

## What to Consider When Building Your PE Portfolio Talent Function



In recent years, the global private equity industry has awakened to an undeniable truth: Human capital is a powerhouse of value creation for portfolio companies. This revelation has sparked a surge of private equity firms establishing dedicated talent functions — human capital leaders who specialize in guiding portfolio executives and deal teams on crucial talent strategies. Distinct from traditional in-house HR roles, these positions focus specifically on optimizing top human capital practices within the firm’s investments, rather than for the private equity firm’s deal teams and staff members themselves.

We recently examined 50 top private equity firms to assess the prevalence of portfolio talent roles, the expertise of their leaders and team sizes. Our findings revealed that 58 percent of these firms now have a senior portfolio talent leader (with 15 or more years of experience), marking a notable 20 percent increase from five years ago.

This piece looks at the growth of the portfolio talent function in PE. To gain deeper insights on this trend, we also conducted interviews with more than a dozen portfolio talent leaders, discussing how they’ve built their teams, how they measure success and what they do to drive value creation across their portfolios.

## What a portfolio talent leader does

The roles and responsibilities of portfolio talent leaders can differ significantly based on the firm's investment strategies, the skill set of the chosen candidate and the credibility the talent leader has built within the fund. Through our assessment of portfolio talent executives and interviews with industry leaders, we identified several key responsibility segments that consistently emerged (see figure):

- » Executive search/networks
- » Assessment
- » Talent management
- » Operational support
- » Pre-deal diligence



Given the diversity of potential responsibilities, clients often ask us, *Where do we start? How do we scope this role?* Our answer is two-fold. First is determining which elements of a leader's possible responsibilities take up the most time across your investment and/or operating teams today. And second is aligning the role most closely to your broader investment strategies and theses. In general, our clients consistently point to executive search management and network management as top priorities across firms, making it a common starting point for most private equity teams. However, talent management and assessment tend to be closely behind as key topics, if not top priorities for some.

Our interviews pointed to the notable trend that portfolio talent teams are becoming involved significantly earlier in the deal cycle as their tenure grows. One portfolio talent leader, now more than 10 years into his role, told us that 30 percent of his work is what he calls “talent underwriting” — evaluating an acquisition target’s human capital and talent operations pre-deal to identify risks and opportunities. In one case, he worked with the deal team to explore the leadership dynamics at one founder-led target company, the possible ways that CEO succession could play out and how these issues could impact the company’s value. Of those interviewed, all respondents noted the increase of pre-deal “talent underwriting” in their balance of responsibilities over time. The reported time spent by top talent leaders ranged from 10 to 40 percent of the overall time spent, with the rate increasing the longer each leader holds the role.

## Where do portfolio talent leaders come from?

Unsurprisingly, given the range of responsibilities portfolio talent leaders can have, the routes into these roles are diverse. Of the 50 firms Spencer Stuart reviewed, for those that have talent leaders, about 31 percent came from executive search backgrounds, 21 percent came from in-house HR roles, and 21 percent came from either management consulting or human capital consulting. In some situations, firms had the opportunity to familiarize themselves with an external consultant or an internal HR executive (from either the fund itself or a portfolio company) who was later hired full-time into the role. That situation has often proven particularly effective, as it allows the portfolio talent executive to enter the role with established credibility, historical context and institutional knowledge. However, there is a risk that anchoring to a specific person can have a negative impact if their experience and capacity do not align with any evolution in the portfolio talent strategy.

The remainder of portfolio talent leaders, 29 percent in total, arrived in the position from “generalist” backgrounds, defined as leaders who spent more than eight years across two or more of the following: search, assessment, in-house HR, consulting or broader business operations.

One industry veteran we spoke with summarized the landscape quite well. “A bunch of different profiles could work — I’ve seen all of those people succeed and fail. What it comes down to is, Were you a match for the firm? Did you have the right intrinsic capabilities? Did you do the right homework?” Furthermore, this executive echoed a sentiment we heard from nearly every other portfolio talent leader we spoke with: The most critical success factor is the buy-in and commitment from deal partners. “The number one question I always encourage talent leaders to ask is, Do all the deal partners want this role?”

