Are you exploring the future or just visiting?

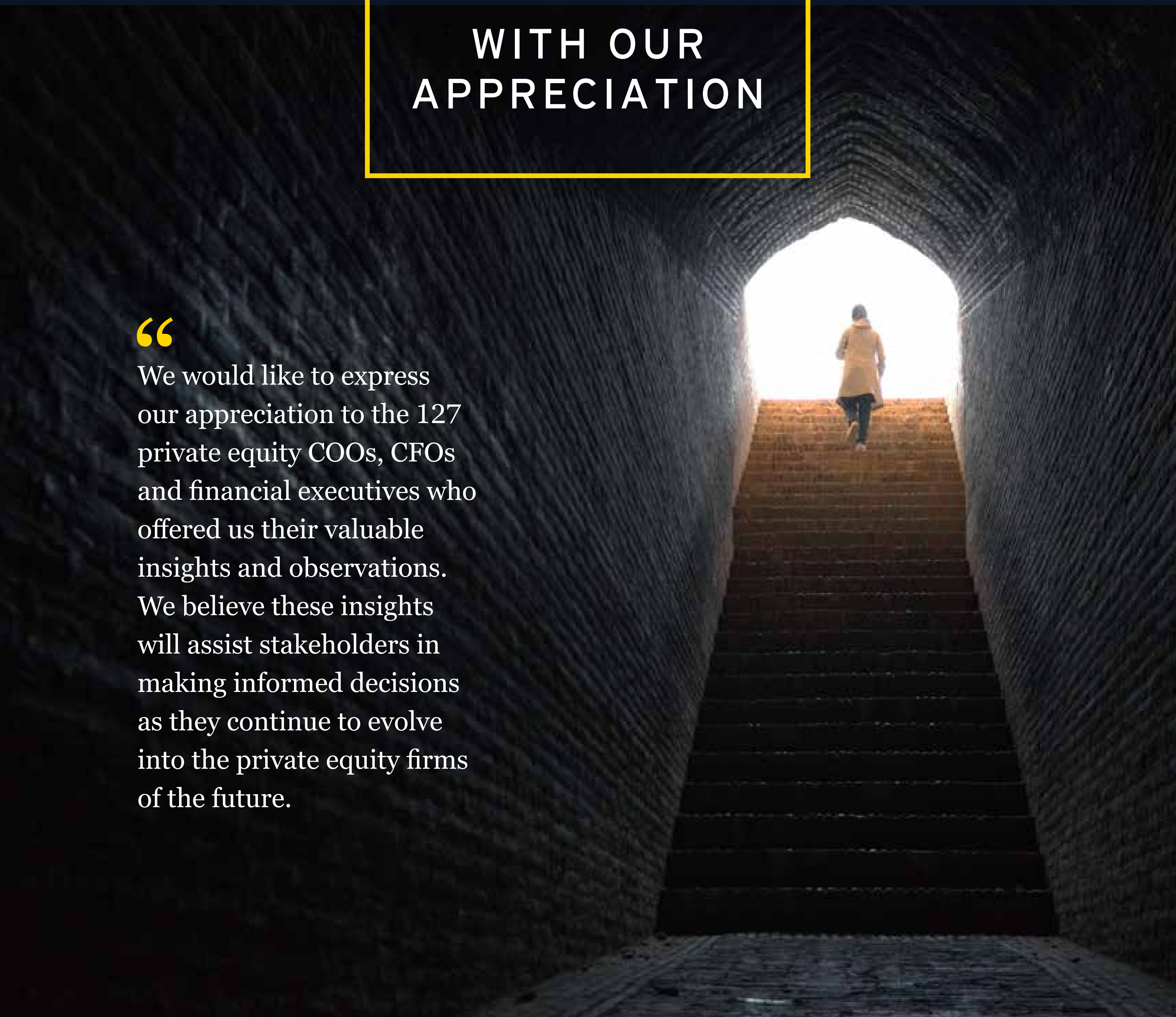
Private equity firms have navigated the challenges of 2020 relatively well. But they can't stop now. Leaders must be nimble and adaptable and embrace uncertainty.

2021 Global Private Equity Survey

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

EY
Building a better working world

WITH OUR APPRECIATION



"We would like to express our appreciation to the 127 private equity COOs, CFOs and financial executives who offered us their valuable insights and observations. We believe these insights will assist stakeholders in making informed decisions as they continue to evolve into the private equity firms of the future.

EXECUTIVE SUMMARY

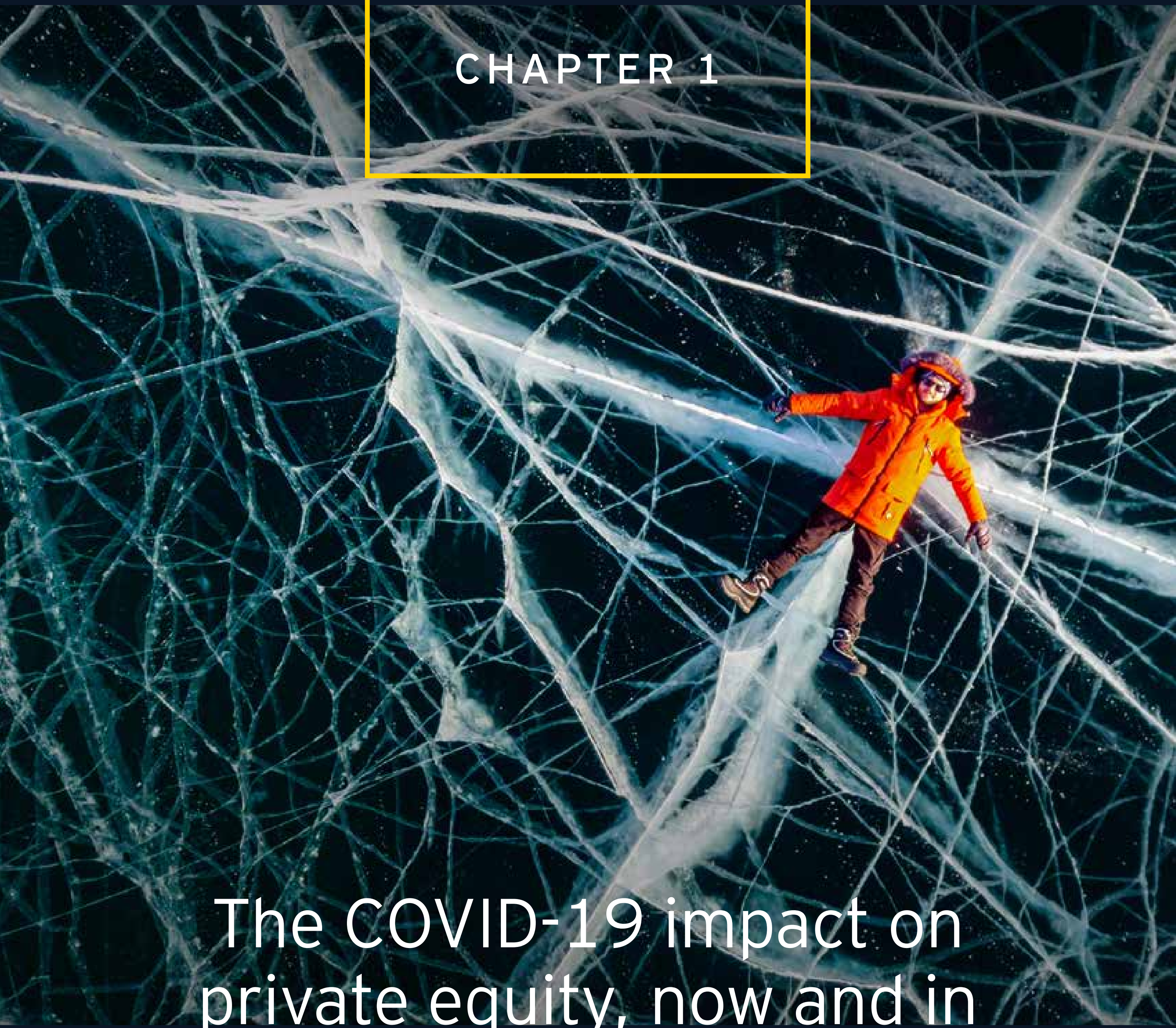
Private equity CFOs have addressed numerous challenges over the past few years as they have moved beyond the traditional role of finance executive. But until last year, they had yet to be tested by a crisis as profound as the COVID-19 lockdowns, which forced firms, investors and target companies alike to shift to virtual operating models overnight.

