

# **Limited Partnership Agreement Survey Results – LPs**

**Center for Private Equity and  
Entrepreneurship**

**Tuck School of Business at Dartmouth**

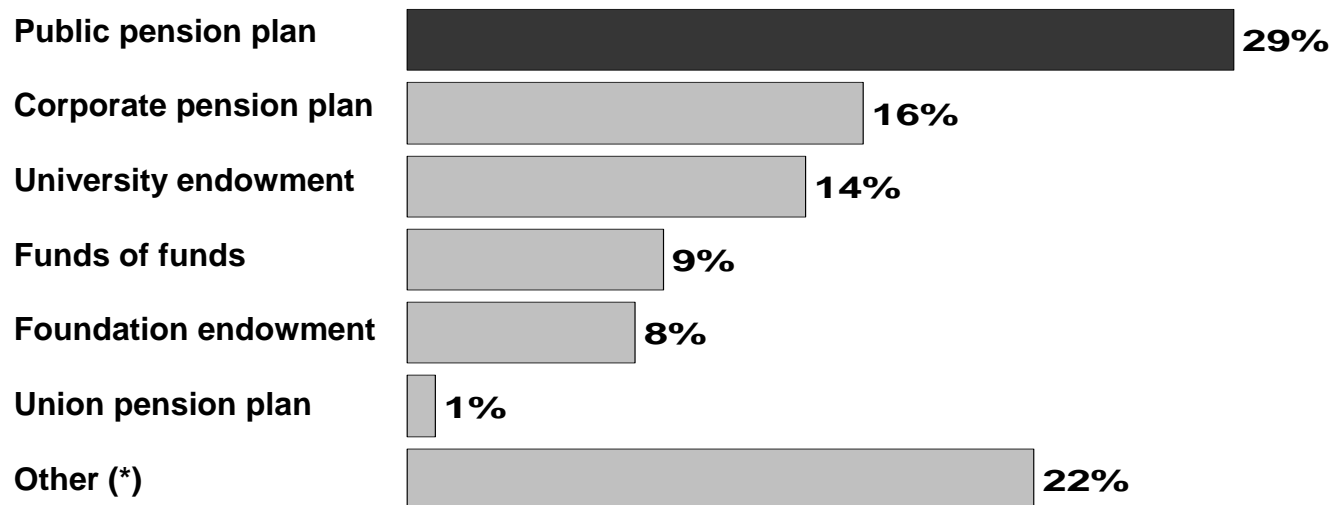
**June 2004**

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# Characteristics of survey respondents

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## Q.1 “Please select the most appropriate description of you as an institutional investor” (n=97)



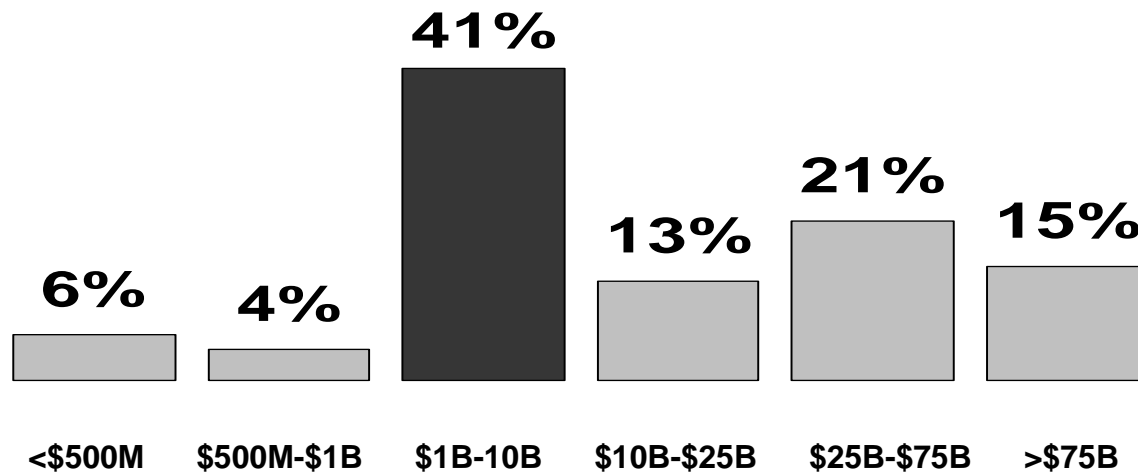
(\*) Among respondents selecting “Other” category, the majority were commercial banks, insurance companies and family offices

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## Characteristics of survey respondents

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**Q.2 “What is the total amount of assets (all funds, not just private equity) your institution has under management?”** (n=95)

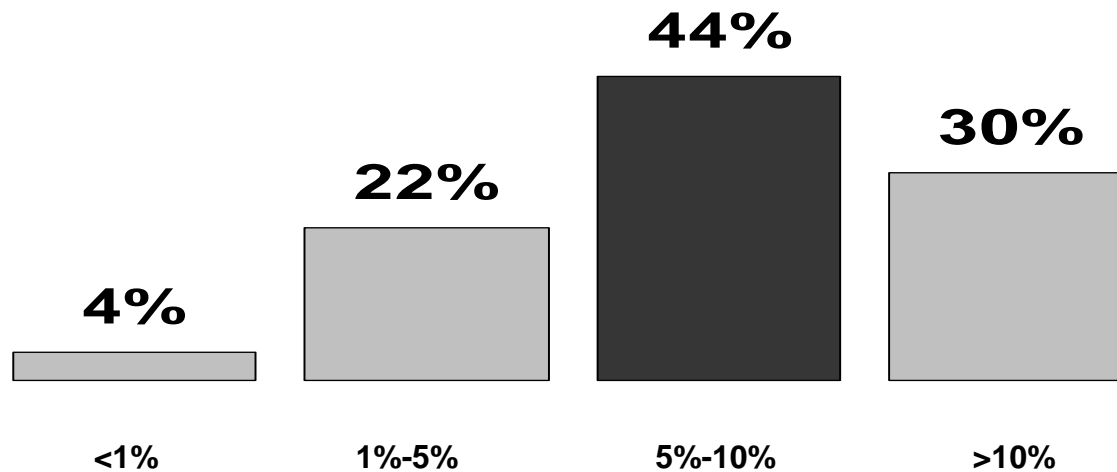


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## Characteristics of survey respondents

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Q.3 “What is your overall allocation to private equity?” (n=96)

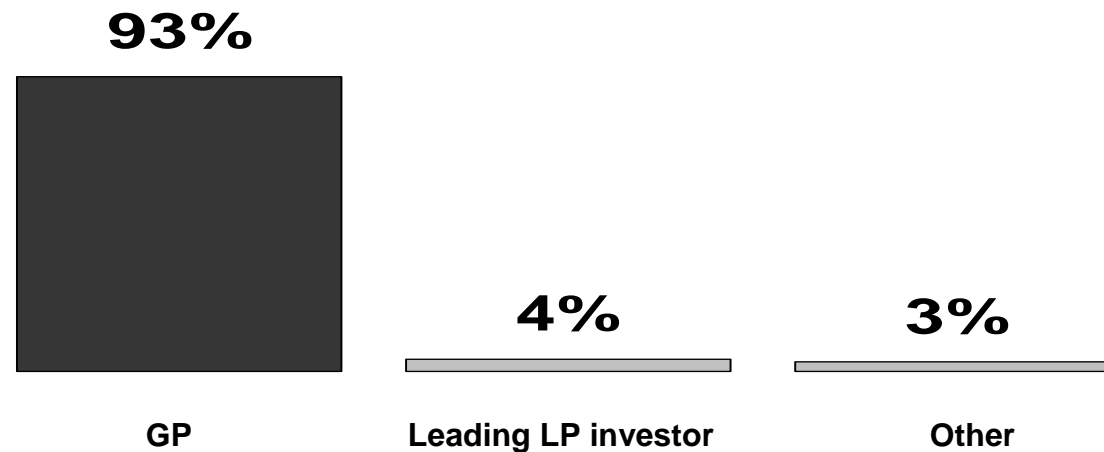


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## Characteristics of survey respondents

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**Q.4 “In the typical fund in which you invest, who develops the first draft of the LPA?”** (n=97)

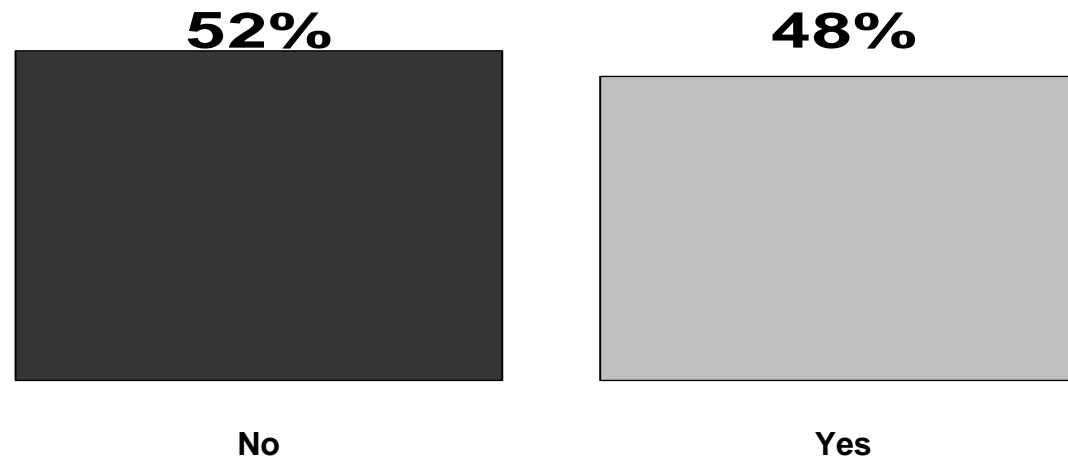


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## Characteristics of survey respondents

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**Q.5 “Do you tend to permit larger investors to negotiate the LPA on behalf of LPs? (n=97)**

