ROUNDTABLE

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The strategic CFO

Today's private markets CFO sits at the epicenter of their business, driving strategic direction while ensuring that scalable infrastructure is in place to deliver sustainable growth, writes Amy Carroll

The fundraising environment has been undeniably brutal over the past few years, with the time taken to reach final close stretching to record highs and placing an additional burden on back-office functions. A lack of distributions amid a protracted M&A slump has been the primary culprit.

Beyond the immediacies of liquidity constraints, however, many CFOs now accept a perpetual fundraising model, given the multi-jurisdiction and multi-strategy nature of their operations.

"Although it won't happen overnight, with interest rates coming down, we expect M&A to increase, alleviating some of the longer timelines we have seen in the market," says Annie Kyprianou, partner and CFO at L Catterton. "More generally though, it has become the norm for many firms to be consistently fundraising, given the number of different funds and strategies that they manage."

The situation has been further exacerbated by the acceleration of private markets democratization. "We are seeing a shift towards more evergreen structures, rather than the traditional drawdown model, which inevitably means fundraising is going to be an ongoing process," says Barry Giarraputo, CFO at NB Alternatives.

Private markets firms are taking an array of different approaches to tapping into this private wealth opportunity. L Catterton, for example, has accessed high-net-worth capital through wire houses, according to Kyprianou. Her experience has been that the more time spent with the wire house sales team, explaining strategy, investment capabilities and case studies, the more successful the fundraise will be.

Kohlberg & Company, meanwhile, created a feeder fund for high-net-worth individuals in its latest fund. "Kohlberg raised a meaningful amount of commitments from high-net-worth individuals in the retail channel, which adds another level of structural complexity and administration for the finance teams to have to deal with," says the firm's CFO Joseph-Pierre Regent.

"It starts with the subscription process from day one, which requires us to spend adequate time designing enough automation upfront in order to be able to process the additional volume of subscription inherent to the retail channel."

Jason Donner, CFO at Veritas Capital, agrees. "Exploiting the wealth channels for new sources of capital is a priority for most private equity sponsors. But these relationships come with their own set of operational requirements and challenges and some upfront planning and structuring is critical."

Many firms are ramping up their investor relations teams in response. Regent says Kohlberg has doubled the size of its IR team between its last two fundraisings and expects to continue to invest more in that area, as well.

"Most organizations are evaluating their internal capital formation capabilities. Investment management is a relation-based business, and these relationships develop over numerous fund lifecycles, especially in Asia and Latin America," says Donner. "Sponsors

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Joseph-Pierre Regent

CFO, Kohlberg & Company

Joseph-Pierre Regent joined Kohlberg in 2014 and was made CFO in 2021. He was previously audit senior manager in the asset management practice of PwC's New York office.

Barry Giarraputo

Managing director and CFO, NB Alternatives

Barry Giarraputo joined Neuberger Berman in 2022. He is a managing director and CFO of NB Alternatives with over 39 years of experience in the investment management space. Prior to joining the firm, Giarraputo was the CFO of Antares Capital. He has also been the CFO/CAO at Apollo Global Management and Bear Stearns.

Peter Mahoney

Managing director and head of fund accounting, HarbourVest Partners

Peter Mahoney is responsible for HarbourVest Partners' fund and investment accounting operations, in addition to leading the firm's valuation and audit committees. Mahoney joined HarbourVest from Vanguard, where he held a number of accounting roles over the last 25 years.

From left: Joseph-Pierre Regent, Annie Kyprianou, Barry Giarraputo, Jason Donner, Peter Mahoney, William Andreoni

Annie Kyprianou

Partner and CFO, L Catterton

Prior to joining L Catterton, Annie Kyprianou was the corporate controller at Apollo Global Management. She also served in a variety of leadership roles at JPMorgan and worked in M&A consulting and capital markets audit groups at PwC.

Jason Donner

CFO, Veritas Capital

Jason Donner joined Veritas Capital as CFO in 2006 and has broad oversight of all financial management functions of the firm and its private equity and credit investment platforms. Prior to joining Veritas, Donner co-managed the institutional private equity sponsor group of a major fund administrator and worked at Swiss Re Group and Goldstein Golub & Kessler.

William Andreoni

National Fund Services+ co-leader, RSM US

William Andreoni serves as the national co-leader of RSM Fund Services+ and the leader of the national asset management consulting practice at RSM US. Prior to joining RSM in 2020, he previously worked at a Big Four firm and held various leadership positions at a top 10 global fund administrator and a large global asset management firm.

must be able to service investors during the pre-commitment phase and then throughout the lifecycle of a fund."

The need for additional resource is further multiplied, meanwhile, if the manager is expanding into new strategies. "We have launched a private credit platform and that has meant building new infrastructure and adding new systems and processes," says Kyprianou. "We have already added a few people but as credit tends to ramp up quickly, we expect to need further support in the near future."

