



## IMpact: An investment management podcast series

### Episode 15: Beyond capital: How PE firms create portfolio value

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**Reese Blair:** Hello, everyone. I'm Reese Blair, your host of IMpact, the investment management podcast series from Deloitte. In every episode, we come together to explore the issues shaping the industry, whether it's regulation, recession, or resiliency. By diving deep into the latest news, trends and challenges, we'll discover how collaboration and shared insights can drive progress for professionals across investment management. So, tune in, learn something new, and walk away with insights that can help you make an impact on the investment management industry and the world around you.

IMpact listeners, today, we are exploring how private equity firms can help add value to a portfolio company with Rafael Telahun, the managing director at Altaline Capital Management, a leader in the investment management space.

Rafael, thank you for joining me today. I'm eager to get your perspective on how private equity firms can help add value to a portfolio company.

**Rafael Telahun:** Well, thanks for having me, Reese. I look forward to the conversation.

**Reese Blair:** Absolutely. So, Rafael, let's start with maybe a little bit of your personal journey and what ultimately led you to found Altaline.

**Rafael Telahun:** Absolutely, I'd be happy to. So, I started my career out of college following a traditional path. I was an M&A analyst, and then I went to go work at a private equity firm before matriculating to business school. But that's where I sort of took a diversion from the path. I ended up starting a business and raising venture capital and recruiting a team and building a product, and that was an entrepreneurial itch I really wanted to scratch.

But that journey was difficult, and we made a lot of mistakes. We scaled prematurely, we made a ton of commercial mistakes, and we ultimately sold the company at a loss to a public company. And after that, I decided to pick myself back up and head to the large private equity firms again.

And about a year ago, I decamped to launch a new shop that was operationally focused and fortunately, along the way, have found some friends and colleagues to join that journey to build a next-generation private equity platform.

**Reese Blair:** Rafael, that is such incredible perspective that I hope our listeners heard it. You sold your company at a loss, but what I heard you say without saying it, is that you sold it at a lesson; no losses, only lessons. And so, I just really want to thank you for sharing that.

I think it's inspiring, quite frankly, to hear how you embraced both the successes and the challenges along your journey, having to repivot. So, I do believe that firsthand operating experience is really great from an exposure perspective, and I would argue probably shaped your more hands-on investment approach.

And look, I think building something from the ground up is incredibly fulfilling. You absolutely get a chance to directly influence the outcomes and what it means to make the work meaningful on a daily basis. And so, I maybe want to keep going there a little bit and maybe, again, stay at this notion of operational value for a minute.

And I do believe operational value creation is arguably central to your investment approach. Can you maybe share why it's such a core theme for you personally and what drew you to focus your career on this aspect?

**Rafael Telahun:** That's a great question, Reese, and I wish I had a more articulate answer, but I'll give you maybe two responses. First is specific to me. So, as you mentioned, I had started a company and really enjoyed working with founders, working on products, helping effect change, and getting my hands dirty, if you will. And that sort of style spoke most to me, and hence why I was so focused on operational value.

Secondarily, I'd say it's market-driven. Over the last 15 years, we've just seen interest rates go down for the most part, and that has led to a lot of competition. And there are, from what I had seen at the time, a fixed number of assets that were near perfect that everyone was chasing, but the prices there got a little ahead of themselves.

And at the same time, there were a number of assets that needed some polish, needed some help, and needed some operational support that the market was under appreciating, or at least I thought so. And so, I decided to focus there because of the opportunity. And so, it's really both personal, intrinsic, and market-driven in some ways.

**Reese Blair:** Got it. I think you being deeply involved in the details, really helping steer operational improvements, looking for those opportunities to lean in. And look, I think it's also probably a real differentiator today from where people who are struggling to find those good deals, find those opportunities, that there's going to be an upside here, identifying solid businesses with untapped potential.

I want to maybe continue staying on that theme a little bit, and maybe think about how we can explore this topic of PE operational value creation.

So, let's maybe get a history lesson. From your perspective, Rafael, how have private equity firms historically approached operational value creation in your experience?

