



How do you see the opportunity in your obstacles?

To reach operational excellence, private equity firms need the right insights to learn as they go – discovering new ways to overcome obstacles and seize opportunities.

2019 Global Private Equity Survey



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



Building a better
working world

with appreciation

We would like to express our appreciation to the 103 private equity CFOs who offered us their valuable insights and observations. In this report, we seek to identify the obstacles CFOs face as they implement scalable finance solutions in this current historical growth environment. We believe these insights will assist stakeholders in making informed decisions as they continue to evolve into the private equity firms of the future.





see the opportunity

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Global Private Equity Survey

2019

executive summary

02



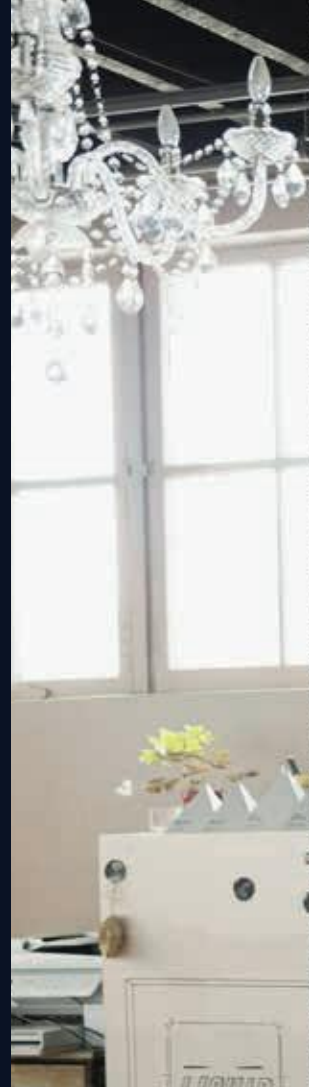
2019 Global Private Equity Survey executive summary


Private equity firms continued to pursue aggressive growth strategies in 2018, expanding portfolios through new offerings and bringing in more than \$681 billion in new assets. Yet, even as the industry marked another year of unprecedented growth, many of the CFOs who participated in the sixth EY Global Private Equity Survey said they are still trying to overcome operational issues that impact margins and potentially impede their ability to compete for investment assets.

To be sure, private equity firms have made great strides in the years since we started this survey, building a solid foundation to support operational changes as they head into the digital age by deploying new technology solutions as well as other measures that may improve operational efficiency, such as relying

on outsourced service providers for more routine functions. At the same time, many private equity CFOs recognize they still have a long way to go before they build a sophisticated IT infrastructure that rivals those maintained by long-standing mutual funds and hedge funds.

In many ways, as CFOs move their organizations down the road to operational efficiency, they are finding new challenges lurking around every bend. While these obstacles are hardly insurmountable, they often demand that CFOs make key decisions. For example, by customizing offerings to expand asset classes, CFOs may put firms in the position to raise additional funds. At the same time, these funds create greater complexity in terms of servicing, such as separate fee structures and reporting systems.





private equity firms continued
to pursue aggressive
growth strategies in 2018

This is not entirely unexpected. Any organization that deploys new technology and business processes often encounters unforeseen complexities. Yet, private equity firms do not have the luxury to step back and reassess how to find a way forward. In fact, given the increasing pressure on margins, they will need to address this issue with some urgency. Nearly 40% of CFOs reported that margins have worsened over the past two

years, while only 28% saw their margins improve in this period of asset growth.

Many private equity firms have begun to offer customized offerings for individual investors, such as separately managed accounts and funds of one. Firms are also looking to other asset classes, such as private debt, real assets and real estate. These asset classes have typically been

offered by other types of asset managers, but now private equity managers are adding these offerings to their traditional fund offerings.

While most firms said they are moving rapidly to improve their operational infrastructure to address margin pressure, more than half, or 57%, said they were taking both a long, strategic approach while dealing with short-term

issues as they arise. In some cases, this means they are also looking to deploy cutting-edge technology, taking the view that improving operations is not just a cost, but also an opportunity to adopt strategic, integrated digital IT systems that will help to accelerate growth and ultimately reduce the need to rely on increasing headcount as growth continues.

Like their counterparts in other industries, private equity CFOs face a rapidly changing and seemingly endless list of responsibilities. In recent years, these have expanded to include focus on preventing cyber attacks, managing talent and deploying new IT systems. Moreover, these tasks only add to their normal range of responsibilities, such as maintaining a well-run financial team and keeping an eye on margin erosion for the management company.



... private equity firms need to adjust their recruiting practices to attract a more diverse workforce ...

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As in past years, this survey has focused on three key areas that represent the changing realm of responsibilities for private equity CFOs: technology, talent and outsourcing. We will touch on these briefly here before going into greater depth in the survey.



Technology

While private equity firms have deployed new IT systems over the past several years, many CFOs reported that they have yet to see the full payoff. This is simply due to the time lag between implementing new technology and realizing the full benefits. Many firms still need to make sure that they are entering clean data that will yield accurate reports. Other firms still need to fully integrate systems among different functions. Of course, to get the most out of any new technology, firms also need to take steps to help people using the technology leverage its full capabilities.

This is not an overnight process, and while firms are making progress, they still have a long way to go.

Given that many private equity firms are just emerging from the era of Excel spreadsheets, it's not surprising that they have been slow to adopt next-generation technologies, such as robotics. Currently, only one-quarter of private equity managers plan to invest in robotics. Still, larger firms are more open to this option and have begun to develop use cases to determine how they would leverage robotics to manage portfolios and create efficiencies for routine operations.

Talent

Private equity CFOs play a pivotal role, often in the background, as the ones responsible for making sure their firms operate at a high state of efficiency and resiliency. Given the financial nature of the business, the CFOs are charged with driving technology transformation, overseeing talent development and deciding which business processes should be outsourced. In this role, they are also keenly aware of the need to elevate the talent within their organizations to remain competitive.

As margins come under increasing pressure, they face a distinct

challenge, because they can't simply hire more people to improve service delivery. Even more, private equity firms need to adjust their recruiting practices to attract a more diverse workforce, particularly people with IT backgrounds who are better equipped to leverage technology and interpret data. While smaller firms are confident they will have the right workforce in place three to five years from now, larger firms are less confident, because they are well aware they will need to hire people capable of exploiting the full capabilities of more sophisticated IT systems.



Outsourcing

In addition to in-house technology upgrades, outsourcing is another key way to alleviate margin pressures. While the mutual fund and hedge fund industries have long partnered with outsourcing providers, private equity firms have been slower to outsource. However, they are beginning to increase their spending with outsourcing providers, and we expect that to continue in the year ahead.

Outsourcing holds the potential to yield significant benefits for private equity firms. Outsourcing providers that have a robust technology platform and a proven infrastructure at their disposal to remove operational burdens would allow employees to focus on value-added tasks by taking over the more routine and time-consuming activities currently being done in-house at higher costs.



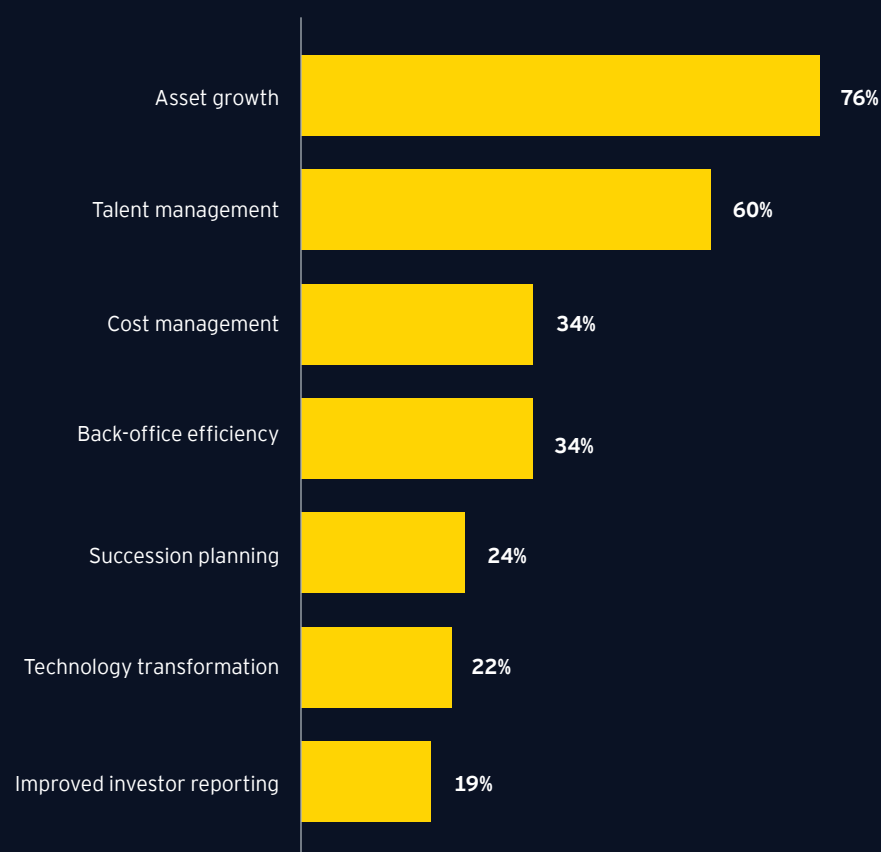
the challenge ahead

As we've talked to CFOs over the course of conducting these surveys, it's become increasingly clear they play a critical role as the architects of financial stability and the ultimate success of private equity and venture capital firms.

But they are also unsung heroes, working largely behind the scenes as they take on greatly expanded roles, guarding against margin erosion while also taking steps to help their organizations improve their cybersecurity, enhance talent management and deploy new IT systems.

Without their keen insights and active guidance and support, most private equity firms would be hard-pressed to compete for investment funds. They are ones who need to look ahead and see the obstacles on the road to operational efficiency and help firms continue moving forward down the path to success.

What are your top strategic priorities?



Assets under management (AUM) compared with composite results	Over \$15b	\$2.5b-\$15b	Under \$2.5b
Asset growth	=	=	+
Talent management	+	=	=
Cost management	+	=	=
Back-office efficiency	=	=	=
Succession planning	-	=	+
Technology transformation	+	=	-
Improved investor reporting	=	=	=
Key: + Higher priority - Lower priority = Same priority			



the growth agenda

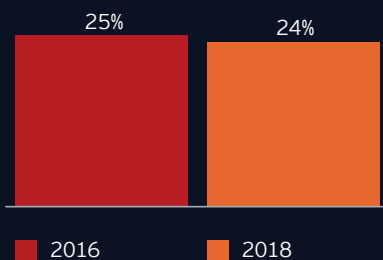
08

Alternative investments continue to attract investors' dollars. Investors who responded to our survey said that they had currently allocated approximately 24% of their assets to alternative investments. Private equity and private credit currently represent nearly 30% of investors' alternatives portfolio. This allocation is expected to grow, as nearly 40% of investors indicated they plan to increase their exposure to private equity in the coming year. Based on current market conditions and the lack of significant returns in the public markets, private equity faces increased competition from other alternative investment participants, such as hedge funds. Many of these funds are looking to increase AUM through private investment vehicles or enhanced returns through private investments.

