

Understanding PE Fee Reporting Standardization, Areas of Weakness and Potential for Abuse

PRESENTED BY: IMDDA

July 20, 2016





Our Cause

The Investment Management Due Diligence Association is the voice of the individual professionals of the investment management industry. Our goal is to advance the knowledge and skills of the due diligence community through continuing education and world-class information resources and the establishment of industry standards for conducting due diligence on potential and ongoing investments.

Our Promise

IMDDA provides exceptional experiences, a vibrant community, and essential tools that make you and your organization more successful.



Meet the Presenters



Meet the Presenters

Industry experts



Lorelei Graye

Consultant
Conifer Financial Services



David B. Parrish

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Lorelei Graye
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Lorelei is the plan sponsor consultant for Conifer Financial Services and subject matter expert in public pension needs surrounding investment fee reporting. Prior to joining Conifer, she served the South Carolina Retirement System Investment Commission (RSIC) as a reporting officer where she spearheaded the development and implementation of the annual fee collection, validation, and reporting process which was featured in the CEM Benchmarking study, “The Time Has Come for Standardized Total Cost Disclosure for Private Equity”^[1].



A strong proponent of industry reporting standardization and especially focused on public pension needs, Ms. Graye supports and participates in all facets of the Institutional Limited Partners Association (ILPA) Fee Transparency Initiative^[2]. Lorelei holds dual business degrees: a bachelor of science majoring in finance and a bachelor of arts with a major in accounting *summa cum laude*.

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^[1] Dang, Andrea CFA; Dupont, David CFA; and Mike Heale. “The Time Has Come for Standardized Total Cost Disclosure for Private Equity.” www.cembenchmarking.com. April 2015. CEM Benchmarking.

^[2] ILPA Press Release dated January 29 2016 www.ilpa.org



David B. Parrish is a partner at Jackson Walker, a member of the firm's Corporate & Securities and Energy practice groups and is the head of the firm's Investment Funds group. Mr. Parrish focuses his practice on assisting institutional investors with investments in alternative assets. Mr. Parrish regularly represents domestic and foreign investors in reviewing and negotiating investment documentation (including limited partnership agreements, subscription agreements, and private placement memoranda) and in negotiating and preparing side letters. In addition, Mr. Parrish regularly advises investors in advisory board matters, fund dissolutions, co-investments and secondary transactions. Mr. Parrish's experience in alternative investments includes private equity buy-out, venture capital funds, distressed debt and asset funds, energy funds, emerging manager funds, real estate and timber funds, infrastructure funds, hedge funds and funds of funds.

Mr. Parrish assisted the Institutional Limited Partners Association ("ILPA") with the development of the ILPA Ratings Tool, an application to qualitatively analyze private equity fund documentation against the ILPA 2.0 Principles. Mr. Parrish also teaches introductory and advanced classes on private equity on behalf of ILPA. Mr. Parrish is a member of the National Association of Public Pension Plan Attorneys ("NAPPA") and serves on the Negotiation Taskforce of NAPPA's Alternative Investments Working Group. In addition, Mr. Parrish is a member of the Institutional Investor committee of the Business Law section of the American Bar Association, a member of the Texas Association of Public Pension Attorneys and is a frequent speaker on reviewing and negotiating private equity limited partnership agreements, including at conferences sponsored by ILPA, the University of Texas McCombs School of Business and Harvard University.

Mr. Parrish received his B.A. degree, with honors, in Political Science from the University of Texas – El Paso, and received his J.D. degree, *summa cum laude*, from the University of Houston Law Center, where he was Chief Articles Editor for the Houston Law Review, a member of the Order of the Coif, and a member of the Order of the Barons. Mr. Parrish is licensed to practice law in the State of Texas.

Challenges in Fee Reporting

- Access to Information
 - Institutional Investors need robust reporting concerning the funds they invest in and their portfolio companies in order to properly manage, monitor and evaluate their investments.
 - Institutional Investors themselves are fiduciaries to their constituencies.
- Press and interested parties have been critical of transparency in the PE industry resulting in harm to the public perception of the long term value of the asset class.

