Model Partnership Docs in the Works

An ad-hoc committee that includes several prominent operators of private equity funds is ironing out details of a sample partnership agreement that managers, investors and attorneys could refer to when fund raising.

The 15-member committee — led by Dartmouth College Center for Private Equity and Entrepreneurship co-directors Colin Blaydon and Fred Wainwright, and Ontario Teachers’ Private Capital director Mark Wiseman — is expected to complete the model agreement by early next year. The panel includes partners from Blackstone Group, Boston Millennia Partners, Carlyle Group and HarbourVest Partners.

Their initial prototype will apply only to buyout funds that invest in mid-size companies, although the committee could take up a similar effort for venture capital funds in the future.

The template, which could be up to 100 pages long, will address all of the provisions included in typical partnership agreements — including management fees, hurdle rates, key-man clauses and clawbacks (provisions unique to private equity funds that allow investors to recoup losses by laying claim to managers’ earlier profits). It will also provide guidance on which legal structures guarantee that such provisions are executed smoothly.

By creating the model, the committee hopes to reduce the amounts of time and money that market players devote to creating partnership agreements. According to a study by the group, managers who hire outside law firms spend an average of $250,000 creating the agreements, and sometimes incur charges as high as $1 million. Limited partners, meanwhile, pay an average of $20,000.

Because the existence of a sample agreement would likely reduce the need for legal help, a few law firms refused to participate in the initiative. But nearly a half-dozen firms are on board, including Torys, Ropes & Gray and Orrick Herrington. The committee maintains that the model document wouldn’t eliminate law firms from the process, since many provisions will still require intense negotiation and legal expertise.

Early next year, the committee will post the final version of the model on the Dartmouth private equity center’s Web site, mba.tuck.dartmouth.edu/pecenter.