

## Trends driving operational efficiency in private markets

Private markets have experienced exponential growth over the last decade driven by increasing investor demand and product innovation. According to Preqin, private market assets under management (AUM) are projected to grow at an annualized rate of 10%, from \$16.8 trillion in 2023 to nearly \$29.2 trillion by 2029.

This rapid growth is accompanied by operational complexities, creating both opportunities and challenges for market participants. This blog explores the three key trends driving operational efficiencies and the factors contributing to these changes:

1. Rising demand, fueled by increasing retail participation
2. Rapid secondary market growth, riding on digital platforms and technological advancements
3. Increased attention of global regulators, resulting in an expanded compliance landscape and scrutiny

The factors that contributed to the above trends are captured below:



### Rising retail participation

Private market products, traditionally the domain of institutional investors, are now attracting retail investors due to:

- Higher potential returns compared to public markets.
- Greater diversification opportunities across asset classes.
- Availability of platforms enabling smaller ticket sizes for investments

**Impact:** Retail participation has created demand for scalable digital solutions to manage higher transaction volumes across asset classes efficiently



### Growth in secondary markets

Secondary markets are evolving as investors prioritize liquidity and shorter investment horizons. Key drivers include:

- Portfolio Rebalancing: Allows limited partners (LPs) to optimize their portfolios.
- Continuation Funds: General partners (GPs) offer flexible mechanisms to support ongoing investments.
- Tokenization: Enables fractional ownership and transparency in transactions

**Impact:** Secondary markets enhance liquidity and attract new capital but require robust tracking and reporting









### Increased regulatory scrutiny 2

Regulators have intensified their focus on governance, transparency, and compliance such as:

- Disclosure requirements for fund performance and risk assessments
- ESG mandates under the Sustainable Finance Disclosure Regulation (SFDR) in Europe
- Enhanced investor protection laws in the U.S. private markets

**Impact:** Firms face stricter reporting obligations, driving the adoption of standardized frameworks

Operational complexities are grouped into six core themes:

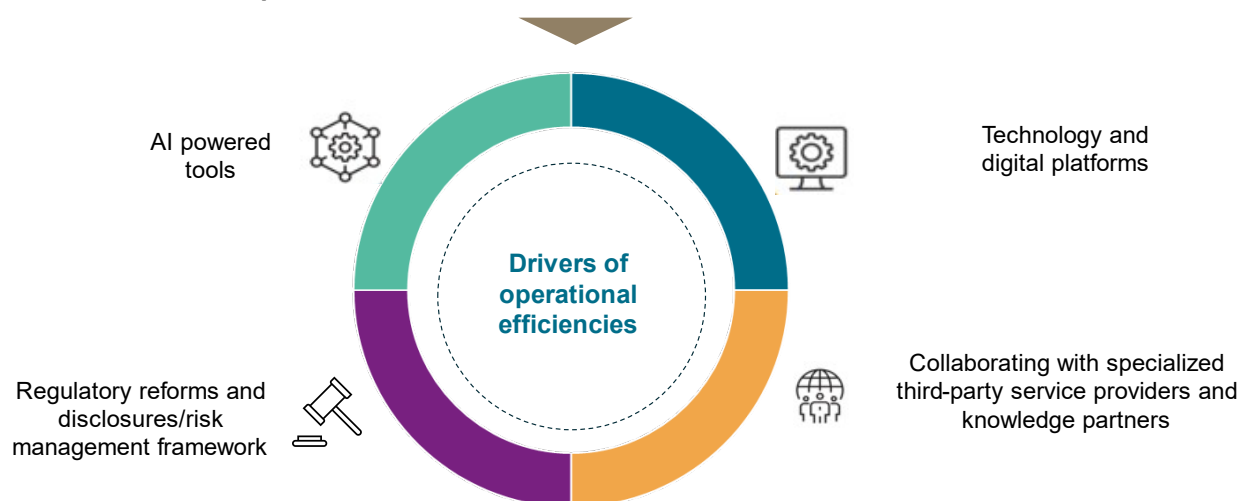
Challenge theme	Key issues	Impact	Solutions
 <b>Compliance and reporting</b>	<ul style="list-style-type: none"> <li>Lack of clarity in regulations, measurable KPIs, and consistent frameworks</li> </ul>	<ul style="list-style-type: none"> <li>Firms struggle to align compliance efforts across jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>Resolve ambiguities through industry working groups and standardized frameworks</li> <li>Adopt technology platforms to ensure transparent, consistent reporting</li> </ul>
 <b>Data sourcing, deal tracking and valuation</b>	<ul style="list-style-type: none"> <li>Diverse sources, unstructured and inconsistent data</li> <li>Daily NAV updates</li> </ul>	<ul style="list-style-type: none"> <li>Reliance on spreadsheets and manual processes</li> <li>Deal lifecycle tracking increases in complexity</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening deal sourcing, tracking and reporting using digital platforms</li> <li>Partnering with data scientists or third-party valuation providers to build AI-driven tools and predictive models</li> <li>Collaborating with regulatory bodies and industry organizations to establish standardized valuation practices</li> </ul>
 <b>Operational costs and process efficiency</b>	<ul style="list-style-type: none"> <li>Increased complexity of workflows</li> <li>Building models from scratch</li> </ul>	<ul style="list-style-type: none"> <li>Time-consuming processes and tasks leading to increased costs</li> </ul>	<ul style="list-style-type: none"> <li>Using various software, tools and platforms for automating portfolio monitoring and reporting, managing complex workflows, creation of financial models, tracking investments etc.</li> </ul>
 <b>Infrastructure for trading</b>	<ul style="list-style-type: none"> <li>Legacy systems</li> <li>Need for transparent, secure, accessible and scalable platforms</li> </ul>	<ul style="list-style-type: none"> <li>Firms need tech platforms that can handle expansion in transaction volumes in a secure and efficient manner</li> </ul>	<ul style="list-style-type: none"> <li>Creation of a decentralized, secure and scalable platform that minimizes friction in trade execution and fosters trust and efficiency leveraging technology</li> </ul>
 <b>Liquidity and exit opportunities for investors</b>	<ul style="list-style-type: none"> <li>Access to liquidity</li> <li>Exit opportunities for LPs</li> </ul>	<ul style="list-style-type: none"> <li>Need to facilitate fractional ownership, cater to liquidity demands and exit options for investors</li> </ul>	<ul style="list-style-type: none"> <li>Integrating a network of institutional buyers and sellers</li> <li>Incentivizing participation through innovative pricing mechanisms</li> <li>Developing structured exit products, allowing partial sales and staged exits to balance liquidity with returns</li> </ul>
 <b>Price discovery</b>	<ul style="list-style-type: none"> <li>Information asymmetry between investors and fund managers</li> <li>Bespoke nature of agreements / deals</li> </ul>	<ul style="list-style-type: none"> <li>Valuing, investing and exiting investments becomes a challenge for investors</li> </ul>	<ul style="list-style-type: none"> <li>Improving valuation accuracy by aggregating market data</li> <li>Using machine learning to enhance price discovery, fostering investor confidence</li> </ul>

