



# ILPA Private Markets **Edge**

THE LEAD - ESG

ABOUT ILPA

ILPA empowers and connects limited partnersto 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.



TABLE OF CONTENTS

<b>ILPA CEO Letter</b>	<b>4</b>
<b>Take Action - ESG</b>	<b>6</b>
Introducing the ILPA ESG Assessment Framework	6
Expert Perspective: Ceres' Interview: Climate Risks and Opportunities in Private Equity	8
<b>Top of Mind</b>	<b>12</b>
LP Insights: Hot Topics	12
What LPs Should Know About Inflation	13
MCON: Highlights	16
<b>Policy Corner</b>	<b>18</b>
Engagement with the SEC on ESG, Transparency and Governance	18
AIFMD and New Rules in the EU	19
<b>Get Involved</b>	<b>20</b>

# CEO Letter

## ESG TAKES CENTER STAGE

It has become impossible to ignore the growing importance of ESG within the private markets. Evaluating these issues is no longer an add-on or afterthought in LP due diligence processes. For many organizations, ESG factors are now viewed as being core to any investment decision. While there is a shared appreciation amongst LPs and GPs for the need to better capture and communicate not only hard data on ESG-related results but also the policies in place that will shape outcomes in the future, the industry continues to grapple with how best to make the information exchange in this area more consistent and meaningful. For long-term ESG objectives to be achieved LPs and GPs require new tools to enable a deeper dialogue.

### DATA AND PRACTICES GO HAND-IN-HAND

We expect the [ILPA ESG Assessment Framework](#) released this summer will serve as one such tool and anchor due diligence exercises. The Framework includes a worksheet section which is designed to pair with ILPA's industry-standard [Due Diligence Questionnaire](#). LPs will be able to compare GP responses against the Framework to better calibrate the sophistication of their manager's ESG integration and track its evolution over time.

Of note, ILPA's DDQ is currently out for public comment following work to modernize it with market conditions including ESG considerations. This effort is being conducted in close collaboration with the UN Principles for Responsible Investment. We are also using the exercise to collect feedback on the ILPA Diversity Metrics Template. You can find more information and learn how to [participate in the comment period here](#).

With respect to ESG data, ILPA is actively participating in several industry initiatives aimed at creating a common approach to reporting and benchmarking. We see tremendous potential for establishing a standard set of metrics, and simply put, this represents a precondition for the industry to move forward. Perfect is most certainly the enemy of the good at this stage, and compromise will be required. We are convinced an industry-led solution on ESG reporting standards is not only possible but will better serve the interests of all involved than a rigid regulatory mandate.

### POLICY MATTERS TOO

Policymakers and regulators have a role to play here as well, and for those eager to accelerate progress, strong tailwinds are blowing. Of particular note is the weight now being placed on ESG disclosures - climate impact and human capital, specifically - by the Securities and Exchange Commission. Chairman Gensler is viewed as a forceful and action-oriented regulator, and it seems reasonable to expect ESG rulemaking to remain a near-term priority. Under this same general heading, it is worth mentioning the August [SEC approval of Nasdaq's new listing rules](#) to promote board diversity, which will at a minimum indirectly influence the composition of private company governance over time.

## WHAT'S INSIDE?

### IN THIS ISSUE MEMBERS WILL:

- [Learn more about the recently released ILPA ESG Assessment Framework](#)
- [Get up to speed on how inflation might affect investors in private markets](#)
- [Read an expert interview with Director of Ceres' Investor Network on the climate risks and opportunities in private equity](#)
- [Review some key insights on topical issues from ILPA's Members' Conference](#)

### ON INDUSTRY SUSTAINABILITY

At the heart of our ESG work are the foundational elements of ILPA's broader industry stewardship efforts, namely governance, transparency and alignment of interests. Coming in the next quarterly edition of *Edge*, and featuring in other ILPA forums this fall, are insights derived from our *2021 Private Market Fund Terms Survey*. The health of the industry over the coming years relies in no small part on an ever-improving partnership dynamic between LPs and GPs. While we have seen tangible gains in accessibility and quality of communications of late, and a dramatic increase in shared determination and accountability for making the private markets more diverse and inclusive, evergreen points of friction remain. We look forward to sharing the results of the Survey in an *ILPA Industry Intelligence Report* in Q4, bringing further clarity to current market practices and helping LPs make even more informed choices about where and how to effect change.

### COMMUNITY ENGAGEMENT

As the spread of the COVID-19 Delta variant continues to delay and complicate even the best-laid plans for a return to in-person activities, we wanted to take a moment to thank our members for the remarkable and sustained level of engagement since March of 2020. The same holds true for our GP and service provider colleagues, who have steadfastly supported a number of key initiatives and ensured their ongoing success - the [Diversity in Action](#) initiative and our pivot to virtual Summits are of particular note. While we eagerly anticipate the day when the external environment allows for us to reconnect with you in person, we are grateful for your many contributions over the past year-plus to our mission of engaging, empowering and connecting LPs globally.

Enjoy this issue of *Edge*.

- STEVE NELSON, CEO

### THE LEAD - ESG

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 - ESG

# Introducing ILPA's ESG Assessment Framework

LPs care more about ESG today than ever before. According to an October 2020 survey by INSEAD's Global Private Equity Initiative, 89% of LPs surveyed agreed that ESG criteria play a role in their investment decisions.<sup>1</sup> Bain's 2021 *Global Private Equity Report* notes that signatories to the Principles for Responsible Investment jumped 28% in the last year.<sup>2</sup> Financial markets in Europe have seen an increase in regulatory requirements and many expect the U.S. to follow suit.

“The market has moved, and suddenly these ESG requirements have been something that helps us find deals. Managers appreciate that we have well established standards that we can apply, and we can help the fund develop their own policies.”

