


Disruption

A seismic shift in the
private equity industry

2016 Global Private Equity
Fund and Investor Survey

in collaboration with Private Equity International



We would like to express our appreciation to the 103 finance executives and 88 investors who offered us their valuable insights and observations. In this report, we seek to understand the effects of an evolving regulatory landscape confronting both private equity funds and investors. They provide a unique perspective on the challenges and opportunities that continue to strengthen and distinguish the private equity industry. We are confident these insights will help fund managers make more informed decisions as they develop strategies for the future.



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Executive summary

Disruption, seismic shift

These three words, more than any others, describe the current challenges and landscape of today's private equity arena. As you read through the pages of this, our third annual Global Private Equity Fund and Investor Survey, it is clear that chief financial officers (CFOs) are now keenly focused on managing regulatory change, risk and volatility and rapidly positioning themselves to compete for market share. In this new environment, many fund managers have been forced to consider redesigning their business models as part of a renewed strategic focus on controlling costs and improving operational efficiency.

When we began this year's survey, the goal was to better understand to what extent business models had changed since the global financial crisis. In line, but to an even greater extreme, with the findings of EY's ninth annual Global Hedge Fund and Investor Survey, *The evolving dynamics of the hedge fund industry*, we found that the private equity operating models that were prevalent less than a decade ago have practically vanished.

Relentless regulation

The number of new legislative initiatives implemented following the global financial crisis of 2007-08 brought the asset management sector into the glaring headlights of politicians and regulators, with regulation becoming vastly more intrusive across the globe. In the US, the Dodd-Frank Act introduced the new Form PF reporting requirement under its Title IV, which is similar to the to the broad jurisdiction and reporting requirements of Alternative Investment Fund Managers Directive (AIFMD). Form PF and AIFMD reports received by the SEC and

EU regulators, respectively, will be scrutinized both at national and global levels. The restructuring of the entire compliance environment and the continued globalization of regulatory policy will continue for the foreseeable future. When it comes to planning for future compliance, the only real certainty is that uncertainty will continue.

Firms should not treat rebuilding their entire infrastructure merely as a way to keep regulators across multiple jurisdictions happy. As investors across global markets conduct more rigorous due diligence investigations, they are more likely to focus on the same pointed questions as regulators – particularly for issues related to risk management, operations, performance reporting and valuation. This transformation is thrusting CFOs and their financial teams into a more visible role. Many investors now consider the ability to respond transparently and quickly to reporting requests as a key indicator of operational excellence. In their eyes, private equity funds that have their financial house in order are more likely to avoid “headline risk,” which can damage a firm's reputation just as severely as poor performance.

Catch-22

In light of these challenges, CFOs across the globe have been forced to look at restructuring their reporting frameworks and internal processes. There remains little doubt that to survive they must implement a more cost-effective, scalable, firm-wide strategy. While confident that they have enough people to meet the challenges they face, finance teams are less confident that their people are performing the right tasks or have the right skill sets. Moreover, firms realize that the private equity industry is

not providing the talent needed to compete, so they are looking elsewhere for help.

Technology offers the obvious solution to scale. Not so fast. Although standardized, robust digital solutions can help achieve more effective governance and risk management, they do not yet exist. Nearly all existing systems are an inefficient mixture of technologies (custom, off-the-shelf, spreadsheets, manual processes and other measures). To make matters worse, decisions on technology architecture are as likely to be influenced by front-office professionals as by finance executives. Transformation begins with technology and must be matched by new roles, responsibilities and processes. In today's environment, transformation has stalled at the first step, prolonging the dependency on people doing the wrong things at the wrong time.

Optimizing personnel

The survey findings visibly highlight the strong influence regulatory changes are having on the most important asset of a private equity fund: its people. Regulation has dictated transparency, and the lengths pursued to avoid risk have resulted in greater demand for new skill sets and talent. Funds that wish to overcome the shortage of talent must make critical strategic decisions and quickly lay the foundation for superior personnel development. Those most likely to succeed will be the ones that are the most disciplined and diligent in making the right investments to develop their people as interpreters and gatekeepers for determining how and when they share information with key stakeholders.

The current environment will also favor firms that can help their people shift among different teams and quickly adapt to new roles as they are pulled into ad hoc projects and initiatives. Moving forward, private equity firms will also have to refresh their efforts to recruit and develop talent and retool their skill sets. This places a clear-cut premium on employees who can respond to new challenges and responsibilities. As capacity constraints develop, finance teams may want to look out-of-house, creating demand for the offerings of asset servicers who see private equity as a major growth opportunity. Investors, conditioned by hedge fund models, feel comfortable with the concept, so the question is no longer whether to outsource, but which functions to outsource, how many providers to rely upon and how to integrate them effectively.

Digital divide

To survive and win in the new regulatory environment, firms need to embrace a data-centered strategy that enables them to effectively source, manage and process data. In addition to the sheer quantity of data reporting now required, the volumes of data that must be delivered to regulators and the frequency of communication have multiplied exponentially. Regulators are demanding entirely new types of data – such as risk and-remuneration related reporting required by Form PF and the AIFMD – as well as data that firms must retain in order to show evidence of compliance. Fortunately, the data requests required by each new regulation from different regulators across jurisdictions are not entirely unique. Essentially, little is brand new about data requests from regulators and investors alike – there are now simply more requests for more data.

Today's private equity funds are rapidly waking up to the need to focus efforts to successfully synchronize operations with the rapidly evolving digitization. As regulators require more reporting information, which demands interactive data management systems, firms can take advantage of this opportunity to have the new data drive their sales, marketing and client communications efforts. In this digital transformation, finance teams must apply technologies and process changes to improve the business by forming a strategy and aligning capital investment to concentrate on critical areas for long-term growth and profitability.

This digital transformation will also open new avenues of access for cyber criminals. As many organizations in other sectors have learned, sometimes the hard way, cyber attacks are no longer a matter of *if*, but *when*. At the same time, the pace of technology innovation, adoption and diversification is increasing. For many organizations, technology risks and vulnerabilities are heightened through increased online presence, broader use of social media, mass adoption of mobile devices, increased usage of cloud services, and the collection and analysis of big data. That is one of the inherent risks of creating a financial ecosystem of digitally connected entities. Private equity firms will need to elevate oversight to the top levels of the organization.


Closing thoughts

The free-for-all by policymakers to implement more regulations has reshaped the private equity landscape into what can seem like an investment with minimal returns. Implementing a new regulatory framework comes at a steep price. With profit margins squeezed,

CFOs must focus on operational excellence to achieve and maintain a competitive advantage. Managing the new global regulations while controlling costs represents a formidable challenge in both data management as well as process automation. Private equity funds and investors must fully understand how the game has changed, both globally and locally.

As we reflect on the path that has led the private equity industry to this critical inflection point, we strongly believe there is a mandate to adapt operating models to respond to increasing demands of regulators. The answer – harness overwhelming volumes of data and effectively improve income to cost ratios. More than ever before, finance executives have become more focused on profitable growth and many of the CFOs that we work with feel passionately that it is also their role to become the champion of change. In today's innovation era, CFOs can no longer decide that innovation is someone else's job. The success of their funds hinges on their unique ability to adapt and buffer the disruptive forces of perpetual change.

At EY, we are confident in the resolute nature of both managers and investors and are enthusiastic about the future of the global private equity fund industry. We look forward to continuing to invest alongside the industry and support its efforts to enhance financial well-being for investors worldwide.



It's hard to understate the disruptive forces of regulation. In just a few years, private equity funds have transformed from a business model driven solely by performance into organizations poised to rationalize costs while overcoming the burdens of regulatory, investor and management reporting.

To win the game, the right data strategy is paramount. Many regulatory requirements focus on data across the enterprise and external service providers. Procedures and systems that many firms had in place before the global financial crisis are likely insufficient to effectively handle the complexity of data analysis now required in the new regulatory environment. Big data's potential is the ability to harness the sheer quantity, transparency and timing of reporting now required.

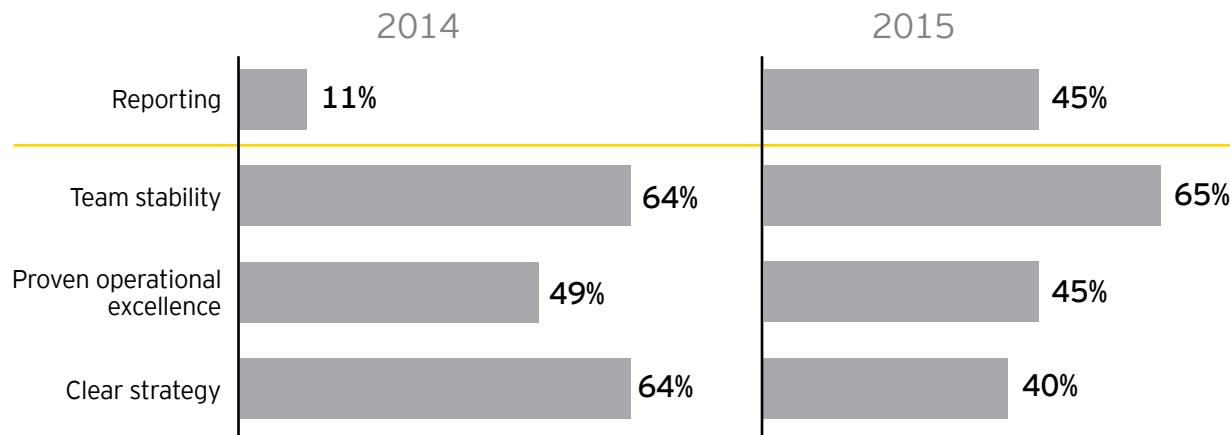
To further evidence the importance of CFOs, investors increasingly consider the ability of a finance teams to respond transparently and timely to information requests as a key indicator of superior operations. In their eyes, private equity funds that have their financial house in order are more likely to avoid "headline risk," which can damage their reputations just as severely as poor performance.

Relentless regulation

Regulation exponentially multiplies the importance of reporting

Investors

Beyond track record, what are you most concerned with?



The seismic shift: In just one year, we see a 400% increase in investors that now rank a private equity firm's ability to handle reporting requirements as the most important when selecting a firm. In absolute terms, that represents an increase from 11% (2014) to 45% (2015).

Procedures and systems that many firms had in place before the global financial crisis are likely insufficient to effectively handle the complexity of data analysis now required in the new regulatory environment

Finance executives should view rebuilding infrastructure and implementing a more robust reporting system as an effort aimed at meeting customer concerns. Investors have substantially raised the bar, demanding higher levels of transparency and requiring enhanced risk management functions. In this new regulation game, implementing the right strategy could save cost and capital, and it is paramount for a firm to achieve and maintain a competitive advantage.

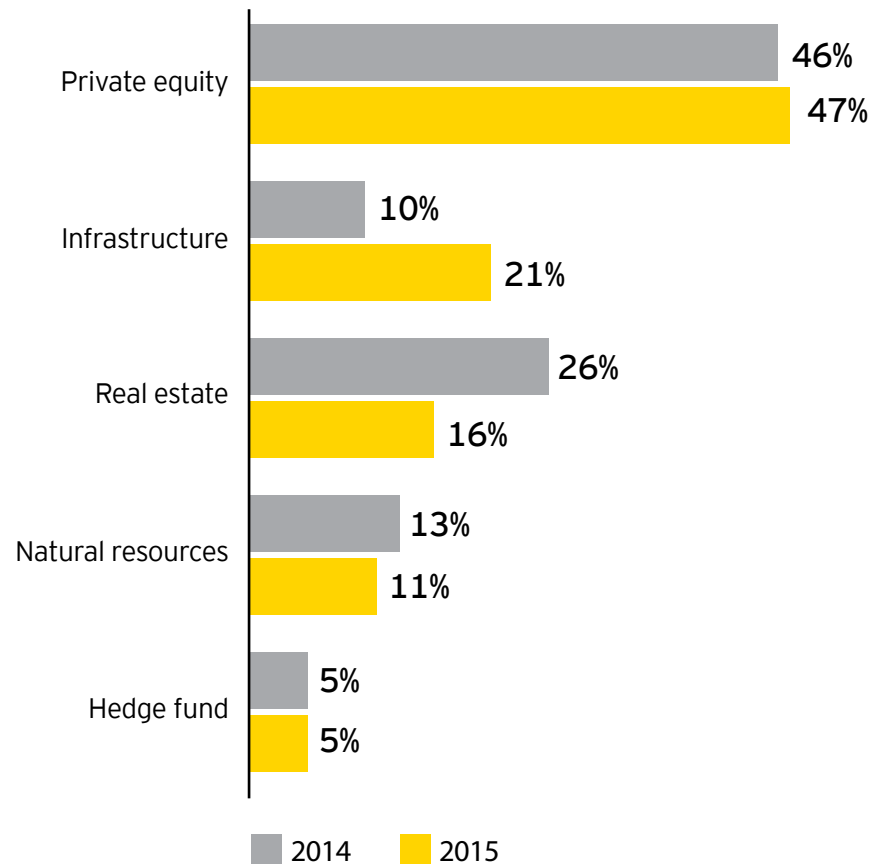
Private equity continues to be the asset class of choice for most investors. Forty-seven percent said that it was their preferred investment destination, up slightly from 46% last year. Infrastructure (21%), real estate (16%), natural resources (13%) and hedge funds (5%) round out the list. Infrastructure gained the most ground in 2015, which was up 11% over 2014, primarily in a move from real estate, down 10% over 2014.

