GLOSSARY OF TERMS: PRIVATE EQUITY SUB-TEMPLATE

This document provides a glossary of terms used in the **PRIVATE EQUITY SUB-TEMPLATE** for investors and their advisers.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

INTRODUCTION

The CTI provides the new industry standard for institutional investment cost data. The CTI templates and tools are a framework for investors to receive detailed, consistent and standardised cost and charges information from asset managers and other service providers. This information can be used to help assess the value for money of investments.

The **PRIVATE EQUITY SUB-TEMPLATE** is completed by managers of closed-ended private equity funds.

HOW INFORMATION IS PROVIDED

The **PRIVATE EQUITY SUB-TEMPLATE** will be completed by your asset manager if appropriate for the investments in question.

The cost categories within the sub-template map directly onto the USER SUMMARY. Investors can construct the **USER SUMMARY** relating to their assets either:

- Independently. By asking asset managers(s) to complete sub-template and using that information to populate the fields in the **USER SUMMARY**
- By using a third party. This could include an adviser, data vendor or other third party to collect the data across all your asset managers and consolidate/ aggregate the responses.

The information can then be mapped across to the **USER SUMMARY**.

The **USER SUMMARY** represents an aggregation of more detailed underlying cost data which has been compiled in a standard format sub-template by the asset manager. For more information on how to construct and interpret a **USER SUMMARY** see the relevant guidelines.

SCOPE AND COVERAGE

Managers of closed-ended private equity funds will need to complete the **PRIVATE EQUITY SUB-TEMPLATE** on request.

Private equity is medium to long-term finance provided in return for a controlling equity stake in potentially high-growth unquoted companies. Private equity investments typically support management buyouts and managing buy-ins in mature companies, as opposed to venture capital which provides funding for early-stage and younger companies. Venture capital funds take minority equity stakes in businesses, very often alongside other venture capital funds and investors.

In a closed-ended private equity fund, an investor's holding/interest is not intended to be transferred or traded as the term of the private equity fund is typically ten years.

Further information on private equity fund structures can be found in the annex to this document.

OTHER INVESTMENT COSTS

It is important to remember that were are several other components of costs of investment outside of asset management costs.

These could include investment consultancy costs, performance measurement, investment administration, risk reporting and investment committee expenses. For further information on custody costs particularly, see the '*Basic notes on interpretation*' below.

GLOSSARY OF TERMS

The table below provides definitions of some of the fields within the **PRIVATE EQUITY SUB-TEMPLATE**. The table also provides illustrative examples of the content you can expect to see.

Section No.	Item name	Definition	Example
3	Gross management fee	Gross management fee charged (i.e. before any deductions) in accordance with the fund's limited partnership agreement, investment management agreement or similar contractual document.	50000
	Other rebates	Refund of any prior management fees to the fund or its investors. More information on this could be provided in the notes section of the PE Template if further detail is required.	50000
	Transaction and other fees paid by portfolio to manager and amounts offset	This total will be calculated using the applicable offset percentages and should be shown as a negative number in the PE Template. The gross transaction and other fees noted above are shown as positive numbers in the PE Template.	50000
	Transaction fees	Fees/costs that are paid/accrued to the General Partner (GP) /manager/related party (including any fees not subject to offset) regarding the purchase and sale of investments. Excludes broken deal fees. Includes fees/expenses related to bolt-on acquisitions for a portfolio company.	50000
	Underwriting fees	Fees/costs that are paid/accrued to the GP/manager/related party (includes any fees not subject to offset) regarding the underwriting of investments. Excludes broken deal fees. Includes fees/expenses related to bolt-on acquisitions for a portfolio company.	50000

Section No.	Item name	Definition	Example
3	Monitoring fees	Fees/costs, including accelerated monitoring fees, that are paid/accrued to the GP/manager/related party (including any fees not subject to offset) as part of an agreement between the portfolio company and the GP/manager/related party over a finite or indefinite period. Monitoring fees are charged in respect of ongoing management services provided to portfolio companies, based on annually established fees as opposed to hourly or task based fees.	50000
	Directors' fees	Fees/costs that are paid/accrued (gross of any unapplied offset balance) to the GP/manager/related party (including any fees paid directly to individuals and/or any fees not subject to offset) for their role on the portfolio company's board of directors. Includes any non-cash compensation (e.g. shares).	50000
4	Depositary/Custody fees	Expenses charged to the fund for depositary services on behalf of the fund. Expenses charged to the fund for the registration of securities and other custody-related activities. Excludes any legal costs associated with organising/administering the fund. Excludes fund administration expenses.	50000
	Administration fee	Expenses charged to the fund for fund administration, including accounting, valuation services, filing fees and IT activities. Excludes audit or tax administration expenses.	50000
	Bank/ facility fees	Expenses charged to the fund for banking/finance services. Excludes fund administration expenses and interest. Includes fees related to credit facilities and other short-term financing at the fund level.	50000

