Establishing an Investor-Focused Reporting Program

Preqin and IntraLinks

June 2010

INTRALINKS®

preqin
Private Equity • Real Estate • Hedge Funds • Infrastructure

Establishing an Investor-Focused Reporting Program

In the current market environment it is more important than ever that private equity companies establish good relationships with investors and ensure that the services provided meet their needs. One simple way in which a private equity firm can enhance investor services is to develop a more efficient and client-friendly method of reporting to investors.

In June 2010 Preqin and IntraLinks conducted a study of institutional investors to provide private equity firms with an insight into investors' experiences and preferences for accessing, receiving and managing fund documentation. Of the 164 global investors surveyed as part of the study, 73% have more than $200 million currently invested in private equity. This report will analyze the survey results and explore the ways in which private equity firms can better align services with investor requirements in the context of the current private equity market.

The Current Private Equity Environment

Over the course of 2010, more capital is gradually being made available for new investments. In June 2010, a Preqin survey of 100 prominent institutional investors in private equity found that 44% intend to commit more capital to funds in 2010 than they did in 2009 and a further 33% intend to commit the same amount. Investors are forecasting further increases in the amount of capital available for new fund commitments in 2011, with 39% of survey respondents predicting capital committed to funds in 2011 will exceed that committed in 2010 and an additional 49% anticipate committing the same level of capital.

Although the amount of capital investors have set aside for new private equity investments is on the increase, investors are continuing to approach new investments with an increased degree of caution in the current financial climate. Moreover, with 1,583 private equity funds on the road seeking commitments as of June 2010, compared to 1,508 in June 2008, institutions can afford to be highly selective in their investments. Consequently, competition for commitments among GPs is set to remain intense over the next couple of years.

The Investor Base of Private Equity Funds

Private equity funds are continuing to attract investment from a wide range of institutional investors as well as from high-net-worth individuals. This latter group of investors supplied an average of 21% of the capital committed to private equity funds that reached a final close during 2009, with institutional investors accounting for the remaining 79%.

Most prominent among institutional investors are public pension funds, which have remained a vital source of capital to private equity fund both prior to and throughout the financial crisis, supplying almost a quarter (24%) of the capital committed to private equity funds that closed in 2009. Some shifts have been seen in the typical investor make-up of closed funds in the past year: groups of investors that were hardest hit by the financial downturn, such as banks, and those without a natural income stream, like endowments, supplied a much smaller proportion of capital during 2009 than they had in the past, with many such institutions failing to make any further commitments to funds at all that year.

Private equity has remained a global industry and its investor base is no less diversified. While 58% of the capital committed to funds that closed during 2009 came from North American investors, European investors supplied a third of capital and investors from Asia and Rest of World provided the remaining 9%.

Investor Trends: Increased Investor Selectivity

For a number of years, growing numbers of LPs have sought to consolidate their private equity portfolios and have opted to reduce the number of GP relationships they maintain. This trend is continuing in 2010/11: 14% of respondents to Preqin's June 2010 survey of LPs intended to decrease the number of GP relationships they maintain over the next two years. Though a further 48% expect the number of GP they invest with to remain the same, a considerable 71% of the same sample intend to invest with managers they have not invested with previously in the coming year, suggesting that existing manager relationships will be discontinued to allow capital to be placed with other GPs.

Investors have become increasingly selective about which fund managers they choose to continue to invest with. When approached with new investment opportunities by existing GPs in their portfolios, more and more investors are putting these funds through the same stringent due diligence they conduct for all other funds. During 2010 and 2011, just 13% of investors that will be seeking to make new commitments during this time frame intend to accept all re-investment requests and 3% do not anticipate re-upping with any existing managers at all. 85% intend to selectively

choose from the range of opportunities presented to them by GPs they have previously invested with and consequently it is vital that GPs maintain good relationships with their existing LPs in order to retain their support in the future.

In this competitive environment, it is more important than ever that GPs are aware of what their LPs are looking for in order to improve their chances of retaining their support for future funds. One area that is drawing a lot of attention from investors at present is the reporting they receive from their GPs. The Institutional Limited Partners Association (ILPA) highlighted the transparency and reporting of information to LPs as an area that required improvement in its Private Equity Principles in 2009, drawing further attention to the often inadequate reports many LPs receive from their GPs. Many LPs feel such reports require improvement and 37% of European LPs recently expressed dissatisfaction with the quality of the reports they receive from their GPs. In the current environment, such a failure to meet LPs' expectations can severely reduce the likelihood of LPs choosing to re-invest with that manager or to increase the level of their investment with the firm. Consequently, providing investors with better reporting will be vital in retaining them as clients in the future.

