

# Operational excellence: one path or many?

Private equity firms face different challenges and obstacles as they seek to arrive at a common goal of operational excellence.

2018 Global Private Equity Survey



Building a better working world

The better the question. The better the answer. The better the world works.



### **With appreciation ...**

We would like to express our appreciation to the 110 private equity CFOs who offered us their valuable insights and observations. In this report, we seek to identify how private equity firms are shaping their operations in order to achieve sustainable, operational efficiency in their finance offices. We believe these insights will assist stakeholders in making informed decisions as they continue to build toward a scalable finance solution.



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# Executive summary



As private equity firms aggressively seek new opportunities to grow their portfolios and their business, they are keenly aware of the pressures expansion and investor requests are placing upon their organizations. Given the significance that financial operations play at private equity firms, chief financial officers (CFOs) often occupy a pivotal role as the ones responsible for making certain that their firms maintain their competitive edge by operating at a high state of operational resilience and efficiency. CFOs have the key responsibility for technology transformation, oversight of talent and pursuing outsourcing arrangements that would allow their organizations to be highly efficient and scalable.

## Executive summary

Thanks in large part to the high returns generated by most private equity asset classes, the private equity industry continued to raise capital at record levels in 2017, bringing in more than \$640b in new commitments. Dealing with the increased asset levels has come with certain challenges for CFOs. Investors' demands for higher returns at lower fees, internal and external requests for more customized portfolio analysis, and dealing with increased regulatory and compliance demands have required CFOs to re-evaluate their finance functions to manage these increased demands. In fact, the demands are only likely to intensify in coming years as the competition for private equity capital continues to grow.

In this, our fifth annual Global Private Equity Survey, we explore the different paths that CFOs are taking to make certain that their firms continue to become even more efficient in their operations as they grow. In last year's survey, we noted that private equity firms had assembled the raw materials and developed a blueprint to address these operational challenges. Now as CFOs across the board begin taking steps to implement more scalable and efficient operations, it is becoming increasingly clear that private equity firms are seeking operational success via different pathways depending on their specific needs.

For example, larger private equity firms, those with assets under management (AUM) in excess of \$15b, consider technology transformation and talent development as key priorities, while mid-sized firms are investing in technology where they can but are taking on the increased workload with their people if it is deemed to be more cost-efficient. On the other hand, smaller firms, those with AUM of less than \$2.5b, are more likely to invest in human capital rather than implement new technology and are more likely to view outsourcing as a viable alternative.

Regardless of size, asset growth remains the number one strategic priority across the private equity industry, with talent management not far behind. However, the relative size of the firm often dictates which path CFOs take to achieve their desired growth while trying to keep costs inline. As CFOs keep a close eye on the operational success of their organization, they largely focus their efforts in three broad categories: technology transformation, talent management and outsourcing.

## Technology transformation

Admittedly, the technology infrastructure of many private equity firms lags that of their peers within the financial services industry (banks, diversified asset managers, etc.). Although larger firms are often further along the continuum in terms of planning for and implementing leading class technology, few are satisfied with where they are versus where they need to be. Even so, these larger firms are embracing the need to upgrade legacy systems while also taking the first steps to understand and invest in next-generation technology (digital data delivery, advanced analytics and robotics). Taking these steps will help private equity firms effectively leverage their talent to meet investor demands for higher returns and do so in a cost-efficient manner. On the opposite end of the spectrum, many smaller firms lack the necessary resources to implement major technology projects, so they continue to deal with the increased demands with high-performing people or through outsourced technologies.

### Talent management

Most firms reaffirmed that talent management remains their top priority. As a comfort with advanced technology and quantitative skills becomes increasingly important, some firms are starting to compete for talent for particular finance roles not only with other private equity firms, but also from hedge funds, FinTech firms and even firms within the broader technology ecosystem. In response to this pressure, CFOs are focused not only on compensation, but also on building the infrastructure to provide a more structured path for retaining and promoting high performers. For example, many firms have instituted rotational opportunities within their firm, implemented formal career development planning for employees and recognized work-life balance as a critical component of talent management. Nevertheless, the overall competition for talent shows no signs of abating, and private equity firms will need to continue to employ, and continually improve, robust talent management strategies.

### Outsourcing

The final path that CFOs are contemplating to provide operational success is outsourcing functions. Full-scope outsourcing is largely confined to smaller firms that lack the scale to insource key business functions. Outsourcing enables smaller firms to gain operational efficiency and remain competitive without having to make significant up-front investments in technology or talent. Our survey shows that although larger firms are outsourcing at least some fund accounting and tax functions, outsourcing has not proven yet to be a panacea, and many are not satisfied with the current solutions available to them (despite seeing the potential benefits of outsourcing). As a result, larger firms are hesitant to trust critical functions with third-party providers. As private equity firms approach larger sizes, they are beginning to think about their operating model as it relates to outsourcing for certain finance functions. In doing so, they are starting to weigh the continued investment in technology versus onboarding data to an external administrator and allowing a third party to control their valuable information. In the coming years, third-party service providers will be challenged to meet the expectations of larger firms that are, by their nature, more complex and place significant demands on their providers.

## Final thoughts

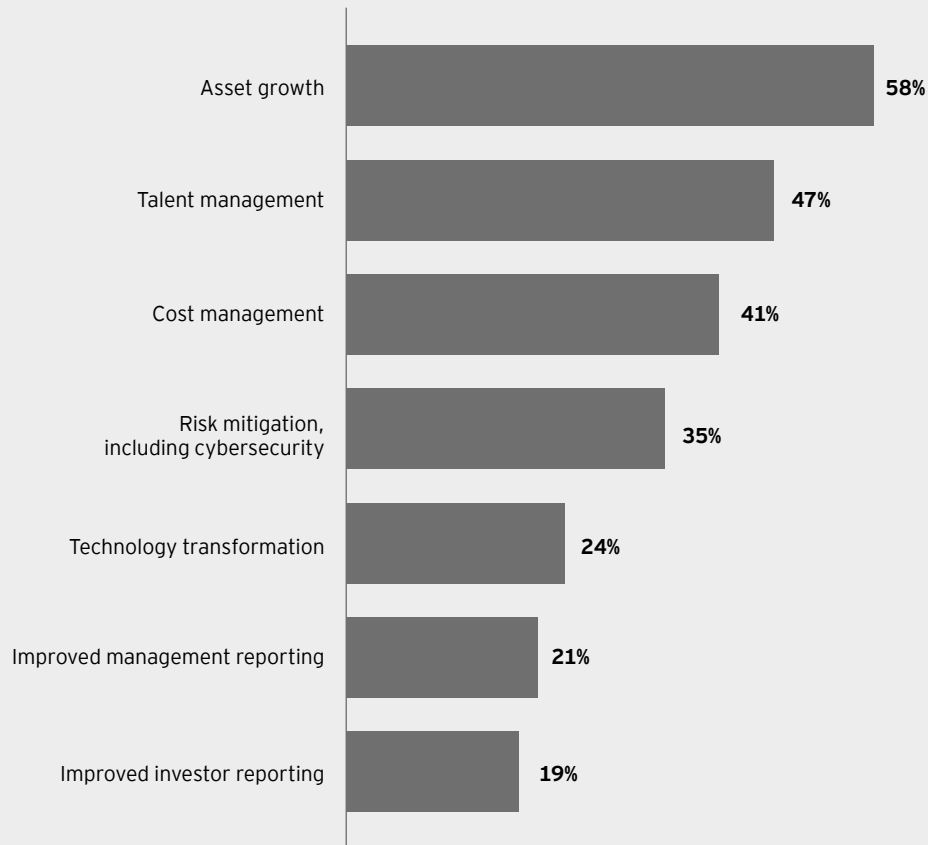


At this time, few private equity firms can claim to have a perfect operational system in place within their finance functions. As we talked to CFOs who participated in our survey, it was clear that addressing operational efficiency in a period of asset growth is a major priority. There are two reasons that CFOs are focused on achieving a level of operational maturity:

- ▶ They recognize it's a critical step in helping their organization compete for talent and investment capital in the years ahead.
- ▶ They are eager to have more latitude to help their organizations focus on value-add activities such as investment strategy, investor relations and other emerging concerns such as cybersecurity.

While achieving operational maturity is still a few years away for most private equity firms, CFOs are increasingly confident that they will be taking major strides toward making their organizations more scalable, competitive and efficient in 2018.

## What are your top strategic priorities?



AUM compared to composite results	Under \$2.5b	\$2.5b-\$15b	Over \$15b
Asset growth	=	=	=
Talent management	+	+	=
Cost management	+	-	=
Risk mitigation, including cybersecurity	+	=	=
Technology transformation	-	=	+
Improved management reporting	=	+	=
Improved investor reporting	=	=	=

Key: + Higher priority - Lower priority = Same priority

# Importance of operational efficiency



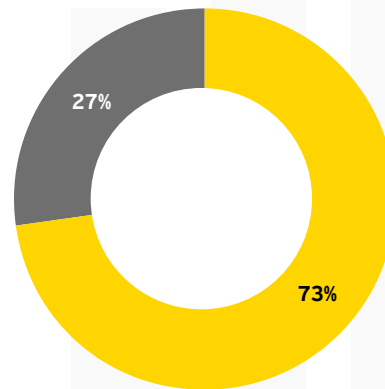


## Importance of operational efficiency

Approximately three out of four private equity firms surveyed indicated that they have experienced significant pressure from investors to reduce management fees. This tracks with trends in the asset management industry as a whole. In turn, about one out of every three private equity managers has experienced margin reductions as a result of those pressures on fees. For now, half of the private equity firms have been able to stave off these fee reduction pressures either by demonstrating the value of their unique strategy or through strong historical investment performance. Although many private equity firms have maintained their current fee levels, many also reported that they are facing increasing pressure on margins due to the costs of increased regulation, limited partner information requests, asset growth and additional market information. Although half of the CFOs surveyed have reported that their firm has maintained their margins so far, 31% of CFOs have experienced some form of margin erosion and the remaining 19% have had their margins threatened but offset the pressure by strategically cutting expenses or rapidly growing top-line revenue.

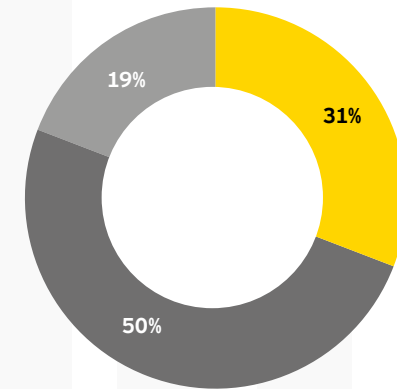
## Pressures leading to reduced margins

Has your firm experienced investor pressure to reduce management fees?



■ Yes  
■ No

Has your firm experienced margin erosion?



■ Experiencing margin erosion  
■ Maintaining margin - no fee reductions  
■ Maintaining margin through top-line growth and other expense cuts

## Importance of operational efficiency

Private equity fundraising reached a record in 2017, with more than 900 separate vehicles closing on an aggregate \$637b in commitments, up 5% from last year, and exceeding the 2007–08 prior market peak. As a result, it is not surprising that, consistent with the prior survey results, 55% of CFOs surveyed expect to raise a new fund in 2018. Of the private equity firms that reported expecting to raise a fund in 2018, 60% expect the fund to be larger than the last fund raised.

