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A BUYER'S GUIDE TO PRIVATE EQUITY TECHNOLOGY

HOW THE RIGHT SOFTWARE CAN IMPROVE PORTFOLIO AND FIRM PERFORMANCE

As private equity (PE) continues to evolve, the industry is increasingly turning its focus to strong firm governance, better portfolio oversight and deeper investor relationships as the keys to outperformance.

In tight markets, establishing better processes and tools around data protection, board communication, cap table management and competitive intelligence can streamline operations while mitigating risk. At the same time, firm performance now often hinges on gaining better visibility across the portfolio, particularly given the fact that limited partners are increasingly pushing to become more active in oversight and in decision-making. In practice, this means more regular and in-depth information-sharing about the state of the portfolio, the rationale behind investment decisions and even the long-term direction of the fund.

The right software can empower and enable private equity leaders to support their businesses in this new reality. From secure meeting technology to market intelligence, the tools that firms rely on to manage this variety of challenges must be flexible, collaborative and protect the organization's most sensitive data.

When evaluating private equity management software, it's critical to identify a solution that provides a streamlined, secure experience not only for the firm, but also for any portfolio companies that may benefit from it. Additionally, special attention must be paid to these essential categories:

- ☑ Portfolio Operations
- ☑ Security
- ☑ Governance
- ☑ Transparency

Here are the most important questions to ask in each of these four crucial areas – and the answers to look for.

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Portfolio Operations

In today's competitive private equity market, strong internal processes around portfolio optimization are becoming more important than ever before. Those firms with investment oversight and operational processes in place are better prepared to capture new opportunities and to take market share from their competitors. This includes everything from secure and scalable portfolio workflows, to strong equity management practices, to environmental scanning procedures that can spot potential risks and red flags before the competition does.

But managing a diverse set of portfolio companies takes tools that are flexible enough to adapt to many different industries and scenarios while also being powerful enough to offer real-time insights at both the individual company and portfolio level. The right software platform can unlock new efficiencies within private equity firms by centralizing and structuring portfolio operations to improve oversight, streamline workflows and support better decision-making. This can help firms avoid errors, surface data as needed and analyze portfolio records more holistically.

Questions to Ask	Answers to Expect
How does your technology handle the sharing of sensitive information between portfolio companies and limited partners?	In private equity, knowledge sharing is not a one-way street. Information of all kinds needs to be passed back and forth between fund managers, limited partners and portfolio company leadership, including financial data, strategic communications, investment updates and more. Access control is critical in these workflows, but a streamlined solution that centralizes and secures this data can solve challenges at once: streamlining and simplifying access to necessary information for all stakeholders while controlling who can access it and how.
Can you help us monitor risk, reputation and media coverage across our entire portfolio?	Firms have a vested interest in each of the companies in their portfolios; thus, they need to be ultra-aware of any potential risks to those companies. It is not always easy to maintain that visibility across potentially dozens of different investments in multiple industries, however. The right technology can help bridge this gap by automatically gathering media mentions, industry insights and other data and feeding it into health scores, competitive tracking metrics, daily summaries and more to enable fund managers to monitor the overall portfolio without having to spend hours on the process every day.

# Portfolio Operations *continued*

| Questions to Ask	Answers to Expect
Does your platform support equity cap table management?	When managing a full portfolio of investments, it can be challenging to keep cap tables and waterfall calculations up to date and error free. That's why it is so powerful to have a centralized source of truth at both the firm and portfolio company level that can track and analyze current and future fund performance, using that data to make better investment decisions today and in the future. The ideal software provider should support cap table management functions like scenario modeling, custom groupings and waterfall analysis, and the program should work with your third-party cap table provider, if applicable.
How can your technology help streamline our investment committee workflows?	Private equity investment committees face a number of unique challenges. Members may be located all over the world, need to gather on short notice to review potential investments and need to be able to access investment documentation such as company financials, leadership profiles and strategic plans. A potential provider should bring all of this information together in a centralized portal so that each investment committee member can securely access the data they need to make an informed investment decision.

