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A leading global provider of alternative asset and corporate business services

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- FTSE 250 listed business
- Accredited business processes
- Offices located across Americas, EMEA and Asia-Pacific
- Trusted and proven partner to global clients and advisers since 1988

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# Seven charts that matter

CFOs face unprecedented challenges in coping with investor due diligence and regulatory scrutiny

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CFOs face unprecedented challenges in coping with investor due diligence and regulatory scrutiny

The Private Funds CFO Insights Survey is one of the most comprehensive compilations of chief financial officer perspectives across private markets today, writes Victoria Robson. The 2019 survey reveals plenty to be optimistic about. Fund sizes continue to grow and North American investors in particular are flush with capital.

On the other hand, the survey shines a light on the growing complexities of managing the finance function in the private equity industry. Firms are facing an increasingly onerous compliance landscape, with investors demanding information on everything from ESG to cybersecurity. LPs’ traditional focus on valuation also remains intense.

Outsourcing is still increasing in popularity and some CFOs are starting to use technology to help manage the expanding workload. But there’s a long way to go before AI fulfils its promise to streamline routine tasks and revolutionize the industry.

We detail the results of the survey over the following pages, beginning with the seven key trends CFOs have told us are shaping their role.

Challenges in raising a larger fund: 1 = not very challenging, 5 = extremely challenging (%)

<table>
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<th>Challenges</th>
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<th>20</th>
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<th>40</th>
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<tr>
<td>Building internal structures and processes</td>
<td>5</td>
<td>4</td>
<td>3</td>
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<tr>
<td>Coping with more investor requests/reporting</td>
<td>5</td>
<td>4</td>
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<td>2</td>
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**Born in the USA**

Our survey reveals more than half of managers expect to see a greater proportion of US investors in their next vehicle. Why? American managers dominate the industry and many see no reason to go to the trouble of marketing overseas if their capital needs can be met at home. Thanks to bullish US stock markets, US pension plans have more cash to hand as a percentage of allocations to invest in private markets. Conversely, for political risk reasons, LPs in other jurisdictions like China and Russia do not look so enticing, and for some, bureaucratic hurdles presented by the AIFM directive are a disincentive to go to Europe.

**To change or not to change?**

Private equity’s appetite for acquiring technology assets remains vigorous. But managers’ enthusiasm for adopting new technologies in-house, like artificial intelligence, robotic process automation and machine learning tools, is muted to say the least. Only 2 percent of respondents have adopted any AI, while a huge 70 percent have yet to even review its application. Much of this apparent reluctance to engage with technology can be explained by the established practice of outsourcing IT to external providers. But as technological innovations continue apace, managers will have to ditch their immunity to change if they want to keep up with the pack.

**Valuations**

SoftBank’s over-valuation and subsequent write-down of its investment in co-working space business WeWork has shone a spotlight on both asset pricing and valuation methodologies. LPs have always been sensitive to this topic. Now their focus is sharpening. The vast majority of survey respondents (70 percent) note valuations is an area where LPs ask detailed questions during due diligence, up from 63 percent last year, and far ahead of compliance, which ranks second in detailed scrutiny.

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**Expected change in the investor base at the next fundraise (%)**

<table>
<thead>
<tr>
<th>Region</th>
<th>2018 Decrease</th>
<th>2018 Stay the same</th>
<th>2018 Increase</th>
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<tr>
<td>North America</td>
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<td>Asia-Pacific</td>
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</table>

**Adopting artificial intelligence**

- Implemented: 2%
- Evaluating: 28%
- Yet to review: 70%
Not so fast
This year we've seen a slowing down in the rapid pace of back office hiring. This may surprise understaffed CFOs who are grappling with increased LP and regulator demands and are desperate to hire additional team members. However, the results point to an underlying trend of CFOs outsourcing to external providers who pick up the slack across tax, fund administration and technology functions. That said, as more funds come to market, recruitment is expected to stay “above trend,” says one CFO.

Building a track record
Contending with a variety of information requests from disparate LPs weighs heavy on the back office. “Unless everyone is willing to say a specific template is ‘perfect,’ investment managers will always be completing specific investor/consultant templates,” says one CFO. This lack of standardization puts upward pressure on costs and restricts the scope for automation. However, in the provision of track record data – a core metric requested during fundraising by LPs and one in which most are taking a more granular interest – information demands may be getting easier to manage. The survey reveals a sharp rise in the number of CFOs receiving standardized track record templates – up from 21 percent in 2018 to 30 percent this year.

The key questions
As custodians of their beneficiaries’ money, LPs have a duty to quiz their investment managers – and they do. Roughly a third of respondents report investors always ask about know your customer and anti-money laundering policies, cash management oversight and readiness for a cyber attack. Demonstrating good governance is clearly key. Should a manager fail at this, the cost will be not only financial and operational, but reputational too. A perfect storm any manager and LP would wish to avoid.
A role that has changed beyond all recognition

Graeme Kerr
graeme.k@peimedia.com

Our annual CFO survey is a chance to take the pulse of one of the most vibrant positions in private equity today. The role of the chief financial officer has changed beyond all recognition over the last decade.

That's reflected in this year's Private Funds CFO Insights Survey where it is clear that the modern day finance chief has a huge amount of challenges on his or her plate. Fund sizes are getting bigger – 65 percent of CFOs expect the next vehicle to be larger, according to the survey – and that means more LPs and additional due diligence questions.

That comes at a time when investors are becoming more demanding with valuations and compliance their main worries, the survey suggests, closely followed by IT, with cybersecurity a growing concern.

And LPs like to see the CFO in person – the proportion of LPs that always demand to meet the CFO is rising – further increasing the workload on the hard-pressed modern head of finance.

This was our most comprehensive-ever survey. In all we had 124 respondents, most of them CFOs, but if unavailable we asked for responses from other professionals, including CCOs, COOs and controllers. The issues covered range from fundraising to outsourcing.

Key takeaways include the increased reliance on North American investors. Many more respondents than last year – 54 percent compared with 37 percent – expect to see a larger proportion of North American LPs in their next fund. Perhaps patience with international investors is finally running out: “I've spent years chasing international LPs,” said one exasperated respondent. “It is a less efficient and more difficult sales process that really only works for the most established brands.”

Technology was another key issue, with the survey giving pause for thought for those expecting an AI revolution. More than two-thirds say they have yet to review AI, machine-learning tools and robotic process automation, with most expecting it to be at least five years until AI really starts to take hold in private equity.

A huge thanks to SANNE and everyone else involved with pulling this all together. It really does provide some valuable insights into the many demands placed on the modern CFO.
The Private Funds CFO Insights Survey 2019 paints an intricate picture of the multifaceted role of the finance head. Today, the chief financial officer shoulders an ever-growing burden as firms launch more and larger funds, LP reporting requests increase, and regulatory obligations become more complex. We spoke with SANNE’s managing director for North America, Fred Steinberg, to understand the role of external providers in supporting the CFO to manage a heavier and more diverse workload.

