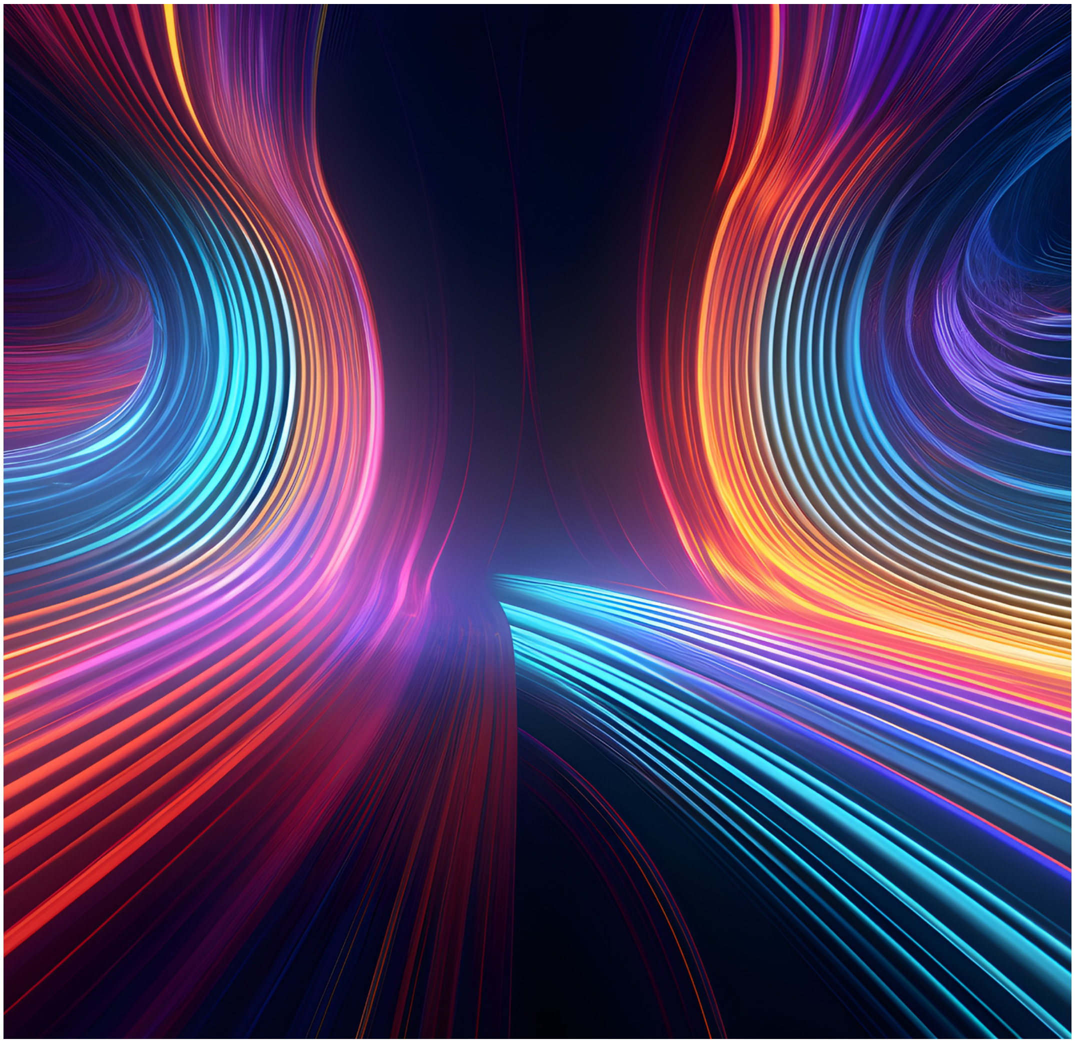


PROCESSING PRIORITIES

Navigating the data ingestion challenges thrown up by private credit – and best practices in fund servicing

The boom in private credit investing has been a key theme on Wall Street since the pandemic. This segment of the alternative investments landscape has grown quickly, particularly in the era of higher interest rates as global economies re-opened. Few expect the trend to reverse: assets in the space will rise to $2.8tn by 2028, almost double the $1.5tn figure of mid-2022, forecasts the data provider Preqin.