The continued expansion and convergence of investment options highlights a key challenge for the industry: product differentiation. Brand names that are not relatively understood by the market will lose the attention of investors. To sustain growth, fund managers must set themselves apart from others with strategies that resonate with investors' outcomes rather than merely marketing short-term performance. In recent years, it is apparent that private equity funds have faced more difficulty deploying capital than raising it. In the near future, it is likely the competitive playing field will intensify as investors are increasingly willing to invest time to shop and compare.

Private equity continues to overshadow competing asset classes

Investors

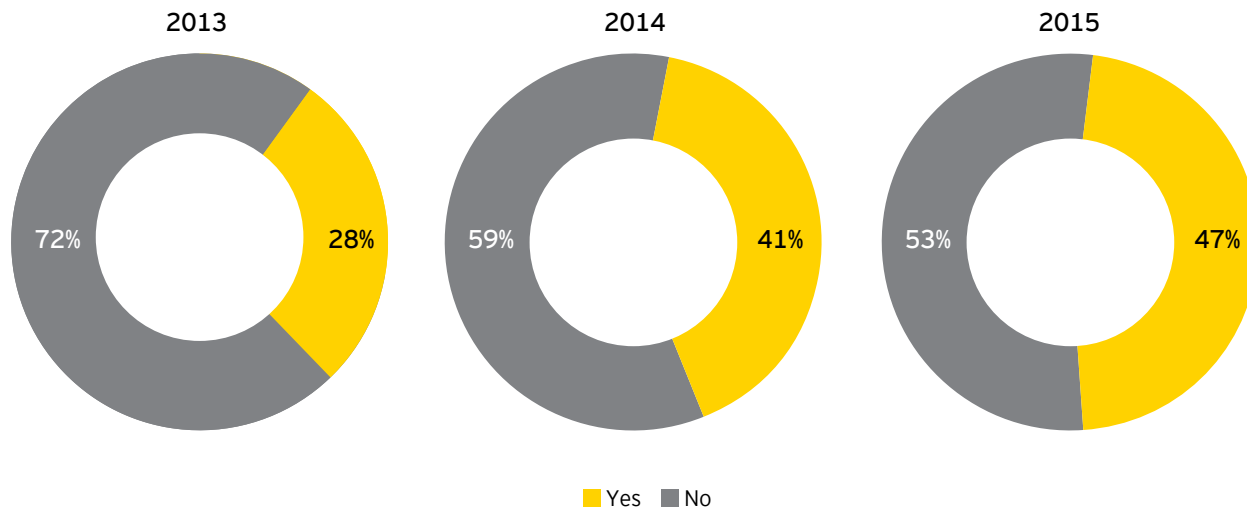
To what alternative asset class are you most likely to allocate capital?



Regulatory oversight has permanently altered the landscape

Private equity funds

Were you subject to a regulatory audit or examination in the past two years?



Private equity funds are all too familiar with the scrutiny they face from regulators. The percentage of fund managers who said that their firm had been subjected to exams or audits over the past two years rose to 44% in 2015, up from 41% in 2014. This marks a significant increase from 2013 (28%).

Since the global financial crisis, regulators in the US, Europe and Asia have been racing against each other to implement several new regulations targeted at managing systemic risk, improving public revenue collection enhancing transparency and protecting investors. The ongoing globalization of financial regulatory policy – as well as continued fragmentation – creates a formidable challenge for CFOs to manage the burden of global regulations while controlling costs.

On top of the sheer quantity of reporting now required, the amount of data communicated to regulators and the frequency of communication have spiked. Private equity funds must respond to the new regulatory environment with more disclosure and proactive reporting. Today, finance executives are called upon to use their skills to guide business decision-making. This means that CFOs are ideally placed to identify data from across the business – from both internal and external sources.

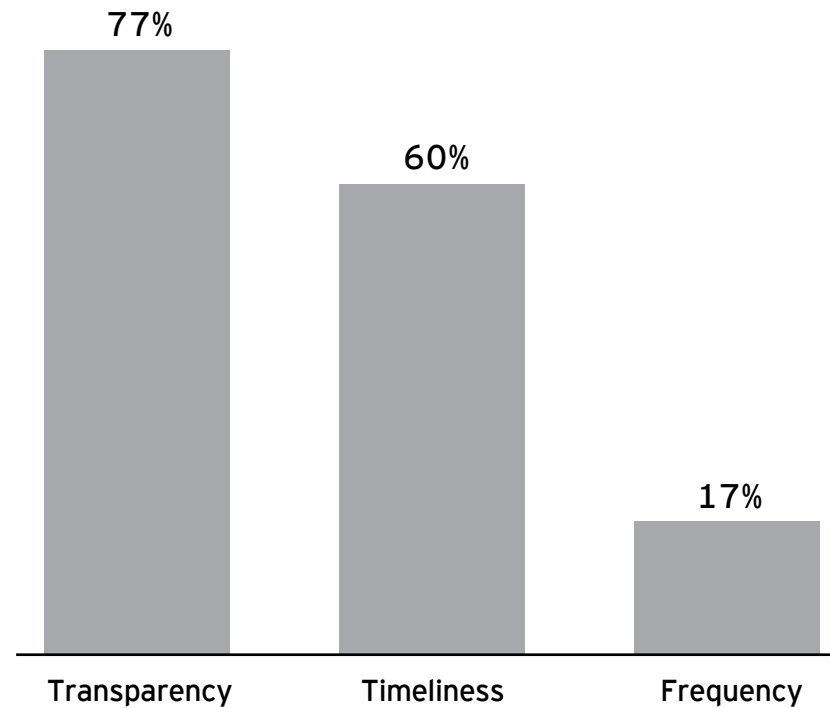
Most organizations simply do not have the technology infrastructure to adequately respond to escalating demands for more transparent information. Accordingly, finance teams are evaluating their funds' current compliance infrastructures – including people, processes and technology – and thoroughly reviewing compliance policies and procedures.

Those planning for the future will differentiate through operational excellence and more sophisticated value-added investor services. Players that don't make these investments, on the other hand, will be left behind.

Superior reporting is clearly defined as better information, faster

Investors

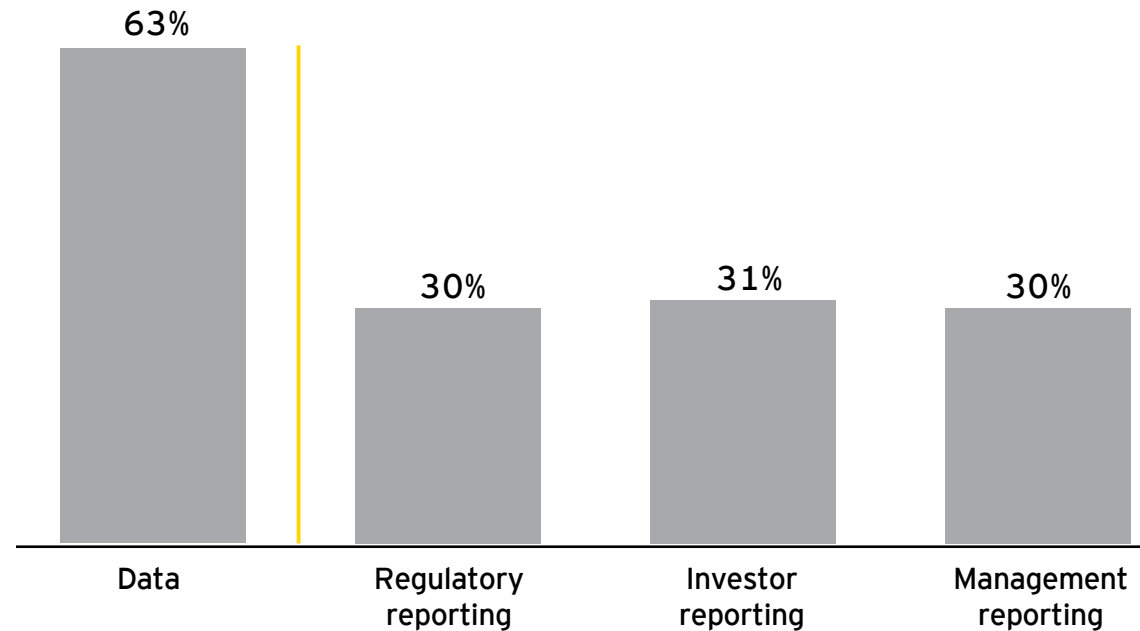
How could your reporting be improved?



Stakeholder reporting begins and ends with big data

Private equity funds

What is the most significant operational challenge you face?



Prior to the financial crisis, reporting processes followed a cycle that remained fundamentally focused on the investor. Remarkably, since the required SEC registration of investment advisors, fund managers now consider regulatory reporting to be equally aligned with both investor and management reporting in terms of importance to the business.

As indicated by 63% of fund managers, the emphasis on reporting also means that success for private equity funds – like all major enterprises – is effectively all about data: governing data, sourcing data and analyzing data. Amid plummeting marginal costs for vastly more robust and powerful data processing speed and storage capabilities, it is both practical and highly cost effective for CFOs to analyze entire data sets to comply with regulatory requirements, manage risk and optimize target operating models.

"Data is the obstacle. We're a sophisticated industry with technology options that I feel lag behind other financial sectors. We wrestle with a current patchwork of technology solutions."

\$2.5b–\$5b
Western Europe

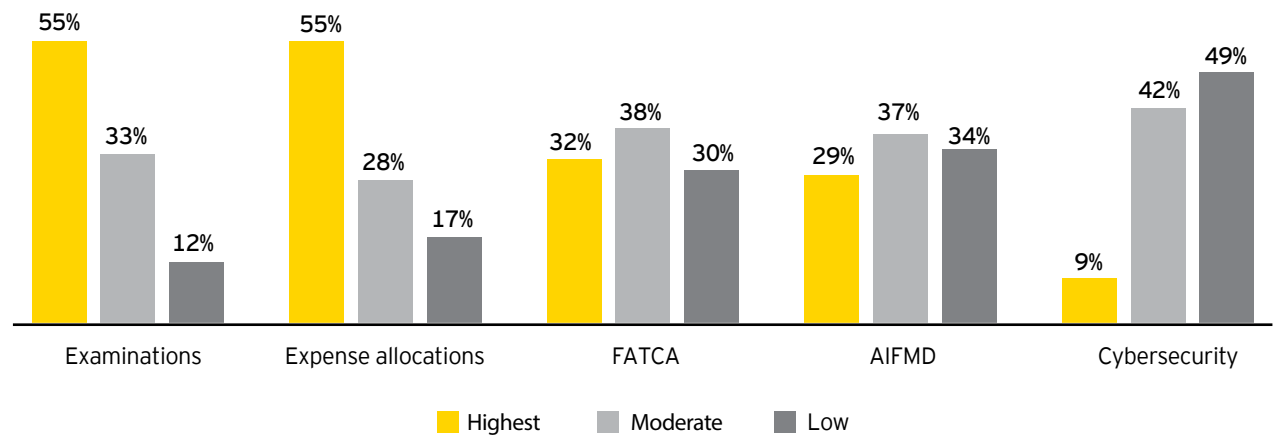
Investors are increasingly concerned about identifying potential areas of headline risk. To that end, 55% of investors consider both regulatory examinations and expense allocation as primary areas of focus. Cybersecurity (9%) lags behind Foreign Account Tax Compliance Act (FATCA) (32%) and the AIFMD (29%) providing a perspective that cyber-threats have not yet grabbed the appropriate level of attention of investors.

