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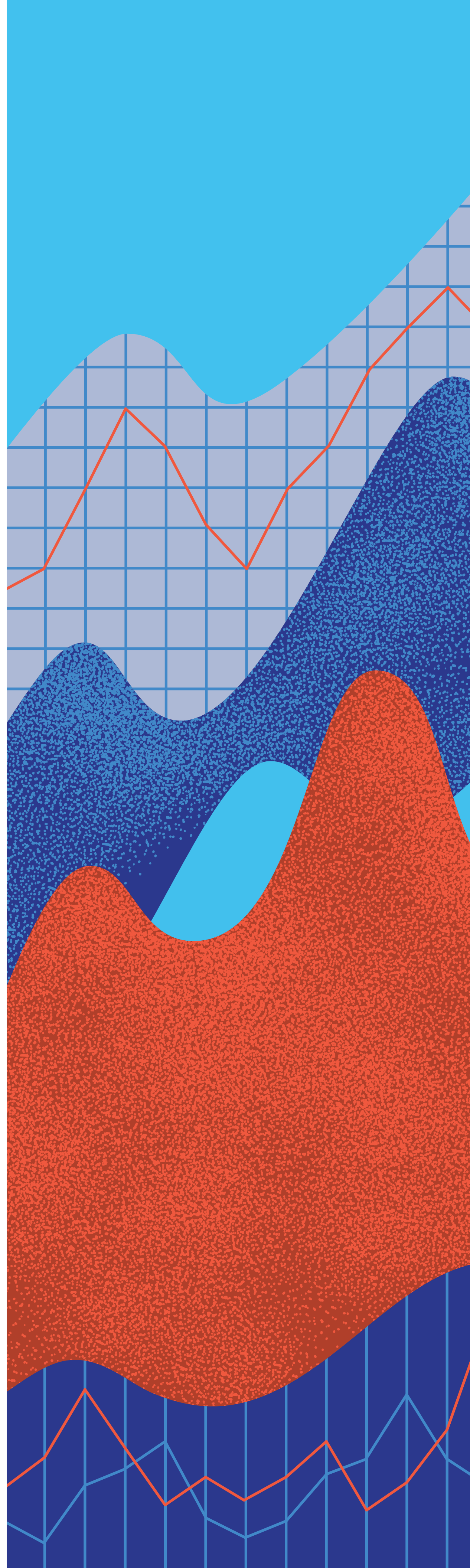
Talent Strategies for Private Equity Funds



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Introduction

The rise of alternative assets, including private equity, growth equity, venture capital and private credit has fundamentally transformed the way we do business. Since the private equity boom in the 80s, these firms have provided capital for growth and innovation, revitalized struggling companies and industries, and driven operational efficiencies.

No matter how you look at it, the economic impact is undeniable. The private equity (PE) sector generates over **6% of the US GDP** and **employs over 12 million** individuals. PE-related deals represent **38% of M&A activity by value**. The top 5 public firms - Blackstone, KKR, Apollo, Ares, and The Carlyle Group - have a combined **market capitalization exceeding $250 billion**.

While much ink has been spilled on the economic implications of PE, the organizational structure and management practices of these firms have been less thoroughly explored. How should PE firms think about talent and leadership development? And how can talent strategies help drive value in a rapidly changing PE landscape?

In its early days, PE was a deeply entrepreneurial venture governed by a high-risk, high-reward mentality. Smart, aggressive investors identified opportunities to find and fund ideas and generate significant, often windfall, returns. PE founders—whose primary talents were identifying mispriced market opportunities and financially re-engineering balance sheets—constructed firms that prioritized bold, riskier investments focused on returns that won investors' backing, often at the expense of longer-term thinking surrounding corporate governance.

But as the industry matures, this paradigm is shifting. Many Limited Partners (LPs) are starting to recognize the crucial role of disciplined management at the firm level, i.e., at the General Partner (GP), in order to mitigate risk, optimize performance, and maintain access to capital, among others. These stakeholders are advocating for investment firms to apply greater rigor in establishing optimal leadership teams, management structures, and succession planning, echoing emphases at public companies and their publicly owned PE peers.

