Trust But Verify:

Case studies of fee Validation in practice

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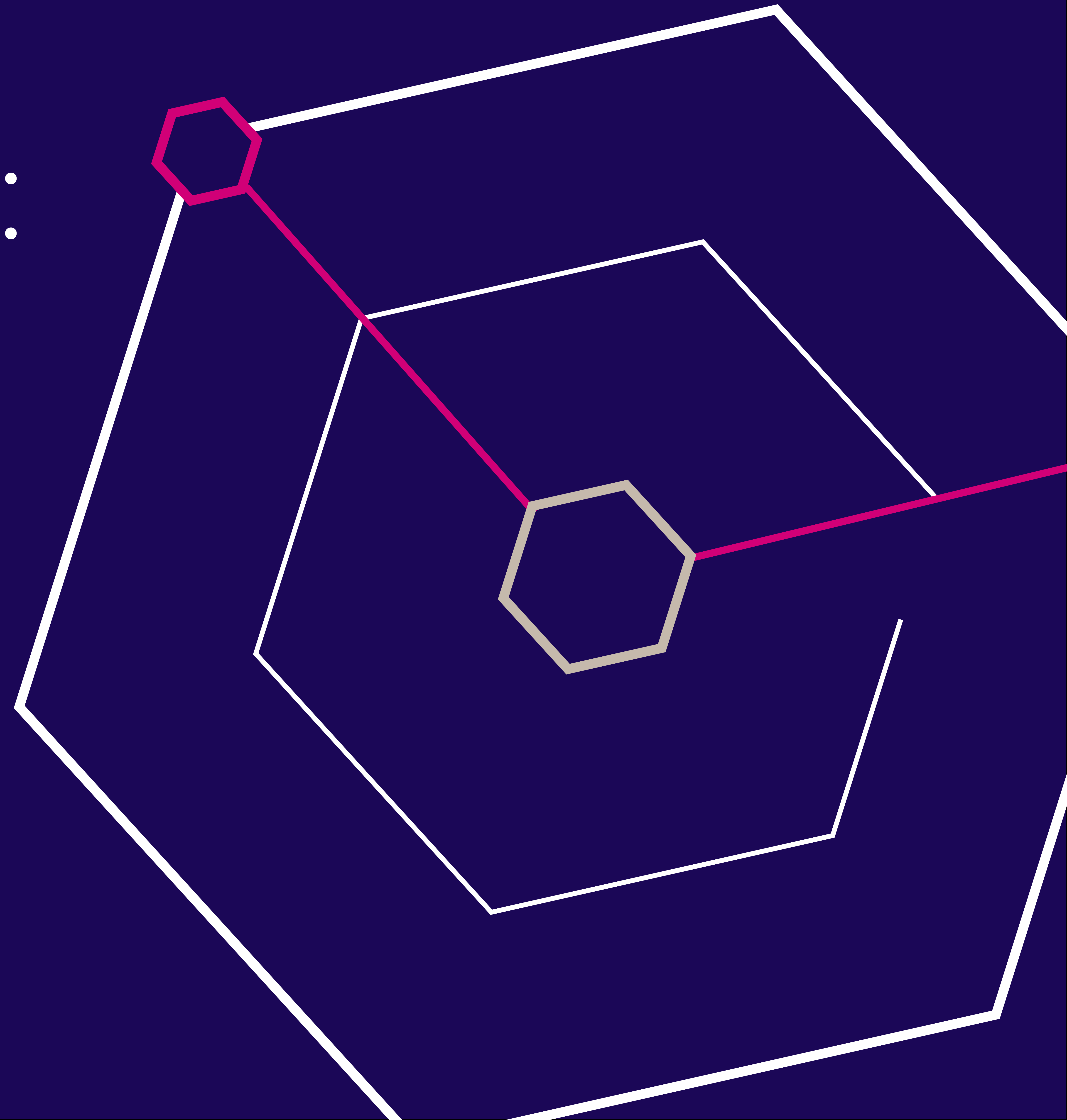

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Introduction

Over the past 5 years, private asset limited partners have done a phenomenal job of focusing their attention on the costs and charges associated with the asset class.

