

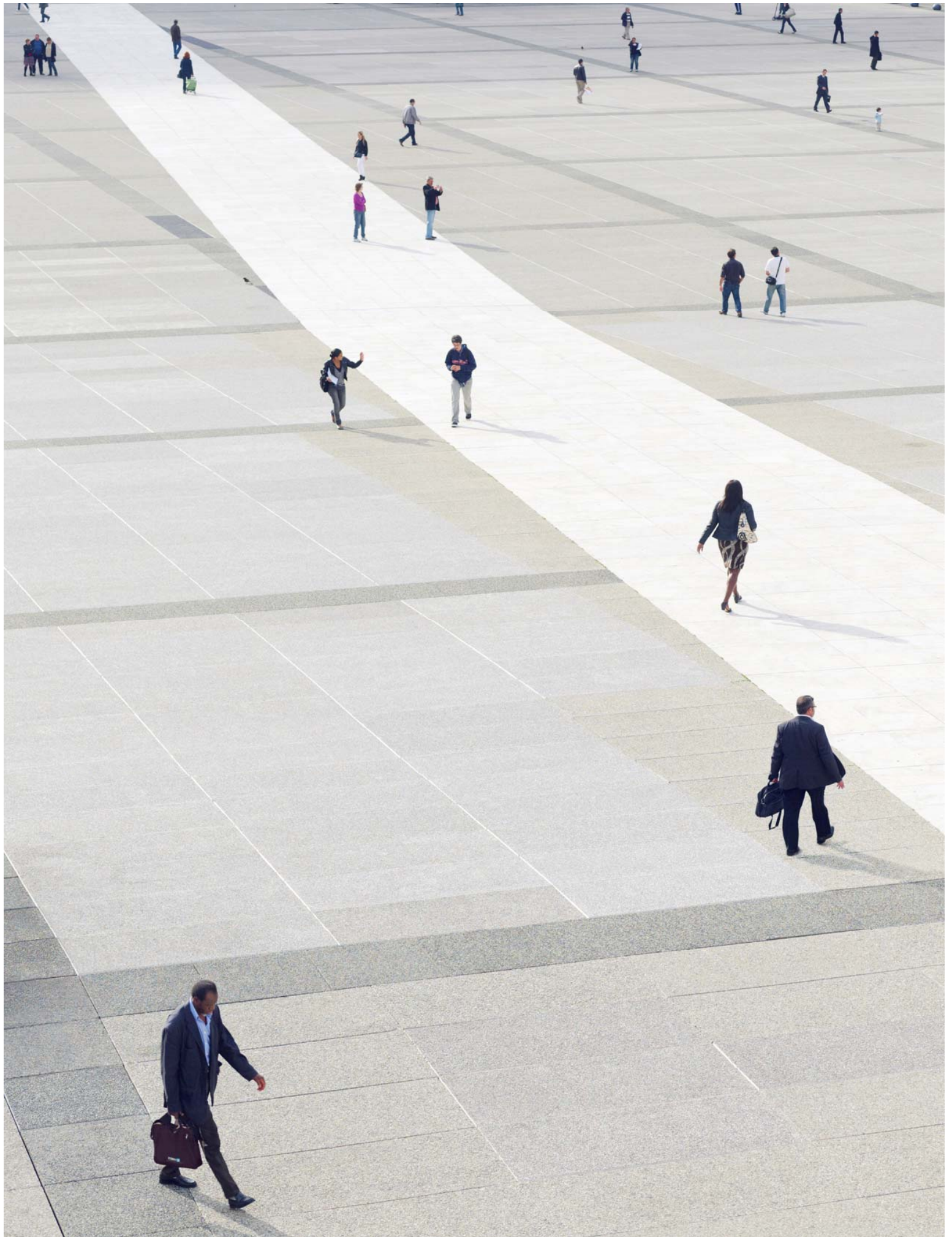
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The road ahead for private equity firms

Fall 2011



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Industry trends

Industry trends

The private equity marketplace is changing as the industry continues to evolve. Many private equity firms have expanded their strategies and corresponding asset classes to include debt trading, real estate investments, commodities and hedge funds. This expansion into non-traditional activity is also creating significant complexity and has impacted people, processes and technology from the front offices to the back.

Investor activism and transparency are increasing

Investors today are more active than ever before. Over the last few years, the level and nature of initial investor due diligence and ongoing monitoring have increased significantly, requiring greater effort on the part of management.

The degree of transparency investors now demand, plus their ad-hoc information requests, have outpaced the ability of most firms to easily and quickly respond. This has placed an extraordinary burden on the investor relations and financial reporting functions.

A new regulatory landscape

Throughout the past few years, the private equity industry has seen significant regulatory changes, including provisions of the Dodd-Frank Act intended to remove exemptions from SEC registration requirements. To implement Dodd-Frank, on June 22, 2011, the SEC adopted final rules that require many advisers to private equity funds to come into compliance with the Investment Advisers Act of 1940, and to register

with the SEC as investment advisers by March 30, 2012. For many firms, this will entail significant changes to their operations, disclosures, and compliance controls. Firms should also be prepared to be examined by the SEC for compliance with the Advisers Act “at any time,” and should be aware of SEC expectations of registered firms.

Alternative Investment Fund Managers Directive

In light of recent market abuses in Europe, the EU Parliament passed the final Alternative Investment Fund Managers Directive (the Directive) in November 2010. Member States must incorporate the Directive into their laws by 2013, with a compliance date of January 2014 for EU funds already authorized or operating in the EU.

The Directive subjects managers of alternative investment funds to compulsory regulation in the EU and will require significant modifications to the structures, strategies and operations of private equity fund managers and funds.

It's all about transparency

Beginning January 1, 2013, the provisions of the Foreign Account Tax Compliance Act (FATCA) will become effective. These rules provide reporting obligations and impose a 30% withholding tax obligation on any US-sourced income and the gross proceeds from the sale of investments that produce US sourced interest or dividends (withholdable payments) received by any offshore fund or other foreign financial institution (FFI).

Industry trends

Companies are again considering private/public markets to raise capital

Whether it is monetizing the value of principals' interests or providing currency for growth and expansion, private equity firms are again looking at various capital raising activities. Third party investment will require more controlled and formalized processes, a more stable infrastructure, as well as more timely delivery and a higher quality of information.

Revenue growth

Approximately 50% of companies surveyed in PwC's 2011 Global CEO survey are factoring environmental and corporate responsibility practices into their purchasing decisions, and 64% of CEOs indicate that an important part of their innovation strategy is to develop environmentally friendly products and services.

Building and investing in new green products and services will spur innovation and allow companies to enter new markets, attracting new consumers who ultimately drive increased revenue.

Portfolio companies are being held longer, increasing emphasis on cost

With a renewed emphasis on sustainable cost reduction, companies are developing new programs for managing cost.

Many focus on the provision of central services such as procurement, HR, IT, advertising and other spend areas. In addition, companies are considering strategic sourcing options for these services, such as outsourcing and offshoring. We expect that these trends will accelerate over the next few years.

Significant restructuring is occurring in fund, partner and investor agreements

- Fund performance, compensation models, liquidity terms and succession planning are among the drivers for change. Each one is difficult to negotiate and can be just as difficult to implement because key processes and systems must frequently be updated. In addition, the Institutional Limited Partners Association has issued a set of best practice principles for the private equity industry related to alignment of interest, governance and transparency. Some of these best practices focus on:
 - Profit splits
 - Clawbacks
 - Management fees
 - Transaction and monitoring fees
 - Fees and carried interest
 - Increased transparency to LPs

Industry trends

How are others responding?

Private equity firms are focused on developing sustainable business solutions, improving their infrastructure, and enhancing controls in order to support continued growth in an increasingly complex regulatory environment.

1

Sustainable Business Solutions

Firms are using sustainability to create operational and strategic long term advantages

2

Regulatory matters

Firms are implementing and preparing for current and emerging regulatory scrutiny

3

Infrastructure model

Some large firms are taking a white-board approach to rethinking their infrastructure and processes, and are making significant investments to do so

4

Enhancing controls

Some of the largest players are aggressively addressing the lack of discipline and control in their back office operations by taking a public company-ready approach

5

Governance and organizational models

Most firms are rethinking how they are organized and what they must do to upgrade talent in key areas



Sustainable business solutions

Creating long term value for portfolio companies and investors through sustainability strategies

In today's business environment, companies continue to search for new ways to reduce costs, grow revenue, and enhance their brands. On the fund-raising side, institutional investors, are asking GPs increasingly challenging questions around current Environmental, Social, and Governance (ESG) practices at the fund and portfolio company level.

Sustainability and long term value creation

By looking through a green lens, sustainability can present a unique opportunity to create long term financial value for portfolio companies, GPs, and investors, by reducing costs, growing revenue, and mitigating risks. By using a sustainability approach to identify opportunities to reduce impacts, companies are finding new ways to improve operations and build healthier, more competitive brands.

Potential implications for private equity

Sustainability is emerging as a powerful market driver that presents numerous opportunities to create long term value in private equity:

Operational efficiency initiatives that reduce environmental impacts and cut costs at portfolio companies



Revenue growth opportunities through the innovation of eco-friendly products/services



Supply chain opportunities to reduce total cost of ownership linked to reductions in energy costs, resource supply risk, social and environmental compliance costs



Fundraising differentiator for PE groups with leading practices



Federal, state, and local governments provide green tax credits and incentives to reduce payback periods



Sustainability integrated into due diligence identifies early risks and opportunities