Challenges in Fee Reporting

- Limited Partners have not been consistent on their requests for information.
 - Each LP has been trying to solve their reporting needs individually resulting in increasing demands on the back office of the GPs.
- General Partners have been reluctant to provide full information out of concerns concerning confidentiality.
- Without the GPs and LPs working together to provide appropriate information, the door opens to transparency being imposed by third parties.
 - This can create challenges to the long term success of the asset class for the various participants.
 - Through Dodd Frank, the SEC has become engaged in the discussion to ensure base level legally required transparency is provided.

The SEC and its Focus

- SEC through its implementation of Dodd Frank and applying the Investment Advisers Act to private equity has dedicated resources to ensuring the GPs are providing sufficient disclosures in order to comply with their legal obligations.
 - Note that legal obligations are not the entire universe of information LPs desire to appropriately monitor and evaluate their investments.

The SEC and its Focus

- Where has the SEC focused?
 - Consultants/Employees/Operating Partners
 - Allocation of Expenses re: Co-Investments
 - Failure to Fully Disclose certain expenses and GP beneficial revenues (fee discounts from service providers; group purchasing, etc.)
 - Expense Shifting
 - Accelerated Monitoring Fees
 - Valuation Issues re: fee calculations
 - Influence of GP on portfolio company level decisions (e.g., hiring, fees, etc.).

Why the Challenge in PE?

- Several reasons why we ended up where we are.
 - Fund LP Agreements are bare bones on required reporting
 - This leads to patchwork approaches to reporting with GPs discussing individually what each LP needs.
 - LPs have different systems and resources resulting in requests for bespoke reporting from GPs.
 - With bespoke approaches and a struggle to get what LPs need in the format they need, the GP responds by providing what is asked and no more.
 - Information asymmetry between GPs and LPs results in potential abuse, which while rare, when it occurs it provides for sensational stories that hurts the asset class.
 - GPs are reluctant to provide information beyond what is asked. This could be viewed as short sighted and the consequences result in long term challenges to the asset class as it gains a negative reputation and then third parties step in to mandate approaches that may be less than ideal.
- Challenges have lead to a strong push from the LP community for standardization (providing the participants the ability to fill the void and help shape the outcome for the betterment of the asset class).

Standardization

- South Carolina Reporting Project
- The Release of the White Paper on Fees and Transparency
- The ILPA and its role
- The ILPA Template and Release

Contrasting two quarterly statements

Example A

% of Capital
Partner %

Total Capital Commitment
Capital Contributed to Date (includes transfers)
Remaining Commitment

Opening Capital Balance

Contributions during the period
Contributions receivable
Distributions during the period
Transfer of Interest
Syndication Costs

Investment Results

Interest Income
Management Fees
Management Fee Offset
Other Expenses
Realized Gain/(Loss)
Deemed Gain/(Loss)
Change in Unrealized Gain/Loss;
 Net Investment Results
Unrealized loss on cash escrow
Equity interest in net operating income and
realized gain from investees
Equity interest in change in unrealized
depreciation from investees
Incentive Allocation

Closing Capital Balance

Example B

Statement of Changes in Capital Account from October 1, 2015 to December 31, 2015

Capital Commitment

Capital account balance at October 1, 2015, at cost

Net operating income (loss)

Partnership distributions

Capital account balance at December 31, 2015, at cost

Net unrealized appreciation of investments at
October 1, 2015

Change in net unrealized appreciation/depreciation of
investments

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**THE TIME HAS COME FOR
STANDARDIZED TOTAL COST
DISCLOSURE FOR PRIVATE EQUITY**



My hope was to draw more attention to the need for transparency and the limited partner's lack of access to standardized total investment costs in the asset class. I wanted the results to serve as a rousing call to action...

Inconsistent GP Reporting Led to Proliferating LP Templates

40% of LPs believe cost monitoring procedures are inadequate to identify material discrepancies within GP disclosures

52% have requested additional data on a one-off basis, or have begun issuing customized templates.

The image displays three overlapping screenshots of different LP (Limited Partner) templates used for reporting fees. The templates are labeled LP #1, LP #2, and LP #3. LP #1 shows a 'Quarter Ending 06/30/2020' summary with sections for 'NET ASSETS', 'INVESTMENT BALANCE', and 'PERFORMANCE'. LP #2 is a more detailed template with a 'Fee Paid to Underlying Managers (if applicable)' section, including a table for 'Fee Type' (Management Fee, Performance Fee, Other) across quarters from 2018 to 2025. LP #3 shows a 'Investor's portion of fees to the Manager and Affiliates (incurred during the quarter, including fees paid to third parties)' section with a table for 'Fee Type' (Management Fee, Performance Fee, Other) across quarters from 2018 to 2025. The templates illustrate the inconsistency in how fees are reported across different LPs.

