

Fees and Expenses 2014

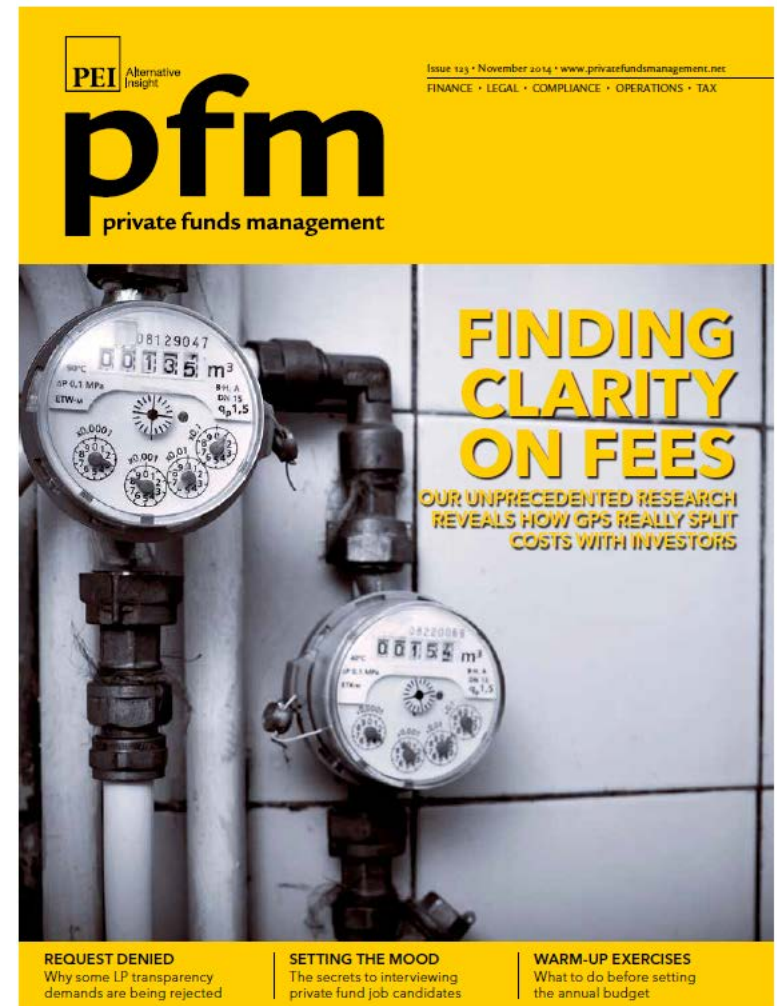
A Benchmarking Survey
with *pfm*



Anne Anquillare, Julia D. Corelli, Mark Heil, Gregory J. Nowak | December 18, 2014

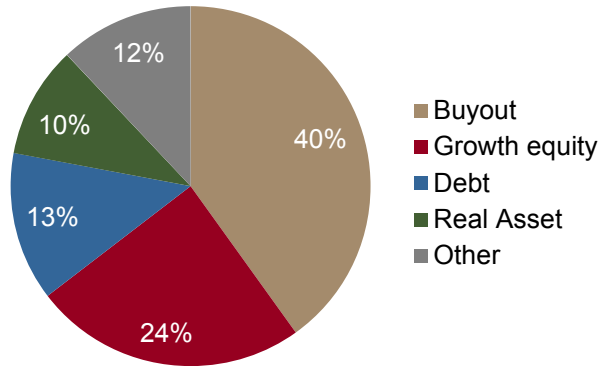
Introduction

- Survey of 104 U.S. alternative fund managers to examine their fee practices conducted by *pfm* in August and September 2014
- All answers broken out by *assets under management* and the *fund strategy* including buyout, growth equity, debt and real asset
- Results released in November 2014 edition of *pfm*.

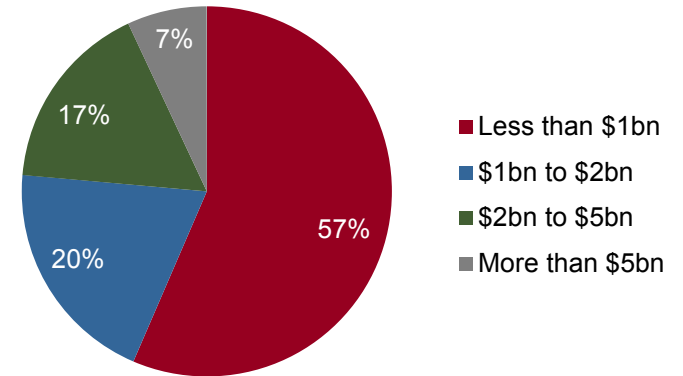


Demographics

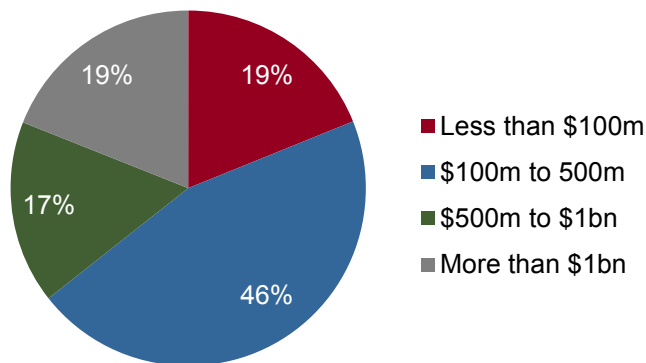
What type of investment firm best describes your firm below?



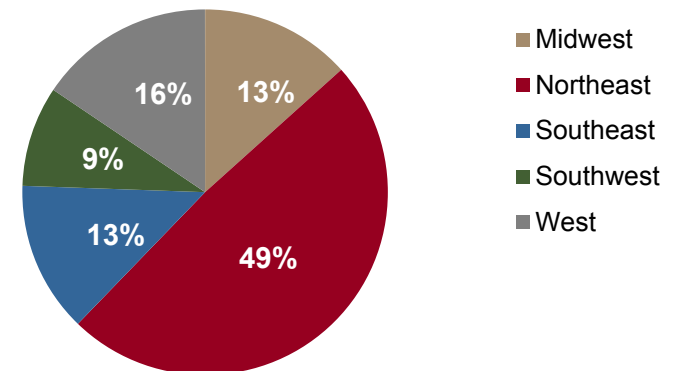
What is the total value of the firm's assets under management?



What is the size of your most recently closed fund (i.e., no longer raising capital)?

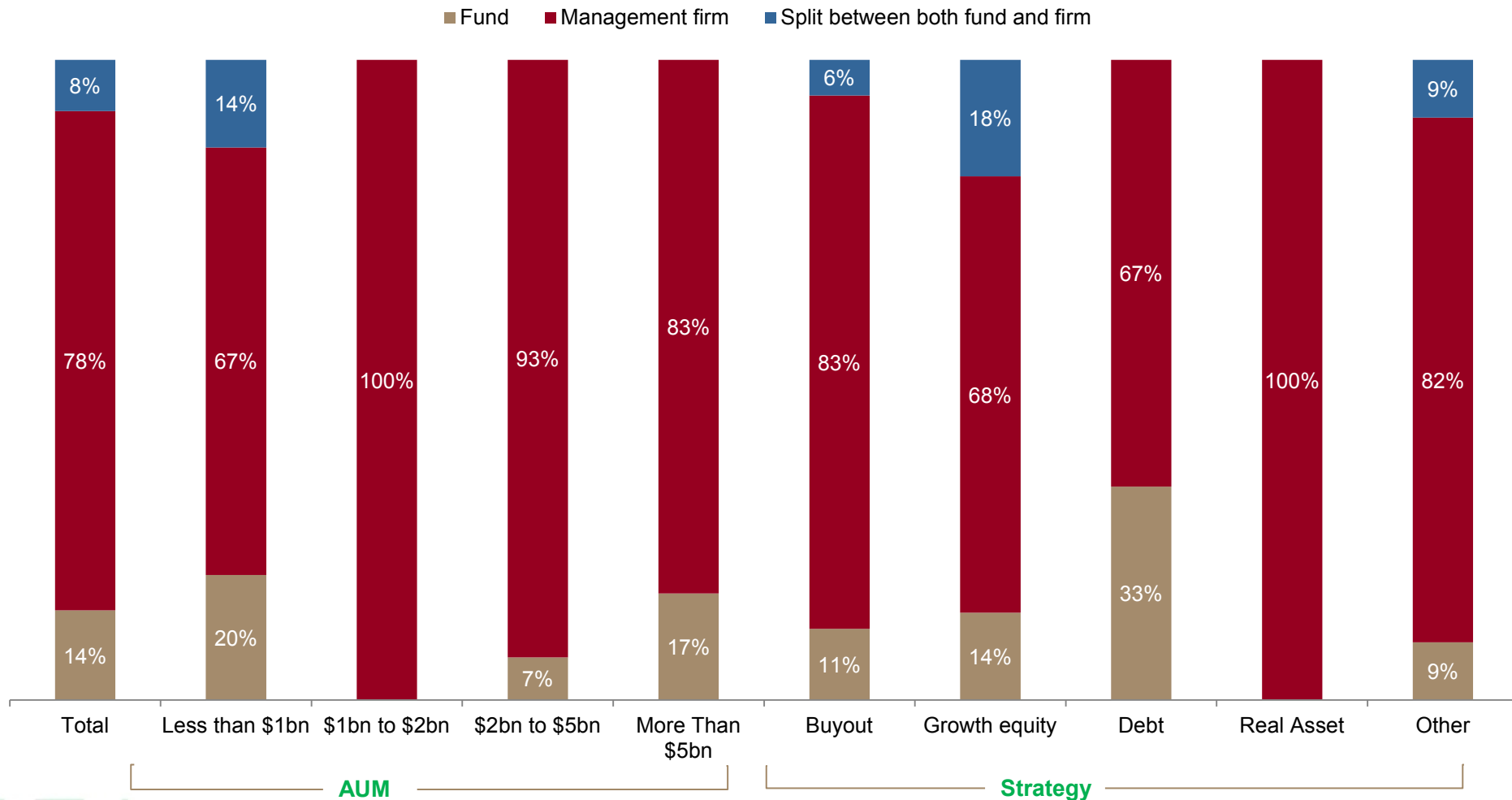


Where is your firm headquartered?