Implementing the right strategy to adapt to the complex, new, global, regulatory environment in the most efficient manner is by no means an overnight process. Apart from rebuilding an efficient, firm-wide data infrastructure that identifies, extracts and aggregates financial data across multiple global sources, finance executives, in conjunction with the compliance function, should also establish a precise timeline and road map that encompasses each and every regulatory requirement. Each regulation will require an impact assessment to determine which, if any, funds and investors are exposed to the new regulation, especially when regional and national approaches are compared.

Regulatory scrutiny shines a bright light on headline risks

Investors

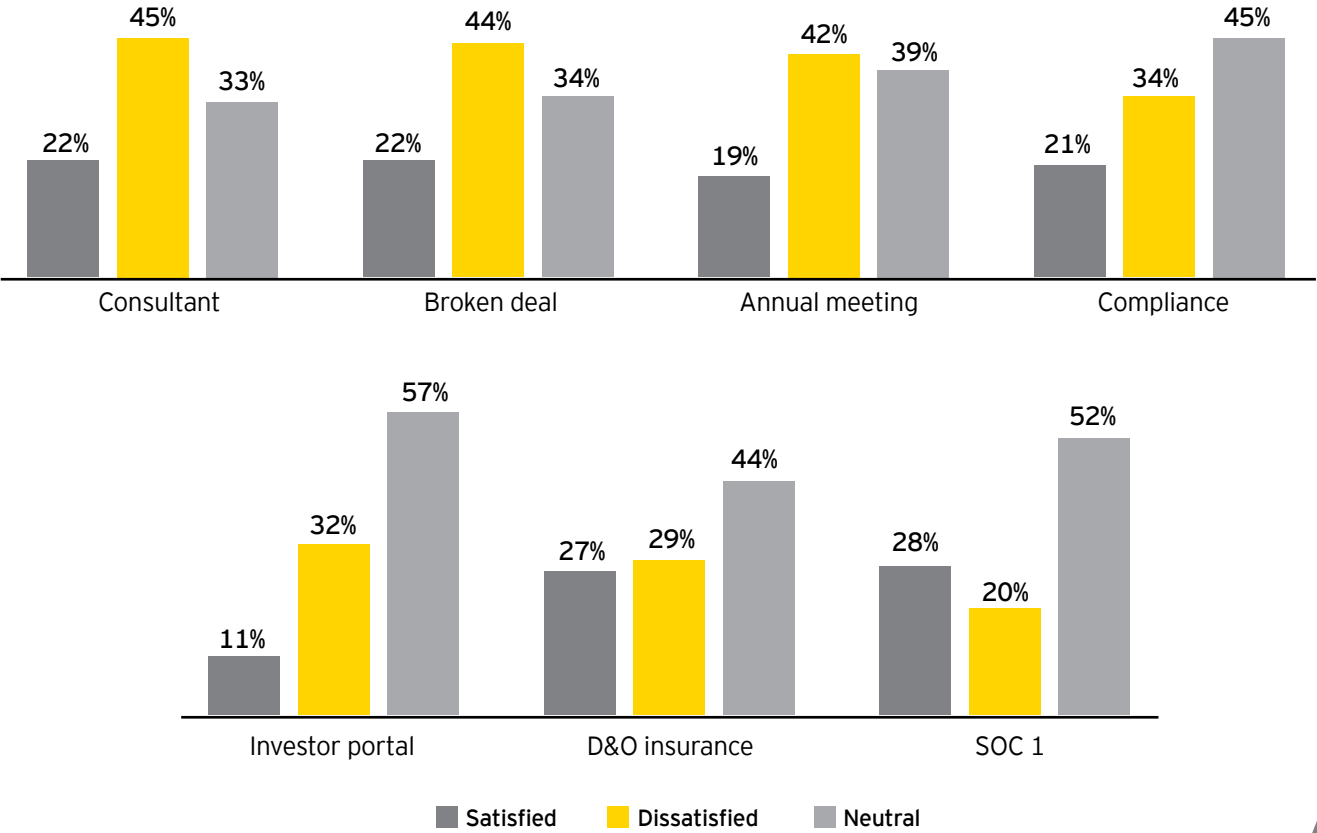
What level of risk do you assign to current regulatory campaigns?



Expense allocations remain front and center as area of dissatisfaction

Investors

How satisfied are you with the level of transparency related to expense allocations?



Investors remain unconvinced that private equity funds have attained the right levels of transparency with respect to expense allocations, expressing their dissatisfaction on a broad range of areas. Less than 30% of investors are satisfied with any category of allocation disclosure, and consistent with levels of sharp skepticism, more than 40% of investors said they are dissatisfied with the information they received regarding consultant fees (45%), broken deals (44%) and annual meetings (42%).

This dissatisfaction is largely not due to the unwillingness of private equity funds to share information, but can be attributed to the significant difficulty many financial teams face in trying to capture, process and track information gathered from multiple information sources.

To that end, investors will allocate their time and assets to the fund managers where they feel they receive the most valuable financial education, learning experience and detailed attention to their overall well-being.

Investors are ramping up their requests for more detailed, customized information from private equity funds. Twenty-nine percent said they make frequent requests for specialized reports on annual and quarterly reports, with another 27% saying that they request customized templates.

When higher quality information is delivered, the attention of investors is turning more and more, toward speed. Twenty-six percent of investors say they expect timely delivery of reports, and 18% said they requested the reports to be delivered in one or two days. Reporting processes were once treated as narrowly defined functions, often carried out on a report-by-report or form-by-form basis. While this may have worked in the past, it is now costly and unsustainable.

With their financial insight into the whole business, the CFO's seat at the executive table enables them to advocate the review of investor reporting demands and then compare them with existing capabilities - in essence, to identify areas requiring performance improvement.

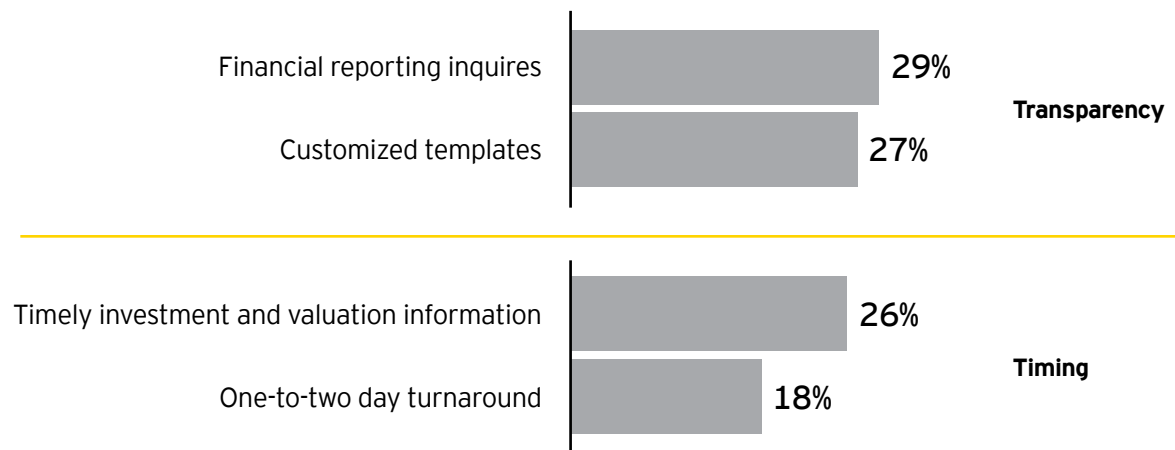
"We do our best to adapt to the needs of our investors. Most of the reporting standards are set when they make their commitment, but we have to be flexible, especially for our larger investors."

\$5b-\$10b
Western Europe

Customized requests produce unyielding reporting demands

Investors

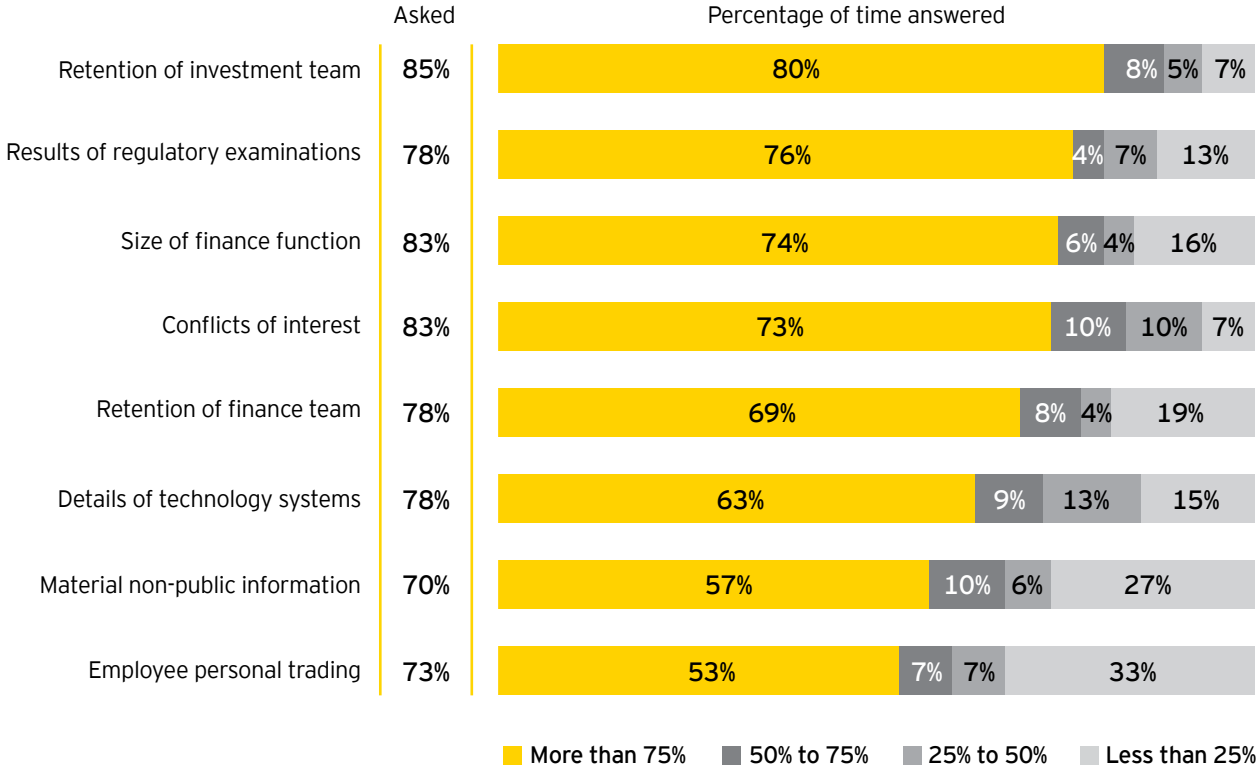
What is your most frequent specialized reporting request?



Due diligence questions asked but not always answered

Private equity funds

What significant questions are asked during the due diligence process?
 What percentage of these questions do you answer?




The growing impact of regulation on the business has spurred investors to request information across a vast array of business issues. Given that the due diligence process conducted by investors across the global markets has rapidly intensified over the last few years, potential investors will likely focus on the same pointed questions as regulators – particularly for issues related to risk management, operations, performance reporting and valuation.

What is telling from the survey is that fund managers are not always responding to the questions asked by investors. Seventy-six percent of fund managers respond to inquiries regarding results of regulatory exams, 74% respond to inquiries of the size of finance teams, and only 63% provide details of their technology systems. This give-and-take of information has placed CFOs in an influential role of dealing with a fund’s most valuable asset- their investors.