LP requests varied significantly: from headline fees to waterfall validation to details of fees broken down by portfolio company

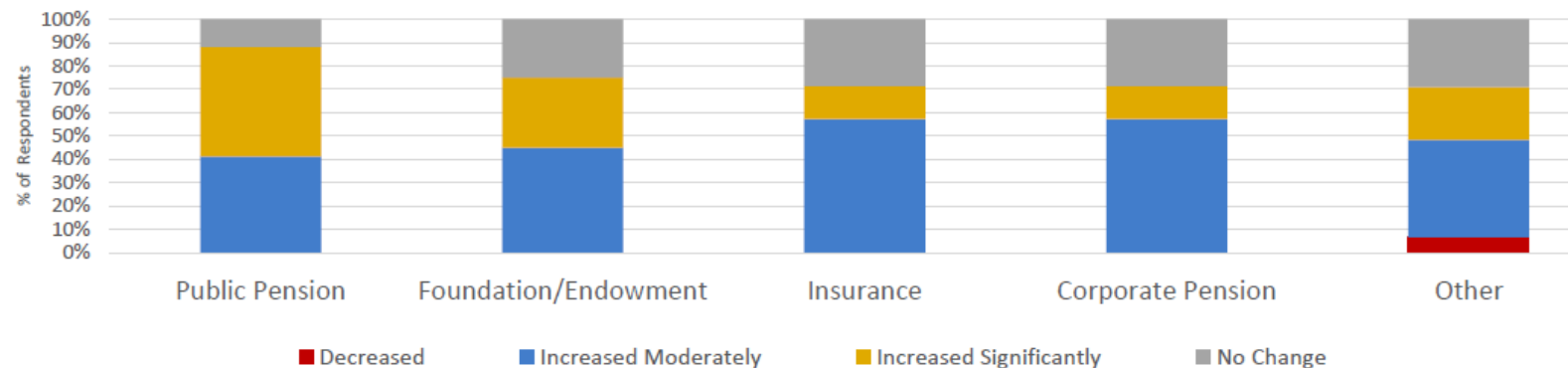


WEBCAST:

Unpacking ILPA's New Fee Reporting Template

Broad Interest in Better Grip on Costs, Compliance

Change in organization's concern about PE costs over the last 2 years



Organizational attitude towards PE plan costs

"The lack of reporting consistency among GPs hinders our ability to adequately monitor our PE plan costs."