**A Development Financial Institution LP**

In September 2020, LPs attending ILPA's *Town Hall: Let's Talk ESG Integration* were asked if they rate or score GPs with respect to ESG – 52% of LPs surveyed indicated they did, with more planning

“We're at the level of asking managers what they're doing in ESG, about their approach and how they integrate, and we're getting a lot of very different results. GPs reporting fatigue is also a problem, which is understandable when you have 100 different people asking 100 different questions.”

**North American Insurance Company LP**

to take additional action. Anticipating a continued increase in ESG-related inquiries, GPs are looking to better understand the information of greatest value to LPs and what others in the market are providing.

In July 2021, ILPA released its [ESG Assessment Framework](#) to help address these needs. The Framework provides a tool that enables LPs to more effectively understand and assess the various stages of ESG integration that peers are observing among GPs in the market today. It is designed to help LPs evaluate and benchmark GP responses to due diligence efforts, inform goal-setting conversations with GPs and measure ESG integration progress over time. The Framework was developed in partnership with a working group of LPs, with meaningful input from other LPs, GPs and industry players. The Framework categorizes activities and processes across four categories: Not Present, Developing, Intermediate and Advanced. As ESG conversations continue to evolve, many best practices are still being developed. ILPA expects LPs will adapt this Framework to meet their individual needs and interests.

“The private markets industry is increasingly focused on stewardship and on making meaningful progress on related issues, like ESG, for their part, LPs are looking for alignment with their managers on ESG integration, and GPs are looking for clarity on what LPs expect. The Framework helps solve for both of those issues.”

**Steve Nelson, CEO of ILPA**

## EXPLORE MORE FROM ILPA ON ESG

**MCON Session: The Expanding Case for ESG in PE**

[Watch](#) the ESG MCON session featuring experts from Bain & Company and [read more](#) on MCON in the Top of Mind section



### Voices of Private Equity

[Listen](#) to an episode entitled: “Succeeding Through ESG” featuring Adam Black of Collier Capital. And mark your calendar for season 2, premiering fall 2021.



### New! Online Introductory Level ESG Courses

Are you just beginning to consider ESG or to refine your ESG strategy? Consider registering for the ILPA Institute Online ESG courses entitled: “ESG Fundamentals” and “Integrating ESG Best Practice.”

Visit our website to [Register!](#)

TAKE ACTION - ESG

## WHERE TO FIND AND HOW TO USE THE ESG ASSESSMENT FRAMEWORK

Developed with mid- to large-cap buyout managers as a reference point, the Framework provides LPs with a foundation for evaluating or scoring GPs as part of initial due diligence and sets the stage for an ongoing dialogue throughout the investment life cycle that is focused on progression and goal setting. Many LPs use the Framework as a companion piece to [ILPA's DDQ](#). GPs can use the Framework to self-assess and gain a clearer understanding of the approaches LPs are observing at other investment managers in the marketplace.

ESG best practices are still emerging and rapidly developing, and not all

GPs will sit at the front of the curve. The Framework is not meant to penalize or de-incentivize organizational investment with GPs that have room for growth. Instead, it is intended to provide information, contextualize areas where further progress can be made and facilitate dialogue. There are quality GPs at varying levels of ESG integration maturity. Many leading LPs are looking first and foremost for alignment and intentionality – that is, to see that their GPs are developing an integrated approach to identifying and evaluating ESG risk and opportunities, which can then lead to discussions of how ESG features in fund governance and investment decision-making.

ESG ASSESSMENT FRAMEWORK				
COMPONENT	NOT PRESENT	DEVELOPING	INTERMEDIATE	ADVANCED
POLICIES AND COMMITMENTS TO STANDARDS	Status of Current Policy ESG policy is lacking or limited; there is no mention of governance and ESG ownership considerations or examples which illustrate a policy in action	Policy details the GP's approach to identifying and managing ESG factors; reference to basic governance and ownership considerations <i>*Note, pertaining to ESG Policies: LPs should keep in mind that firm level policies may not always apply to specific funds and should ask for clarification where needed</i>	Policy is tailored to the GP's strategy and investable sectors; there is a clear governance structure detailing ESG oversight responsibilities and processes and an approach to identifying material risks and discussing them with portfolio companies GP is able to provide examples illustrating policy integration efforts in prior fund investments	Building upon "Intermediate," policy is shared publicly and references materiality and how ESG considerations drive value creation, including look-forward assessments and commentary tailored to industry segments in which the GP invests GP is able to speak to historical policy revisions, including what changed and why
	Approach to Policy Review No policy implemented; no plans to develop an approach towards the management of ESG considerations	GP may reference plans to periodically review or further develop its ESG policy, but detail regarding frequency and timing is lacking	GP conducts a periodic review (i.e. every 2-3 years) of its ESG policy and can share recent findings and updates	GP reviews its ESG policy annually and can comment on its evolution (prior findings and how they were addressed, how it keeps pace with industry developments, etc.)
	Industry Standards and Best Practices No commitments to industry standards (e.g., PRI signatory) or plans to adopt a set of standards in the next few years	GP has identified a set of standards which it has informally adopted or begun working towards formal adoption	GP is a PRI signatory or has formally adopted at least one set of industry recognized best practices	GP may have multiple, formal commitments to industry standards or best practices and can demonstrate these commitments are integrated into processes, documentation, training and reporting GP actively participates in driving best practice or standard adoption in the industry
	Contractual Commitments No contractual commitments related to ESG made or referenced in fund formation contracts, LPAs or side letters when requested by investors	Contractual commitments to ESG appear in side letters and may vary from LP to LP	References and commitments to ESG are included in private placement memorandums (PPMs) and side letters	Commitments to ESG are referenced in LPAs and tend to include a commitment to annual ESG reporting
GOVERNANCE	ESG Oversight No governance/ownership in place for ESG considerations	ESG oversight is represented via steering committee or exec level ownership as a shared responsibility (e.g., part of legal, compliance or investor relations) ESG considerations do not factor prominently in investment committee dialogue or investment decisions	Senior leadership is more actively involved with ESG issues, augmented by dedicated ESG staff or third party experts helping guide the process Individual(s) charged with ESG oversight sits on investment committees and ESG considerations are included in committee dialogue and investment decisions	Leadership-driven accountability for ESG ownership extends throughout the organization; including investment and deal team professionals, to ensure ESG considerations are integrated into decision making and operating processes <i>*It is common for larger, advanced GPs to have one or more dedicated ESG resources supporting staff throughout the organization</i>