With surging global demand for alternative asset investment opportunities, some firms have adopted a dual focus: creating value through carried interest via a highly broadened set of strategies and cultivating stable returns from Assets Under Management (AUM). Besides providing a consistent cash flow, investors often value AUM more highly, potentially increasing the firm's equity value - and the GP's stakes.

Firms going public, like Blackstone and KKR, or selling stakes in their GPs to entities such as Dyal Capital, Blue Owl, and Hunter Point has solidified this shift.

Transitioning from a dealmaker-led model to a more sustainable operating structure tied to AUM is an evolution in progress for many firms. Yet, there are notable examples of success.

Blackstone, for instance, has witnessed significant transformation under its founder, Steve Schwarzman, who anticipated the need for a multi-strategy approach and instigated the development of a more systematic management system alongside Tony James and Garrett Moran, among many others.

But Blackstone isn't alone. Other firms have started to see the need to better "institutionalize" themselves and create management systems, develop leadership that can last longer than the next fund, and build distinctive value as a firm. **Talent is at the core of these transformations.**

Creating an actionable talent strategy

Conversations surrounding talent sometimes fall into the trap of feeling "softer" or less directly tied to value. However, as strategies shift from short-term value to stable, AUM-related returns, it has become increasingly clear that talent management will play a critical role in PE strategies moving forward, with over 50% of firms reporting talent management as a top strategic priority in a recent EY industry survey.

Conceptions of talent strategy differ from firm to firm, but our discussions with industry leaders have revealed three key areas central to addressing evolving talent needs at the firm level. Our experience has shown that firm longevity, leadership cultivation, talent pipelines, and operating models for complex organizations are predicated on successfully implementing these strategies.

1

Strategy and Operating Model Design

As firms expand and diversify in their pursuit of differentiation, alpha, and AUM, operations that were once narrow in scope have broadened considerably. To manage this complexity, firms are:

- Defining and documenting the processes that generate alpha into standardized playbooks, making these processes a core part of their strategy and increasingly important to LPs when considering investments in new funds.
- Developing metrics and scorecards to monitor adherence to investment strategies and evaluate the firm's added value compared to the initial investment thesis.
- Designing organizational structures and workflows that support their strategic goals, including clear governance models, decision-making authorities, conflict resolution mechanisms, resource distribution, and compliance and risk mitigation strategies.

2
Team Building and Leadership

As firms grow and evolve, so do the skills and capabilities needed from leaders. This growth is often unplanned, and the organic structures that rise in its wake sometimes struggle to scale up with the firm's strategic ambitions. To address this difficulty, firms are:

- Conducting a comprehensive analysis of the skills, capabilities, and capacities required to support their strategic growth and determining which areas need development or enhancement.
- Creating strategic investment plans, roadmaps to build upon these areas, and benchmarks to measure progress and success.
- Committing to developing teams and key individuals through targeted coaching and learning programs.
- Emphasizing the firm's purpose and ingraining its culture through effective team building and collaborative group learning.

3
Succession Planning

Historically, PE was marked by an entrepreneurial spirit led by visionary founders and adept dealmakers. As the asset class has matured, so too have the demands and expectations on leadership teams. What successful leadership looks like now and in the future may differ markedly from the past. To address this mismatch, firms are:

- Developing a profile for successful leadership tailored to their firm. This involves articulating a clear vision for the firm's future and identifying the competencies current and future leaders must have, often determined through workshops and interviews with internal and external stakeholders.
- With a clear leadership profile in hand, firms need to integrate this into their talent development and acquisition strategies. This includes identifying and assessing potential leaders and providing the necessary development to align their approach with the firm's strategic needs and direction.

