

The pack as received

Chapters 1 and 20. Five documents with five jobs, read in the order that tests the numbers, not the order they are bound in. Fill this in before reading anything.

Fund		Reader	
Reporting date		Date read	

Document	Received (date)	Period covered	Audited?	Its job
Audited financial statements and notes				
Capital account statement				
Quarterly report and commentary				
Notice history: every call and distribution notice				
Valuation policy (current version and date)				

On the desk before starting	Ready?	Note
Last year's one-page summary for this fund		
Your own cash flow series, one row per flow		
The key terms: fee rate and base, step-down, investment period, term, hurdle, catch-up		
Last year's questions and the answers received		

Step (minutes)	Extract	Check	Trigger found?
1. Changes in net assets (10)			
2. Your capital account (10)			
3. Unfunded and exposure (8)			
4. Schedule and concentration (15)			
5. Fee and carry (12)			
6. Valuation notes (12)			
7. Subsequent events (5)			
8. Cash flow statement (8)			
9. The narrative, last (10)			

Chapter 1: the summary page is unconstrained; the primary statements have to reconcile. Start where the arithmetic is enforced, and read the commentary only when you already know the answers.

The statement of assets and liabilities

Chapter 2. Every line ties to something else in the pack. Run the checks in this order before reading anything further.

Fund		Reader	
Reporting date		Date read	

Line	Amount	Ties to	The question to put
Investments at fair value			
cost (the caption)			
Cash			
Subscriptions receivable			
Receivables: income, portfolio entities, the manager			
Payable for investments purchased			
Accrued management fee			
Distributions payable			
Borrowing and its accrued interest			
Accrued carried interest (liability?)			
Net assets: general partner / limited partners			

The checks	Result
Fair value less cost = cumulative unrealised; does the schedule of investments total agree?	
Cash plus subscriptions receivable against distributions payable plus payables for investments: surplus or gap?	
Fee accrual: base x rate / periods. Difference, and the specific question it raises	
Carry: liability or allocation? Net assets on the other presentation, and the gap as a share of net assets	
Limited partner net assets = the sum of all capital accounts. Your balance / that figure = your share	

Chapter 2: the limited partner column is net of the manager's entitlement under both presentations. Work with it; the total is gross under one and net under the other.

The schedule of investments, position by position

Chapter 3. Read across each row before reading down the column. The aggregate multiple conceals the distribution; the finding is the gap between the two.

Fund		Reader	
Reporting date		Date read	

Position / instrument	Date acquired	Cost	Fair value	Multiple	% net assets	Blended? Holding entity?

Concentration and dispersion	Value
Largest position, % of net assets; top three; top five	
Column total above 100%: the excess, and the liabilities that explain it	
Aggregate multiple	
Aggregate multiple excluding the largest position	
Unrealised of the largest position against the total unrealised	
Positions below cost (count); at exactly cost for three years or more (count)	
Short-term paper and hedges stripped out before any ratio?	

Regroup on the axis the manager did not choose	What it shows
By geography (if grouped by sector) / by sector (if grouped by geography)	
By year of acquisition	
Rows whose cost fell since last year (partial realisations)	

The statement of operations, decomposed

Chapter 4. Large positive realised beside large negative unrealised is one event, not two. Ask for the split, then state the year in economic facts.

Fund		Reader	
Reporting date		Date read	

Line	Amount	Read with
Investment income: interest (cash or accrued?), dividends (a recapitalisation?), other		
Expenses, line by line; management fee against base x rate		
Net investment income or loss (a fact about the strategy)		
Net realised gain or loss		
Net change in unrealised		
Carried interest line, if carry is an expense here		
Net increase from operations		

Per exit or write-off	Proceeds	Cost	Opening carrying value	Realised	Reversal	Economic news of the year

The year in economic facts	Amount
Movement on positions still held = change in unrealised less the reversals (+ if the reversals exceed the negative)	
Value created on exits in the year = proceeds less opening carrying value	
Final write-offs: opening carrying value lost	
Running costs (net investment loss)	
Total: must equal the result before carry	

Chapter 20 and Appendix A: if the negative change in unrealised is smaller than the reversal on the positions sold, the rest of the portfolio was marked up, not down. The statements alone cannot tell you which; the split can.

Changes in net assets, and your share of it

Chapter 5. Open this statement first. It separates growth from capital arriving from growth the portfolio earned.

