



Investment Management Buyer's Guide

Executive Summary	2
Section 1: What is Investment Management?	3
Data Management	
Investment Accounting	
Investor Management and Reporting	
Section 2: Data Management	4
How Technology Can Help	
Business Benefits	
Section 3: Investment Accounting	5
How Technology Can Help	
Business Benefits	
Section 4: Investor Management and Reporting	6
Why Spreadsheets Fall Short	
Improve Investor Relations with Online Portals	
Buyer's Guide Checklist	8



Executive Summary

Real estate private equity firms, institutional investors, and owner/operators are rapidly adopting technology and automation to reduce risk, improve capital management, and keep investors satisfied. Firms that embrace investment management technology solutions can maximize transparency, accuracy, and quality of data through all points in the real estate data chain and transition from maintaining investment data to improving portfolio performance and increasing investor returns.

To stay strategically competitive in the industry, real estate firms must excel in these areas:

Ensure investor satisfaction – Yield-driven investors require transparency in reporting, access to timely information, and a high level of detail to have full confidence in your firm's capital management capabilities. Private equity firms that leverage technology to instill trust can ensure investor satisfaction and grow their investor community.

Enhance operational efficiencies – Improving day-to-day investment accounting procedures will be critical for real estate firms to provide accurate financials and reporting to investors. The right technology can reduce time spent setting up funds and consolidating financial statements, while ensuring auditability, compliance, data security, and operational controls.

Reduce and mitigate risk – At the heart of investment management is the desire to reduce risk and maximize portfolio performance. A centralized data repository that serves as “one source of truth” can improve data and reporting accuracy, consolidate disparate data, and minimize manual processes, resulting in reliable, accurate reporting and improved visibility into key metrics.

As real estate leaders look to investment management solutions as tools to drive success, the broad range of software offerings in the market today are difficult to evaluate. The term “investment management software” is used to describe multiple functions, from fundamental accounting software to solutions that automate the full scope of investment modeling and investor management.

This guide will present a definition of investment management, explain why it is business-critical in today's competitive and evolving market, and offer factors to consider when evaluating investment management solutions.

Section 1: What is Investment Management?

Investment management encompasses the processes by which real estate fund managers, owners and operators manage, understand, and communicate the performance and risks of real estate assets and investments. The term covers a wide range of day-to-day processes and activities, including data management, detailed analysis of asset performance, investment accounting, and investor management and reporting. The overall goals of these processes include improving portfolio performance by minimizing risk, improving operational efficiencies, and ensuring investor satisfaction.

Data management – Aggregate and normalize data, often from multiple sources, in order to support consistent analysis and to provide accurate information to stakeholders. Many firms rely on manual data input and time-consuming document aggregation to create reliable reports for investors and portfolio decision makers.

Asset management – Assess asset performance against budgets, pro-formas, and market comps. Develop asset, fund or investor specific plans to maximize performance and ultimately the value of each asset. Detailed plans include KPIs, action plans, dates, required personnel, and other narratives from asset managers with knowledge of the asset, investment structure, market, and other relevant factors.

Investment accounting - Manage complex investment structures, including funds, joint ventures, and REITs, while ensuring compliance and auditability through each step of the process. Investment accounting also covers transactional handling of capital calls and recording of contributions and distributions.

Investor management and reporting – Communicating portfolio performance to shareholders and investors enhances credibility and trust for real estate firms. Assess risk and exposure, consolidate the information and share it with investors, board members, or other stakeholders.

Investment Management Challenges

The functions described above require significant time and often manual processes and data entry to provide external investors and stakeholders with the investment details required to make decisions. Compiling accurate reports can be a complicated process that involves integrating disparate data sources while maintaining data quality to ensure consistency. Overreliance on spreadsheets and manual data entry creates a slow, inefficient, error-prone reporting process that lacks auditability and operational controls. The opportunity cost of senior real estate talent chasing and manually entering data versus managing asset risk can be enormous as it impacts investor confidence.

Additionally, as firms grow and manage multiple funds, the corresponding manual work increases, resulting in even more risk of error and incorrect decision making. Savvy real estate managers recognize the long-term value and cost savings of using software to minimize manual effort and mitigate risk and errors. Purpose-built software supports scalability of investment management capabilities, allowing firms to expand their business without being constrained by the limitations of spreadsheets and processes that can't scale to handle increased volume.

Section 2: Data Management

Data is the foundation of a firm's investment decisions, yet many organizations rely on spreadsheets and other manual processes to manage billions of dollars in assets. Without accurate, standardized data and reporting, real estate executives are forced to dedicate significant time and effort to sift through large amounts of data to create consolidated reports worthy of influencing decisions.

The volume of data being created shows no signs of slowing down. According to the April 2017 IDC white paper, "Data Age 2025", the world will generate 163 zettabytes of data per year by 2025, with data created by the enterprise accounting for 60% of the whole.

