



As at October 30, 2003

ILPA MEMORANDUM

Subject: **“Research, Benchmarking and Standards Committee”**
Terms of Reference and Work Plan

Date: September 10, 2002

From: RBS Committee

To: ILPA Board

Research, Benchmarking and Standards (“RBS”) Committee:

Objective:

The objective of the committee is to establish ILPA approved or endorsed Positions, Guidelines or Standards on matters such as:

- (i) reporting to LPs;
- (ii) disclosure of information (e.g. on websites);
- (iii) valuation policies and practices;
- (iv) performance measurement; and
- (v) other matters that may arise from time to time.

Approach and Style:

The RBS Committee will adopt a phased approach to the achievement of its objective, along the lines of the following:

Phase I – identify and inform the ILPA membership with respect to, relevant matters being addressed by the ILPA, and other industry groups, and trends and developments that may impact the private equity industry and the ILPA membership.

Phase II – assist in the establishment of communication between the ILPA and other associations, regulatory authorities, standard setting bodies and industry groups, as a catalyst to encourage communications among such organizations, particularly when their activities may have an impact on each other’s activities, so as to facilitate appropriate ILPA responses to Requests for Comments and Input.

Phase III – facilitate an understanding of guidelines and standards adopted by different organizations, in different regions; where appropriate, assist in minimizing differences between such guidelines and standards; and if appropriate, encourage or facilitate the creation and adoption of international guidelines or standards.

The RBS Committee understands and respects the fact that many issues are complex, can arise in different contexts and circumstances, and therefore, may result in legitimate differences of professional opinion by different members within a single organization, let alone between different organizations.

The RBS Committee does not believe it would be effective to attempt to impose force or police the adoption of common standards. Instead, the Committee believes that it can be most effective if it acts as a facilitator or catalyst to assist in (i) increasing awareness and understanding amongst the ILPA membership of relevant issues, matters, trends and developments in the private equity industry, (ii) increasing communication and dialogue amongst participants in the industry and (iii) minimizing inefficient duplication of efforts, unproductive costs and unnecessary differences in the development of guidelines or standards (or, at a minimum, increasing awareness and understanding of such differences).

Interaction with Program Committee/Meeting Hosts:

The Research, Benchmarking and Standards Committee will interact with the Program Committee and semi-annual Meeting Hosts in order to provide them with matters, issues and developments which might properly be the subject of, or on the agenda of ILPA Meetings. In addition, such interaction will effectively utilize meetings for: (i) the facilitation, conduct or distribution, of research, and the results of research undertaken; (ii) the collection of input to responses to Requests for Comments or Input; and (iii) the establishment, or endorsement of, Positions, Guidelines or Standards.

Communications with other Organizations and Membership Awareness:

The establishment and maintenance of communications with other organizations that have relevance to the Private Equity industry (e.g. AIMR, AICPA/FASB, Venture Capital Associations) by either the Communications and External Relations or RBVS Committees will assist the ILPA Membership in becoming aware of issues and matters that may have an impact on the Private Equity industry, and our members who are portfolio managers and/or fiduciaries.

Research and Benchmarking:

Research and Benchmarking will initially allow the ILPA to respond to Requests for Comments and Input, regulatory or standard setting initiatives of other organizations, and issues of import to the membership as they arise, thereby enhancing the professional profile of ILPA and improving the membership's effectiveness as fiduciaries. In time, the establishment of Positions and, if appropriate, Guidelines or Standards, will enhance

the membership's ability to have meaningful input to the establishment of priorities from amongst the issues facing fiduciaries and others involved in the Private Equity industry, and how and when, such issues might be dealt with.

Establishment of Positions, Guidelines or Standards:

Positions, Guidelines or Standards will enhance the ILPA membership's ability to:

- (i) Fulfill fiduciary obligations in the areas of oversight, governance, monitoring and performance measurement;
- (ii) Reduce unproductive and wasteful costs and inefficiencies (for example, creating minimum expectations with respect to the frequency, timeliness and content of reports from GPs to LPs); and
- (iii) Increasing and improving both the quantity and quality of industry risk and return data, and knowledge, about private equity

Guidelines or Standards are not intended to create standardization, "level the playing field" for LP investors and GPs, or reduce or eliminate the very structural inefficiencies that allow superior active managers (whether they be GPs in selecting and adding value to superior investments, or LPs in selecting superior GPs) to generate superior risk-adjusted returns.

Statement of Antitrust Policy:

At all times, the Research, Benchmarking and Standards Committee will abide by, and conduct itself in a manner which is consistent with, the ILPA Board's Statement of Antitrust Policy.