Sustainability: where are leading companies headed

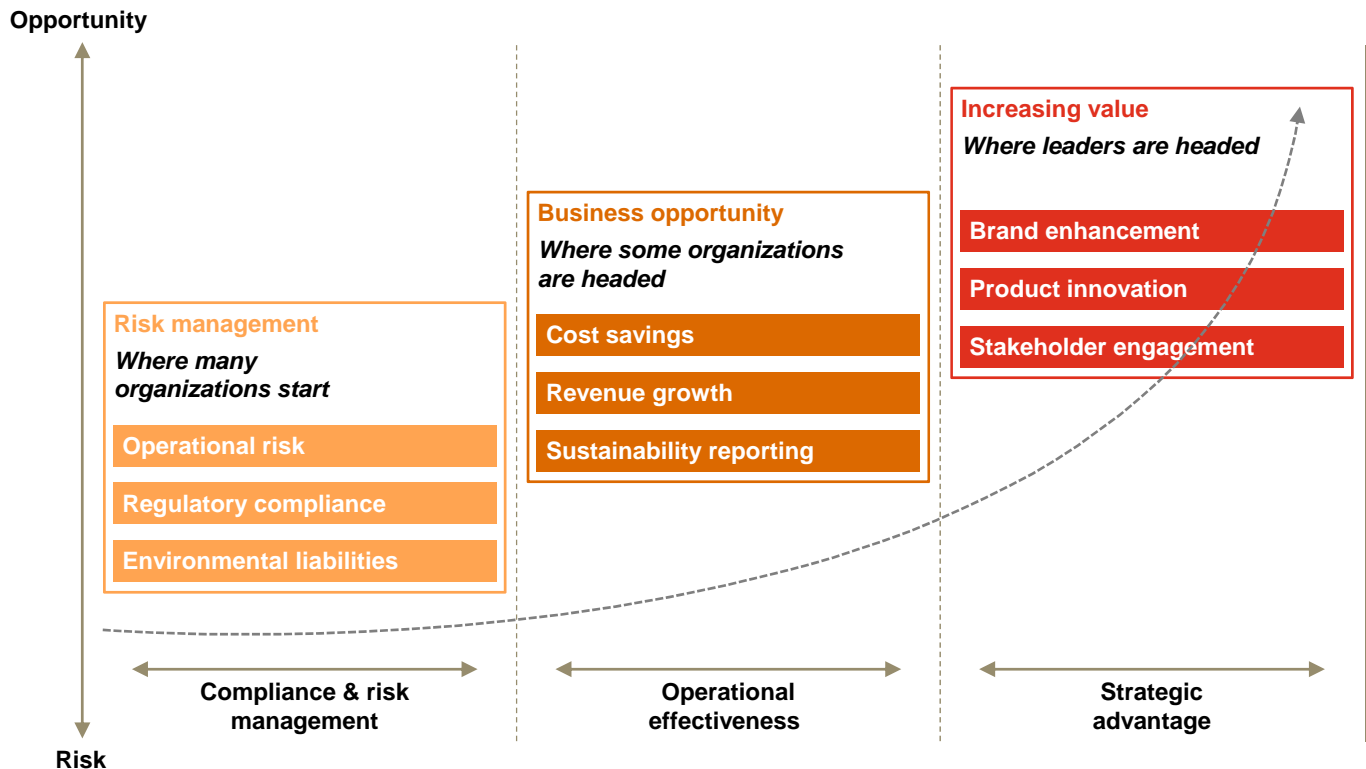
While many companies start with compliance and risk mitigation, leading companies are using sustainability to create operational and strategic long term advantages.

Among the potential business benefits of sustainability are:

- Improved operational efficiency and cost savings
- Enhanced brand and competitive advantage
- Increased customer attraction and retention
- Increased talent attraction and retention
- Improved access to capital

➤ Key questions

- Where do your portfolio companies fit in the sustainability continuum?
- Can leaders help disseminate best practices to companies who are early in their journey in your portfolio?
- What are best-in-class companies doing?
- What are your customers demanding?
- Are there implications in your supply chain?



Integrating sustainability across the deal cycle

The private equity industry is well positioned to embed sustainability at various stages in the deal cycle. When implemented at scale across portfolios, an innovative environmental management strategy can improve due diligence, boost portfolio company performance during ownership, highlight value creation methods upon exit, and build stronger relationships with LPs, company management, and external stakeholders.

Diligence	Ownership	Exit
<ul style="list-style-type: none"> Benchmark current performance Identify opportunities to reduce cost & drive revenue Build sustainability initiatives into the management plan Identify potential risks and 'red flags' 	<ul style="list-style-type: none"> Identify & implement opportunities to cut costs and reduce environmental impacts Grow revenue through green products & services Create metrics & goals to drive future improvement 	<ul style="list-style-type: none"> Divestment strategy development IPO support/sell-side due diligence Direct response to LP environmental inquiries Communication of sustainable business value

Firm-wide strategy	
Internal	<ul style="list-style-type: none"> Leverage best practices across the portfolio Measure, report, and monitor results
External	<ul style="list-style-type: none"> Governance and accountability Communicate results to external stakeholders Differentiated fundraising approach

Diligence: identifying risks & opportunities early

Identifying Environmental, Social, and Governance (ESG) risks and opportunities during the due diligence process, allows investors to go beyond the traditional focus on environmental liability estimation, and builds sustainability into the long term management plan of future target companies.

With actionable initiatives to reduce cost, drive revenue, and mitigate risk embedded in the long term company strategy, sustainability can become a lasting value creation lever in a new portfolio company's growth plan.

>>An ESG Screen is an effective tool in identifying potential risks & value creation opportunities

Sample ESG Screen

ESG Category	Area	Element
Environmental	Resources	Energy
		Fuel
		Water
		Materials use
		Occupied Real Estate
	Products	Revenue Growth
	Waste	Solid
		Liquid
		Hazardous
	Emissions	Carbon dioxide
		Acidification
		Particulates
	Ecological Impact	Biodiversity
		Ecosystems
	Environmental Technology	Clean Tech
Sustainable Energy		
Low Carbon Technology		

➤ Diligence — key questions

- Strategy—how can sustainability become a long term value creation lever for your company?
- Benchmarking—how do you stack up against competitors?
- Opportunities—can you grow EBITDA through sustainability initiatives during ownership?
- Risks—are there current or future ESG risks that will adversely impact you?

>>New risks will start to surface as GPs turn their attention towards emerging markets*

ESG Category	Area	Element
Social	Employees	Health & Safety
		Diversity
		Representation
		Human Rights*
	Suppliers/ Business Partners	Health & Safety
		Diversity
		Representation
	Community	Engagement
		Customers
	Governance	Board-related
Quality		
Composition		
Management Systems	Board-related	Responsibilities
		Brand Value
		Crisis & Risk Management
		Monitoring Systems

Ownership: reducing costs & driving revenue through sustainability strategies

Improving and expanding operations is key to the value creation thesis in private equity. Through a sustainability lens, new cost reduction and revenue growth opportunities are becoming apparent for forward-thinking investors.

>>What is good for the environment, is good for the bottom line

Revenue growth

Approximately 50% of companies surveyed in PwC's 2011 Global CEO survey are factoring environmental and corporate responsibility practices into their purchasing decisions, and 64% of CEOs indicate that an important part of their innovation strategy is to develop environmentally friendly products and services.

Building and investing in new green products and services will spur innovation and allow companies to enter new markets, attracting new consumers who ultimately drive increased revenue.

Metrics: In order to measure and quantify results, the use of metrics is a robust method to demonstrate actionable results and value creation. Goals demonstrate future programmatic direction.

↗ Cost cutting — a closer look

A corporate sustainability footprint can be broken down into six key environmental areas, which is a proxy for identifying operational efficiency cost saving opportunities.

Key environmental areas	Operational cost savings opportunities (examples)		
Energy	Electricity reduction	Energy efficiency	Recycled heat
Fuel	Fuel efficiency	Reduction in miles travelled	Fuel efficient truck technology
Water	Water use reduction	Improve leak rates	Closed-loop water use
Solid Waste	Recycling programs	Hauling cost reductions	Reduction in waste generation
Chemicals	Reduction in chemical spill costs	Insurance reduction	Green chemicals
Forest Products	Packaging reduction	Paper recycling	Packaging reuse

>>Companies that are not prepared to respond to their customers' demand for sustainable products and services may find themselves at a competitive disadvantage

Exit: demonstrating sustainability for liquidity events

Upon exit, there are many compelling value creation stories to be relayed to investors, stakeholders, and employees—and sustainability is another lens from which to view powerful and impactful case studies.

GPs who embed sustainability into the exit strategy are gaining reputations for building healthier companies positioned for long term growth.

What is involved:

- Assess the level of understanding and insight the company has into the risks and opportunities presented by sustainability.
- Understand which action(s) the company has taken to date to manage ESG risks and realize opportunities.
- Explore the residual risks and remaining areas of unrealized opportunity.
- Investigate the road map – the actions, policies, procedures and systems – the company needs to put in place to manage and implement this agenda.

➤ Exit — key questions

- Can you respond to challenges from investors on your company's sustainability during public appearances, e.g. roadshows?
- Will your sustainability claims stand up to increased scrutiny after IPO?
- How will you assure investors that you are a good long-term bet when they ask about sustainability?

Firm-wide strategy: disseminating lessons learned

Tying together a firm-wide strategy creates an overarching message to external stakeholders that sustainability is a long-term priority and potentially a differentiated fundraising approach.

Several private equity firms have created internal mechanisms to foster best practice sharing and collaboration among portfolio companies. Reporting allows GPs to keep up with the latest progress and to measure against benchmarks and future goals.

-
- Internal**
- Leverage best practices across the portfolio
 - Measure, report & monitor results

➤ **Best practice sharing — key concepts**

- Green IT best practices
- Fleet efficiency retrofit ideas
- Waste reduction programs
- Employee engagement & incentive ideas
- Shared environmental resources

Governance allows firms to demonstrate to stakeholders that its program is held accountable to external checks and balances. Many private equity firms frequently engage with non-profits and NGOs to help shape their perception and understanding of sustainability. Leading firms are starting to see increased fundraising commitments from LPs as a result of sustainability results and increased environmental management.

-
- External**
- Governance and accountability
 - Communicate results to external stakeholders
 - Differentiated fund raising approach

➤ **Sustainability governance — potential ideas**

- Sustainability-focused board member(s)
- Executive training
- Workshops with subject matter experts
- Signatory of responsible investment principles



Regulatory matters

An evolving regulatory landscape

Preparing your company for the evolving regulatory environment in the US and around the world

- New regulatory and legislative action will result in greater oversight of private equity and asset management firms.
 - Investors are demanding greater risk management and transparency, as well as independence and oversight of securities valuation and verification of trades and positions.
 - The SEC is empowered to conduct examinations of registered advisers at any time – the SEC and other regulators are incentivized to conduct in-depth examinations to detect possible weaknesses in compliance programs, deficiencies in practices, and violations of the law.
 - The SEC and other regulators will bring enforcement actions against firms and senior managers that fail to have strong compliance controls.
- The SEC has reorganized its Enforcement Division and has prioritized investigations and cases to focus on those involving asset management firms, including advisers to private equity funds.
- The SEC works closely with other domestic and foreign government agencies, including civil and criminal authorities.

New US Regulatory Requirements

Private equity firms should not wait to begin preparations for SEC registration and oversight.

New US regulation elimination of private adviser exemption

- Private fund managers will have to register with the SEC unless they meet one of the following exemptions:
 - Advisers that advise solely private funds with less than \$150 million AUM
 - Foreign private fund adviser with less than 15 clients in the US and less than \$25 million AUM in private funds for US clients
 - Advisers to venture capital funds
 - Family offices
- Firms will need to register with the SEC by the March 30, 2012 – though we recommend that firms file the registration form no later than February 14, 2012 to assure timely registration.