**Rafael Telahun:** Well, what I'd say is maybe that there were three generations. There was a focus on buying conglomerates and breaking them down for pieces. The proverbial example where the sum was worth less than the parts, so you could buy the whole and then monetize each of the units. That also kind of brought to bear some cost-cutting, and so, I'd characterize all of that as that kind of first generation or that first iteration.

I'd say the second, really tied to that point earlier about a 15-year journey of declining interest rates was the consolidation period where private equity firms got more comfortable conducting a rapid M&A and combining businesses, and along the way, capturing synergies. So, that became the flavor du jour, and it still is a little bit today. You see a good bit of consolidation investing still in the marketplace.

And then I'd say we're sort of entering this third generation, or this third iteration, where because of technological and societal changes, there are so many things that a company can experience to be transformed, to be rerated, or to be positioned differently.

And I think in this generation, private equity firms are focusing as much time on the repositioning of businesses strategically by taking advantage of AI or tapping into certain consumer trends as much as they were in years past focusing on consolidation. And so, I'd characterize the history, at least from my vantage point, in those three epochs.

**Reese Blair:** Love that. I mean, that's an incredible breakdown of how value creation strategies have truly evolved over the years. And whether you started with market dynamics and technology and where we are today, I think each stage clearly has demanded, I would think, new skills for investors.

And I think the current wave driven by AI and automation, I believe, offers tremendous opportunities for both firms that are maybe willing to rethink what's possible.

So, I want to stay on this topic of value creation a little bit longer—operational value. What's changed in the landscape, you think, that's made this such a huge priority today?

**Rafael Telahun:** Well, what I say is, it kind of all boils down to competition in the end, but it manifests itself in different ways. So, on the one hand, you have commercial competition, the evolution of the market; you've got pressures to adopt AI and automation, you've got pressures to address consumers where they are, to figure out ways to do more for less, and to fight it out with your competitors. So, there's that piece, and people have to invest in the businesses they buy to keep them commercially relevant.

I'd say the second is the investment management market. So, there's competition for high-quality assets or those that are perceived to be high quality assets. And as I mentioned earlier, what that has led to is higher purchase prices, and ultimately, the higher price you pay, all things being equal, the lower return you earn.

And so, there's a schism happening where some firms are saying, "I just can't afford these prices. Let me go and see if there's a way where I can get more operationally involved and buy a company or partner with a management team that needs a little polish where I can help bring them to the standard and along the way make a return for myself." So, I'd say it's ultimately still competition, but one driven by the commercial market and the other impacting the investment management business.

**Reese Blair:** That's so spot on, Rafael. That competition element is really relentless, and the bar honestly just keeps rising with new tech, global transparency, the macroeconomic factors, geopolitical factors. I mean, there's so many headwinds. In fact, we just had an episode really breaking down sort of this volatile, uncertain complex and ambiguous world that we live in.

So, maybe want to pivot a little bit to thinking about, as we look at portfolio companies, and again, on this topic of adding value, in your experience, Rafael, how do firms like Altaline weigh using standard playbooks versus maybe tailoring approaches for each portfolio company?

Because obviously, we know that there's got to be bespoke investments that you all look at and things that are going to be unique. So, do you leverage a standard playbook or do you actually, in response to the uniqueness of that company, tailor your approach accordingly? I think I have a perspective but curious to hear yours.

**Rafael Telahun:** So, this is challenging. As executives and generally in business, we're naturally predisposed to try and create standards and force process and fit patterns; or rather, fit phenomenon into patterns.

And the challenge is that businesses are a reflection of the people that built operation and organization. And so, they're all a little bit different, and the way they serve customers is a little bit different, the way they compete in the marketplace is a little different. And so, in some ways, one size does not fit all.

**Reese Blair:** It sounded like you were starting to say there was a little bit of a hybrid approach where there's certain tools and processes that are standard. And I think standardization certainly has its place, but what I heard you say is that there's real strength in customizing and aligning with each company's unique facts and circumstances, needs.

