# Transformation track

Private equity's journey to a tech-powered future

ontra

PRIVATE EQUITY WIRE

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# EXECUTIVE SUMMARY

## Laying the track for a tech-powered future

If recent economic turbulence has highlighted private equity's (PE's) vulnerabilities, it has also helped demonstrate its resilience. The past 12 months have seen fundraising struggles, slower exit cycles, and valuation dips. But as 2024 approaches, there are signs of recovery – according to EY, Q2 2023 saw PE activity increase 15% compared to Q1.

Challenges remain, of course. Market complexity is an ongoing concern, AUM and dry powder are at an all-time high, and global mega funds continue to grow, with the combined AUM of Blackstone, KKR, Brookfield, and Apollo hitting a record $2.7tn. Furthermore, increased competition means GPs are having to work faster, compressing their due diligence timelines.

An expanding market also has regulatory ramifications. In the US, the SEC has adopted new rules for private fund advisors. In the EU, ESMA is consulting on an updated Alternative Investment Fund Managers Directive. These, combined with existing KYC/AML and ESG reporting requirements, tighter deal timelines, market curveballs – such as digital currency – retail access to private funds, and geopolitical shifts, have made the in-house legal and compliance process more challenging than ever.

There have already been rapid shifts in the ways PE firms approach compliance. Not long ago, it was unusual for fund managers to have an in-house legal presence. However, today's PE firms have built robust compliance teams to oversee finance, marketing, investor reporting, co-invest programmes, and ESG – with most onboarding outside counsel for support at great expense.

It is not just human capital that is evolving. The PE industry is on a transformation journey. While there are hurdles – finding the right systems, managing change, user training, and tool adoption, among others – there is widespread acknowledgement that tech is crucial to survive, thrive, and effectively compete in the current market.

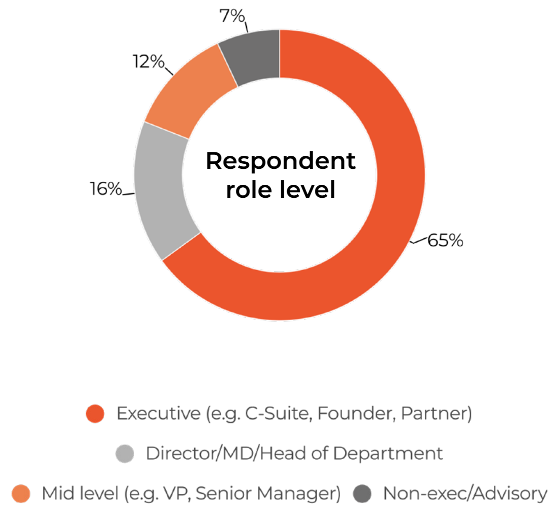
Positioned at the intersection between market evolution and compliance pressures, this report explores the ways PE firms are using tech to transform and grow. It examines the state of industry digitisation and the journeys firms are on, laying the track for a tech-powered future.

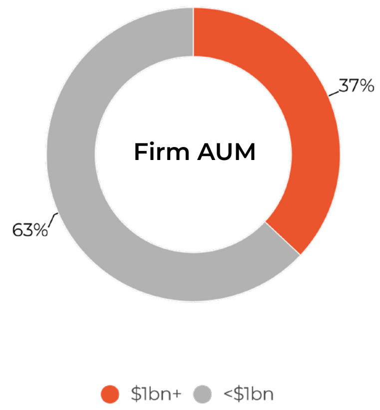
# METHODOLOGY

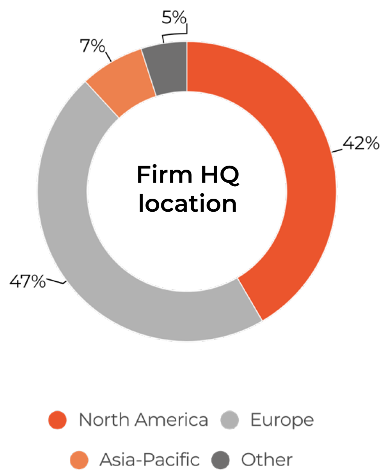
This report was produced as a joint research project with Ontra, in partnership with Private Equity Wire.

Findings are based on survey responses from more than 50 respondents at PE firms – mainly across North America and Europe. The target group was firm leadership – the majority of respondents are at the executive/director level, but responses from other job levels were included for a diversity of perspectives. The survey was conducted through Q2 and Q3 2023.

Responses to each question in this report are split along a number of metrics such as firm size by AUM, firm maturity and job title of the respondent – in order to gain nuanced insight into the overarching trends. The end goal is to inform an audience of PE fund managers about the most prominent trends, barriers and future expectations in digital transformation.




# KEY FINDINGS

## 1 Work is underway, but key areas lagging

Almost all PE firms surveyed were at some stage of digital transformation (98%). Most have basic tech in place, such as cloud services (70%), and are making progress with more advanced tools, such as data analytics (63%). For artificial intelligence (AI) and machine learning, 66% consider these essential tools, but only 7% have adopted them. Firms also lag when it comes to legal process automation – though 40% consider it essential for private markets, 16% have adopted it.

## 2 Tech will help costs, smaller firms hope

Budgeting is a priority for many PE firms when considering tech – survey respondents were most likely to vote 'cost savings and operational efficiency' an important outcome of digital transformation (72%), ahead of 'improved data precision and accuracy' (58%). Indeed, one of the main obstacles hindering tech adoption is budget limitations. However, the high score for cost savings was driven by smaller firms (AUM <$1bn), with larger firms (AUM $1bn+) focused on increasing productivity.

## 3 Digital tools offer a competitive edge

Fundraising and investor relations is the top area PE firms say they can benefit from digital transformation (70%), which could offer a crucial edge in a funding winter as investors expect a digitised experience. Furthermore, 60% say it adds value to deal sourcing and evaluation – also critical when economic pressure is high at a portfolio level. Most firms agree that digital transformation will improve investment decision-making and returns (65%) and make firms more attractive for LPs (61%).

## 4 Effective leadership vital to success

Nearly a third of firms (32%) say that while some digital tools and processes have been implemented, adoption remains limited. Resistance to change from employees was placed among the top three obstacles to adoption (33%) – signalling a clear need for a structured approach to change management. Nearly 90% of firms surveyed agree that PE leaders play a critical role in driving successful digital transformation initiatives.

# Part 1: The departure

Change is accelerating and private equity firms are at risk of being left behind. Investors, regulators, and counterparties expect more – manual processes are no longer fit for purpose. How far are GPs along the digital track and why the variation? Part One covers the state of play.