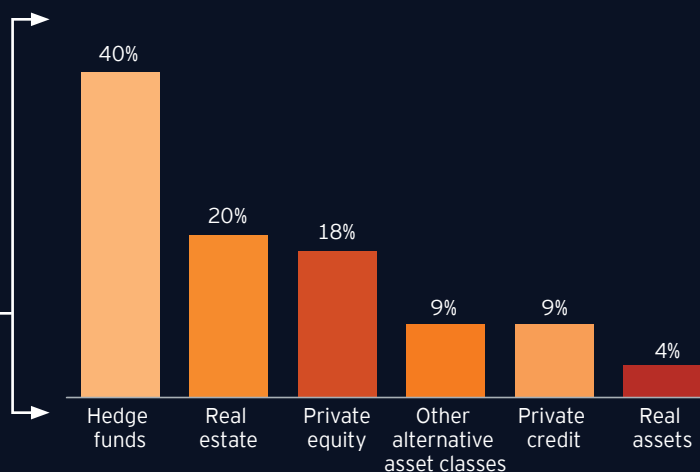
The growth agenda

Of the 24% of investors' investment allocation going to alternatives, traditional private equity makes up nearly **20%** of the typical investor's alternatives portfolio, though many investors expect that to grow.

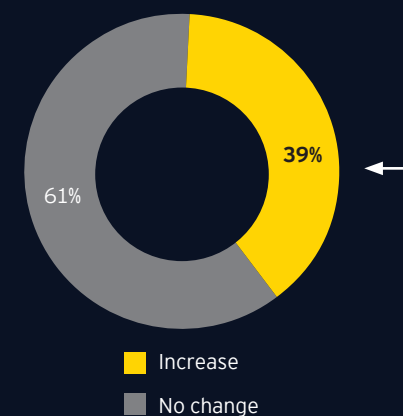
What are investors' asset allocations to alternatives?



How are investors allocating across alternatives?



Expected change in private equity allocations



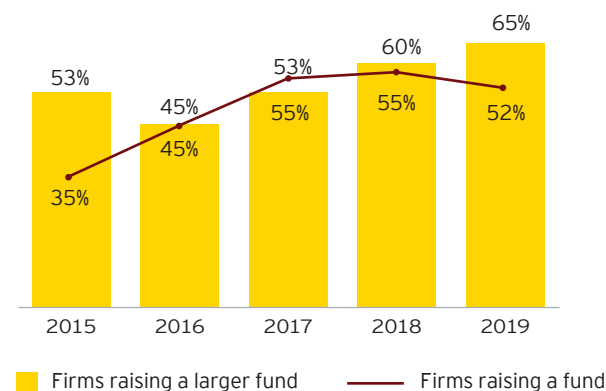
Raising a new private equity fund: private equity firms are not slowing down and are continuing to raise larger funds



... private equity managers must continue to look for opportunities to attract investors ...

With the current environment suited for private investing, the boom in private equity fundraising does not show any signs of abating. For the past three years, more than half of private equity CFOs have said that they expect to raise new funds to take advantage of the increased allocation for private equity investing. In addition, for the third year running, most (65%) of the firms that are planning to raise a new fund expect that it will be larger than their last. As fundraising continues, private equity managers must continue to look for opportunities to attract investors, especially considering intense competition, to ensure that growth does not come at the expense of margins. This means that managers will look toward customized and nontraditional solutions that appeal to a wide array of investors.

If you are planning to raise a fund in 2019, will the fund be equal to, smaller or larger than your last fund raised?

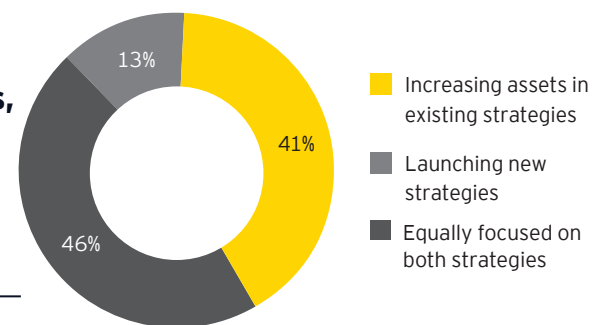




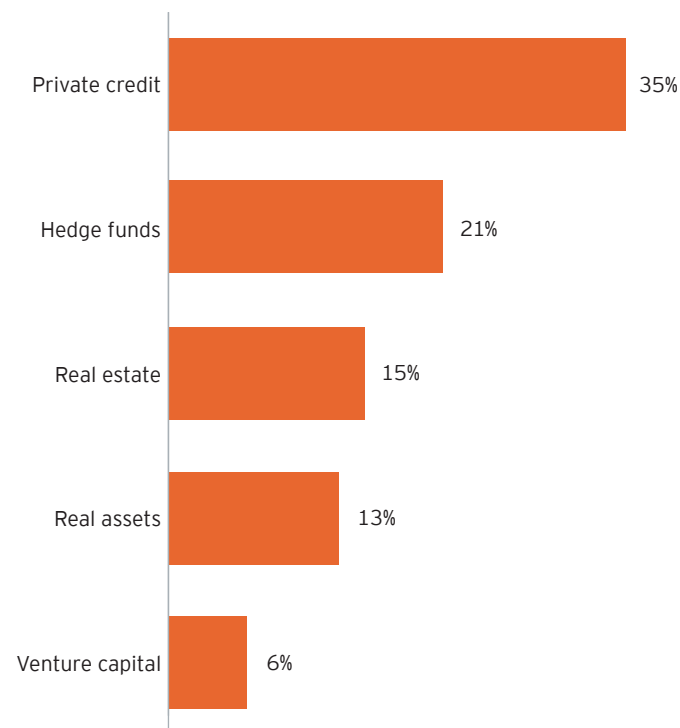
Private equity managers are looking to expand their product offerings to grow assets.

Not satisfied with managers' traditional alternative offerings, investors are increasingly looking for more customized solutions. Private equity managers have been sensitive to these needs, with nearly two-thirds launching new strategies; only 41% are focused solely on increasing assets in their current strategies. However, private equity CFOs must also recognize that any move into new asset classes will bring competition. In fact, nearly one-quarter of the hedge fund managers surveyed note that they currently offer (or plan to offer) private equity vehicles. Hedge funds – like private equity managers – are also looking at private credit as a way to attract additional capital. In addition, one-third of private equity firms are also offering real estate, real asset or venture capital funds. New offerings also pose additional challenges, such as placing an increased burden on managers from an operational and talent perspective. Therefore, it is not surprising that CFOs rank talent as their second most important strategic priority (after growing assets).

In your quest to grow assets, which of the following is your primary focus?



What nontraditional products are private equity managers offering?



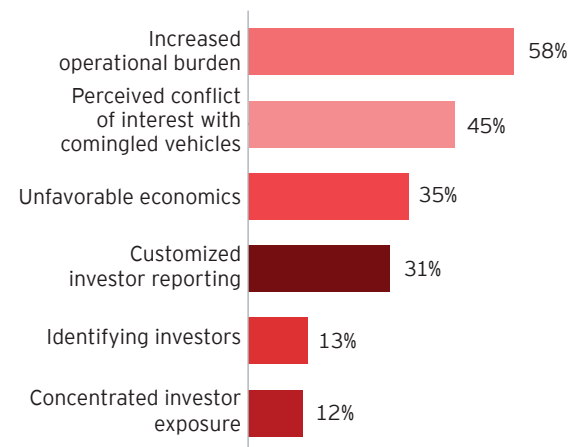
About **15%** of private equity firms' assets are in separately managed accounts (SMAs) or single-investor funds

In addition to new offerings, private equity firms are also realizing the benefits of offering SMAs and single-investor funds. This is particularly true for small firms with under \$2.5b in AUM. Many of these small firms do not have the name recognition or track records as larger firms, which means that SMAs and single-investor funds offer an opportunity to differentiate in an increasingly crowded landscape and offer more flexible terms. At the same time, SMAs should be weighed against the challenges they present. Of particular concern are operational challenges in the middle or back office. Nearly 60% of private equity CFOs note that these present a significant burden and generate higher costs. CFOs also need to keep a close eye on the economics of SMAs, as 64% offer a reduced fee vs. commingled funds.

What proportion of your firm's AUM is in these product offerings?

	Over \$15b	\$2.5b-\$15b	Under \$2.5b
Commingled funds	87%	87%	80%
Single-investor funds	7%	10%	14%
Separately managed accounts	6%	3%	6%

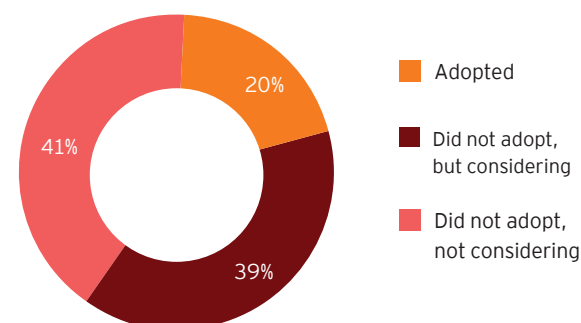
What are the challenges to offering and operating separately managed accounts and single-investor funds?



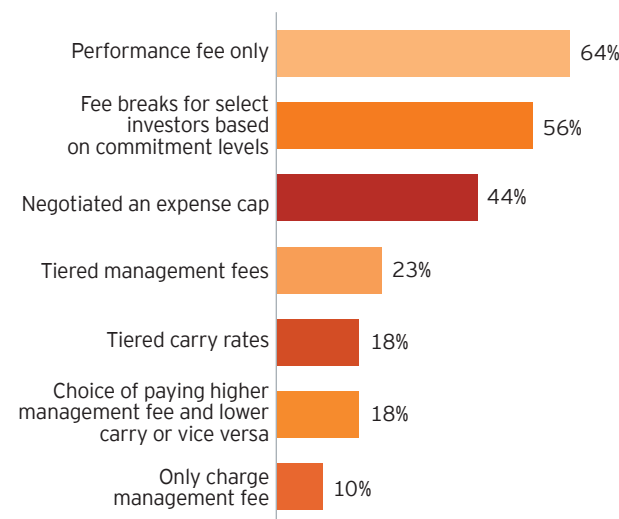
Fee structures: private equity firms are looking at nontraditional fee structures

With no shortage of asset managers competing for investors by offering products with small or no fees at all, institutional investors are not shy about demanding nontraditional fee models. Nearly 60% of private equity CFOs report that they have already adopted or are considering adopting nontraditional fee offerings to attract new assets. For firms that utilize nontraditional fee structures, charging a performance fee above a hurdle threshold is the most popular option. More than half of managers already offer (or are considering offering) fee breaks for investors based on commitment amounts. As the dynamics of fund management change, CFOs and investors alike will continue to seek a delicate balance for fee structures that address investor desires as well as the profitability goals of private equity managers.

Have you adopted any nontraditional fee structures? If not, would you consider adopting?



