

Q1 2021

ILPA Private Markets **Edge**

THE LEAD - LP TALENT

ABOUT ILPA

ILPA empowers and connects limited partners to maximize their performance on an individual, institutional and collective basis. With 550+ member organizations representing more than 2 trillion USD of private equity assets under management, ILPA is the only global association dedicated exclusively to advancing the interests of LPs and their beneficiaries through best-in-class education, content, advocacy and events.



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CEO Letter

PRIORITIZING PEOPLE

What did we learn in 2020? As obvious and predictable as the question might be, it warrants reflection. Because the equally obvious answer is quite a lot. In the private markets context, *dislocation, adaptation, liquidity, valuations* and *virtual* would feature prominently in the 2020 industry word cloud, and you will see this in the [Top of Mind](#) feature later in this issue. We learned – or more accurately, were reminded – that the industry is resilient, creative and most importantly, powered by people. People who had to redefine risk management on the fly, tear down and rebuild cash flow models, create a blueprint for remote due diligence and piece together real-time valuation estimates. And while portfolio management activities seemed to grow more challenging by the day, these same people were transforming spare bedrooms and kitchen tables into home offices, navigating online grocery delivery, caring for vulnerable loved ones and in many cases, supporting children as they made the adjustment to online learning.

Seeing the humanity of our colleagues and partners – and they ours – allowed us to connect in a different way in 2020. We should all seek to hold onto that in 2021 and beyond.

RE-ENERGIZING TALENT EFFORTS

This fundamental lesson of 2020 is what led us to focus the inaugural Issue of *ILPA Private Markets Edge* on LP Talent. Even before the onset of the pandemic, attracting, developing and retaining professional talent was a near-universal challenge for LP organizations. The specifics varied, but whether it was a question of team size or composition constraining individual growth opportunities, compensation pressure leading to turnover, physical location narrowing the candidate pool or any number of other issues, most organizations were quick

to acknowledge the need for improved practices – and 2020 threw this into sharper relief. In fact, a [September 2020 ILPA poll](#) of several dozen LP professionals found there was not a single major challenge related to LP Talent where a majority of members felt able to declare success. Of note, not one poll participant identified compensation as an area of success. These core LP Talent challenges are captured in this issue’s [Take Action](#) section.

Also, in the [Take Action](#) section, ILPA takes another look at the *2020 LP Compensation Survey* and related [Industry Intelligence report](#) published last December. In this *Private Markets Edge* Issue you’ll find answers to questions about benchmarking, compensation structures and the relative importance of non-financial factors in retaining team members. Importantly, however, both the *Industry Intelligence Report on LP Compensation* and this Issue should be viewed as the starting point for reenergizing your talent efforts. We are already working to meet you at the next step in the process with a staffing model resource later in 2021.

Taking a step back from the Talent focus of this *Private Markets Edge* Issue, it is worth recalling where things stood in the first quarter of 2020. At that time, a variety of reputational challenges – treatment of workers, job creation (or destruction), income inequality, environmental sustainability, lack of transparency, lack of diversity – were competing for attention with topics such as fundraising momentum, elevated purchase price multiples and the prevalence of subscription lines. Unfortunately, the underlying reputational issues persist even if they have been partially obscured by the scale of the socio-economic response to the pandemic. The industry should expect renewed scrutiny from a wide range of stakeholders and

observers in 2021. Policy debates centered on the U.S. private markets have restarted already as the Biden-Harris Administration sets its agenda in motion and important issues of fund access are at stake in Europe where the AIFMD is under review. ILPA remains actively engaged in these and other discussions, ensuring the LP perspective is well represented, and you can read more about these topics in our [Policy Corner](#).

INDUSTRY SCRUTINY RESUMES

Despite real headwinds and uncertainty, there is reason to be optimistic about the ongoing evolution of our industry. There are substantial overlapping interests and common purpose around Diversity, Equity and Inclusion. 2021 can serve as an inflection point for progress. Not only have an increasing number of organizations – LPs and GPs alike – made a public commitment to prioritizing this work, but many are now willing to share, in detail, how they are seeking to effect change, where they have seen the early signs of success and why certain initiatives have fallen short. These candid, peer-to-peer exchanges are critical to accelerating and multiplying our impact. Numerous ILPA members remarked upon this momentum, predicting that ESG and DEI, respectively, will be primary areas of focus this year in the [Top of Mind for LPs](#) section.

