# INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

*Fee Reporting Template: Suggested Guidance*

*Version 1.0*
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# OVERVIEW

## Overview

The ILPA Fee Reporting Template (the “Template”) was developed to promote more uniform reporting practices in the private equity industry. It is one component of the ILPA's Fee Transparency Initiative (the “Initiative”), a broad-based effort to establish more robust and consistent standards for fee reporting and compliance among investors, fund managers and their advisors. The Initiative is comprised of senior investment and reporting professionals from a cross-section of investor institutions and advisors.

The Template (version 1.0), which details all monies paid to the fund manager, affiliates and third parties, is the first deliverable of the Initiative. The Template reflects feedback from more than 120 individuals and organizations, including nearly 50 global LP groups, and 25 General Partner organizations (GPs), as well as numerous industry trade bodies and a number of leading consultants, advisors, fund administrators and accountants.

## Template Goals

The Template is organized into two sections (A & B). Each section has a discrete goal, providing LPs with:

A. The ability to monitor, aggregate and analyze their direct costs of participating in a given private equity fund (a “Fund”). These values are presented within the framework of a typical partners’ capital account statement, providing valuable context to the reported fees.

B. A summary of the GP’s sources of economics regarding the Fund and the investments made by the Fund (incl. reimbursements & any fees not subject to offset).

## Template Guidance

Through dozens of interactions with the GP & LP communities during the consultation phase of the Template, the ILPA learned about several complex issues that should be considered by all stakeholders when populating and analyzing the content in the Template. The guidance below is intended to communicate the expectations and necessary background to allow LPs and GPs to determine how both parties can utilize the Template most effectively.

This guidance assumes that every LP and GP has unique needs and resources. To accommodate this diversity, the responsibility for determining how the Template can be used to support their needs lies with individual LPs and their managers. The ILPA recommends that LPs and GPs should carefully consider the following when deciding how the Template is to be utilized within a GP’s periodic disclosure package.

# SECTION II
# DETAILED TEMPLATE GUIDANCE

## I. Frequency & Implementation

This Template is designed to be supplemental to a Fund's standard financial disclosures. The ILPA recommends that the Template is provided on a quarterly basis within a reasonable timeframe after the release of standard reports. The Template is not intended to be a substitute for any other reports, including capital call and distribution notices.

The content should be provided in Excel or digital (e.g., XML) format or similar, that allows for aggregation and analysis of information. To maximize the usefulness of the data being presented, PDF format is not recommended.

During the initial adoption period, LPs should adjust their adoption/frequency/lagging expectations, to accommodate for the necessary changes to GPs' processes, technology, and resources to meet the demands of mass-producing the customized Template for each of their LPs. This transition is expected to take up to one year or more for GPs to adapt their processes, depending on the size, complexity and infrastructure of each firm's operations.

Additionally, LPs should be aware that select fields within the Template, particularly in Section A.3 ("Miscellaneous"), may be more difficult for GPs to produce. Feedback from numerous GPs suggests that the data in Section A.3 is neither customarily tracked in most GP systems, nor easily derived from existing ledger entries. LPs should moderate their expectations for the timely reporting of information for these fields accordingly. For the avoidance of doubt, it is anticipated that GPs will modify their processes to allow for the regular reporting of this data in future.

When contemplating the desired timeline for full implementation of the Template into reporting processes, LPs are reminded that many (if not all) of the fees charged to portfolio investments are tracked in a separate ledger (and software) from the fund's accounts. It will likely require meaningful revisions to GP reporting procedures, and ultimately entailing a manual process, to aggregate information from multiple ledgers into a single report.

The Template is intended only to be applied on a prospective basis to future funds, and where feasible to reporting on current vintages. The ILPA advises against requiring GPs to retroactively report the full breadth of the information within the Template for older funds.