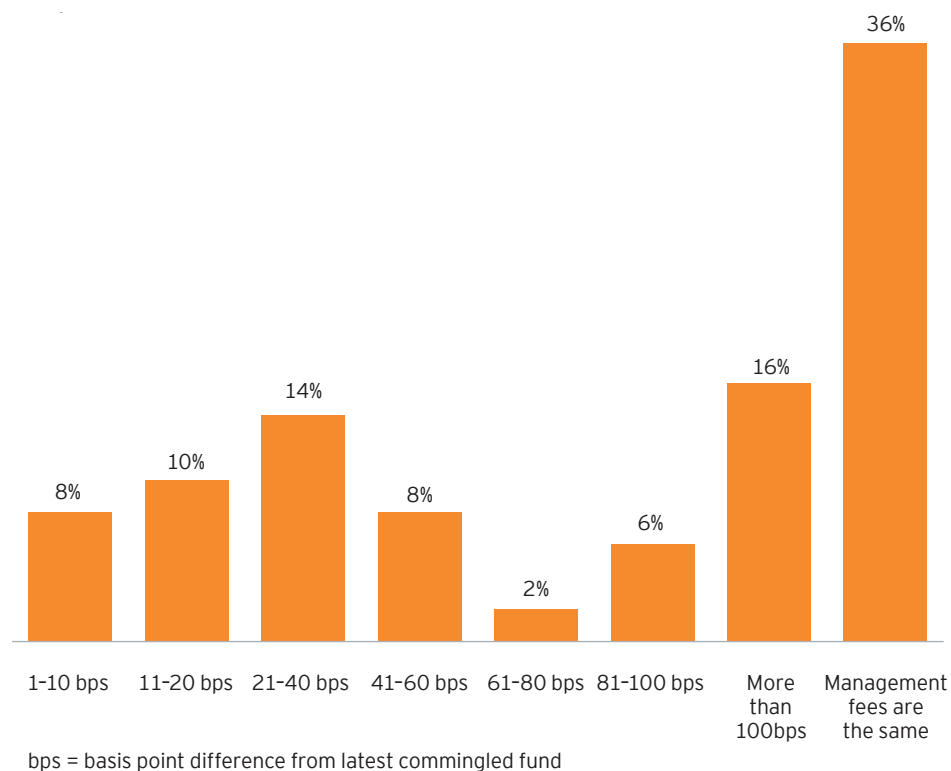
Which of the following nontraditional fee structures do you offer?



How low are managers willing to go?

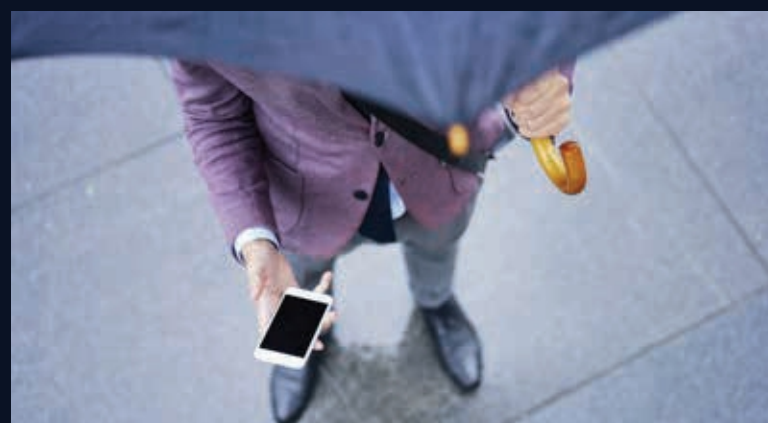
Customized fee structures are not the only way that managers are looking to secure mandates from investors. Managers are also utilizing fee concessions or reductions from the normal commingled fund fee to attract investors who may be looking for a separately managed account. Approximately 36% of managers responded that their management fee structure is the same as the commingled fund offerings, while approximately 64% indicated that they offer some type of reduced management fee. While there is disparity on the fee discounts managers are offering, two ranges are most popular for reduced SMA fees: more than 100 basis points (16%) and 21-40 basis points (14%).

How much lower is your average management fee for separately managed accounts and/or single-investor funds compared with those charged in your commingled funds?





**How do you
see the
opportunity
in your
obstacles?**



maintaining margins during a period of growth

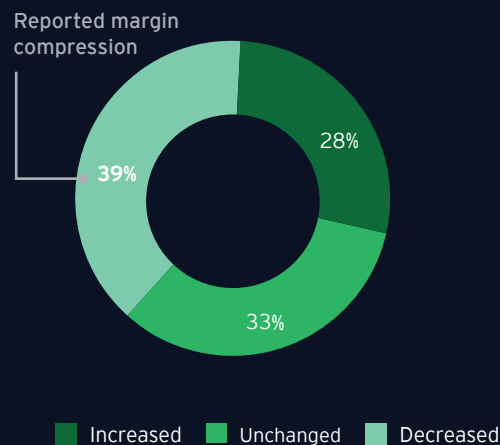


margin erosion is affecting nearly
40% of private equity managers

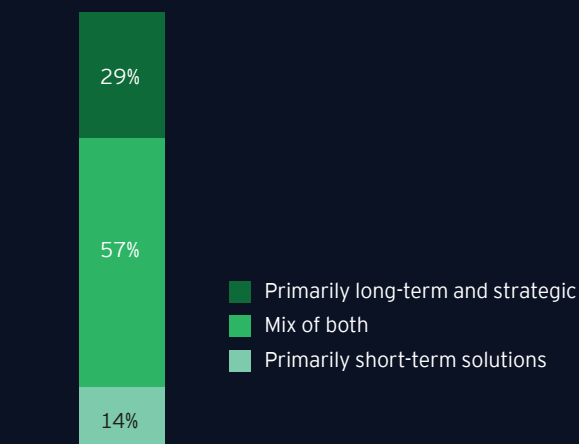
Few managers have seen margins improve

The pressures facing private equity managers are well-known – fee pressure and growing expenses, to name a few. This environment is straining the economics of almost every manager. Despite these headwinds, 28% of private equity managers reported that their margins have improved over the last two years. On the other hand, nearly 40% reported margin compression. When asked how they would categorize the actions they have taken to push back on margin compression, private equity managers said that they tried to strike a balance between shorter-term tactical actions, such as looking at headcount reductions or vendor repricing, and long-term actions. These include investing in technology to streamline operations or to leverage outsourcing providers. These levers, which often require upfront investment and broader organizational commitment and resources, tend to result in both higher efficiency and lower costs over the long run. Tactical actions often yield immediate benefits, but rarely contribute to long-term scalability.

Over the past two years, how have the margins of the management company changed?



How would you categorize the actions taken to mitigate margin erosion?



Private equity firms are looking at many areas to reduce cost

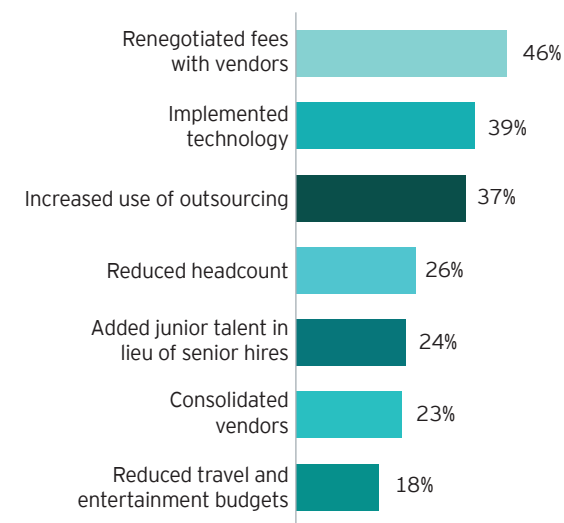
The private equity industry is keeping an open mind when it comes to addressing concerns about margin erosion. Nearly 40% of CFOs say that technology is at the top of the list, which is not surprising given that most CFOs surveyed report taking a longer-term view on how to address margin erosion. Outsourcing ranks not far behind. As vendors continue

to develop solutions designed to meet private equity firms' needs, CFOs are responding by turning toward third parties rather than solely expanding their in-house operational capabilities. This trend, combined with increased use of technology, has allowed approximately one-quarter of private equity firms to either reduce headcount or hire more junior talent in lieu of senior hires.

Private equity firms continue to challenge the course they've set for achieving operational success. In an increasingly competitive environment, these strategic actions are critical to long-term success. But as we've seen, the way firms achieve this success depends on the maturity and the relative size of the organization.

In the survey, larger firms continue to leverage economies of scale as they increasingly turn to technological solutions to achieve operational efficiencies across functional areas. Firms have broadly shown a willingness to consider outsourcing, although a lack of vendors, except for tax services, limits the viable options. Midsize firms face challenges with not having the benefit of scale of larger firms or the flexibility of smaller firms and tend to rely heavily on headcount. For smaller firms, outsourcing, headcount and technology are the primary paths being taken to increase operational efficiency and scalability.

Which of the following actions have you taken to mitigate margin erosion of your management company?



Despite increasing availability of technology and outsourcing operational solutions, firms continue to invest in people.

Adapting to achieve operational success

What is your strategy for achieving operational success?

	Over \$15b	\$2.5b-\$15b	Under \$2.5b	
Investor relations				Methods People Outsourcing Technology
Fund accounting				
Treasury				
Tax				
Portfolio analysis				
Valuation				
Accounts payable and time and expenses				



technology

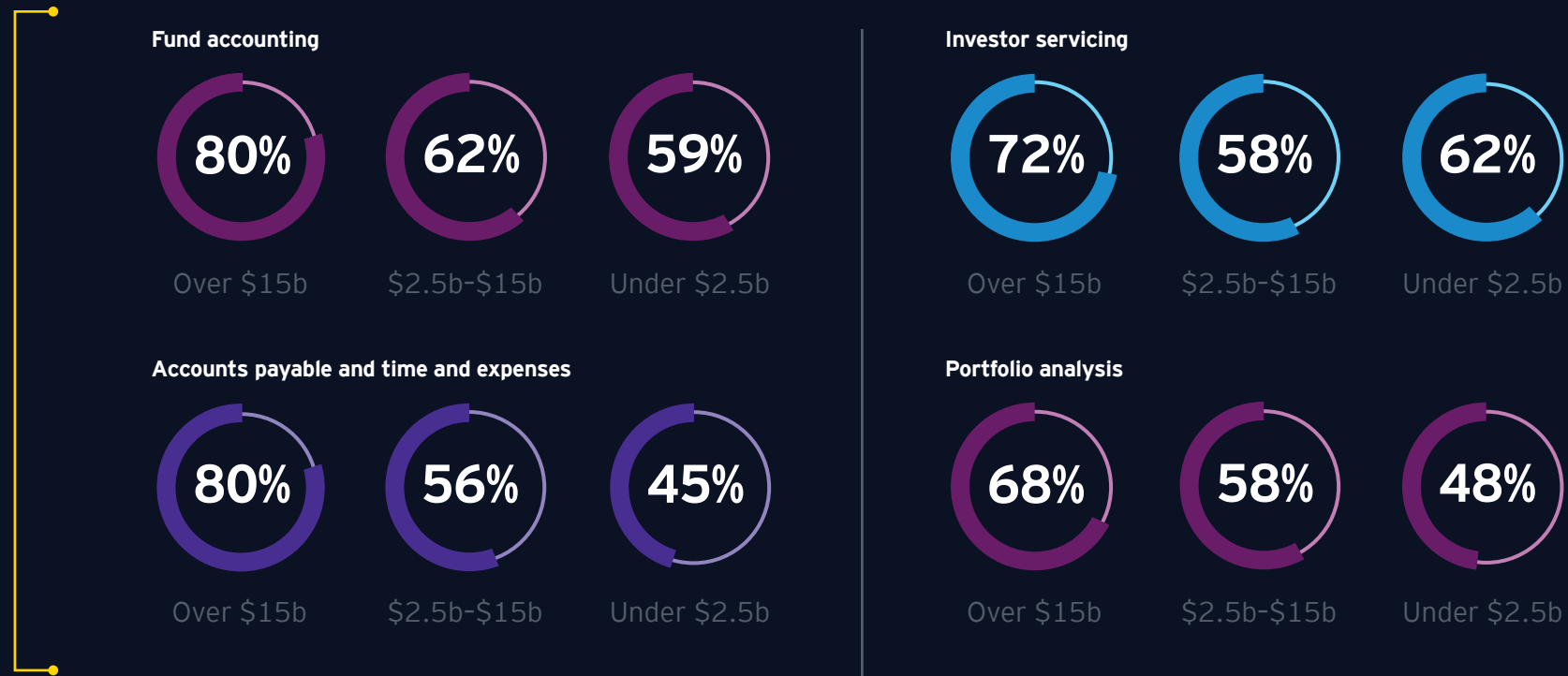
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The private equity industry is making significant investments in technology

In which areas did you make technology investments in the past three years?