New reporting requirements

- Newly adopted rules require fund managers to file with the SEC reports that include:
 - Information regarding each private fund that the adviser advises
 - Data relating to an adviser's business operations, types of clients, employees and advisory activities, and any conflicts of interest posed by the adviser's business practices
 - Additional information about advisers' non-advisory activities, including their financial industry affiliations

Proposed reporting requirements

- A proposed rule would require registered advisers to private funds to file reports on new Form PF that would include, among other things, information about the adviser, total and net assets under management, investment strategies of the private funds it advisers, the funds' use of leverage, counterparty exposures and other matters. The information would not be made public.

- Disclosure of incentive-based compensation arrangements if an adviser has more than \$1 billion in total consolidated assets.

Other requirements

- New SEC rules require advisers to include certain key information regarding fees, amount of client assets, types of clients and investment strategies in a narrative form filed with Form ADV. This information will be public.
- The SEC's Pay-to-Play Rule limits political contributions that advisers can make to government officials. The rule applies to both registered and unregistered advisers.
- New Treasury Form SLT requires the mandatory monthly reporting of the fair values of long term US securities owned by foreign residents and long-term foreign securities owned by US financial institutions, where such values equal or exceed \$1 billion. Firms are required to file their first reports after the close of the third quarter ending September 30, 2011.

Key focus areas for the SEC

SEC areas of focus

Some of the current focus areas include the following:

1. Safety of investor assets

- The focus is not just on Ponzi schemes, but also on how fees are being calculated and how expenses are being allocated for fairness and consistency with disclosures.
- Focus is given to transparency, disclosure, obtaining proper investor approval and consistency with marketing and legal documents.
- The SEC would expect the entity's interpretations on matters such as fees, expenses, sidepockets and clawbacks to be completely transparent and clear to a reader of the partnership agreements and governing documents.
- Includes compliance with the Custody Rule.
- Valuation—in addition to FAS 157 requirements, a focus is on identifying red flags such as crossing transactions, affiliated transactions, window dressing transactions as well as instances of management ignoring red flags of misvaluation.
- Risk disclosures— portfolio (including leverage), currency, market counterparty and valuation risks.

2. Insider trading

- All SEC-registered advisers are required to have programs to prevent and detect insider trading.
- These programs should ensure controls regarding strategic investors, research providers, participation on Boards or Credit Committees, buying loans of portfolio companies, sources of material nonpublic information coming into the firm, proper training and surveillance.

3. Conduct of boards and senior executives

- Governance , reporting and controls are areas of focus. The SEC has brought charges against senior executives and Directors for ignoring obvious signs of fraud
- The SEC's new whistleblower rules will encourage complaints to the SEC, and impact firms' compliance programs

4. Market abuses

- Areas of focus include controls over investment decision-making and trading practices, e.g., market manipulation, issues of rumors, Reg SHO (short-selling), Reg M Rule 105, high frequency and algorithmic trading.

Key focus areas for the SEC

5. Marketing practices

- Disclosures to investors and prospective investors must meet fiduciary standards, *i.e.*, all conflicts of interest must be disclosed, all information must be consistent and accurate.
- Investment guidelines and restrictions—practice should be consistent with offering documents, pitch books and other marketing documents. The SEC will evaluate whether a firm maintains controls to monitor compliance with the terms of offering documents and marketing documents.
- Controls should prevent abusive marketing practices, such as pay-to-play, questionable use of performance track records, undisclosed fees to finders, directing business inappropriately, etc.

6. Municipal securities and public pensions

- Focus on offering practices and representations, tax and arbitrage activity, and pay-to-play arrangements.

Key challenges for private equity advisers in the new regulatory climate

- Understanding regulatory expectations – and training employees so they understand their obligations.
- Overseeing portfolio companies.
- Implementing or enhancing a compliance program that meets SEC expectations.
- Anticipating impact of the new whistleblower rules.
- Establishing strong information barriers between the private and public sides of the investment adviser, and implementing procedures for “wall crossings,” and appropriate monitoring.
- Identifying, mitigating, managing, and disclosing conflicts of interest:
 - Institutional conflicts— conflicts with counterparties, in investment allocations, cross-dealing amongst portfolio companies and relationships with investment banks.
 - Personal conflicts—personal investments, trading, gifts.

Critical regulatory considerations

➤ Exit — key questions

- Have you accurately assessed whether your firm needs to register with the SEC?
- Even if your firm is exempt from registration, you will need to assess whether your firm is subject to new recordkeeping and reporting requirements.
- Have you reviewed your firm's compliance and operational functions against Advisers Act requirements and expectations of a registered adviser?
- How confident is your firm that its governance and control procedures are aligned with the areas of SEC examination focus and meet SEC expectations?
- Do your disclosures meet fiduciary standards, are they consistent and do they reflect actual practices? How confident is your firm that its transparency to investors and the market, are consistent, and will be able to keep up with the ever-changing business and regulatory climate?
- How are all potential and real conflicts of interest with limited partners, affiliates, counterparties, and other service providers identified, managed and controlled on an ongoing basis?
- How effective will your firm be in managing the future growth and complexity of the business such that it is able to demonstrate that the controls and procedures have kept up?
- Can you demonstrate that your firm's compliance program is reasonably designed? If the SEC pursued an Enforcement case against your firm, a principal or employee, how confident is your firm that it can demonstrate that its control policies and procedures were properly designed and implemented, i.e., how confident is your firm that it will be able to limit damage to the broader organization and minimize "collateral damage" to your firm and members of the management team?
- Have you assessed the impact of the Alternative Investment Fund Managers Directive?

Alternative Investment Fund Managers Directive

European Union directive and its potential effect

In light of recent market abuses in Europe, regulators, including the FSA in London, have come under increased criticism for not being “tough enough” on the securities industry. There will be more thorough reviews and information sharing among regulators.

The EU Parliament passed the final Alternative Investment Fund Managers Directive (the Directive) in November 2010. Member States must incorporate the Directive into their laws by 2013, with a compliance date of January 2014 for EU funds already authorized or operating in the EU.

The Directive subjects managers of alternative investment funds to compulsory regulation in the EU and will require significant modifications to the structures, strategies and operations of private equity fund managers and funds.

The Directive contains significant regulatory requirements, including:

- Capital requirements
- An independent EU custodian
- An independent valuation of assets by an EU valuator for each fund
- Limits on leverage
- Prohibition of naked short sales
- Transparency of diverse terms among investors
- Extensive disclosure to investors and regulators
- Financial stability and liquidity of the alternative investment fund
- Prohibition of asset stripping in portfolio companies controlled by managers during the first 2 years of ownership
- Deferral of performance related compensation
- Establishment of compensation policies and procedures that promote risk management

Fund managers would be required to become “authorized”

- EU managers would obtain authorization from their local regulator and fully comply with the Directive.
- Upon compliance, EU managers may obtain a passport that would allow them to manage or market their funds cross-border throughout the EU.

Restrictions on marketing

- From now until early 2013, existing and new funds may continue to be marketed under the current private placement regime.
- Beginning in 2013, many funds will be required to fully comply with the Directive and obtain a passport to market cross-border in the EU.

Alternative Investment Fund Managers Directive

US and other non-EU managers

- From 2013 until at least 2018, non-EU managers and non-EU funds may continue to use country by country private placement regimes for marketing fund interests.
- Non-EU funds will have to comply with certain disclosure and reporting requirements.
- In 2015, non-EU managers will have to register under the passport regime.

- Under the passport regime, non-EU funds will be able to engage in cross-border marketing activities in the EU, provided regulatory cooperation agreements are in place, the non-EU fund manager complies with the Directive and obtains authorization from a Member State of reference for its marketing activities.
- Passive marketing (i.e. reverse solicitation) is not covered by the Directive, so managers who do not actively solicit EU investors in the EU will be unaffected.

The EU has also created the European Securities and Markets Authority (ESMA), an independent authority designed to provide oversight of EU financial markets

- ESMA has power to draft binding securities regulations to implement the Directive.

FATCA – the heart of the matter

It is all about transparency

Beginning January 1, 2013, the provisions of the Foreign Account Tax Compliance Act (FATCA) will become effective. These rules provide reporting obligations and impose a 30% withholding tax obligation on any US-sourced income and the gross proceeds from the sale of investments that produce US sourced interest or dividends (withholdable payments) received by any offshore fund or other foreign financial institution (FFI). These FATCA withholding tax obligations include applying withholdings on passthru payments, which are withholdable payments or other payment attributable to withholdable payments, made from a FATCA compliant FFI to its non-compliant investors.

>>The definition of withholdable payment is very broad, and includes gross proceeds realized from the disposal of U.S. portfolio investment, even if there is a monetary loss.

Most offshore private equity funds will be FFIs.

This withholding tax is avoided if the FFI enters into an agreement with the Internal Revenue Service (IRS) by June 30, 2013 (or later in some cases) and agrees to comply with new documentation requirements, due diligence procedures, and reporting obligations.

These new requirements are aimed to detect US tax residents that may be evading US federal income tax by holding investments directly or indirectly through an FFI.

In general, the new 30% withholding tax will apply to payments on:

- (i) Fixed, Determinable, Annual, Periodical (FDAP) income received by an FFI after December 31, 2013; and,
- (ii) Any withholdable payment received by an FFI after December 31, 2014,

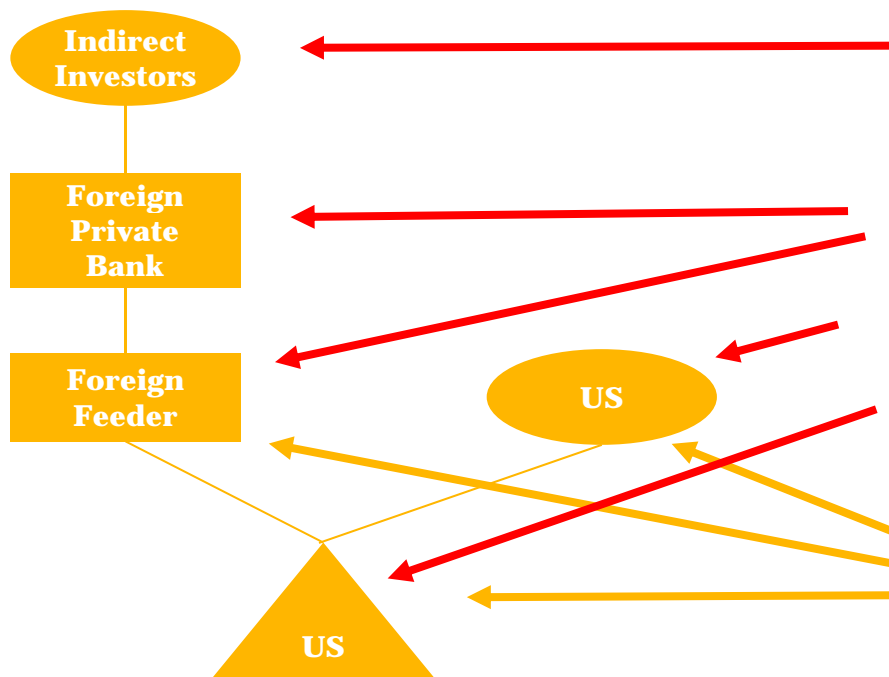
unless the FFI has entered into an agreement (FFI agreement) with the IRS.