With data volume increasing exponentially, how can real estate firms leverage it to drive results? Data can originate from multiple sources, including financial systems, property management systems, fixed asset systems, regulatory sources, and many non-financial data sources. For global firms, multicurrency requirements introduce another layer of complexity. Multiple sources bring multiple formats, and combining and manipulating data into a usable form requires a major investment of time and resources.

How Technology Can Help

A comprehensive investment management solution will use a combination of software automation and human oversight to streamline data management functions, including:

- **Data aggregation** - Collate, aggregate, and standardize data from multiple disparate sources to create a consistent format for reporting, analysis, and decision-making. For example, data from property management firms must be properly incorporated into a firm's investment data to provide an accurate picture of assets.
- **Systems integration** - Consolidate portfolio, investor, investment, and property data into one system to provide one "source of truth". Integration with legacy backend transaction systems is a common source of data integrity problems, and each legacy system upgrade can introduce errors and disconnected integration points.
- **Asset management** - Automate lifecycle asset management for real estate investment managers, fund advisors, and institutional investors. Evaluate asset performance and put action plans in place to maximize the value of each asset.

Business Benefits

Real estate firms will benefit in several ways, including:

Reliable reports for investors - If the integrity of data cannot be trusted, then its value to decision makers is diminished. With better data integrity and version control through data management services, firms can increase investor confidence and ensure the reliability and accuracy of reports.

Time savings - Fund managers and other staff that spend significant time chasing data can spend a larger percentage of their time on the strategic tasks of managing risk, investments, and investors. Additionally, firms can prevent delays in dividend distribution if the information is aggregated quickly and accurately.

Scalability - Putting repeatable, secure processes in place allows firms to stay agile and competitive as data volume grows and business expands.

Reduce and mitigate risk - At the heart of investment management is the desire to reduce risk and maximize portfolio performance. A centralized data repository that serves as "one source of truth" can improve data and reporting accuracy, consolidate disparate data, and minimize manual processes, resulting in reliable, accurate reporting and improved visibility into key metrics.

Analytics - Good data management paves the way for firms to leverage business intelligence solutions that help visualize data and drive better, faster business decisions.

Section 3: Investment Accounting

The processes associated with investment accounting can be time consuming, yet critical for keeping investors informed and ensuring compliance. Real estate organizations with complex investment structures spend significant amounts of time setting up funds, consolidating financial statements, and reporting to investors.

For many real estate owners and development firms, rooms full of binders and file boxes are a common sight. Staff are tasked with literally digging through paper to find ownership structures and basic property information. At best, these ownership structures and associated waterfalls are managed individually in spreadsheets, and information is then re-keyed into accounting systems for payment processing. This method offers little capability to easily trace calculation logic back to the source.

How Technology Can Help

A comprehensive investment management solution can automate investment accounting capabilities and reduce processes that currently take months to just a few hours or less. Firms can improve operational efficiencies in several areas:

- **Investment accounting** - Increase investor and stakeholder confidence by automating investment accounting functions, including generating consolidated financials and investor reporting, and recording contributions and distributions.
- **Waterfalls and dividends** - Investment accounting provides a rollup of property information and ownership structures to support complex waterfalls and manage distribution of dividends. With functionality designed specifically for these structures, investment accounting software allows users to easily create waterfalls and run tests to ensure that transactions meet contractual requirements.
- **Compliance and auditability** - Drill-down capabilities offer full transparency into each point in the real estate data chain, from investor level to property level. Complete audit trails allow error-checking and visibility into calculation logic within reporting, including waterfalls and investor transactions.

Business Benefits

Firms that implement investment accounting software can manage the accounting and reporting associated with all types of real estate investment structures, resulting in:

Time savings - Automate the set up and consolidation of funds and investment structures and financial statements for investment-level entities.

Compliance - In addition to improving effectiveness, firms can ensure compliance with accounting and reporting standards such as GAAP, FASB, IFRS, and GIPS. Investment accounting software provides calculation transparency and comprehensive auditing capabilities to meet compliance requirements.

Easier waterfall management - Many firms rely on spreadsheets to manage waterfalls, which can be difficult when multiple parties are involved. Automate the processing of contributions and distributions via waterfalls to better serve your investors.

Secure reporting - Keep investors satisfied and informed with tailored, timely, and accurate investor reports.



Section 4: Investor Management and Reporting

In addition to managing the operations of your investments, the need to effectively share financial reports and fund information with investors is critical. With investor management capabilities, firms can manage investments, assess risk and exposure, consolidate the information, and report to investors, board members, or other stakeholders, depending on the structure of the investment.



How Technology Can Help

Investor management and reporting software automates the processes that help real estate firms create trust and credibility among investors.