Section No.	Item name	Definition	Example
4	Interest expense	Interest charged to the fund related to financing provided to the fund.	50000
	Organisational/fund set up costs	Expenses charged to the fund for the establishment of the fund, including any legal/advisory costs related to setting up the fund. Excludes any fund administration expenses or placement agent fees. Excludes ongoing legal, advisory or audit costs.	50000
	Ongoing legal costs	Expenses charged to the fund for legal services on behalf of the fund. Includes legal analysis to interpret or amend the fund’s limited partnership agreement and investment due diligence. Excludes any legal costs associated with organising/setting up the fund.	50000
	Aborted deal due diligence costs/ broken deal fees	Termination fees/costs received from counterparties of the fund’s unconsummated deals, netted against any termination fees/costs paid to counterparties that were not reimbursed by the fund. Include any fees not subject to offset.	50000
	Audit fee	Expenses charged to the fund for the audit of the fund’s financial statements. Excludes any costs related to organising/ setting up the fund, investment due diligence and fund administration expenses.	50000
	Tax administration costs	Expenses charged to the fund for the preparation of tax documents and returns related to the fund. Excludes any costs related to organising the fund, investment due diligence and fund administration expenses.	50000
	Other expenses	Any other expenses charged to the fund that appear in the periodic profit and loss account/income statement that do not directly relate to investments.	50000

Section No.	Item name	Definition	Example
6	Accrued carried interest at start of period	Prior period-ending balance for GP's/manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest or GP profit share), less any potential clawback obligation. Balance also includes any uncollected profits from realised investments, if applicable. The definitions here for carried interest cover a whole fund carried interest model. The calculations will differ for different types of carried interest model, e.g. deal-be-deal arrangements.	50000
	Carried interest paid during the period	GP's/manager's/related parties' share of any realised profits from an investment paid to the GP/manager/related party (also known as carried Interest and GP profit share), less any returned clawback. Balance reflects carried interest paid to the GP/related parties, including amounts held in escrow.	50000
	Carried interest charge for the period	Periodic change in GP's/manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest and GP profit share), less any potential clawback obligation. Change also includes any uncollected profits from realised investments, if applicable. This could be a negative number due to clawbacks and changes in valuation.	50000
	Accrued carried interest at end of period	Current period-ending balance for GP's/manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest or GP profit share), less any potential clawback obligation. Balance also includes any uncollected profits from realised investments, if applicable.	50000

BASIC NOTES ON INTERPRETATION AND COVERAGE

The following costs and charges should be included in the **PRIVATE EQUITY SUB-TEMPLATE**:

- Expenses charged to the income statement/profit or loss account of a fund for the provision of services. They include items such as management, audit and administration fees, as well as sundry expenses (for example, travel expenses). We note that management fees may also be shown as a profit allocation and this should also be disclosed.
- The nature and source of all benefits and fees paid directly or indirectly by portfolio companies to the GP and/or any related entities/individuals (such as employees, operating partners, advisers or similar) should be disclosed. This could include transaction and other fees that are not offset. If the cost is a reimbursement of out-of-pocket expenses already paid by the general partner, this should not be included.
- Carried interest/incentive fees - the fund manager's profit participation/ allocation where performance is in excess of a specified hurdle. This is shown as an expense from an accounting perspective under International Financial Reporting Standards (IFRS), but may also be shown as an allocation of profits (US or UK Generally Accepted Accounting Practices - GAAP).

The following items will not be included as they are not within the scope of CTI:

- Costs relating to the acquisition of an investment that are capitalised as part of the assets on a fund's balance sheet and therefore not shown as a cost in the income statement/profit or loss account.
- Portfolio company holding structure costs that are incurred and recognised at the holding structure level which sits a level below the fund. These are currently reported to investors as costs at the level of the investment vehicles and not charged to the fund. However, any amounts charged to the fund should be disclosed.
- Detailed expenses relating to the underlying funds a Fund of Funds has invested in. See Q&As for further information.

The investors share of the fund (the % Of Total Commitments To Fund) should be the percentage holding at the date of the report.