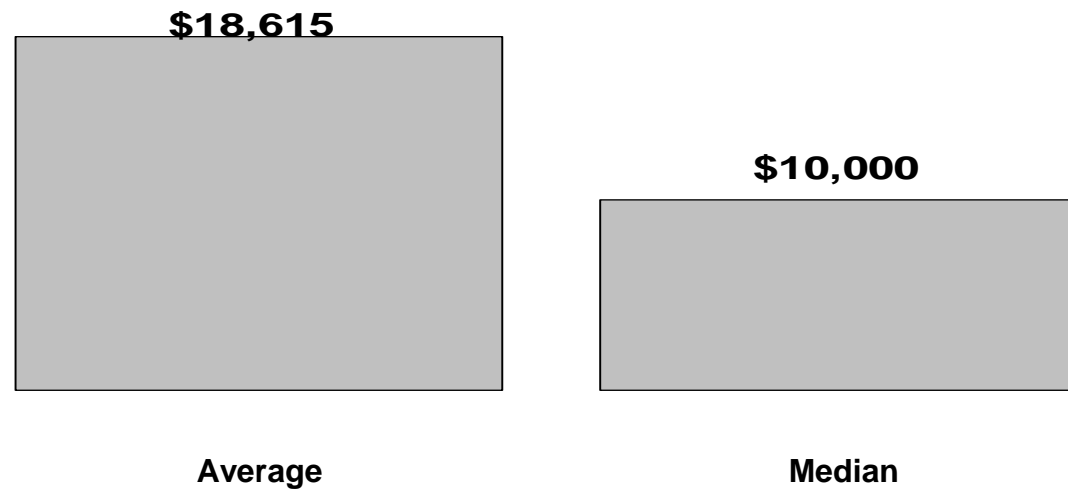


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## Characteristics of survey respondents

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**Q.6 “For your most recent fund, about how much did you spend in total in outside legal services for negotiating the LPA with a GP?” (n=74)**

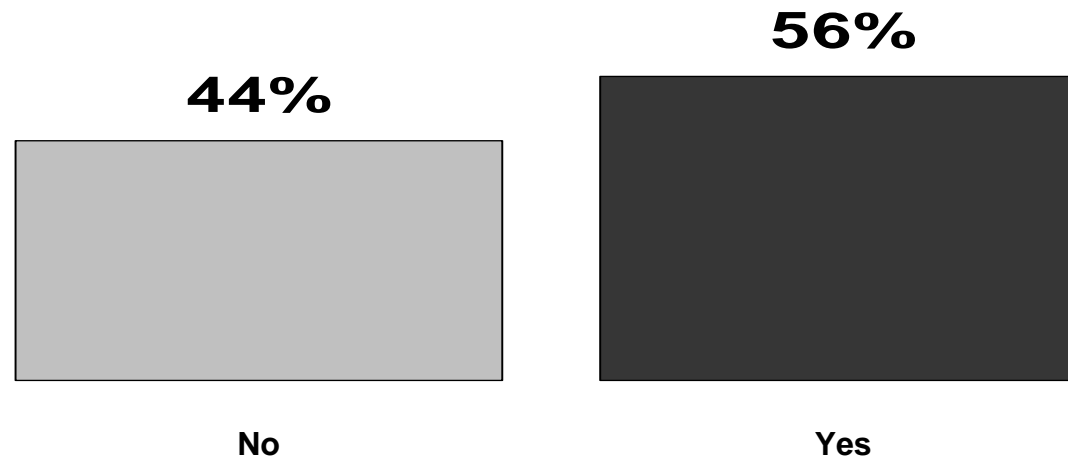


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## Characteristics of survey respondents

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**Q.7 “Do you have inside counsel participate in the process?”** (n=97)



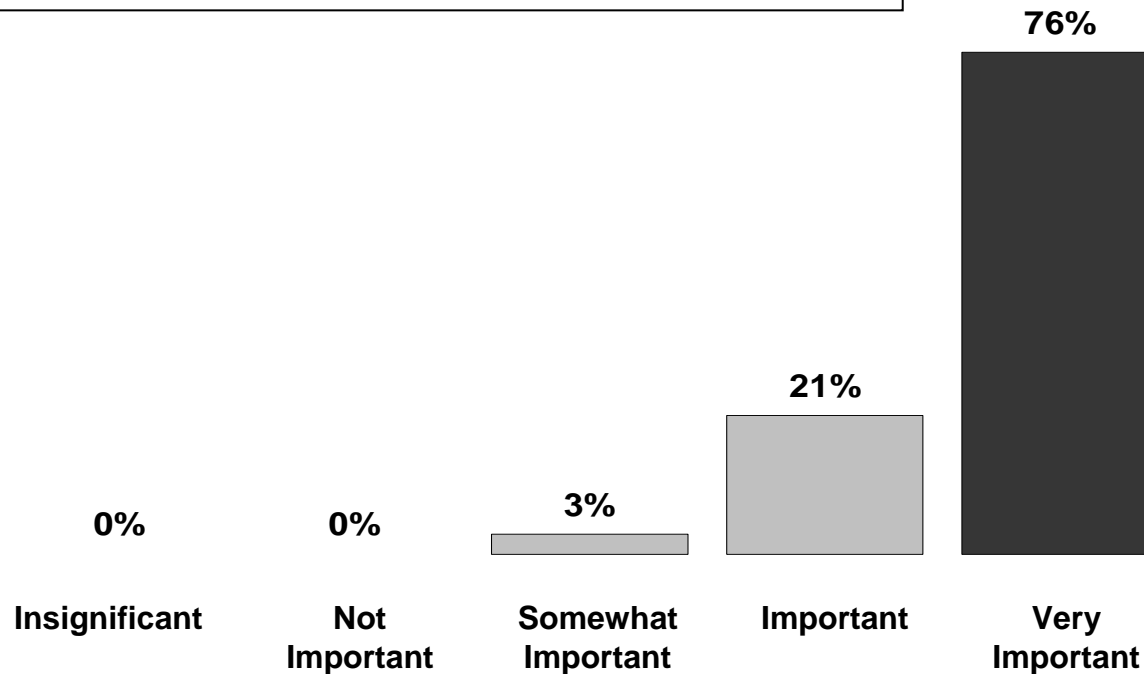
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## Importance of the LPA's Economic Provisions

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**Q.8a “Please indicate how important the structure and clarity of the following clause is to you”**

**Waterfall structure/Carry calculations (n=97)**



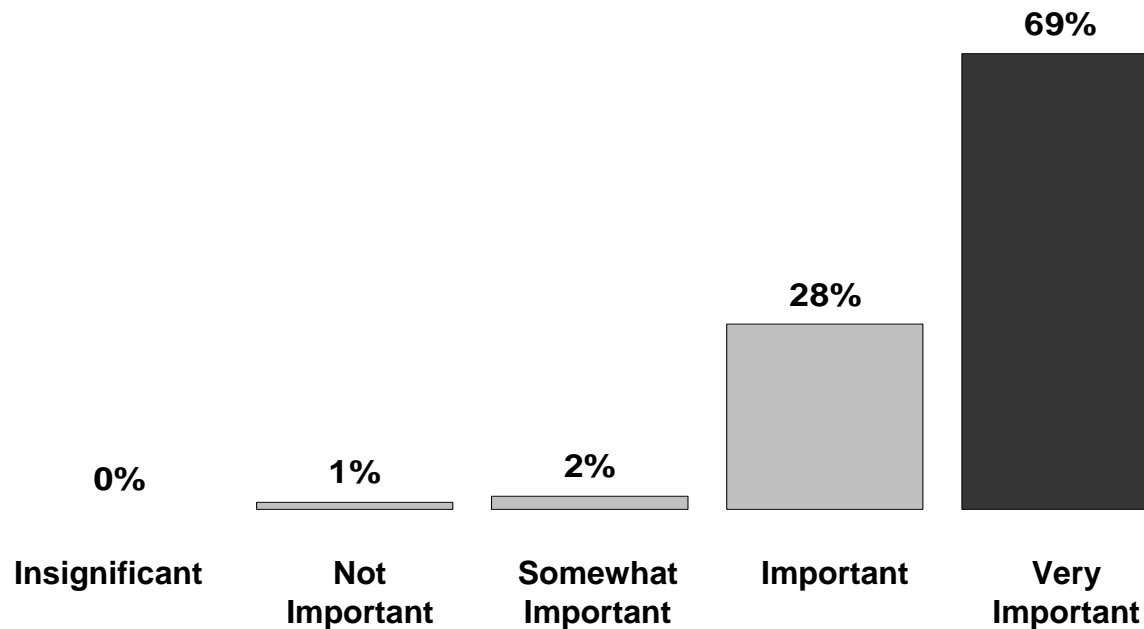
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## Importance of the LPA's Economic Provisions

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**Q.8b “Please indicate how important the structure and clarity of the following clause is to you”**

**Clawback provisions** (n=97)



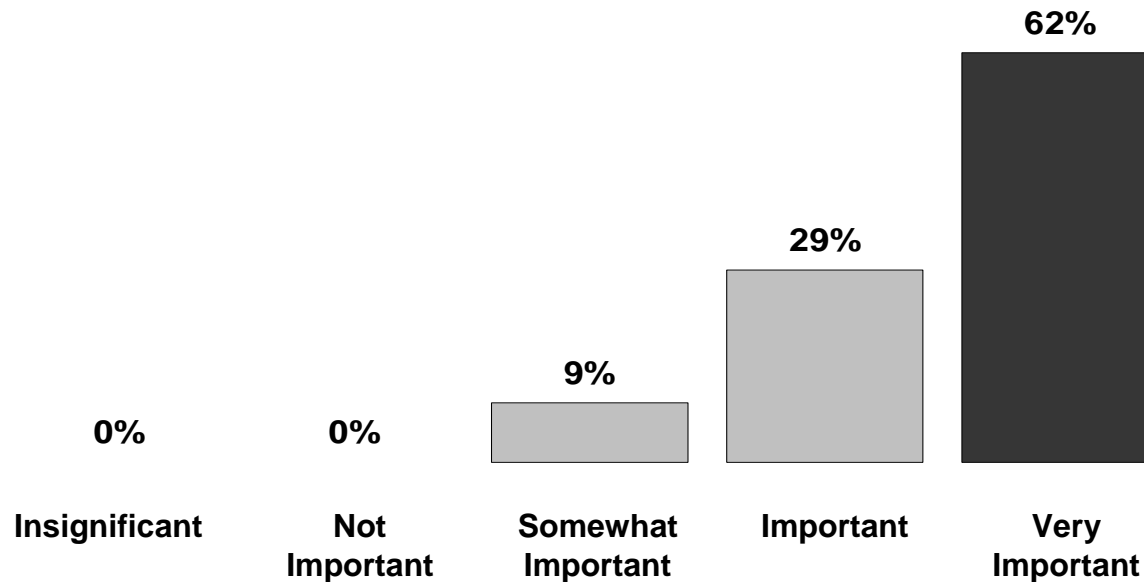
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## Importance of the LPA's Economic Provisions