Passthru payments will be subject to the same deadlines upon the nature of each payment.

An FFI agreement will obligate the FFI to:

- Obtain information on each investor (account holder) that holds the FFIs equity or debt (accounts) necessary to determine which accounts are US accounts.
- Perform required due diligence/verification procedures, including searching its files for indicia of US status of the account holders (e.g., a US address associated with the account holder's account).
- Seek waivers from its US account holders for any applicable bank secrecy, confidentiality, data privacy, or other information disclosure restrictions that would otherwise limit the FFI's ability to share information with the IRS regarding its US account holders.
- In some instances, close accounts when it is not able to obtain these waivers.
- Report information on US accounts and comply with IRS information requests.
- Deduct and withhold a 30% tax on any passthru payment to any recalcitrant account holders or non-compliant FFIs.

FATCA – key implications



Under FATCA

- Information will be available regarding this level
- Participating FFIs at this level will gather information, report and withhold US tax against passthru payments
- USFIs will have information gathering, reporting and withholding responsibilities similar to those of participating FFIs

Under Current Law

- Information is available regarding this level

FATCA has important implications for the private equity industry

FATCA carries important implications for the private equity industry by:

- Significantly increasing the types of payments that could be subject to US withholding tax, such as direct or indirect payments of gross proceeds, or payments on certain swaps. Also it would significantly increase the number of entities that could have liability for US tax on such payments, including offshore funds and offshore distribution channel intermediaries that hold, or through which others hold, direct or indirect interests in US investments.
- Expanding the population of entities that will have US tax information gathering, withholding, and reporting responsibilities and potential financial exposures for non-compliance.
- Increasing the business risks arising from relationships with third-party distribution intermediaries, through which indirect investors hold interests in funds, and with service providers upon which funds may rely for compliance.
- Imposing US tax documentation requirements on direct and indirect US and non-US investors.
- Forcing many in the industry to modify internal systems, control frameworks, processes, and procedures to meet FATCA compliance requirements, costing asset managers significant time and money.

As a business matter, FATCA's tax provisions will compel most offshore funds that have meaningful direct or indirect US investments, including certain synthetic investments (e.g., through equity derivatives), to enter into FFI agreements. Otherwise, the 30% tax on gross proceeds from the disposition of investments will make most US investments uneconomical. If a fund has any material turnover, the tax could readily exceed the fund's net asset value.

FATCA – what should private equity firms be doing now?

Recommended action steps

Many details regarding FATCA's implementation requirements will not be clear until further guidance is issued. Nevertheless, there are a number of action steps that fund groups should undertake at this time to prepare for FATCA, including the following:

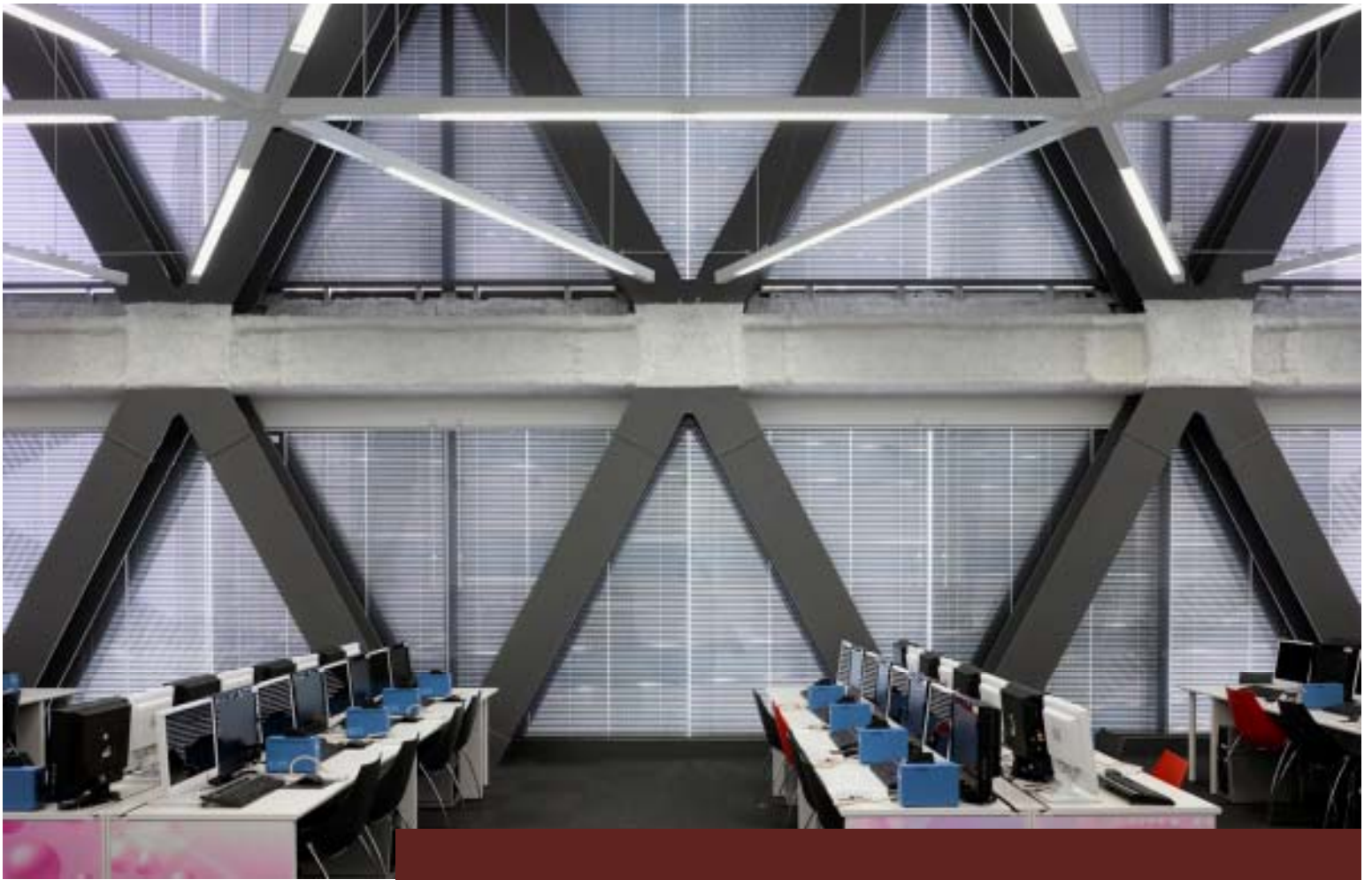
- Identifying the appropriate internal stakeholders (e.g., internal counsel, compliance, information technology and investor relations personnel) and educating them of FATCA's requirements.
- Outlining your firm's "FATCA footprint" (i.e., identifying the entities, "accounts" and payments within FATCA's scope).
- Identifying business and legal issues raised by FATCA (e.g., adequacy of current subscription documentation, tax indemnity provisions, service agreement provisions, etc.).
- Performing a preliminary data and operational "gap" analysis.

- Identifying and addressing investor relations issues.
- Distribution channels should be reviewed in order to determine whether all distribution intermediaries will be FATCA compliant, whether some FFIs might qualify as deemed-compliant, etc. and manage operational (e.g., passthru payment withholding, confidentiality waivers, etc.) and business issues.
- Identifying potential technology enhancements.
- Identifying areas where risks might be reduced.
- Undertaking an analysis of investment products and services designed to identify possible FFIs, USFIs, withholdable payments, passthru payments, etc., and assign risk profiles to relevant categories of funds and services.

Conclusions

The private equity industry will have unique challenges in complying with FATCA. Much will depend on the action steps taken today to prepare for these future dramatic changes. We have considered in-depth what specific challenges FATCA poses for the private equity industry and have developed industry-specific action steps that should be considered.

For those private equity firms that wish to have or maintain the flexibility to make portfolio investments in the United States, complying with the provisions of FATCA will be of paramount importance. Failure to do so could cause the fund and its strategies to become untenable investment propositions.



Infrastructure model

An evolving infrastructure model

Evolving the infrastructure and technology model

The explosive growth of alternative assets continues to place significant strain on existing technology infrastructures. As firms have come out of the financial crisis, focus has shifted from "keeping the ship afloat" to growing the top and bottom lines; therefore the demands on infrastructure (as a platform for future growth) have only increased. The expanded use of alternative strategies and new investment vehicles will continue to accelerate thereby placing additional stress on outdated operating/infrastructure models. The demand for additional transparency as required by underlying investors and regulators (e.g. FATCA) has exposed the limitations of today's systems capabilities.

Key infrastructure challenges

- Enhanced information and reporting to managers, investors, and regulators.
- Enterprise data is stored in disparate systems, exacerbated by a siloed firm structure resulting in poor data quality and lack of confidence by consumers of data.
- Flexibility and scalability of infrastructure platform to adjust to a global customer footprint, increasing complexity of products, and new fund structures.
- Ability to enhance and streamline operations to eliminate manual, redundant, error-prone processing in a better controlled environment.
- Address investor demands for transparency and robust reporting.

Responding to challenges and key considerations

How are others responding?

- Private equity managers are evaluating their infrastructure in a holistic way by assessing their current operating/technology model to identify what functions should be retained in-house vs. those that could be outsourced to a 3rd party service provider.
- Firms are planning and/or building their platform for the future with a greater emphasis on automation, straight-through processing, and controls.
- As data is the “lifeblood” that courses through the veins of an organization, firms are striving to ensure a golden copy of data through the use of an integrated data store (a central data repository).
- To meet demand for increased transparency, firms are increasingly adopting SaaS—demand for Software as a Service is increasing, to push out and publish investor reporting data (e.g. fund and portfolio information, performance and attribution).
- Security—regulatory changes, investor demands, as well as outsourcing needs require significant emphasis on data security.

Infrastructure Considerations

- Has your firm developed a long-term roadmap for its infrastructure?
- Out of that roadmap, has your organization begun to create a holistic, long-term operating/technology model that will be a platform for future growth?
- Are there tactical, short-term wins that users can immediately realize and benefit from?
- Has your firm completed a risk assessment of its key business processes and supporting technology?
- What steps has your organization taken to ensure the interoperability of systems amid the numerous stakeholder interests that are represented?

These and other questions can assist firms in the development of an effective and efficient operating model.

