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ILPA Insights

LP Perspectives on Talent

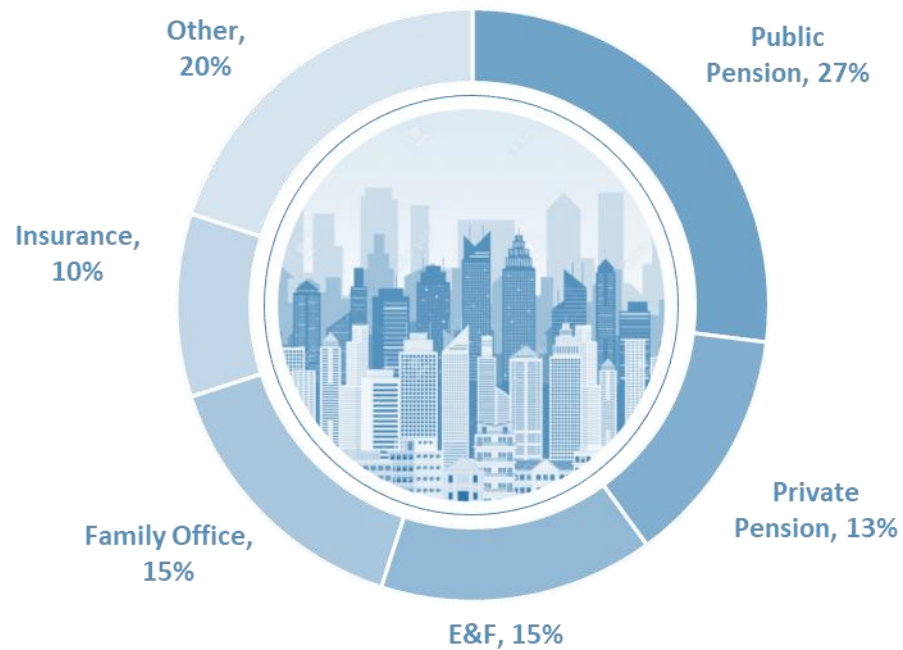
September 17, 2020

LP Talent

Source of ILPA Insights

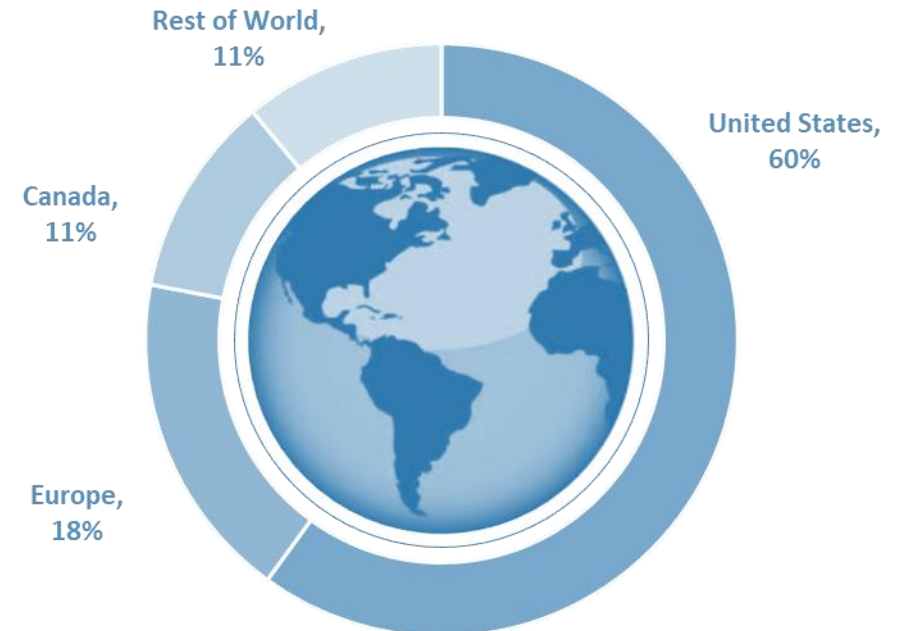
Member Type

> 550 LP Organizations



Member Location

> 50 Countries



LP Talent

Attraction, Retention, and Incentivization



ILPA has been running the LP Insights program since December 2018 and has included conversations with 226 individual members; in those conversations, **Attraction, Retention, and Incentivization of LP Talent has come up 54 times** (24% of conversations)