Question 1

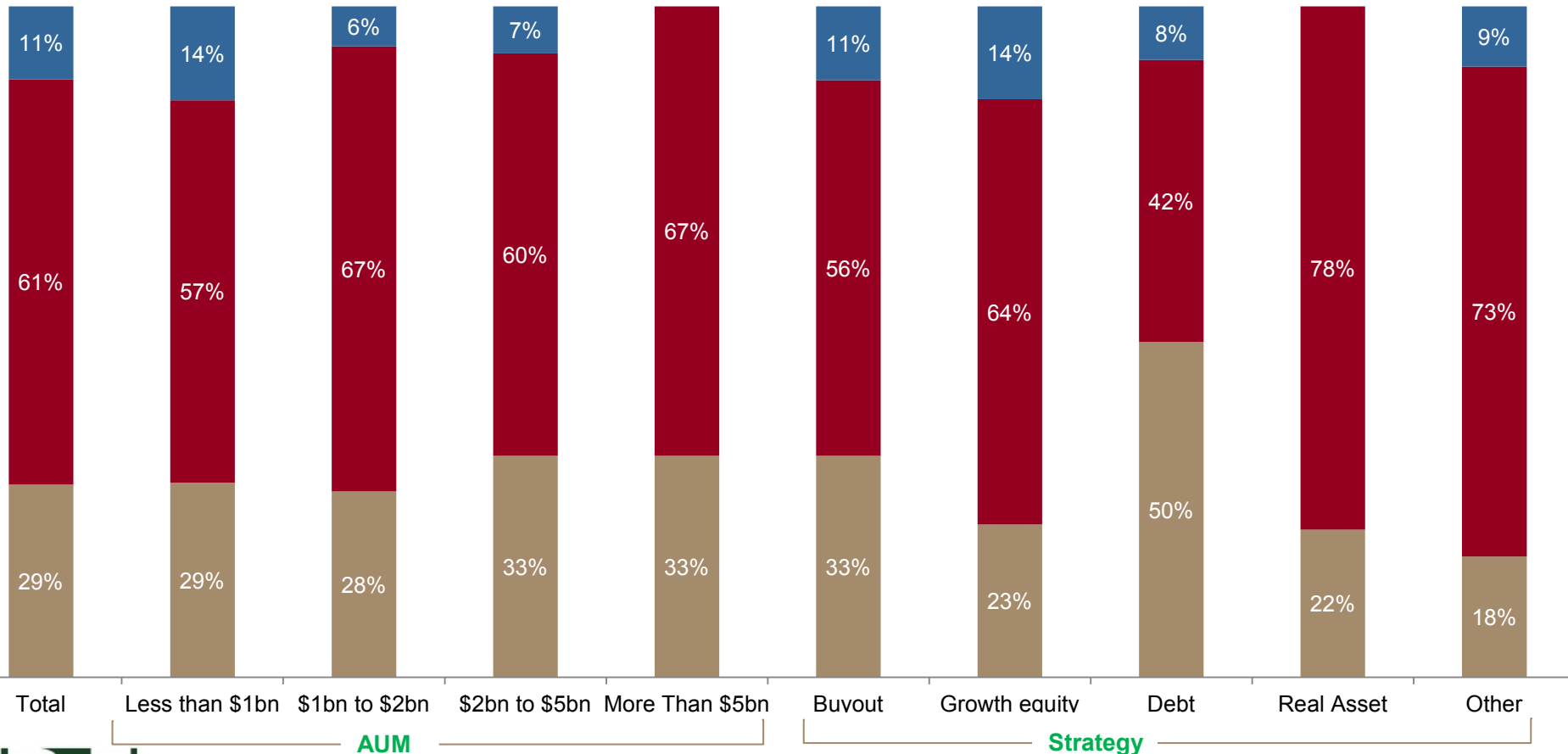
Your firm is visited by the SEC or state regulator for a routine regulatory examination and you enlist a law firm or consultant to help guide you through the process. Who pays the legal or consulting fees?



Question 2

Say the exam leads to a deficiency finding around valuations. You decide to redo the last two quarters' reports and deliver the new ones along with an explanatory letter to your limited partners. Who pays for the accounting and legal costs in getting through this correction process?

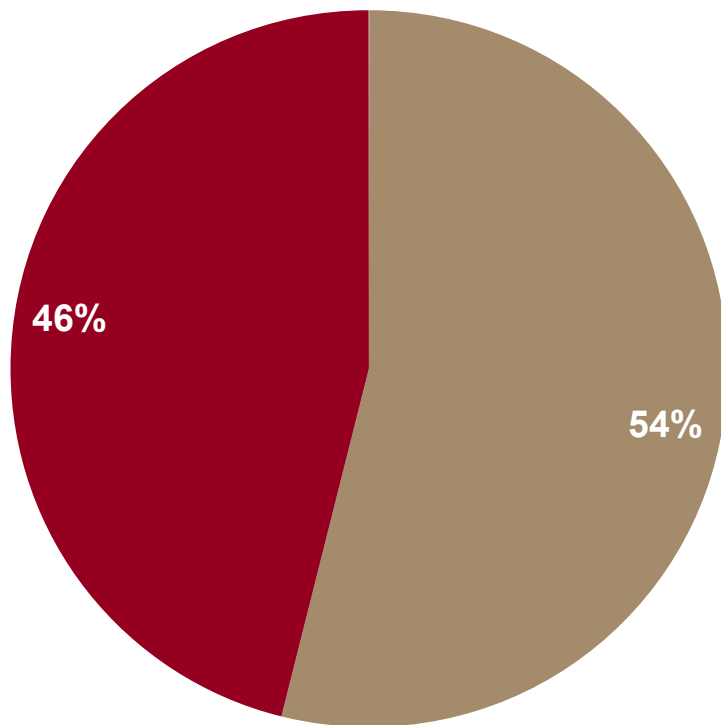
■ Fund ■ Management firm ■ Split between both fund and firm



Question 3

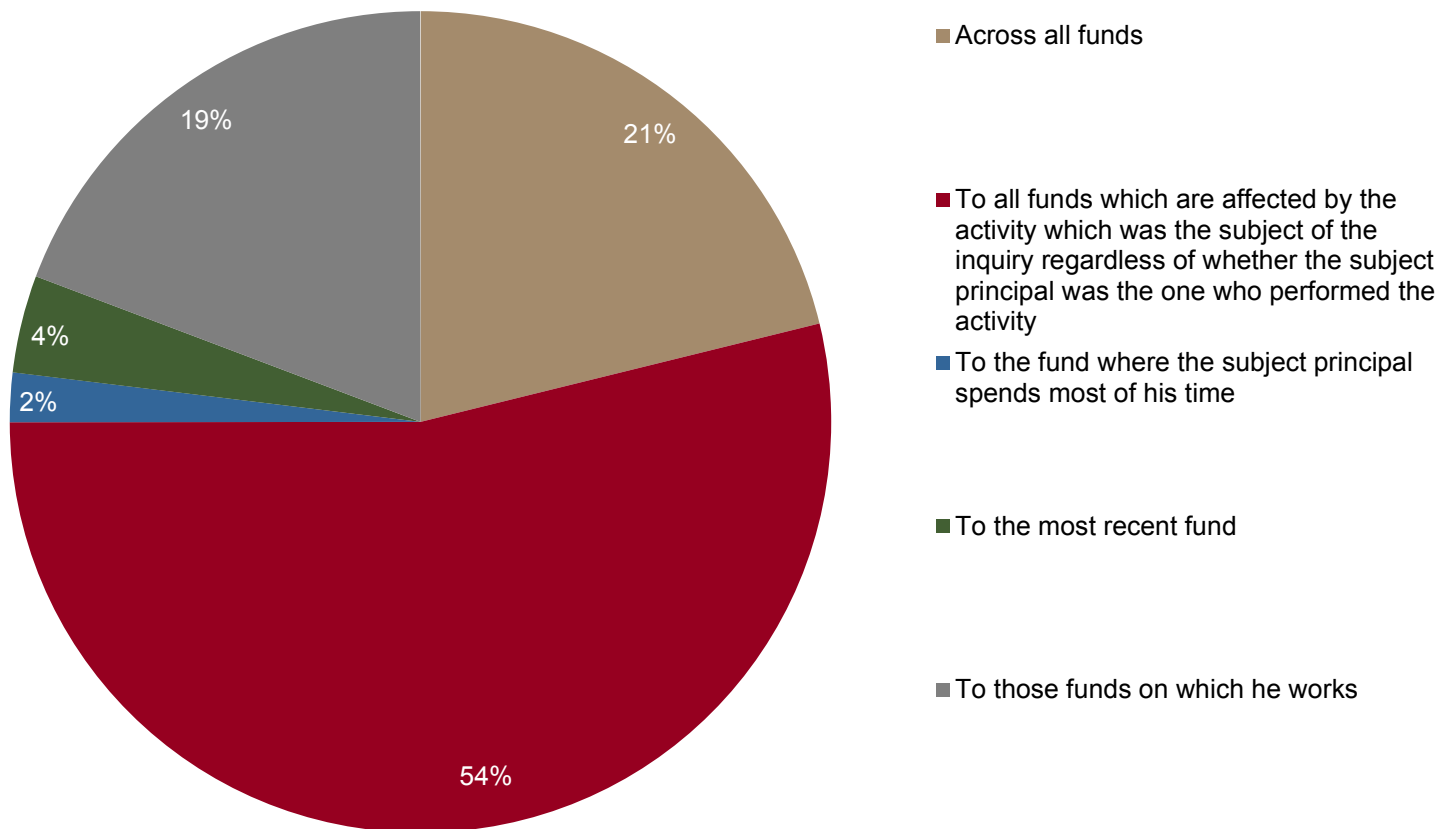
An individual principal within your firm is the subject of an inquiry from the SEC which could have potential criminal or civil sanctions. He protests innocence and settles without admission of liability. Does your fund provide indemnification for his costs?

■ No ■ Yes



Question 3 cont.