## ILPA MEMBER CALL TO ACTION

### Public Comment Period: ILPA DDQ and Diversity Metrics Template

ILPA's Due Diligence Questionnaire, including expanded ESG and DEI sections, is currently out for public comment. Alongside revisions to the DDQ, ILPA is requesting feedback on a revised Diversity Metrics Template. To view the DDQ and Template and submit your feedback visit ILPA's [website](#).

Questions or comments may also be directed to via email to: [ddqfeedback@ilpa.org](mailto:ddqfeedback@ilpa.org). The final, updated DDQ and Diversity Metrics Templates will be published in Q4 2021.

### Join ILPA's Diversity in Action Initiative

Improving DEI in the industry is an increasing priority in the industry, and it will take a shared commitment of both LPs and GPs. ILPA actively encourages members who are prioritizing DEI to consider joining the *Diversity in Action Initiative*. To view eligibility criteria [click here](#) or reach out to [diversity@ilpa.org](mailto:diversity@ilpa.org) to learn more. And remember to read our [Sharing Our Progress Report Series](#).

<sup>1</sup> INSEAD Global Private Equity Initiative. GREEN SHOOTS: Can Private Equity Firms meet the Responsible Investing expectations of their investors?  
<sup>2</sup> Bain & Company. Global Private Equity Report.



## TAKE ACTION - ESG

# Expert Perspective: Climate Risks and Opportunities in Private Equity



**Matt Schey**  
Senior Director,  
Strategic Projects  
ILPA

**Dazzle Bhujwala**  
Director, Ceres'  
Investor Network

Matt interviews Ceres' Dazzle on the report entitled, [The Changing Climate for Private Equity](#). The report, developed by Ceres in partnership with the SustainAbility Institute by ERM, aims to accelerate action on climate change by unlocking the potential for private equity to help attain the goals of the Paris Agreement.

## Q: WHAT LED CERES AND ERM TO COMMISSION THIS REPORT, AND WHY NOW?

Ceres has always been focused on supporting capital markets in transforming the economy to foster a more sustainable, lower carbon economy. Our theory of change has always been to support investors and companies with a clear business case for climate action and sustainability.



Temperatures continue to rise, and significant course corrections in financial markets will be required to further mitigate that. Encouragingly, there is a great deal of interest across financial markets from investors, companies and governments - all looking towards environmentally friendly policies and a commitment towards net zero emissions.

Private equity is an integral part of this transformation, but also an area which is falling short of disciplined climate integration. For us as a society to thrive, each function of capital markets will have to play its role, and so Ceres

decided to leverage our 30 years of history engaging investors on the listed side of the market to help private markets tackle the systemic challenges and opportunities that climate change poses.

## Q: THE REPORT DETAILS FACTORS DRIVING PROGRESS, WHICH DRIVER DO YOU EXPECT TO BE MOST IMPACTFUL OVER THE NEXT 1 - 2 YEARS?

The number one driver across private markets will be pressure from LPs. It was clear from every interview we conducted that GPs are receiving increasingly sophisticated and detailed questions regarding climate risks and opportunities from their LPs. Part of this is due to the increase in net zero commitments that institutional investors are making. For LPs to stand true on their net zero commitments, they will expect their GPs to adopt a robust climate action approach. This in turn will put pressure on GPs, who are quite competitive by nature, to position themselves not only to respond to and address climate-related concerns, but to be seen as ahead of their peer group.

Another key driver is coming from regulators. There is plenty of momentum

in Europe with SFDR, the EU taxonomy, etc. - the impact of which extends beyond Europe to global managers who have a presence or raise capital in European markets. And there is a renewed interest by U.S.-based regulators to begin moving quickly here as well.

## Q: THE REPORT ALSO NOTES SEVERAL HURDLES PE INVESTORS MUST GRAPPLE WITH, WHERE ARE YOU SEEING PROGRESS AGAINST THESE CHALLENGES?

Private equity, as a sector, is generally competitive in nature. However, with the clear sense of urgency to address climate risk, there is a strong interest to collaborate and engage to build consensus and tackle several challenges the sector is facing. To support this collaboration, Ceres has established the world's largest private equity working group consisting of both GPs and LPs.

The other area where we have seen real momentum is a willingness on behalf of more advanced or well-resourced LPs and GPs to engage with smaller investors who are still early in their climate journey to help build capacity and move folks along the learning curve.

## TAKE ACTION - ESG

## Q: IN THE REPORT, CERES/ERM PROVIDED A SERIES OF RECOMMENDATIONS FOR LPS LOOKING TO FURTHER ADDRESS CLIMATE CONSIDERATIONS (SEE PAGE 11). WHERE SHOULD LPS FOCUS FIRST?

An approach we have seen work well is to identify the highest emitting sectors in your portfolio, focusing on them as a starting point. Our report includes a case study from CalPERS which found that 92% of their scope 1 and 2 emissions were attributed to just six industries. That's an especially helpful way for resource constrained LPs to spend their time and energy where it matters most.