SHARED INTERESTS PRESENT OPPORTUNITY

Meaningful and lasting change on DEI will require us to make principled choices about the industry’s path forward. We are exceptionally proud of and encouraged by the initial response to [ILPA’s Diversity in Action Initiative](#) and want to congratulate our nearly 100 signatories on their commitment. For those of you who are considering joining the Initiative, please reach out to diversity@ilpa.org to learn more. Our industry not only has an opportunity but an obligation to lead on DEI in the year ahead. Expect to see much more from ILPA and our growing coalition on this front in the coming months.

Enjoy this issue of *ILPA Private Markets Edge*. We welcome your feedback.



- STEVE NELSON, CEO

WHAT’S INSIDE?

IN THIS ISSUE MEMBERS WILL:

- Get inspired to Take Action on LP talent and compensation
- Understand the changes and implications of AIFMD in Europe and the Biden/Harris Administration in the U.S. in Policy Corner
- Hear what is Top of Mind for LPs including manager selection, technology and the rise of SPACs
- Find ways to Get Involved in ILPA events, education and content

THE LEAD - LP TALENT AND COMPENSATION

Each quarter, *ILPA Private Markets Edge* Take Action section focuses on an issue facing LPs, providing actionable recommendations that lead to better outcomes.



Actionable ESG
How to effectively integrate ESG into investment programs



Fund Terms
Understand what terms are market



LP Talent
Attract, develop and retain top talent for long-term success



LP Technology
Deploy and integrate technology effectively

TAKE ACTION - LP TALENT

The Talent Challenge

WHAT IS THE CHALLENGE?

LPs consistently express frustration over their ability to attract talent, particularly at more junior levels. Entry level pipelines are scarce, sourcing is difficult and compensation and total rewards are difficult to benchmark. Resources are further constrained as new hires are brought up the learning curve, with even more experienced hires requiring training. Retaining talent is also a challenge. LPs struggle with career path ambiguity and limitations, compensation and incentives packages and competing offers from the GP community.

ILPA’S RESPONSE TO THE TALENT CHALLENGE

ILPA seeks to provide solutions toward the issues that every LP organization faces through the content we produce. This *ILPA Private Markets Edge* issue focuses on how LPs can manage talent challenges and seize related opportunities. **Read on for actionable talent insights and a deep dive on compensation, watch our video interview with talent expert Renee Neri from Heidrick & Struggles, register for upcoming ILPA LP Talent opportunities and get inspired by our Member spotlight.**

ILPA’S CONTENT ON TALENT HELPS LPS:

- Establish a baseline against which to evaluate their organizational structure and their staffing needs
- Identify, hire and onboard individuals that are well-suited to their organization’s unique needs and value proposition
- Define and deliver on their unique employee value proposition, define and communicate career path and talent development opportunities and develop and implement total compensation models that increase workplace satisfaction and reduce attrition

TAKE ACTION - LP TALENT

What to Know About Compensation

Based on the broader LP Talent diagnostic work completed by ILPA in 2020, our most recent compensation survey incorporated new questions related to total compensation, the employee value proposition and the relationship between staffing and the composition of the private markets program. Check out the survey results for answers to some common LP Talent questions and read the full [ILPA Industry Intelligence Report on LP Compensation](#).

How should LPs benchmark compensation relative to other employers to remain competitive?

Consider benchmarking compensation against a broader cross-section of employers with whom you might be competing for talent. This could include a wider range of LPs (e.g., type, size, location), but also GPs, other asset managers, financial institutions and service providers (i.e., consultants, advisors, data and analytics firms).

Employees will stay for ‘the right opportunity.’ While LP organizations can only stretch so far on the cash compensation they can offer, they can distinguish themselves by incentivizing and recognizing employees with an increased level of responsibility; 34% of LP professionals cited this as a reason to stay with their organization.

What factors go into how other LPs structure total financial compensation?

Two of the most influential factors on total compensation are within the LP organization’s control – short-term bonus eligibility and primary role focus area. Geography (i.e., physical location of the role) was the only factor over which the LP typically has no influence.

Short-term bonus payouts are typically driven by two inputs: non-investment performance, cited as a driver by 80% of survey respondents, and total assets program performance, cited as a driver by 60% of survey respondents. **Only 39% of survey respondents cited private markets performance as a driver of their short-term bonus payout.**

What mistakes are LPs making when evaluating their total rewards program (i.e., other monetary and non-monetary benefits)?