## Nearly half of all GPs have only a 'limited' adoption of digital tools

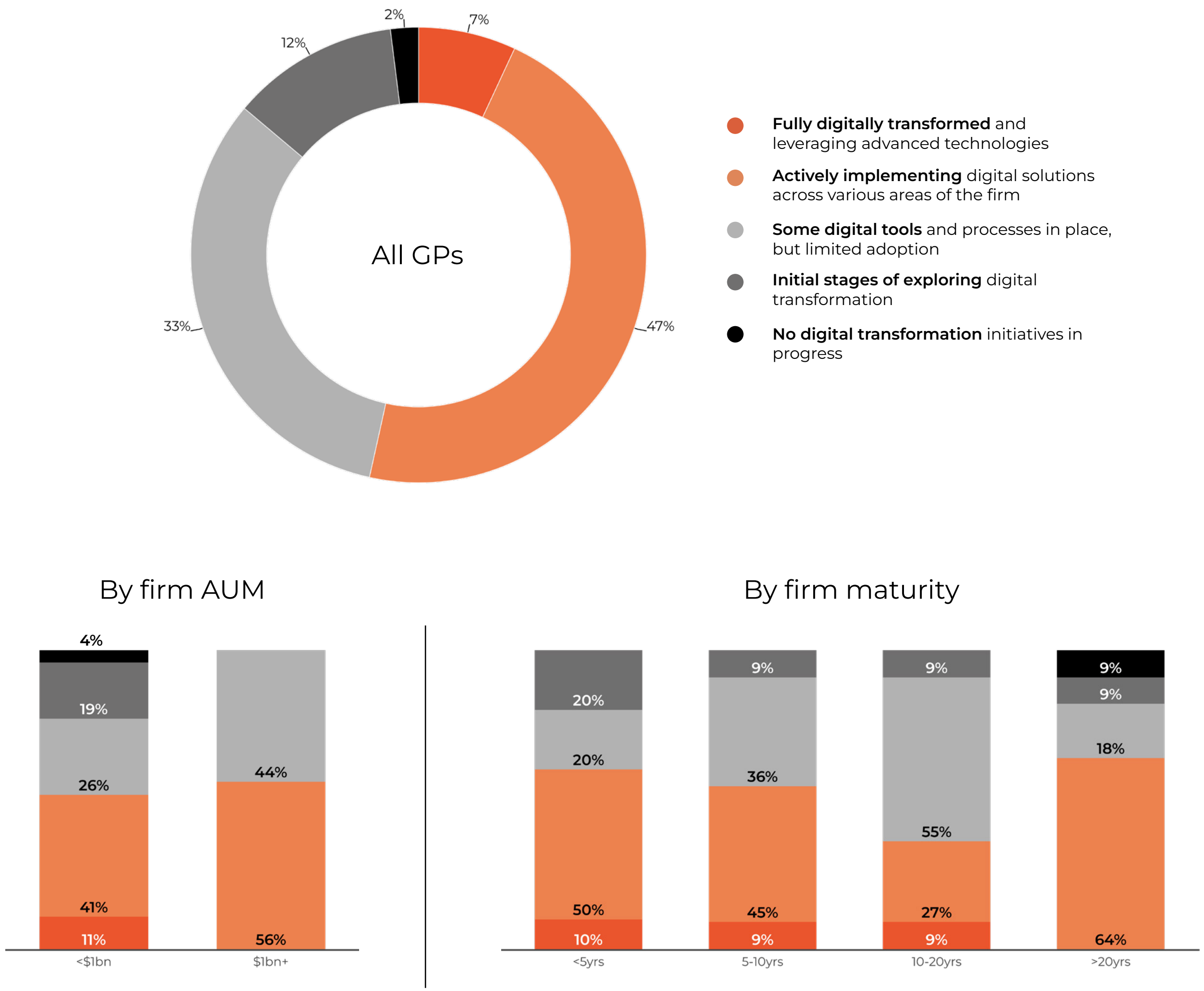
We begin with an encouraging finding: 98% of PE firms surveyed said they were in the process of digital transformation (see Figure 1), suggesting GPs recognise that tech is the future and the intent to transform is clear.

However, through further analysis, it's apparent that attitudes and progress towards transformation are not as aligned. Only 7% of firms, for instance, would classify themselves as fully transformed, and less than half are actively implementing digital solutions across their business. For the majority of the remaining firms, transformation momentum seems to have dissipated, mainly owing to adoption challenges.

There are clear variations by market segment. For example, while all larger firms surveyed (AUM $1bn+) were at some stage of transformation, many appear to be struggling, with nearly half labelling their level of adoption 'limited' (44%). Smaller firms (AUM <$1bn) have made clearer progress – 11% say they're fully transformed and are leveraging advanced technology, with 26% at 'limited' adoption.

Firm maturity also impacts adoption. Legacy technology is a distinct challenge – firms between 10 and 20 years of maturity are the most likely to have limited adoption, while not a single firm older than 20 years surveyed is fully transformed and leveraging advanced tech.

**Figure 1** Level of digital transformation across firms




***Analyst note:*** *Respondents were asked, 'Which of the following best describes the current level of digital transformation in your firm?'*

## Smaller GPs transform to save, larger GPs to be more productive

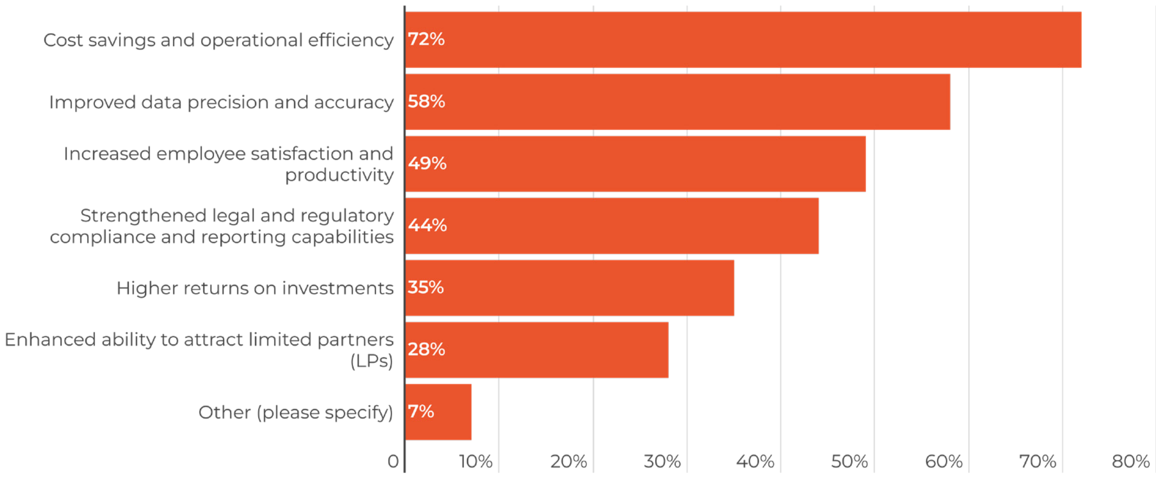
PE firms' need for support is far-reaching. Fundraising is a challenge, as is portfolio company performance under inflation and recessionary pressures, both of which indicate a financial squeeze. As such, it is perhaps unsurprising to see survey respondents vote 'cost savings and operational efficiency' first among important outcomes when investing in transformation (72%, see Figure 2).