All Other LP Types

Public Pension

60%

62%



ILPA Fee Template

Best Practices Fund II, L.P.				QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)
A. Capital Account Statement for LP #5												
A.1 NAV Reconciliation and Summary of Fees, Expenses & Incentive Allocation				LP #5's Allocation of Total Fund			Total Fund (incl. GP Allocation)			GP's Allocation of Total Fund		
Beginning NAV - Net of Incentive Allocation				\$45,067,000	\$38,196,000	\$0	\$2,495,281,787	\$2,163,081,300	\$0	\$339,194,377	\$276,104,050	\$0
Contributions - Cash & Non-Cash				0	5,000,000	35,000,000	0	250,375,000	1,732,625,000	0	375,000	2,625,000
Distributions - Cash & Non-Cash (input positive values)				1,250,000	5,000,000	19,000,000	62,593,750	250,375,000	1,432,175,000	2,593,750	12,875,000	77,175,000
Total Cash / Non-Cash Flows (contributions, less distributions)				(1,250,000)	0	16,000,000	(62,593,750)	0	300,450,000	(2,593,750)	(12,500,000)	(74,550,000)
Net Operating Income (Expense):												
(Management Fees - Gross of Offsets, Waivers & Rebates):				(187,500)	(750,000)	(6,625,000)	(9,375,000)	(37,500,000)	(331,250,000)	0	0	0
Management Fee Rebate				0	0	0	0	0	0	0	0	0
(Partnership Expenses - Total):				(48,000)	(154,780)	(548,429)	(2,328,750)	(4,985,053)	(25,072,055)	0	0	0
(Partnership Expenses - Accounting, Administration & IT)				(1,000)	(2,500)	(27,000)	(50,000)	(128,000)	(1,350,000)	0	0	0
(Partnership Expenses - Audit & Tax Preparatory)				(2,000)	(5,000)	(58,000)	(100,000)	(250,000)	(2,600,000)	0	0	0
(Partnership Expenses - Bank Fees)				0	0	0	0	0	0	0	0	0
(Partnership Expenses - Custody Fees)				(12,500)	(27,500)	(55,000)	(550,000)	(695,000)	(2,900,000)	0	0	0
(Partnership Expenses - Due Diligence)				(20,000)	(50,000)	(95,000)	(1,000,000)	(1,250,999)	(2,555,000)	0	0	0
(Partnership Expenses - Legal)				0	(37,500)	(250,000)	0	(1,875,000)	(12,500,000)	0	0	0
(Partnership Expenses - Organization Costs)				(10,000)	(25,000)	(50,000)	(500,750)	(628,000)	(2,522,500)	0	0	0
(Partnership Expenses - Other Travel & Entertainment)				(2,500)	(7,005)	(12,444)	(128,000)	(147,554)	(599,555)	0	0	0
(Partnership Expenses - Other *)				0	(275)	(985)	0	(10,500)	(45,000)	0	0	0
Total Offsets to Fees & Expenses (applied during period):				82,600	346,500	1,538,521	4,390,600	21,727,400	82,424,249	0	0	0
Offset Categories				% Offset to LP #5*								
Advisory Fee Offset				80%	16,000	72,000	185,007	500,000	2,000,000	9,062,500	0	0
Broken Deal Fee Offset				80%	8,000	32,000	137,007	320,000	1,600,000	8,000,000	0	0
Transaction & Deal Fee Offset				80%	4,000	12,000	129,007	390,000	1,400,000	5,968,749	0	0
Directors Fee Offset				100%	600	2,500	37,500	30,000	875,000	6,875,000	0	0
