



April 30, 2018

Pamela Dyson
Director, Chief Information Officer
c/o Remi Pavlik-Simon
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Form PF, SEC File No. 270-636, OMB Control No. 3235-0679

Dear Ms. Dyson:

On behalf of the Institutional Limited Partners Association (“ILPA”), we appreciate the opportunity to provide the views of institutional investors on Form PF. Our members continue to believe that Form PF has significant value in the SEC’s oversight of private equity fund advisers (“GPs” or “Advisers”). In particular, we believe Section 4 of the form contains critical information that the SEC should be reviewing regularly with regard to the leverage accessed by the portfolio companies of private equity funds.

ILPA is the voice of institutional investors in the private equity asset class, known as Limited Partners (“LPs”). Our 450+ member institutions represent over \$2 trillion in PE assets under management and include U.S. and global public and private pension funds, insurance companies, university endowments, charitable foundations, family offices and sovereign wealth funds, all of which invest in the U.S. private equity market.¹ LPs provide the capital that fuels private equity and venture capital investment, generating economic growth and job creation across America and around the world. In addition to providing this critical capital for economic growth, LPs are the trusted financial stewards investing the assets of average Americans so that they can enjoy financial security and comfort. Limited partner beneficiaries include teachers, first responders, students receiving university scholarships, charitable recipients, and insurance policyholders, among others. ILPA is based in Washington, D.C. with additional offices in Toronto and Boston.

I. Form PF Should Continue to be Completed by Private Equity Advisers

ILPA supports the requirement that GPs complete the information on Form PF applicable to private equity advisers. In particular, we believe that the information in Section 4, which large private equity advisers are required to complete: 1) remains statutorily required

¹ The ILPA Board includes representatives from: Guardian Life Insurance Company, Teacher Retirement System of Texas, D.C. Retirement Board, Washington State Investment Board, California State Teachers Retirement System (CalSTRS), Tufts University Investment Office, and the Alaska Permanent Fund Corporation, among others: <https://ilpa.org/who-we-are/board-of-directors/>

under Section 404 of the Dodd Frank Act², 2) provides important, useful information to the Financial Stability Oversight Council (“FSOC”) and SEC about potential risk in the private equity asset class, and 3) is an important component of the Commission’s private fund examination program. We would support a requirement that Form PF be shared with the LPs investing with GPs, as our members are almost never provided the form by the fund managers they invest with, despite requesting it.

II. Confidential Nature of Form PF Creates Unnecessary Doubt

As a regulatory reporting document, Form PF is unique given its confidential nature. Only the SEC and FSOC have guaranteed access to this information, with no access available to the general public. And while GPs are permitted to provide this information to their investors, such access is a negotiated right, and investors are seldom granted access to the form. Unfortunately, the consequence of this confidentiality is that the opponents of the form are able to claim it is not useful. We assert that the data would be useful to LPs, as well as the regulator, for on-going due diligence and oversight. Making Form PF available to investors would provide additional information to investors that they cannot currently receive in the publicly available Form ADV or Form ADV brochure.

III. Eliminating Completion of Section 4 Would Violate the IAA

Section 4 of Form PF collects important information about the portfolio companies of large private equity advisers (> \$2 billion in assets under management). This information includes the leverage at the individual portfolio company level, and an indication of whether those companies are involved in the financial industry or not.³ This information is required to be collected by the SEC under Section 204(b)(3), which includes information about the “use of leverage, including off-balance-sheet leverage”⁴ by each private fund advised by the Adviser. In the private equity industry, funds primarily use leverage at the portfolio company level, which is the exact information required to be collected in the statute. Therefore, eliminating the requirement to complete Section 4 would be in direct conflict with the IAA.

IV. Form PF, and Section 4 Within, Provides Significant Value for PE Examinations

The SEC staff frequently use Form PF in the examination process of GPs, and also to provide crucial data to the Office of Risk Analysis in the Division of Economic and Risk Analysis (“DERA”). The information in Section 1 provides critical demographic information, such as the makeup of the investors participating in a GP’s funds, including whether individual investors participate. DERA further provides information generated from Form PF to help the SEC staff effectively target their examinations.

Section 4 provides necessary intelligence, particularly during a financial shock, about which GPs may be under stress due to the leverage of their portfolio companies. Fund managers under stress may be more inclined to engage in questionable behavior, including erring on the side of self-interest where the LPA is silent or vague, resulting in potential violations of the federal securities laws, or the terms of their LPAs. These

² See Section 204(b), Investment Advisers Act of 1940.

³ Form PF, <https://www.sec.gov/rules/final/2011/ia-3308-formpf.pdf>

⁴ Section 204(b)(3)(A), Investment Advisers Act of 1940.

actions could involve the shifting of fees and expenses so that the GP might gain financial advantage. The data in Section 4 provides important information for the SEC exam staff to focus the scope and content of exams, particularly in cases where the GP is subject to market stress and may be more prone to actions that could harm their LPs.

V. Reporting in Form PF is Essential to Ensure Health of Private Equity Marketplace

Information about leverage of private equity portfolio companies is important to the SEC's ability to ensure that the private equity marketplace is healthy. Private-equity backed companies are now a significant player in the American economy. According to Bain Consulting, in 2013 private-equity backed companies accounted for 23% of America's mid-sized companies and 11% of its large companies.⁵ From 2008 to 2016, the number of private equity-backed companies in the United States grew from 5,005 to 7,580.⁶ This does not include the additional companies that are receiving credit financing from private funds. The increased indebtedness of private equity-owned companies makes them more susceptible to default, particularly in a financial crisis if they are unable to refinance the debt. A 2013 paper published by the Bank of England highlighted that:

[H]igh leverage deals that were undertaken in periods of loose credit conditions potentially present a significant risk to the financial system. This risk comes through the leveraged loan exposure of UK banks, as well as through the effects of leveraged buyouts on corporate indebtedness. It will be important to monitor this risk from previous acquisitions from private equity funds. And from a macroprudential policy perspective, there is also a need to remain alert to any return to the debt levels used on acquisitions in the run-up to the 2007-08 financial crisis.⁷

In sum, Section 4 of Form PF gives FSOC and the SEC the ability to review the potential risks to the American economy presented by levered portfolio companies. We encourage the SEC to continue to require the submission of this data to ensure the U.S. regulatory agencies have sufficient information to monitor the marketplace.

We appreciate the opportunity share our views on these important issues with the Commission. We look forward to continuing to be a resource to you. For any immediate questions about our views on these issues, please contact Chris Hayes, Director of Industry Affairs at ILPA at chayes@ilpa.org.

⁵ "According to Bain & Company, a management consultancy, in 2013, private-equity-backed companies accounted for 23% of America's mid-sized companies, and 11% of its large companies." See *the Barbarian Establishment*, THE ECONOMIST, October 22, 2016, available at: <https://www.economist.com/news/briefing/21709007-private-equity-has-prospered-while-almost-every-other-approach-business-has-stumbled>

⁶ Pitchbook News & Analysis, *These 15 Charts Illustrate the Current Private Equity Landscape*, July 19, 2016, available at: <https://pitchbook.com/news/articles/these-15-charts-illustrate-the-current-us-private-equity-landscape>

⁷ David Gregory, *Private Equity and Financial Stability*, Bank of England Quarterly Bulletin, 2013 Q1, Vol. 53 No.1., p. 45, available at: <http://www.eachccp.eu/wp-content/uploads/2015/12/qb1301.pdf>

Sincerely,

A handwritten signature in blue ink, appearing to read 'SN', with a large loop at the end.

Steve Nelson
Chief Executive Officer
Institutional Limited Partners Association