15+ 1-hour interviews with ILPA members provided the opportunity to dive deeper into their organizational talent-related needs and challenges

30+ member organizations completed a 20-question survey, designed to start understanding the approaches LPs are using to solve talent issues

LPs stated difficulty in **recruiting new hires**, particularly at entry /junior levels, for reasons including scarcity in entry level pipeline, difficulty attracting junior staff, and specific skill sets that are difficult to source. **Retaining talent** is also difficult for at least 3 reasons: career path ambiguity / ceilings, competing offers for top talent, and incentivization

The interviews reinforced some areas, including challenges with **incentivization**, and added further clarification to others, including challenges with **attracting junior staff to non-financial centers**. Members identified areas of talent-related strength, specifically the ability to **communicate a clear employment value proposition**

These results are intended to start conversations rather than indicate specific overall trends. Topics queried included staffing models, HR, and compensation

LP Talent

Key Findings

Compensation is the talent area where LPs see the most opportunity for improvement

- When ILPA asked LPs what they do well regarding talent, no one reported success with compensation. Challenges are summarized in this document and informed an update to the forthcoming 2020 ILPA Compensation Survey (December 2020)

Investment Program Complexity is a Major Factor in LP Talent

- Investment Teams - even the smallest - regularly manage 10 or more strategies. This level of ambition requires most LPs to master nearly all strategies (buyout, real estate, venture capital, etc.) that comprise the private markets - resulting in associated tradeoffs and challenges
- Investment deal leaders typically manage 6-25 manager relationships with 26+ relationships common in all but the largest teams. With a modicum of help from junior staff, deal leads must coordinate key activities across the team on a per-manager basis
- Most teams - regardless of size - attempt to access co-invest, direct invest and other vehicles. Challenges with this approach involve resource allocation and moving beyond "maintenance" of the portfolio to placing it on a strategic and proactive footing

Making the Case to Hire is the First of Many Hurdles

- Relationships with "HR" often underperform. Nearly all LPs have an HR-type resource, but few LPs enjoy more than a liaison-type relationship with those team members
- Development & retention - beginning with onboarding - remains a central challenge. Junior employees are difficult to find and arrive without private markets experience. Challenges with promotion and advancement persist over the course of the professional's tenure

ILPA Asked LPs: When it comes to talent, where does your organization excel?

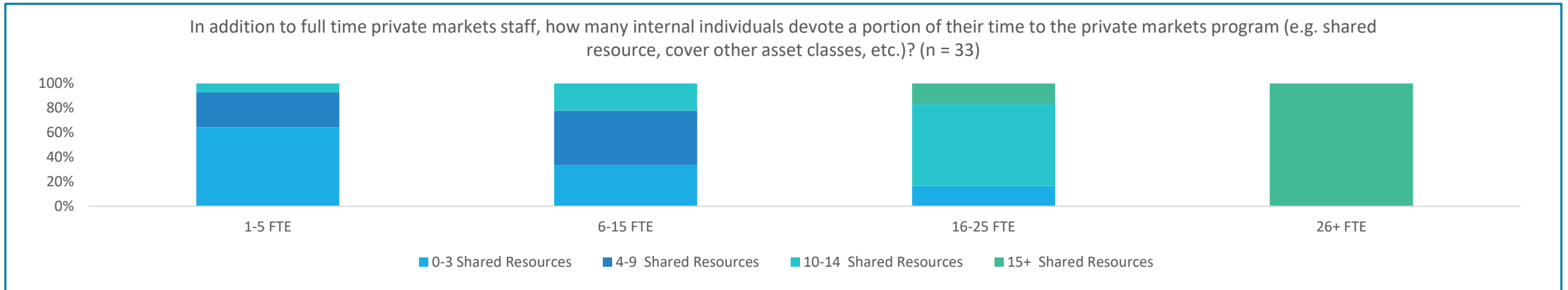
LPs sees room for improvement in all talent-related categories