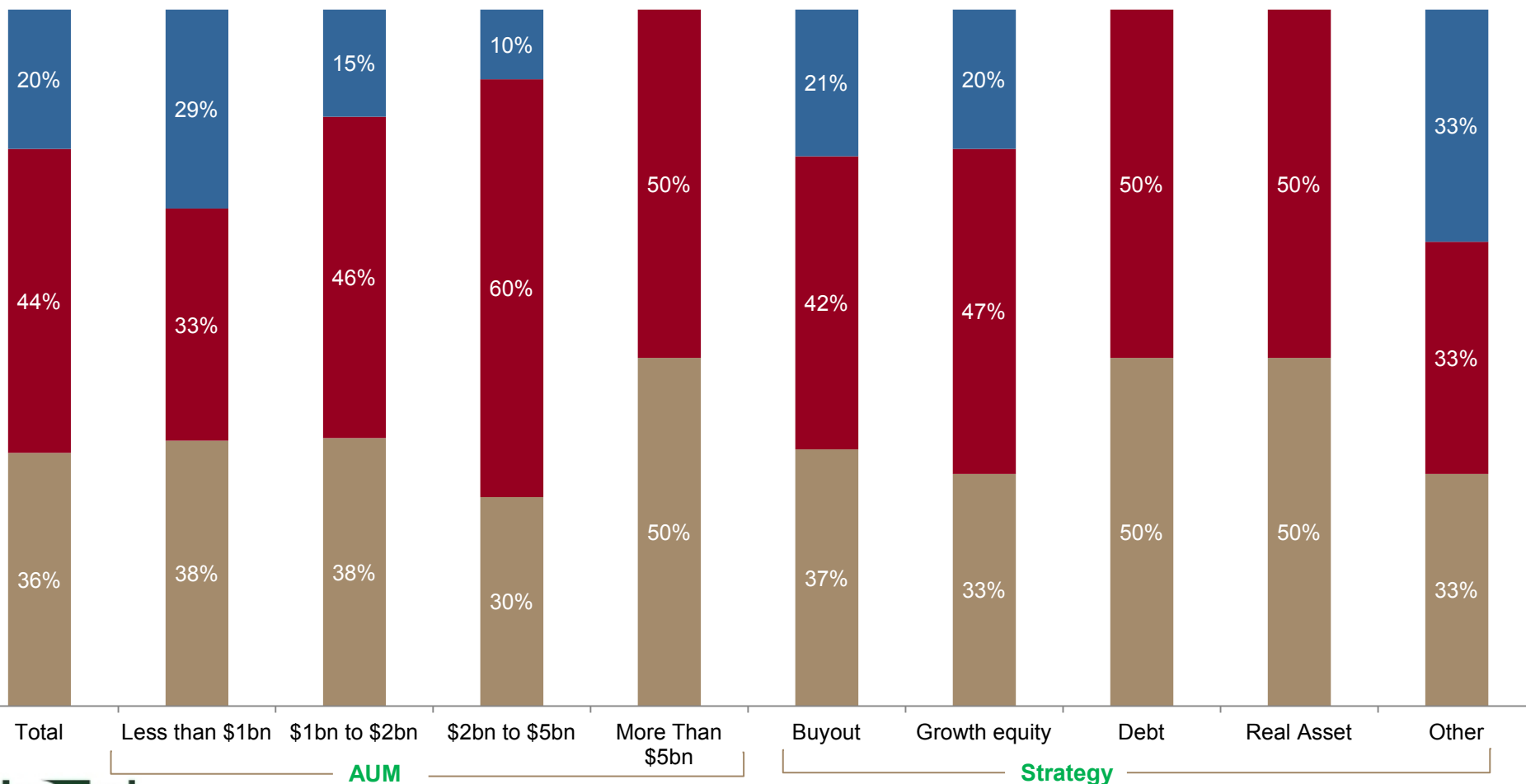
If the answer to Question 3 is yes, how do you determine which fund bears which proportion of the indemnification to him?



Question 4

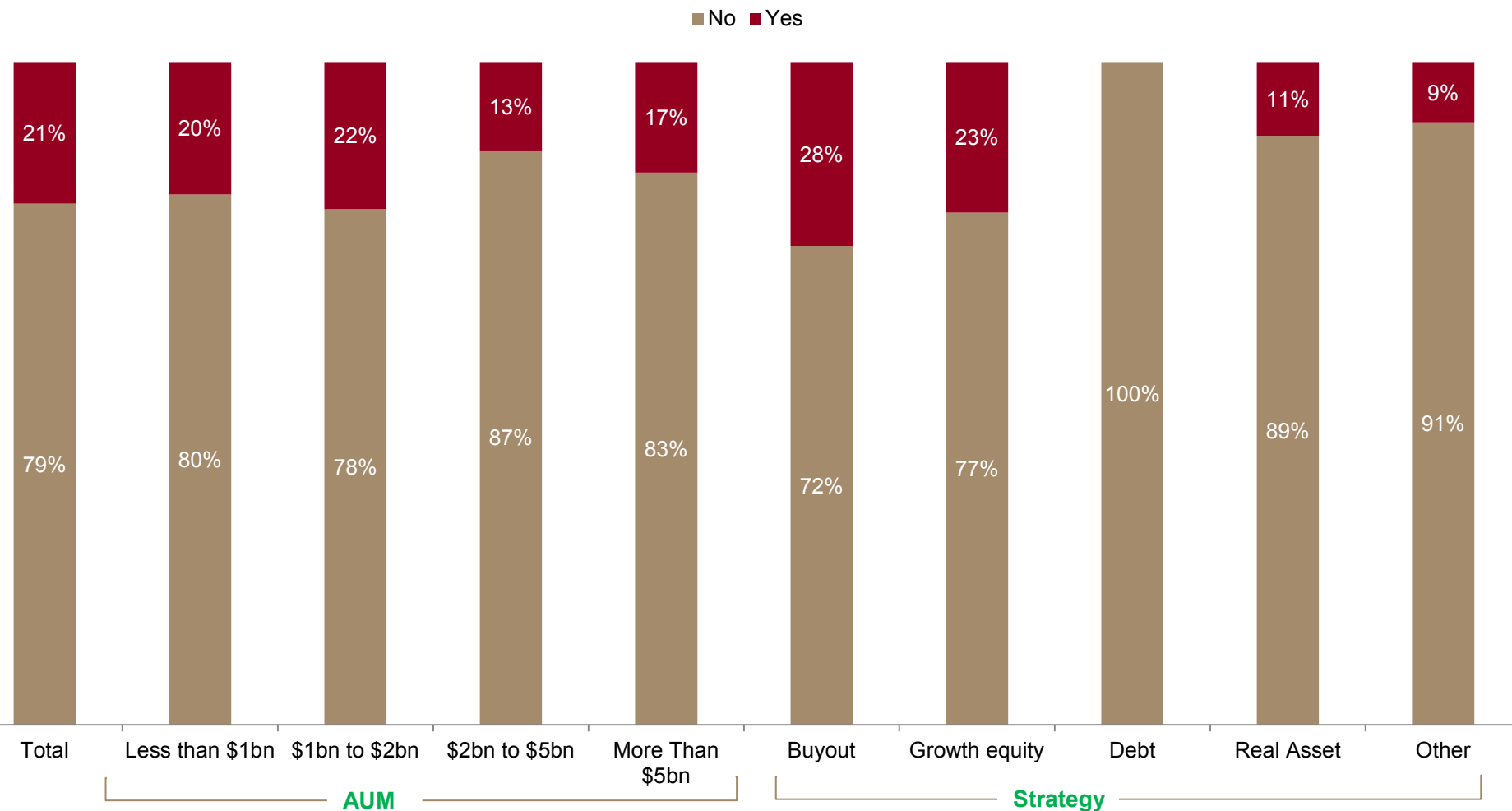
How would you do the previous allocation?

- In proportion to time the subject principal (or others) spent on the subject activity
- In proportion to the capital commitments to each fund
- In proportion to the AUM of each such fund.



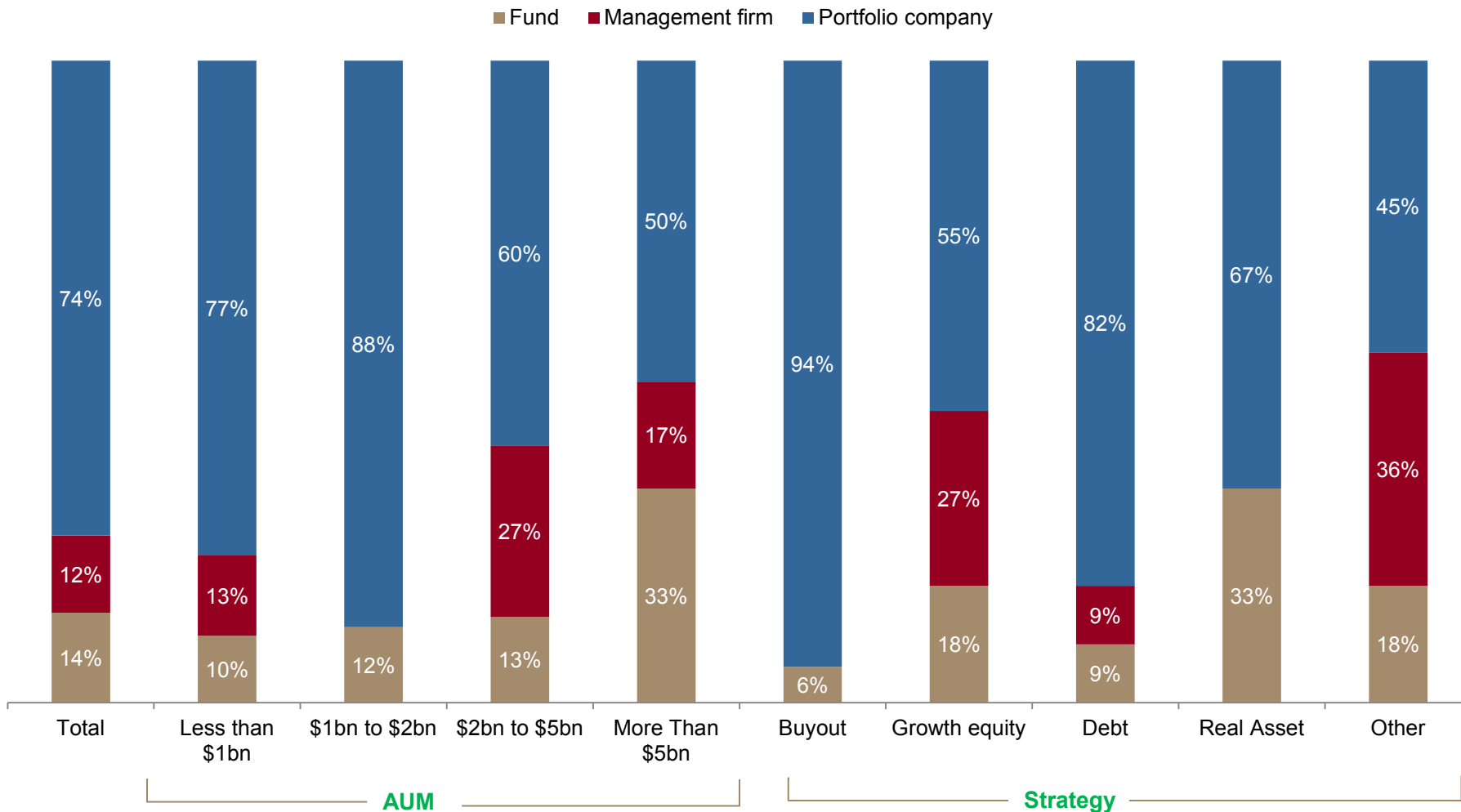
Question 5

When deal partners sit on a portfolio company board, does the company pay them director fees?



