Private Equity International

# CFOs & COOs Working Groups
## Virtual Experience 2021

4 May

# Deliver strategic growth within private funds

PEI

# The CFO & COO Working Group Day

The PEI CFO & COO virtual working groups brought together over 80 finance and operational professionals from across the alternative asset classes, to discuss the key trends that are shaping their evolving roles. Each working group, expertly hosted by our event partners, gave participants the opportunity to speak candidly on topics including ESG, digitisation and talent. Here is a brief summary of the key takeaways from each discussion.

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MillTechFX by Millennium Global

# Working Group A: **Achieving sustainable business growth in the digitised era**

**Sarah Shackleton,**
Administrative Partner,
**DPI**

**Simon Shipgood,**
Regional Director,
**EWM Global**

Covid has accelerated everything, in particular how PE firms are looking at their digitalisation journey. Organisations are searching for **Efficiency – Accuracy – Consistency**

It is essential that this digitalisation journey starts with strong data management solutions, effective data definitions and a drive to have one source of truth. Connectivity between systems is also essential to avoid data duplication and inefficiencies. Within private equity this focus on data collection is across not just the management company, but also the underlying portfolio companies, and regulatory and investor scrutiny is only going to increase the need to collect data and provide meaningful reporting and analysis.

Firms need to apply a risk and cost focus on the need to digitise, and continuing changes in technology mean separate modules/systems which address the needs of the relevant departments is likely to be the preferred mode as any changes are easier to implement to one module rather than having to replace the entire infrastructure. Larger firms or those with a technology focus may focus on building in-house systems/expertise, but this can come with increased operational risk so outsourcing for digitalisation is still expected to be a common trend.

ESG is continuing to be an increased focus for PE firms, not just at an investment level but for all operational activities. A lack of standardisation in ESG data is expected to continue as due to its qualitative nature it is not as easy to standardise.

**This drive for digitalisation is likely to be a part of PE firm's strategy for the long term and they need to consider:**

- Robust technology framework to ensure a continuation of remote working
- Effective policy maintenance essential in this new normal. BCP and disaster recovery
- Continued digital drive across the investment lifecycle
- Investors now seeing the benefits of cloud based solutions, which they may not have in the past

To succeed in digitalisation it involves a step change in culture for employees to embrace this new environment, but in a more practical sense, it is essential to have dedicated project management resource to implement new solutions and ensure greater success whilst continuing with business as usual.

> "It was very useful discussing digitisation with my industry peers, and I found the working group format particularly interactive and effective.
>
> **Simon Hirtzel**
> General Partner & COO
> IQ Capital

# Working Group B: **Optimising your private fund operations**

Eric and Max gave an overview of Millennium Global Investments and MillTechFX, followed by each attendee briefly introducing themselves.

**The working group discussion covered:**

### What falls under the fund operations umbrella in the modern era

There was a general consensus that clearly defined operations are integral to efficiency. Mapping out the lifecycle of the fund and selectively picking the operational elements, essentially everything that isn't investing. Covid has encouraged automation and the need to 'go digital' which for most has been an easy transition. However challenges have been faced when it comes to relationship building in the virtual environment and ensuring the smooth onboarding of new joiners.

### Why synergy with the investment team is integral

A number of points were raised; important for transparency and the flow of information between teams, aided by simple tactics such as close proximity to each other in the office. Outsourcing – keeping all activity related to value creation in house and externalising everything else, 'insource the core, outsource the ancillary'. This led to the discussion of having a common platform that allows for the easy transfer and sharing of data between teams. One attendee spoke of how they achieved this by the company engaging in a project where they developed an SQL that integrates with their CRM – hearing this success story provided solace for those that were considering, or about to embark, on their own database project.