Private equity firms and their CFOs made the move to a remote working environment with relative ease, thanks in large part to the foundation they had built to revamp their operating model and modernize their IT infrastructure.

Those past decisions helped CFOs successfully navigate the disruption of the COVID-19 pandemic, ensuring that they had the digital tools and mindset to set up virtual investor meetings and conference calls as they continued to raise capital and identify target companies. While investment activity dropped slightly in the 2Q and 3Q of 2020, overall private equity activity barely skipped a beat, which stands as an incredible achievement considering the adjacent social and political uncertainty the US and the world faced in 2020. At the same time, their back-office operations also adjusted to the new workflows and continued to meet critical milestones.

Now, as they look to 2021 and the future, CFOs say they are planning to double down on their past bets in technology and people and to continue expanding their scope to focus on new areas such as sustainable investing and to further initiatives in diversity and inclusiveness (D&I). Indeed, the ability for CFOs to stake a leadership role to help their firms navigate a rapidly changing landscape of the private equity industry has never been more important.

We invite you to read more about the insights we captured on their response to the events of 2020 and to their strategic journey going forward in the 2021 Global Private Equity Survey.



CHAPTER 1

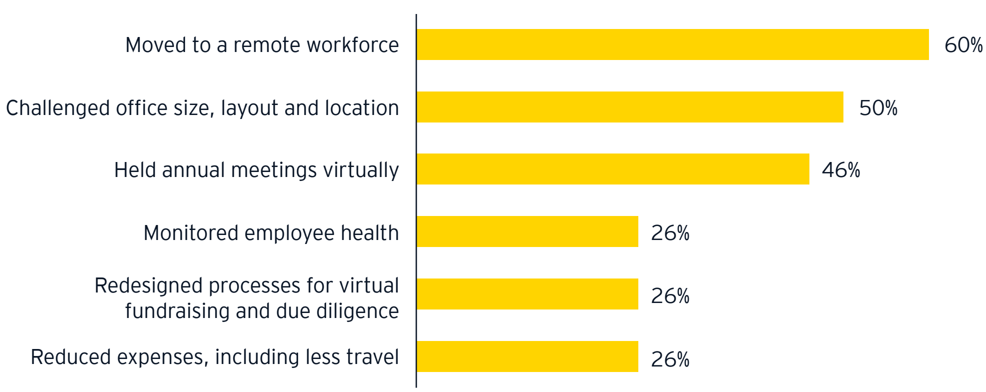
The COVID-19 impact on private equity, now and in the future landscape

CHAPTER 1

The economic aftershocks of the COVID-19 pandemic touched virtually every organization across the world. Private equity firms were no exception. In the short term, most firms adapted successfully to a remote working environment. The long-term impact on the private equity industry as well as its portfolio companies, of course, is still unfolding. In this new environment, the private equity CFO and finance team have an opportunity to act as agents of change and take advantage of the opportunities the pandemic has presented and influence the future of work in their organization.

The COVID-19 pandemic accelerated the digital transformation of private equity firms by forcing them to operate in a remote environment. Those firms that had yet to challenge the flexibility of their workforce had no choice. CFOs, for most firms, noted that the transition was fairly seamless as they were already moving to create more flexible remote work arrangements. This enabled them to quickly adapt their work setting, including the amount of office size, layouts to accommodate social distancing and office locations. Forward-looking firms recognized this as an opportunity to improve and redefine their operating model. At the same time, firms also had to quickly shift to virtual investor meetings, including annual meetings with limited partners (LPs), adding another layer of complexity for connecting with existing and new investors in the pandemic environment and beyond.

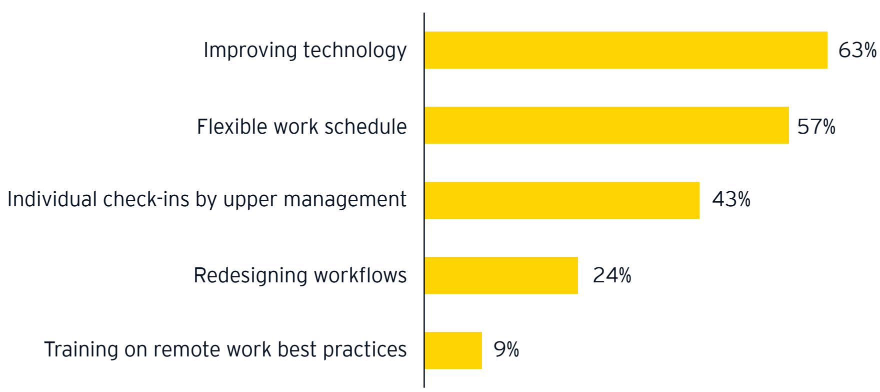
What was the largest impact COVID-19 had on your firm?



CHAPTER 1

Supporting a remote workforce and enabling large-scale virtual meetings require state-of-the-art technology. Private equity firms' major investments in technology over the past five years positioned them to respond promptly to these challenges. Firms that could leverage the technology in the back office to manage the mandated remote workforce were better equipped to weather the storm until they could reopen offices. Looking ahead, CFOs said they would continue to reinforce technology investment and adjust flexible work schedules as they took further actions to enable a remote workforce. Firms should rightly view this as a successful return on investment and focus on building upon their success to guide how their organization operates in a post-pandemic environment.

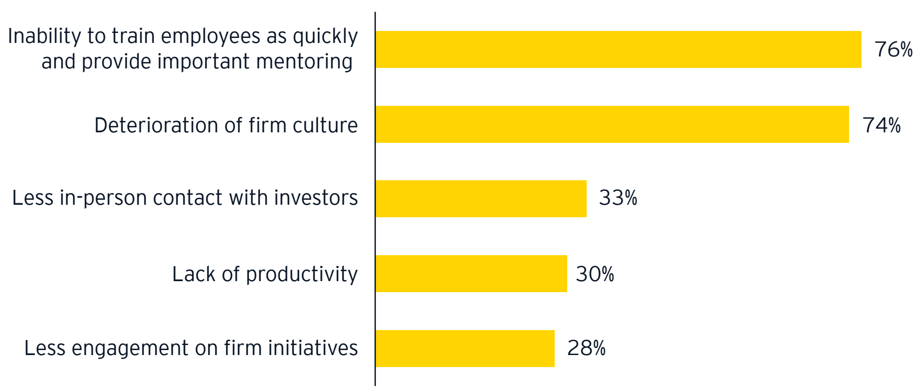
What are you doing to enable a more remote workforce?



CHAPTER 1

In addition to helping their remote workforce meet day-to-day responsibilities through frequent check-ins, flexible schedules and enabling technology, firms with a forward-looking lens also took steps to focus on talent management by seeking to sustain firm culture, developing and training their people, and monitoring mental health of employees. These are areas of significant risk of a remote workforce and some of the drawbacks of remote working. Tackling these challenges represents the next step in developing the future of work in the post-COVID-19 environment, especially as employees will likely expect this continued flexibility as offices start to reopen their doors and find their path forward once business and society find a post-pandemic equilibrium. Innovative firms that respond to these hurdles will have a competitive advantage in attracting and retaining the best front- and back-office talent in a post-pandemic work environment.

