

# 5 of the Private Equity CFO's pain points and how to ease them

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- **How to ensure any time savings you make are long-lasting in a smaller fund**
  - **Why you need to weigh up scale vs independence when targeting investors**
  - **How to best leverage processes and keep up with technology evolutions**
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*The UK funds industry has had a fairly torrid time over the past couple of years. Two members of our UK Private Equity leadership team, [Simon Bliss](#) and [Jim Whittingham](#), have weathered it all before. Simon, having made the unusual step of moving from CFO/COO roles at UK private equity firms into fund administration, and Jim, who has extensive experience in the industry having worked at Aztec for 17 years. Here, Jim discusses with Simon some of the pain points a CFO should navigate when deciding how to best manage a fund in an increasingly complicated industry.*

The lack of cashflow in private markets, aligned with realisation and valuation pressure has resulted in institutional investors not having the balance sheet strength to increase their commitments to alternative investments. And this has resulted in the slowing of new entrants into the market, as well as prolonging the raising of new funds for well-established managers.

We've experienced this before after the global financial crisis where managers could use this time to consider their own internal finance functions - both when sourced internally, and when using a third-party administrator. So, what are the

considerations for a CFO weighing up their options today?

### **1. Freeing up time for the value-add**

With a more sluggish market, CFOs can take some time away from the continual cycle of launch, invest and divest, to optimise their operating model. Regardless of which operating model is in place to run their funds, it needs to function to deliver lasting time savings. To do this, mechanisms, processes and procedures need to remove a reliance on manual work.

As a CFO at a start-up fund manager, you are typically wearing a multitude of hats over the course of a day, from IT lead to HR, risk and compliance, investor relations and fundraising, as well as the day-to-day finance and administration functions. So, the creation of processes to streamline the administrative pressures of running a fund frees up time for the CFO to focus on the value-add elements of these tasks, and to build a more sustainable model for future fundraisings.

### **2. Independence and scale**

The focus of the CFO as part of the investor relations function is more complicated than it was in the past. There's a dilemma for fund managers who want to gain credibility to scale. To do that they may need more institutional investors, however, to make these bigger wins a fund manager must demonstrate a certain level of process and control.

When you're potentially a team of one, being able to 'audit' a span of control that encompasses segregation of duties and maker-checker policies is extremely hard. It is important then to weigh up the pros of closing with institutional investment alongside the administration burden of their ongoing needs.

### **3. Insight among industry peers**

As funds attract more institutional investors, the requirements of meeting their deliverables increases. Before Simon left PE to join Aztec he experienced some change in the approach to side letter provisions, specific investor reporting and gritty tax requirements, and even some examples where potential investors' own notice/capital call lay-out had to be re-provisioned in their own format or provided in mapped Excel spreadsheets.

Running the back office of a smaller PE firm, Simon was sometimes at a disadvantage as he couldn't immediately garner information on similar situations

other managers had found themselves in. Whether they'd successfully negotiated a compromise, or, even better, built a data set that met the needs of the whole investor base, rather than having to deliver multiple schedules covering the fund's quarterly reporting. Though Simon has a network within the industry, it was not always helpful, for example, the timing of a fundraising round might be different, so it was difficult to draw from the immediate experience of other managers in a fast-moving investor-led market.

Alongside this was the ever-increasing demands of regulatory reporting - the advent of [AIFM](#), Solvency II, FATCA and CRS alongside any in-house reporting to the Financial Conduct Authority (FCA) which sometimes felt cumbersome to negotiate, even more so when it was Simon's investors meeting their regulatory needs, not just his own FCA reporting as the fund's General Partner. This is where access to an outsource partner can be useful as they are able to offer advice based on a broad range of experience with other managers and so deliver best practice solutions to all their clients.

#### **4. Flexibility and risk management**

For newer managers, the variable nature and volume of day-to-day workstreams can sometimes feel overwhelming. Within small PE firms, the CFO is a central figure in many different operational streams. Not only should the CFO be able to support the overall business strategy and the success criteria for the manager's investment remit, but there is a multitude of other matters to think through, be it office management, HR, legal, compliance, alongside the day-to-day finance and accounting. Being so thinly spread inevitably creates risk and this is when a manager might consider whether to invest in an internal team or consider whether to invest in [professional services](#) companies to enable the firm to be more flexible and manage risk.

#### **5. Adapting and implementing technology**

The smooth-running of a fund is dependent on the infrastructure and processes behind it. For smaller managers this can mean internal investment in people and processes or joining forces with a partner who already has these specialised teams and automated systems in place. Many providers offer a single-partner solution, taking on the back office of a fund to allow managers to concentrate on strategies and returns. This outsourcing can be done in phases and in a multiple fundraising environment the scale of the investment is warranted.

Building a [technology suite](#) that covers internal control, outward-facing investor communications, and reporting excellence therefore means investment in multiple systems, and having them speak to each other wherever possible. For any CFO this is a daunting prospect to try and control alone, especially when technology capabilities evolve, and investors' needs become more diverse and in-depth.

## **Conclusion**

For a CFO who wants to optimise their operating model to be best placed to scale, turning their focus away from detail and towards value is key. To do this though, requires an understanding of the fund's ambitions, and how to best manage the human resources and technology needs to deliver on these strategies.

At the forefront of that decision should be finding a partner - not a provider -that understands your pain points and can build a tailored solution for your needs. Your partner is going to need to grow with you, pivot should other jurisdictions come into scope, and be continuous and reliable in team structure, gaining trust along the way for a long-standing and fruitful relationship. Please contact James and Simon directly to discuss your needs.