Investor Reporting

With the institutional investor community currently scrutinizing both new opportunities and existing relationships with more attention than ever before, it is essential to maintain a good relationship with an existing client base in order to achieve both follow-on commitments and attract new commitments further down the line. Investor reporting is an important aspect of investor relations, with 37% of investors believing that this is an area that could be improved in a recent Preqin survey.

Reporting options include mailing hard copies to investors, emailing reports or posting them on a website operated and supported by the private equity firm. Alternatively, companies such as IntraLinks enable private equity firms to distribute reports to investors via online communication platforms.

In order to be considered effective, a reporting program should meet the following criteria:

1. **Investors must be able to access and manage their reports easily**

2. **Private equity firms must be able to distribute reports efficiently and accurately**

3. **Firms must be able to verify that investors have viewed time-sensitive documents**

4. **Confidential documents must be protected from being shared with unauthorized users**

In the following sections, the ways in which each objective can be achieved will be discussed, considering investor opinion acquired through the survey and the advantages and disadvantages of all reporting methods.

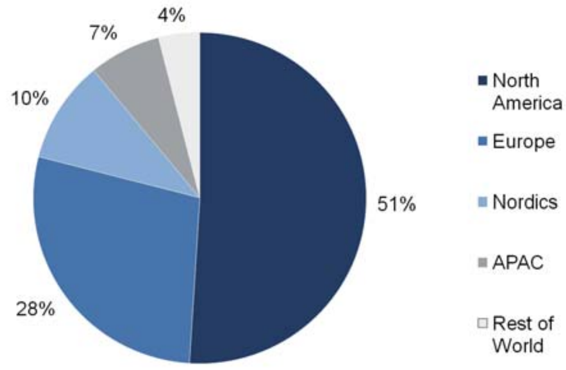
1. Investors must be able to access and manage their reports easily

Whichever system of reporting a private equity firm chooses, it must ensure that it enables investors to easily access and manage their reports.

Results of the survey were analyzed as a whole and also by investor location. Fig. 1 shows the breakdown of respondents by location.

The survey results suggest that investors are keen for better reporting systems from their private equity fund investments, with the method of report distribution being a key area in which improvements need to be made.

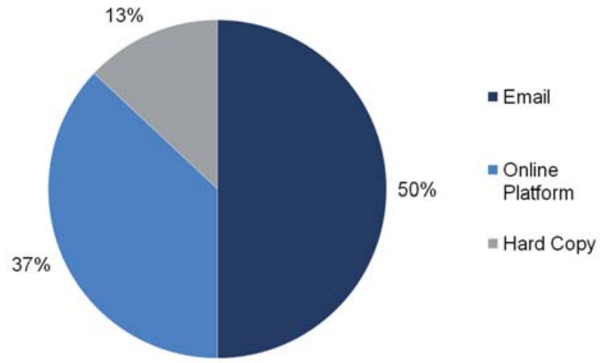
Fig. 1: Demographics of Surveyed Institutional Investors



> *...19% of European investors currently receive hard copies...*

Fig. 2 shows how all investors currently receive statements and other reports from private equity firms. The results of the survey reveal that current reporting processes are not matching investors preferences; only 1% of investors surveyed had a preference for hard copy reports, but at present 13% receive reports in this form. 50% are sent emails, while reports are distributed via an online platform to the remaining 37%.

Fig. 2: How Investors Receive Statements (All Investors Globally)



Regional Breakdown

When considered regionally, the results show an even poorer alignment of the reporting process with investors' needs.

a) Europe

Fig. 3 shows how European investors would like to receive their statements. 19% of European investors currently receive hard copies of their reports, yet not a single respondent stated that they favoured this distribution method. Over half of these investors stated that they would like to receive reports via an online platform, but at present, only 36% do.

b) Asia Pacific

64% of investors polled state a preference for statement distribution via an online platform, but fewer than half this number, 31%, receive them this way currently.

c) The United States

The US is the most developed market with the highest use of online platforms (42%) and the lowest use of hard copy mailings (11%).

Clearly investors do not want their statements mailed to them in hard copy form. One reason for this is that 61% of investors want to be able to access their reports from the road – something they cannot do with hard copy reports that are mailed to the office.