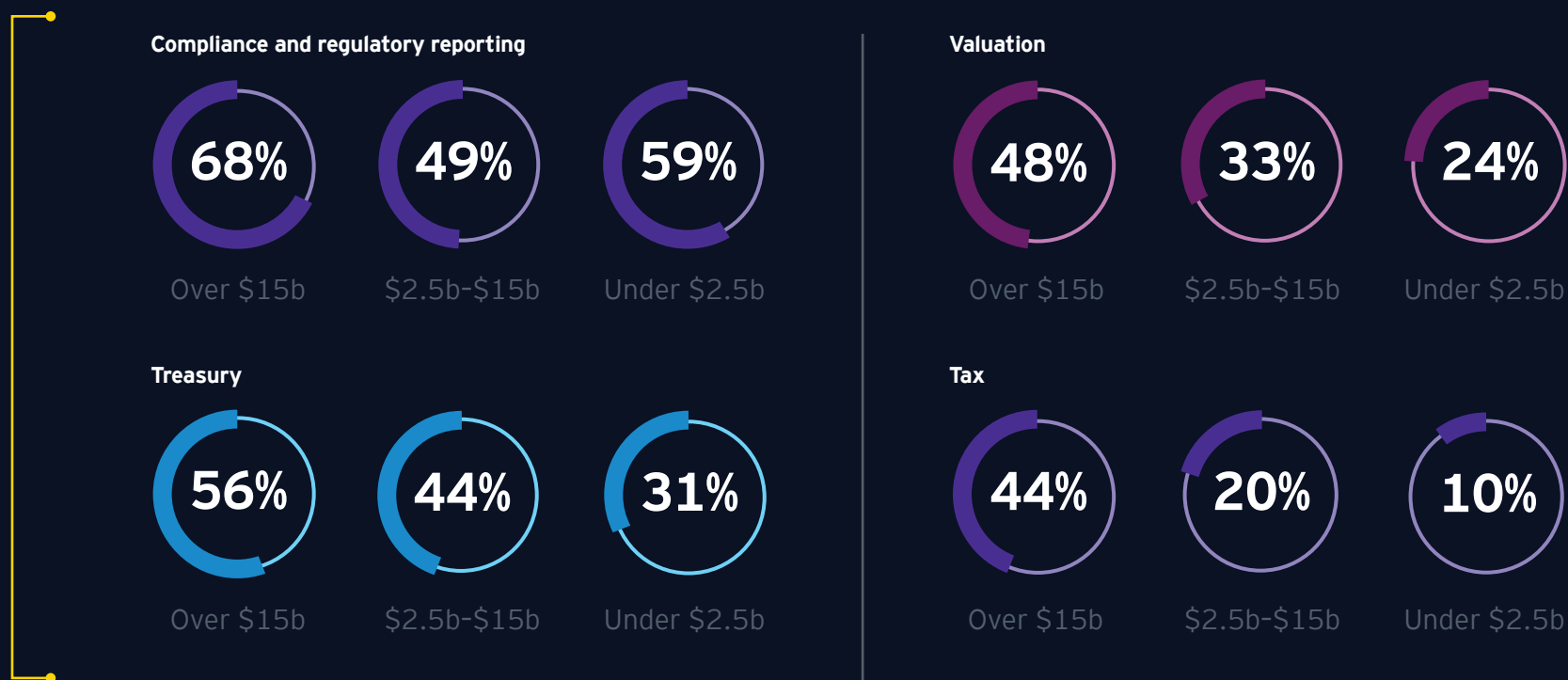


Technology investments by AUM



technology
investments

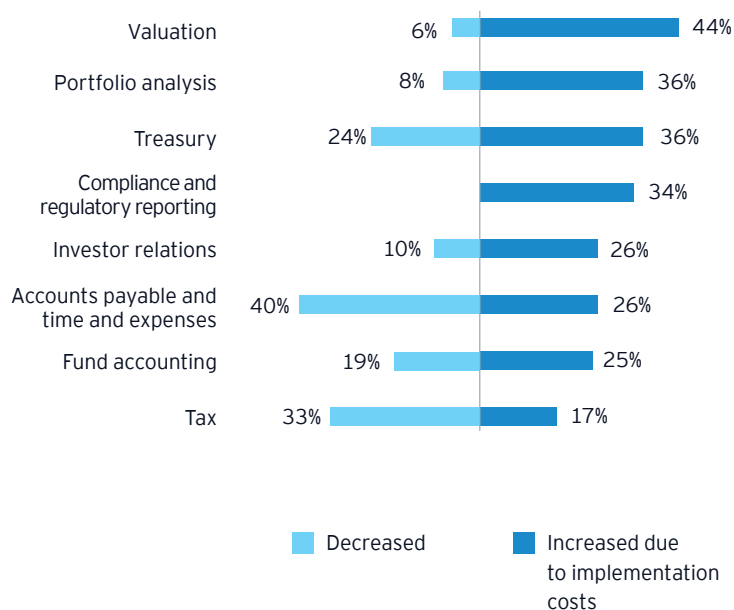
Technology investments by AUM



Technology investments do not always pay off in the short term

For the vast majority of private equity finance functions, the cost of deploying new technologies still outweighs the current benefits on the back end. Many private equity firms are currently contending with new obstacles that were not contemplated at the outset of the technology implementation, such as ensuring that the data is clean, taking additional steps to integrate systems and training in-house talent on new digital systems. While these obstacles are delaying the payoff, many managers believe the upfront spend on technology will ultimately lead to additional efficiencies going forward. Areas such as tax compliance and accounts payable and time and expenses have already seen a net benefit from the technology spend. We expect to see a net benefit to cost as well as from technology implementation in fund accounting and treasury.

What is the overall impact to date of technology investment on operating expenses?



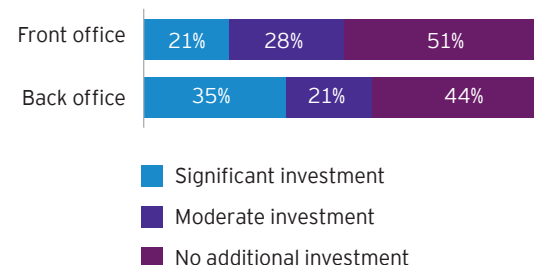


Technology for nontraditional growth: new product development often requires additional technology investment

Launching new strategies typically ranks as one of the primary drivers for investing in new technology. Legacy technology platforms have been built around the nuances of current businesses and lack the ability to support the new offering, especially in the middle and back office. In addition, technology vendors have traditionally built their products to support the unique needs of a specific strategy. Though continually evolving, few off-the-shelf solutions exist to adequately handle multiple investment strategies.

In the survey, respondents are split evenly on whether they invested in technology to support a new strategy. When firms opt against introducing new technology into their operating infrastructure, they typically outsource to a third-party administrator that specializes in the offering. These managers believe this approach enhances operations with immediate access to the technology, leading practices and knowledgeable resources.

How much additional technology investment was needed to support your nontraditional products?



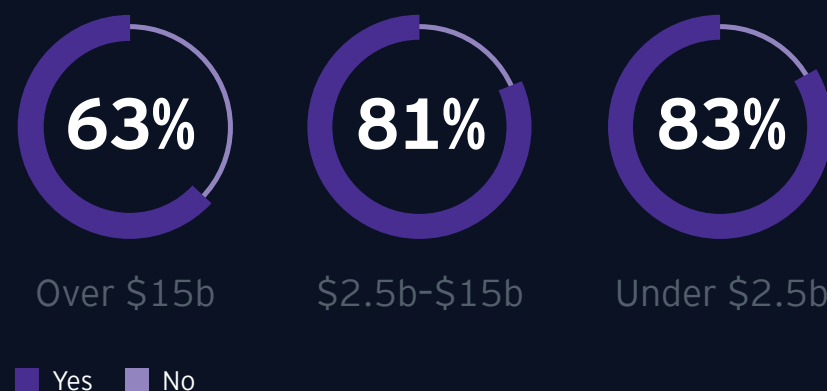
The gap in technology implementation and current personnel capabilities

Organizations not currently planning to enhance their technology typically believe their personnel have sufficient understanding of data and technology. These organizations tend to rely on Excel, so they are primarily concerned about keeping their Excel skills current. In addition, a few of the organizations that have invested in and implemented new technology still lack sufficient internal knowledge. This is critical because client satisfaction and realization of the expected operational lift is often directly correlated to the technical and data skill level of the individuals on the team. Many private equity managers have not transformed current hiring practices to address this deficiency.

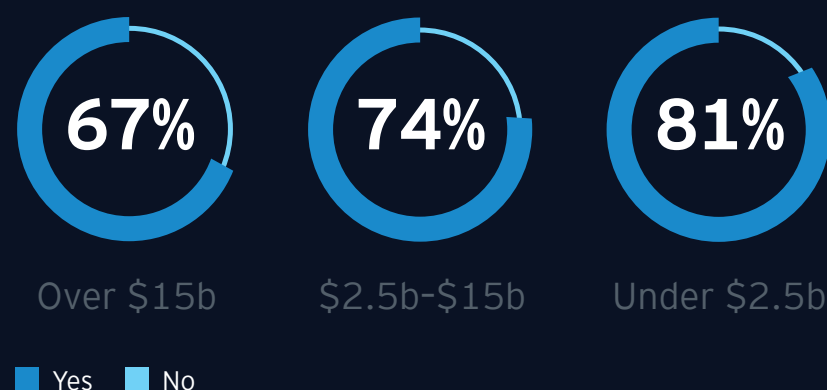
Building a workforce with relevant data and technology skills will become increasingly necessary as the need for next-generation technology and data strategy becomes even more critical for differentiation and success. To that end, organizations will be forced to re-evaluate and adjust the profiles of new candidates as the technology landscape evolves.

Is your talent prepared and able to meet your current technological and data requirements?