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**Q.8c “Please indicate how important the structure and clarity of the following clause is to you”**

**Management fees** (n=97)



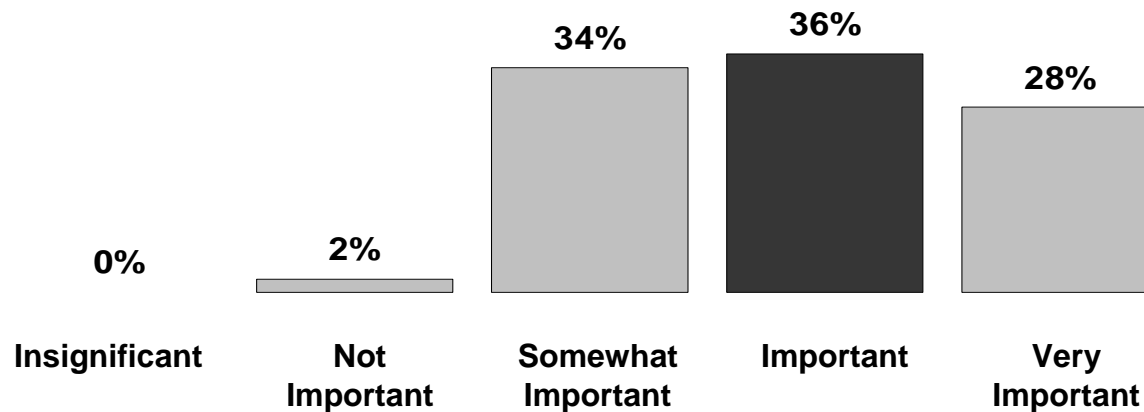
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## Importance of the LPA's Economic Provisions

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**Q.8d “Please indicate how important the structure and clarity of the following clause is to you”**

**Organizational fees and expenses (n=97)**



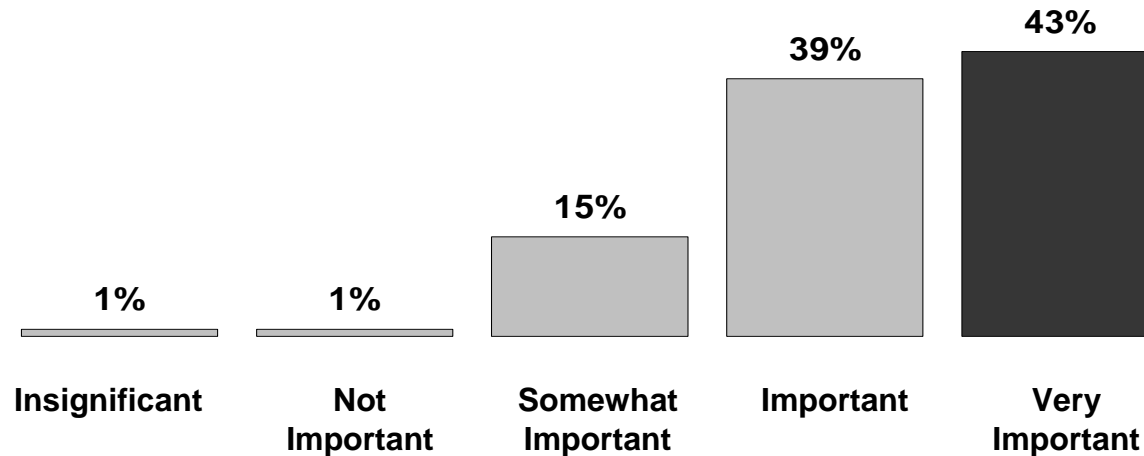
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## Importance of the LPA's Economic Provisions

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**Q.8e “Please indicate how important the structure and clarity of the following clause is to you”**

**Portfolio company fee offset and allocation (n=97)**



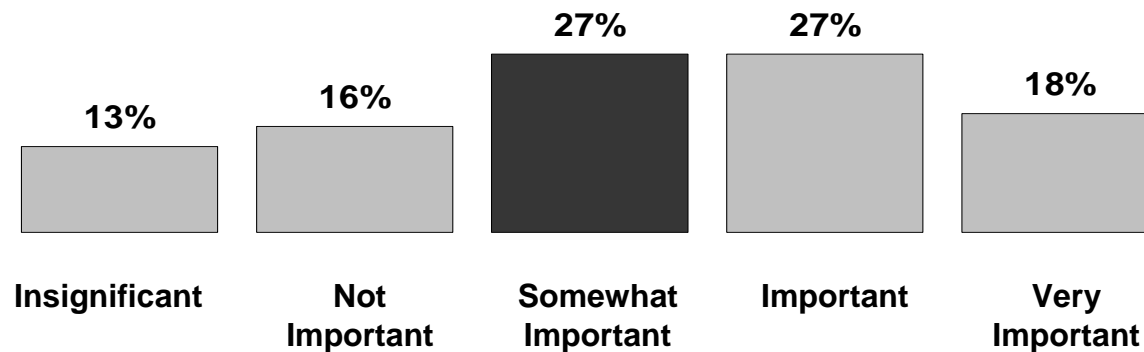
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## Importance of the LPA's Economic Provisions

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**Q.8f “Please indicate how important the structure and clarity of the following clause is to you”**

**UBTI/ECI or similar tax protection provisions (n=96)**



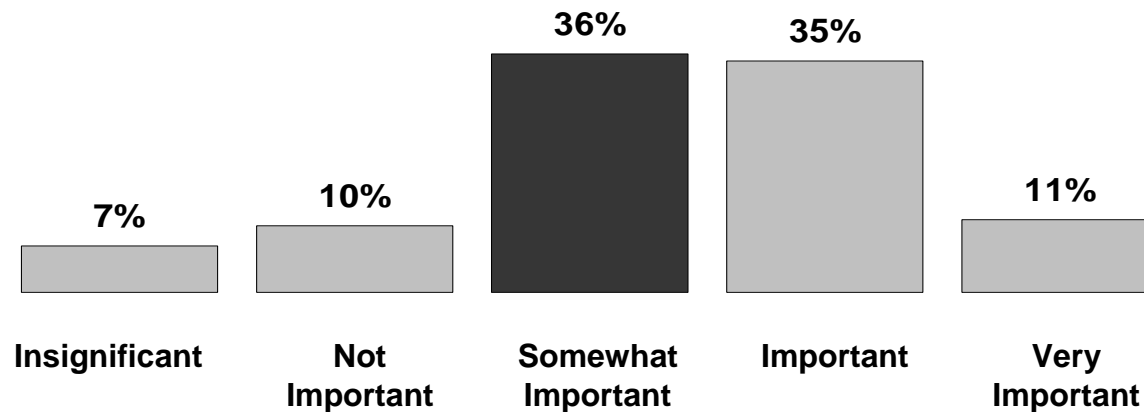
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## Importance of the LPA's Economic Provisions

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**Q.8g “Please indicate how important the structure and clarity of the following clause is to you”**

Distributions in stock vs. cash (n=97)



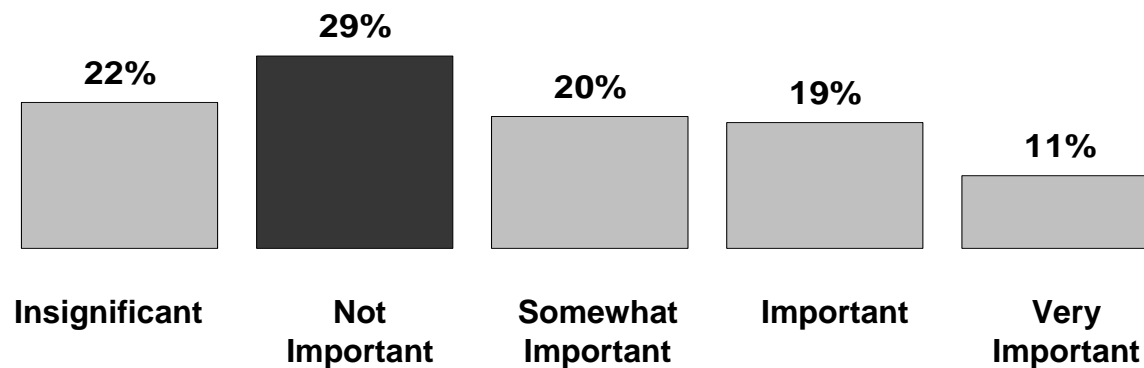
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## Importance of the LPA's Economic Provisions

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**Q.8h “Please indicate how important the structure and clarity of the following clause is to you”**

**Co-investment rights** (n=97)



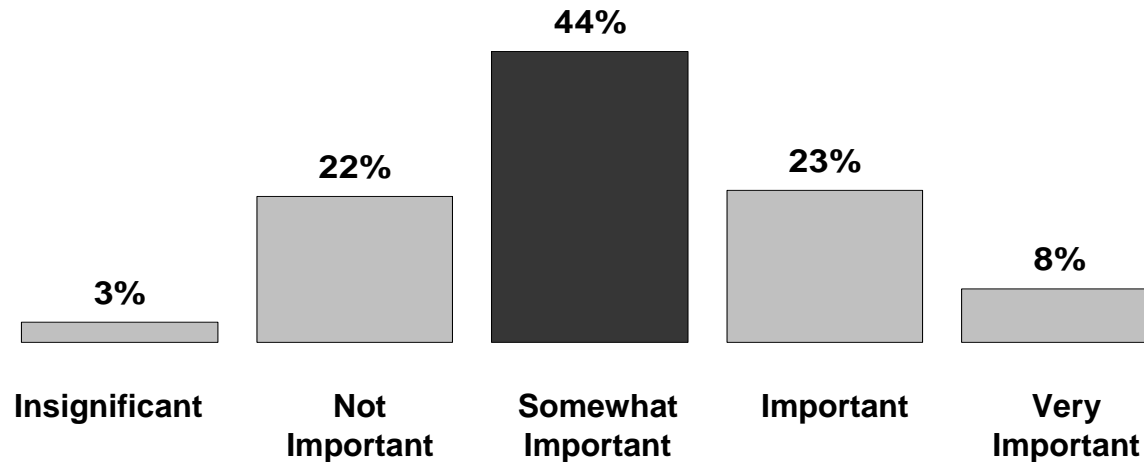
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## Importance of the LPA's Economic Provisions

