Institutional Limited Partners Association ("ILPA")
Research, Benchmarking and Standards Committee

Date: May 25, 2004

To: ILPA Members

From: ILPA RBS General Partner Reporting Task Force

Subject: ILPA Reporting Best Practices

We have attached the document that identifies "best practices" in general partner reporting. The goal of the ILPA Reporting Task Force in preparing this document is to identify and promote best practices, which help to provide limited partners with the information that they require to fulfill their fiduciary obligations, increase efficiency by reducing unnecessary costs and improve consistency and comparability across jurisdictions.

This document is not intended to be comprehensive, instead, we have begun by focusing on the basic components of what we believe constitutes best practice in the areas of content, frequency and timing of reporting to private equity investors. This document is intended to evolve over time but we have begun by focusing on minimum reporting best practices that limited partners need in order to effectively monitor their private equity investments. We have labeled these items "Level One" best practices. We may eventually include additional reporting items that limited partners would like to see. We have included a number of examples of these "Level Two" best practices in the document.

In certain areas we have borrowed extensively from the published Reporting Guidelines of the European Private Equity and Venture Capital Association (EVCA) and the British Venture Capital Association (BVCA) respectively. We have included some commentary below that points out differences between our draft and the approach taken by the BVCA and the EVCA.

This document has been revised based on a survey of the ILPA membership that was designed to solicit their input, as well discussions with general partners and service providers.

You are encouraged to share this document with your current and prospective fund managers, at your discretion.

Capital Accounts

We recommend that capital account statements be included in all interim and annual reports. We recommend that general partners follow these guidelines when issuing capital account statements.

Level One

Capital account statements should include the following information on both a cumulative and periodic basis:

- Opening balance
- Capital contributed
    - Gross capital contributed
    - Less temporary return of capital
    - Less permanent return of capital
    - Net capital contributed
- Remaining unfunded commitment
- Unrealized gains and losses on investments
- Realized gains and losses on investments
- Interest income (if applicable)
- Distributions of capital
- Distributions of income or gain
- Incentive Fees (carried interest)
- Management fees and partnership expenses
- Closing balance

The recommended frequency and timing of capital accounts matches the recommendations for annual and interim reports (see below).

Level Two

Additional recommendations include:

- Showing the individual limited partner closing balance as a percentage of the closing balance of the entire partnership
- Showing the capital account information for all LPs
- The closing balance of the capital account should indicate whether it is gross or net of performance fees
- Encouraging capital account balances to be provided on a shorter timeframe than the interim reports, e.g. within 45 days of quarter end (75 days for fund-of-funds)

EVCA & BVCA Reporting Guidelines

EVCA & BVCA guidelines recommend that GPs include a capital account in their reports and a sample capital account is provided.

Capital Calls

We recommend that general partners follow these guidelines when issuing capital calls. If a capital call is combined with a distribution there should be full reporting of both transactions.

Level One

Capital calls should include the following information:

- Total amount being called by the partnership and the portion due from the individual limited partner
- Due date
- Currency
- Wiring instructions
- A detailed breakdown of the portion of the capital call due to:
  - Investments
  - Management fees (both gross and net of any offsets discussed below)
  - Offsets to management fees, if any, due to transaction, break up and directors fees
  - Interest payable (eg. LP not in first close)
  - Working capital
  - Partnership expenses
  - Organizational expenses
- A short description of the proposed investment including the company name, its industry and the type of securities being purchased
- We recommend that capital calls be issued at least ten days before they are due

Level Two

Additional recommendations include:

- Up to date unfunded commitment amount
- Date which the GP will deposit its portion of the capital call
- Indication of any portion of the capital call which will not be netted against the LP's commitment (ie. management fees in some cases).
- Disclosure of any fees being paid to the general partner or related parties
- Statement that all necessary legal opinions have been secured (i.e. initial VCOC opinions), if applicable

EVCA & BVCA Reporting Guidelines

EVCA & BVCA guidelines do not refer to capital call notices.

Distribution Notices

We recommend that general partners issue a distribution notice to limited partners when they plan to make a distribution of cash or securities to limited partners. We recommend that general partners follow these guidelines when issuing distribution notices.

Level One

Distribution notices should include the following information:

- A short description of the investment realization, if any, including the company name, its industry and the type and number (if not all) of securities sold or distributed
- Currency and date of the distribution
- A detailed breakdown of the components of the distribution:
    - Permanent return of capital
    - Temporary return of capital
    - Interest income
    - Realized gains/losses on investments
    - Interest paid by new limited partners
    - Allocations of investments to new limited partners
    - Calculation of incentive fee payable to the general partner, if any, including amounts offset by management fees paid previously
- If it is a distribution of securities:
    - Number of securities
    - Description of the securities
    - Cost per share
    - Cost basis for tax purposes
    - Original investment date
    - Regulatory or voluntary trading restrictions (if any)
    - Are the securities being distributed directly or are they held in trust? If securities to be held in trust, include contact information and escrow details
- We recommend that, where possible, distribution notices be issued at least three days before funds are transferred and at least five days before securities are transferred in kind.

Level Two

- Total amount being distributed by the partnership and the portion due to the individual limited partner
- If a distribution of securities, the methodology for determining the value of the distribution for waterfall purposes

EVCA & BVCA Reporting Guidelines

BVCA guidelines do not refer to distribution notices. EVCA guidelines recommend that GPs issue a distribution notice if a stock distribution is being made and a sample distribution notice is provided.

Interim Reports

We recommend that general partners follow these guidelines when issuing interim reports.