The second-placed outcome – 'improved data precision and accuracy' (58%) – is another reflection of circumstances, as the end of the 'easy money' era puts asset quality and due diligence back in the spotlight.

Perhaps more notable is the third-placed outcome, using tech for 'increased employee satisfaction and productivity' (49%) and, ultimately, talent retention. This could in part be influenced by the ongoing PE talent crunch – BDO research from earlier this year reported 49% of PE fund managers are pressed for staff in certain key leadership roles. Interestingly, larger firms (AUM $1bn+) were more likely to vote this an important outcome than they were any other option (75%).

Also high on the list, and displaying interesting nuance by firm size, is the perception of tech's role in strengthened legal, regulatory compliance, and reporting capabilities. Though averaging fourth on the list for all firms, larger firms ranked this second (69%), smaller firms (AUM <$1bn) last – presumably owing to the higher regulatory scrutiny placed on bigger transaction volumes and values amid an already intensifying compliance landscape.

**Figure 2** Most important outcomes of digital transformation within PE




| | Cost savings and operational efficiency | Improved data precision and accuracy | Increased employee satisfaction and productivity |
|---|---|---|---|
| **All managers** | 78% | 58% | 49% |
| **$1bn+** | 69% | 63% | 75% |
| **<$1bn** | 74% | 56% | 33% |
| **>20yrs** | 73% | 64% | 73% |
| **10-20yrs** | 55% | 55% | 45% |
| **5-10yrs** | 82% | 55% | 45% |
| **<5yrs** | 73% | 55% | 27% |
| **CEO** | 83% | 50% | 40% |
| **All C-suite/execs** | 75% | 64% | 39% |

***Analyst note:*** *Respondents were asked, 'What are the most important outcomes of digital transformation within private equity firms?'*

## Over 60% of GPs say digital tools are ‘very important’ for growth

Ultimately, how important is it that firms undertake a transformation? Banking, retail, and other key sectors offer digitalised, app-based experiences for consumers, and these demands are spilling over into asset management. Providing LPs with a tech-based experience will soon become a must for GPs seeking a competitive edge.

Technology can also build trust – GPs that demonstrate a data-driven investment strategy can offer LPs extra information and reassurances. Much is being made of the ability of Large Language Models to speed up investment research and due diligence processes, among other transformative benefits, and the race is on for firms to integrate these new capabilities. Growing deal volumes and complexity alongside a tighter regulatory environment will only intensify the appeal of advanced analytical tools.

Firms are aware of these shifts: a majority of PE leaders surveyed acknowledged the importance of digital transformation to their own firms, and to the PE industry as a whole, with larger firms (AUM $1bn +) placing marginally more emphasis on the value than their smaller peers (see Figures 3a & 3b).

> Firms are caught in a perfect storm. On one side, investors have higher expectations for their onboarding – expecting a smooth and digitalised experience. On the other side we’re seeing regulators across the globe push for more transparency and accountability to ensure investor obligations are met. Managing these via traditional routes creates a huge amount of extra work for firms, plus can potentially expose them to regulatory scrutiny and even affect investor relationships if obligations are missed.
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> **NAT KUNES**
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> Ontra

**Figure 3a** Perceived importance of digital transformation at firm and industry level

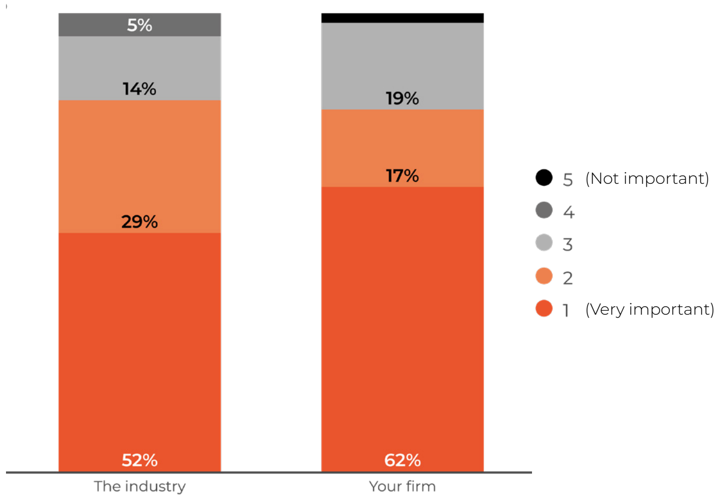
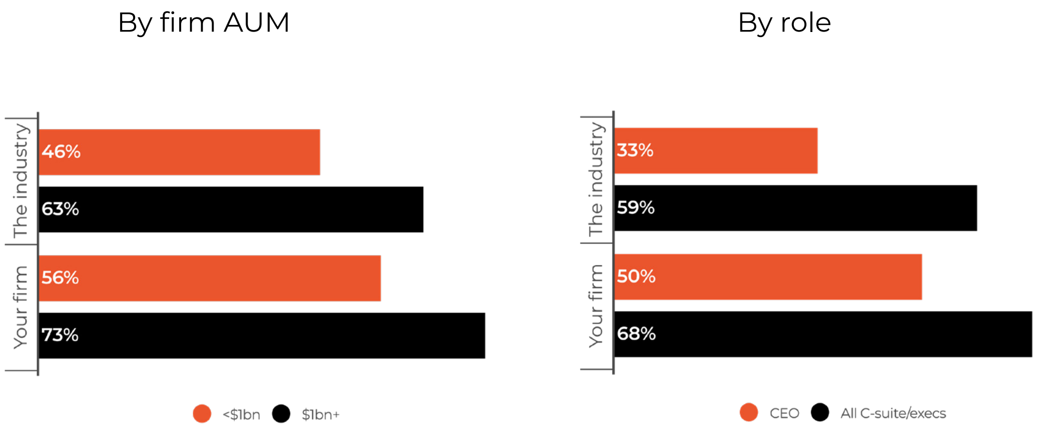



**Figure 3b** GPs that believe digital transformation is very important to their firm and the industry




***Analyst note:*** *Respondents were asked, How important do you believe digital transformation is for the long-term success and growth of the private markets industry and your own firm? Please rate on a scale of 1-5 where 1 = very important and 5 = not important at all.*

# Part 2: The journey

Every transformation is different. But there are enough commonalities, even during this early phase of market evolution, for lessons learned and improvements made. In Part Two, we look at the key challenges, focal points, and stakeholders at firms undertaking a digital transformation.

