

FUND  
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GROUP



# The future private capital CFO:

Evolving in a digital age



# Survey participants

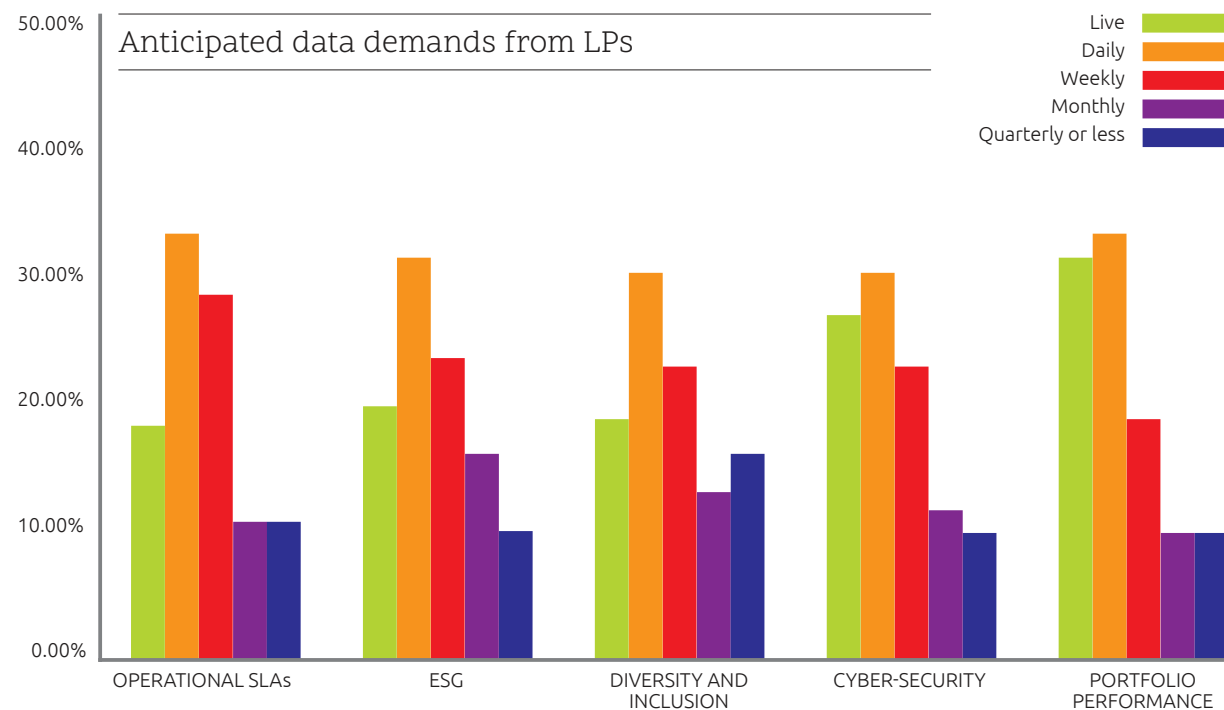
Over the course of December and January, Intertrust Group, in collaboration with Global Custodian, surveyed private capital fund CFOs and their investors about the evolution of the CFO function in the face of growing demands for more frequent provision of data and information. This paper includes the findings of the survey exercise as well as comment and reaction to those findings from Intertrust Group executives.

The results below are based on responses from private capital fund CFOs or their immediate reports. The three largest private capital markets – the US (29%), UK (23%), and China (18%) – accounted for the majority of responses with the bulk of the remainder coming from Western Europe. All in all, over 300 individual responses were received.

Assets under management of respondents ranged from less than \$1 billion (36%) through

\$1-10 billion (34%), \$10-50 billion (23%) to more than \$50 billion (7%). Funds included private equity (36%), private debt (22%), infrastructure (24%) and real estate (15%).

In a parallel survey, investors in private capital funds were surveyed to act as a check on whether their views aligned with those of the CFOs. Some 103 investors were surveyed, primarily from the US, UK and China.



# Our key findings

Over the next decade, CFOs expect their LPs to require data updates on specific areas of service with increasing frequency. In particular, 31% of respondents expect their investors to be looking for access to live updates on portfolio performance and 27% on cyber-security.

