Is your next step about changing direction, or directing change?

As challenges surface, private equity firms need agents of change — strategic, future-focused leaders who have the vision to help guide the firm forward.

2020 Global Private Equity Survey

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

EY
Building a better working world

2020 Global Private Equity Survey

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We would like to express our appreciation to the 100 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.

INTRODUCTION

In the seven years since we've conducted this survey, private equity CFOs have assumed increasing responsibility for the overall operations of their firms. They have expanded their oversight beyond the traditional finance functions to include IT system implementation, investor relations and cybersecurity, even as the industry has experienced record growth.

Now they are expected to take on an even more strategic role, assisting with the decision-making and deployment of new investment products, location strategy and a changing investor profile, while also keeping a mindful eye on increasing margin pressures. At the same time, private equity CFOs are also leading the effort to find ways to deploy innovative new technologies, particularly those that leverage next-generation data and robotics. As part of their more strategic mindset, they are also helping to elevate their firms' overall talent profile and interact more frequently with portfolio companies.

We invite you to read more about the insights we captured about their strategic journey in this, our 2020 Global Private Equity Survey. See page 20 for a more detailed view of the firms we surveyed as well as our methodology.

Chapter 1: the evolving profile of the private equity CFO

The private equity industry has continued to experience record growth, with assets under management increasing to $3.4 trillion in 2019.

As the industry has grown, the role of the private equity CFO has evolved as well. Once thought of as primarily an operational role, responsible for fund accounting or tax oversight, CFOs at many firms are now taking on broader responsibilities as strategic leaders who are the stewards of their firms' financial data. In this new role, they are charged with helping their organizations make informed decisions as they move into this unprecedented age of asset growth and product expansion.

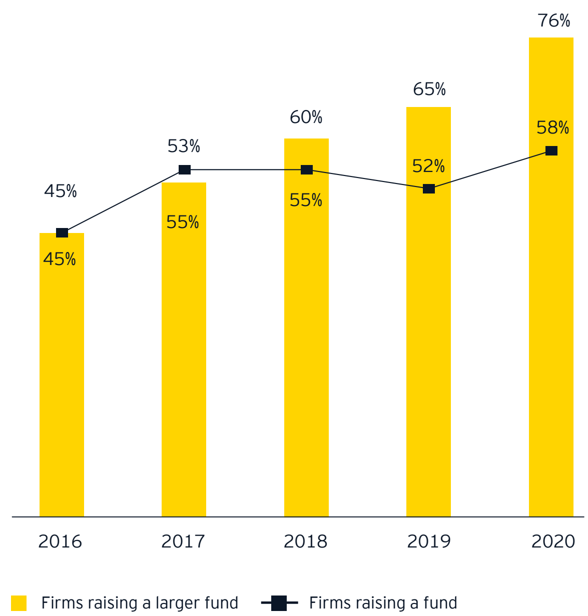
How would you describe the ideal CFO?

strategic diligent knowledgeable competent mentor trustworthy leader careful focused hardworking thorough detailed partner responsible collaborative innovative busy multitasker analytical approachable reliable fair

But are CFOs ready? Do they have the requisite skills, tactical as well as technical, to serve as a strategic leader in tomorrow's private equity firm? As the industry continues to mature and evolve and contend with the forces of disruption, the CFO will increasingly be looked upon to up his or her game and become a leader for the firm. In addition to technical skills, CFOs will also need to display the emotional intelligence required to be effective strategic leaders, for the people on their team as well as the entire organization. That means they will need to balance self-awareness with self-regulation and empathy as they make the tough decisions necessary to remain competitive with other funds.

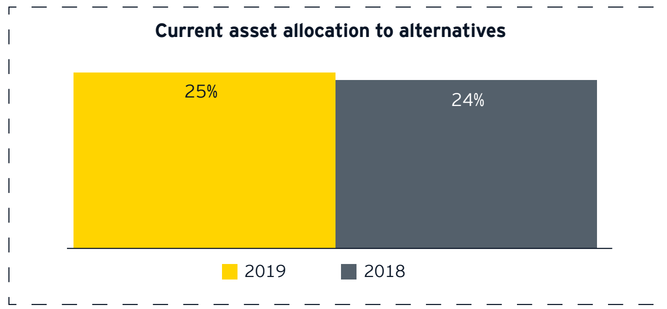
Private equity managers continue to have high expectations for the years ahead, continuing a trend we have seen in this survey for the better part of a decade. More than half of the managers surveyed expect to raise a new fund in the coming year, with more than three of four of those who do expecting that fund to be larger than their last. This is the highest proportion we have seen since we began asking the question in 2013.

If you are you planning to raise a fund in 2020, will the fund be equal to, smaller than or larger than your last fund raised?

