



THE REGULATORY FUNDAMENTALS GROUP LLC

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**Survey of General Partners  
and Limited Partners:  
Pursuing Individual Goals in a Common  
Investment Framework**

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**About RFG**

RFG is the only organization solely dedicated to providing strategic, regulatory and operational insights to a consortium of the nation's most sophisticated endowment investment offices. RFG advises its consortium of nonprofit clients, which hold over \$150 billion in combined assets under management, through its weekly newsletter, white papers, webinar presentations, semi-annual programs, and its online knowledge management portal, RFG Pathfinder®.

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## Introduction

In late 2019, the Regulatory Fundamentals Group LLC (RFG) in conjunction with the Financial Executives Alliance surveyed general partners (GPs) and limited partners (LPs) to better understand the dynamics of the private fund relationship. A tension is often created between trust and vigilance, as the parties balance their own needs against the optimal course for all. In hope of furthering cooperation and productivity, RFG asked market participants to share their three chief responses to the following questions:

LPs were asked: “How can GPs make your life simpler?”

GPs were asked: “What can LPs do better?”

While the world reels from the economic and social impacts of the COVID-19 pandemic, and transparency and communication are more important than ever, our research indicates that GPs and LPs were craving improvements in these two areas long before the great challenges of the pandemic arose. It is clear that the lessons gleaned from our 2019 research still apply, and perhaps hold even more weight in today’s environment.

Responses were characterized into areas and given a weight corresponding to the selection as a first, second, or third tier response. The aggregate response numbers were used to calculate the areas of interest, with a higher response indicating more interest.

The LP survey drew responses from 20 LPs, of which 75% were endowment investment offices; 5% foundations; and 20% other types of entities, including family offices, OCIOs, charitable trusts, and those who invest on behalf of institutional investors. In terms of assets under management, 5% were smaller than \$1 billion; 40% were \$1-\$5 billion; 25% were \$5-\$10 billion; and 30% were larger than \$10 billion.

The GP survey drew responses from 23 GPs, of which 45% were private equity; 45% were venture capital; 32% were hedge funds; and 5% were from other, secondary firms. (The total exceeds 100% because some GPs invest in multiple categories.) In terms of assets under management, 55% were smaller than \$1 billion; 45% were \$1-\$10 billion, and none were larger.

## The Limited Partner Responses

LPs responded heavily that Standardized Reporting was their top area of concern (40 points). They want a uniform standard for reporting information, to gain clarity about the status of a fund and the performance of their investments. More consistency is sought in financial statements, share of ownership, fees, and positions. Some LPs called for greater detail in private placement memorandums, income and capital gains figures on sales, capital calls, and distribution notes. Many suggested adopting an ILPA reporting template, stating that some organizations, such as ILPA, have made great strides in standardizing information. Others called for more timely reporting. Some asked that information be made more user-friendly, such as via Excel, comma-separated-values, or data formats that allow for export to other digital platforms. One respondent, believing that the ILPA cashflow template has failed for private funds, requested a better breakout of netted cashflows, especially recycling capital. At a time when social isolation measures mean most work is being performed remotely, every detail matters.

The next most frequent response was Regulatory & Transparency Interactions (22 points). LPs asked for greater transparency in fees (especially management fees and carried interest) and expenses. They desire more information on GP interactions with regulators, even when this may be uncomfortable, including sharing results of SEC and other regulatory exams. Other responses included: providing due diligence questionnaires that address operational risk; sending the compliance manual and SEC exit letters electronically; and providing redlines of documents.

Concerns with the Contracting Process garnered a 21-point score. LPs mentioned wanting more favorable standard provisions in limited partnership agreements (LPAs), including a most favored nation (MFN) clause, and a wish to keep side letter terms to a minimum. LPs view the side letter and MFN process as cumbersome. They acknowledge that varying legal requirements and management fees (sliding scale) are understandable, but feel that representations, warranties, and notifications should be the same regardless of an LP's size. Investor-unfriendly provisions should be removed from the LPA, responding LPs say. Finally, LPs suggested having interactive or online subscription documents.