While some regional variation was evident, with CFOs in China most exercised in this regard, 64% of respondents expect to have to provide at the very least daily information on portfolio performance and 57% on cyber-security. This is slightly higher than the expectations expressed by LPs themselves, of whom 63% are expecting either live or daily updates on portfolio performance and 54% on

cyber-security.

At the same time, 50% of CFO participants and 55% of investors are expecting a need for live or daily updates on operational SLAs.

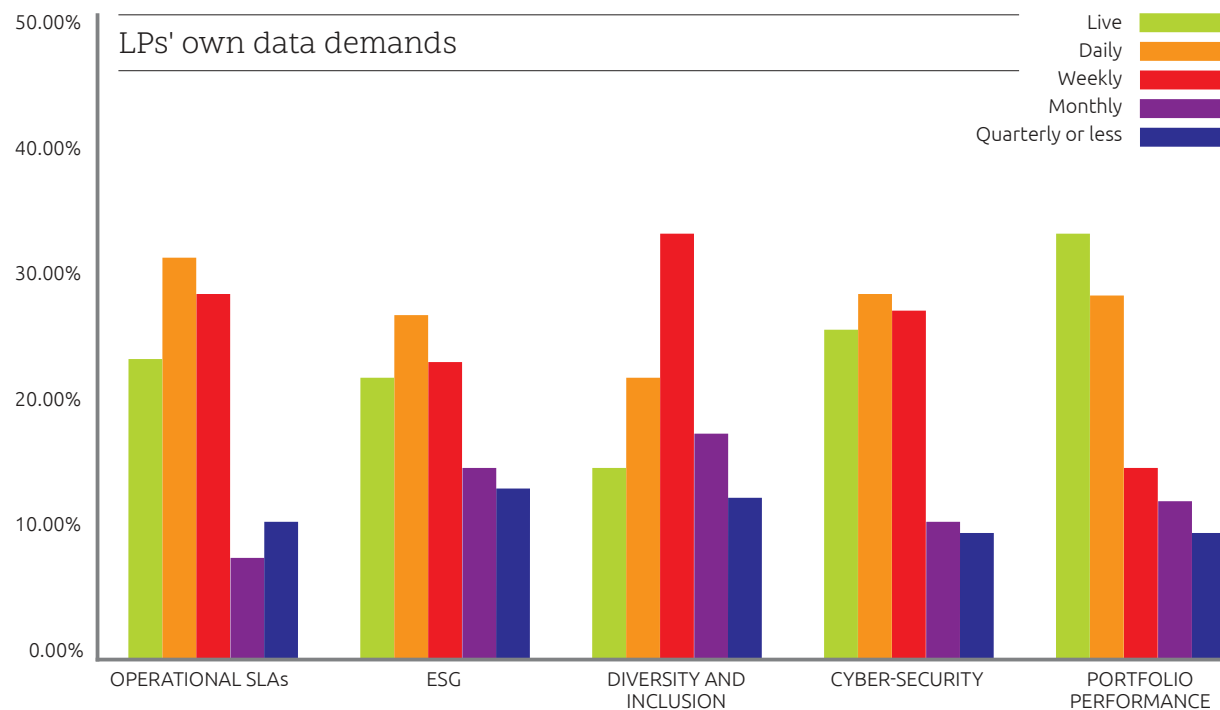
By contrast, CFOs appear to be over-estimating the need for such regular updates on environmental, social and corporate governance (ESG) and diversity and inclusion (D&I). This may partly be explained by the relatively recent increase in the profiles of these two aspects of investment and organisation and partly by the fact that outcomes from ESG and D&I implementation strategies are difficult to assess over a short time frame. Nevertheless we would expect the demand for more detailed information

to grow, if not in frequency, then in granularity. Interestingly, respondents from Western

European markets, notably Germany, France and Italy, expect a relatively higher degree of engagement on the part of their LPs with ESG and D&I.

Increasing demands for regular updates will obviously require more input at some level from CFOs themselves, though this will vary depending on whether it is possible to delegate certain responsibilities, such as ESG reporting, to dedicated in-house expertise. The CFOs' collective view on which areas of investor demand will have the greatest impact on their day-to-day responsibilities in the years ahead shows that portfolio

"Survey results suggest that increased investment in technology and people or outsourcing more functions would be the most popular choices."





performance, operations and cyber-security are where most CFOs expect their attention to be drawn, while ESG and D&I are expected to occupy less of their own time.