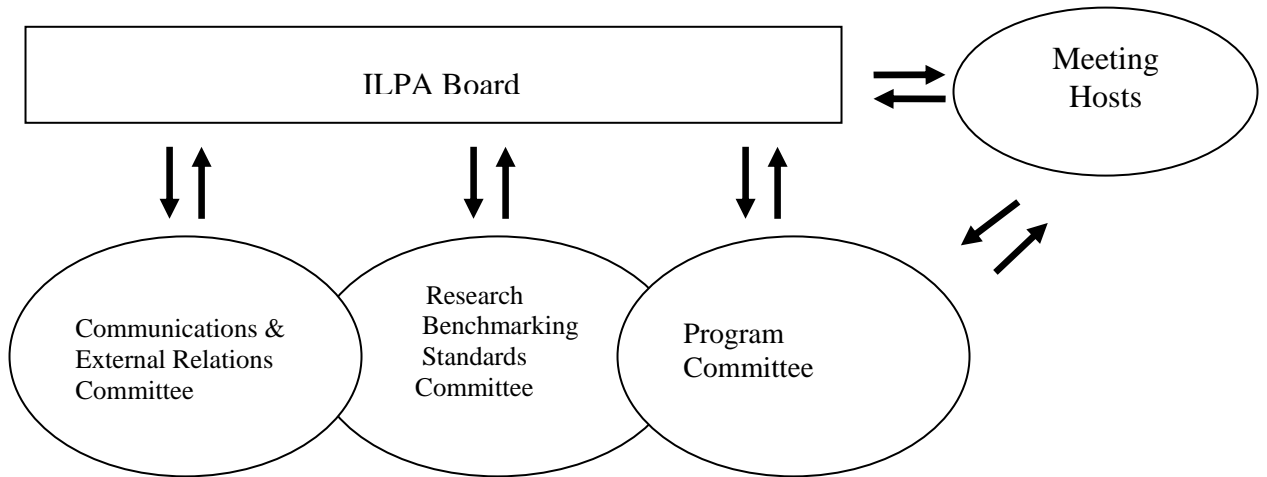
Process:

The establishment of Positions, Guidelines or Standards will be achieved through effectively leveraging the existing body of thought on subjects by conducting research and benchmarking. Academic, professional and other advisors to the Committee can undertake this work. (See the Appendix for an outline of possible activities topics and interactions that might be undertaken or addressed by the RBVS Committee).

The RBVS Committee will retain responsibility for guidance and oversight, the Communications and External Relations Committee will ensure that official communications with other associations, organizations and regulatory authorities are undertaken in the context of ILPA Communications and External Relations Policies, while the Board will retain responsibility for the approval or endorsement of Responses to Requests for Comments or Input, Position Papers, Guidelines or Standards.

Requests for Comments or Input from other associations and organizations, Position Papers, Guidelines or Standards and relevant research, surveys and articles, would be circulated, via the internet to all ILPA member organizations (or posted on the ILPA

Website when we have one) to inform the membership, seek their input and allow individual member organizations to respond directly on matters of interest to them. ILPA Responses to Requests for Comments or Input, Position Papers, Guidelines or Standards would be approved by the Communications and External Relations and the RBS Committees, as well as the Board, prior to issuance. Subsequent to Board approval all members would be emailed for additional input and to inform the membership.



Appendix

Possible Activities, Topics and Interactions that might be undertaken or addressed by the Research, Benchmarking and Standards Committee

Research

- ILPA Membership: Surveys, Semi-Annual Meetings, Roundtables
- Academic Community: e.g. Harvard (Gompers & Lerner); Dartmouth (Blaydon & Horvath) etc.
- Accounting Standards Boards: e.g. AICPA, FASB, CICA
- Valuation/Appraisal Standards Boards: e.g. CICBV, ASA
- Legal community: Terms and conditions
- Consulting firms: e.g. Cambridge Associates, McKinsey, Bain, Mercers
- Gatekeepers/Fund-of-Funds: Frank Russell, Hamilton Lane, PCG, Harbourvest, etc.
- Other: e.g. Venture Economics, Asset Alternatives, Private Equity Standards Board

Benchmarking

- AIMR
- Cambridge Associates
- Venture Economics

Voluntary Standards

- Reporting (e.g. frequency, content of financial and GP reports to LPs)
- Disclosure (e.g. on LP Websites: reported values, distributions)
- Valuation Guidelines (Buyout and Venture)
- Performance Measurement
 - Return (time-weighted vs. dollar-weighted)
 - Calculation of IRRs, quartile rankings, multiple of capital returned etc.

Interaction with other Professional Associations

- Organizing responses to Requests for Comments/Input
- Organizing ILPA participation on joint or multiple industry committees e.g. AIMR, FASB, AICPA, CICA, ASA, CICBV, NVCA, EVCA, BVCA, CVCA