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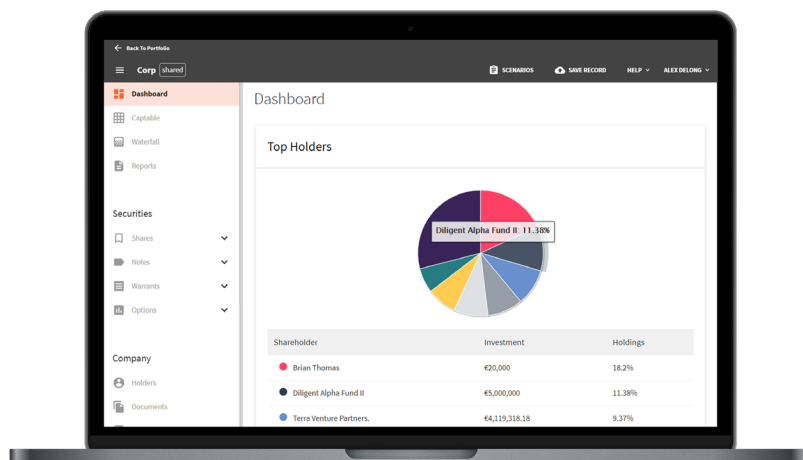
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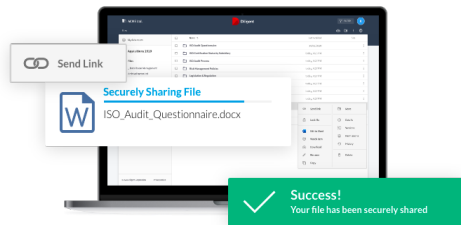
In private equity, data is everything. From investment committee communication around prospective deals to portfolio company financials, intellectual property and strategic plans, information forms the foundation of firm operations. With that fact comes the competitive risk of these details leaking out or being intercepted, whether it is from an insider threat, inadvertent sharing on unsecure platforms, or unauthorized access from the outside. Consequently, data security is an imperative.

But private equity decision-making still requires open lines of communication between stakeholders. Secure platforms can address the risk without sacrificing access or flexibility by securing documents, conversations and strategies across firms and portfolio companies.

As you evaluate private equity software providers, pay special attention to how seriously they take security, whether they continually reinvest in security enhancements, and how they mitigate the risks associated with a potential breach. Simply asking them whether they are allocating spend toward the latest security technologies can be a sufficient conversation-starter. Ultimately, you don't want just another file management system, but a secure solution with state-of-the-art security and encryption and controlled access.

Questions to Ask	Answers to Expect
How will you protect our data and any messages we share on your platform?	Software providers serving private equity should understand the industry's unique data and access needs and should offer the highest security standards and data encryption for their products. Client data should be encrypted at rest, in transit and on users' devices, with at least 256-bit encryption. Unique encryption keys should be provided for every client, and the provider should ensure that keys are protected and handled by separately managed hardware.
Who controls our security settings and message retention rules?	Any potential provider should allow you to maintain full control over your own message settings and discoverability on the platform so that you can enact and enforce your organization's retention rules.

Security *continued*

Questions to Ask	Answers to Expect
How does security differ when the application is online vs. offline?	Whether a client accesses privileged information using the software platform while it is connected to the cloud or via a downloaded version for later review, your provider should ensure that all materials and services remain completely secure and cannot be compromised.
Which third-party certifications do you have, and how long have you had them?	The provider should meet the highest security standards and maintain key certifications to demonstrate not only their commitment to data security but also prove that their processes and systems are effective in protecting client data. These include a history of clean annual SOC-2/SSAE 18 audits and ISO 27001 certifications for security. These certifications mean the provider is operating in compliance with required organizational controls for managing risk and information security management systems (ISMS) standards. The provider should also have copies of all their certifications available upon request.
How often do you conduct third-party penetration and security testing?	To stay abreast of evolving threats, a provider should conduct regular vulnerability scanning of the infrastructure, dynamic automated security scanning of the service, and application penetration and network penetration testing. A provider should also allow clients and potential clients to conduct their own security and penetration testing (or engage third parties of their own) to run independent tests.
Who controls your data and who is liable for it?	Just because you are using a remote software platform should not mean that you lose control of your own data. The provider's technology must allow you to retain or release information that's added to the platform, and it should provide the ability to remotely wipe clean a device that's lost or compromised.

