KEYNOTE INTERVIEW

# Taking the PDF pain out of investor onboardings

*Subscribing to a fund shouldn't have to be a labor-intensive process for LPs when there's technology to address the pain, say Eliot Hodges and Alin Bui of Anduin*

So much of fund administration has been radically improved by technology, in terms of speed, accuracy and flexibility. However, it's surprising that more hasn't been done to improve investor onboarding. In most cases, GPs will send one massive PDF to all of their investors, which is then revised again and again, with the counsel of fund administrators and lawyers along the way. No one seems excited by the endless back and forth between parties, not even the providers with billable hours. But in recent years, there has been an incredible amount of innovation to address this deep-rooted pain. We sat down with the CEO of Anduin, Eliot Hodges, and the co-founder and chief strategy officer, Alin Bui, to discuss why GPs should be looking to this technology to diminish the hassle involved, and how best to choose a solution.

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**Q Even if the current process isn't ideal, why should GPs make onboarding a priority to improve when most managers have plenty on their plate?**

**Eliot Hodges:** That's precisely why it's crucial to improve such a fundamental part of the investment process. Onboarding is an activity that sadly everyone loves to hate. LPs never enjoy getting fund subscription documents that they have to wrestle with for multiple iterations. However, what investors crave is the chance to make investments quickly in the funds of their choosing. And one thing is clear: the current process of a single PDF doesn't deliver that. In fact, we've found that 60 to 80 percent of those PDFs are initially submitted with one or more errors.

A lot of the GPs we speak with have a barbell distribution of investors. On the one side there are a few large institutions writing big checks, and managers are happy to onboard them manually. But on the other side, they have smaller LPs that cost them so much time, money and effort to onboard, that it makes it prohibitive to bring them into the fund without increasing fees, even though there are vast sums of dry powder in this pool. And no GP wants to miss a target because of the administrative burden. That static PDF onboarding motion is dying off, being replaced by what we call "onboarding 2.0" precisely because it doesn't allow for what GPs or LPs need from the process.

## Q So how exactly does this "onboarding 2.0" improve the process in practice?

**EH:** We're talking about a dynamic "smart form" that will configure itself to the profile of the LP, so investors only get questions relevant to that entity or person. There's no more sifting through dozens of questions that have nothing to do with their type of fund investment. These guided workflows have decreased the initial error rate from the 60 to 80 percent range, down to below 7 percent. By minimizing the error rate, GPs are also able to minimize the legal and administrative costs surrounding onboarding. With fewer errors, compliance becomes faster and more reliable, making the fund organization more efficient as a whole.

**Alin Bui:** These smart forms also help foster relationships with LPs, by ridding the process of the mundane questions and the tedious back and forth in getting these PDFs filled out properly. Instead, the GP and LP are discussing higher-level issues and concerns surrounding strategy, outlook and expectations. Like so much innovation in this space, it's about liberating the GPs to focus on what they do best.

## Q How much of the industry has adopted this new process? Both GPs and LPs can be hesitant to play early adopters with tech solutions.

**AB:** Covid might have eroded some of that hesitancy. The pandemic forced a lot of folks to adopt a host of new technologies to continue working through lockdowns, which I think has prompted a change in the industry's mindset towards technology. We've seen a new impetus from service providers to proactively automate and stay ahead of the curve. People aren't looking for rationales to automate anymore, they're looking for the best way to do it. The only thing that might slow certain innovations would be that the industry isn't aware of all of them yet.

**EH:** Two years ago, Anduin started building its smart form technology for onboarding, prompted by a couple of vision-forward West Coast VCs. However, we're already at a point where this digital LP subscription process is becoming a new standard of care. Eighty percent of LPs who have been sent an invite to our smart forms have completed them in their entirety. Significantly, service providers, including law and accounting firms in addition to fund administrators, have been quick to rally around this standard of care, realizing how it frees them up to do more enriching work for their clients.

The other pressure is that once LPs enjoy this new streamlined process at one fund, they're quick to demand this same standard of care from other managers. If subscriptions are grueling and labor-intensive, the fund will be slower to market, and the firm shreds enormous amounts of investor goodwill before the first investment is even announced. Needless to say, no manager wants to seem that out of step, so technology upgrades like this can go mainstream very, very quickly.

## Q How can a manager pick the right solution to upgrade onboarding?

**AB:** There are a few points managers should focus on. First, look at the team. Is it led by technologists that can look beyond the horizon? Thought leaders will offer the best chance to future-proof a system. Managers should be looking for a solution that will continue to evolve over time. Second, they should examine whether the solution is based on proprietary software versus if it's been built on pre-existing third-party platforms. There are a number of trade-offs to each, but vendors that build their own technology have so much more control over what they can build, and how quickly they can innovate, than teams that are building off generic platforms.

Next, look at the depth of the solution, because some tech firms will make claims that are a mile wide, but an inch deep. And part of what I mean by that is they need to have robust information security protections along with all the functionality they're selling. No one wants to innovate so quickly that they jeopardize data security.

**EH:** It's also vital to make sure that the vendor has worked with managers of similar size, with LP bases of a similar composition. You don't want a tech provider that only knows to service, say, US investors when the fund will be raising capital from around the world.

**AB:** To that point, managers should "social proof" their choice. Get endorsements from trusted industry players and service providers. Many have done the diligence work, and have identified the vendors that understand the nuances and complexities of the industry.

**EH:** The technology will continue to get even better in this space. In fact, we can expect investing in the private markets to become as easy as investing in, say, a mutual fund today: in seconds. And along with that speed, we will see greater connectivity to the rest of a fund's existing tech stack – from the CRM to the general ledger system. To Alin's point, this is not about a one-off transaction, but a long-term technology investment to change how funds interact with their investor base. Make sure you choose a partner that can help your firm stay cutting-edge five to 10 years down the road and beyond. ■