Other LPs like to take a **TCFD**-aligned approach, thinking about how that translates into strategic decision making at the top of an organization, governance standards GPs are taking at the firm level and thinking in terms of systemic risk that the organization might face. In terms of data collection, many LPs rely on the **SASB** materiality index as a starting point, a framework which is applicable to both public, listed markets and private markets.

## Q: WHAT ADVICE DO YOU HAVE FOR LPS ONLY JUST BEGINNING THEIR ESG JOURNEY? WHAT SHOULD THE FIRST FEW STEPS LOOK LIKE?

The discussion is no longer "why should we discuss climate change?" Climate risk is a systemic financial risk which cannot be ignored. The discussion is now about how to understand this risk and integrate it into investment and portfolio construction decisions you make.



It is unrealistic today to expect all GPs to come up with every answer to the climate solutions LPs are looking for. LPs are looking for evidence that a manager is thinking about climate risks strategically, that there is a roadmap in place to address these risks and there is a willingness to make a course correction as things develop.

The **Task Force on Climate-related Financial Disclosures** (aka TCFD) was created by the Financial Stability Board to improve and increase reporting of climate-related financial information. [Click here](#) to learn more about the TCFD's recommendations.

The **Sustainable Accounting Standards Board** (aka SASB), now part of the Value Reporting Foundation, maintains a Materiality Map that helps investors identify and focus on financially material ESG issues. [Click here](#) to learn more about SASB's Materiality Map.

place, from board oversight to c-suite accountability, and ownership that extends to investment decision makers and portfolio managers. External consultants can also help with this.

Second, it is important to leverage the influence you have as an LP on the GPs and portfolio companies you work with. As an investor, you have a right to ask GPs how they frame up and think about climate risks all the way from sourcing the deal, to managing the investment and impact at exit. Do they have the right mindset? How disciplined are they in their approach - is this just for the fund they are raising capital for or is this approach ingrained in their systems? If you invest through an intermediary or fund of funds, is this mentality also ingrained in their approach?

What one can do first is assess what you have internally in-house and how quickly you can begin understanding and integrating these considerations into your own internal processes.

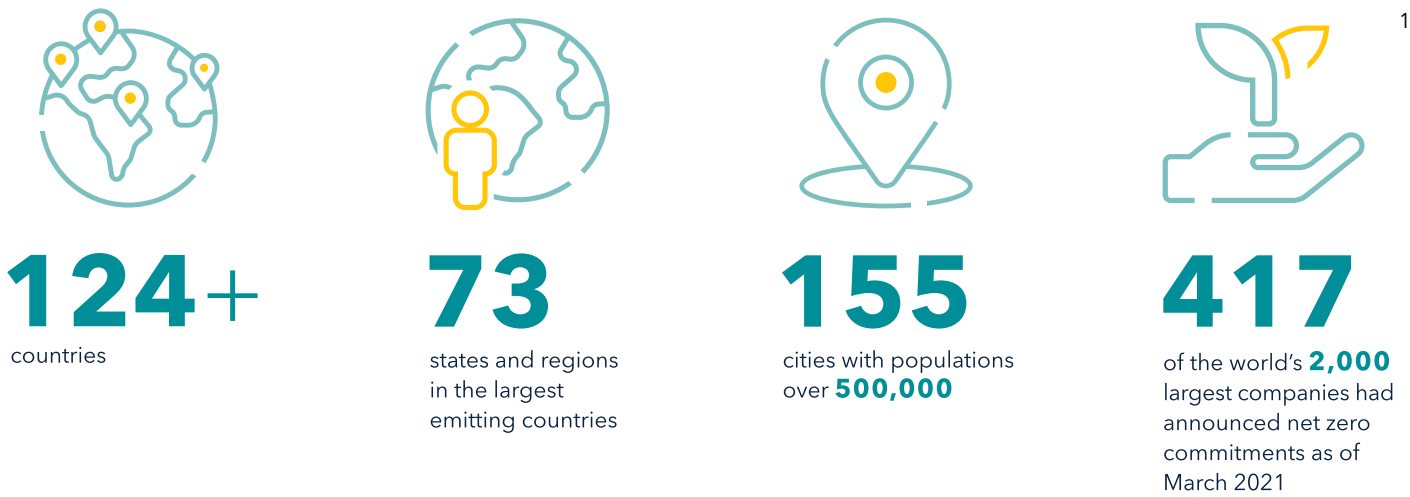
The first step here is making sure you have the right governance structure in

[CLICK HERE TO READ THE FULL REPORT](#)



TAKE ACTION - ESG

NET ZERO COMMITMENTS CONTINUE TO GROW



KEY PILLARS OF CERES PRIVATE EQUITY WORKING GROUP

**Net Zero Alignment:**  
approaches and considerations to commit to and execute short, mid and long-term emissions reduction targets.

**Risk Management:**  
getting deeper into climate risk assessment at the asset, fund and firm level

**Governance:**  
expectations, oversight and accountability for the board, c-suite and investment teams

**Investments and Impact:**  
approaches and methods to structure climate focused investments, and measuring the impacts of such investments on the environment and society

**Portfolio Company Engagement:**  
what information should investors gather from portfolio companies that is meaningful, auditable and comparable and how can they most effectively collect/report this information to LPs

**Policy and Advocacy:**  
areas to effectively advocate for more robust, transparent, mandatory reporting in private markets and climate policies that will help mitigate greenhouse gas emissions

Opportunity for Interested ILPA Members

Ceres’ Private Equity Working Group supports both LPs and GPs to transition private equity portfolios towards a sustainable net zero economy. Ceres facilitates monthly sessions with LPs and GPs to co-create and support with the latest climate-centric and sustainable investment practices, policies and frameworks.