## Legal and compliance are key areas for adding value, say half of large GPs

Half of all larger PE firms (AUM $1bn+) we surveyed, suggest digital transformation can add value to broader regulatory compliance and reporting functions, and legal operations (see Figure 4a). Tech that's geared towards comprehending and reporting on regulation can ease the burden on PE firms of all sizes.

By and large, our research shows that PE professionals feel the front office will gain the most value from a transformation – specifically fundraising and investor relations, another indication of the importance placed on fundraising in the current climate. Interestingly, this ranks third for newer firms (<5yrs), which see more value in tech-driven due diligence and risk assessment. Portfolio management and monitoring is a priority for all firms, at a time when slower exit cycles and valuation dips are putting value creation strategies back under scrutiny.

In a survey of over 400 private market professionals, Ontra and Wakefield Research found traditional, manual processes slowed fundraising and dealmaking significantly. Sixty-five percent of respondents spent six hours or more on NDAs each week, and 58% agreed the NDA process negatively impacted their ability to close a deal during the previous year. It's no wonder professionals are turning to legal AI, which has advanced leaps and bounds recently. Technology can solve challenges, like a slow NDA process, and give people their time back.

**BRIDGET DEITERS**
Senior Managing Director
Ontra

**Figure 4a** Areas where digital transformation can add the most value

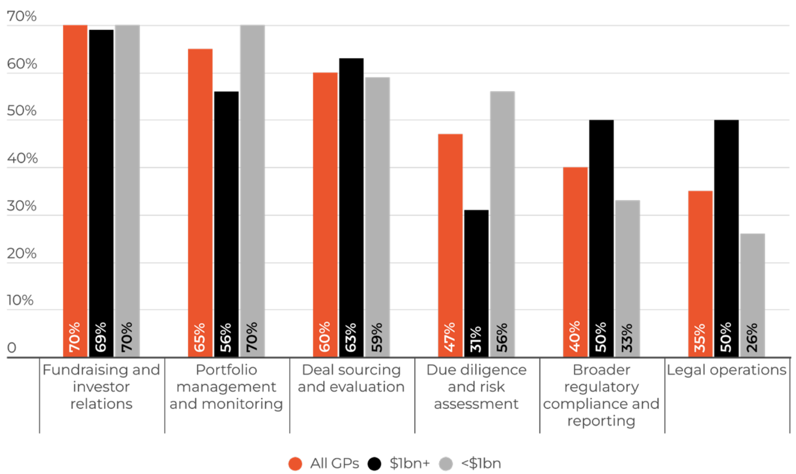
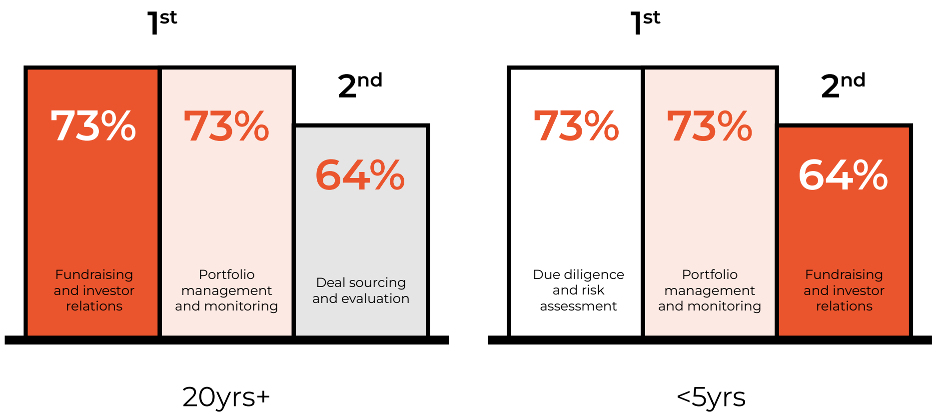



**Figure 4b** Areas where digital transformation can add the most value – by firm maturity




***Analyst note:*** *Respondents were asked, 'Which areas of your firm's operations do you believe could benefit most from digital transformation?'*

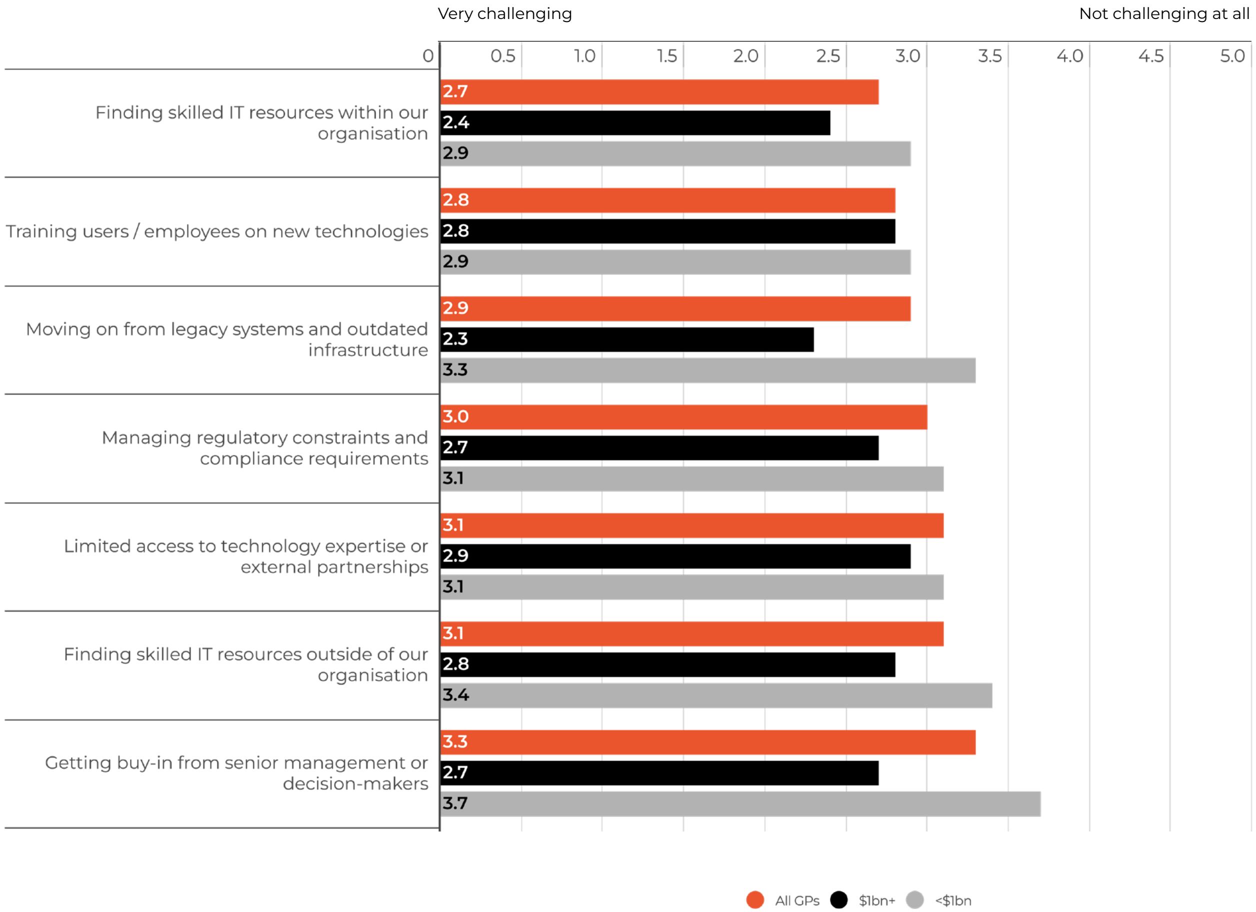
# Finding the right skills is the main challenge during a transformation

