

The commitment minute

Chapters 2 and 18. A vote for a commitment is three decisions. The committee usually discusses one. This page makes the other two explicit before the vote.

Institution		Prepared by	
Programme / manager		Date	

Decision	What is being approved	Who owns it	Minuted?
1. The manager			
2. The payment obligation: amount, notice period, default provisions (forfeiture, forced sale)			
3. The funding policy for the uncalled balance: where it sits until called, and where distributions go			

Item	Answer	Evidence / note
The four clauses that bind		
Obligation to fund on notice: notice period in business days; no netting against expected distributions		
Default provisions: penal interest, suspension, forfeiture of capital account, forced sale price		
Investment period: length; fee charged on commitment during it		
Recycling: can distributed capital be called again? For how long must the sleeve stay liquid?		
What the document leaves open		
When: no schedule, no maximum call per year, no warning of a large call		
The manager's own indicative drawdown profile, discounted for optimism		

The minute, one sentence: "The committee commits _____ to _____, on an expected sleeve return of ____ per cent against an index at _____, assuming the uncalled balance is held in [cash / the listed portfolio]; expected peak capital at work _____, or ____ per cent of the commitment; the programme is reported each year both as the manager's fund return and as the return on the full amount set aside."

Thornbury: approved 600 on an expected sleeve return of 9.1878 per cent against 7.1312, uncalled held in the listed index; expected peak 383, 63.83 per cent of the commitment.

Drawdown and liquidity schedule

Chapter 3. The J-curve built from the schedule: a liability profile with dates on it. Size the buffer to the top of the range, not the forecast.

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Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Calls										
Distributions										
Net flow to the fund										
Net capital at work (cumulative)										
Phase: drawing / peak / returning / past cost										
Slow case: distributions two years later										
Net at work, slow case										

Test	Base case	Slow case	Buffer needed
Peak net capital at work, and its year			
Peak as a share of the commitment			
Largest single-year call (forecast)			
Largest call the document PERMITS in a year (the whole undrawn balance?)			
Year the cumulative balance turns negative (not the year of the first net distribution)			

Item	Answer	Evidence / note
Before the first call		
Where does the largest call come from, without selling anything we would not choose to sell?		
Which years of the listed market fund the heaviest calls? What if they fall?		
Who funds a call inside ten business days, from which account, on whose authority?		

Thornbury: peak 383 in Year 4, 63.8333 per cent of 600; slow case 535 in Year 5, 152 more. Four-and-six describes the cheque book (net taker four years, payer six); seven-and-three the exposure.

The sleeve account

Chapter 8. Ten lines, from custodian records rather than manager statements. It is the return the foundation earned on what it set aside.

Institution		Prepared by	
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Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Opening balance										
Less calls										
Plus distributions										
After the flows										
Rate earned on the idle balance, %										
Return on the balance										
Advisory / administration charged on the sleeve										
Closing balance										

Result	Policy actually run	Other policy	Index alone
Closing balance, Year 10			
Plus residual net asset value			
Terminal value			
Sleeve return: $(\text{terminal} / \text{amount set aside})^{(1/10)} - 1$			
Closing test: set aside - calls + distributions + returns - charges = closing balance			

Thornbury, cash policy: 600 less 90 is 510.00, at 0.80 per cent 4.08, closing 514.08; trough 226.62 in Year 4; 957.85 in Year 10; with the residual 1,100.85, 6.2571 per cent. Index policy 1,445.08, 9.1878. The 35 basis points of advisory the fee chapter counts are not charged in the book's account: charged at each year end they take the two returns to 8.9657 and 6.0248.

The three returns, on one page

Chapters 11 and 18: page one of the board pack. Three returns, the question each answers, and three sentences beneath. No more.