“You know, the real change is actually due diligence. The DDQs are getting longer and longer. Some are nearly 28 pages, and I’m responsible for filling out over half of that. There’s so much more interest in the operational side of the business.”

\$2.5b–\$5b
 North America



Private equity funds are caught in a vicious circle. The unwanted dependence on manual processes creates inefficient and ineffective means to deal with many of their financial reporting challenges. While robust digital solutions would help to remedy this situation and provide finance executives with the tools to scale their operations, such technology architecture does not yet exist.

Tactical measures will be deployed to do all they can to process vast volumes of data. Ultimately, the only way for private equity funds to break through these barriers is to invest in a fundamental overhaul of their infrastructure and operating models. However, given the existing void in the market for real answers, CFOs seeking to move forward and address the problem have no choice but to once again rely on their people. Thus the dilemma ends where it began.

Catch-22



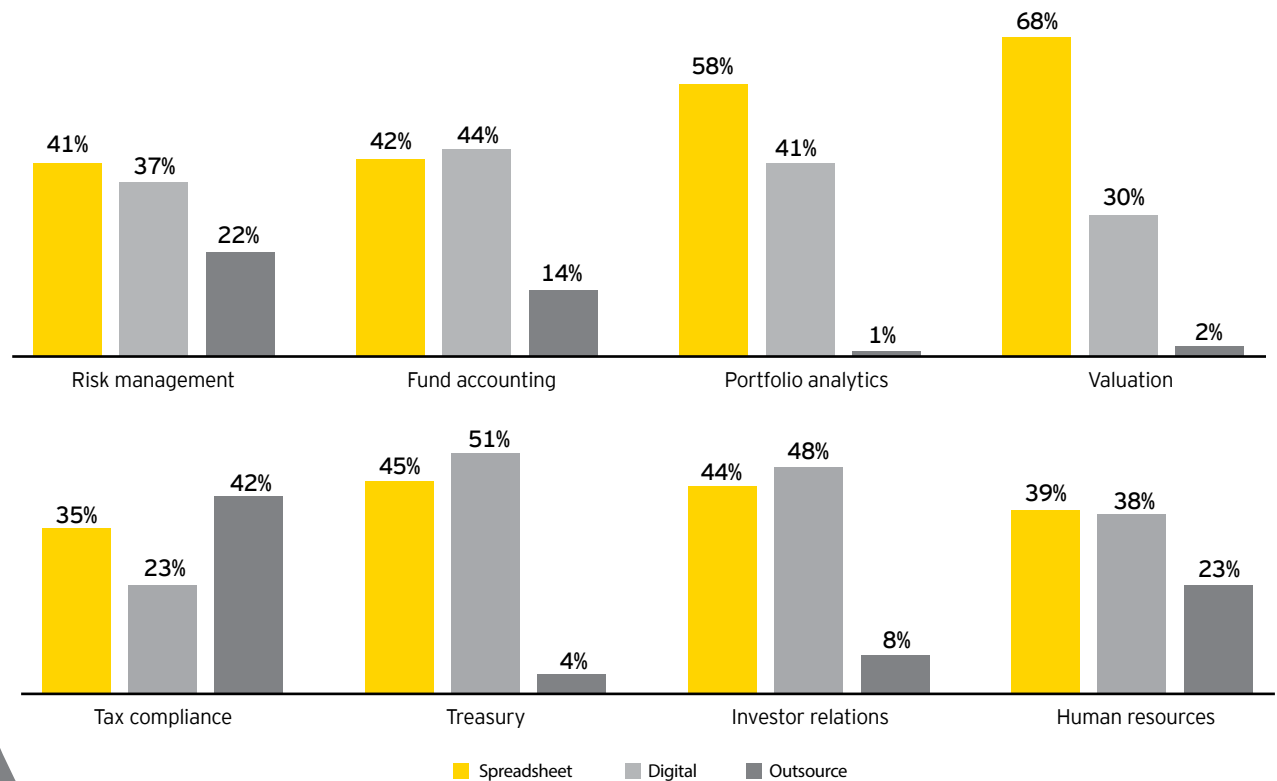
Winning in an era of fundamental change is largely a matter of adopting new operating models that will minimize costs, eliminate duplicative and wasted efforts, and ensure future flexibility. For many CFOs, legacy processes and technology generally remain intact, resulting in overreliance on spreadsheets to handle a wide range of business functions, including valuation (68%) to portfolio analytics (58%), fund accounting (42%) and risk management (41%).

A compelling business case exists for finance executives to look at redesigning their digital architecture and enthusiastically take on the challenge of big data, delivering more accurate business insights that will help improve business performance. In other words, the fund managers that see the current landscape as an opportunity for competitive advantage will be those that make the right technology investment decisions. Forward-looking CFOs are assessing the impact of these drivers and determining how they can remain profitable, maintain market share and pursue the right growth opportunities.

Spreadsheet dependencies call for unquestionable change, but ...

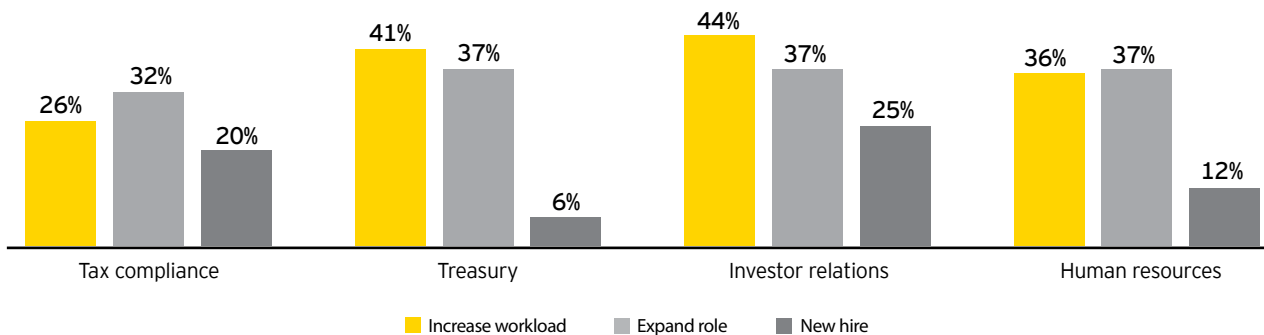
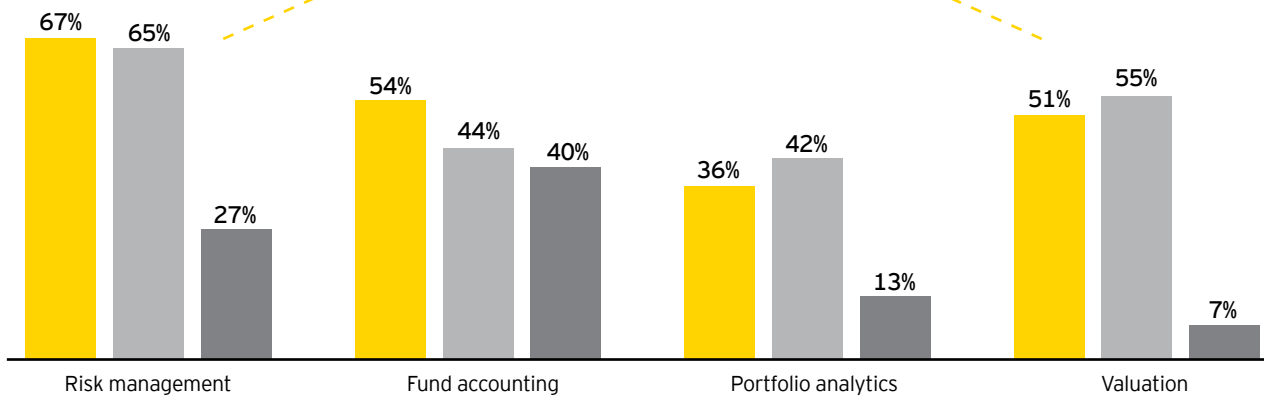
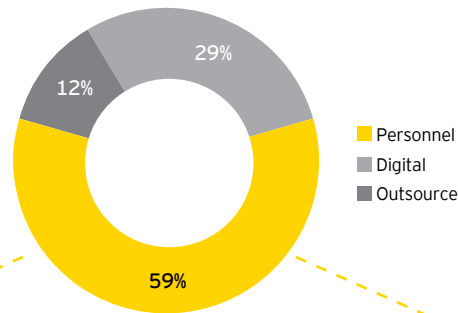
Private equity funds

What tactic do you currently rely on to address operational challenges?



... the absence of digital solutions drives continuous reliance on personnel

Private equity funds
How are you dealing with the necessity to scale?



The need for investment – most notably in digital solutions – is clear. Finance executives realize they need to overhaul technology architecture to rationalize and standardize costs; however, the continued dependency on manual processes creates a significant obstacle to scale their business. In particular, for functions related to risk management (67%, 65%) fund accounting (54%, 44%) and valuation (51%, 55%), CFOs see increased workloads and expanded roles as their only answer.

Those most likely to succeed will be the ones who take a lead role in revising governance relating to innovation, creating a more favorable, nimble environment while at the same time developing new skills and processes. The unanswered question is whether CFOs can use their influence as business leaders to ensure innovation is on the executive agenda and make it an investment priority for the firm.

“What we can’t implement, we overcome with sheer manpower; a lot of manual work goes into linking the different systems. There is no other way to do it.”

**\$2.5b–\$5b
Europe**

While finance executives are confident that they have enough people, they are less confident that their people are performing the right tasks or that they have the right competencies and capabilities. Private equity funds that successfully retool the skill sets of employees can retain a competitive edge regardless of the complexity to scale environment. CFOs who encourage their firms to implement personnel development programs will enable their people to gain the skills that will help them shift between different teams, respond to new challenges and adapt to new roles. Those that can do this well also find themselves at a clear advantage.

As they seek to optimize talent, CFOs are also looking outside the industry for new hires. As a more sustainable alternative, and as investors grow more comfortable with third-party solutions, private equity funds can “buy in” expertise and scale through smart outsourcing and benefit from a highly developed and competitive market for asset servicing.

Optimizing personnel



Over the last few years, investments in headcount have been the crux of survival - far from optimal. CFOs are now laser-focused on increasing the ratios of operating personnel to front-office headcount to bring them in line with those of a target operating model.

Headcount ratios of more than 2:1 were reported by 75% of respondents, yet spread evenly between 5:1, 4:1 and 3:1 of front-office to finance professionals. The survey results also clearly indicate that firms with a 2:1 ratio are striving to move up the efficiency ladder - the largest shift desiring two front-office to three front-office professionals to each member of the finance team.

The greatest challenge is for smaller private equity funds, which lack the deep pockets larger firms may command. With limited budgets for enhanced information systems, smaller funds could find the relentless regulatory environment nothing short of a threat to their survival.

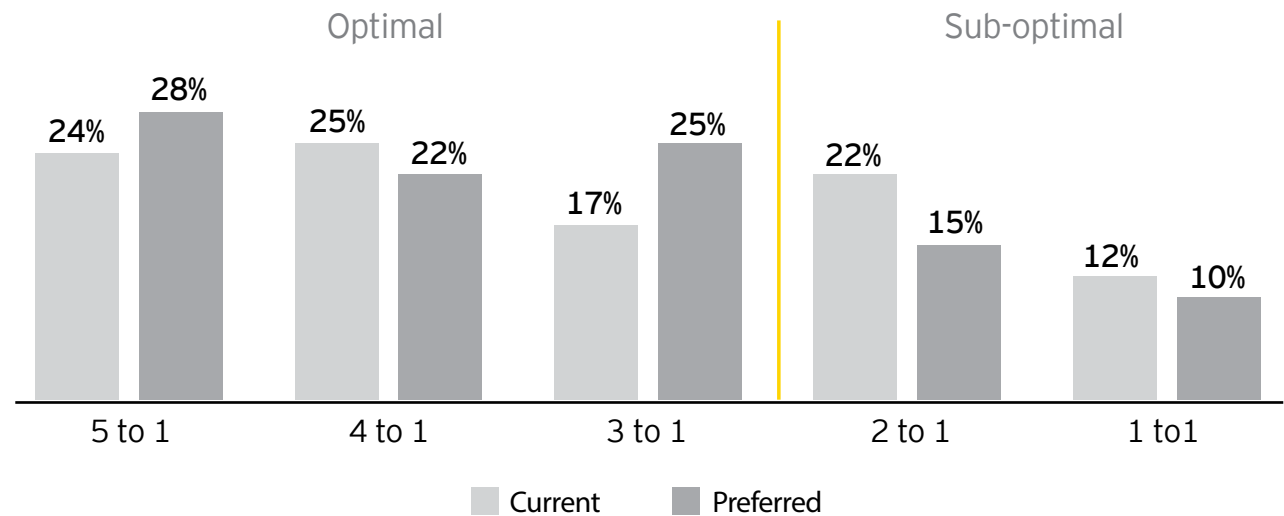
"CFOs tend to administer the management company as a side job; something they do on weekends, and that can be draining. A controller is needed for the management company, but I'm not sure how many firms have that luxury."

