

Optimizing Your **Private Markets Operations**

A Comprehensive Toolkit



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Introduction

Fund managers and investors increasingly turning toward the private markets for higher returns are finding unprecedented growth and opportunities for investment in the private credit sector.

Today's managers are vying to carve out their niche in an environment that demands operational excellence at an accelerated pace and a scale never seen before. Yet, many are finding that investing in private credit comes with a distinct set of challenges. Infrequent valuations, difficult-to-assess

credit quality, and unclear risks can make it challenging to get operational processes right. Adding to the complexity, many firms lack a universal standard for middle- and back-office operations, making efficiency and scalability feel even more out of reach.

Over 1,000 private debt funds raising capital

Private debt funds in market, 2011 – 2023



As growth continues at a fast clip, understanding what “good” looks like for your middle- and back-office operations and finding your north star for operational excellence is key.

This toolkit is your curated resource for practical advice, guidance, and information to help your firm optimize operations in the private credit markets.

Understanding the Market Challenges



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Understanding the Market Challenges



Evolving Asset Classes

The private markets are diversifying with new and complex asset classes adding to the operational burden. The complexity demands sophisticated systems and processes that can handle diverse investment strategies and reporting requirements.



Nuanced Retail Market

Publicly traded business development companies (BDCs) have distinct reporting and distribution requirements compared to private investments. Firms must navigate these differences to ensure compliance and efficient operations.



Dated Processes

Information flow, tracking, and reporting often rely on manual data entry and outdated tools such as PDF reports and spreadsheets. Centralizing and storing information digitally can help reduce the risk of errors and create efficiency.



Disparate Service Providers

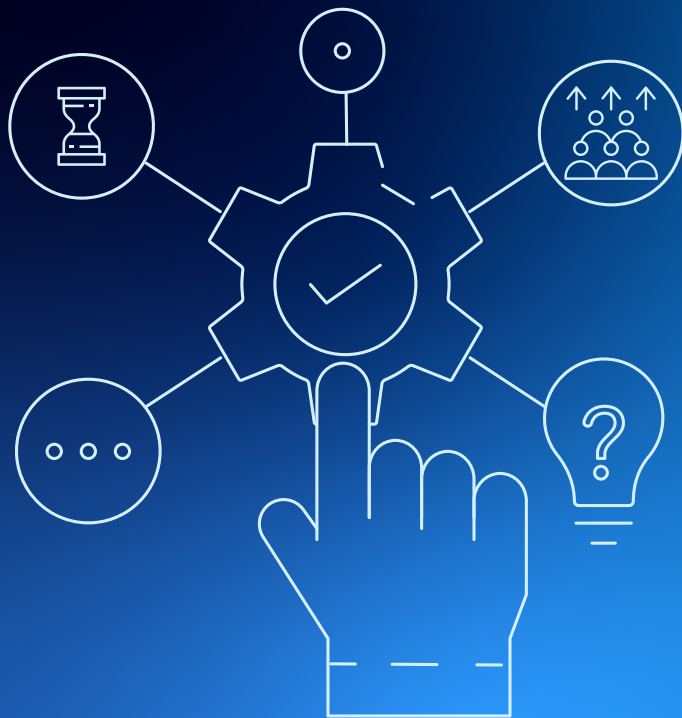
Many private markets firms don't have service providers as established as those in other asset classes such as mutual funds. Disjointed providers can result in reliance on monopolistic vendors or systems that don't provide the right expertise, affecting operational efficiency and innovation.



Deciding to Go Public

For firms considering going public, operational models must adapt to increased regulatory scrutiny and transparency requirements. This transition necessitates a thorough review and, quite frequently, the need to enhance existing processes and systems.

Common Pitfalls and Solutions



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Common Pitfalls and Solutions



Building Point Solutions

A complex network of disparate systems often transpires after firms seek solutions to address immediate needs. This approach is difficult to scale, expensive to maintain, and can create problems with data aggregation due to manual processes and data silos. A holistic approach to system integration and a unified view of data can help create scalable processes.