Institution		Prepared by	
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Return	Per cent	Whose number	The capital in it	The question it answers
Fund net IRR, reported				
Sleeve, uncalled in the listed index				
Sleeve, uncalled in cash				
The listed index				

The arithmetic	Points	How computed
Apparent advantage		
Real advantage, better policy		
Real advantage, policy actually run		
Share of the apparent advantage that reached us		
Apparent divided by real		

The ladder: what sits in each gap	Points	Whose decision
Fund IRR to sleeve (index policy): capital committed and not at work		
Sleeve (index) to sleeve (cash): where the idle money sat		
Sleeve (index) to the index: what the allocation earned		

Thornbury: 13.2935, 9.1878, 6.2571, 7.1312. Apparent 6.1624, real 2.0567 and -0.8741; 33.3744 per cent reached the foundation; 3.00 times. On one date for the residual (the end of Year 10, as the sleeve dates it) the IRR is 12.9426 and the ratio 2.83. Ladder: 4.1057, 2.9307, 2.0567.

Where the uncalled commitment lives

Chapter 9. The paragraph for the investment policy statement: four things, each a number rather than a sentiment.
Written before the first call.

Institution		Prepared by	
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Place	What it earned (or would have)	What it costs in the worst case	Who may choose it
Cash and near-cash			
The listed portfolio at policy weights, sold down on call			
A dedicated liquid proxy (levered listed equity)			
A credit facility: stay invested, borrow for calls, repay from distributions			

The paragraph	Our wording
1. The funding pool: which listed holdings are sold to meet calls, in what order	
2. The cash buffer, as a stated fraction of the largest plausible twelve-month call	
3. Where distributions go on the day they land (default: not the cash account)	
4. Who may deviate, from what, for how long; reported to whom	

Thornbury: cash 6.2571, listed 9.1878 (2.9307 points a year, 344.23 in money). Case one prices the other two: proxy 9.6425, facility at cash plus 150 bp 9.9603 with a line that peaks at 407.38 once its interest is counted, 20.37 per cent of the endowment.

Over-commitment and the denominator

Chapter 10. The line under every commitment recommendation, and the stress that goes with it.

Institution		Prepared by	
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Line	Value	Source / note
Target capital at work (target weight x total assets)		
Peak net capital at work on the ASSUMED schedule, and its year		
Peak as a share of the commitment		
Commitment that holds the target: target x target / peak		
Over-commitment: required / target - 1		
Share of the commitment never at work at any moment		
Commitment as a share of total assets (the obligation that cannot be cancelled)		

Denominator stress	At the commitment	At the over-commitment
Private at work in the peak year (at cost)		
Listed book after a fall of ____ per cent		
Reported private weight		
Weight after the next call (funded from the listed book)		
Weight if the scheduled distributions also arrive		
Weight if they do not, and the schedule is two years slower		

Item	Answer	Evidence / note
Three ways out, none free		
Commit at target, accept being under-allocated: cost = the funding-policy gap plus the idle share		
Over-commit, accept the tail: the ratio is known only in hindsight; size it on a RANGE of distribution delays		
Buy secondaries to shorten the ramp: a tool for the shape of the ramp, not a source of return		

Thornbury: 383 of 600 (63.8333 per cent); 939.95 required, 56.6580 per cent over; 22.8439 per cent after a 20 per cent fall at 600; 40.8950 at 939.95 after the Year 5 call if no distribution arrives, 27.87 if they do. Two years slower, 939.95 peaks at 838.12.

Reading a fund's numbers

Chapters 4 to 6. Read in this order: DPI, TVPI, the fund's age, then the IRR. Then put the flows through an index.

Institution		Prepared by	
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Measure	Value	Rebuilt from	Note
Capital called / distributed / residual			
DPI = distributed / called			
TVPI = (distributed + residual) / called			
Share of value banked = distributed / (distributed + residual)			
Fund age, years; share of commitment called			
Net IRR, and the date of the residual in it			
Value against the commitment, and against the amount set aside			

The multiple has no clock: the annual rate a TVPI implies over n years is $TVPI^{(1/n)} - 1$

Years	4	6	8	10	12	Crossing with the index
Implied rate						

PME	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Call										
Index growth to the end										
Call compounded										
Distribution										
Distribution compounded										

Result	Value
Calls compounded; distributions and residual compounded	
PME = second / first; value added in money	
Direct alpha (IRR of the compounded flows), and the naive root of the PME beside it	

Thornbury: DPI 1.4025, TVPI 1.6560, 84.6895 per cent banked; the TVPI stops beating the index at 7.32 years. PME 979.96 and 1,230.20, 1.2554x, 250.25 in money; direct alpha 5.8628, naive root 2.3003.