ILPA believes that it will be in the best interests of the industry in the long term to explore how to automate the generation, presentation and dissemination of the data contained within the Template. To that end, the ILPA is working closely with the AltExchange Alliance to ensure that the elements of the Template are reflected within the AltExchange data standards. A version of the Template will be made available in a software-agnostic format, i.e., XML, to facilitate the integration of the Template's elements into LPs' and GPs' existing back-end reporting systems. The XML formatted Template will be available on ilpa.org in February 2016.

## II. Tiered Content – Differentiated Levels of Reporting

To ensure the Template is focused on efficiently meeting the needs of a diverse LP community, a two-tiered structure has been incorporated into the Template. Level 1 data represents the higher level summary content, and the minimum baseline that the ILPA is recommending should be provided by GPs to LPs. Level 2 data introduces additional granularity and itemization for certain subtotals, i.e., fees subject to offset and partnership expenses, and fees/reimbursements received from portfolio investments. The more detailed Level 2 content is represented by the shaded, collapsible rows in the Template.

The data embodied by the Level 1 summary content may be sufficient for many LPs to monitor their portfolios. As such, LPs preferring or satisfied by less detail may elect to request their GPs to provide only Level 1 content. This indication of LP preferences will help GPs focus their efforts on providing Level 2 content only to LPs that require it.

For the avoidance of doubt, ILPA recommends that GPs seek to produce and make available all content in the Template, i.e., both the baseline Level 1 data and the more granular information embodied by Level 2. GPs should have conversations with their LPs regarding the requisite level of reporting desired, if possible agreeing to preferred level of reporting at the fund's inception that will be provided for the life of the fund.

## III. Scaled Implementation – Fund Sizes

LPs should factor the size, back-office resources and operating budgets and complexity of their GPs when determining their requirements for Template compliance. Some GPs, including newer managers and managers of smaller, VC or SBIC funds, may not have the staffing resources to populate the quarterly Template in a reasonable timeframe, without significantly reducing their effectiveness in other areas. In addition, several of the fields within the Template may not apply to funds with simpler economics, meaning that these fields would have a null value. LPs are encouraged to articulate their expectations regarding the preferred Tier of data to be provided, i.e., Level 1 or Level 2.

## IV. Application to Legacy Funds

LPs should consider a fund's age when determining their requirements for Template compliance. Certain data elements within the Template may be organized by the GP in a way that could make populating the Template as written difficult. For instance, information may be managed across different ledgers, or GPs may use a different hierarchy for tracking partnership expense sub-totals (audit, bank fees, etc.). There may be a significant operational burden associated with reorganizing a GP's ledgers to match the Template layout. LPs should therefore weigh carefully whether the incremental value of this information for historical periods warrants requiring it for older funds and perhaps consider less stringent requirements (particularly any requests for since inception data).

## V. Conformity with the LPA

The values presented in the Template should be calculated within the framework of a Fund's Limited Partnership Agreement (LPA), including its valuation policy. Calculated values for NAV, incentive allocation (carried interest), total fee offsets, gross management fees, unfunded commitment and call/distribution amounts should be consistent with the totals presented in the Fund's other disclosures. Additionally, the definition used for Related Parties in the Template should be consistent with the definition used in the existing LPA.

Please note that the Template does provide a recommended definition for Related Parties. The ILPA encourages the adoption of this definition for all future PE funds.

As an exception to the above, the ILPA recommends that GPs adopt the ILPA's prescribed, reporting subtotals for partnership expenses, fee offsets and fee/expense income received from investments (all of which is categorized as Level 2 content). Due to the various combinations of subtotals currently being reported in Fund financials, LPs are unable to conduct any meaningful, plan-level analysis of these balances. As noted in a previous section, this accommodation is only recommended for newer funds. For the avoidance of doubt, GPs are asked to adopt these categories for reporting purposes only, and are not being asked to revise their methodologies for calculating these sub-totals.

