



2018 BOSTON INVESTMENT MANAGEMENT
CONFERENCE – November 28, 2018

Private Fund and Institutional Investor Developments

Speakers:

Joel D. Almquist, *Partner*, K&L Gates

Benjamin R. Deschaine, *CIO*, Balter Capital Management

Andrew Fagenholz, *Senior Legal Counsel*, Cambridge Associates

Pamela A. Grossetti, *Of Counsel*, K&L Gates

Moderator:

Kenneth Holston, *Partner*, K&L Gates

AGENDA

- Developments in Liquid Alternative Investing
- Recent Tax Changes Affecting Private Funds
- Q&A with Andrew Fagenholz and Benjamin R. Deschaine
- GIPS 2020





Developments in Liquid Alternative Investing



BENJAMIN R. DESCHAINE, CIO, BALTER CAPITAL MANAGEMENT





Recent Tax Changes Affecting Private Funds

RECENT TAX CHANGES AFFECTING PRIVATE FUNDS

- Suspension of deductibility of miscellaneous itemized deductions
- Three-year holding period for long-term capital gain treatment for general partner's carried interest
- Withholding tax on sale of partnership interests by non-U.S. partners



RECENT TAX CHANGES AFFECTING PRIVATE FUNDS (CONT.)

- Changes to definition of “controlled foreign corporation” (“**CFC**”)
- Addition to CFC anti-deferral rules of a new type of income -- global intangible low-taxed income (“**GILTI**”)
- New partnership tax audit rules go into effect





Q&A with Andrew Fagenholz and Benjamin R. Deschaine

**ANDREW FAGENHOLZ, SENIOR LEGAL
COUNSEL, CAMBRIDGE ASSOCIATES**

**BENJAMIN R. DESCHAINED, CIO, BALTER
CAPITAL MANAGEMENT**





The top half of the slide features a dark blue background with a glowing world map on the left, composed of a grid of light blue dots. To the right of the map is a bar chart with vertical bars of varying heights in shades of orange and yellow. Several data points are highlighted with red and orange circles. The overall aesthetic is futuristic and data-oriented.

GIPS 2020

GIPS STANDARDS: TIMELINE

2010

- Release of Current Edition of GIPS

2018

- Release of 2020 Exposure Draft
- Comment period open until **December 31, 2018**

2019

- Final version of 2020 Edition released **June 30, 2019**

2020

- 2020 Edition effective **January 1, 2020**

GIPS STANDARDS: OVERVIEW

- Voluntary ethical principles for the reporting of investment performance results administered by the CFA Institute
- Purposes of the GIPS Standards
 - Facilitate apples-to-apples comparison
 - Fair representation & full disclosure
 - Ensure accurate & consistent data
 - Foster industry-wide best practices and self-regulation
 - Enhanced internal controls as well as marketing benefits

GIPS 2020: OVERVIEW

- **Core principals**
 - Increasing relevance and adoption by alternative investment managers, fund managers, and private wealth managers
 - Increased adoption and demand by asset owners
 - Streamline structure of GIPS and remove unnecessary barriers
- **Proposals impact private funds**
 - More accessible to managers of private equity, hedge, real estate, private credit, and other “limited distribution pooled funds”
 - More relevant to managers of illiquid assets such as private equity, private credit, and real estate

PRIVATE EQUITY AND CREDIT FUNDS

- GIPS 2020 proposals provide 3 important incentives to private equity and credit managers
 - Pooled fund reports
 - Flexible return calculation options
 - Carve outs
- MWR allows inception-to-date IRR or any other money-weighted calculation
- Carve outs
 - Inability to allocate cash has represented a significant disincentive to private equity and private credit managers
 - GIPS compliance will no longer hinder firms from developing new and modified strategies



HEDGE FUNDS

- Pooled fund reports address some hedge fund manager concerns regarding GIPS compliance
 - Pooled fund managers are not selling participation in a composite but rather participation in a pooled fund
- Will hedge fund managers now pursue GIPS compliance?
 - Look to institutional investor community to drive behavior
 - Incremental benefits over annual audit
- In the U.S., fund-specific materials still subject to FINRA rules and '33 Act securities offering rules and guidelines



K&L GATES