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**Q.8i “Please indicate how important the structure and clarity of the following clause is to you”**

**Reinvestment/bridge financing restrictions (n=96)**



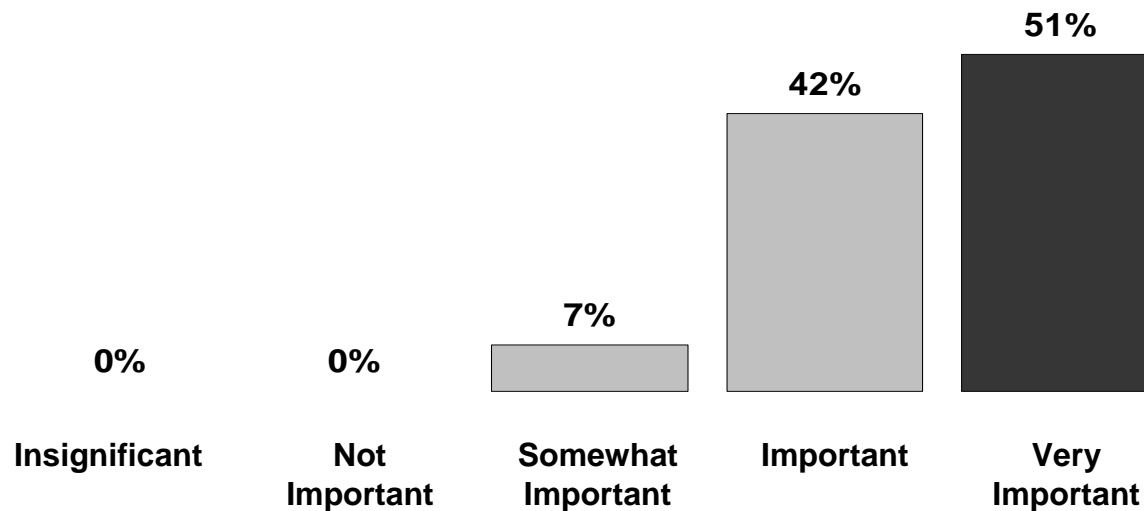
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## Importance of the LPA's Governance Provisions

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**Q.9a “Please indicate how important the structure and clarity of the following clause is to you”**

**GP Capital Commitment (n=97)**



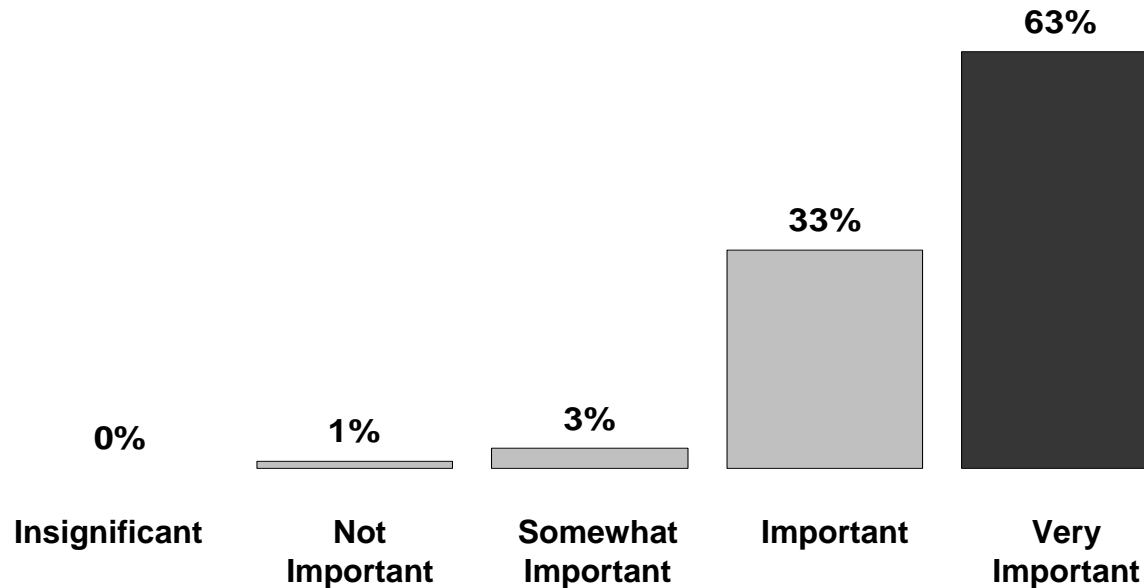
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## Importance of the LPA's Governance Provisions

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**Q.9b “Please indicate how important the structure and clarity of the following clause is to you”**

**GP conflict issues** (n=97)



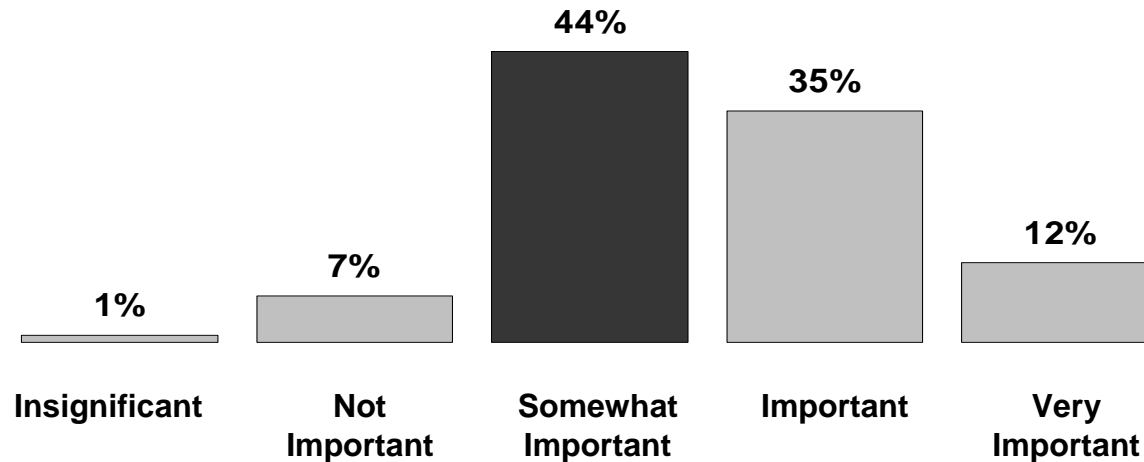
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## Importance of the LPA's Governance Provisions

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**Q.9c “Please indicate how important the structure and clarity of the following clause is to you”**

**Escrow Account (n=97)**



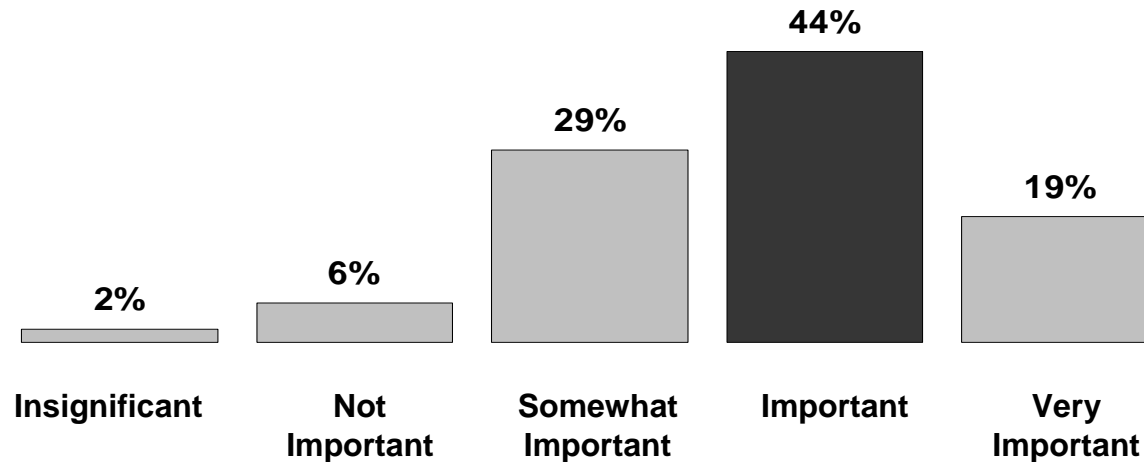
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## Importance of the LPA's Governance Provisions

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**Q.9d “Please indicate how important the structure and clarity of the following clause is to you”**

**Role & Powers of Advisory Board (n=97)**



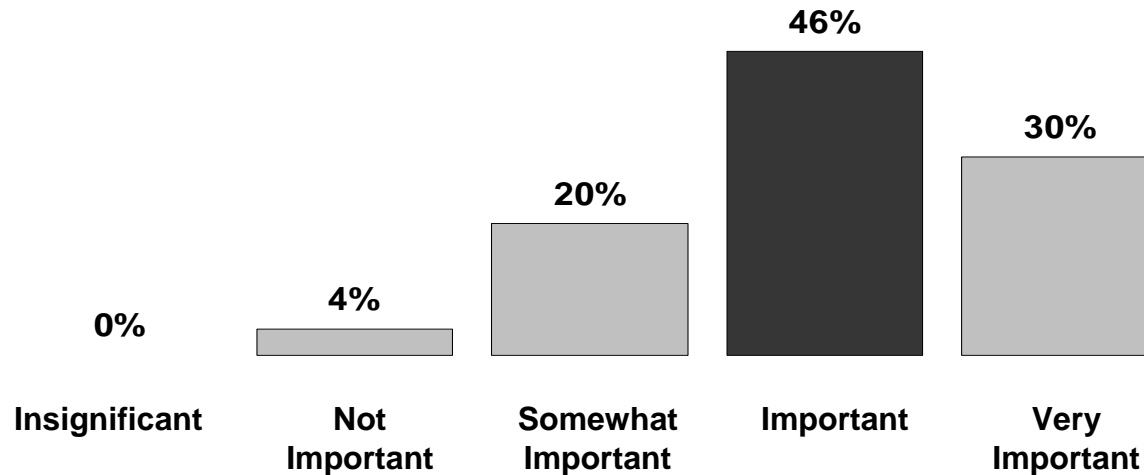
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## Importance of the LPA's Governance Provisions

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**Q.9e “Please indicate how important the structure and clarity of the following clause is to you”**

