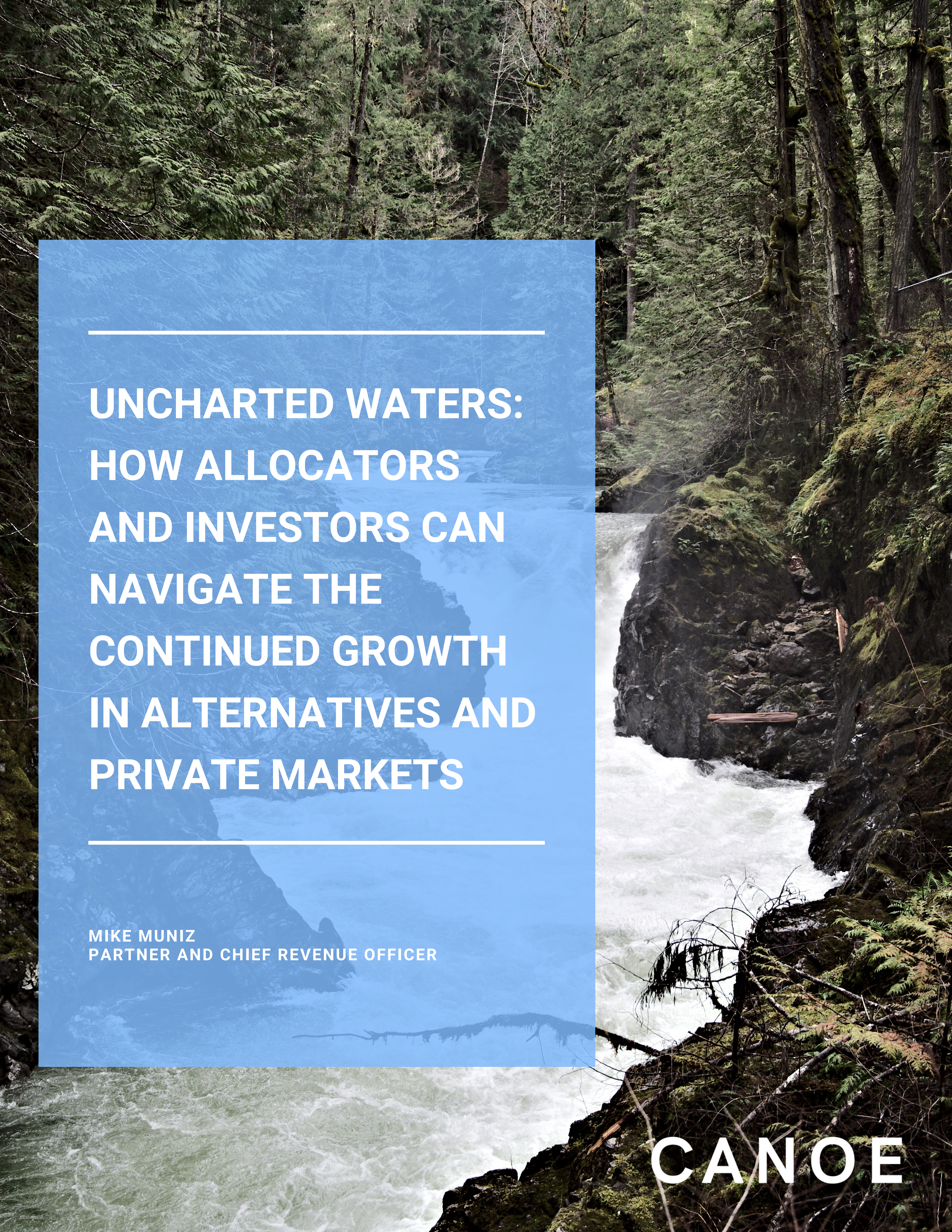

UNCHARTED WATERS: HOW ALLOCATORS AND INVESTORS CAN NAVIGATE THE CONTINUED GROWTH IN ALTERNATIVES AND PRIVATE MARKETS

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INTRODUCTION

In an industry that has undergone several rapid transformations in recent years, it is safe to say that the alternative investment space has seen a particular spike in interest and innovation.

Market forces are pushing investors toward historically overlooked or underdeveloped asset classes like never before, while the institutional community has long allocated large percentages to these markets. As a result, firms that previously had little to no exposure to private markets have rushed to spin up new offerings, while those already in the space have worked to bring existing solutions to more and different kinds of clients.

