

# Have yesterday's challenges provided a foundation for tomorrow's success?

2017 Global Private Equity Survey

in collaboration with Private Equity International



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**EY**

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We would like to express our appreciation to the 103 private equity CFOs who offered us their valuable insights and observations. In this report, we seek to identify how private equity firms can further shape their future operations. We believe these insights will assist stakeholders in making informed decisions as they continue to develop their blueprints for success.



A close-up photograph of several thick wooden planks stacked horizontally. The planks are light-colored with visible wood grain and some darker staining or knots. The lighting is warm, creating a sense of depth and texture. The background is slightly blurred, focusing attention on the wood.

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# Executive summary

## Have yesterday's challenges provided a foundation for tomorrow's success?

### The raw materials are in place

Environmental pressures over the past few years have forced firms to dedicate significant resources to non-investment-related tasks such as regulatory reporting and increased investor reporting. These challenges were answered timely by CFOs through increased hiring as well as implementing baseline technologies to deal with the new regulatory requirements and increased investor requests. As a result, CFOs have put the raw materials in place to allow them to deal with tomorrow's challenges.

With even more capital flowing to private equity funds, investors are seeking increased returns and even higher levels of service. In an industry ripe for disruption there is increasing pressure on private equity firms to harness and analyze portfolio company data in a way that will benefit investors.

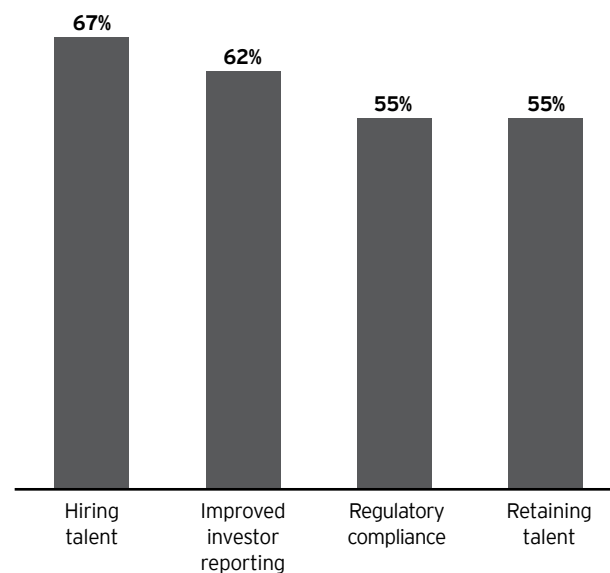
The question then becomes, "how do private equity firms move past yesterday's challenges, build upon today's foundation and create the PE firm of the future"? As you read this, our fourth annual Global Private Equity Survey, you'll see that although there continues to be a high demand for the returns private equity firms can generate, cost-effective operations through managing talent and automation as well as the ability to harness portfolio company data are becoming critical to the success of a private equity firm.

The survey shows that the raw materials are now in place to develop the new-look operating model for a private equity firm. The challenge now is to make the strategic decisions required to build the optimum operating model for tomorrow's private equity firm. Our survey reveals that CFOs believe that the way ahead demands they make their teams more professional by retaining and developing key talent, add and leverage technology to create better investment opportunities, and automate many of the time-consuming manual processes. In many ways, success in the future will depend as much on flawless operational efficiency as great ideas and innovative thinking.

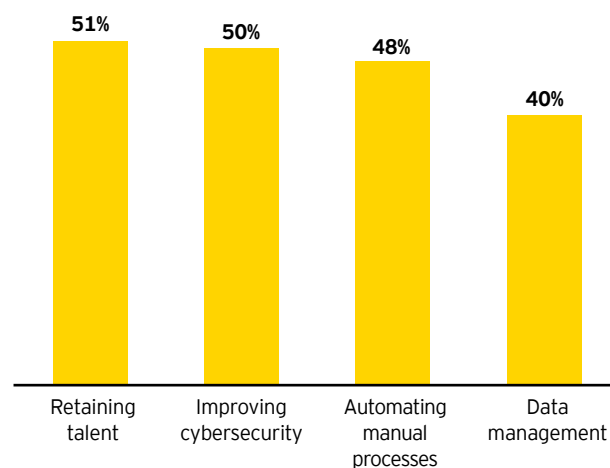
### The challenge

In the current environment, investors are searching for yield and turning to private equity firms because of the returns they have generated historically. In order to continue this level of performance, these firms must focus on efficient and cost-effective operations

## What have you done to be competitive?



## What will you do to be competitive in the future?



as critical elements to their success. Many firms have adopted leading technologies to develop savvy and cost-effective methods to analyze portfolio company data. Given the large amount of dry powder in the sector, these data analytic techniques are becoming essential to identifying and closing deals.

CFOs have identified three particular strategies to tackle these constraints: firstly, strategic data, technology and business process automation (portfolio analytics, management reporting, data warehouse); secondly, talent management – engaging, training and, crucially, retaining the most promising talent; and thirdly, outsourcing non-value-add functions to qualified service providers. The challenge to CFOs is using their current resources to build tomorrow's private equity firm operating model.

### **Data and digital**

Managers say they are constantly investing in new technology solutions, which have not yet provided meaningful efficiencies for private equity firms. Many CFOs still rely on old-fashioned spreadsheets as these new solutions require detailed customization and currently lack the flexibility to adjust to new business requirements. The investment to date has been largely tactical in nature, to deal with operational challenges related to investor requests, compliance and regulation, as opposed to being part of an overall strategic long-term solution. Firms have started to invest in technology to manage the huge amounts of data they need to process. This includes using new programs in portfolio analytics to take advantage of investment opportunities that may not have been considered in the past, digital platforms supporting better communication between the firm and the investor, and increased automation of routine processes. However, CFOs are skeptical of a one-size-fits-all technology solution – they have not yet seen evidence that such a thing exists.

### **Talent**

CFOs are finding it increasingly difficult to engage and retain talent – especially millennials whose motivation extends beyond a generous salary and career development opportunities in the way that their predecessors' did not. Ninety percent of CFOs expect new hires to stay for less than five years which makes developing talent difficult and the logic behind it questionable. Private equity continues to offer attractive reimbursement and progression opportunities but no longer holds the allure or the gravitas that other younger, trendier sectors do. Although private equity can still attract bright, motivated graduates, they are no longer committing to a 25-year career within the industry. Millennials clearly aspire to a broader work/life balance than previous generations and some CFOs have

recognized this, attempting to bond with their younger talent through social and team-building events.

### **Outsourcing**

Outsourcing administrative and tactical tasks were identified by CFOs as one area that they can use to significantly improve the efficiency of their operating model, by freeing up staff to spend more time on analyzing portfolio opportunities and investor relations. There are concerns, though, about the ability of vendors to deliver consistently high-quality service. Many of these shops suffer from high turnover and their business model can make them inherently less committed to the success of an individual client than a private equity firm's own employees. However, CFOs recognize they need to make outsourcing work. This may be achieved by carefully selecting the right vendor, negotiating a smart agreement and then managing these external colleagues even more carefully than their own employees.

### **Final thoughts**

As 2017 begins, there's no doubt that the private equity business is becoming more difficult and the issues CFOs have described they're facing are the classic strategic challenges of a maturing industry. Various factors have increased their burden over the past few years including an uncertain economic environment, unrelenting competition for deals, heightened investor pressure to provide increased service at lower fees and the fact that they have, so far, made only small gains in operating efficiency. CFOs also have to consider whether their current operating model, and the solutions required to improve it, are ready to handle the challenges that firms face in a competitive, regulated environment.

However, by reviewing the lessons learned over the past few years, they have identified their top objectives, empowering them to tackle the complex demands facing their firms. CFOs are hoping that a combination of automation and talent management will enable them to focus less on routine financial reporting and spend more time on forecasting and analysis, which adds strategic value for all relevant constituents.

At EY, we believe that both managers and investors know what tools are required for private equity funds to navigate the challenges which lie ahead in this uncertain global economic environment, and we look forward to continuing to provide insight and analysis across the broader asset management industry, including the private equity market.



# Blueprint for success





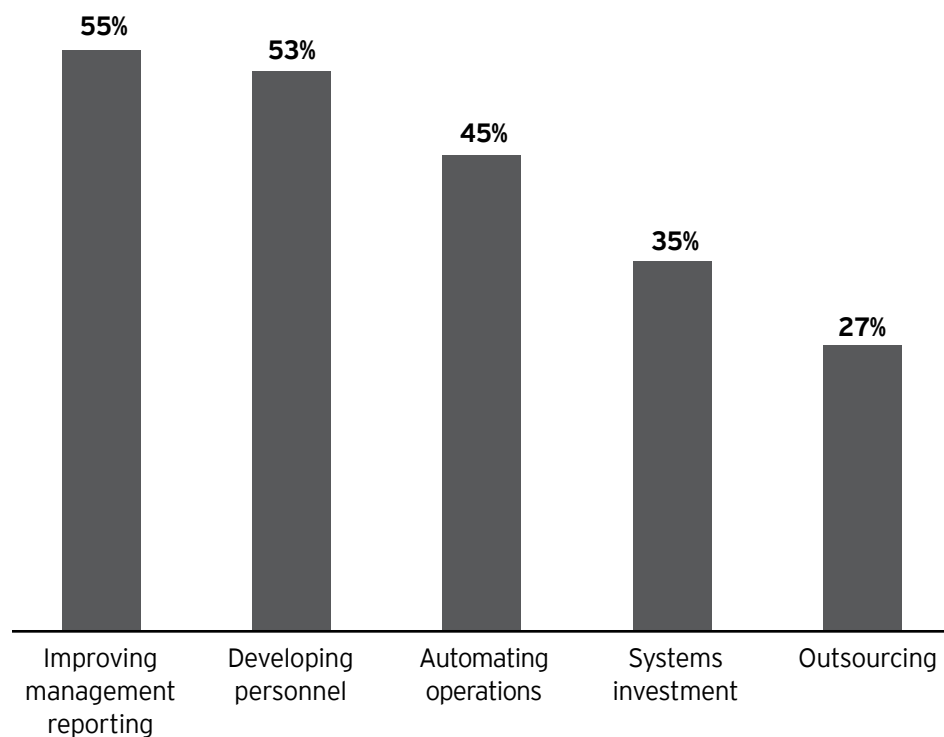
CFOs have clearly identified the top operating objectives needed over the next two years to remain successful in the competitive private equity industry. Tactical solutions have previously been put in place to deal with increases in assets under management, regulation and investor requests. Forward-looking CFOs have identified that a strategic focus on operations is required to remain competitive. Improving management reporting through mastering data, developing the firm's people and automating routine processes are seen as the top three operating imperatives. These strategic functions are critical for CFOs to understand today in order to implement new processes, to potentially increase returns, reduce expenses, and produce information more accurately and expeditiously in the future.

"We are really looking for efficiencies in data-gathering and its conversion into usable and actionable information."

CFO \$15b-\$25b

## Immediate areas of focus

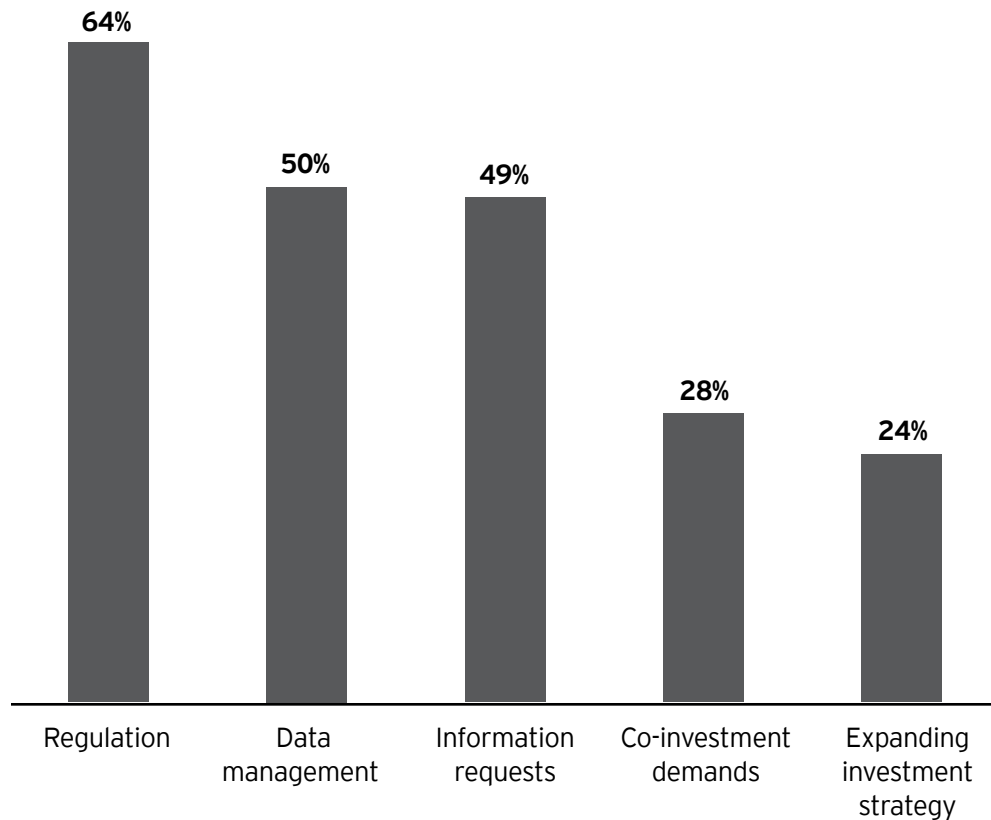
What are your top operating objectives?





# Driving complexity

What contributes most to your firm's complexity?



CFOs have identified a number of contributors to operational complexity. Regulation, an increase in the amount of information that routinely needs to be analyzed and customized investor requests all pose their own challenges for CFOs to navigate. Along with these tactical challenges, new strategic challenges are emerging, such as managing co-investment opportunities and expanding investment strategies, creating additional pressures for CFOs and their teams. Deciding how to allocate resources appropriately to deal with these drivers of complexity is important for CFOs to consider prior to implementing new strategies.

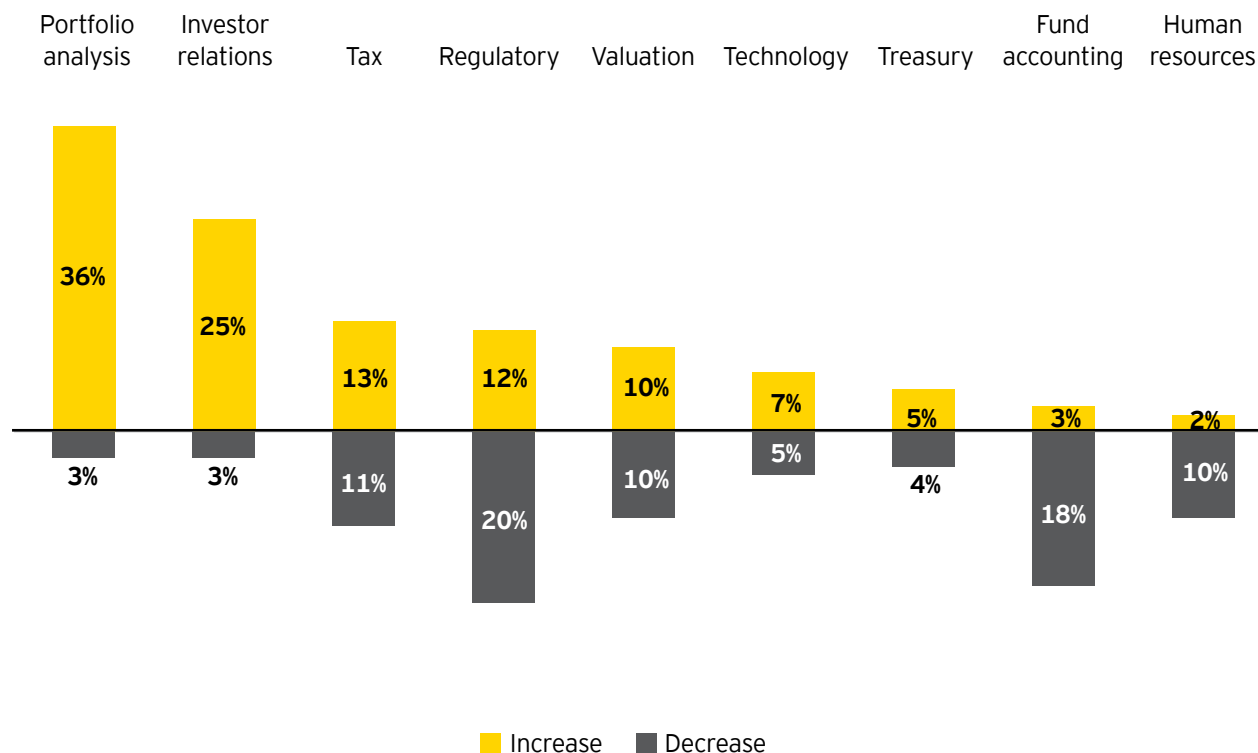
"The regulatory environment continues to be the same headache it's always been but we're addressing those areas sufficiently."