CFOs were also asked to select up to three areas that they expect to have the biggest draw on their resources – and, once again, portfolio performance and operations top the tables. At a market level, China-based CFOs expect to have to apply a relatively greater percentage of resources to portfolio performance, while those in the UK see cyber-security as a more demanding area than their peers from other markets in the survey pool.

It's worth noting that while pressure from LPs for ESG and D&I data is apparently not being felt at the moment, we expect such demand to increase from regulators and potential new investors (see 'Expert view' section). Anecdotally,

**"Interestingly, respondents from Western European markets, notably Germany, France and Italy, expect a relatively higher degree of engagement on the part of their LPs with ESG and D&I."**

a number CFOs participating in the survey mention ESG data demands from investor teams as being at the top of their in-tray.

#### **Shifting priorities**

With the competing challenges of addressing the expected LP push for more frequent data updates and the requirements resulting from fund growth, CFOs have several options in seeking to meet these needs, including outsourcing, buying in more technology and beefing up the CFO team.

Survey results suggest that, as things stand, increased investment in technology and people or outsourcing more functions would be the most popular choices. Some 18% of CFO respondents appear to put some faith in investment in distributed ledger technology specifically, while only 11% of respondents expect to retain their existing balance between in-house resources and outsourcing. As CFOs assess the various options open to them, there's likely to be some movement among the three most popular strategies (see 'Expert view' section).

Interestingly, the clear preference among investors appears to be for CFOs of the funds in which they invest to increase in-house expertise. In practice, however, they are unlikely to pressure the CFOs to

adopt one approach or another and are more likely to base their judgments on outcomes rather than inputs. Only should such outcomes be seen as unsatisfactory are they likely to question the CFO strategy.

In the case of further investment in in-house expertise, the next question is to which areas CFOs consider it most urgent to commit additional funds.

#### **Technology to the fore**

In the next three years, survey respondents expect technology to be top of the list – particularly in the US and UK. This is confirmed anecdotally by the growing trend to include coding and software proficiency in advertised job requirements for new hires for financial positions.

A similar profile appears for outsourcing priorities (see below), suggesting that expanding in-house expertise and engaging in outsourcing arrangements in any particular area are not seen as mutually exclusive. US and UK respondents again place technology at the head of their outsourcing plans, while for those in China and Western European markets, operations appears to be top of the list.

When it comes to outsourcing, both CFOs and investors appear willing to show some patience in assessing results, with both groups looking to the longer term for expected benefits.

One thing that is clear, though, is that the race is on to meet rising demands and industry challenges. Whether outsourcing, or investing in talent or resources, CFOs will need to make sure they are equipped to succeed.

# Expert view

We asked senior funds specialists at Intertrust Group for their thoughts on our report findings. Their insights are drawn from decades of experience across all areas of the fund industry.



**Chitra Baskar,**  
Chief Operating Officer and Global Head of Funds and Product, Intertrust Group



**David Sarfas,**  
Head of Private Capital, Intertrust Group

What is driving the demand for more – and more frequent – data? “Those allocating money to private capital funds will often have significant exposure to traded markets, where they are accustomed to high degrees of transparency. They come from a mindset which is constantly looking at the data. When these investors bring that investment culture to the private markets, the relative lack of information leaves them less comfortable than they would like. In addition, as their allocation to private markets grows and they grapple with separately managed accounts, the need for more information increases.”

**Chitra Baskar**

“Both the level of information required around a fund’s strategy and the frequency of data required by investors will also vary depending on the type of fund. From the most liquid to the most illiquid, you probably see debt, private



