



WEBINAR

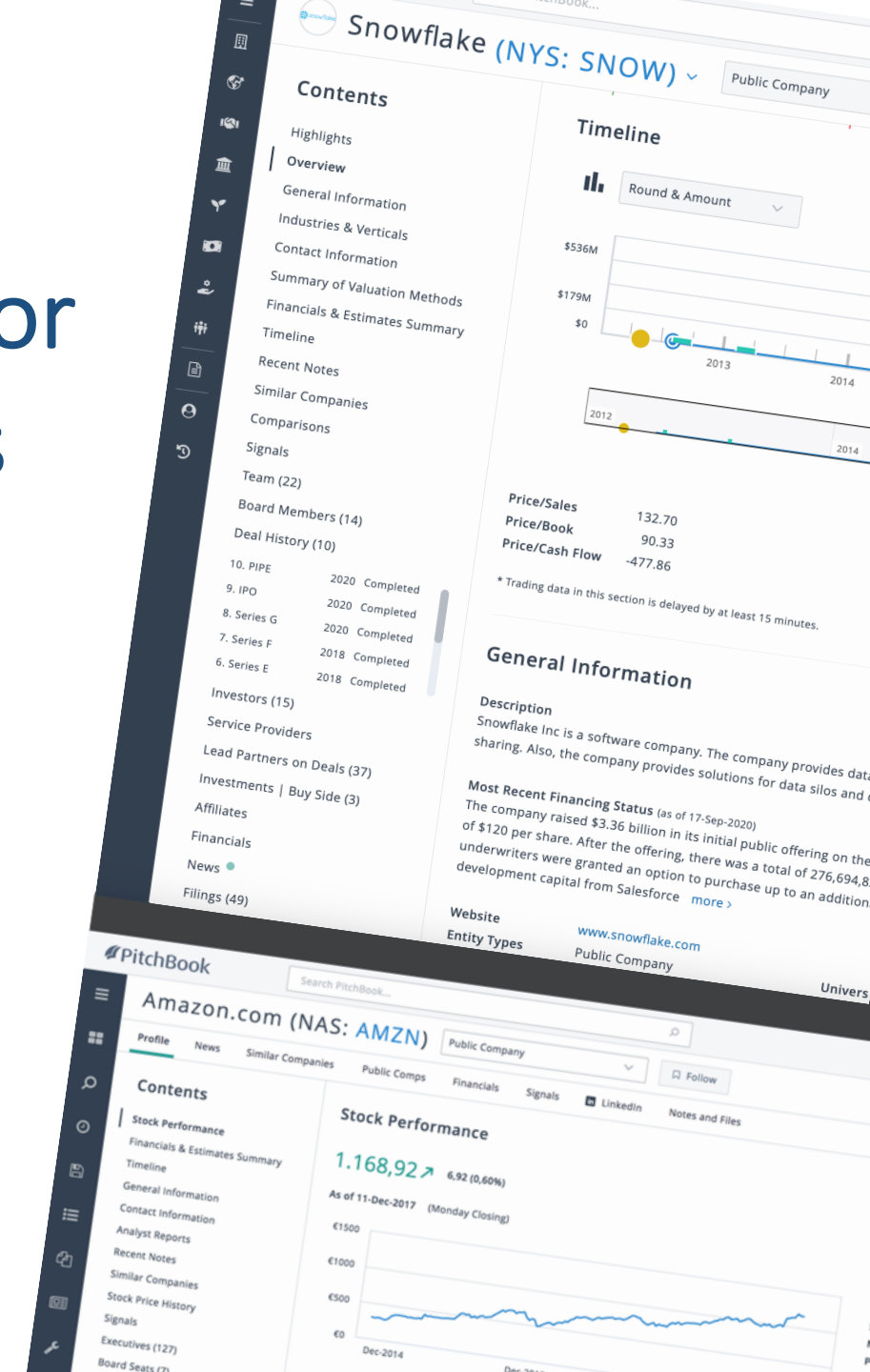
Unraveling Fund Fees and Terms: Understanding cash flow management for the private markets

Data as of Q2 2020



PitchBook: The leading resource for private and public market analysis

PitchBook is a financial technology company that provides data on the capital markets to help professionals discover and execute opportunities with confidence and efficiency. We collect and analyze detailed data on the entire venture capital, private equity and M&A landscape—including public and private companies, investors, funds, investments, exits and people. Our data and analysis are available through our suite of products (the PitchBook Platform), industry news and in-depth reports.



