ILPA or Invest Europe? Reporting guidelines explored

Reporting guidelines: Straight-jacket or well-needed consistency?

Providing consistent reporting for Limited Partner investors is sometimes a tricky task when trying to compare results under different frameworks and reporting standards.

That said, the report of the fund issued to its investor base each quarter is the most tangible 'product' that a manager's clients will see in lieu of cash. Investor finance teams will obviously need them to monitor performance, but their investment teams will want a good read, qualitative as well as quantitative information, and the manager will want to 'stand out from the crowd'.

The most widely used guidelines are ILPA (the 'Institutional Limited Partners Association') and those of Invest Europe, and in our experience it is ILPA's reporting that is most regularly directly requested by LPs, usually those based in North America.

Overview

ILPA and Invest Europe are actually remarkably similar in how the information they recommend is presented.

ILPA is very much geared towards automated checking and uploading into tracking software, meaning the capital account statement and fees report are templated in Excel documents, in a relatively consistent format. They are tabular in an Investor, Fund, GP-specific column approach, and as a result there can be duplicated information in different sections to cross reference. Elsewhere for the reports, whilst there are best practice formats, there is no prescribed template to complete.

Invest Europe is less prescribed in that there is no downloadable template to complete each quarter, but there are more formatted 'pages' to their reporting

framework. Static data regarding the fund is disclosed in a list, and as well as financial statements, formal fund overview, performance, fees, bridge financing and cash flow tables are all part of the reporting pack.

There's actually very little difference between the two frameworks – mostly specific static information around the fund's policies and service providers, and some portfolio metrics such as holding periods in Invest Europe and gross TVPIs for prior periods in ILPA, but nothing that would be immediately evident to a user of the reports. So, ultimately, it comes down to presentation.

Is there a 'best' way?

There isn't going to be one right way for the fund to report, but rather external pressures will bear influence.

As mentioned above, ILPA is widely adopted in America, and if the fund's investor base largely comprises American pension funds or other institutions, it's likely ILPA will be requested. It's then a case of deciding whether all investors should receive ILPA, or if it'll only be done for specific investors. Again, those who do want ILPA capital account and fees reporting will most likely require it within Excel itself.

If you're talking about transparency in reporting, I'm a big proponent of Invest Europe's tabular capital account – a way of disclosing each investor's value while retaining confidentiality and reassuring investors that they are treated in line with others. That particular report also directly correlates the financial position of the fund to each investor's share, which usually covers the majority of investor queries.

If issuing individual capital account statements, this transparency and traceable correlation may be lost, but that can sometimes be the preference of managers.

The future

Numerical disclosure in quarterly reporting isn't really going to change as we move forward. Both ILPA and Invest Europe have strongly built the foundations of fund reporting.

However, how will the industry itself evolve? How will ESG policies and

performance be presented? As regulation changes, how will a manager best communicate their control frameworks with their investor base? What level of transparency should managers provide on each of their portfolio companies and exit strategies?

This is where reporting should become forward-looking; where the quarterly report becomes a marketing tool as well as a financial one.

Client view

Cards on the table, reporting the financial results of a fund isn't always the most exciting – undoubtedly necessary, but reporting guidelines have already standardised the quality of those disclosures. Where best-in-class can be achieved is through dynamic, personable communication with the fund's investor base.

Once ILPA or Invest Europe reporting guidelines have been chosen to be adopted, or even reframed, by a client, the presentation and consistency of financial information is largely set in stone. That being said, the reporting should always be reviewed based on feedback from the investor base, or by utilising the queries that are raised by them to continually meet expectations.

What's exciting is the information around the financials.

We've been working alongside a typesetter for many of our clients to build a brand-relevant, interesting quarterly reporting suite; one which highlights the manager's achievements, enabling reporting to be used for further marketing, lays out their portfolio for the investment teams of their investors to gain real insight into the 'story' of the fund, clarifies its place in the market, and, importantly, reports the fund's financial achievements.

The 'story' of the fund is an interesting concept. Strong reporting through a framework will always enable a user to compare results across their investment base, but the accuracy of that information and tying it in with the other information in the report is just as important.

Each portfolio company has its own tale to tell and the best reporting presents that sensibly while adding the personality of the manager, which is ultimately what the investor base is buying into. Our approach has always been to assist with that, proof-reading and cross-referring to build a quarterly reporting pack

that’s cohesive, authentic and individual.

It really can work as an ensemble, providing something which follows best practice but which also wholly embodies the unique personality of every fund.