These strategic expansions are inevitably driving demand for outsourced solutions as well. "Outsourcing new investment strategies allows the fund sponsor to benefit from economies of scale developed by a third-party adviser, especially when a new business is scaling," adds Donner. "For instance, a private equity sponsor raising an affiliated credit strategy will be surprised to learn a significant investment in people and technology is required at launch."

William Andreoni, national fund services co-leader for RSM US and national asset management consulting leader, recognizes these common challenges. "Without question, private credit requires a different set of competencies and experience. We often see firms looking to outsource having some challenges as they first tried to simply repurpose their private equity team into a credit team," he says. "It isn't just about the technical expertise, there is also a different mentality, given the very different timelines and reporting requirements involved."

Scalable operating models

The impetus behind launching new strategies and tapping into new sources of investor capital is, of course, the desire to scale. Scale, however, brings with it operational challenges.

"Our firm will continue to grow, but my finance team is not going to grow at the same rate," says Regent. "That means we have to learn to be more efficient and to automate as much as possible."

Indeed, building sustainable operating models that are fit for the future has become one of the principal areas of focus for CFOs. "We are having lots of conversations with firms that have been successful growing AUM from zero to $1-$2 billion, but they now find themselves at an inflection point where their current infrastructure is not indicative of what is needed to allow them to scale to $5, $10 or $20 billion-plus AUM," says Andreoni.

"They are therefore drawing a line in the sand and starting afresh in their thinking about their future state targeting operating model. That doesn't just mean throwing more bodies at it. It means having thoughtful conversations around all the different options available."

Those options include continued insourcing, outsourcing insourcing and more, but also a hybrid model whereby people are outsourced but the technology and data remain in-house – which, Andreoni explains, is known as co-sourcing.

This is the model that Kohlberg has adopted. "We are insourcing the technology side so that we can retain

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HarbourVest Partners

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>
> **WILLIAM ANDREONI**
> **RSM US**

control of the data," says Regent. "The books and records are back in-house, with our fund administrator managing the process through a co-sourcing model. This also means that if they don't make the cut, we will be able to switch providers more easily."

This is an important point, according to Andreoni. "Historically, many service providers have been so deeply entwined in their clients' operations that it made any type of change extremely disruptive," he says. "Co-sourcing can help create a higher accountability model for service providers while also giving the private capital firms the options to switch providers with less disruption, as they have maintained control of their data and technology."

Peter Mahoney, who joined HarbourVest Partners as managing director and head of investment accounting from Vanguard in 2023, says this is a striking difference he has noticed between private markets and the public funds space. "In my previous position I could move funds to different providers relatively easily," he explains. "It is much harder to move existing funds in private markets, which is where the need for different levers such as a co-sourcing model comes in."

L Catterton has also chosen to go down the co-sourcing route. "We own the software and the data is ours," says Kyprianou. "The fund administrator uses our systems, but we have full control and can make entries if we need to. That can be particularly helpful if there is an urgent matter. Ultimately, it means we are in control of our own destiny."

Another potential model that some CFOs are exploring involves lift-outs, whereby the private capital firms' internal team is lifted out and those individuals become employees of the external service provider.

"Again, that means you are maintaining control of the data and technology, and you can benefit from institutional people knowledge on day one, minimizing the learning curve," says Andreoni. "In some cases, it can also create opportunities to treat the expense as a fund expense where historically it may have been a management company expense."

The war for talent

Decisions around future operating models have been further complicated by a challenging talent market in recent years. "Appetite for alternatives continues to increase across the industry, which means we all need more internal support as we grow in size," says Giarraputo. "That has intensified demand for talent, forcing firms to think carefully about their recruitment and retention strategies."

NB Alternatives, for example, launched a continuing education program for finance professionals around 18 months ago, alongside a focus on career path support and mentoring. "It is important our employees know we have a vested interest in them and that we want to help them achieve their goals," Giarraputo explains.

Kyprianou agrees that having the opportunity to continue to learn and advance within the organization is critical, adding that a strong company culture

Relationship management

How CFOs are dealing with the issue of fund finance

One aspect of the CFO's remit that has become markedly more challenging in recent years is fund finance. In the aftermath of the regional banking crisis, private markets firms have put renewed emphasis on the diversification of relationships. "We have over 40 banking relationships across the organization," says L Catterton's Annie Kyprianou.

Neuberger Berman, meanwhile, works with over 50 different banks, according to NB Alternatives' Barry Giarraputo. "It is all about the relationship," he says. "It is important to understand what the lender's niche is and then find where that fits with our needs. It could be a sub line, but it could also be an asset-backed facility or perhaps a NAV line. You have to find the best fit."

"We have never taken a bilateral approach to subscription lines," adds Joseph-Pierre Regent of Kohlberg & Company, "which I am happy about given the Silicon Valley Bank debacle. But in any case, it has always been important to diversify because of the size of the lines we are looking for. You can't find a bank that will provide $1 billion or more on its own."

As the fund finance market has become increasingly complex, more and more managers have ramped up their capital markets expertise.

"A robust capital markets team will manage banking relationships across an organization holistically whether its fund financing products, banking and custody, investment banking or debt financing," says Jason Donner of Veritas Capital. "This ensures that every department within an organization is being serviced with the global relationship in mind."

