

Connecting private markets through AI

The next generation of AI tools have the potential to transform private markets but how widespread is their adoption by GPs, their service providers and LPs?



At a recent Breakfast Briefing, hosted by *The Drawdown*, a panel of experts


discussed how GPs and LPs are incorporating AI technologies, how the industry can acquire the skills needed to realise their potential, regulatory risks, and the safeguards needed to protect data outcomes.

The Drawdown (TDD): How are you integrating AI technologies into your workflows?

Brian Mason (BM): With caution! If you are trying to introduce AI into an environment with people who are not used to using it, it can be challenging. It is important to establish what you are trying to achieve with the technology and to find the right people within the organisation who are willing to adopt and experiment with it.

Nick Kingsbury (NK): What we're seeing that works is an incremental application of AI. We use it to mine emails to see who has been speaking to whom, which is not very dramatic but it's actually quite handy. We also use it to process dealflow and anonymise it.

We are seeing the adoption through incremental functional improvements. The big dream of us all being replaced by AI is an awful long way away. A lot of care needs to be taken even with the incremental adoptions because a lot of this stuff is statistical, it's not deterministic. You can get results that are not necessarily quite right, which sometimes doesn't matter but if you're reporting to your LPs,



THE PANEL

Moderator
Jon Whiteaker
 Editor, *The Drawdown*


Aman Soni
 Vice-president of data strategy, Canoe Intelligence

Brian Mason
 CTO, BC Partners

Jeremy Hocter
 Managing director, Holland Mountain

Nick Kingsbury
 Partner, Amadeus Capital

Raj Purmessur
 Managing director, J.P. Morgan



that really does matter.

Raj Purmessur (RP): When we talk to GPs and LPs in the industry, there's a lot of focus on artificial intelligence. They understand there is a cost to implementing AI in decision-making operation processes, but there's also a huge cost of not doing anything.

GPs are interested in using it to get market sentiment, to know where investors will be investing over the next five to 10 years. They are also interested in data mining, as a lot of private markets still

operate through PDFs, so extracting data from documents and using machine learning to make meaningful inferences from it is valuable.

For LPs, they are using AI for manager selection, assisting due diligence on ESG performance or reputation risk. From an administrative perspective, AI can be used to scrape data from capital events and for valuations.

It's really moving from sci-fi to reality. Before it was a nebulous concept but now it's here and very real.

TDD: Which AI enabled tools are making a meaningful impact on private markets right now?

Aman Soni (AS): We focus on automating the ingestion of documents GPs need, standardising those documents as they come in, and then extracting data from them.

The ultimate aim is to drive standardisation in private markets. Public markets took more than 20 years to start adopting technology. It is going to happen at a much faster pace in private markets.

Jeremy Hocter (JH): There are still limited use cases in PE. Data scraping is proven and works, and when you are looking for ROI, you can tie it to time saving on processes. If you are an LP or fund-of-fund, you are a consumer of data anyway, so data scraping will add efficiency to the operating model.

We are not seeing the use of generative AI though. We are not seeing whole investment committee papers being written by AI; perhaps a paragraph or a page

but it is supplementing this work rather than replacing it.

You have the headache of historic data, making sure it is accurate and you are getting value from it. I think we will see initial traction with new deals or data rooms where there is a clean slate and it is easier to apply AI.

TDD: How do you rate the skills within the industry needed to properly employ these technologies?

NK: Everyone is busy with their day job. It helps if employees are curious but the tools have to meaningfully help them do their job a bit faster and better. If you are just providing a search box, people will stare at it wondering what to do. So I think it is better to try and figure out how it can help your people than trying to train them on how to use it.

RP: Changing culture is very hard and starting small is always a good idea. There are multiple groups involved, including those building the models who need to be both subject matter experts in the technology and also have domain knowledge.

A lot depends on whether you are taking a solution from a

vendor or building one in-house. There is a lot of risk in building a model but you have more control, whereas buying a model presents blackbox risk.

For the end user, they have to get comfortable that control frameworks are still viable after the implementation of AI. They have to be educated enough to be able to recognise any issues and challenge any assumptions.

JH: If you look at the talent pool within PE firms, until recently there weren't any data scientists or AI specialists. The shift is slow but we are beginning to see hiring from outside the wider industry, including academics, for example. You will need your business leaders to work very closely with them on use cases.

You have to have a clear strategy otherwise you end up with tools you don't know how to use. That may involve a CTO, AI specialists and those focused on data governance, which many firms are still slow to adopt a strategy for.