CFO \$1b-\$2.5b

Having dealt with a significant increase in regulatory demands and expectations brought on by responding to specialized information requests from limited partners (LPs), CFOs have expressed a desire to shift their focus from the implementation and day-to-day tasks to more forward-looking and strategic tasks that add value to the growth trajectory of the organization. CFOs are looking to increase the time spent on investment portfolio analytics, which will enable the organization to make better investment decisions and identify value creation opportunities, as well as working with investor relations to help their organizations differentiate themselves in a competitive fundraising environment, where LPs have intensified operational due diligence on prospective managers. While regulatory and operational areas will remain a significant part of the business, CFOs hope that their focus on those backward-looking areas will wane.

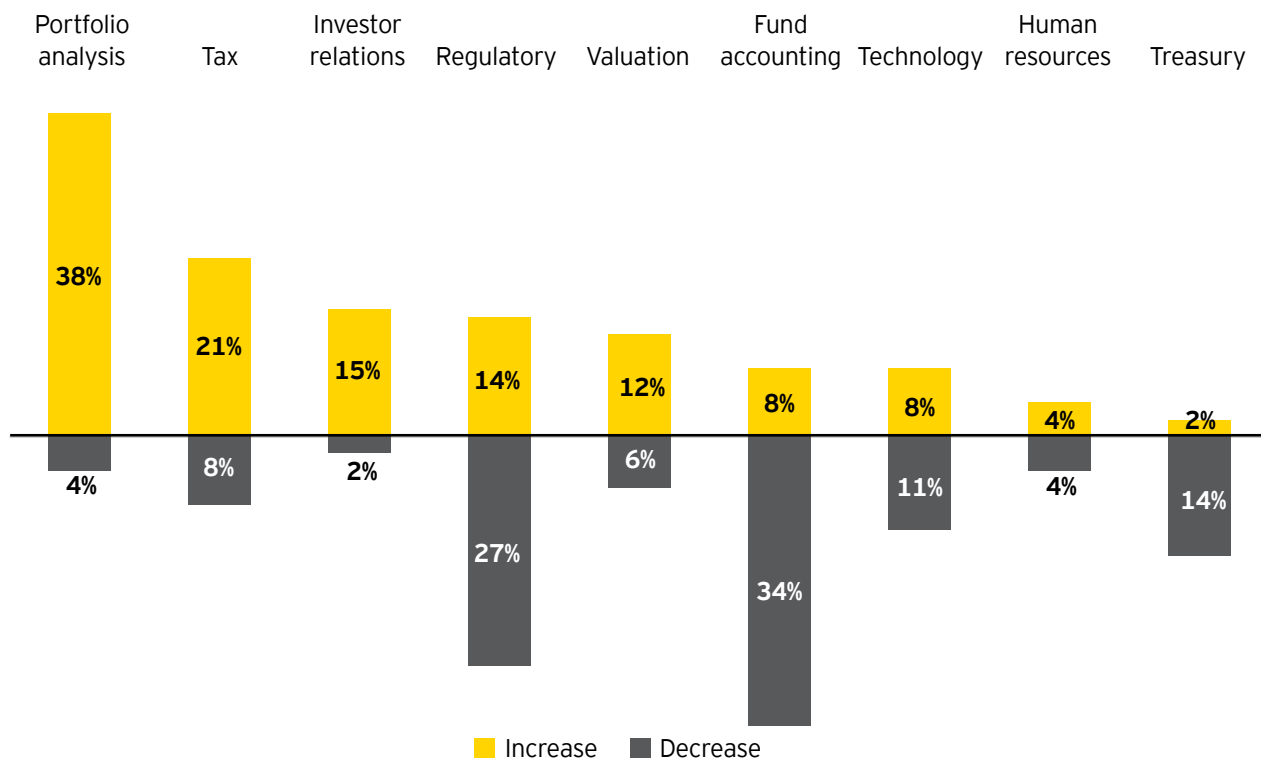
## Finance executives want to concentrate on the big picture...

How would you change the allocation of your time?



## and align their teams to share in the responsibility

How would you change the allocation of your team's time?



When it comes to how the CFOs would like to see the allocation of their teams' time, the focus is consistent with the desired shift in where CFOs would like to align their own attention. CFOs would like to see their teams spending more time on areas such as investment portfolio analytics, investor relations and other areas that add value to the strategic direction of the organization. Most respondents wanted their teams to spend less time in regulatory compliance and fund accounting which are primarily composed of routine and rudimentary tasks and offer little value to the forward direction of the organization. The fund accounting and regulatory compliance functional areas also lend themselves well to outsourcing and implementation of technology solutions.






Building to last







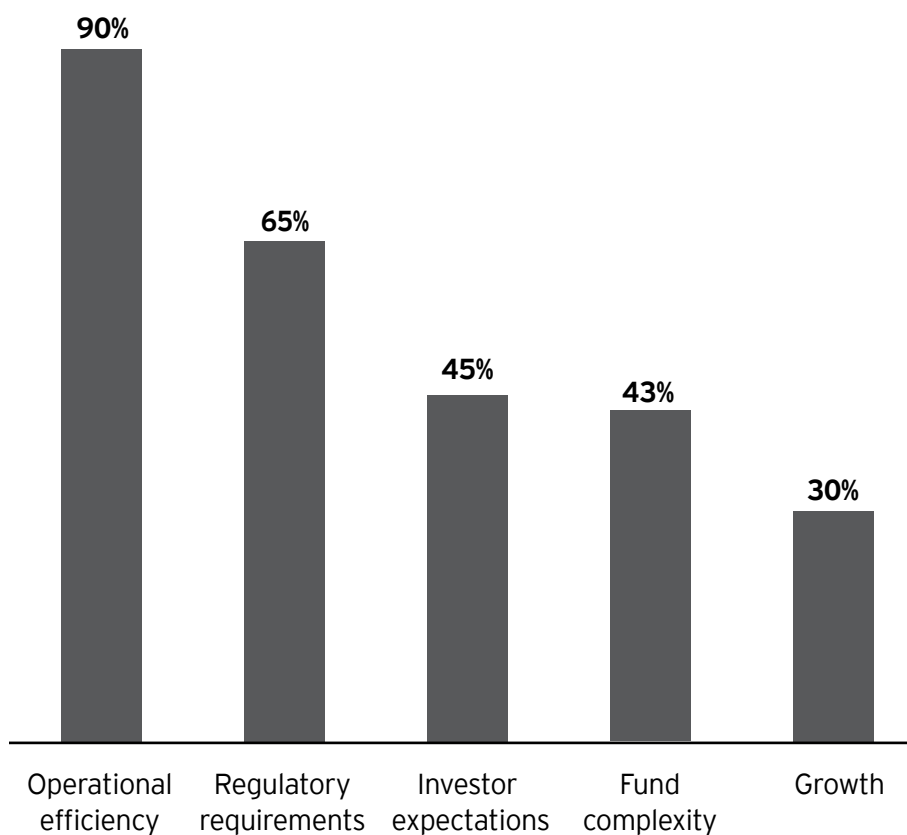


Private equity firms continue to invest in technology, particularly in relation to portfolio analytics, to handle large amounts of data, regulatory compliance demands and investor requests. Their investments are a challenge to implement due to the uniqueness of private equity fund structures and have yet to add meaningful efficiencies for the overall business operations. The cost of implementing and maintaining these solutions and training employees to become competent using them is still a major potential cost to fund managers. Theoretically, these solutions could provide meaningful returns and efficiencies to fund managers once strategically implemented, but most CFOs say they aren't there yet. Unfortunately, they say, the one-size-fits-all technology solution that managers are looking for does not seem to exist yet.

# Data and digital

# Can technology solve the biggest problems

What drives your need to invest in technology?



In a post-regulatory world, the new operating environment is a combination of old challenges

- complex structures and products, legacy skills and an over-reliance on spreadsheets
- compounded by the additional burdens of regulatory reporting, cybersecurity and investor expectations of lower fees and increased transparency.

CFOs are also looking to spend more time on value-added activities such as investor relations and portfolio analysis. Scaling through manual processes is not seen as a viable long-term solution. Whether via internal systems or the technical capabilities of third parties, technology is the best option to deal with the new operating reality.

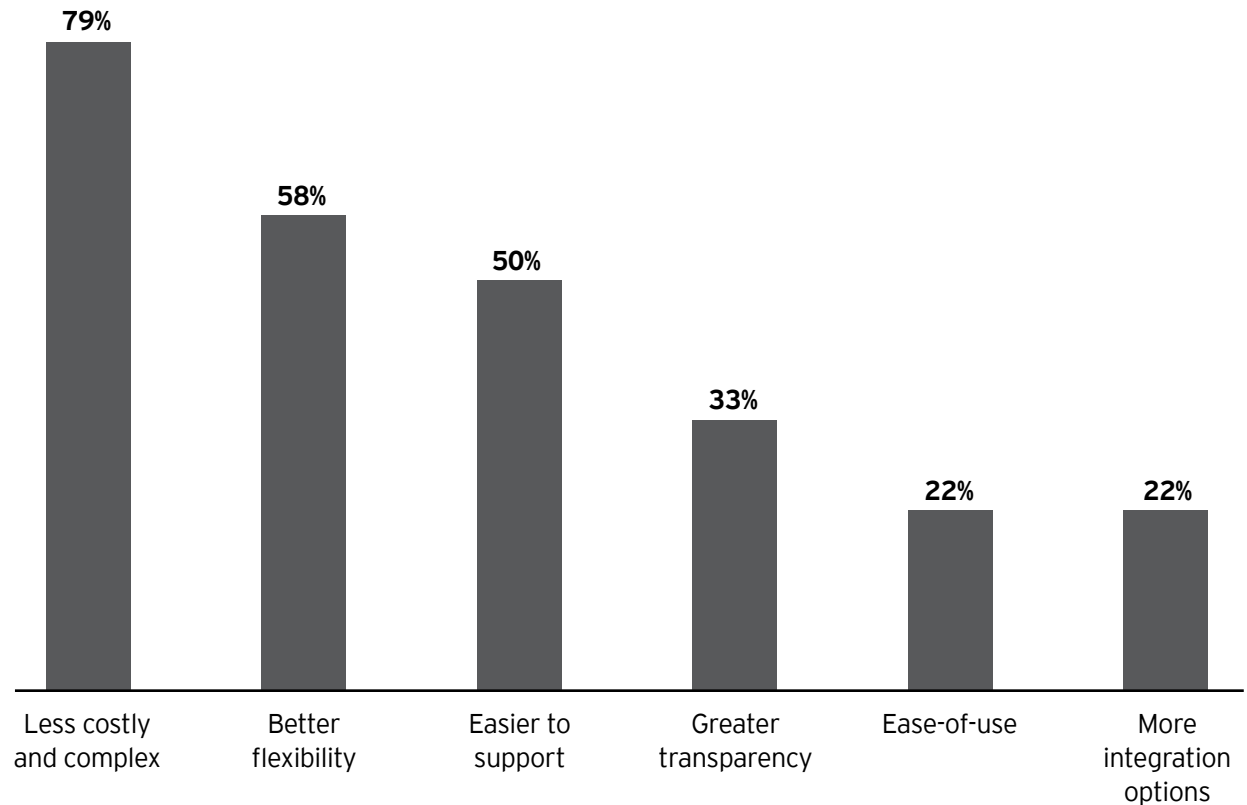
Driven by the need to get more from existing resources as well as free up time for analysis and investor relations, it isn't a surprise that operational efficiency tops the CFOs' list of drivers for technology investment to scale effectively, while dealing with regulatory reporting, investor demands and complexity.

One strategy to deal with complexity has been implementing one-stop-shop fund accounting solutions. Unfortunately, the promise of a single solution for accounting, portfolio management and investor relations remains unfulfilled. Commercial back office and accounting solutions are not providing the capabilities required to replace spreadsheets. Whether real or perceived, CFOs believe the cost and complexity of required customization and lack of agility to respond to business changes require continued use of spreadsheets.

The cost of relying on spreadsheets has a trickle-down effect on dealing with the challenges of regulatory reporting and investor expectations. The ability to report accurately and efficiently is of huge concern. Almost 80% of CFOs said that the use of spreadsheets as data sources was their top data management concern.

## Spreadsheets hanging on

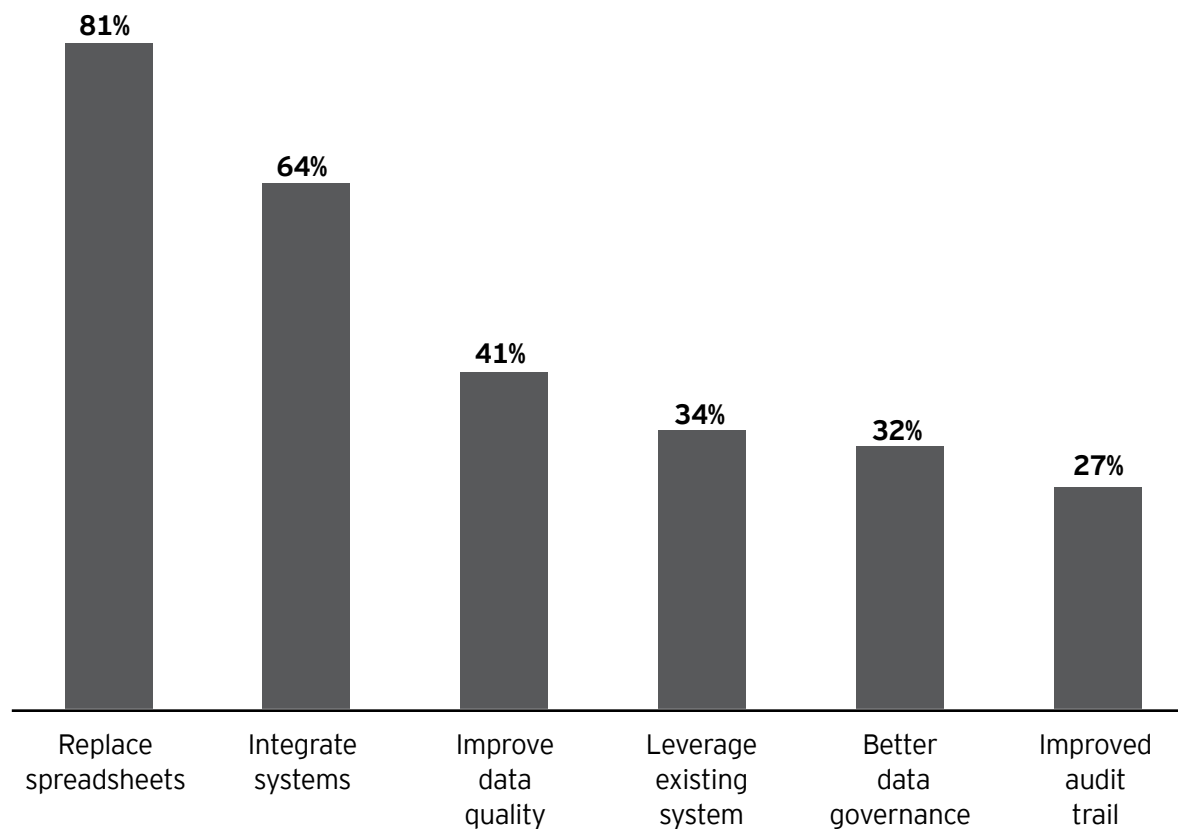
Why haven't spreadsheets been replaced with new systems?





# Harnessing data is rapidly developing as a must have capability

What challenges could be solved by investing in data?



Replacing spreadsheets and getting systems to talk to each other are the problems CFOs are looking to data solutions to solve. In a post-regulatory world this is not a unique phenomenon. All firms are faced with meeting regulatory and investor reporting requirements efficiently and accurately. This requires a systematic, holistic and integrated approach that spreadsheets and siloed systems cannot provide.