Monitoring Fee Offset				100%	30,000	135,000	675,000	1,500,000	6,900,000	34,000,000	0	0
Capital Markets Fee Offset				100%	15,000	68,000	335,000	750,000	3,450,000	16,500,000	0	0
Organization Cost Offset				80%	8,000	20,000	40,000	400,600	502,400	2,018,000	0	0
Placement Fee Offset				100%	0	0	0	0	0	0	0	0
Other Offset *				80%	0	0	0	0	0	0	0	0
Reconciliation for Unapplied Offset Balance (Roll-forward)												
Unapplied Offset Balance (Roll-forward) - Beginning Balance				1,000	5,000	0	250,000	2,500,000	0	0	0	0
Plus: Total Offsets to Fees & Expenses (recognized during period)				81,600	341,500	1,538,521	4,140,600	19,227,400	82,424,249	0	0	0
Less: Total Offsets to Fees & Expenses (applied during period)				82,600	346,500	1,538,521	4,390,600	21,727,400	82,424,249	0	0	0
Unapplied Offset Balance (Roll-forward) - Ending Balance				0	0	0	0	0	0	0	0	0
(Total Management Fees & Partnership Expenses, Net of Offsets & Rebates, Gross of Fee Waiver)				(152,900)	(558,280)	(5,634,908)	(7,313,150)	(20,757,653)	(273,897,806)	0	0	0
Fee Waiver				0	7,500	25,000	0	375,000	1,250,000	0	0	0
Interest Income				500	1,000	10,000	25,038	50,075	500,750	38	75	750
Dividend Income				10,000	32,380	233,508	500,750	2,503,750	17,030,000	750	3,750	30,000
(Interest Expense)				(2,000)	(8,000)	(40,000)	(100,150)	(400,600)	(2,003,000)	(150)	(600)	(3,000)
Other Income/(Expense)*				1,000	3,000	20,000	50,075	150,225	1,001,500	75	225	1,500
Total Net Operating Income / (Expense)				(143,400)	(522,400)	(5,386,400)	(6,837,438)	(18,079,203)	(256,118,556)	713	3,450	29,250
(Placement Fees)				0	0	(40,000)	0	0	(2,000,000)	0	0	0
Realized Gain / (Loss)				1,000,000	3,000,000	15,100,000	50,075,000	143,142,253	888,187,906	2,575,000	12,725,000	175,728,250
Change in Unrealized Gain / (Loss)				1,000,000	5,000,000	20,000,000	62,593,750	250,375,000	1,608,000,000	12,531,160	75,375,000	250,500,000
Ending NAV - Net of Incentive Allocation				45,673,600	45,673,600	45,673,600	2,538,519,350	2,538,519,350	2,538,519,350	351,707,500	351,707,500	351,707,500
Reconciliation for Accrued Incentive Allocation												
Accrued Incentive Allocation - Starting Period Balance				(4,750,000)	(3,750,000)	0	0	0	0	387,500,000	275,000,000	0
Incentive Allocation - Paid During the Period				50,000	250,000	1,250,000	0	0	0	(2,500,000)	(12,500,000)	(75,000,000)
Accrued Incentive Allocation - Periodic Change				(300,000)	(1,500,000)	(6,250,000)	0	0	0	15,000,000	87,500,000	425,000,000
Accrued Incentive Allocation - Ending Period Balance				(5,000,000)	(5,000,000)	(5,000,000)	0	0	0	350,000,000	350,000,000	350,000,000
Ending NAV - Gross of Accrued Incentive Allocation				\$50,673,600	\$50,673,600	\$50,673,600	\$2,538,519,350	\$2,538,519,350	\$2,538,519,350	\$1,707,500	\$1,707,500	\$1,707,500