WEBINAR

Unraveling Fund Fees and Terms



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Research Coverage: Benchmarks & Fund Performance

PitchBook Benchmarks as of Q4 2019

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Global PE & VC Fund Performance Report

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The Fine Print: Unraveling Fund Fees and Terms

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Basics of Cash Flow Management

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Navigating a Private Capital Portfolio in a Storm

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QUANTITATIVE PERSPECTIVES

Q3 2020

Navigating a Private Capital Portfolio in a Storm

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The Fine Print: Unraveling Fund Fees and Terms Digging into financial implications of terms in limited partnership agreements

PitchBook is a Morningstar company. Comprehensive, accurate and hard-to-find data for professionals doing business in the private markets.

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Introduction

Limited partnership agreements (LPAs) are long, complex documents often summarized for investors or their fiduciarily responsible committees with a few key bullet points. These summaries by necessity leave out the language found deeper in the term paragraphs, but the nuances matter—sometimes more than the signers realize. This note walks through, in words and calculations, some of the trickier terms in an LPA that affect financial outcomes. We hope to better inform investors which LPA clauses are worth paying more attention to than they may have done previously.

When people think about the economics behind private fund structures, they often look at the management fee, incentive fee, and perhaps the hurdle (much more on these terms later), and believe they grasp what they need to know about these terms. However, there are a wide variety of ways to calculate each of these, making for financial results very different than a surface-level reading might cause investors to expect. Beyond fees, there are recycling provisions, hurdle rates, and clawbacks to consider, as they can ultimately affect final returns.

In concert with this note, PitchBook is building tools to help clients calculate the end results, in both dollars and performance, of the common and more

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Basics of Cash Flow Management

Author
James Gelfer

$$a = IRR(FV(C), FV(D), NAV_{t-1})$$

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PitchBook Benchmarks

PRIVATE MARKETS DATA
AS OF Q4 2019

PitchBook

Global Fund Performance Report

as of Q4 2019

Agenda

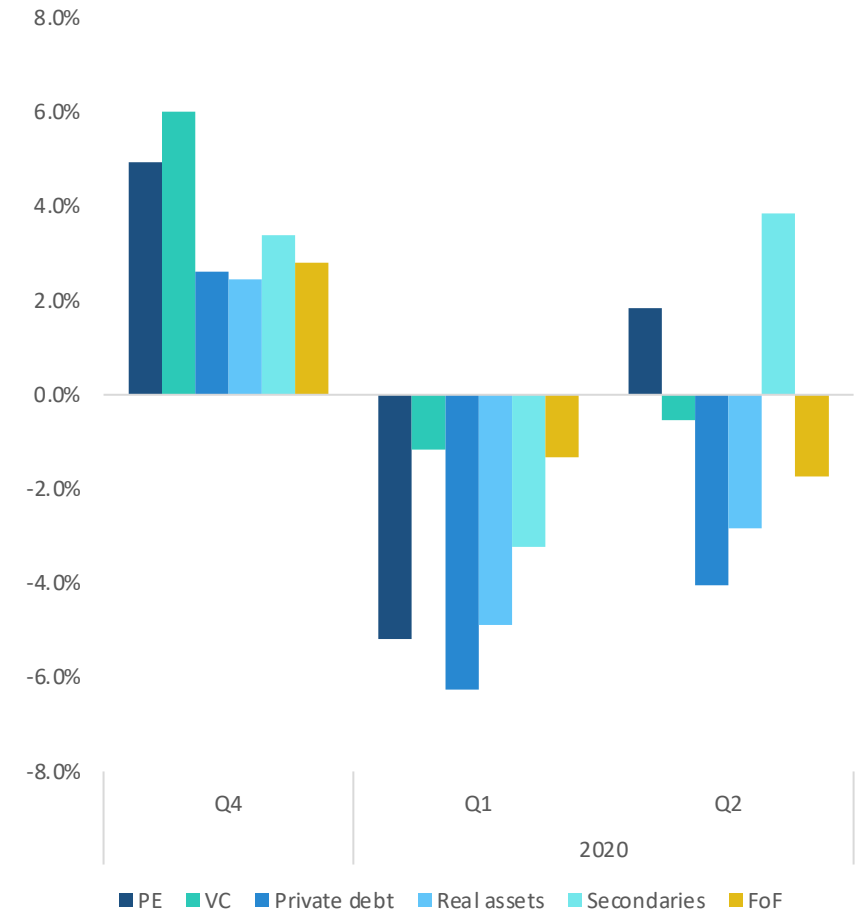
- 1 | Performance Review
- 2 | Recap of Fund Models
- 3 | Fund Terms
- 4 | Q&A