The benchmark and its gearing

Chapter 7. A benchmark without a stated capital structure is a number that happens to be nearby. Both judgements stated, with their consequence.

Institution		Prepared by	
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Line in the paper	Value
Index, and its total return over the period	
Beta assumed for the private programme (a judgement, not a measurement), and why	
Funding rate for the leverage (a judgement), and why	
Levered index return, computed year by year (not the shortcut)	
Shortcut beside it: $\beta \times \text{index} - (\beta - 1) \times \text{funding}$	
PME against the plain index / against the levered index	
Direct alpha against the plain index / against the levered index	
Share of the value added the leverage adjustment removes	

Sensitivity: the beta moves the answer; the funding rate barely does. Show both.

Beta	Funding	Levered index, %	PME	Direct alpha
1.00				
1.15				
1.30				
1.15, funded at cash				
1.15, funded at cash + 100 bp				

Two lines for the paper: "Index levered to a beta of ____, funded at ____ per cent: ____ per cent a year." "The beta is assumed, not measured; the reported beta of ____ is a smoothing artefact; at 1.0 the PME is ____ and at 1.3 ____."

Thornbury: 7.8203 (shortcut 7.9008); PME 1.2554 and 1.2255; at 1.30, 8.4883 and 1.1976; funded at the cash row 7.7964, at 3.00 7.6694 (PME +0.0070). Direct alpha 5.8628 unlevered, 5.2448 levered.

The valuation and the risk page

Chapters 12 and 13. The mark is an opinion; the risk statistics inherit it. Three tests, two disclosures, one correction stated as a range.

Institution		Prepared by	
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Item	Answer	Evidence / note
Three tests of the valuation policy		
The lag test: carrying value and comparable multiple at the two period ends around the worst listed quarter of five years		
The comparable-set test: constituent lists a year apart; names changed without a reason		
The realisation test: every exit, last carrying value against price received; dispersion both ways, or 1.00 every time?		
Two disclosures		
The full QUARTERLY series for the vehicle held, not the annual one		
The value bridge: realisations, new capital, currency, change in multiple, change in earnings		

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Reported return, %										
Index return, %										
Unsmoothed: $(r(t) - a \times r(t-1)) / (1 - a)$										

Statistic	Reported	Unsmoothed at a = ____	Factor
First-order autocorrelation (a), and its standard error 1 / sqrt(n)			
Volatility			
Correlation with the index			
Beta = correlation x volatility / index volatility			
Portfolio volatility at the policy weight; risk reduction; share that survives			

Thornbury: a = 0.5245 on ten observations (standard error 0.3162); volatility 3.1547 to 5.4849, correlation 0.0707 to 0.3098, beta 0.0215 to 0.1639 (7.6174 times); 81.9603 per cent of the diversification survives. Across a = 0 to 0.6 the beta runs 0.0215 to 0.2151.

The fee load, in money

Chapter 14. Add the three layers yourself, then divide twice: once by the commitment, once by the peak capital at work.

Institution		Prepared by	
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Layer	Terms	Base, and its definition	Amount
Management fee, investment period			
Management fee, after it ("invested capital" = which of the three meanings?)			
Carried interest (share of the gain, not a charge on assets)			
Advisory and administration on the sleeve (ours, in no fund report)			
Total load			

The same load on six denominators	Amount	Load as a share	Annual equivalent
Commitment			
Called capital			
Peak capital at work			
Gross gain			
Net gain (the fund's; and ours after our own layer)			
Distributions received			

Definition	Ours?	Fee base at each year end
Invested capital, defined in the agreement as		
Net capital at work, floored at zero (distributions return capital first)		
Cost of unrealised investments (each distribution returns its own cost)		
Called capital, never reduced		

Thornbury: $55.56 + 92.50 + 21.00 = 169.06$ (169.0625), 45.6926 per cent of the fund's net gain of 370.00; 94.49 per cent of the management fee falls in the first five years. On 600, 2.8177 per cent a year; on the peak of 383, 4.4142. Case three: 55.56, 69.03 and 101.85 on the three definitions.