LPA Language on Reporting

- GP counsel incorporates LPA language limiting reporting to what is provided in the LPA.
- GPs carve out reporting from most favored nations provisions, limiting dissemination of more specific information LPs request.
- LPA language included allowing the GP not to provide information on sometimes dubious basis.



Template Features

Best Practices Fund II, L.P.			QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)
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A.1 NAV Reconciliation and Summary of Fees, Expenses & Incentive Allocation			LP #5's Allocation of Total Fund			Total Fund (incl. GP Allocation)			GP's Allocation of Total Fund		
Beginning NAV - Net of Incentive Allocation			\$45,067,000	\$38,196,000	\$0	\$2,495,281,787	\$2,163,081,300	\$0	\$339,194,377	\$276,104,050	\$0
Contributions - Cash & Non-Cash			0	5,000,000	35,000,000	0	250,375,000	1,732,625,000	0	375,000	2,625,000
Distributions - Cash & Non-Cash (input positive values)			1,250,000	5,000,000	19,000,000	62,593,750	250,375,000	1,432,175,000	2,593,750	12,875,000	77,175,000
Total Cash / Non-Cash Flows (contributions, less distributions)			(1,250,000)	0	16,000,000	(62,593,750)	0	300,450,000	(2,593,750)	(12,500,000)	(74,550,000)
Net Operating Income (Expense):											
(Management Fees - Gross of Offsets, Waivers & Rebates):			(187,500)			(9,375,000)	(37,500,000)	(331,250,000)	0	0	0
Management Fee Rebate			0			0	0	0	0	0	0
(Partnership Expenses - Total):						(2,328,750)	(4,985,053)	(25,072,053)	0	0	0
(Partnership Expenses - Accounting, Administration & IT)						(50,000)	(128,000)	(1,350,000)	0	0	0
(Partnership Expenses - Audit & Tax Preparatory)				(5,000)	(55,000)	(100,000)	(250,000)	(2,600,000)	0	0	0
(Partnership Expenses - Bank Fees)				0	0	0	0	0	0	0	0
(Partnership Expenses - Custody Fees)				(27,500)	(55,000)	(550,000)	(895,000)	(2,900,000)	0	0	0
(Partnership Expenses - Due Diligence)			(20,000)	(50,000)	(95,000)	(1,000,000)	(2,250,999)	(2,555,000)	0	0	0
(Partnership Expenses - Legal)			0	(37,500)	(250,000)	0	(1,875,000)	(12,500,000)	0	0	0
(Partnership Expenses - Organization Costs)			(10,000)	(25,000)	(50,000)	(500,750)	(828,000)	(2,822,500)	0	0	0
(Partnership Expenses - Other Travel & Entertainment)			(2,500)	(7,005)	(12,444)	(128,000)	(147,554)	(599,555)	0	0	0
(Partnership Expenses - Other *)			0	(275)	(885)	0	(10,500)	(45,000)	0	0	0
Total Offsets to Fees & Expenses (applied during period):			82,600	346,500	1,398,521	4,390,600	21,727,400	82,424,249	0	0	0
Offset Categories											
Advisory Fee Offset			16,000	72,000	185,007	500,000	2,000,000	0	0	0	0
Broken Deal Fee Offset			8,000	32,000	137,007	320,000	1,400,000	0	0	0	0
Transaction & Deal Fee Offset			4,000	12,000	129,007	390,000	1,400,000	0	0	0	0
Directors Fee Offset			600	2,500	37,500	30,000	875,000	0	0	0	0
Monitoring Fee Offset			30,000	135,000	675,000	1,500,000	6,900,000	0	0	0	0
Capital Markets Fee Offset			15,000	65,000	335,000	750,000	3,450,000	0	0	0	0
Organization Cost Offset			8,000	30,000	40,000	400,600	502,100	2,900,000	0	0	0
Placement Fee Offset			0	0	0	0	0	0	0	0	0
Other Offset *			0	0	0	0	0	0	0	0	0
Reconciliation for Unapplied Offset Balance (Roll-forward)											
Unapplied Offset Balance (Roll-forward) - Beginning Balance			0	0	0	250,000	2,500,000	0	0	0	0
Plus: Total Offsets to Fees & Expenses (recognized during period)			82,600	346,500	1,398,521	4,140,600	19,227,400	82,424,249	0	0	0
Less: Total Offsets to Fees & Expenses (applied during period)			0	0	0	4,390,600	21,727,400	82,424,249	0	0	0
Unapplied Offset Balance (Roll-forward) - Ending Balance			0	0	0	0	0	0	0	0	0
(Total Management Fees & Partnership Expenses, Net of Offsets & Rebates, Gross of Fee Waiver)			(187,500)	(258,280)	(5,634,908)	(7,313,150)	(20,737,633)	(273,897,806)	0	0	0
Fee Waiver:			0	7,500	25,000	0	375,000	1,250,000	0	0	0
Interest Income			500	1,000	10,000	25,038	50,075	500,750	38	75	750
Dividend Income			10,000	32,380	239,308	500,750	2,503,750	17,030,000	750	3,750	30,000
(Interest Expense)			(2,000)	(8,000)	(40,000)	(103,150)	(400,600)	(2,003,000)	(150)	(600)	(3,000)
Other Income/(Expense) *			1,000	3,000	20,000	50,075	150,225	1,001,500	75	225	1,500
Total Net Operating Income / (Expense)			143,400	(522,400)	(5,386,400)	(6,837,438)	(18,079,203)	(256,118,556)	713	3,450	29,250
(Placement Fees)			0	0	(40,000)	0	0	(2,000,000)	0	0	0
Realized Gain / (Loss)			1,000,000	3,000,000	15,100,000	50,075,000	143,142,253	888,187,906	2,575,000	12,725,000	175,728,250
Change in Unrealized Gain / (Loss)			1,000,000	5,000,000	20,000,000	62,593,750	250,375,000	1,608,000,000	12,531,160	75,375,000	250,500,000
Ending NAV - Net of Incentive Allocation			45,673,600	45,673,600	45,673,600	2,538,519,350	2,538,519,350	2,538,519,350	351,707,500	351,707,500	351,707,500
Reconciliation for Accrued Incentive Allocation											
Accrued Incentive Allocation - Starting Period Balance			0	0	0	0	0	0	337,500,000	275,000,000	0
Incentive Allocation - Paid During the Period			0	1,250,000	0	0	0	0	(2,500,000)	(12,500,000)	(75,000,000)
Accrued Incentive Allocation - Periodic Change			(500,000)	(6,250,000)	0	0	0	0	15,000,000	87,500,000	425,000,000
Accrued Incentive Allocation - Ending Period Balance			(5,000,000)	(5,000,000)	(5,000,000)	0	0	0	330,000,000	350,000,000	350,000,000
Ending NAV - Gross of Accrued Incentive Allocation			\$50,673,600	\$50,673,600	\$50,673,600	\$2,538,519,350	\$2,538,519,350	\$2,538,519,350	\$1,707,500	\$1,707,500	\$1,707,500