It is recognised that the information provided in the **PRIVATE EQUITY SUB-TEMPLATE** is provided in capital account statements sent to investors and that there are a number of metrics that could be used relating to gross and net performance, including Internal Rates of Return and Multiple on Invested Capital. A space for notes has therefore been added to the **PRIVATE EQUITY SUB-TEMPLATE** so that firms can cross-refer to reports including more detail on capital accounts and performance.

TOTAL COST OF OWNERSHIP

Investment costs are also not the full picture; the total cost of ownership also include pension management costs including executive costs, administration and processing costs, advisory and control costs and rent, for example.

FEEDBACK

The CTI relies on your feedback to improve and update guidance, templates and other tools.

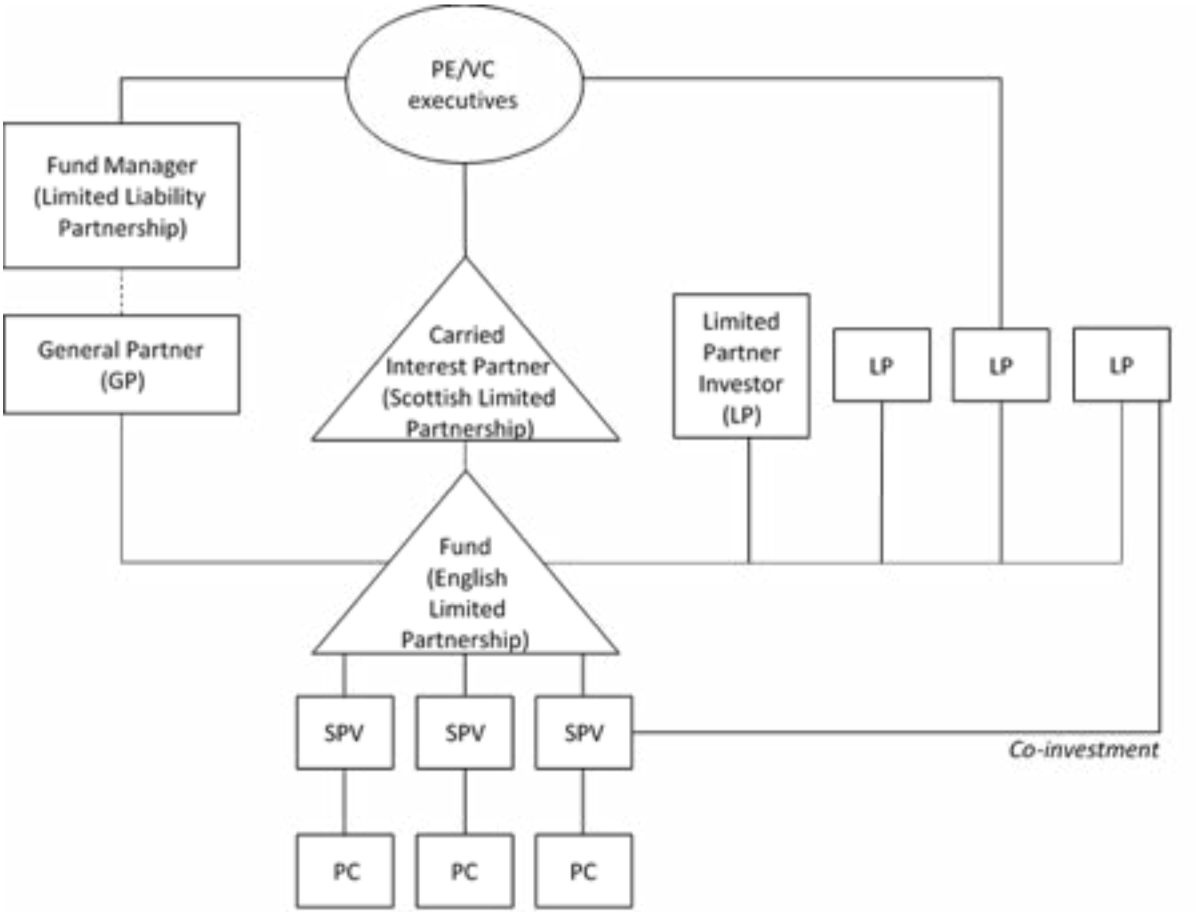
If you have any feedback or questions, please contact:

alyshia.harrington-clark@plsa.co.uk

APPENDIX - INFORMATION ON PRIVATE EQUITY FUND STRUCTURES

The limited partnership is the vehicle of choice for fund managers across private equity and venture capital ("PE/VC") to aggregate and put to work the capital of their investors.

