

BUSINESS GUIDE

Best practices for safeguarding private equity firms

State-of-the-art strategies to mitigate deal execution risk, enhance governance, and protect funds and managers against internal and external threats



*Sit back and enjoy.
Read time: less than 5 minutes*

Dear Reader,

I am delighted to present this comprehensive business guide to safeguarding private equity firm to you.

As the assets under management of private equity firms around the world are growing, so is the number of risks and challenges for those organizations. Besides macro risk, such as global events, changing policy, or economic uncertainty, every fund manager also experiences increased exposure from cybersecurity risk, compliance risk, and reputation risk. Private equity firms have to actively manage these to stay in compliance but also to deter internal and external malfeasance and avert loss that can jeopardize their stellar performance and reputation. The cases of catastrophic failure in recent years, such as *Theranos*, *Abraaj*, or *FTX*, have made it abundantly clear that investors are just as much under the microscope than the founders and managers who caused these losses.

Over the last 15 years, I have dedicated my career to safeguarding the guardians of capital. Human capital, financial capital, intellectual capital, social capital, and reputational capital. During that time I have had the privilege and pleasure of solving some of the most complex challenges for my clients. These organizations were the target of fraud, theft, extortion, ransom, deception, money laundering, sabotage, and corporate espionage. I have done so in the United States, United Kingdom, Germany, Netherlands, South Africa, and Brazil across various sectors, including media, oil and gas, software, finance, and energy.

What I have learned is that despite a plethora of industry standards, regulations, and customs, every fund and its managers are unique. Unique in its practices, culture, and management. Today, we effectively serve all of them by drawing on our global network of experts that can craft solutions that fit their individual requirements. Through Falcone International, private equity firms can benefit from the same state-of-the-art strategies, tools, and resources that large organizations regularly use to manage their risk.

I trust you and your team will find this guide helpful as you run and grow your firm. As always, I look forward to discuss best practices, share our experience, and see how we can serve your organization. Just know we are by your side, always.

Warm regards,

Tobias Jaeger



Tobias Jaeger
Founder & CEO

Practical Strategies and Solutions to Safeguard Private Equity Firms and Asset Managers

A high concentration of capital in the hands of a small number of people puts private equity firms under the same pressure as larger investment organizations with a higher headcount

