Institutional Limited Partners Association

Private Equity Principles

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ILPA Private Equity Principles

The Institutional Limited Partners Association ("ILPA") released the Private Equity Principles (the "Principles") in September 2009 to encourage discussion between Limited Partners ("LPs") and General Partners ("GPs") regarding fund partnerships. These Principles were developed with the goal of improving the private equity industry for the long-term benefit of all its participants by outlining a number of key principles to further partnership between LPs and GPs. Over the past year, ILPA has heard numerous success stories regarding improved communication between LPs and GPs. To that end, the Principles are off to a great start in achieving the goals that were originally envisioned.

In order to make ongoing improvements to the Principles, ILPA committed to solicit additional feedback from both the LP and GP communities throughout 2010. After reflecting on the extensive input from these discussions, the ILPA Best Practices Committee drafted a new version of the Principles. This release retains the key tenets of the first Principles release while increasing their focus, clarity and practicality.

We continue to believe three guiding principles form the essence of an effective private equity partnership:

1. Alignment of Interest

2. Governance

3. Transparency

The three guiding principles are elaborated upon further in the following sections to introduce the revised preferred private equity terms and best practices for Limited Partner Advisory Committees ("LPAC").

These preferred private equity terms and best practices may inform discussions between each GP and its respective LPs in the development of partnership agreements and in the management of funds. ILPA does not seek the commitment of any LP or GP to any specific terms. They should not be applied as a checklist, as each partnership should be considered separately and holistically. We recognize that a single set of terms cannot provide for the broad flexibility of market

circumstance and therefore we emphasize the importance of LPs and GPs working in concert to develop the same set of expectations when entering into any particular partnership. We believe that careful consideration to each of these preferred private equity terms and best practices will result in better investment returns and a more sustainable private equity industry.

In line with the spirit of the Principles, we encourage all LPs to be transparent in their consideration and application of these Principles. A list of organizations that endorse the ILPA Private Equity Principles is posted on the ILPA website (ilpa.org).

The remainder of the document comprises three sections on Alignment of Interest, Governance, and Transparency and three appendices on LPAC Best Practices (Appendix A), Carry Clawback Best Practice Considerations (Appendix B) and Financial Reporting (Appendix C).

Each section starts with a general discussion of the application of the three guiding principles and continues with detail on specific aspects or points of emphasis. The detail should always be seen as subordinate to the more general principles. The appendices are offered as "deeper dives" into specific topics of broad relevance or great complexity. The appendix on LPAC Best Practices is a completely redrafted version of the original Appendix A, reflecting considerable input from GPs. The appendix on Carry Clawback is new, and given the complexity of this subject, it was deemed worthy of outlining suggestions for what we all hope will be a rare contingency. Appendix C covers GP reporting best practices. "Standardized Reporting Templates" are being developed concurrently. Going forward, ILPA will consider issuing further appendices to address similar topics as industry best practices continue to evolve. Suggestions for such consideration should be submitted to the ILPA.

Alignment of Interest

Alignment of interest between LPs and GPs is best achieved when GPs' wealth creation is primarily derived from carried interest and returns generated from a substantial equity commitment to the fund, and when GPs receive a percentage of profits after LP return requirements are met.

GP wealth creation from excessive management, transaction or other fees and income sources, reduces alignment of interest. We continue to believe that a GP's own capital at risk serves as the greatest incentive for alignment of interests. GP equity interests in funds primarily made through cash contributions result in higher alignment of interest with LPs compared to those made through the waiver of management fees.

We continue to believe that an all-contributions-plus-preferred-return-back-first waterfall is best practice. In situations where a deal-by-deal waterfall is used, the accompanying use of significant carry escrow accounts and/or effective clawback mechanisms will help ensure LPs are fully repaid in a timely manner when the GP has received carry it has not earned.

We recognize alignment of interests can be achieved through many different combinations of the elements stated above or indeed, through new approaches. Alignment of interest must be evaluated in giving consideration to each of these elements in totality.

