

The map: seven facts, six dates and one number

Chapters 2, 4 and 19, hour one. Fifteen minutes on the structure and ten on the dates, before any clause. They are the frame for everything that follows.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Which entity is the general partner, and does it have assets?		
Which entity receives the management fee?		
Which entity receives carried interest, and is it the same one that owes the clawback?		
Main fund or feeder? If a feeder, which document governs you?		
Parallel funds or alternative vehicles, and do the protections follow the money?		
Administrator and auditor: who, and who appoints and removes them?		
Advisory committee: how chosen, consent rights or consultation only?		

Date or number	Value	Who decides, and what the fee does
Final closing		
End of investment period		
End of term		
Latest date with all extensions		
Extension 1: who consents		
Extension 2: who consents		
Vote to terminate early		

Question	Answer	Clause
What happens if extensions run out and assets remain: forced sale, in-kind distribution, further vote?		
Reserves at wind-down: capped? time-limited?		
When is the final clawback determined?		

The mandate and the investment period

Chapters 3 and 6. Three questions for every restriction, then the eight lines of the investment period page. The exceptions are where the negotiation happened.

Fund		Reviewer	
Manager		Date	

Restriction	Limit	Denominator: commitments / invested / NAV	Tested when	Consequence of breach	Exceptions, and who grants them
Concentration, single investment					
Geography					
Sector					
Asset type					
Fund-level leverage					
Asset-level leverage					
Follow-ons after the period					
Affiliates and related parties					
Bridge investments: time limit?					

Question	Answer	Clause
Recycling: what, how much (cap), until when, discretionary or automatic?		
Subscription facility: size limit, maximum outstanding period, returns reported on both bases?		
Investment period: length, start and end date		
What may still be invested afterwards, with caps (follow-ons, signed deals with a longstop, "committed" deals)		
Does recycling continue after the period?		
Fee step-down: trigger, confirmed as the EARLIER of end of period and successor first close		
Successor fund restriction: threshold, does "committed" include reserves, waivable by whom?		
Vote to suspend or end the period early: with cause / without cause		

The chapter three question: if the manager wanted to build a portfolio quite different from the one described, what here would stop them?

The commitment page

Chapter 5. What a treasury function needs and an investment team rarely produces. A commitment is a promise to pay money you do not yet owe, on a date you do not know, in an amount you cannot control.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Commitment amount		
Expected call profile, years 0 to 5		
Notice period for calls (ten business days is usual; five is tight)		
What may be called after the investment period, and for how long (follow-ons, fees, expenses, indemnities)		
Recycling cap, and therefore maximum total contribution		
Excuse rights and their limits; are excused shares reallocated pro rata or offered?		
Default: cure period, automatic or discretionary, maximum forfeiture, forced sale discount, proportionality		
Equalisation rate for later closings; who receives it; are fees equalised?		
Subscription facility: size, maximum outstanding period; the call the fund must make if it is not renewed		

Year	Expected calls	Stressed calls (distributions stop, calls do not)	Expected distributions	Stressed distributions	Net, stressed	Cumulative unfunded
0						
1						
2						
3						
4						
5						
6						
7						

Defaults cluster: the conditions that stop distributions are the conditions that make everything else illiquid too. Model the whole programme, not this fund alone.

The fee page, with the total computed

Chapter 7. Seven lines, one of which is a number nobody in the process will otherwise compute. On the worked fund: 71.35, 14.3 per cent of commitments.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Rate and base during the investment period		
Rate and base after it (invested cost held / NAV / commitments)		
Step-down trigger: the earlier of two events?		
Offset: percentage, which fees (transaction, monitoring, break, advisory), affiliates included, credits carried forward?		
Is the fee called as capital?		
Discounts you have, or others have (side letters)		
Fee during extensions, and during a key person suspension		

Year	Base	Amount of base	Rate	Fee	Offset credit	Net fee
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
Total						

Also compute	Value
Total fee as a share of commitments	
One more year of investment period, realisations unchanged (worked fund: +3.00)	
One more year of investment period, everything slips (worked fund: +10.00)	
Offset at 100 against 80 per cent (worked fund: 3.30)	

The expense review, in an hour

Chapter 8. Four steps, in order. The clause says what is permitted; the prior funds say what the manager does.

Fund		Reviewer	
Manager		Date	

Item	Fund / manager / silent	Clause
Step 1: the carve-out		
Is there an express sentence excluding the manager's overhead, salaries and ordinary operating costs?		
Drafting style: enumerated list (investor-friendly) or general permission with examples?		
Step 2: the contested categories		
Manager's regulatory and compliance costs		
In-house operating staff and consultants deployed on portfolio companies		
Technology and data used to monitor investments		
Travel and entertainment		
Advisory committee and investor meetings		
Manager's insurance		
Investor-driven reporting costs		
Step 3: organisational costs and broken deals		
Organisational cost cap (around half a per cent of commitments)		
Are placement agent fees inside the cap, excluded, or offset?		
Broken deal costs allocated to co-investors in proportion?		
Annual expense cap, and what it excludes		

Step 4: actual expenses on the two prior funds

Category	Prior fund 1, currency	% of commitments a year	Prior fund 2, currency	% of commitments a year
Organisational				
Audit, tax, administration				
Legal				
Broken deal				
Operating staff charged				
Technology				
Other				
Total				

If the manager will not provide it, that is also an answer.