Ultimately, these two problems are indicative of CFOs needing to remove non-value-added activity - manual data entry and reporting via spreadsheet are not an effective use of resources. Removing this opportunity cost and focusing employees on analyzing data as opposed to manually combining it is a more effective way to manage the business and increase investor satisfaction, at the same time providing a rewarding professional experience for employees.

"We get reports in all kinds of formats from our portfolio companies. A lot of duplicative work could be alleviated if we just had one source that linked reports to the underlying data."

CFO \$5b-\$15b

CFOs still believe in technology as the best way in which to deal with the challenging operating environment but many are looking towards data-driven solutions to help manage their organizations. Portfolio analytics and management reporting solutions are clearly where they are seeking to make better decisions around their portfolio and operations. This can also provide value-added insights to LPs and demonstrate effective stewardship.

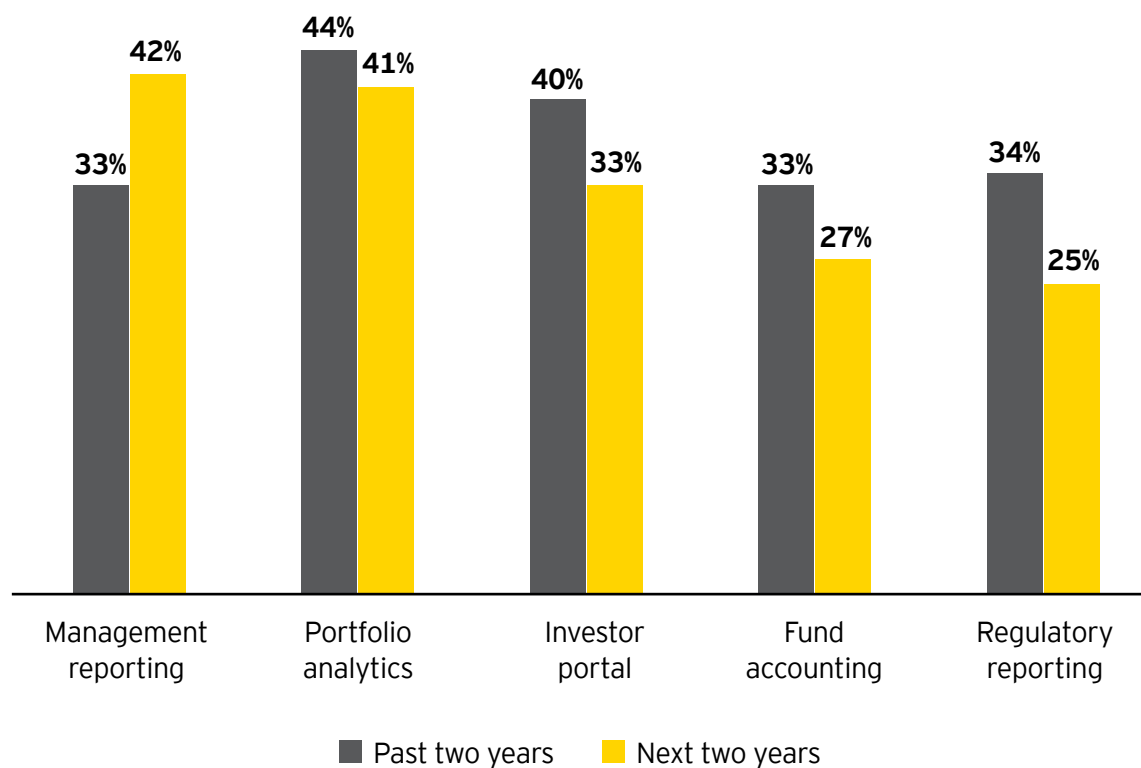
It is clear that the technology model has evolved into a set of solutions - accounting, investor portals, portfolio analytics and management reporting. Taking a best-of-breed approach is allowing private equity firms to leverage technology beyond the back office. Run-of-the-mill technology such as accounting systems and regulatory reporting are still needed but the shift in investments signals the industry is adopting an analytic mindset to scale and operate more intelligently across the front, middle and back offices.

“ I think the only way to successfully scale is through the use of software, so that's going to be my focus. I don't think throwing unlimited bodies is going to be the right answer.”

CFO \$15b-\$25b

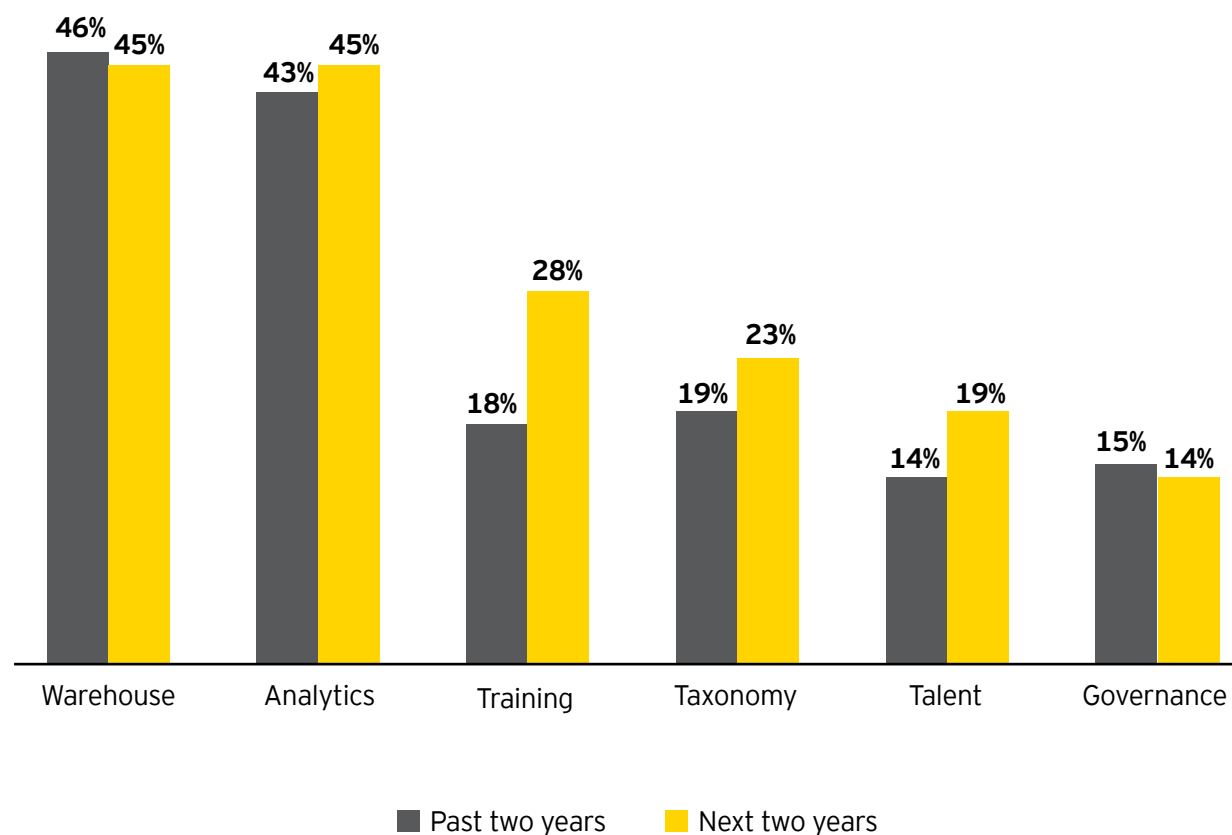
## Technology investment trends

What has been your technology focus during the past two years and what will it be over the next two years?



# Data and analytic investment trends

What has been your data focus during the past two years and what will it be over the next two years?



Firms are looking to improve their analytics capabilities and are clearly investing in the technology by building data warehouses and implementing analytics tools. This is an obvious attempt to get data out of spreadsheets, combine data from disparate systems and improve the data quality of incomplete or inconsistent data sets.

Technology is one piece of the data puzzle. The two areas of investment that scored lowest in our survey are hiring data talent and data governance. Not investing in the people and processes needed to support expensive data and analytics solutions could lead to missed expectations and low adoption - possessing the right people and skills to effectively use the data and manage the solutions is critical. Likewise, investing up front in data governance and definitions can save costly rework and data cleanup efforts. The right people and process will help firms avoid "one step forward, two-steps back" when it comes to their data initiatives.

"We are constantly revisiting our data management and we are getting better each and every year, but whenever we push on one aspect to get better another falls apart."

CFO \$5b-\$15b



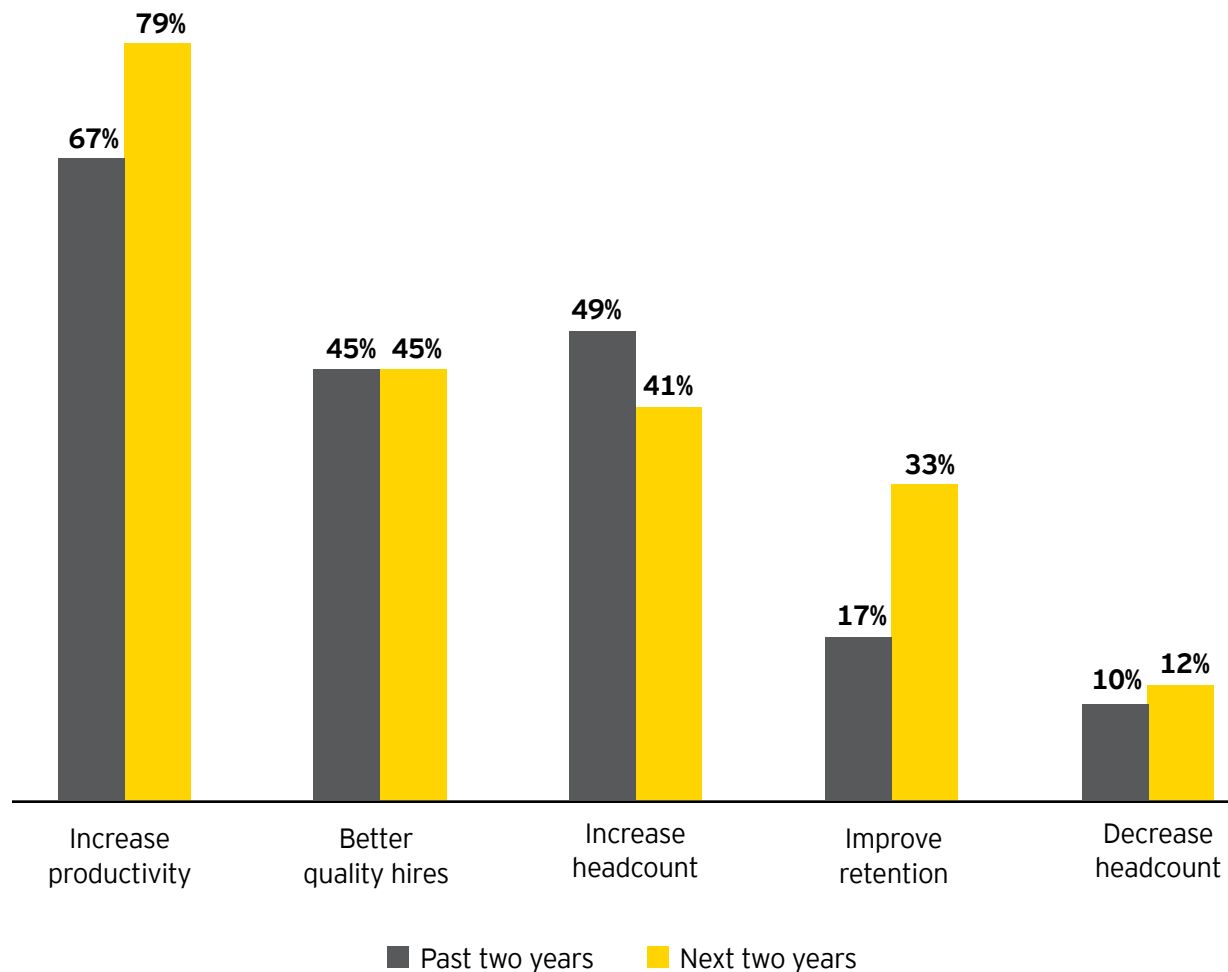
Employee retention is a major challenge for CFOs as they attempt to optimize their operating model. As we know, there can be large costs associated with training and developing talent. As a way to combat attrition, many firms now try to lure employees to stay with opportunities for further professional development. It is important for CFOs to engage more effectively with their talent so that they choose to stay for an extended period of time in order to create operational efficiencies. Another challenge facing CFOs is that millennials are more apt to change jobs than any other previous generation. Engaging and retaining millennials is a major focus of most firms regardless of their industry. If CFOs can effectively engage their younger staff and allow them to assist with strategic implementation of new processes, benefits can be seen by both parties.

# Employee retention



# Building the ideal workforce

What have been your workforce priorities during the past two years and what will they be over the next two years?



CFOs continue to be focused on improving the human capital portion of their businesses. With the proliferating requests and mounting expectations continually placed on firms by internal and external stakeholders (e.g. management teams, regulators, and LPs), it comes as no surprise that the focus continues to be on increasing headcount and attracting the best and brightest employees, while seeking to get more out of current employees. The focus on retaining good talent can clearly aid tomorrow's private equity firm by reducing employee acquisition costs: both monetary and production-wise.

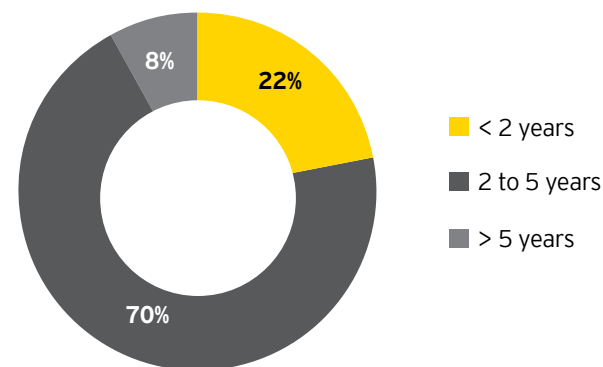
With the concept of “lifetime employees” largely having disappeared from our regular vernacular, CFOs have begun to focus more on initiatives to retain current talent. Ninety percent of CFOs expect employees to have moved on to other organizations within five years. As a way to combat attrition, the focus has been on providing employees with further professional growth opportunities and technical skill development. While the trend has been for employees to look to new organizations to satisfy their need for new challenges and other roles and responsibilities, CFOs are now seeing the value in creating opportunities for employees to find their next job within their current private equity firm.

“I think if you’re willing to invest in really great employees, you can keep them.”

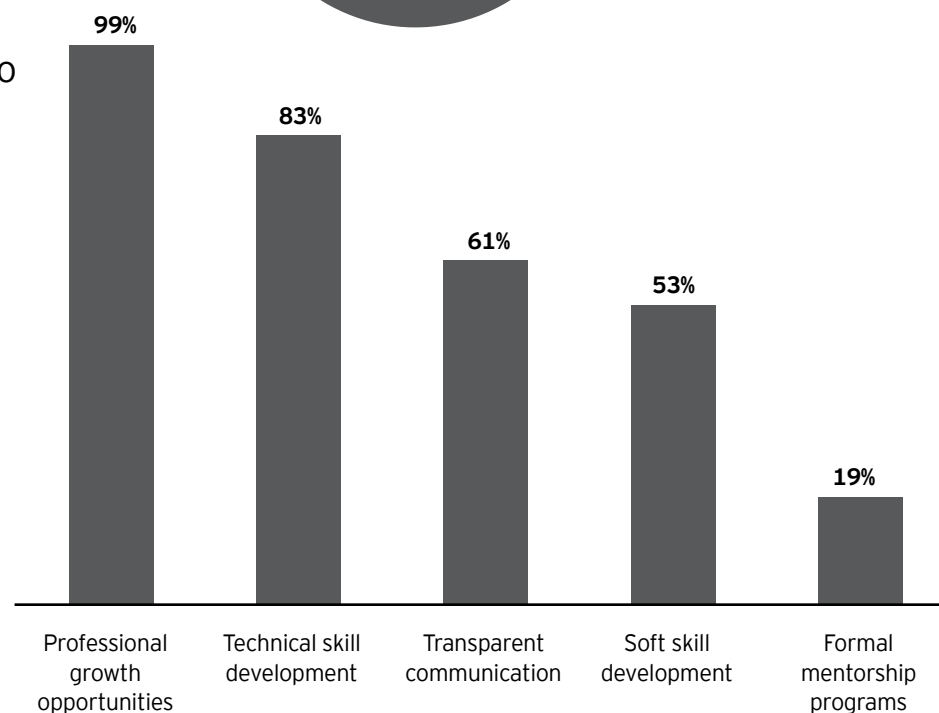
CFO >\$25b

## Understanding what millennials want

How long do you expect millennials to stay?