A typical fund structure is outlined below:



THE FUND

A PE/VC fund is typically an English Limited Partnership ("ELP"), which is formed pursuant to the Limited Partnerships Act 1907. An ELP must have at least one general partner ("GP") and any number of limited partners ("LP"). PE/VC funds are closed-ended as LP interests are not intended to be transferred or traded. However, they can be transferred to another investor with the consent of the GP although this does not occur frequently over the term of a fund. PE/VC funds have a typical term of ten years with an option to extend, normally by two years.

GENERAL PARTNER

The GP is responsible for managing and running the partnership. Although it typically contributes a nominal amount of capital, GPs have unlimited liability and so remain liable for all the debts and obligations of the ELP. As such, GPs are normally a limited liability company or a limited liability partnership. GPs generally have full power and authority to act on behalf of the ELP and to bind the ELP without prior consultation with any of the LPs.

LIMITED PARTNER INVESTOR(S)

Any partners that are not general partners are LPs. LPs are essentially the investors in the fund and contribute capital to be pooled and invested. These are typically institutional investors, which can include pension funds, sovereign wealth funds, insurance companies, family offices, university endowments and high net worth individuals. The words "LP" and "investor" are used interchangeably in this document.

As long as a limited partner is not considered to take part in management (unlike a GP), its liability is limited to the capital it has provided to the partnership. The new UK Private Fund Limited Partnership ("PFLP") regime provides greater clarity around this. Note that the limited partnership structure lends itself neatly to passive investment arrangements such as this – where the manager is active and the investors have a limited role.

PORTFOLIO COMPANY

The pooled capital of the LPs is invested in portfolio companies ("PC"), often via special purpose vehicles ("SPV")/holding companies.

MANAGER

The GP often delegates its power and authority to an FCA-regulated manager. Any liability of such a manager will therefore be on a contractual basis. Managers are often limited liability partnerships, the partners being the PE/VC executives. The manager will earn a management fee for managing the fund.

PE/VC EXECUTIVES AND THE CARRIED INTEREST PARTNER

In order to incentivise the PE/VC executives and align their interests with those of their investors, the executives also earn a share of profits called carried interest after the LPs have received back their invested capital plus a minimum return/profit.

The minimum cash return required by LPs is agreed in advance and documented in the Limited Partnership Agreement (LPA), after which an agreed percentage of the profits is earned by the PE/VC executives. This carried interest is typically passed to another limited partner of the fund, the carried interest partner. The carried interest partner is often a Scottish Limited Partnership (SLP), of which the PE/VC executives are partners. SLPs are often used for this purpose because they have separate legal personality, unlike ELPs, and for that reason cannot become partners in other ELPs (see section 2).

Separately, investors typically require the PE/VC executives to invest in the fund alongside them. This could be through the GP or through a separate LP in the fund. This is a further means to align the interests of the fund manager and LPs.

LP CO-INVESTMENT

Investors can sometimes be given the opportunity to co-invest alongside the fund directly in certain investments of the fund, e.g. where the investment may be too large for the fund to invest in on its own. Funds are often restricted by their investors from investing more than a certain proportion of their capital in any one company, industry or geographical region, so may need a co-investor in certain transactions. A co-investor that already works with and supports the fund, such as an LP, is generally preferred to an external partner.

From an LP perspective, co-investing gives investors the opportunity to take a greater stake in the fund's investments, while not having to pay a management fee to the manager, nor incur carried interest on the co-investment (or bearing such fees/profit allocations at a reduced rate).

PE/VC EXECUTIVE CO-INVESTMENT

In addition to committing to the fund through the GP/manager (see above), the PE/VC executives are also sometimes given the opportunity to co-invest alongside the fund (not shown in the structure chart).

FURTHER INFORMATION AND GUIDANCE

Further information and guidance can be found on the CTI website.
You are able to access:

- **USER SUMMARY** PDF
- **USER SUMMARY** Excel
- **ACCOUNT TEMPLATE** 'machine readable' Excel
- **ACCOUNT TEMPLATE** PDF
- **ACCOUNT TEMPLATE** Excel
- **PRIVATE EQUITY TEMPLATE** PDF
- **PRIVATE EQUITY TEMPLATE** Excel

- Investor's 'How to' Guide
- Investor's Glossary of Terms
- Investor's Private Equity Glossary of Terms
- FAQs

You will also find web-links to other organisations and other useful information.

FEEDBACK

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