Fund		Reader	
Reporting date		Date read	

Movement	General partner	Limited partners	Total
Net assets, beginning			
Contributions			
Distributions			
Result from operations (ties to operations, to the unit)			
Carried interest allocation			
Reallocation on default (note)			
Equalisation on later closings (note)			
Net assets, ending			

Shape of the period	Value
Flows: contributions less distributions	
Performance: result from operations	
Performance / opening net assets	
General partner commitment share; its contributions and distributions share (should match)	
General partner share of operations beyond its capital interest = carry (negative when marks fall)	

Your share	Opening	Closing	Why it moved
Your balance			
Limited partner net assets			
Your share of the class			

Chapter 5: a closing, an excused investment, a default reallocated to you, a different fee class or a side-letter carry rate. If your share moved and you cannot name the cause, that is the question.

What funded the distributions?

Chapter 6. Three sources: realisations, cash already held, borrowing. One period proves nothing; three or four in a row is a pattern.

Fund		Reader	
Reporting date		Date read	

Period	Proceeds from sales	Distributions paid	Coverage (proceeds / paid)	Facility drawn	Facility repaid	Facility balance	Cash, end

Tests	Result
Cumulative distributions against cumulative proceeds over the window	
Facility balance: grown over the same window?	
Distributions declared (changes statement) less paid here = payable timing + in kind	
Purchases with no contributions, or contributions with no purchases: match across periods with the notices	
Shape against stage: deployment (purchases dominate), middle (oscillating), harvest (proceeds dominate)	
Closing cash against distributions payable, payables for investments, accrued expenses, facility maturity, fund-level unfunded obligations	

Chapter 6: a distribution is only a return of value if something was sold. Otherwise it is a loan you will repay to yourself, with interest.

Your capital account, rebuilt

Chapter 7. Your share is not your percentage. Rebuild the account from the fund's aggregates and your own terms, then name every difference.

Fund		Reader	
Reporting date		Date read	

Line	Statement	Rebuilt	Source	Difference and cause
Opening balance				
Contributions (your bank; equalisation excluded)				
Distributions (your bank; recallable noted)				
Allocated income and expenses other than the fee				
Allocated realised gain				
Allocated change in unrealised				
Your management fee: your rate x your base (never your share of the total)				
Carried interest allocated				
Closing balance				

The divergence from a flat percentage	Amount
Your share of the closing class column, if everything were pro rata	
Your actual closing balance	
Fee advantage this period: your share of the aggregate fee less your own	
Opening deficit or surplus: equalisation paid, accumulated fee advantage, later closing	
Unexplained residue (must be zero, or it is a question)	

Chapter 7: equalisation is paid to the other partners, not contributed to capital; a bank reconciliation that forgets it is out by exactly that amount.

The commitment schedule: calls, distributions, callable

Chapters 8 and 9. The unfunded line is not monotonic. Composition drives every downstream number; the cash amount is the least informative part of a distribution.

Fund		Reader	
Reporting date		Date read	

[illegible]

The four numbers, today	Value
Commitment (subscription document)	
Called capital (sum of call notices)	
Unfunded: commitment less called, plus recallable (within the cap)	
Remaining exposure: unfunded plus the current value of the interest	
After the investment period: the callable amount the manager confirms	

Chapter 8: stress the funding path with calls at the fastest permitted rate and distributions nil. Those are the same market conditions. Chapter 9: know who in your organisation can receive an in-kind distribution before it arrives.

Valuation: the note, the sensitivity, and the mark that did not move

Chapters 10, 11 and 19. Establish who prepares, who challenges, who approves; reverse-engineer the sensitivity; compute the implied multiple every quarter.

Fund		Reader	
Reporting date		Date read	

Valuation note	Answer
Share of fair value at unobservable inputs; transfers between levels and why	
Technique by class; inputs named, with range and weighted average	
Weighted average near the top of the range (large holdings at high multiples)?	
Committee: members who did not originate; numbers changed in the last four quarters, and which way	
Independent valuation, independent review or negative assurance?	

Sensitivity reversed (Chapter 10)	Value
Pre-discount equity = fair value / (1 - average discount)	
Aggregate earnings = change in value per turn / (1 - discount)	
Implied net debt = earnings x average multiple - pre-discount equity	
Value at the bottom and at the top of the multiple range	

Position	Quarter	Fair value	Net debt	Trailing earnings	Implied multiple	Net debt / earnings	First euphemism (date)

Chapter 19: a flat mark on falling earnings is a silent multiple expansion. Chapter 11: equity moves faster than enterprise value by the ratio of the two.