**LP Approval Rights (n=96)**



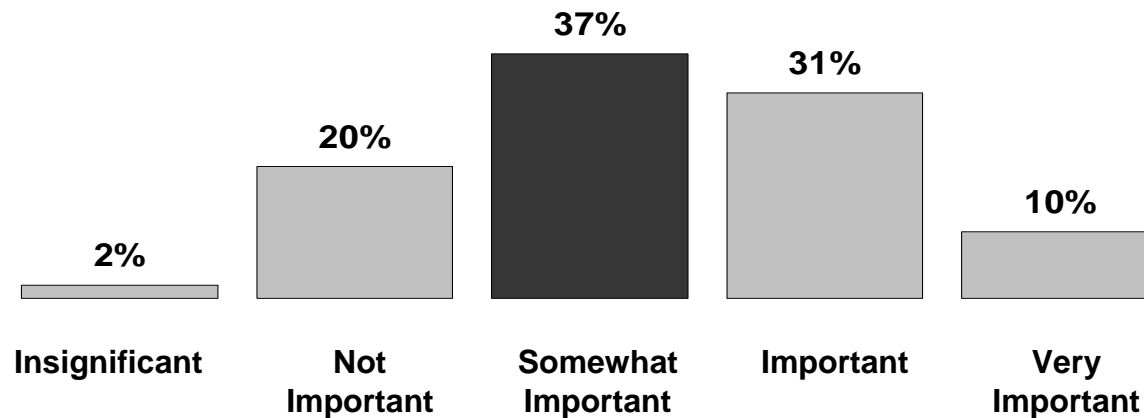
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## Importance of the LPA's Governance Provisions

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**Q.9f “Please indicate how important the structure and clarity of the following clause is to you”**

**Transfer of LP Interests (n=97)**



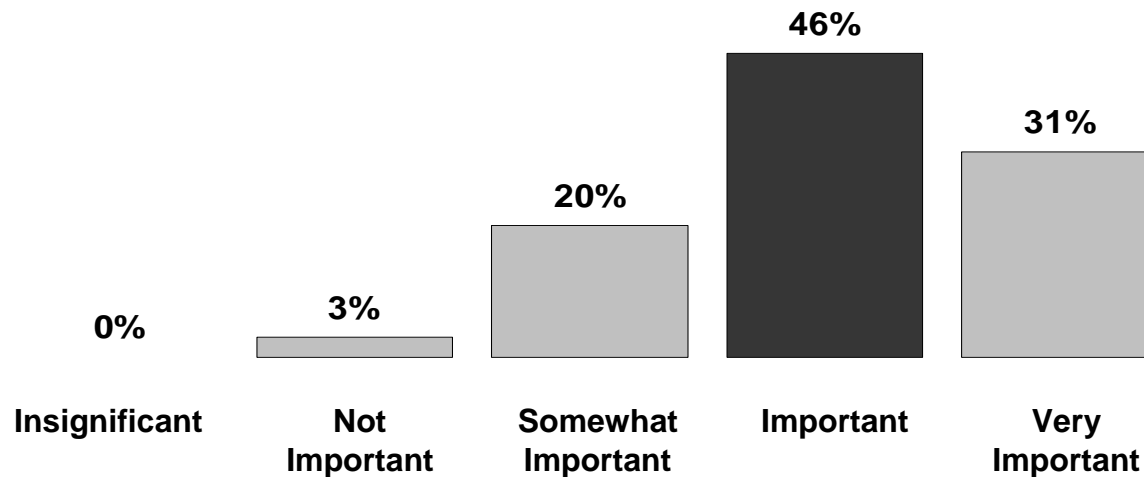
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## Importance of the LPA's Governance Provisions

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**Q.9g “Please indicate how important the structure and clarity of the following clause is to you”**

Valuation Reporting (n=97)



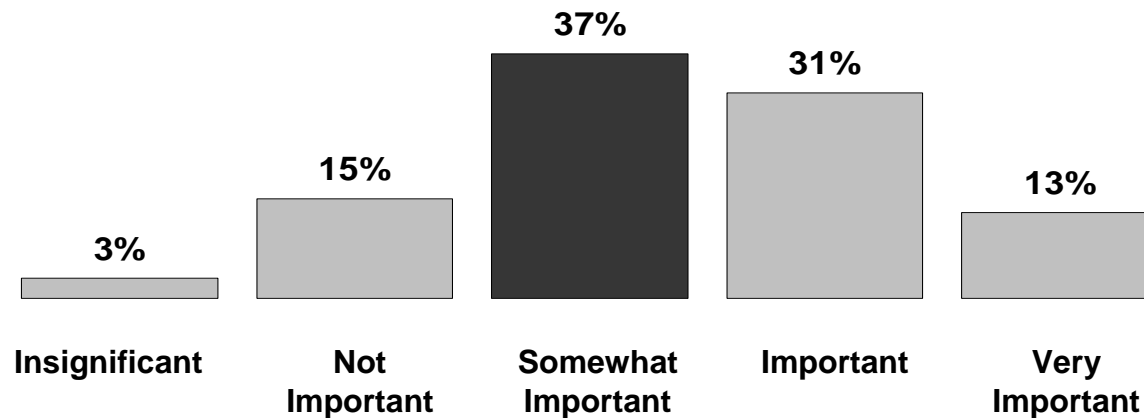
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## Importance of the LPA's Governance Provisions

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**Q.9h “Please indicate how important the structure and clarity of the following clause is to you”**

**Confidentiality provisions (n=97)**



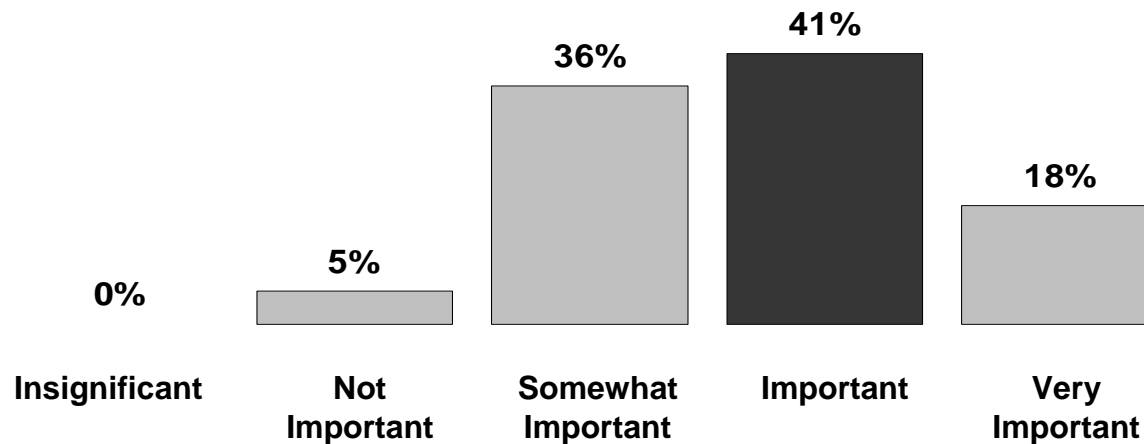
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## Importance of the LPA's Governance Provisions

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**Q.9i “Please indicate how important the structure and clarity of the following clause is to you”**

**Record Keeping (n=97)**



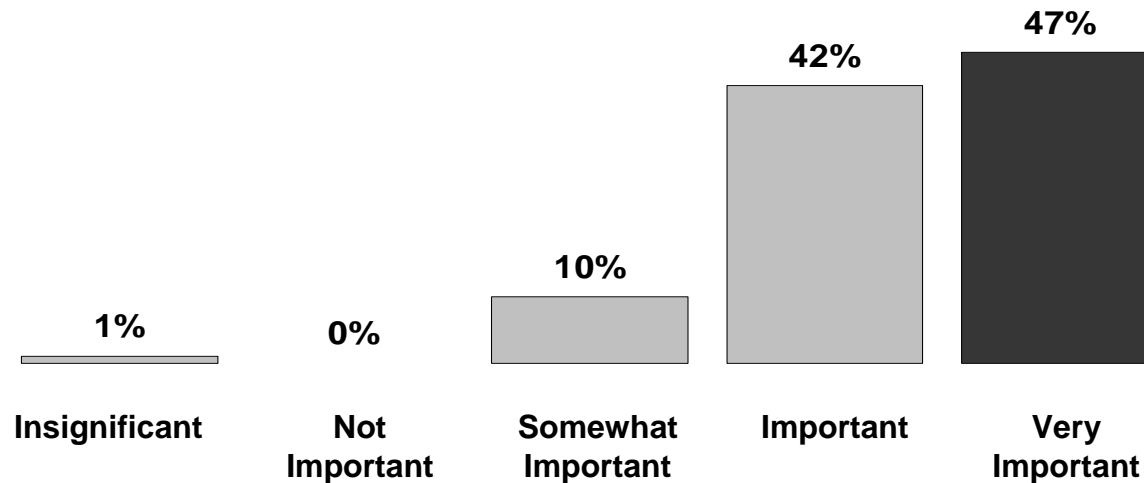
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## Importance of the LPA's Governance Provisions

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**Q.9j “Please indicate how important the structure and clarity of the following clause is to you”**

**Side-letters/Most Favoured Nation provisions (n=96)**



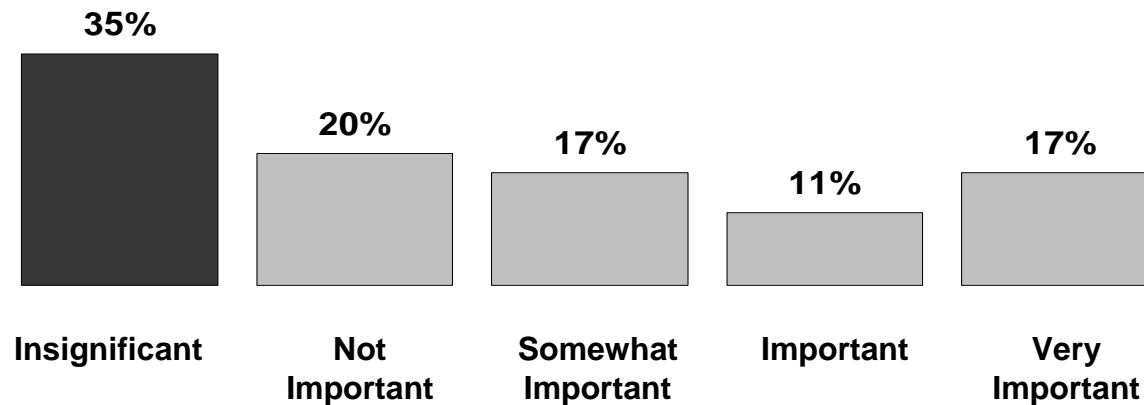
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## Importance of the LPA's Governance Provisions