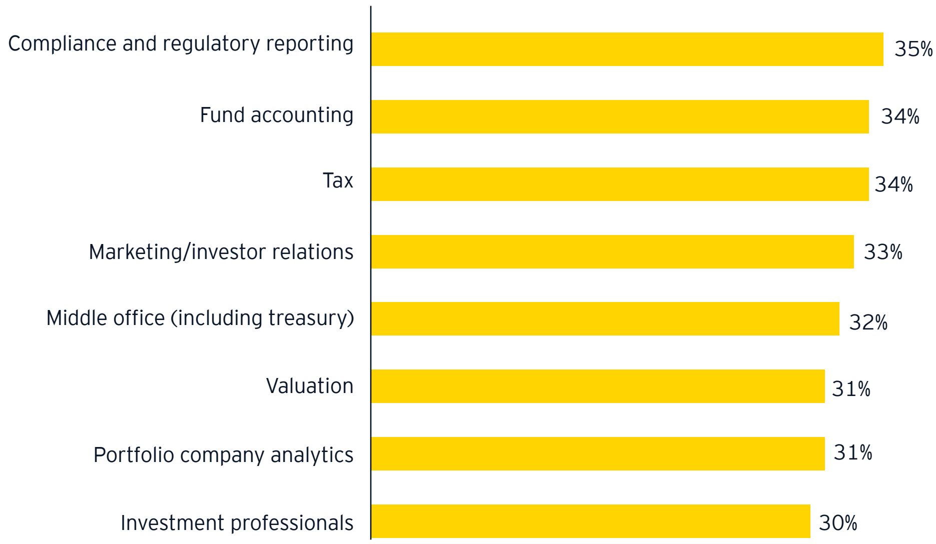
What are the biggest risks of a more remote workforce?



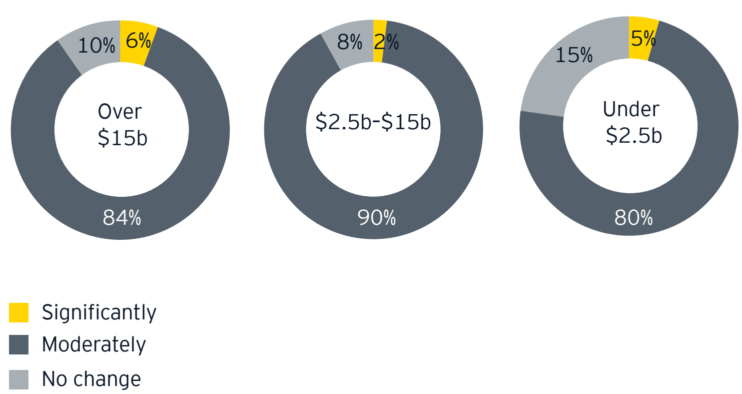
CHAPTER 1

Private equity CFOs have acknowledged this shift, noting that they anticipate that, in a post-COVID-19 workforce, most employees will want to continue to work remotely, at least to some extent. Across the board in almost all functional areas surveyed, firms expect employees to work remotely approximately 30% of the time (or roughly one or two days in a typical five-day workweek) as firms return to their physical locations. Private equity firms have acknowledged this paradigm shift in future operating models, with a minimal group across firm sizes expecting operations to return as they were pre-COVID-19. Conversely, greater than 80% of firms of all sizes expect at least a moderate change required for future operating models. Private equity firms with the proper forward-looking mindset will be regarded as leaders in developing the future of work, but they must back this up by acting on this opportunity as it is presented in the coming year, including continuing flexible work arrangements and other accommodations to which employees have become accustomed with a fully remote work arrangement.

What percentage of time do you expect each of these functions will spend working remotely after COVID-19 conditions subside?



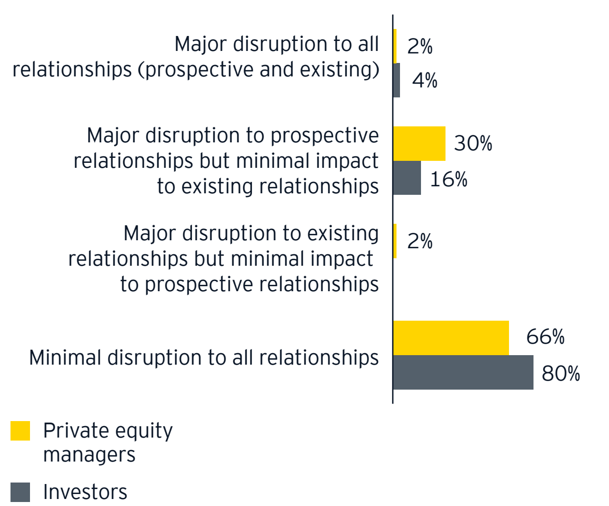
In the next three years, how much would you expect your operating model to be transformed as a result of insights gained during COVID-19?



CHAPTER 1

Private equity managers similarly needed to adjust their interaction with investors as a result of the COVID-19 environment. Not only did firms' investment in technology pay off in supporting internal operations, but it also paid dividends on the investor front. Some 66% of private equity firms noted minimal disruption to all investor relationships as a result of the remote environment. The previous investment in building out LP portals allowed for continued access by investors to information. At the same time, firms relied on virtual tools to meet with prospective investors. Some firms, approximately 30%, said this delivered a significant impact on prospective relationships with a minimal impact on existing ones. This again presents an opportunity for these firms to challenge traditional methods of their business to continue to compete for capital in this environment; firms cannot afford to lose a step here since fundraising across the industry has carried its strong growth trajectory through the pandemic.

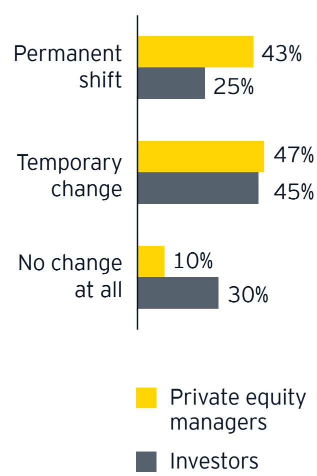
How has remote working impacted engagement between managers and investors?



CHAPTER 1

Private equity managers and investors are somewhat split on the long-term impact of COVID-19 on the marketing process. Most firms, close to 50%, believe there will only be a temporary change to the marketing process. We had slightly divergent views among private equity managers and LPs. Some 43% of private equity managers note that there was likely to be a more permanent shift, while 30% of LPs expected no change at all. Interestingly, larger firms (63%) expected a more permanent shift in marketing activities than smaller managers (30%). This contrasting view between firm sizes and LPs suggests that there needs to be more transparency between these groups to achieve fundraising and marketing goals going forward.

How do private equity managers and investors view the COVID-19 impact on marketing activities?