LP employers tend to overweight the importance of certain aspects of the job, such as organizational prestige and culture, while underestimating core contributors to employee satisfaction like the quality of the relationship with their direct manager and level of responsibility they are granted.

LP employers struggle to explicitly define what it is their employees truly value, leaving the value proposition ambiguous, and therefore, leaving current or prospective employees uncertain of the LP organization’s priorities and values.

What are employees looking for beyond cash-compensation?

Several of the most important drivers of employee satisfaction have nothing to do with cash compensation. The following factors were cited by LP professionals: work-life balance (47%), level of responsibility (34%), job stability (29%) and level of joy/meaning in one’s work (29%).

All data on pages 7-8 of this report are in reference to the [ILPA Industry Intelligence Report on LP Compensation](#). (December 2020).

TAKE ACTION - LP TALENT

Widening the Lens on Talent

Going beyond compensation, LPs should reflect on: staffing models, talent management, hiring strategies and HR.

Compensation

Representing the highest flight risk groups, 1-in-3 professionals with (I) less than two years' experience and with (II) 11 to 15 years' experience are likely to leave their organization. Larger organizations are better resourced to handle turnover at these tenure levels, while smaller organizations tend to struggle.

TALENT INSIGHT - Engage these employees to understand what drives them and what opportunities may be available for their career path; if turnover is part of the organization's plan for junior staff, emphasize training and development to prepare for departures.

Staffing Models

More than a quarter of LP professionals who left their jobs in the last year cited a lack of opportunity for professional development. Misalignment between the investment program's needs and an individual's growth objectives can also lead to dissatisfaction and turnover.

TALENT INSIGHT - Consider implementing or further tailoring professional development opportunities for staff (e.g., mentorship and education like the ILPA Institute), and where possible, consider initiating a conversation with high performers on expanding their opportunities (e.g., rotational assignments and leadership coaching).

Talent Management

The 'Level of Joy and Meaning' in one's work were critical to an employee's decision to stay (29% cited it as a factor), but was far less frequently cited as a competitive advantage in hiring talent (15%).

TALENT INSIGHT - Be explicit about defining the organization's culture, values and its ultimate definition of success. Embed these discussions throughout the recruitment process, emphasizing the mission of the organization and its commitment to its people.

Hiring

HR

TAKE ACTION - LP TALENT

Expert Perspective

UPCOMING ILPA LP TALENT CONTENT

ILPA is developing a staffing model resource to help LPs better understand and deploy the model that suits their investment program's needs.

Stay tuned for this ILPA Talent Content in 2021.

THE EMPLOYEE VALUE PROPOSITION:

Expert Interview with Renee Neri, Partner, Heidrick & Struggles

Hear what Renee Neri, Head of the Heidrick & Struggles Asset Management sector for the Americas, told ILPA about how intangible benefits, including program mission, opportunities for growth and leadership, and travel, stack up against cash compensation in the employee value proposition, and if COVID has affected the traditional balance.

[CLICK HERE TO WATCH](#)



GET INVOLVED ON LP TALENT

GATHER 📅

Last Chance to Register!

Talent Talks Virtual Member Roundtables on Compensation
[Click Here](#)

Choose between two time-slots:

Thursday, March 4, 2021

1 PM - 2 PM EST /
6 PM - 7 PM GMT

Tuesday, March 9, 2021

8 AM - 9 AM EST /
1 PM - 2 PM GMT

Register Now!

Talent Talks Virtual Member Roundtables on Structuring Your Team
[Click Here](#)

Chose between three time-slots:

Asia: Wednesday, May 5

11 AM - 12 PM JST /
2 AM - 3 AM GMT

Europe: Wednesday, May 12

1 PM - 2 PM GMT

North America: Thursday, May 6

1 PM - 2 PM EST /
6 PM - 7 PM GMT

WEIGH-IN 👥

All members are eligible and encouraged to participate in ILPA's next LP Compensation Survey - coming to your inbox Summer 2021, publishing November 2021.

To get involved in ILPA's work on LP Talent, contact Katie Barber at KBarber@ilpa.org

TAKE ACTION - LP TALENT

Member Spotlights

Hear from two ILPA members on what they are doing differently on talent and get inspired to take action.