So, let's zoom out a little bit, Rafael. I want to think about the big picture, and I want to get your perspective. What have you observed in terms of relying on senior advisers, big-picture thinkers, versus maybe some of the hands-on operators, the doers in this space? Where do you lean? Do you lean more towards the big-picture senior advisers, or do you lean more towards the hands-on operators and doers?

**Rafael Telahun:** Well, Reese, I'll be a little bit controversial here if only for conversation. I'd say that the jury's out in the market of what model works. The larger end of the private equity landscape can respond very well to the senior adviser model.

Those are companies that have great functional leaders, that have problems that are more internal organizational issues versus functional success issues, and where a senior adviser can bring to bear wisdom and judgment and the ability to help people mend people issues. So, for the larger companies and the larger end of the private equity segment, that can make total sense.

In the smaller end of the segment, the senior adviser model just breaks down because we have other issues that are more pressing. We have actual functional deficiencies. We may not have a chief HR officer; we may have a product leader taking on the duties of both technology and development and product management.

And there, what we have found is that by parachuting in leaders who can come in, who are energetic, very focused on a functional expertise, and that are driven by an objective with a five-month or six-month or one-year timetable, can come in and create real value in the companies.

**Reese Blair:** Got it. I want to maybe think about what you just shared in this conversation around where PE firms add value.

If you think about the model and the playbook—I'm going to use "playbook", because I know we just talked about that. But this notion of sometimes a PE firm is coming in and helping to upskill management and maybe bringing in folks where it might have been a family-owned business, and so now the PE firm is kind of coming in and driving initiatives to help level up that business. I mean, that's certainly a model that we've seen some measure of success with.

But I'm curious to hear your perspective on the folks, who might have built this company from the ground up, to have perspective on where to go to get to the next level? Where does that balance lie? Where do you think it works in terms of an operational improvement being driven by management, or whether the PE firm should drive that? What are your thoughts there, and is there a balance that should exist?

**Rafael Telahun:** We have found that because we're coming in and identifying the 180-day plan or the one-year transformation agenda, or the 18-month repositioning strategy, even when we get buy-in from the executives at close—and we require that for folks who want to partner with us—what we have found is that they need help to implement that plan.

And before we showed up, they were busy, and after we showed up, they will continue to be busy. So, we will never take their role, and we never usurp their position, but we know that we've got a lot to accomplish in a very limited amount of time in order to hit our underwriting goals.

So, in some ways, we're marrying this concept of a management-led or a private equity firm-led initiative and bifurcating it to things that we want to help the companies succeed at, and then allowing the companies to continue doing what they do is great because when you think about it, a typical executive of the company has so much on their plate.

They've got individual contribution, they've got four to eight different direct reports, they've got company holidays and company events, there's just a lot going on. And for us to come in and add to that plate without bringing the bare resources, it wouldn't be setting that executive up for success, and hence why we're so focused on making sure we combined a PE-led approach with management-led initiatives.

**Reese Blair:** Again, sort of almost like a hybrid model.

Rafael, I want to maybe explore some twists and takes and tactics, again sort of talking about adding value to portfolio companies. And I'm curious to get your perspective on how are you seeing firms reposition portfolio companies? And let me give you an example: like moving from a traditional services company to something that's maybe more tech-enabled or a platform model. What are you seeing in that space?

**Rafael Telahun:** So, we're seeing a lot, and what I would say is that things are very vertical and sector-specific. And so, as an example, within the software space, what we're seeing is a focus on product gravity and client centricity. So, if before, you had a pretty lightweight solution that was just bits and bytes, that is susceptible to some AI disruption.

And so, what you want to do now is increase product gravity: have more modules, have more of a hook into the customer's experience with you, integrate into third-party solutions, embed payments; do things that are heavier, that are more involved, such that it isn't just a simple little widget or app that can be obviated by AI coding tools. So, that's an example on the software side.

On the services side, we're seeing a lot of transformation there. There's implementation of automation, there's level-one customer success, customer support, dialogue being done by AI. There's a movement towards shifting to subscription business models, there's an initiative that many service organizations are doing to create a client workbench so that the communication with the client, the documents with the client, all of that is housed in a single pane of view so that everyone inside the professional service firm can see what's going on with the client so that they can deliver for that client the best.