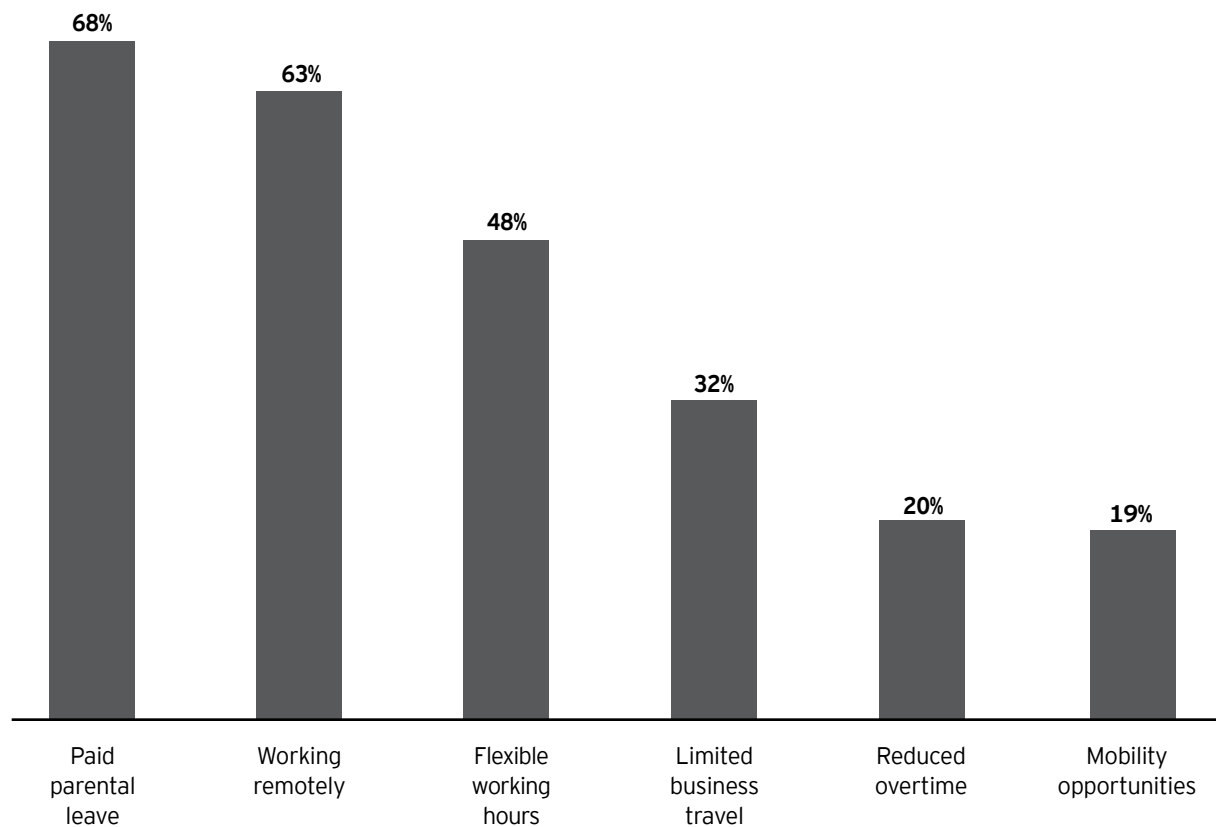


How do you plan to retain millennials?




# All employees want a better quality of life

What benefits are offered to your employees?



In addition to professional employee development, CFOs are seeing an increase in the benefits that resonate with employees. In the past, employee benefits were primarily focused on compensation, vacation, and various health and medical benefits. However, there has been a shift in the types of benefits that are valued more by employees; from those focused on financial results to benefits that have a positive impact on quality of life. CFOs are currently focused on implementing initiatives that assist the employee in maintaining a flexible and family-friendly work style with less structure. These benefits, however, come at an additional cost to the company.



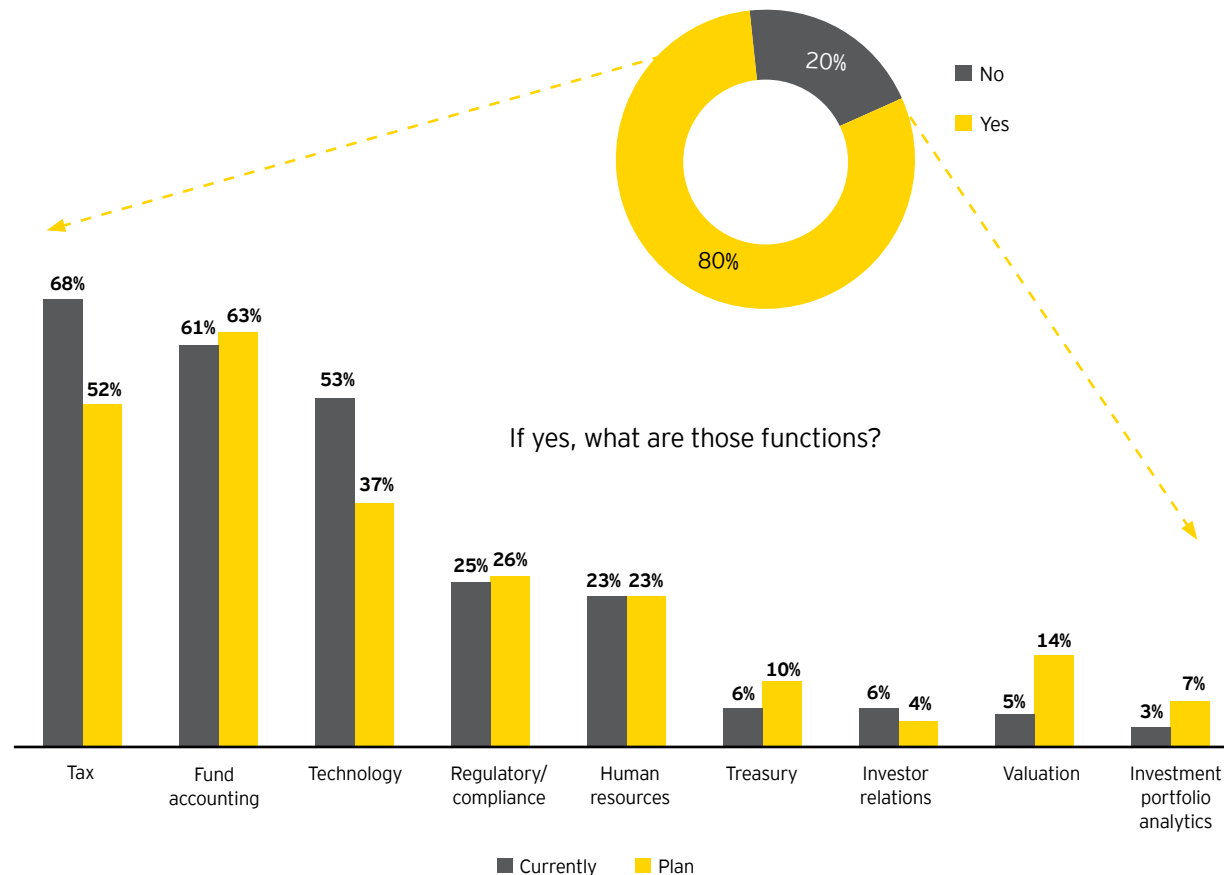
In a perfect world, outsourcing would provide all of the answers that fund managers are looking for by putting the burden of managing and retaining talent, managing the operations of the business and making scalable growth painless onto a third-party vendor. However, outsourcing capabilities for the private equity industry are not nearly as mature or plentiful as those currently available to mutual funds and hedge funds. An all-encompassing technology solution does not yet exist to deal with unique items such as valuation, portfolio analytics and the related investor requests. Outsourcing providers have to deal with many negative perceptions that are yet to be overcome. If a viable outsourced service provider existed it would assume many of the internal pressures currently being experienced by fund managers, enabling private equity firms to more fully concentrate on creating returns for investors.

# Outsourcing



# Functional view

Do you currently or plan to outsource functions to third parties?



The vast majority of firms currently outsource at least one function. Tactical functions such as fund accounting, tax and technology continue to be the tasks most outsourced, which is consistent with our survey results two years ago. Such tactical functions also continue to be top candidates for CFOs' next outsourcing projects. Strategic functions such as valuation, portfolio analytics and investor relations are still being completed in-house as firms don't consider third parties as being able to handle them properly. Results are consistent across each function compared to two years ago. At the same time, CFOs indicate they do not think outsourcing is a true option to successfully handle all the strategic functions that private equity firms need to maintain control of.

"I think that outsourcing certain functions is necessary because there's no way we can attract all the different skill sets that we would need to support our business."

CFO \$2.5b-\$5b

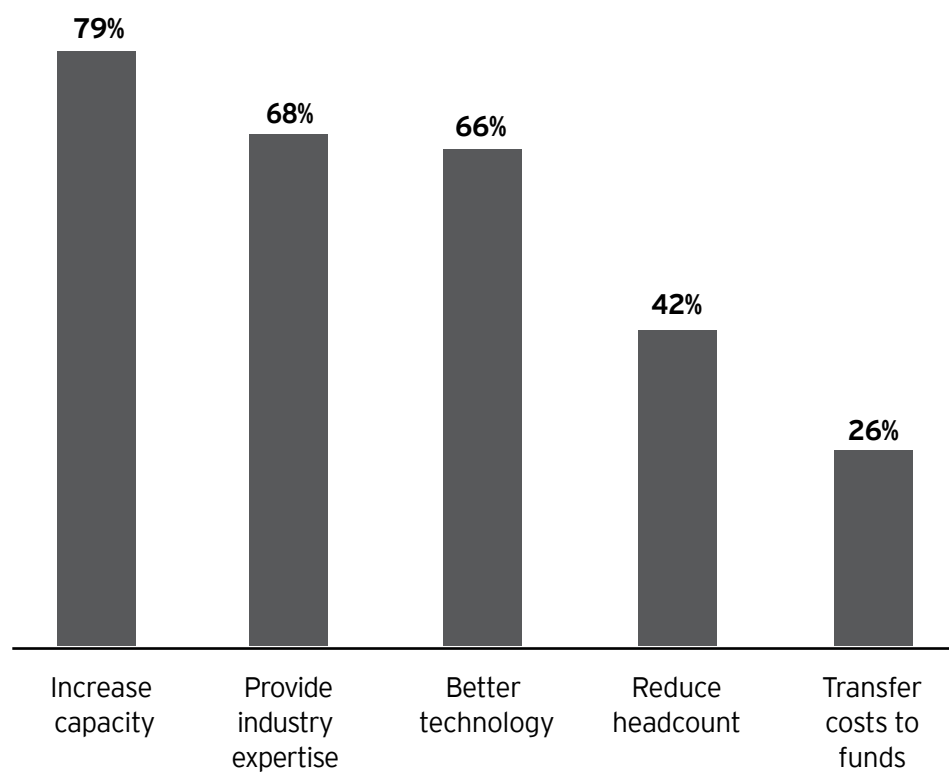
Many CFOs see the positive side of outsourcing certain tactical functions. Respondents indicated that using an outsourced provider would increase the ability of their firms to handle more work, have better technology capabilities and could provide industry leading practice. Interestingly enough, allocating cost to the funds didn't seem to be an overwhelming positive factor when deciding whether to use outsourced resources. CFOs would like to use vendors to provide tactical services such as tax, accounting and technology, believing that if they can leverage the capacity, industry expertise and capabilities of external parties it will allow them to shift time to value-added activities that will benefit all of their constituents.

"We get the best service from the vendors we spend the most time with and build solid relationships."

CFO \$5b-\$15b

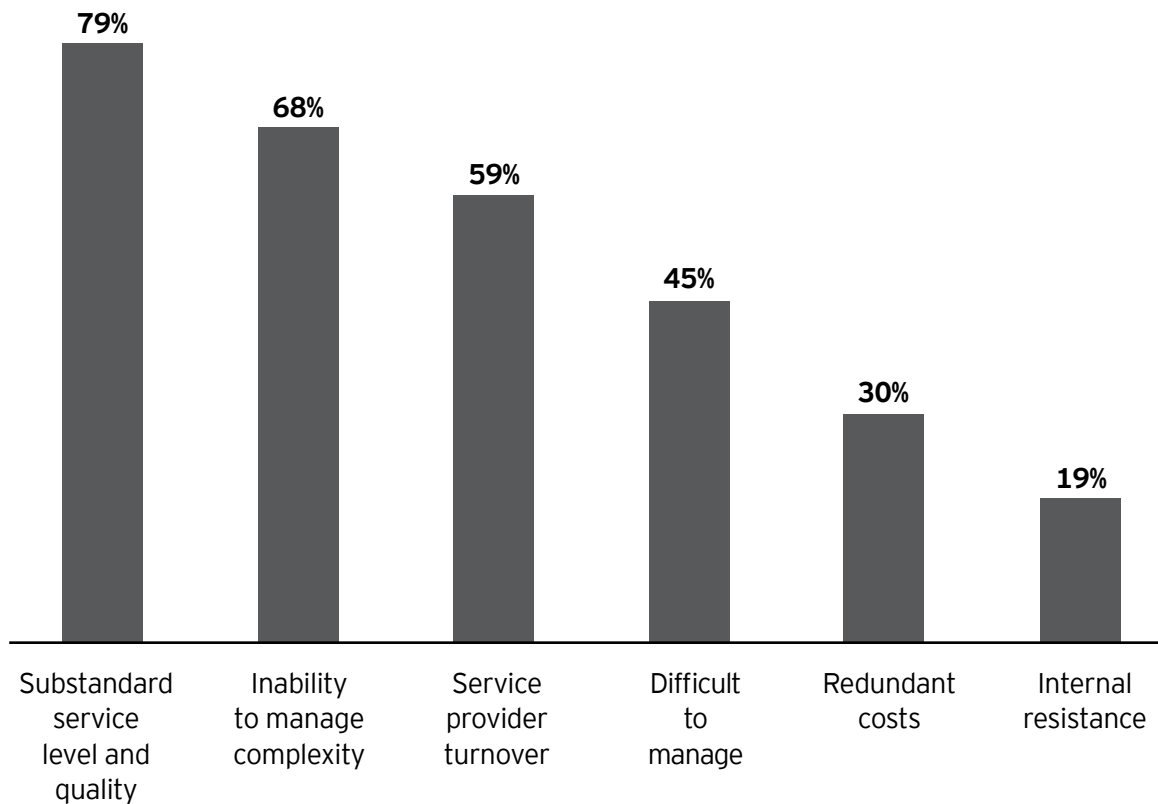
## Perceived benefits

What do you see as the benefits of outsourcing?



# Perceived challenges

What do you see as the constraints to outsourcing?



CFOs also are clear about the downside to outsourcing certain functions. Negative perceptions on outsourcing are related to substandard service quality, an inability to manage complexity and high employee turnover. Service providers need to find a way to turn around the negative perceptions and get CFOs to trust in them and believe that they can handle the needs of the private equity industry. Note that these challenges have successfully been overcome in the mutual fund and hedge fund industries. However, there is clearly still a hurdle to overcome in the private equity space for outsourced service providers to become a viable option for firms.

