PRIVATE INVESTMENT FUND UPDATE

HUNTON & WILLIAMS

ILPA Releases Version 2.0 of its Private Equity Principles

On January 11, 2011, the Institutional Limited Partners Association ("ILPA") released a revised version of its Private Equity Principles (the "ILPA Principles") and the first of its five recommended standardized reporting templates. A copy of the ILPA Principles is available here.

Since ILPA first published "Version 1.0" of the ILPA principles in 2009, it has received the endorsement of 140 industry organizations, consisting primarily of limited partner industry participants. The updated version of the ILPA Principles, known as "Version 2.0," was released after receiving feedback from limited partners, general partners and other industry participants.

Version 2.0 of the ILPA Principles continues to adhere to the guiding principles of: (1) alignment of interest; (2) governance; and (3) transparency. The ILPA Principles include three new appendices regarding Limited Partner Advisory Committee Best Practices, Carry Clawback Best Practice Considerations and Financial Reporting. ILPA provided these appendices with additional detail on specific aspects of application of the

guiding principles to offer a "deeper dive" into more complex issues. For example, the Carry Clawback Best Practice Considerations continues to endorse "European-style" full return distribution waterfalls, but provides additional recommendations in the event a "deal-by-deal" waterfall is used, such as establishing NAV coverage tests and interim clawbacks. The Carry Clawback appendix also recommends fair treatment of the tax burden associated with carry clawbacks, essentially stepping back from a more aggressive position regarding tax distributions in the original version of the ILPA Principles. ILPA believes the carry clawback calculation should be based on the actual tax situation of the General Partner and its principals, rather than assuming the highest hypothetical marginal tax rate for a particular jurisdiction, which substantially complicates the clawback calculation. ILPA indicated that they may provide additional appendices on other topics as industry practices evolve.

ILPA has also released the first of a series of Standardized Reporting Templates. An Excel® version of

the Capital Call and Distribution Notice Template is available on the ILPA website. ILPA indicated that Standardized Reporting Templates for annual and quarterly reporting and performance metrics are also in development. ILPA stressed that the templates are being developed in consultation with general partners.

Additional Information

The Hunton & Williams Private Investment Fund practice group regularly represents funds, sponsors and a variety of investors in all types of private investment fund matters, including structuring, formation, offerings and compliance. We will continue to monitor relevant trends and developments in private investment fund law.

For additional information on financial industry recovery proposals, see our related memoranda, available on www.huntonfinancialindustryrecovery.com. For additional information on recent legislation and regulations relating to regulation of private investment funds and their advisers, see our prior memoranda available on our website at www.hunton.com.

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