**Q** Given the volume of work handled by the back office, are CFOs outsourcing new functions?

Tax is the most outsourced function as it requires technical expertise around laws and regulations. All businesses need this support, regardless of jurisdiction. We’ve also seen upticks in other areas, most notably fund administration.

To date, outsourcing fund administration has been more prevalent in Europe where these services are more regulated. The US has lagged in this respect; but, given the size of the US market and the number of new funds launched in a wider array of products, the outsourcing of administration will continue to grow.

In addition, we also see increased outsourcing of investor services and compliance, mainly due to anti-money laundering laws, know your customer requirements, data privacy regulations, and investor sophistication.

**Q** Interesting data suggests the rate of back office recruitment is slowing.

Internal hires are a cost to GPs, who try to be as profitable as possible. As funds invest and divest over time, the volume of back office work fluctuates. The decision to outsource is unique for each asset manager. Those who have seen the benefits and efficiency of using external service providers will continue to utilize this service.

For their first fund, many GPs may handle back office work in-house. Once they’ve demonstrated success to investors and raise their second vehicle, they’ll typically move these time-consuming functions to an external platform that has the advantage of scalability rather than increasing staff.

**SANNE’s Fred Steinberg explains how the role of external service providers is expanding in tandem with the CFO’s growing workload**
Are you seeing the creation of new roles? Chief technology officer? Chief information officer?
Not necessarily – these responsibilities stay with CFOs. Ultimately, GPs want to focus on investing. They will scale where possible and will turn to external providers for technology solutions. As a service provider, we’re proactively investing in technology to support our platform, so GPs can rightly focus on fund performance.

According to the survey, LP interest in GP back office functions remains strong. What kinds of concerns do they voice?
LPs expect asset managers to have a CFO, as the role is critical. They are responsible for running the fund in a holistic sense. There are so many funds competing for the same investor dollars, LPs are scrutinizing everything. They want to know that if they give substantial capital to someone, it’s being managed in a professional, regulated, and well-controlled environment. It is the CFO’s responsibility to determine how best to meet those standards and the fund’s needs. LPs don’t think everything should be outsourced, nor should they be. However, when a function is outsourced, LPs rightfully expect someone in-house to manage and oversee the service provider.

Additionally, one area where we’ve seen a significant uptick in due diligence by prospective investors relates to cybersecurity infrastructure. It has become a hugely sensitive area the past few years, and it continues to evolve. It’s crucial for the asset manager to be able to protect their own and their investors’ data, and it’s critical for the service provider to do the same, as we handle data pertinent to the GP and their investors.

As a service provider, do you feel that scrutiny of your activities has increased?
It has – and we welcome it as it validates our model. We are invited more often than in the past to due diligence sessions for prospective LPs, as well as current investors who come in regularly to re-inspect our processes and procedures.

They want to understand how we interact with asset managers and CFOs, and ensure that our controls are efficient and effective. They want to know that outsourced services are handled by someone who is competent, independent and professional.

“As service providers, we see ourselves as a transparent extension of the CFOs that hire us”

Is back office scrutiny by LPs continuous across the fund cycle?
LPs are more focused when deciding whether to invest with a new asset manager, or, commit to their next fund, though as investors mature, more LPs continue to maintain some level of focus afterwards. The amount of recurring due diligence undertaken by institutional investors committing substantial sums of money is rising. They want to establish an ongoing relationship with the asset manager and their service providers.

Are LPs requesting new types of information?
LPs always first look at the asset manager’s track record and the professionals running the fund. As institutional investors become more sophisticated, they scrutinize the same functions, but in more detail. For instance, LPs are digging into risk and compliance frameworks and are probing how managers keep up to speed with new laws and regulations across the regions in which they operate.

Are they asking for information in new formats or templates?
Yes. If you go back over the past decade, due diligence questionnaires have grown from 10-20 pages to two or three times that size, depending on the level of granularity. LPs also are trying to standardize how they ask questions to compare asset managers across the spectrum. They want to consume the same type of information on a quarterly and annual basis, in a consistent fashion that fits their internal reporting of metrics and KPIs.

We touched on cybersecurity. What’s the role of new technology in boosting back office functions?
GP expectations are forcing fund administrators to be more tech-savvy. On the other side, in recent years, we’ve seen growth in the use of portals through which GPs report to investors. That will continue. At the same time, these portals will become more dynamic in supplying data to both investors and GPs.

Are you seeing an increase in automation?
There is definitely an increased appreciation of automation and how it can help. You hear about machine learning, AI and blockchain, and many are investigating these avenues. However, there’s a lot to learn about how these innovative changes may impact service providers and their private fund clients.

Ultimately, the most important things we take pride in as service providers are our professional expertise, exceptional client service, and attention to detail. At the end of the day, we see ourselves as transparent extensions of the CFOs that hire us. We want to give them white glove service and make sure that they know they will receive the attention and the professionalism they require.
What LPs really want

LPs are seeking more information from GPs.
Victoria Robson investigates how finance teams are dealing with transparency requirements

It is no surprise to anyone that this year has been another bumper one for fund-raising. The Private Funds CFO Insights Survey 2019 bears this out, with around one-third of our 100-plus respondents currently in market and a further 10 percent expecting to approach investors by year-end. And it does not stop. A further quarter expect to collect capital next year for a new vehicle.

Fund sizes are still rising. A whopping two-thirds of respondents – dominated by mid-market firms with vehicles in the $100 million-$500 million bracket – expect their next vehicle to be larger than their current fund.

Finding new investors to back the fund remains the most significant test, although the proportion of managers reporting that this is “extremely challenging” dropped from 21 percent last year to 15 percent this year. Part of the reason for this drop is the amount of capital looking for a private equity home, particularly from North American investors.

Many more respondents than last year (54 percent compared with 37 percent) expect to see a greater proportion of these in their next fund raise. “The private equity dollars available as a percentage of most [pension] plans has grown more significantly in North America compared to the rest of the world as the equity markets have risen faster and further,” notes Centre Partners’ CFO Bill Tomaia.

If there is more cash to collect in North America, then GPs have few reasons to look elsewhere.

Why increase resource burn (time and
Analysis

“Can you raise a fund with only $100m? Can you raise a fund with $1000m? Can you raise a fund with $5bn? Can you raise a fund with more than $5bn?” asks John Otterson, partner at Jackson Square Ventures. “I’ve spent years chasing international LPs. It is a less efficient and more difficult sales process that really only works for the most established brands.”

And then there are barriers to collecting capital in other markets. Another CFO notes that in Europe, “AIFMD certainly contributed to US investors taking a growing share of the investor base. ‘Funds are likely nervous about Chinese or Russian money too, with the current political climate.’”

Due diligence

Bigger funds mean dealing with more investors. At the same time, those investors are seeking more information and demanding greater detail from GPs. More transparency is increasingly important to LPs, according to survey respondents. LPs are “generally asking for more transparency into fund information,” says one CFO. Another elaborates that LPs also want transparency into “track record, reporting quality and safety of electronic data.”

Performance and track record data remain, unsurprisingly, the core requirements for LPs. The pillar performance benchmark used by GPs is the internal rate of return. Less than 1 percent do not use it.

