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The Ultimate Guide to Portfolio Monitoring Software

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How to select the system that will boost the performance and efficiency of your private equity or venture capital firm

Introduction

As private equity and venture capital firms grow, they eventually notice that their systems for keeping track of portfolio companies (and their data) start to break down. The problems can show up in many ways:

- The operations team is spending a lot of time wrangling quarterly or monthly reports from portfolio companies and massaging them into a consistent format.
- It's increasingly difficult to generate accurate calculations of the risk and performance of portfolios.
- Answering questions from investors requires rooting through multiple spreadsheets.

Eventually, someone will ask, "Isn't there a better way to do this?"

There is, in fact, an entire class of software products designed to manage all the information about private company investments. These portfolio monitoring platforms can automate the collection, analysis, and reporting of data from portfolio companies. They help investment firms operate more efficiently, track cash flows and performance more accurately, gain deeper insights into the operations and risks of portfolio companies, and provide better service to limited partners.

There are at least a dozen products that claim to provide portfolio monitoring for private investment firms, but there are some significant differences between them. For example, some platforms are meant to be used largely to populate data within spreadsheets that firms then use to track portfolio companies. Others focus on interactive dashboards and reports. Some enable both.

This guide offers a series of questions that you can ask both to understand the differences between various portfolio monitoring products and to identify the features that will be most helpful to the way your firm operates. It's based on our experience at Cobalt, working with hundreds of private equity and venture capital firms of every size and specialty. Of course, we hope that ultimately you will select Cobalt's portfolio monitoring platform. But we know that every firm is different, and this guide will help you select the solution that best meets your needs.

How to use this guide

What follows is a roadmap to selecting the best portfolio monitoring system for your firm.

Part 1 will prompt you to set your goals for the system.

Part 2 focuses on how your firm tracks portfolio companies *now* and what you want improved.

Part 3 offers a set of questions to ask about the systems you are considering. Compare the answers to your goals and complaints about your current system, and you'll have a pretty good idea of what options fit your firm's needs.

PART 1
Setting Goals

Before looking at the portfolio monitoring products on the market, start by building a list of what your firm hopes to accomplish with the software. It's useful to consider what people in different departments will need from the system. For example, an analyst performing risk calculations may want to work in a spreadsheet, while an investor relations officer needs a quick way to look up the answers to questions from limited partners. You will want to look for a solution that gives everyone at the firm the tools to be most productive.

What do you want your portfolio monitoring system to do?

- **Automate information handling?**
  - ☐ Gather and standardize financial data from portfolio companies
  - ☐ Store and manage documents
  - ☐ Generate and distribute regular reports
  - ☐ Facilitate communication and collaboration
- **Monitor your portfolio companies?**
  - ☐ Track financial results and KPIs
  - ☐ Compare performance to objectives
  - ☐ Compare to other companies in your portfolio and related industries
  - ☐ Provide insights to support and evaluate management
  - ☐ Collect ESG metrics
- **Manage portfolio risk?**
  - ☐ Identify and track concentrations of exposure to industries, geographies, and other risk sources
  - ☐ Detect concerning trends such as decelerating revenue growth or compressing margins
- **Value portfolio companies?**
  - ☐ Apply proprietary and industry-standard valuation metrics
  - ☐ Base valuations on accurate data and consistent methodologies
- **Track cash flow and returns?**
  - ☐ Calculate returns for firm, fund, investment, and general partner (GP)
  - ☐ Ensure return calculations meet regulatory requirements
- **Report to investors?**
  - ☐ Provide informative and accurate regular reports
  - ☐ Quickly respond to investor queries

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Who will use the information?

- **What people and teams will use the system and the information it produces?**
  - ☐ Partners/leadership
  - ☐ Deal teams
  - ☐ Risk management
  - ☐ Investor relations
  - ☐ Finance
  - ☐ Operations

- **What are the requirements for each group of users?**
  - ☐ What information do they need?
  - ☐ What tasks will they perform?
  - ☐ What sort of interface and technology will be most suitable for them?

PART 2

Evaluating Existing Processes

Next, take stock of how you monitor portfolio companies now. This is a baseline for what you need your new system to handle. Pay close attention to all sources of the data you use and whether it can be gathered automatically or must be moved and cleaned by hand.

Also, take stock of what aspects of your current process are most frustrating. This will help you prioritize the features of the new system that will have the biggest impact.

How is work done now?

- **What systems do you use to perform these tasks?**

  ☐ Spreadsheets
  ☐ Software packages
  ☐ Email
  ☐ Paper

- **Where is data coming from?**

  ☐ Portfolio companies
  ☐ Other firm systems (accounting, business information, CRM)
  ☐ Vendors and partners (custodians)
  ☐ Data vendors (market data, benchmarks)

- **Where is the data going?**

  ☐ Firm team members (through reports, dashboards, etc.)
  ☐ Limited partners
  ☐ Other firm systems (accounting, business information, CRM)
  ☐ External partners

What's not working with your current system?