## VI. Use of Estimates for Individual Partner's Balances

To provide context to each value, the Template requests an individual LP's allocation for every reported balance. The ILPA acknowledges that it may be unfeasible to calculate the precise *pro rata* partner's share for certain balances, particularly any fees not subject to offset (as there would be no provision in the LPA to calculate the LP's share of a fee offset to which it was not entitled). These balances are denoted with a "****" in the Template. For these balances, GPs should only provide an estimated amount, using the LP's *pro rata* share of the Fund.

Due to the accounting complexity resulting from LP opt-outs and any specialized offset/waterfall provisions in certain LP side letters, **LPs should understand that any individual LP's allocation for these balances are approximations and should only be used to provide context to any cumulative balances**.

## VII. Report Horizon – TTM vs. YTD

Prior drafts of the Template proposed reporting balances on a trailing-twelve-month (TTM) basis. This timeframe was designed to accommodate the internal disclosure requirements for those LPs with fiscal year ends other than December 31. However, the GP community has indicated that their current accounting practices and the limitations of most commercial software platforms do not provide for reporting TTM balances. To ensure broad adoption of the Template and the timely delivery of the information requested, the Template provides for the reporting on a year-to-date (YTD) rather than TTM basis.

LPs have indicated that TTM reporting capability would be strongly preferred. As the industry advances towards the fully electronic exchange of standardized information, the ILPA recommends that GPs and the software community begin evaluating ways to adapt current processes and systems to allow for this adjusted reporting horizon.

## VIII. GP Modifications to Template

GPs should not delete or merge any fields in the Template, including any of the more detailed itemization included as Level 2 content. Within the summary Level 1 content, GPs have the flexibility to supplement or re-order the fields in Section A.1 (NAV Reconciliation and Summary of Fees, Expenses & Incentive Allocation) to accommodate for variances between their existing capital account statement format and the one used in the Template (which is mostly relevant to U.S. GAAP-centric, commingled funds). Potential additional rows include tax withholding and currency gain/loss. Fields such as Placement Fees may be moved into the reconciliation of Net Operating Income, depending on the GP's existing reporting practices.

GPs may also rename fields to better match the terminology of their country (e.g., Priority Profit Share is the more commonly used term for management fees in the U.K.). However, the GP is encouraged to provide guidance on how any revisions made map to the original fields in the ILPA Template, as some LPs may be relying on name-based Excel formulas (e.g., VLOOKUP) to aggregate content from across Template-based reports provided by multiple GPs.

GPs may also need to add or rename field names in the Level 1 content to accommodate funds that are denominated in multiple currencies, or with non-traditional or more complex fund structures (e.g., permanent capital and evergreen funds).

## IX. LP Modifications to Template

One of the many benefits of a standardized Template is the reduced need for the GP community to process numerous, bespoke fee template requests from LPs. A single standard will make the reporting process more efficient. As such, LPs should not modify any of the fields within the Template (including the accompanying Fund of Funds Template).

However, LPs may request supplemental schedules that provide more clarity on any individual Template balance (e.g., itemized details on fee income received from individual portfolio companies). GPs should use their discretion when accommodating these supplemental Template requests.

## X. Footnotes

A footnotes section is provided at the bottom of the Template. GPs are encouraged to use this space to pre-emptively describe any out-of-the-ordinary balances. Also, GPs should footnote any YTD amounts that are classified in an "Other" balance (e.g., partnership expenses-other, other offsets, etc.). Lastly, GPs should disclose in the footnotes if they have charged the Fund for any fund administration services that utilized in-house staff and infrastructure.

## XI. Fee Allocations to Remaining Positions Held by the Manager

In Section B.1 ("Source Allocation"), GPs are asked to provide a summary of all fees and reimbursements received by the GP and its affiliates from portfolio investments (under "With Respect to the Fund's Portfolio Companies/Investments"). Aggregate LPs' allocation for these fees are to be provided in the middle columns of the section (under "Cumulative LPs' Allocation of Total Fund"). In cases where the GP/affiliates have additional exposure to the Fund's investments (e.g., via LP co-investors or other funds/vehicles within the GP's fund family), any remaining allocation of the total fees received should be provided in the far-right columns of the section (under "Affiliated Positions").

