

Investors Secure Key Private Equity Fund Term Concessions

Competitive fundraising market leads to favourable changes in the carried interest structure and transaction fee rebates for limited partners in new private equity funds

New research published in the 2013 Preqin Private Equity Fund Terms Advisor reveals that pressure in the current private equity fundraising market has led to private equity funds adopting terms and conditions more favourable to investors in an attempt to draw commitments to their funds.

A notable shift has been seen in transaction fee rebates (the proportion of advisory fees private equity firms charge acquired companies which is shared with limited partners). 63% of 2012 and 2013 vintage funds, and those yet to begin investing, now share 100% of such fees with limited partners in the form of management fee rebates – an increase from 51% of 2010 and 2011 vintage funds. An increasing proportion of funds are also calculating performance fees (carry) on a whole fund basis, rather than on a deal-by-deal basis, which is a less popular structure among investors.

Key terms and conditions for recent private equity funds include:

- In North America, where the deal-by-deal carry structure has historically been most prevalent, 73% of 2012/2013 vintage funds focused on this region now calculate carry on a whole fund basis, compared to 48% in 2010/2011.
- Between funds of vintages 2010/2011 and 2012/2013, the proportion of funds using a deal-by-deal structure fell from 46% to 20% for buyout, and from 58% to 20% for real estate.
- Buyout funds of vintage 2012/2013, or those fundraising that are yet to begin investing, rebate an average of 87% of transaction fees to their investors, compared to an average of 81% for buyout funds of vintage 2010/2011.
- The mean management fee for buyout funds now stands at 1.90%, down from 1.94% in 2012.
- 45% of investors polled by Preqin have seen fund terms and conditions change in favour of LPs over the past 12 months, with 67% now believing that fund terms and conditions are properly aligned between fund managers and investors.

Despite these changes, Preqin's survey of over 100 investors suggests that areas of contention still exist:

- 33% of investors interviewed believe that fund manager and investor interests are still not aligned when it comes to the fees and mechanisms involved in private equity fund terms and conditions.
- 59% of investors interviewed named management fees as an area in which there is still significant room for improvement.
- The amount of capital that fund managers commit to their own funds, the GP commitment, was named by 35% of investors interviewed as an area requiring further adjustment in order to improve the alignment of interests between investors and managers.

For more information, please see:

https://www.preqin.com/docs/samples/The_2013_Preqin_Private_Equity_Fund_Terms_Advisor_Sample_Pages.pdf

Comment:

“Although we have seen an improvement in fundraising over the course of 2013, the environment for new private equity fundraising remains extremely competitive, with over 2,000 new private equity funds seeking \$730bn in capital. Achieving an appropriate alignment of interests between investors and fund managers is more essential than ever and getting terms and conditions right can make the difference in securing an investment. With more and more funds adopting LP-friendly terms, managers that fail to share transaction fees with investors and maintain a deal-by-deal carry structure will find it increasingly difficult to rally investors to their cause.”

Ignatius Fogarty – Head of Private Equity Products, Preqin

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About the 2013 Preqin Fund Terms Advisor:

Preqin's Private Equity Fund Terms Advisor, now in its eighth edition, features data and analysis based on actual terms and conditions data for over 2,600 private equity funds; it is a vital tool for understanding the trends in fund terms and conditions and the expectations of investors.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

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