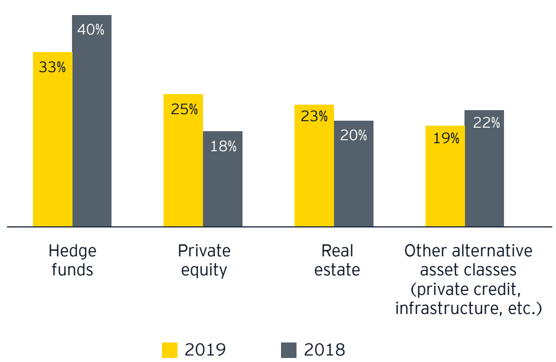


Given this momentum, private equity firms have increasingly become the "one-stop shop" for investors seeking to make their alternative investment allocations. This has prompted a race for assets that is forcing private equity firms to think strategically about the best ways to capture investors' allocations to alternative investments. Expanding product lines, entering different geographies, changing the investor mix and setting up separate accounts are just a few of the strategic decisions facing private equity firms. This asset growth is understandable given the returns private equity firms create for investors. This past year, returns for private equity almost doubled those of a traditional public equity portfolio. This continues a trend we've seen in our prior surveys.

What are investors' current asset allocations to alternatives?

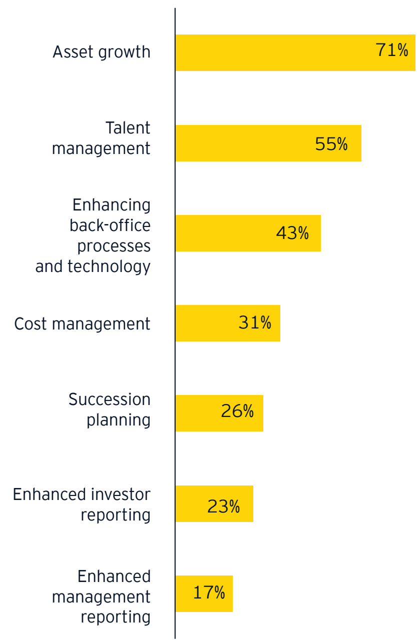


What asset classes are alternative investments allocated to?



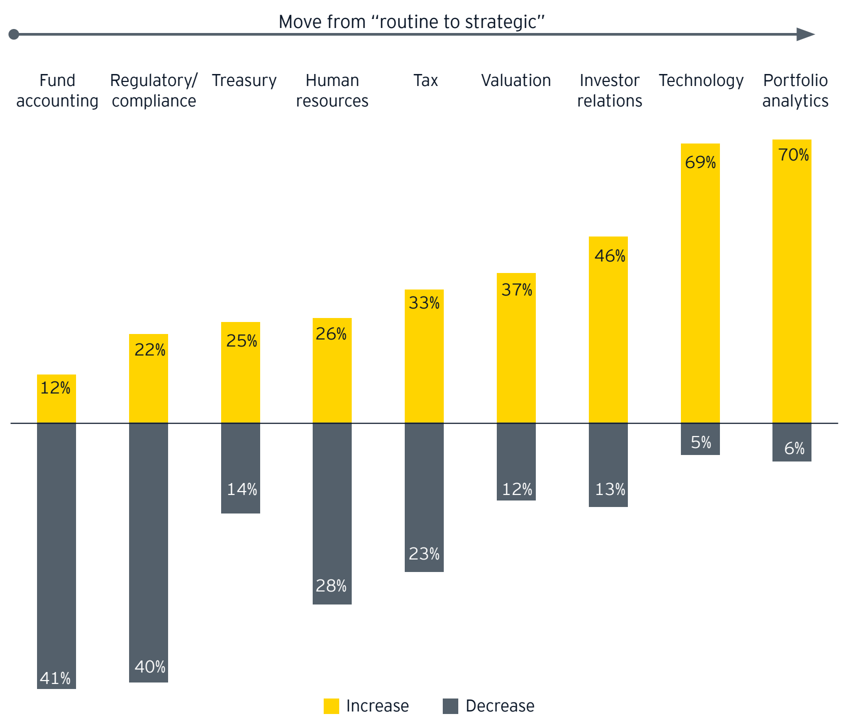
Other strategic priorities driven by the impact of this record growth include talent management; process improvement in the finance office, including technology implementation; and enhanced reporting for investors.

What are your top strategic priorities?



Looking ahead, how will CFOs transition to focusing on strategic initiatives and more value-add functions? They've already made this shift within the finance office, reducing more routine task-oriented activities in favor of more value-add functions. Over the past three years, CFOs have become increasingly aware that this shift in focus requires them to perform at a higher level expected by their managing directors. Responses to this year's survey reveal a significant increase in focus by the CFOs since we last asked this question in our 2017 private equity survey. The disparity underscores more focused effort by CFOs to move away from routine tasks, relying more on their teams as well as outsourcing certain functions.

How would you change the allocation of your time related to finance functions?



Adopting a more strategic role also requires CFOs to take on additional responsibilities outside of the traditional finance functions. These include participating in fundraising and helping with scenario modeling. Business decisions surrounding treasury and cybersecurity also fall within this expanded scope. Moving forward, CFOs anticipate playing a more active role with their portfolio companies, whether it is participating in the due diligence process, advising them on their finance functions or sitting on boards. At the same time, they also recognize the challenges that these new responsibilities will bring and many do not yet feel prepared to take them on. In that light, private equity firms will need to dedicate resources to helping CFOs prepare for the new challenges coming their way.

What responsibilities do CFOs have outside of traditional financial oversight?