Paramount to LPs are, “one, consistency of returns; two, consistency of team, including next generation succession; and three, consistency of strategy and how you execute against that strategy, i.e., LPs do not like to see strategy stray,” says one CFO.

“Prior performance is table stakes,” says...
Otterson. “Team experience and fund strategy need to be consistent and [you need to] present a cogent narrative on how performance can continue. The fund narrative also needs to include compelling elements around sourcing, selection and stewardship.”

“Operational due diligence has increased greatly over the past few years too,” adds a chief compliance officer.

During due diligence, LPs like to interact with the CFO in person. The proportion that always demands to meet the CFO is rising (16 percent), while a solid majority (72 percent) sometimes ask.

Dimitri Korvyakov, the CFO of Sandton Capital Partners, notes that “beyond the returns, LPs are quite interested in seeing in general that the investment manager is prudent with investors’ capital, uses resources optimally, puts efforts into applying the industry’s best practices and remains transparent and forthcoming with the LPs. The topics covered during due diligence meetings are usually geared toward ascertaining this.”

He adds that LPs are asking additional questions around diversity, gender and ethnicity, as well as on environmental, social and governance topics. Around 70 percent of respondents say LPs delve into their use of ESG consultants either always or sometimes.

The factors most important to LPs during due diligence “probably varies a bit by geography and/or type of investor,” says one CFO.

“Scandinavian investors, in particular, are increasingly focused on ESG and this is becoming as important as the potential economic return. One noticeable change during our last fund raising was the focus on...
operational matters and risk, particularly by US investors.”

**Granular**

As institutional investors become more sophisticated they are scrutinizing the same functions, but in more granular detail, says Fred Steinberg, SANNE’s managing director for North America.

LPs are asking for more detail on investments, including company data at acquisition and to-date, says one CFO. “Some have requested greater reporting on fees and expenses, and also the use of fund-level credit lines. Many now expect completion of an annual operational due diligence questionnaire, some of which are very comprehensive.”

The survey reveals that the proportion of LPs using a standardized template when requesting track record data has risen (from 21 percent last year) but is still only less than one-third. “Only a few more than in the past are using standardized templates. Rather, they continue to use their own internal templates,” notes one respondent.

“Unfortunately, there’s no sign of standardization on one template yet for portfolio company/investment reporting,” adds another. While templates can be useful, says one CFO, “unless everyone is willing to say a specific template is ‘perfect,’ investment managers will always be completing specific investor/consultant templates. I haven’t seen this change in decades.”

**Questions asked by LPs during due diligence (%)**

- Do you have suitable KYC and AML measures in place?
- Is there someone positioned in the treasury to oversee overall cash management?
- Do you have a cyberattack readiness policy?
- Do you have an ESG consultant in place to advise on responsible investing across your portfolio?
- Do you have an external advisor to address the 2017 Tax Reform Act?
- Are you currently using ILPA’s best practices template?
- Are you planning to adopt the new ILPA fee reporting template?
SANNE’s Hannah Jaeger, head of business development for the Americas, explains how the world’s most important interest rate benchmarks will be revised by the end of 2021

Sanctions have been imposed on several banks during the last few years for the manipulation of the IBOR prices. This, and the reluctance of banks to continue contributing to the IBORs, has dictated the need for a change.

Currently, benchmark rates are calculated on a forward-looking basis. In contrast, the new risk-free reference rates, to be fully implemented by the end of 2021, will be calculated daily, referencing the real unsecured interbank funding values of the previous day. The rate will then be published the following morning. This mechanism is the equivalent of the previous day’s EONIA (Euro OverNight Index Average), based on actual data.

The RFR methodology avoids the potential manipulation of the interest rates, as it would be based on real information as opposed to forecasts. However, the mechanics of setting interest rates at the beginning of the current period (T-2 EURIBOR/LIBOR USD and T for LIBOR GBP) will not be feasible in these circumstances, as the settlement at the end of the period would be unknown.

The current reference rates are published for different durations (daily, weekly, monthly, quarterly, six-monthly and annually). However, the RFRs are based on overnight values from the previous day and applied daily over the period. This means interest applicable to any period longer than one day must be constructed by combining daily references.

As a risk-free concept, the RFR is a credit premium free rate. As a result, the rate does not reflect the real cost of funds to financial institutions, nor does it include an additional credit premium for the duration of the funding, since they are daily references. And it’s important to note that the methodological approaches and timing of implementation vary considerably from country to country.

The RFR wave is certainly starting to get bigger as it approaches the shore. It is increasingly evident that the market, systems, contracts and — in general terms — the culture of which bonds and loans are oriented towards is completely inverse to the current mechanics. The revision of reference interest rates requires adjustments along the
entire value chain, from market segments to downstream units such as settlement, risk and finance. It directly affects almost all variable-rate products.

Despite multiple problems and huge transition costs that the change of references will bring, there is no turning back. Nevertheless, as financial institutions prepare for the rollout, the Loan Market Association has proposed several modifications:

1 Interest calculation methodology

Interest shall be calculated as a result of compounding the RFR for the elected duration of the period. There are several ways in which rates can be compounded (for example, including weekends and/or rounding conventions) and will be clarified within the loan agreement. There is no doubt that a standard will be created soon, however, we do risk having different market practices as we do today for calculation basis (ie ACT/365 GBP and ACT/360 EUR).

The ideal scenario would be for Reuters or Bloomberg to publish the compounded rates at different tenors and with different compounding criteria, straight after the publication of the daily RFRs early each morning. In any case, the agents and banks should have the capacity to generate automatic calculations of the compounded interest rates and it is therefore imperative that they adapt their systems accordingly.

In fact, the linear interpolation for the calculation of interest rates for non-published durations will no longer be applicable, as it is mathematically incorrect (unless the market practice accepts this simplification).

2 Interest fixing dates

Interest will no longer be calculated at the start of an interest period, as is the market practice today. This does not necessarily mean that it will be calculated precisely at the end of the period (in arrears), as it is not practice for syndicated loan calculations to be made on the date of payment.

The LMA is working on a solution to fix the interest rates well in advance of the interest payment date in order to allow both borrowers and lenders to record and manage cash reconciliations. The proposal would be around five to 10 natural days, although it would depend on the type of facility in question. For example, an RCF may require shorter periods. A business day convention will not work in this case. The calculation day should always be the same to ensure that the calculation period has the same length as the period of interest and there should be no overlapping with the previous period.

Banks accommodate their funding to the advanced fixing of rates on rollovers with similar tenors, ensuring a perfect match between their cost of funds and the revenues. The substantial change with RFR will require the banks to modify their funding mechanisms accordingly, with funding remuneration to be based on arrears calculations. The debt funds are a different animal. They may not need to change their funding mechanics through capital calls, although they may need to adapt their hedging instruments.

3 Credit prime

While being conscious that the RFRs are prime free rates, the LMA can only suggest that a credit premium should be considered in the loan agreements, to be added to the calculation of the applicable interest. This credit prime will vary depending on the currency and duration of the interest period. Hopefully, the calculation will be objective and purely mathematical, and will not require the agents to consult the credit premium applicable for each lender on each fixing date.