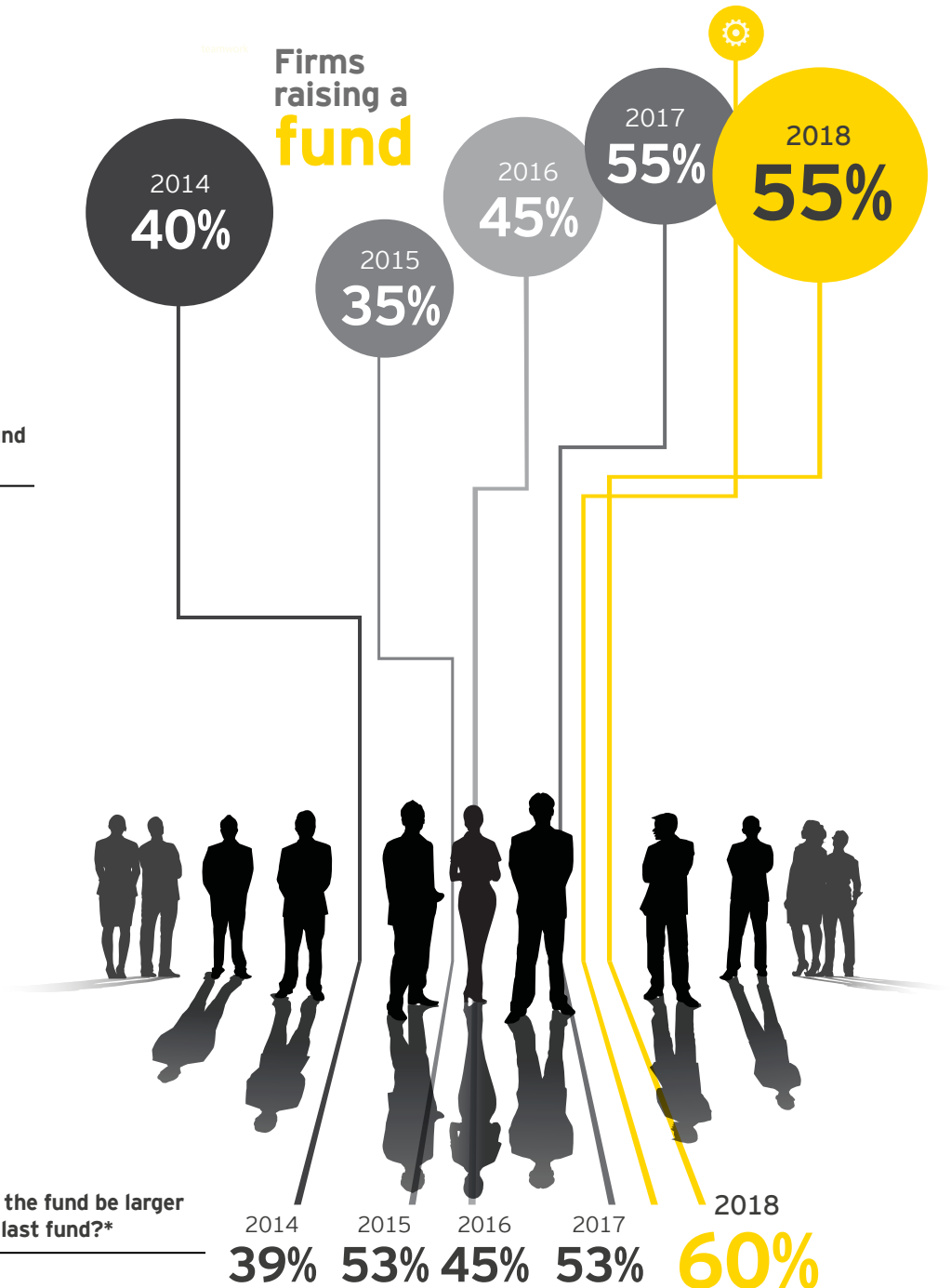
The outlook for fundraising remains strong. Private equity investors plan to allocate more money to more managers. Over the next three years investors plan to increase the average size of private equity commitments and plan to increase their private equity manager count.

As fundraising continues at record rates, CFOs will need to address their finance functions for this record growth by evaluating the various strategies to achieve the goal of becoming operationally efficient and scalable.

## Capital still pouring in

Are you raising a new fund in the coming year?\*

If yes, will the fund be larger than your last fund?\*



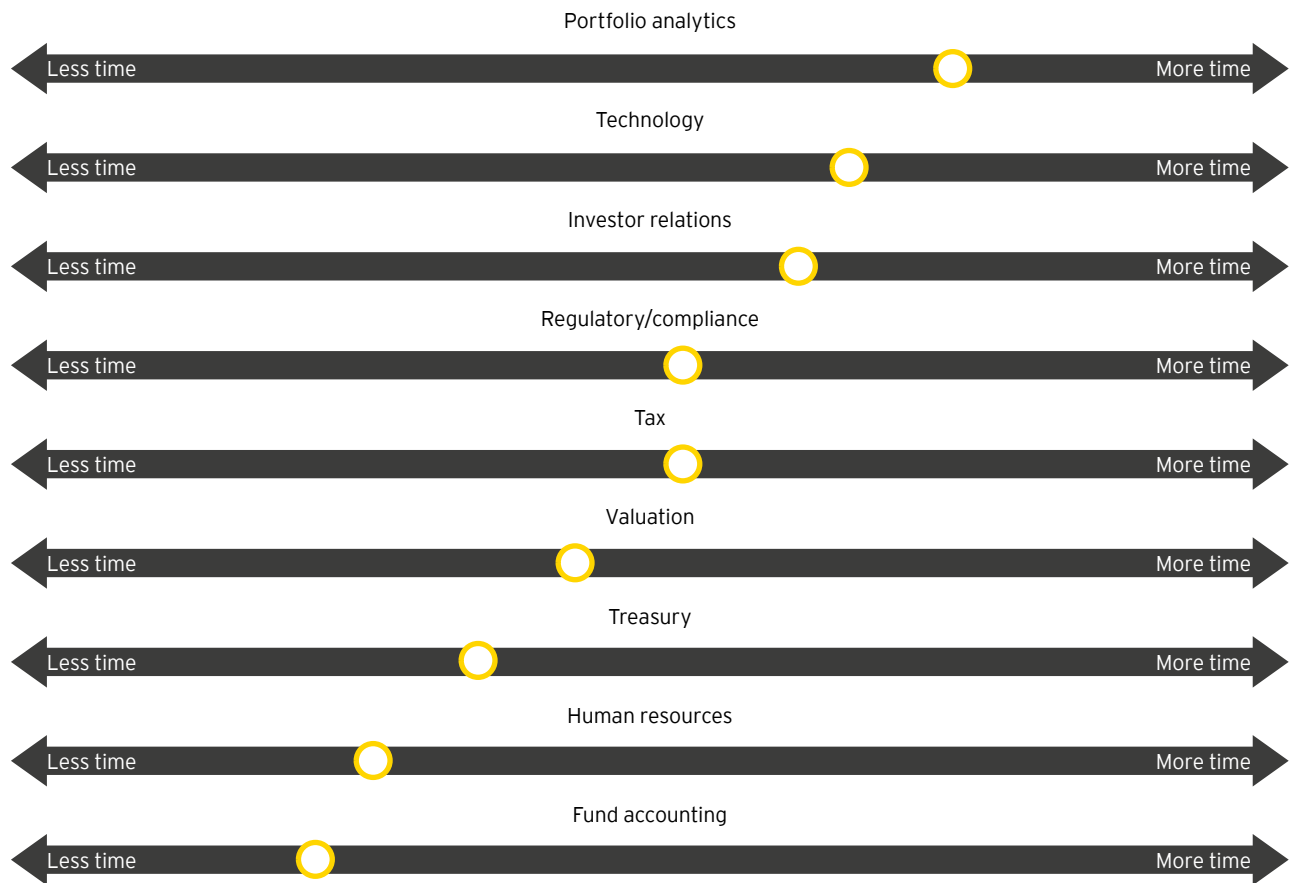
\*Historical responses prior to 2018.

## Importance of operational efficiency

With private equity firms seeking to achieve operational efficiency through some combination of technology transformation, talent management and outsourcing, industry CFOs, no matter how large their firm, tend to agree that they and their teams would be better off spending more time on strategic, value-added activities rather than on more routine areas (that are generally viewed as cost centers). CFOs would rather have their teams focus on investment portfolio analytics and investor relations because these areas are viewed as more accretive to revenue growth and more forward looking. Routine areas such as fund accounting, treasury and human resources rarely have a direct impact on front office or value creation and tend to cover more routine, less strategic activities.

## Shift in focus to value-add functions

Where do CFOs want their teams spending time?





























## Importance of operational efficiency

Private equity firms often must contend with a varying array of operational complexities, often the result of initial decisions to adapt to a changing regulatory and business environment. While operational success is a common goal of all firms, the manner in which they achieve this success may depend on the maturity and the relative size of the organization.

In the survey, we found a common trend among larger firms as they are increasingly turning to technological solutions to achieve operational efficiencies in many functional areas. Although very few of the largest firms currently see outsourcing as a viable option, they are educating themselves on the comparison of outsourcing to further investment in advanced technologies internally. For smaller firms, outsourcing and headcount are the primary paths being taken to increase operational efficiency and scalability.

## Adapting to achieve operational success

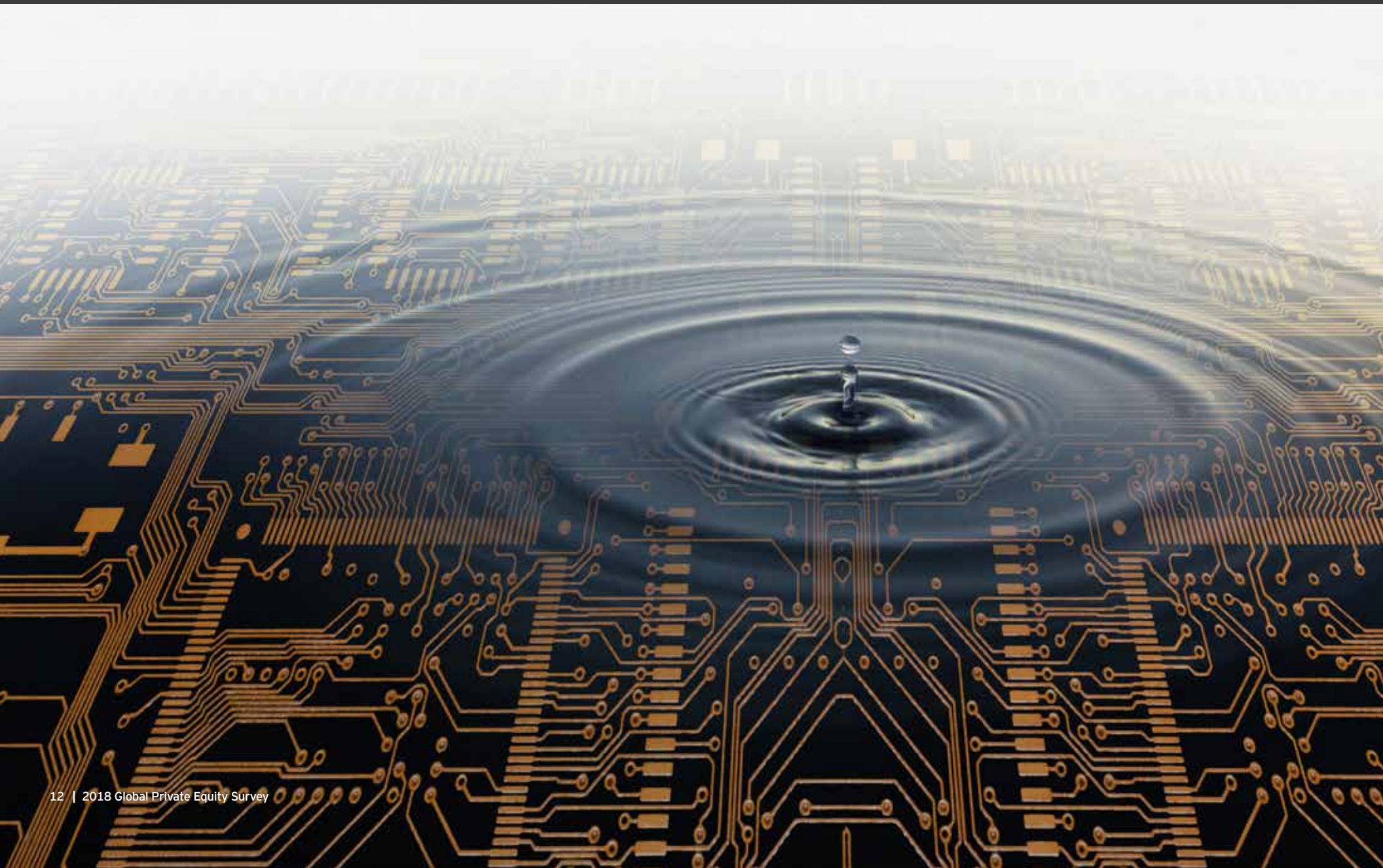
What is your strategy for achieving operational success?