CARRY/WATERFALL

Waterfall Structure

- A standard all-contributions-plus-preferred-return-back-first model must be recognized as a best practice
- Enhance the deal-by-deal model:
  - Return of all realized cost for given investment with continuous makeup of partial impairments and write-offs, and return of all fees and expenses to date (as opposed to pro rata for the exited deal)
  - For purposes of waterfall, all unrealized investments must be valued at lower of cost or fair market value
  - Require carry escrow accounts with significant reserves (30% of carry distributions or more) and require additional reserves to cover potential clawback liabilities
- The preferred return should be calculated from the day capital is contributed to the point of distribution

Calculation of Carried Interest

- Alignment is improved when carried interest is calculated on the basis of net profits (not gross profits) and on an after-tax basis (i.e. foreign or other taxes imposed on the fund are not treated as distributions to the partners)
- No carry should be taken on current income or recapitalizations until the full amount of invested capital is realized on the investment

Clawback

- Clawbacks should be created so that when they are required they are fully and timely repaid
- The clawback period must extend beyond the term of the fund, including liquidation and any provision for LP giveback of distributions
- Appendix B serves as a model given this is an area of considerable complexity

MANAGEMENT FEE AND EXPENSES

Management Fee Structure

- Management fees should be based on reasonable operating expenses and reasonable salaries, as excessive fees create misalignment of interests
- During the formation of a new fund, the GP should provide prospective LPs with a fee model to be used as a guide to analyze and set management fees
- Management fees should take into account the lower levels of expenses generally incident to the formation of a follow-on fund, at the end of the investment period, or if a fund's term is extended

Expenses

- The management fee should encompass all normal operations of a GP to include, at a minimum, overhead, staff compensation, travel, deal sourcing and other general administrative items as well as interactions with LPs
- The economic arrangement of the GP and its placement agents should be fully disclosed as part of the due diligence materials provided to prospective limited partners. Placement agent fees are often required by law to be an expense borne entirely by the GP

TERM OF FUND

- Fund extensions should be permitted in 1 year increments only and be approved by a majority of the LPAC or LPs
- Absent LP consent, the GP must fully liquidate the fund within a one year period following expiration of the fund term

GENERAL PARTNER FEE INCOME OFFSETS

- Transaction, monitoring, directory, advisory, exit fees, and other consideration charged by the GP should accrue to the benefit of the fund

GENERAL PARTNER COMMITMENT

- The GP should have a substantial equity interest in the fund, and it should be contributed in cash as opposed to being contributed through the waiver of management fees
- GPs should be restricted from transferring their real or economic interest in the GP in order to ensure continuing alignment with the LPs
- The GP should not be allowed to co-invest in select underlying deals but rather its whole equity interest shall be via a pooled fund vehicle

STANDARD FOR MULTIPLE PRODUCT FIRMS

- Key-persons should devote substantially all their business time to the fund, its predecessors and successors within a defined strategy, and its parallel vehicles. The GPs must not close or act as a general partner for a fund with substantially equivalent investment objectives and policies until after the investment period ends, or the fund is invested, expended, committed, or reserved for investments and expenses
- The GP should not invest in opportunities that are appropriate for the fund through other investment vehicles unless such investment is made on a pro-rata basis under pre-disclosed co-investment agreements established prior to the close of the fund
- Fees and carried interest generated by the GP of a fund should be directed predominantly to the professional staff responsible for the success of that fund
- Any fees generated by an affiliate of the GP, such as an advisory or in-house consultancy, whether charged to the Fund or an underlying portfolio company, should be reviewed and approved by a majority of the LPAC

Governance

The vast majority of private equity funds are based on long-term, illiquid structures where the GP maintains sole investment discretion. LPs agree to such structures based on their confidence in a defined set of investment professionals and an understanding of the strategy and parameters for the investments.

Given that a Limited Partnership Agreement ("LPA") cannot make advance provision for all circumstances and outcomes, LPs need to ensure that the appropriate mechanisms are in place to work through unforeseen conflicts as well as changes to the investment team or other fund parameters. An effective LPAC enables LPs to fulfill their duties defined in the partnership agreement and to provide advice to the GP as appropriate during the life of the partnership. The role of the LPAC is discussed further in Appendix A.