**Edwin Chan,**  
Director, UK Funds, Intertrust Group



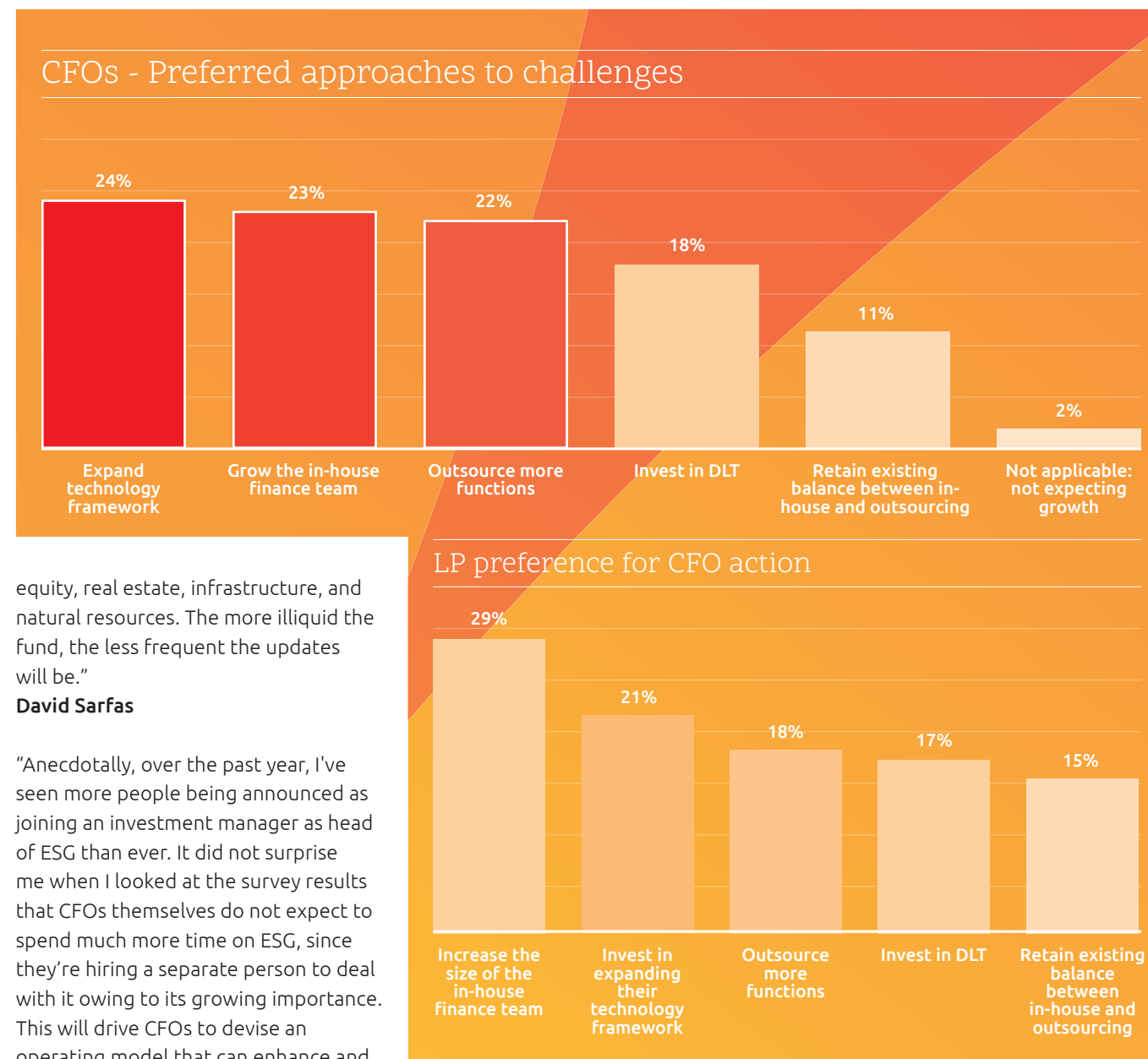
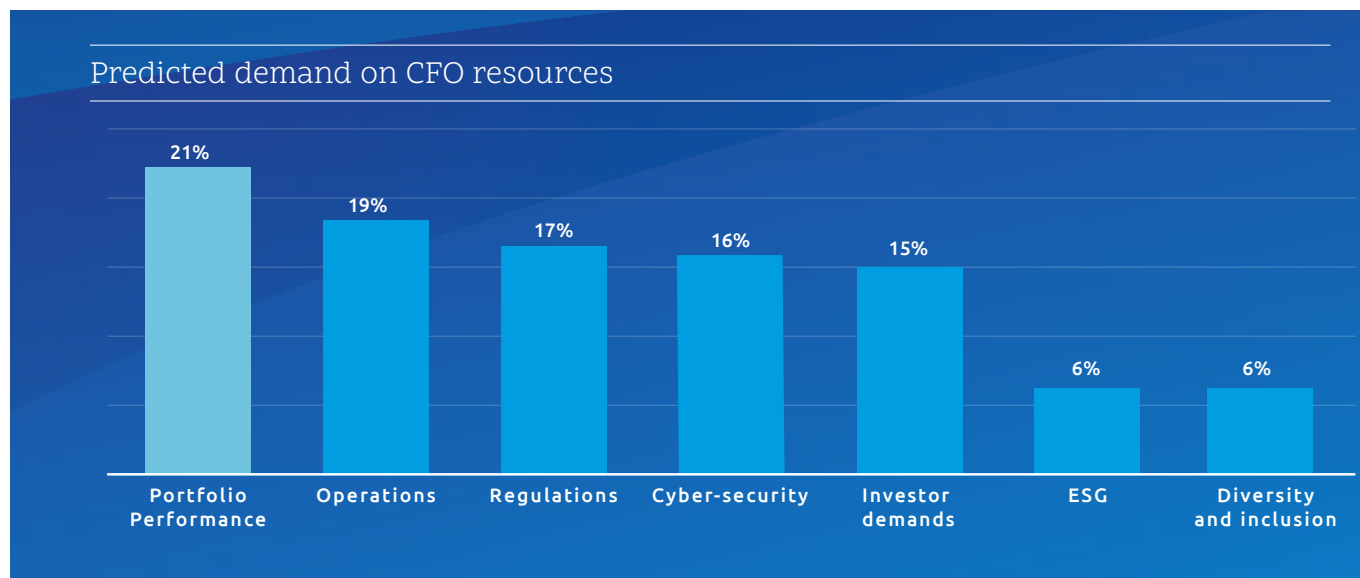
**Michael Secondo,**  
Head of Corporate and Administration Business Development, Americas, Intertrust Group