So, we're just seeing a lot of people leverage automation and AI to create deeper experiences with the clients. And we think that's pretty important because that ends up being the moat, is having that client centricity and doing more for the same price, and being deeply ingrained with that client so that you protect yourself from competition that is moving at a faster and faster pace.

**Reese Blair:** Now listen, I couldn't agree with you more, Rafael. I think you hit the nail on the head. The impact of AI and automation across both software and services is transforming. And it's not just how value is delivered, but it's also, I think, creating some stickiness, and it's probably integral to these businesses and how they serve their clients, and ultimately, become that choice of one. Like the clients can only think of coming to them when you start to leverage AI and automation in that way.

I'm really excited, quite frankly, about how companies are evolving into multi-solution providers and shifting towards tech-enabled service models. That is an exciting trend that I'm personally seeing, and so I do believe there's huge potential for sustainable growth and arguably margin expansion with that strategy in mind.

Speaking of shifts and strategy, can you explain maybe from your perspective the shift from transactional business models to maybe subscription or consumption-based models? What does that journey look like in real life, in practice?

**Rafael Telahun:** So, on the services side, what we have seen is that historically, companies would engage with a client either on an MSA basis or just episodically. And the market generally, particularly in investment management, values revenue visibility very highly, and you sort of can all understand it.

If you have visibility into how much you're going to make next month, next year, the next three years, you feel more comfort and more confidence to make investments than you would if you're susceptible to revenue going up and down every month.

And so, there's really two dynamics there; one is a business model, revenue model change and transformation, that has a lot there to unpack, but then there's also a client service delivery model change.

And what we have found is that in order to get the clients to transition to a subscription model or one that's integrated and consumption-driven, you have to be delivering service that has a more consistent and persistent engagement model, versus an episodic engagement where the client has no further value to signing up for a consistent agreement with you.

And so, some tactics that people have employed in order to do that is by becoming a repository of data, for instance. Let's say you do something where the client's actions and historical results are stored on your platform.

Another example is by having a client workbench or having a user interface online where a client can log in and interface with you in a more fluid way so that they feel that the access to that portal or that platform has value in of itself.

And so, there are tactics you can deploy in order to get clients to transition mentally from thinking about you as an episodic vendor, into more of a solution that they subscribe to. Now, on the revenue model side, you still can navigate between consumption or fixed price or seat-based. That's all sort of dependent on the solution and service you're providing.

But as long as you're doing that in a way where there's a base fee for access to your platform, for access to the data that you're hosting, for access to the integrations you're providing, that's where we see that transformation being best done from a transactional business to one where you're a platform, you're more subscription-oriented, where there's a more fluid, dynamic, everyday engagement with your client versus the episodic, maybe there's an MSA in place only sort of situation.

**Reese Blair:** Yeah, well said, Rafael. I think that shift from a transactional model to that recurring model. As I think about that, it really does hinge on reshaping the client experience. Like you said, it's making the platform that you offer that client indispensable through integration, through data and ongoing support.

And as you said, unlocks predictability for both parties, both from a revenue generation, but also for long-term growth as well. So, thank you for sharing that.

What are some of the, I'll call it "most effective," ways that you've seen firms accelerate digital, cloud, AI adoption within their business? Curious to hear your perspective on some things you're seeing in your daily practice.

**Rafael Telahun:** So, there's a few things there. Most notable is that at one of our companies, we've really focused on the customer support side. And so, what would typically happen originally would be a request comes in via email and a ticket is raised, and someone internally goes and figures things out and tries to solve it at some time frame that's within scope.

There, we are transitioning to deploying a level-one, customer support, AI-enabled tool where the customer can just have fluid dialogue with the platform itself and feel like they're getting highly responsive, very-well-informed answers. And so, that's sort of a very down the fairway implementation of an AI-enabled tool.

The second is around cost and our ability to be productive. And where we have seen that most pronounced is within our software development organizations. There, they're all deploying AI-enabled code assist products—cursor and cloud, most notably. And we are still on a journey of learning how best to use them—those solutions, rather—in the optimal way.