Governance

Modern governance is the foundation for financial integrity, investor confidence, stakeholder capitalism and sustainable performance. It empowers leaders with the insights and processes they need for better long-term operations and decision-making. But, in private equity, the challenge is effectively navigating complexities and making challenging and rapid decisions – not just in one organization, but across an entire investment portfolio.

Details carry critical weight, from whom you hire, to how you collaborate, to the tools you rely on to achieve key outcomes. Consequently, private equity firms need software tools dedicated to end-to-end modern governance, making processes more efficient for the firm as well as their portfolio companies. Most importantly, you should select a software solution that can grow and evolve with your company over time.

| Questions to Ask	Answers to Expect
How does the software address portfolio company board management?	A robust private equity software platform should not only digitize board processes (including voting and resolutions, board evaluations, board book archives, meeting minutes and approvals, action-item tracking and so on), but also allow fund managers to streamline and secure these activities across their full portfolio. The provider should support the centralization of board documents and meeting materials on a secure, dedicated platform, with robust reporting capabilities. Specialized committees can also benefit from technology platforms designed to centralize information and secure workflows, so be sure to ask if that functionality is supported.
Does the platform support remote governance practices?	COVID-19 pushed up the timeline on the transition to remote work, and that trend is turning into the long-term reality. Governance processes must follow suit. The provider's software should enable you to digitize any remaining manual or administrative processes, including book-building, board evaluations, D&O questionnaires, and minute-taking and approvals. Moreover, it should support secure video- and access-sharing, and it must enable remote voting and consents to collect needed board approvals.

Governance *continued*

Questions to Ask	Answers to Expect
Does your software track media sentiment and industry trends?	Your firm will need access to different types of governance intelligence and benchmarking data as it scales, and you will need a software platform that is capable of collecting and reporting on that data. The ideal provider will support advanced monitoring across global news sources and industry publications, as well as the flexibility to add additional sources for benchmarking in the future. In addition, this information and reporting must have the ability to be shared directly with board members within the platform.
How can your software support our search for board talent and for diverse candidates?	Skills and talent needs will vary from one portfolio company board to the next. Too often, the search process for new directors is limited to the networks of existing board members, which frequently fail to provide a pool of candidates that is truly diverse. Amid increasing pressure from investors and other stakeholders to ensure diversity at the board level and beyond, this is no longer sufficient. The right software can help address this shortcoming by providing access to a database of qualified board candidates with demographic and skills information to help directors make informed decisions with an eye toward diversity and inclusion.

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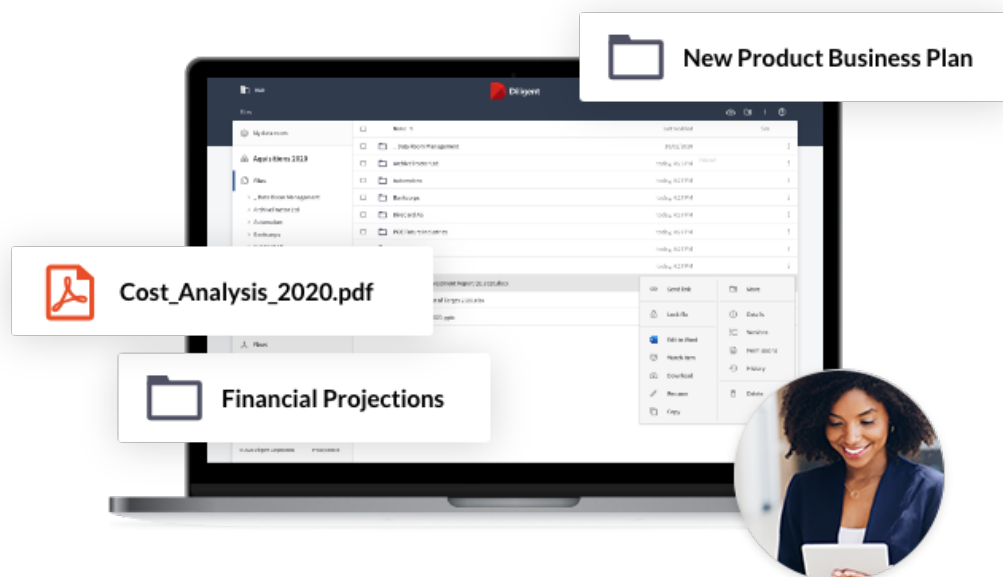
Transparency

Modern private equity is a people and relationship business and, although investor interest remains strong in the asset class, today's limited partners expect more from their fund managers than many did in the past. On the heels of a challenging global pandemic and the resulting market uncertainty, investors are increasingly looking for more insight into the state of their investments, whether in the form of additional communication about the state of their portfolio, updates on trends that managers are seeing, or simply reinforcement of the value of existing risk management practices.