### The importance of exceptional client service

MillTechFX ensure this by providing a Transaction Cost Analysis for their clients every quarter to evidence best execution. Another attendee spoke of juggling exceptional client service at the same time as the company was experiencing rapid growth. The challenge faced was keeping the interaction personal but scalable. A common ground amongst all attendees was the desire for a 'golden source of data',

**Max Dobson,**
Commercial Director,
**MillTech FX**

**Eric Huttman,**
CEO,
**MillTech FX**

> The working group discussion on private fund operations was great, creating an environment where everybody has the chance to contribute to the conversation.
>
> **Diana Meyel**
> Managing Partner
> Cipio Partners

whereby templated reports could be created and shared with LPs as and when required/requested. However, there was also the view that although standardisation is favoured and efficient, it will never be 100% achieved as bespoke reporting will always exist.

### Managing administrative burdens & procedures effectively

One attendee spoke of the challenge of keeping up with due diligence questionnaires and policies. This talking point also saw the re-emergence of the outsourcing topic, with someone explaining that although the idea of a golden source of data is the ultimate ideal, you first need to thoroughly assess the problem you're encountering and then adapt or find a solution. Highlighting that even though outsourcing is preferable, it is not always the 'go-to' solution. Essentially a balance is required between saving time and costs, and improving and complementing current processes. There was also a brief exchange of useful CRM's and software that attendees are currently using to keep on top of administrative functions, such as Salesforce, HubSpot, Bamboo and Notion.

### Achieving compliance amidst cross-border and jurisdictional challenges staying on top of market, economic and regulatory developments

There was a discussion on what measures companies have taken in order to continue marketing in certain jurisdictions post Brexit. Others spoke of honing in house knowledge, hiring good people and making an effort to remain diligent. Whilst another contributor explained the importance of being in communication with the regulators to ensure proper understanding and implementation of new regulations.

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# Working Group C: Strategic priorities for private fund CFOs in 2021 and beyond

Nicholas d’Adhemar,
CEO,
Apperio

Private equity firms are emerging from the global pandemic with deal activities exceeding expectations. CFOs are now formulating plans that combine pre-pandemic strategies with their new external and internal environments, as they look beyond 2021.

At a recent PEI event for CFOs and COOs on 4 May 2021, our CEO, Nicholas d’Adhemar hosted an intimate working group session of UK-based leaders to discuss strategic priorities for the next 12 -18 months.

**Here are the five key takeaways:**

### Ensure deal sourcing, origination and closing isn't disrupted by hybrid working methods

The pandemic provided an opportunity for businesses to look at existing working practices and adjust to working remotely. It has allowed colleagues from different jurisdictions to “meet” and work together more frequently and more cohesively. Whilst this has not impacted deal activity, one participant noted that “despite being able to continue with origination, it has been difficult to build a pipeline and fill the funnel with future deal activity”.

The participants discussed the question of new pipeline generation in light of home working practices. While deal completion may be easier, relationships and face-to- face meetings still remain an integral part of the deal sourcing process. They felt that further work needs to be done to strike a new balance of what can be completed remotely versus finalised in person.

### Improving data transparency to manage LP expectations and monitor portfolio efficiencies

Participants agreed there had been an increase in scrutiny from LPs and internal departments. While this was assumed to be partly due to Covid, they also expected much of the pressure will remain in a post-Covid world.

As one participant stated: "[Scrutiny] has increased for us, we are now collecting more [data, and we would like] to see how we can connect up our systems... [to] have a key owner for each system. From an LP perspective that has increased over the last two years... with every new fundraise LPs are adding something else into their side letters".

In response to this, developing technology capabilities appeared to be a key priority for all participants. Improved systems will allow internal staff to focus on key areas of the business, such as operational efficiencies and departmental performance.

## Managing expectations on legal fees and pitfalls of capped spend

There was consensus in the group that legal fees on a fundraise can be difficult to control. The participants felt that fees were increasing due to Brexit, with UK funds being marketed to European investors, resulting in more legal work, and therefore higher legal spend.