Transformation challenges transcend industry. They include evaluating solutions, integrating within existing infrastructure, migrating from legacy systems, and people-related challenges such as resistance to change.

The PE industry is no different. Survey respondents reported a blend of challenges (see Figure 5), but the biggest appear to relate to culture and engagement. Finding the right skillsets within the organisation was rated the most challenging overall – people need to be equipped not just to use the tools available but to maximise their value. Both require significant training outlays.

Technical challenges follow. Migrating from legacy systems ranked highly, though larger firms (AUM $1bn+), for whom this is predictably the most significant challenge, skew the numbers. Indeed, for all obstacles, larger firms find them more difficult to overcome than their smaller counterparts, owing to the scale of transformation.

**Figure 5** Top challenges faced in the process of digital transformation, as rated by GPs



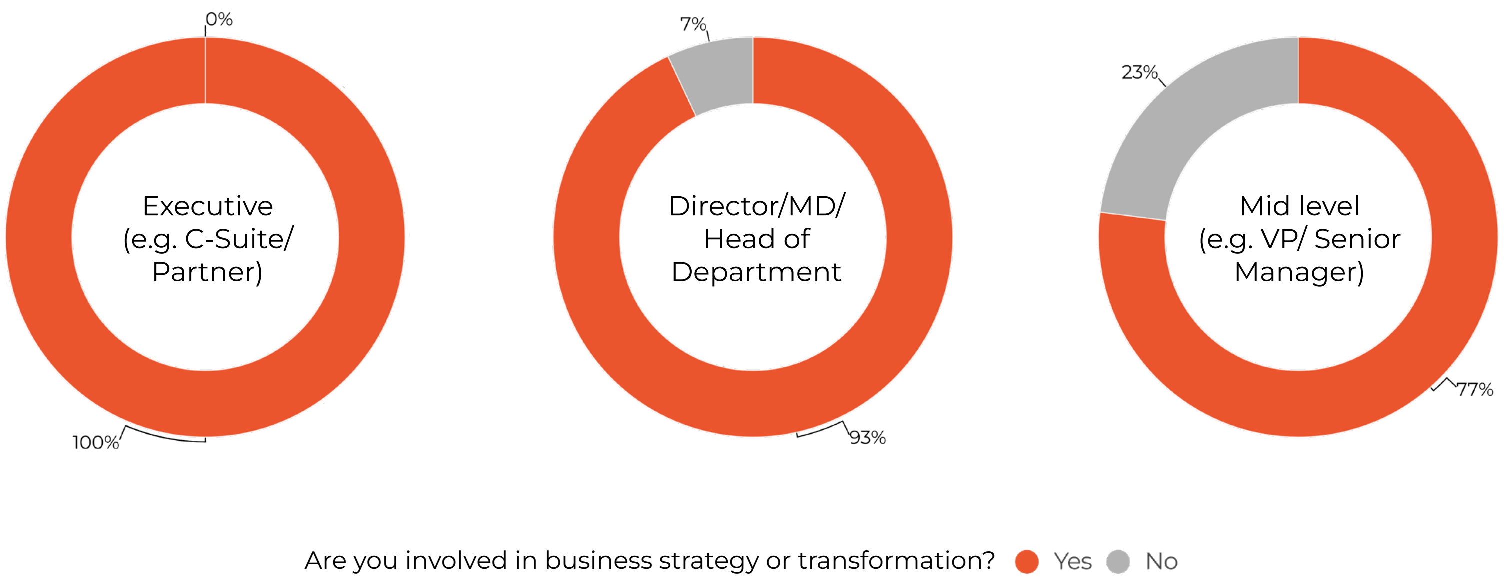

***Analyst note:*** *Respondents were asked, How challenging do you find the following issues when looking to bring about digital transformation within your firm? Please rate on a scale of 1-5 where 1 = very challenging and 5 = not challenging at all.*

## Senior execs recognise the value of digitalisation – and are getting involved…

Leaders with a wide range of job titles and functions – from CEOs, Directors, CFOs, and CIOs, to investment officers and supporting team members – were surveyed for this report. Overall, more than 90% of them reported being involved in business strategy or digital transformation in some shape or form, including 93% of directors and department heads and 100% of CEOs (see Figure 6).

Given that people-related challenges, such as a lack of skills or resistance to change, tend to pose the biggest barriers to transformation, it's imperative that PE firms have a centralised approach to change management – where people are informed promptly of upcoming changes, trained accordingly, and anchored to specific key performance indicators to ensure maximum value.

**Figure 6** Involvement in business strategy or transformation




***Analyst note:*** *Respondents were asked, Are you involved in business strategy or transformation? All other charts in this report relate to respondents that answered 'Yes' to this question.*

## ...But many senior staff believe their leaders lack the relevant skillset

PE firms surveyed agreed, across the board, that effective leadership plays a critical role in driving successful transformation efforts (see Figure 7). Leadership qualities such as communication, understanding, incentivisation, and training are all ingredients for cohesive transformation efforts. Given the diversity of potential hurdles detailed in this report, leadership support for transformation efforts is crucial.