- Staffing Models:** To better understand LP staffing models, ILPA asked how work is assigned and managed, what positions tend to be outsourced and / or shared services with other groups or departments within their organization, and, how teams with multiple offices operate
- Hiring:** LPs noted challenges in making the case to hire new staff; followed by difficulty in recruiting (w/ strategies varied depending on organizational context - included expansion of candidate pools and working directly with local colleges / universities, outsourcing / offshoring roles, and opening satellite offices. In most cases, members emphasized their ability to communicate a clear value proposition and prioritized fit over experience
- Talent Management:** LPs struggle to provide specific and relevant training and retain staff after a certain point. Training approaches in most cases included shadowing and often included the ILPA Institute as a formal training approach. In many cases, flat organizational structures limit staff's ability to see a clear career path or path of advancement within the organization and leads to turnover at the mid-to-senior level
- HR:** The main challenge identified with HR is difficulty in navigating HR processes and "bureaucracy"; in many cases there was a perception that HR teams, particularly at large organizations, do not have a clear understanding of, or sufficiently accommodate for, private markets teams' needs
- Compensation:** In interviews, most LPs noted challenges in paying "market rates" or meeting other demands from staff; many organizations see 'total compensation' as being important to their employee value proposition and may include rotations, secondments, and benefits

Staffing Models: Larger teams are further complemented by shared resources

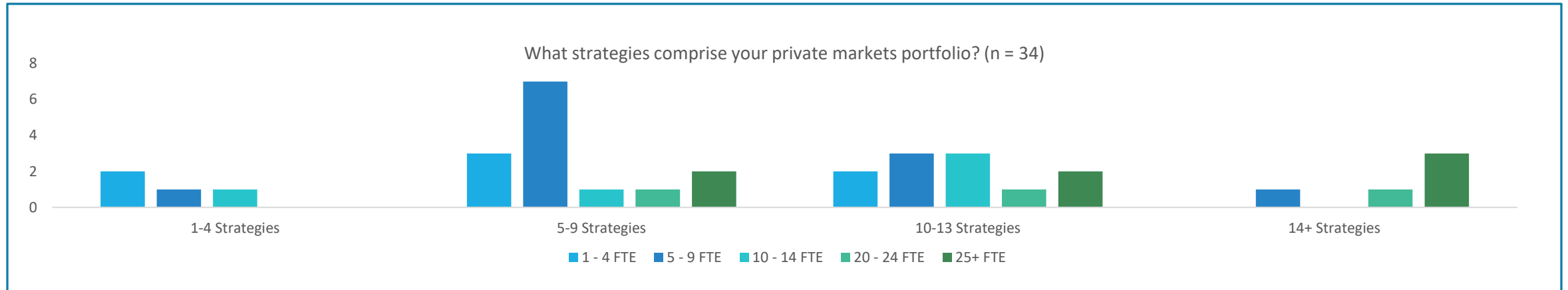
Large 'core' teams tend to have more 'shared resource' support



- ILPA asked “how many individuals are fully dedicated to the private markets program (including in-house front / middle / back office)” and included both internal and outsourced roles
 - Outsourced roles tend to focus on: legal documents, investment reporting, and ODD
- In addition to FTE, we also asked how many shared resources support the private markets team and found that as team size grows there tend to be additional shared resources available; in most cases these larger teams are more ‘institutional’ LPs (public pensions, insurance companies, and sovereign wealth funds) though outliers exist for small public plan teams and large endowments
 - In almost all cases, shared roles tend to focus on: legal documents, risk and compliance, accounting and tax, oversight / leadership, administrative support, ODD, and investment reporting