Performance requires better visibility on all fronts — into broad investment trends, competitive markets, portfolio companies and more. But it also requires a greater level of transparency between firms, limited partners and other stakeholders who are pushing firms to be more forthcoming with portfolio information and market insights.

| Questions to Ask	Answers to Expect
How does your software support stakeholder engagement?	The days of the private equity "black box" are over. Today, investors, portfolio companies and other stakeholders demand greater transparency into both the firms they work with and their internal dealings. Your software platform should enable that open communication, but not at the price of security. The provider must support secure data-sharing or access to a limited investor portal where interested parties can access proprietary information. Secure messaging must be extendable beyond the firm to authorized stakeholders.
What types of recordkeeping are available?	Maintaining centralized records for each portfolio company and the firm at large can offer new visibility into compliance and regulatory matters, across complex — and even global — company structures. The ideal platform will provide a centralized record of all firm and portfolio company data, with the ability to visualize the entire corporate structure. Additionally, you require the ability to control access to these types of records and what users can view, and to easily revoke those credentials, if necessary.

Transparency *continued*

| Questions to Ask	Answers to Expect
Do you offer sustainability and ESG reporting?	Meeting expectations around environmental, social and governance (ESG) initiatives requires the right data in order to understand how your firm stacks up to peers and competitors across ESG metrics. Firms need to operationalize their ESG efforts through data tracking and analysis to demonstrate their commitment and show alignment with performance through benchmarking, sentiment monitoring and tracking against established standards. The right software platform must be capable of tracking these metrics in real time, with robust reporting. That reporting must be delivered in a way that's easy to understand and to share with stakeholders. Additionally, the platform should scan the competitive landscape for ESG investment trends and offer health scoring for early risk identification.
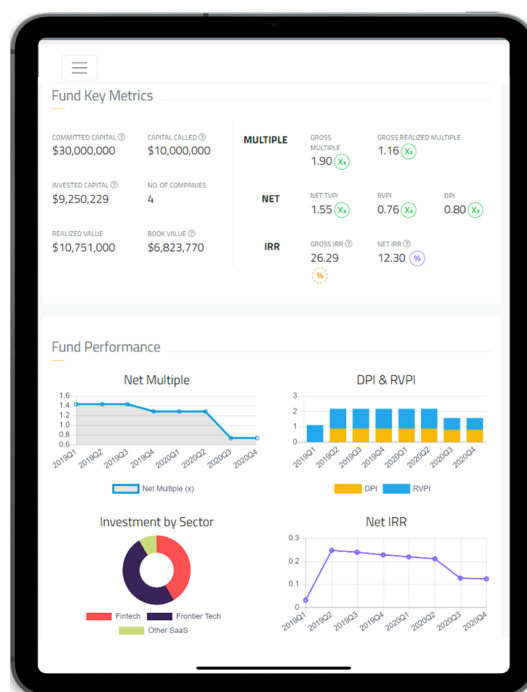
Making the Case for Private Equity Management Software

Once you've decided on a software provider that meets the needs of your organization, it's time to get buy-in from the board and other key stakeholders. Making the case for a private equity management solution requires presenting the core benefits in a quick and digestible format for busy managing partners.
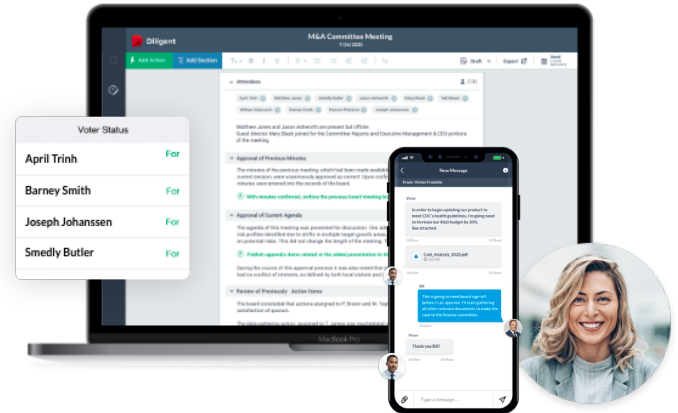
Here Are the Top Benefits of Private Equity Software to Highlight:

Board Effectiveness

Board operations and meeting materials — whether for the firm itself or across its portfolio companies — are centralized on one secure platform, which supports all the necessary board functions (e.g., remote voting and signatures, evaluations, minute-taking and approvals).

Portfolio Governance

Performance, cap tables and KPIs are tracked across portfolio companies from a central dashboard supporting real-time updates.

Secure Communication

Sensitive documents and conversations related to deals and strategies are shared securely among permissioned users — not through email.

Market and Portfolio Intelligence

Advanced news monitoring tools are in place to track and synthesize market trends, competitor movements and portfolio company news — complete with health scores for early risk identification.

Business and Sustainability Reporting

Clear reporting to investors around the private equity firm's commitment to ESG initiatives across the portfolio.

Why Diligent for Private Equity?

Diligent provides private equity firms with integrated, secure modern governance solutions. Securely upload, share and review sensitive materials with partners, directors and executive teams — all from a single, intuitive platform.

Diligent Board & Leadership Collaboration moves all sensitive communication, collaboration and document-sharing among executives, board members and partners out of email and onto a secure platform. Using this integrated home for board meeting material distribution, messaging, voting, minute-taking and more, fund managers, portfolio company executives and other stakeholders can leverage real-time communications, secure collaboration, governance approval workflows and intelligence to power smart decisions.

☑ **Unlock new efficiencies** by moving physical processes to the cloud with streamlined workflows that enable operational agility without sacrificing security.

☑ **Stop using email** and other unsecure collaboration platforms, and protect confidential firm and portfolio data at rest, in transit and in use.

☑ **Arm fund leadership with actionable news and industry benchmarks** from trusted third-party sources. PE firms can stay informed of portfolio companies in the news and keep up to date on a variety of industry sectors to better advise portfolio companies, identify new business opportunities and predict activist movement.

☑ **Access the data used by proxy advisors and activists** to support efforts to build more diverse boards by comparing board composition or searching a database of potential candidates.

Diligent Operational Governance serves as a centralized source of truth across a private equity firm's entire organization and portfolio. With deliberate workflows for filing, information changes and risk management, among others, Operational Governance facilitates more efficient processes that help keep teams accountable, with real-time and dynamic reporting that provide insight into current states, so firm leadership can make better-informed decisions.

☑ **Centralize and compartmentalize data** in secure data rooms to facilitate the sharing of sensitive information between stakeholders, including investment committee members, limited partners and portfolio company executives.

☑ **Manage and report on cap tables** at the portfolio or company level, with error-free updating, custom calculations and support for complex waterfall scenarios and more. PE firms can white-label this solution for portfolio companies as well to simplify data collection.

☑ **Streamline information-sharing with customizable permission settings** to ensure that stakeholders can all locate and access information regarding portfolio financials, compliance, risks, ownership and more.

☑ **Monitor benchmarks and performance metrics against industry and regional peers**, track portfolio company sentiment in the news and stay ahead of breaking stories that could impact business.

☑ **Simplify governance across the portfolio** to ensure the right people receive the right information at the right time to ask better questions and make better decisions impacting strategic growth.

Ready to see Diligent in action? Request a demo today.

REQUEST A DEMO ▶

About Diligent

Diligent is the pioneer in modern governance. Our trusted, cloud-based applications streamline the day-to-day work of board management and committees, support secure collaboration, manage subsidiary and entity data, and deliver insights that empower company leaders to make better decisions in today's complex landscape. With the largest global network of corporate directors and executives, Diligent is relied on by more than 19,000 organizations and nearly 700,000 leaders in over 90 countries. With award-winning customer service across the globe, Diligent serves more than 50% of the Fortune 1000, 70% of the FTSE 100 and 65% of the ASX.

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