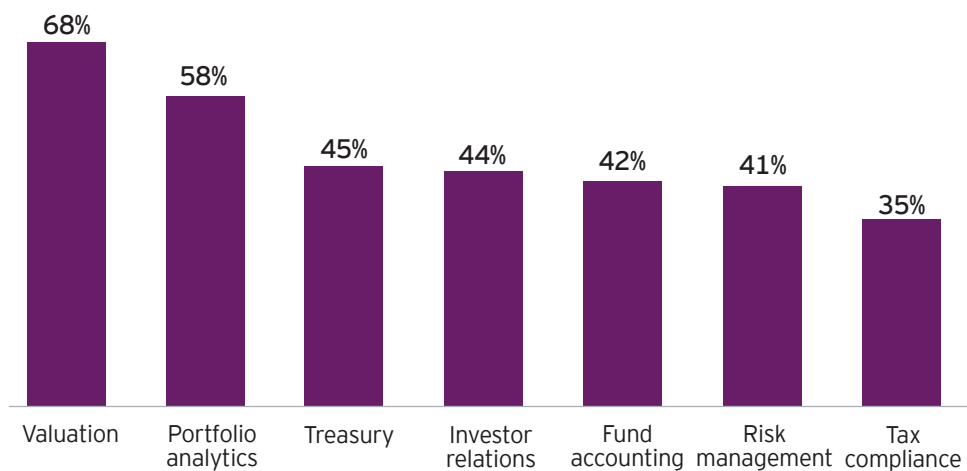
Front office



Back office



From our 2016 survey, how much were Excel spreadsheets utilized for each function?

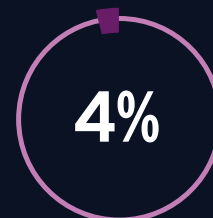


building a workforce
with relevant **data** and
technology skills
will become increasingly
necessary

Only the largest managers
are evaluating robotics

What is your current state of using
robotics in your finance functions?

Have already made an investment



Over \$15b

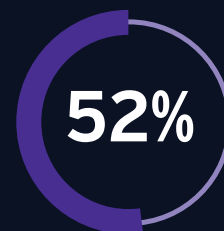


\$2.5b-\$15b



Under \$2.5b

Have evaluated and anticipate investing in robotics



Over \$15b

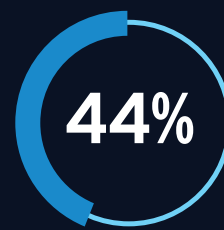


\$2.5b-\$15b

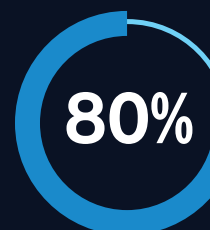


Under \$2.5b

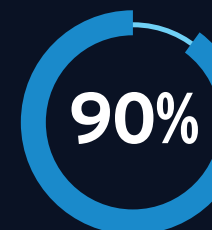
Are not considering robotics



Over \$15b




\$2.5b-\$15b



Under \$2.5b

Robotics awareness remains quite low

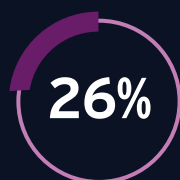
Most managers are in a wait-and-see mode with respect to robotics. Many smaller-fund managers are not yet aware of the capabilities, while even large managers that are having conversations want to wait until they have seen more real-world success. While each organization has a few individuals who can envision the benefits, they struggle to gain the necessary buy-in moving forward. However, we see an increasing interest in understanding the value proposition for using robotics to solve operational complexity. Managers are more apt to listen to its potential when the solution is presented in concrete terms with relevant uses. Many inefficiencies still exist even in organizations with more sophisticated technology infrastructure. Robotics could potentially provide solutions to economically address some of these gaps.



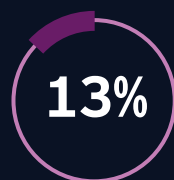
the biggest private equity managers clearly see the use cases for investing in **robotics**

How aware is your team of the potential benefits robotics could offer?

Fully aware



Over \$15b

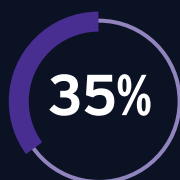


\$2.5b-\$15b

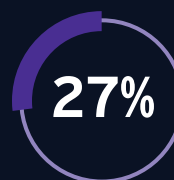


Under \$2.5b

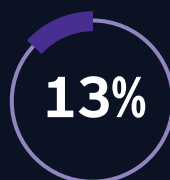
Some awareness



Over \$15b

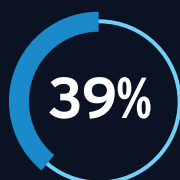


\$2.5b-\$15b

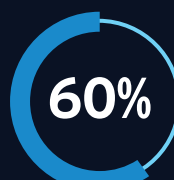


Under \$2.5b

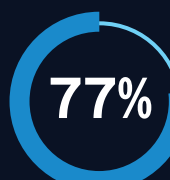
Not aware



Over \$15b



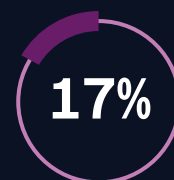
\$2.5b-\$15b



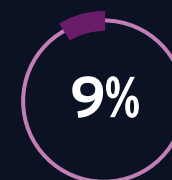
Under \$2.5b

How aware is your team of the potential benefits robotics could offer at your outsourced service provider?

Fully aware



Over \$15b

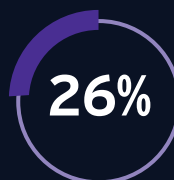


\$2.5b-\$15b

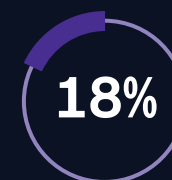


Under \$2.5b

Some awareness



Over \$15b

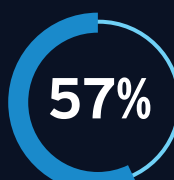


\$2.5b-\$15b

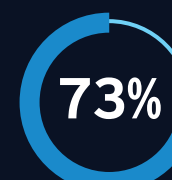


Under \$2.5b

Not aware



Over \$15b



\$2.5b-\$15b



Under \$2.5b

outsourcing

A man with a beard, wearing a striped shirt, is sitting at a desk in a modern office, working on a laptop. The desk is cluttered with various items including a lamp, a cup, and some papers. In the background, there is a large window with a grid pattern, letting in natural light. Several potted plants are scattered around the desk and in the background, adding a touch of greenery to the space. The overall atmosphere is professional and productive.

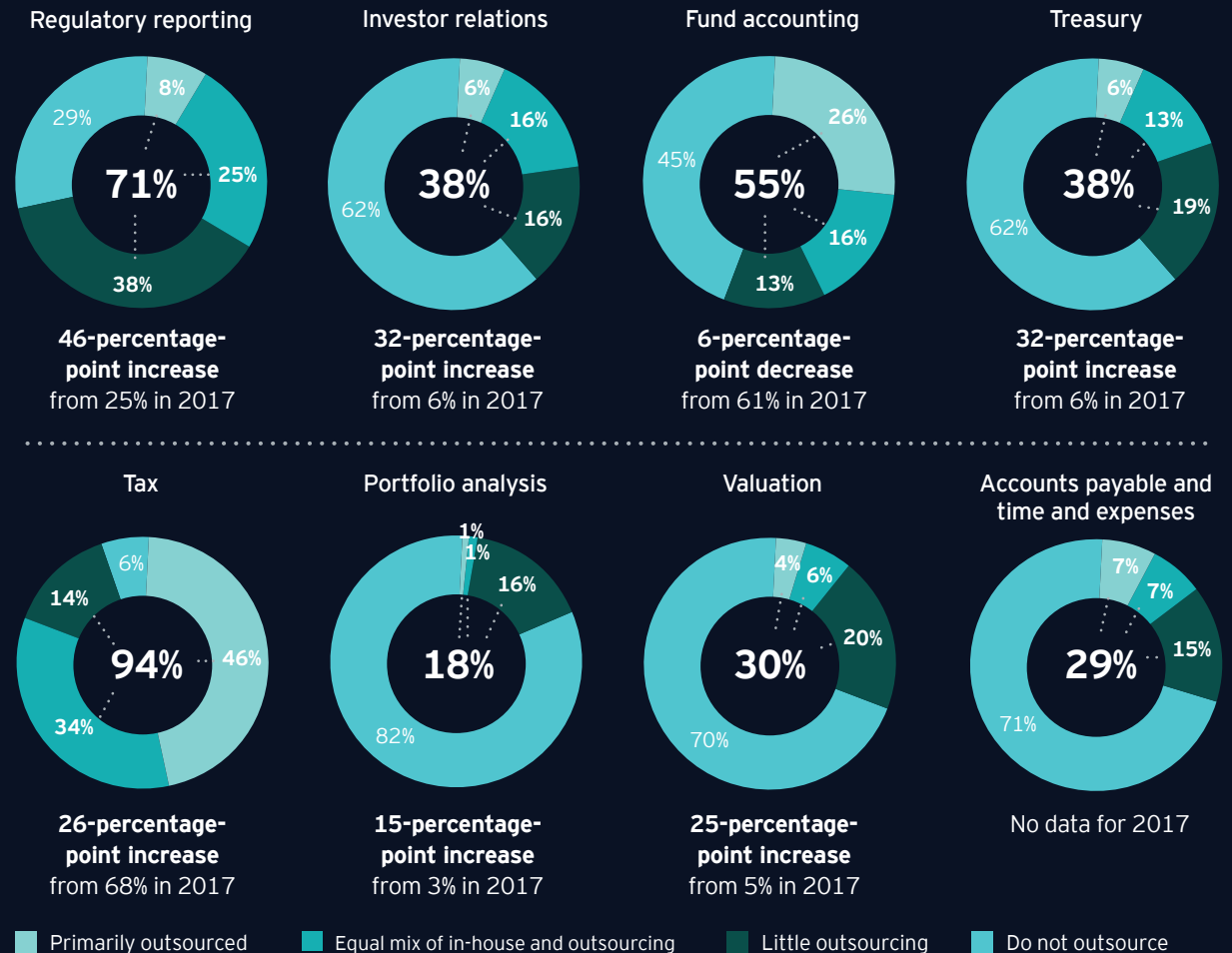
32

the benefits to be reaped from outsourcing can be **significant**

Private equity managers are still keeping most work in-house

Many private equity managers still believe that they are best equipped to handle the operational nuances and complexities of their business. As highlighted in past surveys, managers are interested in outsourcing but are not certain it can be done successfully. Third-party administrators continue to suffer from their slow entry into the private equity space. Many initial engagements moved too quickly and ended in failure or with mixed results. This impression will change as administrators continue to beef up their operating infrastructure, technology and other capabilities. To date, most private equity managers believe they can outperform outsourcing providers because they are confident they can hire stronger talent. As technology advances, however, managers may not be able to keep pace with the investment and spend required for leading-class operations.