Performance Review

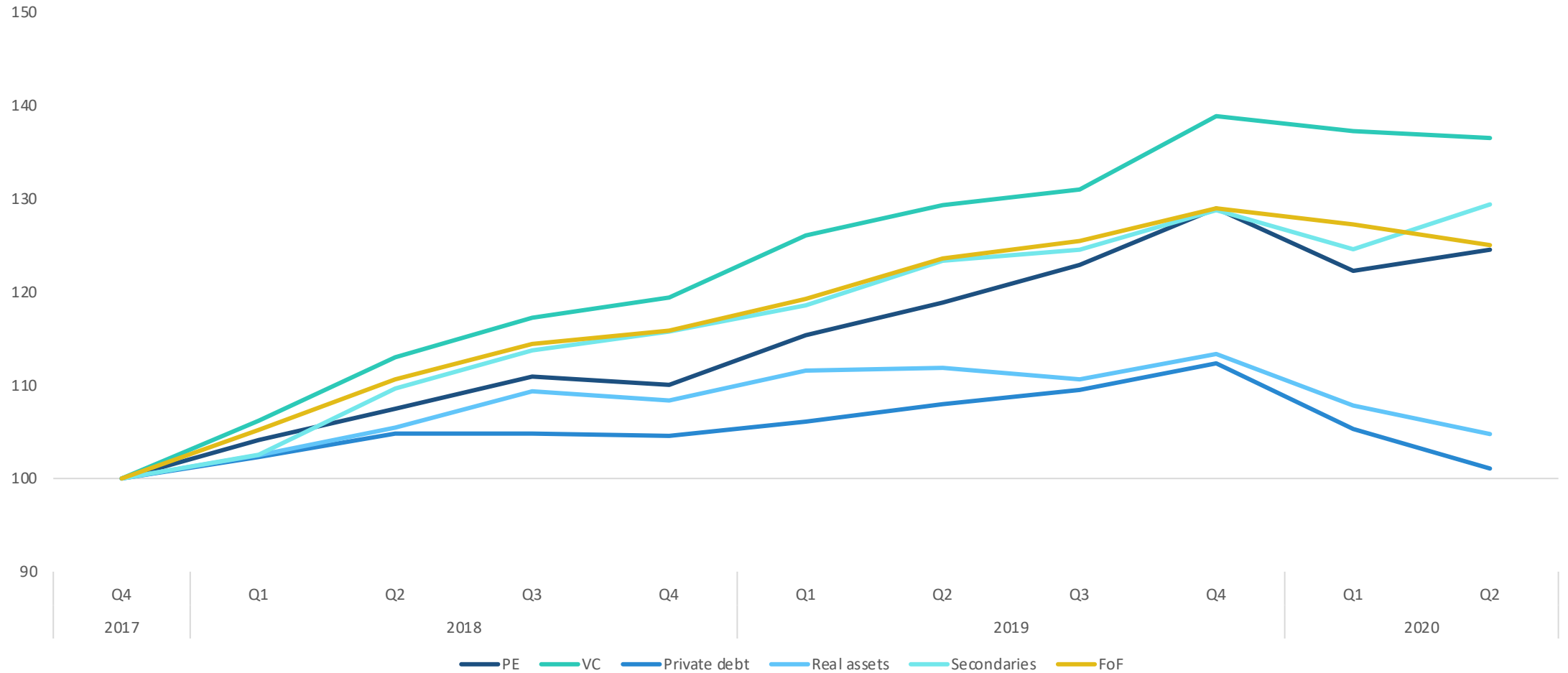
Poll: Which private market strategy do you expect to perform best in 2020?