In total, the cumulative amount of fees received by the GP and its affiliates (including fees not subject to offset), should be accounted for (with care taken to avoid redundant entries or double counting) in these two columns groupings. For the avoidance of any doubt, this section should not include any fees received by co-investors not under the umbrella of the GP/affiliates (e.g., other GPs or non-affiliated sponsors).

## XII. Fund of Funds Template

A supplemental schedule, which links to the Template, is provided to itemize the layer of fees and incentive allocation that a fund of funds ("FOF") pays to its underlying fund holdings. These values represent the normal fees and incentive allocation that the FOF paid via their commitment to each fund holding in the portfolio. The values do not include any pro-rata share of the fees charged by the FOF to its own LPs.

The ILPA acknowledges that any FOF will be highly challenged to provide the itemized content in the supplemental template. Like a traditional LP, the FOF's ability to track and report this content in a meaningful fashion to its own LPs is entirely contingent upon a uniform level of reporting and universal compliance from all of the underlying managers in the FOF's portfolio. As such, the ILPA recommends that FOF organizations provide the content in the supplemental schedule to LPs by special request only. The content should be reported in the format provided. The frequency and lag time of the reporting should be determined jointly by the FOF and the LP making the request.

## XIII. Miscellaneous

- The Fee Reporting Template was so named for the sake of brevity. It was not named to suggest that the ILPA, or its members, necessarily believe that incentive allocation (carried interest) should be classified as a fee.

- The Template was designed as a tool for standardizing the preferred level of disclosures on fees, expenses and incentive allocation. It was not designed for verifying any of the GP's calculations for these amounts. To remain focused on this goal, certain metrics/terms used in these calculations (i.e., current management fee rate, preferred return, carry percentage, waterfall structure, etc.) are intentionally withheld from the Template. Concurrent with the release of the Template, the ILPA is issuing additional guidance (in the form of a white paper and an appendix to the ILPA Principles) that will address the issue of LPA compliance.

- To match a traditional partners' capital account statement, values presented in Section A.1 (NAV Reconciliation and Summary of Fees, Expenses & Incentive Allocation) can have a positive or negative balance, depending upon how that value typically impacts the entity's wealth (e.g., increases in incentive allocation are a negative balance for LPs, a positive balance for the GP's allocation and a null balance for the Total Fund). However, balances in the remaining sections are typically presented as a positive balance (regardless of their impact on wealth). As such, Template users should avoid aggregating values from different sections.

- Current fee offset percentages are provided in Section A.1 in order to give interested LPs an approximation of total fees that are not subject to offset. LPs should be aware that potential nuances in how offset calculations are defined in an LPA (e.g., the offset percentages may increase/decrease over the life of the Fund) may make it difficult to use the Template to precisely calculate fees not subject to offset.

- When analyzing the fees charged by the GP to its investments, LPs should consider the potential accretive nature of any billable services rendered by the GP to the portfolio investment. LPs should also acknowledge that reimbursements paid by portfolio companies to the GP for amounts the GP has advanced to cover the cost of services do not represent a source of revenue for the GP. Furthermore, GPs should acknowledge that LPs have an obligation to understand any non-"arms-length" engagement between a GP and portfolio company.

- The Total Fund balances presented in the Template should include all parallel vehicles/AIVs under the Fund's umbrella. Certain exceptions (e.g., funds denominated in multi-currencies) may apply.

- As in a traditional partners' capital account statement, partnership expenses presented in Section A.1 would not include any capitalized transaction fees charged to LPs.

- Subsequent to the release of the Template, the ILPA will revise its existing best practices documents (call/distribution notices and quarterly reporting standards) to reflect key components of the Template. Revised best practices documents will be posted to ilpa.org in February 2016.

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