

A Fireside Chat with Peter Freire, CEO of the Institutional Limited Partners Association

Valuations and Opinions Group

Winter 2016

The Institutional Limited Partners Association ("ILPA") is the leading global organization dedicated to advancing the interests of institutional Limited Partners in private equity through industry-leading education programs, independent research, best practices, networking opportunities and global collaborations. ILPA's membership has grown to include over 350 member organizations from around the world representing over US \$1 trillion of private assets globally.

In June 2015, ILPA named Peter Freire Chief Executive Officer, succeeding Kathy Jeramaz-Larson. Prior to his appointment, Mr. Freire spent eighteen years at CEB, formerly the Corporate Executive Board, and more recently with the World Economic Forum and as an advisor and consultant to private companies.

As one of the key organizations in the alternative asset space, Lincoln's Valuations & Opinions Group maintains a relationship with ILPA and conducted an interview with Mr. Freire in the first quarter of 2016. The interview addresses several key topics including ILPA's 2016 objectives, along with Mr. Freire's response to General Partners' feedback on its newly published fee and expense template.



Peter Freire

Chief Executive Officer
Institutional Limited
Partners Association



Peter Freire was appointed Chief Executive Officer of the Institutional Limited Partners Association (ILPA) in June 2015, with the mandate to grow and diversify the ILPA membership and to enhance the value of the organization's research and educational offerings to its members. Prior to joining the ILPA, Peter had a successful 18-year career at the Corporate Executive Board (CEB), where he was responsible for CEB's global portfolio of HR businesses, principally the Corporate Leadership Council. He was also responsible for CEB's businesses in a number of regions outside of North America, including Asia-Pacific. More recently, Peter was a Managing Director and Member of the Executive Committee at the World Economic Forum. He has also served as an advisor and consultant to several startups and private companies operating subscription-based business models, primarily in the human capital/talent management fields.

A Fulbright Scholar, Peter earned his BS in Economics from the London School of Economics and his MBA from Harvard Business School. He resides in the Washington DC metro area with his wife and two teenage sons.

Lincoln: As the recently appointed CEO, what is the thing that intrigues you most about your position?

Freire: When you think of the size of the private equity industry and its impact globally, to have the opportunity to play a role in the industry is an exciting one. Also, there's the challenge of building an organization. ILPA is today relatively small; we are comprised of eighteen individuals split between offices in Toronto, Boston and Washington. But we have plans for significant growth. Additionally, the board has an ambitious agenda including globalization [of the organization], better understanding and serving the needs of the different [private equity] segments, and working with the myriad partners in the [alternative asset] industry.

Lincoln: What are ILPA's top three goals in 2016?

Freire: One would be continued globalization. We started very much as a North American organization and still the majority of our members come from that continent. The board and I see eye-to-eye on the importance of being truly global. The good news is we are growing faster internationally than in North America, but we still have work to do. We host events all over the world (more than 20) where we bring LPs together to talk about the issues [they encounter] in the private equity industry.

Second, is to continue to push on the fee and expense transparency initiative that we initiated this past year. Our fee reporting template is probably the signature [output of this initiative]. We believe that improving the transparency between GPs and LPs through standardization can only improve the functioning of the industry to the benefit of everybody. We've worked very closely with a large number of players in the industry, [GPs, LPs and service providers] to construct a document which we believe is well balanced [and addresses] everyone's various needs and interests. We have also had significant input from bodies that represent GPs and various geographies too, such as PEGCC, ACG and Invest Europe. Having [the template] be adopted by the industry, we believe will significantly help the working relationship between GPs and LPs.

The third theme would just be the growth [of ILPA]. If we are to truly be the voice of the institutional LP in private equity, we have to continue to grow the number of LPs we represent. That probably means attracting a lot more of some of the smaller players in the industry who had perhaps not been our focus in the early days. And obviously we will see continued geographic expansion.

Lincoln: What do you believe will be the biggest challenge for the private equity industry in 2016?

Freire: It's interesting because we're sitting here having a conversation in the midst of a fair amount of market turmoil, at least in the public markets. Perhaps that creates all sorts of compelling opportunities for the private equity industry. Listening to members last year, the concern was how richly priced assets were and if that would make future returns harder to realize. Perhaps those assets are a little less expensive today. Furthermore, within the public plans, you're going to continue to see debates about how much to invest in private equity. If public markets continue this downward trend in asset values, this will put pressure on organizations which are looking for returns, as beneficiaries need to be paid. [Seeking such returns] might that be a good thing for private equity as the asset is seen as having a fairly long history of strong returns. [Additionally,] the returns that investors seek from private equity look pretty good relative to public market returns over the longer term (though there is some debate on this issue), and that might mean that there's even more enthusiasm for the asset class.

I [also] think the whole question of fees and the cost of investing in private equity will definitely be a hot issue. Our view is let's be transparent as to what those fees are so people understand them and where they come from, but we do not take a view as to what is an appropriate amount.

Lincoln: What functions would you like to see outsourced at a GP?

Freire: In general, our industry is going the direction of many [other] industries where you have more players coming in who can offer expertise in a particular area. This would suggest GPs and LPs may find an outsource partner who has greater expertise or [offer] cost efficiencies [that] they would [not realize] internally. I think this industry, again like other industries, is evolving in that direction. I can't tell you a particular [area of expertise] where I've seen more outsourcing, but everybody I'm introduced to has heard of new participants or service providers coming into the industry offering expertise in an area that might make sense for a GP or LP to outsource to.

Lincoln: According to ILPA, in the hopes of providing LPs "the clarity and consistency of information required to perform their duties, while giving GPs a more consistent roadmap for what Limited Partners need", in January 2016, ILPA released, what is referred to as "Landmark Guidance on Private Equity Fee Reporting" a.k.a. the ILPA Fee Template

Can you comment on the purpose of the template and ILPA's fee transparency initiatives?

