VISTRA

Best Practice in Private Equity Fund Governance

Time Spent on Governance Matters

GP

74% are spending more time on governance matters than they did 3 years ago.

LP

73% are spending more time on the governance matters (on private equity structures) than they did 3 years ago.

LPAC Requirements

GP

100% funds have LPACs or investment committees.

LP

100% require an LPAC or investment committee to be in place before considering making an allocation to a fund.

Future Trends

GP **49%** LP **55%** believe that the most important trend in governance over the next 18 months will be implementing more transparency around **fees** and **performance calculations**.

GP **26%** LP **45%** believe that the second most important trend in governance over the next 18 months will be greater **transparency** and the use of **co-investment** agreements.

Outsourcing of Administration

GP

83% outsource their administration to a third party service provider. 39% of those currently not outsourcing will be outsourcing more in the future.

LP

100% prefer to outsource administration of the fund to a third party provider of this service.

Growth in Co-investment

LP

73% welcome the growth in co-investment that has taken place over the last 5 years.

Satisfaction of Governance

LP

100% are not satisfied with the governance structures employed by the private equity industry.

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Executive Summary

The influence of investors in the private equity industry is growing significantly and has never been as strong as it is today. Vistra, in partnership with IFI Global, conducted a worldwide research study investigating the current state of play in private equity fund governance. Our survey of LPs and GPs examines the significant trends, concerns and developments in private equity fund governance from both a manager and investor perspective.

Governance Absorbs an Increasing Amount of Time

Almost all of the GPs surveyed said they spend more time on governance than they used to do. Some respondents noted it is as much as 50% more than it was three years ago, whilst others estimated it to be in the 10% to 30% range. More importantly, the majority of interviewees – both LPs and GPs – expect that there will be more investor involvement in the governance structures of the private equity industry in the future.

The shift appears to be global in nature. The views expressed by GPs in Asia, Europe and the US were, on the whole, very similar on most governance matters. Equally, there were little to no geographical differences in the responses from LPs and their advisors.

Key Trends in Governance

The LPs and GPs interviewed provide a window into key industry trends around transparency, LPAC development, co-investing, outsourcing, and fund structures, offering a deep dive into these challenges and opportunities to help establish best practices for fund governance.

1. **Transparency:** An overarching theme from the research was that investors are demanding, and managers are providing, an increased level of transparency on the structure and operation of funds. Almost every GP said that they are required to introduce greater transparency around fees and performance calculations to satisfy investors. Many have also been asked for more transparency on their fund structures, their LPAC role and membership, and in some cases, their co-investing agreements.

2. **Limited Partner Advisory Committees (LPACs):** The evolving development and authority of LPACs is a clear example of the increasing involvement of investors in fund governance and the influence of their oversight of GPs. The wide variety of responses to questions on LPACs infers that the industry is a long way from establishing any standardisation of LPAC practices with a significant degree of disparity in LPAC oversight. Many of the LPs surveyed are dissatisfied with the overall governance structures employed by the private equity industry.

3. **Co-Investment:** The growth in the trend for co-investing is anticipated to continue. Both LPs and GPs highlighted challenges that are a direct result of the steep upward curve in co-investing, especially around remuneration and governance. As part of a larger trend across the asset management business toward disintermediation, co-investing is particularly popular with LPs that would like to see more transparency and lower costs in the private equity industry.

4. **Outsourcing:** The majority of GPs interviewed outsource at least some administration functions to third party providers. They say it helps them access specialist skills and is more efficient, especially for those with a global footprint. Added to which investors and regulators like funds that outsource their administration functions to third party providers.

5. **Fund Structure & Domiciles:** Offshore funds and fund partnerships, common in the US, were the most popular structures used by the GPs surveyed. There were no major shifts in domicile selection and most participants seem satisfied with the regulatory options currently available.