Capital Reporting & Accounting came in as a close fourth area of concern, with 20 points. LPs want better information on a more timely basis. One LP characterized the failure to provide a faster

capital balance statement as “the #1 pain point.” Other LPs also expressed a desire for full accounting details on capital calls and distributions. Specifically, they want earlier reporting of net asset values; reporting of unfunded and callable capital on each distribution; and a roll-forward of capital balance, including line items for management fees, carried interest, and administrative expenses. ILPA accounting was requested, as was providing capital notices in Excel as per ILPA. Other responses asked for waterfall calculations; tranche level net asset values on monthly statements; and detailed investments on each capital call.

In the Improve Communications category (8 points), LPs called for better communication generally, responsiveness to the data needs of institutional investors, and greater anticipation of their ongoing needs.

Problems with Portals (5 points) reflected frustrations with the need to access separate portals for each manager. One respondent asked for emails rather than having to download documents from a portal, while another requested the ability to download data (capital balances, capital calls, distributions) directly from the LP portal into a database. An LP summed up the issues this way, “One uniform standard. Some organizations like ILPA have made great strides in standardizing information. Along with standardization, providing in a format that can be exported and used in other platforms would be ideal.” While relatively low on the list of concerns at the time our survey was conducted, one can safely assume the need for easily accessible data and documents is of much higher importance in today’s remote-working environment.

The top responses provided by LPs are shown in the table below, with points awarded according to a tier system weighted by importance.

TOP RESPONSES	Response 1 (3 Points)	Response 2 (2 Points)	Response 3 (1 Point)	Total
<b>Standardized Reporting</b>	9 responses	3 responses	7 responses	<b>40</b>
<b>Regulatory &amp; Transparency Interactions</b>	3 responses	4 responses	5 responses	<b>22</b>
<b>Concerns with Contracting Process</b>	3 responses	5 responses	2 responses	<b>21</b>
<b>Capital Reporting &amp; Accounting</b>	3 responses	5 responses	1 response	<b>20</b>
<b>Improve Communication</b>	1 response	2 responses	1 response	<b>8</b>
<b>Problems with Portals</b>	1 response	1 response		<b>5</b>

The responses provided by LPs, broken down by category, appear in Appendix A.

## General Partner Responses

GPs overwhelmingly selected Improve Communications (60 points) as their #1 response: it scored nearly three times as many points as the next most frequent response. They want clearer, more consistent, and more frequent communication with LPs in several respects. Some asked that LPs be more transparent on key issues and during the fundraising process. Others wanted greater transparency regarding LP investment mandates, strategies, intentions, and perspectives, and how fund performance fits in with an LP's overall portfolio. They encouraged LPs to accept communications with junior (non-founding) team members. They would like LPs to be conscious of the timing of their requests for information, and also to respond to GP requests with the same expediency that they expect from GPs. Finally, one GP asked that LPs attend the Annual General Meeting (AGM). The importance of clear internal and external communication is thrown into sharp relief at a time when teams are working remotely across the globe.

The next most frequent response was Help With Deal Flow (19 points). Here, GPs said that LPs could help with portfolio business development, including introductions to new potential LPs, developing connections, and sharing knowledge. GPs suggested that when LPs want to join access-restricted funds they should consider providing perks that their organization may be able to offer: for example, endowments could provide access to sports tickets (even if GPs pay) or alumni network help; foundations could provide invitations to events or contact with the investment committee.

Responses in the category Improve ODD Process (12 points) offered several perspectives. Some GPs asked for standardized ODD requests across investors. But other GPs expressed a desire for managers to have flexibility in exploring new approaches rather than using a "check-the-box" approach, as one template does not fit all. For example, one asked LPs not to send standard templates that don't appropriately request data from venture capital firms. Closely following Improve ODD Process was LPA Document Issues at 11 points. Here, GPs noted a desire for fewer approvals (on "new leases, capital items, etc.") and more incentives ("higher fees and/or better promote"). One respondent explicitly said, "Stop following ILPA."