The rising opportunity set has been accompanied by an increasing operational burden as buyside firms and the wider financial services ecosystem work together to agree and action best practices in the space.

Fund administration is a prime example. Unlike in hedge fund admin, where the availability of public data, accessible via online feeds and other portals, make it a smooth process, private credit throws up a different set of challenges.

“The lack of public data for private credit means that the data ingestion we require, especially in terms of NAV support as fund admins, is in practice a heavy amount of data transmission,” say Citco Fund Services’s Head of Hedge Funds Europe, Martin McCarthy.

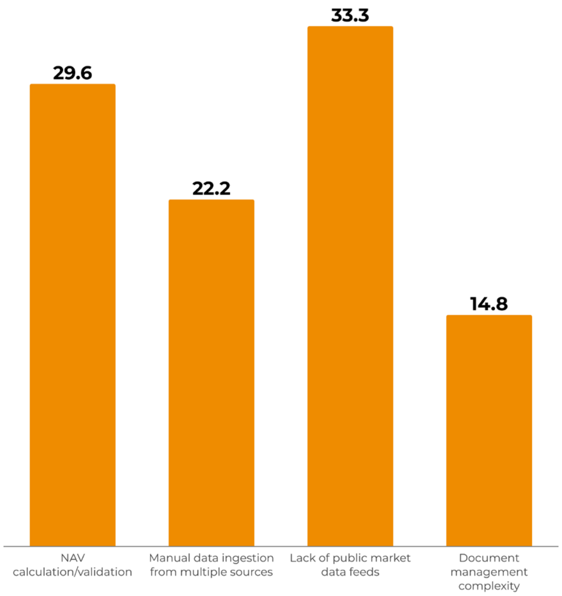
“Much of private credit operates through documents and emails, making it heavy on client interaction, whereas in the public side of the debt market – bank debt – a lot of data can be ingested via market feeds.”

The latest Hedgeweek survey of fund managers reveals the scale of data-related challenges facing the industry. NAV calculation and validation concerns account for 30% of reported challenges, while the lack of public market data feeds emerges as the most significant issue – cited by exactly a third of managers. Other notable challenges include manual data ingestion from multiple sources (22%) and document management complexity (15%).

“There’s such a wide array of information that comes in from disparate sources, from PDFs to Excel spreadsheets and other file types. As a result, under certain circumstances, there may be no central source of truth unless one has a system in place that can track relevant data,” agrees Derek Leo, general counsel and chief compliance officer at Blue Torch Capital, a private credit manager in New York.

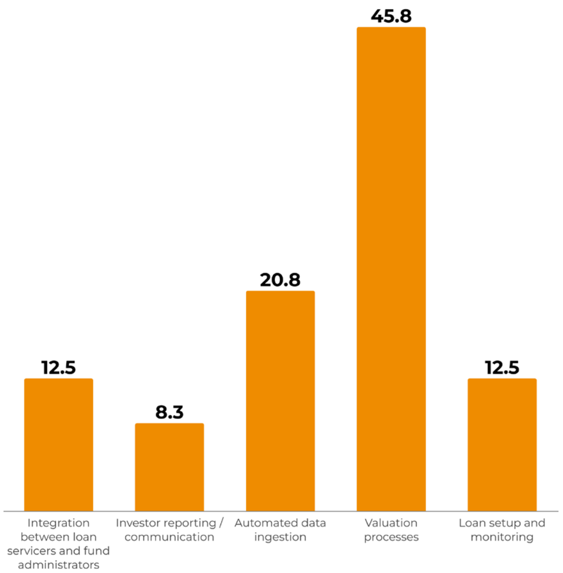
“The lack of public data feeds means valuation isn’t as one might find within a hedge fund, where the fund administrator can potentially provide service based upon readily available value inputs.”