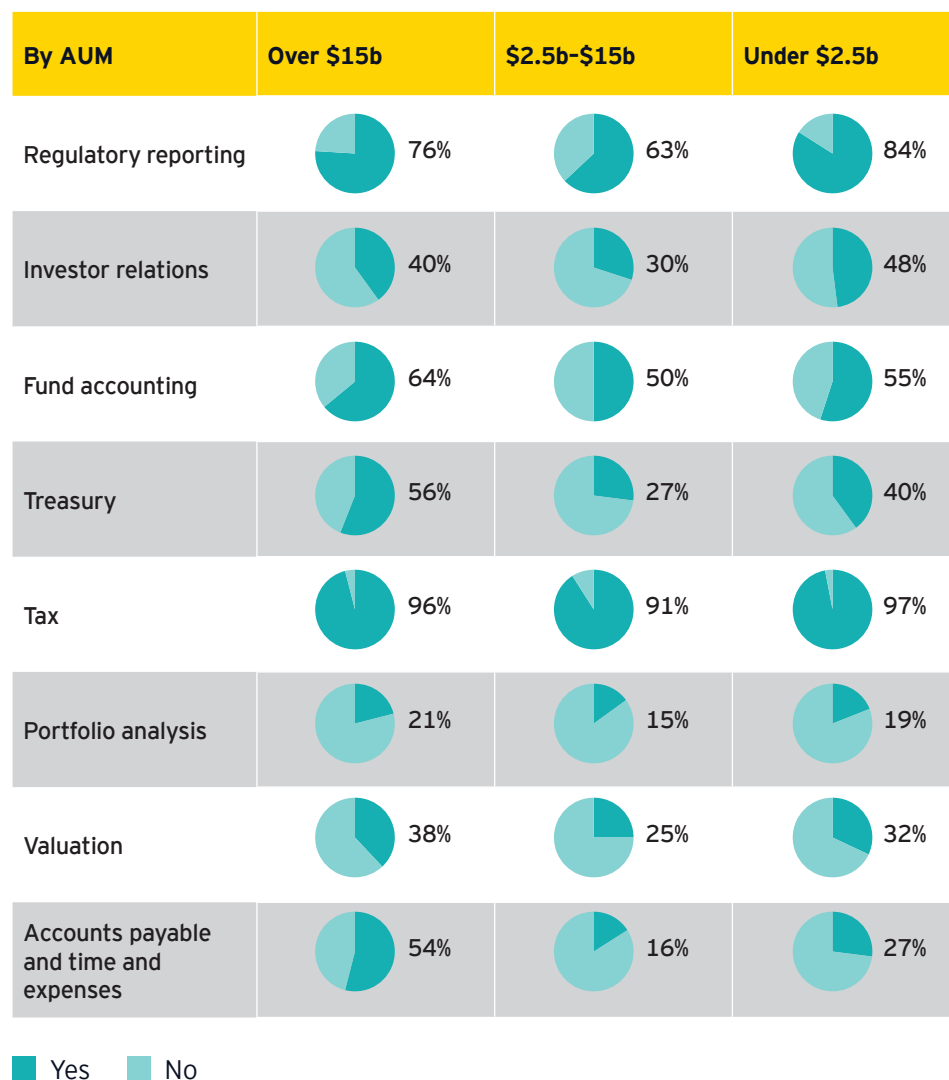
What is your level of outsourcing?



Outsourcing levels

As margin pressures increase, more private equity firms have started to outsource some part of their routine functions, such as tax, fund accounting and regulatory compliance, with more than 90% of firms, regardless of size, outsourcing some level of tax compliance to third parties. Managers are inherently less likely to outsource tasks they view as core to their business, namely portfolio analysis, valuation and even investor reporting. Most firms consider these functions to be key competitive differentiators and value-added activities they'd rather keep in-house. It is clear that the outsourcing option continues to gain interest from CFOs, as we have seen the outsourcing levels in each function increase since our 2017 survey when asking the same question.

Do you outsource any part of the following finance functions?





Trend: changes from 2017 to 2019

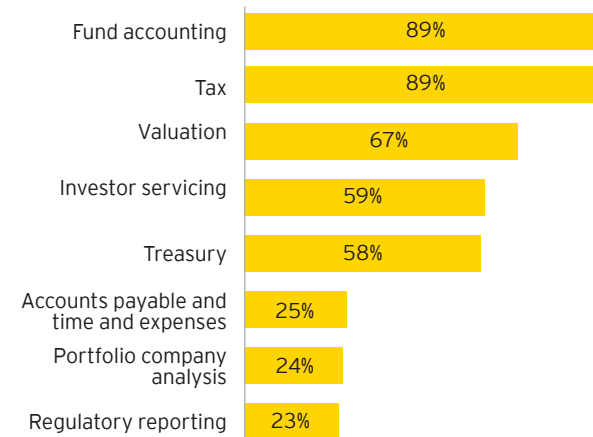
By AUM	Over \$15b	\$2.5b-\$15b	Under \$2.5b
Regulatory reporting	+	+	+
Investor relations	+	+	+
Fund accounting	+	=	+
Tax	+	+	+
Portfolio analysis	+	=	+
Valuation	+	+	+
Key: + Increases in level of outsourcing = No change in level of outsourcing			



Many private equity firms pass through outsourcing costs

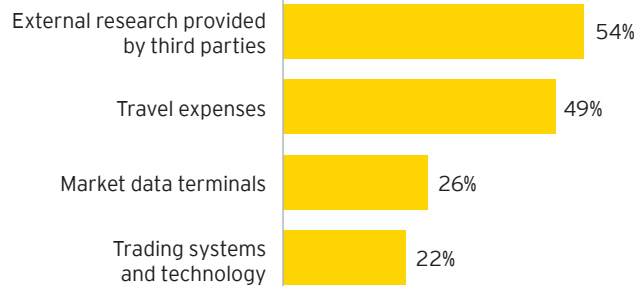
Outsourcing routine finance functions to allow a firm's talent to focus on strategic, value-added activities offers many benefits. In addition, the ability to pass through costs to the funds they manage has a direct impact on the management company's margin. Limited partnership agreements often include a clear delineation of the type of expenses that can be passed through to the funds, typically led by fund accounting and administration and tax compliance. As the outsourcing option continues to become a more viable alternative for CFOs, firms will need to identify additional costs that can be passed from the private equity firm to the funds they advise. This approach appears to satisfy investors who welcome third-party involvement in fund administration because it provides another check in the control environment surrounding their investment.

Do you pass through outsourcing costs related to finance functions to the funds?



Front-office expenses are generally less likely to be passed through

Do you pass through the following front-office costs to the funds?



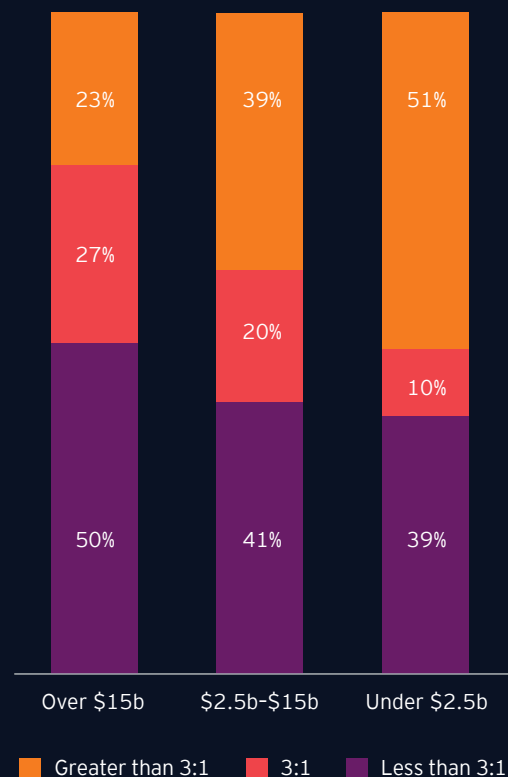


talent
management

Firms continue to challenge staffing model

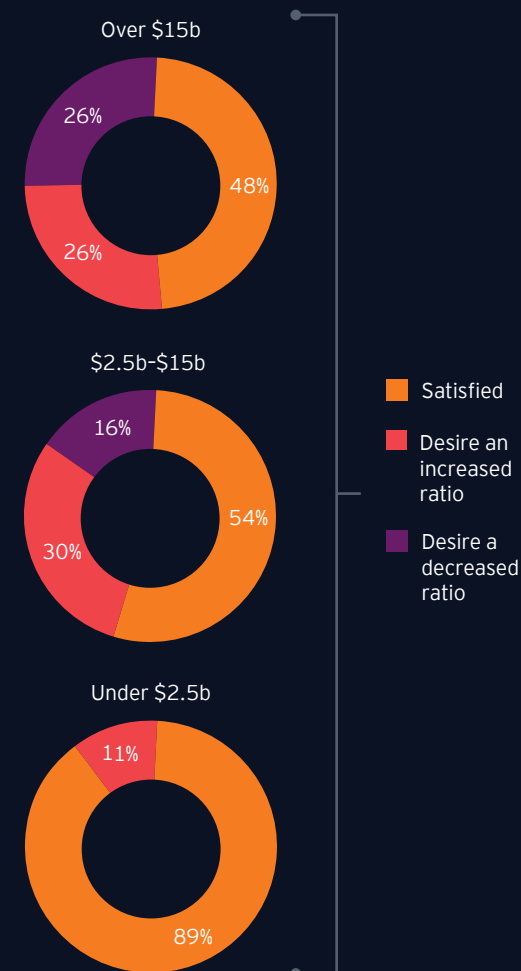
Overall, nearly two in three private equity CFOs report that they are satisfied with the ratio of investment to finance professionals. However, this figure does not reflect the disparate viewpoints considering the size of firms based on AUM. Firms with AUM under \$2.5 billion are typically satisfied with their ratio of investment to finance professionals. Only half of larger firms share this view, however. Interestingly, among these larger firms, the results are split. Some are looking to increase this ratio, while some (particularly the largest firms) want to decrease this ratio. The significant divergence in opinion likely reflects the current state of investment (or underinvestment) in systems and technology to improve operational efficiency. Firms must be thoughtful to determine the appropriate ratio for their current and future state of technology implementation to support their growth trajectory.

What is your current ratio of investment professionals to finance professionals?



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

What is your satisfaction with the current ratio of investment professionals to finance professionals?



Talent management remains critical focus for investors

Even though talent is near the top of the list of strategic priorities for private equity managers, fewer than half of CFOs surveyed reported having a formal talent management program in place.

As private equity managers continue to seek a more diverse workforce to support growth and innovation, talent management programs are quickly becoming a necessity rather than an option for recruiting and retaining best-in-class talent.

Investors are also making it clear that they value fully developed talent management programs. Nearly 8 out of 10 investors request information about their managers' talent management program during due diligence, and more than two-thirds state that having a talent management program impacts their investment decision.

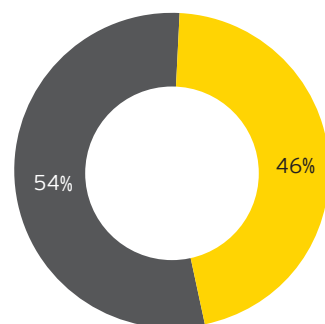
The top two criteria cited by investors were quality of the fund management team and anticipated future performance. Both directly correlate to the people and process the manager has in place.

talent management programs are quickly becoming a **necessity**



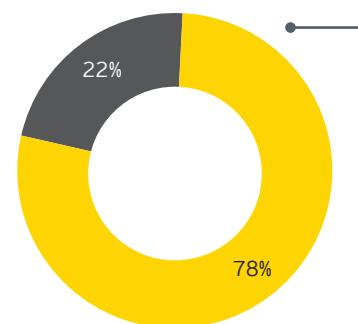
Investors are focused on talent programs as part of investment due diligence

Do you have a formal talent program in place?



