

Learning from LPACs

LPACs have become commonplace in the private equity industry – and are on their way to becoming standard practice, if they are not there already.

There used to be a large degree of scepticism surrounding LPACs; especially with regard to their ability to do much to improve governance standards at partnership structures. In the good old days limited partners just had to accept that they had little control over the general partner; and when LPACs first came in not much was expected to change in this regard.

But things are changing. And indeed they might be changing more quickly than many people realise. Research that IFI Global is doing with LPs and GPs on private equity fund governance at present shows that many investors will simply not consider making an allocation to a private fund unless it has an LPAC in place. And it is not just that there must be a fully functioning LPAC; growing numbers of prospective institutional allocators now do due diligence on who is on the LPAC. They want to know who they are, why they have been selected and what it is that they actually do. The days when the LPAC was dominated by the GPs' friends are coming to an end.

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Irish director capacity problems

Brexit is likely to force the Irish to change director residency rules. Central Bank Governor Philip Lane has made clear that fund managers, amongst others moving over from the UK to escape Brexit, will need to have real substance if they want to set up in Ireland. But CP 86 residency rules will make that very difficult to do.

There are already serious director capacity problems in Ireland. As The NED covered recently there are said to be 13 Irish fund directors with 652 directorships between them. The CBI is cracking down on any directors that have more than 20 fund board positions or who are doing more than 2,000 hours of work annually. Holding more than 20 directorships triggers an automatic inspection by the CBI.

The problem in Ireland is twofold. The two director residency rule looks archaic in the modern communications era – especially for a country that lives right next door to the UK, where there are vast numbers of flights, almost all of which take less than an hour to get to Dublin.

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