In summary, market participants (and, more importantly, agents, banks and funds) need to start making big changes before the big wave arrives. The LMA has alerted the market that all changes should be fully implemented by Q3 2020, even though the IBORs are likely to be discontinued sometime after this. We believe that it may become even more urgent, as it is likely that some US transactions will be structured on this basis and the rest of the market will follow.
CFOs have yet to really see the benefits of adopting new technologies in-house, writes Victoria Robson

It’s a telling example. Only a tiny minority of firms, 6 percent, use a waterfall automator to help with this fundamental and complex calculation, according to our latest Private Funds CFO Insights Survey. Many do not believe automation is necessary; others have been unable to find a system that works well or been put off by poor reviews. Some have not had time to explore automation or already outsource waterfall calculations. More than a third simply prefer to use Excel.

There is a huge amount of chatter around the potential for technology to streamline any number of functions from preparing financial reports to conducting deal due diligence. It might be surprising then, that while some GPs are reviewing their approach, only 10 percent have concrete plans to automate waterfall calculations.

However, this fits an overall trend. A significant majority of respondents have yet to even review adopting artificial intelligence, robotic process automation or machine learning tools. A small minority are evaluating their usefulness, while only a sliver have already implemented them.

When asked about the impact of AI on back office functions generally, one compliance officer is not alone in noting, “I’m not informed enough to comment on this.” Another respondent adds that he suspects AI is “being over hyped at the moment.”

Of those firms that do use new technological tools, enthusiasm is markedly muted. Barely 3 percent believe technology has been highly effective in back office management. More than half rate the effectiveness of technology on investor relations, risk management and returns as “low”. This disappointment rises to 70 percent in deal sourcing and 76 percent in due diligence.

But one respondent does note that “AI might be able to help with some deal-related decision making, for example sorting through some high-level inputs to see if a deal is worth pursuing.”

Most managers believe the impact of AI will be felt some time away (five years = 53 percent; 10 years = 43 percent). John Otterson, partner at Jackson Square Ventures, points out that “AI/ML has been evolving for decades and still has a way to go to find truly compelling business applications, let alone singularity. There is certainly an opportunity for further automation in the back office, but it is difficult to predict how/when/where that will happen – perhaps further data aggregation … is the near term play.”

Another CFO adds: “I do not believe [AI] will have a significant impact in the short term or medium term on investment management firms, with two notable exceptions: one, large-scale players (ie, bulge bracket firms) can invest in new
technology] and ultimately see some benefit over time, and two, I believe that outsource service providers, in particular third-party administrators, should invest and will benefit from AI so long as they have a practical plan and throw enough internal resources to make it a reality.”

GP reliance on external service providers to meet their technology needs has already shifted the burden to keep abreast of innovation onto those with specific functional expertise. “GP expectations are forcing fund administrators to be more tech-savvy,” says Fred Steinberg, SANNE’s managing director for North America.

In turn, outsourcing to the more tech-aware is allowing back office teams to alter the way they work. “The role of the back office has become less routine-based and more project-based (routine work is usually outsourced),” says Dimitri Korvyakov, CFO at Sandton Capital Partners.

eFront chief executive Tarek Chouman sees a continuation of this swing. “In the future, we believe, GP back office staff will shift focus and work increasingly on the analytical side of the business and less on producing reports or sending emails or generating financial statements.”

Whether or not they use technology directly, it seems certain that AI will play a significant role in determining the size and shape of back office teams. In a tech-dominated world, says Chouman, “employees will be more client-facing and involved in decision-making tasks.”

Adopting artificial intelligence

Effectiveness of technology in the following areas (%)

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<th>Area</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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<tbody>
<tr>
<td>Performance analysis</td>
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<td>Investor relations</td>
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<td>Deal due diligence</td>
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<td>Back office management</td>
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<tr>
<td>Returns</td>
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Greatest impact of artificial intelligence on PE firms (%)

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Implemented</th>
<th>Evaluating</th>
<th>Yet to review</th>
<th>In five years</th>
</tr>
</thead>
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<tr>
<td>Now</td>
<td>4%</td>
<td>28%</td>
<td>70%</td>
<td>53%</td>
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<tr>
<td>In 10 years</td>
<td>43%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>In five years</td>
<td></td>
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As limited partners have ramped up the intensity of their focus on private equity firms’ finance and operations functions in recent years, the role of CFOs has increased dramatically too, extending, for example, into fundraising and due diligence processes.

As a result, CFOs are surrounding themselves with bigger teams of experts and more are also now relying on outsourcing activities to third-party administrators and service providers to help relieve some of the pressure that comes with a broader, more visible and front-facing role within the firm.

According to the Private Funds CFO Insights 2019 survey, more than 70 percent of respondents report LP interest in operational functions has seen an increase over the past three years. Only 28 percent of respondents said LP interest has remained the same. In particular, US institutional investors, foreign investors and tax-exempt investors have conducted greater due diligence over the last three years, increasing demand on GP operations, according to the survey: “I spend more of my time on fundraising now because of the increased focus on operational due diligence than there had been for earlier fundraises,” says Sheera Michael, CFO and chief administrative officer at TzP Group. “Large investors and even some family offices have hired third parties to handle their operational due diligence.

“The due diligence questionnaires have become more complex over time and include more sections on finance and operations. This requires the CFO’s involvement.”

Team effort
It’s not just the CFO but the whole operations team that has become more involved in the fundraising process. Mid-market firms have hired dedicated investor relations heads to lead efforts, and LPs often ask to meet the whole finance team during due diligence, including junior employees in addition to the C-suite. “That’s true in LPs’ routine visits as well.

“In the past when they visited, they met with the deal teams to review the status of the portfolio companies,” says Michael. “Now, it’s common for them to also ask to meet with me at the end of the session for an update on the operational areas.”

LPs mostly ask questions around operations, and controls and processes at the firm. “The CFO’s role during fundraising has evolved from data gathering to a critical focal point,” says Jason Donner, CFO at Veritas Capital, which recently closed its sixth fund on $6.5 billion.

“During our latest raise, I had in excess of 60 meetings or calls with investors on a variety of topics including operations, internal controls, economics, work environment and culture of the organization. Our role has become front and center. Ten years ago, other than processing information, I was not meeting the majority of prospective investors.”

LPs and intermediaries’ inquiries are often more than just tick-the-box questions. They are specific and regularly follow up with GPs on action items, including cybersecurity preparedness or ESG policy, or whether the Securities and Exchange Commission has knocked on the door since they last spoke. As a result, LPs’ focus on GP
Joshua Cherry-Seto
Chief financial officer, Blue Wolf Capital Partners

Cherry-Seto is CFO at Blue Wolf Capital Partner, a mid-market control buyout firm focusing on challenging situations and complex relationships between business, customers, employees, unions and regulators to build value for stakeholders. Sectors include healthcare, forest and building products, energy services, and industrial and engineering services. The firm manages about $1.5 billion in assets.