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**Q.9k “Please indicate how important the structure and clarity of the following clause is to you”**

**ERISA Exemptions (n=96)**



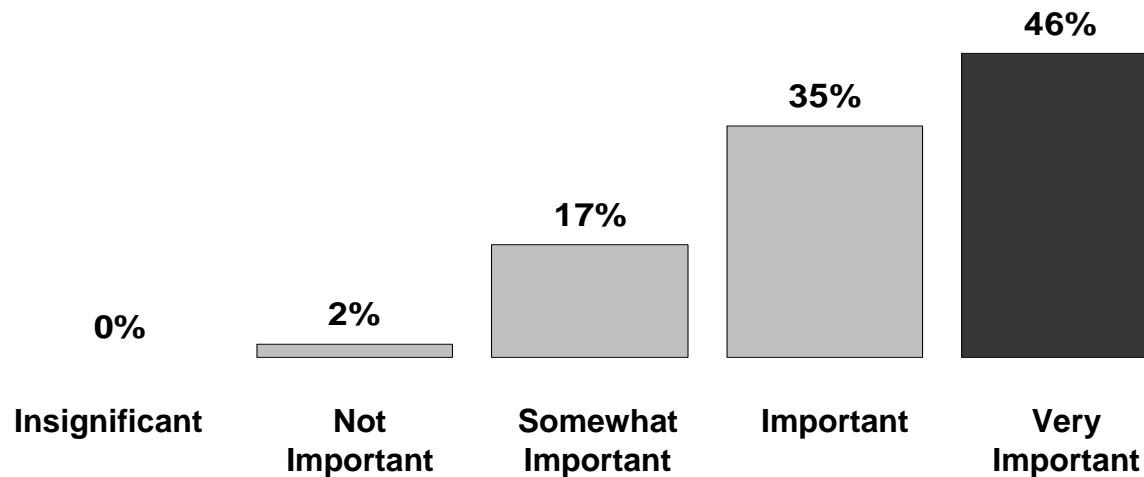
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## Importance of the LPA's Governance Provisions

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**Q.9I “Please indicate how important the structure and clarity of the following clause is to you”**

**Investment Strategy, Limitations, and Guidelines (n=95)**



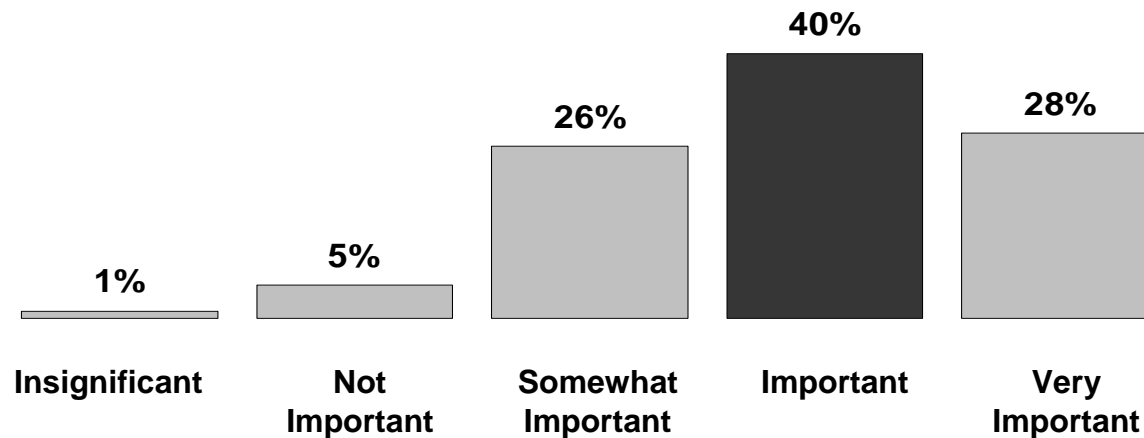
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## Importance of the LPA's Governance Provisions

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**Q.9m “Please indicate how important the structure and clarity of the following clause is to you”**

Fundraising Period, investment period, and term (n=97)



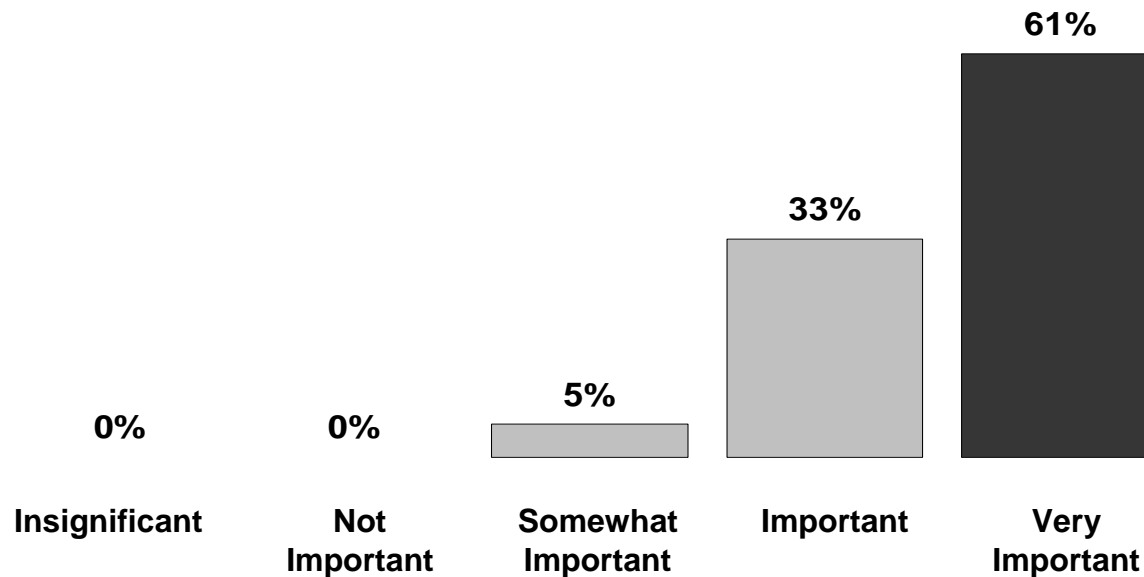
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## Importance of the LPA's Governance Provisions

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**Q.9n “Please indicate how important the structure and clarity of the following clause is to you”**

**Key man provisions (n=96)**



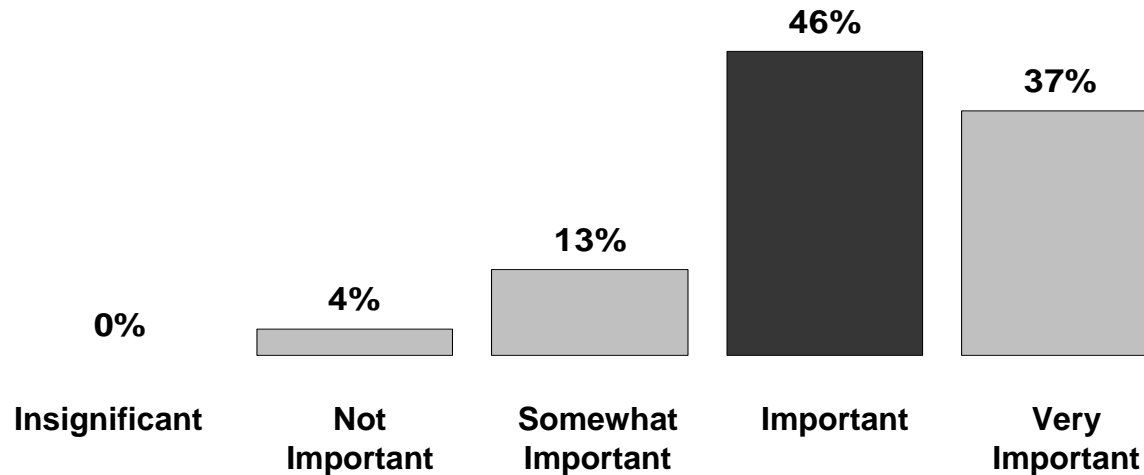
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## Importance of the LPA's Governance Provisions

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**Q.9o “Please indicate how important the structure and clarity of the following clause is to you”**

**No-fault suspension/Divorce (n=94)**



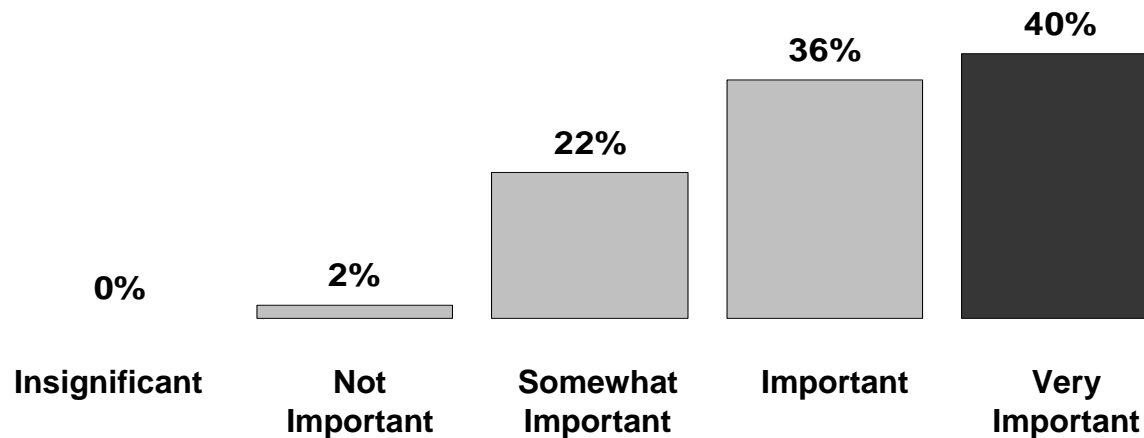
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## Importance of the LPA's Governance Provisions

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**Q.9p “Please indicate how important the structure and clarity of the following clause is to you”**