Strategy	People	Outsourcing	Technology
	Under \$2.5b	\$2.5b-\$15b	Over \$15b
Fund accounting	 	 	
Investor relations			 
Tax	 	 	
Regulatory	 		
Portfolio analysis			
Valuation		 	 



As fundraising continues at record rates, CFOs will need to address their finance functions for this record growth by evaluating the various strategies to achieve the goal of becoming operationally efficient and scalable.

# Technology



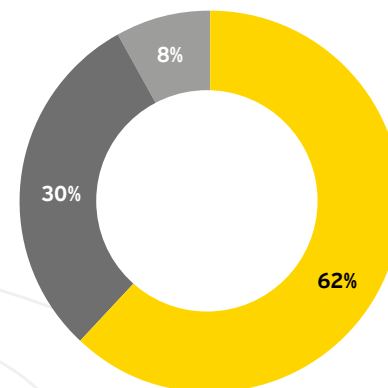
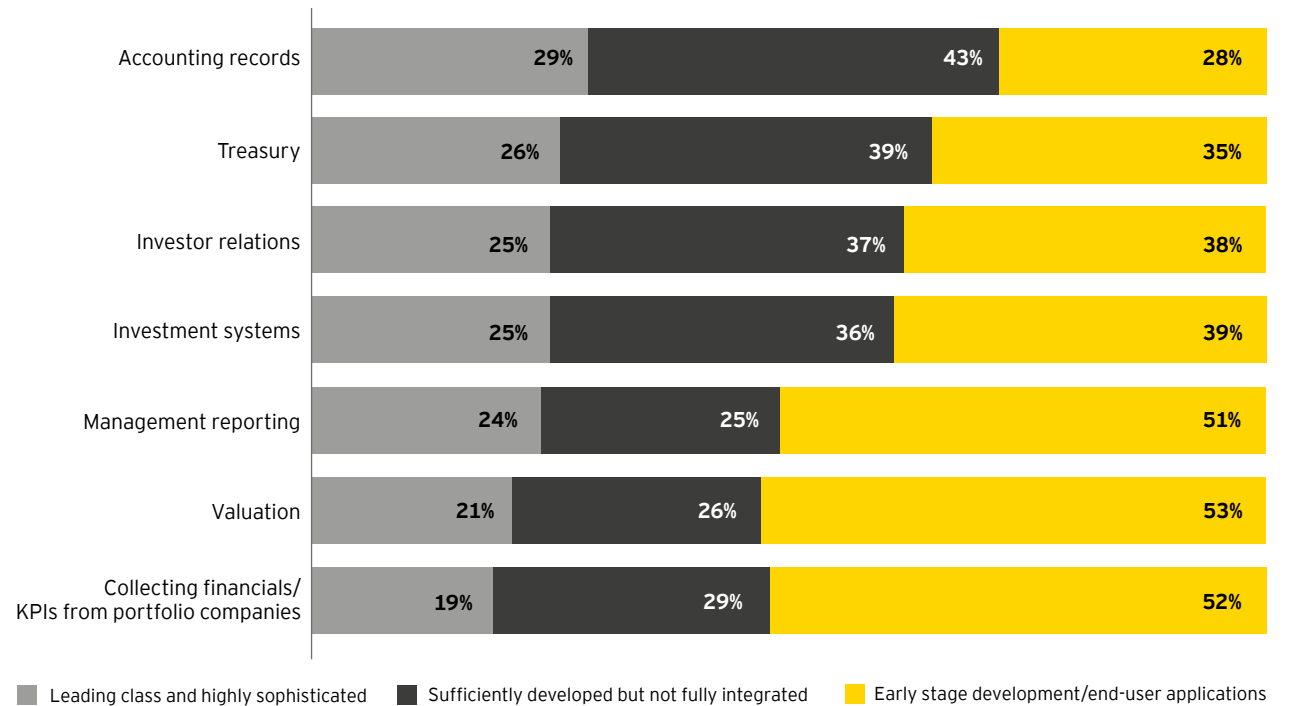
## Technology

### Many firms still need to improve technology

Across the board, private equity firms still view their technology environment as in the relatively early stages of development, which means they also recognized significant future investment opportunities to adopt leading-class and advanced solutions. In particular, private equity firms noted that management reporting systems and valuation support technology are furthest behind the curve, whereas firms' accounting systems tend to be further along in development.

Private equity firms also viewed data integration as lacking, with more than 60% of CFOs reporting that their data was not at all integrated across the organization. Forward-looking private equity firms understand that harnessing and managing data is rapidly becoming a must-have capability, however. For those firms, integrating systems and replacing spreadsheets have emerged as top priorities. CFOs have come to realize that manual data entry and reporting via spreadsheet are not an effective use of resources – almost 80% of CFOs said that use of spreadsheets as data sources was a top management concern.

How advanced is your technology environment?



How integrated are your data systems?

- Not integrated
- Somewhat integrated
- Fully integrated

## Technology

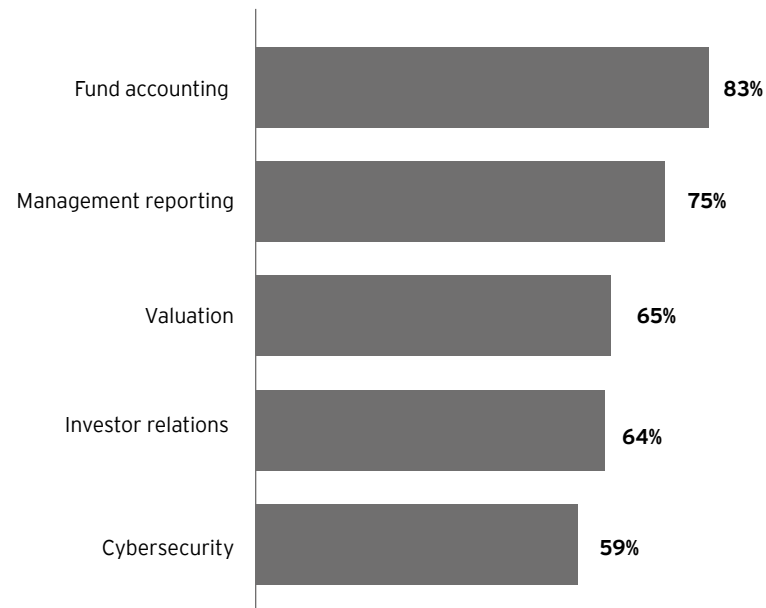
Even though technology represents a key priority for many larger firms, few CFOs were completely confident that their organizations could easily implement new technology solutions, particularly those required to support new fund accounting systems.

Implementations for accounting systems tend to be challenging due to the complexities of the legal entity structures, historical data needs (for existing fund conversions), specialized reporting and complex investor allocation calculations. As many firms expand across asset classes these complexities are exacerbated. Collaboration between the finance team and the information technology team members is becoming increasingly important, as is hiring finance team members with a certain level of IT knowledge.

Nearly two-thirds of the firms surveyed noted that it is either moderately or very difficult to deploy investor relations systems, another high priority for private equity firms. A well thought out implementation that considers internal policy standards, regulatory requirements and formal governance is critical.

## Challenges with implementation

What areas are most challenging to implement technology systems?





# Technology

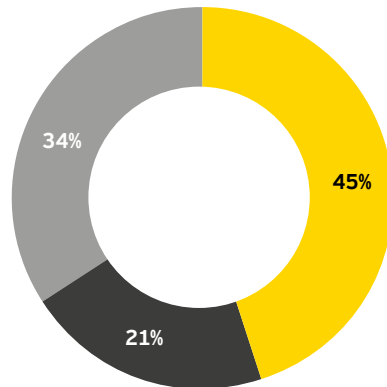
Even though private equity firms are admittedly behind the curve when it comes to their technology environment, more than 65% of them are currently investing in (or plan to invest in) emerging technologies such as digital data delivery, advanced analytics or robotics. However, a significant proportion of these investments are likely driven by a desire to “catch up” to their peers in the broader financial services industry as opposed to being truly innovative.

More than one in three firms are currently investing in digital data delivery, while a similar number said they either plan to or make further investments here. Enhanced digital delivery can be achieved incrementally, however, and within the alternatives segment firms are moving to adapt more competitive capabilities such as self-service client reporting portals.

Firms in the broader alternative segment are investing heavily in advanced/predictive analytics across the front office, whereas only 20% of private equity firms are currently doing so. In the near future, one in three companies said they plan to invest on scenario analysis technologies and advanced analytics.

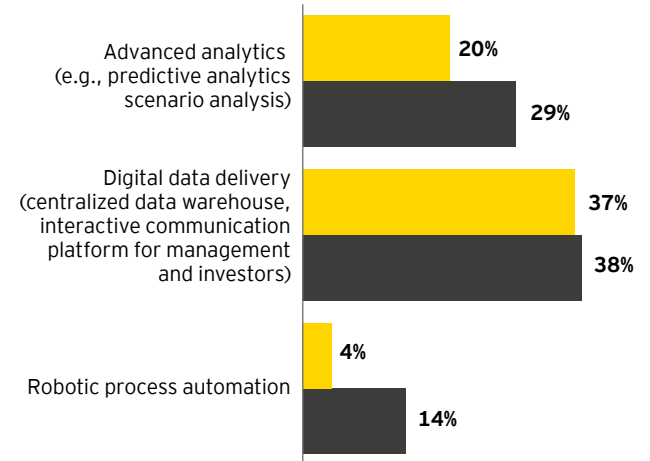
## Investments in emerging technology solutions

Are you investing in next-generation technology?



- Currently invest
- Plan to invest
- Do not currently invest or plan to invest

In which areas are you investing?



- Currently invest
- Plan to invest

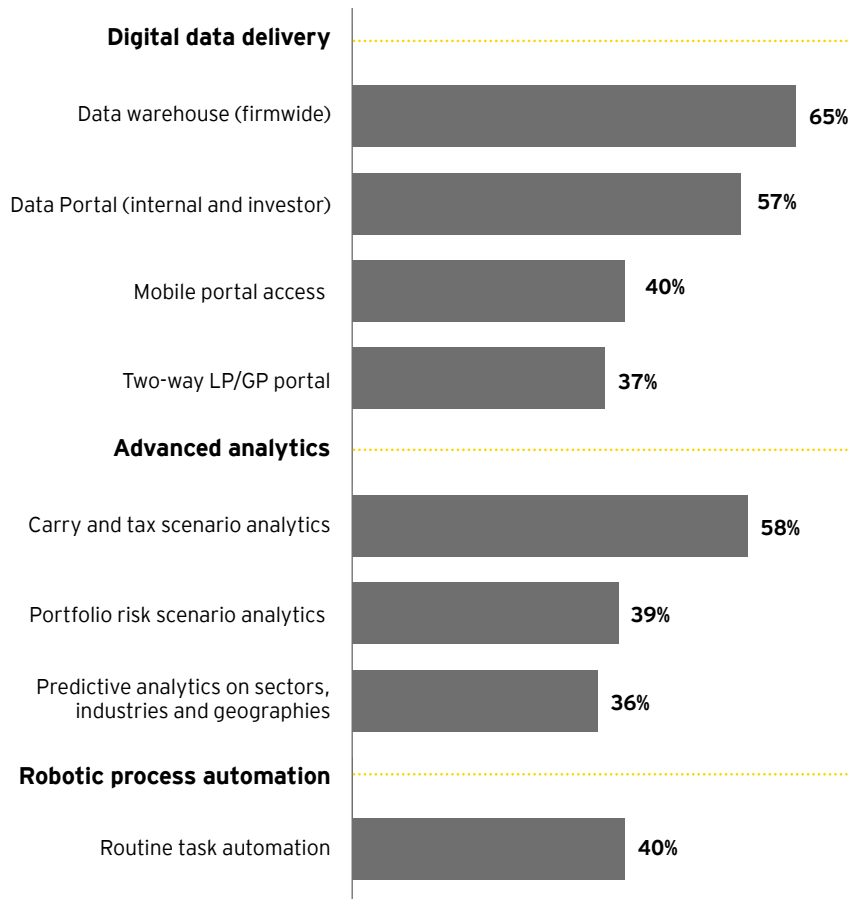
As private equity firms begin to invest in advanced technology solutions, they see the greatest value in building a core infrastructure (such as a centralized data warehouse) that establishes a foundation for other innovative capabilities, including better investor data delivery and advanced analytics, such as scenario analysis.