Figure 1 What are the biggest data-related challenges in private credit fund administration?



Source: *Hedgeweek global fund manager survey*

Figure 2 Which aspects of private credit operations require the most improvement for scalability?



Source: *Hedgeweek global fund manager survey*

He adds: "It's the same issue when it comes to trend analysis – looking to extrapolate insights from vast amounts of data is something we are very much interested in at the moment."

Current practice in the industry varies. At Blue Torch: "The fund administrator distributes all the information when it comes to capital calls, subscription documents and other items to investors," says Leo.

Michael Walker, COO at London-based private credit firm, BCI Capital, operates an open-ended credit fund lending to alternative FinTech businesses.

"All borrower communications currently come through the manager," he explains. "It is therefore important to ensure information relevant to the fund administration/NAV is also communicated to the third-party administrator in a timely manner, and often over email."

"Document storage and dissemination is key – each loan agreement can have any number of ancillary financial documents."

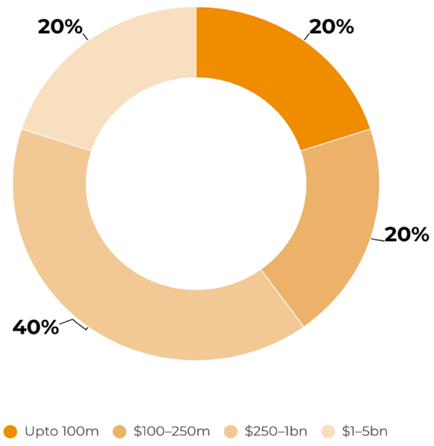
Ops professionals who previously worked in hedge funds can find the information is harder to automate in private credit because there are a lot more legal documents involved. This is also reflected in Hedgeweek survey's findings on scalability issues. Valuation processes emerge as the dominant concern, accounting for 46% of reported challenges followed by automated data ingestion (21%), integration between loan servicers and fund administrators (13%), and loan setup and monitoring (13%). Just over 8% cited investor reporting and communication as a scalability challenge.

The nature of updates is often varied, including legal amendments and updates on interest and fee calculation. Furthermore, each loan is unique and potentially has dynamic fee structures which together make automation harder. Setting up a new loan in the portfolio management system is therefore a reasonably manual exercise, with no external validation –through feeds from Bloomberg, for instance.

"Similarly, 'valuation' is more high-touch – incorporating both quantitative and qualitative updates on borrower performance, which can then be considered by the valuation committee."

The data fund administrators require to do their job and strike NAV in private credit relies on a large amount of data transmission and manual ingestion, which can prove even harder when private credit managers select a loan agent/servicer that is separate to the administrator.

Figure 3 Which fund sizes are backing private credit in 2025?



Source: *Hedgeweek global fund manager survey*

NEW FRONTIERS IN PRIVATE CREDIT

Despite these challenges, there's growing interest in private credit allocation across the fund management space. Mid-sized firms, with AUMs between $250m and $1bn show the strongest appetite, representing 40% of those planning to increase their private credit allocation. The remaining interest is evenly distributed, with firms managing up to $100m, $100-250m, and over $1bn each accounting for 20% of planned increases.

The operational complexity presents one of the key barriers to entry for firms considering private credit investments. While 90% of surveyed hedge funds don't currently operate in private credit, more than half identify operational and data-related challenges as key factors limiting their expansion into the space. The opportunity remains compelling for those able to overcome these operational hurdles.

Martin McCarthy of Citco adds: "Where we help reduce client frustrations is through our servicing and agency arm, which means our loan administration team has a large portion of the data it requires in support of NAV production already to hand. This removes the need for burdensome and inefficient interaction."