Community Ties and Non-Traditional Approach to Team Building at Colgate

Colgate University, a U.S. endowment based in Hamilton, New York has been an ILPA member for 3 years. As an investment program, the endowment manages approximately 1 billion USD with approximately 25% allocated to private markets, including buyout, special situations, venture and real assets.

In 2020, Colgate participated in ILPA's Talent Initiative research and shared a unique approach to staffing their investment team, particularly with respect to the academic backgrounds of its analysts.

Upon the hiring of Colgate's first CIO in 2008, the decision was made that staff members would continue to be based on campus – a tactic embraced by a number of peers as well – but there was a recognition that bringing talent to central New York would be a challenge. This forced the team to be thoughtful about attracting high potential candidates, with the school and surrounding area identified as major factors in attracting candidates.

Colgate's initial approach was to hire a recent Colgate graduate interested in pursuing an investment related career for a three-year term, providing an opportunity to gain exposure to the industry while earning a CFA certification. While one analyst successfully completed the program, finding another candidate proved difficult. At this point, a pivot was made to a long-term staffing solution.

An internal hire with prior experience in mutual funds was moved into an investment manager role, marking the first step in a new direction. Two analysts were also added to the team, each with ties to the local community but representing non-traditional backgrounds in Education and Psychology.

The challenges associated with equipping non-traditional candidates with the necessary baseline knowledge and skills were clear, and Colgate responded with an intensive and hands-on training program. Focusing on Colgate's individual approach to endowment management, the team was able to concentrate on the basics and slowly build knowledge within specific topic areas.

With a solid team now in place, there is a focus on continuing to develop bench strength. Given a small team, a single departure would have a significant impact and cross training provides additional depth and continued development. Colgate notes that "years later, we all continue to learn as the portfolio and markets continue to evolve."

TALENT INSIGHT: Hiring

When hiring take advantage of the talent pool available and consider non-traditional backgrounds. Understand why a role is interesting to a candidate and make connections to the fundamental work of investment professionals. Leave room for transferable skills to surprise you.



How TRS Leveraged an Expanding Co-Investment Program to Grow its Investment Team

Teacher Retirement System of Texas, a U.S. public pension based in Austin, Texas, manages over 175 billion USD. TRS has been moving assertively to increase net returns for its teachers through a strategy of augmenting its in-house investment capabilities and thereby reducing external manager fees. In 2017, TRS began looking to evolve its portfolio strategy, and in concert, its organizational structure to achieve returns sufficient to meet increasing beneficiary obligations. The TRS team, in conjunction with an outside consultant, determined that bringing more investment capabilities in-house would help reduce fees to external managers, without sacrificing performance, and allow the organization to deliver on its objectives.

Within the private equity portfolio at TRS, the focus on increased internal capabilities translated to a goal of investing a larger proportion of the portfolio into co-investments to capitalize on the fee-advantaged nature of those investments. The team set an initial milestone of growing the share of co-investments from ~20% of the portfolio to a minimum of 35%.

Shifting to more co-investment necessitated the addition of new team members tasked with diligencing the higher volume of opportunities, as well as selecting investments which could also be additive to the anticipated fee savings. Any increases in internal costs associated with the new team members and infrastructure were forecast to be marginal relative to the external fee savings realized. The board of trustees' focus on net returns enabled TRS to secure the green light for additional hires.

By the end of 2021, the TRS private equity team will have almost doubled in size – from 14 investment professionals to 25 – with authorization to increase the headcount further in the coming years. While still a work in progress, TRS is pleased with the team it has been able to attract and retain, the growth in the co-investment portfolio and the performance generated.