The management fee, recomputed

Chapter 12. The one number an investor can verify completely from outside. Rules, inputs, base at each measurement date, rate, offsets, compare.

Fund		Reader	
Reporting date		Date read	

The rules	From the agreement
Rate in the investment period; base	
Rate after; base (cost of unrealised, net invested capital, net asset value)	
Transition date (early end, successor fund, extension)	
Measurement: in advance or in arrears, dates	
Write-down clause: does the base fall on impairment?	
Offset: fees covered, percentage, fund share, net of expenses, the excess	

Period	Base	Rate	Fraction of year	Gross fee	Offset credit	Net fee	Accounts	Difference

A difference: likely cause	Confirmed?
Measurement date: in advance or in arrears	
Realisation mid-period	
Investment committed but not yet funded	
Written-down holding still at full cost	
Offset percentage or fund share	
Accrual cut-off at the period end	

Carried interest and the expense schedule

Chapters 13 and 14. Is the net asset value you quote before or after the accrual? Would each contested cost exist if this fund did not?

Fund		Reader	
Reporting date		Date read	

Hypothetical liquidation	Amount
Distributions to date + current value = total value	
Less contributed capital: profit	
Less the preferred return (accrued, compounding?)	
Catch-up to the manager (full: $\text{pref} \times \text{rate} / (1 - \text{rate})$)	
Residual split	
Carry on liquidation today; less carry already distributed = accrual	
Net asset value before / after the accrual; escrow balance; clawback today, who owes it, after tax?	

Expense line	Amount	Fund or manager?	Would it exist without this fund?	Challenged
Audit, administration, custody, tax				
Legal (fund level)				
Research, data, technology				
Travel				
Broken deals: the fund's intended share				
Regulatory and reporting				
Insurance				
Other (more than a tenth of the total?)				

Ratios	Value
Annual expenses / average net assets	
Annual expenses / committed capital	
Cumulative expenses / contributions since inception	
Core ratio, excluding organisational and financing costs	

Leverage and the structures below the fund

Chapters 15 and 16. Debt at three levels, only one of them on the balance sheet. Rebuild the ladder from gross asset value to your own share.

Fund		Reader	
Reporting date		Date read	

The ladder	Amount
Gross value of underlying assets, 100 per cent basis	
Less asset-level debt	
Less third-party partner share (with any promote above a hurdle)	
Less deferred tax inside blockers	
Less holding-entity debt and accrued costs	
Fair value of the fund's investments (ties to the schedule?)	
Plus fund cash, less fund payables: net assets	
Your share	

Leverage	Value
Fund level: subscription line (days outstanding), NAV facility, hybrid; total annual cost	
Look-through loan to value; debt / earnings	
Net assets fall from a 10 per cent fall in gross asset values (after partner and tax)	
Guarantees, support undertakings, indemnities against undrawn commitments	
Reported return re-dated to deployment (bridged contributions)	

Entity in the schedule	Underlying asset	Sector	Country of asset	Ownership	Share or 100%?

Your return, the audit report, and the page you keep

Chapters 17, 18 and 20. Recompute, reconcile the gap item by item, read the report as a pointer, and keep one page per fund, same fields every year.

Fund		Reader	
Reporting date		Date read	

Your figures	Yours	Reported	Gap explained by
Distributions to paid-in			
Residual value to paid-in (closing balance after carry)			
Total value to paid-in (= the two above)			
Rate: your settlement dates, closing balance as terminal value			
Rate re-dated for bridged calls			

The audit report and notes	Answer
Opinion: unmodified, qualified, adverse, disclaimer; emphasis or going-concern paragraph	
Key audit matter on valuation: procedures deeper than last year?	
Days from reporting date to signature, against last year	
Subsequent events: sales against carrying value; did the conditions exist at the reporting date?	
Restatement: were fees and carry recomputed on the restated figure?	

The standing one-page summary	This year	Last year
Net assets; your balance; your share and its explanation		
Flows against performance; implied period return		
Largest position and top three, % of net assets		
Fee charged, base, offsets; carry accrued, % of net assets		
Unfunded incl. recallable; drawn %; cash against obligations		
The two questions raised, and the answers		