Freire: I think as an industry matures and grows in size and stature, the idea of creating agreed standards and templates often makes sense and helps the industry better manage its

Valuations Team

Ron Kahn, CPA

Managing Director
rkahn@lincolninternational.com
+1 312 580 6280

Patricia Luscombe, CFA

Managing Director
pluscombe@lincolninternational.com
+1 312 506 2744

Michael Fisch, CPA

Managing Director
mfisch@lincolninternational.com
+1 312 580 8344

Larry Levine, CPA

Managing Director
llevine@lincolninternational.com
+1 312 506 2733

Smitha Balasubramanian

Vice President
sbalasubramanian@lincolninternational.com
+1 312 506 2730

Brian Garfield

Vice President
bgarfield@lincolninternational.com
+1 212 277 8105

Neal Hawkins

Vice President
nhawkins@lincolninternational.com
+1 312 506 2701

Sarit Rapport

Vice President
srapport@lincolninternational.com
+1 212 257 7738

John O'Kane

Senior Advisor
jokane@lincolninternational.com

relationships and public image. By and large, I'd say that the overwhelmingly majority of our members, and many other industry participants including GPs, agree on a long-term vision [of greater transparency and standardization].

We think that [the fee template] will help to create a common set of reporting and disclosure standards, allowing LPs to better understand, more easily and more quickly, the [relevant return and fee calculations] and where they will appear in GP reporting documents. The intent of the template is somewhat similar to the thinking behind a public firm's GAAP financial statements – creating an agreed set of definitions and disclosures in a standardized format. Once you've learned to read a GAAP financial statement, you know where to find [certain] important numbers. For many of our LPs, it is helpful to achieve that level of standardization, [which will then allow] them to compare [the figures] over time and between different industry partners and relative to other investment opportunities.

For the GPs, we hope standardization will make it easier and perhaps less costly over time to report back to LPs. [For example,] if you have 200 LP relationships, rather than 200 [heterogeneous] formats, [the GP can standardize the presentation, resulting in] fewer iterations.

We recognize that adopting a new standard may involve some short-term implementation costs, such as writing new software, but looking at the long term, having a standard out there that everyone looks to and understands, makes for increased transparency and understanding, which will be to the long term benefit of the entire industry.

Lincoln: From discussions and surveys conducted in the private equity community, there's been both positive and negative feedback on the template. What is your message to those reading this article?

Freire: Our plan is not to force [the template] on anyone. This has to be a voluntary effort by the practitioners in the industry who look at this as a good thing.

If you believe that as an industry, private equity must evolve from being a "craft industry" where reporting is bespoke and every relationship is using different formats, to one based on agreed formats and standards, then I think it's a welcomed evolution. We hope people will adopt it and give us feedback on what's working and what's not and what may need to be changed.

We don't look at this as a one and done situation, but rather an evolution, an evolution of a long-term conversation about how we improve standards, and create greater transparency.

We want to be in an industry where we are able to hold our heads high, demonstrating that between GPs and LPs there is a very transparent relationship on cost and returns, and everybody understands what those are.

Lincoln's Follow-up Feedback: *Despite Limited Partners' publicly stated concerns about the multitude of information to digest within the fee template, coupled with General Partners' frustrations in regards to the onus of filling out the template, shortly after our interview, both The Carlyle Group and the California Public Employees' Retirement System, publicly backed the new ILPA fee template.*

Lincoln: What have you heard in regards to the fundraising process from the LP perspective?

Freire: It's hard for me to say there's a consistent theme I'm hearing. I can certainly say that many of our members have commented that the speed at which funds are closing seems to be quickening. Generally, funds have not perhaps found it as hard to raise money recently as they have in prior periods, at least for many of the established funds. I think that reflects the fact that as an asset class, private equity is perceived to have done well over the long term. I think a lot of investment committees are increasing their allocations to private equity. There are other organizations that might have hard numbers on this, but I would say I'm pretty sure the allocation to private equity is going up and not down. But, [with that said], it varies from institution to institution.

Lincoln: What advice would you give to a new GP that's entering the market in order to ensure a successful fundraising process? And to tag along with that point, from the perspective of an LP, what is the ideal GP demonstrating to potential investors when diligence is conducted?

Freire: The things I would dial up would be around track record and history, investing strategy, and their principles. These topics are all critical in making the decision on where to invest. I would absolutely mention here the importance for transparency. I think for any LP to go back to their own investment committee today, they have to be able to talk about a GP being totally transparent.

Interview Conducted by Brian Garfield, Vice President in Lincoln's Valuations & Opinions Group.

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, private capital raising and special situations advice on mid-market transactions, as well as fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. Lincoln International understands the value of having access to local markets on a worldwide scale and provides its clients with senior-level attention, in-depth industry expertise and integrated resources across the organization.

For more information about Lincoln International, please visit www.lincolninternational.com

A Global Investment Bank with a Passion for the Mid-Market

International

- Sixteen Lincoln offices in key global economies, including all four BRIC nations
- More than 40% of M&A deals are cross-border

Integrated

- Global industry groups and cross-border deal teams
- Shared global culture

Independent

- Owned and operated by partners; founding partners still active
- Long-term client relationships
- No conflicts of interest

Mid-Market Focus

- Largest privately held mid-market investment bank
- 750+ transactions since 2010 (including 166 transactions in 2015), generally ranging from \$50 million to \$500 million in enterprise value
- Clients include leading private equity groups, global corporations and private companies

Comprehensive Advisory Services

- Mergers & Acquisitions
- Debt Advisory
- Special Situations
- Valuations & Opinion