But day one, we've seen significant productivity gains just in the ability to get going on projects and to have more output for the same team resource deployed. And so, on the cost side, we're seeing examples of that permeate throughout our companies, and on the service delivery side, on the product side, we're seeing that customer success piece being the sort of first beachhead of where the AI and the automation is bearing fruit for us.

**Reese Blair:** Those are great points, Rafael. Thinking about technology, the tools that are available, the huge gains that come from creatively rethinking your operations and layering in AI where it matters the most and adds the most value, but I also wonder about striking that right balance. And I mentioned this again on a previous episode, between automation and human touch, especially in client-facing roles, and I think that can also have transformational impact as well.

So, just wanted to maybe layer that into what you just shared because I think you raised some excellent points there. You mentioned cost, and so I can't help but wonder and get your perspective on how have you seen most progressive PE firms rethinking their pricing strategies as a potential lever for value creation?

**Rafael Telahun:** So, it's huge and it's important. We just went through a period of high inflation, and so every investment firm has been looking at their portfolio companies and seeing how can we recoup the cost that we're seeing on the labor inflation and cost inflation side from our clients.

So, there's a natural tension there. Clients want to keep pricing where it's at or even lower, and then the companies that deliver the solution or service want to increase pricing. And so, there are maybe two thoughts there—two vectors of thoughts. The first is delivering more value to the clients, and there are ways that we can do that in a scalable approach.

We mentioned some of them creating a data repository where you take anonymized data from all the users of the platform, and sell it back to the audience. Integrating with third-party solutions, deploying embedded payments, embedded insurance, embedded payroll, all manners of embedded financial services. Having new features that a client wants to see specific to their segment of the market.

The second vector is really around implementing pricing strategies, and these strategies have become much more robust in years, and I'll give you sort of a window or a flavor of that.

So, today you can see and segment your users by firmographic details. Are they growing? What segment of the market are they in? Is that segment performing well or not? Has the client recently raised money or announced a merger or an acquisition? So, there's all these sort of manner of firmographic details that you're able to pull in an automated way.

Secondly, you're able to pull user engagement data. You can tell which of your customers are using your service or software solution more than others, and you can see the trend line. And if you're seeing a customer within their organization, you know you've got someone that finds value in what you're doing.

So, you can take all of these different automated data points and you can create a pricing model that can predict and inform you by telling you which client you should price at what level. And we are beginning to see these AI-enabled, predictive pricing models being implemented across the industry to help companies pinpoint which of their clients would be most open to a certain level of price, and how do you manage that price increase while maintaining or controlling churn.

And so, those models are becoming more ubiquitous across the industry. So, I'd say those are maybe two considerations to think through around pricing. One is adding more value, and the second is using predictive models to help you price in a more intelligent manner.

**Reese Blair:** That second one really resonates with me, Rafael, as I think about it. The integration of we'll call it firmographic and behavioral data into those predictive models that you just mentioned, I think that's really powerful, it's arguably creating a more dynamic approach to pricing that I think optimizes revenue while certainly maintaining, hopefully, customer satisfaction.

Speaking of customer satisfaction, let's discuss how you're seeing portfolio companies strengthen their mission criticality. How are they becoming more valuable to clients, almost indispensable to clients by embedding, again, either financial services, launching data-driven products? What role do initiatives like customer communities, conferences, certification programs play in building brand stickiness? Trying to get to your perspective around that whole notion of you have a moat, but how do you keep everyone there, and that mission criticality sentiment.

**Rafael Telahun:** So, it's huge and it's important, and it comes part and parcel with our concept of product gravity. You want to increase the substance of what you're doing for a client. And maybe to tease it out, just to maybe set the stage on why it's so important, having greater product gravity or mission criticality has such a positive impact on all the metrics that matter for a business, that it's really shocking.

I mean, gross retention, net retention, organic growth rates, gross margins—all of that is influenced by having higher substance, higher product gravity, more mission criticality. And there are a number of ways that we've seen companies engineer this. As mentioned, one is embedding financial services of all manners, whether it's captive insurance, payments, HR (as in payroll), that's one huge area of focus.

