ILPA ISSUES GUIDANCE FOR LIMITED PARTNERS ON SUBSCRIPTION LINES OF CREDIT USED BY PRIVATE EQUITY FUNDS

Recommendations Center on Improved Disclosures by GPs

June 27, 2017 – (Washington, DC and Toronto, Canada) – The Institutional Limited Partners Association (ILPA) today released guidance regarding the use of subscription lines of credit facilities by private equity general partners (GPs). In the document, ILPA outlines the risks and potential impact on limited partners (LPs) resulting from inadequate visibility into exposure to these credit lines. In response, the organization recommends that LPs seek greater disclosures from their fund managers around the use of subscription lines, as well as greater clarity in the partnership agreements around parameters for their use.

"Many limited partners understand how lines of credit can be beneficial to the cash flows of GPs and LPs alike, but over the last several years the practice has expanded significantly in size and scope," said Jennifer Choi, Managing Director of Industry Affairs, ILPA. "ILPA wants to ensure that LPs have access to the necessary information regarding GPs' use of these facilities, and how they impact the alignment of interest between the two parties. Therefore, our recommendations are centered on a fundamental commitment to transparency and disclosure."

The ILPA guidance, which was developed in concert with LPs, GPs and industry advisers, includes the following recommendations:

- LPs should require their managers to disclose quarterly information on the size of the lines, number of days outstanding, specific uses of the capital, and impact of credit line facilities on reported IRRs. During due diligence, LPs should request that prospective mangers provide the impact of subscription facilities on past reported performance.

- Within partnership agreements, waterfall provisions should specify that the date used to calculate the GP's preferred return hurdle aligns to when the credit facility is drawn, rather than when capital is ultimately called from the LPs.

- Partnership agreement provisions addressing use of subscription facilities should establish reasonable thresholds for their use, such as a maximum of 15-25% of all uncalled capital and no more than 180 days outstanding. Such provisions should also make clear the burdens placed on the LPs whose commitments are used to secure the line.

The full paper, "Subscription Lines of Credit and Alignment of Interests," can be found here. The ILPA intends to continuously reflect member feedback and new market conditions into this document and will publish, as needed, updates to this guidance on the ILPA website.

About the Institutional Limited Partners Association (ILPA)

The Institutional Limited Partners Association (ILPA) engages, empowers and connects limited partners to maximize their performance on an individual, institutional and collective basis. With more than 400 member institutions representing over US$1 trillion of invested capital, ILPA is the only global organization dedicated exclusively to advancing the interests of LPs and their beneficiaries through best-in-class education, research, advocacy and networking. For more information, please visit ILPA.org.

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