They understand that the economic terms agreed in the limited partnership agreement (LPA) have operational consequences which need to be proactively managed through ongoing due diligence. We perform fee and carry validation on thousands of funds each year. In this technical article, we outline some simple case studies on why fee validation is important, based on our real experience and findings. The case studies highlight the interplay between intent, interpretation and mathematical accuracy.

As we say, Fee Validation is not a ‘GP Gotcha’, but an important pillar of ongoing due diligence and audit control within limited partner organisations. It should always be performed in a manner that is considered and respects the inherent spirit of the GP/LP partnership. We hope that these case studies prove valuable as you look to implement your own program and framework.

Case study–One

Global Private Equity Buyout Fund

→ About

Global Private Equity Buyout Fund is a private equity fund with a vintage of 2008. The Fund was set to liquidate in Q1 2020. Colmore's FAIR analysis was conducted in Q1 and Q2 of 2019 on behalf of an LP with a commitment size of USD105 mm out of a total fund size of over USD1.0 bn.

Global Private Equity Buyout Fund

Situation

Global Private Equity Buyout Fund was analyzed within the scope of FAIR for Q1 2019.

The Fund applies a European waterfall as follows:

1. **100%** to the LP until the cumulative distributions is equal to the capital contributions
2. **100%** to the LP until they receive distributions that render an IRR of **8%** per annum
3. **100%** to the GP until the GP receives distributions equal to **20%** of the gains distributed to the LPs and GP
4. **80%** to the LP, **20%** to the GP thereafter

We initially engaged with the GP to provide Fee and Carried Interest information at the required granularity needed for analysis. As the fund had so far failed to return to the investor an amount equivalent to the required preferred return, any carried interest taken by the GP at that point had been accrued rather than paid to the GP. It was also observed that the Fund had reported a Net IRR of 7.9% as of Q1 2019. As such if the fund's IRR matched that of the investor, at that point the GP should not have been accruing for carried interest. However, the LP's capital account statement did show accrued carried interest. Upon running an IRR Analysis utilising the Client LP's cash flow data on an inception-to-date basis it was observed that the Net IRR was just above the hurdle rate at the Investor-level, so the Fund was still accruing for carried interest. As the allocation basis of the Carried Interest Waterfall is at the investor-level, we were comfortable that the GP was accruing Carried Interest. To model the expected carry for our LP, we took all previous CFs the LP had either contributed to or received from the fund and the residual value of the fund as per that quarter's capital account statement and ran this through an internal model. This number was then compared to the carry number provided by the GP. The resulting output of the model was initially derived as follows.

For Global Private Equity Fund, the Carried Interest Waterfall Examination model utilised the following inputs:

1. **Previous Calls:** Inception-to-Date Capital Calls from either LP Data or Capital Account Statements (Colmore tests both to ensure there is alignment between LP booked cash flows vs. GP reported cash flows)
2. **Previous Distributions:** Inception-to- Date Distributions from either LP Data or Capital Account Statements (Colmore tests both to ensure there is alignment between LP booked cash flows vs. GP reported cash flows)
3. **Residual Fund NAV for 8% IRR:** Investor-level data provided to Colmore that details the (i) Cash Flow Transaction Dates and the (ii) Cash Flow Amounts are utilised to calculate the Investor's NAV on the date of the examination (quarter end date) required to achieve the Hurdle Rate of an 8% Net IRR. Once we are provided ITD cash flows from the Client LP, we can calculate the NAV that would yield an 8% IRR or the applicable hurdle rate percentage. One methodology is to utilise a trial by error approach in which the variable is the Terminal NAV as of the reporting date. This methodology can be automated in many ways utilising Cash Flow Models that calculate the Terminal NAV upon entering inputs for the relevant Cash Flow Transaction Dates, Cash Flow Amounts, and Hurdle Rates.
4. **Required Gain Hurdle:** The theoretical amount of Gains required to pass the required Hurdle Rate = (i) Residual Fund NAV for 8% IRR + (ii) Previous Distributions – (iii) Previous Calls
5. **Residual NAV (Pre-Carry):** The NAV prior to Carried Interest being allocated = (i) Reported Ending NAV + (ii) Reported Inception-to-Date Carried Interest
6. **Actual Gain:** The actual amount of Gains reflected within the Investor's NAV = (i) Residual NAV (Pre-Carry) + (ii) Previous Distributions – (iii) Previous Calls
7. **Gain after Hurdle:** Remaining actual Gains after excluding the required Gains hurdle = (i) Actual Gain – (ii) Required Gain Hurdle