- **Investor management** - Streamline management of investor and ownership information across entire portfolio.
- **Investor portals** - Improve investor relations and attract new investors by offering more visibility into their investments through online portals. Give investors secure access to their funds with the ability to see investment data, documents, and reports across multiple assets and funds.
- **Analytics and reporting** - Visibility into data and meaningful insights empower real estate leaders to spend their time making decisions instead of gathering data.

Why Spreadsheets Fall Short

Spreadsheets are well suited for many purposes, but they fail in several key areas:

Functional capacity – Spreadsheet architecture limits the amount of data and logic that can be accepted. When processing capacity is exceeded, the spreadsheet can no longer handle multiple circular references or additional data.

Lack of auditability - With each new version of a spreadsheet, auditability is decreased because there is no continual thread tying the reports to the original data. Have you ever found an error in multiple workbooks and tried to trace it back to the source? The risk of error increases when analyses are performed manually and at a macro level, as opposed to holistic analyses using actual source data.

Business risk – Lack of automation and systems integration often requires manual entry of data received from property managers, investors, and other data sources. Human error combined with lack of operational controls can lead to inaccurate reporting and uninformed investment decisions.

Reliability - In many organizations, one employee is often responsible for managing a large spreadsheet with complex formulas and links to other workbooks. If the employee leaves the firm, or if the “bus factor” comes into play, will anyone else on staff know how to use the spreadsheet? What if the file becomes corrupted? This situation can create a serious obstacle for auditability, data security, reporting, and any decisions that are contingent on the information in those spreadsheets. Unfortunately, these circumstances are common drivers for firms to move toward an alternative investor reporting solution.



Improve Investor Relations with Online Portals

Investors typically prefer reports to be available to them at any time. When an investor contacts a firm to request a report, it is often an urgent matter that requires staff to rapidly pull together the required information and disseminate it to the parties involved. If data from multiple sources is required, the risk of error is increased due to lack of consistent formats and manual re-entry.

As an alternative solution, investor management offerings that include an investor portal provide on-demand access to reports and greater visibility into fund data and performance. Investors can log in to the portal and view their custom reports at any time, without having to contact the firm. The ability to drill down into granular details and filter or sort report data gives investors a flexible view of their investments without having to request custom, ad hoc reports directly from the firm. Additional metrics and KPIs can be added to meet the evolving needs of investors. The ability to create consistent, uniform reports with improved visibility can also help attract new investors.

Along with portal capabilities, the quality and accuracy of the investor information will be enhanced with data aggregation services to create uniformity across reports. Data validation not only improves report accuracy, but it also makes the data easier to analyze. This is highly beneficial to firms that use third-party property managers or managing agents, each with their own systems. The process of data aggregation and normalization enables firms to offer personalized service to investors, including customized reports with applied business rules if needed.

Investor portals can be purchased independently of an investment management solution; however, a comprehensive system will include a portal that integrates with relevant data sources. By taking a proactive approach to investor reporting, staff can focus on strategically managing risk, instead of chasing financial data.

Investor portals provide on-demand access to reports and greater visibility into fund data and performance.

Buyer's Guide Checklist: Investment Management

If your firm is being held back by struggles with data management, investor reporting, or inefficient operations, investment management software offers an alternative. Through automation, real estate investment management firms, owners, and operators can reduce risk, save time, maintain compliance, and operate more efficiently. A successful investment management solution will help real estate owners and operators better manage and communicate the performance and risks of deployed capital to maximize portfolio returns.

As you evaluate investment management software providers and look to clarify the capabilities and services offered, the checklist below provides questions you can ask to help make the right selection for your business.

Data Management:

- ☐ Can the solution support historical and forecasted data in one system?
- ☐ Does the provider offer data management services to aggregate, normalize, and curate data, thereby reducing manual processes?
- ☐ Is data stored in a secure environment that meets relevant compliance regulations?
- ☐ Does the solution provide a centralized, secure repository for data to ensure version control and data integrity?

Investment Reporting

- ☐ If your firm uses data from multiple sources or third parties, is the investment management solution capable of integrating with these sources?
- ☐ Can the system incorporate data from both financial and non-financial sources?
- ☐ Does the solution support cost, equity and proportional reporting within a single environment?

Consolidations and Financial Analysis

- ☐ Is the system fully auditable from end to end?
- ☐ Does the solution ensure auditability at all points in the transaction processes?
- ☐ Does the solution automate investment functions such as consolidations, waterfalls, and financial reporting?

Investor Relations

- ☐ Is the solution flexible enough to meet multiple stakeholder reporting requirements?
- ☐ Does the solution include flexible web-based reporting and analytics for both financial and non-financial data?

Implementation

- ☐ Does the provider have a strategic integration program to work with third-party or other applications?

Training and Support

- ☐ Does the provider offer 24/7 support?
- ☐ Are there active user communities discussing how to get the most out of this software?