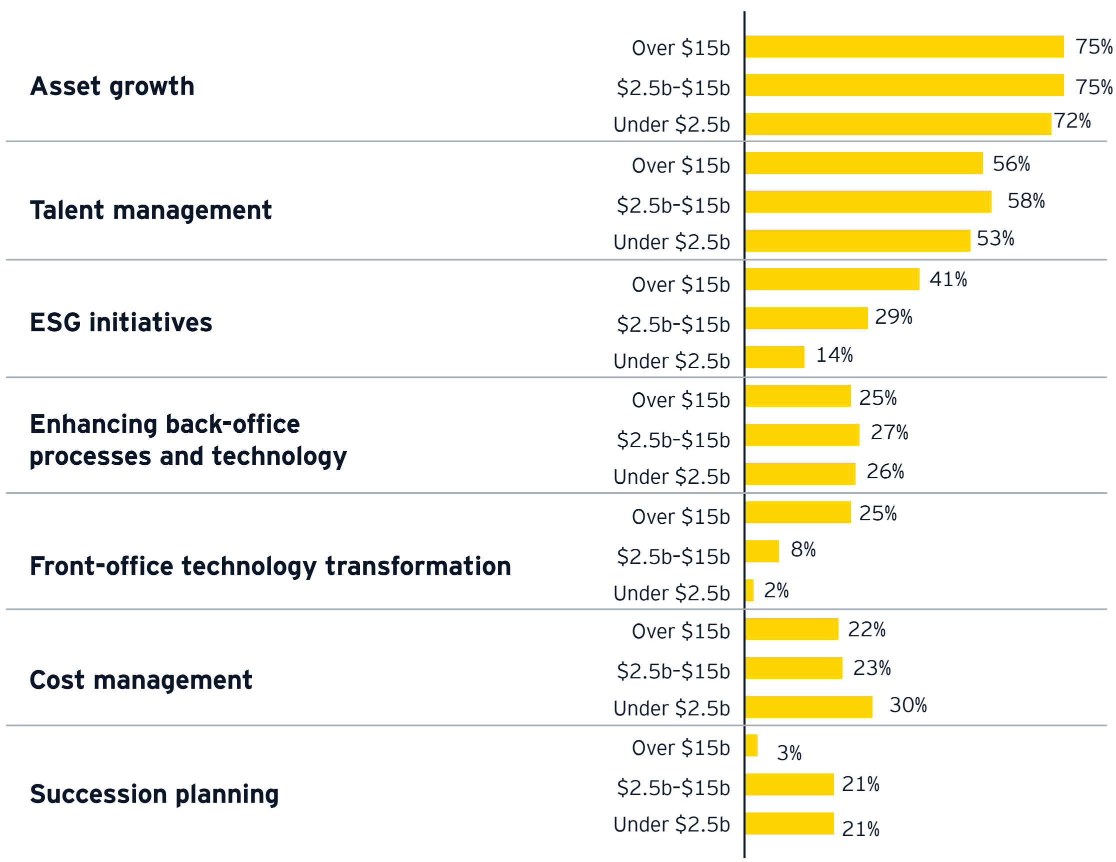
CHAPTER 2

Talent management and operations

CHAPTER 2

Over the last two years, private equity managers have consistently ranked asset growth and talent management as their top two strategic priorities. While other areas of focus such as environmental, sustainability and governance (ESG) and technology-related priorities may emerge or ebb and flow, most organizations believe that finding and retaining talent that advances their strategy and business model remains a key factor to succeed at asset growth.

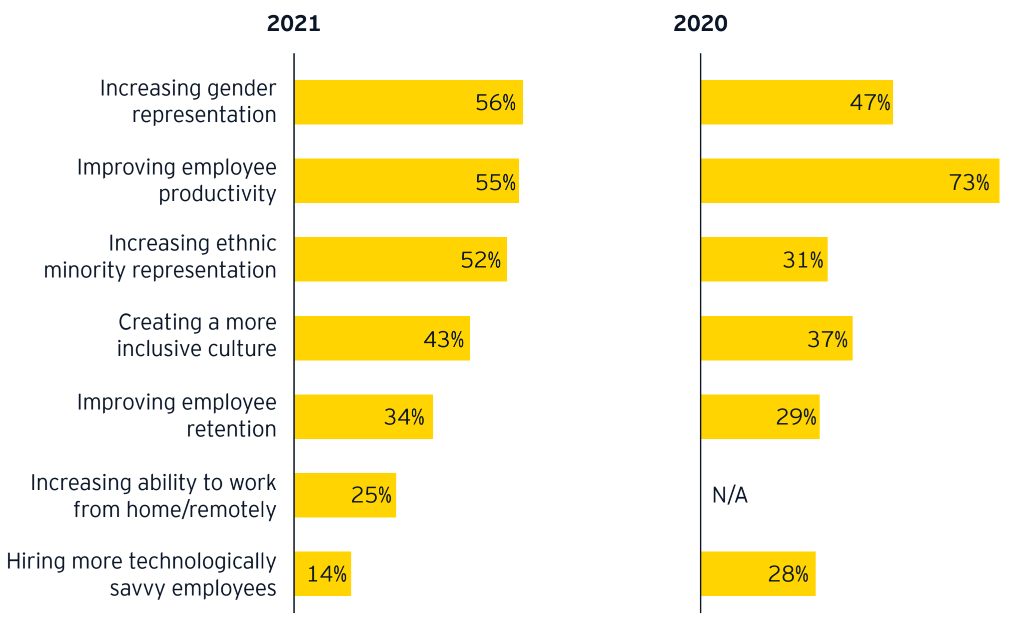
What are your top strategic priorities?



CHAPTER 2

In comparing results of this survey with prior surveys, we observed a slight shift in the priorities at the overall organizational level to the talent management front. In the past, managers' top priority for talent management focused primarily on enhancing middle- and back-office processes. Now that technology and processes are in place, firm managers are focusing more on applying talent management as a lever to drive employee productivity and engagement. This largely reflects the success of the efforts of private equity managers to deploy technology or process initiatives over the past two years, which has allowed private equity managers to redirect their focus to their people. While gender and ethnic minority representation were focuses in the prior year, private equity managers have shifted even more to address the composition of their talent pool with regard to gender and underrepresented minorities.

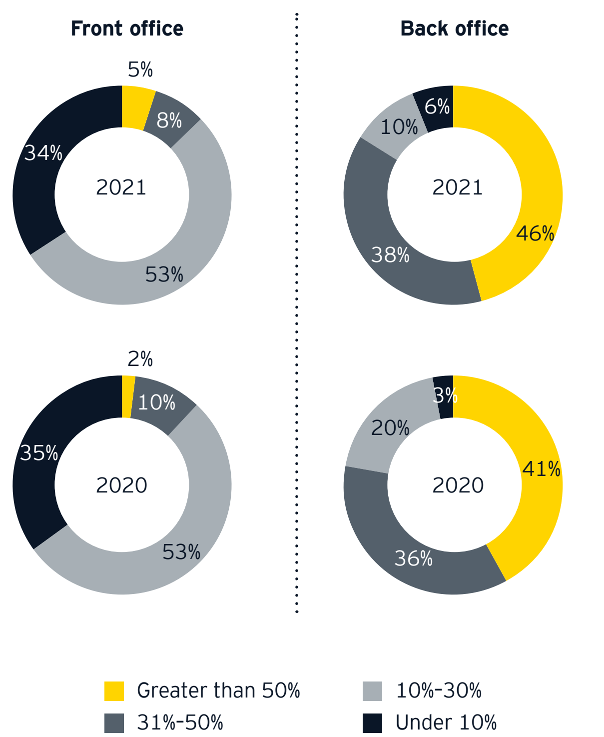
What are your top talent management priorities?



CHAPTER 2

From a gender perspective, firms reported making just slight progress, with an increase of only 1% reporting that at least 30% of their employees in the front office are women. At the same time, firms reported a 6% increase in respondents indicating that at least 30% of their back-office employees are women. Even though gender representation in the front office still lags, 46% of private equity managers said at least 50% of their back office comprises women. To remedy this imbalance in the front office, some private equity managers may want to make a concerted effort to increase the number of women in front-office roles, relying on the similar formula they used to improve back-office representation.