Global Private Equity Buyout Fund

8. **Catch up Carry to GP (100%):** The amount of Carried Interest attributed to the GP during the Catch-Up Phase = (i) Gain after Hurdle * (ii) Catch up Carry to GP (100%)

9. **Remainder to LP (0%):** The amount of Carried Interest attributed to the LP during the Catch-Up Phase = (i) Gain after Hurdle * (ii) Remainder to LP (0%)

10. **Additional Gain @ Catch up reached:** The actual amount of Gains reached within the Catch-Up Phase = (((1-Carry Rate %)/ Carry Rate %)*Catch-Up Rate %)-(1-Catch-Up Rate %)* Required Gain Hurdle

11. **Gain after Catch-Up:** The remaining amount of Gains after deducting the Additional Gain @ Catch up reached from the Actual Gain amount. If there is a remaining amount, then such Gain after Catch-Up is subject to the Carry Rate % to the GP. If (i) Gain after Hurdle > (ii) Additional Gain @ Catch up reached, then (i) Gain after Hurdle – (ii) Additional Gain @ Catch up reached. If not, then the input would be zero as there is no additional Gain.

12. **20% Carry to GP:** The amount of Carried Interest expected to be allocated to the GP of the remaining Actual Gain post Catch-Up = (i) Gain after catch up * (ii) Applicable Carry % of 20%

13. **Expected Total Carry to GP:** The total expected amount of Carried Interest to be allocated to the GP taking into consideration the Cash Flows, the Catch-Up Phase, and the Actual Gain of the Investor at a point in time = (i) Catch up Carry to GP (100%) + (ii) 20% Carry to GP

14. **Reported Total Carry to GP:** The actual amount as carried interest allocated to the GP as reported by GP (Financial Statements, Capital Account Statements, ILPA Fee Templates, or provided directly by the GP

15. **Variance:** The absolute delta between Reported and Expected levels of Carried Interest = (i) Expected Total Carry to GP – (ii) Reported Total Carry to GP

16. **Variance %:** The % delta between Reported and Expected levels of Carried Interest = (i) Variance / (ii) Expected Total Carry to GP

17. **FAIR Score:** The FAIR Score is based on the Variance % delta between reported and expected level of carried interest. The smaller the variance the lower the score, with thresholds set to determine the score. Client LPs have the ability to set their own thresholds.

As evidenced by the Carry Waterfall Examination, the Fund was still in the Catch-Up Phase. Utilising the Client LP's Cash Flow data, it was determined that Inception-to-Date position of Carried Interest was expected to be much lower at USD2.53 mm than the reported value of USD3.73 mm.

Exhibit 1

Since inception carried interest analysis
(initial Colmore analysis)

As of Q1 2019

ITD Calls	134,887,791	Gain after catch up	0
ITD Distributions	173,675,541	20% Carry to GP	0
Residual Fund NAV for 8% IRR	35,385,901	Expected Total Carry to GP	2,533,497
Required Gain Hurdle	74,173,651	Reported Total Carry to GP	3,734,172
Residual NAV (Pre Carry)	37,919,399	Variance	1,200,674
Actual Gain	76,707,149	Variance %	47.39%
Gain after Hurdle	2,533,497	**Fair Score**	**4.0**
Catch up Carry to GP (100%)	2,533,497		
Remainder to LP (0%)	0		
Additional Gain @ Catch up reached	18,543,412		

Exhibit 2

Adjustment to allocated gains since inception and impact on subsequent impact on carried interest

Gain as per Q1 CAS (before adjustment)	**76,707,149**
Adjustments to CAS (pre carry):	
- Loss on disposal of Investment #1 in Q2 2014	(59,103)
+ Gain on disposal of Investment #2 in Q1 2016	1,594,324
Gain as per Q1 2019 CAS (after adjustment)	**78,242,371**

Unrealised Carried Interest (before adjustment)	**3,734,172**
Unrealised Carried Interest	
Distributable Cash After Return of Contributed Capital (Revised)	78,242,371
8% IRR Hurdle	74,173,651
Unrealised Carried Interest (after adjustment)	**44,068,719.0**