Staffing Models: Small teams are managing multi-strategy programs

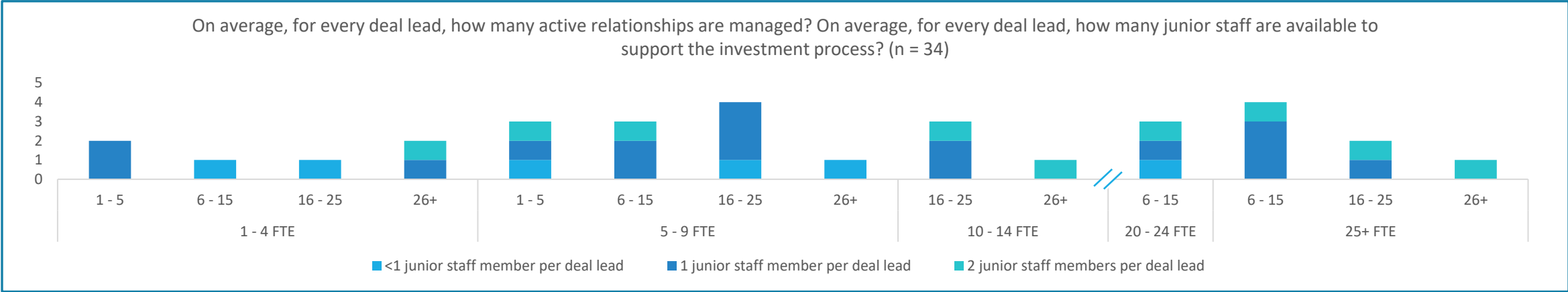
Teams of 1 - 4 manage 10 strategies almost as often as larger peers



- Teams of 1 - 4 FTE are more likely to invest in fewer strategies than their larger peers yet, in some cases invest in as many as 15 strategies*
- Teams of 5 - 9 FTE tend to invest in 5 - 9 strategies with most focusing on buyout, growth equity, venture, distressed / special situations, real estate (equity), and infrastructure (equity)
- Teams of 10 - 14 FTE tend to invest in 10 - 13 strategies, but also invest in as few as 1 - 4 strategies
- Teams with 20+ FTE typically invest in 10 or more strategies. Smaller teams (1 - 4 FTE) tend to manage more strategies on an FTE basis than large teams (some responsible for 13 strategies), covering virtually every traditional private markets strategy

Staffing Models: Team size is not predictive as to number of active relationships

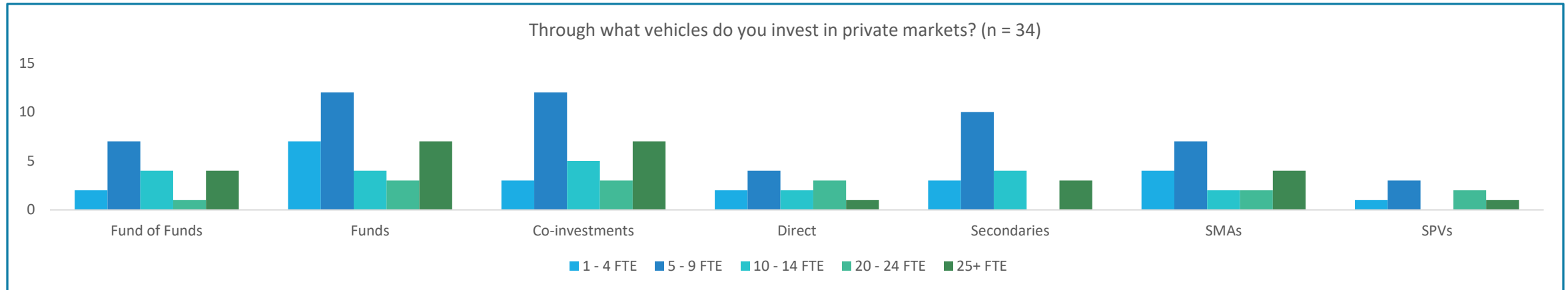
“One to many” relationships exist across all team sizes



- Most deal leads are responsible for between 6 – 25 manager relationships. Instances of individuals being responsible for 26+ relationships are common in all but the largest teams (20 – 24 FTE)
- Even in the largest teams (20 – 24 FTE), deal leads were consistently responsible for between 6 – 15 relationships across a universe of 5 – 14 investment strategies
- The majority of deal leads are supported by at least one junior staff member. Leads with 26 or more relationships tended to have the support of two junior staff. For team sizes of 5 – 9 FTE, the inverse was true, with deal leads having both fewer relationships and more support

