ARTICLE

Selecting the right portfolio management technology for your direct lending fund

Direct lending funds raised $71.6 billion in 2019, amounting to 57% of all private debt fundraising[1]. That record-breaking sum was raised by just 32 funds, the lowest count since 2012.

Average fund size has grown substantially since 2017, while the annual fund count has steadily declined.

This period of rapid growth and consolidation has been plagued by inefficiencies, operational challenges and lackluster client experience. Technology solutions and platforms can help mitigate these concerns. They have the power to transform private debt's underwriting processes, risk assessments and portfolio management. Not surprisingly, 87% of lending institutions indicated they were considering investing in software and technology in 2019[2]. This is a trend we continue to see in 2020.

TECHNOLOGY THAT WILL MAKE A DIFFERENCE

Funds require technologies that combine the functionality necessary for private debt investing with the flexibility and ease of use of current spreadsheet solutions. Attempts to force-fit solutions not built for the private debt markets often fail; they create new risks and challenges while continuing to require the use of spreadsheet solutions.

TRANSPARENCY REQUIRED

Regulatory agencies and investors continue to press for greater transparency. Data quality and connectivity are paramount. Firms must consider all current regulator and investor reporting requirements and anticipate enhanced disclosure requirements in the near future.

PREPARING FOR YOUR FUND'S SUCCESS

There are three key items to consider in framing your fund's technology strategies:

- Technology infrastructure that can properly support private debt
- A loan tracking and reporting system to mitigate loan administration challenges
- Processes for appropriately gathering, storing, securing, delivering and reporting data

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WEIGHING YOUR TECHNOLOGY OPTIONS

To assess portfolio management solutions for your fund, you'll want to consider the following:

Research and underwriting lending dashboard: Can you analyze the creditworthiness of issuers and borrowers? Monitor the investment pipeline? Store documentation and analyst commentary?

Covenants support: Does the solution offer covenant monitoring? Does it provide the ability to create reusable covenant rules? Will it allow you to capture and centralize borrower time-series data?

Loan administration: Does the technology support loan administration? Will it generate, track and deliver invoices, statements, and notices directly from the solution?

Reconciliation and data aggregation: Will it reconcile and aggregate data? Does it have a centralized data warehouse? Can it seamlessly augment your data with third-party content?

Process-management automation: How much automation can you expect from the solution? Will it streamline and automate processes? Will it diagnose any stale or missing data?

Process controls and defensible processes: Will the solution enable your fund to step up to regulatory and investor requirements for transparency and compliance?

Ensure your technology can manage the complexity that private lenders require. Broadridge can help. To discover the productivity gains available via the award-winning Broadridge Private Debt Portfolio Management solution, contact us today.

[1] PitchBook's H2 2019 Global Private Debt Report

[2] Proskauer's Trends in Private Credit survey for 2018

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