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BUSINESS GUIDE

One Platform for Alternate Asset Investment Firms to Track the Full Investment Lifecycle



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One Platform for Alternate Asset Investment Firms to Track the Full Investment Lifecycle

Investment Optimization for NetSuite helps private equity investors, venture capital firms, and family offices maintain a clear view of profitability by tracking the full lifecycle of an investment — from sourcing to liquidation — in one place.

Private equity investors, venture capital firms, and family office investors are all part of a financial sector that's come under increased scrutiny as the U.S. Securities and Exchange Commission (SEC) demands more market transparency from private fund companies.

"As the alternative investment space gets larger and more complex, more regulators are watching this space, and we expect that to increasingly be the case," said Austen Wise, partner and sales director at Finlyte, a NetSuite Solution Provider and BPO partner. "More firms are getting audited and finding themselves under SEC scrutiny."

These private funds must be able to quickly reply to SEC requests, produce accurate reports, and respond to audits. [With gross assets under management of \\$17 trillion](#), private fund companies also need a way to track the full lifecycle of their individual portfolio companies from initial sourcing to final liquidation. Yet most of them are behind the technology curve and rely heavily on basic programs like QuickBooks combined with a lot of Excel spreadsheets, neither of which would easily stand up to regulatory scrutiny. Then, they'll add

on even more disconnected applications to manage other aspects of their businesses, further compounding the problem.

"Most investment firms lack a robust accounting solution to handle their day-to-day financial activities and provide robust, real-time reporting," Wise said. "As a result, they're dealing with bloated charts of accounts, highly detailed journal entries, and myriad Excel spreadsheets to manage all of it."

The alternative asset industry consists of three types of companies: private equity, venture capital, and family offices. All share a primary goal of acquiring and investing in other organizations and are measured by their total assets under management (AUM), and most have multiple investments, or "portfolio companies," that they invest in. Invested funds are raised from limited partners (LPs) that are repaid when portfolio companies are sold or recapitalized.

As their investment portfolios expand right along with their sector's regulatory requirements, alternative investment companies need auditable Enterprise Resource Planning (ERP) solutions that automate and simplify their processes, eliminate the need for spreadsheets, and manage the full investment lifecycle on one platform. With an ERP in place, firms can effectively reduce their overhead, gain better visibility into their operations, and confidently address audit requests.

“These are all processes that take up a lot of the back-office’s time. Being able to handle these tasks in a single system across multiple portfolio companies is very compelling to the firms we’re working with. It eliminates the need to use multiple QuickBooks instances. Accountants just log in and can efficiently create the entries or transactions on a fund-by-fund basis in NetSuite.”

Austen Wise, Partner and Sales Director, Finlyte

QuickBooks, Excel, and a Lot of Paper

The typical PE or VC firm spends its time raising money, sourcing deals, investing in those deals, and then creating value so that they can exit with a profit. They do this through operational improvements, team development, and deleveraging. In most cases, all of these activities are handled in QuickBooks and on spreadsheets. When asked to produce a quarterly report for an LP on the fly, for example, employees must gather data from various systems, pore over multiple spreadsheets, and come up with an accurate picture of portfolio companies’ performance.

This truly is a case of the cobbler’s children having no shoes.

“This industry is a bit behind the times for one that focuses on acquiring companies and bringing those organizations into the 21st century, turning them around for profit, and taking an active role in increasing the value of their investments,” said Wise. “Part of their investment strategy also incorporates some level of technological evolution for the portfolio company, even while the funds themselves are running on QuickBooks, Excel, and a lot of paper.”

In addition to the clear shortcomings in terms of regulatory scrutiny, being overly reliant on paper and manual processes slows companies down. The approach can be particularly onerous since multiple disparate QuickBooks instances are needed to manage the different funds and management company.

“Audits are a huge concern for these companies, and particularly for those that are using disparate systems and that have accounting files stored in multiple different places,” said Wise.

These problems quickly turn into major concerns for CFOs, controllers, and chief investment officers who rely on accurate reporting to make decisions about potential deals. These executives must be able to quickly and accurately assess EBITDA, determine if a company is overleveraged, and use numerous other metrics to derive accurate evaluations.

Developed by Finlyte, Investment Optimization for NetSuite (ION) helps private equity investors, venture capital firms, and family offices track, manage, and account for all of their investments in one location. Using ION, these organizations know what’s happening at all times with their investments — from initial sourcing right through to liquidation — all while maintaining a clear view of profitability.