Providing employees with space to experiment with new technology that could make their work easier also paves the way for healthy transformation – though PE firms need to balance this against risk and compliance considerations. In general, the dearth of IT expertise that hinders transformation efforts extends all the way to leadership ranks. There appears to be an interesting perception gap across firm hierarchy – executives believe themselves to be far more supportive and flexible when it comes to experimentation than is the belief among mid-level employees.

**Figure 7a** The importance of leadership in digital transformation

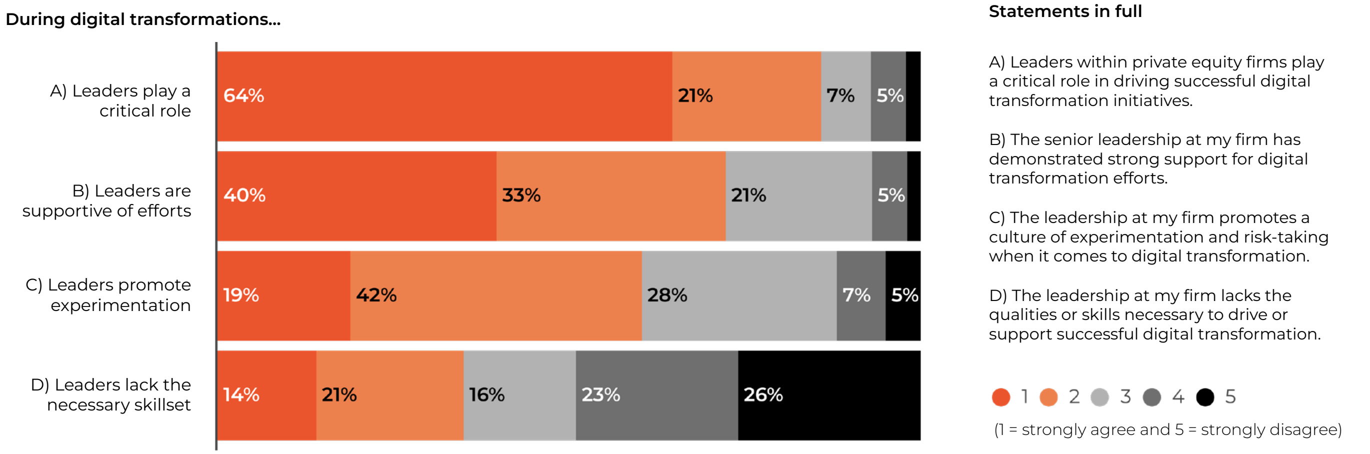
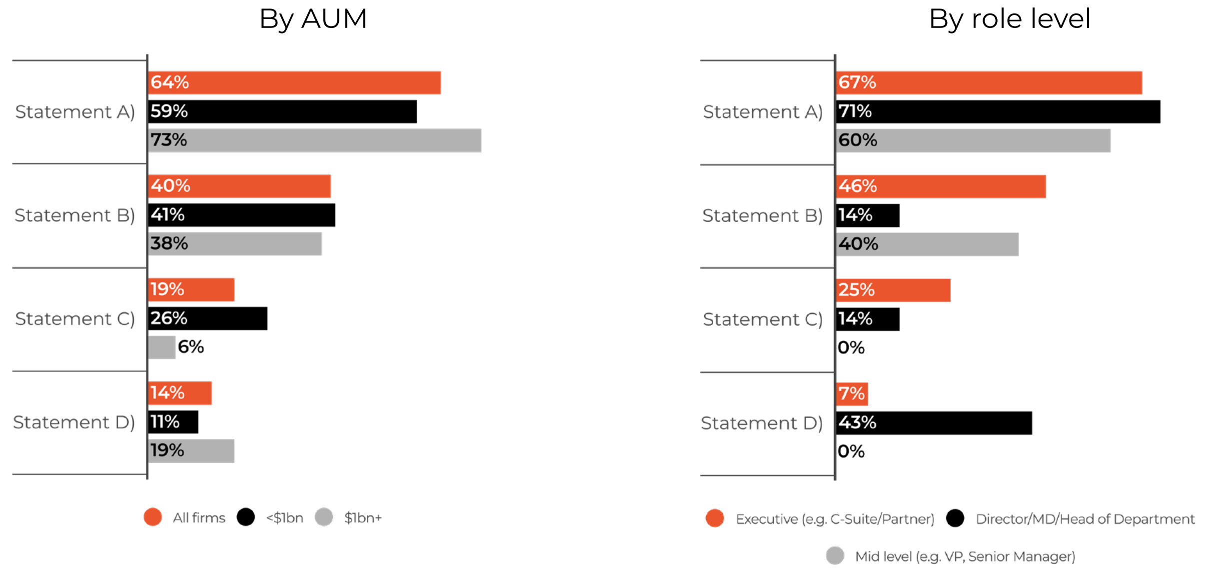



**Figure 7b** Respondents that answered 'very strongly' to statements




***Analyst note:*** *Respondents were asked, 'How strongly do you agree or disagree with the following regarding the leadership of your organisation and their approach to digital transformation?' Please rate on a scale of 1 - 5 where 1 = strongly agree and 5 = strongly disagree*

# Part 3: The destination

Where next? Yes, the future is hard to predict, but the direction of travel can be seen in GPs' outlook and obstacles. This report's third and final part, offers a data-led snapshot of digital intentions and the tools that private equity firms today are using to prepare for growth tomorrow.

## Analytics, AI, legal – areas where new tech is vital but adoption lags

While progress on digital transformation varies from one firm to the next, the roadmap ahead for the whole private markets industry is clear. There's a distinct belief that data analytics and business intelligence are essential tools for PE firms to adopt, and nearly two-thirds have done so already (see Figure 8a), an acknowledgement of increasing deal complexity, the need for new areas for value creation, and rigorous due diligence.

Equally, events this year have reinvigorated conversations around artificial intelligence (AI), and two-thirds (67%) of our survey respondents believe it to be essential for the future. But disruptive tech is still maturing in this space – reliability concerns are prevalent, while firms are still gauging how AI can help meet their specific needs. Adoption lags considerably behind tech's perceived value as a result. Another area with a similar deficit is legal process automation – 40% consider it to be essential but only 16% have adopted tools in this space.