Sheera Michael
Partner, chief financial officer, chief administrative officer, TZP Group

Michael is a partner, CFO and CAO of the TZP Group, which focuses on investment in consumer and business service companies. TZP, which has raised $1.4 billion since inception, invests in companies with EBITDA between $10 billion and $35 billion and up to $10 billion with their Small Cap fund. Michael joined 12 years ago. She was previously the chief executive of a family owned business and earlier served at Warner Publisher Services where she was a vice-president and treasurer.

Fred Steinberg
Managing director and regional head of North America, SANNE

Steinberg is regional head of North America at SANNE, a company offering fund administration, corporate administration, investor relations, treasury and portfolio monitoring services. Listed on the London Stock Exchange, SANNE has about $300 billion in assets under administration. Steinberg joined SANNE in 2017 from Morgan Stanley, where he held the position of executive director in finance, overseeing and supporting closed-ended alternative asset funds.

Jason Donner
Chief financial officer, Veritas Capital

Donner is the CFO of Veritas Capital, a private investment firm that invests in companies providing technology-enabled products and services primarily to government customers. The firm recently closed its sixth fund on $6.5 billion, bringing its assets under management to approximately $18 billion. Donner previously worked for a fund administrator where he co-managed the organization’s institutional private equity sponsor group. He also served as controller at Swiss Re’s PE division and started his career working in public accounting.
Analysis

“The CFO’s role during fundraising has evolved from data gathering to a critical focal point”

JASON DONNER
Veritas Capital

“I spend more of my time on fundraising now because of the increased focus on operational due diligence than there had been for earlier fundraises”

SHEERA MICHAEL
TZP Group
operations has become more regular and doesn’t take place solely during fundraising but has become ongoing.

Many of our existing investors have dedicated operational due diligence professionals who perform ongoing operational due diligence every 12 to 18 months,” Donner explains. “They typically want to speak with different teams, including finance, compliance, investor relations and technology.”

Michael adds: “In the past, institutional investors would only conduct operational due diligence before they made an investment in the fund, and now some of them perform ongoing operational due diligence. They want to speak with different teams, including finance, compliance, investor relations and technology.”

By extension, consultants and fund administrators like SANNE are also an intrinsic part of the due diligence process and of the ongoing touch points between fundraisers and clients. “There has been additional focus on controls and processes,” says Michael. “If you use outsourced vendors, they often will reach out directly to the third-party firms.”

“They want to understand what our controls are and how we operate,” adds Fred Steinberg, regional head of North America at SANNE. “What we keep hearing is the need for independence. They want to know we’re not just acting as bookkeepers for our clients but that we’re making sure things make sense, that we have a direct relationship with the firm’s auditors, that we’re always in touch with our clients, and that we have the right checks in place.”

Fund administrators often help their clients fill out due diligence questionnaires from prospective investors. “We also help support or attend annual meetings with our clients where they report back on a full array of questions to their current investors,” says Steinberg.

LPs are also focusing their questions on valuations and how fund managers are handling them, according to the survey, as more than 70 percent of respondents say LPs’ questions on valuation during due diligence are the most detailed, above compliance, IT and business continuity.

At the demand of LPs, but also to alleviate the pressure, CFOs have increased their reliance on outsourcing especially in complex areas where they might not be experts.

According to the Private Funds CFO Insights Survey, the most outsourced function is tax, with more than 97 percent of respondents relying on external third-party support, followed by technology (73 percent) and fund accounting. The experience of the CFOs around the table confirms the data. “In private equity, it’s been a more recent push,” says Joshua Cherry-Seto, CFO of Blue Wolf Capital Partners. “It feels like the market is moving a little bit where investors are just more comfortable that you’re using somebody as a third-party review on some level. LPs in our last fundraise seemed to appreciate that we used a third-party firm, and I do feel that the market is moving towards a preference of having a third-party look like most of the alternative asset class already.”

**When to outsource**

Outsourcing makes sense for smaller funds that may not have the capacity to administer their fund in-house, while LPs may have more confidence that the larger managers have the means to build the necessary processes in-house.

“In my opinion, institutional investors are more comfortable investing in small funds if they have a third-party fund administrator reviewing the financials,” Michael says. Steinberg explains that SANNE has both large and small clients, and that he sees growth coming from the small new funds.

“It’s those guys that are first coming to the market,” he says. “They came from established institutions and they’re used to having a fund administrator. The other prospective clients are those with first- or second-time funds. Their first fund wasn’t so big, so they took care of it in-house, but once they reach a certain scale, they see the potential to build efficiencies with us.”

The topic of utilizing a fund administrator was discussed during Veritas’ latest fundraise. Donner sees a couple of benefits for contemplating the move.

“One is the added benefit of institutionalized processes and controls,” he says. “Investors want to know there’s an independent third party checking the data. In addition, it is important for our team. By eliminating some of the processing from their responsibilities, their jobs are more challenging and rewarding.”

Cherry-Seto adds that Blue Wolf’s fund administrator has allowed his firm to provided assistance on the tax front as well. “This has been meaningful considering the firm does a lot of flow-through structuring in its transactions, which brings complexity.

New technologies, including artificial intelligence, robotics and automation, could revolutionize the world of private equity, facilitating deal sourcing and assisting portfolio management.

But they are still far into the future for the majority of private equity asset managers, according to the Private Funds CFO Insights Survey.

Asked how close they are to adopting these cutting-edge technologies, a vast majority of respondents – 70 percent for AI, 76 percent for machine learning tools, and 79 percent for robotic process automation – say they have yet to review them. Between 16.5 percent and 28 percent of respondents are evaluating these technologies, while very few – under 5 percent in each of the three categories – are already implementing them.

Based on the survey, 53 percent of respondents believe the greatest impact of AI on private equity will be seen in five years, while 43 percent believe it will be in 10 years.

Those currently implementing it are mainly some of the largest players dealing with multi-asset strategies and portfolios.

“It depends on the size of your firm and what you are willing to do,” Steinberg says. “AI and robotics have more potential for the larger players and in the fund of funds space, where the sheer volume of paperwork makes it more critical. It’s more on the asset manager side, where the volume can be overwhelming.”

In a galaxy five years away
and lots of entities for reporting from a tax perspective.

However, Cherry-Seto points to the fact there used to be a lot of turnover at fund administrators, which forced GPs to reteach the specifics of their firm to the administrators every year. This is changing.

“I think over the last few years, it has become more relationship-driven in private equity, where there are more CFOs coming out of our space and working on the administrator side, where you feel like it’s somebody who understands the business and is almost virtually in the room,” he notes.

“They are thinking about the challenges we are facing, as opposed to just processing transactions. That continuity and partnership is important, and I think the market is doing a better job.”

Another deciding factor in outsourcing to a fund administrator is their increased capacity to invest in technology over the past few years, offering greater options to firms, especially in the mid-market.

“It is critical to us to keep a finger on the pulse on all technological changes to assess their likelihood and/or importance,” says Steinberg.

“Given our size and the systems we use, we look to invest in the changes that can disrupt our industry. We can offer more client support via portals as an example, where we can white list the portal for them. We’re constantly looking ahead to what’s next coming down the road.”