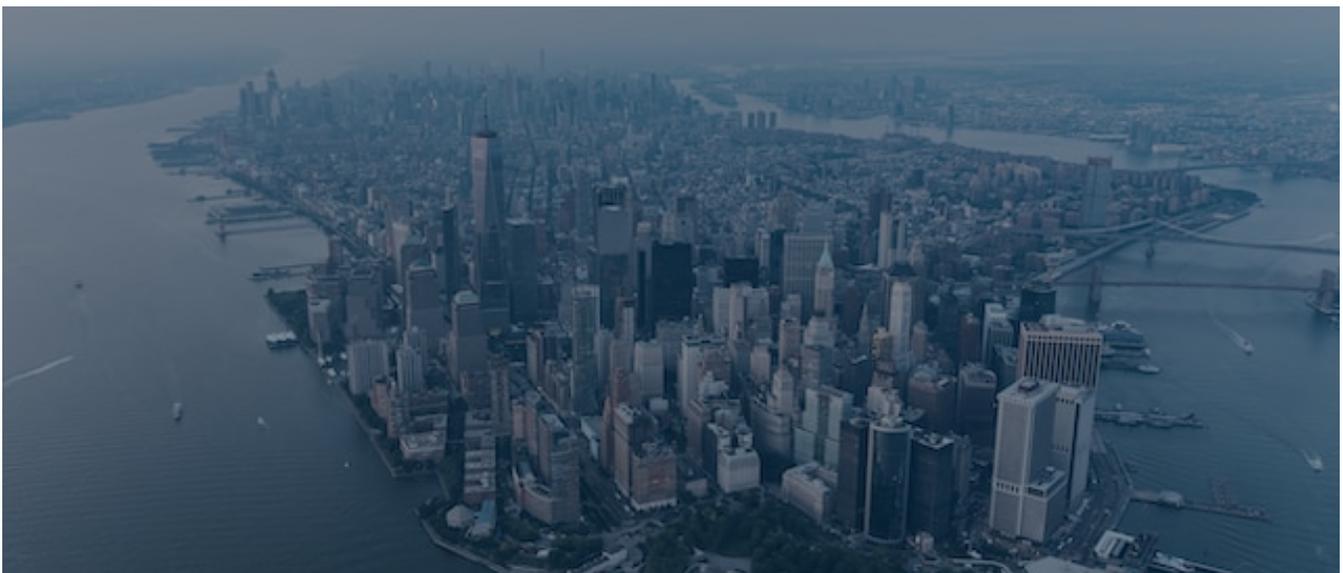
Context and Challenge

Private equity is among the most attractive asset classes, and assets under management continue to rise rapidly. However, like every other investor, private equity managers face geopolitical risks, uncertain inflation, higher interest rates, and economic turbulence.

Record levels of dry powder and limited partner (LP) expectations continue to put pressure on transaction valuations and the realization of required rates of return. In that environment, private equity firms face a unique set of internal challenges and external threats.

Private equity managers must continuously manage the expectations of asset allocators and investment targets alike. In addition, recent environmental, social, and governance (ESG) forces create another layer of considerations for operations, transparency in communication, team conduct, and the firm's positioning in the marketplace.

The following five strategies are proven to have contributed significantly to the overall health of private equity firms. They should serve as a starting point for improving the firm's operations.



1. Conduct People Due Diligence just as Thoroughly as the Financial One

With record amounts under management, record levels of dry powder available, and an unbroken need to deliver returns, it is inevitable that the investment appetite is as big as ever. This might lead to opportunities and teams being considered for investment that would not pass in different circumstances. Unfortunately, it is also high time for con men and deception schemes. Of course, investment activities will inevitably yield different perspectives within the firm of the prospective success of the investee company and team. Every private equity firm must pay attention to early warning signs, and every orange flag must be examined. Every opportunity must be taken to vet individuals and make background checks a standard part of the due diligence process. Often these simple efforts can yield valuable results that benefit the fund in the long term by possibly systemically averting catastrophic consequences, like complete loss or an impaired reputation.



Falcone International regularly performs motivation audits, in-depth interviews, and advanced background checks with existing or prospective investment targets' founders and managers to identify discrepancies and allow them to be repaired.

Organizations drawing on these measures report higher levels of financial health, lower levels of write-offs, and higher levels of trust among key people on both sides.

Because of their funds' vintages, PE firms must harmonize near-term exit ambitions and long-term high levels of success by hardwiring their ethos and philosophies into guidelines.

2. Acknowledge, Track, and Correct Mistakes Decisively and Timely

In day-to-day and long-term management, mistakes will be made within the private equity firm and its portfolio. It is essential to acknowledge them, discuss them openly and freely, systematically track them, and eventually take corrective action. As asset managers, private equity managers are also asset protectors and should not hesitate to intervene and get involved with all their heft. In most cases, time is a critical factor, and swiftly mounting an effective countermeasure is crucial to avert further loss. Equally, private equity firms must ensure that they create an environment in which mistakes or wrongdoing can be safely reported in the first place. Regardless of its team size, a private equity firm can also benefit from setting up its own whistleblower program to learn of suspicious activities within its portfolio companies.



Falcone International regularly performs audits and investigations for investors. If something goes wrong, we thoroughly investigate the circumstances and people to offer our clients an impartial, unbiased third-party view on the case.

Organizations drawing on these investigations report higher effectiveness in solving issues, preventing further losses, and more confidence in rectifying internal and external wrongdoing.