Exhibit 3

Since inception carried interest analysis
(initial Colmore analysis)

As of Q1 2019

ITD Calls	134,887,791	Gain after catch up	0
ITD Distributions	173,675,541	20% Carry to GP	0
Residual Fund NAV for 8% IRR	35,385,901	Expected Total Carry to GP	4,068,720
Required Gain Hurdle	74,173,651	Reported Total Carry to GP	4,068,720
Residual NAV (Pre Carry)	37,545,621	Variance	0
Actual Gain	78,242,371	Variance %	0.00%
Gain after Hurdle	4,068,720	**Fair Score**	**1.0**
Catch up Carry to GP (100%)	4,068,720		
Remainder to LP (0%)	0		
Additional Gain @ Catch up reached	18,543,412		

Global Private Equity Buyout Fund

Action

It was determined that at a 47.39% variance Colmore would engage the GP on behalf of the Client LP to gain further clarification and commentary from the GP as to the current reported Inception-to-Date Carried Interest position. A breakdown of the modelled waterfall was provided to the GP to reference. Based on our analysis, it appeared the total value (both through previous distributions and remaining unrealised value) attributed to our Client LP by the GP was lower than what would be expected based on the Client LP's ownership in the Fund.

The main area of concern for a potential misallocation was found during initial legal diligence. The LPA has provisions surrounding 'Excused Partners' in which such LP's could be excused from making capital contributions to certain investments. This dynamic of LP terms allowed for a skew in the expected pro rata allocation of drawdowns amongst investors and subsequently fees. It was our initial view that even with such Excused Partners, the current reported allocation of valuation to Client LP was not in line. As such, we wanted the GP to provide clarification if returns from investments, both realised and unrealised, were indeed calculated correctly amongst all LP's and Excused Partners.

Result

The GP determined that an internal reconciliation of the Client LP's NAV as of Q1 2019 was necessary upon inquiry by Colmore. The result of the reconciliation by the GP found that the difference in the valuation was attributed to certain incorrect allocations between classes of LP's and 'Excused Partners'. In effect the general partner had allocated unrealised value/returns from certain investments based on investors initial commitment into the fund rather than accounting for the 'excused partners' provisions Due to the effect of Excused Partners across Drawdowns for all investments, effective ownership in portfolio is not pari passu to commitment. The economics of LP allocations was confirmed by the GP to have been historically miscalculated across investors. Subsequently, the GP revised the allocation calculation across all investments, revised Client LP's capital account statement in Q1 2020 and rebalanced the entire allocation of investors in the Fund. As illustrated, the GP had incorrectly allocated the Loss of an investment in Q2 2014 for USD(59,103) and the Gain of a separate investment in Q1 2016 at USD1,594,324 with respect to Client LP's allocations. *This resulted in a USD1,535,221 pre-carry and 1,200,674 post carry increase to the Client LP's NAV.* This change also impacted the accrued carried interest position from USD3,734,172 to USD4,068,720.

Exhibit 3, reflects the amended waterfall analysis after adjusting for the amended capital account statement (CAS) provided by the GP. The Residual NAV (Pre Carry) was adjusted to reflect the change in LP valuation as per the CAS and the change in carried interest, this change flows through and subsequently impacts Actual Gain, Gain after hurdle and Expected Total Carry. The revised Expected Total Carry now ties with the revised (as per the amended CAS) Reported Total Carry.

As the disposal of the investments occurred in Q2 2014 and Q1 2016, several years had passed since the initial erroneous allocation had taken place by the GP and without specific validation that Colmore had carried out, it is not certain that this would have ever been picked up by the GP. The above result was a favourable outcome for the Client LP as they were able to recoup USD$1.2mm in NAV that would have been otherwise unaccounted for. As evidenced by the positive increase to Client LP, the GP had allocated more to the Excused Partners than what they should have. As Client LP only represented approximately 10% of the Fund, the misallocation could be interpreted as a USD$30 mm misallocation across all LP's if Client LP's position is grossed up.

Due to the presence of LPA and Side-Letter provisions that may give rise to such misapplication of fees across certain investors, it is highly advised that LP's include in post-due diligence processes a continued monitoring of Carried Interest throughout all stages of the Carried Interest Waterfall to ensure normalisation occurs during accrual. Audited Financials are representative of an audit of the Funds figures at the Total Fund-level. Individual allocations amongst investors and especially investors that can be excluded from certain investments may not be examined by Auditors as closely compared to the overall Fund. As a result, capital account statements may be prone to allocation errors.

