are leveraging AI. But I don't know if they'll help solve the problem of the technical requirement of you need software that's able to talk to each other. And then, you need to solve the kind of data normalization issues that we talked about earlier.

And I do see AI playing a big role in that, but not in solving the technical limitations.

Drew Pearson: And the other thing I found is there's so much need integration it's so tempting to want to spend money, and get the bots, and solve it. Sometimes you can't be perfect, but you end up being good.

Every week everyone in our firm has to enter a paragraph on what happened that week, and it aggregates the information and it sends an email to the whole firm. And I wanted to create something where I could basically, instead of getting all the companies in the email, I wanted to take one company and show me the time series. And it ended up it was like $100,000 project. And I basically had my assistant go through and cut and paste. And she did it every week, and it took her an hour, and it was low tech and it was painful, but it worked.

And sometimes I think that's the thing with bots. Don't let getting the perfect integration stop you from doing stuff that could be really good. Sometimes you come up with something that works, and it's not perfect, and five years from now hopefully it can be automated, but sometimes you have to go old school to make things work.

John Blaine: Cole, any thoughts on this?

Cole Corbin: I agree fully with what Drew had said. I know there's a drive to fix the stuff, but who's going to be the first person to do that? I think you're going to... whoever is first to run out there is going to probably end up empty handed. Probably the first hundred people to go out there are going to empty handed, and how often do you keep going out there and kind of get nothing back. So, I think that's where Drew's very pragmatic approach of good not perfect comes into play. And I think the good is going to prevail on that for at least the foreseeable future.

John Blaine: We might be able to learn from a sister industry here, where Bloomberg is the box, and everything is in the box, but you find out it's not a CRM, it's not a portfolio management service, it's not these other things. It's huge and it's ubiquitously used in the marketplace, but there are other services that are necessary.

Audience member: In terms of implementation and adoption, you had mentioned that it's like a top down approach. I would almost argue that it's like a feedback loop, where the top down communicates it to the bottom, but it's up to the bottom to say, hey, this is how we're kind of adopting this and how it's helping us.

But I was curious, in my experience as kind a person let's just say at the bottom of the totem pole, who is trying to get the most out of this technology, but I'm finding the problem that the implementation team, as you said, has left and you don't have an implementation team, or you don't have a team to adopt the technology and limited bandwidth. What advice would you give for somebody who's trying to self-educate?

Cole Corbin: We run into this problem quite a bit with folks who we haven't worked on the implementation with. Normally, when we do an implementation we also have a platform management service as well, where we will run that platform for the client. Our goal with implementation is not to just build it, move the data over, give you guys the access and say good luck. It's really to give you an entire project roadmap to say, OK, we're going to walk with you through one cycle so everybody knows how it works.

And so, it's a little more effort, but that's a successful implementation. And then, when ... once we've gone through one reporting cycle, then you can decide, okay. You know what, that worked so well, we need this specific training, can you just stay on and do this on an ongoing basis, which we do with several clients. Other times they just want to hire somebody internally to manage the platform and they just ask us to work with them.

And everybody's constraint is a little bit different, so I'd be happy to come and look at what you're doing. But it sounds like you're at that stage where it's potentially going dark, right, or you guys are just kind of stuck with bandwidth constraint. And that's where we often end up coming in.

That's where A&M kind of usually gets called in. Sometimes it's the software provider, they realize you're having a problem. Sometimes it's just the funds themselves, once they hear that we can kind of work with them on this. Often, it's something that we kind of come in and do in a matter of a few weeks. We are not just working for the funds, because implementation difficulties or going dark makes the software look bad, right? It makes the software look like it can't do what it's supposed to do, and it's not really the software's problem. But the software guys just want to sell software, right?

Audience member: Right.

Cole Corbin: They make the software and make it better, they don't necessarily want to take over that functionality of your processes, so. There's not a silver bullet answer..

Audience member: I know earlier, Saar, you mentioned that the majority of GPs or a number of GPs have CRM tools, and portfolio monitoring tools, obviously many have tools. Where do you guys think the spend is going next? What's the next thing that many GPs have, or no GPs have, that they're going to start spending time and effort on?

Saar Menachemi: We're seeing a big shift into the dedicated business development function rather than it being deal teams that source transactions. So, we're seeing that kind of business development/ asset management function split. And I think the next big wave of investment will be in sourcing deals and in business development.

Drew Pearson: That was one of the huge areas of spend in general collaborative tools. We had 14 offices, and so we were spending a lot of money both on kind of physical infrastructural, like video conferencing, as well document sharing, workflow, the sorts of technologies that enable collaborative decision making. We have a relatively centralized decision-making process and it was something we were trying to decentralize. And you really need great technologies to do that, so we were spending a lot of money on that.

The technologies weren't great. They're evolving fast, so I think it will be an increasing part of spend going forward.

John Blaine: So, let me ask crystal ball question, the Carlisle CEO said the last ten years were easy, so hopefully everybody's enjoyed that run and ready for the uphill climb now. Let's look forward ten years. Are machines running the entire industry, are people necessary? What do you see from a technology standpoint? Ten years from now we're in this room, what are we talking about that we just went through? Drew, go ahead.

Drew Pearson Yeah. It's a great question. Just culturally, as an industry we I'd like to see us do what we said. McKinsey has a great presentation, like the three great lies of the private equity. One was like we had the first quartile returns. And the second basically came down to, we tell people to do stuff and we don't do it ourselves, the emperor has no clothes. And I think that's going to have to change.

I think the data visualization, predictive technologies, I think these are areas that are really going to change how firms work and the ability to, like I said, identify losing technologies earlier and use them to influence how you operate as firm.

So, things like that. The ability to run analytics to identify a bias, and then to have it influence change, I think the industry's so early on doing that. And hopefully 10 years from now that will be, again, table stakes.

John Blaine: Cole?

Cole Corbin: I think in 10 years we're certainly still going to need people. It's just with the new technology, there will also be new problems. So, it's not just techie people I think you're going to need to have. The move towards business intelligence is really kind gaining speed, and I think that's going to kind of pick up over the next five years. And ten years out, hopefully we do have kind of a clear image of what we're doing with all this information across all the piece, whether it be from deal sourcing, business development, or asset management, valuation, I think it's going to be a lot easier. And we're going to have a lot more clarity.

Saar Menachemi: Considering 10 years ago people were still doing mail mergers and stuffing capital calls into FedEx folders, I don't think there's a risk of robo-advisors taking over private equity. But what I do see is probably simple tasks getting automated and everything being mobile optimized. So, if a company meets your investment criteria, you'll receive a notification on your phone. Do you want to reach out or schedule a meeting? Yes, right. And it’s try to schedule the meeting for you.

Or it's the end of the month, should we calculate the cash flows? Yes, no. I think that will happen, but I think it will be heavily dependent on the people that are a part of it.

John Blaine: Will you join me in thanking the panel for their time today.

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