UK Investment Performance Committee (UKIPC)
Response to
GIPS Exposure Draft Guidance Statement on Private Equity

1 About the UKIPC

The UK Investment Performance Committee (UKIPC) is the UK national sponsor for the Global Investment Performance Standards (GIPS). It brings together representatives of asset owners, advisors, managers, verifiers, measurers, analysts and other parties with an interest in the continuing development and promotion of transparent, consistent and ethical investment measurement performance standards.

We are grateful to the CFA Institute and the volunteers on the various GIPS committees, subcommittees and working groups for their work in updating the GIPS Guidance Statements in line with the 2010 version of the GIPS. We welcome the opportunity to comment on the Exposure Draft Guidance Statement on Private Equity.

2 Response

2.1 We fully support the GIPS' aim of consistent investment performance reporting by private equity firms to their prospective investors. The draft guidance is, on the whole, clear and should be implementable by most general partnerships. We nevertheless feel that:

- further details or examples would be helpful for fund of funds and secondary funds (Question 1);
- the discussion of how evergreen funds interact with the standards is confusing and would benefit from examples (Question 2); and
- further clarification is required on certain aspects of calculation methodology (Question 3).

We also make some more general comments. Otherwise, we feel that the guidance – and specifically that on which the exposure draft seeks comment in Questions 4-6 – is clear and easy to understand.

2.2 *Question 1. Are the descriptions of the private equity industry and vehicles clear enough to distinguish private equity from other asset classes? Is it clear in which instances the private equity provisions apply?*

We believe that private equity is fairly well defined as an asset class in the text, subject to two caveats:

- the difference between close-end funds and close-end limited partnerships should be more closely defined – it is not immediately clear at what level the guidelines are meant to catch private equity. In particular, it is unclear whether one needs to report according to GIPS standards at both levels.

- the section on secondaries (page 2) appears inconsistent. Secondaries are referred to as being structured as either funds of funds or primary funds. It is unclear whether this means that secondaries that invest into the secondary company market are included, as these funds are only referred to as investing in secondary positions in existing funds. But the reference to primary-structured secondary funds seems to imply that they can invest into companies. Further explanation would be helpful.

2.3 *Question 2. The private equity provisions can be applied to special cases of evergreen funds of funds. Do you agree with the characteristics? Is it clear how firms would comply with these provisions?*

The description of how evergreen funds interact with the GIPS Standards (pages 5-6) is quite confusing. We feel that some examples would help understanding.

2.4 *Question 3. Is the detail on the IRR calculation and other required metrics adequate? If not, what additional information would be helpful?*

Our comments on the internal rate of return (IIR) calculation and other required metrics are as follows:

- *Direct investments and co-investments*. The exposure draft states that if a composite includes any non-fee paying portfolios the firm must show, for each period presented, the percentage of the composite that is comprised of none-fee paying portfolios. Clarification is needed on how the percentage should be calculated – for example, whether by amount invested or by portfolio values.

- *Funds that are less than a year old*. The exposure draft states that unannualised IRR should be used for funds that are less than a year old. As most firms use the XIRR function in Excel which automatically calculates annualised IRRs, an explanation of how to calculate unannualised IRRs for funds less than a year old would be helpful (for example, compounded daily IRRs).

- *Cases where no solutions are available for SI-IRR calculations*. There are cases where no solutions are available for SI-IRR calculations. Guidance is needed on what firms should do in such a case.

- *Fund of funds composites that include direct investments*. Some examples would be helpful for presenting fund of funds composites that include direct investments.

2.5 *Other comments*

We would make the following further comments:

- *Portfolio Company Considerations (page 7)*. The reference on page 7 to differing valuations of the same company by different private equity firms (for example, in a syndicated deal) is crucial. This is an area where guidance could be usefully offered. The current situation of differing valuations is problematic and counter-productive to public perception of the industry.

- *Captive funds (page 5)*. It is unclear why the GIPS standards should apply to closed end captive funds. It could be argued that their parent should decide how their performance is reported.

- *Fund of fund composites: investment management fees (paragraph 7.B.5, page 22)*. We are unsure why the mandatory action on aggregate investment type data for fund of funds is gross of fees. We feel that it would make more sense for there to be an option of reporting this gross or net.

- *Structure of guidance – compulsory action at a later date (pages 21-23)*. In terms of structure, we wonder if it might make more sense for the optional recommendations presented on pages 21-23 that refer to an issue where compulsory action must be taken from a later date to be folded into the section where the compulsory action is mandated (for example, 7.B.1 – which recommends that private equity investments should be valued quarterly – could be included in the section that says that they must be valued at least annually).

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