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Private Equity Fund Timeline

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Overview

- This session deals with the actual life cycle of a typical private equity fund.
- Obviously funds vary and different stages can take very different forms.
- Length of time can also vary significantly.

Key terms

- Initial closing – the first time that investors commit to making their investment in the fund.
- Final closing – the last investors commit to making their investments.
- Commitment period – the period over which investors are required to make their commitments, i.e. pay the money over!
- Investment period – the time that investments are made and managed.
- Liquidation period – the time that investments are disposed of and the fund liquidated.

Key terms – points to note

- As you will see there is overlap in the steps comprising the life of a fund.
- During the interval between initial closing and final closing, some investments may be made and thus the investment period starts.
- Investments will continue during much of the commitment period.
- Some investments may be liquidated early, thus overlapping the liquidation and investment periods.

Two timelines

- There are really two timelines in private equity funds.
- First, the fund raising and closing timeline. This addresses securing the investors.
- Second, the fund term timeline. This addresses dealing with investments.

Fundraising and closing – marketing the fund

- The first step in fund raising is marketing the fund to potential investors.
- This can be very quick in the case of an established private equity house and a strong economy.
- Much more difficult in weaker economic times and for new firms.
- Can be confirmation of investments over lunch or numerous meetings and the help of a placement agent.
- Can take from six months to over a year.

Fundraising and closing – term negotiation

- Investors will want to negotiate the fund documents.
- Will look to modify partnership agreement and may seek a side letter setting out certain terms.
- Again, complexity of this depends upon many factors – significance of investor, other investors' demands etc. but heavily driven by market terms and now ILPA.
- Typically takes about 3-6 months.

Fundraising and closing – initial closing

- Initial investor commitments are made and the fund launches.
- Initial “calls” are often not full the full amount committed.
- Also called “first closing.”

Fundraising and closing – additional closings

- Over a period of around a year, additional investors may be sought and subsequent “closings” occur.
- Terms etc. may be limited by pre-existing documents.
- Fundraising period ends at final closing

Fund Term – making/managing investments

- For around 4-6 years the fund structures and makes new investments.
- Fund managers manage the progress of their investments.
- Some liquidations are possible during this period.
- Some distributions are made from income producing investments.
- Further calls on investor commitments can be made.

Fund term – exiting investments

- This period also generally lasts 4-6 years.
- The fund will exit investments and distribute profits among the investors (and carryholders).
- Sometimes there are follow on investments during this period.

Fund term – dissolution and liquidation

- At the end of the life of a fund, remaining investments are liquidated.
- Proceeds are distributed.
- Limited extensions to fund term possible – usually 2 years at the discretion of the GP and then longer if a majority of investors wish it.

Fund timelines – deviations

- Obviously there can be deviations from the above.
- Sometimes, certain events will trigger and early termination of the fund.
- Timescales can also differ – sometimes fund raising can be a slow process.
- Within the basic timelines there are some complex steps e.g. structuring investments can involve considering holding companies etc.

Further information

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