The second is integrating into third-party systems and creating API gateways, or feeding the data of what you're doing into a ticket management system. All of that is huge because you become the central point of focus within your client's workflow, and you become embedded into everything they're doing.

Another example is what I mentioned earlier about aggregating data from your clients, anonymizing it, and then presenting that data as an index or indicator or benchmark tool so that your clients can figure out how they measure up against their competitors. That's really valuable to them, and oftentimes you can price that as an individual model.

And then there are other tools and tactics that people have implemented. And one that you mentioned, Reese, is one that we've seen in the past where you create almost a community around your product, and one way of doing that is offering a certification program so that people can put it on their résumés and it becomes part of the industry *lingua franca*, if you will.

Another is by creating conferences in communities so that your product becomes synonymous with that function. And we've seen that to great effect across the office of the CFO, for instance, and in the office of the HR leader.

And so, all of these are ways in which we have seen companies increase mission criticality and product gravity, by increasing the substance of what they're doing for clients. And that creates the moat, which, back to our original point earlier, is how you stay alive in a world that's becoming ever more competitive.

**Reese Blair:** I mean, competition is relentless; that point can't be emphasized enough. And you mentioned the office of HR, so I can't help but think about people. We've talked about processes. We've talked about technology. Let's pivot over to the people side of things, and I'm curious to get your perspectives around designing a team to be able to execute some of these.

So, what do you think is maybe different about how emerging firms are in fact building these dynamic teams to really deliver on these more hands-on strategies?

**Rafael Telahun:** Yes. What we're seeing is that the market has become ever more demanding. And so, if you're going to proactively focus on buying companies and transforming them, you're going to have to invest in operational resources.

And so, we're seeing peers of ours who are launching new firms, start earlier with an operating team, which is pretty different than years past. What you would've seen earlier in the investment management life cycle would've been a few investment professionals coming together, hanging out a shingle, and then going to market to find deals that make sense for them.

Today, what we're seeing is folks investing whatever resources they have into building out operating teams, and then focusing on parts of the market where they have prepared minds or where they have seen patterns emerge in their professional past that they can bring to bear to opportunities today.

And so, people are focusing on subsectors, if you will, some people are focusing on situations, maybe it's carve-outs. Others are focused on partnering, as an example, with an AI implementation firm, and just saying they want that to be their core area of specialty. Others are saying we want to be focused on the people side.

And so, only looking for firms that need to have team transitions, and then having a stable of CEOs and CXOs that they can parachute in, and only bidding on companies that need that solution or have that problem. And so, people are focusing more on operations, and then tailoring what they're doing to segments of their market where they're being most focused.

**Reese Blair:** Got it. Something I didn't hear you say, but something I think about oftentimes, if you're building out these teams to help, again, deliver these hands-on strategies, I think this notion of maybe a little bit of ownership from those professionals—bringing in operating professionals, dynamic talented professionals early in the process, and then aligning them with real ownership could help maybe drive smarter decision-making, maybe create some stickiness with those individuals—I think, really drive that focus.

Because that operator perspective isn't just a nice-to-have; it's fundamental for achieving and confidently underwriting ambitious results in today's, like you said, competitive environment. So, speaking on that, again, I want to continue on this conversation of talent and how we think about talent.

And I had an insourcing/outsourcing episode a couple months back, and I'm trying to think about your perspective, and I'd love to hear you chime in on the trade-offs. How do you think about the trade-offs between using consultants versus building a full-time operating team in-house?

**Rafael Telahun:** So, it's agonizing to tell you the truth because you want to sort of balance the ability to have high quality, versatility, speed-to-action, and trust with the breadth of needs that are out there. You can't build that level of trust and speed-to-market and versatility in every function that's needed for a company.

And so, what we have decided is that there are a number of items that we will have a need for. So, those are things like finance transformation, setting up ERPs, digital billing, making sure they're doing sales and use tax correctly, all of the sort of office of the CFO.

The second is executive recruiting, where we want to make sure we're getting the right we're getting the right title talent into our companies.