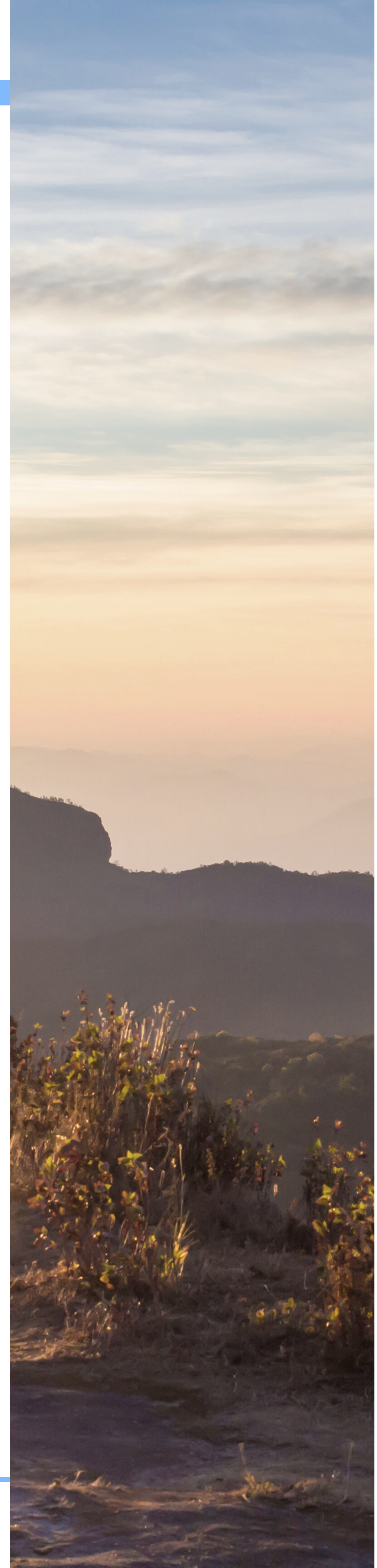
This is a recipe for a rapid increase in complexity – and indeed, alternative and private markets often create significant operational complexity for investors, allocators and asset servicers alike. Every new partner these firms onboard equates to time spent learning a new workflow, ensuring connectivity and checking for accuracy.

With widespread interest in alternatives being a relatively recent phenomenon, the tools available to accelerate these processes are limited. All this is occurring amid a backdrop of increasingly complicated remote workflows and decreasing headcount throughout the buy-side and across asset classes, compounding the problem.

One thing seems clear: The alternatives boom is not going away any time soon. According to Preqin, a data provider focused on the alternative investment space, alternative AUM more than doubled over the last decade and is projected to grow by an additional 59% by 2025. In this environment, there is an unprecedented need for specialized tools that can streamline processes and enable scale. They also need strong partnerships to help them navigate this growth and react to new market forces and industry challenges, no matter how this trend evolves.

This paper explores some of the reasons behind the continued growth in alternatives, the challenges it has created and how technology, industry standards and expertise can provide a solution.

THE CONTINUED RISE OF ALTERNATIVES



“Alternatives” is a fitting term – the name alone implies a break with the traditional in favor of new possibilities. Sure enough, the strong and growing interest in alternatives is a product of the fact that for many allocators and investors, portfolios comprised of stocks and bonds alone simply cannot meet their evolving needs.

Some of this has to do with the nature of equity markets today. Put simply, stocks are very expensive – at this writing, the S&P 500, Dow Jones Industrial Average and Nasdaq Composite are all at or very close to all-time highs. Bond yields also remain low. These trends led Charles Schwab to recently forecast that returns on stocks and bonds over the next decade will fall short of historical averages. Furthermore, the fact that alternatives have a low correlation with public markets helps limit portfolio volatility, which has become an especially relevant concern following the global financial crisis and again amid the COVID-19 pandemic.

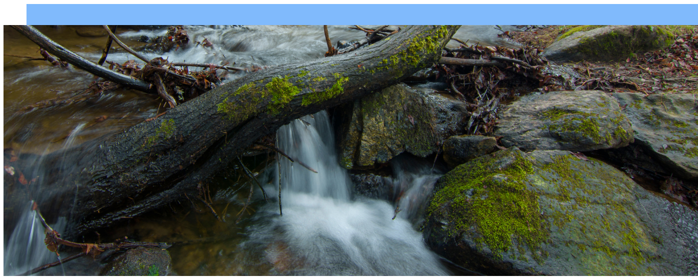
The need to differentiate performance provides another powerful incentive for firms to wade into alternatives. The decline of active investing means it is harder than ever for traditional asset managers to develop that secret sauce that sets a portfolio apart from the rest. **In this hyper-competitive environment, allocators must seek new avenues to higher returns to fund spending needs and keep up with peers.** Identifying a manager with robust technology and market-leading algorithms is one way; placing a greater emphasis on alternatives is another.

