



Improving Fund Reporting

MIF-Babson Private Equity Conference

Boston
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Pressure from Institutional Investors

- International Financial Institutions (IFIs) investing in developing common reporting standards
- Small Business Investment Corporation (SBIC) building standards for oversight, risk review and valuations
- Private institutions increasingly concerned about governance

Results of MIF Independent Evaluation



- Revamping the Monitoring and Evaluation System is an *“urgent task”*
- *“Data is not consolidated in a way that can be readily accessible, compared or reviewed”*
- *“Limited amount of information [...] particularly with respect to cash flows”*
- *“Reporting frequency not high enough to track the portfolio’s condition adequately”*



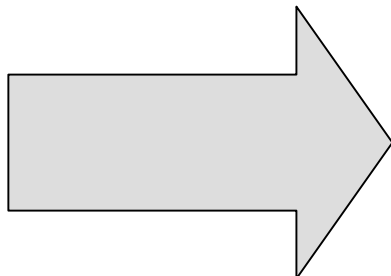
Benefits Go Both Ways

- **Reputational Effects**

- Lack of transparency is biggest fear of institutional investors: Transparency builds good reputation which can be leveraged in raising follow-on funds

- **Need for Trust**

- For investors, it's better to get the bad news directly than from a third party, sooner rather than later
- Investors always assume the worst of a fund manager in whom they have lost trust



**The benefits of good reporting
show up in the long run**



Possible Concerns

- Reporting is just extra work. Time could be better spent elsewhere
 - Investors require basic information, complete and regularly updated
 - Accountability necessary for good management
- Confidentiality Issues
 - IDB/MIF has no commercial interests
 - No reason to favor one fund over another
- Others?



Issues to Address

- Identify and track limited number of “Key Performance Drivers” (e.g., margins, cash, product quality etc.)
- Tracking of investee company performance relative to initial expectations
- Consistency in calculation methods and information provided
- Standardized reporting format for each Fund



Elements of Thorough Reporting

1. *Fund Performance*

- General information on Fund
- Update on Fund
 - Amount drawn, invested, distributed, realized
 - Material changes in valuation
 - Breakdown of management fees, operating expenses and fees received
 - Statement of compliance with covenants and legal

2. *Portfolio Report*

- General Information on each Investee Company
- Update on Investees
 - Investment, divestment, distribution amounts
 - Valuation with transparent assumptions and calculations
 - Report on significant events
 - Update on exit strategy

3. *Capital Account*

- Changes to each investor's capital account