**Figure 8a** Essential and adopted technology for private markets firms

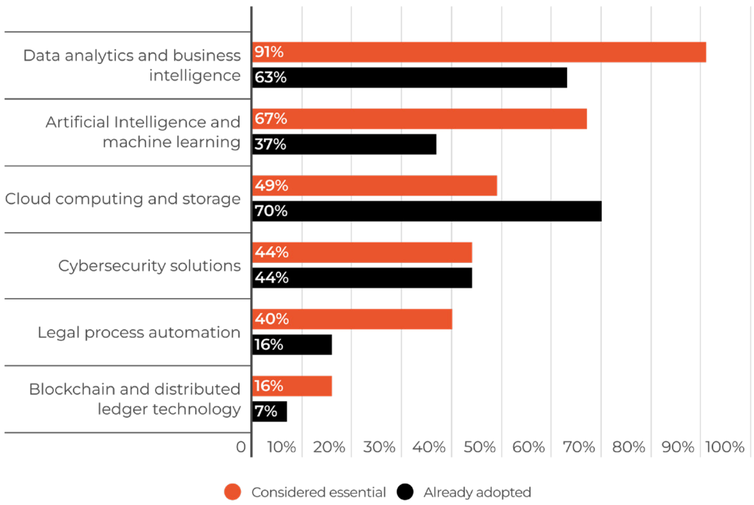



**Figure 8b** Essential technology – by firm AUM and respondent role

| | Top 3 essential – <$1bn | |
|---|---|---|
| 1 | Data analytics and business intelligence | 93% |
| 2 | AI and machine learning | 63% |
| 3 | Cloud computing and storage | 52% |

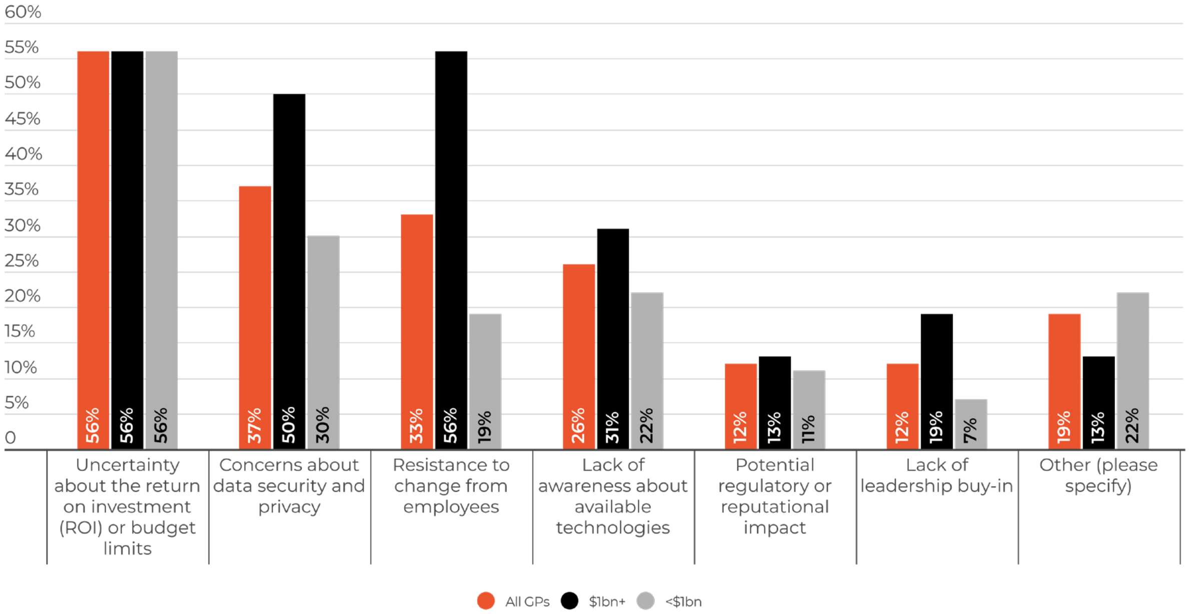
| | Top 3 essential - CEOs | |
|---|---|---|
| 1 | Data analytics and business intelligence | 100% |
| 2 | Cloud computing and storage | 67% |
| 3 | AI and machine learning | 58% |

| | Top 3 essential - $1bn+ | |
|---|---|---|
| 1 | Data analytics and business intelligence | 88% |
| 2 | AI and machine learning | 75% |
| 3 | Cybersecurity solutions | 69% |

| | Top 3 essential - all C-suite/execs | |
|---|---|---|
| 1 | Data analytics and business intelligence | 89% |
| 2 | AI and machine learning | 71% |
| 3 | Cloud computing and storage | 54% |

***Analyst note:*** *Respondents were asked, Which digital technologies or tools has your firm already adopted? (Select all that apply), and Which digital technologies or tools do you consider essential for private markets firms to adopt? (Select up to three).*

**Figure 9** Top obstacles to adoption of technology at private equity firms




| | <5yrs | 5-10yrs | 10-20yrs | >20yrs |
|---|---|---|---|---|
| **Uncertainty about the return on investment (ROI) or budget limits** | 55% | 64% | 55% | 45% |
| **Concerns about data security and privacy** | 36% | 27% | 36% | 45% |
| **Resistance to change from employees** | 9% | 27% | 27% | 64% |
| **Lack of awareness about available technologies** | 27% | 27% | 36% | 9% |
| **Potential regulatory or reputational impact** | 0% | 27% | 9% | 9% |
| **Lack of leadership buy-in** | 0% | 18% | 18% | 9% |
| **Other (please specify)** | 27% | 9% | 27% | 9% |

***Analyst note:*** *Respondents were asked, 'What are the main obstacles hindering the adoption of digital technologies at your firm?'*

## Nearly 60% of larger GPs say 'resistance to change from staff' is a top obstacle

Most PE firms are looking to power through the challenges relating to digital transformation, though some are being deterred by key obstacles.

With cost considerations currently top-of-mind, the overarching blocker preventing PE firms from making new tech investments is ROI uncertainty (see Figure 9). Factoring in implementation time, new tech's value may be realised only in the medium-to-long term, which might not be a feasible timeline for cash-strapped managers.

The agility of smaller firms is also visible. Resistance to change among employees was the biggest blocker for firms with AUM over $1bn – noted by 56%, compared to less than a fifth of smaller firms (AUM <$1bn). Also apparent are the challenges winning buy-in from current staff – nearly two-thirds of all PE firms surveyed that have been in operation for more than 20 years see this as a problem, compared to around a quarter in firms between 5-20 years of maturity, and only 9% in firms below the five-year mark.

Data security and privacy concerns are also troubling – though for a higher share of larger firms than their smaller counterparts.