Advanced analytics ranks second on the value-added scale, especially scenario analytics across the front and back offices. Specifically, companies see value in being able to run scenario analysis and assess risks on their portfolios, with the ability to gain investment insight a close second.

Looking ahead, we may see the next wave of innovation and emerging technologies expanding to include more advanced portfolio analytics (after the core data modeling, portal and fund scenario modeling are addressed). Many firms still consider robotic process automation to be in a wait-and-see mode and are just beginning to explore the capabilities and use cases to automate routine time-consuming tasks.

## The value of next-generation technology

How valuable do you view next-generation technologies?



## Technology

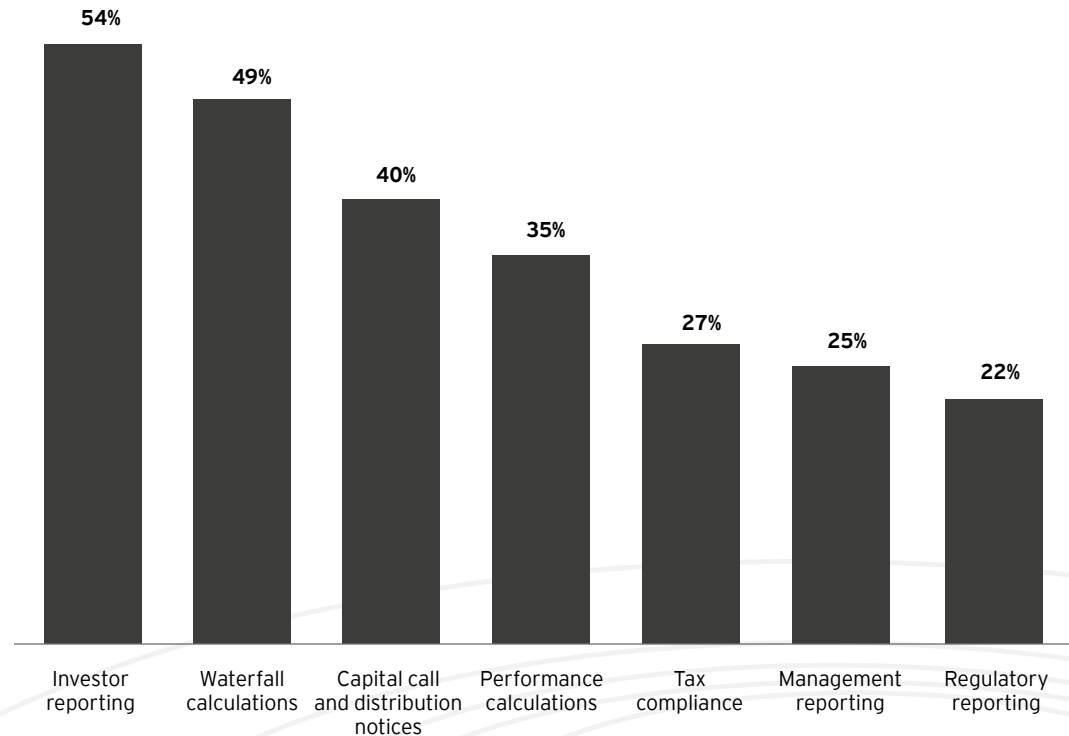
What CFOs see as offering the most beneficial technology solutions touch on some of the most complex and sensitive routine activities performed by finance teams. To be successful, private equity firms and their service providers will need to invest time, energy and thought into building out these automated solutions. This makes developing a strong accountability model and system development life cycle critical.

CFOs see the biggest perceived benefits in software solutions such as automated investor reporting templates, the ability to easily customize reports, automated waterfall calculation for fund accounting, and automated capital call and distribution notices. Conversely, software solutions such as automated performance calculations, customized management reporting, tax compliance software and automated regulatory reporting are viewed as only marginally beneficial.

With their lean finance staff, most private equity firm accounting departments face major constraints to take on large automation initiatives. Still, given the value these accounting system upgrades can provide, many firms appear likely to step up to the challenge. Moreover, accounting data provides the foundation for other innovative solutions, so enhanced accounting solutions should be viewed as a springboard to other value-added solutions.

## Automating the finance functions

What automated technology solutions would most benefit your accounting team?



# Talent management



## Talent management

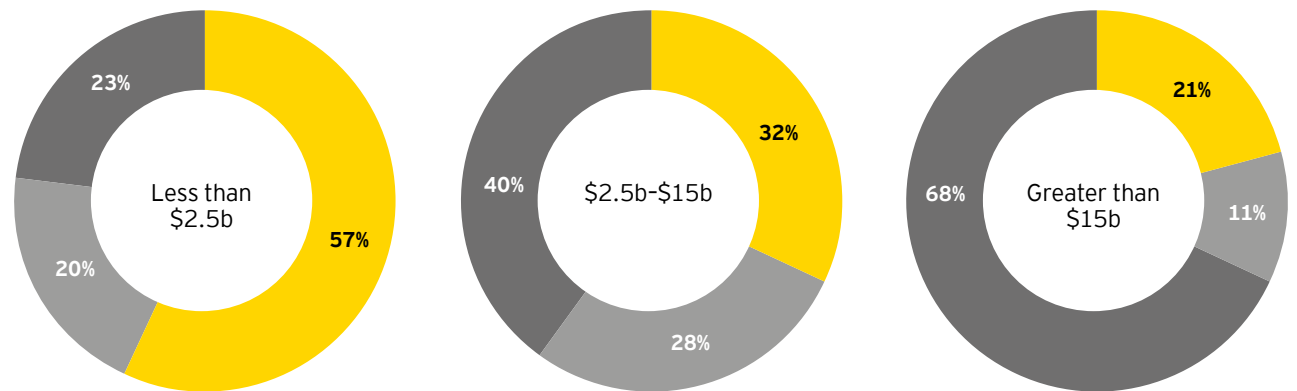
### Firms try to find the right level of staffing

What is your current and preferred staffing ratio of Investment to finance professionals?\*

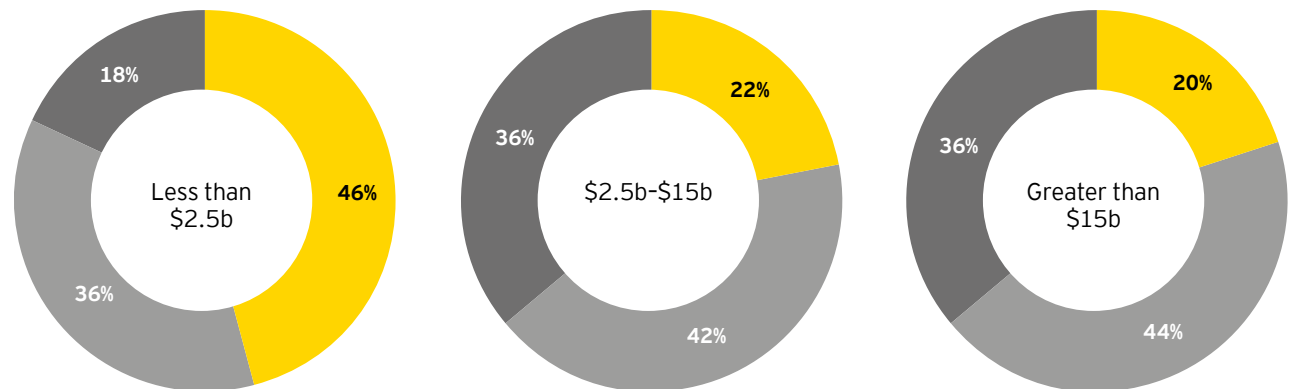
Private equity firms, regardless of size, have identified an average ratio of 3 investment professionals to 1 finance professional as the ideal staffing ratio. Nearly half of private equity firms surveyed believe that 3:1 is the right ratio of investment to finance professionals, though in many cases larger firms (with AUMs of more than \$15b) have yet to achieve this and are currently operating at less than the ideal 3:1 ratio.

As discussed previously, most firms with AUMs of more than \$2.5b are not fully outsourcing the finance functions. For those firms, CFOs continue to strive to build a scalable operating model that fully leverages technology while still being reliant on people. Talent management continues to be one of the highest strategic priorities for CFOs, and until private equity firms find the optimal technology solution or find outsourcing as a viable solution, private equity firms will need to continue focusing on managing talent.

#### Current ratio



#### Preferred ratio



Greater than 3:1   3:1   Less than 3:1

\*Finance professionals include people who work in fund accounting, tax, investor relations, human resources, treasury, information technology and compliance.

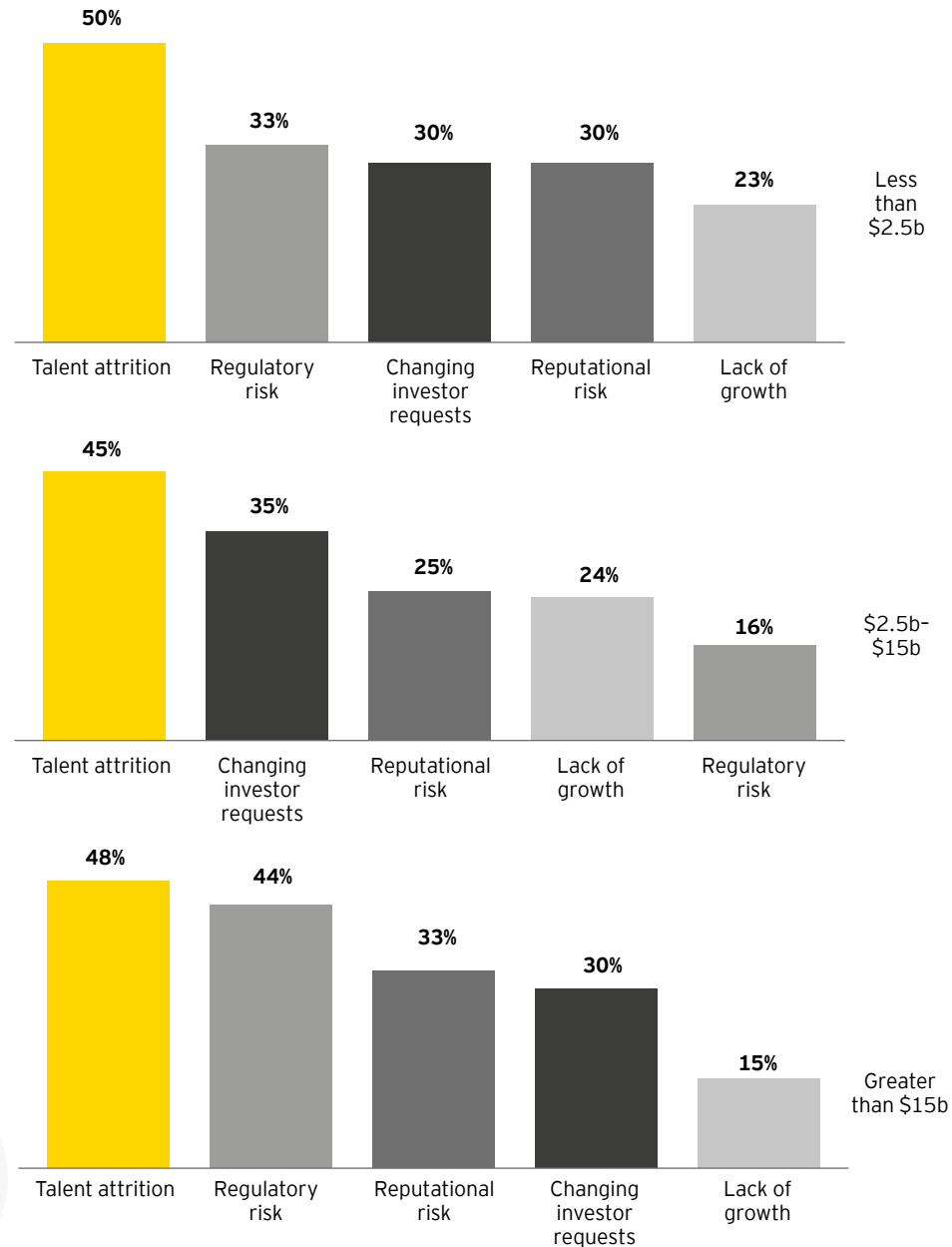
## Talent management

While human capital continues to be viewed as perhaps the most valuable asset for private equity firms, it also represents the greatest risk to private equity firms as key-person talent is critical to competing for capital. The ability to attract and retain key talent remains the top priority, regardless of firm size. As it relates to the finance team, investors conducting a due diligence always view a trusted CFO, backed by a capable team, as an important piece before making any investment decision.