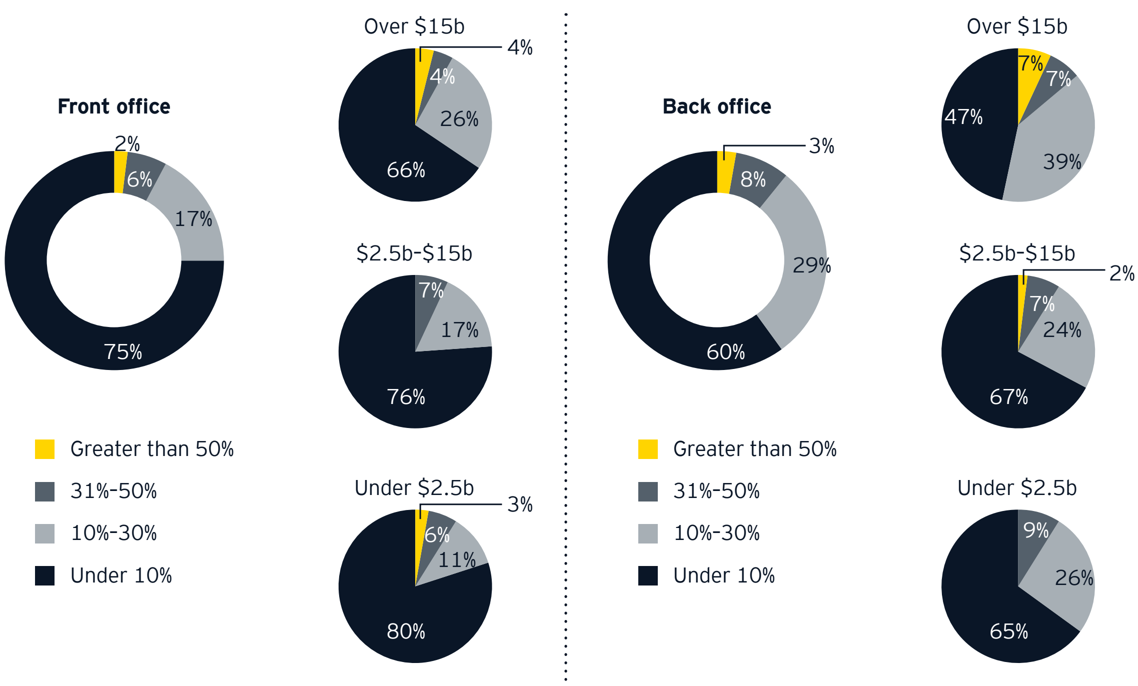
What proportion of the members of your firm are women?



CHAPTER 2

With the incremental progress they've made in gender diversity, private equity managers will need to focus even more time and attention on improving the representation of underrepresented minorities in both the front office and back office. Most firms recognize that they have a long way to go. Some 75% of the respondents indicated that less than 10% of their front office comprises underrepresented minorities, while 60% said minorities accounted for less than 10% of their back-office staff. While managers with over $15 billion in assets under management reported greater representation than smaller managers, managers of all sizes have a long way to go to increase diversity.

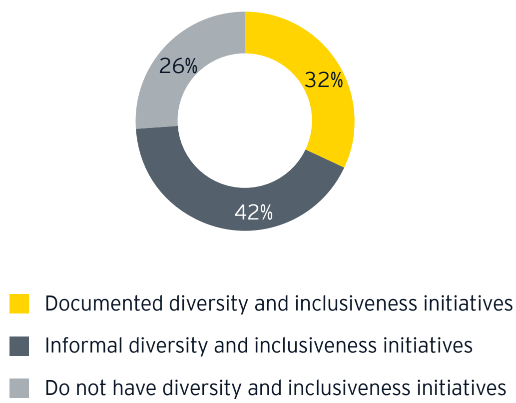
What proportion of the members of your firm are underrepresented minorities?



CHAPTER 2

To that end, more firms recognize that they need to improve minority representation and over 70% of the private equity managers surveyed said they are launching either documented or informal D&I initiatives. Of these, two out of three managers have used increased awareness during the promotion process and inclusivity training as components of their diversity initiatives. To a lesser degree, some managers are looking to modify their hiring practices. These new practices aim to provide candidates with a diverse interview panel and offer anti-bias training to interviewers. In addition, managers are increasing their exposure to diverse candidates by expanding recruiting at colleges and universities with a significant amount of diversity. Focusing on diversity will continue to stand at the forefront as 85% of managers have indicated that the effectiveness of their suite of diversity and inclusiveness initiatives will have a direct impact on diversity within their organization and on organizational culture or DNA.

Which of the following best describes your current diversity and inclusiveness initiatives?



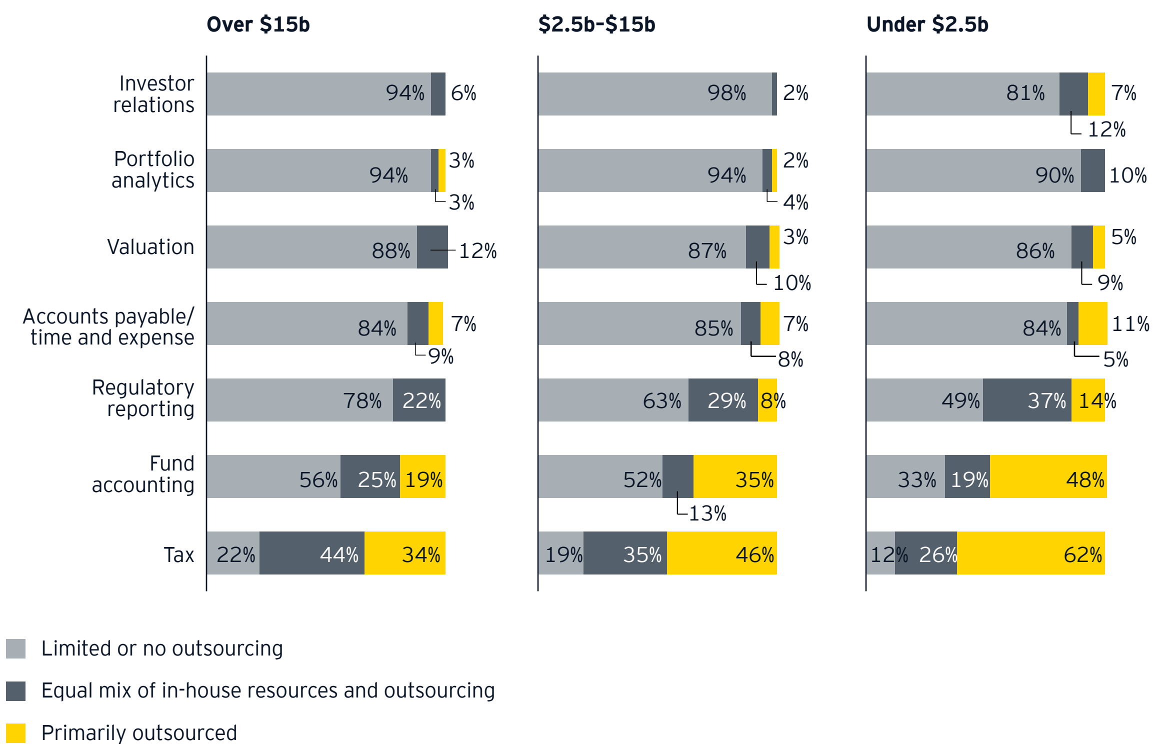
CHAPTER 2

Which of the following are components of your current diversity and inclusiveness initiatives?

CHAPTER 2

In addition to diversity initiatives, private equity COOs and CFOs oftentimes maintain responsibility for determining which functions should be performed in-house. For various reasons, more managers have begun to shift various core, routine functions into outsourcing arrangements, which continues to be most prevalent for the fund accounting and tax functions. This is especially true of smaller firms that may have financial constraints that challenge their ability to have a large and robust internal workforce of which larger, more established private managers have the luxury. However, private equity firms of all sizes are showing more comfort with outsourcing the traditional and more routine back-office functions, while still displaying resistance to using outsourcing providers in front-office functions such as portfolio analytics. As private equity managers continue to grapple with fee pressures and increased competition, however, the option of using outsourced providers for front-office functions might also be an area of opportunity for savings.