DEVILS IN THE DETAILS

As much promise as alternative investments offer, they have created new challenges for the allocators, managers and asset servicers who want to get into the space. These factors are preventing firms from navigating these markets with maximum efficiency, thereby limiting the overall opportunity.

Several of these factors deal with the operational realities of the private markets, where the sheer number of documents that must be exchanged can be overwhelming. Most of these are capital call notices, distribution notices or account statements, but there are others – K-1s, factsheets, quarterly financials, performance estimates, manager letters and more. Even documents from the same general partner (GP) can originate from different sources – emails, GP websites, administrator portals and the like. Throw in the need to deal with multiple sources from multiple GPs, and you start to get a sense of the complexity of document management in this space.

The challenge is not limited to keeping track of these documents – it is also in making sense of them. Limited partners (LPs) need to extract information from these sources for a variety of purposes: tracking performance, reporting to clients, investment committees and regulators, balancing portfolios and more. Unfortunately, this information is often buried, requiring large teams to manually perform detailed, page-by-page examinations to locate the pertinent elements.



In a vacuum, this is painful; at scale, it is a nightmare. In effect, these documents are full of mission-critical, unstructured data, so the challenges operations teams are facing are not unlike those of market data professionals who must clean and normalize vast datasets.

These challenges led to the introduction of guidelines like the Institutional Limited Partners Association (ILPA) Principles, which call for this data to be exchanged in standardized formats. While in theory this simplifies processes for LPs, it makes more work for the GPs, a dynamic that often motivates managers to find workarounds. The result is more convoluted workflows for the GPs and even more time spent by LPs trying to find the investment data they need, ultimately diverting resources from value-creation tasks. This is an issue across industries – a 2018 report from IDC found that data professionals **lose up to 50% of their time** each week because they cannot find, protect or prepare data – but it is especially acute in the alternatives space.

That brings us to another, overarching challenge: Operations teams are spread thinner than ever before. **While headcount is shrinking, the industry is growing more complex, client needs are expanding and compliance burdens are increasing. Beyond the workflow challenges, this leads to personal frustration and room for error. It is a difficult problem with no easy answer – and only a blend of technology, innovation and expertise can solve it.**

CANOE: THE INDUSTRY STANDARD FOR ALTERNATIVES DOCUMENT AND DATA MANAGEMENT

Canoe is the only vendor on the market applying this winning combination to the alternatives data management space. Incubated within private investment firm Portage Partners, from which it spun out in 2017, Canoe has a grasp of the challenges its clients face that can only come from firsthand experience.

Canoe's value proposition is straightforward: It ingests and categorizes documents, extracts, normalizes and validates relevant data, and delivers that data to downstream systems.

What was previously a massive operational burden rife with tedious manual workflows becomes a seamless process with a single destination and very few steps. Canoe also offers a one-stop-shop for all counterparty documents through Canoe Connect, eliminating time wasted on tracking down documents from various sources.

While the case for Canoe may be simple, the approach that powers it is not – rather, it is the product of decades of combined expertise and specialization in alternative investments.

For example, Canoe is not a simple document reader, a concept that has existed for years. **The platform's ability to automatically connect with a multitude of disparate document sources and place the extracted data in the context of the firm's wider operations greatly accelerates information gathering.** From there, firms can produce actionable intelligence and facilitate reconciliation and reporting, creating accurate, efficient processes. **These are all industry-specific ways that Canoe serves as a true workflow platform, providing a far more comprehensive solution than a basic document scanner.**