3. Formulate Clear Philosophies and Guidelines Across all Activities

Despite the fixed time horizon of their individual funds, private equity managers can achieve high levels of consistency and success by hardwiring their philosophies into guidelines. Not all eventualities are entirely predictable, so it is helpful to set out a general philosophy that every member of the fund management team can get behind.

These philosophies can then be transposed into guidelines with more operational terms and even passed on to portfolio companies either as part of the investment commitment or post-investment as a best practice demanded by the investor. The more precise these guidelines are, the easier adherence and enforcement can be. This is especially relevant for private equity managers as their actions, in turn, will be examined by either their limited partners (LPs) or the press if one of the portfolio companies is found to be involved in something untoward. Interestingly, in most cases of fraud, most perpetrators have higher levels of authority. Thus, all definitions of roles and responsibilities should also include a framework for top management in which their actions can be reviewed by an investor team or the company's board, for example.



Falcone International regularly performs reviews of all guidelines, probes for internal compliance, tests internal policies and philosophies, and facilitates internal participation in reviewing guidelines and standards. Organizations utilizing these tools report higher efficiency and lower costs. Being in compliance is made easier, and the firm has a more solid basis for any action brought against

non-compliance. In addition, management and staff report that they find it easier to operate in an environment where the rules are clear.

The pressures on private equity firms are mounting. Major investment firms regularly draw on business intelligence resources to make better-informed decisions and proactively manage risk.

4. Make Portfolio Companies Think of their Stakeholders and as Being One of your 'Family Members'

Often conflict arises from the misalignment of expectations. A clear definition of a company's standards can mitigate these risks. Companies use policies like a 'Supplier Code of Conduct' or other publicly available statements (against Tax Evasion, Slavery, Child Labor, etc.) to publish their aspiration on different issues. A publicly or privately available policy incentivizes stakeholders and portfolio companies to comply. Often, reputational damage can arise from supplier or external stakeholder



misconduct, which all related parties are dragged into. By proactively communicating and enforcing the organizations' ethos and ethics and then effectively monitoring and enforcing them, a public track record can be built to serve as evidence and a tool for safeguarding the organization. Private equity managers can efficiently ensure compliance with new written and unwritten environmental, social, and governance (ESG) rules in their portfolio companies by implementing them in their firm first and then leading by example and expecting portfolio companies to follow suit.



Falcone International regularly performs overt and covert in-depth reviews with clients' key stakeholders like suppliers or

customers to check for compliance with rules and regulations or act upon specific findings and tips from within.

Organizations utilizing these services report higher efficiency through higher levels of trust in their key stakeholders. Other effects include lower insurance premiums and avoiding costly conflicts like lawsuits or public relations issues.

Regular high-level and in-depth reviews are crucial for private equity firms and can deter untoward activity.

5. Establish Perpetual Accountability through Process and Mindset

Just like muscles in sporting activities, a one-time effort is reasonable, but only a powerful habit is excellent. Making accountability functions like internal audits and governance and an ongoing effort with regular high-level and in-depth reviews is crucial for private equity firms. It can serve as a great exercise to continuously supervise the firm and its portfolio. Equally, it will deter any untoward activity geared towards a long-running scheme.

Most fraud in business has a surprisingly long runtime. Asset misappropriations can go undetected for years. In addition, regular reviews make it easier to detect anomalies in financial statements or management reports.



Falcone International regularly performs in-depth reviews concurrently with internal financial reviews to enrich the analysis of internal findings. Upon detection of anomalies, Falcone International can take further action by investigating the results, securing evidence, and assisting with recovery and complementing possible litigation efforts through in-house or external counsel. Organizations utilizing these reviews report higher levels of confidence in their internal processes and higher efficiency in keeping their own rules and processes current and timely.

Key Takeaways

An effective organization will stick to several important principles:

- They place great importance on governance and all its aspects, like oversight, review, and enforcement.
- They take great care in setting policies for all areas of their own firm and its portfolio.
- They perceive accountability and oversight as a diligent, never-ending task that needs regular attention and refinement.
- They make strategic investments into safeguarding their firm and its funds, increasing health and longevity.
- They rely on an expert partner to co-design, implement, and enforce their policies.
- They encourage participation from all team members in developing and implementing guidelines.