Question 6

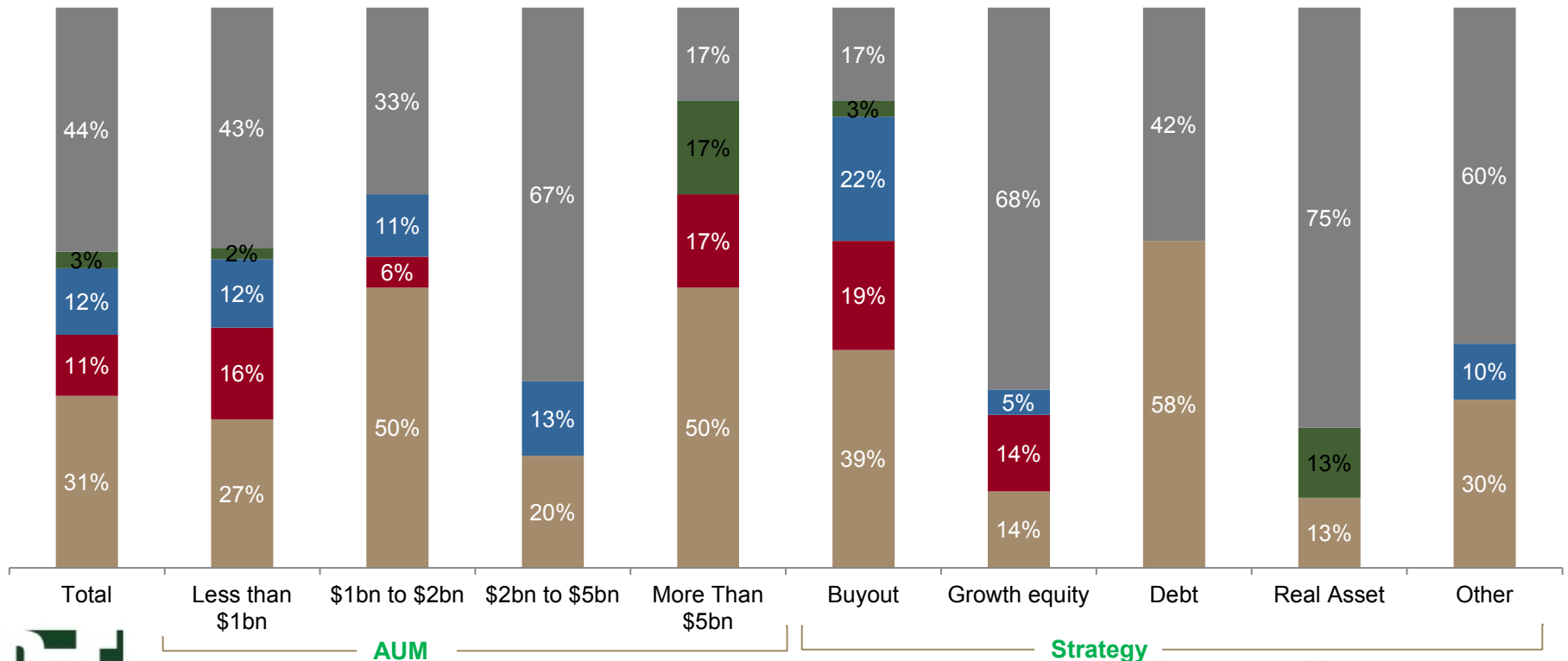
Who pays the partners travel expenses associated with attending portfolio company board meetings?



Question 7

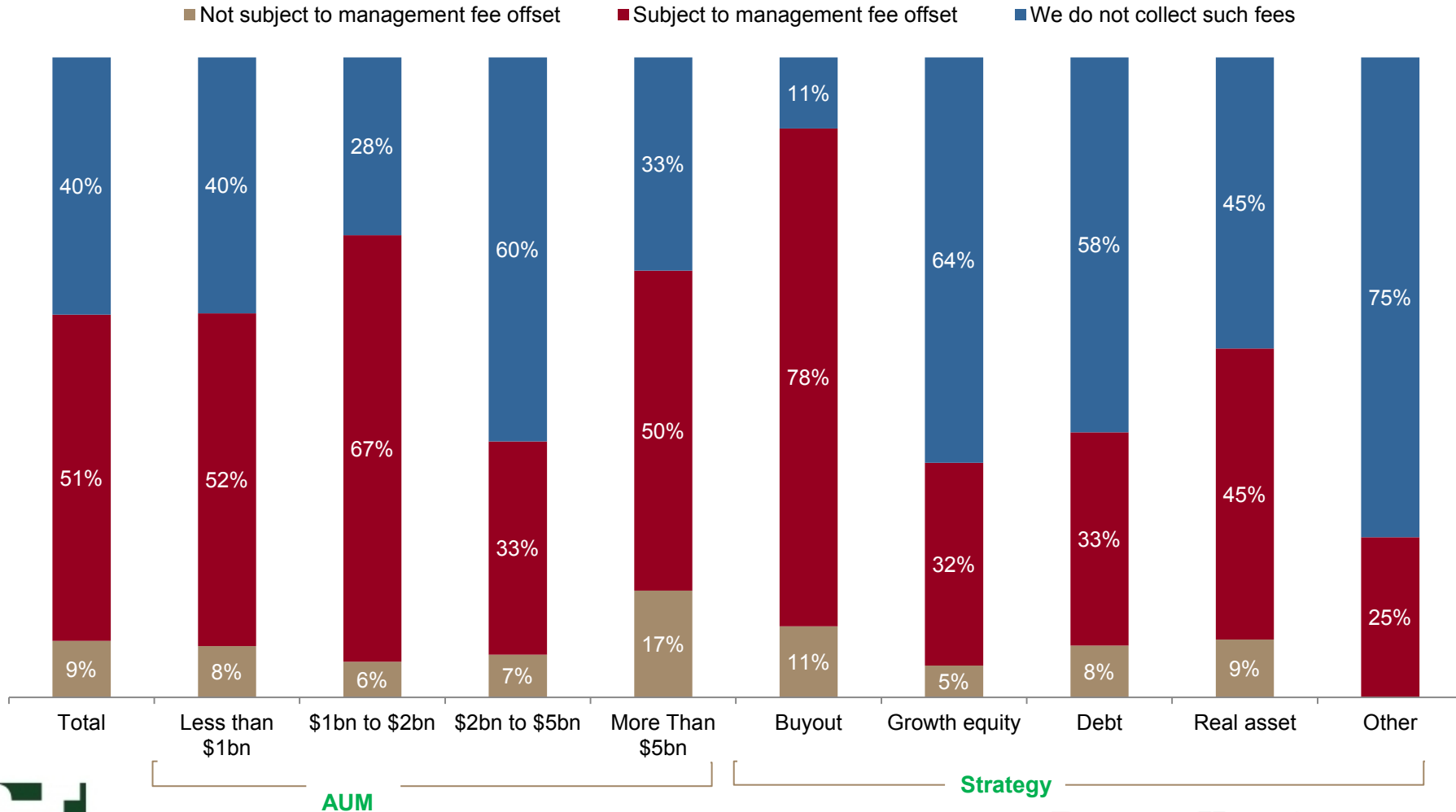
A successful bolt-on acquisition is made to a portfolio company that earns the management firm a \$1,000,000 transaction fee from the deal which it shares through a management fee offset with the fund. A third party investment banker fee for the same transaction would have been, under customary market terms, \$3,000,000. What is the offset you would apply to the management fee as a result of the management firm's receipt of the transaction fee?

- We have never charged transaction fees like this.
- We have ceased to charge transaction fees because of recent SEC pronouncements.
- 80% of \$1,000,000
- 50% of \$1,000,000
- 100% of \$1,000,000



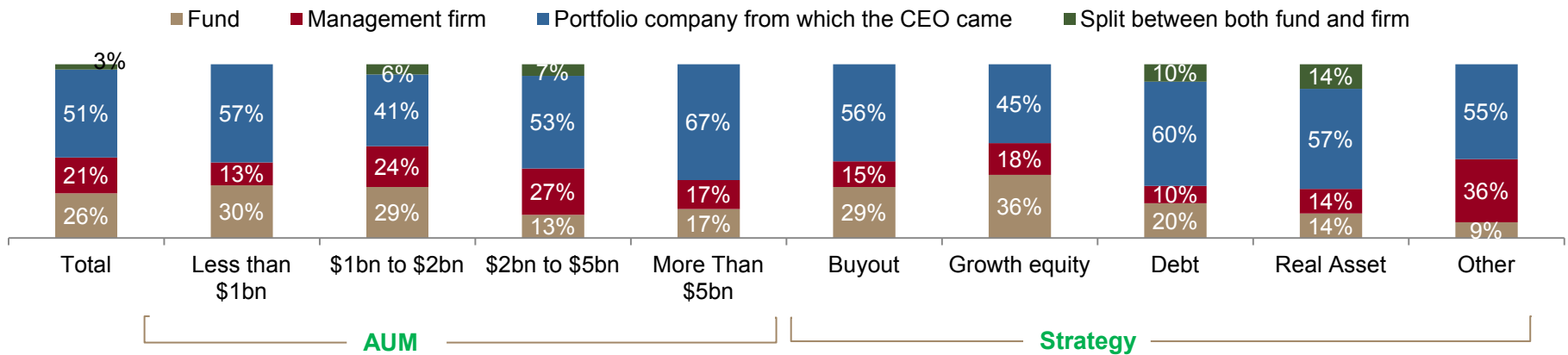
Question 8

How do you treat the administrative services/monitoring fee which the management company collects on sale of the portfolio company which has been accruing since the investment was made?

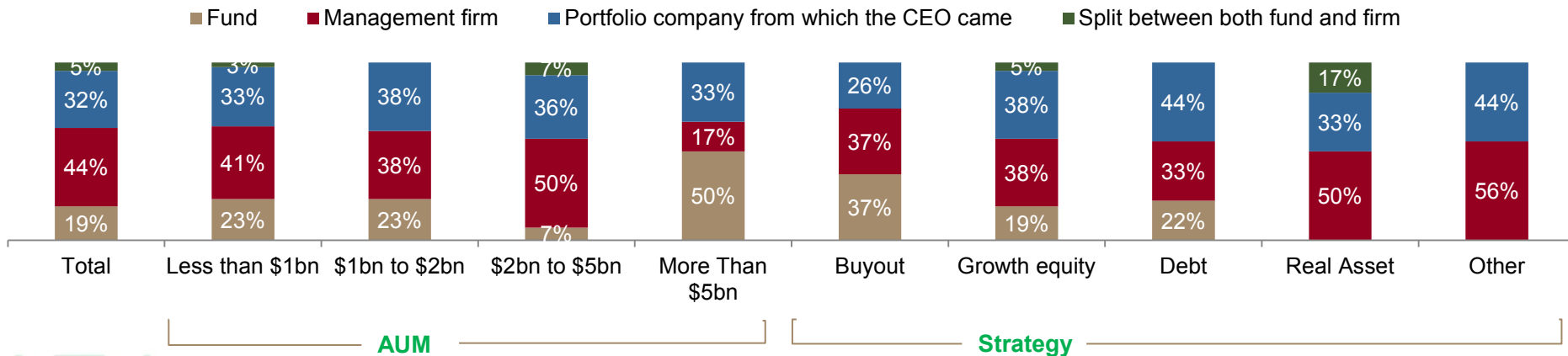


Question 9

At the annual meeting who pays for the travel and accommodation of CEOs of...
...existing portfolio companies?

