

KEYNOTE INTERVIEW

COOs step into the spotlight



As private markets AUM continues to climb, the COOs of PE firms have a vital role to play in underpinning growth, says [Karine Litou](#), deputy head of private capital for BNP Paribas' Securities Services business

Q Private markets AUM has more than doubled over the past 10 years. What has this rapid phase of growth meant for how managers think about their operational requirements?

The rapid growth of private markets has brought new considerations for private markets COOs. One of the most significant changes has been the growth of different fund structures. Ten years ago, most funds were closed-end vehicles structured as master feeder funds with some co-investment. That fund structure was less complex, certainly compared to what we see in the market today. Now managers also make use of evergreen, perpetual and hybrid fund structures, as well as semi-liquid funds and separately managed accounts.

The rise of new asset classes, like private credit, has also reshaped

SPONSOR
BNP PARIBAS

operational requirements. Unlike in private equity, where a manager holds assets in a portfolio for a number of years and there are limited fund cashflows through the life of a fund, those private debt managers providing loans have to monitor a significantly higher volume of cashflows.

The evolution of these fund structures – often within the same firms – and the emergence of new asset classes, then, have brought much more complexity to fund accounting and cashflow monitoring for managers, intensifying their operational workloads. Firms now need to equip themselves with the tools and technology to be agile enough to manage this complexity.

Q So, how are managers adapting to this operational complexity? What are they focusing on, and what resources are they deploying?

The main focus for most managers is fully integrating accounting and cashflow monitoring. Managers want to be able to return cash to investors as quickly as possible in order to deliver strong performance and attractive DPIs. In a maturing and more competitive industry, having a firm grip on cashflows and fund accounting is an integral part of achieving top performance.

Integrating fund accounting and cashflow monitoring requires specific tools and skill sets, and technology is at the centre of putting those capabilities in place. Technology will be at the centre of any discussion about operations with a firm's CFO or COO.

Q Is it fair to say that operations is becoming a crucial enabler of a manager's front-office investment performance?

Yes, especially when it comes to meeting investor requirements. Investor expectations are undoubtedly higher than they used to be. After all, investors want to have a consolidated view of performance, across multiple fund structures and investment strategies, and will factor in a manager's capacity to provide that when deciding whether to make an allocation.

The rise of perpetual and evergreen funds is an example of this. Institutional investors want access to these vehicles because they allow them to up commitments on a regular basis and make redemptions more frequently than a closed-end structure permits. For managers to continue to innovate and deliver on what investors want, they must have the capability to offer these and other increasingly popular flexible structures.



The priority is to put an agile and advanced technology platform in place to manage the heavier workloads, and to do that either internally or in partnership with third-party outsourcing providers.

After all, building up a technology stack in-house simplifies data management, as all data is held and managed internally, but it requires significant investment and upfront capital expenditure. That can be very costly.

Working with an outsourcing partner unlocks economies of scale and can bring together complementary areas of expertise. To maximise efficiency here, COOs and CFOs are investing in data warehouses that facilitate seamless connectivity with service providers. This will enable quick, accurate and secure exchange of information between firm and outsourcing partner.

Q What does the growth of private markets and rising demand for a wider range of fund structures mean for the CFO or COO of a private markets firm? How have these roles changed, and how might they evolve in the future?

The COO and CFO used to be very finance-focused, but now they really need to understand technology and have strong involvement with technology teams. Technology is now essential for managing intensifying reporting demands and fund structuring complexity.

In terms of how the roles will evolve, I would expect ever closer integration between the technology, finance and fund reporting skill sets. This will be driven by the ongoing evolution of private markets fund structures, as well as the emergence of an increasingly

rigorous regulatory framework, changing tax requirements and a broadening range of fund domicile options.

The modern COO and CFO will also have to be adept at managing external relationships with key suppliers, technology platforms and data providers. I expect managers will leverage external providers more and more in order to ramp up the capacity and efficiency of their operations.

The nature of these relationships with external partners is evolving too. Outsourcing partnerships used to be more straightforward. The provider sent through a financial report and NAVs each quarter, and that was sufficient. That is not enough anymore. Managers and their investors require much more frequent and granular information on their portfolios. They want to be able to drill down into the detail at a deal-by-deal level. The CFO or COO will be responsible for ensuring that the technology platform is in place to allow the manager to interface with external providers and produce reporting with the necessary detail, and within the required timescales.

In the coming years, CFOs and COOs will be working on digitising workflows and automating processes, ensuring there are no friction points with their providers so that tasks can be executed without manual intervention. Another challenge is linked to the evolution of investor audiences, as a landscape formerly dominated by institutional investors increasingly opens out to private wealth and retail investors. CFOs and COOs are vital in creating an operating model that delivers a good customer experience that can work for different and new investor types.

In short, the CFO and COO role will continue to evolve from a finance-focused position into a broader role requiring a mix of fund structuring knowledge, technology expertise and skills for managing multiple external supplier relationships. After all, that will be key to achieving top-tier operational performance and reliable returns. ■