The participants discussed their experiences of introducing capped fees to recover funds. However, one participant noted that "capping fees can have negative impacts, as law firms might not be able to have relevant resources allocated".

One suggestion for managing this was to allocate part of the budget to the General Counsel and letting them take ownership of legal spend. According to one CFO "this provides the opportunity for more focus on the cost element".

The general consensus of the group was that legal spend and management should be in the hands of the Legal team.

## Implementing ESG initiatives and KPIs to measure success

Investors are becoming increasingly interested in ESG initiatives implemented by the PE firms they work with. This was also a talking point at our legal expo; ALX, where we discussed the key legal trends in private funds.

However, whilst firms are now introducing ESG measures, CFOs are still finding it difficult to quantify and measure ESG policies. As one CFO added "we are doing more on ESG policy across the organisation, but are still working through what that means and how we approach it".

## Scaling the business with the support of automated tools

A key strategic priority for the CFOs at the discussion , over the next 12 months, is to introduce automated processes. These will manage risk, improve services and align data sources from various jurisdictions. This was summed up by one attendee, "we want to make the business scalable and to automate the processes from a risk perspective".

# Working Group D: What ESG means for private fund CFOs and COOs in the post-Covid era

**How ESG is changing the relationship between GPs and LPs.**

### The CFO/COO's perspective

James Gow, our Chief Client Officer, led a recent virtual roundtable with several Chief Financial Officers and Chief Operating Officers within the private fund industry to discuss how environmental, social and governance (ESG) and sustainability factors were shaping interactions between Limited Partners (LPs) and General Partners (GPs). Here, James shares some of the key takeaways.

### ESG is now firmly part of the LP due diligence process

All of the participants in our working group confirmed that ESG has become an integral part of the investment decision-making process for LPs. Whereas a few years ago, GPs would expect to receive "do you have an ESG policy?" as part of an LP's due diligence, today they routinely received an average of 50 questions focusing on various ESG-related themes. The challenge for GPs when answering these questions is that many LPs are still trying to work out what they are looking for, and why it is important to them. In the meantime, without a more clearly defined approach for LPs to follow, box-ticking exercises are still prevalent.

### LPs are looking for more clarification of ESG standards from GPs

The group told us the private fund industry is crying out for a clear set of standards, and so too are investors. In a perfect world, firms would be able to clearly demonstrate their ESG practices and commitment with a universally recognised rating. However, given that ESG is still such a broad, subjective term, this level of standardisation is still considered some way off.

While it was noted that several regulatory bodies are developing their own specific ESG questionnaires for LPs to use, there was a clear sense more needed to be done to promote standardised ESG approaches, and to join up some of these separate efforts.

**James Gow,**
Chief Client Officer,
Aztec Group

**James Duffield,**
Head of Business Development,
Aztec Group

### SFDR has not been plain sailing

Another key point emerging from the discussion was how GPs had been instructed to interpret the Sustainable Financial Disclosure Regulations (SFDR). Understandably, GPs had received advice in the interpretation of taxonomy and fund reporting requirements in the run-up to the implementation date of 10 March 2021. One of the biggest issues was the ESG information that GPs should be making available on their websites.

The group told us they found the SFDR rules counterintuitive at time. For example, while smaller funds can effectively opt out of disclosures, publishing ESG policies on a corporate website, can trigger taxonomy disclosures under SFDR. Some participants told us external advisers had even recommended removing ESG policies and reporting material from their website, to avoid triggering taxonomy requirements.

### Meaningful benchmarks are needed

Another 'pain point' highlighted was the challenge of ESG reporting requirements. A noticeable theme across different sectors suggested many firms are increasingly proficient at carrying out ESG-related activities. Still, without meaningful benchmarks to measure against, they often struggle with articulating what they do and why.