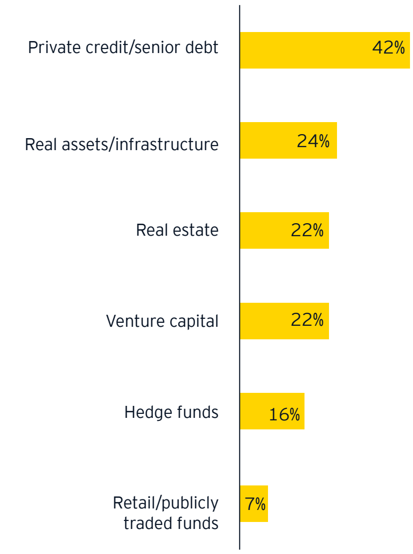
Responsibility	Current responsibilities
Preparation of fundraising materials	68%
Attend fundraising meetings	58%
Cybersecurity oversight	48%
Scenario modeling/economic forecasting	43%
Obtaining debt financing	40%

What other roles would CFOs like to take on and do they feel prepared to do so?

Responsibility	Would like to perform	Not yet prepared for
Onboarding and meeting with portfolio companies	30%	51%
Helping portfolio companies improve their finance functions	28%	39%
Sitting on boards of portfolio companies	27%	41%
Assisting in due diligence alongside deal teams	24%	62%
Speaking at industry conferences	16%	38%

In addition, we also expect to see private equity firms offering more nontraditional products to clients in order to grow assets. Private debt, real assets and real estate are among the lead options at this time. Private capital assets currently total $7.4 trillion and private equity firms would like to manage much of this for investors.

What nontraditional products are private equity managers offering?



Launching new product lines also brings an operational burden for CFOs. CFOs have typically been involved in the operational aspects of new product development, from working on potential compliance issues to analyzing potential tax issues as well as hiring talent to oversee new products. However, CFOs, and particularly those at smaller private equity firms, have not been as involved in setting location strategy or marketing new products. In the future, we believe that more private equity CFOs will be asked to help with the more strategic aspects of these items like new product development, location strategy and distribution strategy.

Which activities are CFOs involved in related to new product development?

Chapter 2: the evolving talent profile of private equity firms

Private equity CFOs have typically focused on talent within the traditional finance functions. Improving employee engagement and productivity represents a top strategic priority for nearly all private equity managers.

This does not come as a surprise. Keeping employees engaged and motivated is a key step in retaining a top-tier workforce and this is one area where CFOs should and must hone their emotional intelligence skills as motivational leaders who can help lead the transformation of the finance team as well as shape the talent profile of the entire organization.

What is your firm's most important talent management priority?

73%

OF PRIVATE EQUITY MANAGERS ARE PRIORITIZING EMPLOYEE PRODUCTIVITY/ENGAGEMENT

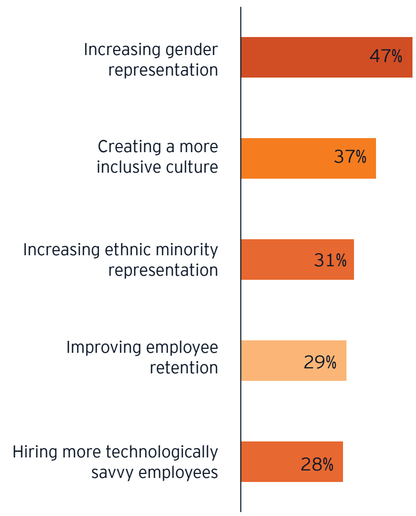
At the same time, private equity CFOs increasingly recognize that they need to elevate the overall pool of talent within the firm, particularly as data analytics takes on a more important role in the organization. Moreover, becoming effective strategic leaders also requires them to focus on the composition of the pool of talent. An inclusive and diverse talent pool encourages the free flow of ideas and can serve as a catalyst to innovation and efficiency, which can also drive positive financial performance, higher retention rates and employee satisfaction.

Organizations that embrace diversity and inclusiveness typically find themselves in a stronger position to create high-performing teams that bring together professionals with different opinions, experiences, perspectives and skill sets. When people have a strong sense of belonging to the broader team, they not only perform at a higher level, they also encourage others to perform at a higher level as well. Within that context, CFOs also need to focus on strategic workforce planning to recruit the right people with the right skills.

While all private equity firms are seeking to build more diverse workforces, the survey results reveal that firms with more than $15.0 billion are more focused on creating a more inclusive culture and increasing ethnic minority representation, while mid-sized firms ($2.5 billion to $15.0 billion) are focusing their attention on improving gender representation.

For smaller firms (less than $2.5 billion), ethnic and gender diversity remain an important priority, but they also view hiring technologically savvy employees as their most important strategic priority. Employees who fit this profile may be better equipped to help the smaller, leaner fund managers compete against the larger firms for investment ideas and asset growth. At the same time, all firms are seeking to hire more technically proficient employees, regardless of size.

Which talent management item is next on your organization's priority list?