- PE
- VC
- Debt
- Real Assets
- Secondaries
- FoF

Performance was turbulent in the first half of 2020

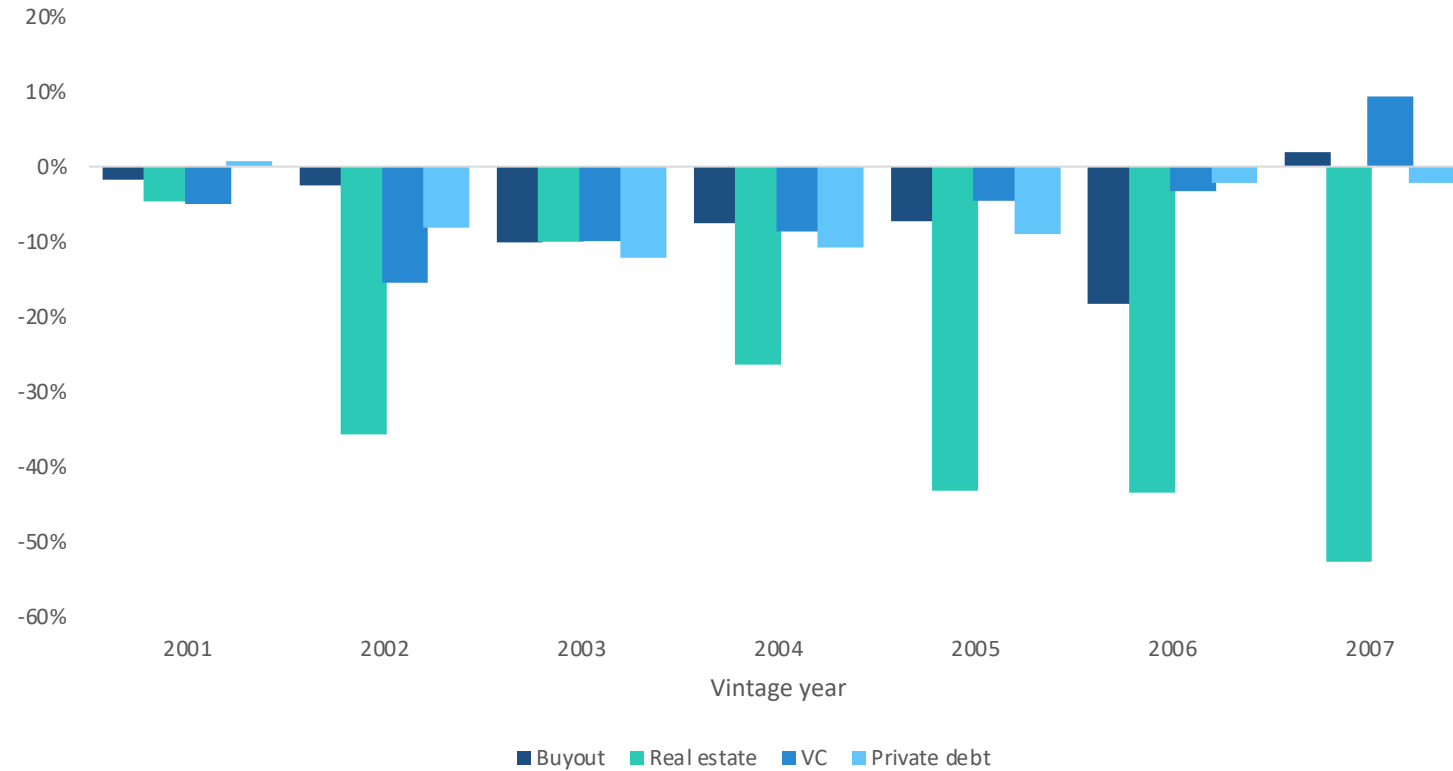


The pullback in early 2020 was relatively modest for most strategies, considering recent gains