Why and why now? Opportunities and risks of inaction

PE firms have been growing and branching into new strategies for some time. What is responsible for this sudden focus on talent strategies? While academic research and real-world examples abound on the effectiveness of sound governance, a well-rounded and deep talent bench, and proactive succession planning, industry-specific reasons make talent strategies particularly critical for private equity.

- Pursuing alpha and AUM across a broader range of strategies or with larger fund sizes requires a sophisticated and systematic approach to talent management.
- Shifting the focus to value creation through talent and operational excellence can provide a competitive edge in an environment less reliant on traditional deal dynamics, like rising multiples and inexpensive capital.
- Demonstrating the ability to create and maintain value through codified, repeatable processes to investors will be “table stakes” during the oncoming GP consolidation.
- Ensuring a foreseeable future, through thoughtful succession planning, for the firm beyond the tenure of its founding members is vital. If LPs can’t envisage a 7– to 10–year horizon for the firm, they may “time out” and hesitate to invest in subsequent funds.

The risks of inaction are clear. For every success story like Blackstone or TPG, historic firms such as Charterhouse or Forstmann, Little & Company did not adapt and consequently wound down their activity or diminished in prominence. By proactively addressing talent management, firms position themselves to remain relevant and grow and prosper in the ever-evolving private equity landscape.

About the Authors

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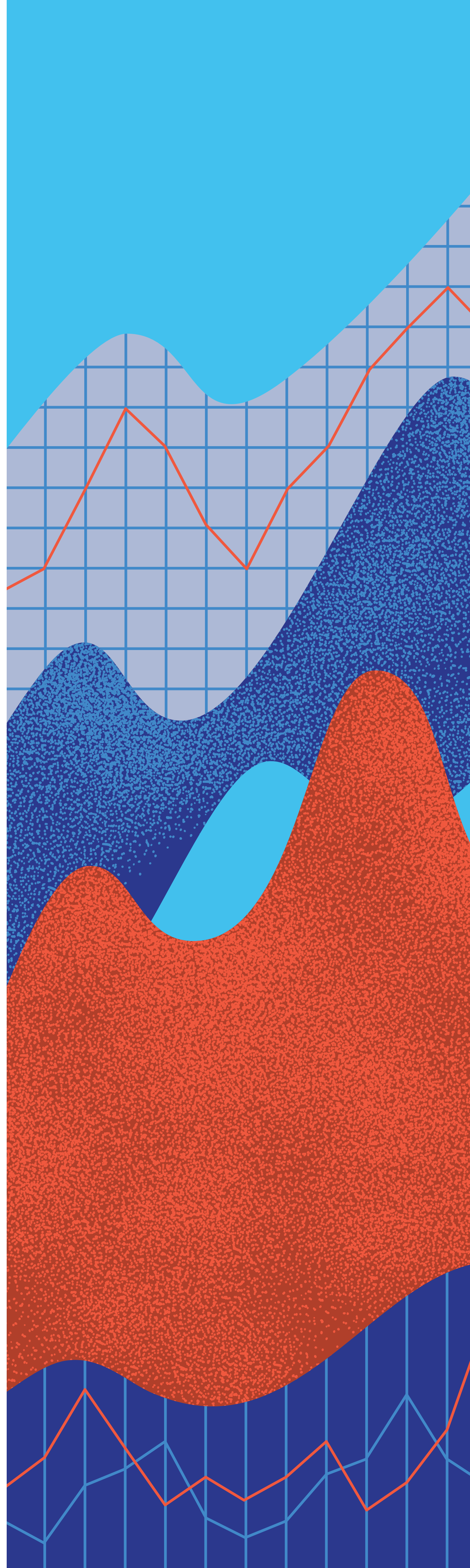
About Council Advisors

Council Advisors is a leading advisor to the c-suite of high-performing companies, bringing together strategic counsel, operational performance improvement (SSA & Company), executive talent development (The Miles Group), and strategic communications (High Lantern Group). We work with top leaders from the largest public companies as well as some of the most vital mid-market and growth-investment backed companies.



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