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 (Fig. 4). Investors have also made it clear that they do not want to have to go to multiple fund-run web sites and maintain multiple IDs to access all their reports. 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

Fig. 3: How European Investors Want to Receive Statements

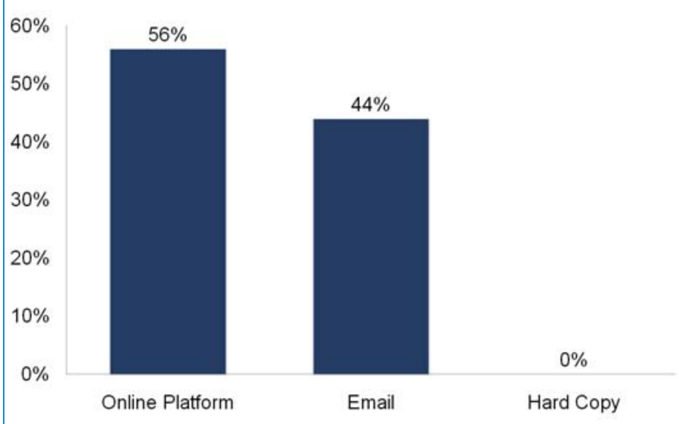
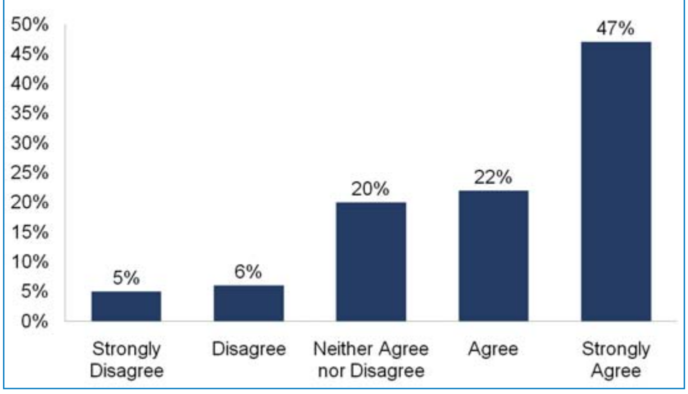


Fig. 4: Breakdown of Investors' Agreement with the Statement: "It is easier to manage and review statements from an earlier period with an online solution"



> ***...37% of investors surveyed have been sent somebody else's capital call, statement or tax document...***

and have one ID to access reports from multiple funds – this is only possible with an online communication platform run by a service provider such as IntraLinks.

2. Private equity firms must be able to create and distribute reports efficiently and accurately

Private equity firms can generate five to ten reports per fund annually and it can take two people two days to produce and distribute each report (assuming 150 investors). As well as being labour intensive, manual reporting processes such as emailing and stuffing envelopes are vulnerable to human error. In fact, over 37% of investors surveyed have been sent somebody else's capital call, statement or tax document.

Consequences of inaccurate reporting are varied and far-reaching and can include:

- **A prolonged capital call process resulting in delays in executing an investment opportunity**
- **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.**

The most error prone and time consuming part of the reporting process is splitting a master document of statements into hundreds of investor specific statements and attaching the right file to an email or stuffing the right piece of paper into an envelope. Automating this step of the reporting process greatly reduces human error and the risk of sending an investor someone else's statement. In short, creating and distributing reports from an online platform both diminishes the risk of error and cuts down on man hours spent preparing and sending documentation to investors by hand. Efficiently and accurately distributing reports frees the investor relations team to spend more time solidifying their relationship with investors.

3. Private equity firms must verify that investors viewed time-sensitive documents

Private equity firms which utilize email or the post office to distribute their reports, and those that operate websites, have no way of ascertaining when an investor has viewed distributed documentation. An online reporting solution has the advantage of allowing firms to track when their investors have viewed their capital calls and received K-1s, enabling them to seize attractive investment opportunities and meet their contractual obligations.

Preqin data shows that private equity firms currently hold over $1 trillion in dry powder, making it very much a seller's market. In order to take advantage of any investment opportunities that arise, private equity companies need to be able to call up commitments as quickly as possible. Verifying which investors viewed their capital call helps funds proactively monitor the capital call process and take advantage of attractive but transient investment opportunities. Additionally, verifying which investors received and viewed their K-1 helps a fund document that they meet their contractual obligation.

4. Confidential documents must be protected from being shared with unauthorized users

A wave of new regulations and rules are being imposed on the financial industry. These include the European Union's Directive on Alternative Investment Fund Managers, Securities Exchange Commission rule 17-g and the Massachusetts Privacy Law.