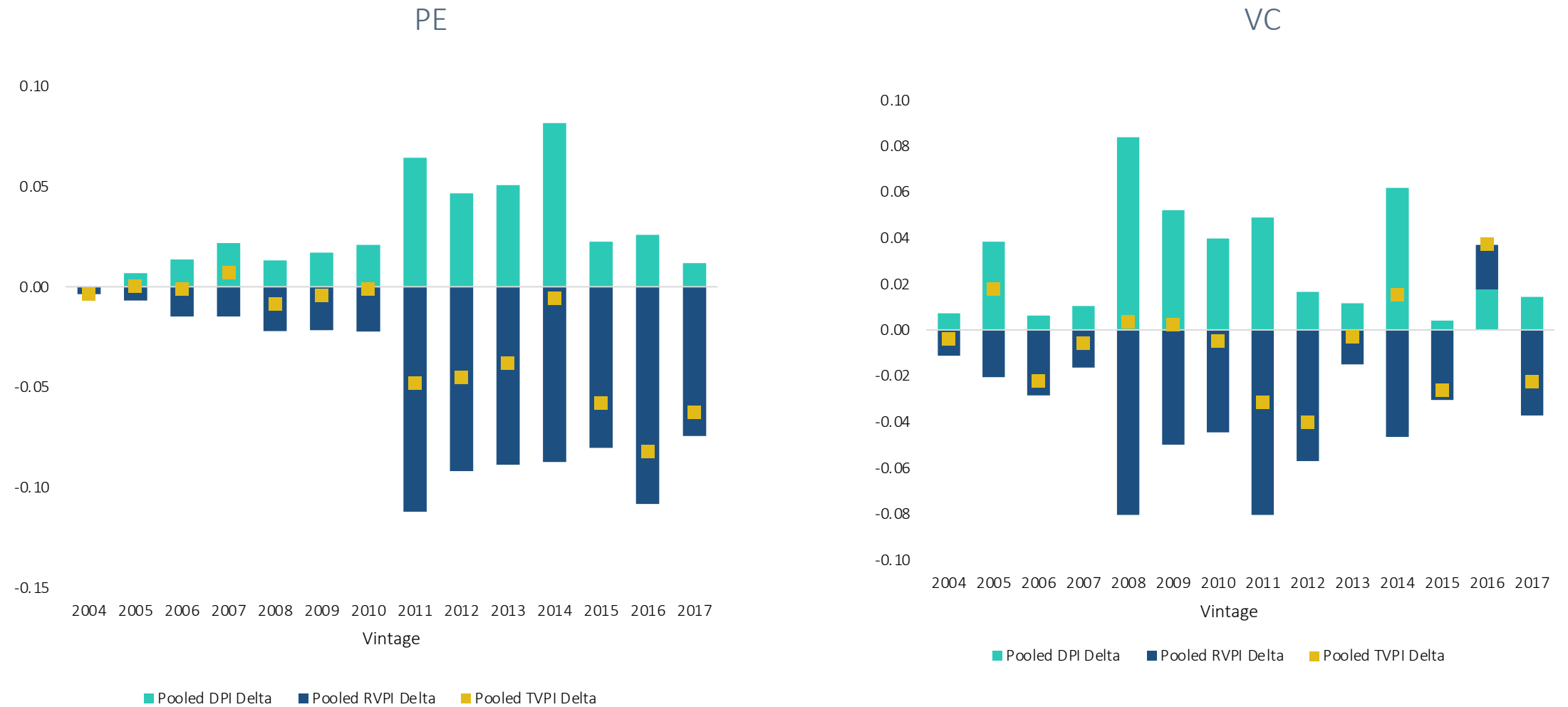
Change in TVPI from Q3 2007 to Q4 2009

Private market funds underwent large write-downs during the GFC

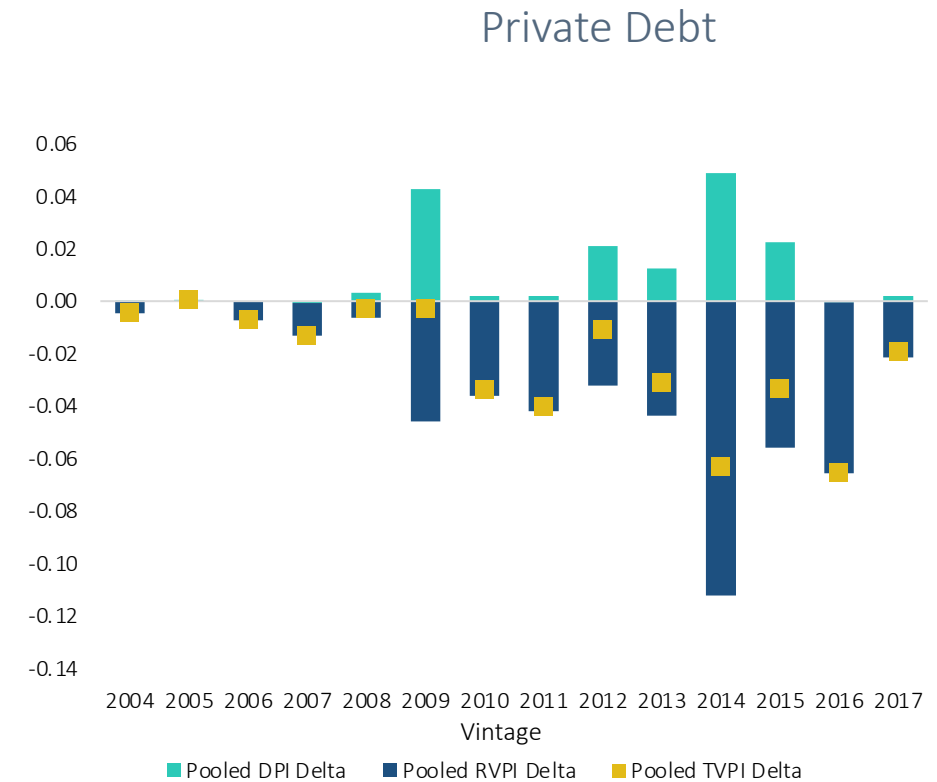
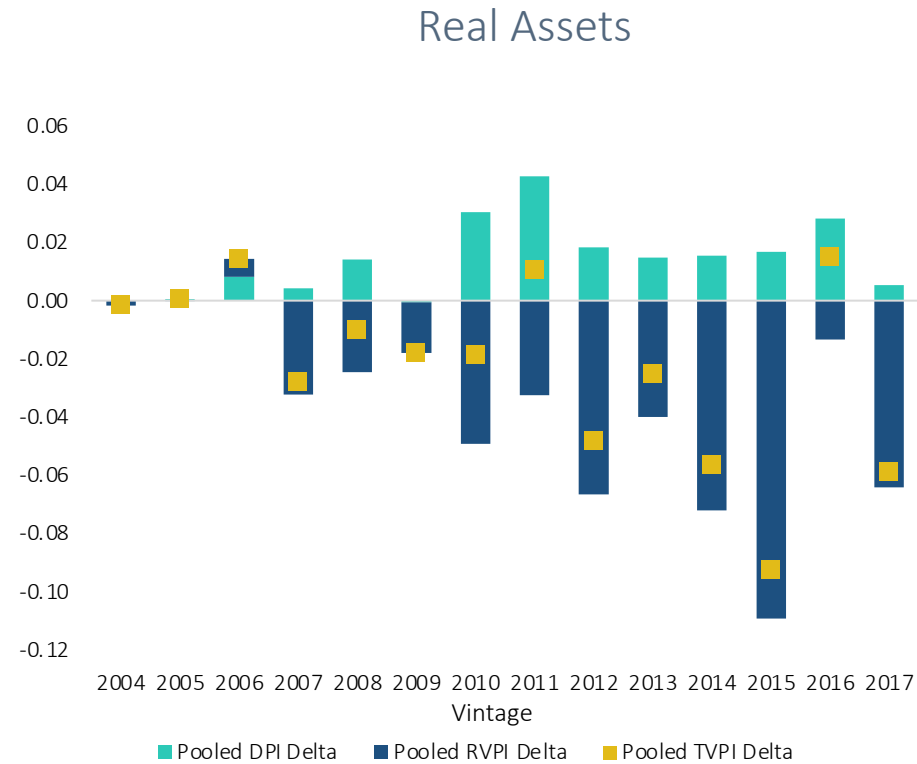


TVPI change from Q4 2019 to Q2 2020

PE strategies have seen bigger write-downs than in VC



Newer real asset funds have suffered the most during the pandemic



Cashflow Models

PitchBook introduces new commitment pacing and cash flow models



Greater transparency. More flexibility. Differentiated data.