Template Features

Best Practices Fund II, L.P.			QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)	QTD (Oct-15 - Dec-15)	YTD (Jan-15 - Dec-15)	Since Inception (Feb-07 - Dec-15)
A.2 Commitment Reconciliation:			LP #5's Allocation of Total Fund			Total Fund (incl. GP Allocation)			GP's Allocation of Total Fund		
Total Commitment			\$50,000,000	\$50,000,000	\$50,000,000	\$2,503,750,000	\$2,503,750,000	\$2,503,750,000	\$3,750,000	\$3,750,000	\$3,750,000
Beginning Unfunded Commitment:											
(Less Contributions)				23,500,000	\$50,000,000	\$926,387,500	\$1,176,762,500	\$2,503,750,000	1,387,500	1,762,500	3,750,000
Plus Recalable Distributions				(5,000,000)	(35,000,000)	0	(250,375,000)	(1,752,625,000)	0	(375,000)	(2,625,000)
(Less Expired/Released Commitments)				0	0	0	0	0	0	0	0
+/- Other Unfunded Adjustment			0	0	(500,000)	0	0	(25,037,500)	0	0	(37,500)
Ending Unfunded Commitment			\$18,500,000	\$18,500,000	\$18,500,000	\$926,387,500	\$926,387,500	\$926,387,500	\$1,387,500	\$1,387,500	\$1,387,500
A.3 Miscellaneous*** (input positive values):			LP #5's Allocation of Total Fund			Total Fund (incl. GP Allocation)			GP's Allocation of Total Fund		
Incentive Allocation - Earned (period-end balance)****			\$1,250,000	\$1,250,000	\$1,250,000	\$0	\$0	\$0	\$75,000,000	\$75,000,000	\$75,000,000
Incentive Allocation - Amount Held in Escrow (period-end balance)****			\$250,000	\$250,000	\$250,000	\$0	\$0	\$0	\$15,000,000	\$15,000,000	\$15,000,000
Returned Clawback****					\$0	\$0	\$0	\$0	\$0	\$0	\$0
Capitalized Transaction Fees & Exp. - Paid to Non-Related Parties****					\$1,000,000	\$2,503,750	\$10,015,000	\$50,075,000			
Distributions Relating to Fees & Expenses****					\$58,000	\$125,188	\$500,750	\$2,904,350			
Fund of Funds: Gross Fees, Exp. & Incentive Allocation paid to the Underlying Funds****					\$24,626	\$27,720	\$590,879	\$1,235,161			
B. Schedule of Fees, Incentive Allocation & Reimbursements Received by the GP & Related Parties, with Respect to the Fund and Portfolio Companies/Investments Held by the Fund											
B.1 Source Allocation:			LP #5's Allocation of Total Fund			Cumulative LPs' Allocation of Total Fund			Affiliated Positions***		
With Respect to the Fund's LPs	Management Fees - Net of Rebates, Gross of Offsets and Waivers		187,500	750,000	6,625,000	9,575,000	37,500,000	351,250,000			
	Partnership Expenses - Paid to GP & Related Parties - Gross of Offsets		1,000			50,075	200,300	1,502,270			
	(Less Total Offsets to Fees & Expenses - applied during period)		(82,600)			(4,390,600)	(21,727,400)	(82,424,249)			
	Capitalized Transaction Fees & Exp. - Paid to GP & Related Parties****		0			0		0			
	Accrued Incentive Allocation - Periodic Change		500,000			15,000,000		425,000,000			
With Respect to the Fund's Portfolio Companies/Invs.	Total Fees with Respect to Portfolio Companies/Investments:		80,600			3,792,500		86,164,062	\$947,225	\$4,342,500	\$21,334,765
	Advisory Fees****		20,000	90,000	231,250	625,000		11,328,125	156,250	625,000	2,832,031
	Broker/Deal Fees****		10,000			400,000	2,000,000	10,000,000	100,000	500,000	2,800,000
	Transaction & Deal Fees****		5,000			487,500	1,750,000	7,460,937	121,875	437,500	1,865,234
	Directors Fees****		600			30,000	875,000	6,875,000	6,600	192,500	1,512,500
	Monitoring Fees****		30,000			1,500,000	6,900,000	34,000,000	375,000	1,725,000	8,800,000
	Capital Markets Fees****		15,000			750,000	3,450,000	16,500,000	187,500	862,500	4,125,000
	Other Fees****		0	0	0	0	0	0	0	0	0
	Total Reimbursements for Travel & Administrative Expenses****		5,000	15,000	62,500	200,000	600,000	748,800	8,000	19,500	85,500
	Total Received by the GP & Related Parties		\$491,500	\$2,273,000	\$13,039,956	\$24,026,975	\$121,547,900	\$761,740,863	\$955,225	\$4,362,000	\$21,423,265

***Current offset percentages for the specific LP. As offset calculations may change over the life of the Fund, the current offset percentages may not be applicable for calculating the non-QTD offset balances.