Talent management also extends to those for whom the CFOs have oversight responsibility to mitigate risks on the finance team. In addition to being responsible for retaining talent and engaging the finance team in key projects, CFOs also work with investment professionals to exceed investor expectations in maintaining the firm's reputation in a growth environment and meeting regulatory demands. These are both seen as critical risks for larger firms.

## Navigating risks

Excluding performance, what are the top risks facing your firm?

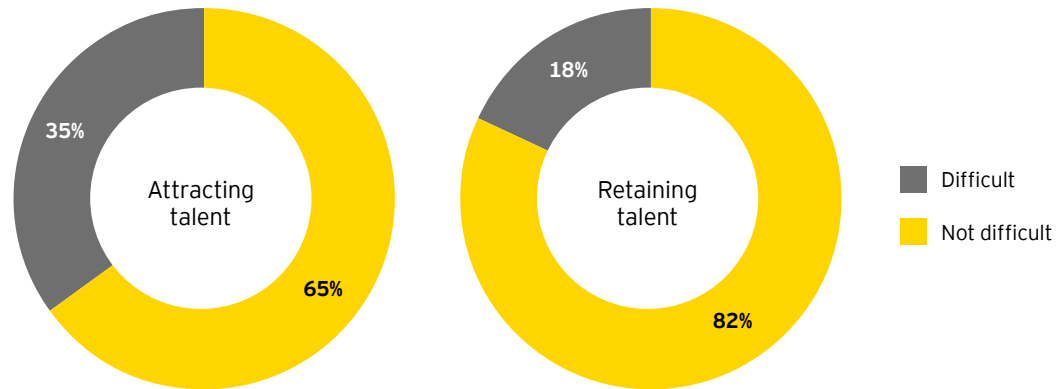


## Attracting and retaining talent

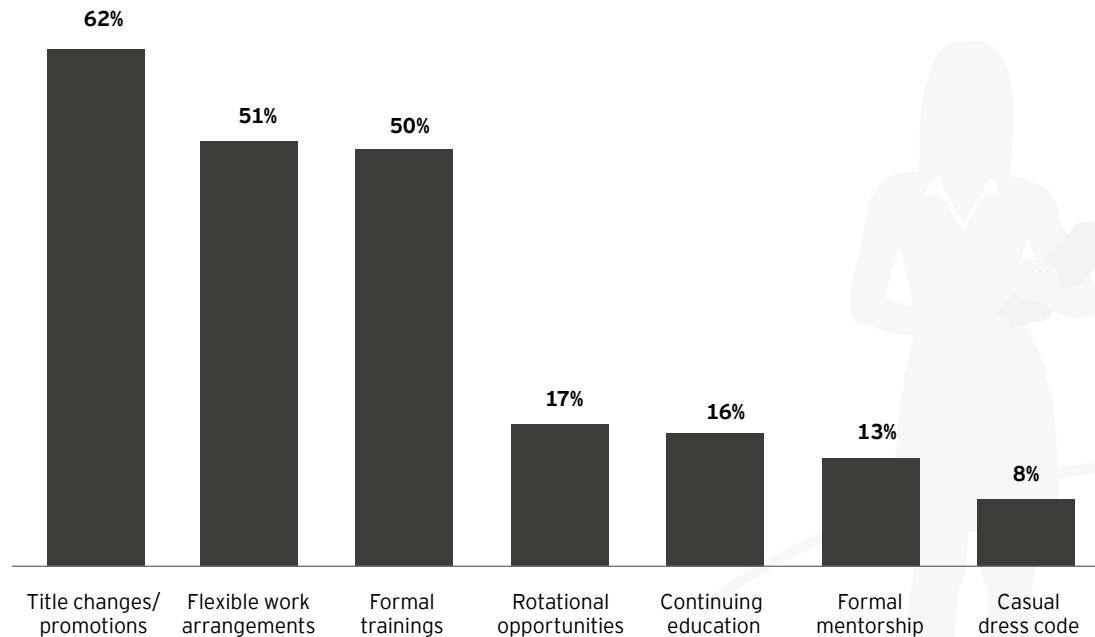
Is it difficult for the CFO to attract and retain talent in finance functions?

CFOs recognize talent management as a top strategic priority, and they are generally confident in their ability to attract and retain talent. While other asset classes have struggled in recent years, private equity as a whole has continued to see growth and consistent performance. Such success also brings opportunities for individuals. CFOs are also working to engage millennials and tech-savvy individuals to maintain continuity in the finance functions.

As noted in our 2017 survey, 92% of CFOs expect millennial talent to stay less than five years, which has changed the dynamic of talent management. In the past, a CFO may have expected members of their finance teams to stay for their entire career, but now they are trying to maximize their talent over a much shorter time frame. At the same time, firms are also offering other incentives to retain talent, including flexible work arrangements, formal mentoring programs and expedited promotions.



What talent retention tools have succeeded most?



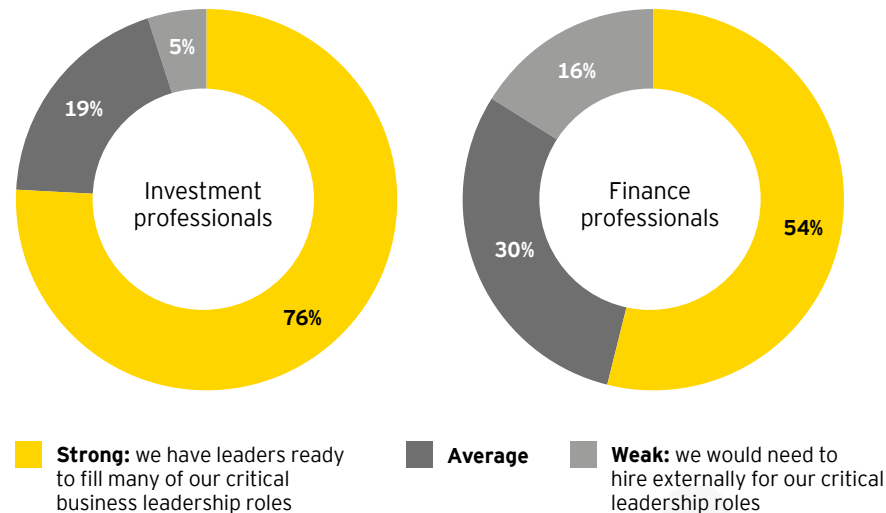
## Talent management

Private equity firms are often still run by their founders; however, we are increasingly seeing the next generation begin to assume leadership roles. Our survey has found that almost 80% of the firms have investment professionals in place currently that would be able to carry on the firm's culture and investment strategy. Across all assets under management, CFOs are less confident in their pipeline of future leaders when it comes to the finance professionals they oversee.


Approximately half of the CFOs believed they had a strong leader at their firm to replace them when the time comes. CFOs have told us that talent management is a strategic priority, but does that mean that CFOs believe that having their replacement internally is the best course of action for them? It will be interesting to see how the current generation of CFOs transition and the impact that has on upcoming CFOs, who will undoubtedly be faced with managing millennial talent and implementing more sophisticated technologies.

## Passing the leadership baton

How strong is your firm's pipeline of tomorrow's leaders?





The background of the page is a dark blue gradient. It is populated with numerous white, stylized human figures of varying sizes and orientations, some appearing to be in motion or scattered. In the foreground on the right, a human hand is visible, with the index finger pointing towards a single, glowing white human figure icon that stands out from the others. Two thin, horizontal yellow lines are positioned above and below the text block on the left side of the page.

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In addition to being responsible for retaining talent and engaging the finance team in key projects, CFOs also work with investment professionals to exceed investor expectations in maintaining the firm's reputation in a growth environment and meeting regulatory demands.

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# Outsourcing

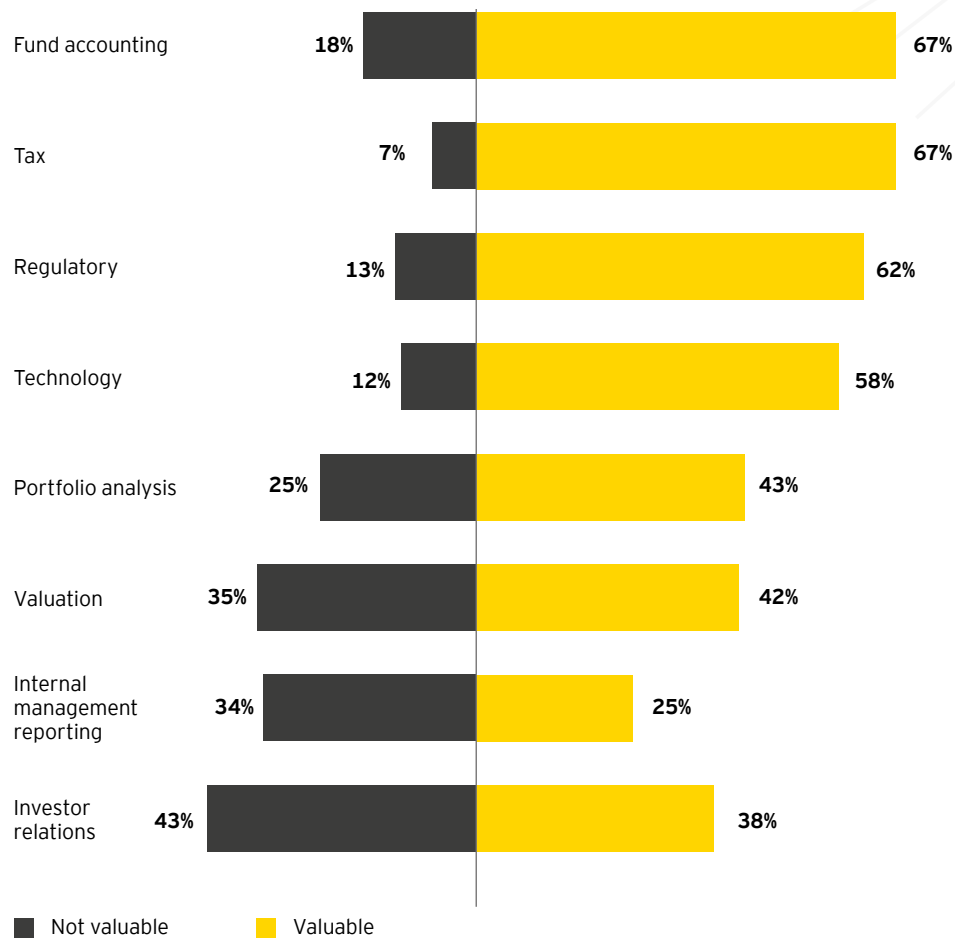


## Outsourcing

In the next two years, private equity CFOs anticipate increasing demands on back-office functions such as fund accounting, tax and compliance. To maintain operational success and enable scalability, firms are seeking to strategically enhance the operating model through outsourcing and further automation. CFOs across the private equity industry are especially bullish on outsourcing fund accounting, tax and regulatory functions, assuming third-party service providers offer cost efficiencies while continuing to maintain a high level of experience and quality. Larger firms are also considering technology solutions alongside co-sourcing or outsourcing models to meet their business needs. Based on the survey results, CFOs are hoping that by spending less time on back-office operations, employees will have more time to focus on client-facing and portfolio related analysis.

## Envisioning a “perfect” outsourcing solution

How would a perfect third-party solution contribute to your success?