## Scaling the function

Talent functions are increasing their resources and headcount as firms start recognizing their value and, concurrently, increasing their appetite for additional and/or more sophisticated human capital work. It is also common to find additional hires to this function being made after a new fund is raised. As portfolio talent leads build their internal teams, most (more than 80 percent) are hiring individuals with backgrounds in either executive search or executive assessment. These hires allow the functional leader to elevate in their role to focus increasingly on pre-deal responsibilities like talent underwriting, organizational design consulting and other talent advisory work.

Meanwhile, their teams can take over the day-to-day management of search and assessment partners and build scalable partner networks in the firm's investment verticals. Numerous talent leaders have noted a "major/minor" approach to this division of labor, with some teams dividing responsibilities by industry investment sector, and others by functional roles (focus on CFO, CHRO, CIO, etc.), with industry expertise being more common.

Over half of the firms we evaluated had teams of two or more portfolio talent team members, with the median being three. There can be disagreement across the fund as to the optimal structure, with some investors seeking broader capabilities inside and others opting to have a smaller internal team, leveraging external service providers more heavily. The exact team size ranged significantly depending on AUM, volume of deal activity and how long the function had existed.

## Measuring success

The measurement of the impact and success of this function continues to evolve, gaining more structure and sophistication.

First and foremost, many are implementing quarterly C-suite performance reviews. How are executives performing against their scorecard metrics? Are they successfully executing on the value creation plan and their individual scorecard? Are they showing capacity to take on more as the company scales? Is there turnover risk (voluntary or involuntary)?

Other key indicators to measure individual and team performance include:

- » Executive turnover
- » Time-to-fill
- » Portfolio employee retention
- » Portfolio employee engagement scores/NPS scores
- » Succession planning evaluation
- » Top team/board effectiveness evaluation

## Long-term investment

Our experience working with private equity has shown how these roles typically have less frequent turnover than other positions, thanks to the diversity of responsibilities, the level of intellectual engagement that comes with the job and the compensation structure. From our data set, these roles have an average tenure of 5½ years. However, of the five executives with the shortest tenure, four out of five were their organization's first standalone portfolio talent leader, which can negatively bias these statistics.

In particular, carried interest ("carry") proves to be a strong element of retention. A recent survey found that [73 percent of human capital operating partners](#) receive carry as part of their overall compensation; given the long-term incentive structure of carry, there is compounding value that promotes long-term engagement. All to say, when an investment is made in this function, it tends to be for a long period.

## Recommendations

To maximize the success of this value creation lever, we recommend reflecting on some questions before entering the search process for your portfolio talent leader:

- » What is your overall investment strategy and how does human capital complement or enhance it?
- » What are the human capital goals of your funds today and in the next 3-5 years?
- » What type of talent is available on the market and how does that align to your fund goals?
- » Have important stakeholders been included in the process? Are they bought in and willing to make it successful?
- » Does the profile meet your overall fund strategy, or does it focus on short-term needs?
- » Will this person provide the value needed?
- » Additionally, before joining a private equity firm to lead their portfolio talent function, we recommend candidates probe the following elements:
- » Where are you on your journey around talent strategy development? Is this a new position? If so, what was the catalyst for creating it? If not, why is the role open and what are the function's goals?
- » How would you describe the firm's appetite for this role/function?
- » What resources are anticipated for this role? How much is expected to be done in-house versus outsourced (executive search partners, assessment partners, etc.)?
- » What does success look like for the first year? What success metrics would one be measured against?



As our private equity clients diversify their portfolios across growth stages, industries, geographies and investment strategies, the need for a more robust talent strategy and function increases. Therefore, we're increasingly seeing the creation and elevation of portfolio talent leadership positions. Over time, more firms are seeing the value of this role, and support from investment teams is rising. However, to maximize the returns of investment in this function, it is important to reflect on readiness, alignment to value creation plans and buy-in from senior stakeholders. Done correctly, the portfolio talent leader will be a central figure in driving significantly increased returns on investment.





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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit [www.spencerstuart.com](http://www.spencerstuart.com).

## Authors

**Emily Amdurer** (New York)  
**Jason Hancock** (New York)  
**Jenna Pittleman** (Boston)



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