Level One

Executive summary that includes commentary on the following:
- Total amounts invested and committed by the Fund (both since inception and current quarter would be helpful)
- Total distributions returned to date
- Current investments: significant events, including any write downs or write ups
- New investments
- Realizations
- Key man events and personnel changes at the partner level
- Office openings or closings
- Amendments
- Litigation, including lawsuits against the Partnership, GP or Affiliates (if any)

Information provided on each of the Fund's investee companies should include:
- Legal and trading names (including detailed information on any name changes and/or mergers) of portfolio company
- Location of head office
- Brief description of the business
- Stage of investment (ie early stage; expansion etc.)
- Statement of the fund's role in the investment (lead, co-lead etc)
- Statement of any related party co-investment in transactions
- Class of securities, percentage ownership and board representation by the fund
- Date of investment
- Amount invested and amount committed but not yet drawn by the Fund
- Interest and/or dividend income, partial realization and distribution amounts
- Unrealized value of the investment
- Brief analysis of significant events during the reporting period and anticipated events
- Any restrictions on the liquidity of the investment (for example, a lock-up period on publicly traded shares)

Interim Reports (continued)

Financial Statements

We will not issue detailed recommendations regarding financial statements, however, we do recommended the following best practices:

- Disclosures of relevant policies (e.g. - summary description of valuation policies (Cost, Lower of Cost or Market, Tax Basis, Fair Value, etc.)
- We recommend that complete unaudited financial statements with footnotes be included in interim reports and complete audited financial statements with footnotes be included in annual reports
- We recommend that U.S. funds comply with U.S. GAAP and that non-U.S. funds comply with the local equivalent of generally accepted accounting principles
- We recommend that the financial statements include a note regarding the value of unrealized investments that details the carrying value and the cost basis of each investment (if this is not disclosed elsewhere in the report)
- Footnote disclosure of any guarantees made by the Partnership on behalf of the investments, including debt guarantees and contingent liabilities

The following partnership information should be provided:

- Valuation policies and practices of the general partner
- Recyclable capital analysis – reconcile capital drawn and any temporary returns of capital
- Disclosure of any leverage to the fund, including debt and guarantees, charges, or contingent liabilities
- Information on any changes to the LP's ownership percentage after the final close

Timing and Frequency

- We recommend that general partners prepare interim reports on a quarterly basis
- Interim reports should be produced within 60 days of the end of the quarter and within 90 days for "Fund of Funds"

<u>Level Two</u>

- Fund IRR on a net basis and multiple of investment cost on the assumption that investments are realized on the date of the report
- Gross IRR on realized investments and gross IRR on all investments (realized and unrealized)
- Potential upcoming investments (ie. signed letters of intent)
- Total capital allocated or reserved (but not committed) for follow on investments
- Venture Economics Industry Code of each portfolio company
- Current stage of each portfolio company (private versus public)
- An analysis of sector and geographical information by portfolio company
- Disclosure of total amount of investments made by affiliated co-investors
- Plans for raising a subsequent fund within the next year

Interim Reports (continued)

Level Two (continued)

- Realization schedule including proceeds of total realizations and partial realizations, disposal date, return of cost /capital invested, proceeds, realized gain/loss, holding period, and multiple of cost for each investment
- GP fee income/sharing analysis - fees broken down into principal categories (such as underwriting fees, directors or monitoring fees, deal fees, broken deal fees, etc) with detail for any offsets to managements fees (both for the period and since inception)
- Valuation of each unrealized investment updated quarterly as per the Fund's valuation guidelines. Brief description of the valuation rationale for each investment (e.g. cost, public without discount, public with discount, multiple of earnings, new financing round, etc.)
- After three years, distribution waterfall analysis: (a) disclosure of all amounts which fall within the distribution waterfall (return of fees, expenses, preferred return etc); (b) calculation of incentive fees or "carry" currently payable together with incentive fees already paid (include a clawback analysis, if appropriate)

EVCA & BVCA Reporting Guidelines

These recommendations for interim reports are substantially similar to the BVCA and EVCA guidelines but there are a number of differences. For example, we recommend that interim reports be prepared quarterly rather than semi-annually (note: EVCA level two guidelines recommend quarterly reports).

Annual Reports

We recommend that annual reports follow the general guidelines presented above for interim reports with the following exceptions:

Level One

- Financial statements in the annual report should be audited
- An updated valuation of each unrealized investment should be provided as per the Fund's valuation guidelines. Brief description of the valuation rationale for each investment (e.g. cost, public without discount, public with discount, multiple of earnings, new financing round, etc.)
- Disclosure of all management fees, profit share, and carried interest paid to the manager or general partner (both for the period and since inception)
- GP fee income/sharing analysis - fees broken down into principal categories (such as underwriting fees, directors or monitoring fees, deal fees, broken deal fees, etc) with detail for any offsets to managements fees (both for the period and since inception)
- After three years, distribution waterfall analysis: (a) disclosure of all amounts which fall within the distribution waterfall (return of fees, expenses, preferred return etc); (b) calculation of incentive fees or "carry" currently payable together with incentive fees already paid (include a clawback analysis, if appropriate)
- Disclosure of any related party transactions
- Disclosure of relevant valuation practices (e.g. - the GP's internal discipline/process for executing/compliance with the stated valuation policy)
- Annual reports should be produced within 90 days after year end and within 120 days for "Fund of Funds"

EVCA & BVCA Reporting Guidelines

These recommendations for annual reports are substantially similar to the EVCA and BVCA guidelines but there are a number of differences (for example: we have recommended that annual reports be prepared within 90 days of year end, while the BVCA has been silent on timing).