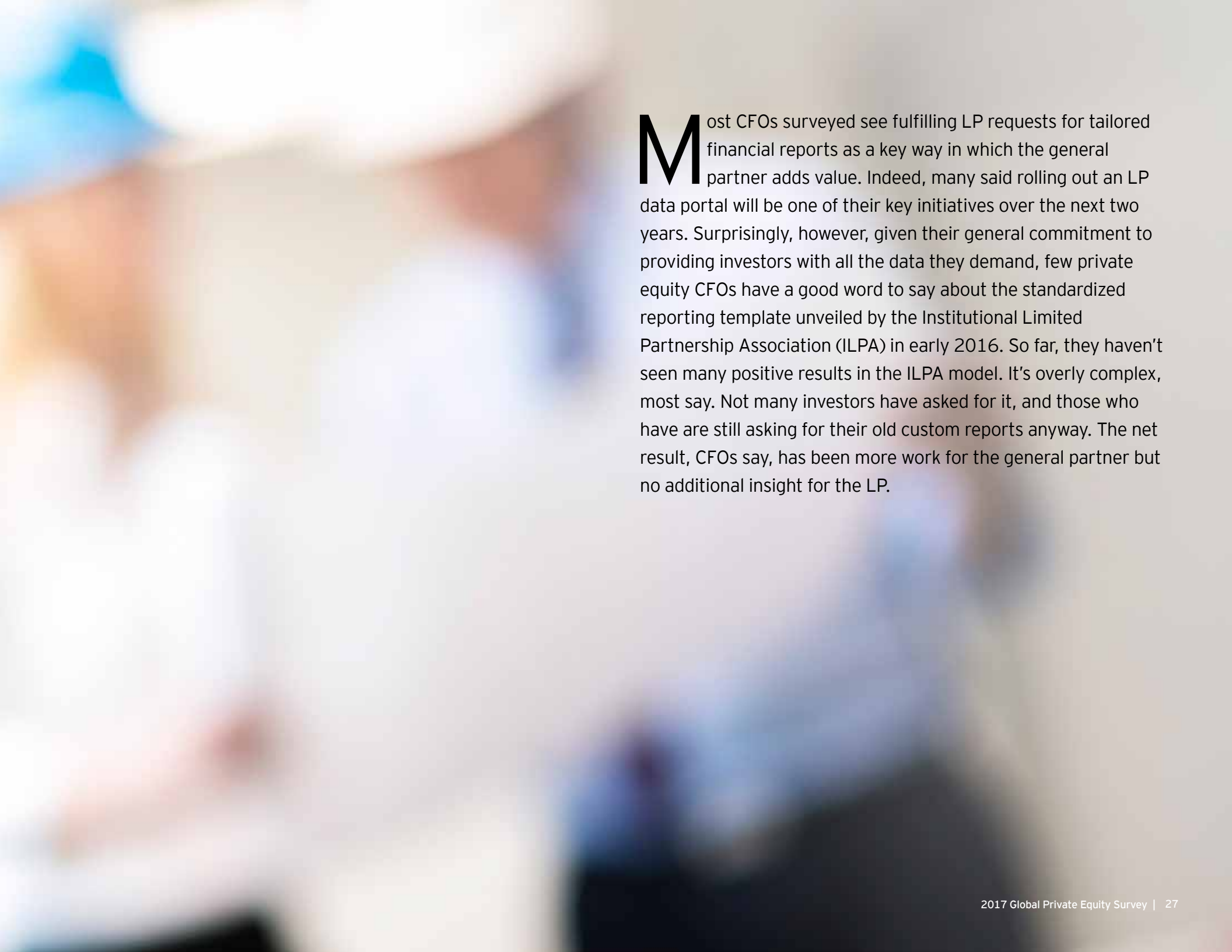
"I think the challenge with outsourcing is obvious; service employees aren't naturally going to be as good as your own employees."

CFO \$2.5b-\$5b

A close-up photograph of a person's hands holding a silver tablet. The person is wearing a blue and white vertically striped button-down shirt. The background is blurred, showing what appears to be a bright, indoor setting with other people in the distance.

# Investor communications





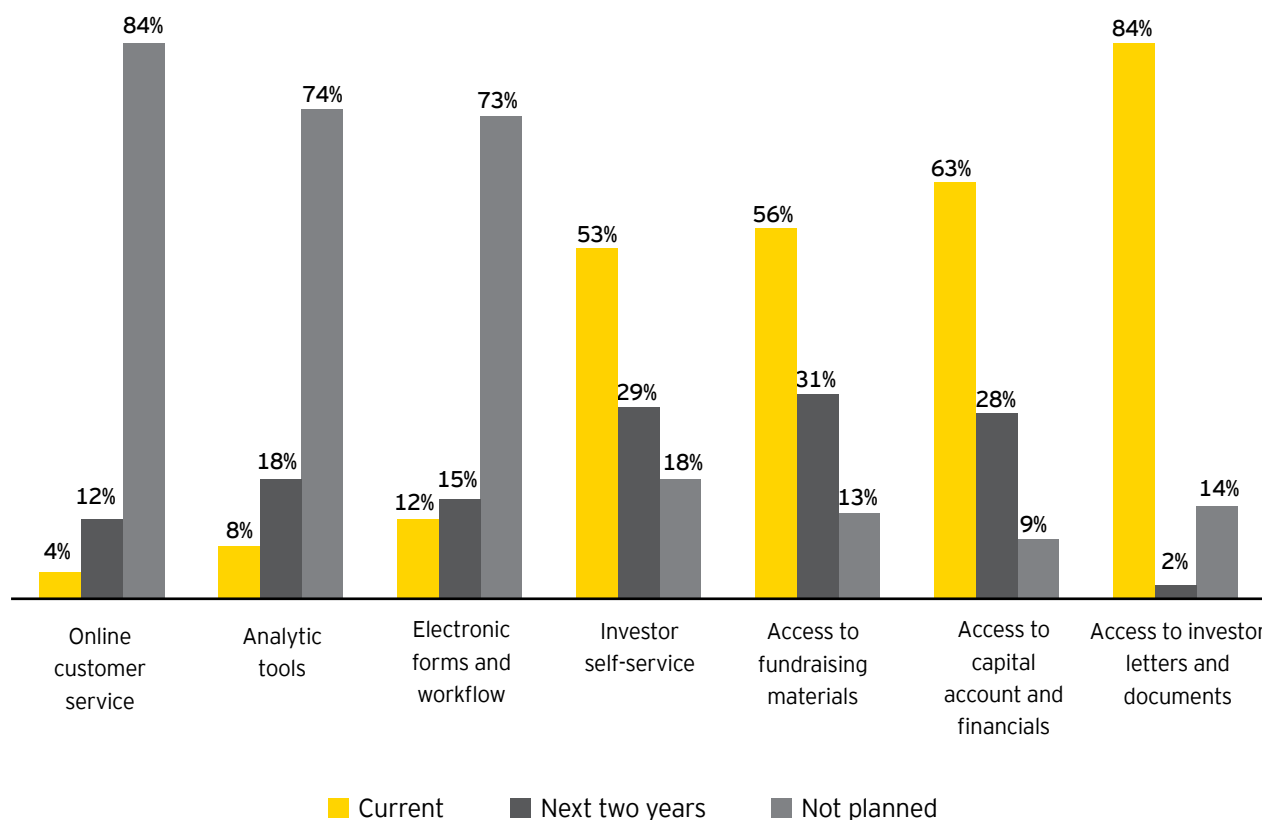
**M**ost CFOs surveyed see fulfilling LP requests for tailored financial reports as a key way in which the general partner adds value. Indeed, many said rolling out an LP data portal will be one of their key initiatives over the next two years. Surprisingly, however, given their general commitment to providing investors with all the data they demand, few private equity CFOs have a good word to say about the standardized reporting template unveiled by the Institutional Limited Partnership Association (ILPA) in early 2016. So far, they haven't seen many positive results in the ILPA model. It's overly complex, most say. Not many investors have asked for it, and those who have are still asking for their old custom reports anyway. The net result, CFOs say, has been more work for the general partner but no additional insight for the LP.

CFOs have spent the last two years focused on investor reporting. Three quarters of GPs provide investor documents and reports via portals. Most do not have plans beyond this. However, CFOs are motivated to automate routine process and improve operating efficiency. The regulatory environment is here to stay and investors have higher expectations. Is providing a more robust digital experience a missed opportunity for CFOs?

Digital process automation - mobile, self-service, analytics and workflow can provide efficiencies for GPs and LPs. Investors have built their operations around downloading PDFs and re-keying data. What if this went away? What if workflow could automate wire instructions or contact management? What if access to data and tools let LPs answer their own questions? Beyond solving the investor request challenge and automating the routine, digitized process opens up an additional world of automation to enable electronic ingestion of unstructured data from documents to streamline process and regulatory compliance. In the document-centric world of private equity operations this would provide an opportunity to reduce the workload and the cost of operations.

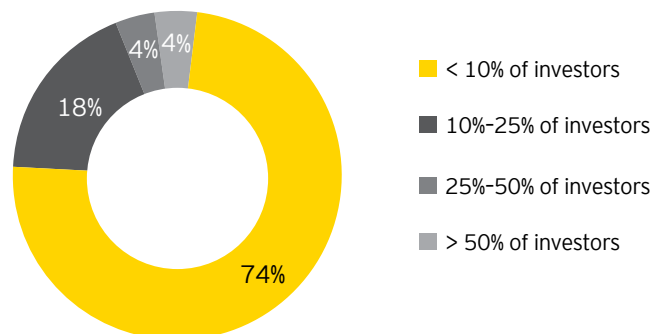
## Are investor portals being used to their potential

What are the current capabilities of your investor portals? If not a current capability, do you plan to implement over the next two years?

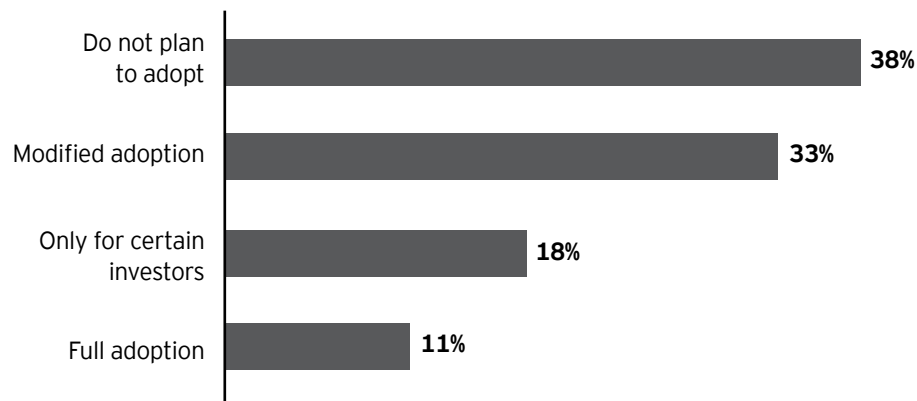


# The ILPA template

What percentage of investors are requesting adoption of the ILPA template?



Does your firm plan to adopt the ILPA template?



Private equity firms have been slow to adopt the new ILPA fees and expenses template. As you can see in the chart, LPs do not appear to be concerned about their GPs' slow adoption of the template. In recent years, the scrutiny on fees and expenses has pushed private equity firms to be more transparent to their LPs. We have seen the industry respond to the recent regulatory pressure by providing more transparency to LPs through enhancements to their own proprietary reporting systems as opposed to adopting the ILPA template. In addition, LPs tend to ask for personalized formatting and reporting, regardless of the standardized reporting provided by GPs.

"The bottom line is the ILPA template is just another template, it didn't actually eliminate any additional work."


CFO \$5b-\$15b





Protecting your business



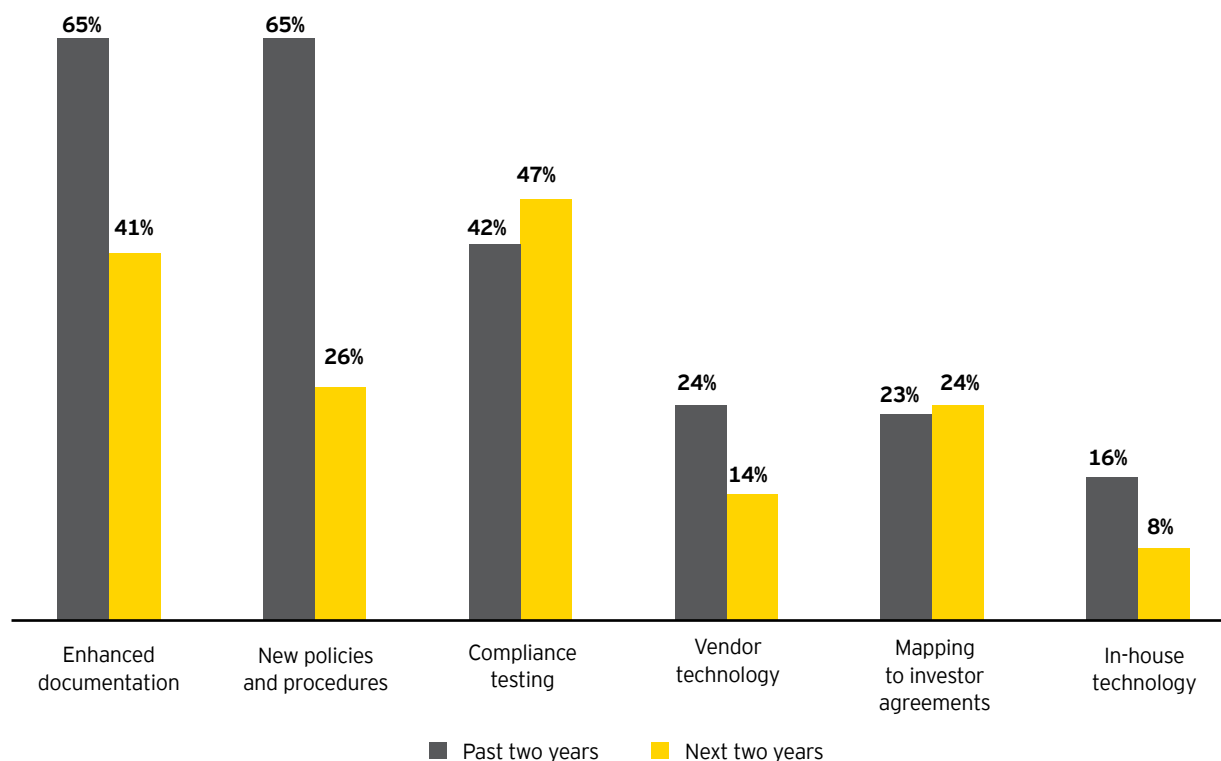


While larger firms have built out their compliance functions internally, many small firms still rely upon guidance from external advisors to address their regulatory and compliance requirements. CFOs argue that these advisors are better able to follow the latest wrinkles in regulators' reports than they can in-house and that relying on an external advisor frees internal resources in ways that add more strategic value and improve employee morale. According to the CFOs we surveyed, many smaller firms have not been visited by the SEC in the past two years. However, we believe that trend will reverse given the latest views from the SEC with regard to their investment management inspection program.

Expense allocations remain one of the top regulatory and compliance priorities for the industry. Due to continued regulatory pressure, many firms have begun to deploy numerous tactics to address the expense allocation conundrum. The primary focus has been to enhance documentation, and policies and procedures. However, it's important for the industry to continue to innovate and explore advanced technologies to prevent inequitable treatment and increase transparency to LPs.

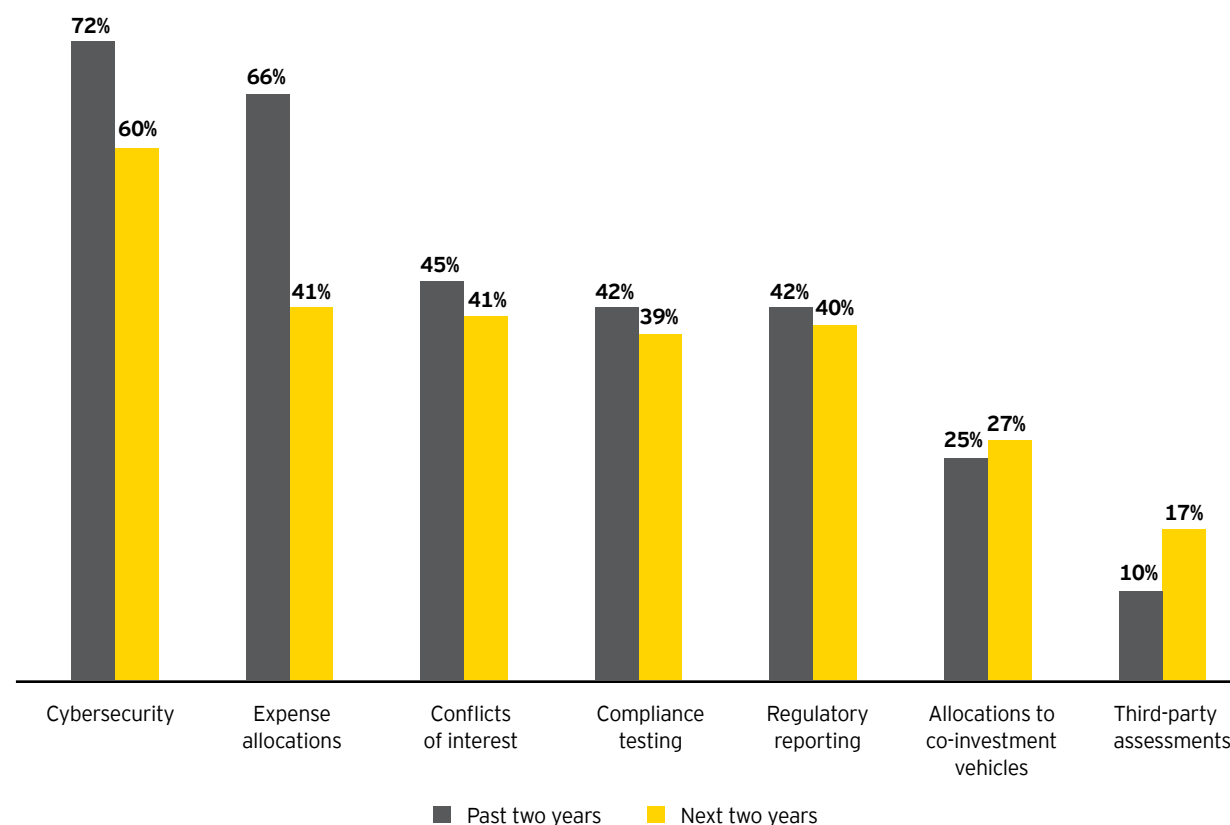
## Expense allocations move from implementation to compliance

What has been your focus regarding expense allocations during the past two years and what will it be over the next two years?