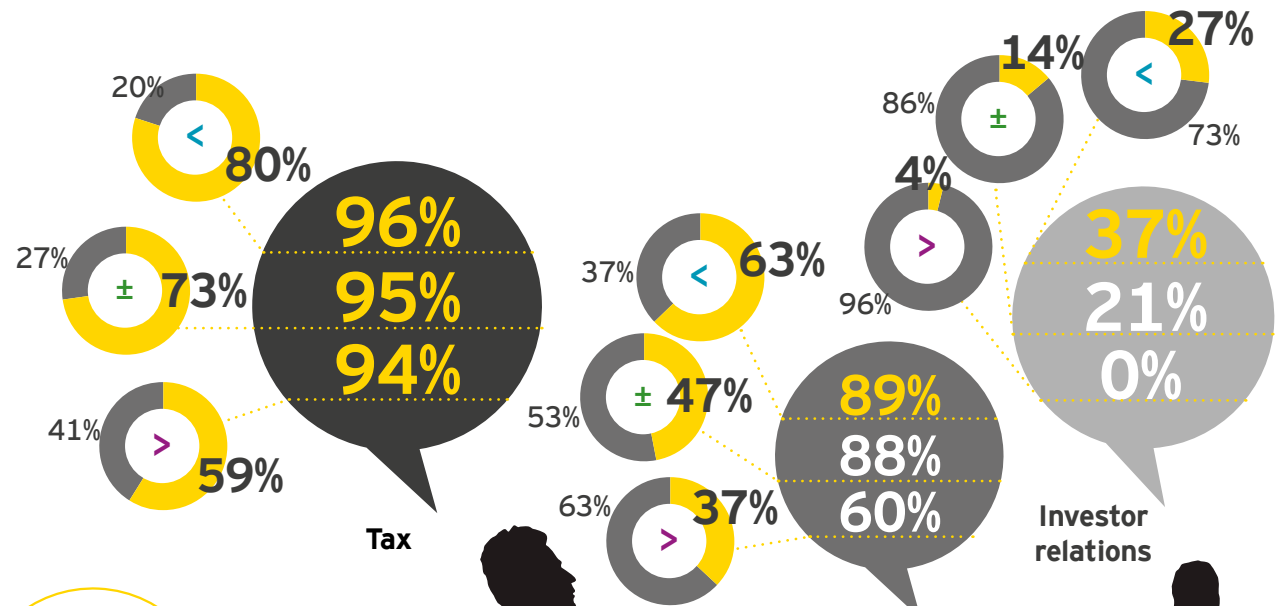


## Outsourcing

Nearly three-quarters of the firms surveyed outsource some tax functions, and more than half outsource some elements of fund accounting and technology. While the most commonly cited reason for outsourcing is to create cost efficiencies, investor demands play a large role in the decision to outsource. In some cases, investors seek third-party validation or production of fund accounting, fund administration, and pricing and valuation.

Satisfaction with outsourcing often varies by the size of the firm. Smaller firms are typically satisfied when they outsource these services to third-party solution providers given the need for infrastructure and expertise. Larger firms are generally less satisfied with their service providers due to perceived substandard service levels and quality and an inability to manage complexity. As third-party providers enhance their offerings and as large managers increase outsourcing, the providers need to build their delivery framework to accommodate varying complexities and unique needs of large complex fund managers.

# Assessing outsourcing satisfaction



If **yes**,  
how satisfied  
are you?

Are you currently outsourcing any part of these functions?

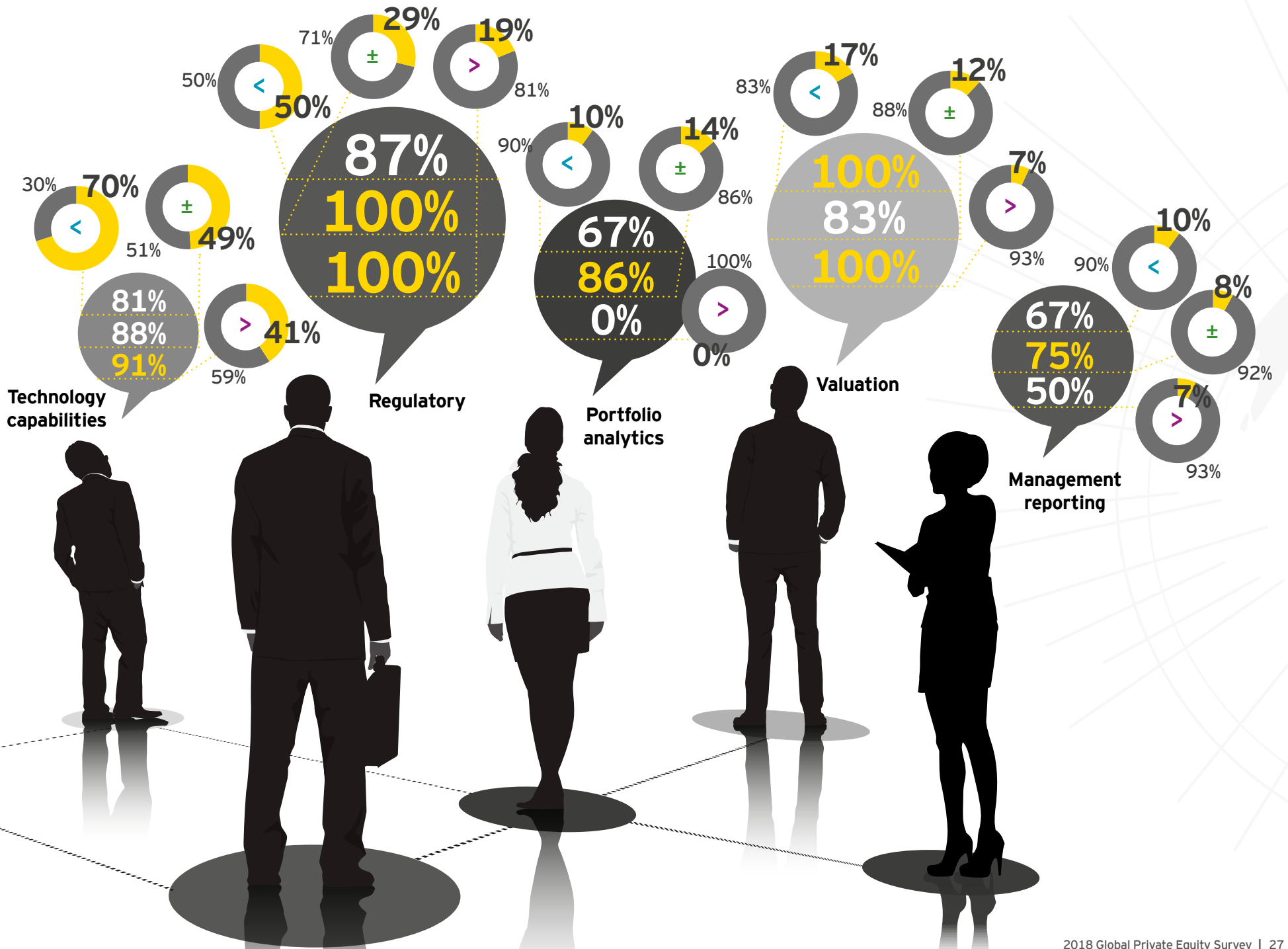
■ Yes ■ No

Private equity firms by AUM

< Less than \$2.5b

± Range from \$2.5b-\$15b

> Greater than \$15b



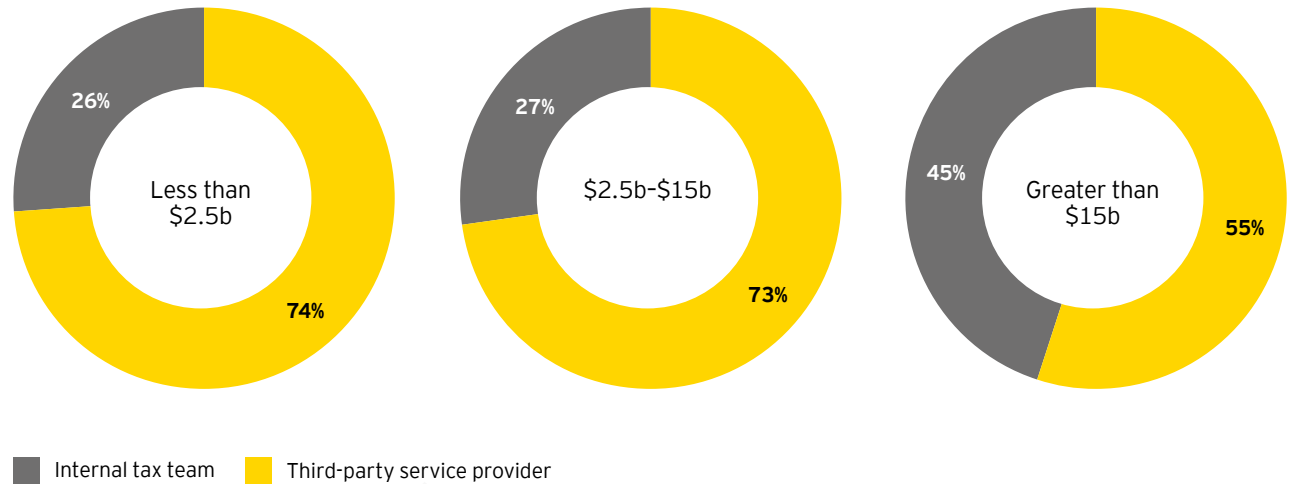
# Outsourcing

The private equity industry still appears to be in the early stages of deciding on an optimal tax operating model, particularly when compared with other asset managers such as hedge funds and mutual funds. Still, an overall trend toward outsourcing has begun to emerge among private equity firms depending on the size of the firm and the functions performed.

Based on survey results, private equity firms, on average, outsource approximately 70% of their tax functions to third-party service providers. The extent to which firms outsource varies with the firm's AUM and nature of tax services performed. Smaller firms, those with AUM below \$2.5b, tend to outsource a greater portion of their tax functions. As the size of the firm increases, its capacity for in-house tax functions expands. Large firms with AUM above \$15b have internal tax teams that handle almost half of their tax functions. The imbedded corporate culture of insourcing and existing internal processes may have influenced the view of larger firm CFOs that insourced or co-sourced tax operating models are easily scalable solutions. Conversely, smaller firms with less existing internal tax infrastructure tend to seek a model weighted toward outsourcing.

## Co-sourcing the tax function

What percentage of your tax function is currently outsourced?



