

## Limited Partner Advisory Panels Seen to Fall Short on Representation

*A misalignment of interests between large and small fund investors can become more pronounced during times of economic stress*

*By Preeti Singh*

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Most investors in private-equity funds sit on at least one limited partner advisory committee overseeing fund governance, but a majority say these panels don't represent all investors equally, a new survey shows.

The global poll of 107 investors found that 85% were members of at least one of the advisory committees overseeing funds their organization backed, and 23% sat on such panels for more than half of their funds.

Although almost two-thirds of those surveyed for Collier Capital's Global Private Equity Barometer Summer 2020 said committee seats were allocated appropriately, about the same proportion said the panels didn't, in practice, provide equal representation of all investors in the underlying funds.

Some say the misalignment can result from the preferences that fund general partners had when it comes to the composition of the committees, often referred to as LPACs.

"Most GPs want their LPAC to represent their capital-weighted investor base, so they are typically comprised of just five or seven largest investors," said Mark Steed, the chief investment officer for Arizona's Public Safety Personnel Retirement System. The pension system had almost \$10.2 billion in assets at the end of March.

One investment adviser said GPs sometimes prefer to put thought leaders from among their LPs on fund advisory committees. "The hope from both the GP and LP is that a closer relationship will manifest into a tighter bond leading to a symbiotic association," the adviser said.

But the goals of investors with very large amounts of cash could often differ from those with far less, according to a LP and investment advisers.

For instance, investors with smaller amounts of capital are often more focused on a single fund, while larger investors, sometimes backing multiple funds from the same manager, are "thinking about two or three vintages down the road," said Jason Scharfman, a managing director and the head of compliance monitoring and testing at Corgentum Consulting LLC. Corgentum provides operational due diligence reviews and background investigations for fund managers as well as independent compliance, monitoring and testing services.

Misalignment and even conflicts of interest can occur when investors wear many hats, the investment professionals said. For an investor who also engages in co-investing or backs

secondaries funds, “a seat on the LPAC could give you a window to information that could be useful to enhance those activities,” they said.

The goals of larger and smaller investors also can diverge during exceptional times such as the current recession caused by the coronavirus pandemic, Mr. Scharfman said.

“Liquidity might not be a big issue for very large investors, but can be a deal breaker for smaller ones who are already facing a liquidity crunch,” one of the investment advisers said. Similar divergent interests can also arise when advisory committees approve investment-period extensions and amendments on recycling capital.

The Institutional Limited Partners Association, which represents investors in private-equity funds, has addressed representational diversity issues. In the most recent ILPA Principles statement in 2019, the organization said that committees “composed entirely of the fund’s largest LPs may lack the representational diversity of perspective on certain matters.”

But many investors have found ways to make sure that LP committees listen to their concerns, according to people familiar with such situations. In some cases, investors have negotiated a requirement for unanimous approval by LPs before a fund manager can make cross-fund investments and for the removal of a GP.

As for investors who aren’t members of a fund’s committee, Mr. Scharfman said some have worked hard to build a relationship with GPs to ensure that their voices are heard.

Still, 78% of investors in the Coller survey, including those with reservations on how well committees represent all LPs, agreed that the panels usually do a good job. In any case, GPs normally choose which LPs can serve on advisory committees.

“LPs want to make sure someone on the LPAC is advocating for them. Ultimately, it will be up to the GP to make the final decision, but the LPACs have considerable influence,” said Sanjay Agarwal, a partner and tax services leader at professional services firm Macias Gini & O’Connell LLP.

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