TEAM

The investment team is a critical consideration in making a commitment to a fund. Accordingly, any significant change in that team should allow LPs to reconsider and reaffirm positively their decision to commit, through the operation of the key-man provisions:

- Automatic suspension of investment period, which will become permanent unless a defined super-majority of LPs in interest vote to re-instate within 180 days, when a key-man event is triggered or for cause (e.g. fraud, material breach of fiduciary duties, material breach of agreement, bad faith, gross negligence, etc.)
- Situations impacting a principal's ability to meet the specified "time and attention" standard should be disclosed to all LPs and discussed with, at a minimum, the LPAC
- LPs should be notified of any changes to personnel and immediately notified when key-man provisions are tripped
- Changes to key-man provisions should be approved by a majority of the LPAC or LPs

INVESTMENT STRATEGY

The stated investment strategy is an important dimension that LPs rely on when making a decision to commit to a fund. Most LPs commit to PE funds within the context of a broad portfolio of investments – alternative and otherwise – and select each fund for the specific strategy and value proposition it presents. The fund's strategy must therefore be well defined and consistent:

- The investment purpose clause should clearly and narrowly outline the investment strategy
- Any authority to invest in debt instruments, publicly traded securities, and pooled investment vehicles should be explicitly included in the agreed strategy for the fund
- Funds should have appropriate limitations on investment and industry concentration and may consider investment pace limitations, if appropriate
- The GP should accommodate a LP's exclusions policy, which may proscribe the use of its capital in certain sectors and/or jurisdictions. However, consideration of increased concentration effects on remaining LPs and transparency of process and policies must be requisite in the event of a non-ratable allocation

FIDUCIARY DUTY

Given the GP's high level of discretion regarding operation of the partnership, any provisions that allow the GP to reduce or escape its fiduciary duties in any way must be avoided:

- GPs should present all conflicts to the LPAC for review and seek prior approval for any conflicts and/or non arm's length interactions or transactions. As materiality is a subjective criterion, it is best to consult the LPAC in all instances. No GP should clear its own conflicts
- The high standard of fiduciary duty applicable to the GP should preclude provisions that allow for them to be exculpated in advance or indemnified for conduct constituting a material breach of the partnership agreement, breach of fiduciary duties, or other "for cause" events
- A majority of LPs must be able to remove the GP or terminate the fund for cause
- Conditions precedent and other removal mechanisms should be constructed so that LPs can act before there is irreparable damage to their interests. To the extent that there are mitigating factors, LPs will take these into consideration in evaluating their response to the "for cause" event
- To the extent that an all-partner clawback is appropriate in order for the fund to indemnify the GP, this should be limited to a reasonable proportion of the committed capital but in no case more than 25% and limited to a reasonable period, such as two years following the date of distribution

To assist in monitoring the GP in the performance of its fiduciary and other duties to the fund, LPs rely upon independent auditors and may need, in certain instances, other support from third parties. Independent auditors are engaged on behalf of the fund and should alert the LPAC to any known conflicts of interest in relation to performing such duties.

- The auditor should present their view on valuations and other relevant matters annually to the LPAC and be available to answer questions at the annual meeting of the fund. A list of the members of the LPAC should be provided to the auditors
- LPs should be notified of any change in the independent external auditor of the fund
- The auditors should review the capital accounts with specific attention to management fee, other partnership expenses, and carried interest calculations to provide independent verification of distributions to the GP and LP
- When considering important matters of fund governance or other matters where the GP's interests may not be entirely aligned with the LPs', a reasonable minority of the LPAC may engage independent counsel at the fund's expense

CHANGES TO THE FUND

Given the long-term nature of the PE partnership, the fund's terms and governance must be well defined upfront but also be flexible enough to adapt to changing circumstances. With appropriate protections for the interests of the GP, LPs should have the option to suspend or terminate the fund.