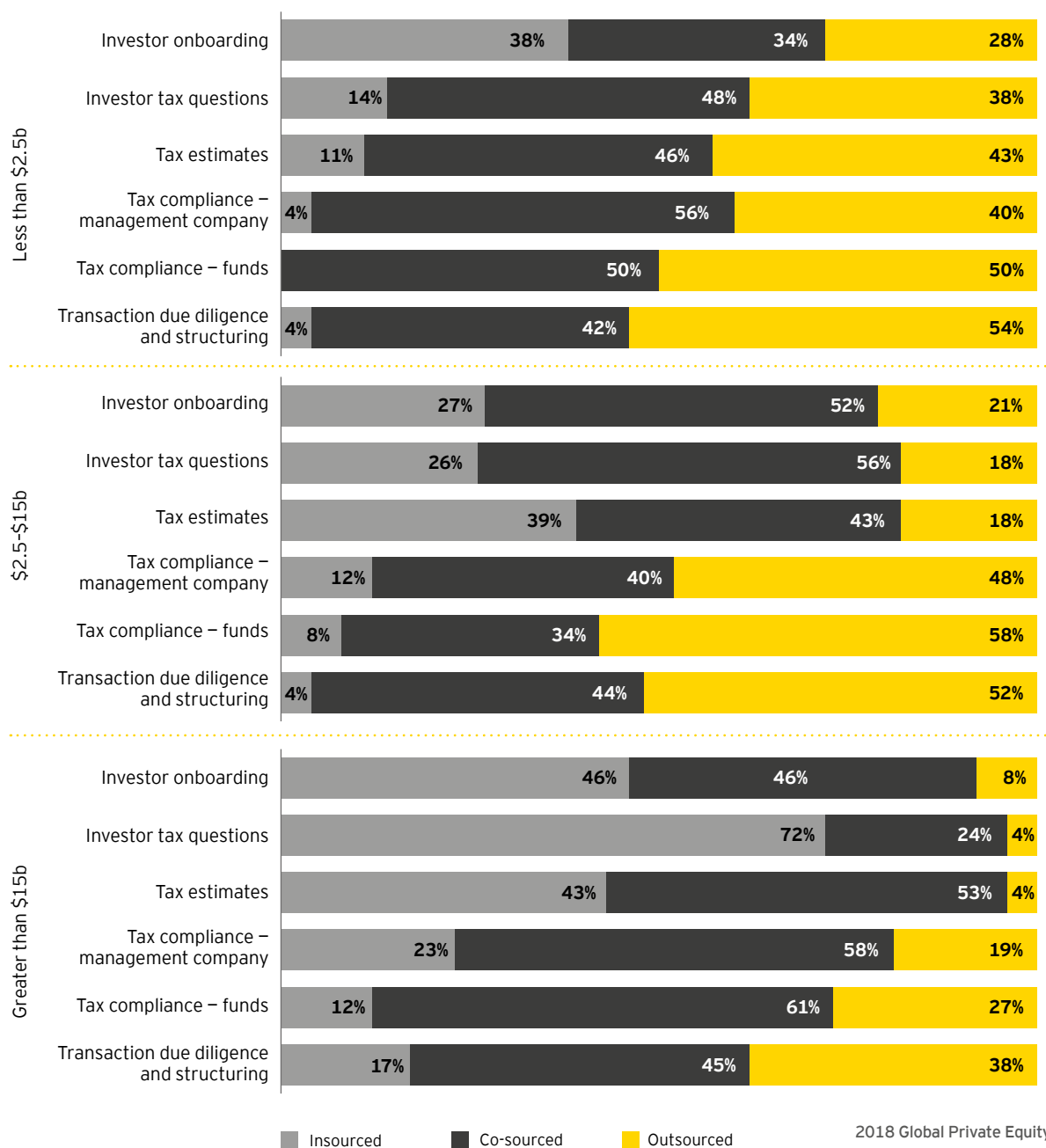
## Outsourcing

Many firms either outsource or co-source (combine in-house tax work with outsourcing some tax compliance) both their routine tax functions such as tax compliance and key middle-office strategic tax functions such as transaction due diligence and structuring. Broad industry insights and technological efficiencies are two likely reasons these functions are often outsourced or co-sourced with third-party service providers. The co-sourcing model is especially popular with larger firms for the preparation of tax estimates, as they tend to have more custom-made investment products, greater compliance needs and existing internal tax infrastructure in place. More than half of the larger firms surveyed with AUM of more than \$15b prepare tax estimates internally with external support, whereas only 4% completely outsource.

Unsurprisingly, key investor-facing tax functions for firms are more likely to be performed internally, such as investor onboarding and answering investors' tax questions. Firms maintain better oversight over services provided to key stakeholders when they keep their internal teams involved in these processes.

## Investor-facing tax functions remain in house

How are your tax functions being performed?



# Cybersecurity





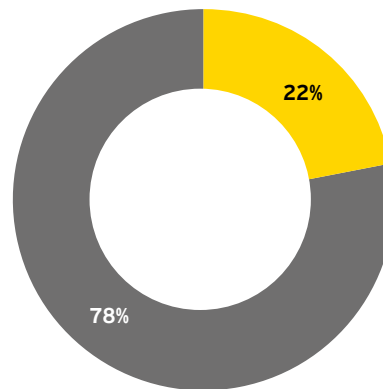
## Cybersecurity

Private equity firms, regardless of size, face a very real risk of cybersecurity breaches. With cyber criminals becoming increasingly persistent and sophisticated, all firms need to form a first line of defense that includes defining their cyber risk and developing underlying metrics.

As breaches arise, firms must be ready to handle the disruption with planned incident response and crisis management. Unfortunately, many firms have likely experienced breaches and are still unaware. Given that only 22% of firms have reported breaches, this would seem to represent an opportunity for firms to take advantage of preparation and education in mitigating threats.

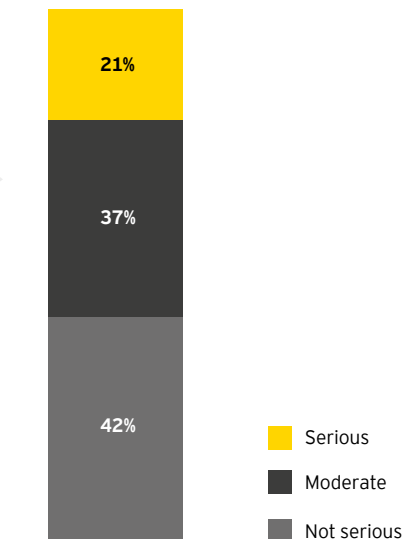
### Cybersecurity breaches are a matter of when not if

Has your firm recently experienced a cybersecurity breach or incident?



Yes  
No

If yes, how serious was the breach or incident?



Serious  
Moderate  
Not serious

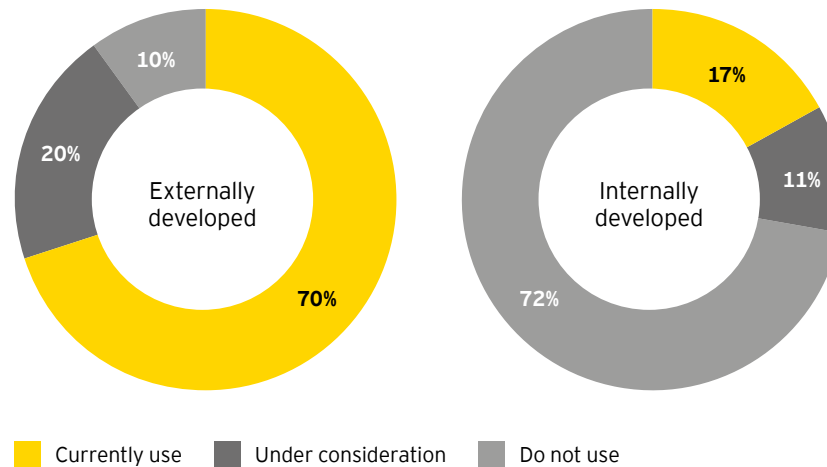
## Cybersecurity

Some 70% of firms rely on externally developed cyber threat intelligence tools. These products inform decision-makers and security teams by quantifying and qualifying threats in cyberspace. Intelligence is collected through information that is relevant to cyber threats, including a dynamic cycle of planning, collecting, processing, analyzing, vetting and disseminating information.

A few third-party threat intelligence systems exist with a range of functionality. Private equity firms recognize the value in these systems and have opted into these as their means to gathering their threat intelligence information.

## Third-party threat intelligence products are widely used

### Utilizing threat intelligence products to monitor cybersecurity?



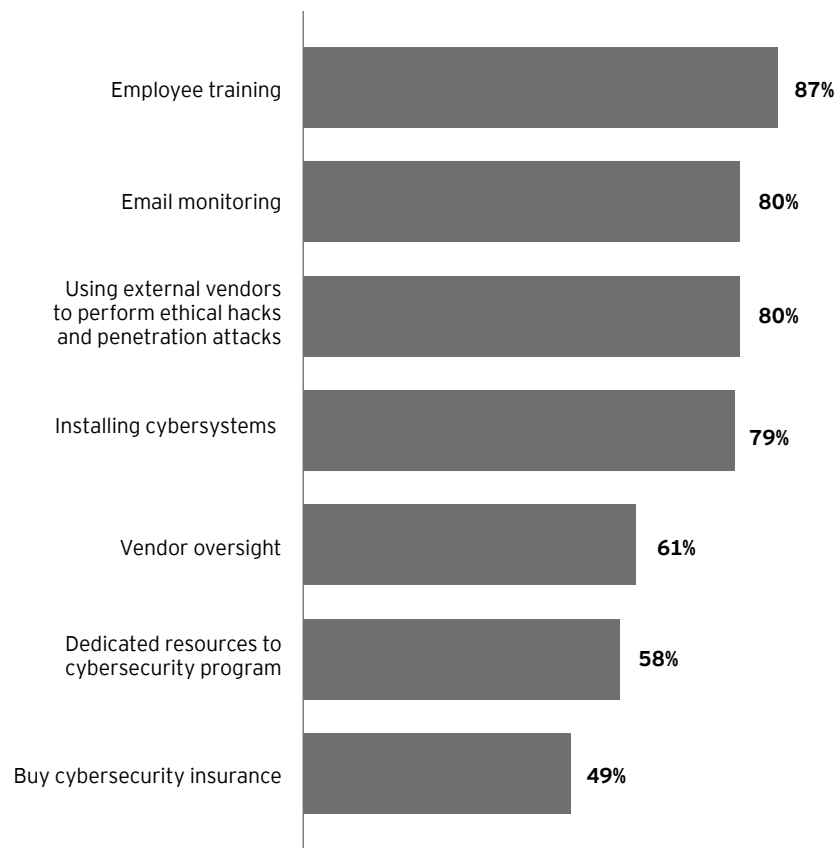
# Cybersecurity

An effective framework for a cyber risk management program includes principles and criteria for evaluating entity-wide access. Most firms understand the effectiveness of a multipronged approach and have adopted up to six different measures to manage cyber risk. Education, monitoring, systems and oversight are all significant areas of focus and help make certain that vulnerabilities are identified and managed.

Simply making small behavior changes can help companies protect the confidentiality, integrity and availability of their intellectual property and information assets. Cyber threats are constantly emerging and can range from eavesdropping on a phone call to a stolen laptop or even a misconfigured password. Careless or unaware employees, social media and mobile computing use can create potential vulnerabilities. As a result, training employees represents a critical part of any cyber risk management program.

## Firms improving their cybersecurity

What steps are you taking to improve your firm's cybersecurity?



# Other market data

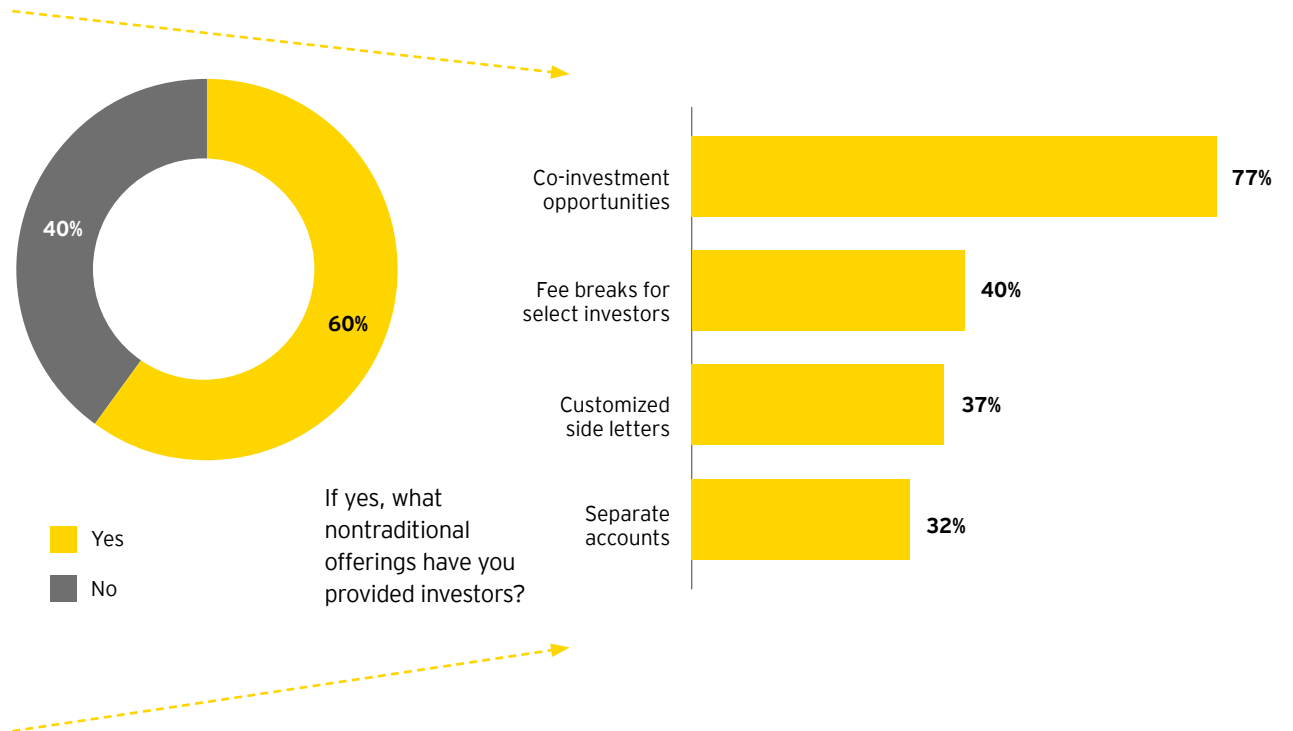


## Other market data

As capital continues to flow into private equity and investors seek increased alpha, private equity firms continue to expand their investment offerings. These offerings are often personalized and customized responses to the client's investment needs, which could lead to long-term relationships that are key to a firm's success. Almost 80% of firms offer co-investment opportunities, while 40% provide fee breaks and 37% provide other custom offerings to their key investors. In this competitive environment for capital, managers must continue to adapt to make growth a strategic priority and reduce risk of limited partners moving money to other firms that are willing to handle customized investment needs.

