



INTRALINKS®

Improving the K-I Statement Process:

*Best Practices for Bringing Efficiency,
Speed and Security to Your K-I Process*



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How Much Does Your K-1 Process Cost?

- Assuming 500 K-1 statements to be prepared and mailed
- **Ten minutes** to split the master document, create and print each individual statement
- **Five minutes** to put together each package (print labels, stuff envelopes, affix labels to envelopes, and transport the envelopes to the mail carrier)
- FedEx, UPS or courier service with signature required = $\$12 \times 500 = \mathbf{\$6,000}$
- $500 \times 15 \text{ minutes} = 125 \text{ man hours} \times \$42 \text{ an hour} = \mathbf{\$5,250}$

Total cost for a single mailing = \$11,250

“We have 10 funds with between 200–300 LPs per fund. I spend about 30 minutes per fund to verify my data, split the PDFs into individual statements using IntraLinks’ FileSplit and then upload the statements to IntraLinks. I can usually have all our funds’ K-1s created and sent out in a day.”

— K.R., Limited Partner Information Coordinator, Private Equity Investment Firm with \$16B in capital

With the start of each new year private equity firms heave a collective sigh as tax season, and the arduous task of generating K-1 statements begins. The hustle to prepare and send hundreds of individual statements is often slowed by the use of manual and paper-based methods to create and distribute these documents.

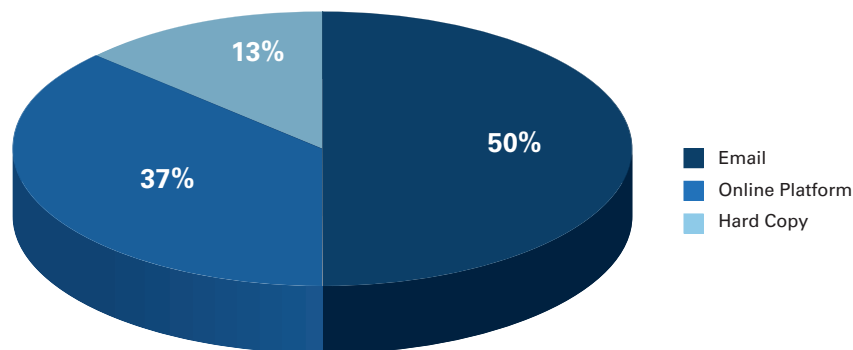
For private equity firms sending hard copies to clients, the K-1 statement process can take weeks, if not months, to complete, and generate a hefty price tag in in-house labor, materials and postage. Many firms have begun outsourcing the process. While this does relieve staff from having to manage the mailing internally, outsourcing services typically add more time and cost to get the statements in the mail.

Various firms have turned to email as a faster and less costly distribution method. However, a wave of new regulations and rules directed towards protecting investors and the confidentiality of their personal information has singled out the use of email, and many fund-run websites, as unsecure distribution methods.

A global survey of institutional investors conducted by Preqin in June 2010 showed that 13% of investors currently receive hard copy statements from private equity firms, while half indicated they receive reports via email.

How Investors Receive Reports

n = 164



As well as being labor intensive, manual distribution processes such as emailing and stuffing envelopes are vulnerable to human error. In fact, the Preqin survey found that over 37% of investors surveyed have been sent someone else’s capital call, statement or tax document.

Consequences of late or inaccurate statements are varied and far reaching and can include:

- Breaching the fund’s LP Agreement as a result of a late K-1
- Damaged relations between the fund and the investor
- Having to deploy staff to rectify mistakes; time which could be better spent servicing investors

Today, private equity firms have access to proven technology solutions, such as an online communications platform, which make the entire K-1 statement process faster, more effective and secure. Such solutions also provide added benefits of streamlining internal operations, improving investor satisfaction and supporting investor retention efforts. This paper outlines a set of best practices for the use of an online communications portal to improve the efficiency, speed and security of the K-1 statement process.

Best Practice #1: Save Time, Money and Effort by Automating Your K-I Process.

Splitting a single master document into multiple, investor-specific statements is a resource and time-intensive process. For statements delivered in hardcopy format, firms absorb the time and cost to print, assemble and mail. If these documents are not accurate and on-time firms put themselves at risk of degrading their relationships with clients and breaching the funds limited partnership agreement.