PitchBook has leveraged our massive private fund database to develop several models to help limited partners (LPs) better navigate private markets. These new models offer foresight into planning for commitment pacing and preparing for capital calls, allowing the user to customize for their specific allocations and assumptions.

Download the full series, Basics of Cash Flow Management.
All the models introduced in this series are available to PitchBook clients.
We welcome any questions, comments, or inquiries at benchmarks@pitchbook.com.

Unraveling Fund Fees and Terms

Poll: What fee terms are top of mind in 2020?

- Hurdle rates
- Recycling provisions
- Fund extensions
- Clawbacks

Fund
terms are
more
than just
"2 & 20"



Elements of a Fee

Management fees paid over the life of a fund \approx
 $\{\text{commitment \$}\} \times \{\text{fee \%}\} \times \{\text{duration of the fund}\}$

- What can impact basis?
- What can impact the fee rate?
- What can impact fund time periods?

Why the hurdle is under attack

or why scale is important

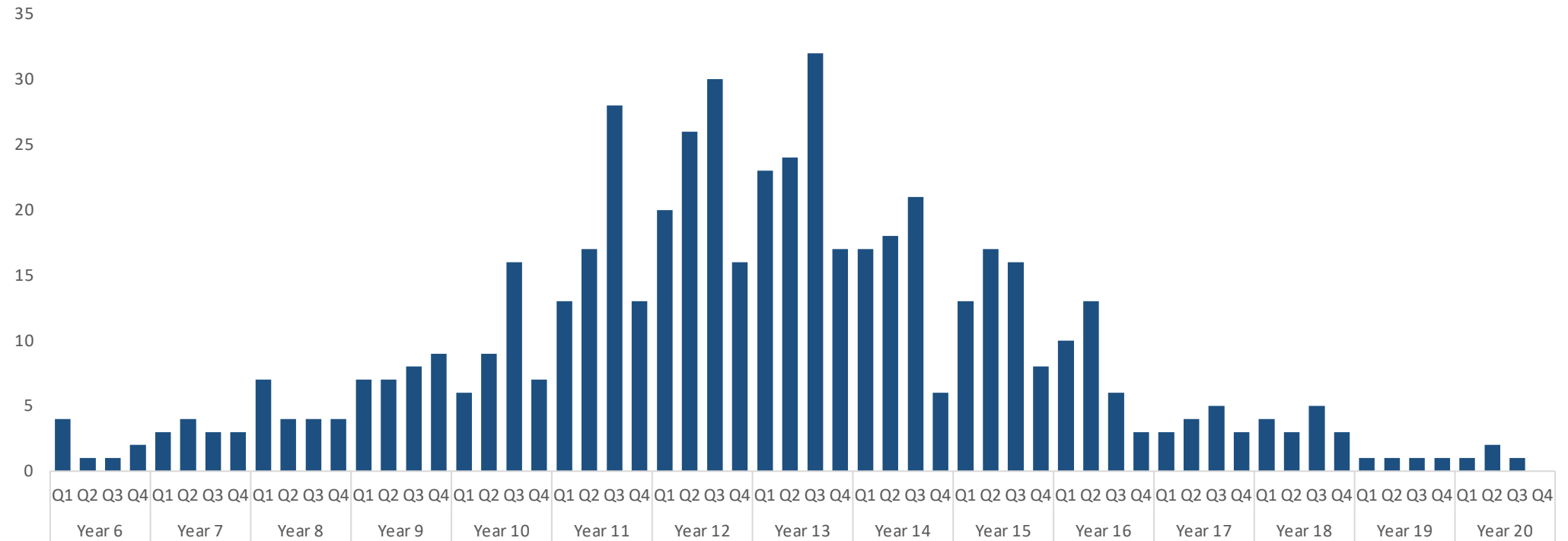
	2000	2020
5-year Treasury rate	6.5%	0.3%
Spread over borrowing rate	10%	10%
PE gross return	16.5%	10.3%
Hurdle rate/preferred return	8%	8%
Return available for catch-up	8.5%	2.3%