\$15b-\$20b
North America

The right personnel doing the right things balances efficiency and effectiveness

Private equity funds

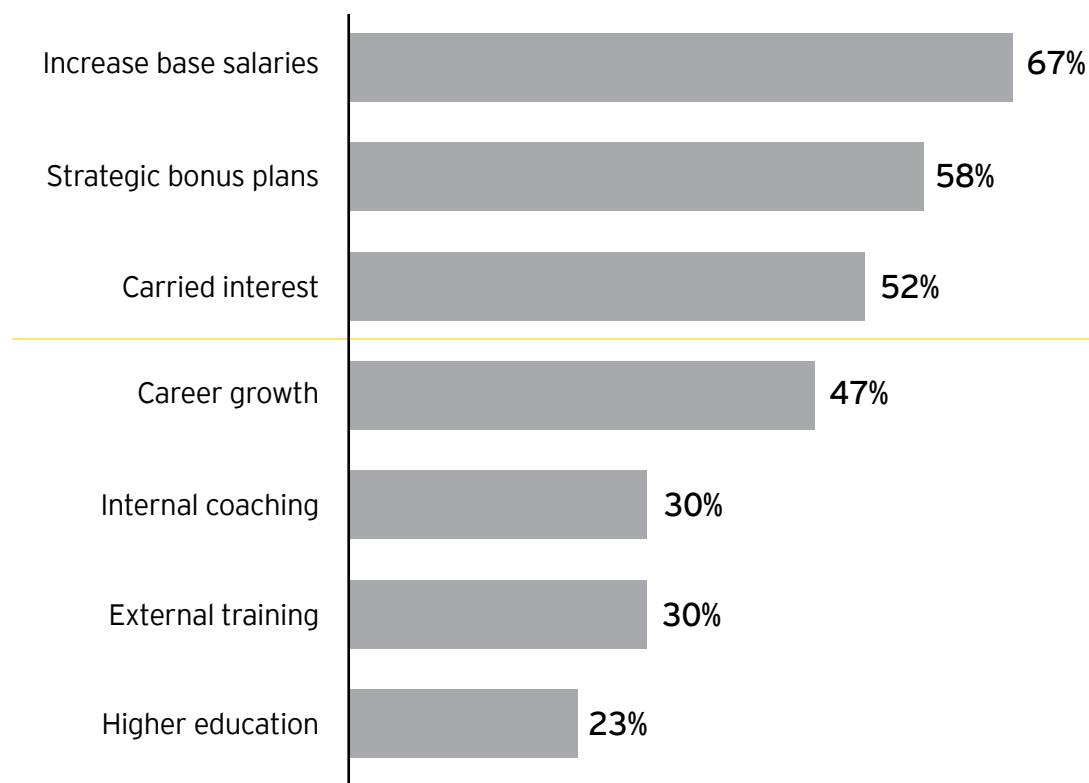
What is your approximate current and preferred ratio of front-office professionals to finance professionals?



Moving beyond compensation to retain and motivate personnel

Private equity funds

What methods and programs do you use to retain operating personnel?



Nearly all private equity funds recognize that their workforces are short on talent that understand the current landscape, but also has the skill sets to successfully scale. One of the more interesting findings, contrary to long-term needs, is that private equity funds continue to utilize compensation as their means to retain employees - increasing in base salaries (67%), providing strategic bonus plans (58%) and offering carried interest participation (52%). In comparison, less than half (47%) say CFOs have begun to focus on career growth opportunities and less than one-third (30%) are engaging in internal coaching and/or external training.

Employees in rapidly changing environments are looking for the ability to adapt to current and future challenges. In that sense, career longevity is best obtained by developing core competencies that are forward, not backward, looking. Finance executives may want to re-assess what is most important to their investment in human capital.

"The better way to deploy our talent is through training and tapping their ideas on how to save time or do more with the technology we have."

**\$2.5b-\$5b
North America**

In an unquestionable period of change, private equity funds find themselves with an abundant need for new capabilities and a shortage of existing industry talent. As a result, finance executives are searching for external talent with a variety of subject matter expertise. Their first stop - professional services firms. With manual processes still dominating the landscape, employees with experience levels of less than five years are in highest demand (46%). To effect transformation, those with more than 10 years of experience are being called upon (31%).

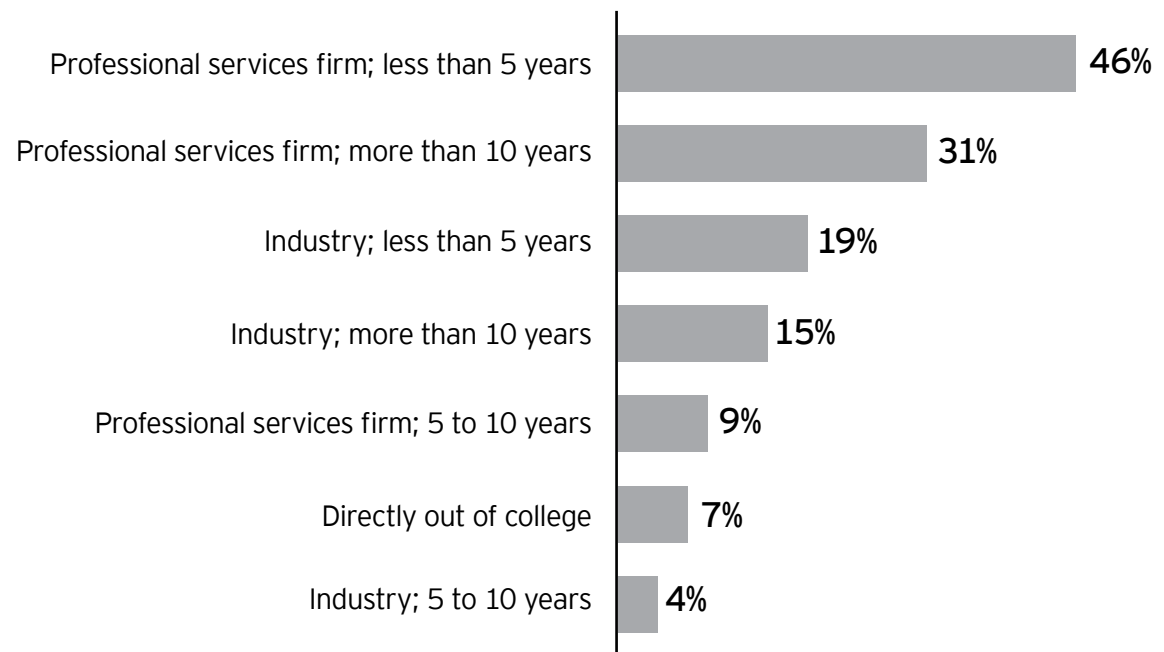
As investors continue to increase allocations to private equity, credit, real estate and infrastructure, operating models will become more complex, and the necessity to focus on big data, technology architecture and risk management will drive even greater demand for core competencies beyond those currently in-house.

"Our external hires are driven by regulatory issues. In general, there's no technology that makes sense and no way to outsource when the responsibility still rests with us."

\$25b-\$35b
North America

New roles and responsibilities trigger search for external talent

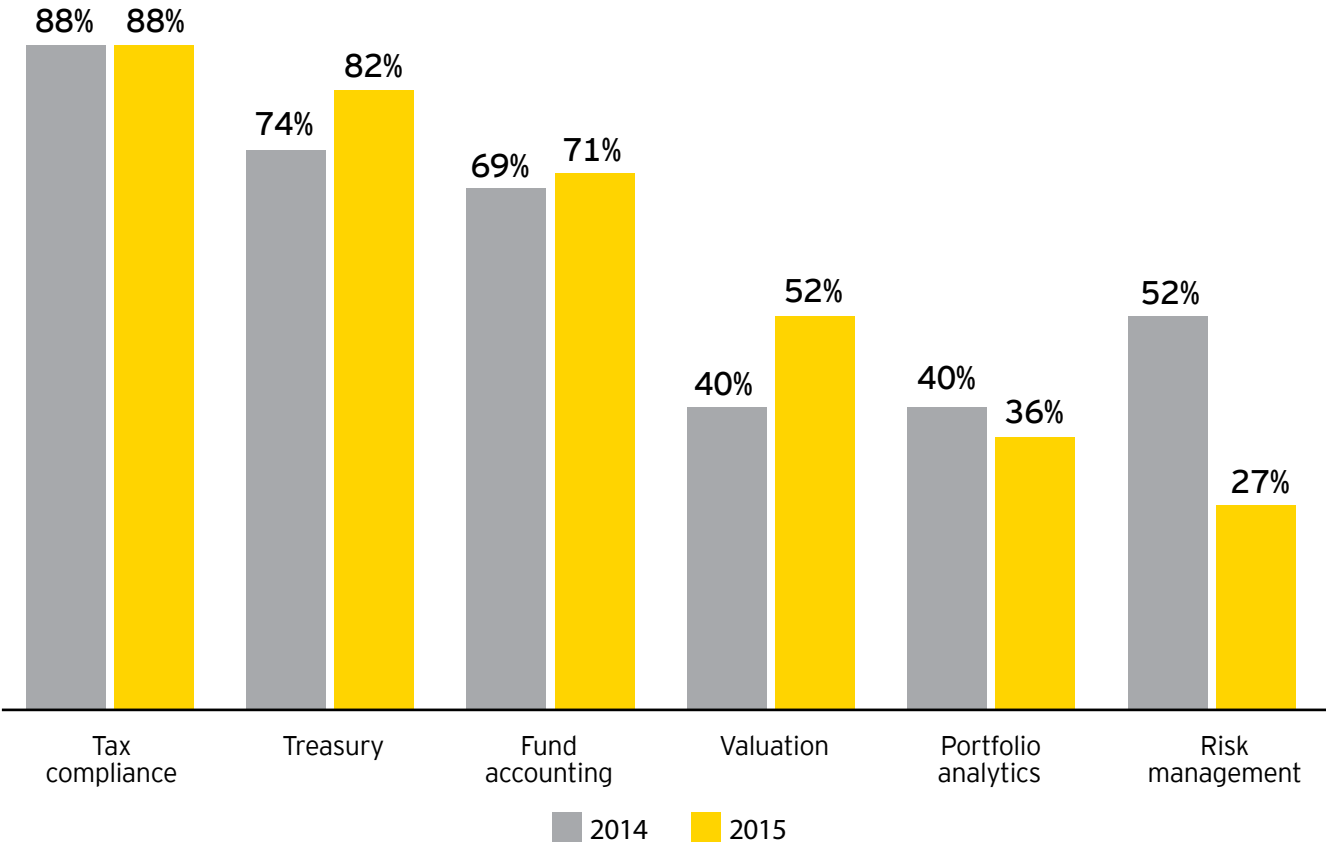
Private equity funds
From where and at what level of experience do you recruit talent for operating functions?



Outsourcing is endorsed as a sustainable means to improve operational efficiency


Investors

Are you comfortable with fund managers outsourcing operating functions?