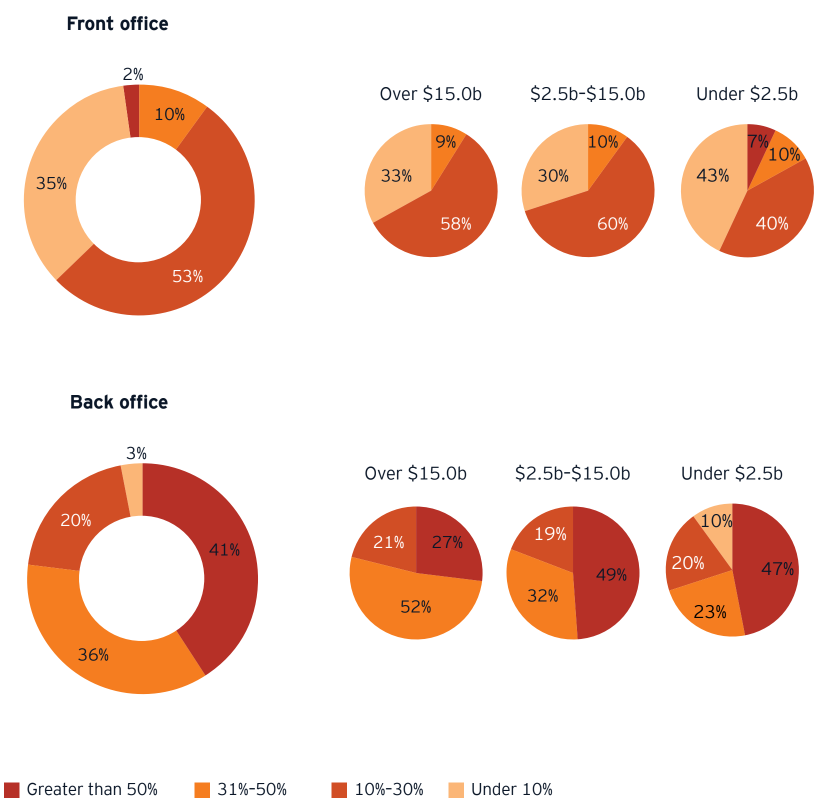


While the private equity industry tends to rank ahead of other alternative managers when it comes to diversity, it still has a long way to go, particularly in the front office. At most private equity firms, the proportion of women in front-office roles is less than 30%. This challenge is even more glaring among the mid-sized and largest firms, where fewer than 10% of firms report that they have more than 30% of their investment professional roles filled by women.

On the other hand, private equity firms have been more successful improving gender diversity in the back office. At 41% of the organizations surveyed, women account for more than half of traditional finance function roles, though that same number drops to 27% for the largest private equity firms.

As a strategic leader, CFOs must be ready to identify barriers to gender diversity in the front office and implement practices and programs that increase gender parity and overall diversity. Given that CFOs have helped to drive positive change in the back office, it would seem they are equipped to support gender diversity change in the front office as well.

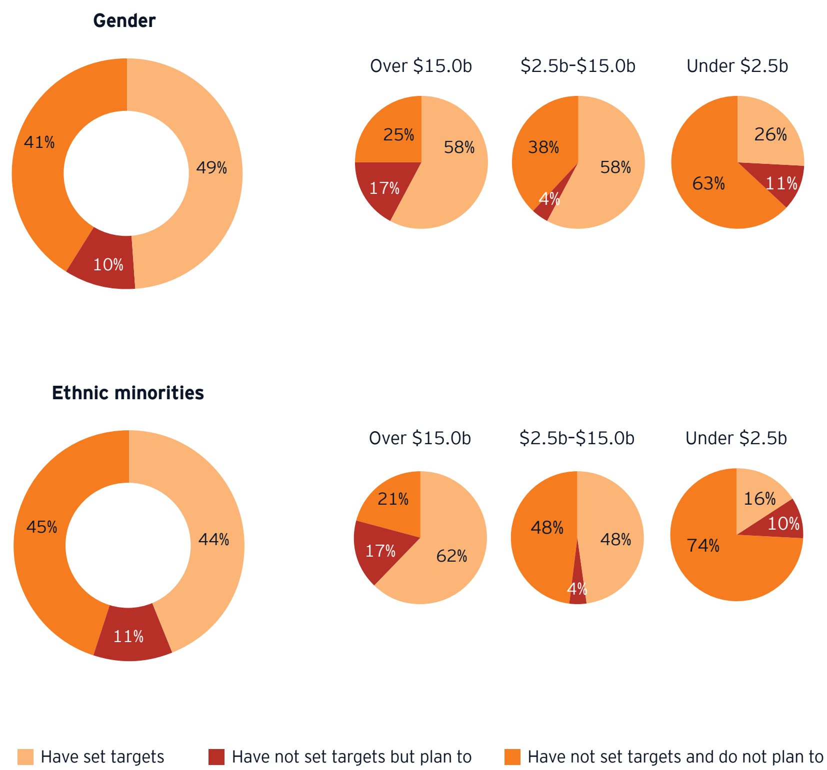
What proportion of the members of your firm are women?



Many private equity firms recognize that their overall lack of diversity represents a major shortcoming for the industry. As a result, many firms are taking steps to address the problem. For example, 58% of firms with more than $2.5 billion in assets have set gender diversity targets, while also setting targets for ethnic diversity. Moreover, the majority of the ones that have set targets tend to be on track to meet them.

At the same time, most CFOs stress that they need to focus more energy on ethnic diversity. This becomes even more urgent when you consider that more than 40% of fund managers are falling behind their planned diversity targets. Mid-sized managers report the greatest difficulty, with 60% of the respondents saying they were behind plan.

Has your firm set diversity targets?