Also, you don't want to get too far down the path of spending a lot of money on tools when what you really have to do is fix the data. You need AI skills but also data skills and we are

seeing CTOs building teams with those skillsets.

BM: I think there is going to be a change in expectations in terms of hiring. I think for juniors in deal teams, for example, there will be an expectation that they have some level of prompt engineering skills. That will be a gradual process as people start learning how AI can be used.

I think you will see more data scientist skills deployed directly into deal teams. A go-to person who is able to take AI technology from experimental to implementation. Teams will need to go through a process of data cleansing all the way through to your fund administrators before you can unleash AI on it. GPs will need to push strategic partners for visibility of their roadmap on AI integration, to understand what elements will bring benefits to them.

TDD: How can you ensure your roadmap is aligned with your service providers?

JH: If you are at the point where you are thinking about AI, you are probably at the midpoint of your digital maturity. The RD roadmap for every vendor is hugely geared towards AI but you may have

chosen certain systems because they are best-of-breed now and that doesn't necessarily mean they will be best-of-breed AI solutions.

Vendors will be introducing features that you need to assess the value of, and consider whether you instead implement standalone best-of-breed AI solutions. You need to consider that quickly, otherwise you could be paying duplicate or increased licence fees unnecessarily.

NK: As we also invest in AI companies, we can see both sides of the table. You have to figure out when assessing standalone AI companies whether they are building a business or just a function. We hold back from investing in companies where they are just providing an incremental function.

Also be very aware that some of the larger existing software providers may be slightly behind in terms of how they are implementing AI but they will catch up and probably end up winning the battle.

TDD: What are the biggest governance concerns around AI integration?

NK: There are lots of things you could do with AI. Whether you



From left: Brian Mason (BC Partners), Raj Purmessur (J.P. Morgan) and Nick Kingsbury (Amadeus Capital)

The CONVERSATION

should is an important question. I had an interesting conversation with a chief scientist who has been experimenting with AI use for recruitment. AI can do a really good job of matching job descriptions and candidates, and also analysing witness statements.

But I asked the chief scientist if they were going to use it and he said no, because they wouldn't be able to explain why one candidate has been excluded from a shortlist and another candidate included. AI could improve these processes but they just can't use it.

Similarly, there are businesses offering solutions for AML and KYC, assessing whether investors are a risk. Again, you have to be very careful because at some point you may need to explain why you have or have not rejected someone, and the statistical AI approach is not good at doing that.

JP: Governance is an incredibly important part of the puzzle. Global cybercrime is estimated at \$10-12trn and is expected to grow with AI adoption, as things will go wrong. You have seen financial institutions rejecting proper AI use cases because control frameworks are not ready yet.

There are three different lines of defence with governance. One

is being clear on your KPIs and business case for AI adoption, the second is having a controls framework that assesses impact on compliance and impact on your partners. You need to notify clients that you are implementing AI solutions and they will want to ask questions about whether you are a first adopter or whether peers are using the same tools.

The final line of defence is external validators and understanding what it takes to get them comfortable.

TDD: What impact will potential regulation have on AI integration?

AS: Regulations like Solvency II and SEC Private Markets are pushing for greater transparency and that is because allocations to private markets are growing and expected to total \$25trn in the next five years. You have growth in institutional investors and retail participation, and people want to understand the actual metrics of the underlying companies that funds are investing in.

We have launched Canoe Asset Data as a tool to allow investors to understand how their funds are allocating and provide metrics on how those portfolio companies are

performing. We have built a technology that is document-agnostic, identifies where asset-level data can be extracted, extracts and standardises that data in a new model, and feeds it back to the client.

Tools like this will improve transparency in the market and transfer knowledge to investors.

JH: Even regulators don't necessarily know what problems might arise with AI use but they will jump in when they do, and they will. You have to make sure you have transparency, controls in place and that you have thought about these issues. There is an appreciation that in private markets things won't be perfect initially but you must have robust processes in place.

RP: The democratisation of the private asset class will have a huge impact. We are seeing new regulations come in supporting the LTIF and LTAF, which allow individual investors access to private market funds. That will lead to more regulation as the investor base moves beyond sophisticated investors, and AI tools will need to make sure they have the safeguards in place to protect those new investors. ♦



From left: Jeremy Hocter (Holland Mountain) and Aman Soni (Canoe Intelligence)