At the Aztec Group, our conversations with LP clients have highlighted their need to receive data from GPs in a consistent format. But these efforts can be hampered by different reporting structures as well as different taxonomies that firms are reporting under. Moreover, getting meaningful, easily comparable data from portfolio companies – on areas such as greenhouse gas emissions, to name one example – can present a big challenge for GPs. Therefore, obtaining and presenting standardised data in a format that makes it easy for the LP to fully analyse and make use of it, to establish where improvements are being made, is an area where more progress needs to be made.

Our panel also discussed the problem of data overload, which can be frustrating on all sides. LPs don't want to receive raw portfolio company data they will struggle to analyse and interpret; they prefer information in a more digestible format. Case studies that show ESG challenges, initiatives and results over time can be a more effective way of presenting information to LPs – helping to paint a clearer picture that allows for more meaningful portfolio company comparisons.

### Building a firm-wide ESG culture

All of the participants talked about the importance of building and maintaining an ESG culture. GPs looking to show LPs they are serious about ESG, must be authentic in what they do and some are using story telling as well as data capture to achieve this

One panellist suggested that one of the most effective ways to drive change is through hiring resources explicitly dedicated to ESG, thereby ensuring the subject is considered a full-time responsibility in its own right. Another noted that for senior management, the challenge is to keep moving things forward, focusing on areas that make a difference, avoiding distractions, and resisting the trap of attempting to "boil the ocean". Of course, change does not happen overnight, and senior management needs to demonstrate a strong commitment to embedding and instilling ESG values from the top-down.

### Summary

Our working group discussion demonstrated that while some GPs & LPs are still in the early stages of getting to grips with ESG, the direction of travel has already been determined. But there really is no 'one-size-fits-all' approach that will work. Measurements need to be meaningful, relevant and proportionate, not just applied for the sake of getting a box ticked. Therefore, the drive to more standardised taxonomy of ESG is perhaps one of the biggest challenges GPs face today.

The good news is that all our contributors recognise the private funds industry has travelled an enormous distance in just a few years. Hopefully, the industry is moving towards a greater understanding of GP reporting requirements, and an improved interpretation of ESG regulatory disclosure rules. Above all, everyone agreed that a consolidated view of ESG standards across all working groups would be invaluable, and that the more constructive dialogue occurs between GPs and LPs on what standards are achievable, the better. We all want to the initiative go beyond regulatory requirements, and become more effective at defining, measuring, evaluating and communicating ESG impacts, to the benefit of all participants.

> “I really enjoyed the insightful discussion on ESG, and it was great opportunity to discuss this vital topic with my peers across private markets.
>
> **Christian Schnabel**
> Head of Product Finance
> Golding Capital Partners

# Working Group E: **Prioritising people - how is managing, engaging & retaining talent in private markets evolving?**

**Dean Horton,**
COO,
**African Infrastructure Investment Managers**

Working group discussion covered key topics: why talent will become more difficult to retain and how to combat this; challenges with talent retainment and employee engagement that have arisen in the pandemic; the role that business culture plays; using data and analytics to help with retainment; why diversity & inclusion means a more talented workforce; assessing remuneration in the industry; the impact a return to 'office normality' might have; the outlook for hiring talent in the coming months; and much more.

Participants represented key areas of business, with a strong representation from the Human Capital function

**Key discussion points highlighted the following:**

**Return to office**

While most participants continued to work remotely, there was slowly a shift of returning to office, albeit on reduced week, being either 2-3 days in the office and 3-2 days remotely.

Key focus on maintaining "face time" within the organisation.

Return to office has also necessitated a relook at the physical workspaces, with a view of creating more exciting layouts and fit for purpose. ie. repurposing office space and move from individual offices to more open plan offices, increased meeting rooms to host calls but at the same time the need to increase spend on technology and also making use of external specialists (ie psychologists) in aligning human and behavioral aspects.

In addition, a reassessment on the need to travel, with an increased usage of in country offices and resources.

A common challenge for participants was ensuring sufficient down time for team members and enforcing mandatory time away from the "desk" to avoid fatigue setting in.