Because it’s cloud-based, ION enables easy sharing of data with analysts, who in turn use the information to derive fair values for portfolio companies. Furthermore, the alternate asset companies themselves gain access to accurate, auditable reporting that can be shared with their limited partners. The solution also saves significant time for accountants who issue capital calls, manage distributions, and handle investor allocations.

The 3 Pillars of Investment Management

Core pillars of alternate asset investment management include the actual management of the investment, the tracking and improvement of investment performance, and the tracking of overall portfolio performance. ION manages all three pillars on a single instance of NetSuite.

When a fund receives a bill from an outside consulting firm that handled a tax audit, for example, ION passes that invoice through to the different funds and allocates the cost to the appropriate portfolio companies. This both simplifies the cost allocation process and ensures high levels of transparency on the financial side.

“ION gives private equity investors, venture capital firms, and family offices a 360-degree view of their management companies, funds, and portfolio companies,” said Dylan McCracken, Finlyte’s director of product development. “ION is designed to provide real-time, detailed reporting and dashboarding by virtue of simply conducting investing activities. As capital calls are issued, investments are made and revalued, and as distributions occur, ION automates a tremendous

amount of detail to create seamless limited partner and general partner reporting, portfolio company performance measurements, and cash flow management.”

Awarded NetSuite’s Alliance Partner of the Year twice, Finlyte has handled numerous ION implementations for private equity investors, venture capital firms, and family offices. It recently worked with one customer that needed a way to mass update all evaluations for its extensive investment portfolio.

“We built that for them in a week,” said McCracken. “That’s just one example of how well we understand these companies’ problems and are able to use NetSuite to meet their needs in a fast, efficient way.”

In fact, Wise said Finlyte’s own founding principles are rooted in helping investment companies “illuminate” the financials of their portfolio companies and simplify the related processes as much as possible. “That way,” he said, “their equity backers actually know what is and isn’t performing and can pinpoint areas of improvement — say, an operational area that’s lagging — and ultimately maximize the value of the portfolio companies.”



“There’s something to be said about organizations that acquire companies and immediately ask those organizations to implement new systems to make them more transparent and efficient. At Finlyte, our mission is to help these organizations practice what they preach to their portfolios. By implementing ION, they will increase the efficiency of their team all while gaining a level of visibility into their business that has been unreachable until this point.”

Austen Wise, Partner and Sales Director, Finlyte

It’s a Real Eye-Opener

With an average implementation time of about 100 days, which includes onboarding and training, ION provides a wide range of benefits for growing alternate asset investment firms that must adhere to stringent reporting requirements, deal with audits, and maintain profitability.

ION uses investment industry-specific records and transactions to provide high levels of data transparency, robust auditability, and simplified reporting. From ION, firms also get real-time dashboards for tracking performance across all portfolio companies, each of which can be assigned its own dashboard. The platform is also used to simplify and automate the management of capital calls, distributions, and investor allocations. Accountants love it because it creates huge efficiencies and helps them get away from managing on spreadsheets, which in turn allows them to focus on higher value activities. Even more importantly, executives know immediately whether a specific portfolio company meets their firm’s covenants or not.

“When a fund manager clicks on an individual portfolio company for the first time and views all of the related financial metrics in real time, it’s pretty eye-opening for them,” said Wise. “That’s usually the point when they realize just how much time they’ll save by not having to wait on reports being manually generated or cobbled together in Excel.”

You Can’t Run a Multimillion-Dollar Business on QuickBooks

A lot of startup companies use basic accounting systems to get their operations up and running and then quickly realize that they need a more robust, multifaceted software platform to manage their growing operations. Alternative asset investment companies are not an exception to that rule. The SEC’s increased scrutiny of the [\\$17 trillion private fund sector added](#) only accelerates the need to replace those basic business management approaches with a cloud-based ERP.

“You can’t run a growing, multimillion-dollar business effectively on QuickBooks,” said McCracken, “But the reality is that some of the most sophisticated investors and entrepreneurs in the world are running their PE firms on systems that a small shoe factory wouldn’t even use.”

Not only do spreadsheets create opacity when attempting to understand where your data comes from, McCracken adds, but they also keep accountants and analysts in limbo as they wait for reports to be created and shared. With ION, these same reports can be accessed instantly in the cloud. This creates significantly higher levels of transparency while also easing the manual workload for the back-office. It shows LPs and GPs that the private funds themselves are as serious about technology as their portfolio companies are expected to be.

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