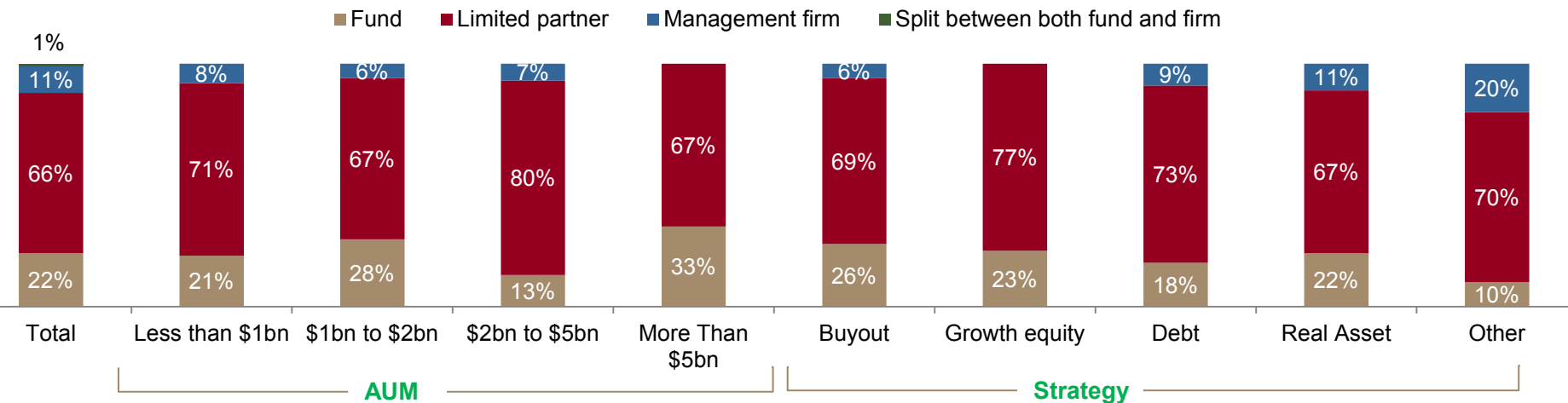


...prospective portfolio companies?

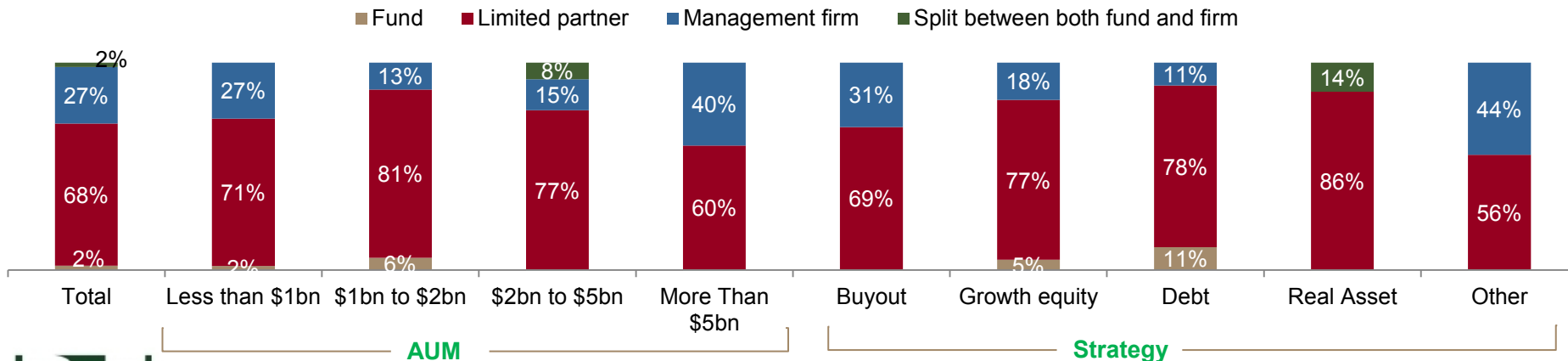


Question 10

At the annual meeting, who pays for the travel and accommodation of the firms...
...current limited partners?

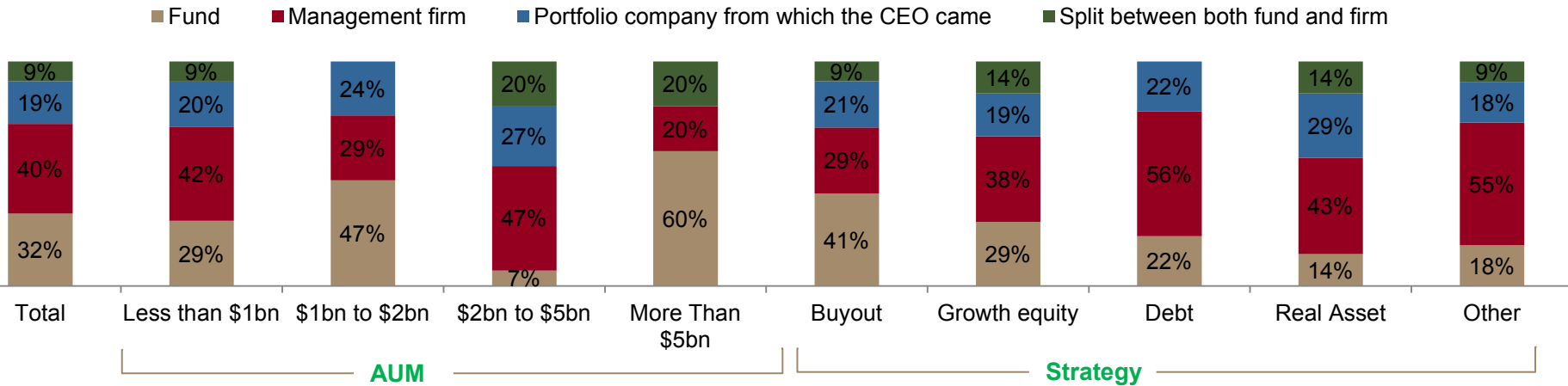


...prospective limited partners?

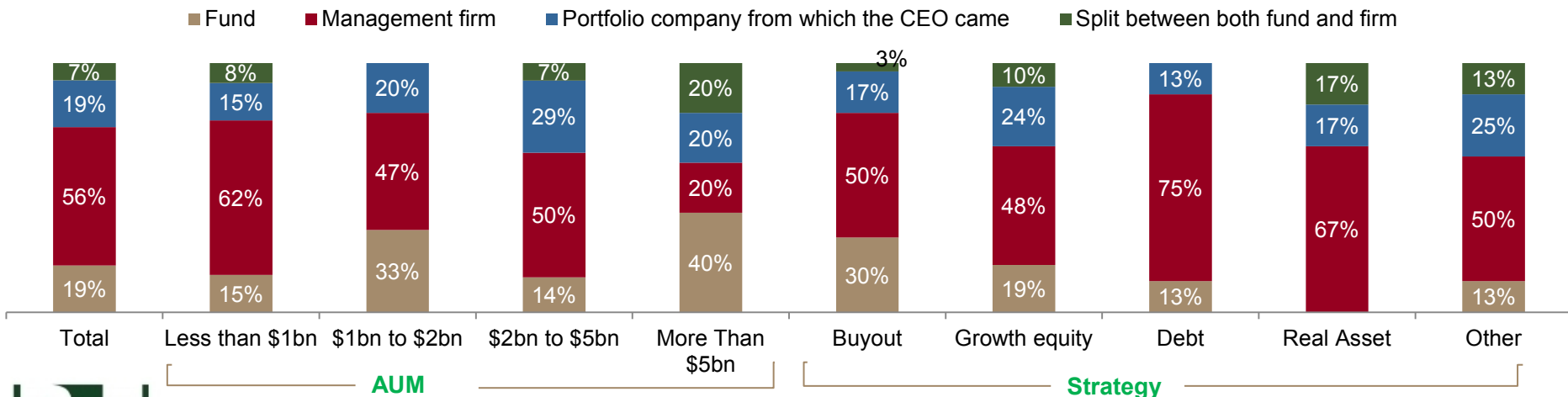


Question 11

At the annual meeting, who pays for the meals and entertainment (i.e., golf, tennis) of the CEOs of...
...existing portfolio companies?

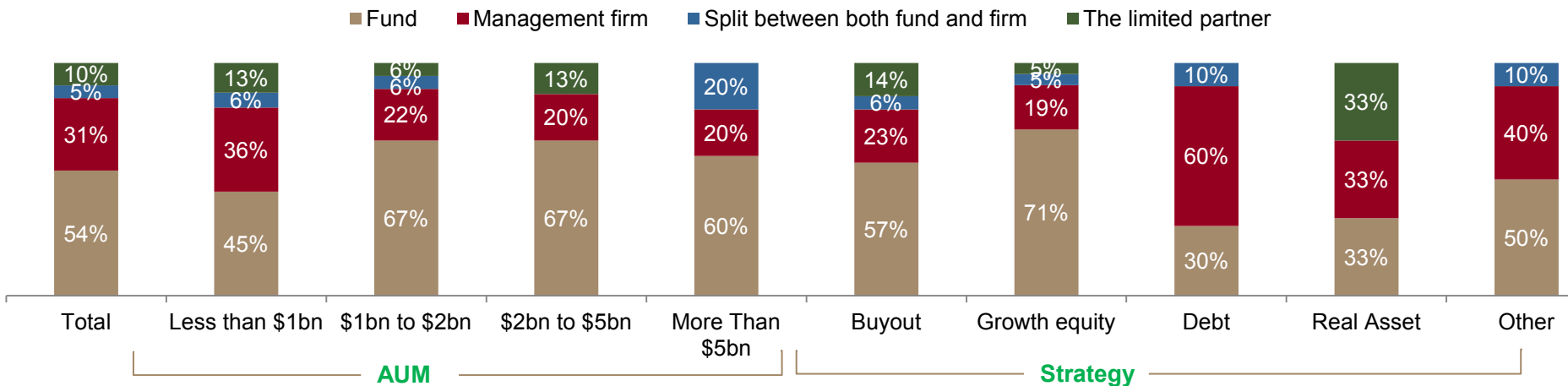


...prospective portfolio companies on which diligence is being performed?

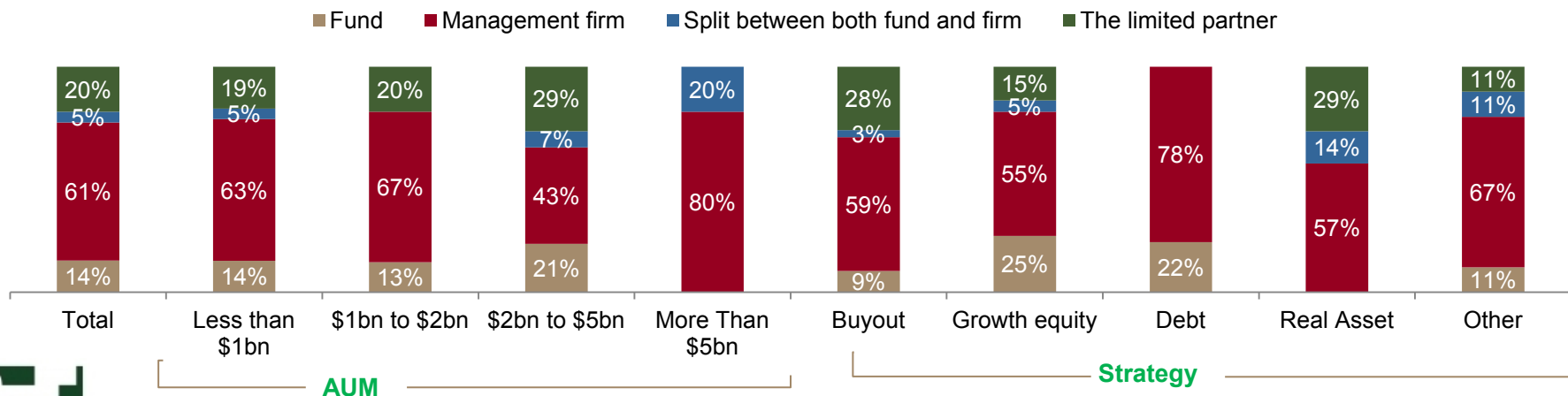


Question 12

At the annual meeting, who pays for the meals and entertainment of the...
...current limited partners?