To learn more about and join the working group, please email Natalie Queathem at [nqueathem@ceres.org](mailto:nqueathem@ceres.org).

<sup>1</sup> Ceres. The Changing Climate for Private Equity. Page 13.

TAKE ACTION - ESG

CERES’ RECOMMENDATIONS FOR LIMITED PARTNERS<sup>1</sup>

Governance, Internal Resourcing and Goal Setting	Climate Risk Assessment, Investment Management and Disclosure	Advocacy and Partnerships
<p>Leverage evolving net zero investment frameworks, industry initiatives, guidance and tools when defining net zero ambitions, goals, interim targets, investment strategy, and the actions required to realize a strategy aligned with the goals of the Paris Agreement.</p> <p>As an integral part of ESG/ responsible investment frameworks, develop specific, climate-related governance mechanisms for private equity investments such as expectations, oversight, and accountability for the board, senior management and investment teams.</p> <p>Build in-house climate risk competency and capacity and equip the board, senior management and investment teams with an informed understanding of climate risk and the different pathways that promote a just and equitable low carbon transition.</p> <p>Create an internal committee comprised of ESG specialists and private equity investment teams to foster coordination and collaboration and leverage their unique insights and expertise in ways that help to assess and manage climate-related risks and opportunities.</p> <p>Foster relationships with best-in-class consultants, advisors and investment partners who offer deep climate-related expertise and services.</p>	<p>Include climate-related risks and opportunities as integral considerations in all forms of investment planning and analysis.</p> <p>Use GP engagement opportunities to gain a better line of sight over the climate-related risk and opportunity profiles of investment allocations.</p> <p>Enhance transparency efforts by publishing a TCFD report that specifically highlights climate-related risks and engagement efforts associated with private equity investments.</p> <p>Increase engagement of and disclosure expectations for GPs by increasing the frequency, consistency and sophistication of LP climate-related queries and information requests.</p> <p>Develop processes so that climate-related information requests made to GPs are in a consistent format, align with current standards and include metric definitions.</p>	<p>Advocate for policies that support mandatory climate reporting and a just and a fair transition, and that promote innovation in the specific sectors critical to climate risk mitigation.</p> <p>Partner and participate in private equity working groups, alliances and/or initiatives that support the transition towards a net zero economy.</p> <p>Help develop industry and investor network collaboration and engagement to shape net zero investment frameworks, tools and implementation guides that will support practical and measurable progress across private markets.</p>

Learn More About Ceres’ Investor Network

Comprised of North America’s 195 leading institutional investors, with a collective AUM totaling 37 trillion USD, Ceres’ Investor Network members engage and collaborate on environmental, social and governance issues to advance leading investment practices, corporate engagement strategies and policy solutions through working groups and shared learning opportunities, such as webinars and events. For more information, visit [Ceres’ Investor Network](#).



<sup>1</sup> Ceres. The Changing Climate for Private Equity Report. Page 45

# Top of Mind for LPs

## 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. Over the last two years, ILPA has conducted over 300 LP Insights conversations, leveraging those exchanges to generate actionable research for the exclusive use of the ILPA membership.



### Members who raised Fund Terms most often mentioned:

- Key person clauses
- Fiduciary duty
- Subscription lines of credit
- Conflicts of interest
- Investment restrictions

ILPA's [2020 Industry Intelligence Report on Fund Terms](#) provides insight into what is 'market' with respect to negotiations around private market fund terms. The 2021 *ILPA Industry Intelligence Report on Fund Terms* will be released in the coming months and stay tuned for the Q4 issue of *ILPA Private Markets Edge* where this will feature as the lead topic.

### Members who raised Commitment Size and Pacing most often mentioned:

- Pace of fundraising
- Cashflow modeling
- Re-up decisions
- Core vs. non-core manages
- Manager concentration

[The ILPA Institute Portfolio Construction](#) course provides participants with an understanding of how to construct a successful private equity program including considerations around optimal manager footprint.

## TOP OF MIND FOR LPS

# Inflation: What LPs Should Know

Major indicators suggest that inflation, which has been largely absent in recent years, is approaching levels that have not been seen in over a decade. Institutional investors, who have not had to grapple with inflation's knock-on effects, are left wondering, should they worry?

### INFLATION INDICATORS PAINT A MIXED PICTURE:

- The U.S. CPI-U increased 0.6% in May, 0.9% in June and 0.5% in July
- June's figure is the largest one-month CPI increase since June 2008, but July's inflationary figure is the largest one-month drop in 15-months, suggesting that inflation could have peaked
- Still, CPI over the most recent 12 months through July has advanced 5.4%<sup>1</sup>

While some economists see inflation as a short-term phenomenon, others believe the current indicators are markers of a trend that will persist later in the decade. ILPA discussed inflation with several expert economists to explain their view that inflation is transitory or structural and most importantly - what it means for LPs.

### ARGUMENTS IN FAVOR OF INFLATION AS TRANSITORY

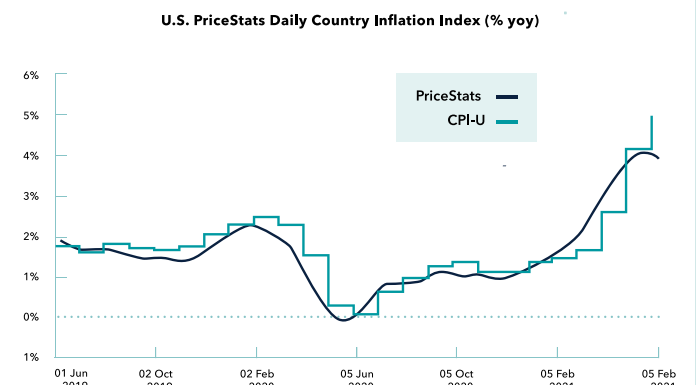
Many point to the COVID-19 pandemic shock and rapid economic restart as the driver behind temporary inflationary pressures. The pandemic didn't cause a shock to demand like a recession, but it did lead to shortfalls in supply and demand.

