HighQ

Law firm success checklist

The questions to ask to make fund formation your competitive advantage

- [ ] How important is efficient investor onboarding to the client experience?
- [ ] What are the implications of time lost and high NIGO rates to the service you offer investor clients?
- [ ] How easy is it to share knowledge and collaborate with colleagues and clients?
- [ ] How secure is your data and how consistent are your processes in a complex and changing regulatory environment?
- [ ] Will improving client lifecycle management with streamlined services enhance engagement?

Thomson Reuters™

The private equity and venture capital industry is at the centre of many law firms' strategic growth plans — and it's little wonder why. These organisations spend on average $35 million on outside counsel for fund- and deal-related work each year.[1] With global assets under management (AUM) forecast to exceed $145 trillion by next year — almost double the levels seen a decade earlier[2] — gaining a greater share of this business is a top priority.

So, having a top-tier fund formation practice is vital. This is a complex, big-ticket area, where regulatory scrutiny is intense, the rules are changing fast, and competition is fierce. Time is often of the essence and clients are demanding. They need to have full confidence not only in your legal expertise, but also in your firm's processes and procedures to minimise risk, ensure compliance, and get investors on board without delay.

However, all too often the investor onboarding process is complex, onerous, and prone to human error. Therefore, it's vital to find a way to simplify and streamline it, making it more efficient and effective, to improve the client experience and strengthen investor relations. By leveraging the right technology solutions, you can provide a superior service from end to end, from initial information gathering to review, drafting, signing, and document storage. That's the way to demonstrate your critical strategic value to clients in the private equity and venture capital world.

Seizing opportunity and managing risk

There are huge opportunities for the private equity industry, but also significant risks. Private equity forms an important part of investors' portfolios, but the market has recently been buffeted by economic headwinds, such as uncertainty over the outlook for growth ahead and a downturn in M&A activity. Added to which, asset managers are being impacted by a substantial amount of regulatory change, including increasing requirements around disclosures in the U.K. Clients are also working with multiple investors across different funds. All of which create a complex landscape which must be handled with dexterity, bearing in mind all the various obligations, needs, and drivers in the mix.

In this environment, asset managers need to adapt to thrive — and they need their external law firms to do likewise. To do so, both must become increasingly tech-enabled. The growing digitalisation including tokenisation, of funds and their assets, is causing the funds industry to have to adapt to new strategies and skills to remain competitive in this space. Technology is already playing a crucial role in deal sourcing, execution and exit, and as a tool to maximise value creation throughout the whole lifecycle of the deal itself. Why not for fund formation?

End-to-end fund formation process

Save time and reduce complexity by streamlining investor onboarding, drafting, and signing to deliver a superior experience to your clients.

Onboard
Accurately and efficiently collect investor profiles and onboard

Review
Easily manage investor requests, workload, and progress

Draft
Automatically draft subscription agreements and other documents

Close
Securely collect and store documents and manage risk

Sign
Manage the signing process and report out

1 Source: Thomson Reuters Institute thomsonreuters.com/en-us/posts/legal/insights-in-action-dispelling-myths-private-equity-venture-capital
2 Source: PwC pwc.com/ng/en/press-room/global-assets-under-management-set-to-rise.html
*2024 Thomson Reuters HighQ Customer ROI Report

In turn, this creates an opportunity for law firms. Leveraging software solutions to provide unique experiences that facilitate collaboration and smooth out the fund formation process should help attract and retain clients, and solve ongoing productivity and profitability challenges. Many firms are already using platforms such as Thomson Reuters® HighQ to create deal rooms and more widely for their M&A transaction management work: the same tools can be repurposed for investor onboarding and other fund formation requirements with very little hassle and no extra cost.

Is it time to reimagine your approach to fund formation? Here are some fundamental questions to ask:

1. How important is efficient investor onboarding to the client experience?

These days, efficiency and accuracy are everything. Get investor onboarding right — quickly and seamlessly — and clients will be happy, compliance will be satisfied, and investor relations will get off to a good start. But mistakes, delays, and unnecessary complications could have the opposite effect. Clients' fund-raising and subsequent M&A efforts rely not just on the attractiveness of their offering, but also on their ability to get investors signed up without a hitch.

Onboarding is a fundamental part of the fund formation process. It's a legal requirement that investors are certified, and that checks are made to make sure that capital comes from legitimate sources. Know Your Customer (KYC) requirements and anti-money laundering rules loom large, among others. Investors may be based in different locations, and their financial affairs may cross borders, so this can be a very challenging task to keep track of.

Gathering all this data manually, verifying it, and inputting it into spreadsheets is very laborious and cumbersome. And this process has to be undertaken multiple times for every investor in the fund.