Developing the right Operating/Technology Model

Operating/Technology Model

The Operating/Technology Model is a holistic blueprint of a firm's capabilities, those that are performed in-house and those that are outsourced to third party service providers. Differences occur in that certain functions may be nascent or non-existent at a private equity firm; these may include, cash management, treasury, or risk. The governance structure may be lighter with reliance on less formal, manual controls. Private equity complexes may also have a tendency to rely on home grown tools, many of which are Microsoft Excel based and can be found throughout the entire investment functional chain. As private equity firms mature, and their IT needs become more sophisticated because of regulatory requirements and increasing investor demands for a better controlled environment, firms will put a more stringent governance structure with more rigorous controls in place.

Early on, consider these key questions in order to assist in the creation of a holistic operating/technology model:

- To what degree are common applications (e.g., CRM, fund accounting, reporting tools, etc.) utilized across business lines?
 - Does your firm take an enterprise view (across business lines) when choosing new applications?
 - Does your firm go through a structured, repeatable vendor selection process for new applications (i.e., requirements, RFP, short-list vendors, demos, negotiation, testing)? Are lessons applied from each round of vendor selection?
 - Does your firm periodically review its operating/technology model to determine whether it is still applicable to today's environment? More importantly, can it be a platform for future growth?
- What are your firm's core competencies, critical functions and capabilities? Which are non-value added? Can they be outsourced?

Key takeaways

1. Begin operating model development by asking stakeholders within the organization several key questions (including those outlined above).
2. Map out the critical functions that should be retained in-house vs. those that are less value added.
3. The operating model should be reassessed and fined tuned periodically to continue to be a platform for future growth.

Data integration

Integrated Data Store

Private equity firms are in a perpetual state of innovation and transition. Enterprise data is akin to the “blood” circulating throughout a firm. It is stored in disparate systems, isolated by a siloed organizational structure and transmitted via a myriad of point-to-point connections leading to “integration spaghetti”. Private equity firms have increasing needs in the following key data categories:

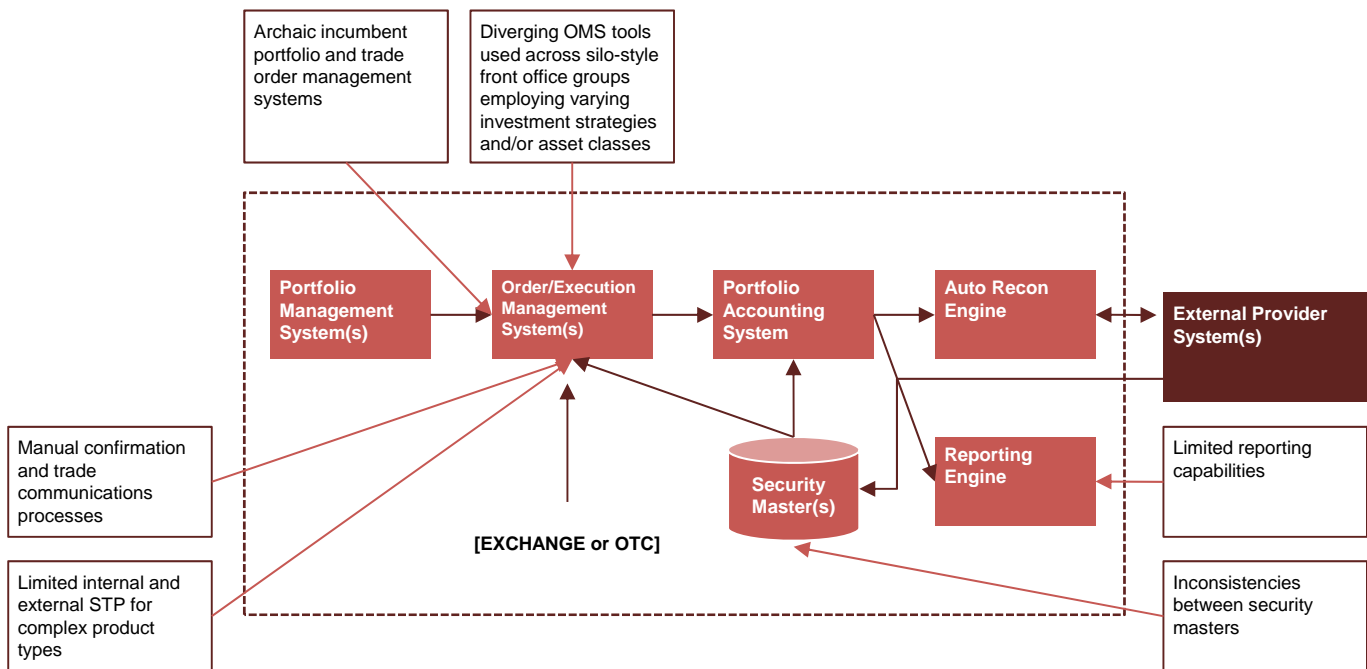
- Reference Data
- Investment Data
- Product Data
- Client Data

The following challenges are, however, impacting private equity managers’ ability to access, process and synthesize the available data into business intelligence:

- Lack of clear ownership and accountability for the creation and maintenance of data
- Lack of agreed upon standards for data quality and service levels for data creation and delivery
- Difficulty in establishing a unified view of client relationships with multiple product, service, or channel relationships
- Existing legacy databases that are siloed or isolated to specific business uses or technical access that are not compatible with an integrated data management strategy
- Lack of a comprehensive ability to define and understand data through use of metadata or other tools
- Difficulty in defining and implementing an effective data warehouse or data integration layer that can accommodate multiple sources of “golden copy” data and distribute it effectively to users of that data

Migrating toward integrated data stores

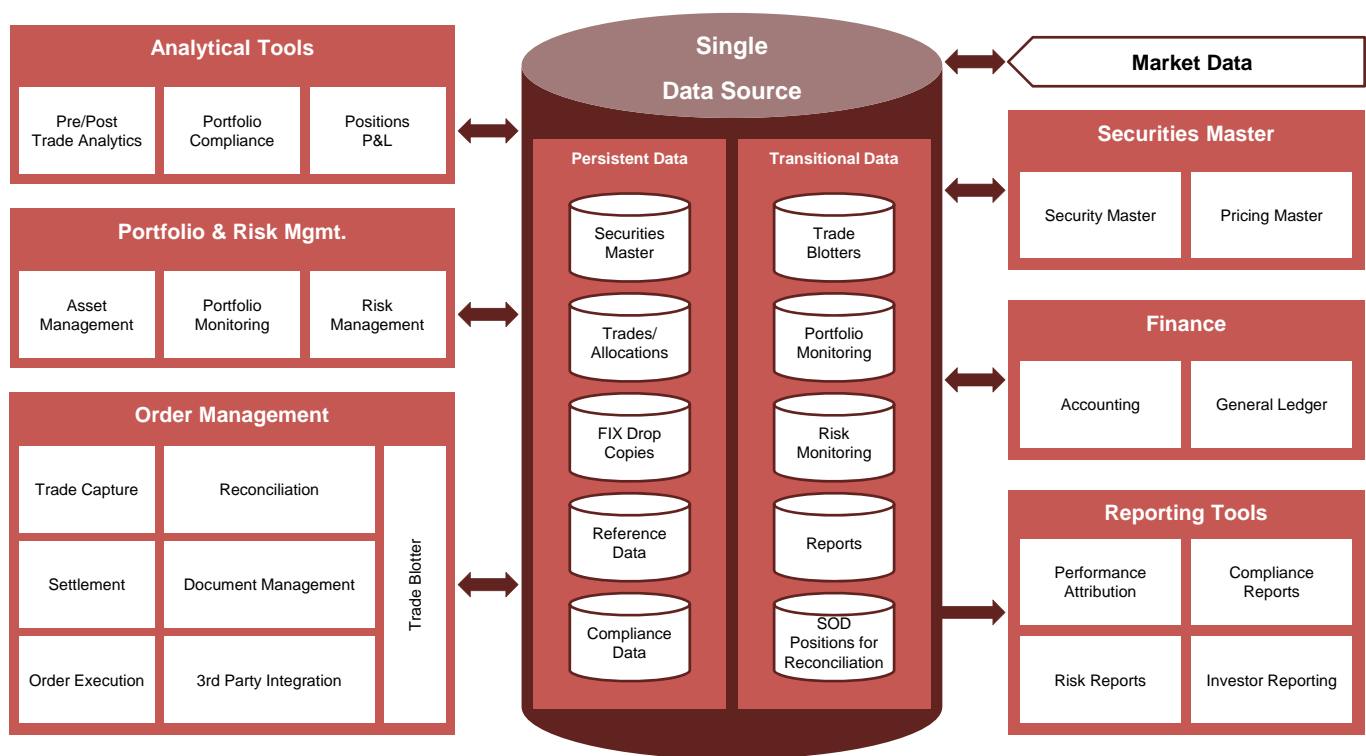
Many challenges are a result of numerous point-to-point connections in today's environment. Many firms possess a data workflow model that may look like a derivation of this diagram.



Leading private equity firms are moving away from a model that lacks clear accountability and ownership that employs the aforementioned “integration spaghetti” model. Instead, defined data governance structure and empowered data stewardship roles and responsibilities are being created. On the technology side, there is a migration toward integrated data stores.

Integrated data store model

In an integrated data store model (featuring a central repository), consolidated trade and portfolio management, integrated data interfaces provide a single system for data entry, performance monitoring, and report generation.



Key takeaways

1. Point-to-point connections between systems can be growth inhibiting to an organization.
2. The benefits of an integrated store are numerous including: cleaner data; increased confidence by consumers of data in data quality and integrity; greater flexibility to service internal and external customers (particularly to ad hoc demands for special reporting requests); reduced instances of operational errors due to outdated data.
3. An integrated data source allows an organization to turn raw data into actionable business intelligence.

Common Issues and recommended solutions

Frequent Issues and Recommended Solutions

These recommendations can assist in minimizing risk and reducing cost subject to human error, data integrity and quality issues, key personal risk, and lack of accurate and timely representations of risk and performance data by implementing an integrated operational platform.