Private Equity Manager Cheat Sheet

We solve small and complex problems for our clients. From a simple analysis yielding an independent report to a full-blown investigation followed by countermeasures we operate in an arena of trust, discretion, and excellence in execution. Among many things, we can help you and your private equity firm with the following:

Area	Example scenario	How we can help
Due Diligence & Deep Research	In a proposed transaction, someone on your team has voiced concerns about the other party but your preliminary research has come up clean. Yet, you don't want to leave anything to chance.	We can dig in and dig deeper. We can activate our network of intelligence analysts and operators as well as people on the ground to vet the other side and verify the information they have given you.
Executive Background Checks	You are hiring or promoting a new key management member or investment manager and they supposedly have done well in the past and there are no red flags.	We can verify the candidate's personal and professional past as well as their affiliations. Also, we can perform an in-depth interview testing for signs of deception.
Mergers & Acquisition Support	The company you want to invest into has had tremendous results and the management team is excited. But this is a landmark deal and you cannot leave anything to chance.	We can check the integrity of the management team, test for ulterior motives, the circumstances surrounding the deal, and create an enhanced assessment of the deal.
Corporate Investigations	You or a portfolio company have noticed irregularities in their finances, management reports, cash levels, or they have indications fraud occurred.	We can mount an investigation into what happened and who is responsible while complying with protocol so it can be used in court if necessary.
Financial Investigations	You have indications that you or a portfolio company have been defrauded and funds have been moved illegally. Or company funds are being held hostage.	We can perform a forensic audit to understand what happened and whom to go after. If push comes to shove we can activate a business hostage negotiator.
Asset Searches & Recovery	Assets, like intellectual property or something physical, have gone missing from your or a portfolio company's premises or storage.	We can investigate the circumstances of the assets' disappearance and activate countermeasures to aid recovery.
Political Risk Assessments	Your client is or wants to do business in a new place that bears political risk and wants to get the lay of the land.	We can task our network of foreign policy experts to create a comprehensive and tailored risk assessment.
Litigation Support	A lawsuit is brought against your or a portfolio company, or you are about to file one.	We can support you in all intelligence gathering activities or serve as expert witnesses to increase the chances of winning.
Cybersecurity	You suspect that you or a portfolio company have been breached by a cyber attack through phishing, ransomware, malware, or social engineering.	We can preemptively examine systems or take countermeasures post-incident to prevent loss and restore systems as quickly as possible.



Falcone International also regularly provides awareness workshops and in-depth training on all the above topics to sensitize and empower teams to recognize risks and threats early and make a subsequent response easier.

How Falcone International Can Help You Meet Your Goals

We solve complex problems for our clients and help them make better decisions, establish higher levels of confidence, and allow them to act decisively.

We do not believe in one-size-fits-all solutions but in effective and efficient solutions that scale with our clients' needs.

Falcone International is a global intelligence and investigations firm offering expert consulting services tailored to address a wide range of corporate needs. To name a few that are relevant to Private Equity firms and Asset Managers:

- Due Diligence & Deep Research
- Executive Background Checks
- Corporate Investigations
- Financial Investigations
- Litigation Support
- Political Risk Assessments
- M&A and Deal Support
- Asset Searches & Recovery

In doing so, we regularly deliver, among other things, expert and forensic reports, action plans, risk heat maps, personnel assessments & reports, expert witness statements, and implementation assistance to our clients.

A dedicated, global team is at your disposal to overcome the next challenge. We are a diverse team of 120+ business executives, finance professionals, diplomats, government agency operators, and subject matter experts.

Everyone at Falcone International is a knowledgeable professional with decades of track record. They bring a fresh perspective by blending their experience and interest in new, cutting-edge methods and technology.