In terms of outsourcing certain operating functions, 88%, 82% and 71% of investors agree tax compliance, treasury and fund accounting, respectively, are areas they feel comfortable moving to third parties. This is welcome news to finance executives, who are burdened with capacity constraints and are eager to seek greater efficiencies and cost savings. Asset servicers are responding by moving into areas beyond those that are considered tactically important to their business, including enhanced valuation and data and risk management services.

Although not yet mainstream, private equity funds of all sizes can benefit from a highly developed and competitive market for asset servicing. The core functionality of almost all asset servicing firms is to deliver leading-class expertise, economies of scale and a high degree of adaptability - on highly cost effective terms.



Technology in itself is rarely a differentiator. However, when linked with high-quality data, technology is increasingly seen as a key driver of investment decisions. Users of big data are already allowing it to disrupt their business cycle, and are adapting to changes in their business environment. Not only can data significantly increase the rigor around the transparency and timeliness of reporting, it can also demonstrate compliance with global regulations and be readily leveraged to manage operational risks.

New investments in digital technologies can effectively enhance the investors experience and can also augment technologies and process changes to improve all aspects of the business. As private equity funds and investors both awaken to the digital age, security incidents will continue to rise across the financial markets and other key industry sectors and will continue to be top-of-mind for those charged with governance for management and for the regulators. For CFOs it is important to instill a sense of employee ownership of information security issues and to make sure that cybersecurity policies and procedures have been clearly communicated and programs fully implemented.

Digital divide



Few finance teams command the scale, head count and budgets to implement new internal procedures and information systems at far lower marginal costs. Effectively, limited technology options restrict CFOs from dealing with the many operational challenges stemming from complex global regulation. It is not surprising that 61% of CFOs feel the market does not offer systems that meet their needs.

Rather, 53% of finance executives recognize that to meet today's operational requirements, their focus should be primarily on data, data, data. CFOs are used to data-driven decision-making and are in a perfect position to identify the business problems that big data can help to address. Organizational data is created, controlled and extracted from a variety of sources; consequently, the right data strategy must integrate and meticulously coordinate all sources across the entire firm.

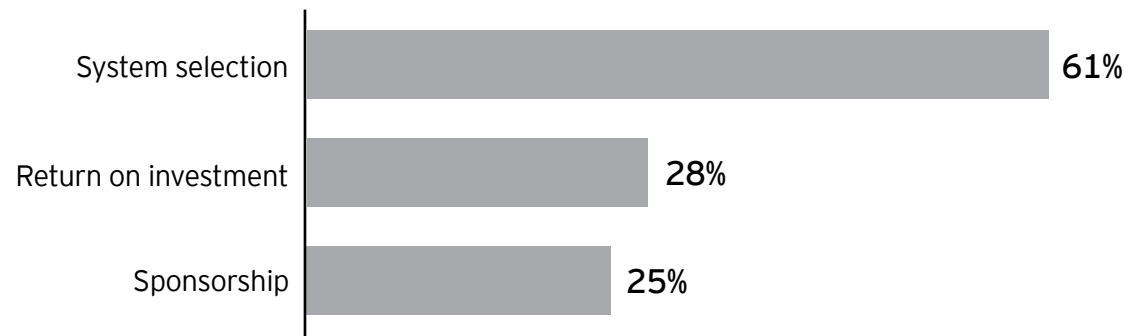
"Data management is the greatest challenge. Pure and simple. There's no technology consultant or employee that can do it all."

**\$15b-\$20b
North Americaa**

Clearing technology hurdles is no easy task

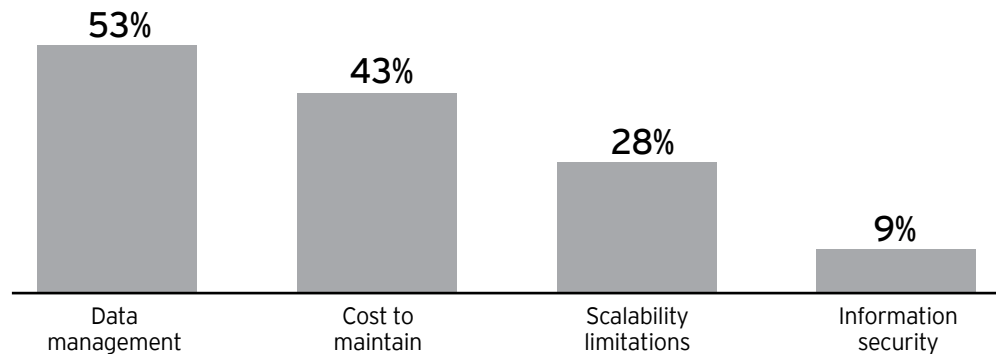
Private equity funds

What is your principal barrier to implementing technology solutions?



Private equity funds

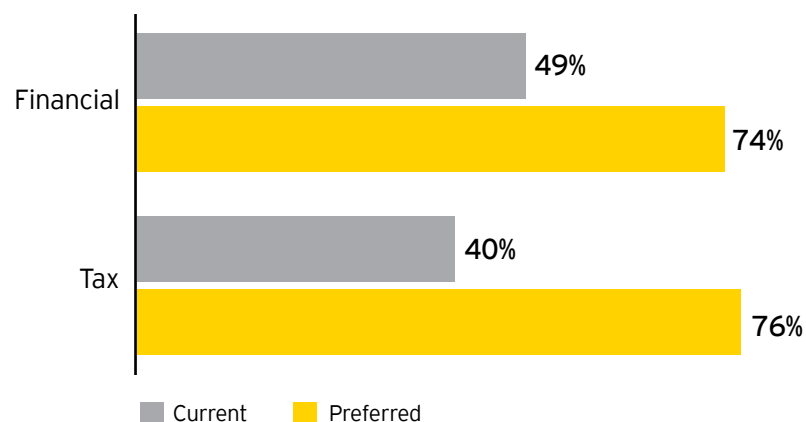
What do you foresee as the most significant constraint if you were to implement technology solutions?



No longer ahead of its time, digital is the next big thing

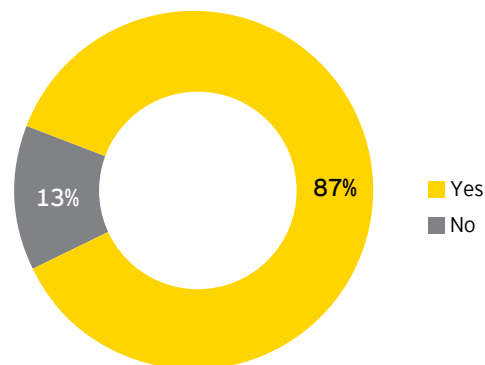
Investors

Are you currently, or would you prefer, to receive financial and tax reports electronically?



Investors

Would you like to receive reports through digital portals?



Many of the “best and brightest” asset managers, including those focused on private equity, have grasped that digitally-driven services are delivered at a fraction of the cost of existing platforms. Investors have also awakened to the new digital age, with an overwhelming 87% recognizing the benefits of digitalization when it comes to delivering better information, faster.

As evidence that private equity funds have been slow to embrace digital transformation, less than half are delivering financial and tax information electronically, while more than 75% of investors prefer to move past “2000 late” paper reports.

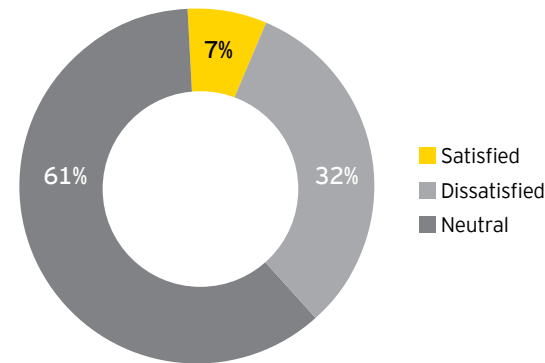
To meet investors’ increasing demand for seamless, coordinated, rich and easy digital access to their providers, finance executives should drive investment in advanced data analytics. These leading-edge solutions deliver enhanced, real-time access to portfolio information, reporting and other special requests in a visually intuitive way via secure online channels.

The advent of the digital world and the inherent connectivity of people, devices and organizations open up a whole new playing field of vulnerabilities. Organizations should have a robust detection and monitoring program backed up by a “playbook” that clearly spells out how to detect, analyze and respond to cybersecurity incidents and attacks. Clearly private equity funds have failed to deliver, as only 7% of investors are satisfied with the current cybersecurity policies of fund managers.

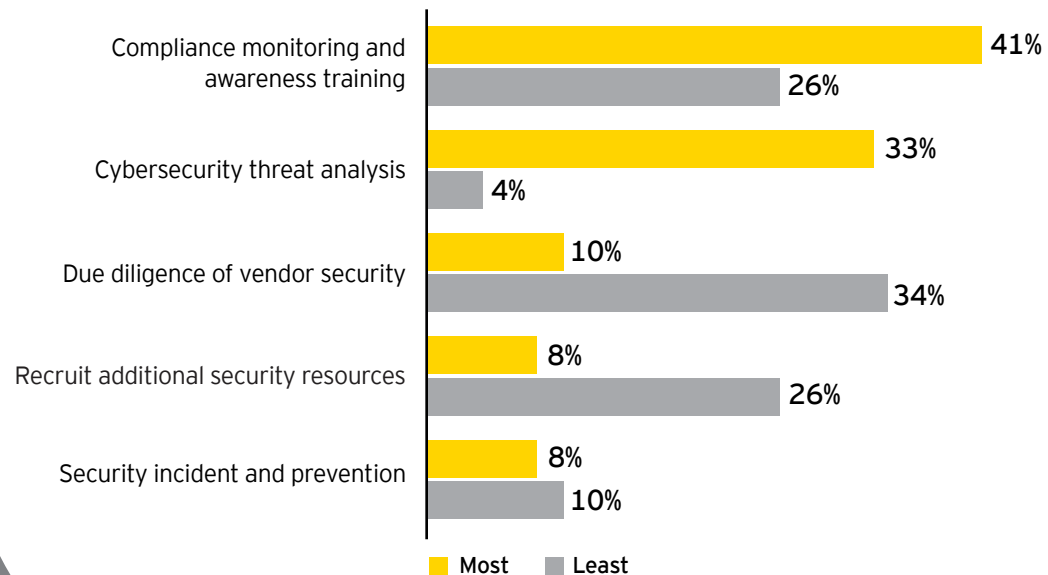
As it grabs increasing attention in the news media, cybersecurity is ramping up in importance for all players in the private equity space. Investors appear most concerned with compliance monitoring and awareness training (41%) as well a comprehensive cyber-threat analysis (33%). Policies should also include the chain of command involved in dealing with potentially damaging incidents, including report protocols. Early detection is important. The question is not whether your systems will be breached, but when.

The emergence of cyber-threats to business and information security

Investors
How satisfied are you with current cybersecurity policies of fund managers?

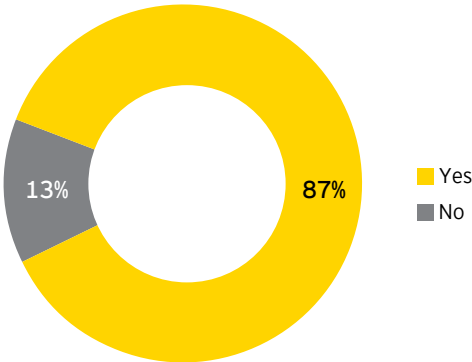


Investors
What cybersecurity polices are most important for fund managers to institute within portfolio companies?