Function	Issue	Issue description	Recommended solution
Data	Disparate sources of Data	Data is often available in disparate sources (internal & external systems and/or service providers), manually glued using Excel	Need centralized database that provides access to accurate, consolidated information from various internal and external sources
	Data representation	Data in different sources, often not represented in line with the business needs	Need to store data with the lowest common denominator such that it can be extracted and presented exactly as the business dictates
Application Usability	Different trading workflows	Trading workflows and characteristics are different for every fund, often not well supported by commercial, off -the-shelf products	Rather than having every user learn how to use a system, choose or create a system to work based on your existing workflows
	Difficult user interfaces	Complex user interfaces requiring multiple clicks and unnecessary user data entry	Need to have Excel like interfaces, which are most familiar to the fund users, with preselected data that is available with a click of a button
Trade Order Management	Support for all asset classes	Most commercially available systems do not have good support for OTC derivatives such as IR Swaps, Credit Swaps	Need a solution created from ground up to support all asset classes via configuration, without programming requirement
	Pairing and trade idea functionality	Limited to no support for trades comprised of multiple, completely independent securities	Need today's features built-in, such as pairing and trade grouping functionality
	Complex allocations	Limited support for complex allocations, including rebalancing algorithms	Need support for flexible, yet well controlled allocations management with minimal clicks

Common Issues and recommended solutions

Function	Issue	Issue description	Recommended solution
Reporting	Ad-hoc reporting	Reporting capabilities are often limited to supplied canned reports, or difficult to make changes without programming knowledge	Need ability to slice-and-dice the data, every which way you want, with an Excel like functionality
	Formatted reporting	Available reports are often not formatted to specific business needs, and new requirements/changes take too long for implementation	Needed stylized reports should be generated with a push of a button, and add/change configurable reports with a quick turnaround time
Portfolio Management	Real-time portfolio	Portfolio must be real-time to include current trades	Need seamless, real-time integration with accounting/fund-admin and OMS/EMS
	Real-time P&L for all asset types	Often, OTC derivatives not priced in-house, or priced separately and infrequently	Need real-time OTC pricing service, as well as integration with other valuation sources, along with real-time market data
	Custom pricing	Some illiquid and other instruments need to be priced from market data, however using custom formulas	Need support for Excel like formulas for pricing any instrument using any available market data
Regulatory and Customer Compliance	Automated compliance check	Often Compliance systems are not integrated with the Order Management systems or Portfolio Management systems	Need compliance system/module integrated with OMS and PMS to avoid human errors and provide accurate and timely representation
	Regulatory and investor compliance	Difficult to get support for both regulatory and investor compliance, and in a highly configurable manner to keep up with changing requirements	Need regulatory as well as investor compliance functionality integrated with OMS and PMS, for pre-trade, post-trade, and real-time Monitoring

Key takeaways

1. Firms are plagued by a common set of challenges and issues.
2. There are numerous tactical and strategic solutions that can be implemented to address these common set of challenges—some require investment in technology others may be handled through a change in procedures or minor IT development.
3. The key is to have a holistic view of the operating/technology model in order to understand which set of challenges require strategic investment vs. tactical fixes.



Enhancing controls

Enhancing and improving controls

The need for more and better control is increasing

- Investors are not only expecting a higher degree of control over company operations, they're testing it through due diligence and expecting more "controls transparency" through reporting (e.g., SAS 70s).
- In any type of third party capital raising, there is a higher expectation of controls, particularly over areas such as financial and risk reporting, custody, etc.
- There are many industry groups providing guidance today, but regulation may ultimately dictate some level of control standards, and related reporting for the industry.
- A consistent approach to controls across your firm, with some basic foundation activities, is the most efficient way to increase the level of operational control without incurring unnecessary effort and cost.

>>Having a robust control environment provides the opportunity for a firm to better manage its key risks and more consistently meet its business objectives

Benefits of enhancing the control environment

- Reducing operational risk by improving controls and reporting around key processes — Enhancing the visibility and effectiveness of the controls will improve management's ability to manage risk and take advantage of new opportunities.
- Providing financial information that is more accurate, complete and timely— A well-controlled process reduces the risk of errors that can lead to misstated financial information, misinformed portfolio decisions, loss of investor confidence, etc. Better financial and management reporting leads to more informed business decisions.
- Having a more efficient and effective financial statement preparation and audit process — Financial statement preparation and audit can entail very time consuming and costly processes. Having a robust control environment will allow a firm to eventually move to a more efficient controls-based audit process. In addition, the time required to complete the audits and issue the financial statements should be reduced.
- Meeting current and future investor expectations —A more robust control environment is expected by investors today and is required in the event of most types of capital raising activities (e.g., 144a, IPO, etc.).

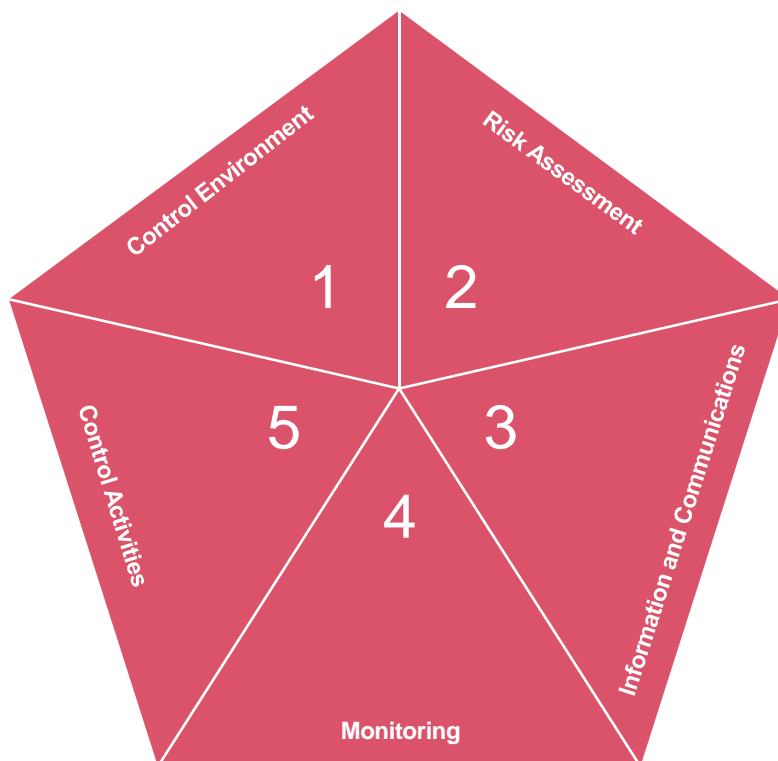
Five key areas for a well-controlled firm

Characteristics of a well-controlled firm

There are five key areas of emphasis in having a well-controlled firm.

- A structured control environment
- An effective enterprise risk assessment framework
- Formalized control activities
- Efficient information dissemination and communications
- Effective monitoring and control reporting

Building blocks of a control framework:



Five key areas for a well-controlled firm

1. Control Environment

- Strong senior management oversight
- Corporate governance, code of conduct, compliance and investigation programs.
- Organizational structure and responsibilities

2. Risk Assessment

- Enterprise Risk Management & control framework
- Key processes evaluated for risk
- Periodic control self-assessments
- Effective gap identification and remediation process

3. Information and Communications

- Effective financial and operational reporting to management
- Well-communicated control responsibilities
- Strong, well-controlled IT function, with a well-defined software development lifecycle (SDLC)

➤ Enhanced controls — considerations

- Has your firm documented its critical business processes in one place and clearly identified the risks inherent in its business?
- Does your firm have an enterprise control framework that can be leveraged in helping to manage critical business risks?
- Has your firm evaluated and tested the design and operating effectiveness of its controls?
- Does your firm effectively document the result of its control activities to enable review and/or audit?
- Does your firm continually monitor the effectiveness of its control activities?

4. Monitoring

- Internal Audit (internal or outsourced) or other independent control monitoring and testing function
- Effective management control reporting and/or dash boarding
- Effective service provider oversight

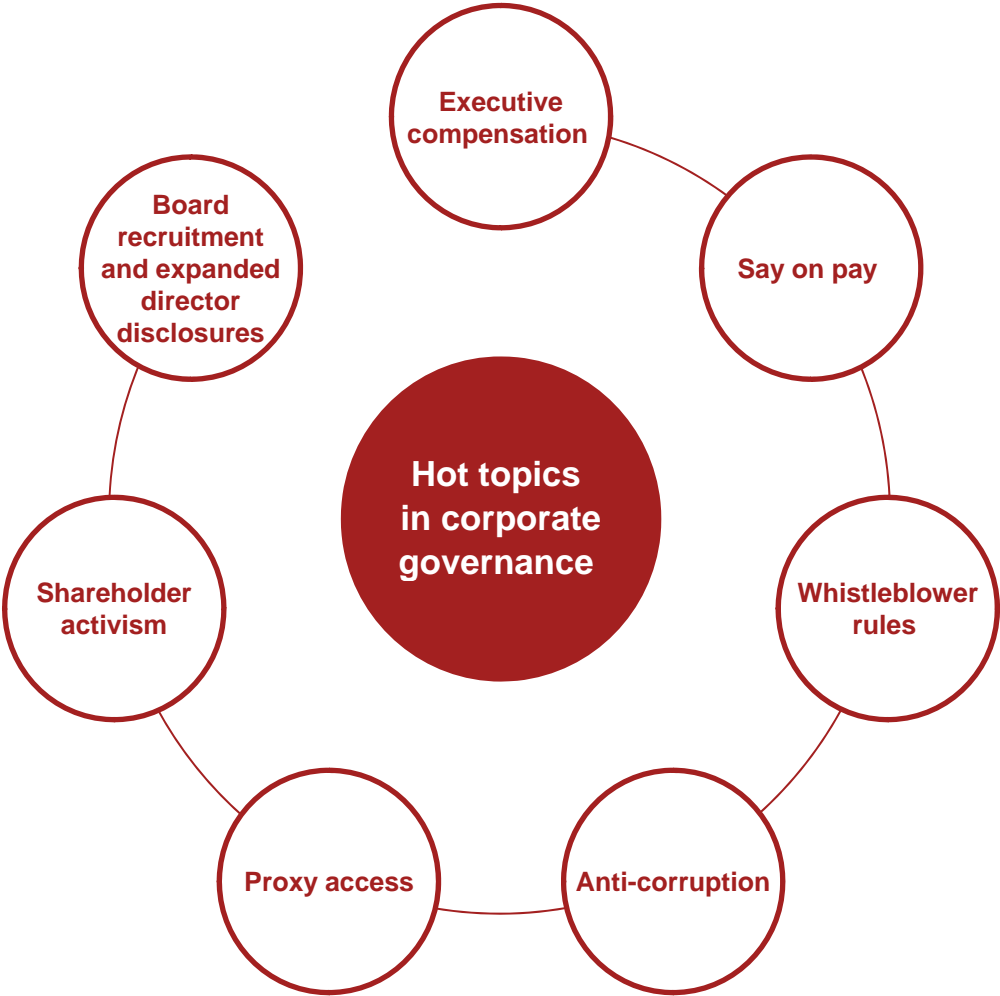
5. Control Activities

- Policies and procedures are documented and communicated to provide guidance and accountability
- Controls are well designed and operated to prevent and detect frauds and errors



