NCSL: Transparency in Public Pension Plans
August 10, 2016 - Chicago
ILPA’s Membership

Our 371 Member Organizations Manage >$1Tn in PE AUM
The Challenge: Pursuing Transparency in a Bull Market

SOME FACTS

- **Limited Partners** invest more than **$2.4 Trillion** into private equity, and allocations are rising—29% of ILPA’s members are under their target allocation to PE.

- ILPA members are investing across a **median 70 PE funds**, with a median $515m in unfunded commitments to active funds.

- This is **one of the healthiest private equity cycles in recent memory**. The “time to close” for new funds is at historical lows, with most funds easily hitting 10-20% above their hard target.

- For 62% of public pensions the “lack of reporting consistency hinders ability to monitor PE plan costs”

- Expectations around reporting are codified in the **Limited Partnership Agreement**, or established during the fund close.

- **52% of LPs** surveyed had requested that fund managers provided additional detail on costs on a one-off basis, or have begun using **customized templates**.
Interest in Reporting Has Increased for a Range of Reasons

Drivers of Organizational Interest in Reporting

- Media Attention
- Beneficiaries' Interest in Costs
- Organizational Interest in Costs
- Quality of Disclosures (i.e., LPA Compliance)
- Evaluations of Existing or Prospective Managers

“Current Cost Monitoring Policies are Capable of Finding Material Discrepancies”

Source: 2016 ILPA Members Survey on Fee & Expense Practices
Fragmented Information Flows Add to Complexity…

Diagram:
- General Partner
- Limited Partner
- Administrator

Flow of information:
- LP Organization’s Server → Excel Conversion
- Capital Account Portfolio Company Cash Flow
- End User
- Aztec Server
- Upload Tool
- Btrent
…Compounded by Variations in Data Received & Tracked

## Accounting Information Currently Tracked to Monitor PE Costs

<table>
<thead>
<tr>
<th>Region</th>
<th>Gross Management Fees</th>
<th>Net Management Fees</th>
<th>Offsets to Gross Management Fees, Combined</th>
<th>Fund Partnership Expenses</th>
<th>Paid and/or Accrued Carry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>76%</td>
<td>76%</td>
<td>47%</td>
<td>65%</td>
<td>76%</td>
</tr>
<tr>
<td>Europe</td>
<td>76%</td>
<td>76%</td>
<td>42%</td>
<td>70%</td>
<td>73%</td>
</tr>
<tr>
<td>Other</td>
<td>93%</td>
<td>64%</td>
<td>36%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>US</td>
<td>70%</td>
<td>87%</td>
<td>47%</td>
<td>58%</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: 2016 ILPA Members Survey on Fee & Expense Practices
Cutting Through the Noise: ILPA Reporting Template

### Standardize GP Disclosure of Fee Activity

#### Analyze & Aggregate
- LP investment costs
- Economics paid to the management company (incl. non-arms-length transactions)

#### Establishes Standard Format for Disclosing:
- Management fees
- Fund expenses
- Carried interest
- Fees charged to portfolio companies
- GP revenue collected via related parties

#### Developed in Consultation with Over:
- 50 LP organizations
- 25 GP organizations
- 10 trade associations
- 20 sample templates
Beyond the Template – Additional Recommendations on Disclosure

**Reporting Template**
- Quarterly frequency
- Itemized fee offsets
- Fees to portfolio companies not offset
- Paid and Accrued Carried Interest
- Detail on Revenue via related parties
- Partnership expenses breakdowns

**LPA Compliance White Paper**
- Access to and Explanation of Regulatory Examinations
- Expanded scope of fund audits and Enhanced LP Access findings
- Discretion to conduct 3rd Party LPA Compliance reviews if/when Necessary

**Additional Guidance on Disclosures in ILPA Principles**
- Level of disclosure on fees, offsets, carried interest, portfolio company fees
- Compliance and other disclosures to LPs: SEC exams and findings, co-investment policy and secondaries transactions, books and records and information rights
Adoption Update: Strong Prospects for LP Integration

To LPs: Are you using the ILPA Reporting Template?