Instead, why not centralise and standardise everything, and automate as much as possible? Rather than sending out spreadsheets for investors to fill in with all their details, it's much easier if they can log into a dedicated portal and input all the relevant information there, using a pre-prepared intake form. Logic can be built into these questionnaires to make them dynamic in response to investor circumstances, for example, questions could vary depending on region or size of commitment.

In this space, workflows can guide investors through every step of the process, including being given the ability to upload the necessary documents securely, so nothing gets missed or forgotten. And once everything is ready, qualification statements and subscription agreements can be generated automatically and signed electronically.

This makes life easier for them — and for you. Lawyers and clients can gain transparency over incoming requests and real-time visibility over status, minimise risk, and close the onboarding process faster. So your clients can get on with investing their funds.

Ask yourself: How long does it take you to onboard investors? How will leveraging technology to run a smarter onboarding process help your clients stay on top of investor obligations? How can it help you ensure a faultless compliance process? Could you spend more time focusing on value-added work by automating and streamlining onboarding?

> "Having one source of truth and allowing everything to go through one platform has increased efficiency and helped build on our client relationships."
>
> — Global Law Firm

HighQ users experience a 71% improvement in efficiency when addressing client inquiries and requests for status updates.*

2. What are the implications of time lost and high NIGO rates to the service you offer investor clients?

Errors and omissions in investor submissions are the norm, rather than the exception. Not In Good Order (NIGO) error rates are startlingly high with paper applications accounting for 60% of a firms total NIGO rates[3]. Not only is this inefficient, it could put the whole formation of the fund on hold.

3 Source: Nasdaq nasdaq.com/articles/what-is-nigo-and-what-does-it-mean-for-you

*2024 Thomson Reuters HighQ Customer ROI Report

Lawyers often have to go back and forth with each investor to get the information they need, chasing up missing data or re-entering information, which can be frustrating and time-consuming for all concerned. The potential for errors to creep in is huge. Paperwork mounts up, as mistakes have to be recorded and rectified — often by filling out and re-submitting the application forms again, documents may need to be re-scanned, and where necessary, the verification process will need to be re-instigated.

Even if these errors are not your fault, they can still reflect badly on your services because onboarding takes longer and creates extra costs, which the client will have to cover, or you will have to absorb. By contrast, getting everything right first time, as quickly as possible, makes you look good. And your lawyers can relax, knowing everything has been completed in a friction-free, accurate, and compliant manner.

Ask yourself: How are you making sure investors are filling in information completely and accurately? How is this information being reviewed by your legal teams? What are the reputational implications of poor NIGO scores? What more could you do to minimise NIGO error rates and onboard investors correctly first time?

90% of users agree that using HighQ helps them to feel more confident they have not missed any key information/risks.*

3. How easy is it to share knowledge and collaborate with colleagues and clients?

Investing in a fund is a collaborative activity. Investors are pooling resources with others, to be managed by one specialist asset manager, for mutual benefit. Therefore, it makes sense for the legal logistics of fund formation to be similarly collaborative, coordinated by the asset manager's external legal advisers, in a way that is to everyone's advantage.

Using a platform like HighQ to centralise data and document storage, share knowledge such as updates about regulatory changes, and enable lawyers, clients, and investors to work together creates a collaboration hub and a single source of truth for the fund. Everyone can access the information and documents they need, securely, because granular access permissions can be set up to prevent people from seeing or working on anything they shouldn't.

That means your lawyers don't have to spend so much time emailing documents out to various parties, managing the versions that come back and making sure they're looking at the latest copies of a file. They can see when a document has been uploaded or an action has been taken, with no need to chase because reminders and status updates are sent out automatically. Dashboards give them visibility and oversight, and all correspondence and communication happens in the platform, so there's no need to search back through emails to see where things are.

When the stakes are high — as they often are in private equity work — lawyers will appreciate tools that give them more confidence in their matters while simultaneously easing the administrative burden on them. So they can get on with other important work, such as advising clients on investment strategies.

Ask yourself: Is burnout an issue for your busy Funds teams, and is there a way to alleviate this? Can you enable your lawyers to do more with less? How will improved workflows help with your firm's talent and retention strategy? How do you can keep clients updated on regulatory changes and best practices to ensure compliance? Would your clients value a more collaborative approach? How would this benefit your client relationships?

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"The process of sending, receiving, and aggregating the responses to Subscription Agreements requires a great deal of manual intervention by our Fund Formation Associates. The collaborative nature of HighQ will allow us to concurrently manage all phases of this process. Additionally, it will allow for real-time alerts and reporting to ensure investor applications are filled out properly. Future development will allow us to consider managing multiple closings and the side letter process."