**Indemnification of GPs and LPs (n=97)**



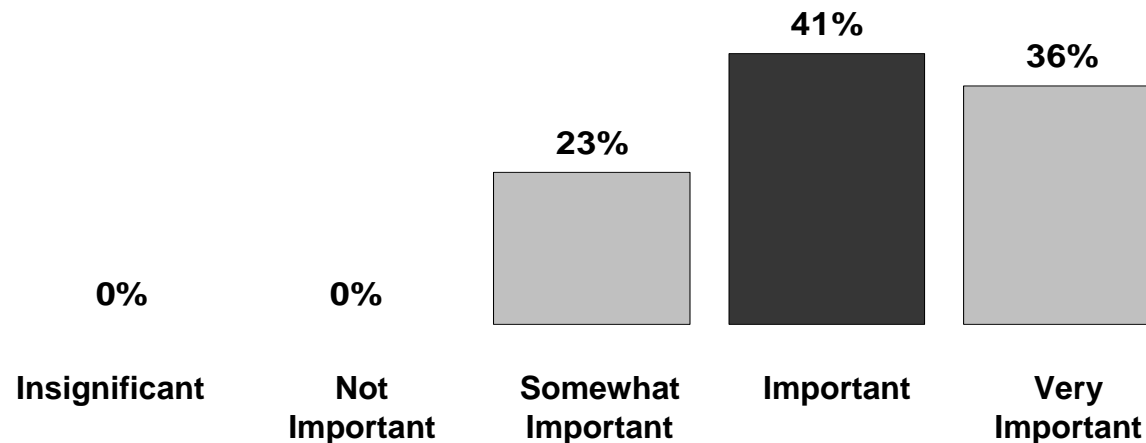
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## Importance of the LPA's Governance Provisions

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**Q.9q “Please indicate how important the structure and clarity of the following clause is to you”**

**Limitations of liability of GPs and LPs (n=96)**



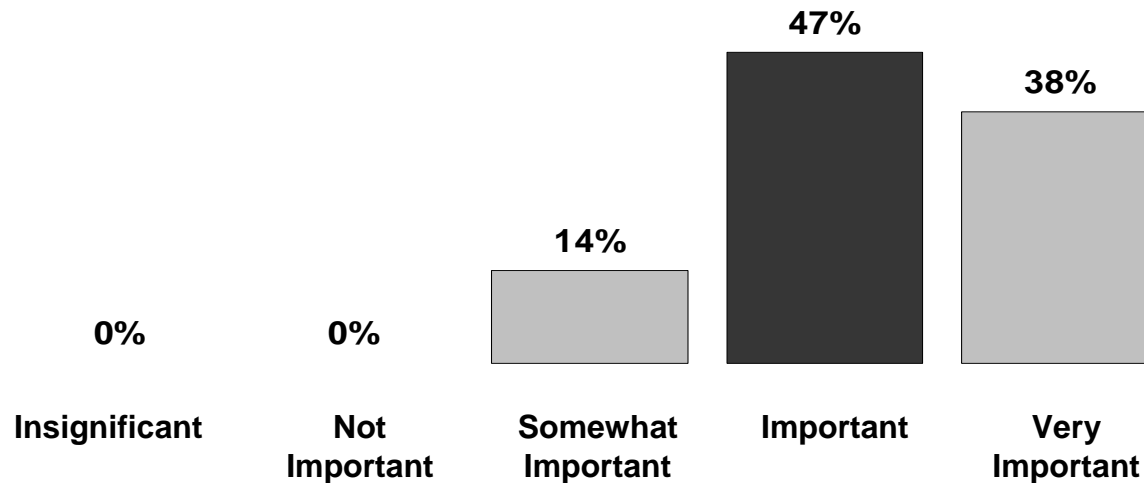
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## Importance of the LPA's Governance Provisions

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**Q.9r** “Please indicate how important the structure and clarity of the following clause is to you”

Permitted activities of GPs (n=97)

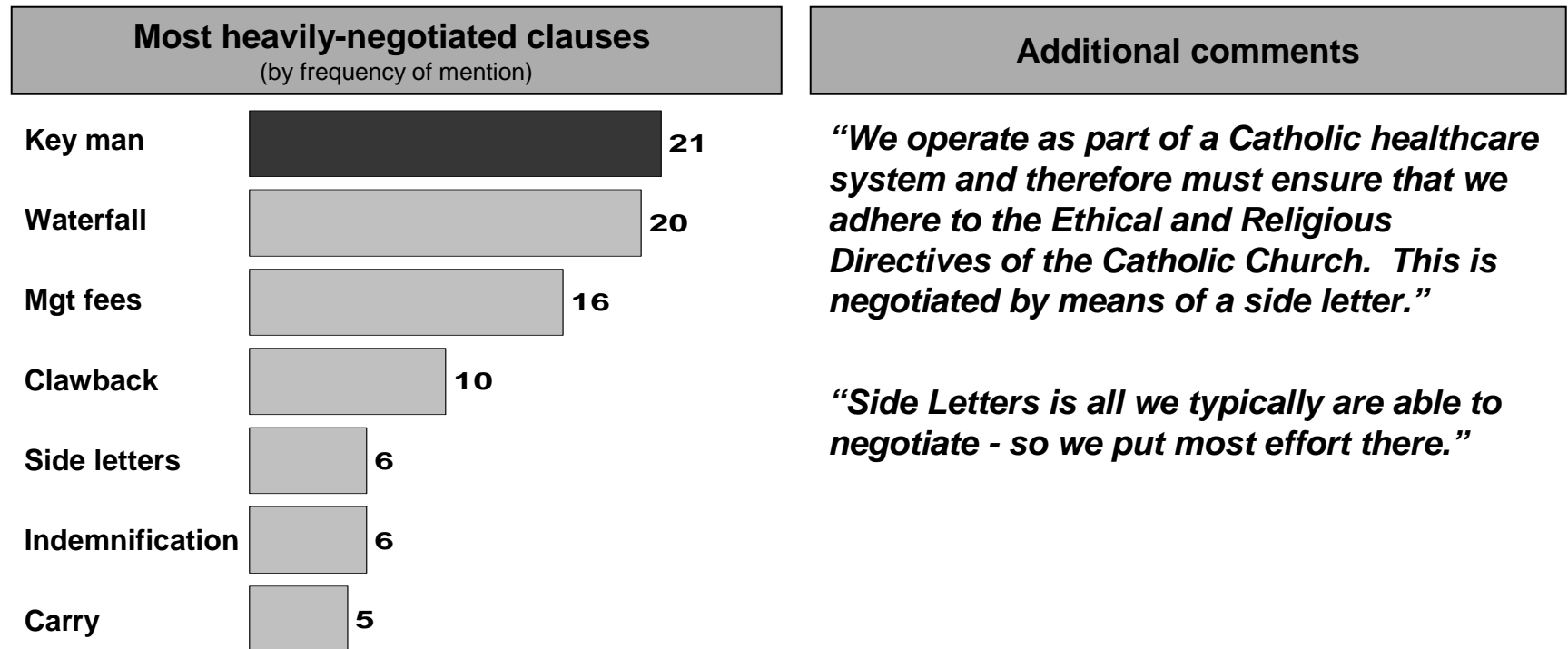


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# Negotiating the LPA

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**Q.10 “Please list which 2 sections of an LPA typically require the most time negotiating with GPs.”**

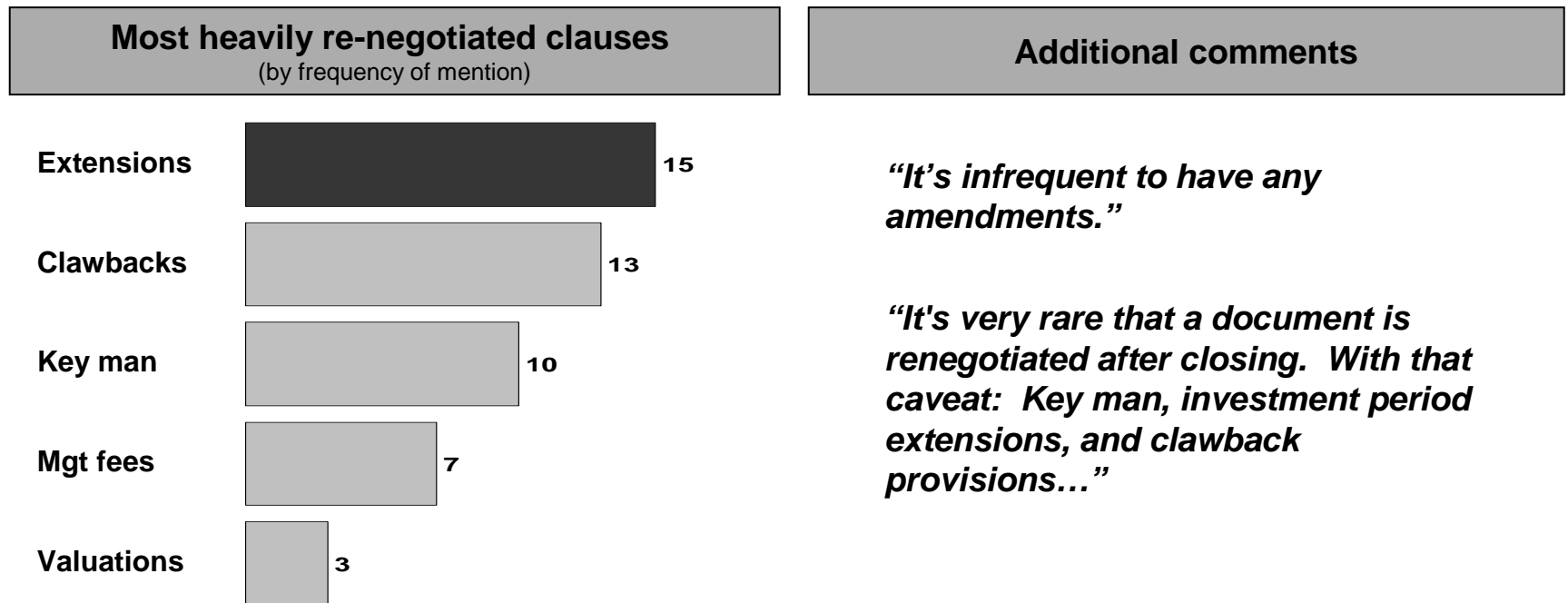


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# Negotiating the LPA

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**Q.11 “Please list which 2 sections of an LPA you typically spend the most time in renegotiations with the GP during the life of the fund.**