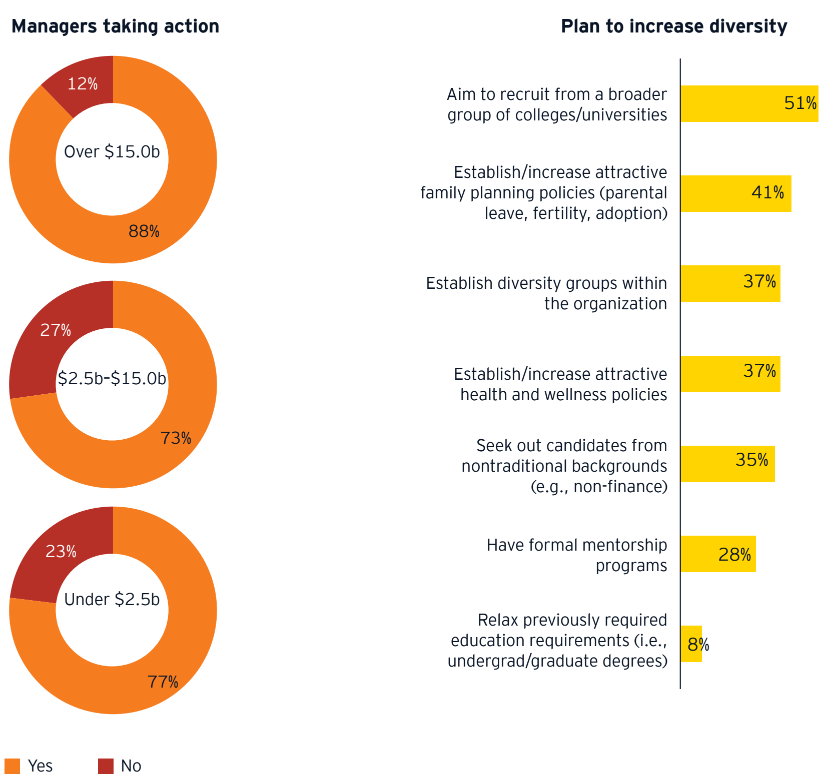


More than three-quarters of private equity firms are taking proactive steps to increase diversity. But more needs to be done. As the private equity industry continues to evolve, firms and their strategic leaders should be prepared to embrace the diversity goals set by other industries and sectors. In order to increase diversity, firms are focusing on recruiting from a broader group of colleges and universities and establishing diversity groups within the organization. However, more than half of the respondents that are taking these steps have indicated they are falling behind their planned diversity targets. It is important that private equity firms not only recruit from a broader group of colleges and universities and have diversity programs in place but also hold themselves accountable for achieving diversity targets.

Firms that have focused on taking action to increase diversity have been establishing attractive family planning policies and health and wellness policies, seeking out candidates from nontraditional backgrounds and establishing formal mentorship programs. These firms have indicated greater success in meeting their ethnic and gender diversity targets. This represents a major culture shift for many firms and it's clearly a step in the right direction

Diversity is also becoming increasingly important to investors as well, with 81% of investors indicating that they will seek out firms that have gender and ethnic diversity in their leadership group. Many investors realize that firms that understand how to leverage diversity and inclusivity programs will have a stronger and deeper pool of talent and be in a better position to further grow assets.

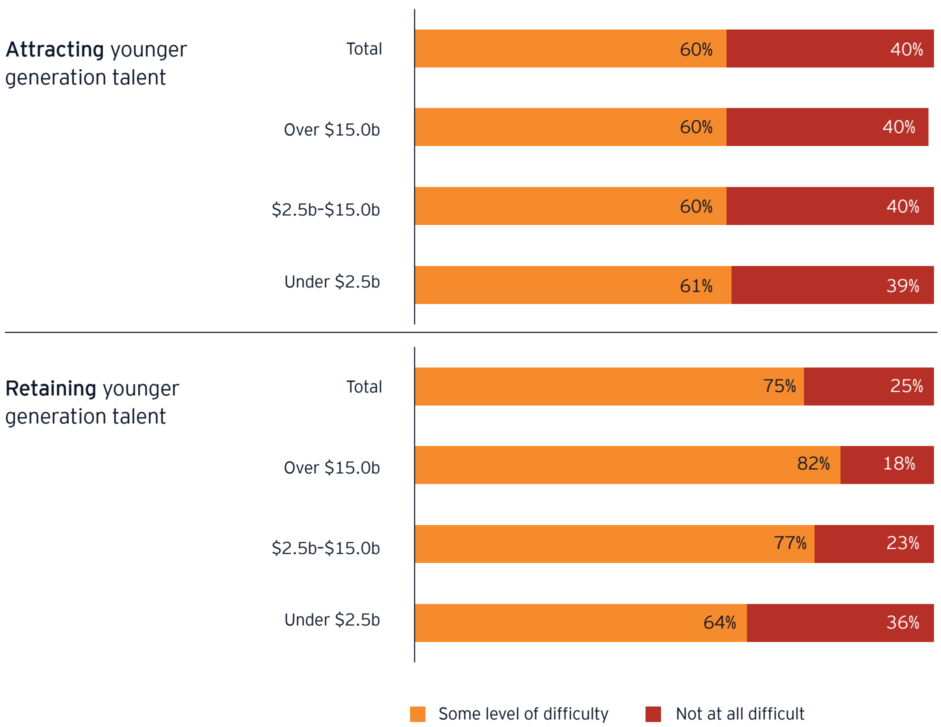
How do you plan to increase diversity in your workforce?