- Any amendment to the LPA should require the approval of a majority in interest of the LPs, and certain amendments should require a super-majority approval. Amendments that negatively affect the economics of a particular LP should require that LP's consent
- No fault rights upon two-thirds in interest vote of LPs for the following:
  - Suspension of commitment period
  - Termination of commitment period
- No fault rights upon three-quarters in interest vote of LPs for the following:
  - Removal of the GP
  - Dissolution of the Fund

RESPONSIBILITIES OF THE LPAC

The role of the LPAC has been evolving in recent years in response to (i) the requirement for increased transparency into the operations of the GP and the fund (driven by increasing emphasis on LPs' fiduciary duties); (ii) the increasing complexity brought by multi-product firms; and (iii) most recently, the strains of the financial crisis. The LPAC has no broad governance role in a PE limited partnership. Its formal responsibilities are defined by the LPA and are generally limited to reviewing and approving:

- Transactions that pose conflicts of interest, such as cross-fund investments and related party transactions
- The methodology used for portfolio company valuations (and in some cases, approving the valuations themselves)
- Certain other consents or approvals pre-defined in the LPA

The LPAC should engage with the GP on discussions of partnership operations, including but not limited to:

- Auditors
- Compliance (including CSR/ESG/PRI)
- Allocation of partnership expenses
- Conflicts
- Team developments
- New business initiatives of the firm

However, as indicated, the LPAC is not intended to serve as a representative or proxy for the broader base of LPs and should not replace frequent, open communications between the GP and all LPs.

Additionally, an effective LPAC depends on a high degree of trust and commitment among the various parties. LPs serving on the LPAC and receiving sensitive information must keep such information confidential. LPAC members should support the GP in taking appropriate sanctions against any LP that breaches this confidentiality.

LPs that accept a seat on the LPAC should commit the necessary time and attention to the fund. LPAC members should participate in all LPAC meetings, be properly prepared, and responsibly fulfill the duties of their role. LPAC members should be able to take into account their own interest in voting on the LPAC and should be appropriately indemnified.

Additionally, GPs should disclose the identity of certain LPs which they believe may have conflicts of interest with other LPs in a fund. The GP is in a position to determine if LP-LP conflicts may arise in selected situations, including but not limited to, (i) LPs participating in an investment "related" to the fund, such as a separate managed account which invests alongside the fund or a co-investment in one of the fund's portfolio companies, (ii) if an LP has an ownership in the GP or one of its affiliates, or vice-versa or (iii) if a LP has received preferential economic terms.

Transparency

GPs should provide detailed financial, risk management, operational, portfolio, and transactional information regarding fund investments. This enables LPs to effectively fulfill their fiduciary duties as well as to act on proposed amendments or consents. LPs acknowledge the important responsibility they bear with higher transparency in the form of confidentiality.

MANAGEMENT AND OTHER FEES

- All fees (i.e., transaction, financing, monitoring, management, redemption, etc.) generated by the GP should be periodically and individually disclosed and classified in each audited financial report and with each capital call and distribution notice

- All fees charged to the fund or any portfolio company by an affiliate of the GP should also be disclosed and classified in each audited financial report

CAPITAL CALLS AND DISTRIBUTION NOTICES

- Capital calls and distributions should provide information consistent with the ILPA Standardized Reporting Format

- The GP should also provide estimates of quarterly projections on capital calls and distributions

DISCLOSURE RELATED TO THE GENERAL PARTNER

The following should be immediately disclosed to LPs upon occurrence:

- Any inquiries by legal or regulatory bodies in any jurisdiction

- Any material contingency or liability arising during the fund's life

- Any breach of a provision of the LPA or other fund documents

Other activities related to changes in the actual or beneficial economic ownership, voting control of the GP, or changes or transfers to legal entities who are a party to any related document of the fund should be disclosed in writing to LPs. Such activities include but are not limited to:

- Formation of public listed vehicles

- Sale of ownership in the management company to other parties

- Public offering of shares in the management

- Formation of other investment vehicles

RISK MANAGEMENT

GP annual reports should include portfolio company and fund information on material risks and how they are managed. These should include:

- Concentration risk at fund level
- Foreign exchange risk at fund level
- Leverage risk at fund and portfolio company levels
- Realization risk (i.e. change in exit environment) at fund and portfolio company levels
- Strategy risk (i.e. change in, or divergence from, investment strategy) at portfolio company level
- Reputation risk at portfolio company level
- Extra-financial risks, including environmental, social and corporate governance risks, at fund and portfolio company level
- More immediate reporting may be required for material events

FINANCIAL INFORMATION

- **Annual Reports -** Funds should provide information consistent with the ILPA Standardized Reporting[1] for Portfolio Companies and Fund information at the end of each year (within 90 days of year-end) to investors
- **Quarterly Reports -** Funds should provide information consistent with the ILPA Standardized Reporting for portfolio companies and fund information at the end of each quarter (within 45 days of the end of the quarter) to investors

LP INFORMATION

- A list of LPs, including contact information, excluding those LPs that specifically request to be excluded from the list
- Closing documents for the fund, including the final version of the partnership agreement and side letters
- LPs receiving sensitive information as described above must keep such information confidential. Agreements should clearly state that LPs may discuss the fund and its activities amongst themselves. LPs should support the general partner in taking appropriate sanctions against any LP that breaches this confidentiality

[1] Appendix C outlines current reporting best practices, however, as standardized reporting templates (available on ilpa.org) continue to evolve, they are intended to encompass all reporting best practices

Appendix A: Limited Partner Advisory Committee

These best practices are offered to provide a model for LPAC duties, its role in the partnership, and meeting protocol. We recognize the differing constituencies of individual partnerships and acknowledge that one standard may not fit every situation. We believe that LPs and GPs should explicitly establish the duties of the LPAC through the LPA and mutually adopt preferred meeting protocol upon establishment of the LPAC. The role of the LPAC is not to directly govern, nor to audit, but to provide a sounding board for guidance to the GP and a voice for LPs when appropriate.

Common objectives in relation to every board should include:

- Facilitating the performance of the responsibilities of the advisory board (as defined in the LPA or by mutual agreement), without undue burden to the general partner
- Creating an open forum for discussion of matters of interest and concern to the partnership while preserving confidentiality and trust
- Providing sufficient information to LPs so that they can fulfill these responsibilities

We note that the role of the advisory board may evolve during the term of the fund, depending on the environment, the specific situation of the fund, and other considerations. The focus should clearly be on substance over form and efficiency over formalistic mechanisms. To this end, there are two points of emphasis in this revised protocol:

- The LPAC should operate as a committee, not as a collection of individual members; to this end, GPs should seek to centralize important discussions within the advisory board context, and not on a bilateral basis
- Regular provisions for an *in camera* session should be made so that LPs can speak, when appropriate, with a unified voice

LPAC Formation

During the formation of the LPAC, the GP should generally adhere to the following protocol:

- The GP should issue a formal invitation to those LPs it has agreed to invite to serve on the LPAC. Such invitations should provide:
  - Information about the meeting schedule
  - Expense reimbursement procedures
  - An outline of the LPAC's responsibilities under the partnership agreement
  - A statement of indemnification
- Simultaneously with each closing, the GP should compile a list of LPAC members and their contact information and circulate this list to all LPs, providing an updated list if and when any information is changed

- The LPAC should be made up of a small number of voting representatives of LPs, with larger funds having as many as a dozen members, representing a diversified group of investors
- Upon initial constitution of the LPAC, any replacements of LPAC members should be determined by the GP with any additional or eliminated seats to be approved by mutual consent of a majority of the LPAC and general partner
- A standing LPAC meeting agenda should be developed and a calendar established as far in advance as possible. The meeting agenda and calendar should be available to all LPs
- Clear voting thresholds and protocols should be established, including requiring a quorum of 50% of LPAC members when votes are taken
- LPAC members should receive no remuneration, but the partnership should reimburse their reasonable expenses in serving on the LPAC

LPAC Meeting Suggested Best Practices

The GP and LPAC members in each fund will determine the best way to conduct the operations of the LPAC. The following best practices are suggested to aid in developing a joint approach in line with the objectives outlined above:

Convening a Meeting:

- LPAC meetings should be held in person at least twice a year with an option to dial-in telephonically
- The GP is encouraged to convene the LPAC more frequently to discuss time-sensitive matters of importance (e.g. conflicts); in these cases, LPAC members should be flexible and responsive. With the consent of the LPAC, certain matters may be handled by written consent
- After initially consulting the GP, a minority of three or more members using reasonable judgment and discretion should have the right to call for a LPAC meeting

Agenda:

- Any member of the LPAC may add an agenda item to the LPAC meeting agenda subject to a reasonable notice requirement to the GP
- With any request for consent or approval by a fund's LPAC, the GP will use best efforts to send each LPAC member background information on the matter at least 10 days in advance of the meeting
- A portion of each LPAC meeting will be set a side for an *in camera* session with only the LPs present. LPs may elect one or more members of the LPAC to lead the discussion and report back to the GP
- The LPAC should have *in camera* access to partnership auditors to discuss valuations. A representative from the audit firm should attend each year-end LPAC meeting or annual meeting

Voting:

- Any meeting requiring a vote of the LPAC should be held with only the members of that specific fund's LPAC in attendance. For convenience, LPAC meetings and/or members of other related funds may be pooled when general topics are discussed
- The partnership should indemnify members of the LPAC
- Each LPAC member should consider whether they have any potential conflicts of interest prior to voting in all circumstances. LPAC members should disclose actual conflicts to other LPAC members during discussions at LPAC meetings

Records:

- The GP should take minutes at all LPAC meetings. LPAC meeting minutes should be circulated to LPAC members within 30 days and submitted for approval at the next LPAC meeting. Once approved, LPAC minutes should be available upon request to all LPs within a reasonable time period
- The GP should record all votes taken during conference calls or at meetings and maintain a copy of consents obtained in writing, by facsimile, or by email. Detailed voting records should promptly be made available by the GP to any LPAC member upon request

Appendix B: Carry Clawback Best Practice Considerations

While fortunately rare, carry clawback situations represent one of the greatest challenges to the GP/LP relationship. Appropriate processes and remedies should therefore be defined at the start of the fund, as alignment between GP and LP will usually be at a low point when they occur. The following "building blocks" should be considered with regard to clawbacks:

Seek to Avoid Clawback Situations

- Best approach is all capital back waterfalls ("European style") as this will minimize excess carry distributions
- If deal-by-deal carry, then
    - NAV coverage test (generally at least 125%) to ensure sufficient "margin of error" on valuations
    - Interim clawbacks should apply, triggered both at defined intervals and upon specific events (e.g., key-man, insufficient NAV coverage)

Ensure GPs Backstop Themselves

ILPA strongly recommends joint and several liability of individual GP members as a best practice as LPs contract with the GP as a whole rather than individual members. In cases where joint and several liability is not provided, a potential substitution would be a creditworthy guarantee of the entire clawback repayment by any of:

- a substantial parent company; OR
- an individual GP member; OR
- a subset of GP members

However, in general, repayment obligations should directly track the carry distributions. An escrow account (generally of at least 30%) may also provide an effective mechanism for clawback guarantee.

LPs should have robust enforcement powers, including direct ability to enforce the clawback against individual GPs. Actual and potential GP clawback liabilities should be disclosed to all LPs annually along with a plan to address as additional disclosure in the audited financial statements.

Ensure Fair Treatment of Tax Burden

GPs receive tax distributions from the fund in order to pay their tax liabilities on carry (capital gains tax treatment). To the extent that the GP either does not receive (or must return) carry, there is a loss of the tax paid since there are limitations on the GP's ability to carry back losses to offset the gains on which tax was previously paid. Historically, LPs have absorbed this loss on behalf of GPs. The initial release of Principles stated that all carry clawbacks should be gross of tax, but after extensive discussions with GPs, we believe that it would be impractical to ask them to bear the cost.