December 2015
- 27% We plan to use ILPA template
- 73% Unsure

February 2016
- 45% Yes, without modification
- 44% Yes, through reporting software
- 6% Yes, by amending current template
- 5% Not sure yet

July 2016
- 58% Yes, currently requesting
- 27% Yes, planning to request
- 12% Unsure, considering implementation
- 3% No, We do not plan to use it

ILPA Survey Dec 2015
ILPA Feb 23 2016 Webcast
ILPA July 21 2016 Webcast
Adoption Update: Managers Are Coming On Line

More than One Half of GPs on Track to Produce Template Data Beginning 2017

- Yes, most GPs we've asked have provided the data, or agreed to begin providing
- Not yet, but we expect they'll provide it starting in 2017
- No, we have requested it but we're not sure when we'll begin receiving the data
- No, and we haven't requested it
68 Organizations Are Officially Deploying the ILPA Template*

Endorsing Organizations as of 8/8/2016

**CONSULTANTS**
- Albourne
- Cambridge Associates
- Capital Analytics
- Conifer Financial Services
- eFront Financial Services
- PEA Accounting Insights
- SEI Investment Manager Services
- Torrey Cove
- Upwelling Capital

**STATE TREASURIES**
- Illinois State Treasurer's Office
- National Association of State Treasurers
- Washington State Treasurers' Office

**LIMITED PARTNERS**
- Alberta Teachers' Retirement Fund
- AP2
- APG | Asset Management US Inc.
- BBC Pension Scheme
- Bonanza Oil Company
- CalPERS
- CalSTRS
- Canada Pension Plan Investment Board (CPPIB)
- Canadian Medical Protective Association (CMPA)
- Chicago Teachers’ Pension Fund
- Colorado PERA
- Commonwealth of Pennsylvania, Public School Employees' Retirement System
- District of Columbia Retirement Board
- Federation of the Dutch Pension Funds (Pensioenfederatie)
- Florida SBA
- Halifax Regional Municipality Master Trust
- Iowa Public Employees' Retirement System
- Kentucky Retirement Systems
- M&G Private Funds Investment
- Maryland State Retirement and Pension System
- Met Life
- Minnesota State Board of Investment
- Missouri State Employee's Retirement System (MOSERS)
- Montana Board of Investments
- Municipal Employees Retirement System of Michigan
- New Mexico Educational Retirement Board (NMERB)
- New York State Common Retirement Fund
- New York State Teachers' Retirement System
- Ohio PERS
- Ohio SERS
- Ontario Pension Board (OPB)
- Ontario Teachers' Pension Plan
- Oregon State Treasury
- PenSam
- Pensionskassernes Administration A/S (PKA)
- PGGM Investments
- Sacramento County Employees’ Retirement System
- Sampension KP Livsforsikring a/s
- San Diego County Employees Retirement Association (SDCERA)
- South Carolina Retirement System Investment Commission
- SPF Beheer
- State of Rhode Island
- State of Wisconsin Investment Board
- State Teachers Retirement System of Ohio
- Teacher Retirement System of Texas (TRS)
- Texas Permanent School Fund
- The Connecticut Retirement Plans and Trust Funds
- USS Investment Management Limited
- Utah Retirement Systems
- Virginia 529
- Washington State Investment Board

**FUNDS OF FUNDS**
- Pathway Capital Management

**GENERAL PARTNERS**
- Carlyle
- TPG
- Silver Lake
  *(Several more to be announced in late August)*

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* ILPA Reporting Template on Fees, Expenses and Carried Interest, released January 29, 2016.
Considerations around Mandated Disclosure

- GP Access for Certain LPs with “burdensome” requirements
- GP Compliance – Smaller and Emerging Managers, Secondaries
- Accuracy of Provided Data – Questions around Scope of Fund Audit
- LPA Negotiation Processes
- LP Systems Integration
- LP Information Usage
- FOIA and Public Disclosures
Key Takeaways

1. The ILPA Reporting Template marks a step change in the transparency and quality of information provided to LPs

2. As more GP organizations configure themselves to produce this data, and LP organizations to request, receive and analyze it, we will know better the impact of transparency on costs and compliance…

3. …But we are early days yet! Piling on with newly mandated requirements will add compliance risk and potentially disadvantage some LPs

Bottom Line: New industry reporting standards—and the larger pull towards greater transparency—must be given the chance to take root.