The third actually, it's a little bit different, is marketing.

And so, those are examples of areas where we've decided in addition to software development, where all of our companies need to develop product, we want to make sure we have good outsourced and insourced relationships that we can bring to bear.

If there are issues that arise that are very specific and that aren't in those buckets, we try to use experts that are in the various professional service firms because they encounter those challenges and those problems more frequently, and they tend to have a quicker ability to deliver value against those problems and find a solution.

So, it's a little bit of a trade-off, and what we're trying to do is strike the right balance of being able to have a quick, highly trusted, internally developed resource that we have a high level of confidence in that we can bring to bear with tactical support from professional service firms and consultants who are expert at one or another problem area for us that we can bring to suit as well.

**Reese Blair:** I think that balance and striking that balance is incredibly important to scale effectively without diluting institutional knowledge or focus from that core team. So, appreciate you sharing that, and again, sound insights there on sort of that trade-off and how you navigate that.

Rafael, we're going to close today's discussion, and I hate to do it because honestly your insights are so profound and I love talking to you! But at the end of the day, we have to wrap up the conversation.

And so, as we close today's discussion, I'm curious to get some leading practices from you that you believe are important for embedding operational expertise throughout the investment underwriting process. Love to get your perspective.

**Rafael Telahun:** Two things. One is the way investment management firms need to treat operating professionals. So, historically, those folks were consultants, part-time, you'd call them in when there were problems, or you'd find a spot for them when something interesting popped up.

In this next generation, our point of view is that you want those people to be part of your organization in every way. You want them to have the same incentives—so carried interest, participation in all forms of economics across the firm and in the projects that they work on—and you want their voice to be heard.

So, you want them in the investment underwriting decision, and you want them in the portfolio management decisions that come about post-close. So, that's one. That's sort of the way you engage the operating professional. We think that's more and more important. We do want those people involved earlier, we want them to be incented fully, and we want their voice to be heard and their insights to be included in the decision-making.

The second is the way in which you interface with management. As you're transforming businesses in this era of faster-moving competition and change and trends that are ever shifting, I think alignment and buy-in with management teams is ever more important. That's always been something that investment management firms have sought to do, but in a time like this, it becomes of greater import.

You have to make sure that the 180-day plan or the one-year transformation agenda or the 18-month repositioning strategy, all of that has buy-in; otherwise, there becomes points of misalignment.

And when we've seen that misalignment rise and friction develop, it's ultimately because of less time that was invested up front where you should have spent more in making sure you were aligned on that operational value creation plan. So, I leave the audience with maybe those two pieces of thoughts as the closing points.

**Reese Blair:** Well, Rafael, that is a fantastic note to end on, and I appreciate you sharing that. And to all of our listeners, we want to thank you for joining today's discussion on how private equity firms can add value to a portfolio company.

And look, whether you're deepening your existing knowledge or are new to the field, our goal here at IMpact is to provide you with insights that not only inform you, but also empower you to act. The world of investment management is rich with opportunities for those who navigate it with informed strategies.

And speaking of informed strategies, Rafael, thank you for your invaluable insights today. Your experience has undoubtedly enriched our listeners' perspectives today, and I just want to say on behalf of our listeners, thank you for the investment of your time today. You've been incredibly generous.

And so back to our listeners again, thank you for choosing the IMpact Podcast, where we aim not just to pass time, we make every minute count by engaging with the brightest in the field like Rafael.

And remember, knowledge in and of itself is not power. The use of knowledge is power. So, let's continue to learn and apply your insights to focus on investing and what matters to you. IMpact listeners, until next time, keep engaging, keep innovating, and always keep making an impact.

*Thanks for joining us for today's episode. Be sure to listen to IMpact each month. You can find us on Deloitte.com, Apple Podcasts, Stitcher, Spotify, or wherever you get your favorite podcast. Simply search I-M-P-A-C-T. For more insights on investment management, visit the investment management page at [deloitte.com](https://deloitte.com). You can also connect with me on social media. Just search Reese Blair on LinkedIn. Until we meet again, keep making an impact.*

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