The carry page, and the waterfall on two outcomes

Chapters 9 and 10. Every component, then the waterfall built numerically on a good and a mediocre outcome, then the four tests. The companion workbook does the arithmetic.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Rate, and whether tiered		
Preferred return: rate, compounding (annual / quarterly / simple)		
Accrues on unreturned capital, all contributed capital, or commitments?		
Accrues on fee and expense contributions too? (worked fund: about 86 of base)		
Hard or soft hurdle; full or partial catch-up		
Whole-fund or deal-by-deal; any distribution hold-back?		
General partner commitment, and is its default an event of default?		
Distributions in kind: marketable only? how valued? can you elect cash?		
Tax advances credited against future carry and inside the clawback?		

Outcome	Distributions	Gross multiple	Carry	Carry as % of profit	Fees + expenses + carry, % of distributions	Net IRR	Net multiple
Good							
Mediocre							

Test	Pass?
Cash reconciles: everything distributed equals everything the fund received	
Zero profit: investors and manager get their capital back, carry is zero	
Exact hurdle: carry is zero, or exactly the catch-up if the drafting starts there	
Extreme: the manager's share of profit approaches its percentage and never exceeds it	

The clawback: six answers and the recovery

Chapter 11 and Appendix F. For any deal-by-deal fund. Model it on a mediocre outcome, not a disastrous one: the 1.3x case is where the money is left behind.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Gross or net of tax, and at what assumed rate?		
Escrow: percentage, and when is it released?		
Personal guarantees: from whom, several or joint, capped?		
Tested at interim dates or only at dissolution? What happens when an interim test shows an excess?		
Does it include tax distributions and other advances?		
Time limit on claims after dissolution?		

Line	Formula	Value
Carry paid along the way (C)		
Carry due at the end		
Gross clawback	paid less due	
Obligation at assumed tax t	clawback x (1 - t)	
Held in escrow at e	clawback x e	
Uncollateralised	clawback x max(0, (1 - t) - e)	
Escrow for full cover	1 - t	
Recovery range, guarantees worth nothing to everything	escrow held to the obligation	

Negotiate the tax rate and the escrow as one number: escrow at least one minus the assumed rate. Every euro won on the rate alone lands in the uncollateralised column (Appendix F).

Key person and removal: the governance page

Chapters 12 and 13. Then the test that matters: read every threshold against the actual investor register.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Key persons named, and do they match the people who actually decide?		
Trigger: departure only, or reduced involvement / IC membership / time commitment?		
Suspension automatic, or by investor vote?		
Cure: replacement consent threshold and period; what if no cure (terminates, or resumes)?		
Fee during suspension; do follow-ons continue?		
Cause: definition; can it be established without a court judgment?		
For cause: consequences for carry, fee and the GP interest		
Without cause: threshold; all commitments or votes cast; affiliates excluded?		
Removal compensation, computed (worked fund: two years of fees = 20.00)		
Successor appointment mechanism		
Amendments: general threshold; protected matters; unilateral power and its scope		

Largest investors	Commitment, %	Side letter?	Co-investment relationship?	Likely to act?
Can the no-fault threshold be reached by a plausible coalition?				

Then ask the manager: who would have to leave for this fund to be a different investment? If the names are not the names in the clause, the provision is decoration.

The remedies page

Chapter 14. Every remedy, with its threshold and its cost. Then which of them this particular investor base could actually use. Read it as though the manager will not raise another fund.

Fund		Reviewer	
Manager		Date	

Remedy	Threshold	Cost or consequence	Usable by this register?
Suspend the investment period (and the fee during suspension)			
Terminate the fund (who liquidates, over what period)			
Remove for cause (definition, provability, consequences)			
Remove without cause (compensation, successor)			
Withhold consent (on what matters)			
Individual excuse from further investments			
Automatic termination events (list)			
GP default on its own commitment			
Force majeure and suspension of valuations: who decides, how long			
Dispute resolution: court or arbitration, individual or derivative claims			

The honest answer in many funds is one or two remedies. Knowing which two, before committing, is the point of chapters twelve to fourteen.

Conflicts, valuation and reporting

Chapters 15 and 16. Read the standard of care, exculpation, indemnification and the conflicts clause together. Then test whether an investor can compute what matters from what the agreement requires.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Conflicts requiring consent: a specific list, or those "the manager determines to be material"?		
Who consents: committee or investors; what information must accompany a request?		
Independent valuation for affiliate and cross-fund transactions (continuation vehicles)?		
Allocation policy between funds; departures reported? Co-investment allocation policy?		
Standard of care; exculpation; indemnity with advancement of expenses; survival; individuals covered		
Valuation: who, on what basis, how often, who approves the methodology, independent input?		
Reporting: quarterly within ___ days, annual within ___ days; fees and expenses to a recognised template?		

