

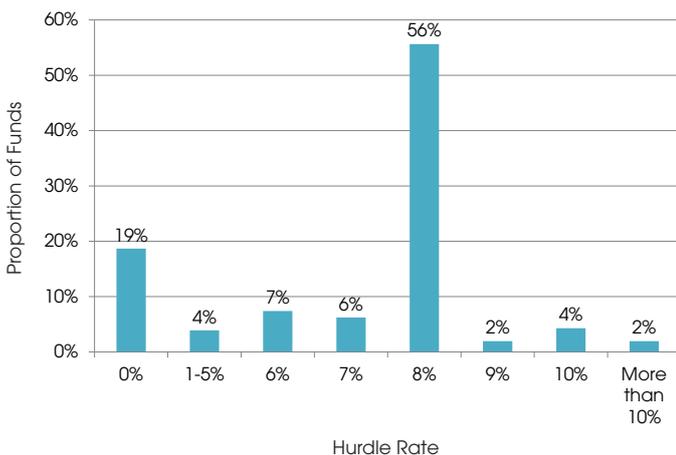


Fund Terms and Conditions

An important condition for LPs in private equity funds has long been a defined hurdle rate on annual returns. Traditionally, the hurdle rate (or preferred return) has been at an industry standard of 8%, whereby the GP will not receive any carried interest until this hurdle rate has been passed. As shown in Fig. 1, for all direct private equity funds (excluding real estate) with a 2014/2015 vintage, or those yet to begin investing as of July 2015, the majority (56%) of funds still have a hurdle rate of 8%.

There is a general view that a hurdle rate should be set based on the underlying performance of the public market thereby rewarding the GP for generating added value over and above normal market conditions. However, it is becoming more and more common that fund managers diverge from the industry standard, and can offer LPs other benefits such as changes to the carry rate, or amendments to the way fees are implemented.

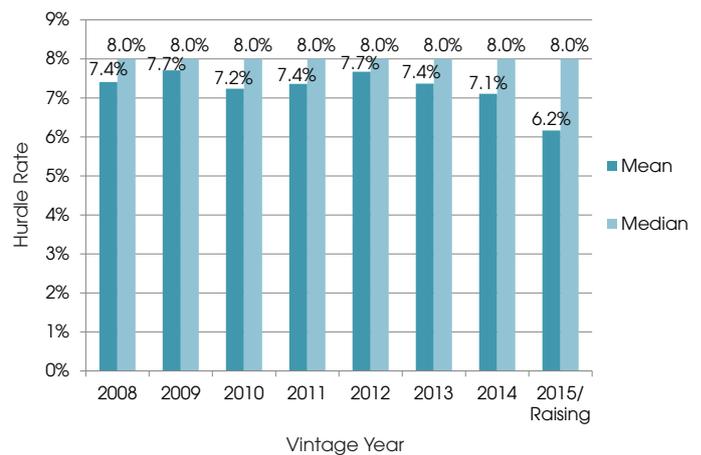
Fig. 1: Hurdle Rate Used by Direct Private Equity Funds, Excluding Real Estate Funds (Funds Raising & Vintage 2014/2015 Funds Closed)



Source: 2015 Preqin Private Equity Fund Terms Advisor

A notable number of GPs are managing funds without any hurdle rate; almost a fifth of recent vintage funds have a 0% preferred rate of return. In September 2015, Advent International disclosed that there would be no hurdle rate on its eighth fund, following the lead of other managers that have taken a similar approach to fund terms, namely Warburg Pincus and Hellman & Friedman. There has been a recent downward trend in hurdle rates offered by GPs; as shown in Fig. 2, funds that are raising or that are closed and have a 2015 vintage, have a mean hurdle rate of just 6.2%. This has fallen each year from 7.7% seen for 2012 vintage funds. Given that the median hurdle rate remains at 8%, this decline is driven primarily by the growing proportion of funds with a 0% hurdle rate.

Fig. 2 Average Hurdle Rate Used by Direct Private Equity Funds, Excluding Real Estate Funds by Vintage Year, 2008 - Present



Source: Preqin

The 2015 Preqin Private Equity Fund Terms Advisor

The **2015 Preqin Private Equity Fund Terms Advisor** is the most comprehensive guide to private equity fund terms and conditions ever produced. Based on analysis of terms and conditions data for over 4,500 funds, the publication and complimentary online module contain vital analysis, benchmarks and actual listings of key terms for funds of all types, investor sentiment towards fund terms and conditions, and much more.



- View actual terms and conditions data (on an anonymous basis), including management fees, carry, hurdle/preferred return, fee rebates, no-fault divorce and key-man clauses, GP commitments, investment period and much more.
- All major fund types are covered, including buyout, venture capital, real estate, infrastructure, distressed private equity, mezzanine, natural resources, fund of funds, growth, secondaries funds and more.
- Listings of over 1,500 named funds showing the net costs incurred by LPs annually are also provided. This information is obtained through Freedom of Information requests to public pension funds in the US and the UK.
- **New for 2015!** Fund terms coverage of GPs offering private equity separate accounts and co-investment rights.

For more information, please visit: www.preqin.com/fta