

PE Fund Fees Remain Problematic

50% of LPs still dissatisfied, but are willing to pay more when justified by performance

The latest Preqin investigation into fund terms and conditions has shown that management fees are still causing significant unrest amongst investors, but almost two-thirds are willing to pay more to access fund managers with strong track records. Other areas of contention include GP contributions, carry, hurdle rates and rebates.

The study was conducted for the 2011 Preqin Fund Terms Advisor, which shows the benchmark terms and conditions and also the actual terms employed by individual vehicles.

The Findings:

- 50% of LPs feel that there is a misalignment of interests between themselves and fund managers when it comes to management fees.
- 71% of investors are considering new GP relationships in 2011, and just 29% will only invest with existing fund managers.
- The mean management fee during the investment period for the largest funds has dropped to 1.71% in the past year.
- 61% of investors stated that they would be willing to pay higher fees for access to fund managers that they perceive to have the best track records.
- The mean rebate of transaction and other fees by buyout fund managers to LPs is now 83%, the highest level ever.
- 69% of LPs would consider not investing in a fund if it did not conform to the ILPA Principles.
- A significant number of investors believe that GPs should invest more in their own funds in order to achieve a greater alignment of interests.

Please see the report for the full analysis of results:

http://www.preqin.com/docs/reports/Preqin_Private_Equity_Spotlight_July_2011.pdf

Comment:

“In the difficult fundraising market, negotiating favourable fund terms and conditions is of the utmost importance to investors. That such a large proportion of LPs will not consider investing in a fund that does not conform to the ILPA Principles is clear evidence of this.

LPs are not necessarily demanding a specific management fee level; what is far more important is that the fees make sense in the context of the management of the fund. Our recent conversations with LPs have revealed that many will consider paying higher fees if this can be justified by higher performance, and if higher management fees are necessary to operate a superior firm effectively then many investors will see this as a price worth paying.”

Helen Kenyon – Company Spokesperson

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.

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Note to Editors:

- Preqin is spelled without the letter ‘U’ after the ‘Q’.

For more information on this release, or general press information, please contact press@preqin.com

London: Equitable House, 47 King William Street, London EC4R 9AF Tel: +44 (0)20 7645 8888

New York: 230 Park Avenue, 10th floor, New York NY 10169 Tel: +1 212 808 3008

Singapore: Samsung Hub, 3 Church Street, Level 8, Singapore, 049483 Tel: +65 6408 0122

Web: www.preqin.com / info@preqin.com