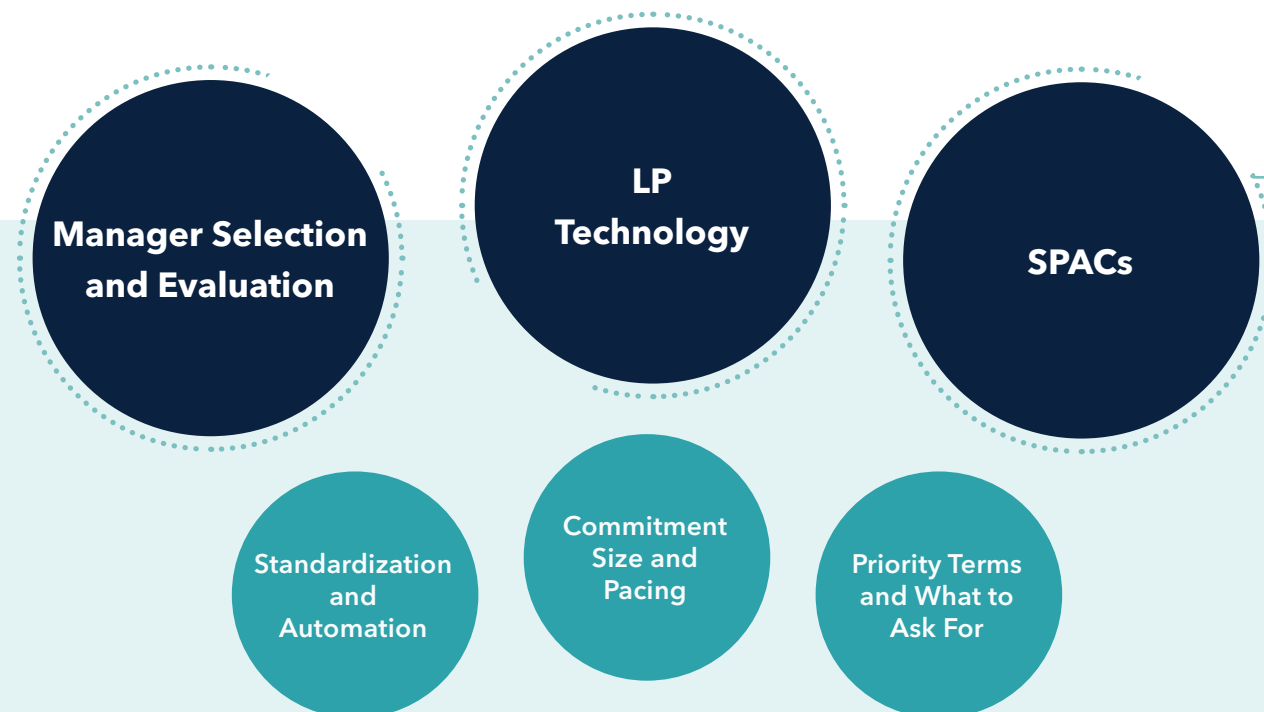
TALENT INSIGHT: Staffing Models

The investment team is any organization's greatest resource. Carefully consider how to deploy existing resources and plan for what it will take to attract and retain the right team over the long term.

Top of Mind

LP INSIGHTS PROGRAM: HOT TOPICS

ILPA's *LP Insights Program* is a systematic effort to connect one-on-one with representatives of every ILPA member organization to capture the most pressing issues, challenges and opportunities associated with being an LP. In 2020, ILPA conducted over 200 LP Insights conversations, leveraging those exchanges to generate actionable research for the exclusive use of the ILPA membership.



Members who raised manager selection most often mentioned:

- Virtual due diligence
- Impact of COVID-19 restrictions
- Leveraging technology
- The new normal
- Evaluating new managers

As members struggle with manager selection in a remote environment that will extend well into 2021, ILPA has resources to help:

- ILPA's Town Hall on COVID-19's Impact on PE Portfolios and LP Operations. [Watch the Town Hall](#) or [read the event summary](#).
- ILPA's Webcast on Working From Home as an LP. [Watch the Webcast](#) or [read the event summary](#).

Members who raised technology most often mentioned:

- Look-through to portfolio company level
- Understanding valuations
- Streamline systems and processes
- Capture and track data
- Reliance on MS Excel

As members seek to leverage technology, ILPA has content to help:

- The [2020 ILPA Industry Intelligence Report on LP Technology](#) provides high-level recommendations on acquiring and implementing technology.
- Later in 2021, ILPA will release technology landscape documents that will provide an overview of major technology providers in private equity. Contact Neal Prunier at nprunier@ilpa.org for more information.

TOP OF MIND

SPACs - What LPs Should Know

The industry has been abuzz on SPACs, read on for a high-level summary of what ILPA thinks members need to know.

Formerly a seldom used financing tool, SPACs exploded onto the scene in 2020. USD 82 billion was raised through SPACs in 2020, a six-fold increase from 2019.

SPACs have enormous potential to increase liquidity and private equity-backed businesses are a natural target. SPACs create another route for portfolio company exits, and this is generally a positive development for LPs and GPs alike.

Numerous GPs have begun raising their own SPACs or are actively considering them as an option because of the beneficial economics of SPAC sponsorship. GPs can differentiate themselves in the SPAC market by pointing to their track record of sourcing and diligencing private companies, making it easier to raise capital.