# Cybersecurity is now the number one regulatory priority

What has been your top regulatory priority during the past two years and what will it be over the next two years?



Cybersecurity and expense allocations are at the top of firms' regulatory and compliance agendas in the current environment. However, many firms project that focus on expense allocations will decrease over the next two years. Conflicts of interest, compliance testing and regulatory reporting were also cited as higher on the priority list with minimal projected change over the next two years. Although third party assessments were not particularly high priority in general, the firms surveyed noted an increase in focus over the next two years - likely as a result of their cybersecurity concerns.

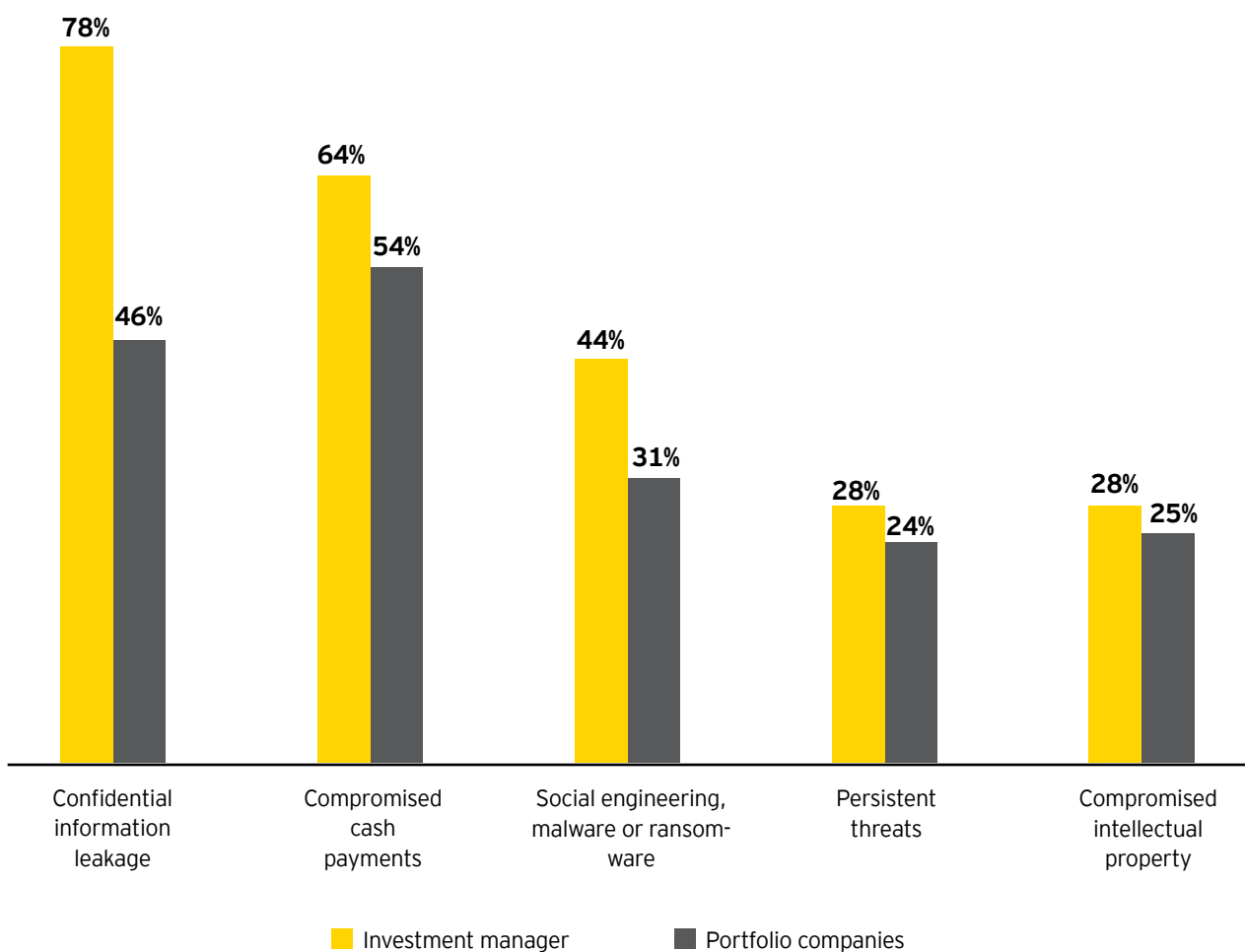
CFO concerns about cybersecurity are growing. Between a commitment to execute the steps to secure data outlined in the SEC's guidance on cybersecurity and their own growing anxiety that the finance function is particularly vulnerable to attack, private equity executives believe that cybersecurity is likely to remain of high concern for the next two years. Flash trades, malware, ransomware - the fears continue to multiply. However, their fears are varied and spread between the possibility of confidential information leakage, compromise of cash management and advanced persistent threats, such as malware. CFOs are seeing similar concerns both at the investment manager and among their portfolio companies. However, concern is lighter among firms who have already migrated their financial accounts to the cloud.

"Cybersecurity is not necessarily a worry but something that we continue to improve our systems around it."

CFO >\$25b

## The risks of a digital world

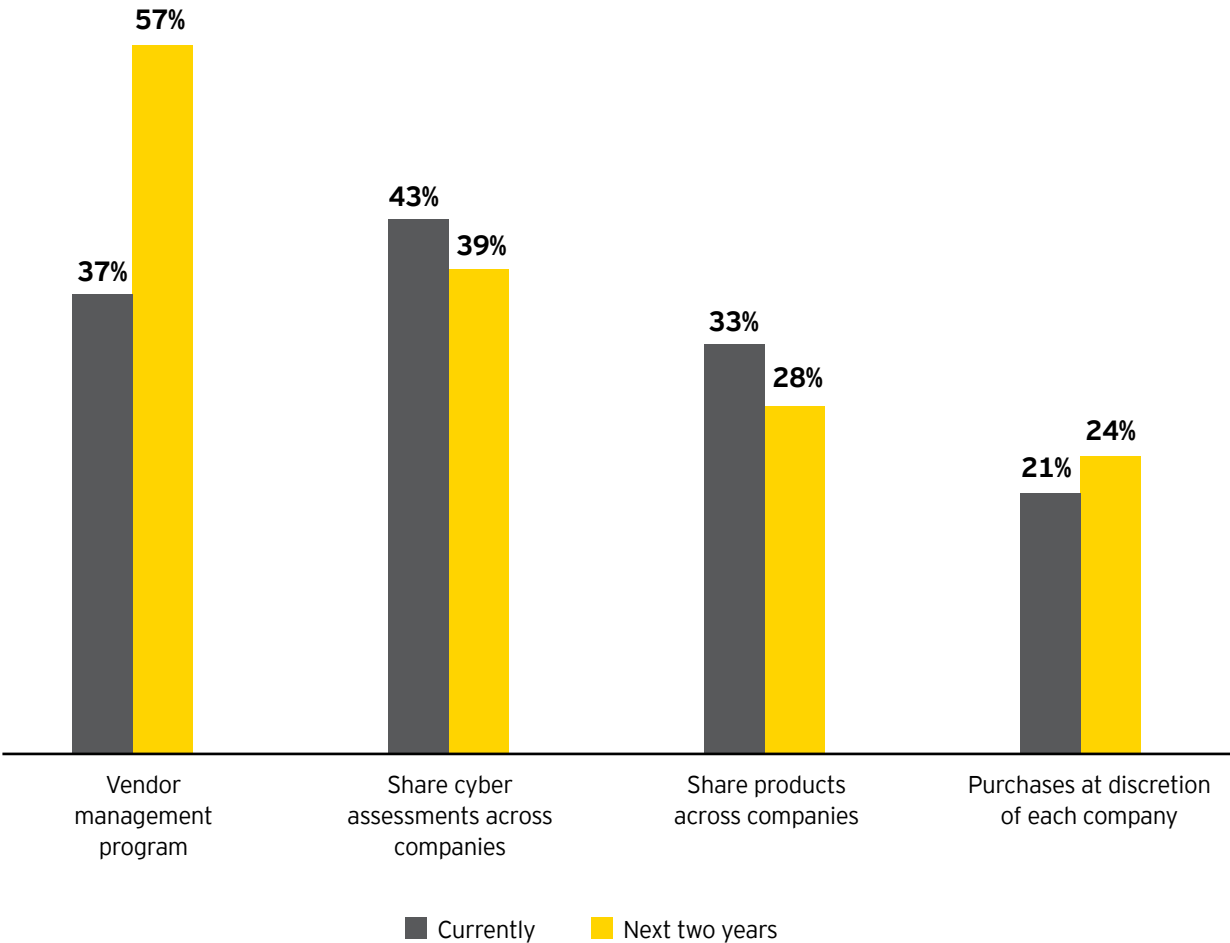
What are the most prevalent cybersecurity risks to the investment manager and to the portfolio companies?





# Managing cyber-threats

How are you currently approaching cybersecurity risks at your portfolio companies and how do you plan to approach them in the next two years?



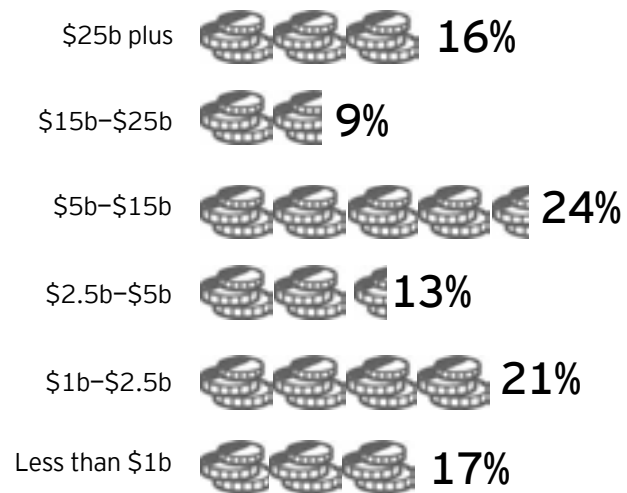
As they continue to battle the relentless cybersecurity threat to the financial and reputational stability of private equity firms and their portfolio companies, CFOs have begun or plan to begin coordinating with the portfolio companies to implement several mitigating measures. Based on the surveyed participants, the following are the most popular methods to address cybersecurity concerns: (a) sharing cyber-assessment work performed across portfolio companies; (b) adding a formal, integrated due diligence program; and (c) sharing purchasing or procurement of cybersecurity products or services. However, firms are attempting to address cybersecurity in a cost-efficient way across their portfolio companies to reduce unnecessary overhead and right-size their programs to meet the appropriate level of risk.



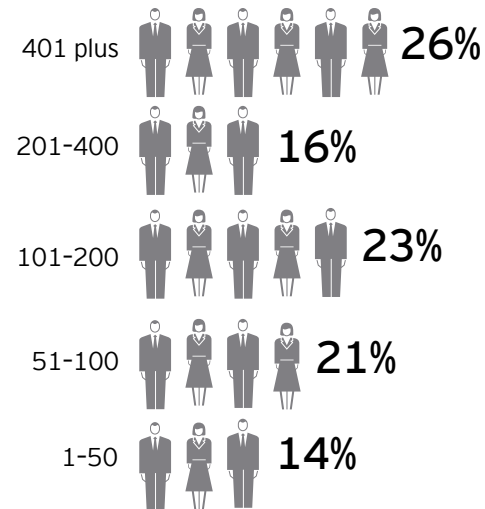
# Background and methodology

# Respondent profile

## What is your firm's total AUM?



## How many unique investors do you report to?

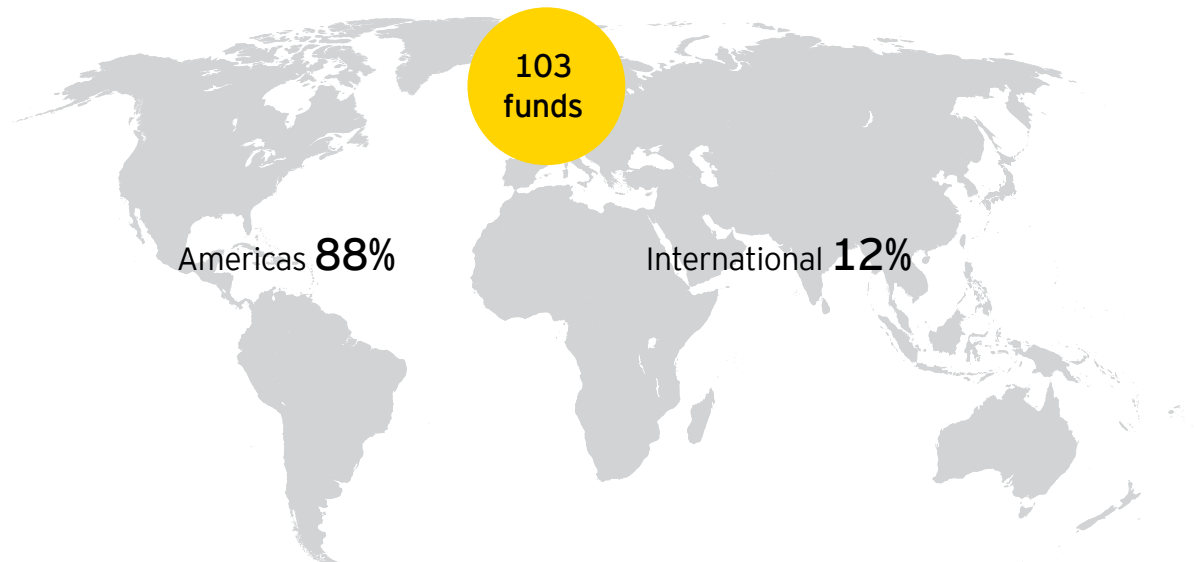


## Methodology

Private Equity International conducted the research, collecting information through the following:

- ▶ Telephone interviews with 31 private equity funds from August through December 2016
- ▶ An online survey to which 103 private equity funds responded from August through December 2016
- ▶ All amounts in the survey are USD unless otherwise stated

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








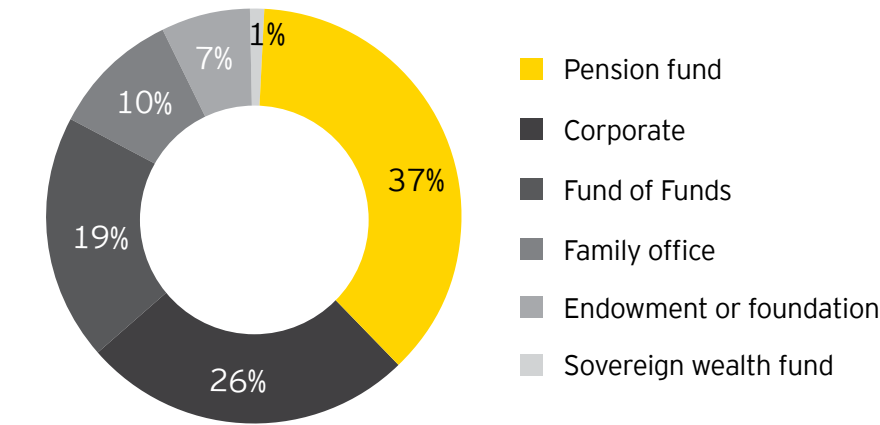
# Investor insights



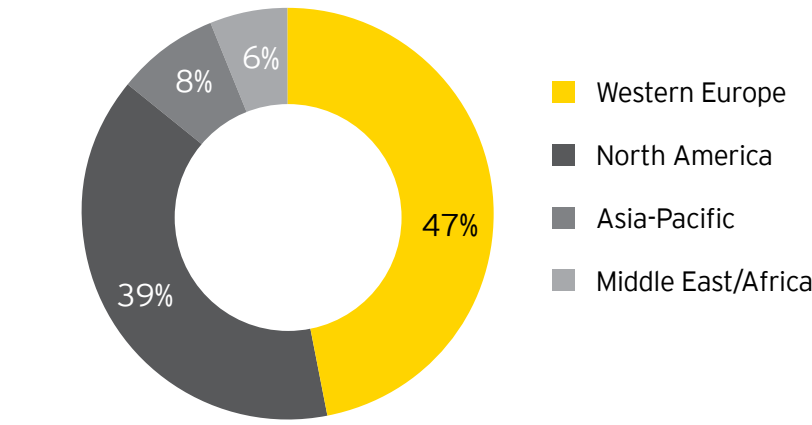


Private Equity International's fifth annual year-end poll of global investor sentiment finds LPs on understandably cautious footing. The global economic slowdown, persistent low interest rates and frothy market valuations have combined to create some jitters in the investor community. Investors are very focused on the economic terms of the Limited Partnership Agreement and securing a proper alignment of interest, particularly in the areas of fees and expenses. Many LPs still are hopeful there will someday be a standardized reporting template. The silver lining for fund managers is that the vast majority of investors are satisfied with the performance of their private equity portfolios and are planning to make new primary commitments over the next twelve months.