Protecting investors and the confidentiality of their personal information is a key aspect of these initiatives, for example in Massachusetts funds that do business with any investor must ensure that they protect investors' personal information in line with the Massachusetts Privacy Law. The law came into force on March 1 2010 and requires the encryption of personally identifiable information; that is a person's name in combination with their social security or account number. Any documents containing this information, 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. Online platforms routinely provide this security, most firm-operated websites do not and neither does email.

Summary of Findings

As the Preqin and IntraLinks study shows, investors prefer to receive their reports via an online platform.

An online platform is the only distribution medium to meet all the criteria for establishing an effective, investor-focused, reporting program. Online reporting platforms enable private equity firms to efficiently and accurately create and distribute reports, largely eliminating the possibility of embarrassing and costly errors that could impact on the relationship between the firm and its investors. Employing a more time-efficient, less labour-intensive distribution system gives fund managers more time to spend servicing their investors, further improving relations.

Being able to monitor when an investor has looked at their fund documentation enables private equity firms to establish which investors may need to be prompted to view their capital call, making the process more efficient and enabling the firm to take advantage of investment opportunities in a competitive seller's market.

As demonstrated in the introduction to this study, maintaining a positive relationship with investors in the current marketplace is essential in garnering repeat commitments from an existing investor base in future fundraising efforts. The fundraising market remains extremely competitive, 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 if they are to secure re-ups. 37% of investors in Europe surveyed by Preqin and IntraLinks highlight reporting as a key area where fund managers can improve, further emphasising the importance of this factor towards building long-lasting relationships in a market where just 13% of institutions will be accepting all reinvestment requests.

Distribution through online platforms is the only way to ensure that confidential documents are viewed only by the intended recipient. In many cases there is a legal obligation to ensure the security of such documentation. For example, firms with investors in the Massachusetts region have an obligation to conform to the Massachusetts Privacy Law, which requires that all documentation is encrypted while sitting on a firm's server and while in transit. Neither email nor traditional mail can provide this level of security.

An online reporting platform enables private equity firms to reap the benefits of improved efficiency, guaranteed data security and enhanced investor relations.

About IntraLinks

For more than a decade, IntraLinks' enterprise-wide solutions have been providing a secure, online environment where private equity firms can raise their fund, manage their deal files and report to investors. The IntraLinks platform can help improve operational efficiency and reduce time and costs while adding increased security and control to your processes.

More than 1 million users around the world rely on IntraLinks including 14 of the 15 largest private equity firms.

To learn how IntraLinks can transform your business by accelerating the deal management process, improving efficiency and ensuring the secure exchange of your documentation, visit **www.intralinks.com** or contact us at:

Tel: 1-866-INTRALINKS (US) or +1 212 342 7684
Tel: +44 (0) 20 7549 5200 (EMEA)
Tel: +852 3101 7022 (APAC)
Tel: +55 11 5041 3460 (LATIN AMERICA)

If you have any comments on this report, please contact:

info@intralinks.com

INTRALINKS®

If you want any further information, or would like to find out more about our solutions please contact us:

London:

44 Featherstone Street
London, EC1Y 8RN
United Kingdom

Tel: +44 (0)20 7549 5200
Fax: +44 (0)20 7549 5201

New York - Corporate Headquarters:

150 East 42nd Street
8th Floor
New York, NY 10017

Tel: +1 212 543 7700
Fax: +1 212 543 7978

Email:info@intralinks.com
Web: www.intralinks.com

About Preqin

Preqin private equity provides information products and services to private equity and venture capital firms, fund of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

- Buyout Deals
- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Employment and Compensation

Our customers can access this market intelligence in four different ways:

- Hard copy publications
- Online database services
- Consulting and research support
- Tailored data downloads

Preqin regularly releases research and information on fundraising and all other aspects of the private equity industry as both research reports, and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit **www.preqin.com/spotlight**

If you have any comments on this report, please contact:
info@preqin.com

Private Equity • Real Estate • Hedge Funds • Infrastructure

If you want any further information, or would like to apply for a demo of our products please contact us:

London:

Scotia House
33 Finsbury Square
London EC2A 1BB

Tel: +44 (0)20 7065 5100
Fax +44 (0)87 0330 5892

New York:

230 Park Avenue
10th Floor
New York
NY 10169

Fax: +1 212 808 3008
Tel: +1 440 445 9595

Email: info@preqin.com
Web: www.preqin.com