Solutions on the market, such as IntraLinks, provide functionality to automate the time-consuming task of splitting a single PDF document into many investor-specific reports. Firms can create and distribute hundreds of personalized documents in minutes — a task that often takes hours using in-house resources or other software products. Furthermore, use of an online communications platform can accelerate the distribution of K-1 statements and eliminate costly and inefficient paper-based methods. A process that typically takes weeks to complete can be performed in a day using the right technology solution.

In addition, an online platform enables investors to securely access their K-1 statements anytime, anywhere, through a standard web browser as soon as they become available. Users are typically sent an alert via email or pager notifying them that their statement has been posted. Solutions, such as IntraLinks, also provide secure access to documents through popular mobile devices.

Best Practice #2: Safeguard Investor Information and Eliminate Incidences of Human Error.

The process of attaching files to emails or stuffing hundreds of envelopes is prone to human error. People lose focus when doing a repetitive task over an extended period of time. Instances whereby statements are sent to the incorrect recipients degrade investor trust and cause the firm to have issues with violating privacy.

While email is the fastest and most convenient of the traditional distribution methods, most users don't consider the hazards associated with it such as choosing the wrong recipient from a pick list or misspelling the recipient's address. And because K-1s contain personal information (social security number, account number, name) that can be used for identity theft, a wave of new regulations and rules are being imposed to protect investors and the confidentiality of their personal information. These include the European Union's Directive on Alternative Investment Fund Managers, Securities Exchange Commission rule 17-g and the Massachusetts Privacy Law.

The Massachusetts Privacy Law, which went to effect on March 1, 2010, requires all firms to encrypt any document that contains personal information for an investor who resides in the Massachusetts region. Documents, such as statements and K-1s, must be encrypted while they sit on a firm's server and while in transit. Contravention of this law will result in the firm being fined \$5,000 for each individual affected by the breach.

Most firm-operated websites and email do not provide the necessary safeguards to comply with this mandate. Distribution through an online communications platform is the only way to ensure that confidential documents are viewed only by the intended recipient. In addition, online platform providers, such as IntraLinks, provide 256-bit AES encryption to protect an investor's personal information and safeguard them from identity theft. The use of two-factor authentication also makes it extremely difficult for even sophisticated hackers to access an investor's personal data.

“Before we started using IntraLinks we outsourced the K-I process to an accounting firm. Getting the statements out would typically take two months. Today, we manage the process in-house with IntraLinks and it takes us 3-5 days to create, distribute and notify our investors about their K-1s.”

— R.G., Investor Relations Manager, Private Equity & Real Estate Firm

“With IntraLinks I'm not sending anything sensitive, just an alert letting our investors know their statements are ready. They control who sees their information, like their analyst or accountant. Investors give me a list of who they would like to give permission to access their K-I folder and then I set them up in the system in a matter of minutes.”

— K.D., Financial Operations Analyst, Private Equity Firm

“Once the statements are uploaded an alert gets sent to all the investors notifying them that their statement is ready. It’s very rare that I have someone who has an issue using the system.”

—K.R., Limited Partner
Information Coordinator,
Private Equity Investment Firm
with \$16B in capital

“A lot of times when you send a K-1 to an investor they want it sent to their accountant or they lose it and need you send them another copy. With IntraLinks we don’t have to worry about those requests. Our investors love having direct access to their reports and having the ability to easily share that information with their analysts and brokers.”

— R.G., Investor Relations
Manager, Private Equity &
Real Estate Firm

Best Practice #3: Improve Compliance by Verifying If and When Investors View Their Statement.

To manage liquidity and legal requirements, private equity firms need to know that K-1 statements have been received and viewed by their named recipients — something a manual process cannot support. Many companies no longer provide bounce back notifications to foil spammers, so confirming receipt of a K-1 statement would require a follow up email or phone call, which negates the convenience of email altogether. Whereby with documents sent via courier or next-day delivery service concerns exist around the inability to confirm receipt in large buildings where a central receiving room often signs for all deliveries, and then packages are distributed at a few set times throughout the day. In addition, most fund-run websites have no way of ascertaining when an investor has viewed posted documentation.

With an online platform the statement is uploaded to the investor’s individual folder. The investor receives an email alert that a document is ready to be viewed and then logs-in to view and manage the statement. Firms are provided with a detailed, complete and accurate record of when a K-1 statement was received and viewed, enabling funds to maintain an auditable record that they met their contractual obligation.

Best Practice #4: Improve Retention Efforts by Enabling Investors to Easily Access and Manage Their Own Statements.