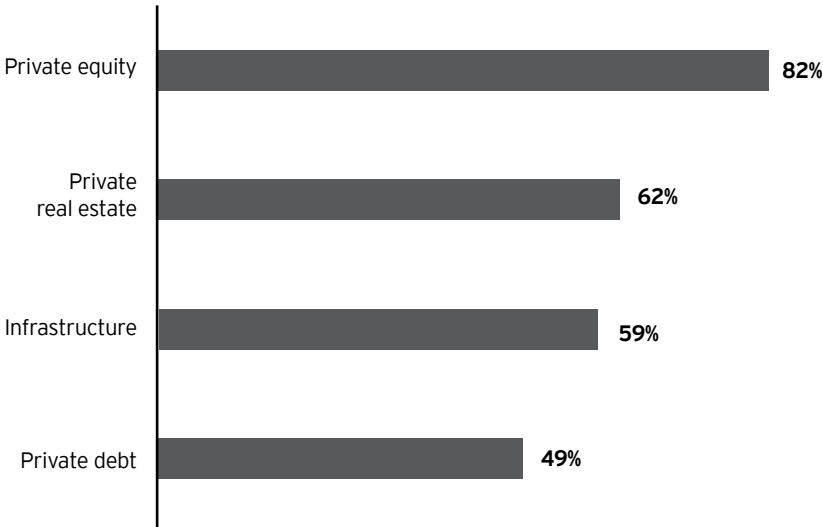
Investor respondent profile



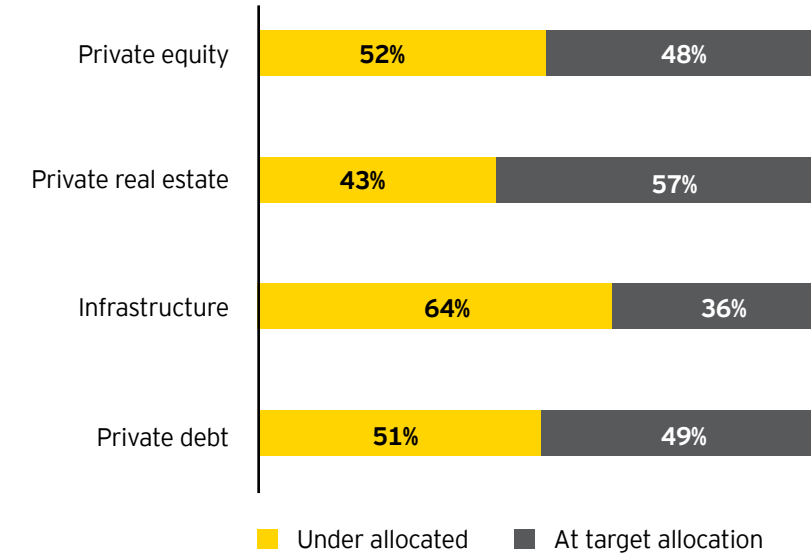
Investor respondent headquarters



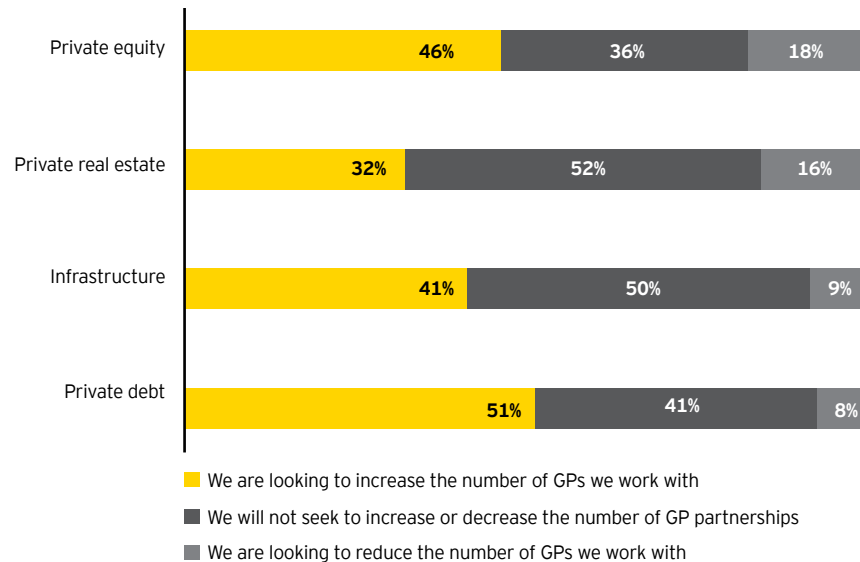
Where have you committed capital?



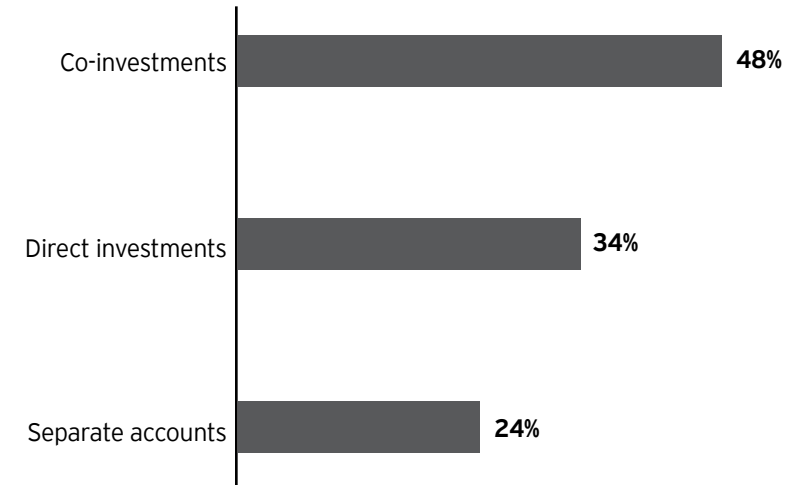
Current allocation position



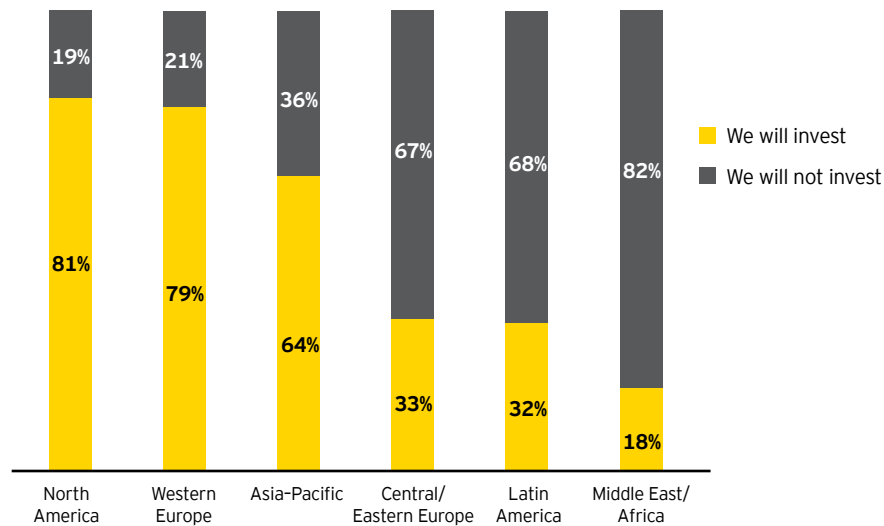
## How will the number of GP relationships change?



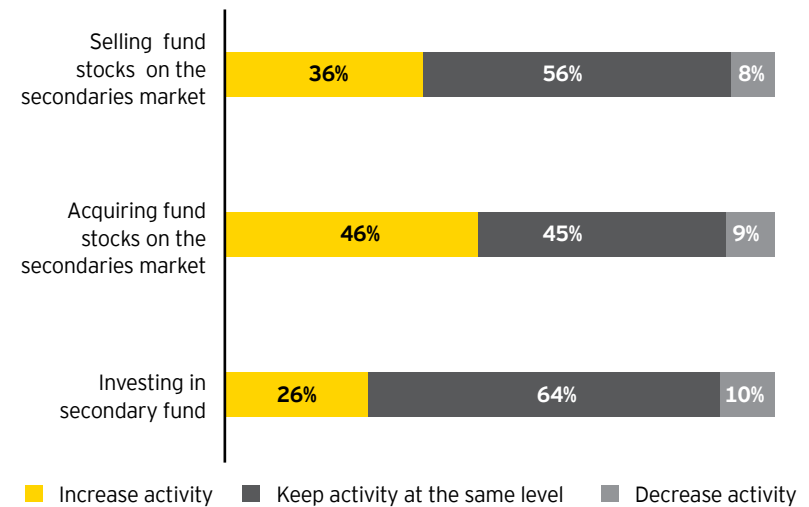
## Investment increase in the next 12 months



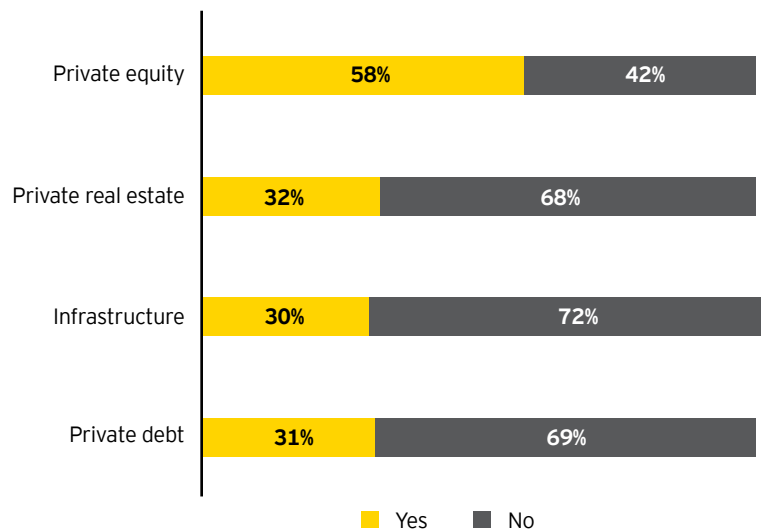
## Approach to regional markets



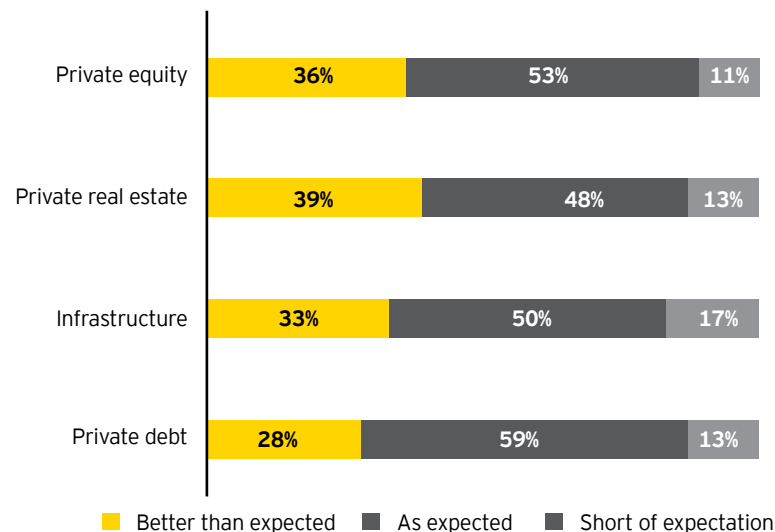
## If investing in secondaries, how will you access the market?



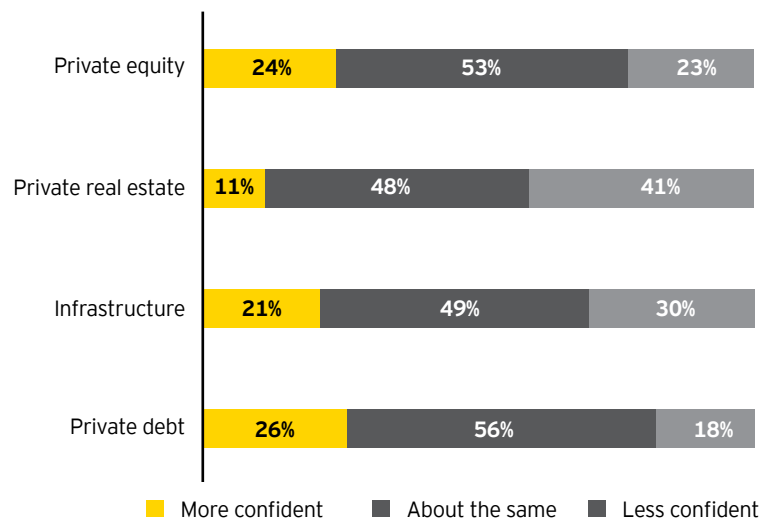
## Invest in first time funds?