## Over one third of GPs strongly agree digital tools offers a sizable advantage

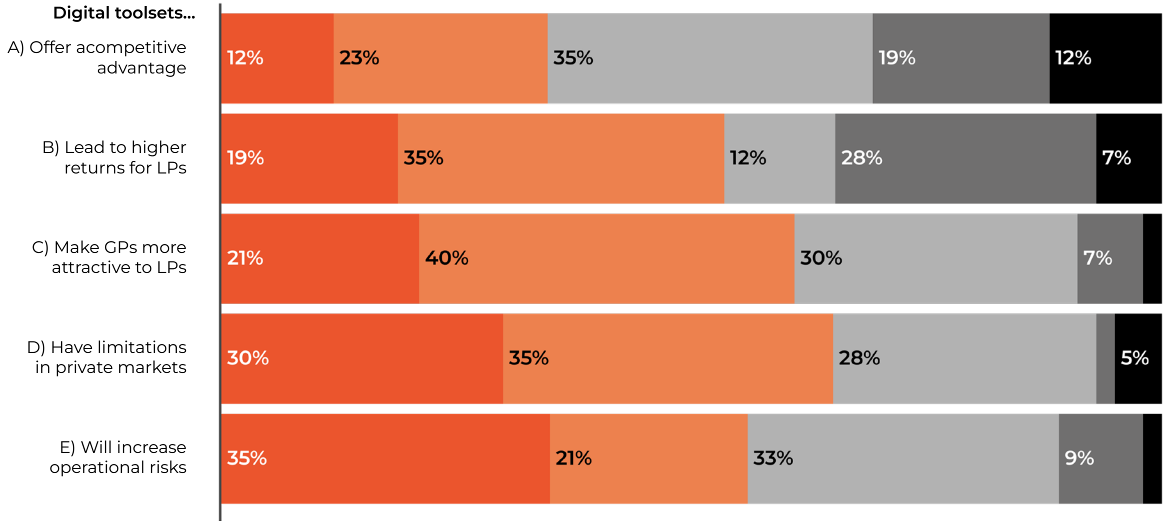
What does a tech-powered future for PE look like? Most believe a transformed industry will see higher deal flow, streamlined processes, better investments and decision-making, and, eventually, higher returns for investors. The benefits of technology extend from one end of the business to another, with all aspects of the industry likely to benefit in the long run.

Our research also confirms the competitive value of technology. New funds emerging today can use technology to develop, innovative, and potentially disruptive, approaches to investment decision-making. The majority of PE professionals surveyed believe digitised investment firms make more appealing propositions for investors, and organisations that form partnerships with technology leaders will gain an important first-mover advantage, with access to the latest models and the engineering talent behind them.

An important caveat to make – one that presents itself in the data – is that technology won't replace human contributions to the investment process. More than half of the PE firms surveyed agree the complexity and uniqueness of private markets put limits on the potential of technology. As such, tech is positioned to free people from administrative tasks, allowing them to navigate market complexities and generate value. The overwhelming message from the research is that digital transformation is now an expectation, not a perk.

> Technology and AI can deliver huge benefits for PE firms but having a human in the loop (HITL) is critical for firms that want to use AI to enhance their operations. An HITL system is particularly important when it comes to automating crucial legal processes, like negotiating fund and investment-related agreements and onboarding new investors. Human involvement in AI increases the accuracy of outputs and delivers higher quality results than processes run solely with AI.
>
> **NAT KUNES**
> Chief Product Officer
> Ontra

**Figure 10** Digital transformation outlook for the PE industry




**Statements in full**

A) In the next five years, firms that have adopted digital toolsets will disrupt traditional private markets players, gaining a significant competitive advantage.

B) Digital transformation in private markets will lead to enhanced deal flow, streamlined processes, and improved investment decision-making, resulting in higher returns for investors.

C) Private equity firms which have gone through a successful digital transformation are more attractive to LPs when fundraising.

D) While digital transformation offers benefits, the complexity and unique nature of private markets operations make it challenging to fully leverage technology, limiting the potential impact on efficiency and growth.

E) The adoption of digital transformation in private markets will increase operational risks, such as cybersecurity threats and potential data breaches, requiring firms to invest heavily in robust security and compliance measures.

(1 = strongly agree and 5 = strongly disagree)

***Analyst note:*** *How strongly do you agree or disagree with the following statements? Please rate on a scale of 1 - 5 where 1 = strongly agree and 5 = strongly disagree*

## CONCLUSION

### Firms are on track, but have skills gaps to eliminate

Market conditions hint at a more active and competitive PE landscape in 2024 and beyond, but also a more complex one, as deal structures evolve, and the regulatory landscape tightens. Effective reporting and monitoring capabilities will be crucial going forward.

Higher competition will also mean pressure to deliver a better experience to investors – firms are aware and are looking to leverage technology to improve investor relations. Firms that digitalise their onboarding and communication processes will likely win out.

The clear deficit for PE firms in digital transformation is in advanced tech, such as artificial intelligence and legal process automation. Business cases for these solutions are promising but not well understood – firms would be well served to take the initial step of understanding the value specific tools could bring to their business.

The findings in this report illustrate the need for more structured change management strategies to eliminate the skills gap, cultural resistance to change and other people-related obstacles that block the realisation of transformation value.

Equally, buy-in and support from senior leadership is critical for successful digital transformation – this extends beyond making the investment in tools and systems, to upskilling themselves and giving employees space to learn the value of new technology.

# KEY CONTRIBUTORS

Nat is responsible for driving our Legal Operating System product strategy, including our Contract Automation, Insight, and Ontra Atlas product suite. In addition, he manages our Strategy and Legal Network teams while overseeing Ontra Synapse, our private markets AI technology. Prior to joining Ontra, Nat spent 14 years at AppFolio, where he led the product organisation and served as General Manager and Division CEO of the Investment Management business unit.

## NAT KUNES

Chief Product Officer
Ontra

Bridget is Senior Managing Director and International Lead. She joined Ontra in 2018 to launch our business in Europe, the Middle East, Africa, and Asia-Pacific, which she is now responsible for leading, in addition to co-leading Ontra's account management team. Prior to Ontra, Bridget practiced corporate law at Kirkland & Ellis and Cravath. She holds a J.D. from Georgetown University and a B.A. from Yale University.

## BRIDGET DEITERS

Senior Managing Director and International Lead
Ontra

**ABOUT ONTRA:**

Ontra is the global leader in contract automation and intelligence for private asset management firms. Ontra's legal operating system combines AI-enabled software with a worldwide network of highly trained lawyers to digitally transform recurring legal workflows across the full fund lifecycle. Ontra works with the world's leading investment banks, private equity and venture capital firms, and direct lenders to reduce the time, expense, and risk associated with contract management.

Ontra is headquartered in San Francisco, with global operations across North America, Europe, and Asia. Learn more at www.ontra.ai.