Operational excellence: one path or many?

Key findings from the 2018 Global Private Equity Survey

For the complete survey findings, go to ey.com/pesurvey
Private equity CFOs look for various ways to improve operational efficiency

They’re facing investor pressures and margin erosion

73% of CFOs said their private equity firms have experienced pressure from investors to reduce management fees
31% of private equity CFOs said they have experienced some form of margin erosion

19% of CFOs said their firms have neutralized margin erosion by strategically cutting expenses and growing topline revenue
They prefer to focus their time on strategic, value-add activities:

| Investment portfolio analytics | Technology transformation | Investor relations |
Meanwhile, capital continues to pour into private equity firms:

55% of CFOs said they expect to raise a new fund this year.

60% of those CFOs expect the fund to be larger than the last fund raised.
Next-generation technology is a valuable opportunity for PE firms

CFOs said they are in the early stages of tech transformation, especially:

- 51% management reporting/portfolio analysis
- 53% valuation technology
Private equity firms find implementing technology very difficult. The most challenging systems to date include:

- 83% fund accounting
- 75% management reporting
Despite the difficulties incorporating new technology, two-thirds of CFOs said they invest or plan to invest in next-generation technology.
Next-generation technology in which PE firms are currently investing includes:

- **37%** digital data delivery
- **20%** advanced predictive analytics
- **4%** robotics*

*14% plan to invest in robotics
Talent management is still the highest strategic priority besides growth for PE firms.

CFOs prefer a 3:1 ratio of investment professionals to finance professionals.

41% of CFOs prefer this ratio.
21% of CFOs currently have this ratio in place
Talent management is seen as a challenge for private equity firms

47% of all firms also identified talent attrition as a top risk

35% of CFOs find it difficult to attract talent in finance functions
CFOs are much more confident in their current pipeline of future investment leaders (76%) than they are in their future finance team leaders (54%).

76% confident they have the future investment leader currently employed

54% confident they have the future finance leader currently employed
CFOs view outsourcing as a way to shift finance teams’ tactical responsibilities to more value-add activities.

If a “perfect” outsourcing model existed, CFOs believe that the most valuable areas for ongoing success when shifting tactical finance to a third party are:

67% fund accounting
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67% tax

62% regulatory compliance
Tax is leading the way in outsourcing

On average, PE firms outsource 70% of their tax function

But they are keeping investor-facing tax functions (investor onboarding, investor tax questions) largely in-house.
Cybersecurity breaches are a matter of “when,” not “if”

22% of private equity firms surveyed reported they have experienced a cybersecurity breach

58% of those breaches were considered at least moderately serious
70% of private equity firms rely upon externally developed intelligence products to monitor cybersecurity.
Additional steps that private equity firms are taking to improve their cybersecurity include:

- 87% employee training
- 80% email monitoring
- 80% external vendors to perform ethical hacks
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