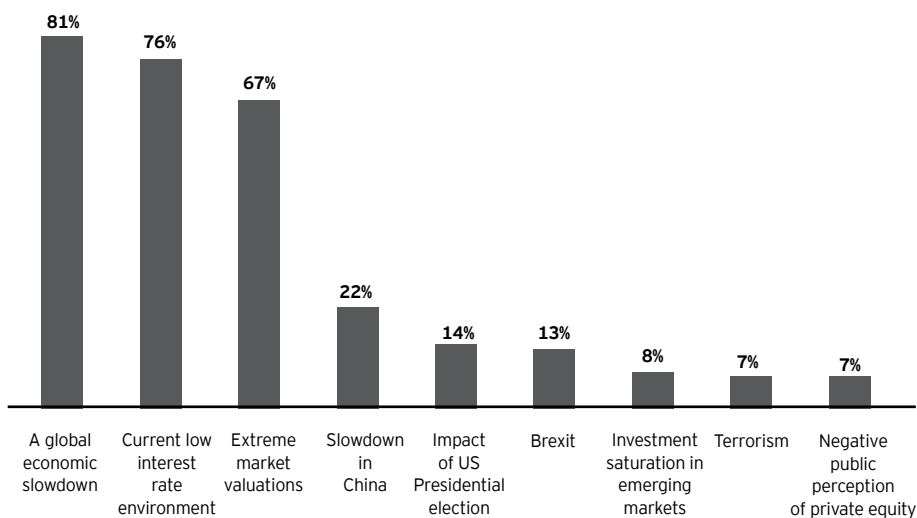
## Performance against benchmarks



## Confidence in performance next year compared to current year

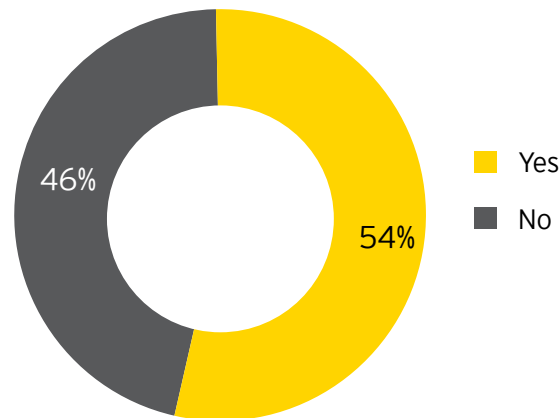


## Macroeconomic concerns

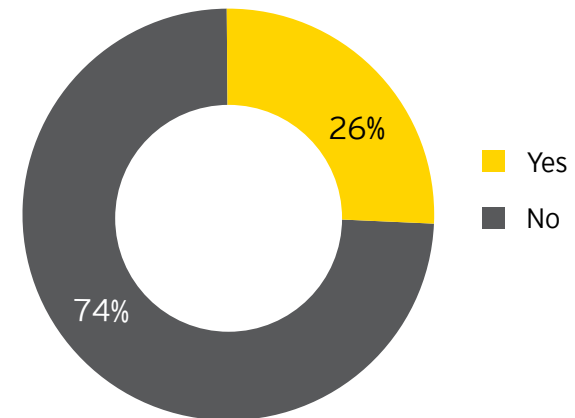




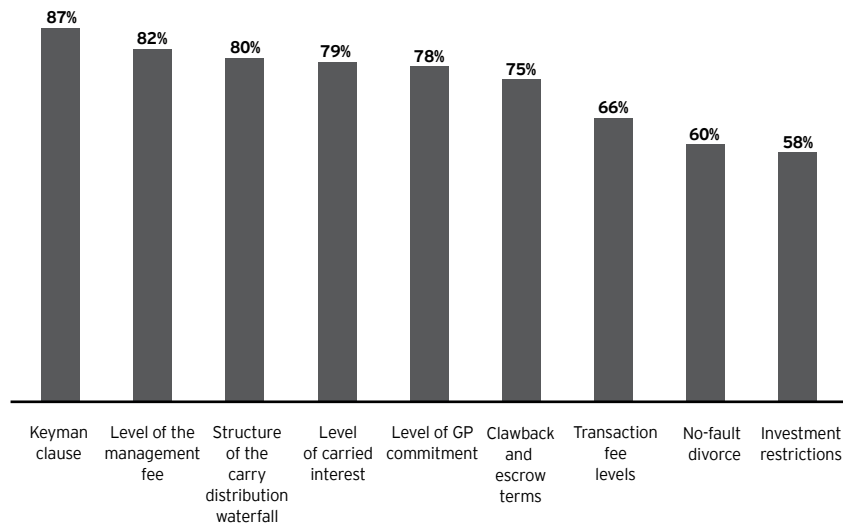
Want to see Limited Partnership Agreement (LPA) standardization?



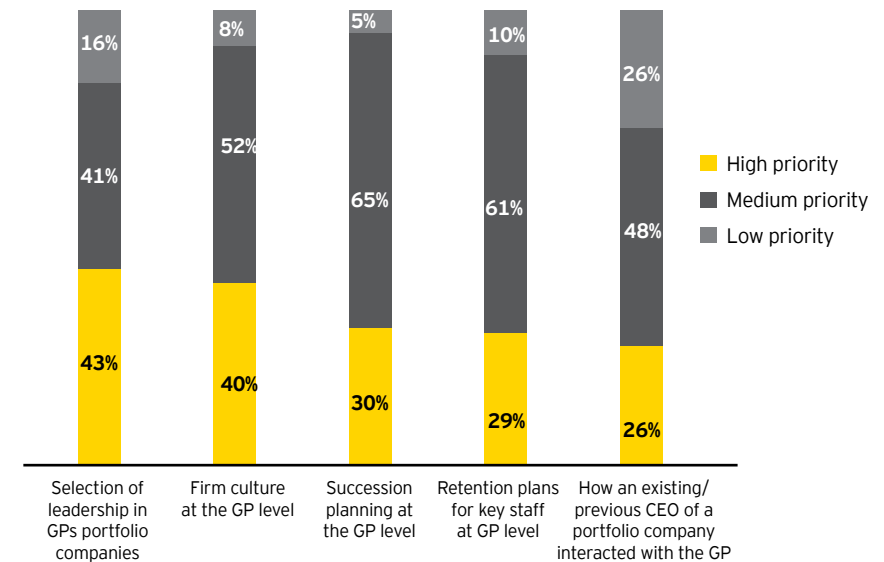
ILPA impacting negotiating LPA terms?



Terms considered mandatory in LPA



Extent of due diligence

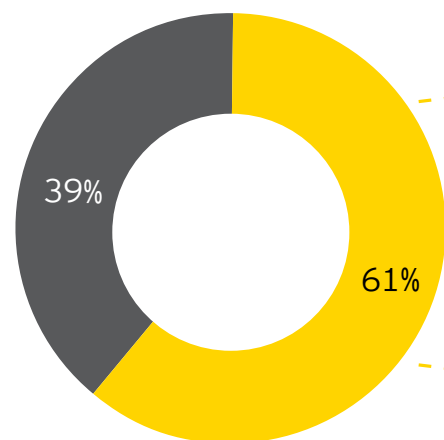




# Other market data

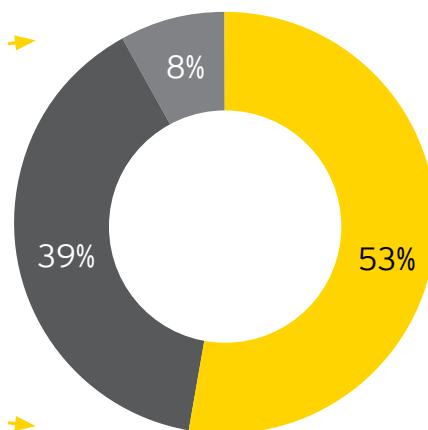
## Other market data

Raising a fund in 2017?



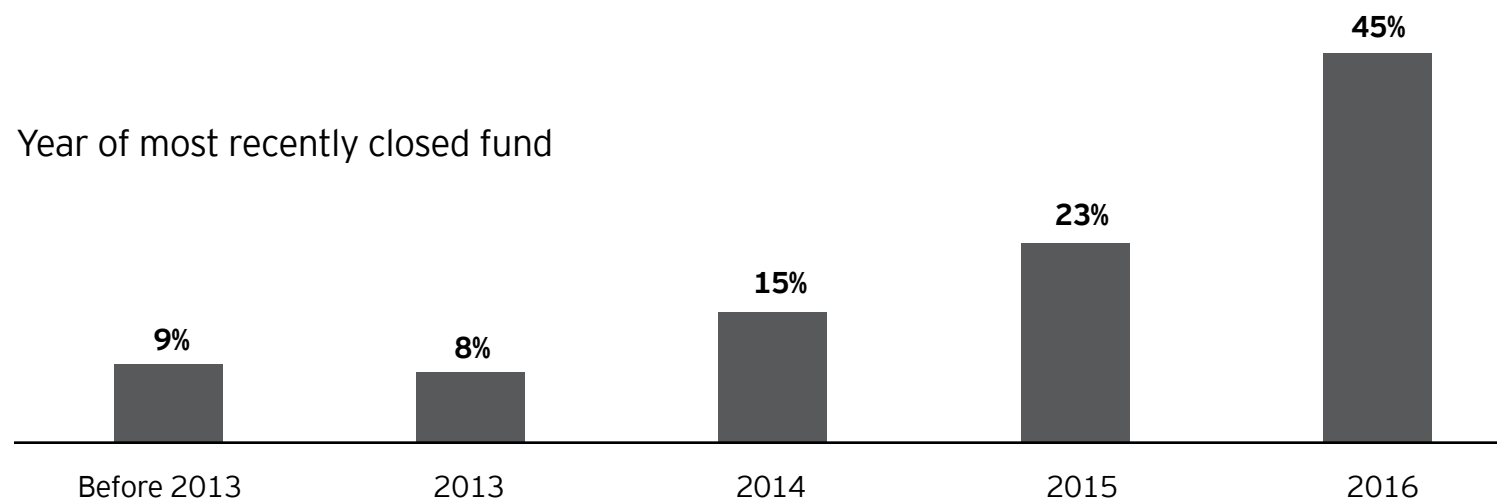
■ Yes ■ No

If yes, what size?



■ Larger ■ Equal ■ Smaller

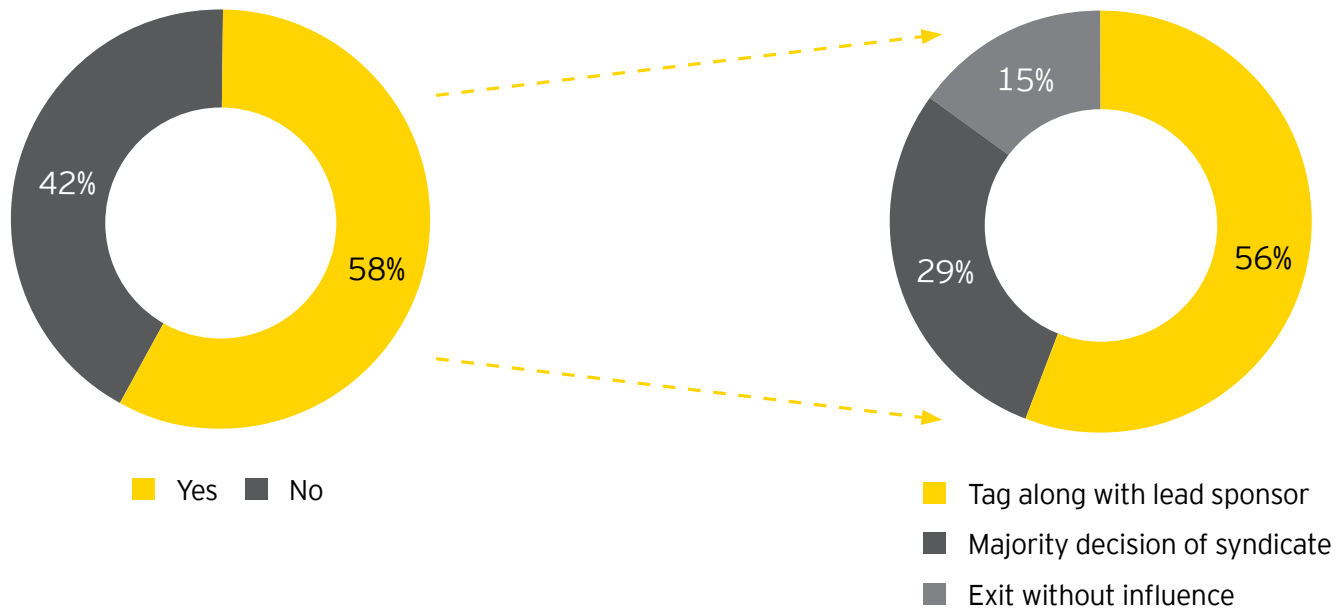
Year of most recently closed fund



# Other market data

Does your firm invest in non-controlling equity positions?

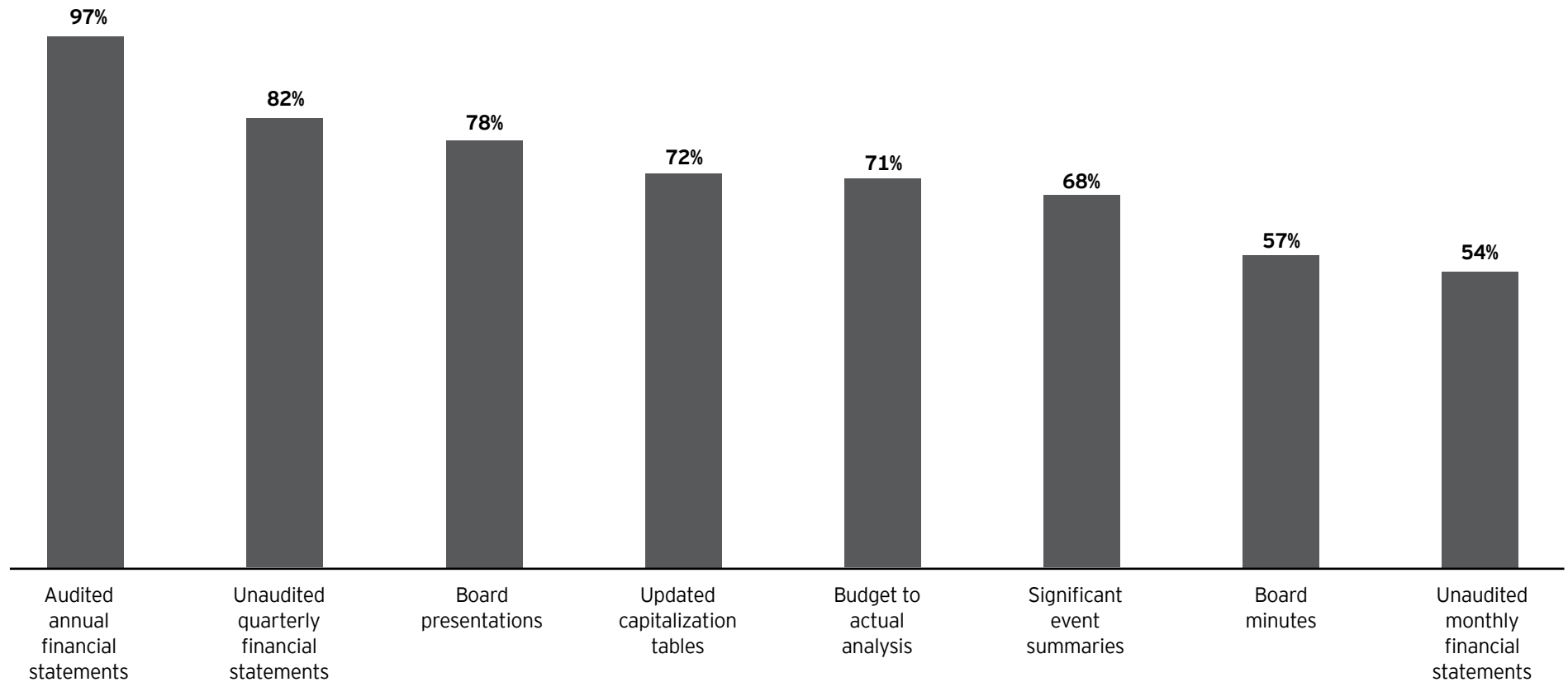
If yes, how do you typically exit those positions?





# Other market data

What information rights are received for non-controlling equity positions?





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## About Private Equity International

Private Equity International is the only global publication with a primary focus on the relationship between investors and fund managers in private equity: the LP-GP nexus.

Launched in December 2001, the title covers the people, the funds, the capital providers and the financial trends shaping the industry with an integrated team of specialist journalists and researchers in London, Hong Kong and New York City. 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, proprietary data, authoritative analysis and context around why this is happening, and where and how investors can find value in the asset class.

We cover investor allocation strategies into all segments of private equity, and we talk to the general partners, limited partners, advisors, lawyers, regulators and financiers who determine how capital flows into and out of the class. From this we create a carefully judged blend of digital news, commentary and analysis of all the key trends and events that shape private equity, as well as a proprietary database of funds, fund managers and their investors as yet another integral part of our digital offering.

Our monthly magazine is published 10 times a year along with a series of in-depth supplements, and examines the trends and themes that are defining the industry as a market, as an asset class and as a form of capital that matters globally.

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.

Our industry awards, determined annually by way of a unique reader poll, aim to recognize the contributions of key decision-makers to the development of the asset class. Private Equity International is the brand behind a list of specialist book titles, and host publication of a portfolio of industry conferences, including the CFOs and COOs Forum every January in New York.

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**Building a better  
working world**

We would like to extend our thanks to all those who helped make our fourth annual global industry survey possible. We are gratified by the overwhelming response from private equity funds, 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 managers 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.



**Alternative  
Insight**

Private Equity International, in partnership with EY, is delighted to produce the fourth annual edition of our global private equity industry survey. Over 100 private equity financial executives shared their view of the key challenges and aspirations they face, along with their strategies for bridging the gap between the two. This year's survey offers a detailed snapshot of an industry in transition. They talked about a broad range of pressures, including demands by investors and regulators for more transparency, pressure to leverage more digital technology, and a need to manage staff better, particularly for millennials. As the squeeze on management fees and yields continues, exceptional management of the finance and operations function of the firm is becoming not just essential for its long-term survival but a source of competitive advantage. We believe the survey demonstrates once again the extent of the value CFOs bring to private equity. Whether you are a private equity CFO or perform another role in the industry, we hope that this survey will help you meet your own challenges.