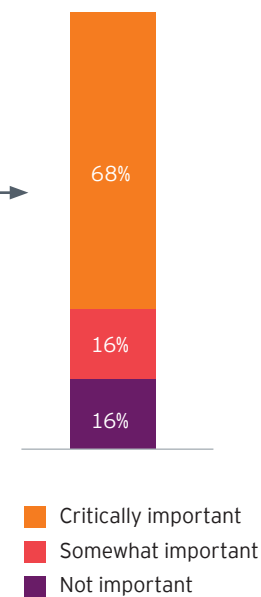
■ Yes ■ No

Do investors request information about a firm's talent management program?

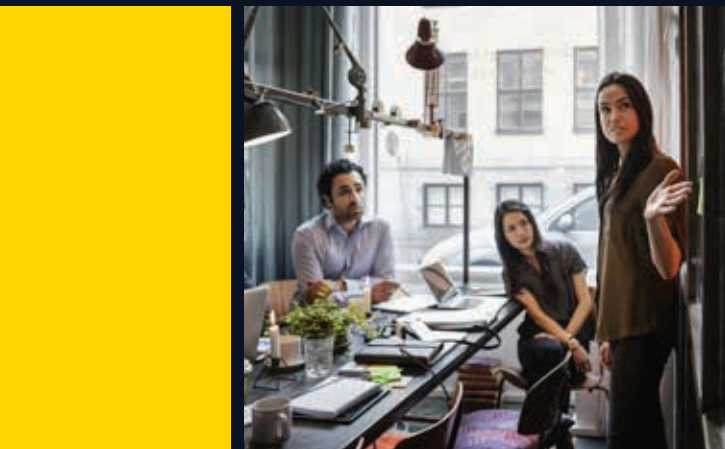


■ Yes ■ No

If so, how important is it to them?



■ Critically important
■ Somewhat important
■ Not important



The private equity workforce is evolving

Private equity firms are transforming their talent profiles in their front offices as well as within their finance functions to align with future goals. Larger private equity firms are leading the way in this evolution with most firms reporting they have changed the type of candidate they are interviewing and ultimately hiring. These firms believe increasing the gender and cultural diversity of their talent profile will create new opportunities and lead to future growth. Diverse organizations often come up with new ways of thinking that could lead to future growth opportunities as their operations evolve. Firms also view hiring talent with technology, programming, and data analytic experience and education as key to unlocking the benefits of the technology solutions they have deployed over the past few years.

Have you changed the profile of the employees you are now hiring?

Front office



Over \$15b



\$2.5b-\$15b



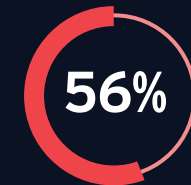
Under \$2.5b

Yes No

Back office



Over \$15b



\$2.5b-\$15b

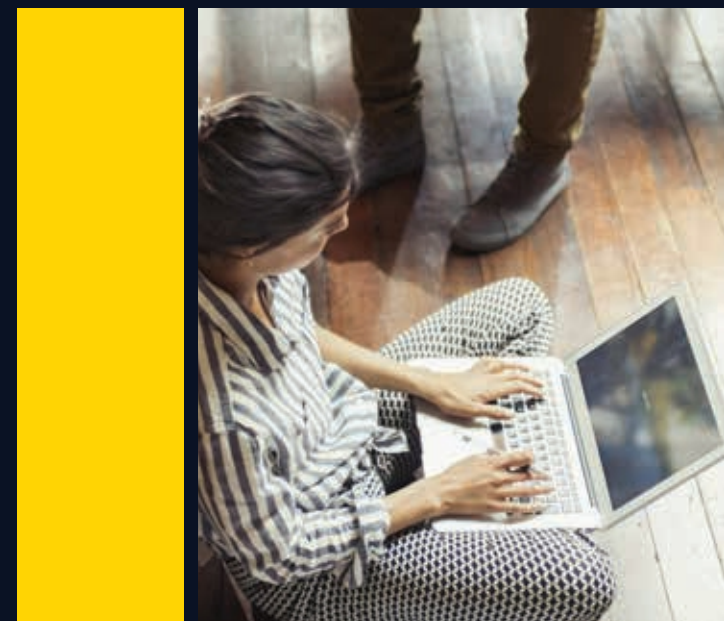
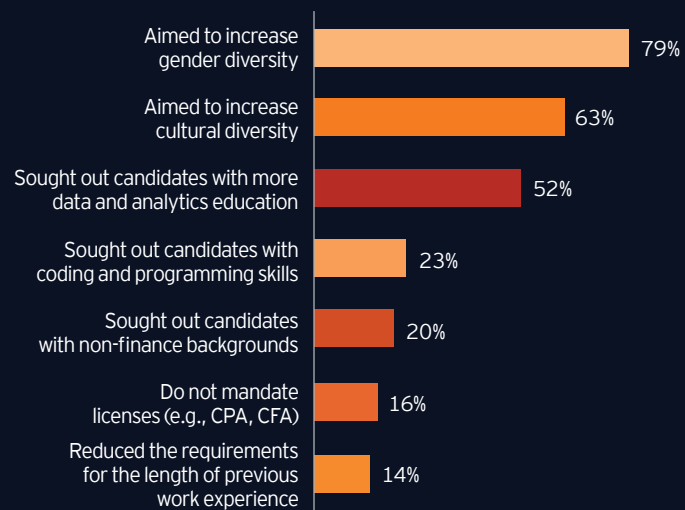


Under \$2.5b

Yes No

Private equity managers are looking to diversify their workforce

How are private equity managers changing their talent profile?



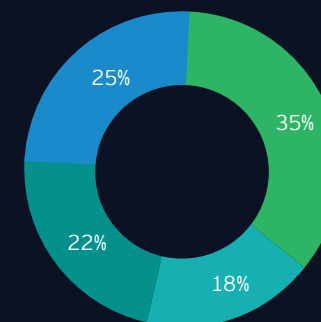
other
market data



A change in how credit lines are used by funds over the past three years

The use of subscription lines of credit by private equity managers continues to increase. Only a short time ago, subscription lines of credit were only used as a temporary solution to short-term cash issues until limited partner capital could be called. Now, private equity managers are drawing on these subscription lines of credit and holding outstanding balances over longer periods of time. This, in turn, inflates internal rate of return in performance calculations, complicating the assessment of private equity fund returns. The current Global Investment Performance Standards Exposure Draft provides guidance to private equity managers to describe which performance metrics should be shown gross and net of long-term subscription lines of credit. As the use of subscription lines of credit continues to increase, a global standard on calculating performance would be very useful.

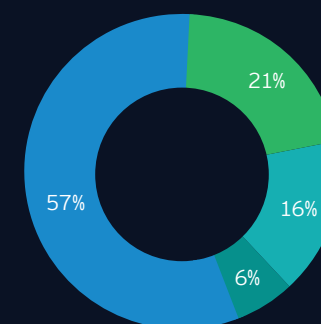
How much has your total line of credit increased?



■ No change ■ 0%-25% ■ 26%-50% ■ More than 50%

Average increase in credit line: 57%

How has the length of time to return the amount drawn on your line of credit changed?

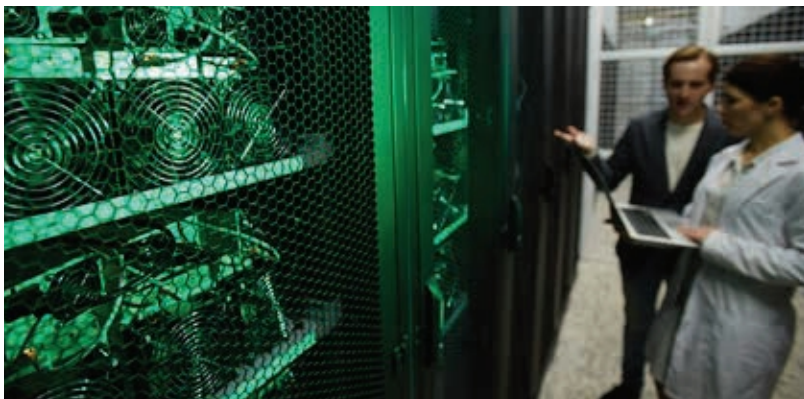


■ Increase 1-3 months ■ Increase 4-6 months
■ Increase 7-12 months ■ Decrease or no change

Investing in blockchain and cryptocurrency

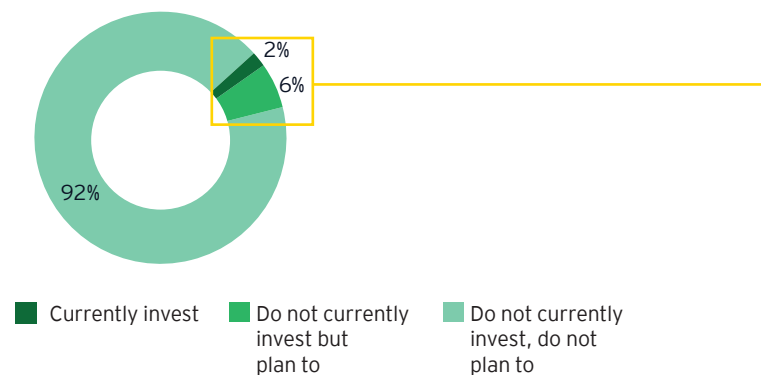
One can hardly pick up a financial publication these days and not find the terms “blockchain” or “cryptocurrency.” While it’s still in its early stages, the use of blockchain technology will surely have an impact on all financial institutions at some point. At this time, most private equity managers are not investing in blockchain technologies or cryptocurrencies. As these technologies advance, are more widely applied and regulations become clarified, private equity and venture capital firms will surely be reviewing the investment

opportunities. Whether private equity managers invest directly into cryptocurrencies themselves or the underlying technology, blockchain is positioned to have a groundbreaking impact at many companies as the use of the technology still unfolds.

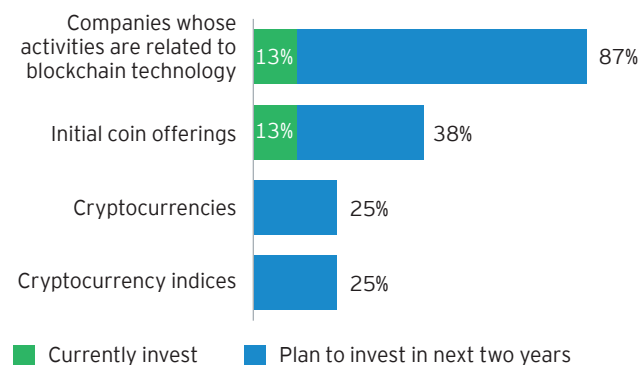


Are you investing in blockchain or cryptocurrency?

Private equity



Which blockchain or cryptocurrency products are you investing in?

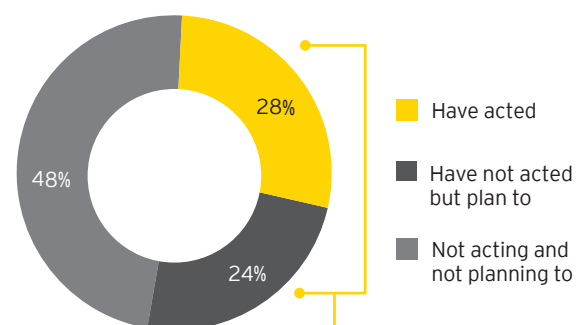


Private equity managers react modestly to US tax reform

Private equity managers generally have not yet reacted at a firm level to US tax reform. Nearly half of the respondents reported they have not acted, while slightly under one-third said they have acted. This is not surprising considering that private equity investment strategy typically focuses on longer-term investments. Accordingly, US tax law changes, including the three-year hold period requirement for carried interest to meet long-term capital gain treatment, had a minimal impact as private equity investments are typically held for longer than three years.