Staffing Models: Team size is not predictive of investment vehicle selection

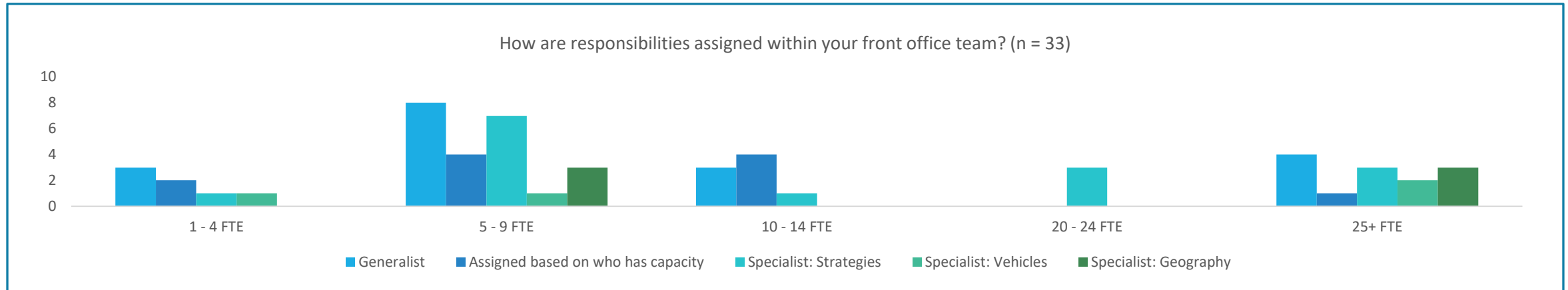
Teams of all sizes utilize multiple investment vehicles



- Small teams are accessing co-investments and making direct investments as a proportion of their total vehicles at a rate equivalent to their larger peers. A relatively low percentage of the largest teams are investing directly compared to smaller teams
- In general, teams of 5 - 9 tend to invest through a wider variety of vehicles than other LPs, including those strategies that are more 'time intensive' including direct and co-investments
- Anecdotal comments shared about managing vehicles included:
 - "A three-person team is sufficient for maintain a portfolio but it's not sufficient for thinking creatively, strategically, etc."
 - "We try to extend our pool of resources, e.g. by cross-backing deals with other groups (e.g. private equity and real estate)"
 - "Our bonus is more tied to general performance than investment outcomes. If incentives were tied to the fund maybe I would be more incentivized to look at co-investment for better economics, etc."

Staffing Models: LPs are split on the Generalist vs. Specialist debate

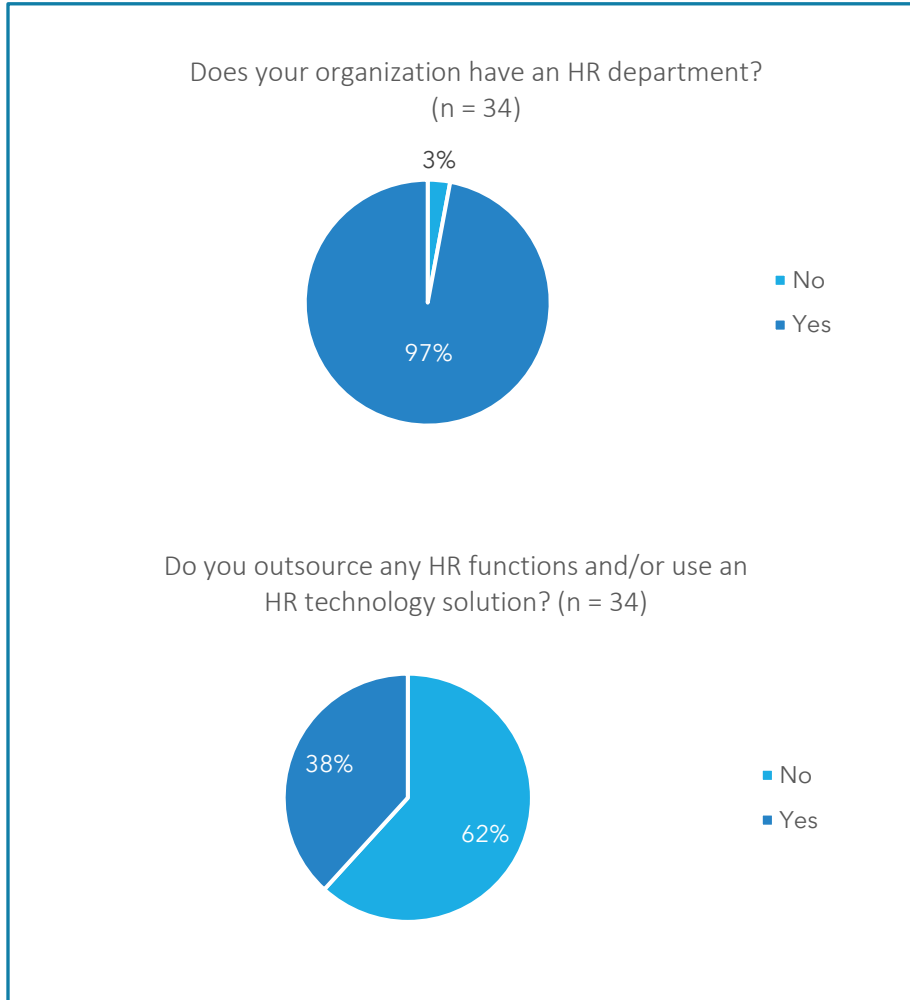
For Specialists, strategies tend to be the dividing line