To surmount the challenges outlined above, maintaining operational efficiency is of paramount importance for private market firms. This would mean optimal and efficient usage of time, capital, people and all other resources employed for business purposes.

## Key factors driving operational efficiencies and their impact on challenges

There are four key drivers that help optimize cost and resources thereby enabling generation of greater RoI across workflows and asset classes. They are outlined below and are instrumental in enabling scalability without compromising on quality, enhancing the use of technology and automation, and equipping market participants with AI-enabled value creation options.

The core drivers of operational efficiencies are discussed below:



### Technology and digital platforms

- Private market players have increasingly turned to specialized tools to enhance portfolio management and gain deeper insights. The adoption of platforms such as MIK, Intralinks, iLevel, Canalsyst, FactSet, and others has been a key indicator of this trend
- A few firms are also investing in technology and building their own in-house centralized digital platforms to enhance transparency and collaboration among investors, fund managers and regulators
  - For example, iCapital is a digital platform enabling investors and fund managers to access the alternatives marketplace, including hedge funds, private equity and credit, and real estate funds

Such platforms not only improve data accuracy and transparency but also provide greater access and penetration, which is crucial for scaling operations.

### AI-powered tools

- AI-powered tools can automate routine tasks including data entry and reporting, and can streamline the due diligence process by automating the review of financial documents and contracts, thereby freeing up resources for more strategic activities

- Cobalt GP, AnonAI and GenAI by PE Stack are examples of AI-powered mechanisms that provide options to track fund performance benchmarking and investor analytics, offer private, AI-powered brainstorming, risk analysis, and confidential document drafting
- These tools can also help private market players identify potential deals, automate the deal sourcing process, and provide predictive analytics to optimize portfolio performance and detect potential risks

The integration of AI tools with digital platforms could lead to increased operational efficiency, reduced costs, and improved decision making and offers firms a competitive edge.

### **Collaborating with specialized knowledge partners**

- To achieve scalability and keep teams lean, firms are increasingly relying on external partnerships for operational tasks to be delegated to specialized service providers and thought partners
- This approach allows firms to focus on core investment activities like investment strategies, client relationships, fundraising and risk management while maintaining cost efficiency
- Delegating operational, non-core activities eliminates the need to maintain in-house teams for time-consuming, process-driven tasks, thereby reducing fixed costs such as salaries and infrastructure expenses

Third-party service providers offer a combination of flexible pricing models, bespoke solutions, automation efficiencies and thought leadership. This enables firms to scale operations (beyond a BAU scenario) in a timely and efficient manner while mitigating the risks involved, resulting in a win-win for all parties involved.

### **Regulatory reforms and better disclosure mechanisms**

- Regulatory reforms and disclosure mechanisms are also evolving to ensure robustness of markets, enhance accessibility to information and investor protection
- For example, private markets in the US are subject to SEC regulations and periodic disclosure requirements – including climate-related ones - based on AUM levels. Their European counterparts are subject to more stringent requirements through MiFID II, Alternative Investment Fund Managers Directive (AIFMD), and ESG-specific disclosures using Sustainable Finance Disclosure Regulation (SFDR), and Corporate Sustainability Reporting Directive (CSRD)

Regulatory reforms that streamline compliance requirements and help with the interpretation of complex regulations, in addition to tools and platforms that enable smooth reporting, have been critical in driving efficiencies for market participants.

### **Conclusion**

Private markets are evolving rapidly, with increased retail participation, secondary market growth, and regulatory oversight driving operational complexities. Addressing these challenges requires a holistic approach that integrates technology, AI, collaborations, and regulatory alignment.

By leveraging these drivers, firms can build a resilient ecosystem that fosters sustainable growth, streamlines operations, and safeguards stakeholder interests. The path forward lies in creating scalable, transparent solutions tailored to meet the demands of an ever-evolving market landscape.

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