Hiring Additional Personnel

While increasing headcount may seem like a solution, it introduces key-person risk and often fails to address underlying system inefficiencies. Instead, focus on automating processes and enhancing existing systems to reduce reliance on manual intervention and specialized talent.



Developing Technology In-House

Building technology in-house may seem like the most cost-conscious decision that will get you to market faster. But the end result can wind up putting greater pressure on costs, be unexpectedly time-consuming, or lead to missing critical functionalities due to shortcuts or lack of domain-aware knowledge. Before making any decision, evaluate the cost-benefit of developing in-house versus partnering with technology providers that offer specialized, ready-to-deploy solutions.

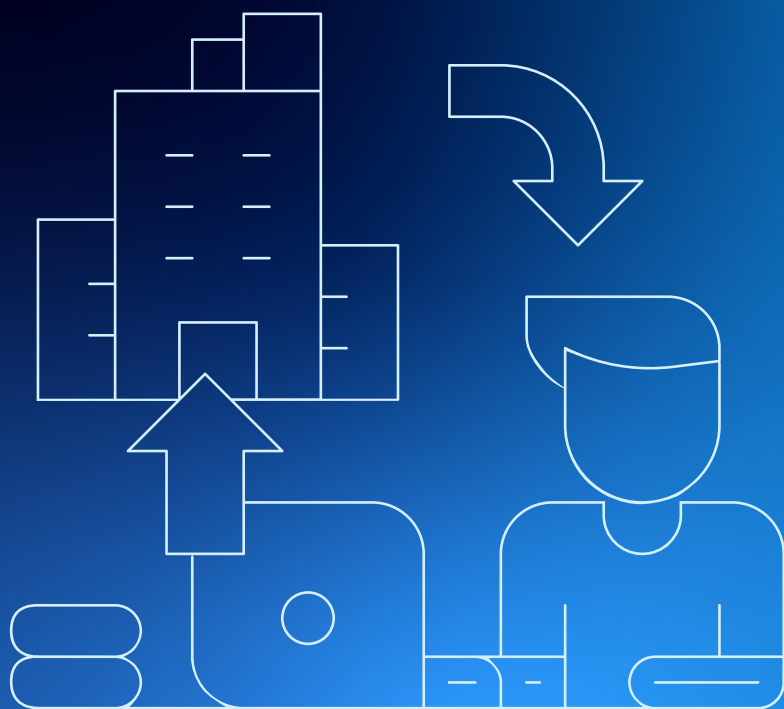


Procrastinating

Easily the most blunt pitfall on our list, delaying operational improvements can lead to compounding inefficiencies and higher costs in the long run. Proactively address operational challenges by prioritizing strategic improvements and investing in technology and processes that support long-term growth.