- Generalist:** Generalist models are generally found in an ‘all hands-on deck’ approach to portfolio construction. Drawbacks to the generalist model exist in balancing people’s time and ensuring they aren’t being stretched too thin. Strategies to assign work for generalists include splitting funds alphabetically, assignment based on capacity, ensuring ‘the next deal’ worked is different from the last, etc. Some organizations have adapted their model to support generalists who wish to develop additional skills sets - more closely resembling those of a specialist
- Specialist:** Specialist model organizations assign responsibility by strategies - e.g. a buyout team, a credit team, a real estate team, etc. Specialization by vehicle or geography occurs half as often. In many cases, when a specialist model is used, there is collaboration across the team. For smaller teams, in some cases, generalist models are required given limited resources and specialist models naturally emerge as additional resources bring in complementary skill sets. Depending on the lines for specialization, general skill sets will also emerge e.g. a North America co-invest specialist will become a geography / vehicle generalist
- Hybrid:** In many cases, a hybrid model was discussed where individuals have a ‘major and a minor’, though how those majors and minors are defined varies (e.g. along the same lines as the specialist buckets). This approach was widely considered to mitigate key person risk. In many cases, LPs stated that this format was the preference of their teams who wanted broad exposure. Typically, junior staff in large teams will start out as generalists and specialize with time and experience

HR: The function exists though navigating processes is a challenge

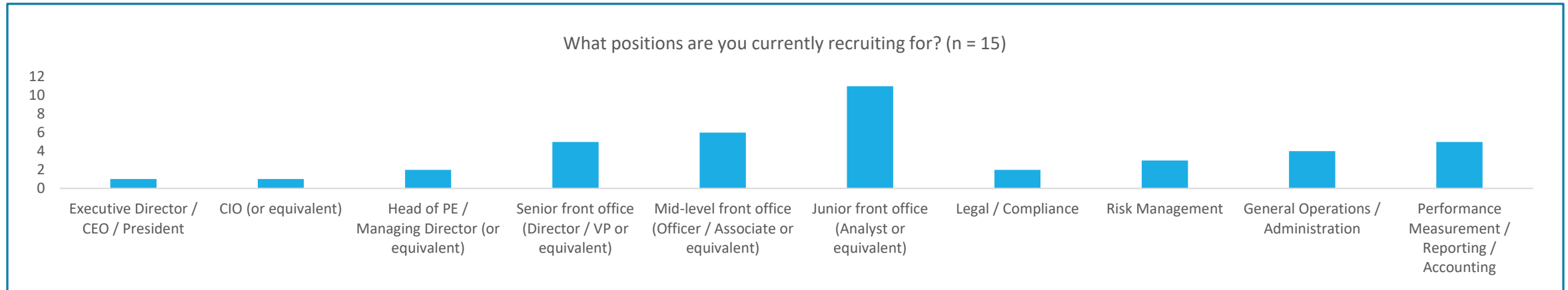
Most LPs have HR, but value of the partnership is up for debate