A secondary indication, priced

Chapter 15. A bid should reach the committee as two figures the staff have computed: what the sale does to the sleeve return, and what the proceeds are for.

Institution		Prepared by	
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Discount	Proceeds	Sleeve terminal value	Sleeve return	Cost, points a year	Buyer's return if the residual arrives in ____ years
0%					
10%					
20%					
30%					
Written off					

Line	Value
Residual as a share of the sleeve's terminal value	
Shortcut: discount x share / years (x (1 + r) for the exact figure)	
DPI / TVPI: how much of the value is already cash	
Fund age: at an RVPI near 1.00 the discount is the return	
What the proceeds are for: an unfunded call (liquidity decision) or discomfort with the mark (return decision)?	

Item	Answer	Evidence / note
Three lines to model before the next commitment		
The worst call year against zero distributions and a listed book down ____ per cent: what is sold?		
The peak, not the commitment: size the buffer on the peak		
The residual as a share of terminal wealth at the age you will want out		

Thornbury: residual 9.8956 per cent of 1,445.08; a 30 per cent discount costs 0.3286 points (the shortcut 0.2969; times 1.0919, 0.3241); the buyer earns 26.84 per cent over eighteen months, 12.62 over three years. Given away, the sleeve still returns 8.0560.

Choosing a manager whose track record cannot be trusted

Chapter 16. Read the performance pages last, after the call schedule and the valuation policy.

Institution		Prepared by	
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Fund	Vintage	Called / commitment	DPI	TVPI	DPI / TVPI	PME (index 1 / 2 / 3)

Fund	Calls per year: actual	Calls per year: the PPM said	Years to peak	Peak / commitment

Item	Answer	Evidence / note
Ask for, fund by fund		
Attribution: leverage, multiple expansion, operating improvement		
The funds NOT in the composite: count and names		
The worst quarter: who sat on the valuation committee, what was re-marked, where in the valuer's range		
Reference calls to limited partners NOT on the list		
What did the drawdown schedule look like against what you were told?		
What happened the first time you disagreed with a mark?		
Would you commit again at the same size, and if not, at what size?		

Thornbury: 84.6895 per cent of Brayfield's value banked; 564 of 600 called over five years; PME 1.2554 and 1.2255 on two indices; the third is the one the manager must be asked for.

The paper that survives, and the board pack

Chapters 17 and 18. The ninety-second test for a commitment paper, and the five pages of a board pack.

Institution		Prepared by	
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Item	Answer	Evidence / note
The ninety-second test (any one missing: the first page is not describing your portfolio)		
The return the SPONSOR expects to earn, as distinct from the return the manager expects to report		
The sentence that says where the uncalled money sits		
Peak capital at work as a share of the commitment		
Four reconciliations before signing		
Calls sum and tie to custodian debits		
Distributions sum and tie to custodian credits		
Residual ties to the manager's capital account statement		
Every ratio rebuilds from the three tied figures		
Who computes each number		
Manager: calls, distributions, valuations, nothing else		
Us, from custodian records: the sleeve return		
Risk: the smoothing coefficient and its range		
Finance: the fee model, reconciled to the agreement, not to the invoice		

Board pack page	Present?	Denominator stated?
1. Three returns and the question each answers		
2. Commitment page: committed, called, distributed, uncalled, residual; net at work by year; the peak		
3. Valuation page: residual as a share of total value; 20 and 30 per cent discounts		
4. Fee page in money: three layers, total, share of the gain		
5. Risk page: reported and unsmoothed, the coefficient stated, the beta as a range		

Three ways a pack misleads without a falsehood: a chart indexed to the first call rather than the commitment; an IRR beside an index return with no note between them; a "since inception" composite that starts at the second fund.