KEYNOTE INTERVIEW

Addressing private market data challenges

New investor types and changing LP needs are driving demand for more granular, timely data and benchmarking tools, say FTSE Russell's Gerald Toledano and Ali Zaidi, and StepStone Group's Tom Keck

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Q How is demand for data evolving in private markets?

Tom Keck: The outperformance of private markets over the long term – and the continued increase in allocations among institutional investors, and now increasingly retail investors – has driven greater interest in understanding the asset class.

As institutions have continued to grow their allocations to private markets, it has become more important for them to understand not only return dynamics but also the risk dynamics around how these strategies behave relative to the rest of their portfolios. They want the tools to build a deeper understanding of liquidity and valuation risk.

Finally, it's important to note that the people demanding data are also changing. Historically, it may have been the head of real estate or private equity at a pension fund, but increasingly the chief information officer and head of risk management are also interested. As private markets penetrate new channels like insurance and retail, these investors are also demanding information and the way they think about risk is different. This creates a demand for more and different types of data.

Ali Zaidi: We're seeing an exponential increase in demand for data in private markets, driven by macro-level developments on the regulatory front as well as the investment landscape.

In the last 12 months alone, the US eased limits on registered funds accredited investor rules; the UK broadened access to Long-Term Asset Funds and introduced PISCES (the Private Intermittent Securities and Capital Exchange System) for private share trading; the EU updated MiFID and

MiFIR regulations to reduce compliance costs and improve transparency for alternative funds; and Asia-Pacific expanded retail access through targeted steps such as Singapore's Long-Term Investment Fund proposal and Hong Kong's plan to allow private credit.

This coincides with growth-stage companies choosing to remain private for longer, supported by deeper capital pools.

With this shift comes the need to analyse, regulate and track private investments in a timely manner, which requires data that is reliable and high quality at the market level.

In private markets, data is proprietary and fragmented. That makes high-quality data a strategic asset. You can see this reflected in M&A activity in the space – firms offering differentiated coverage are being acquired at high multiples because of the competitive advantage they provide.

Q What challenges do investors face when it comes to private markets data?

AZ: The biggest challenge is the data itself. It's fragmented and not openly available, which makes it difficult to build a coherent picture across strategies. You can't just merge data sets – each one comes with its own sourcing and classification specifications.

There's also a lack of consistency in how performance is calculated, even within the same strategy, let alone across hedge funds, real estate and private equity – they all use different methodologies.

But for our investors, the most pressing issue is data latency. Most indices reflect data from months or quarters ago, which isn't helpful for investors making real-time decisions. That's why daily indices are so important – they offer a current view and help investors respond more effectively across their portfolios.

TK: I would add that a fundamental difference in how private markets data is presented relative to public markets is that it tends to be dollar-weighted, whereas public markets data tends to be time-weighted. Investors are trying to compare apples and oranges. As we see greater public-private convergence, that amplifies differences and drives a need for the consistency provided by quality market indices.

Q How are investor challenges being addressed?

Gerald Toledano: In partnership with StepStone, we have just launched new global, fund-level, daily private market indices in an effort to address some of these issues. We believe the FTSE StepStone Global Private Market Indices are the first of their kind to provide a more granular, timely and accurate reflection of private market performance, including daily estimates on mark-to-market valuations.

When we first started looking at creating private market indices, it was clear the market had focused on coverage: on the size of the investments and the number of funds. But people need indices to set standards and work with more granular data.

Further, when it comes to long-term appreciation of returns on investment, an aggregation of quarterly data can provide insight into trends in a portfolio. But people are now trying to make decisions and evaluate markets much faster, which means the evaluation of portfolios at any given time becomes important.

This already happens in public markets, giving all market participants – investors, journalists, administrators, lenders – sufficient insight to make informed decisions. In private markets, the lens is different but evolving.

TK: To access private markets data, you have to be a participant in the market. There is no public regulator demanding a common standard. StepStone had this bottom-up user-level understanding of where the data is coming from but did not have the experience constructing indices or the credibility in wading through data sets that FTSE Russell could bring. Partnering created a better output.