For a number of years, an increasing number of LPs have begun to consolidate their private equity portfolios and opted to reduce the number of GP relationships they maintain. In this competitive environment, it is more important than ever for firms to improve their processes to align with the needs of their investors.

For this reason, the use of online communications platforms to manage investor communications is gaining in popularity among both private equity firms and institutional investors. The Preqin survey revealed that while 37% of respondents currently receive their statements through an online platform, 56% would prefer using a portal to receive statements and reports. Additionally, 69% of investors consider an online platform to be the best way to manage and view historical data, eliminating the need for them to search through old email items to gather such information.

Currently, when investors lose statements or want copies forward to their accountants they turn to the private equity firm with their requests. This adds unnecessary work and expense to an already resource strapped department. Use of an online communications platform enables investors to manage their own statements, both current and past, as well as provide access to their accountants, advisors, tax consultants, etc.

It is important to note that while investors are asking for online solutions to manage their fund-related documents, they do not want to be inconvenienced by having to visit multiple fund-run website and maintain multiple IDs to access all their reports. According to the Preqin survey, 83% of investors surveyed stated that they either agree or strongly agree that this is inconvenient for them. Investors would prefer to go to one site and have one ID to access reports from multiple funds.

Tasking an online communications platform hosted by a 3rd party that is already widely recognized and used makes this possible. A company such as IntraLinks already supports an investor community of 73,000 individuals, including personnel at 68 of 75 largest institutional investors. This allows, for example, a large pension to view every investment they have across all their different money management accounts. Due to the convenience and ease-of-use of online communications platform, many investors are considering it a “must have” when evaluating whether or not to continue a GP relationship.

Best Practice #5: Make Your Internal Process for Storing and Managing K-1 Statements More Efficient and Effective.

Most private equity firms don't have a structured process for retaining their documentation. As a result, if a statement needs to be resent to an investor, or additional copies sent to their accountants and lawyers, it can be a frustrating and time consuming endeavor to locate and re-email, or reprint and send overnight.

An online communications platform can provide firms with an effective, well-organized environment for managing K-1 statements, both current and past, as well as all investor specific communications. With a tool such as IntraLinks Designer the platform can be created and managed using a familiar Windows® Explorer-like interface. Individual documents and complete folder structures can be quickly bulk uploaded to the portal. IntraLinks Designer also makes it easy to add or delete users across multiple funds with the click of the mouse. Adding users; setting document and folder-level permissions; and sending alerts to investors can be accomplished with a straight-forward set-up wizard and an Excel spreadsheet.

Conclusion

An online communications platform is the only distribution medium to meet all the criteria for establishing an efficient, secure and investor-friendly reporting program. Online communications platforms enable private equity firms to quickly and accurately create and distribute K-1 statements, largely eliminating the possibility of embarrassing and costly errors that could impact the relationship between the firm and its investors. In today's highly competitive market, and with many investors having less capital available to commit than in previous years, it is vitally important that firms are providing their investors with both strong returns and a high level of service. Employing a more time-efficient, less labor-intensive distribution system gives fund managers more time to spend servicing their investors and improving relations.

“Our investors have accounts with several firms. IntraLinks gives them the benefit of seeing all their investments in one place without having to access individual firms’ share drives and manage numerous user names and passwords.”

— P.K., Controller,
Global Private Equity Firm

“We find ourselves using IntraLinks to locate investor information rather than our shared drives. It’s better organized and we know that documents on IntraLinks are the final copies that were sent to investors. So we know that what we’re looking at is what the investor received.”

— S.K., Controller,
Global Private Equity Firm



The IntraLinks Advantage

For more than a decade, IntraLinks has been providing a secure, online environment where private equity firms can raise funds, manage deal files and report to investors. In fact, more than 1 million users around the world rely on IntraLinks, including 16 of the top 30 private equity firms. An investor community of 73,000 individuals, including personnel at 68 of 75 largest institutional investors, already have an IntraLinks log-on, know how to use our communications platform and have made it part of their workflow.

To learn more about how IntraLinks can improve the efficiency, speed and security of your K1 statement creation and distribution process, visit www.intralinks.com or contact us at:

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The IntraLinks Advantage

IntraLinks® provides enterprise-class solutions, which facilitate the secure, compliant and auditable exchange of critical information, collaboration and workflow management inside and outside the enterprise. Our on-demand solutions help you organize, manage, share and track information, enabling you to accelerate your workflow, optimize your business processes and realize new profit potential.

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