Through the portal

Steinberg stresses the added value of portals, particularly for GPs. “Portals are growing in importance. People always talk about what you give to your investors. What we’ve found interesting is that when GPs offer investors all these bells and whistles, they don’t use it as much you’d think they use it. What we see becoming much more important are portals for the general partners to supply them with all of their data at their fingertips. That’s what we’re working on now as that’s where we see the industry going.”

Donner agrees there is a need for easily accessible data for GPs.

“That’s very important to us, especially when we’re self-administering existing funds and fund administering a newer fund, as we want to be able to report consolidated across all of our funds and we need to have that information,” he says.

“Leveraging technology is a top priority for the organization. We collect a lot of data and now are looking for opportunities to use this data to support our investment process and streamline internal procedures.”

Veritas has a number of projects in the pipeline including building a collaboration and workflow tool to interact with its portfolio companies, and an upgrade to its CRM and deal pipeline systems. It also hired a director of IT in early 2019 to support these efforts.

“Our fund administrator prepares quarterly IRR reports and waterfalls for our review. A software that could produce these reports quickly on demand is on my wish list,” concurs Michael.

“It’s clear that small but targeted improvements in technology could enhance the work of CFOs even further. For now, most GPs continue to rely on existing software and Excel spreadsheets, but the tech revolution in private equity could change the game in the next five to 10 years.”

Courting new LPs

With funds getting larger with each vintage, GPs have only a few options to find the additional needed capital

According to our CFO survey, nearly 65 percent of respondents think their firm’s next fund will be larger than the current vehicle, while only 27 percent believe it will be the same size and 8 percent predict it will be smaller.

One option in the hands of private equity firms is to have existing LPs reup and increase their commitment. That’s not always a possibility or might not always constitute enough capital. Another way is to bring in new LPs, but this can be tricky. Survey respondents report that finding new investors to back the fund is one of the biggest challenges associated with raising a larger fund.

“It takes years to build these relationships,” says Michael. “Most large investors would like to see a track record over time before they commit.”

“That was a big change for us, to actually figure out how to programmatically onboard prospective LPs,” says Cherry-Seto. “Just in this last fundraising round we got to a size where we can talk about how we are onboarding people to track and watch us. That wasn’t really a reality when we had a $300 million fund and half a billion under management. But once over $1 billion people want to follow you.”

GPs need to forge ongoing communication with prospective LPs, and often invite them to attend annual general meetings, which allows LPs to follow them. But it can be even more challenging if the GP is looking to geographically diversify its investor base and to bring in new LPs from overseas.

“As organizations grow, they need to develop investor relationships outside of the traditional investor base,” Donner adds. “You need to build these relationships over multiple years and fund cycles.”

It can take several years before investors invest in a fund, particularly those in Asia, which stresses the need to cultivate relationships with prospective LPs.
“LPs in our last fundraise seemed to appreciate that we used a third-party firm”

JOSHUA CHERRY-SETO
Blue Wolf Capital Partners

“We also help support or attend annual meetings with our clients where they report back on a full array of questions to their current investors”

FRED STEINBERG
SANNE
The rise of outsourcing

Victoria Robson explores how CFOs are using external providers to cope with an increased workload

The 2019 Private Funds CFO Insights Survey reveals an unexpected pattern. Although the demands loaded onto the back office are growing (due to LP reporting, soaring fund sizes and regulatory scrutiny, among other factors), the rate of back office hiring appears to be slowing. Only just more than a quarter of respondents plan to increase their team by more than one person, compared with more than a third last year.

Bill Toma, CFO at Centre Partners, believes that “hiring will continue above trend as more funds are created.” But, he adds, “after a long period of above trend growth, a slow down makes sense.” Looking to the future, he expects the automation of the routine elements of reporting will eventually dampen hiring growth.

Today, not everyone notices a change in pace. “Back office [recruitment] is not slowing for us, but it is also not picking up: [it’s] flat,” says one CFO. “I don’t see this changing any time in the near future.”

“We are not seeing that [slow down in pace], we are spending more time on internal and external reporting,” says another CFO. The divergence of opinion seems to reflect the state of private markets today: a wide variety of firms at different levels of maturity investing across different strategies in numerous locations, each with their unique back office staffing needs.

A third CFO comments that he doesn’t know if a slowdown in the rate of hiring is a trend because “I outsource most back office functions.” His response highlights a key determinant of team size: how much work a CFO deems appropriate to delegate to external service providers.

“Our internal back office headcount has been stable over the last three years, but if you include all outsourced work, the number of people involved in supporting the back office function has increased,” notes Dimitri Korvyakov, CFO at Sandton Capital Partners. “So while hiring directly by investment advisors may have slowed down, I would expect the slack was picked up by the companies supporting the back office, like fund administrators, compliance consultants, etc.”

In the face of increased investor scrutiny, CFOs need the additional support. “I would always consider [outsourcing back office functions], and there is usually at least one workstream in each function where you can leverage a third-party’s technology, scale and human resources,” another CFO points out.

One-third of respondents have seen a hike in LP interest in back office functions over the past three years. But LPs still expect a strong CFO to oversee the back office and external providers. An overwhelming majority of respondents, 73 percent, report that a permanent CFO is “to a great extent” an LP must have.

One area where LPs insist that firms invest in support is cybersecurity. “One area where we’ve seen a significant uptick in due diligence by prospective investors and relates to cybersecurity infrastructure,” says Fred Steinberg, SANNE’s managing director for North America. “Over the past few years, it has become a hugely sensitive area.”

Compliance is a top priority for investors (around half of respondents report that LPs ask detailed questions on this topic), which is an area that GPs prefer to keep in-house. Only a third outsource these services. “We already outsource tax, accounting and IT,” says one CFO. “We’ve no plans to outsource compliance. However, we are required to appoint a regulated fund administrator and to appoint a compliance officer for the fund/manager. This is in addition to our in-house compliance function.”

One chief compliance office notes that while he is open to outsourcing tax, accounting, technology and compliance, the latter “still needs someone in-house to oversee/own it.”

Similarly, 88 percent of respondents conduct investor relations from within the fold, and only 11 percent – the lowest proportion across functions – plan to increase the amount they outsource.

Unsurprisingly, tax and technology – areas that require cutting-edge expertise – are the two most commonly outsourced functions at 88 and 73 percent, respectively. Of all functions, the biggest proportion of respondents – around one-third – plan to increase outsourcing of fund accounting, which is already high at 69 percent.

However, oversight remains a CFO concern. “I do not think that we should outsource 100 percent of [any] function, as we need to retain some control,” says Korvyakov.
Expected change to the size of the back office team in the next 12 months (%)

- Decrease by more than one
- Decrease by one
- Stay the same
- Increase by one
- Increase by more than one

Investors conducting greater due diligence over the past three years (%)

- US institutional investors
- Foreign investors
- Tax-exempt investors
- Family offices
- High-net-worth individuals

Change in LP interest in back office functions (%)

- Large decrease
- Small decrease
- Stayed the same
- Small increase
- Large increase

Back office functions considered ‘must-haves’ by investors (%)

- A permanent CFO
- Strong cybersecurity protocols
- Policies on allocation of expenses
- Strong cash management
- Proficiency in waterfall calculations
- Proficiency in operating documents
- An AML compliance program
- A robust KYC policy
### Analysis

The terms they are a changing

*Strategy diversification stands out as a talking point in our annual survey of CFO sentiment, writes Victoria Robson*

The 2019 *Private Funds CFO Insight Survey* shows just how prevalent strategy diversification has become among private equity managers. Last year, 22 percent of respondents said they planned to launch a new fund with a strategy that was different from their firm’s heritage. This year, 29 percent say the same.