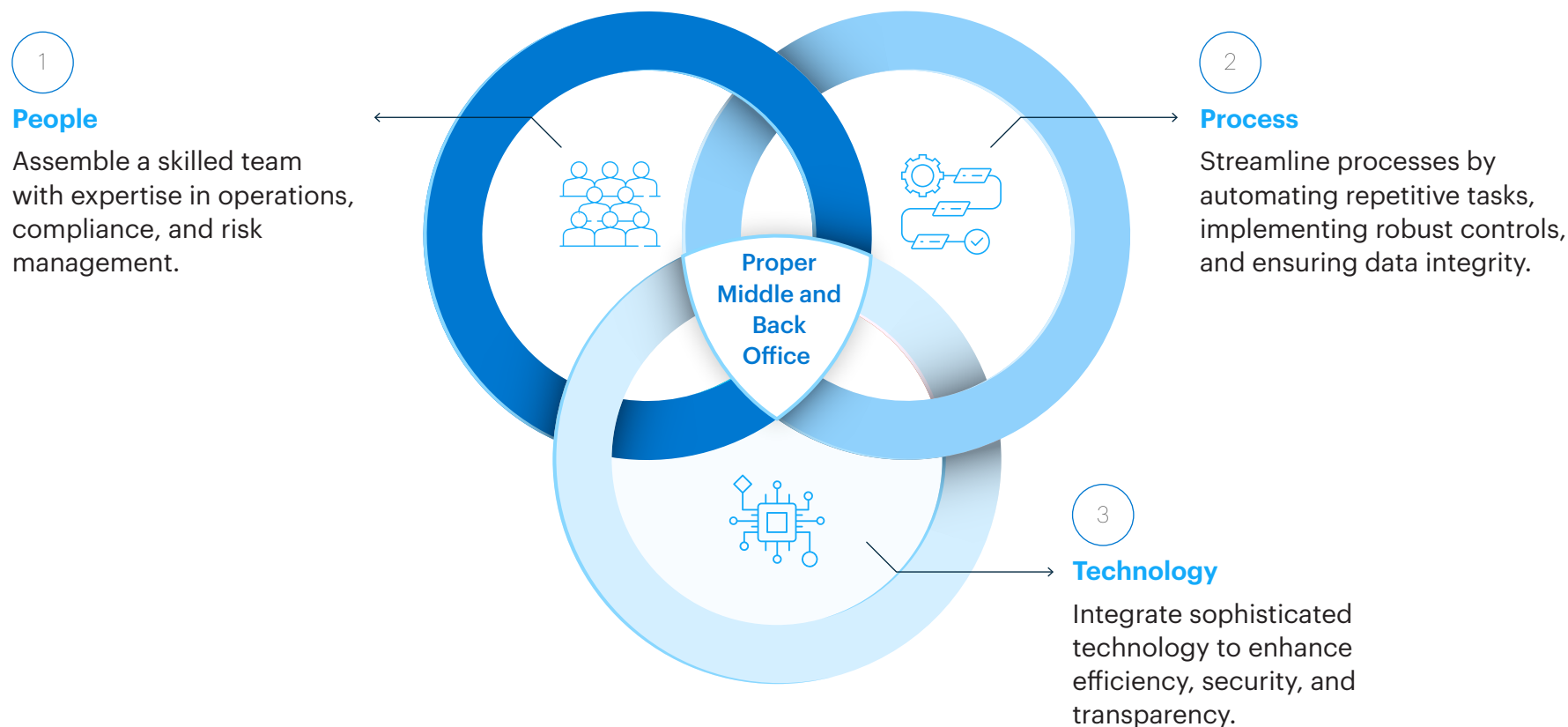
How to Establish a "Proper" Middle and Back Office



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How to Establish a "Proper" Middle and Back Office

What does your north star look like when it comes to building a proper middle and back office for your private credit operations? Aligning three pillars — people, processes, and technology — should be at the crux of your strategy as you work to create resilient and scalable operations.



How to Establish a "Proper" Middle and Back Office

4.1 Optimize Your Team Structure and Roles

Many firms will likely be able to run their operations within one team, rather than creating separate teams for functions like treasury and accounting. Specialization for data management and reconciliation becomes necessary as needs change with increases in operational complexity and new asset classes. However, running data and reconciliation functions in-house can be suboptimal in terms of cost and recruiting pressures. That's why getting team structure and roles in place is so critical. The right partner can act as an extension of your team, handling data processing and reporting while you maintain oversight.

Key Questions to Evaluate:

- Who is overseeing workflows and reporting from various administrators and partners, and do they have a collaborative relationship with providers?
- Do you have the right partners in place to monitor data collection, reconciliation, and reporting?
- Are your administrators and trustees properly supporting risk management, recordkeeping, and reporting?
- Does your operations team truly understand the credit asset classes and their operational nuances?
- Is your data properly tracked by administrators and vendors?

Best Practices:

- Maintain a small, in-house oversight and governance-focused operations team.
- Collaborate closely with service providers to ensure timely and accurate data processing.
- Build a network of in-house teams and external support that brings a deep understanding of credit asset classes and collaborative skills.

Benefits of Optimizing Processes:

- Minimize the impact of staff turnover.
- Flexibility to enable scale as your assets flex up or down.
- Domain knowledge to help your organization evaluate a public offering and its impact on your business.

How to Establish a "Proper" Middle and Back Office

4.2 Instill Operational Excellence

Processes for liquid and illiquid credit investments vary significantly. Dry powder, lifecycle events, performance, and multiple other metrics are tracked differently than those for liquid portfolios. For private loans, reconciliation involves more complex data points and typically multiple parties. Whereas, liquid investments are typically reconciled against one administrator using public data available at the end of every trading day. And that's just one component of operations. A well-defined framework puts your business in a stronger position to instill operational excellence across all investments.