In the next category, Improve Understanding of Strategy (10 points), GPs called for greater patience in understanding the long-term vs. short-term investment view. They also asked LPs to understand why and when performance on an investment will suffer. The general message is that LPs are more short-term focused, perhaps understandably, since they are exposed to risks that are managed by another party, i.e., GPs.

GPs also noted Reasonable Financial Reports (9 points) as being important, asking for “reasonable” requests for transparency, “less” financial reporting, and not to request information outside the LPA (in contrast, LPs generally asked for more information). Rounding out the responses were Correct Use of Portals (5 points), Timely Payments (3 points), and Miscellaneous Comments (3 points), with one respondent noting a desire to standardize the investment confirmation process, and another encouraging LPs to share operational best practices of larger firms with smaller firms.

The top responses provided by GPs are shown in the table below, with points awarded according to a tier system weighted by importance.

All GPs				
TOP RESPONSES	Response 1 (3 Points)	Response 2 (2 Points)	Response 3 (1 Point)	Total
Improve Communication <sup>1</sup>	12 responses	9 responses	6 responses	60
Help with Deal Flow	4 responses	2 responses	3 responses	19
Improve ODD Process	2 responses	2 responses	2 responses	12
LPA Document Issues <sup>2</sup>	2 responses	2 responses	1 response	11
Improve Understanding of Strategy <sup>3</sup>	1 response	2 responses	3 responses	10
Reasonable Financial Reports	1 response	2 responses	2 responses	9
Correct Use of Portals <sup>4</sup>	1 response	1 response		5
Timely Payments		1 response	1 response	3
Miscellaneous Comments <sup>5</sup>		1 response	1 response	3

The responses provided by GPs, broken down by category, appear in Appendix B.

<sup>1</sup> Responses included: “Be conscientious about the timing of their request,” “Be responsive and transparent during fundraising process (“no” is OK, but much better sooner),” and “Approve connection with junior (non-founding) deal team and IR people. You’ll get the same info and gain good exposure/experience for the next generation—you may even get more candid info.”

<sup>2</sup> Responses included: “Stop following ILPA,” “Require fewer approvals (new leases, capital items, etc.),” and “Provide more incentive (higher fees and/or better promote).”

<sup>3</sup> Responses included: “Consider the length of the strategy and not just the mark to market,” “Understand why and when performance will suffer,” and “Remember this is about making money in an ethical way, not fulfilling certain activists’ beliefs.”

<sup>4</sup> Two respondents noted: “Review online data available to them,” and “Train new employees to use online data and review past accounting.”

<sup>5</sup> Two respondents noted: “Standardize investment confirmation process,” and, “Share operational best practices with smaller firms that they see at larger firms.”

## Differences Between Large GPs and All GPs

The responses of GPs with \$1-\$10 billion (“Large GPs”) were isolated to determine how they differed from those of all GPs. Responses were received from 11 Large GPs.

By a wide margin, Improve Communication was the number one response for both GPs (60 points) and Large GPs (24 points). The second-place response for GPs was Help With Deal Flow (19 points), whereas for Large GPs, it was Improve ODD Process (9 points). For Large GPs there was a tie for third between Help With Deal Flow, Correct Use of Portals, and Improve Understanding of Investment Strategy (5 points each).

The responses provided by Large GPs are shown in the table below, with points awarded in the same fashion as for all GPs.