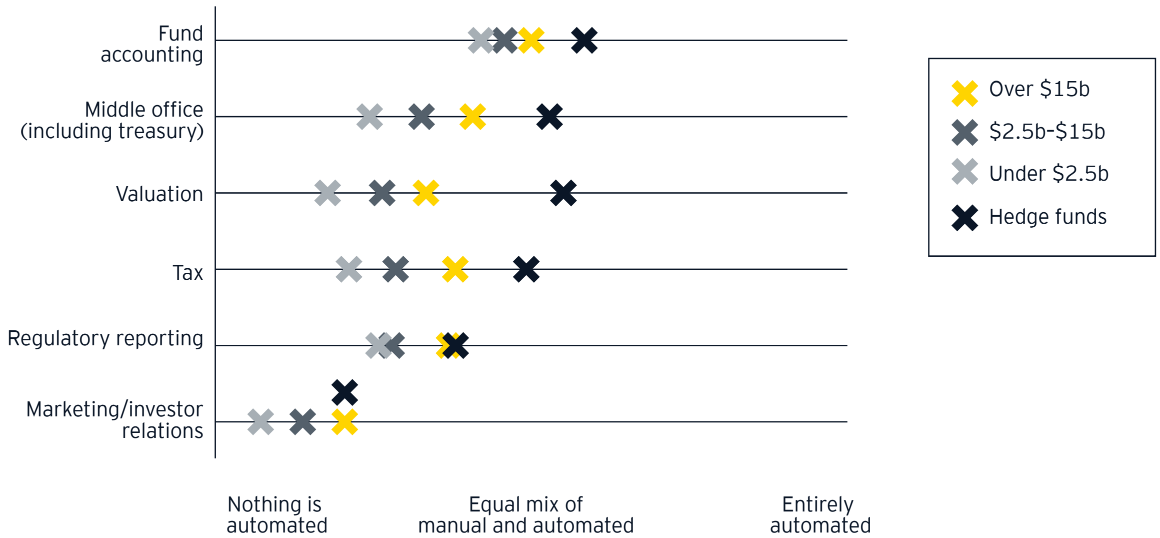
What is your level of outsourcing?



CHAPTER 2

Our survey results also indicate that larger managers are using automation as a tool to increase internal operational efficiency. Due to the prevalence of outsourcing used by smaller managers, it seems less likely they would rely on investment for their own internal automation. That might also be due to the fact they may not have adequate resources or expertise for developing their own automated solutions. Compared with other alternative asset classes such as hedge funds, private equity managers still remain behind their peers in automating their core business operations.

How automated are your finance functions?



CHAPTER 3

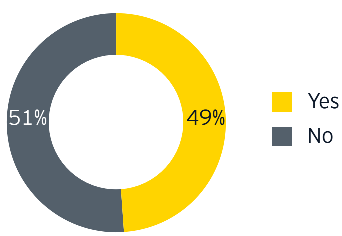
Environmental, social and corporate governance

CHAPTER 3

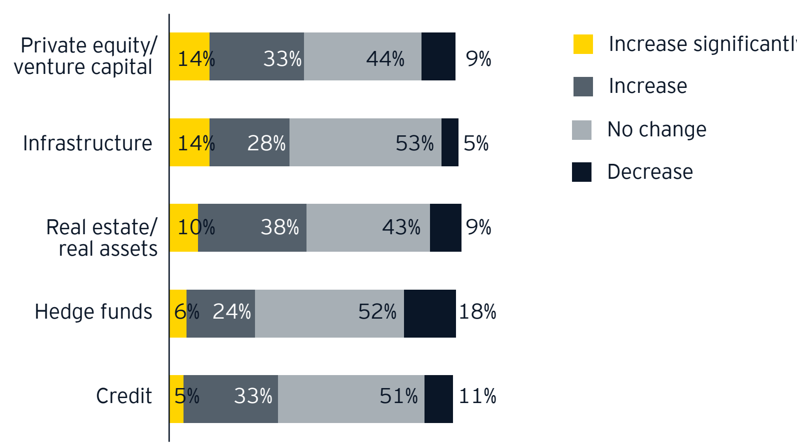
Investors no longer see investments based on ESG as a trade-off. In other words, they are no longer willing to accept weaker performance related to more ethical investment decisions as they will increasingly seek to build well-performing socially responsible portfolios. Roughly half of investors surveyed currently invest in ESG products and almost half of investors expect their ESG investing in private equity and venture capital to increase over the next two to three years. Only about half of the investors surveyed felt that there were enough ESG offerings to meet their needs. As such, ESG offerings are likely to continue growing to keep pace with investor demand. This partly reflects an evolving investor base that is more conscientious about how its behaviors, including investment activities, can lead to better social and environmental behaviors.

How do investors view ESG?

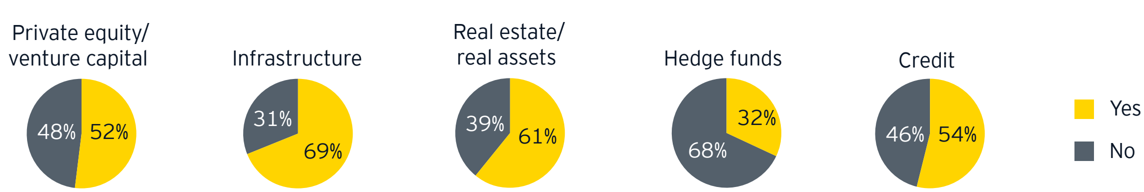
Do you invest in ESG products?



How do you expect the amount of ESG investing you do via the following alternative asset classes to change in the next two to three years?



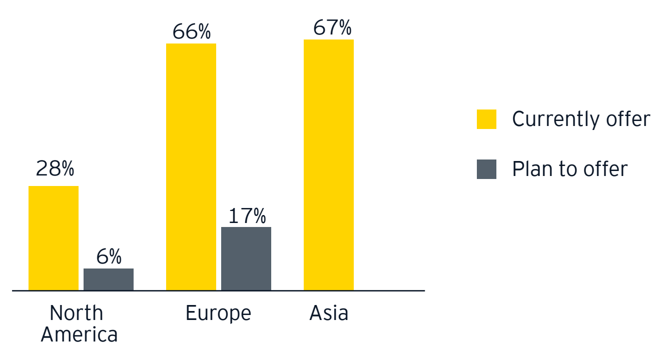
Do you feel there are enough ESG offerings to meet your needs in the next two to three years?



CHAPTER 3

Many investors attracted to ESG strategies believe that this strategy will tap into investments that outperform the general market. In addition, more people — particularly millennials and Generation Z — consider social and environmental impact a key element in their investment decisions. While managers in Europe and Asia are meeting this demand, managers in North America are lagging behind, though we anticipate an effort to catch up. There is increasing evidence that ESG investing may enhance performance, which puts firms that fail to offer ESG strategies at a further disadvantage as investors seek more sustainable investing options.

Do you offer ESG strategies to investors?

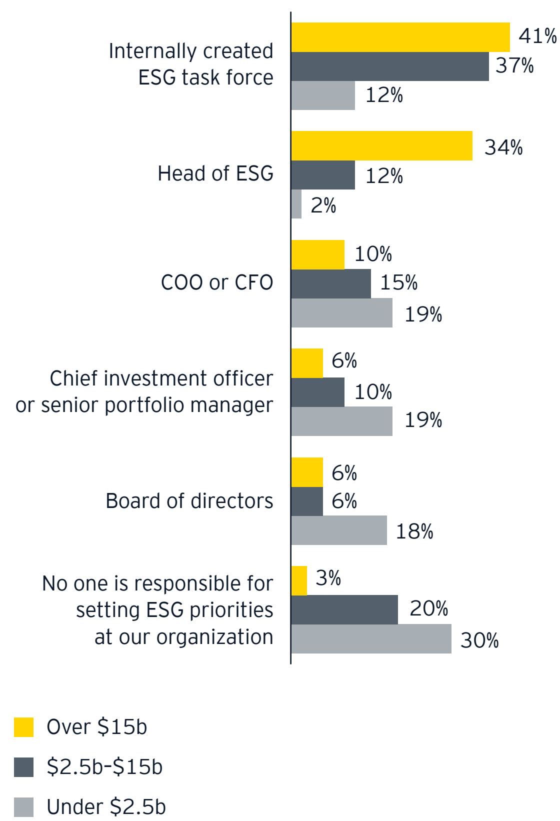


CHAPTER 3

As ESG issues rise in importance, senior leadership of private equity firms will play a much more active role in governance and oversight. While ESG responsibility within firms varies, the majority of larger firms have created a task force to lead these activities, particularly as ESG factors become more of a fiduciary duty. This requires those with oversight of ESG at private equity firms to gain a better understanding of the business and reputational risks created by ESG issues and manage those risks accordingly to create value for their firm and investors.