From the reports required, can you compute	Yes / no	Source
Net IRR and multiple since inception		
Total fees and expenses borne, in currency and % of commitments		
Carry paid to date and the current clawback position		
Unfunded commitment and expected call profile		
The gross-to-net bridge for the fund		
Concentration by investment, sector and vintage		
Returns with and without the subscription facility		

Ask the manager which conflicted transactions went to the committee in the last two funds, and whether it ever said no. And ask for the last four quarterly reports of the prior fund.

Transfers and side letters

Chapters 17 and 18. The transfer page, then the side letter pack tabulated: one row per letter, one column per category. The pattern is visible in a table and invisible in a stack.

Fund		Reviewer	
Manager		Date	

Question	Answer	Clause
Consent standard: absolute / not unreasonably withheld / deemed given after ___ days		
Pre-approved transferees (affiliates, successors, same-manager funds)		
Is the transferor released from unfunded commitment?		
Transfer costs: who pays, capped?		
Confidentiality: disclosure to bona fide prospective buyers permitted?		
Manager-led secondaries: committee consent, fairness opinion, cash option at the price, status quo option, carry crystallised disclosed?		
Change of control of the manager: consent? key person event?		
MFN: scope (economics covered?), size threshold, full copies or summary, election window		

Investor / letter	Size	Economic s	Co-invest ment	Governan ce	Reporting	Transfer	Regulator y	Can we elect it?

Elect everything you are entitled to: elections are not automatic, and the window passes.

Thirty red flags

Appendix B. None is disqualifying on its own; three or four together, pointing the same way, describe a document.

Fund		Reviewer	
Manager		Date	

Red flag	Present?	Clause and note
Structure		
1 Thin GP, no guarantee behind the clawback		
2 Committee: consultation, no consent rights		
3 Committee appointed by the manager, not indemnified		
4 Administrator or auditor affiliated, or removable by the manager alone		
Mandate		
5 Concentration limits on NAV, not commitments		
6 Every restriction waivable at the manager's discretion		
7 Bridges excluded from limits with no time limit		
8 Asset-level leverage unlimited and undisclosed		
9 Recycling uncapped		
10 Subscription facility with no maximum outstanding period		
11 Follow-ons after the period uncapped		
12 Successor restriction waivable or "substantially similar" only		
Economics		
13 Fee on commitments after the investment period		
14 Step-down only at the end of the period		
15 Full fee during extensions		
16 Offsets below 100 per cent, narrow, no affiliates, no carry-forward		
17 General expense permission, no overhead carve-out		
18 Organisational costs uncapped, or cap includes placement fees		
19 Broken deals not allocated to co-investors		
20 Preferred return not on fee and expense contributions		
21 Simple preferred return, or a base that does not reduce		
22 Deal-by-deal with a clawback net of tax at a high rate		
23 No escrow, or below 20 per cent		
24 Clawback only at dissolution, or expiring soon after		
25 Tax advances not credited against carry		
Governance		
26 Key persons who no longer decide; departure-only trigger		
27 Suspension by vote, or resuming automatically		
28 Cause needs a final judgment; no carry consequence		
29 No-fault threshold unreachable by this register		
30 MFN excludes economics, or threshold at or above your commitment		
Not clauses		
Manager will not provide actual prior-fund fees and expenses		
Manager cannot name a conflict the committee refused		

Reading one in a day, and the negotiation list

Chapter 19. Eight hours, eight pages of answers, and one deliverable: the ranked negotiation list. If you have two hours, do the seven items at the bottom and say that you did.

Fund		Reviewer	
Manager		Date	

The three questions this review must answer	Answer

When	What	Done
Hour 1	The map: seven facts, six dates	
Hours 2-3	Economics: fee computed, offset, expenses, carry, waterfall on two outcomes	
Hour 4	Mandate: restrictions, leverage, recycling, facility, investment period	
Hour 5	Governance: remedies with thresholds; the register test	
Hour 6	Conflicts, valuation, reporting; the computability test	
Hour 7	Transfers, side letters, the ending	
Hour 8	Write it: eight pages of answers	

Point to raise	Value	Expect to get / unlikely

Usually worth most: the waterfall architecture if deal-by-deal; escrow and a gross clawback; the offset and its scope; the no-fault suspension threshold; the key person trigger; MFN scope and threshold. The fee rate itself is near the bottom.

Two hours only: the seven structural facts / the fee total, computed / the architecture and, if deal-by-deal, clawback basis and escrow / the expense carve-out / the key person trigger / the no-fault suspension threshold / committee consent or consultation