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LESSON 4 - FUND STRUCTURE – PART ONE

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## INTRODUCTION

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When a fund structure is considered, there are five investor transaction selection criteria.

1. Numbers
2. Sponsorship
3. Alignment of Interests
4. Key Events
5. Back-Up Plan

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## WHAT IS PRIVATE EQUITY

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Investee Management

Debt Management

Exit

Investor Management

Regulation

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## CAPITAL FORMATION: CALLING THE CAPITAL

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The first step in capital formation is to “call the capital.”

The second option is the Pledge Fund.

The third option is Fully-Funded Fund.

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## CAPITAL FORMATION: BUSINESS STRATEGY

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Fund Purpose

Investment Strategy

How Will You Make Money?

Your Edge

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## CAPITAL FORMATION: FUND INVESTMENTS

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Investment Matrix

Investment Committee

Blind Pool vs. Portfolio

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## FUND RETURNS

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Gross Returns

Net Returns

Multiples

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## FUND TERMS

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Term of Fund

Call Provisions

Capital Call Default

Distributions



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## COMMONLY USED TERMS

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As you gain experience in the industry, it is important to know the commonly used terms within capital formation.

- Recycling: How long are calls good for? Can you reuse money after distributions?
- Investment Period: How long the investment manager has to deploy/invest the money.
- Term of Fund: How long is the life of the fund?
- Distributions: Paying the LPs. How often will they be paid? What constitutes a capital event that will trigger a distribution?

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## INSTITUTIONAL RULES OF ENGAGEMENT

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1. Better Be Ready to Execute: “Use it or lose it.” Better have a “pipeline” of potential deals.
2. Most Institutional Investors Generally Favor Smaller Funds That Live Off Incentive (and Not Management) Fees: Counter argument that high compensation attracts the best players.
3. Consistency of Track Record: No “pass” for financial crisis.
4. Team That Loves Each Other and Works Well Together: Cohesion
5. Diligence of Downside Cases: Using good “robust” models. Structure away the risk. Sponsors/Funds with track record buoyed by home runs to offset losers that are unattractive.

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POSSIBLE FUND STRUCTURES

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Private Capital With Delicated Allocation

Institutional Capital Alignment

Fund Joint Venture/Facility

Classic LP Structure