Large GPs				
TOP RESPONSES	Response 1 (3 Points)	Response 2 (2 Points)	Response 3 (1 Point)	Total
Improve Communication	5 responses	2 responses	5 responses	24
Improve ODD Process	2 responses	1 response	1 response	9
Help With Deal Flow	1 response	1 response		5
Correct Use of Portals <sup>6</sup>	1 response	1 response		5
Improve Understanding of Strategy	1 response	1 response		5
LPA Document Issues	1 response			3
Reasonable Financial Reports <sup>7</sup>		1 response		2
Timely Payments		1 response		2
Miscellaneous Comments <sup>8</sup>		1 response		2

The responses provided by Large GPs, broken down by category, appear in Appendix C.

<sup>6</sup> Two respondents noted: “Review online data available to them,” and “Train new employees to use online data and review past accounting.”

<sup>7</sup> One respondent noted: “Reasonable requests for transparency.”

<sup>8</sup> One respondent noted: “Standardize investment confirmation process.”

## Appendix A

### “How Can GPs Make Your Life Simpler?”

#### RESPONSES OF LPs, BY CATEGORY

##### Standardized Reporting Responses (3 points):

- Standardized reporting (i.e., ILPA templates). If not ILPA, then Excel is a must. API functionality to date rooms would be a plus.
- Standardized reporting.
- More standardized reporting.
- Adopt ILPA template.
- Create a uniform template or standard for reporting information.
- Standardized terms.
- Consistent report format—follow ILPA guideline.
- Detailed and standardized capital call and distribution notices.
- Standardized reporting—ILPA template.

##### Standardized Reporting Responses (2 points):

- Consistency of reporting (statements, share amounts, fees, position transparency).
- Agree to ILPA reporting template.
- Timely reporting to all LP vendors (private informant and custodian).

##### Standardized Reporting Responses (1 point):

- Breakout funds into categories outline in PPM.
- Provide data exports of reports.
- Provide information on a timely basis.
- ILPA.
- Provide financial statement data in commonly used formats for analysis (e.g., Excel, csv, etc.).
- Show detailed income and capital gain on sales.
- ILPA cashflow template has failed, so for private funds, better breakout of netted cashflows, especially recycling capital.



**Regulatory & Transparency Interactions Responses (3 points):**

- Transparency.
- Send redlines of updated documents.
- Better fee transparency, especially for carried interest.

**Regulatory & Transparency Interactions Responses (2 points):**

- Fee transparency.
- Proactively share results of SEC or other regulatory exams.
- Provide their own due diligence questionnaires that actually address operational risk.
- A published standard for GPs to disclose uncomfortable regulator interactions, like a Wells Notice... there should be more shame awaiting any GP who hides one.

**Regulatory & Transparency Interactions Responses (1 point):**

- Send compliance manual and SEC exit letters electronically.
- Additional transparency on no longer than a quarterly basis.
- Details on management fees and carry.
- Holdings details for comingled accounts.
- More transparency on fees and expenses included in annual financial statements.

**Concerns With Contracting Process Responses (3 points):**

- Remove investor-unfriendly provisions from base documents that LPs say that they don't use anyway.
- Make their lawyers implement recurring side letter requests in the LPA.
- Reduce provisions inside letters.

**Concerns With Contracting Process Responses (2 points):**

- Interactive or online subscription documents, MFN elections, consents, etc.
- Keep side letter terms to a minimum and put MFN in LPA.
- Fire K&E and use a more LP-friendly form of LPA.
- Flexibility.
- Standardization of provisions, including MFNs.

**Concerns With Contracting Process Responses (1 point):**

- Make their lawyers pass business items to the GP the first time.
- Store legal docs on the data site.

**Capital Reporting & Accounting Responses (3 points):**

- Report unfunded and recallable capital on each distribution.
- Provide rollforward of capital balance, including line items for management fees, carry, and admin expenses.
- Provide NAVs faster.

**Capital Reporting & Accounting Responses (2 points):**

- Provide capital notices in Excel format (ILPA).
- Provide ILPA accounting.
- Provide full accounting details on calls and distributions.
- Show detailed investments on each capital call.
- Tranche level NAVs on monthly statements.