**James Donnan,**  
Regional Managing Director, Asia Pacific, Intertrust Group



**Jonathan White,**  
Commercial Director – Funds, Intertrust Group



equity, real estate, infrastructure, and natural resources. The more illiquid the fund, the less frequent the updates will be.”

**David Sarfas**

“Anecdotally, over the past year, I’ve seen more people being announced as joining an investment manager as head of ESG than ever. It did not surprise me when I looked at the survey results that CFOs themselves do not expect to spend much more time on ESG, since they’re hiring a separate person to deal with it owing to its growing importance. This will drive CFOs to devise an operating model that can enhance and enrich data for reporting to their clients and other stakeholders.”

**Edwin Chan**

Are data expectations realistic? “It’s not surprising that private capital managers are gravitating towards technology to address their increasingly complex and frequent reporting requirements, but managers should be cautious. While embracing technology seems a natural ‘go to’, it comes with its own inherent cost of ownership over time. Upgrades, integration and the

constant build cycle to stay relevant in an ever-changing market environment come as part of that decision. Exploring outsourcing options in part or whole for operating and reporting needs can help a manager avoid such pitfalls.”

**Jonathan White**

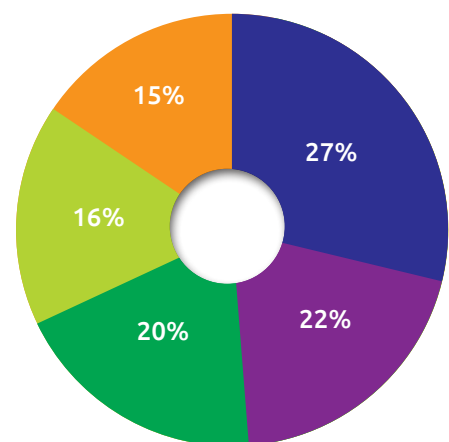
“When I see some of the survey respondents asking for live or daily updates, I think that should be read as a need for funds to demonstrate that

they have their fingers on the pulse of the markets, if not on a daily basis, then at least on a much more periodic basis than at present.”