For those private equity managers focusing on US tax reform, top priorities included changes to legal structures for investments, funds and corporate entities. Firms also plan to focus on protecting grandfathered capital accounts from new long-term capital gain requirements. At this time, few have acted.

Have you acted or do you plan to act with respect to US tax reform?



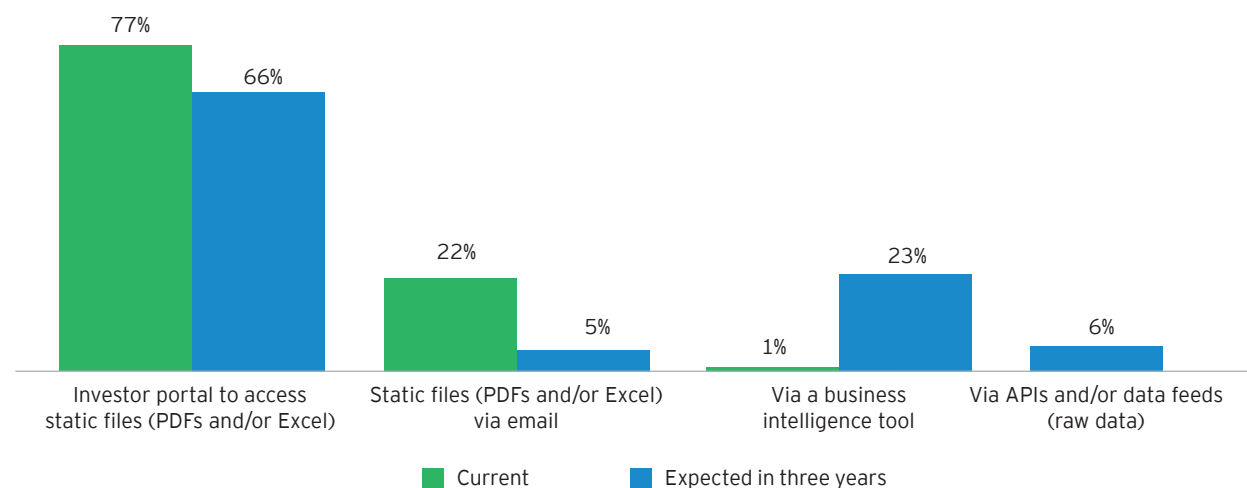
What are the primary actions taken because of US tax reform?

- Structure investments differently
- Protect grandfathered capital accounts from being affected by new long-term capital gain holding period requirements
- Changed the legal structure of our corporate entities
- Changed the legal structuring of certain of our funds

Innovation reaches investor reporting

Consistent with previous surveys, private equity managers continue to focus on enhancing the investor experience with expanded reporting. The next generation of reporting highly leverages investor portals that utilize technology, which improves the level of access to information as well as customization. Nearly 80% of private equity firms reported they are currently using a portal that enables investor access to files compared with only 20% that share files, via email. Private equity firms recognize the need to leverage technology in this area – respondents expect to use business intelligence and application programming interfaces (APIs) and data feeds to provide information to clients in the coming years, even if they are not using these tools today. Leveraging these new solutions will be paramount to support investor satisfaction in accessing timely information via a format that meets their preference.

How do you share portfolio information with clients?



A man with dark hair and a beard, wearing a blue button-down shirt, is focused on working inside a server rack. He is using his hands to adjust or connect components within the rack. The server rack is filled with various electronic components, including circuit boards and cables. The background shows a server room environment with concrete walls and a wooden door on the left. A window is visible on the right side of the frame.

the use of blockchain technology will surely have an **impact** on all financial institutions at some point

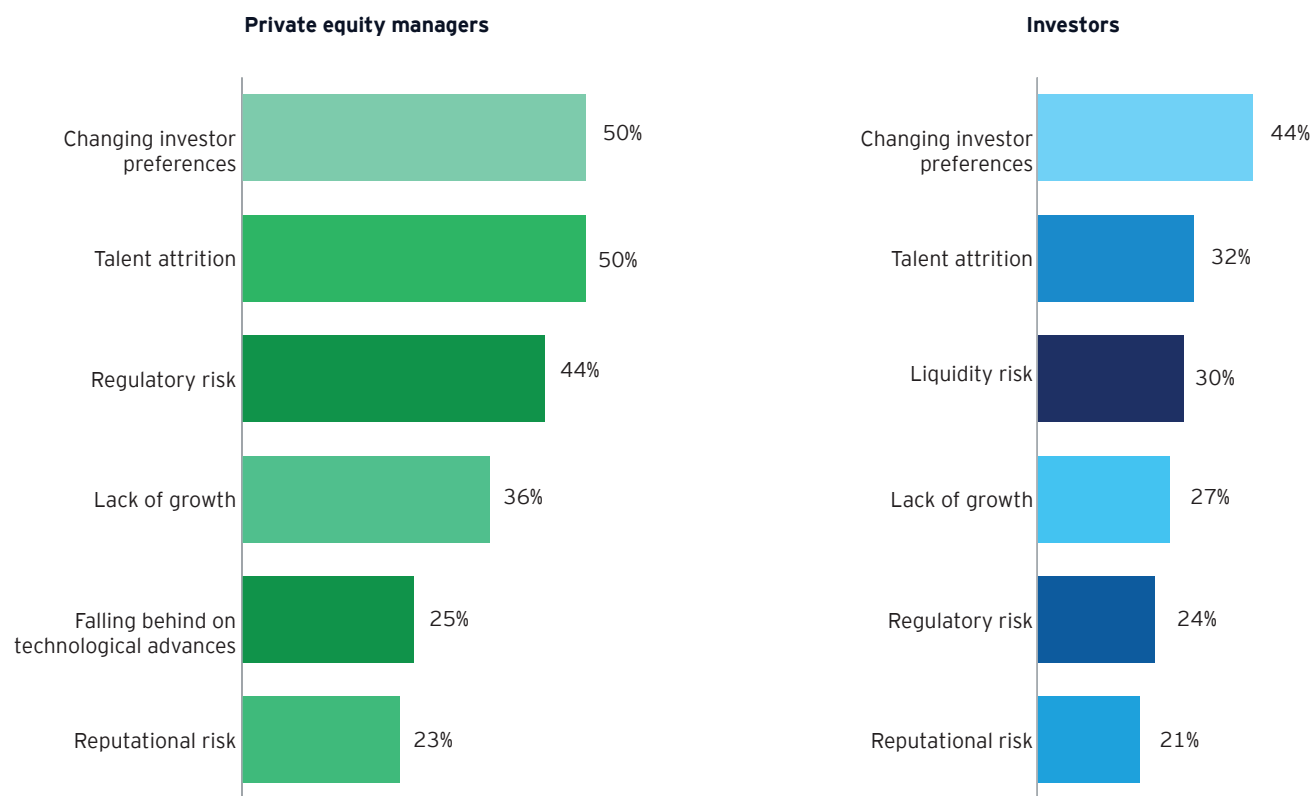
Managers and investors share same views on industry risks

Managing human capital continues to be critical to private equity managers' success. It continues to be a top strategic priority and also represents the greatest risk identified by private equity CFOs. Attracting and retaining key talent remains the top priority, regardless of firm size. As previously discussed, balancing technology investment with talent management is key to supporting firms' continued growth trajectory.

Private equity CFOs recognize the importance of investor satisfaction, as 20% more CFOs recognized changing investor preferences as a top risk facing the industry. As a result, it now ranks as a top-rated risk along with talent management. This clearly aligns with the investor perspective. As they drive higher returns while responding to investor demands, private equity managers must continue to attract and retain talent.



What are the most critical risks affecting the private equity industry over the next five years?



background and **methodology**

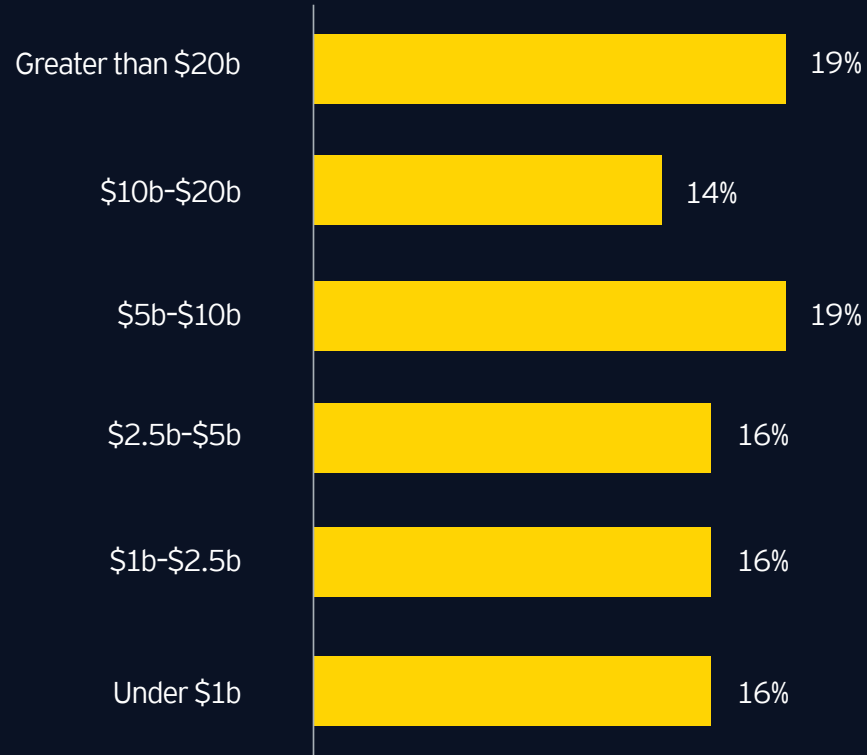


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Background: respondent profile

What is your firm's total AUM?

Firm's total AUM by percentage





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 July to October 2018, Greenwich Associates conducted 103 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%.



Number of firms surveyed

This survey brings forward the perspective of 103 private equity firms of a wide range of sizes and complexities that have operations around the globe.

firms surveyed
globally
103



closing and EY survey contacts

In closing ...

In the past six years as we've conducted this survey, we've watched private equity CFOs proactively assume greater responsibility for improving their firms' overall operations. No longer just responsible for keeping track of the financials, their charge has expanded to include cybersecurity, IT systems and talent management. As our survey reveals, they have made great strides in addressing many of these issues, but challenges remain.

CFOs are tackling these issues as best they can, but they need to begin making key decisions – and soon – whether to further embrace outsourcing key activities and adopting new technologies, such as robotics. They also need to enhance their talent retention strategies. Funds from outside the private equity industry will continue attempting to target the larger, more sophisticated investors, who will increasingly expect private equity firms to show significant progress that they are advancing beyond the era of Excel spreadsheets.

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Global Private Equity Survey

2019

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ED None

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