## A larger menu for investors

### Have you adopted nontraditional offerings?



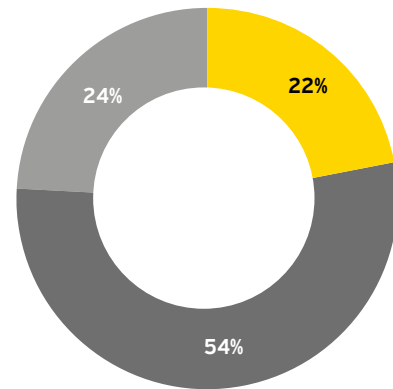
## Other market data

Almost 80% of all firms surveyed said they were at least somewhat flexible to customized investor reporting requests. Broadly speaking, today's customer demands timely data on the fund investments that are more aligned to their individual needs.

Although the Institutional Limited Partner Association developed a template for investor requests, our survey in 2017 showed that very few investors actually required adoption by their managers. Instead, investors seek and ask for customized reporting that suits their individual needs. While private equity firms are still unsure what investors do with that data, the fact remains that investors have significant leeway to request whatever data they seek in this highly competitive environment.

## The investor experience

### Flexibility with customized investor reporting?



- No flexibility
- Limited flexibility
- Investor dictates terms

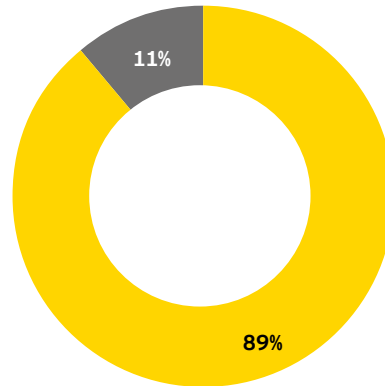
## Other market data

Surprisingly, almost 90% of firms utilize lines of credit to bridge capital calls or to enhance internal rates of return in their funds. Tapping lines of credit has proven to be a useful financial tool for firms in this low interest rate environment. These lines of credit, which were historically used to bridge capital calls in funds, are now boosting the internal rate of return calculation as some firms are funding investments.

More than half of the private equity firms in the survey have increased their general partner (GP) commitment since the last fund. Interestingly, almost all of those GPs are funding the additional commitment through cash only or a combination of cash and fee waivers.

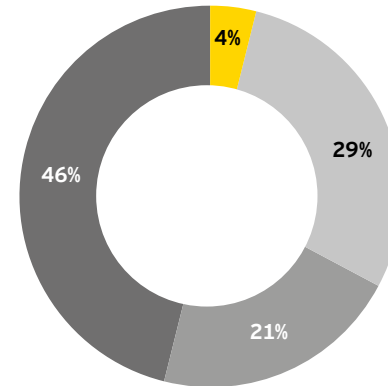
## A snapshot of cash management

### Do you utilize lines of credit?



- Yes
- No

### Have you increased your GP commitment?



- Yes - will fund entirely through fee waiver
- Yes - will fund entirely in cash
- Yes - will fund through a combination of cash and fee waiver
- No

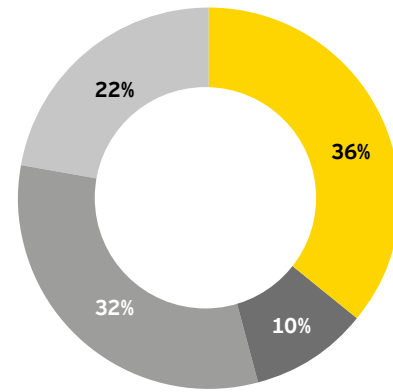
## Other market data

Unsurprisingly, more than 70% of firms were recently asked to reduce their management fees by investors in their last fund. Many firms have responded by creating creative fee structuring, which includes offering certain investors fee breaks and providing different options for carry to different classes of investors.

Nevertheless, firms are clearly attempting to defend their management fees to investors, primarily citing a history of strong performance through cycles and their unique strategy. For investors seeking alpha, private equity continues to provide opportunities not easily replicated. Negotiations with sophisticated investors over fees paid create a situation where firms need to have a clearly articulated vision of why higher management fees and carry allocations are justified.

## Firms are defending their fees

### How are firms justifying management fees to investors?



- We have a unique strategy
- Concessions on other fund fees
- Historical performance supports fees
- Dialogue around supporting business infrastructure



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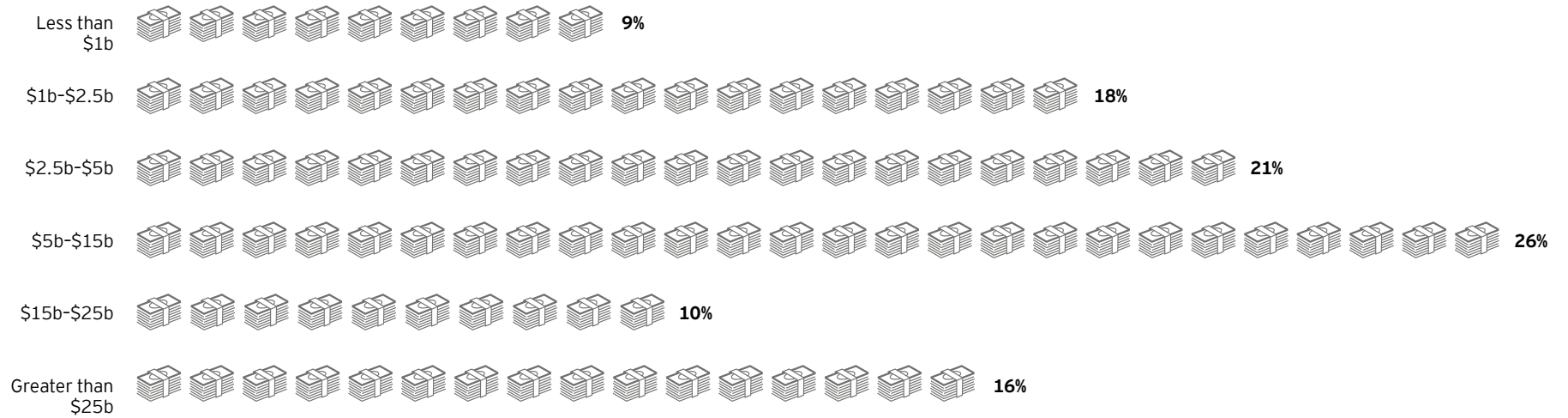


# Background and methodology



## Background: respondent profile

What is your firm's total AUM?



## Background and methodology

### Methodology

The purpose of this study is to record the views and opinions of CFOs and heads of finance at private equity firms around the globe.

Topics include CFOs' strategic priorities, technology and data transformation, talent management, outsourcing and the future landscape of the private equity industry.

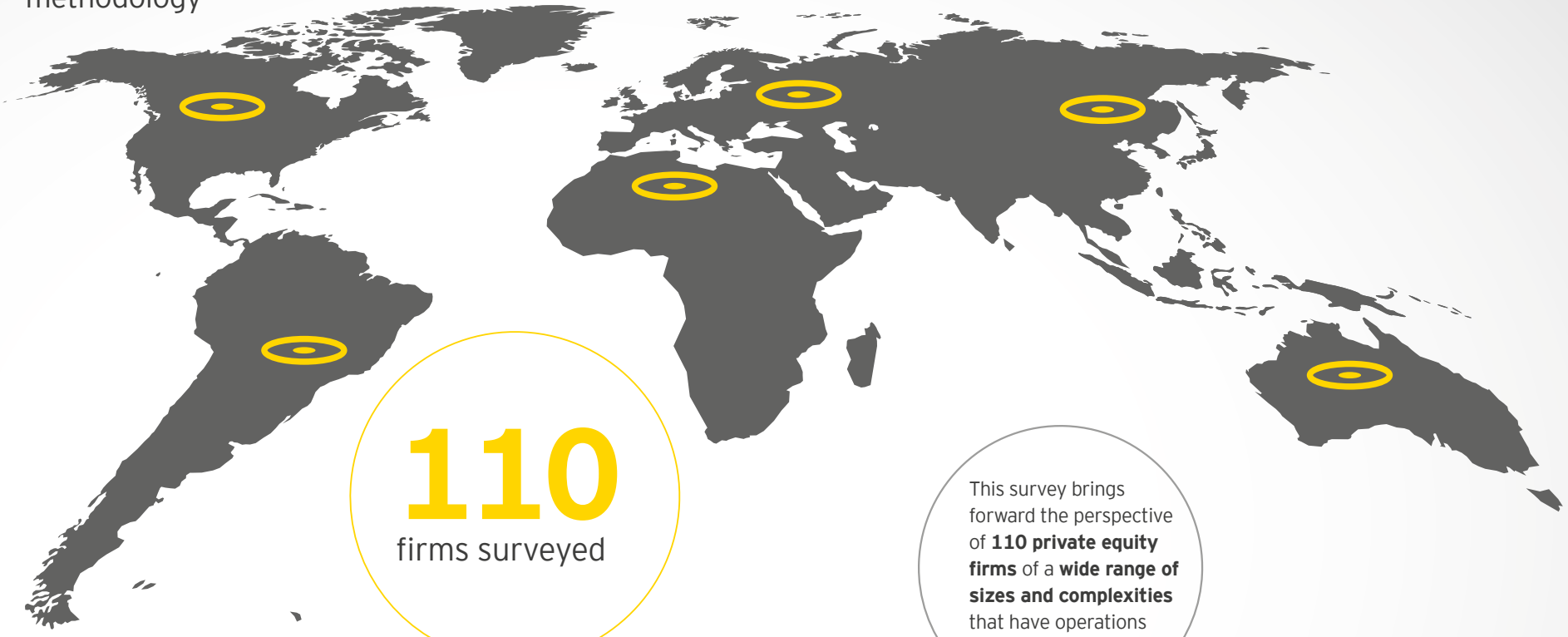
From October to December 2017, Greenwich Associates conducted 110 telephone and online interviews with private equity firms.

All amounts in the survey are USD unless otherwise stated.

For several of the questions, multiple answers were allowed resulting in responses that do not total 100%.



Background and methodology



**110**  
firms surveyed

This survey brings forward the perspective of **110 private equity firms** of a **wide range of sizes and complexities** that have operations **across the globe.**



# Closing and EY survey contacts



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## In closing ...

This survey describes the paths CFOs and their finance teams are taking to achieve operational excellence, efficiency and scalability in a growth environment, while simultaneously dealing with the challenges of investor fee pressures and customized requests, increased internal reporting and regulation. Those private equity firms, large as well as small, that make intelligent investments in leading-class information technology and sophisticated talent management strategies will be positioning themselves not only as a leading destination for investment but also as employers of choice as they seek to attract and retain the brightest and best in the coming years.

Financial services companies that work closely with the private equity industry, from FinTechs to outsourcing providers, will need to watch carefully and be prepared to adapt as private equity firms pursue their respective paths to operational excellence. As our survey confirms, CFOs will play a key role as the executives who help their firms achieve operational success.

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