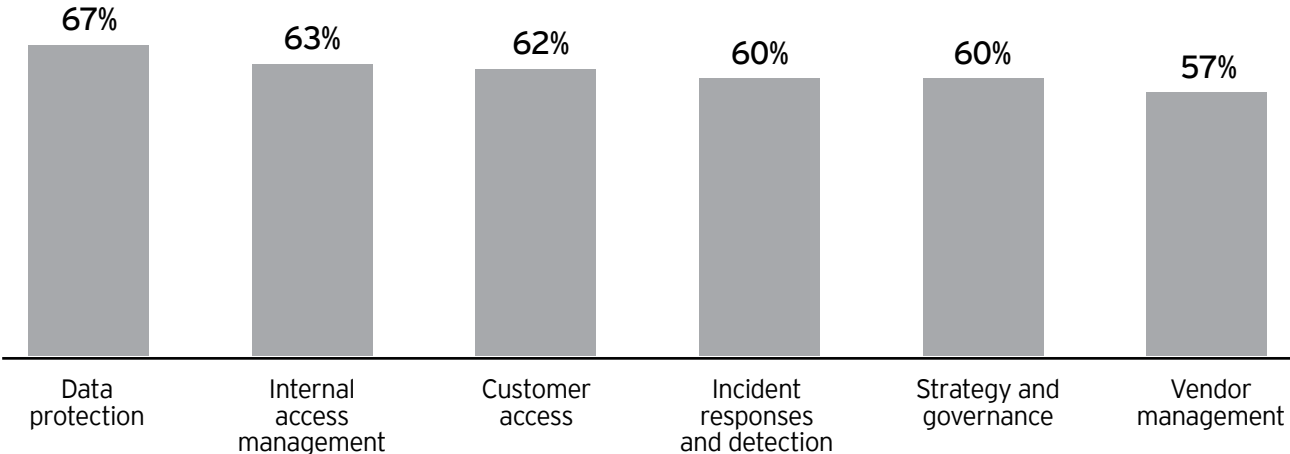


Real business threats call for governance and management of real business risks

Private equity funds
Do your portfolio companies utilize a board of directors (or equivalent) to govern their cybersecurity programs?



Private equity funds
What percentage of your portfolio companies have implemented requisite elements of their cybersecurity programs?



Cybersecurity is everyone’s responsibility, but a top-down, cross-functional approach usually works best. Executive management and the board and/or founders must be directly involved in setting the tone at the top, reviewing and approving policies, building awareness, investing in resources and facilitating new programs. Eighty-seven percent of CFOs reported that their board of directors or an equivalent group were involved in the governance and oversight of cybersecurity policies and procedures at their portfolio companies

For day-to-day implementation, risk management and control, many companies are appointing a single C-level executive – often the Chief Technology Officer (CTO) – to oversee strategy and its implementation. Within portfolio companies, cybersecurity programs have been implemented across the board - from a low of 57% addressing vendor management and a high of 67% focused on data protection.

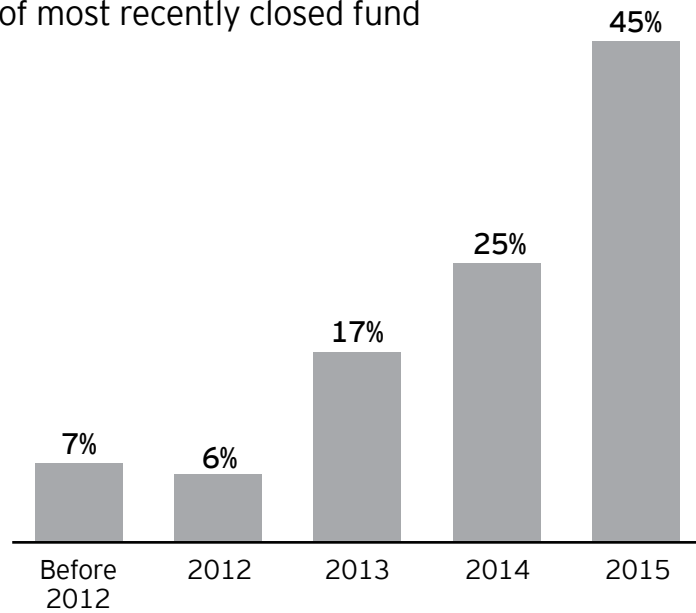
“We’re worried about cybersecurity. That means ring-fenced servers that do not connect with other systems restricting the integration we need.”

\$5b-\$10b
North America

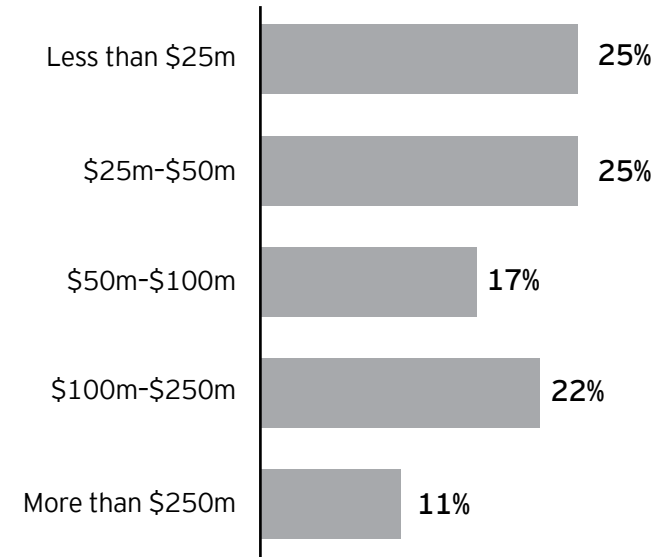
A dramatic landscape at sunset or sunrise. The sky is filled with golden light and dark, wispy clouds. The sun is low on the horizon, creating a strong glow. In the foreground, there are silhouetted mountains and a dark line of trees. The overall mood is serene and majestic.

Market data

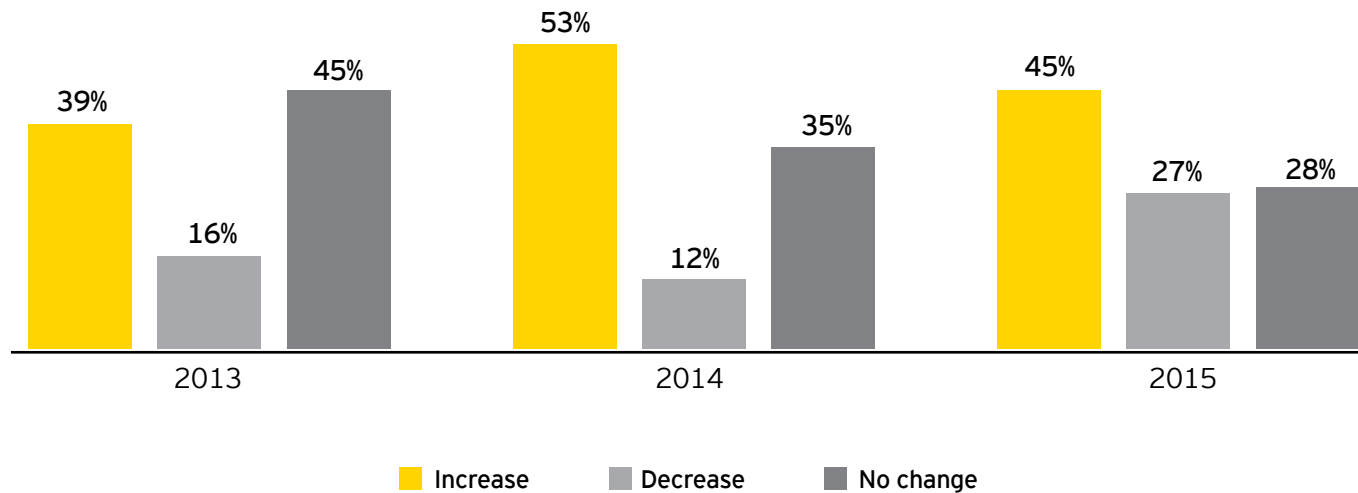
Private equity funds
Year of most recently closed fund



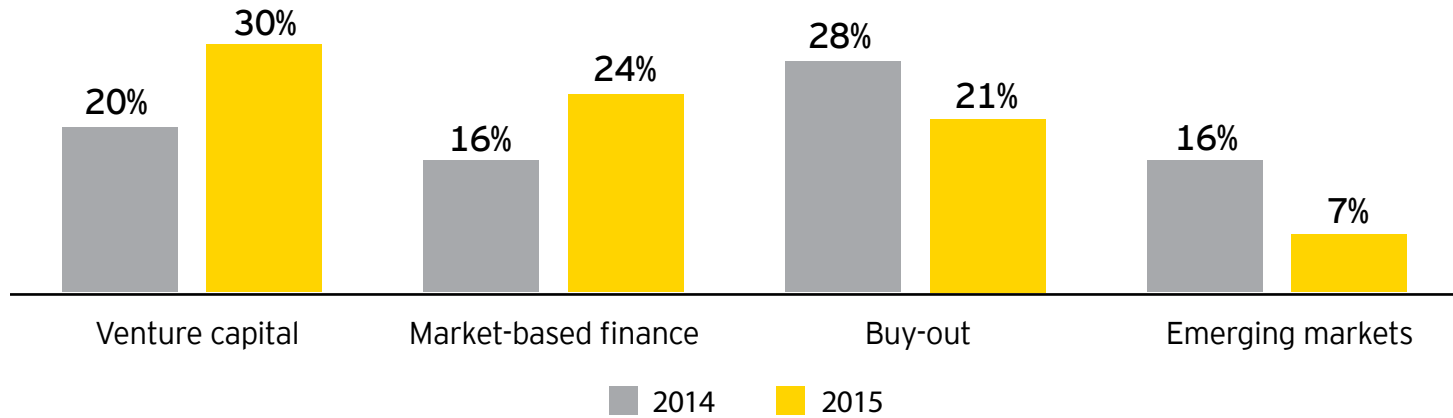
Private equity funds
Average investment size (USD)



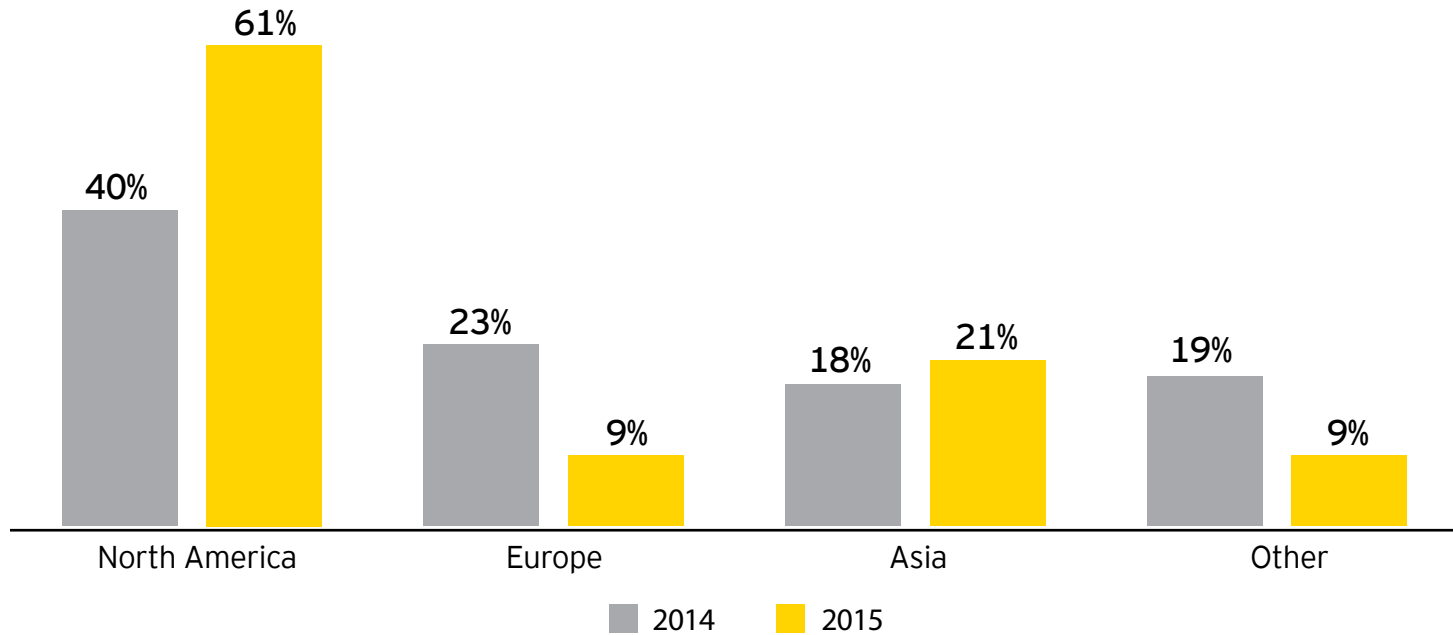
Private equity funds
Amount of capital raised in most recent fund as compared to previous fund