- In addition to the majority of LPs who have an HR department, two LP organizations ILPA spoke to have HR professionals dedicated to the private markets team
- For LPs who have HR departments that are not dedicated to private markets, three indicated that there can be particular challenges in navigating HR processes including:
 - Interview guides that don't capture the private markets teams' needs
 - Identifying and interviewing candidates
 - Managing performance reviews
 - Building the case to hire or invest in staff development
- In several cases, LPs identified one of their challenges to be tension between investment staff and non-investment staff; these challenges have been associated with organizational culture where HR would have an opportunity to play a role

Hiring: LPs are constantly recruiting for open positions at all levels

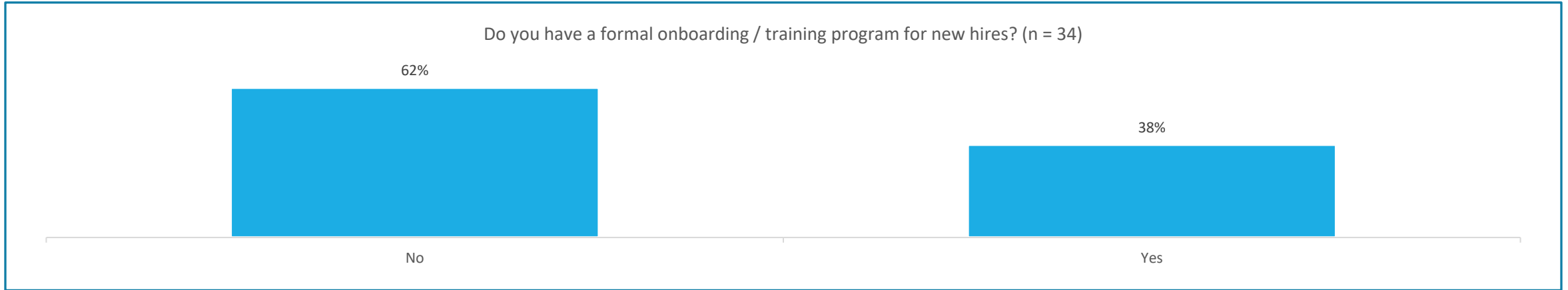
Making the case to hire is the first of many hurdles



- At mid-senior levels (mid-level front office and senior front office), LPs have talked about attrition being part of their development model; with flat hierarchy structures, there is often not room for junior staff to move up unless someone more senior leaves the organization. Candidate pools for more senior levels include other LP organizations and “GPs who want off the GP train”
- At junior levels, comments from LPs included: “Nobody we bring in has PE experience; they know how to model, they know what a sponsor is, they have their accounting / finance work from college but that’s about it”; and, “We’re tapping into the professors at the universities – going into and teaching students about private equity and the work we do”
- Recruiting tools and strategies are organization-specific but generally include an emphasis on the organization’s employee value proposition, including total compensation opportunities. Commonly cited challenges in recruiting included bringing candidates to non-financial centers, an inability to meet salary expectations / match competitors’, and balancing trade offs between experience and teachability
- In terms of hiring strategies, most LPs we spoke to take an ‘all hands on deck’ approach and multiple members of the team will sit in on the interview process; this then translates into an ‘all hands on deck’ approach to onboarding that can help to acclimatize new hires to the culture of the organization

Hiring: Onboarding

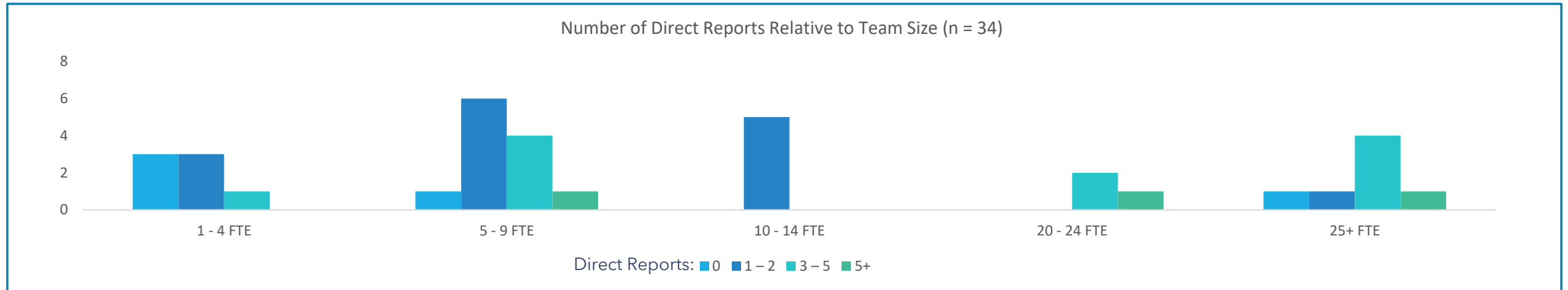
62% of LPs do not have a formal onboarding or training program