To that end, firms are increasingly developing internal policies that communicate values and commitment to ESG. These policies seek to change the public perception that asset managers are solely motivated by rate of return and will help to build goodwill with investors, employees and other stakeholders. The majority of the larger private equity firms typically have a formal ESG policy in place and nearly all European firms report already having an ESG policy in place. While the individual components of the ESG policies may vary, by and large they are currently focused on corporate governance and promoting the ESG activities with investors and within their organization.

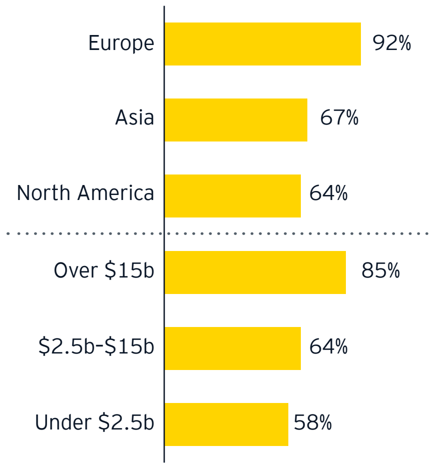
Who is responsible for ESG priorities?



CHAPTER 3

Currently, only 38% of ESG policies include regular external reporting on firms' initiatives to investors. As investor demands increase for ESG offerings, including reliable ESG reporting from investors, private equity firms' reporting will need to be more digestible, customizable and accessible. A number of organizations, including EY, are seeking to find common ground on nonfinancial reporting standards.

Who has an ESG policy?



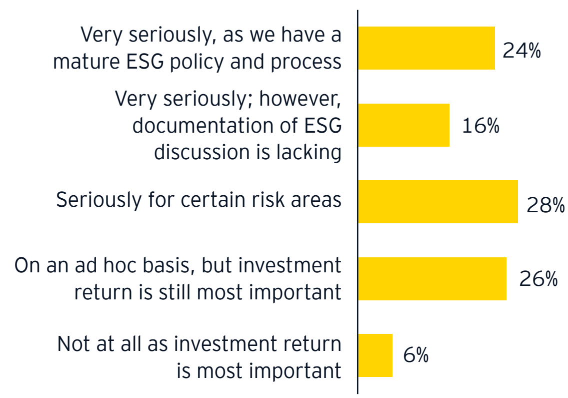
Components of ESG policies

CHAPTER 3

In addition, financial regulators are starting to pay more attention to how ESG risks are assessed, managed and disclosed. External drivers that include social consciousness, the "woke" political agenda, intensifying investor focus and the rising cost of climate change are rapidly converging to further accelerate the need to consider these risks in decision-making processes.

With greater focus on ESG from stakeholders, firms are increasingly taking ESG issues into account in the investment decision-making process. While the majority of the firms in our survey indicated that ESG risks are seriously or very seriously contemplated in decision-making, 32% of firms still said they only consider these risks and opportunities on an ad hoc basis relative to an investment's performance or don't view ESG risks as important at all. With no one-size-fits-all approach to how to assess ESG risks and opportunities, firms are now considering how these investment decisions will affect both the long-term value creation for the firm as well as more traditional shorter-term investment concerns such as individual fund returns.

How seriously are ESG risks and opportunities contemplated in the investment decision-making process?



CHAPTER 3

As firms integrate ESG elements in their investment decision-making process, those that ignore ESG considerations may unwittingly create an investment portfolio that fails to reflect risk and lacks proper management and disclosure, which makes returns appear to be safer than they are.

In the survey, private equity firms ranked governance as the top ESG risk. Better-managed companies are better equipped to manage risk and capitalize on business opportunities. Environmental performance is another top risk. Decisions that lead to poor environmental performance can also harm a company's reputation, not to mention its license to operate. As social, political and cultural attitudes continue to evolve, especially in a post-COVID-19 world, supply chain, talent management, human rights and climate risks are likely to increase. The COVID-19 pandemic has heightened awareness of the role ESG can play in determining a company's risk management and resilience.

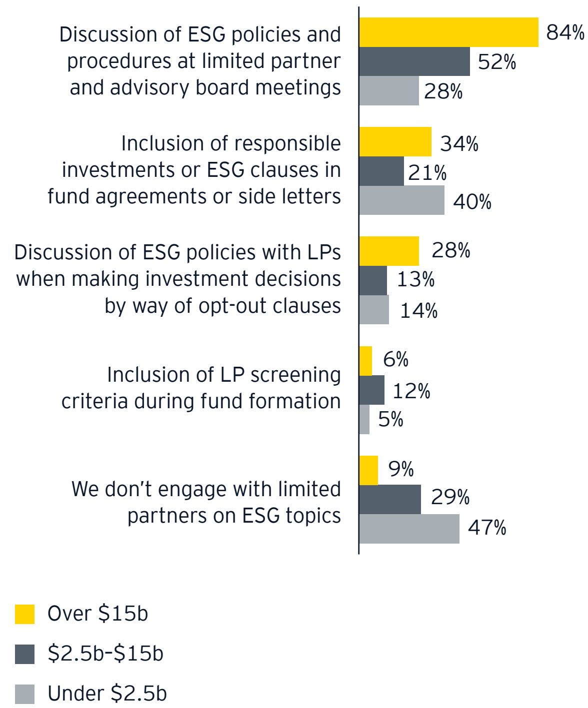
What are the top ESG risks you include in your decision-making?

CHAPTER 3

This increasing demand in ESG is also leading to more engagement with investors on this topic. Specifically, private equity firms are under pressure to demonstrate they are taking ESG seriously and have a sound understanding of how they integrate ESG issues into the investment decision-making process. In that respect, LPs are asking for robust documentation and reporting.

The survey shows that the majority of large private equity firms are engaging with investors at advisory board meetings. That can't be said for smaller firms, where 47% are still not engaging with investors on these ESG topics at all. With the growing interest in ESG, investors are looking to be more frequently engaged in investments through appropriate monitoring and expected reporting from private equity managers.

How are you engaging with limited partners on ESG topics?



BACKGROUND AND METHODOLOGY

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

Topics include the impact of COVID-19 on the private equity industry; talent management; process improvement, including technology; trends related to environmental, social and corporate governance; and the future landscape of the private equity industry.

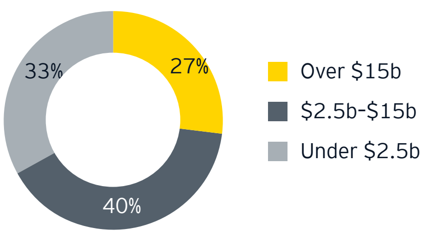
From June to October 2020, Greenwich Associates conducted telephone and online interviews with managers from 127 private equity firms. In addition, we also interviewed 72 institutional investors representing some $1.8 trillion in assets under management.

All amounts in the survey are US dollars unless otherwise stated.