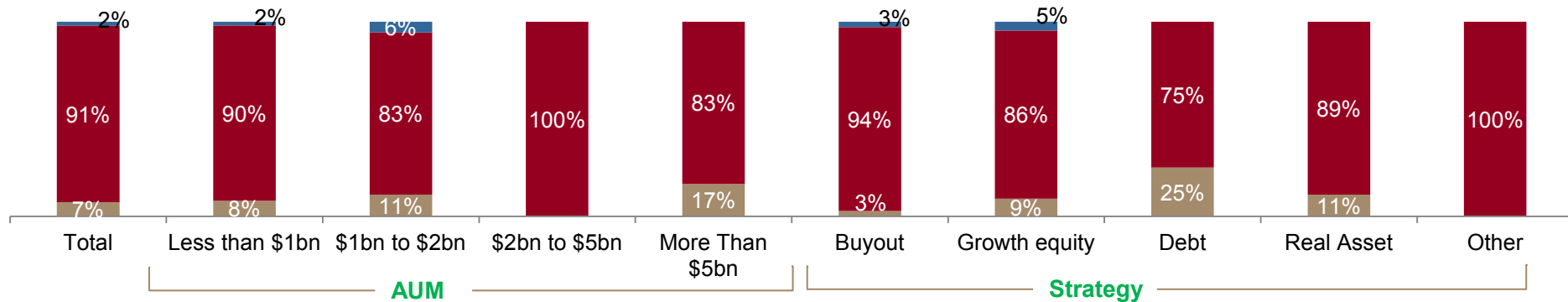
...prospective limited partners?



Question 13

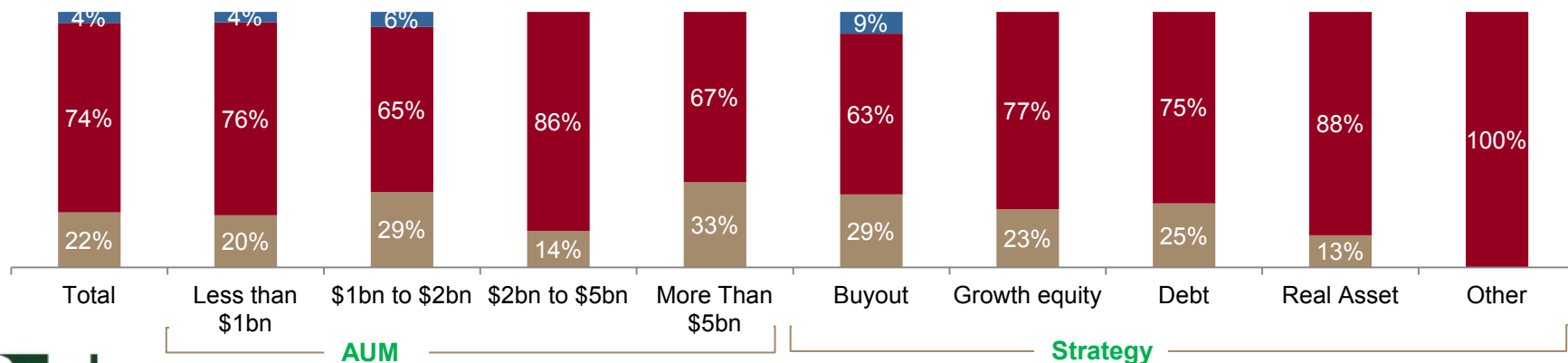
Who pays the cost for firm partners to attend private equity industry conferences (i.e., conference tickets, travel) in which they expect to...
 ...learn economic trends, legal and accounting issues?

■ Fund ■ Management firm ■ Split between both fund and firm



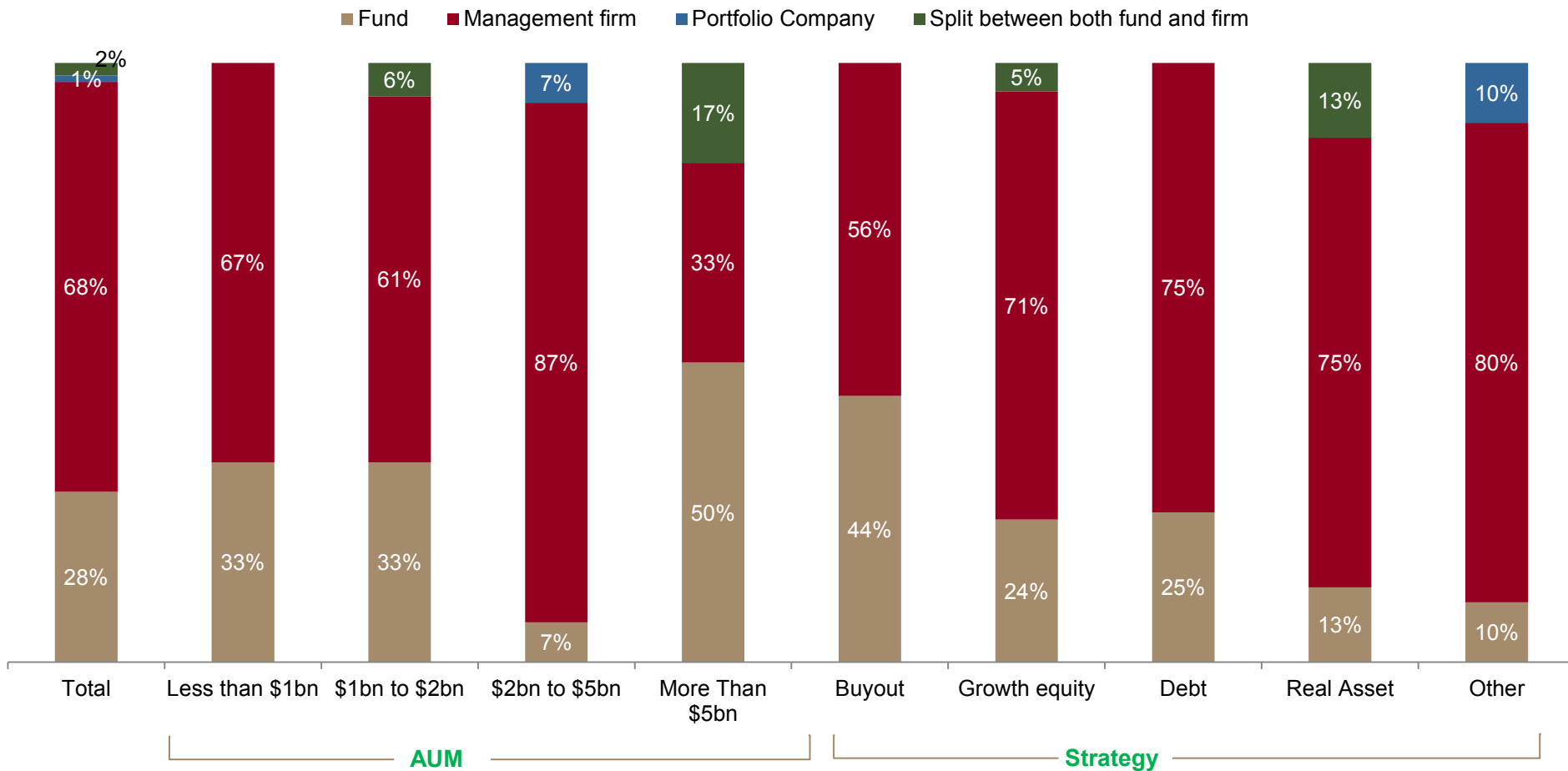
...meet CEOs of suitable target companies?

■ Fund ■ Management firm ■ Split between both fund and firm



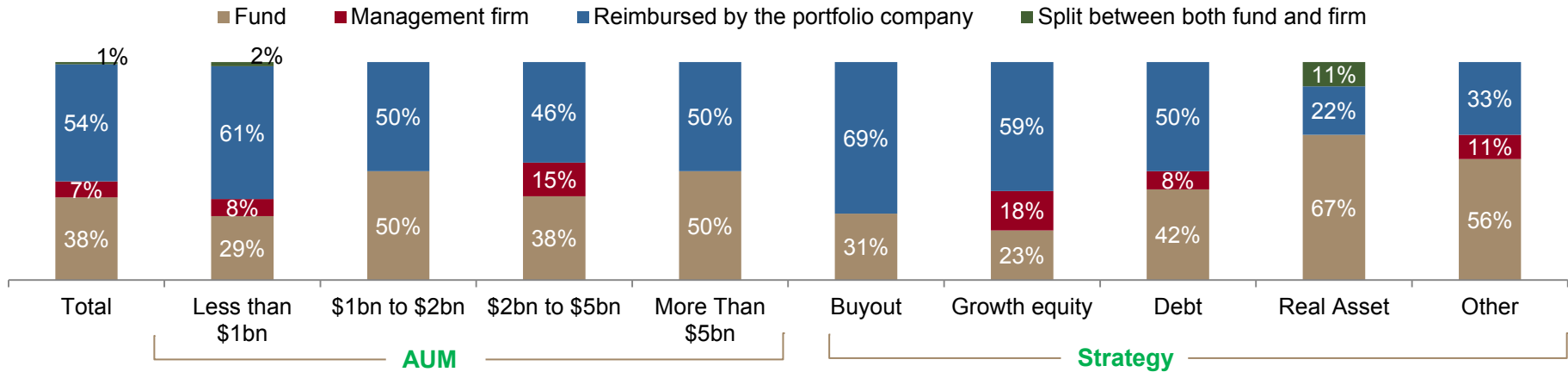
Question 14

After meeting at an industry conference, a partner takes a target company CEO out to lunch. Who pays the tab?