However, current practice in some cases does not take into account the GP's ability to reduce the tax burden through carrying losses forward, offsetting a gain against a loss, or living in a favorable tax jurisdiction. GPs clearly should not make a profit from the LPs' willingness to bear their tax payments in clawback situations. Accordingly, instead of assuming the highest hypothetical marginal tax rate in a designated location, the rate should be based on the actual tax situation of the individual GP member and should take into account:

- Loss carryforwards and carrybacks
- The character of the fund income and deductions attributable to state tax payments
- Any ordinary deduction or loss as a result of any clawback contribution or related capital account shift
- Any change in taxation between the date of the LPA and the clawback

Any tax advances made to the GP should be returned immediately if in excess of the actual tax liability.

Fix the Clawback Formula

In essence, the clawback amount should be the lesser of excess carry or total carry paid, net of actually paid taxes. However, there are often errors in the stipulated formulas which have a material impact on fund cash flows:

- The tax amount should not simply be subtracted from the amount owed under the clawback
- The clawback formula should take the preferred return into account

Appendix C: Financial Reporting

- **Annual Reports -** Funds should provide the following information at the end of each year (within 90 days of year-end) to investors:
  - Audited financial statements (including a clean opinion letter from auditors and a statement from the auditor detailing other work performed for the fund);
  - Internal Rate of Return ("IRR") calculations prepared by the fund manager (that clearly set forth the methodology for determining the IRR);
  - Schedule of aggregate carried interest received;
  - Breakdown of fees received by the manager as management fees, from portfolio companies or otherwise;
  - Breakdown of partnership expenses;
  - Certification by an auditor that allocations, distributions and fees were effected consistent with the governing documentation of the fund;
  - Summary of all capital calls and distribution notices;
  - Schedule of fund-level leverage, including commitments and outstanding balances on subscription financing lines or any other credit facilities of the fund;
  - Management letter describing the activities of the fund directed to the LPAC but distributed to all investors;
  - Political contributions made by placement agents, the manager or any associated individuals to trustees or elected officials on investor boards.
- **Quarterly Reports -** Funds should provide the following information at the end of each quarter (within 45 days of the end of the quarter) to investors:
  - Unaudited quarterly profit and loss statements also showing year-to-date results;
  - Schedule showing changes from the prior quarter;
  - Schedule of fund-level leverage, including commitments and outstanding balances on subscription financing lines or any other credit facilities of the fund;
  - Information on material changes in investments and expenses;
  - Management comments about changes during the quarter;
  - If valuations have changed quarter-to-quarter, an explanation of such changes;
  - A schedule of expenses of the general partner

- **Portfolio Company Reports -** A fund should provide quarterly a report on each portfolio company with the following information:
  - Amount initially invested in the portfolio company (including loans and guarantees);
  - Any amounts invested in the portfolio company in follow-on transactions;
  - A discussion by the fund manager of recent key events in respect of the portfolio company;
  - Selected financial information (quarterly and annually) regarding the portfolio company including:
    - Valuation (along with a discussion of the methodology of valuation;
    - Revenue (Debt terms and maturity);
    - EBITDA;
    - Profit and loss;
    - Cash position;
    - Cash burn rate
- **Capital Call and Distribution Notices –** A standardized reporting template has been developed by ILPA and is available at ilpa.org
  - Under development – standardized reporting templates to cover annual and quarterly reporting as well as supporting financial schedules

About the ILPA

The Institutional Limited Partners Association (ILPA) is a member-led not-for-profit association committed to serving limited partner investors in the global private equity industry. ILPA's mission is to provide a forum for facilitating value-added communication, enhancing education in the asset class and promoting research and standards in the private equity industry.

ILPA has grown substantially since its inception in the early 1990s to include more than 240 member organizations from around the globe. While membership is comprised exclusively of limited partners, the variety of member institutions makes the ILPA a dynamic organization representing a diverse range of interests.

The ILPA membership is united by a common goal: to enhance the professional interests of its affiliates, and ultimately, to enable them to achieve strong portfolio performance. ILPA member organizations collectively manage approximately $1 trillion of private equity assets.

For more information on the ILPA
visit ilpa.org or call (416) 941-9393

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