Of all factors, market opportunity remains the most critical consideration in a firm’s decision to diversify strategy (33 percent of respondents).

“In venture this [trend] is a function of greater opportunity sets identified by fund managers,” says John Otterson, partner at Jackson Square Ventures. “We have seen a profound shift in time/stage of when companies go public. That has brought an array of new entrants to the venture follow-on space.”

In real estate, the decision to shift strategy hinges on a manager’s ability to produce yield at the current level of investment risk, says one CFO. “Firms know how to invest in certain types of real estate, but the yields on that real estate have slightly declined. Rather than change your expertise, change your strategy, right?”

Expanding fund sizes also have a role to play. As managers “start to cap out on how much they can grow their current strategy” they switch strategy to continue growing. “A single successful investment strategy cannot last forever due to mean reversion,” adds Dimitri Korvyakov, CFO at Sandton Capital Partners. “Some investment strategies become too crowded and that drives a decrease in investment returns or the macroeconomic conditions beneficial to the strategy start to deteriorate. Investment firms have to look for new cutting edge strategies within their area of expertise or in a related area.”

As ever, investor demand is an important part of the picture. Forty-two percent of respondents note it was a very important or critical factor in their decision to launch a new fund with a new strategy. “LPs are concentrating their bets and GPs are accommodating the trend by offering more, which benefits both the LP and the GP,” says Bill Tomai, Centre Partners’ CFO.

However, a decision to step out with a new strategy is not without risks. One CFO is cautious. “As an investor, I would be hesitant to give my money to a manager that has no experience in a certain product type.”

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**Firms planning to launch a fund with a different strategy to the firm’s heritage (%)**

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<thead>
<tr>
<th></th>
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**Importance of factors toward strategy change (%)**

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<tr>
<td>Market opportunities</td>
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<tr>
<td>Decision to pursue sector specialization</td>
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<td>Investor demand</td>
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<tr>
<td>Firm diversification</td>
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</tr>
<tr>
<td>Need to grow firm AUM</td>
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</table>

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Analysis

Investors are putting pressure to reduce management fees (%)

Financing the GP commitment (%)

Entirely in cash

Through a combination of cash and fee waiver

 Entirely through fee waiver

How management fees are justified (%)

Our fees are the market rate

Dialogue around supporting business infrastructure

Historical performance supports fees

We have a unique strategy

Concessions on other fund fees

Growth of the leveraged loan market is cause for alarm (%)

Consolidation of the financial service space is destabilizing (%)
Analysis

The scheme is supposed to reward investors with tax incentives to finance the regeneration of almost 9,000 deprived urban areas. But the program’s detractors have criticised the lack of transparency and questioned whether the money is being invested in areas that need it most.

Our respondents echo this uncertainty, with 70 percent unsure whether the program will have its intended impact. More than half say they will not be using it, while 20 percent are still deciding (a further 18 percent say it is not applicable to them). Its untested nature is a key deterrent for 39 percent of respondents, while a similar percentage cite evolving Internal Revenue Service regulations as off-putting. Among other obstacles, one respondent describes the challenge of matching up the timing of deals with the timing of investor interest and closings, as a “chicken and egg problem.”
LPs demand stronger cyber-protection

What can be done to protect against hackers? With our survey suggesting that cybersecurity is raising up the LP agenda, three digital experts share their advice with Philippa Kent

Cyber-crime is a booming business and the threat levels have never been higher. A little over half of US companies reported a cyberattack in 2018, up from 38 percent a year earlier, according to Hiscox.

And – as financial institutions involved in the regular transfer of large amounts of money, but with relatively lean organizational structures and limited IT and security manpower – private equity houses are a cyber-criminal’s dream. Nearly a quarter of private equity firms experienced a cybersecurity threat in 2018, an EY survey found, with 58 percent of those threats considered to be at least moderately serious.

That comes through clearly in our 2019 Private Funds CFO Insights Survey, where 62 percent of CFOs consider strong cybersecurity protocols a “must-have” for investors, up from 47 percent in our 2018 survey.

The vulnerabilities, for private equity, exist at three levels. First, there is the transaction process, which will inherently involve the communication of deal critical information. Then, there are the risks associated with the management of portfolio companies and the implications for exit value – Yahoo’s price tag famously fell by $300 million after a series of breaches in the run up to its 2017 acquisition by Verizon.

Finally, and most importantly for those responsible for fund administration, there is the private equity firm itself and its relationship with limited partners. A failure to take the necessary steps to mitigate fund-level cyber-risk may result, not only in punitive financial losses, but in significant reputational damage.

So what can be done to protect a private equity firm from cyberattacks? We asked three financial cybersecurity experts – RFA’s Michael Asher, Agio’s Ray Hillen and Drawbridge Partners’ Anthony Patti – for their advice to private equity firms, and about the future of cybersecurity in private equity.

What cybersecurity threats should private equity managers be aware of?

Michael Asher: The majority of threats I see come from phishing, but we’re also dealing with concerns about migrating data to cloud systems on a regular basis. Many private equity firms are now relying on third-party services (analysts) to sort through massive amounts of information, including confidential data, ultimately in order to produce better returns. Where previously you had a single point of entry, firms are now providing their data to several vendors and service providers, all of whom could be at risk of a cyber-breach.

Ray Hillen: We’re seeing a lot of wire transfer fraud, maybe two times per quarter. These incidents often start with phishing and involve between $250,000 and $6 million. Many firms don’t have good wire transfer protocol – it’s still very common for them to be using email-only authentication. There are three or four parties involved in an acquisition: the private equity firm, the portfolio company, the bank and an attorney. It only takes one of them to be compromised – it doesn’t necessarily need to be the private equity firm itself.

Anthony Patti: The most common threats we see are related to phishing, email spoofing and social engineering to untrained users, which ultimately lead to breaches at the GP, LP and portfolio company level. These breaches are specific to fraudulent wire transfers, unauthorized account withdrawals and compromised confidential information.

Private equity managers are an appealing target for cyber-criminals, because they have access to, and move, large sums of money on a frequent basis, and because they have access to highly confidential investor information. They do not have the manpower of a major bank or enterprise, and generally don’t have internal staff dedicated to IT or cybersecurity, which puts them at significant risk of cyberattacks.
What can private equity firms do to mitigate cyber-risk?

MA: During the transition to cloud-based systems, education is key. It pays to do your homework and due diligence from the very beginning, and ask the right questions of whoever is doing your IT. Not just “is it secure?” but “is it scalable, is it going to stand the test of time?” Once you integrate systems, be mindful of how you are sharing data. A low-level analyst can share all your crown jewels with the click of a button.