The current economic restart has been swift and vigorous and is believed to be powered by pent up demand and high excess savings, in part fueled by government stimulus. Simultaneous disruptions to global supply chains and rising fuel costs have added to inflationary pressures.

State Street-PriceStats' Out of Stock Series which measures the average percentage of items listed as 'out of stock' across multiple retailers for key economies suggests that these supply chain disruptions may be abating. The drop in inflation in July is also suggestive of the easing in supply chain disruptions.

In short, those who argue inflation will be transitory believe that as government stimulus winds down and supply chains return to normal, inflationary pressures will subside.

### WHAT EXPLAINS THE RISE OF U.S. INFLATION?



<sup>1</sup> [Fred. Consumer Price Index for All Urban Consumers.](#)



TOP OF MIND FOR LPS

# Inflation: What LPs Should Know

CONTINUED

ARGUMENTS IN FAVOR OF INFLATION AS STRUCTURAL

Those who believe inflation is here to stay look to long-term demographic changes among major global economic powers as the driver of persistent inflation that is expected to last well into the 2020s.

Demographic factors that are altering the makeup of the labor force in major global economies include:

- In the U.S., the baby boomer generation is beginning to age out of the workforce and China similarly is facing an aging population;
- The effects of women entering the workforce have matured; and
- The Chinese and Indian economies have also matured

Analysis from Bain & Company's Macro Trends Group finds that in the coming decade, the population of those age 65 and older will grow faster than the working-age population in OECD countries for the first time.<sup>1</sup> Demographic aging in the U.S. will shift the balance of the working/saving population vs. the nonworking/spending population while reducing the growth of the U.S. labor force below 1% a year. Simply put, more people will be spending than saving – potentially creating a tailwind for inflation.

Finally, as more workers exit the labor force, businesses of all types are likely to face wage pressures and/or look for automation solutions if workers become more difficult or expensive to find.

WHAT DOES IT MEAN FOR LPS?

To potentially face a global inflationary environment for the first time since the 1990s, LPs should:

- Undertake a robust analysis of key metrics to monitor in an inflationary environment and the short and long-term implications for their private markets' portfolios
- Consider that GPs are preparing for an inflationary environment; many are assessing portfolio companies' pricing power, ability to scale, ability to deal with wage pressure and ability to reduce purchasing costs
- Begin to consider strategies that offer potential inflation-protection, such as certain real estate strategies or commodities

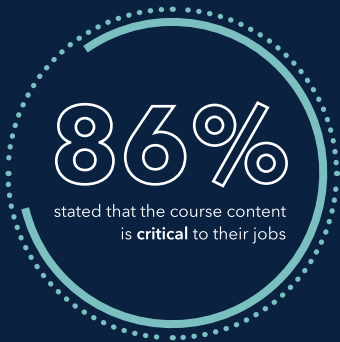
<sup>1</sup> Bain & Company. Labor 2030: The Collision of Demographics, Automation and Inequality.



# Executive Education and Development for LPs

Don't let your professional development funds go unused in 2021, check out the [ILPA Institute virtual offerings!](#) And mark your calendar, registration for 2022 ILPA Institute classes will be opening in September. ILPA will hold virtual classes throughout January and is planning to open live, in-person courses to members in early-February.

WHAT ARE VIRTUAL PARTICIPANTS SAYING?



HAVE YOU HEARD ABOUT ILPA'S NEW COURSES?

ILPA HAS ADDED FOUR NEW COURSES TO OUR CURRICULUM IN 2021

ESG Fundamentals

Part of ILPA's Introductory class series, helps participants understand how to launch and maintain an ESG program

**ILPA Institute Online anytime, anywhere learning**

Private Equity Co-Investing for the Limited Partner

Part of ILPA's Comprehensive class series, provides a unique opportunity for the professional seeking to deepen knowledge and skill across the areas essential to co-invest and direct investment success

**November 23, 2021**

(offered in European time zone)

**December 1 and 2, 2021**

(offered in Asia-Pacific time zone)

Integrating ESG Best Practices

Part of ILPA's Introductory class series, helps participants measure and evaluate the integration of ESG into their investment and organizations processes and includes guidance for due diligence and ESG monitoring

**ILPA Institute Online anytime, anywhere learning**

Essential Conversations in Private Equity

Part of ILPA's Advanced Practice class series, provides a unique opportunity for the professional seeking to deepen their communication skills

**November 17 - 18, 2021**

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## TOP OF MIND FOR LPS

# Highlights From ILPA MCON

ILPA held the 2021 Virtual Members' Conference June 2 - 4.

# 612

## PROFESSIONALS

registered for the LP-only event serving in a range of roles including leadership, accounting, legal and compliance, among others.

# 107

## ORGANIZATIONS

of all LP types were represented, and attendees hailed from 12 different countries.



Previous ILPA Board Chairs Neil Randall and Tanya Carmichael joined New Board Chair Alison Nankivell and ILPA CEO Steve Nelson for a discussion on ILPA's past, present and future

The agenda for Virtual MCON 2021 included a fireside chat with BlackRock regarding geopolitics and a roundtable on cashflow modeling. And, over three days, workshops covered topical issues including:

- Integrating DEI into investment strategy
- Investment opportunities for a post-Covid world
- The impact of SPACs on private equity
- Best practices for bringing front offices and back offices together
- Private investments in China
- The case for ESG in private equity

Replays can be found on the workshop pages on [ilpa.org](https://ilpa.org).