Despite the increased interest in SPACs by GPs – or perhaps because of their fervor – many LPs are uncertain about the potential implications when a GP elects to sponsor a SPAC.

Points of Consideration for LPs

Notification Rights: In many instances, GPs have decided to raise SPACs without notifying their existing LPs, much less consulting them. LPs should consider reviewing the notification rights granted to them within LPAs and side letters. Additionally, LPAC members should consider being proactive in asking GPs about their intentions regarding SPACs during LPAC meetings.

Key Person and Time and Attention Clauses: SPAC's economics could potentially be greater than those of the GPs' existing fund(s). This may incentivize the GP to devote more time and resources to the SPAC. The [ILPA Principles](#) recommend that key persons should devote substantially all their business time to the fund. LPs should review time and attention clauses in LPAs and key person clauses to ensure that key investment personnel are covered. If a GP decides to sponsor a SPAC, LPs should inquire as to who on the GP team will work on the SPAC and ensure that the fund is receiving the appropriate resources.

Investment Restrictions: When sponsoring a SPAC, the GP may have overlap between the types of companies the SPAC is targeting and the fund's stated investment strategy. The [ILPA Principles](#) recommend that the GP should commit

to directing all appropriate investment opportunities to the fund during the investment period. LPs should review investment restriction clauses in LPAs to ensure potential investment opportunities are appropriately directed to the fund, not an alternative vehicle such as a SPAC.

Other Conflicts: There have been examples of a GP-sponsored SPAC merging with an existing fund portfolio company. In these cases, the concerns for LPs are very similar to a traditional cross-fund investment. LPs should ask GPs to provide a fairness opinion from an outside adviser to validate that the portfolio company has been appropriately valued. LPs should refer to the Cross-Fund Investments section of the [ILPA Principles](#) and ensure these processes are run fairly.

Potential Benefits to LPs

Both LPs and GPs can share in the economic benefits of the SPAC. There have been instances of GPs raising SPACs inside of the fund as a portfolio company. In these situations, the fund acts as the sponsor and pays for the formation of the SPAC. The GP then solicits investors, finds the company with which to merge, and when the deal is completed the fund shares the profits (i.e., 20% of the stock of the merged company).

Funds that pursue Private Investments in Public Equity benefit from immediate liquidity. SPAC sponsors sometimes look for additional capital or leverage to complete a deal alongside the SPAC. In this case the GP can offer a Private Investments in Public Equity to invest alongside the SPAC. In certain circumstances, the GP may look to the fund for additional capital. This would allow the fund to gain significant exposure to the merged company, which will be listed on the market and provide immediate liquidity. However, Private Investments in Public Equity investors come into the merged company on different terms than the SPAC sponsor. If faced with this situation, LPs should consider employing an advisor to ensure that the terms of the deal are fair and that GPs act in accordance with their fiduciary duty to the fund. For more detailed information on SPACs consult a recommended academic research article by Klausner, Ohlrogge and Ruan, entitled ["A Sober Look at SPACs."](#)

TOP OF MIND

LP Predictions for 2021

The private equity industry is facing another unprecedented year, so ILPA asked members what they were expecting in 2021. Read on for ILPA members' thoughts on the investment outlook, ESG and challenges on the horizon.

A MIXED INVESTMENT OUTLOOK

Medium to Long-Term Impacts From the Pandemic Are Not Yet Fully Priced In

"2021 will mark our 5th anniversary in terms of our investment push into private equity. Given that our portfolio is just starting to mature and given that equity prices are at quite elevated levels, I do expect and am greatly looking forward to seeing strong and robust exit activity even if we see some correction from current levels in the equity markets. At the same time, I am worried about valuations. I fear that investments priced too much to perfection in terms of their growth projections may not turn out to be great investments down the road."

- Hideya Sadanaga, Senior Managing Director, Head of Private Equity Investments, Japan Post Bank

GPs Will "Move Heaven and Earth" to Deliver Liquidity to LPs (and Lock in Carry)

"I anticipate that distributions will hold steady or increase. GPs will move heaven and earth (i.e., do dividend recaps) in order to make distributions because the IRR math drives them to return capital sooner rather than later. They are laser-focused on their carried interest and won't let COVID get in the way. With respect to valuations, we will see a wider range than usual. Some portfolio companies will die on the vine, while others will see acceleration in value. COVID is likely to result in greater disparity between winners and losers."