Case study–Two
Large Private Equity Buyout Fund

About

Large Private Equity Buyout Fund is a private equity fund with a vintage of 2012. The Fund was set to liquidate in Q4 2022 unless further extended by two one-year periods. Colmore's FAIR analysis was conducted in all quarters of 2019 on behalf of an LP with a commitment size of USD157.50 mm out of a total fund size of over USD1.0 bn.

Large Private Equity Buyout Fund

Situation

Large Private Equity Buyout Fund applies a Hybrid Carried Interest Waterfall:

1. **100%** to the LP until the LP has received distributions equal to capital contributions from such Portfolio Investment and all Realised Portfolio Investments
2. **100%** to the LP until the LP has received an **8%** IRR on capital contributions
3. **100%** to the GP until the GP is caught up to **20%** of Investment Proceeds distributed to the LP
4. **80%** to the LP and **20%** to the GP

Upon conducting the (i) LPA and Side Letter Agreement Review Process, (ii) Data Capture Process, and (iii) Fee and Carried Interest Analysis/Modelling Process for the Fund, we noticed a breach of LPA Terms with respect to accounting principles applied in financial statements up to Q4 2018. The terms of the LPA required the Fund to adopt US GAAP accounting standards, which accounts for Carried Interest in reported NAV's in financial statements. However, the GP historically did not report Carried Interest. Carried interest was only being reflected by the GP at the time of realisation of investments and rather than accruing for unrealised carry, the GP instead reported LP valuations gross of any accrued carried interest. We found that as of 2019, if the Fund were to hypothetically liquidate and all remaining investments were sold for the estimated fair value at that date, our Client LP's NAV per the 2019 capital account statements would be enough to meet the preferred return and a payment of Carried Interest to the GP. Under US GAAP, the NAV to any investor should be reduced for accrued carried interest as this provides a more accurate representation of the portion of net assets the investor is entitled to as of the reporting date. Additionally, we believed that the reporting by the GP did not satisfy the LPA requiring that profits and losses were to be allocated among LP's to be, as closely as possible, given economic effect to the distribution provisions. Our Carried Interest Analysis/Model for the Q3 2019 period led us to believe that this section of the LPA was not satisfied. Based on the results of the Model, we found Client LP would be entitled to distributions of approx. USD291.5 mm rather than USD346 mm if the fund were to liquidate all investments at their reported value as of Q3 2019.

Result

Colmore reached out to the GP, requesting clarification as to whether the client's valuation outlined in the LPA had been adjusted for accrued carried interest. In Q3 2019, the GP responded that the Fund was not accruing for Carried Interest. The GP stated that they would discuss with their internal auditor to consider accruing Carried Interest annually in Q4 2019. The GP acknowledged to having misapplied the reporting standards for Carried Interest as required by legal provision in the LPA and would apply US GAAP policies to subtract accrued Carried Interest from LP NAV's going forward in Q4 2019. *This resulted in a reduction of the Client LP's NAV by USD54.56 mm as the Client's NAV's prior to Q4 2019 was significantly overstated by the GP due to the GP not accruing for carry.*

The Carry Waterfall Examination presented in Exhibit 6 represents the adjustments made by the GP to Carried Interest in Q4 2019. As evidenced by the variance % from expected and reported levels, the GP indeed accrued for Carried Interest at levels expected per US GAAP accounting policies and the legal provision for the Carried Interest Waterfall.

It is important for LP's to ensure that the accounting principles applied to Carried Interest are properly reported by the GP to (i) ensure compliance with legal agreements and (ii) to ensure the LP is not overestimating valuation/performance from a portfolio monitoring perspective. At large commitment values, Carried Interest overstatement in NAV's can have a material impact to performance measurements across portfolios and especially on Secondary Transactions if they are not appropriately valued.

It is of particular importance for LP's purchasing secondary interests, if the transaction is using the Capital Account Statement reported value as the basis of the acquisition price of a secondary deal, the buying LP can end up over-paying for the asset, if the Net Asset Value fails to adequately account for the accrued carried interest.