Key Questions to Evaluate:

- Are your fund and investor accounting teams prepared to adjust to additional requirements?
- Have there been instances where you struggle to track cash and liquidity availability? Have you overdrawn accounts?
- Does your investor reporting solution comply with SEC rules? And are you prepared to quickly adjust as new regulations come into effect?
- Do you have any challenges when it comes to maintaining transparency with investors?
- Are your systems able to flexibly scale as your business grows or as your needs change?

Best Practices:

- Establish cash and liquidity management processes that are flexible across strategies to track and execute without overdrawing accounts.
- Institute processes that can scale with growth.
- Leverage outsourcing opportunities while maintaining control and oversight with your in-house teams.

Benefits of Optimizing Processes:

- Ensure accurate tracking and reporting of fund performance.
- Gain transparency into cash and liquidity to effectively fund activities and avoid overdrawing accounts.
- Implement tools to comply with SEC rules and maintain transparency with investors.

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How to Establish a "Proper" Middle and Back Office

4.3 Integrate Robust Technology

A unified source of data can ensure that all stakeholders — from your IR team to your deal team — are using consistent and accurate information in their decision-making. With a single source of truth, your teams and your systems are better equipped to accelerate your time to market and thoughtfully adjust as opportunities and challenges arise.

Key Questions to Evaluate:

- Is your front office able to act in the best interest of your investors with properly aggregated and normalized data? And how is your firm verifying data accuracy?
- Do your teams have tools that let them access data, run analytics and reports, or create dashboards to visually conceptualize the story their data is telling them?
- Do your operational processes support reconciliation, fund and investor accounting, and cash management and wires?
- Is your system prepared for the data models and integrations required to quickly go to market as new opportunities arise?

Best Practices:

- Put your earned trust in a data partner able to integrate systems that minimize total cost of ownership.
- Evaluate the availability of self-service tools that enable your teams to access resources on their own.
- Adopt technology that supports both liquid and illiquid credit management with bespoke solutions that support each investment and the tools to unify the information.
- Regularly update systems to maintain compliance and efficiency.

Benefits of Optimizing Processes:

- Reduce in-house data management by integrating systems that automate tasks.
- Enable stakeholders to access data and generate reports independently.
- Ensure technology supports key processes such as reconciliation, accounting, and cash management and can evolve at the pace your business demands.

Leveraging Partner Support



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Leveraging Partner Support

You'll want to look for a partner that is ready to act as an extension of your team, offering expertise and proactive solutions. Ensure the partner understands your business and the asset classes you invest in (and want to explore) to provide tailored support for your private credit investments.

The right partner can help you reduce the burden of manual processes, provide access to specialized expertise and technology, and allow your internal teams to focus on strategic activities.

Which Model Is Right for Your Business?

- **Non-Expert Vendors:** Cost-effective but may require significant oversight.
- **Expert Partners:** Higher cost but offer comprehensive support with less oversight required.

Finding Your North Star



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Finding Your North Star

While there is no “one size fits all”, optimizing operations in private markets involves a strategic approach to people, processes, and technology. Understanding the unique challenges and common pitfalls can help firms identify opportunities to improve operations and establish best practices that support growth and scalability.



The right partner can work with your team and deliver integrated technology solutions, and thus can play a key role in helping your firm achieve operational excellence. Ultimately, the goal is to create a streamlined, efficient, and compliant operational framework that drives your success in private credit.

Get in Touch

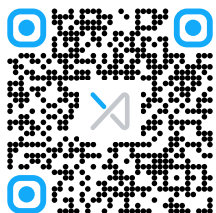
Private markets managers and investors are at an inflection point. As firms raise assets, launch new products, and diversify strategies, they're colliding with an explosion of data, error-prone processes, fragmented systems, and unstable costs. Arcesium helps private markets firms differentiate their business by intelligently integrating the data, analytics, and tools fundamental to creating transformational outcomes.

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