-Monte Tarbox, Executive Director, Investments, National Electrical Benefit Fund

WHAT'S NEXT FOR ESG?

Investors Going Beyond Understanding ESG Integration to Action

"The global COVID-19 health pandemic has placed a spotlight on the urgent need for society to address the Sustainable Development Goals for both consumers and investors. On the consumption side, there is a heightened awareness and demand for more socially and environmentally responsible products, services and business practices. On the investor side, there will be increased pressure to allocate capital towards sustainable strategies. At MassMutual we are actively incorporating sustainability, diversity and inclusion in our investment analysis and underwriting. Additionally, MassMutual has also launched new initiatives investing both human resources and capital in minority entrepreneurs and managers."

- Rilwan Meeran, Portfolio Manager, Impact Investments, Investment Management, MassMutual

Investor Interest Rising in Funds Dealing With All Aspects of Climate Change

"Climate Change is a unique global challenge in terms of scale, urgency, magnitude and complexity of action. The effects of Climate Change are immediate, complex and severe. Investments in initiatives focused in this area - including those funds focused on adaptation and resilience - will continue to grow as more LPs are committed to alignment with the goals of the Paris Agreement and net zero investments."

- Elizabeth Tirone, Deputy Chief Legal Officer, Funds and Capital Partnerships, CDC Group Plc

CHALLENGES ON THE HORIZON

Disappearing "Status Quo" Options in GP-led Deals Pose a Challenge for LPs

"These transactions will continue to grow in 2021, as GPs increasingly want to hold on to their winners for longer especially in a highly competitive environment for sourcing new deals. Unfortunately, we are hearing that some GPs want to do away with the 'status quo' option for LPs that allows LPs to roll their investment into the continuation fund. If that movement gains momentum, it would be a significant degradation of LP rights."

- Anonymous LP, Portfolio Manager, North American Insurance Company

Anticipating Stronger Norms Around Cross-Fund Deals and Continuation Funds

"The ever-growing proliferation of cross-fund deals and continuation funds, in their various forms, has become a hot topic for LPs. We are beginning to see something of a framework around what is best practice and how LPs and GPs can be appropriately aligned take shape. I think by the end of this year there will be much clearer boundaries around what is palatable, and therefore accepted by LPs, and also when GPs are clearly being seen to push the envelope too far."

- Delaney Brown, Head of Funds and Secondaries, CPPIB

Policy Corner

Guided by ILPA’s Industry Affairs Committee and full Board of Directors, ILPA engages on a range of policy issues impacting the private markets in accordance with our Global Policy Priorities to ensure the voice of LPs is heard in the corridors of power.

AIFMD: PRESERVING ACCESS

In the European Union, the aftermath of Brexit has resulted in a potential overhaul of regulations governing private fund advisers, with the possibility of material impact on LPs who invest in EU-based managers, and on EU-based LPs seeking access to global opportunities. The Alternative Investment Fund Managers Directive, which regulates all GPs seeking to market their funds in the EU, is being reformed, and ILPA has been involved extensively in the process since August 2020.

ILPA formed a working group of members across the EU to help us prioritize the issues most important to LPs in AIFMD reform, chaired by Anders Strömblad of AP2. Strömblad shared the LP perspective on behalf of ILPA to policymakers at a [virtual conference](#) organized by the European Commission on November 25, 2020.

The ILPA AIFMD Working Group has prepared [ILPA’s priority list](#) for the European Commission as it works to

reform it. The primary focus of our priority list is two-fold: (1) seeking to ensure continued access for EU-based LPs to global opportunities; and (2) seeking to require fee and expense reporting from GPs to their LPs.

[ILPA submitted comments](#) on the AIFMD consultation on January 28, 2021, preceded by a call with the European Commission staff drafting the rule. Our working group will continue to engage with member countries in the EU, part of the EU Council of Ministers, to shape views on the proposed legislation while we await the formal legislative proposal from the European Commission later in 2021. Our goal is to ensure a positive outcome for LPs in the final legislation.

For those LPs who are not familiar with the LP protections in AIFMD, ILPA has prepared an [overview of AIFMD](#) and how it impacts LPs.