— Head of KM, Law Firm*

94% say HighQ has improved collaboration and communication with their clients.*

4. How secure is your data and how consistent are your processes in a complex and changing regulatory environment?

The inherent complexity of setting up a fund is compounded when the rules around compliance requirements are constantly changing, and differ when investors, fund managers, and assets are located in various jurisdictions around the world. While it's vital to keep abreast of evolving rules, it's also important to maintain consistency in your processes to ensure nothing gets missed, repeated or done differently along the fund formation pathway. Moreover, maintaining data security is paramount.

Process consistency can be more easily achieved when people are using tools that have been designed for a specific purpose and that put a standardised framework around the ways things are done. For example, data intake will be much more consistent when everyone is using a set questionnaire, which guides them through the information they need to provide and how they should provide it, rather than letting them fill in a spreadsheet in more of a free format.

Similarly, if they are prompted by tech tools to submit specific documentation via a portal, it will be stored in the right place where all the relevant people can find it — there's no opportunity for anyone to save files in unexpected places. Tasks are less likely to get forgotten if an automatic reminder is sent out to the relevant person in good time.

When it comes to data protection, using a portal to input and relay information is a much more secure option than emailing information and files, as these can often get misdirected, lost, or even hacked. The best software providers will have already invested heavily in cybersecurity and should have built degrees of access rights into their tools, so that you can restrict access to specific files and information, or make files 'read-only' depending on the user.

Ask yourself: How great are the risks if you are emailing sensitive or confidential information back and forth? Is there a better way? Is there room to improve consistency by standardising intake forms and other fund formation processes? Could more automation and even deploying artificial intelligence (AI) revolutionise your offering?

"[HighQ is a] self-contained portal allowing for conversation and collaboration on documents all in one place instead of being littered over many emails, Teams chats, elsewhere!"

— Innovation/KM Professional

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5. Will improving client lifecycle management with streamlined services enhance engagement?

People love it when things just work, and it's frustrating when they don't. There may be very good reasons why the onboarding process has got held up along the way, but clients want results, not excuses. Investors don't want hurdles in their way. Problems signing off on the commitment of just one investor could have a knock-on effect on the rest of the fund.

Providing clients and investors with an easy, streamlined way to complete the process not only makes things quicker — it should also enhance engagement because the irritation factor has been eliminated. They don't need to worry about the hassle involved because it has been minimised from start to finish thanks to a centralised point of access for information submission, documents, workflows, helpful guidance, visibility over status, and signing capabilities. And neither do your lawyers.

Moreover, using a platform like HighQ can provide you with vital data analytics that can help you shape your client offering to further enhance engagement in processes and reinforce bonds with clients. For example, it can give you insights that could change how you advise on strategy, or enable you to identify new opportunities to add more value to the service you're providing.

When clients are engaged, they are more likely to keep using your firm for their fund formation, M&A, and wider legal work. Giving them their own bespoke platform where everything is delivered from end to end is a great way to make those relationships 'stickier', and increase your share of their legal spend.

Ask yourself: How does your firm use data and analytics to deliver client insights? Do you have a way to get visibility into key metrics around funds? Could smarter services help you optimise your client experience? Will offering a streamlined digital end-to-end investor onboarding service with transparency throughout help to grow and retain your client base?

> "We have been able to streamline processes using HighQ to better cater to individual client needs and it's been very beneficial."
>
> — Global Law Firm

*2024 Thomson Reuters HighQ Customer ROI Report

Conclusion

Investor onboarding is a critical process from intake to close, and it's vital to get it right in a timely manner. Clients can't afford for errors and delays to slow things down or put compliance at risk. They are relying on their lawyers to lay solid foundations for their fund at its inception, and set the tone for investor relations going forward.

Fund formation solutions from Thomson Reuters HighQ can help law firms streamline the investor onboarding, document drafting, signing, and storage processes — all while managing risks and ensuring compliance with all the necessary regulatory requirements. Plus, it can also have wider use-cases such as being used for deal rooms or for transaction management, enabling you to provide a one-stop shop for all your private equity clients' requirements.

Learn more about how fund formation capabilities in HighQ can help you add even more value to your private equity and venture capital clients.

See HighQ in action

Request a demo

"More than ever, law firms need to demonstrate their critical strategic value to clients in the private equity and venture capital worlds. From deal sourcing, execution, and exit, the role of next-generation technology for fund formation is one compelling way to do that. The recent notable hiring in the second half of 2024 by firms to bolster their investment funds teams highlights those poised to seek competitive advantage."

– Elena Folkes, Market Development Director, Thomson Reuters

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Thomson Reuters fund formation

If you're ready to evaluate a new way to handle fund formation, **request a demo**.

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