****Content in A.3 aims to provide users with additional context on the balances provided in other sections. Some of the balances in A.3 represent a sub-total for an amount provided in another section. Balances in this section should be entered as a positive amount, even though similar balances in other sections may typically be presented as a negative amount. To prevent double-counting, or other miscalculations, users should avoid netting balances in A.3 with amounts in other sections.

*****Balances in this section represent fees & reimbursements received by the GP/Manager/Related Parties with respect to the Fund's investments that are not allocable to the Total Fund (i.e. allocated to ownership interests of LP co-investors & other vehicles managed-by/affiliated-with the GP/Manager/Related Parties). To avoid double-counting, LP # 5's Allocation of Total Fund should not reflect any pro-rata share of these positions. Balances in this section, plus the balances in the "Cumulative LPs' Allocation of Total Fund" section, should equal the total fees/reimbursements received by the GP/Manager/Related Parties With Respect to the Fund's Portfolio Companies/Invs.

*****Allocation for individual LPs, the Total Fund and all remaining positions may need to be estimated on a pro-rata basis.

*A description should be provided in the footnote section for any amount(s) listed in this row for the year-to-date period.

Shaded/Italicized/Grouped Content Represents Level-2 Data

Footnotes for any YTD (Total Fund) expenses, fees & offsets (including any "other" balances):
Partnership Expenses - Other (\$10,500) = Insurance (\$8,000) + Partnership-Level Taxes (\$2,500)

LPA Language on Reporting

- LP Agreement provisions are sparse on transparency
 - Unlike several other provisions which go into significant detail, reporting provisions are bare bones.
 - Annual Reports
 - Quarterly Reports
 - Tax Information
 - Focus is more on timelines than content.

LPA Language on Reporting

- GP counsel incorporates LPA language limiting reporting to what is provided in the LPA.
- GPs carve out reporting from most favored nations provisions, limiting dissemination of more specific information LPs request.
- LPA language included allowing the GP not to provide information on sometimes dubious basis.

Impact of the ILPA Template

- How does the template help the LP community and the asset class as a whole?
- How do we ensure success?
- How is the template being received?
- What challenges are being faced in implementation?

Impact of the ILPA Template

- What is happening outside of the participants of the asset class?
 - Proposed legislation
 - California
 - Illinois
 - Educational Initiatives

Impact for Due Diligence

- ILPA template allows for a road map for due diligence professionals to fully vet how the GP approaches value creation and value extraction from portfolio companies.
- Information available as to GP management of investments allows greater understanding as to risk in the asset class and to how the industry is operating. More information results in a more informed risk analysis and investment.
- Information requests as part of DDQ and overall diligence process can be more customized.

Q & A



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www.imdda.org

Organizations referenced



www.ilpa.org

Networking • Research • Education • Advocacy • Influence •



www.cembenchmarking.com



www.publicfundsurvey.org

Materials referenced

Title	Details
The Time Has Come For Standardized Total Cost Disclosure For Private Equity	CEM Benchmarking Andrea Dang, David Dupont, Mike Heale, CEM Benchmarking, April 2015. www.cembenchmarking.com
The ILPA Fee Template	Institutional Limited Partners Association (ILPA) January 2016. www.ilpa.org
“Unpacking ILPA’s Fee Reporting Template – LP Adoption and Implementation”	ILPA webcast, www.ilpa.org , February 23, 2016. https://ilpa.org/best-practices/reporting-best-practices/reporting-template/ <i>(various webcast slides provided by ILPA were incorporated into this document)</i>
Private Equity Cost Disclosure Global Leaders 2015 Research Results	© 2016 CEM Benchmarking Inc. This report is not publically available, please contact CEM for more details. www.cembenchmarking.com
Public Funds Survey data	Public Fund Survey - sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement and is maintained by Keith Brainard, Nasra Research Director. Data accessed as of May 2016. http://www.publicfundssurvey.org/publicfundssurvey/survey.asp
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