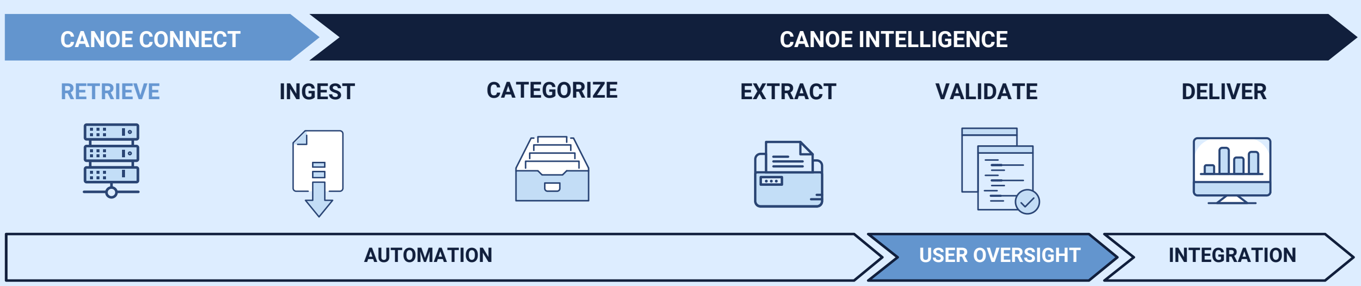
CANOE: THE INDUSTRY STANDARD FOR ALTERNATIVES DOCUMENT AND DATA MANAGEMENT

At the core of Canoe's platform is its purpose-built data extraction technology. By leveraging the latest trends in machine learning, AI, and natural-language processing, clients can automate their workflows and ensure that operational inefficiency is not an impediment to reaching the markets they need to.

Further, Canoe's massive ecosystem of alternative investment and private markets firms provides unique scale. The firm leverages shared intelligence from its diverse client base and a fund master database of over 20,000 funds across numerous asset classes. Its clients include capital allocators like VRS, institutional investors like Blackstone, Carlyle, and Hamilton Lane, wealth managers like Fiducient Advisors and asset servicers like State Street. It annually processes over 6 million documents and 20 million data points and growing. This is the scale that enables Canoe to ingest high volumes of complex documents and create instantaneous access to actionable data.

our technology

THE CANOE OPTIMIZED WORKFLOW



Canoe is doing the crucial work of creating an industry standard for document and data management. Before, these firms were essentially on their own – they faced a host of complexities upon entering less established markets, and the transition was only as smooth as their ability to strategize around them.

With Canoe, clients gain an immediate roadmap, so there is no uncertainty around processes – only the need to make the right investments. In this way, Canoe is not only helping clients to solve their workflow challenges, but driving the entire industry forward.

CANOE IN ACTION: HAMILTON LANE

Canoe's work with Hamilton Lane, an alternative investment management firm providing innovative private markets services to sophisticated investors globally (and also an investor in Canoe), is a compelling illustration of its transformative potential. Faced with increasingly difficult manual workflows for aggregating management fees across its growing client base and portfolio of alternative investments, Hamilton Lane began working with Canoe in March 2020. The results have been incredible: a twenty-fold increase in funds processed per employee, timelier reporting and the ability to pursue more complex data initiatives.

The relationship includes bespoke elements, including categorizing and saving documents according to Hamilton Lane's preferences. It is this flexibility and comprehensiveness that will enable Canoe to meet future trends in the alternatives space, such as an anticipated surge of retail interest.

This continued growth will demand more seamless processes and greater benchmarking capabilities – and Canoe will not just participate in this shift, but help to drive it through efficiency and standardization.

CONCLUSION

Canoe has already made its mark on the alternatives space – and now, thanks to recent events, it is poised to have an even bigger impact. Earlier this year, the firm completed its Series B funding round led by F-Prime Capital with participation from Eight Roads Ventures and other strategic investors. This funding will be used to accelerate expansion into European markets, grow the team in key functional areas, enhance enterprise product offerings, develop new data products, and continue to strengthen Canoe's core platform.

Through technology and shared intelligence, and with the backing of some of the most prominent names in the private markets, Canoe is ideally positioned to help the industry navigate the continued growth in alternatives. As the firm continues to expand its reach, more allocators and investors can enjoy the peace of mind that comes with being able to pursue just about any asset class without missing a beat.

ABOUT CANOE INTELLIGENCE

Canoe Intelligence redefines alternative investment data processes for hundreds of leading institutional investors, capital allocators, asset servicing firms and wealth managers. By combining industry expertise with the most sophisticated data capture technologies, Canoe's technology automates the highly-frustrating, time-consuming, and costly manual workflows related to alternative investment document and data management, extraction and delivery. With Canoe, clients can refocus capital and human resources on business performance and growth, increase efficiency, and gain deeper access to their data. Canoe's AI-driven platform was developed in 2013 for Portage Partners LLC, a private investment firm.

SEE CANOE IN ACTION:
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