"Having a capital markets team has certainly been a huge benefit for us," agrees HarbourVest Partners' Peter Mahoney. "We have diversified our relationships over the past few years and our capital markets capabilities have been critical to that process."

LP attitudes toward fund finance also need to be taken into account. The trouble being, of course, that those attitudes are not always consistent.

"Some investors, particularly in Europe were against using fund finance when interest rates were low, because they were getting negative interest on their deposits. They therefore wanted to deploy their capital as fast as they could. Others, such as US pension plans, were less bothered," says Regent.

"Now that rates are higher, there are those investors that think fund finance has become too expensive. However, as long as you are demonstrably using the sub line for capital call facilitation and not just returns, I think most LPs are either accepting or actively encourage the use of subscription lines."

and collaborative environment are also important. "These things have helped us a lot with retention. My group of direct reports have been with the firm for over 10 years, on average," she says.

Mahoney, meanwhile, emphasizes the importance of transparency. "Employees want to know where you are heading as a firm, what is changing and why," he says. "I would add that giving people the tools they need to be successful is vital. We want to get away from fingers on keyboards all day, instead bringing in automation, allowing for deeper analysis and ensuring that everyone in the organization is a part of the journey. That is a gamechanger."

Veritas's Donner points to the role that work-life balance and flexibility is playing in recruitment and retention today. "In addition, we find it effective to give junior team members projects to manage or ask them to observe in meetings or presentations that they wouldn't ordinarily be exposed to."

Kohlberg & Company's Regent adds that the nature of the talent his firm is targeting is shifting. "We used to hire traditional CPA candidates from the Big Four audit groups. Now we are trying to find people that are knowledgeable about the industry but also about technology, and that is challenging," he says.

HarbourVest's investment accounting department has also traditionally favored public accounting firms as a hunting ground, but is now looking at fund administrators, for example, while also leveraging other channels such as recruiting directly from schools, says Mahoney.

The strategic approach

Managing a tumultuous talent market is just one of the pressures that CFOs are facing. The finance function is the epicenter of any firm and as such CFOs are being stretched in all directions.

LPs, for example, have become increasingly demanding around cashflow projections. "That is something we were only doing at a very high level before," says Regent. "Now, LPs want quarterly updates, and they will challenge us if we don't hit those projections, which is why this is one area where we have invested in automation."

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JASON DONNER
Veritas Capital

In addition to forecasting distributions, CFOs are also on hand to advise deal teams about their liquidity options in an environment where straightforward exit activity has been thin on the ground.

"The deal teams make their own decisions about investments. But we can help explain the implications for returns given the various options available, including continuation vehicles," says Regent. "That is the kind of strategic analysis that we are now bringing to the table as CFOs, rather than simply focusing on fund reporting."

Kyprianou adds: "I definitely spend a lot of time with the investment partners, thinking through where we are with each fund, how much uncalled capital is available, what may become recallable and how various fund finance options can be employed."

Certainly, it is this kind of strategic

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> **Kohlberg & Company**

value-add that now lies at the heart of the CFO's role. "The CFO's role has evolved over the last decade. It is not about getting fund reports out on time any more. That is the bare minimum requirement," says Donner. "You need to provide strategic solutions to assist senior management in implementing its long-term business objectives, whether that is product development, geographic expansion or M&A."

Indeed, CFOs are typically spending even more time on the management company today than they are on funds. "That is where the strategic value is for management," says Regent.

"It is our job to enable other parts of the business," says Mahoney. "We are there to be that driving force and to ensure that scalable infrastructure is in place so that any growth is sustainable."

The quest for standardization

Most CFOs will agree that there is inherent inefficiency in the typical private markets fundraising process.

"All the fundraising headwinds that we are currently hearing about are temporary in nature. They will work themselves out," says Donner. "But no one talks enough about the terrible inefficiencies that exist.

"Our industry has grown tremendously over the past two decades, but there is still a massive lack of standardization that is making everything so much harder than it needs to be."

For Andreoni of RSM, the solution must involve digitization.

"It is important to have a central location where everyone can collaborate, from the GP to the lawyers, AML/KYC providers, fund administrators and investors," he says. "The last thing you want is to have disjointed, non-standardized dataflow. You don't want to do all that work to build LP relationships and then have a clunky onboarding process so that their first experience is not a good one."

Of course, the US Securities and Exchange commission has attempted to make inroads into driving standardization, particularly when it comes to LP reporting, but the regulator's proposed rules have now been vacated. The Institutional Limited Partners Association has also established a plethora of different frameworks and templates but, according to Kyprianou of L Catterton, LPs still ask for additional information.

Mahoney, however, says that if the industry could come to a consensus around standardization, there would be benefits across the board.

"Having moved into the private market space 18 months ago, the degree of customization in this market was surprising and incredibly different from the consistency and standardization in the public funds environment. The reporting standards are a bit all over the place at the moment but if we could get everyone to agree on the information to be made available, I think greater standardization is possible." ■