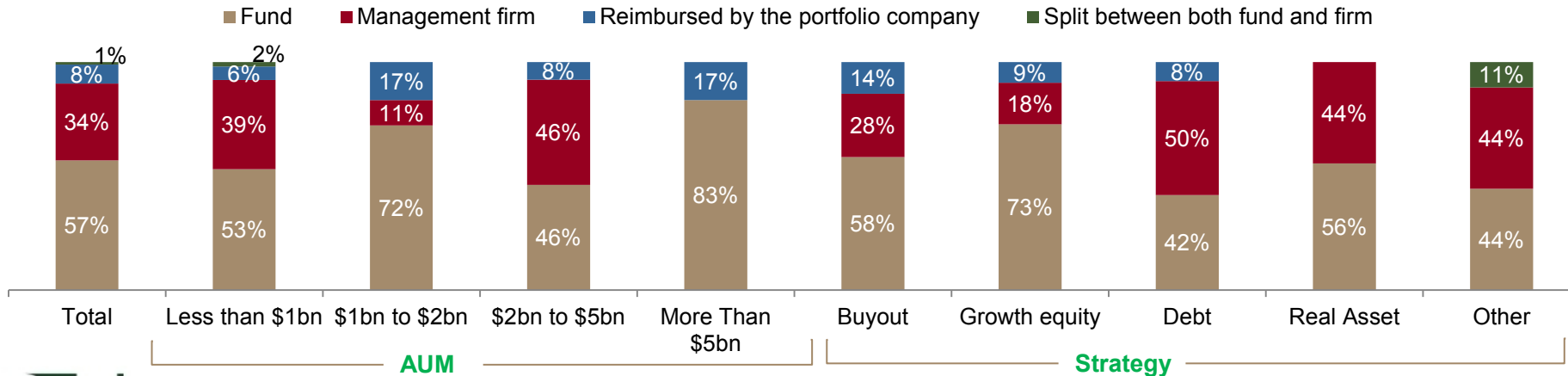


Question 15

During due diligence and before any letter of intent is signed, the firm hires lawyers, consultants, accountants and other service providers to begin drafting their transaction documents. Who pays for these expenses? If the deal closes?



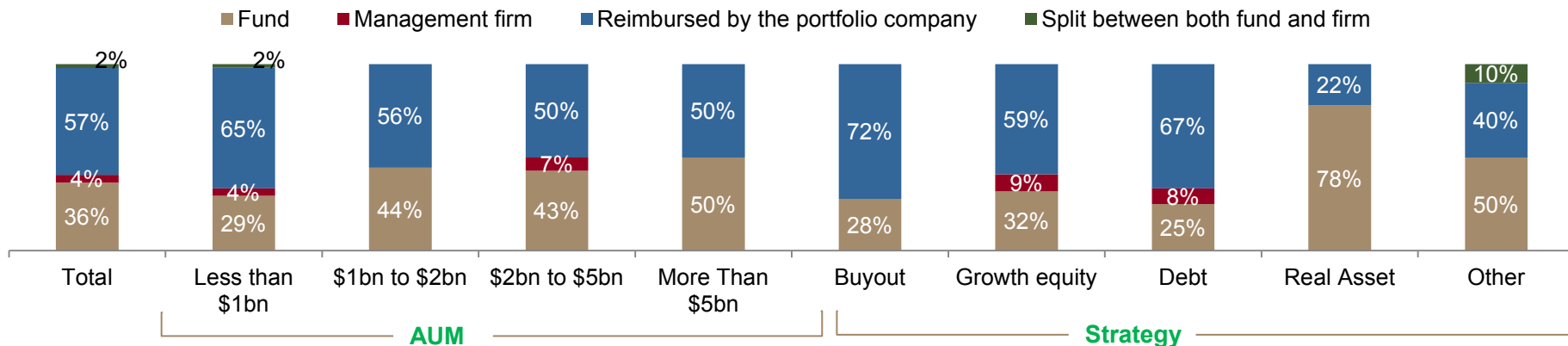
If the deal does not close?



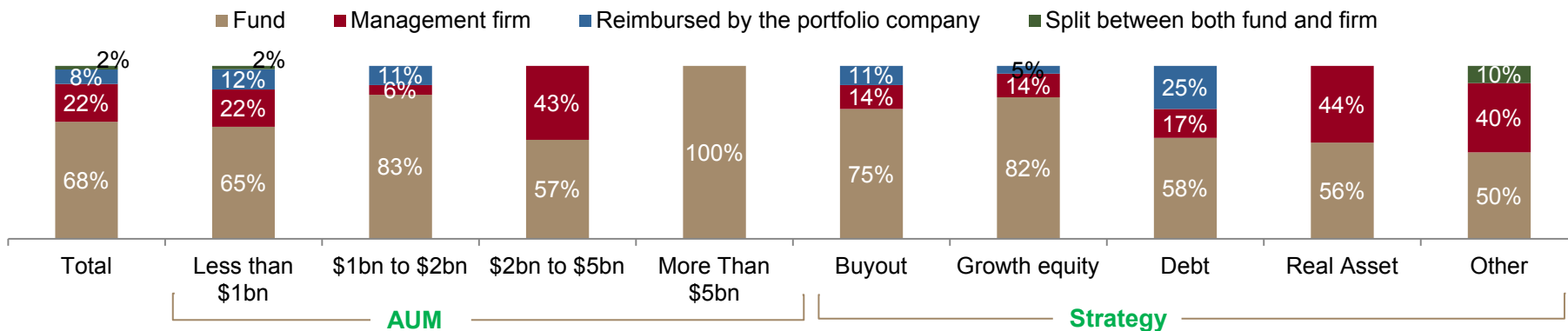
Question 16

After a letter of intent is signed, the firm hires lawyers, consultants, accountants and other service providers to begin drafting detailed transaction documents. Who pays for these expenses?

If the deal closes:



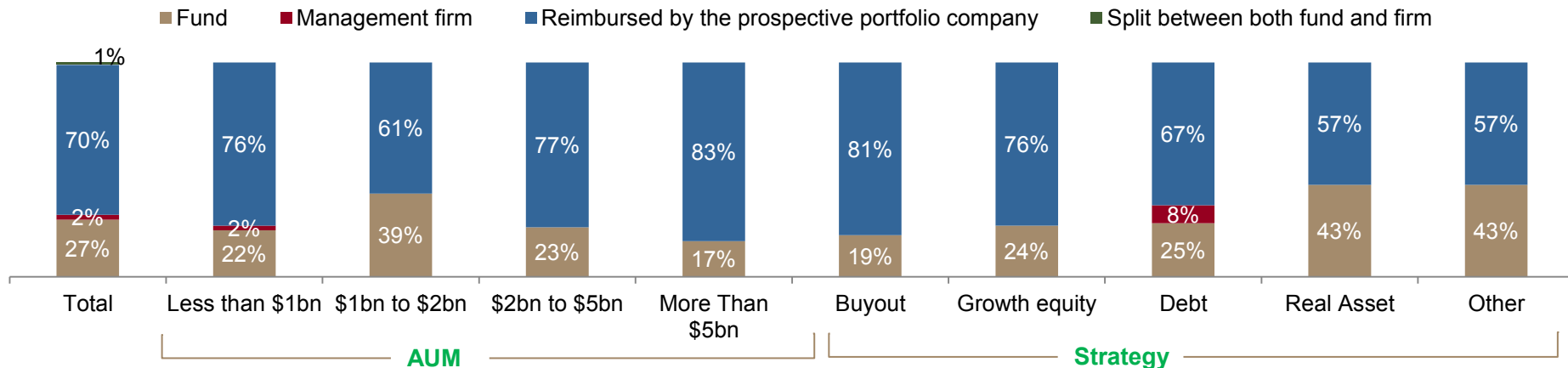
If the deal does not close:



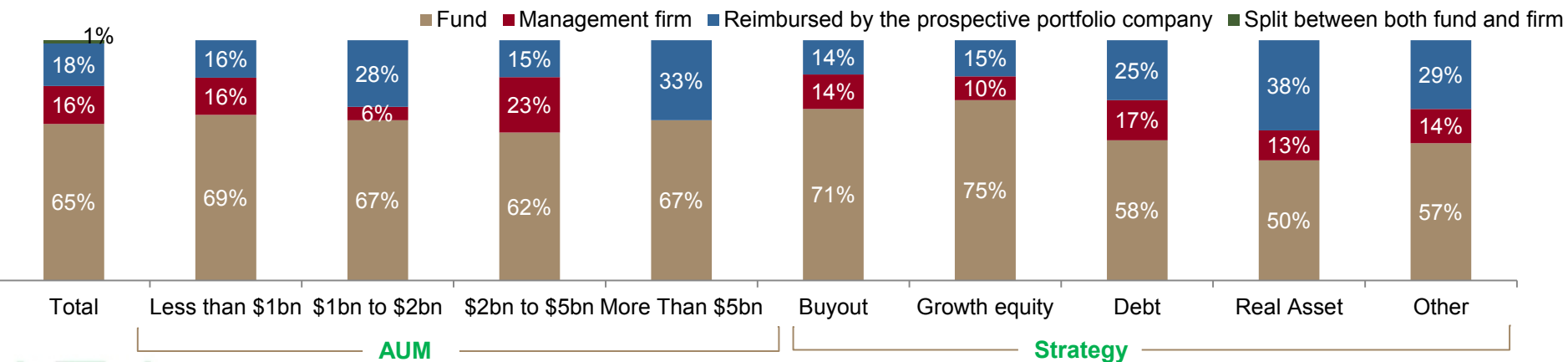
Question 17

After a definitive agreement is signed, the firms financing team and the portfolio company CFO negotiate financing for the deal. Who pays legal fees incurred by the lender?

If the deal closes:



If the deal does not close:

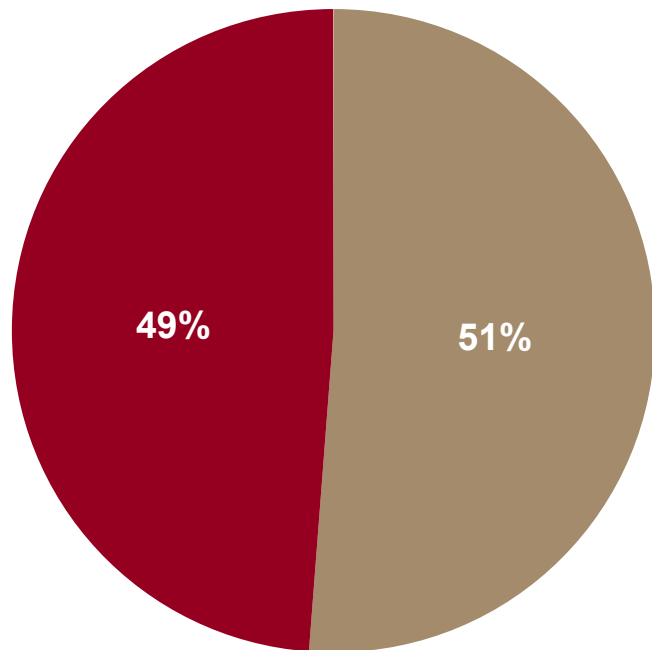


Question 18

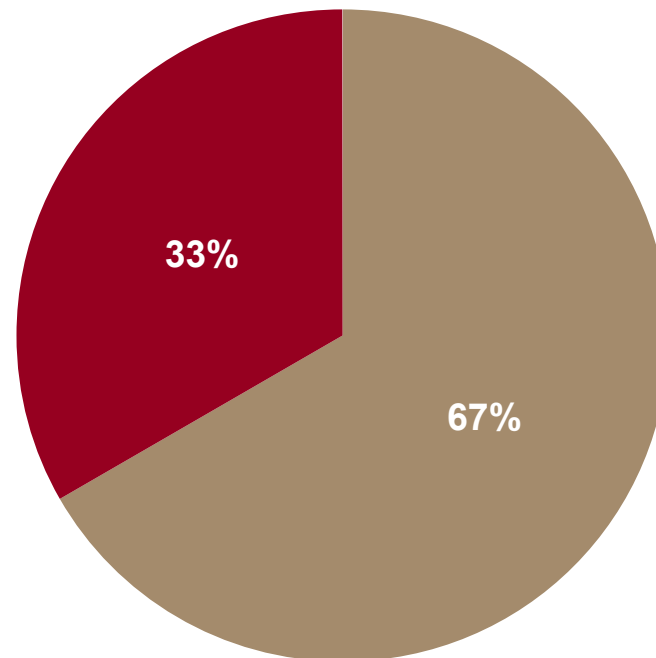
Assume an operating partner on retainer with your firm joins a portfolio company as an independent director. Would you offset the operating partners cash director fee against the funds management fee?

