
KEYNOTE INTERVIEW

PE's digital revolution set to accelerate



*From accessing alternative pools of capital to enhancing efficiency through the investment lifecycle, digital tools will open new doors for the industry, says **Bridget Walsh** at **EY***

Q How do you expect private equity firms to evolve, in terms of covering additional asset classes, sectors or jurisdictions?

The last decade has witnessed tremendous growth in PE. Ten years ago, the industry managed \$2 trillion, according to Pitchbook figures. Today, it has grown to more than \$5 trillion, and the private capital ecosystem more broadly has grown to more than \$14 trillion. It's a number we believe will continue to increase, as funds continue to evolve into multi-asset managers, expanding their product offerings into spaces such as private credit, infrastructure, real

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estate and growth equity. I expect managers to continue building these platforms in new and interesting ways – in the secondaries market, for example, where we are seeing impressive growth with the potential for much more.

This means that smaller funds will increasingly look to define their niche to thrive among larger firms; in many cases, they'll pursue differentiation through specialisation. For some managers, this will be sector-driven; for others, it will be a unique strategic

value-add, or based on geography and access to compelling markets and ecosystems.

In addition to the economies that we have traditionally seen private equity focus on, there are some new hotspots. I was in Japan recently and it is exciting to see the PE industry taking off there. The Middle East is another good example. The industry is responding very quickly to shifts in the global economy to take advantage of the growth opportunities.

This is an agile industry that can cope with a lot of change. Indeed, PE thrives on it. While last year was a challenging year, wherein investors needed

to take a step back and adjust to a new normal, there is now more stability in the market and confidence is returning. According to our latest *Private Equity Pulse* survey of global GPs, 76 percent expect an increase in deal activity over the next six months. Funds are building up their pipeline, and I feel quite bullish about the industry and where it is headed.

Q As the industry expands, what channels will drive growth in fundraising in the coming years?

Historically, funding has largely come from pension funds, sovereign wealth funds and endowments. However, there is significant untapped potential in the \$80 trillion's worth of high-net-worth funds. Tapping into this could be a massive opportunity for the industry. Reasons this hasn't been accessed yet include minimums that have been too high; funds haven't necessarily been structured with retail investors in mind; and retail investors are often nervous about locking up their capital in private equity funds for extended periods.

However, new innovations driven by technology are helping to address these issues. For example, we are seeing new players building platforms where retail investors can access private equity funds with as little as \$5,000. Traditional players are starting to look very carefully at this to access capital that will give even more firepower to the industry. Hamilton Lane, for example, has said they expect retail allocations to increase from about 2 percent to 5-10 percent over the next five to seven years, which could add another \$10 trillion to private markets.

PE funds will be quick to adapt here once a business opportunity is proven; they tend to be very good at industrialising it.

Q How do you see tokenisation evolving in the next few years?

We are really talking about the use of



Q How can managers use digital tools to drive value creation and optimise portfolio performance?

PE funds know that if they buy a business in today's economic environment, they are going to have to implement a value creation or operational improvement strategy to get the returns they want on exit.

Interest rates are higher, and the world is changing quickly – new competitors are disrupting markets. A company in the retail space, for example, could find itself facing a digital competitor with a lower cost base. So not only do you have to drive top-line growth, but you also have to do so in increasingly efficient ways. We've seen generative AI used in call centres, for example, helping to automate more routine tasks and take costs out of an organisation.

On the top line, firms are increasingly looking at technology to get goods to the consumer in more seamless ways. When we work with PE firms on value creation, we spend a lot of time looking at data and asking how they can optimise it to secure loyalty and better engage with customers.

So digital and automation is a significant part of the value-creation toolkit today, and we are bringing more of that tech-enabled resource into our teams to support value creation.

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blockchain technology. Traditionally, the minimum subscription requirement for a fund has been out of reach for retail investors. But fractionalisation allows you to break that down into smaller amounts. We are seeing several firms experimenting with tokenised assets, where they create new vehicles or take slices of existing funds and offer them in tokenised forms.

This has huge benefits. Features such as instantaneous settlement, limited counterparty risk, increased efficiency with fewer intermediaries, and enhanced liquidity have the potential to make PE more broadly accessible to a broader range of investors. Tokens can be bought and sold over a

blockchain network, which overcomes the problem of investors having to lock up their money for three to five years.

As these products start to take off, investor education will be critical, and it will take time to educate both wealth managers and the wider population.

Q What is the outlook for private equity when it comes to making greater use of digital tools from an operational point of view?

We are already seeing PE funds actively leverage generative AI technology. Given the interventionist nature of private equity – the need to improve performance and returns in the holding period – I believe private equity funds will be front runners in the adoption of generative AI technology to drive performance improvements.

We find that PE firms are increasingly using machine learning to uncover new opportunities and drive increased efficiencies across the complex. They're using machine learning to scan the market as they look for deal opportunities, using technology to help them do that in a much more efficient way. They are using more sophisticated dashboards that help them monitor KPIs across the portfolio, and they use advanced investor portals to

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communicate with investors more efficiently, giving them deeper and more customised cuts of information about their investments.

Q To what extent are private equity firms ready for an AI revolution?

PE firms are at varying levels of maturity when it comes to assessing the impact of AI and integrating it into their business; some are working through the various use cases across the enterprise; others are further along in incorporating and benefiting from both off-the-shelf and custom-designed machine learning solutions.

PE firms are increasingly asking us if AI could disrupt or enhance a business they're considering before they begin investing in due diligence. In our recent *Private Equity Pulse* survey, we found that 85 percent of PE firms expect AI will have a significant or transformational impact on the asset class over the next five to 10 years.

Private equity owners tend to drive change more quickly than in a company that isn't PE-backed as they have just three to five years to transform a business and exit at a higher multiple. The AI revolution is poised to be a significant enabler in those transformation efforts and that is why the industry is really starting to embrace it.

AI is also going to help firms become more efficient in their back office. That is where PE firms are expecting the most substantial impacts – our survey found that 96 percent of firms believe AI is going to help there, compared to 79 percent for deal sourcing, 83 percent for due diligence, and 87 percent for investor relations. We already find that some firms have practical use cases for investor relations, in terms of being able to respond to investor requests more quickly using generative AI.

Q What will be the biggest challenges for firms in adopting AI?

Operating partners are typically very

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positive about the potential of AI tools, but have concerns about the quality of their underlying data. The portfolio company might have grown through a buy-and-build strategy, or it might have gone through a variety of different systems, so significant time needs to be spent working to clean the data. There is definitely a nuts-and-bolts challenge of getting the underlying data fit for purpose before it can be optimised.

Responsible use of AI is also paramount. When integrating AI into their businesses, PE leaders should keep fairness, reliability, privacy, safety, inclusiveness, transparency and accountability top of mind.

Lastly, this is also a change journey – funds need to think about getting the management team on board and getting the people in the portfolio skilled up. There is clearly still plenty of work to do, but it is a very exciting time. ■

Bridget Walsh is the global private equity leader at EY