Carried interest–validation increasing complexities to be mindful of

Some carried interest waterfalls can be simple and easy to understand, such as European model waterfalls calculated at Fund-level, with one Preferred Return rate (typically 8% net IRR), an easy-to-understand catch-up feature (80 or 100% of Gains to GP until they have reached their overall expected full carry position) and a fixed carry percentage thereafter (typically 20%). In these cases, reconciling the LP total position can be done by multiplying the LP ownership percentage in the Fund by the total carry position the GP is reporting, assuming the GP is fully 'caught-up'.

However, some carry waterfalls have multiple layers of complexity. The below examples highlight some increasing complexities around waterfall calculations and areas where Colmore spends extra time validating.

Multiple preferred return thresholds

Colmore is seeing an increasing number of multiple return thresholds, which award a high performing manager with increasing carried interest allocations as the Fund's performance clears the tiered thresholds. For illustrative purposes, a Fund could have the following preferred return threshold, with more carry allocated to the GP as performance increases:

- **Tier 1:** 9% net IRR for a 15% carry allocation to the GP
- **Tier 2:** 11% net IRR for a 20% carry allocation to the GP
- **Tier 3:** a combined 15% net IRR and a gross multiple of 2.4x for a 25% carry allocation to the GP

In this scenario, to properly validate the carried interest allocation, a multi-tiered waterfall must be compiled. As an LP, it's important to understand the structure of the waterfall and to document and understand the preferred return structure.

Blocker Corporations

It is common for funds to invest in assets through Blocker Corporations to avoid unintended US tax consequences and benefit from the Corporation structure. There are two common events that LPs should watch out for:

- **Blocker expenses:** it is common for expenses incurred as a result of setting up Blocker structures to not be returned to LPs (i.e. gains are not deducted by these expenses for purposes of carry) and to be treated as if there was no Blocker employed. The Tax Covenants in the LPA will prescribe the treatment of Blocker-related expenses.
- **Non-cash Tax Withholding Distribution:** when investments made through blocker corporations are realised, the GP will withhold a portion of the realisation to pay taxes on behalf of LPs. Even though LPs have not received that portion in cash as a result, the amount may still be treated as a distribution for purposes of carry and must be added to the waterfall calculation as if it had been paid in cash. ILPA recommends that fund waterfall be carried out on a net of tax basis.

Carried interest – gross/net of fees

Determining whether Carry should be charged on Gains gross or net of fees and expenses is not always straightforward. While most funds, take management fees and expenses into account when calculating carry i.e. a preferred return needs to be met on capital contributions relating to expenses, some do not. This means Carry will likely be allocated to the GP based on Gains gross of any management fees or partnership expenses, which naturally results in a higher amount of carry being paid. While rare, it is important that LP's understand what impact fees and expenses have on carried interest.

Exhibit 4

Colmore's fund compliance footprint

A diagram used to allow LPs to quickly view potential areas of risk for a given fund. The further away each of the five points are the higher the concern level.

Concern level:

Overall FAIR score:

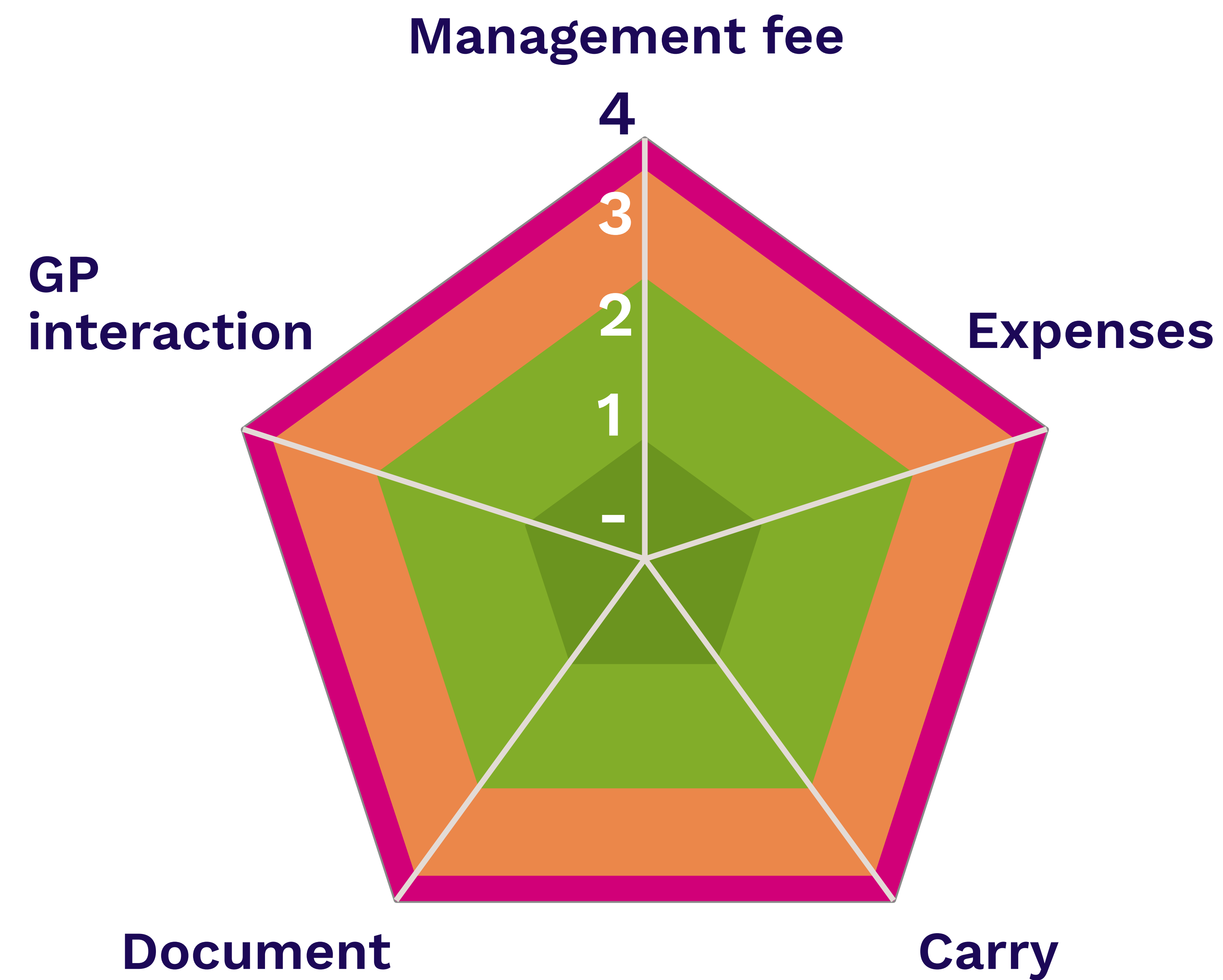

Exhibit 5

A summary of high-level information allowing the client to assess key fund exposure/performance attributes

Reported GP NAV	307,519,502	GP Reported net IRR	28.30%
Remaining Unfunded Commitment	403,649	Colmore expected net IRR	27.70%
Total Fees as % of reported NAV	0.17%	Change in calculated IRR for the Period	(1.30%)
Does the CAS include Accrued Carry?	No	Colmore expected net TVPI	2.28X

Exhibit 6

Large Private Equity Buyout Fund, since-inception carried interest – Colmore analysis after adjustment for accrued carried interest

Updated since-inception carried interest analysis
(Post resolution with GP)

As of Q4 2018

Previous Calls	194,650,118	Gain after catch up	214,956,841
Previous Distrubitions	121,434,552	20% Carry to GP	42,991,368
Residual Fund NAV for 8% IRR	119,502,960	Expected Total Carry to GP	**54,563,217**
Required Gain Hurdle	46,287,394	Reported Total Carry to GP	**54,563,217**
Residual NAV (Pre Carry)	346,031,650	Variance	0
Actual Gain	272,816,085	Variance %	0.00%
Gain after Hurdle	226,528,690	**Fair Score**	**1.0**
Catch up Carry to GP (100%)	11,571,849		
Remainder to LP (0%)	0		
Additional Gain @ Catch up reached	11,571,849		

Mini-case studies & things to look out for

Management Fees

Case study One

Error related to step down of management fees

A common mistake Colmore finds is the misapplication of the 'step-down' of management fees moving from investment period to post-investment period (e.g. 1.75% committed capital to 1.50% 'Actively Invested Capital'). The date on which the step-downs should occur are typically derived based on a triggering event e.g. the fifth anniversary of the first closing or the launch of a successor fund, if this is misinterpreted in house by the GP or by their administrator, it can result in the step down occurring later than is required by the LPA and can result in management fee over charge for the LPs.