If you answered yes to the previous question, if the firm ceases to pay them the retainer would you offset the operating partners cash directors fee against the funds management fee?

■ No ■ Yes



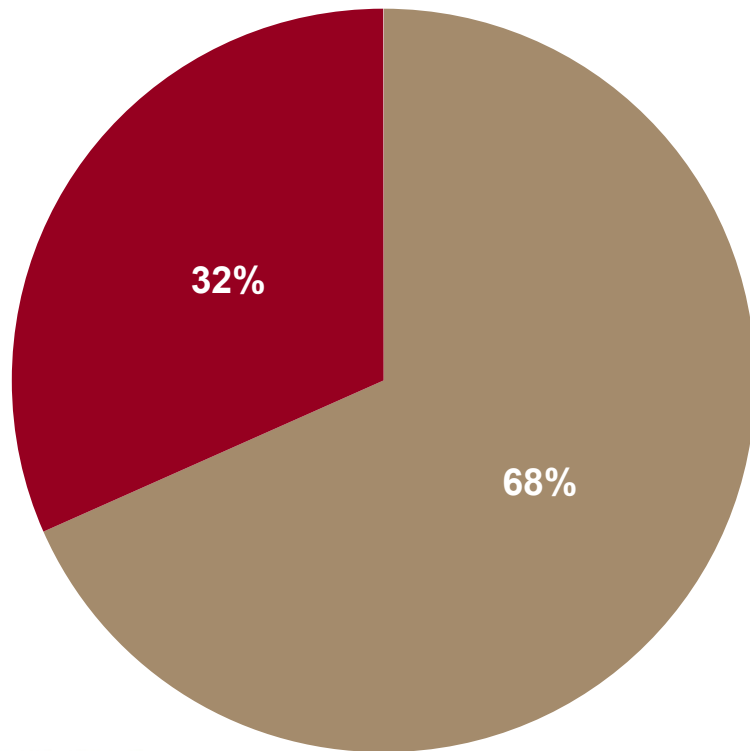
■ No ■ Yes



Question 19

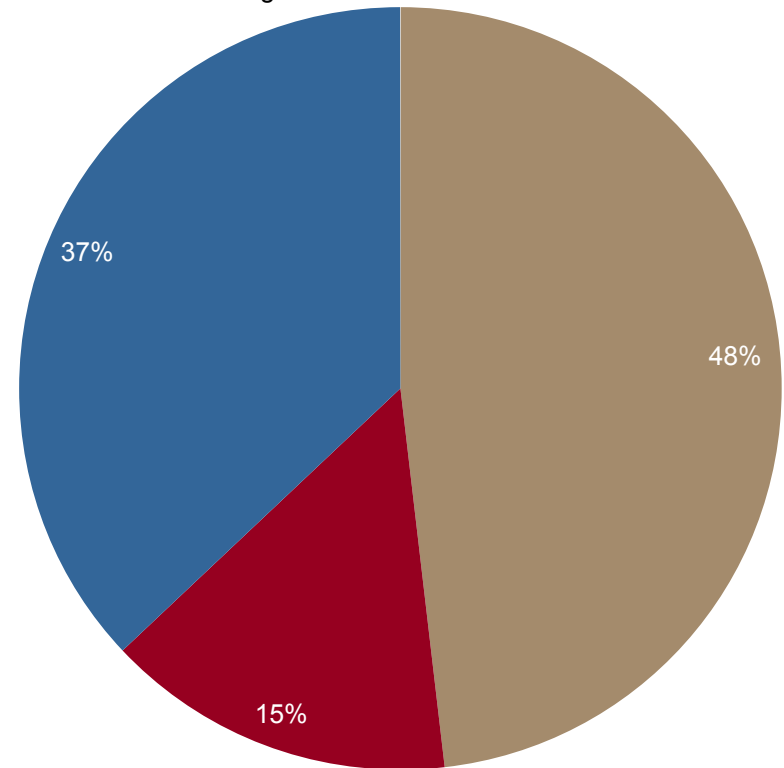
Would you offset any equity options that the portfolio company grants to this operating partner (for services as an independent portfolio company director) against the fund management fee?

■ No ■ Yes



If you answered yes to the previous question, what is the amount of the offset?

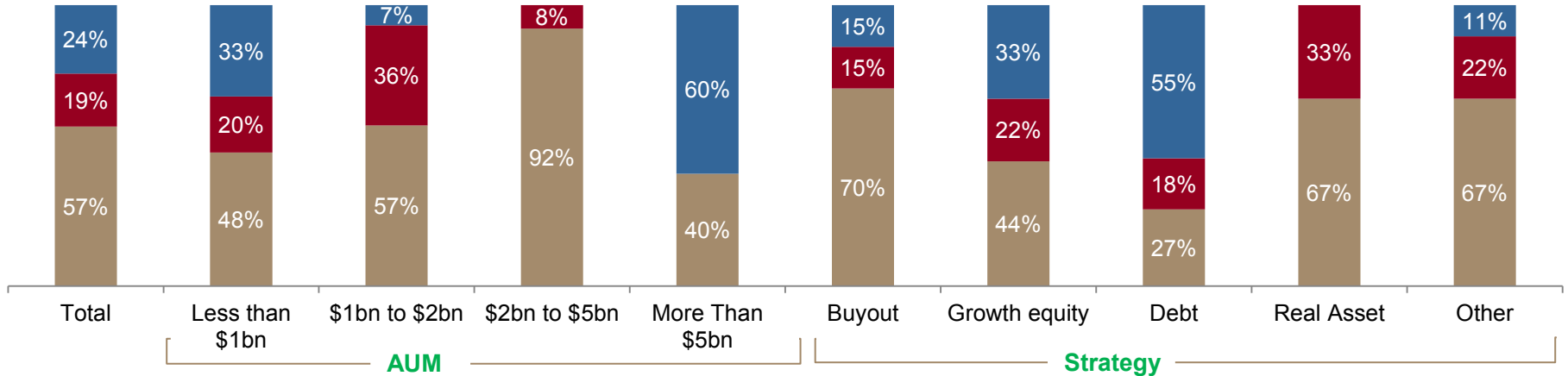
■ Net cash received from the option shares at exit from the investment
■ Value at time of exercise
■ Value at time of grant



Question 20

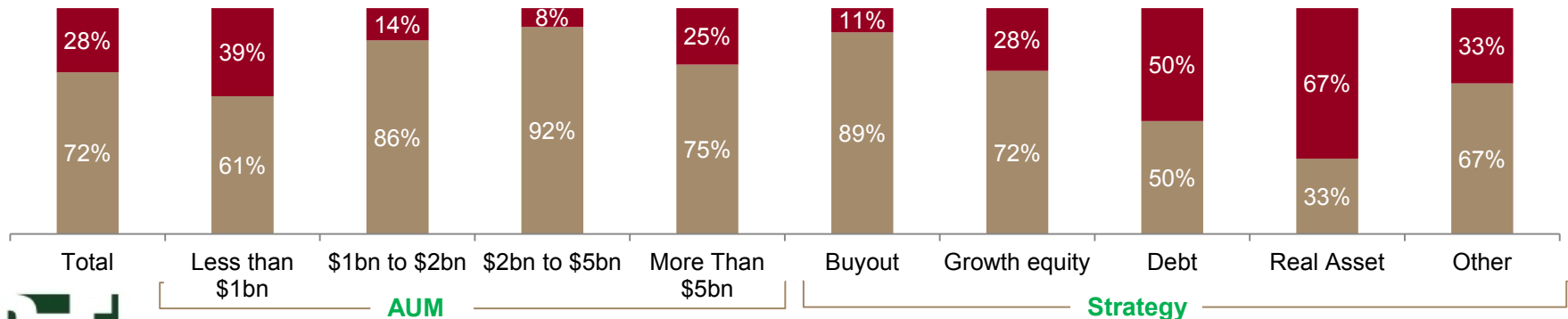
If the portfolio company pays consulting fees to the operating partners company and the operating partner owns 25 percent of the consulting firm, would you offset the consulting fees paid to the consulting business against the management fee?

■ Not at all ■ Yes, in the amount of 25% of the fees ■ Yes, in total



Would knowing what the consulting firm actually pays the operating partner make any difference to you?

■ No ■ Yes



Moderator: Gregory J. Nowak



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- Partner in the Philadelphia and New York offices of Pepper Hamilton LLP
- Practice leader for hedge funds of the firm's Funds Services Practice Group
- Concentrates his practice in securities law, particularly in representing investment management companies and other clients on matters arising under the Investment Company Act of 1940 and the related Investment Advisers Act of 1940
- Represents many hedge funds and other alternative investment funds in fund formation, investment and compliance matters, including compliance audits and preparation work.

Speaker: Julia D. Corelli



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- Partner in the Philadelphia office of Pepper Hamilton LLP
- Co-chairs Pepper's Funds Services Group and also serves the firm as vice chair of its Executive Committee and co-chair of its Commercial Department
- Concentrates in private investment fund formation, operations and compliance, private equity investment transactions, venture capital investments, acquisitions, dispositions and financings of business enterprises, joint ventures, and intra-partner dealings.
- Also is experienced in matters of investment fund principal compensation and succession planning and serves as general outside counsel to family offices.

Speaker: Mark Heil



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- Executive Vice President of Business Development of PEF Services
- Has worked with private equity firms since 1994
- Prior to joining PEF Services, he founded CereNova Fund Marketing LLC, a boutique third-party marketing firm that provided capital raising and marketing services primarily to early stage venture, growth capital, mezzanine, venture debt and buyout funds.

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