Recycling and Clawbacks

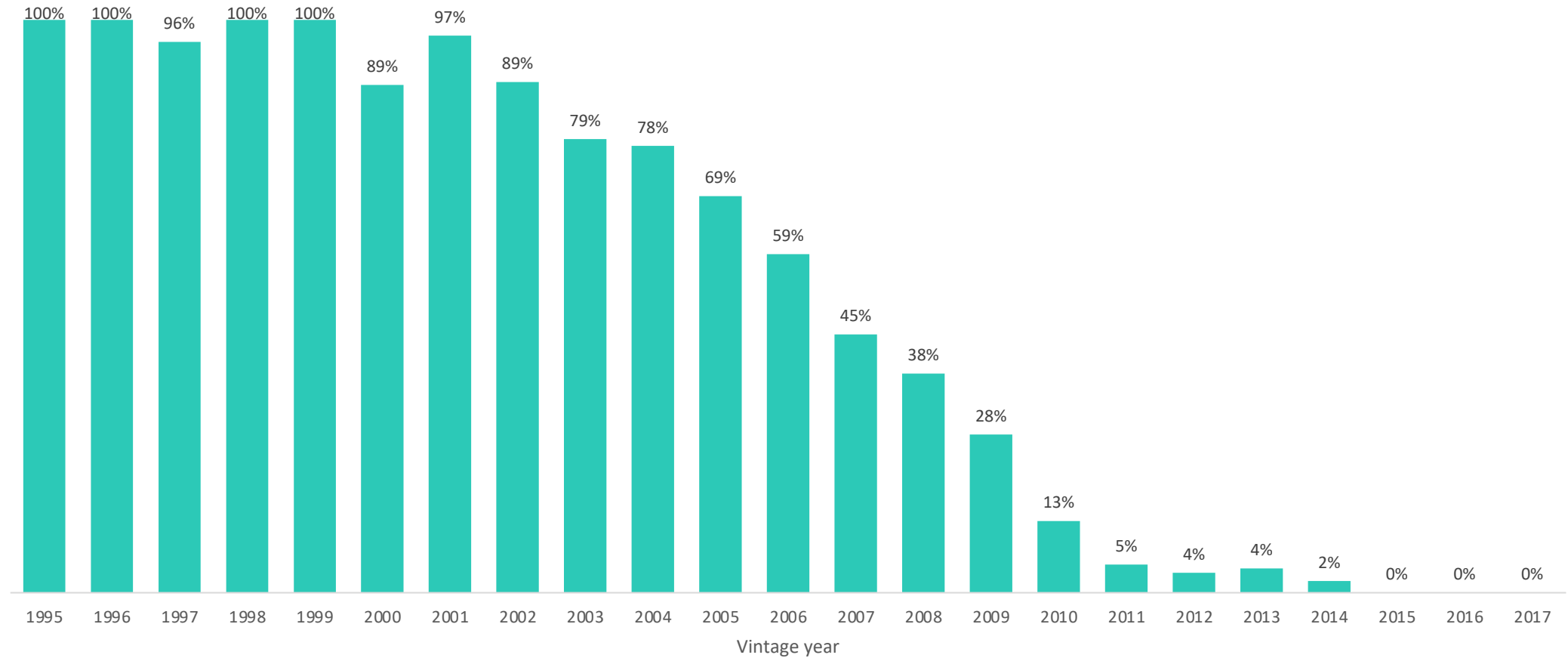
Date	Action	Scenario 1 cash flow	Scenario 2 cash flow
January 1, 2000	Call	\$1,000,000	\$1,000,000
January 1, 2003	Distribution	\$1,800,000	\$1,800,000
Investment 1 IRR		21.62%	21.62%
June 30, 2003	Capital recycled	\$1,000,000	\$1,000,000
January 1, 2007	Distribution	\$500,000	\$2,000,000
Investment 2 IRR		-17.92%	21.84%
Final gross IRR		6.75%	21.70%
Final multiple		1.15x	1.90x
Final cash profit		\$300,000	\$1,800,000

Number of PE funds to fully liquidate by quarter since inception

Most PE funds take significantly longer than 10 years to liquidate



Fund ages are likely to continue lengthening, with many old funds still yet to liquidate



Q&A

Please be sure to write all questions in the Q&A feature on Zoom



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