- Informal strategies used include:
 - Assigning an onboarding buddy and / or assigning specific onboarding / training elements across team members
 - Shadowing someone senior to get comfortable with the investment processes
 - Establishing new hires as 'valuable members of the team from Day 1'
 - Providing research articles / ILPA materials and access to industry data, where available
- Training requirements depend on whether the new hire is **'green' or 'grey'** though in both cases there is a general expectation that a lot of the learning happens on the job. Green hires require additional support, education, and training, which can be challenging to provide while also meeting workloads for the new hire as well as the individual(s) providing the support. Onboarding in these cases is viewed as an investment

Talent Management: Team size does not indicate hierarchal structure

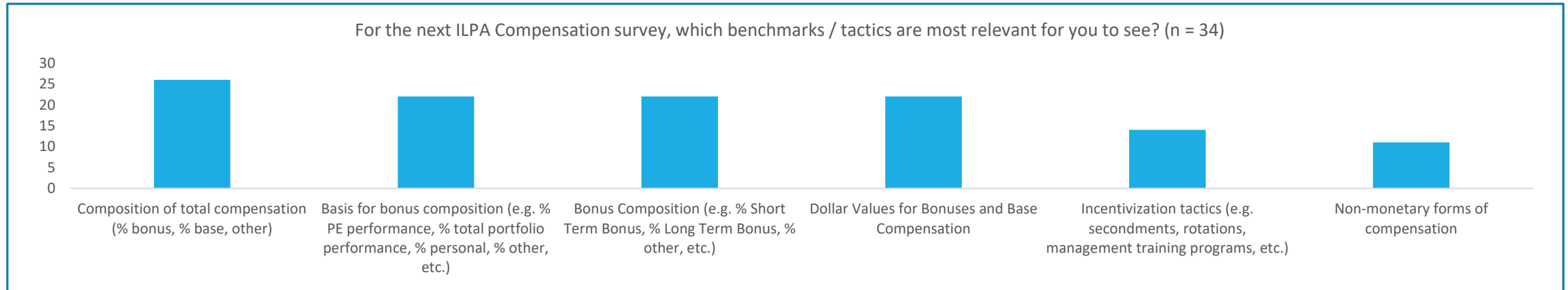
Finding opportunities to motivate junior staff is top of mind



- In general, LP comments focused on opportunities to motivate and encourage junior staff while balancing bench depth and strength of mid-level staff
- Hierarchal structures varied; at all organization sizes, LPs were mixed on the number of direct reports they have, varying from very flat hierarchies (many direct reports to each individual) to tall structures (many layers)
- In cases where hierarchies are tall, members noted that this can reduce turnover risk at mid-levels ('there is a good roster of younger people who will take their jobs') and this provides opportunities to stretch junior staff (e.g. by passing down additional responsibilities); however, unless there is turnover on the team or significant growth in the program to justify an increase in staff, there is also limited opportunity for junior staff to move up

Compensation: Cash is King

Cash compensation – including deferred – is a priority



- Going into the 2021 edition of the ILPA Compensation survey, questions focused on where LPs want more information on compensation practices
- In general, many of the members interviewed indicated one of their primary challenges to be difficulty paying “market rates”. Certain nuances were called out that either exacerbated or mitigated this challenge including the existence of a long-term incentive program, whether salaries are published, and concentration of other private markets job opportunities in the local area
- Additional challenges around compensation included differences in compensation for investment and non-investment staff, and challenges in compensating staff across offices
- LPs noted non-financial compensation elements including market rates being commensurate with hours worked, opportunities for internal transfers and the ‘perks’ of the role (e.g. global travel in a pre-COVID world, participation in CIO-level meetings, etc.)



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