## Human Capital support

A key take away from the discussion reflected the positive contribution the Human Capital team has provided to the business, both on initial and continual basis and continued support across the business at various levels.

Through regular engagements, whether formal or informal, the Human Capital team were able to respond to individuals needs. Initiatives like MD / Partner coffee chats amongst with smaller groups (3-4 people and across all team levels) with no specific agenda has been well received

Increased engagement across the whole team and in particular with junior team member and knowing their voices are being heard and contributions to the business.

Teams mindset had often been in different places and focus on driving alignment through regular engagements.

Additional focus on inductions and onboarding of new team members to ensure team and business culture is maintained

Initiatives such as partnering and mentoring skills has also has a positive impact on the team cohesion and learning and development.

## Talent retainment

Only a handful of participants experienced staff turnover during the pandemic. Those that did, staff turnover was as a result of change of lifestyle, individuals changing priorities/ focus on careers and family time.

A somewhat shift also from pure financial reward to balance work life environment. The proportion of remuneration and mix of longer vs shorter term incentives was also evident across the various levels within in the business.

Participants also tracked trends within the workforce, analyzing years of service split across levels and gender within an organisation, reasons and trends of resignations.

## Diversity & Inclusion (D&I)

As evident through the discussion, D&I is a focus area across the industry. Participants noted D&I was being achieved through D&I committees, hiring with a focus diversity and ability for team members to interact and engage at various levels within the business.

Use of virtual conferences to include guest speakers on topical matters, along with group activities and celebrating and recognition of personal milestones.

# Working Group F: **Valuation of Private Assets in 2021 and Beyond**

Private assets continue to attract capital as investors seek better returns. Private markets can continue to deliver, but will increasingly rely on hard-to-access areas and specialist skills.

Private equity demonstrated its stability during the Global Financial Crisis in 2008/09 and has done so again during the Covid-19 crisis. While global stock markets corrected by more than 20% in Q1 2020, buyout investments only corrected by about half that amount.

We discussed if this trend will continue in 2021 and beyond, with 14 well established finance and valuation experts from various investment groups.

Portfolio monitoring showed a lot of volatility during Q1 and Q2 in 2020 and 2021 due to uncertainties around the world. Valuations done were backed by pre-covid consensus, now there is a need to filter out some discrepancies.

PE assets were considered low volatility in the past but have now shown high volatility, in comparison to public markets. How do we deal with it in the future and if the right processes are in place to overcome such a situation again?

Some of the best practices in valuations shared were, European PE fair value guidelines, quarterly valuations and full revision of fair value of assets. Another practice used by most valuation experts is not just rely on internal numbers, but from time to time use third party valuations while dealing with difficult assets. While evaluating it is useful to look into cash flow multiples, yield valuations, liquidation valuations and transactional analysis.

Current scenario is adding another layer of uncertainty to the valuation process for fund managers. Direct investments pose some of the biggest challenges, fund managers have to think about market participants and how they value the assets. The role that private debt plays on valuations should also be taken into account. Having a long-term portfolio view to determine an exit strategy is very important.

LPs are looking for good quality valuations from the acquisition perspective. Robust processes and brilliant models may not be enough, one might need to make a judgement call as well.

There is an increasing need for high-quality data, in order to evaluate uncertainty across portfolios and mitigate risks. Credibility checks, back testing NAVs and book values upon exit are good practices, currently used by most funds.

Considering ESG factors in portfolio monitoring is becoming increasingly important. ESG is no longer just a compliance check, now it forms part off portfolio company's mission and vision statements.

In the future more automation in gathering data is foreseen. Automating most valuation processes will become the norm, making it more sophisticated in the long run. Factoring in ESG friendly and reduction of $CO_2$ footprint techniques will be pivotal in building of valuation models of the future.

**Prianka Mahanty,**
Associate Director,
**Kylla Corporate Transactions**

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# CFOs & COOs Europe 2021

16 - 17 November 2021

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