**Capital Reporting & Accounting Responses (1 point):**

- Provide waterfall calculations.

**Improve Communication Responses (3 points):**

- Communicate better.

**Improve Communication Responses (2 points):**

- Anticipate ongoing needs.
- Be responsive to institutional investor data needs.

**Improve Communication Responses (1 point):**

- Ask themselves: “Am I for my LPs or to benefit myself?”

**Problems with Portals Responses (3 points):**

- Email documents instead of having to retrieve documents from a portal.

**Problems with Portals Responses (2 points):**

- Ability to download data (cap balances, cap calls, distributions) directly from LP portal into database.

## ADDITIONAL RESPONSES

The following additional responses were provided by LPs; they did not receive a point ranking.

- Side Letter/MFN process is becoming cumbersome. Different LP legal requirements are understandable as are management fees on a sliding scale. However, the reps, warranties, and notifications should be the same regardless of an LP's size. MFN carve outs are disclosed in the LPA but eligible terms are not available until much later, during the MFN election process.
- One uniform standard. Some organizations like ILPA have made great strides in standardizing information. Along with standardization, providing in a format that can be exported and used in other platforms would be ideal.
- Provide faster capital balance statement is the #1 pain point.

## Appendix B

### “What Can LPs Do Better?”

#### RESPONSES OF GPs, BY CATEGORY

##### Improve Communication Responses (3 points):

- Communication.
- Transparency in key concerns.
- Patience.
- Be more transparent about intentions regarding re-ups.
- Clearer investment mandate.
- Be more communicative about interest level, pro or con.
- Be conscientious about the timing of their request.
- Establish expectations for communication frequency.
- More transparent on fundraising prospects.
- Be responsive and transparent during fundraising process (“no” is OK, but much better sooner).
- Share detailed information on how fund’s performance is measured.
- Responsiveness to requests for AML & other required docs.

##### Improve Communication Responses (2 points):

- Clarity on requests for information.
- Feedback.
- Communicate what they’re seeing in the market.
- Consistency of communication.
- Accessibility.
- Respond to requests with the same expediency you expect from GPs.
- Communicate how fund investment fits with broader portfolio.
- Disclose LP strategy and perspectives.
- Follow up during due diligence or notify no longer interested.

**Improve Communication Responses (1 point):**

- Communicate clearly.
- Think team.
- Increase communication.
- Approve connection with junior (non-founding) deal team and IR people. You'll get the same info and gain good exposure/experience for the next generation—you may even get more candid info.
- Attend Annual General Meeting (AGM).
- Continued communication

**Help with Deal Flow Responses (3 points):**

- Contribute deal flow.
- Help with deal flow.
- Make introductions.
- Communicate company and vendor contacts.

**Help with Deal Flow Responses (2 points):**

- Help with portfolio biz dev/introductions.
- For access-restricted funds, offer perks related to your firm even if/after you are let in (endowments: access to sports tickets [even if GPs pay], alumni network help; foundations: invite to events, investment committee contact, etc.). Maybe a once/year email with what is offered to gauge interest.

**Help with Deal Flow Responses (1 point):**

- Introductions.
- Share knowledge and connections.
- Help introduce new LPs.

**Improve ODD Process Responses (3 points):**

- Standardize ODD requests.
- Don't ask for information you don't need.

**Improve ODD Process Responses (2 points):**

- Be flexible—one template does not fit all.
- Less “check the box” approach to ODD: managers should feel able to explore new technology/structure.

**Improve ODD Process Responses (1 point):**

- Don’t send standard templates that do not appropriately request data from VC firms.
- Standardization of information requests across investors.

**LPA Document Issues Responses (3 points):**

- Stop following ILPA.
- Share best practices intel received from various GPs.

**LPA Document Issues Responses (2 points):**

- Don’t request info outside LPA terms.
- Require fewer approvals (new leases, capital items, etc.).