RH: Firms need to take a multi-layered approach to preventing wire transfer fraud, with user awareness and education, and phishing-resistant multifactor authentication. There should be voice or video authentication on larger wire transfers – it’s amazing that people aren’t using this technology given its ease and availability.

AP: Private equity managers should first work to create a culture of security and train their users appropriately so that they avoid falling victim to the types of attacks listed above. They should then work to build a program that fits the appropriate framework, including policies and procedures, risk assessments, vendor due diligence, threat and vulnerability management, and training and awareness. The most common mistakes that we see are related to negligence. Often the firm is lackadaisical in its approach with respect to enforcing its policies and procedures, and users are also negligent when falling victim to an attack.

What is your outlook for cybersecurity in private equity?

MA: Cloud-based systems are nothing to be scared of, but it is important that private equity firms understand the risks factors that come with them.

RH: I think we’re going to see a greater awareness of cyber-risks within portfolio companies – we’ve already seen portfolio companies’ valuations go down after a cyber-breach. One way to tackle this is by educating the non-technical employees that are part of the deal teams, who are valuing the portfolio companies, and making sure that they have the right information to find out whether they are at risk of a cyber-breach. At the moment it’s an afterthought.

**“During the transition to cloud-based systems, education is key”**

MICHAEL ASHER
We are a leading global provider of alternative asset and corporate business services. We have been making the difference and helping clients around the world for more than 30 years. That’s what sets us apart.

Listed as a FTSE 250 company on the Main Market of the London Stock Exchange, we employ more than 1,600 people worldwide and administer structures and funds that have in excess of £250 billion of assets.

Providing clients with high quality client service is our core focus.

We make the difference for our clients through the high quality services we provide, the professional expertise and experience our people have and the robust accredited business processes we operate to.

We understand that each client relationship has a unique set of requirements and expectations, that is why our client service teams are carefully selected and tailored to fit the specific and evolving needs of each client. At SANNE, more than 85% of all client-facing staff are qualified which is above the industry standard - this reflects our commitment to provide clients with industry leading client services.

Our clients include leading alternative asset managers, global financial institutions, family offices, UHNWIs and international corporates. Clients are serviced through regional businesses and multi-skilled client service teams which are led by directors with extensive asset class and market experience.

Global knowledge, local expertise and experience

We deliver tailored fiduciary services to a highly valued international client base through a global network of offices located in 20 leading financial jurisdictions. Our offices are spread across the Americas, EMEA, Channel Islands, Asia-Pacific. Across our business we have specialist expertise in a wide range of complementary asset classes and markets services that includes:

PRIVATE DEBT & CAPITAL MARKETS
Market leading debt fund and capital market administration services

REAL ASSETS
A comprehensive range of real asset fund services

PRIVATE EQUITY
Private equity funds and fund of private equity fund services

HEDGE
International hedge fund administration services

AIFMD & REGULATORY
Management Company services, AIFMD depository and regulatory reporting services

AGENCY SERVICES
Competitive solutions for lenders providing an unrivalled suite of loan services

CORPORATE
Specialist corporate administration solutions for special purpose vehicles and corporate structures

PRIVATE CLIENT & FAMILY OFFICE
Tailored range of wealth management and private family office services
We embrace technology that enables us to service clients efficiently

We seek to utilise industry standard systems and network solutions where applicable. We also develop bespoke application based solutions where necessary, either in-house or through the establishment of specialist business partnerships with technology leaders.

Our dedicated client service teams are supported by a number of accredited business processes, procedures and professional group functions. Each of these elements allows our teams to focus on delivering the high quality services to clients we are known for.

How we help clients

Outsourced efficiency
We help clients become more efficient through the provision of tailored services to meet all of their outsourced requirements.

Transparency
We provide our clients with access to their data, files and appointed service teams at all times.

Fully integrated solutions
We ensure our clients receive best-in-class high quality levels of service by assigning dedicated client services teams with multi jurisdictional experience to meet their ongoing needs.

Technology
We utilise bespoke systems and industry recognised platforms such as Efront, Investment Café and Intralinks.

Risk management and reporting
Client service teams are carefully selected to deliver the specific requirements of each client relationship.

Building long-term strategic partnerships
Our asset and market specialist experts work alongside clients to develop synergies and services that meet their needs.

Key contacts

<table>
<thead>
<tr>
<th>GLOBAL</th>
<th>AMERICAS</th>
<th>EMEA &amp; CHANNEL ISLANDS</th>
<th>ASIA-PACIFIC &amp; MAURITIUS</th>
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</thead>
<tbody>
<tr>
<td>&gt; Malcolm Hassan Managing Director, Business Development &amp; Marketing</td>
<td>&gt; Jeff Hahn Managing Director, Alternative Assets – AMERICAS</td>
<td>&gt; Sean Murray Managing Director, EMEA</td>
<td>&gt; Jing Jing Qian Managing Director - Asia-Pacific</td>
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<tr>
<td>&gt; Jason Bingham Managing Director, Development</td>
<td>&gt; Fred Steinberg Managing Director, New York</td>
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<td></td>
<td>&gt; Hannah Jaeger Head of Business Development - AMERICAS</td>
<td>&gt; Jamie Villiers Director, Business Development – EMEA</td>
<td>&gt; Valerie Mantot Head of Business Development – Asia-Pacific &amp; Mauritius</td>
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</table>
Methodology

How we conducted our CFO survey

Our Insights poll seeks to discover how the job of the CFO is changing and whether tech is reshaping the role

PEI’s Research & Analytics team surveyed 124 US private fund CFOs in July and August 2019. We wanted to know how the role of chief financial officer is changing and whether technology is helping to reshape the job. We targeted CFOs but if they were unavailable, we asked for responses from other professionals, including CCOs, COOs and controllers, provided they were aware of their firm’s practices.

The survey is US-centered, and so we surveyed firms from every region across the country. The bulk of respondents have assets under management between $500 million and $5 billion.

How was the survey conducted?

Emails were sent to the most appropriate professionals at all the leading private fund management firms at the US. We asked respondents to fill out a short questionnaire, the results of which were collated and analysed by PEI’s team of research analysts.

What about confidentiality?

The survey is entirely confidential. No names of the individuals or the firms that responded are revealed.

Why alternatives and not just private equity?

The emphasis is on private equity but firms managing mezzanine debt, real estate and infrastructure funds have been included too. Many of the challenges facing private equity firms are just as relevant to managers of other closed-ended alternative asset classes funds too. The survey reflects the full perspective of the US private fund management community.

What is your primary job title?

- CFO: 75%
- COO: 7%
- CCO: 4%
- Tax director: 1%
- Other: 14%

What is the size of your firm in AUM? (%)

- More than $10bn
- $5bn-$10bn
- $1bn-$5bn
- $500m-$1bn
- $100m-$500m
- Less than $100m
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Mumbai
Shanghai
Singapore
Tokyo

More than 1,600 people worldwide

FTSE 250 listed business

In excess of £250bn AUA