To the right are a few key takeaways and findings from the sessions.



## SAVE THE DATE! ILPA 2022 MCON

ILPA 2022 MCON will be held from June 7 - 9; we look forward to holding the event in person again. Be on the lookout for upcoming [ILPA events and webinars](#).

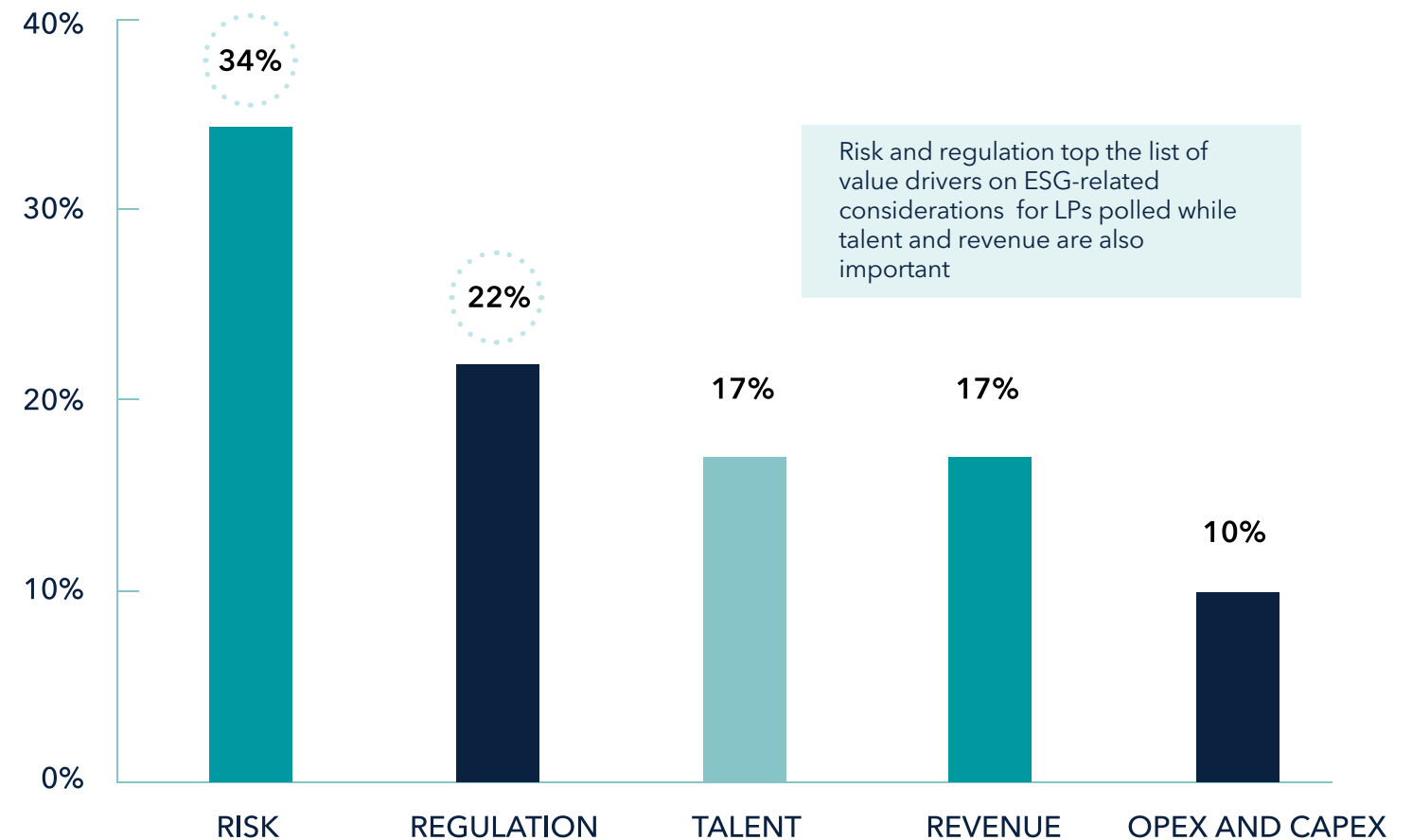
If you have any questions regarding MCON, please reach out to [events@ilpa.org](mailto:events@ilpa.org).

## TOP OF MIND FOR LPS

## MCON KEY FINDINGS

1

### WHICH AREAS DRIVE MOST VALUE FROM ESG? (PICK UP TO 3)



2

# 72%

of LPs polled are currently investing with emerging managers to better integrate DEI into their investment programs and portfolios

3

# 61%

of LPs polled have seen their GPs raise a SPAC; LPs should be proactive in discussions with GPs about their intentions to raise them

4

# 88%

of LPs polled will increase or hold steady their allocations to China, indicating that the market remains an attractive investment to LPs, but risks remain

# Policy Corner

Guided by ILPA’s Industry Affairs Committee and full Board of Directors, ILPA engages directly on live policy issues in accordance with our [Global Policy Priorities](#) to ensure the voice of LPs is heard in the corridors of power on issues impacting private funds.

## ILPA SHARES THE LP VIEW WITH THE SEC ON ESG AND CLIMATE

As ILPA continues to work internally on best practices initiatives in connection with our ESG agenda, the policy work has been moving forward at the SEC and in Congress. While much of this work has been focused on the public market, ILPA is positioning itself to be a resource to the SEC and other policymakers in the Biden Administration who are considering how to approach ESG reporting in the private fund space. On June 11, 2021, ILPA submitted a [comment letter](#) to the SEC outlining our views, and we continue to engage with SEC examination and rulemaking staff to ensure that they are aware of how ILPA members evaluate the materiality of ESG disclosures and what ESG reporting might be helpful to LPs. Our newly formed ESG Advisory Council will be critical to this engagement and will inform ILPA’s ability to explain the LP perspective to the SEC.