Global Contact for Private Equity and Asset Managers



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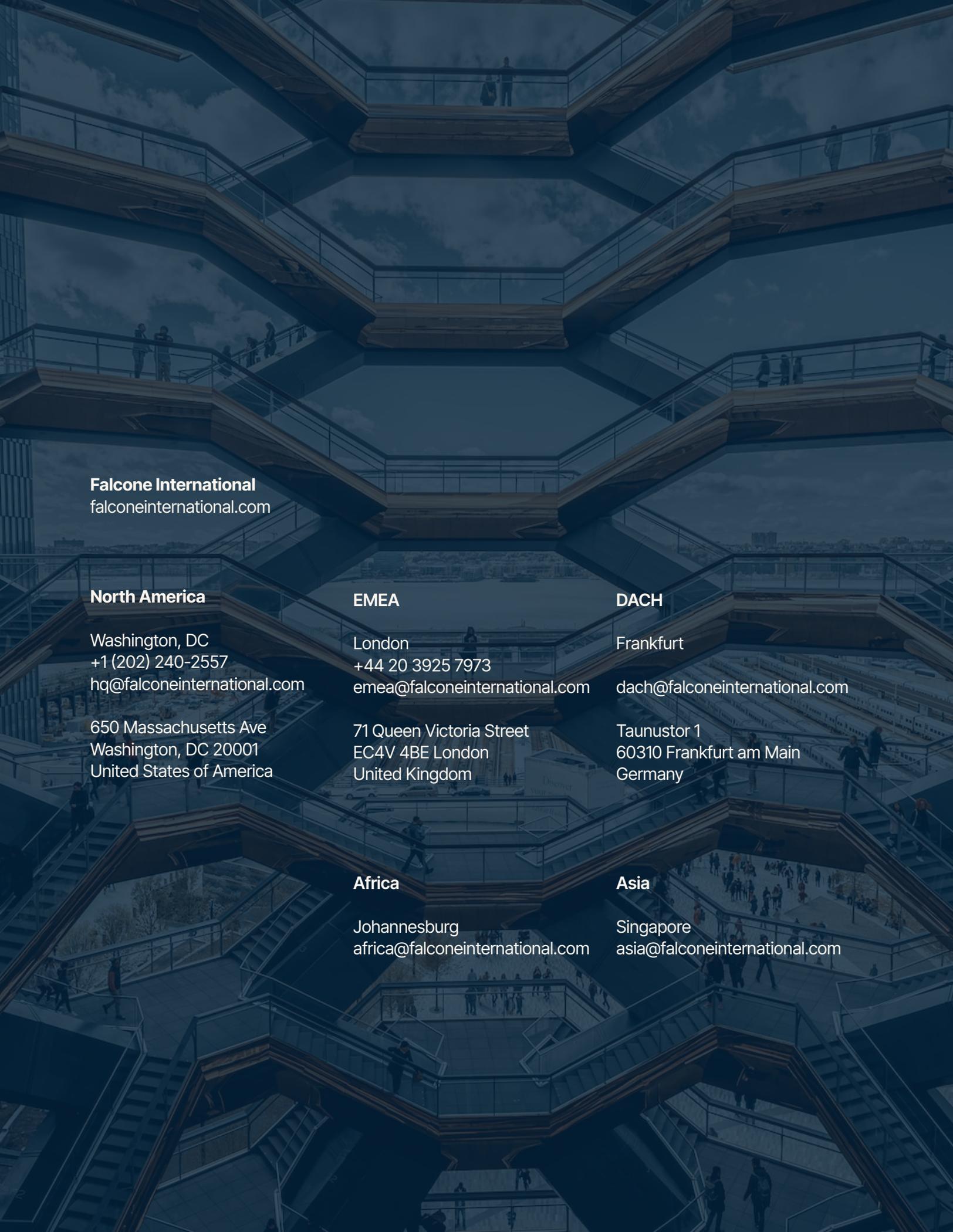
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Important Information

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