As if managing the talent pool from a gender and ethnic diversity standpoint is not enough, with an aging workforce, advances in technology and a constantly changing world, a strategic CFO has to be focused on attracting and retaining younger generation talent.

While more than half of all CFOs have indicated that there is some level of difficulty in attracting younger talent, it is clear that CFOs are finding it even more difficult to retain that younger talent once they are in their talent pool. The strategic CFO should always be thinking of different plans and initiatives that can be implemented to assist the CFO in retaining this younger talent.

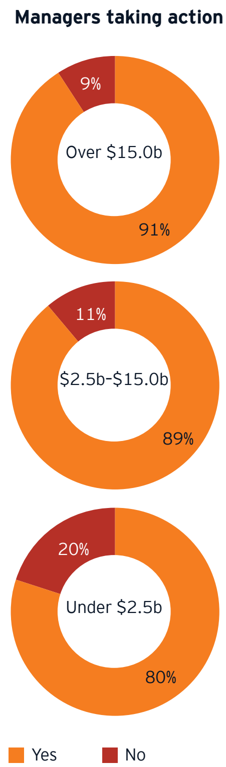
How difficult is it to attract and retain younger talent (millennials, Generation Z)?

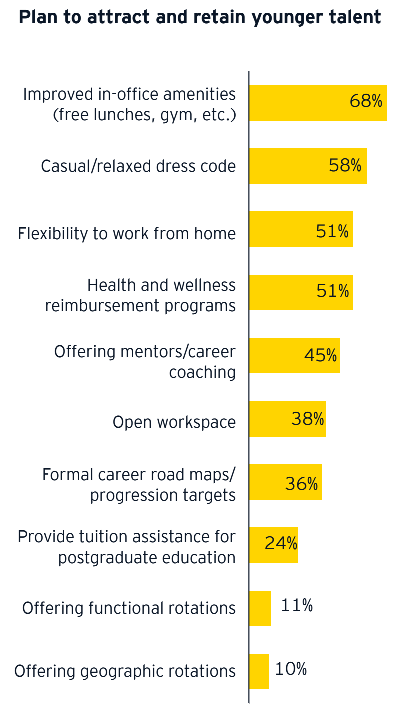


In addition to taking steps to increase diversity, PE firms are also looking at ways to make attracting and retaining younger talent easier.

More than two-thirds of PE firms have improved their in-office amenities (offering free lunches, gyms, etc.) while more than half have relaxed their dress codes. For smaller funds, which may not have the ability to make significant investments in amenities, more than 70% are providing their employees with the flexibility to work from home.

What initiatives have you used to attract and retain younger talent?





Chapter 3: innovation and process improvement

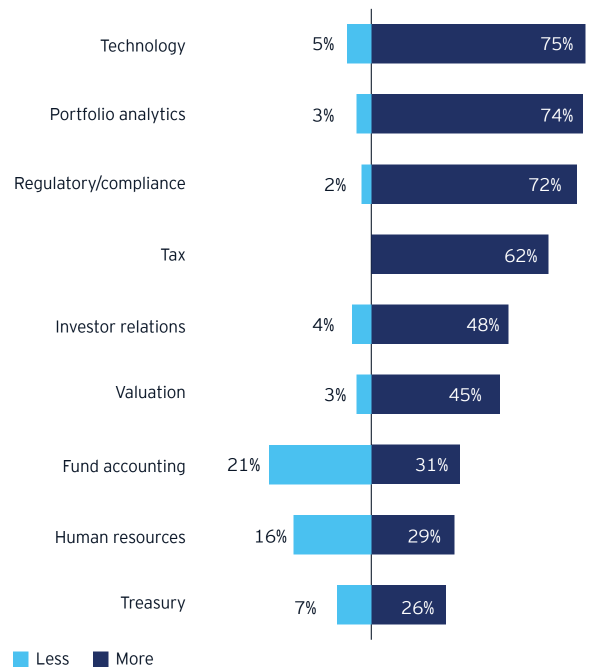
When we first started conducting this survey, private equity CFOs were primarily concerned about deploying new technology to improve efficiency.

At the time, they were keen to automate the finance functions, moving on from Excel spreadsheets and other manual tasks. Private equity firms have largely achieved step one of this digital transformation and are now ready to focus on those activities that enable them to get the most out of their new digital environment.

Looking ahead, CFOs overwhelmingly expect their finance team to spend more time on technology and investment portfolio analytics over the next two years. This aligns with CFOs' priorities on how they plan to spend their own time as it relates to traditional finance oversight.

At the same time, 72% of CFOs believe their teams will continue to focus on the required regulatory matters, with another 62% estimating their team will spend more time on various tax compliance issues. As CFOs' focus shifts to more strategic activities, they will need to position their teams to handle more responsibility in these core finance functions. To that end, CFOs will also need to restructure their finance teams and reassign responsibilities to ensure that their teams are positioned to leverage new technologies.

How do CFOs want their teams spending time?