Takeaway
Document expected step down date and review financials around the step-down date to ensure the drop in fees you would expect to see has occurred.

Case study Two

Transaction Fee Offsets as it relates to Management Fees

Some fund managers use Transaction Fee Offsets to reduce Management Fees. Colmore has analysed funds in which the Transaction Fee Offsets exceed the amount of Management Fees payable in the period. Whenever this occurs, Net Management Fees for the period are reported as zero. The Transaction Fee amount that would offset Management Fees and that exceeds said Management Fees is accrued in a separate account. For example, $10M are the Management Fees and the Fund received $15M in Transaction Fees that are applied 100% as offsets to Management Fees. Net Management Fees are zero, since $10M offset Management Fees due completely and $5M is the exceeding amount. The latter is considered a 'Unapplied Offset Balance'. It is very important to understand the prescribed treatment to Unapplied Offset Balances in the event the GP waives Management Fees. We have seen cases where these unapplied balances are fully absorbed by the GP, and no longer payable to LPs, when Management Fees are waived and no longer payable. Likewise, it is important to understand whether Transaction Fees earned from Portfolio Assets should continue to be passed on to LPs in the event Management Fees are waived. Some LPAs do allow the GP to keep any Transaction Fees earned after Management Fees are waived by the GP. Whatever the case, this should be documented with clear language in a Fund LPA.

Takeaway
Offsets are becoming increasingly complex and it's important for LPs to understand their impact.

Expenses

Case study one

Transaction Fee Offsets as it relates to Management Fees

Expenses are typically allocated based on LPs' ownership in the Fund. However, even though the allocation basis may be correct, it is important to understand whether certain expenses can be allocated to certain LPs. For instance, Colmore has seen instances where the LP was able to opt out of Loan structures in the Fund and, therefore, was excluded from Interest Expense allocations. This was documented via a Side Letter agreement, however, when conducting our validation, Colmore review found interest Expenses being allocated to the LP in question.

Takeaway
If you negotiated preferred economics via side letters, perform routine checks to ensure these special arrangements are being applied!

Case study Two

Indemnity provisions

The Indemnity provisions of the LPA are very helpful in determining what expenses the GP can be reimbursed for in the event of legal dispute. We've seen situations where the GP was going through litigation and was passing off legal costs not covered as per the language in the LPA (and sometimes not even related to the Fund in question!). This was a gross violation of the Indemnity provision and something Colmore investigated as a result of finding large legal expenses allocated to LPs.

Takeaway
For Funds with high legal expenses, or known to be in litigation, check the indemnity provisions to see what is covered.

Mini-case studies & things to look out for

Carried Interest

Case study One
‘Reset the clock’
carry provisions and/or non-industry standard terms

There are Preferred Return structures in some Deal-by-Deal waterfalls that will ‘reset the clock’ on the calculation of the return rate for investments that have been ‘written off’. In this scenario, once the investment written off it has no further impact on the required preferred return of the fund. This removes the burden that written-off investment would cause on the return rate required for carry. As a result, the Preferred Return Rate would be lower than the equivalent Net IRR. Although very rare, Colmore has seen this provision in older funds’ LPAs.

> **Takeaway**
> Before committing to a fund have a clear understanding of the fund’s carry waterfall and how closely aligned LP’s and GP’s interests are in respect to carried interest.

Summary

Hopefully across this article we have been able to highlight some of the potential issues that can arise in fund reporting and the material impact it can have on LP's returns.

It is important to understand that in most cases fee calculations and allocations are calculated manually, often in excel files, while we rarely uncover deliberate mismanagement by a GP, it is easy given the complexity of fund structures and the various terms in Limited Partnership Agreements for accounting and administration staff to make mistakes that can potentially go unrectified.

While we do not expect LP's to try and completely recreate funds' books and records or to remodel carry waterfalls, it is important for LP's to have a solid understanding of the key terms of the LPA, understand how it will impact the fees that they are charged, and be able to roughly estimate what they should be being charged. Of course, if you are looking for more comprehensive analysis, Colmore is happy to offer our services!

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