The Changing Role of the Private Capital CFO/COO

Kyri Yiannakis, Head of Client Development, EMEA | Private Capital Markets

The CFO role may be evolving more rapidly than any other. A KPMG survey from 2015 found that 63 percent of CEOs from high-performing organisations believed that the CFO's role would see a greater increase in significance over the next three years than other C-suite roles. And this is especially true for CFOs in more streamlined organisations, where they are called on to perform double duty as the de facto COO.

For CFOs operating in the private capital markets, the change is even more rapid, as regulatory requirements intensify and investors become more sophisticated and hands-on. The CFO of a fund management firm is being asked to stretch in more directions and involve themselves in more areas of the business than ever before. What was once a purely fiduciary, back-office role is evolving into a position that spans both visionary and executional dimensions and provides the primary interface between the CEO, the business and its investors.

At the 2017 SuperReturn International conference, the changing role of the CFO was a key topic, with one panelist admitting that when she wrote down everything her job entailed, she soon reached 100 items without covering it all.

It's a challenging time, but it's also an exciting time to be leading the financial vision for a fund management company. The private capital industry is gaining momentum and garnering positive attention from a growing number of investors who recognise the industry's ability to generate competitive returns.

So what skills will be most important to CFO/COOs tasked with stepping up to the challenges and helping their firms navigate the future?

Relationship-building

As investors become more involved, the division between the back and front office is blurring. Increasingly, the CFO is an outward-facing role and the chief point of contact for investors eager to speak directly to the fund management leadership.

In the past, the CFO might have been called on when there was a drawdown of capital or some other financial milestone. Today, they can expect to participate in roadshows, fundraising and ongoing investor requests. In fact, some GPs are predicting that the finance and IR function may converge and become one as the markets become more efficient.

Cultivating good communications and investor relations skills is the key. The CFO needs to be able to talk to LPs and stakeholders about the investment thesis, the projects the firm is working on and the direction in which it's heading as well as the financial and regulatory details.

Value creation

Private capital firms are increasingly looking to the CFO to provide guidance and input into the portfolio companies, giving CFOs an opportunity to expand their role and demonstrate their contribution to value creation.

The CFO can bring highly valuable insight and a wealth of applicable knowledge to a portfolio company, such as how acquisitions should be approached and executed, how organic growth may pan out, what value can be attributed to market growth and whether to implement financial engineering. CFOs can also work with portfolio companies to create more advantageous tax structures, make working capital adjustments and ensure they're protecting their operations by hiring auditors and other service providers that can help them minimise risk and maximise value.

In addition to creating value, the CFO also has a role to play in demonstrating it to investors. LPs are increasingly focused on value creation, and want to understand exactly how the GP impacted portfolio value. Did the GP simply buy cheap? Did they rely on a solid management team at the portfolio company? Did they benefit from overall industry growth? Did they pay down debt? Or did the GP contribute business insight and management expertise that helped to generate value above and beyond these factors?

Adaptability

To flourish, the private capital markets must be able to weather tremendous volatility, and the CFO is often the firm's first line of defense.

For example, regulatory changes could end up impacting your business in ways that are impossible to predict, and while the ultimate outcome of Brexit remains uncertain more than a year after the vote was cast, it could have far-reaching consequences.

By the same token, the firm must be ready to take advantage of the unexpected when it takes the form of an opportunity to break into a new market or strategy, or accelerate growth.

The most successful CFOs will be those who are able to keep an open mind and adapt swiftly and decisively to change. They need to have an eye towards what's coming and the flexibility and willingness to pivot at any point to respond to unexpected developments. There is no roadmap and no one-size-fits-all solution. Each person will need to assess the approaches that best fit the needs of their business and redefine their role to reflect those needs.

Team-building

Always good at managing the numbers, CFOs must learn to manage people with the same level of confidence and finesse.

As the industry becomes more complex, it's no longer possible for a single person to be an expert in every operational area. CFOs (and especially CFO/COO hybrids) are accustomed to "doing it all," pitching in wherever needed and learning on the fly. Those are admirable qualities, but as the industry matures, the private capital markets are entering the era of the specialist, and that means that CFOs need to switch their focus from "doing" to "delegating."

Knowing where specialist expertise is required and how to fill the roles with the right people is becoming a key capability for CFOs. The CFO's team may expand to include an internal compliance manager, AML/KYC expertise, a data analyst, a technologist and so on. Being able to assemble and coordinate those specialist teams will help the CFO deliver on broader responsibilities and acquire the depth of knowledge required for a high-functioning team.

Part of the challenge involves establishing and preserving institutional memory across an extended team. Distributing the work across more roles requires tighter collaboration internally, consistent messaging externally, and a clear plan for continuity and knowledge-sharing.

Differentiation

Over the past few decades, the market has changed. It's more difficult to generate the exceptional returns that were common in the 90s and early 2000s, and fund managers are finding it harder to differentiate themselves to investors.

Limited Partners want to know why they should pick you over your peers, and the CFO has an important role to play in telling that story. Returns are important, but investors are also interested in the levels of efficiency and transparency that your firm is capable of delivering. Due diligence is no longer a pro forma matter: Limited Partners want to see the systems you're using, the staff you have in place and the steps you're taking to manage risk and protect operations.

CFOs need to actively seek out systems and processes that streamline operations, inspire investor trust and deliver a higher level of investor service. Firms that lag behind in their data protection and security practices, rely on desktop spreadsheets instead of advanced data platforms to collect and crunch the numbers or fail to offer the convenience of online investor portals will find it challenging to stand out and impress in a competitive market.

The evolving CFO

Today's CFO has seen tremendous regulatory, political and technological changes over the past decade, and the pace of change will only accelerate in the coming years. By anticipating those changes and focusing on the skills they'll need to address them, CFOs can be prepared to not just survive, but thrive in their evolving and expanding role.

For more information ipreo.com/private-markets or PCMinfo@ihsmarkit.com

272691018-MFT-1018