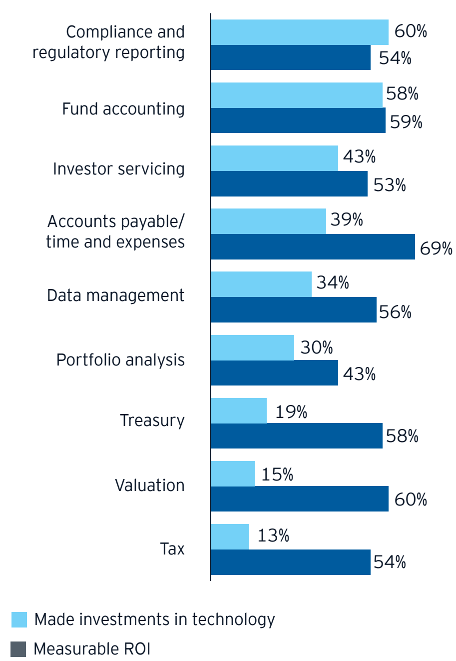
> In order to see a larger return on their technology investments, CFOs have to motivate their team to use every functionality possible in the new systems.

Going forward, CFOs will also increasingly be called upon to demonstrate their return on investment (ROI) in technology. To date, technology investments in the core finance functions have focused on fund accounting, regulatory reporting, investor servicing and accounts payable/ expenses. As CFOs look to support more value-add, strategic functions of the firm, they will also need to further improve how they use technology to increase operational efficiency. This will help to boost staff capacity for these value-add tasks and give finance teams an opportunity to find new ways to deploy technology.

While ROI in these areas was relatively high, there is still plenty of room for improvement to leverage the benefits of their new technology. In addition to adopting a more strategic mindset about where and how to implement technology, CFOs will also need to ensure that their people are adequately trained. This cannot be overlooked. Building a workforce that has the relevant data analytics and information technology skills is increasingly necessary if the finance team is going to get the most out of its new digital investments. The traditional workforce of private equity is accustomed to Excel and firms need to train their people on the new systems as well as adjust the profiles of new candidates as the technology landscape continues to evolve. In order to see a larger return on their technology investments, CFOs have to motivate their team to use every functionality possible in the new systems.

In which areas did you make technology investment?

In the areas in which you've invested, where have you seen a measurable return on investment?

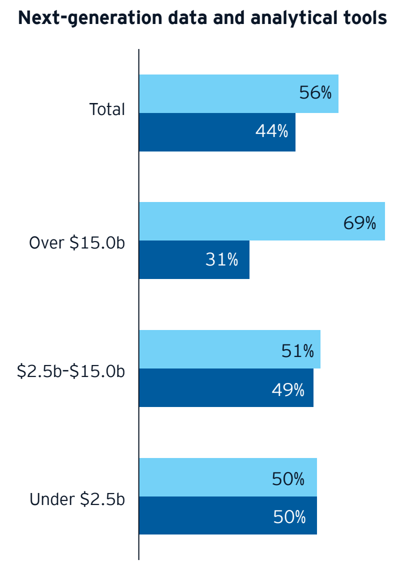


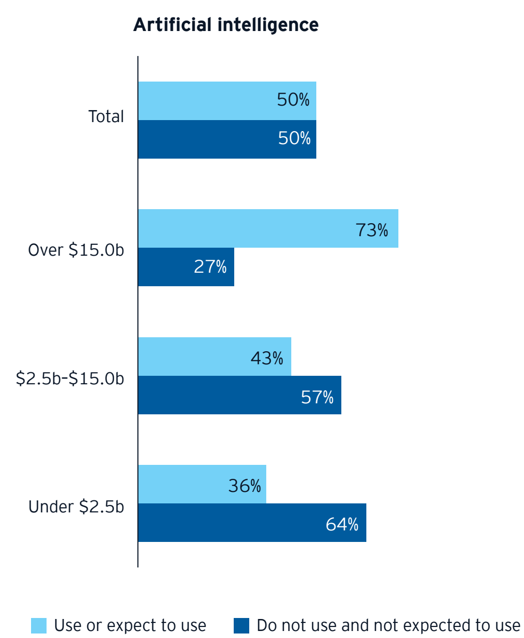
CFOs and the finance organization in general are viewed by the front office as keepers of the data. Technology takes on an increasingly important role in this digital era. Not only do financial teams need to leverage technology effectively to be more efficient and add greater value to the organization, they also need to deploy next-generation technology and an approach for leveraging that data to differentiate their organization.

In this light, we see increasing investment among the larger private equity funds on using next-generation data (i.e., social media sentiment vs. market data) to support the investment process. The number of private equity firms relying on next-generation data rose by nearly one-third over the past 12 months.

Private equity firms have been a bit slower to adopt artificial intelligence (AI) to support the investment process. This is not surprising given the nature of the investment cycle, especially when compared with others in the alternatives industry. The increasingly competitive landscape of obtaining limited partner commitments and closing investment opportunities will challenge CFOs to reassess their views about the relevance of this technology in their operations. AI may provide future opportunities to provide value to the broader organization in support of the investment process.

Are you using next-generation data or AI to support the investment process?





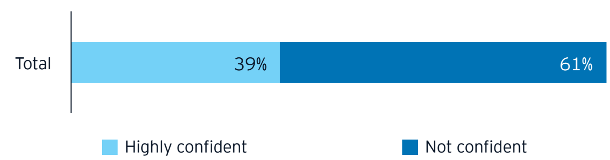
While the innovative use of technology offers significant opportunities to private equity organizations, it also brings a greater risk of exposure to a potential cybersecurity breach. Once thought of as only an IT issue, cybersecurity is now being viewed as a broader business risk that CFOs have to mitigate.