- **Problems with spreadsheets?**

  ☐ Information is fragmented among many sheets
  ☐ Inconsistent data elements and calculations
  ☐ Too easy to make mistakes
  ☐ Information is not available to everyone who needs it at the firm
  ☐ Too time-consuming to maintain; lots of copying info between multiple spreadsheets and versions
  ☐ Too hard to see the big picture
  ☐ Only a handful of employees understand how the spreadsheet works

- **Problems with existing portfolio monitoring software?**

  ☐ Difficult to use
  ☐ Must export data to a spreadsheet or business information system to see and analyze it
  ☐ Difficult for us to adapt to our needs; changes require custom programming
  ☐ Inadequate support from the vendor
  ☐ Doesn't link to other systems we use, such as accounting and CRM

- **Problems with data management?**
  - ☐ Difficulties gathering information from portfolio companies
  - ☐ Cash flow records aren't integrated with our custodian or administrator
  - ☐ Errors and inconsistencies in data
  - ☐ Can't support the complexity of our fund structure or investments

- **Problems with information and analysis?**
  - ☐ The information we do get doesn't have the metrics we need, organized in the format that's most useful
  - ☐ Not flexible enough to react to events by adding data elements and evaluating the portfolio in new ways
  - ☐ The system doesn't support the sort of valuation and scenario analysis we use

- **Problems with reporting?**
  - ☐ It takes too long to generate the reports we need
  - ☐ Our investor reports aren't attractive or consistent with our firm's visual style
  - ☐ Reports have inaccurate or out-of-date information

PART 3

Evaluating Portfolio Monitoring Software Vendors

Now you are ready to dive into the differences between the available portfolio monitoring platforms. You'll want to evaluate each product's capabilities for gathering, analyzing, and using fund and portfolio company information. And you'll want to understand the cost, in time and money, to license the software, customize it to your needs, load your data, and maintain it over time.

Consult your list of potential users and check whether each product offers the information they need in the formats they prefer. Some products, for example, require the creation of custom spreadsheets or the use of a separate business intelligence tool to see all but the most basic information.

Be sure to explore how flexible the system is to adapt to your changing needs. If you want to start collecting new data points or change the way a metric is calculated, will you need to hire a developer to modify the configuration?

What follows is a set of questions that will help identify the distinguishing features of each product you are considering.

Managing data

Collecting information from portfolio companies

- What options are available to ingest financial projections and results from portfolio companies?
    - ☐ Online forms for companies to fill out
    - ☐ Customized spreadsheet template
    - ☐ Using the portfolio company's internal reporting format

- How can the data collection workflow be automated?

- Can the system store documents provided by portfolio companies?

- Does the vendor offer an optional managed service so we can outsource the data collection function?

Collecting cash flow data

- Can the system ingest information from our accounting platform, custodian, and third-party fund administrator?

Cleaning and working with data

- Is there a workflow that streamlines checking and correcting data?
- How does the system handle variations in how companies report results and KPIs?
    - ☐ Can it normalize the data to create meaningful aggregate reports?

- Can the system support the size and complexity of our portfolio?
- Is it easy to start collecting new metrics as we expand into new companies and industries?
- Can we see a full audit trail of every change made to the database?
- Can we look at the information we collected as of a specific date?

Using Information and Generating Insights

Reports, dashboards, and apps

- What are all the ways we can access and manipulate portfolio and cash flow data?

  - ☐ Interactive web interface and dashboards
  - ☐ Automatically generated reports
  - ☐ Excel files
  - ☐ Integrated with our business information software (Tableau, etc.)
  - ☐ Smartphone and tablet apps

- What reports and dashboards are built in?

  - ☐ Will you need to build everything from scratch, or can you start with a smart set of tools that you can customize as needed?

- ☐ How can reports and dashboards be customized for your needs?

  - ☐ Can we create any report or dashboard ourselves, or do changes require work by the vendor or a system integrator?
  - ☐ Are the self-service methods for creating and customizing reports easy enough for our team members who are not power users?
  - ☐ How much flexibility is there for the design of custom reports and dashboards?

- How easy is it to find information on the fly?

  - ☐ Can a partner or the IR team quickly look up the answer to an investor question about a company or fund?
  - ☐ Can we create an ad-hoc report, such as to evaluate our portfolio's exposure to a particular geography, commodity, or market?

- How can we share and export individual reports, charts, and visualizations?

Analytics and modeling

- What analytics are built into the system?

  - ☐ Company KPIs and analytics?
  - ☐ Return analytics like IRR, TVPI, DVPI, and RVPI?
  - ☐ Can we see how each metric is calculated?

- How easy is it to add our custom calculations?

- How does the system support valuation analysis?