NEW U.S. ADMINISTRATION: PRIORITIES

The Biden-Harris Administration took office with the Democrats in full control of the executive and legislative branches, providing the opportunity to make significant legislative and regulatory changes. Over the course of this four-year term, we expect to see movement on the following four items that could impact the private fund markets. ILPA will be involved in seeking to shape these issues for the benefit of our members.

- 1. SEC Registration Reforms:** With Democratic control of the Senate, we expect to see swift confirmation of a new SEC Chairman and with it a pro-investor focus at the SEC. There is a strong possibility that reforms promoting higher standards of governance and transparency will be considered and implemented.
- 2. Tax and Infrastructure:** In the first half of 2021, we expect a significant package of changes to the U.S. tax code, potentially including increases in the U.S. corporate tax rate, as well as the capital gains rate – which could result in threats to carried interest tax rates for GPs, as well as an impact on returns. The increased tax revenue is expected to be used to fund infrastructure investments, with potential knock-on effects for LPs with direct or indirect exposure to related assets.
- 3. Climate and ESG:** The new Administration is highly focused on addressing climate change, and we expect new policies to be proposed requiring climate impact reporting by GPs. It is also possible that GPs and LPs governed by ERISA may be required to consider ESG factors in their investment process.
- 4. Diversity:** The new Administration has placed a priority on addressing racial inequities in the economic arena, and we expect new policies to be proposed that would require diversity reporting for GP organizations and at the board level of their portfolio companies.

THE IMPORTANCE OF AIFMD FOR LPS:

Quick Takes Interview with Elli Sistonen, Varma

Audio interview with ILPA’s Senior Policy Counsel Chris Hayes and Elli Sistonen of Varma who discuss ILPA’s AIFMD Working Group’s priorities and the implications of the Directive for ILPA members.

[CLICK HERE TO LISTEN](#)



VOICES of PRIVATE EQUITY

Listen to our podcast episode on the impact of the elections (*note this was recorded prior to the Jan. 5 U.S. Senate runoff election*)

[CLICK HERE TO LISTEN](#)



Get Involved

ILPA is dedicated to providing meaningful opportunities for members to engage, learn, weigh-in and share. View upcoming member opportunities below.

GATHER

Register:

- [ILPA Legal Town Hall](#): March 24
- [The Virtual ILPA Summit Europe](#): April 27 - 28
- [ILPA Members' Conference](#): June 2-4

Save the Date:

- ILPA Town Hall on Diversity: April 7
- ILPA Private Equity Legal Conference: Week of October 4
- ILPA Summit: November 9-11

Contact ILPA Events at events@ilpa.org for more information about ILPA's upcoming conferences.

LEARN

[Register for ILPA Institute Courses - All virtual in 2021!](#)

- Private Equity for the Trustee: March 10-11
- Operational Due Diligence for the Limited Partner: April 14-15
- Private Equity for the Limited Partner: April 20-21
- Private Equity for the Limited Partner Asia: May 11-12
- Private Credit for the Limited Partner Asia: May 13
- Operational Due Diligence for the Limited Partner Asia: May 18-19
- Theory and Concepts of Private Equity: June 14-16

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- Register for the Fundamentals of Private Equity
- Register for the Economics of Private Equity
- Or take both! Register at a discounted rate on this Introductory Course Bundle

Contact the ILPA Institute at education@ilpa.org for more information including on early-bird discounts and course formats.

WEIGH-IN

- Applications for ILPA's 2021-2022 Board are open through March 5. To learn more [click here](#), and to apply e-mail your CV and cover letter to nominations@ilpa.org
- *Diversity in Action Initiative*: If your organization is dedicated to improving DEI, take a moment to review the [Diversity in Action framework](#) and consider becoming a signatory. To learn more about becoming a signatory contact diversity@ilpa.org.

SHARE

- **LP Insights calls**: Want to share your view? ILPA schedules one-on-one calls with members to discuss the issues on your team's mind and to help us better serve you. Reach out to schedule a call. Contact Samantha Anders sanders@ilpa.org or Brian Hoehn bhoehn@ilpa.org.
- **ILPA Connect**: ILPA Connect is a member-only platform where members can share insights and information and ask questions of one another. Visit [ILPA Connect](#) today. Contact the ILPA membership team at membership@ilpa.org for more information on how to get the most out of the platform.
- **Member profile**: Take just 3 minutes to [update your Individual Member Profile](#) today. Updating your profile will help us make sure you get the most out of your ILPA membership and allow us to tailor recommendations for resources, events and content you might find most useful.