***Governance and
organizational models***

Hot topics in corporate governance



Key areas of focus

Hot topics in corporate governance

Executive compensation	Say on pay	Whistleblower rules
<ul style="list-style-type: none"> • Currently among the hottest governance issues • Many view as a proxy for board effectiveness • Clawbacks mandated by Dodd-Frank Act, proposed rules expected in Aug-Dec 2011 timeframe • Increased independence rules for compensation committee mandated by Dodd-Frank, anticipated to become final in Aug-Dec 2011 timeframe • Increased executive compensation disclosures mandated by Dodd-Frank (pay for performance and CEO/employee pay ratio) proposed rules expected Aug-Dec 2011 timeframe • See related box regarding “say on pay” 	<ul style="list-style-type: none"> • Grants shareholders a non-binding vote on executive compensation • Required as part of Dodd-Frank Act, final rules released January 2011 • Effective for all companies for the first time in 2011 proxy season • Also required: “say on when” - how often (annually, biennially or triennially) the company holds the say on pay vote; the majority of which were approved for annual voting • 35+ say on pay votes failed in the 2011 proxy season, but the substantial majority of companies received votes supporting the executive pay package (average reported results for all companies ~ 91% “For”) • Results could impact director elections in the following year • UK, Netherlands, Australia and some other countries also have say on pay 	<ul style="list-style-type: none"> • Any person who voluntarily provides the SEC with original information that leads to the successful enforcement by the SEC of a federal court or administrative action in which the SEC obtains monetary sanctions totaling more than \$1 million • Final rules issued May 25, 2011, and is an expansion of the whistleblower provision of Sarbanes-Oxley • Whistleblowers are offered a reward of 10% to 30% of any fines levied over \$1 million • Employee whistleblowers not required to report to company first, though they are incented to do so with expanded reward opportunities • If the violation is first reported to the company, the company or the whistleblower must report to the SEC within 120 days of the whistleblower first reporting to preserve whistleblower’s status
Anti-corruption	Proxy access	Shareholder activism
<ul style="list-style-type: none"> • SEC and DOJ have significantly increased FCPA investigations in recent years and the volume of cases has increased substantially • More coordination between SEC and DOJ, and with their foreign counterparts • UK Bribery Act became effective July 1, 2011- more stringent than FCPA: relates to ANY bribery (not just government officials) and applies to any company/person with nexus to the UK , and for activities anywhere in the world • UK Bribery Act has no provision for facilitating payments (as does FCPA), and has strict provisions around corporate entertainment and promotional expenditures 	<ul style="list-style-type: none"> • The right of shareholders to place their director nominees - in opposition to the company’s nominees - in the company proxy statement • Dodd-Frank affirmed the SEC’s authority to make issue rules on proxy access • Final rules were issued by the SEC shortly after passage of Dodd-Frank, and included two qualifying tests for shareholders: % of shares held, and amount of time the shares were held • SEC issued a “stay” on the rules several weeks later in response to lawsuits filed • Arguments were heard in April 2011, but no decision has been released as of this writing • Combined with say on pay, this represents a shift in the power/influence of shareholders 	<ul style="list-style-type: none"> • Most common shareholder proposals in 2011 proxy season were: Majority voting, repealing classified boards, shareholder right to call a special meeting, review/report on political spending, cumulative voting, independent board chair, human rights, shareholder actions by written consent and sustainability • Of these, majority voting, repealing classified boards and right to call a special meeting generally received majority shareholder support

Evolving governance and organizational models

Rethinking the governance and organizational models

As the private equity industry has evolved over the past decade, so too have the operating models. The traditional bucket brigade with everybody pitching in where needed has given way to more specialization.

Firms today have progressed to a more traditional functional model with more definition around individual responsibilities. This has allowed the industry to better match talent and responsibilities and attract talent from other industry sectors.

Governance is changing

Governance for private equity firms is changing, with a focus on the key issues facing companies. In many cases, governance is being provided in the form of Management and Board Committees. The type of committees set up can vary based on the importance of individual issues to the firm and the culture. Some of the committees are standing committees that meet regularly, while others meet on an as-needed or ad-hoc basis. There is a need to balance staying nimble with governance so that it is effective and executable.

>>The key focus is on the effectiveness and composition of committees, not just their existence

Board functions

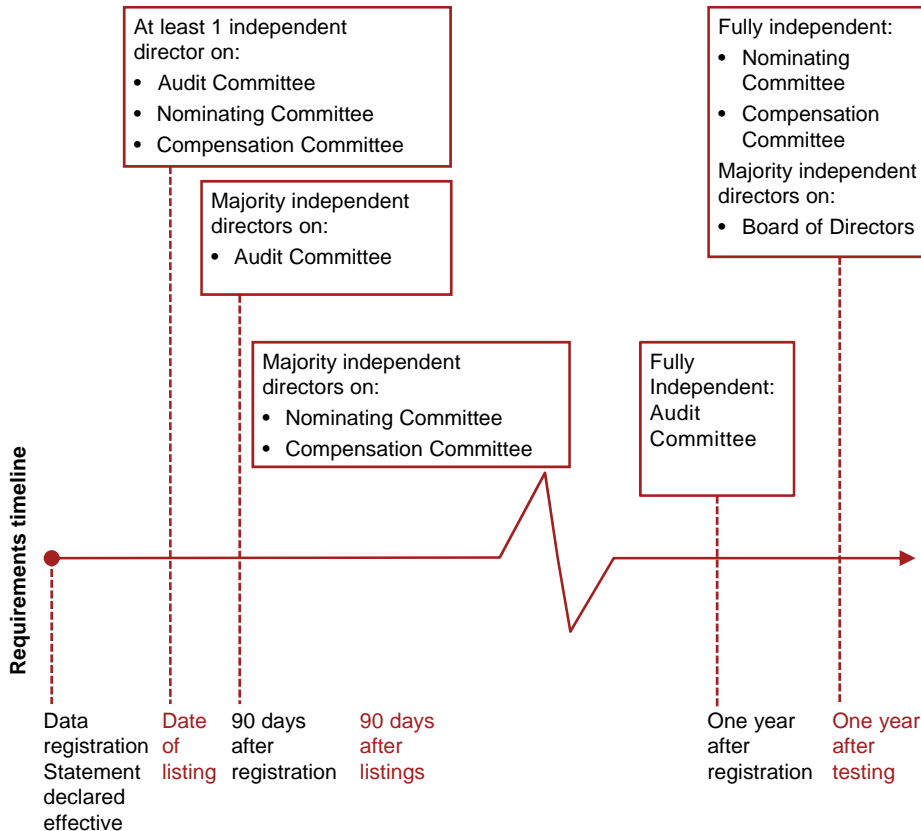
Board of Directors Committee functions

Committee Structure			
Standing	Compensation ▲▲ <ul style="list-style-type: none"> Approves compensation for executive officers other than the Chairman and/or CEO Annually evaluates the performance of the Chairman and/or CEO Oversees the administration of incentive compensation and executive stock plans and determines awards granted to executive officers 	Nominating and Governance ▲ <ul style="list-style-type: none"> Recommends the composition of the Board and its Committees, including size and qualifications for membership Recommends candidates and advises on compensation for outside directors Advises on corporate governance matters Oversees periodic evaluation of the Board 	Audit ▲ <ul style="list-style-type: none"> Engages and oversees the Company's independent auditors Reviews the Company's financial statements and disclosures and the adequacy of internal controls and major issues Reviews and approves the scope of the audit and the performance of the independent auditors Reviews the organization, resources and competence of the internal audit department
	Finance ▲ <ul style="list-style-type: none"> Oversees development of the budget Ensures accurate tracking and monitoring of funds Ensures adequate financial controls; often led by the board treasurer Reviews major projects and large expenditures 	Risk ▲ <ul style="list-style-type: none"> Oversight responsibilities with regard to the risks inherent in the business and the control processes with respect to such risks Assesses and reviews credit, market, fiduciary, liquidity, reputational, operational, fraud, strategic, technology, data-security and business-continuity risks Responsible for the risk management activities of the company 	Valuation ▲ <ul style="list-style-type: none"> Determines whether market quotes are readily available Determines the fair value of securities held for which market quotations are not readily available Reviews and approves valuation policies and procedures Approves the use of third-party pricing providers
Ad-hoc	Executive <ul style="list-style-type: none"> Oversee operations of the board Often acts on behalf of the board during on-demand activities that occur between meetings Often performs evaluation of chief executive 	Investment ▲ <ul style="list-style-type: none"> Regularly monitors the investments Recommends on investment policies and guidelines Reviews individual manager performance Monitors overall investment performance Approves the selection of new managers 	

▲ Private Company Model ▲ Public Company Model

Post-IPO and Post-NYSE listing governance provisions

Post-IPO and Post-NYSE Listing Governance Provisions



➤ Governance — key considerations

- Does your firm have the right committees with the right composition to provide appropriate input on key issues such as risk management and/or valuation?
- Do your committees have clear (and documented) responsibilities (e.g., charters) with the right resources, information and time to carry them out?
- Have the committees been effective in carrying out their responsibilities? If not, what are the barriers?
- Are other committees, or changes to current committees, being considered by your firm at this time?

An evolving management company structure

The management company structure is evolving

- The Management Company structure today is more complex. As the size and complexity of private equity firms increases, it becomes more difficult for the principals to run the firm. Historically, firms were led internally by either the CEOs/Principals or CFOs. Increasingly, the model for private equity is shifting to having a strong chief administrative officer or chief operating officer run the company day-to-day. This shift has created a lot of confusion over roles and responsibilities, particularly if the chief administrative officer or chief operating officer is hired from the outside. The key to an effective organizational model is clarity of roles and reporting lines; this is where many companies have issues.

➤ Management company structure — key considerations

- If there have been new additions to senior management in the past few years, has your firm taken a fresh look at its reporting lines?
- How effectively have changes in the senior management team and reporting lines been communicated internally and externally in the past?
- Have changes in organizational structure resulted in different access for various team members and principles?
- Has sufficient authority been given to the management team to affect the day-to-day operations of the firm?