**Chitra Baskar**

“In the US, more and more I’m seeing CFOs and their relatively new technology officers (CTOs) being viewed as the ‘ace in the hole’ to transforming procedures and technology within the private capital

CFO investment priorities in outsourcing



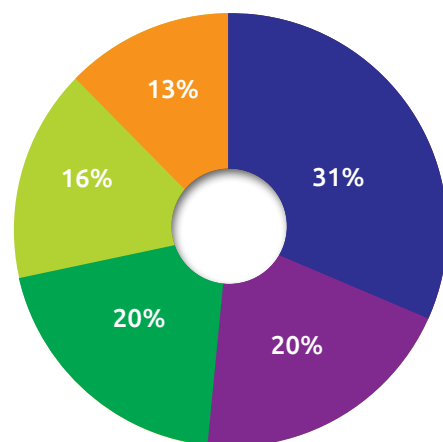
funds community. Every meeting they are coming up with something new for us to solve. Of course, it comes with discussions around traditional fund accounting and regulatory compliance needs. However, there's now a lot more emphasis on helping with key strategic initiatives and duties centered around performance and forecasting, cyber-security, fundraising, and transparency for LPs."

**Michael Secondo**

Are the options available for meeting anticipated needs alternatives or complementary?

"Every fund CFO is eventually confronted by the question: 'Do I develop, buy, or outsource the solutions and tools that support the fund administration efforts?' By developing a solution, you create exactly what you want, like you want it. The benefits need to outweigh the costs. Maintaining that development can typically be an expensive proposition. Scale is another factor to consider; typically, CFOs reverse the course because of scaling issues and additional complexities which become too expensive to manage. The option to buy, can also be a good solution in the right circumstances. As

CFO in-house investment priorities



needs change, the cost of software updates is mutualised, but one must not forget that there will always be additional costs such as version upgrades and annual maintenance. When it comes to outsourcing solutions, there's a spectrum of offers. You can get a standard service, which is targeted at a range of funds with the same identified needs. Hopefully you'd also get best practices along with that. That can turn out to be a more cost-effective approach as issues around upgrading the service – and being compliant with the rules and regulations that continue to evolve – are handled by the outsourcing contractor."

**David Sarfas**

"In China, outsourcing has historically been less widespread. But it's coming of age rapidly, driven by LP demands for independent governance, and oversight of the activity and performance of the funds in which they've invested. Given this demand, a lot of GPs are increasingly looking at their options. The understanding of the benefits you get with outsourcing, which have been well known in other markets for some while, are really starting to hit home for Chinese GPs."

**James Donnan**

"Data have become a lot more complex in the private capital world. The more complex the data needs, the more geographies that data come from and the more frequent the reporting that clients expect to be available – then the more of a challenge it will be to maintain all these functions in-house."

**Chitra Baskar**

Are the data priorities evidenced in the survey likely to change?

"I wouldn't expect them to significantly change. Portfolio performance has to be at the top of the list of concerns because the funds need to perform well in order to be competitive and consistently meet their investors' expectations. Meanwhile, cyber-security is a problem that people actually do lose sleep over."

**Chitra Baskar**

"Cyber-security continues to be an extremely important aspect of data provision. The transparency around cyber-security threats will continue to increase. Fund clients are interested in understanding the level of protection that exists around their own data, and therefore communicating more and more on the risks associated with

cyber threats and potential disruptions of work environments should be expected. It is not atypical during client due diligence with funds for them to ask to discuss cyber-security with the administrator."

**David Sarfas**

When do the benefits of outsourcing become tangible?

"I think with any kind of outsourcing, the benefits will not be immediately visible. You need to take into account the frequency of the reporting data, which can be anything from daily to annual – as well as the on-going system maintenance. I would say the benefits start to become evident after at least two reporting cycles and one upgrade of the system."

**Edwin Chan**



## Regional highlights

**70%**

of US private capital CFOs expect to have to provide at least daily updates on cyber-security

**61%**

of UK private capital CFOs are gearing up to meet live or daily demands on operational SLAs

**80%**

of Chinese private capital CFOs expect to have to provide live or daily updates on portfolio performance

**40%**

of US private capital CFOs expect demand for data on portfolio performance and operations to have the biggest claim on resources

Over the next three years

**1 in 3**

UK CFO respondents expect to seek outsourced expertise in technology alone

The top three skillsets that Western European CFOs plan to outsource are:

**Technology  
Operations  
Accounting**

Only  
**1 in 10**

respondents in China said they plan to keep their existing balance between in-house and outsourced resources

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