The survey results reveal a disconnect between investors and fund managers. Only 40% of investors believe that their managers have adequate cybersecurity policies and procedures in place. On the other hand, most private equity managers, across all firm sizes, consider themselves well prepared to detect and prevent breaches.

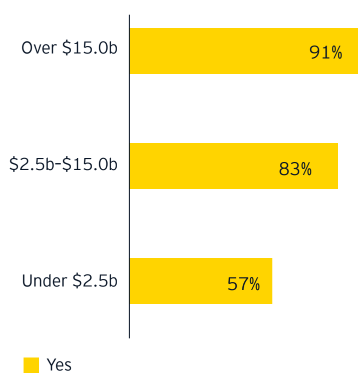
Generally speaking, except for the largest organizations most firms believe that the biggest risk of a breach lies within their internal systems, such as email phishing. Relatively few see the business risks posed by engaging third parties, from service providers to fund administrators, as a meaningful risk.

Moving forward, this disconnect presents an opportunity for private equity CFOs to better educate their investor base about their firms' cybersecurity efforts. Revealing that they have an effective strategy in place will help to raise the profile of the broader organization in the minds of investors.

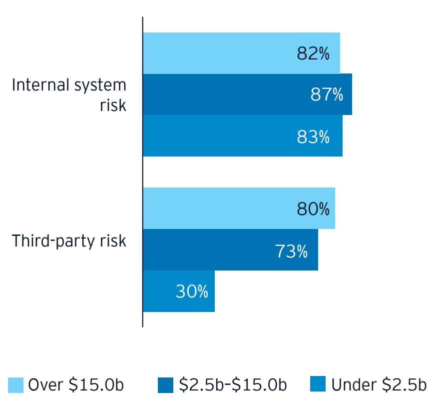
How confident are investors that alternative fund managers have adequate cybersecurity policies and procedures?



Do you feel your firm is well prepared to prevent a cybersecurity breach?



Where do you see the greatest risk of a cybersecurity threat?



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 evolving role of the private equity CFO; strategic priorities; talent management; process improvement, including technology and data transformation; and the future landscape of the private equity industry.

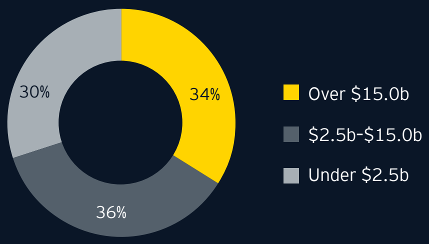
From July to October 2019, Greenwich Associates conducted telephone and online interviews with managers from 100 private equity firms. In addition, we also interviewed 62 institutional investors representing some $1.8 trillion in assets under management.

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%.

RESPONDENT PROFILE

What are your firm's total assets under management?



NUMBER OF FIRMS SURVEYED

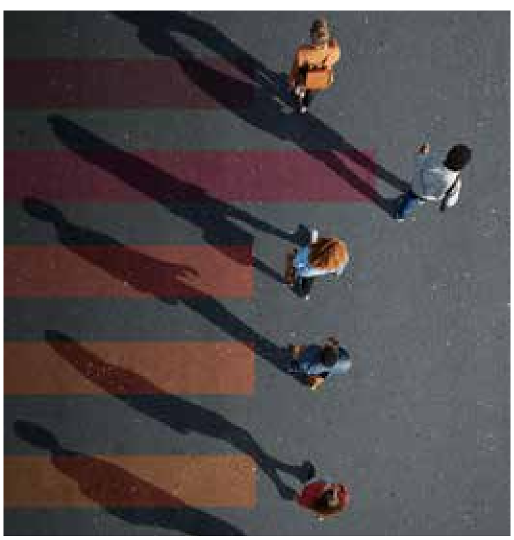
This survey brings forward the perspective of 100 private equity firms of a wide range of sizes and complexities that have operations around the globe.

100 FIRMS SURVEYED GLOBALLY

EY SURVEY CONTACTS

Global

Andres Saenz
EY Global Private Equity Leader
Ernst & Young LLP
+1 617 478 4619
andres.saenz@parthenon.ey.com



Americas

William Stoffel
EY Americas Private Equity Leader
Ernst & Young LLP
+1 212 773 3141
william.stoffel@ey.com

Mike LoParrino
Assurance Private Equity Leader
Ernst & Young LLP
+1 212 773 2753
michael.loparrino@ey.com

Kyle Burrell
Partner
Ernst & Young LLP (East)
+1 617 375 1331
kyle.burrell@ey.com

EMEIA

Gerrit Frohn
EY EMEIA Private Equity Leader
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
+49 6196 996 23932
gerrit.frohn@de.ey.com

John van Rossen
Private Equity Leader
Ernst & Young LLP
+44 20 7951 6026
jvanrossen@uk.ey.com

Asia-Pacific

Tony Tsang
EY Greater China Private Equity Leader
Ernst & Young Transactions Limited
+86 21 22282358
tony.tsang@hk.ey.com

Luke Pais
EY Asean Private Equity Leader
Ernst & Young Corporate Finance
Pte Ltd.
+65 6309 8094
luke.pais@sg.ey.com

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