The organizational structure of the finance function

The finance organization structure is also evolving

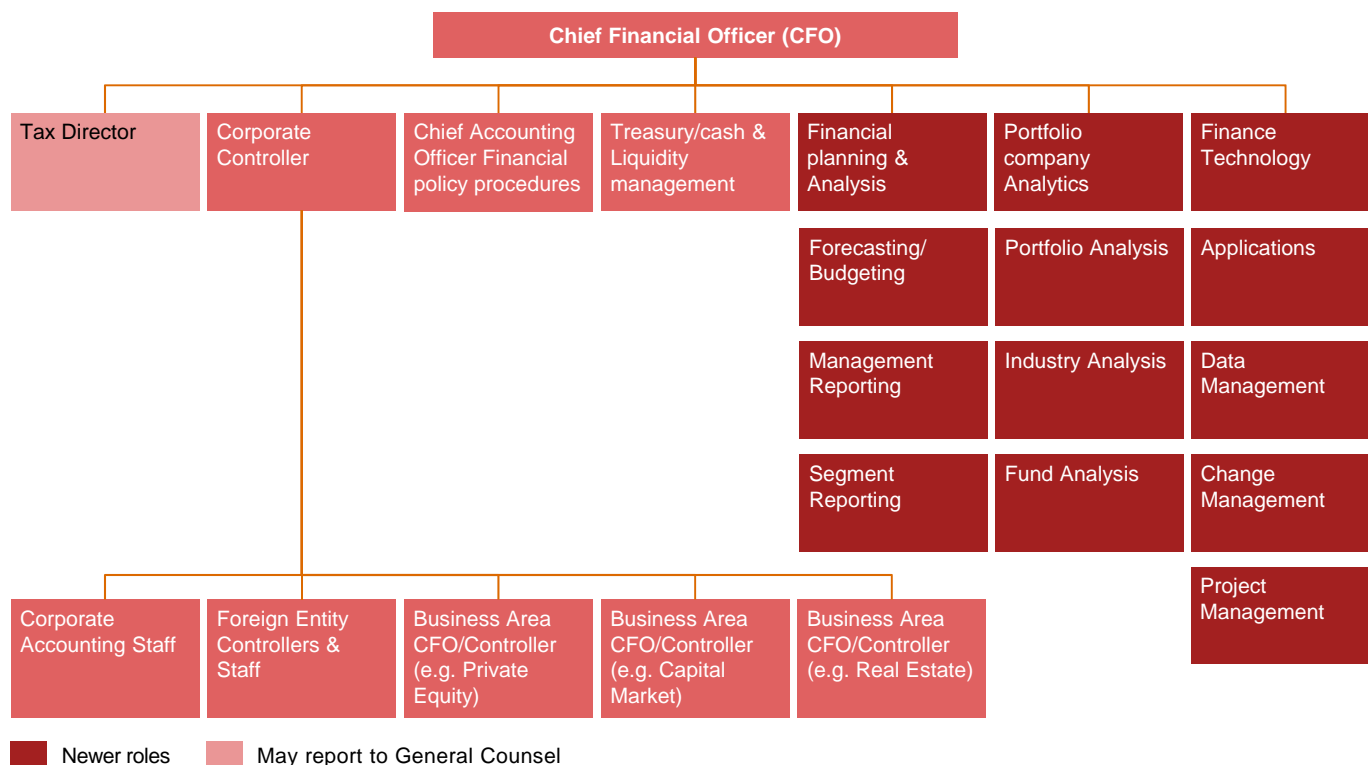
The organizational structure of the Finance function is also migrating to a greater degree of specialization, particularly for firms that have or may consider third-party capital raising. The historical CFO role is typically being split into several pieces, enabling the CFO to be more outward facing. There is a growing recognition of the need to better manage financial, investor and management information. There is also a fair amount of diversity in where other functions may report (e.g., Tax Director).

➤ Finance organization — key considerations

- Are responsibilities for investor, management and deal reporting sufficiently delineated to provide for efficient reporting?
- Does Finance have dedicated IT resources responsible for developing and managing the enabling technology to support the transaction and reporting needs of the department?
- Are the proper tools in place to manage and forecast cash?
- Are there staff and training development plans in place for the Finance function?

An evolving finance organizational structure

Evolving finance organizational structure



Key takeaways

1. Separation of the CFO, Controller and Chief Accounting Officer roles is increasingly common and necessary. Depending on the level of day-to-day involvement of the CFO, some companies may have the Controller and/or Treasurer report to the CAO, together with a Financial Policy and Procedures Leader.
2. Tax Director may sometimes report to someone other than CFO depending on skillsets and other responsibilities.
3. Growing need to dedicate technology and resources to support management and investor reporting.
4. Increased need for dedicated business area CFO/controller and staff at the fund level to deal with the demand for fund information.
5. Evolving need for dedicated IT resources to support Finance.

The changing role of investor relations and reporting

Investor relations role is changing as well

The typical role of investor relations is being redefined in the current environment. The required skill set of investor relations staff has changed from pure marketing to a service orientation and now investor relations is expected to take a more active role in managing the investor experience. For public companies or those considering going public, there is a whole new set of investors and obligations. The role of investor reporting is increasingly distinguished from investor relations, given the different needs and skill sets.

➤ Investor relations — key considerations

- Are the roles in your firm's Investor Relations group currently segmented?
- What role does Investor Relations play in meeting the reporting needs of your firm's investors at the fund and Management Company level, respectively?
- Does your company have a dedicated investor reporting function, including the technology to support the growing needs of investors?
- Does the Investor Relations staff have the right experience and skill set to deal with public investors, if applicable?

The changing role of investor relations and reporting

Investor relations and Investor Reporting

Function	Old paradigm	New paradigm
Marketing/ investor relations	<ul style="list-style-type: none">• Marketing and Investor Relations are combined	<ul style="list-style-type: none">• Marketing and Investor Relations are distinct functions requiring differing skill sets• Increasingly, they each require a more dedicated focus
Investor reporting	<ul style="list-style-type: none">• Managed out of Investor Relations• Supported by Fund Accounting for information needs	<ul style="list-style-type: none">• Managed out of the Finance Department• Supported by dedicated Investor Reporting personnel functionally within the Finance organization
Delivery	<ul style="list-style-type: none">• Manually driven• Supported by hosted document management service	<ul style="list-style-type: none">• Customized web portal provides greater security and functionality
Content	<ul style="list-style-type: none">• Separate reporting by business line• Historical information (i.e., activity)	<ul style="list-style-type: none">• Holistic (consolidated) reporting across multiple business lines• Financial information that satisfies increasing need for transparency and analysis

The growth of the IT support function

The growth of the IT support function

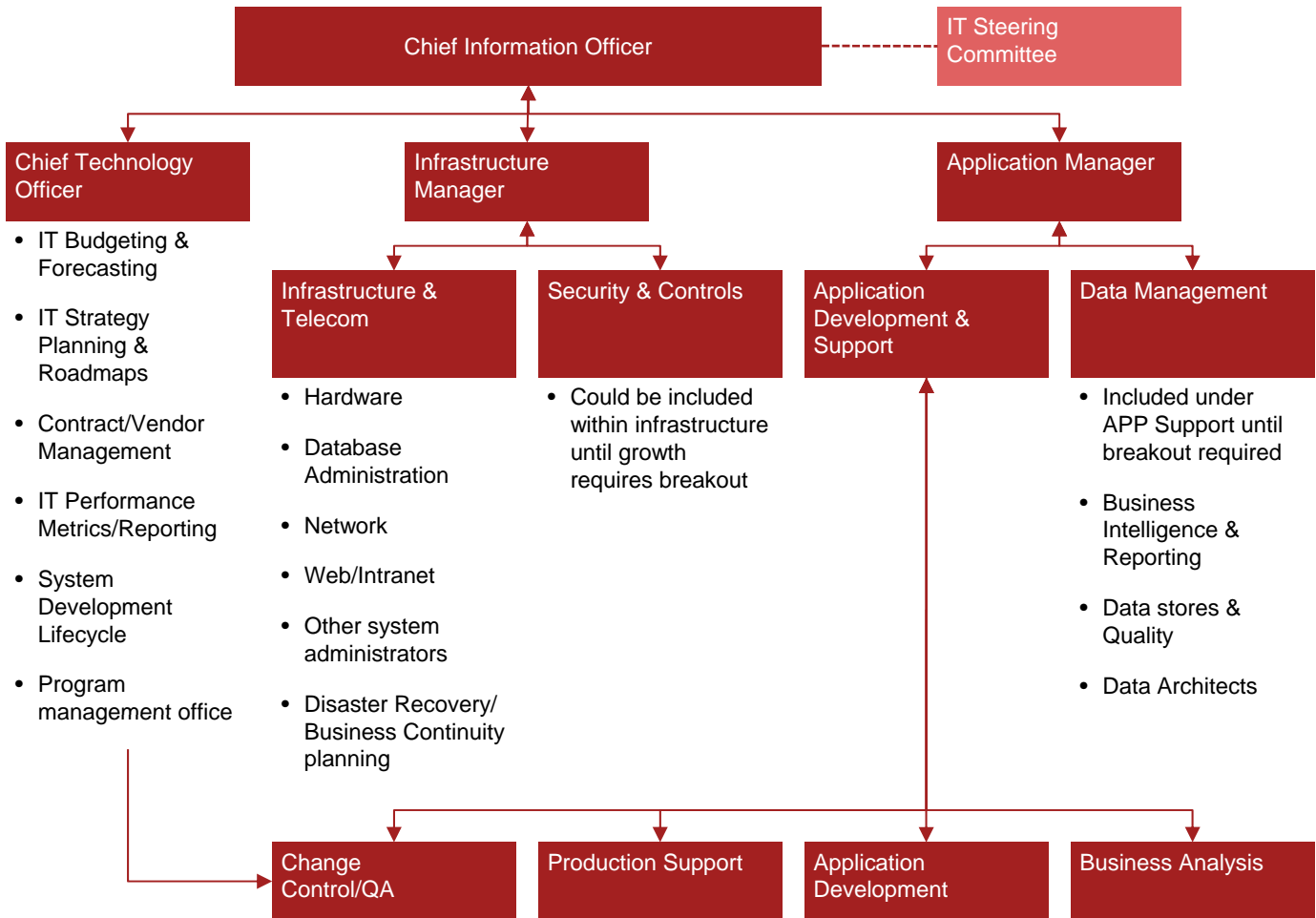
- The infrastructure and IT needs of the typical private equity firm have changed, particularly as firms have moved into new areas such as commodities, mortgage servicing and distressed debt.
- A whole new set of technology and support requirements has emerged.
- Finance and operational reporting requirements have evolved.
- Security, data management controls, business continuity and disaster recovery have become more important.
- These issues have influenced firms to utilize IT in support of shortcomings and to take a more traditional approach to the IT function.

➤ IT organization — key considerations

- How specialized are the functions within your firm's IT group?
- Is Data Management a defined role within the IT function?
- How does the IT organization interact with the various business lines? Are staffs dedicated to each line of business?
- Is there a separate role within your firm for Business Continuity and Disaster Recovery?
- Is Security managed as a distinct function within your firm's IT function?

An evolving IT organization structure

Evolving representative IT organization structure



Key takeaways

1. There is much more segmentation in roles within IT as the needs have increased.
2. Security and data management have assumed much more prominent roles.
3. The CIO today is typically responsible for strategy, while the CTO focuses on the day-to-day needs.



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