## ILPA ENGAGEMENT WITH THE SEC ON TRANSPARENCY AND GOVERNANCE

ILPA continues to engage with the SEC to encourage regulatory action on fee and expense transparency and fiduciary duty. After ILPA’s meeting with the new SEC Chairman in May 2021, Chairman Gary Gensler testified to the House Appropriations Subcommittee for Financial Services & General Government on May 26, 2021. In his written [testimony](#) and Q&A, Chairman Gensler highlighted the growth of the private fund industry and the need for continued and enhanced regulatory oversight by the SEC, indicating he had asked the staff for recommendations on “enhanced reporting and disclosure through Form ADV, Form PF and other possible reforms.” During Q&A with Congressman Pocan (D-WI) on the Committee, [Chairman Gensler identified fee and expense transparency](#) as a priority for additional disclosure and indicated his surprise that GPs were asking LPs to sign agreements effectively waiving the GP’s fiduciary duties.

These reforms have also been encouraged by other groups, indicating support beyond ILPA. On July 6, 2021, 15 progressive groups, individuals and labor unions, including the AFL-CIO, [submitted a letter](#) to the SEC calling for additional regulation for private fund advisers. While ILPA is not aligned with all of the group’s suggested priorities, we are supportive of some specific requests including improving fee transparency and fiduciary duty, and we are hopeful that the support of additional groups provides additional momentum behind these important priorities. ILPA will continue to engage and educate the SEC on these issues and their importance to investors and encourage them to act.

## ILPA MEMBER CALL TO ACTION

### Register for Virtual ILPA LCON October 13 – 14

Join your legal and compliance peers to discuss trending legal topics in the private equity industry.

### Register for Virtual ILPA Summit November 9 – 11

Attendees will enjoy one-on-one LP-GP meetings and hear from our guest speakers including SEC Chair Gary Gensler.

Visit [ilpa.org](https://ilpa.org) to register or reach out to [events@ilpa.org](mailto:events@ilpa.org) to learn more!

## NEW “PREMARKETING” RULES FOR PRIVATE FUND MANAGERS MARKETING FUNDS IN THE EU

On August 2, 2021 amendments to the AIFMD and new “premarketing” rules for private fund managers came into effect. The revisions to the AIFMD and the new rules were designed to harmonize the ability for private fund managers to market their funds across the EU.

The new rules effectively create a requirement for EU private fund managers, and some non EU-based managers (including those in the U.K.), who wish to use the AIFMD marketing passport and those who are currently using the AIFMD National Private Placement Regime to market funds in EU Member States.

**Implication for LPs:** Many EU-based LPs currently access funds by utilizing reverse solicitation. The new “premarketing” requirement may limit the ability to use reverse solicitation by a private fund manager for an 18-month period; a private fund manager will now be required to notify an EU Member State regulator when they first engage in “premarketing” and will therefore be “premarketing” to investors for the following 18 months after making the notification for that particular fund. For more information on the ramifications for investors, [see ILPA’s full policy briefing here](#).

# Get Involved

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

## WEIGH IN

- ILPA is seeking public comment on a revised [Due Diligence Questionnaire](#) and [Diversity Metrics Template](#). Visit our website to submit your feedback by September 24, 2021.
- [Diversity in Action Initiative](#): If your organization is dedicated to improving DEI, take a moment to review the [Diversity in Action FAQ](#) and consider becoming a signatory. To view the recent DIA report [click here](#) and to learn more about becoming a signatory contact [diversity@ilpa.org](mailto:diversity@ilpa.org).

## LEARN

### **Register for ILPA Institute Courses - All virtual in 2021!**

- [Private Credit for the LP](#): October 4-5
- [Portfolio Construction](#): October 6-7
- [Private Equity Co-Investing for the LP](#): October 21, November 23, December 1-2
- [Private Equity for the Trustee](#): October 26-27
- [Operational Due Diligence for the LP](#): November 3-4
- [Essential Conversations in Private Equity](#): November 17-18
- [Private Equity for the LP](#): December 1-2

### **[ILPA Institute Online: Now Offering Self-Paced, Asynchronous Courses](#)**

- [The Fundamentals of Private Equity](#)
- [The Economics of Private Equity](#)  
Save when you register for both courses!  
Check out the [ILPA Institute Online bundle option](#)
- [ESG Fundamentals](#)
- [Integrating ESG Best Practice](#)  
Save when you register for both courses!  
Check out the [ILPA Institute Online ESG bundle option](#)
- Bulk discounts are available for organizations who wish to purchase more than five seats for the online courses – contact [education@ilpa.org](mailto:education@ilpa.org) for more details

Contact the ILPA Institute at [education@ilpa.org](mailto:education@ilpa.org) for more information on the 2021 course calendar and early-bird deadlines and discounts.

## SHARE

Our [Member Directory](#) has recently been updated: [Log in](#) to search for members in a city you are planning to visit, or find like-minded professionals via the sectors, vehicles and geographies through which they invest. Don't forget to [update your own individual profile](#) to help your peers stay connected.

In addition to posting job opportunities, members are using [ILPA Connect](#) to post questions and share ideas around topical issues – and if you're interested in taking the conversation offline for a deeper discussion, just click on a member's name to continue over email.

## GATHER

### **Register:**

- [Virtual ILPA Private Equity Legal Conference](#): October 13-14
- [Virtual ILPA Summit](#): November 9-11

### **Save the Date:**

- ILPA Summit Europe: April 26-27

Contact the ILPA Events team at [events@ilpa.org](mailto:events@ilpa.org) for more information about ILPA's upcoming conferences, roundtables and summit events.