  - ☐ Does it have built-in support for valuation methods we use (public market equivalent, peer analysis, etc.)?
  - ☐ Can we see the assumptions that underlie the valuation analysis?
  - ☐ How would we build a customized valuation model?
  - ☐ How does it support evaluating multiple scenarios?

Excel integration

- How does the software integrate with Excel?

  - ☐ Does it export files we can import into Excel?
  - ☐ Is there a plug-in that incorporates data directly into formulas?
  - ☐ Does the plug-in update spreadsheets with the most recent data?
  - ☐ Can it push data from the Excel model back into the system for use in reports and dashboards?

- How difficult is it to build a custom spreadsheet that uses portfolio information?
  - ☐ Is there a formula builder that helps construct sheets without referring to documentation?
- What methods are available to filter and select the data from the system that is linked to a spreadsheet?

Distributing Information

Investor relations information
- Can the system generate the investor reports and company tear sheets we need?
- Can we format reports to match our firm's visual style?
- Can we generate company valuations and fund returns in a way that complies with the appropriate regulations?

Integrating with other systems
- Can we export information into our business intelligence, CRM, and accounting systems?
- Does it support the technologies used to connect to our systems?
  - ☐ APIs?
  - ☐ Bulk data feeds?
  - ☐ Webhooks
- Can we exchange data with third-party fund administrators?

Implementation

Installation and support
- Will we need to hire a systems integrator to set up the software and modify it for our needs?
- How will the vendor support us as we use the product?
  - ☐ Will there be a dedicated support team for our firm?
  - ☐ What sort of online reference information is provided?
  - ☐ What real-time support is available?

Financial impact
- What are the vendor's licensing and setup fees?
  - ☐ What will we have to spend on additional software or professional services?
- What do we gain in efficiency from this software?
  - ☐ How much time will we save eliminating manual data handling and correcting?
  - ☐ What is the current drag on the company when dealing with errors and inconsistencies in our data?
  - ☐ Will we have the capacity to expand without increasing headcount?

SUMMARY

The Way Forward

What you just read may seem like a lot of questions to ask about a piece of software. But we can assure you, from years of on-the-ground experience, that each query represents a capability that some firms find essential. Taking the time to identify exactly what your firm needs in a portfolio monitoring system can head off a lot of pain later.

At a high level, however, the differences between portfolio monitoring systems come down to one critical factor: flexibility. Can the system collect and organize all the information you have? Does it enable every member of the team to work in the way they are most comfortable? Can it calculate the exact metrics you need and turn them into reports in your firm's style? And as your firm adapts to changing markets, can the system keep up?

You'll probably discover that some products really are meant to solve part of the problem: ingesting data from portfolio companies. With these, you're still on your own when it comes to analyzing the information, making it available to everyone at the firm, and reporting it in all the ways you need.

Now is a good time to say a word about Cobalt. Our mission is to make every aspect of portfolio monitoring better, not just some functions. Our platform gathers all your data and also makes it useful right away with interactive dashboards and a suite of built-in analytics. It's powerful enough to meet your most exacting requirements through a powerful calculation engine and a sophisticated Excel plug-in.

Don't just take our word for it. Give us a call. Ask your toughest questions. Get a demo of the capabilities that matter most to your firm. Then compare what you see to other options you are considering. We think most firms will see that Cobalt is the best choice.

Regardless of the answer you come up with, however, we are confident that the process we've outlined in this guide will point you toward the decision that will work best for your firm. Once you have your portfolio monitoring solution in place, your firm will be able to keep growing without getting bogged down by inaccurate and hard-to-find information.

Interested in learning more?
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https://www.cobalt.pe/request-a-demo/

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ABOUT COBALT, A FACTSET COMPANY

Cobalt, a FactSet Company, offers a next-generation portfolio monitoring platform that enables private capital firms to efficiently collect, analyze, and report on fund and portfolio company performance metrics and KPIs. Its personalized dashboards, advanced analytics, and on-demand reporting capabilities help general partner clients transform data into actionable insights, address complex limited partner demands, and competitively position their firms to understand what drives fund performance.

ABOUT FACTSET

FactSet (NYSE:FDS | NASDAQ:FDS) helps the financial community to see more, think bigger, and work better. Our digital platform and enterprise solutions deliver financial data, analytics, and open technology to nearly 8,000 global clients, including almost 190,000 individual users. Clients across the buy-side and sell-side as well as wealth managers, private equity firms, and corporations achieve more every day with our comprehensive and connected content, flexible next-generation workflow solutions, and client-centric specialized support. As a member of the S&P 500, we are committed to sustainable growth and have repeatedly scored 100 on the Human Rights Campaign® Corporate Equality Index. We have been recognized amongst the Best Places to Work in 2023 by Glassdoor as a Glassdoor Employees' Choice Award winner. Learn more at www.factset.com and follow us on X and LinkedIn.