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

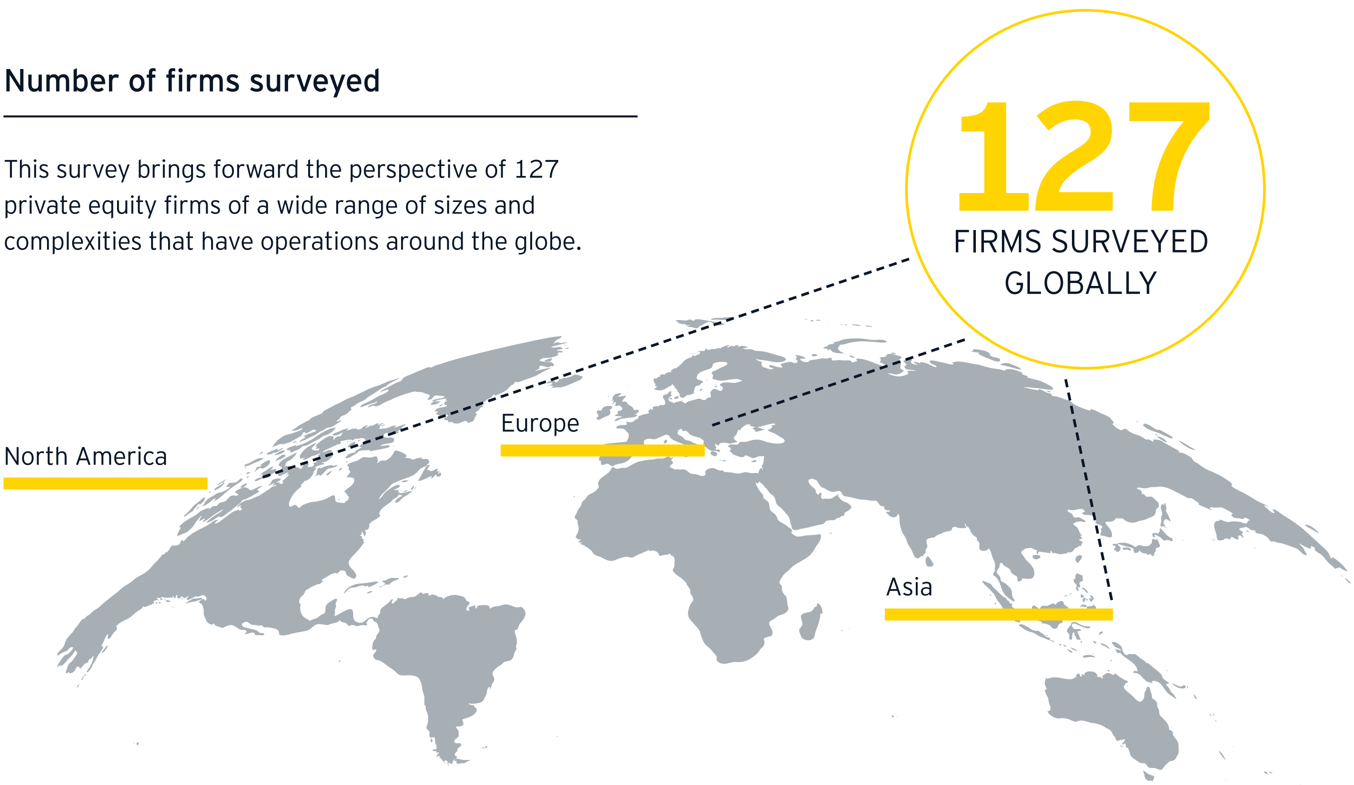
BACKGROUND AND METHODOLOGY

Respondent profile
What are your firm's total assets under management?

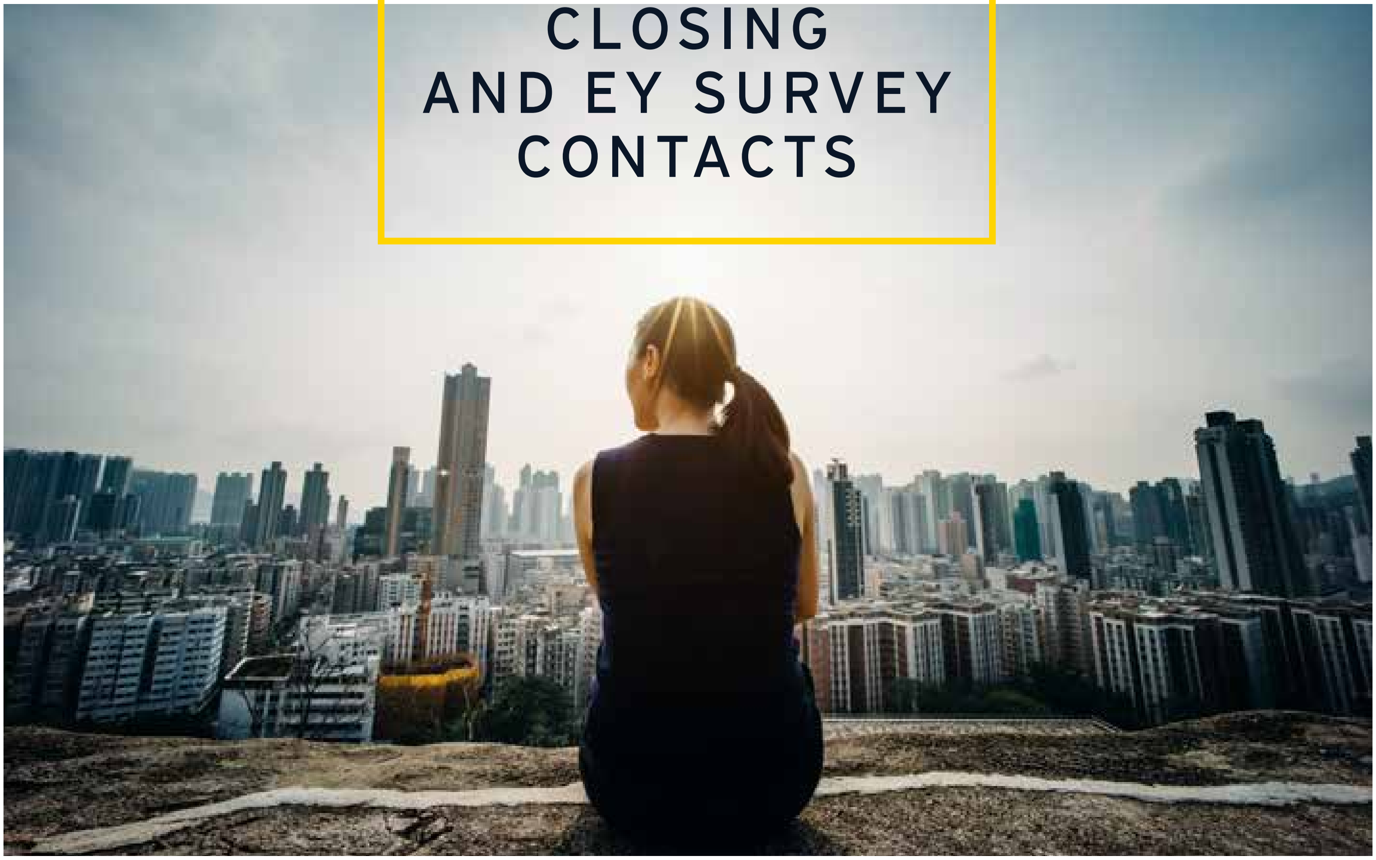


Number of firms surveyed

This survey brings forward the perspective of 127 private equity firms of a wide range of sizes and complexities that have operations around the globe.



CLOSING AND EY SURVEY CONTACTS



In closing … in the past eight years as we've conducted this survey, we've watched private equity CFOs, COOs and finance executives proactively assume greater responsibility for improving their firms' overall operations.

The year 2020 brought even more challenges to these private equity executives due to the disruption caused by COVID-19. As our survey reveals, the job of the private equity CFO and COO and finance executives continues to be one that challenges these executives on all fronts, but even in the most disruptive of environments they continue to lead and focus on their firms' strategic priorities.

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