Producing this daily-priced index allows people to shift from relying on dollar-weighted measures towards more common time-weighted measures of portfolio performance. Also, because we have such a rich data set underlying the index, we can offer a much better understanding of what constitutes the index. It is not just measuring geographical exposure

Q What innovations are shaping the future of private markets data?

GT: We are an index provider, so our top priority is in providing benchmarks for portfolio comparison. The first question we have been asked is whether these will be replaced by indices that are investible. We have not gone down that route – we are going to start by building the benchmark and expanding adoption. Over time, we see a route for more people to base their funds or portfolios on the benchmarking of these indices, which means some people will be ready to provide liquidity around this reference down the line.

TK: As this set of indices becomes more widely accepted, it will allow for the creation of different types of products to create liquidity because of the credibility of the information available. That is where the next level of innovation becomes exciting, but you need this insight first.

based on fund domicile, but by looking down at the company level. The same is true of industry sectors.

Q Can you give examples of practical use cases of the indices, and how they help tackle investor pain points?

AZ: Historically, private market indices were mostly observational. They gave a general view of the market but weren't something investors could act on at the time of allocation – unlike public equity indices.

That's changed with the launch of global daily indices. These allow investors to align private market performance with the rest of their portfolio and take a total portfolio approach. It's particularly useful for fund managers and investors who need to track daily NAVs. Having a benchmark that reflects actual exposures – by vintage, sector or geography – makes performance measurement and reporting much more consistent and actionable.

GT: We have created two methodologies – two sets of indices – for every strategy, further broken down by region and sub-strategy, for example as buyouts and venture. One methodology uses all the information we can collect on our platform on reported NAVs, refined using real-time contribution, distribution and currency movements. These are our daily cash-adjusted indices. The second version provides more insight into the portfolio by extending data inputs and incorporating estimated mark-to-market valuations derived from relevant public market indices and their historic relationships with private market strategies.

We look at these as complementary, but the distinction can affect the use cases: the first gives better insight into the valuation of your portfolio, while the second adds a pricing angle that enables you to have an estimate more closely aligned to market fluctuations. This can be more helpful from a risk management perspective and provide some reference to evaluate a secondary market transaction.

TK: When we first started looking at daily valuations, it was in response to questions from clients about the value of their portfolios during crises. They were asking, if the public markets are down 28 percent, what is happening to my private equity portfolio? We realised there is a signal every day from public equity markets that is relevant to private markets and we can tease that out to help investors with decision-making.

Q What developments do you expect to see over the next five years?

GT: With more adoption, there is potential for a network effect and a greater willingness by every market participant to provide more transparency and liquidity. In the meantime, we are going to see a lot of asset owners able to more rapidly access information on their portfolios. We are going to see a lot of lenders, who take risks on these asset classes, able to base their risk metrics and covenants on more easily available data. Portfolio benchmarking is going to be more readily available. And we are going to see more total portfolio visibility, customised for investors.

TK: From the LP perspective, we will see greater adoption of a total portfolio approach, with better ability to integrate the risk views of public and private assets. We will see greater understanding of factor exposures, allowing for better understanding of the role of different strategies, sectors and geographies in a portfolio. That translates into better understanding of liquidity and risk profiles, not only among traditional private markets investors, but also for newer entrants.

The biggest concerns about individuals investing in private markets are the exposure to liquidity risk and the difficulty of doing diligence on funds. These indices help relieve both of those issues.

AZ: Having these benchmarks will unlock insights not previously available, like liquidity premium correlations and how regions and strategies differ over time and through cycles. This is all about helping people understand private markets better, making them more accessible, so that investors can make more informed allocation decisions. ■

Gerald Toledano is global head of equity and multi assets at FTSE Russell, Ali Zaidi is head of real assets and alternatives at FTSE Russell, and Tom Keck is a partner and head of research and portfolio management at StepStone Group