**LPA Document Issues Responses (1 point):**

- Provide more incentive (higher fees and/or better promote).

**Improve Understanding of Strategy Responses (3 points)**

- Seek to understand strategy better.

**Improve Understanding of Strategy Responses (2 points)**

- Consider the length of the strategy and not just the mark to market.
- Develop and enhance a long-term investment view.

**Improve Understanding of Strategy Responses (1 point)**

- Long-term vs. near-term view.
- Understand why and when performance will suffer.
- Remember this is about making money in an ethical way, not fulfilling certain activists’ beliefs.

**Reasonable Financial Reports Responses (3 points):**

- Require less financial reporting.

**Reasonable Financial Reports Responses (2 points):**

- Reasonable requests for transparency.

**Reasonable Financial Reports Responses (1 point):**

- Help with benchmarking.
- Disclose benchmarking of similar GPs.

**Correct Use of Portals Responses (3 points):**

- Review online data available to them.

**Correct Use of Portals Responses (2 points):**

- Train new employees to use online data and review past accounting.

**Timely Payments Responses (2 points):**

- Make payments on time.

**Timely Payments Responses (1 point):**

- Pay capital calls on time.

**Miscellaneous Comments (2 points):**

- Standardize investment confirmation process.

**Miscellaneous Comments (1 point):**

- Share operational best practices with smaller firms that they see at larger firms.

## Appendix C

### “What Can LPs Do Better?”

#### RESPONSES OF LARGE GPs \$1-\$10 BILLION, BY CATEGORY

##### Improve Communication Responses (3 points):

- Responsiveness to requests for AML & other required docs.
- Be more transparent about their intentions regarding re-ups.
- Be conscientious about the timing of their request.
- Be responsive and transparent during fundraising process (“no” is OK, but much better sooner).
- Share detailed information on how fund’s performance is measured.

##### Improve Communication Responses (2 points):

- Follow up during due diligence or notify no longer interested.
- Respond to requests with the same expediency you expect from GPs.

##### Improve Communication Responses (1 point):

- Continued communication.
- Think team.
- Increase communication.
- Approve connection with junior (non-founding) deal team and IR people. You’ll get the same info and gain good exposure/experience for the next generation—you may even get more candid info.
- Attend Annual General Meeting (AGM).

##### Improve ODD Process Responses (3 points)

- Standardize ODD requests.
- Don’t ask for information you don’t need.



**Improve ODD Process Responses (2 points)**

- Be flexible—one template does not fit all.

**Improve ODD Process Responses (1 point)**

- Don't send standard templates that do not appropriately request data from VC firms.

**Help With Deal Flow Responses (3 points):**

- Communicate company and vendor contacts.

**Help With Deal Flow Responses (2 points):**

- For access-restricted funds, offer perks related to your firm even if/after you are let in (endowments: access to sports tickets [even if GPs pay], alumni network help; foundations: invite to events, investment committee contact, etc.). Maybe a once/year email with what is offered to gauge interest.

**Correct Use of Portals Responses (3 points):**

- Review online data available to them.

**Correct Use of Portals Responses (2 points):**

- Train new employees to use online data and review past accounting.

**Improve Understanding of Strategy Responses (3 points)**

- Understand strategy better.

**Improve Understanding of Strategy Responses (2 points)**

- Develop and enhance a long-term investment view.

**Improve Understanding of Strategy (1 point):**

- Remember this is about making money in an ethical way, not to fulfill certain activists' beliefs.

**LPA Document Issues (3 points):**

- Share best practices intel received from various GPs.

**Reasonable Financial Reports Responses (2 points):**

- Reasonable requests for transparency.

**Timely Payments Responses (2 points)**

- Make payments on time.

**Miscellaneous Comments (2 points):**

- Standardize investment confirmation process.

**About RFG**

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RFG also provides consulting on an hourly basis to select clients. Because the CEO is an experienced high-level lawyer, consulting includes provision of legal services through an affiliated law office.

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