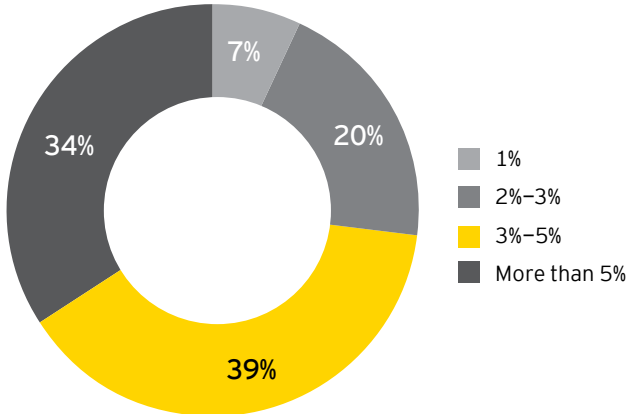
Investors
Preferred investment strategy



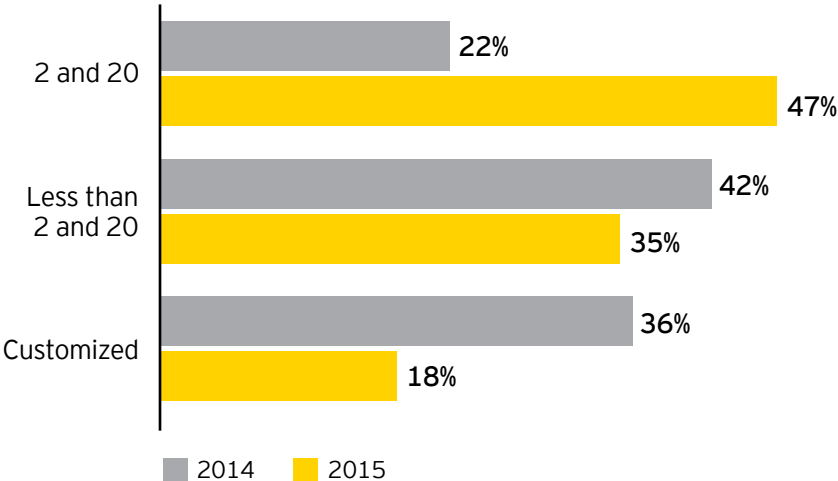
Investors
Percentage of invested capital allocated to geographies



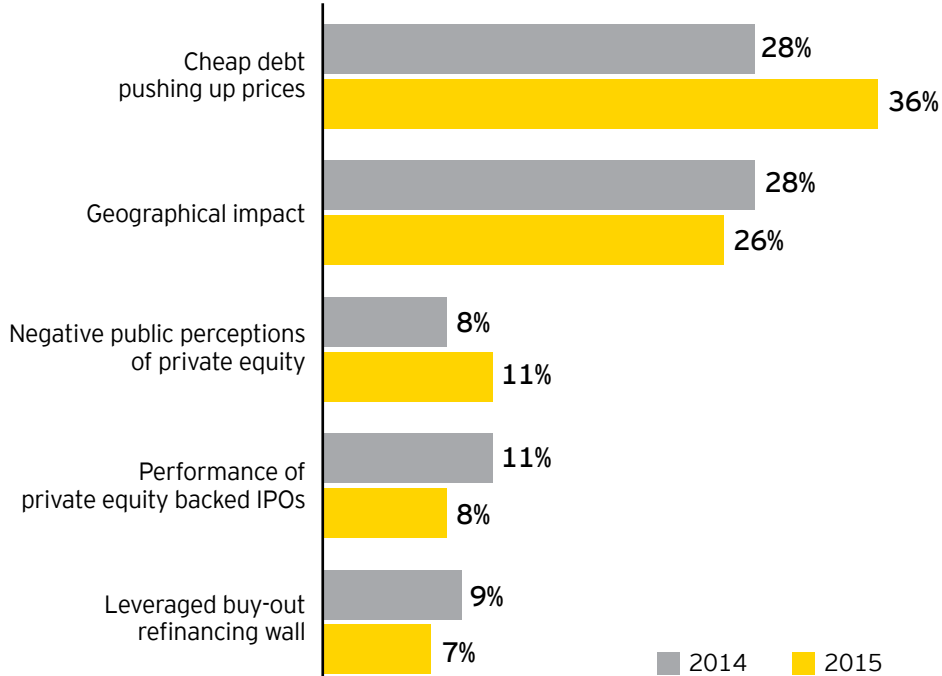
Investors
Preferred level of GP commitment



Investors
Typical fee arrangements



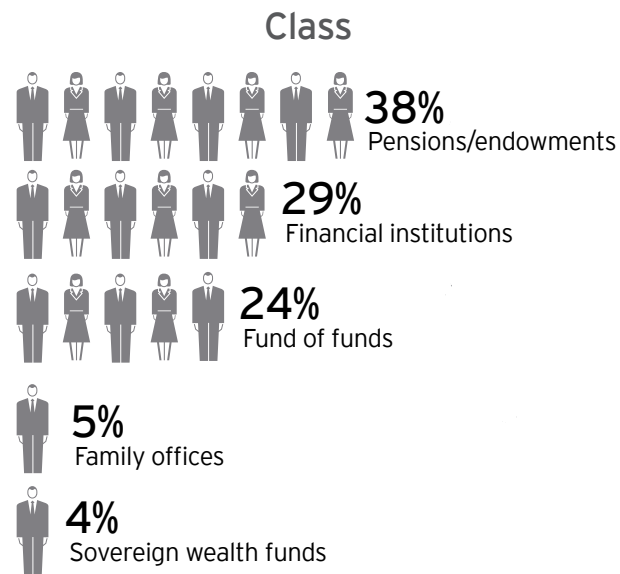
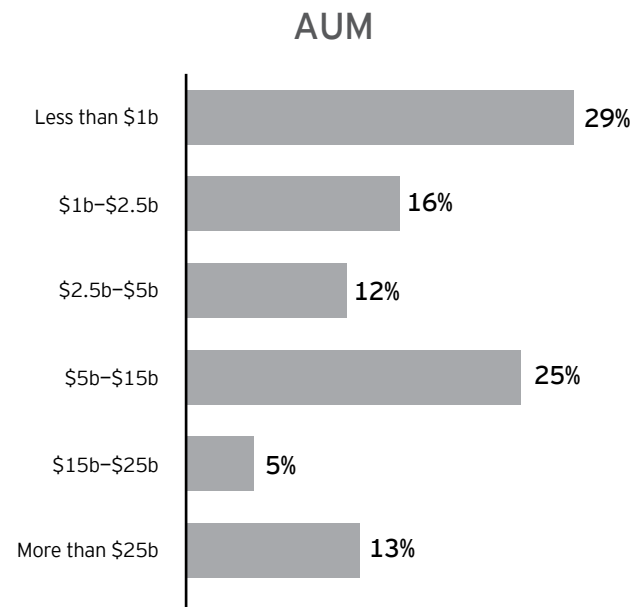
Investors
Important economic issues





Background and methodology

Respondent profile

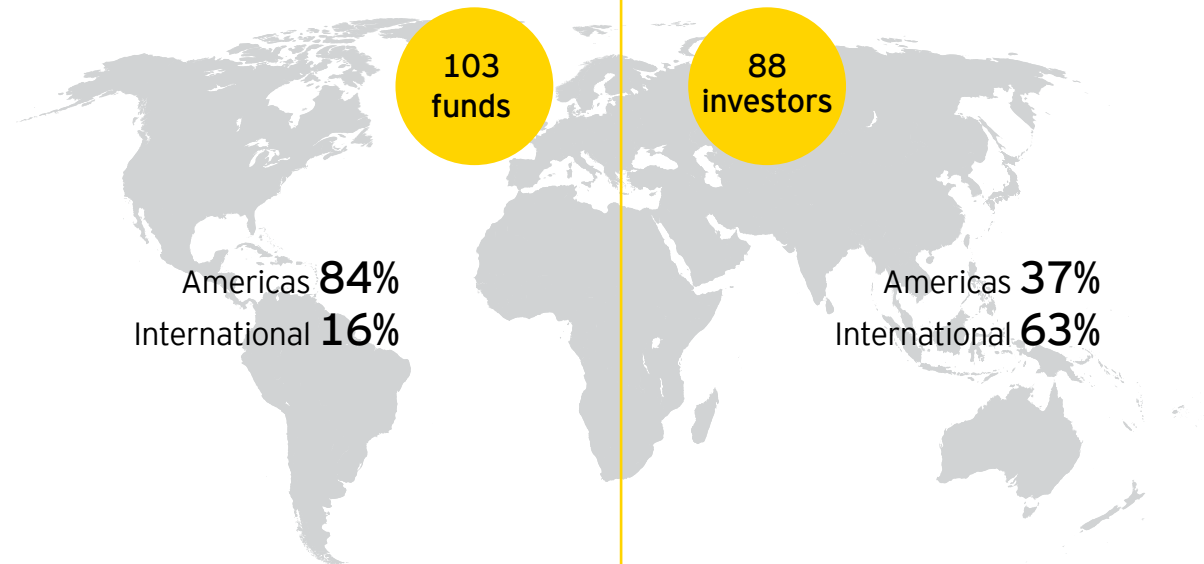


Methodology

Private Equity International conducted the research, collecting information through:

- ▶ Telephone interviews with 31 private equity funds and 20 investors, from August through December 2015
- ▶ An online survey to which 103 private equity funds and 88 investors responded from August through December 2015
- ▶ All amounts in survey are USD unless otherwise stated

For several of the questions, multiple answers were allowed, resulting in responses that do not total 100%.





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Launched in December 2001, **Private Equity International** covers its asset class with a dedicated team of specialist journalists in London, Hong Kong and New York City. Its writers and researchers bring detailed knowledge and a thorough understanding of the people, the deals, the funds and the financial trends that shape the industry. As demand for private equity in institutional portfolios continues to grow around the world, so we aim to deliver an ever more comprehensive offering of hard news and authoritative analysis of why this is happening and where and how investors can find value in the asset class.

Drawing on an intense dialogue with a constantly expanding group of key decision-makers in the industry, we cover investor allocation strategies into the buy-out, venture, growth capital, secondary and special situations segments of global private equity. We talk to the general partners, limited partners, financial intermediaries, developers and regulators who determine how capital flows into and out of the class. From this dialogue we work hard to produce a compelling blend of hard news, incisive commentary, detailed sector and regional reports, exclusive interviews and proprietary data in a wide variety of formats. Our coverage has broken fresh ground on important industry issues, such as the often-delicate relationship between general and limited partners; the quest for greater transparency in private equity fund management, the industry's ability to add value through operational improvement at the asset level as well as the ongoing debate around private equity benchmarking and performance measurement.

Private Equity International magazine appears 10 times a year and is written by the same team that delivers a rich mix of proprietary stories onto www.privateequityinternational.com five days a week. The title also hosts a multitude of industry events and conferences throughout the year, and we continue to publish a series of best-selling books under the Private Equity International brand.

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We would like to extend our thanks to all those who helped make our third annual global industry survey possible. We are gratified by the overwhelming response from private equity funds and investors and we believe the results demonstrate the strength and determination of the industry and the professionals who are integral to its success. At EY, we are confident in the resolute nature of both managers and investors and are enthusiastic about the future of the global private equity fund industry. We look forward to continuing to invest alongside the industry and support its efforts to enhance overall well-being for investors worldwide.



Private Equity International is delighted to publish the third annual edition of this global industry survey in partnership with EY. Today's private equity CFO is at the helm of a vastly more complex organization than a decade ago and is now tasked with ensuring that all of the key stakeholders, whether they be the GP, LP or regulator are satisfied. This year's survey explores how CFOs are scaling their finance and operations function to address the fundamental challenges facing the modern private equity firm in an environment where fees and yields are compressing, while the administrative burden of managing the firm is expanding all the time. We hope that this survey will provide you with a window into the ways CFOs are adapting to the new world order and an appreciation for the role they play in the evolution of this alternative asset class.