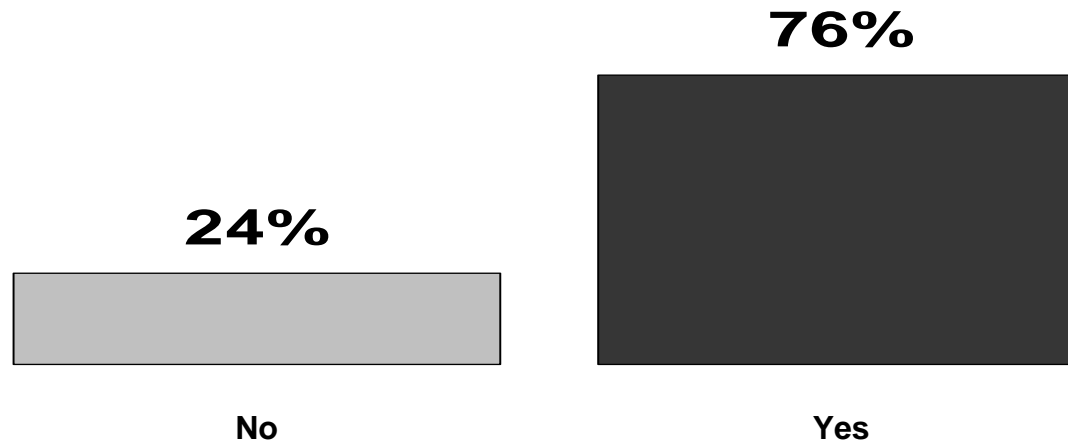


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## The LPA as a Governance Document

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**Q.12 “Do you believe that the LPA should govern the transparency and detail of fund and portfolio company reporting?”** (n=92)

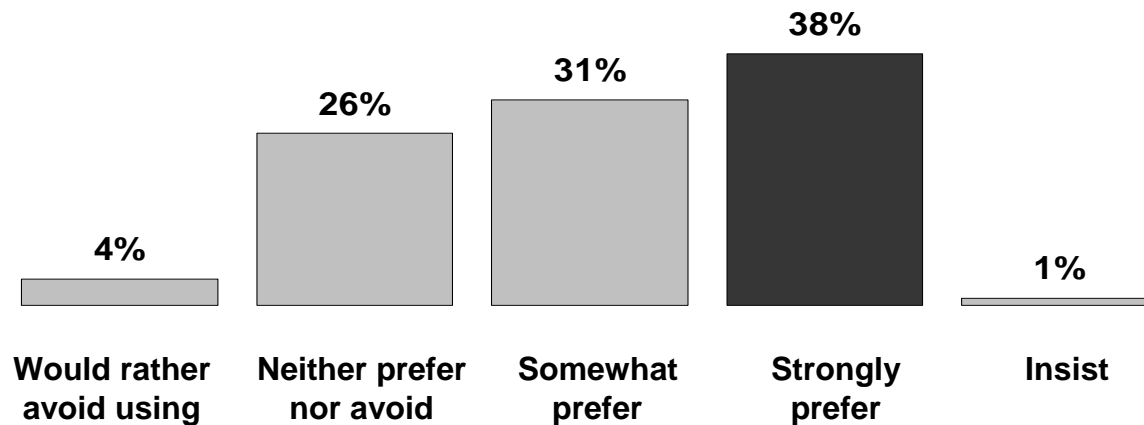


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## The LPA as a Governance Document

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**Q.13 “If there were to be guideline or model LPA documents, to what degree would you prefer that they be used?” (n=97)**



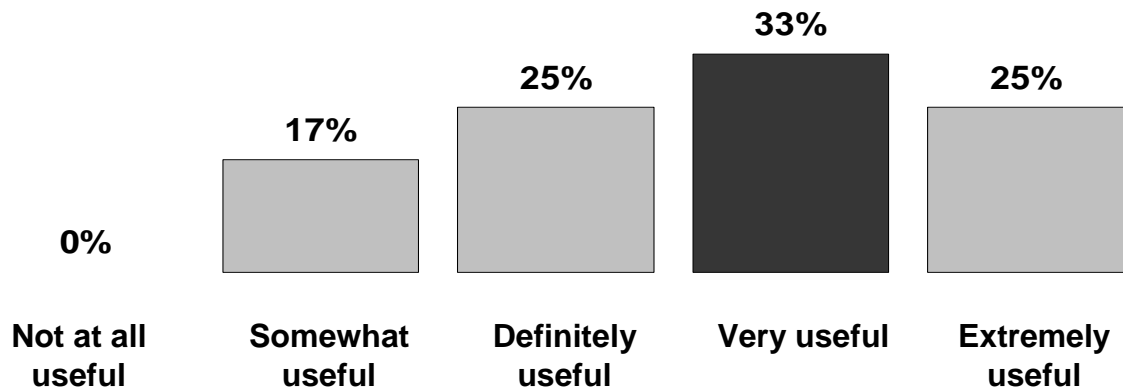
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# The LPA as a Governance Document

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**Q.14 “If there were to be guideline or model LPA documents, would it be useful to include:”**

**Annotations** (n=93)



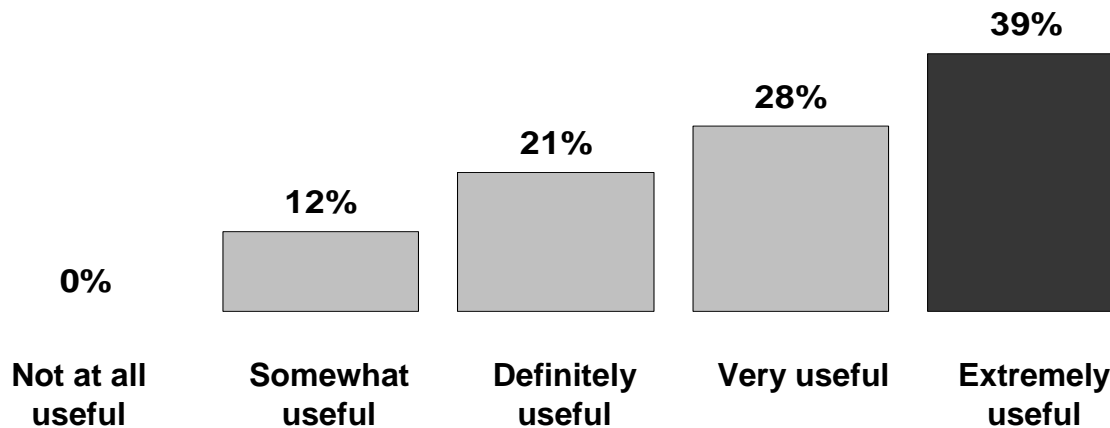
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# The LPA as a Governance Document

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**Q.14 “If there were to be guideline or model LPA documents, would it be useful to include:”**

**Numerical examples** (n=94)



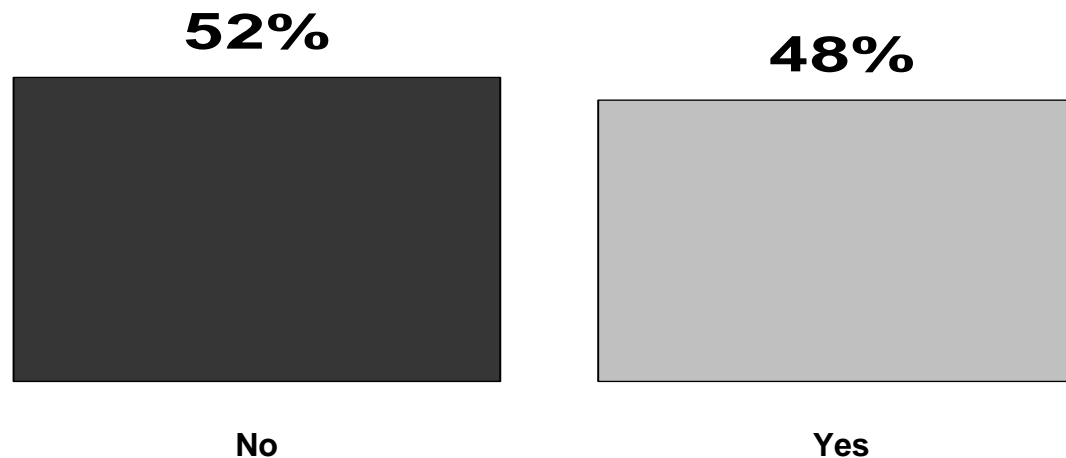
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## The LPA as a Governance Document

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**Q.15 “Some industry groups, such as the EVCA and PEIGG, have recommended that funds establish a valuation policy committee (VPC), which could be all or part of a fund’s advisory committee. Do any of the funds in which you invest currently include a valuation policy committee?”**

(n=95)

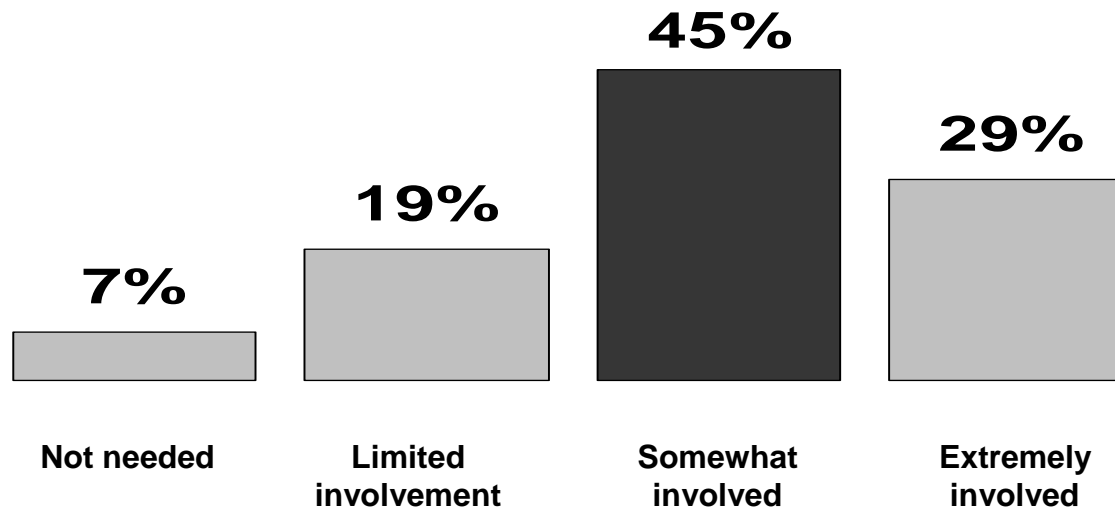


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## The LPA as a Governance Document

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**Q.16. “Which of the following best described the role you feel a valuation policy committee should fulfill?”** (n=97)



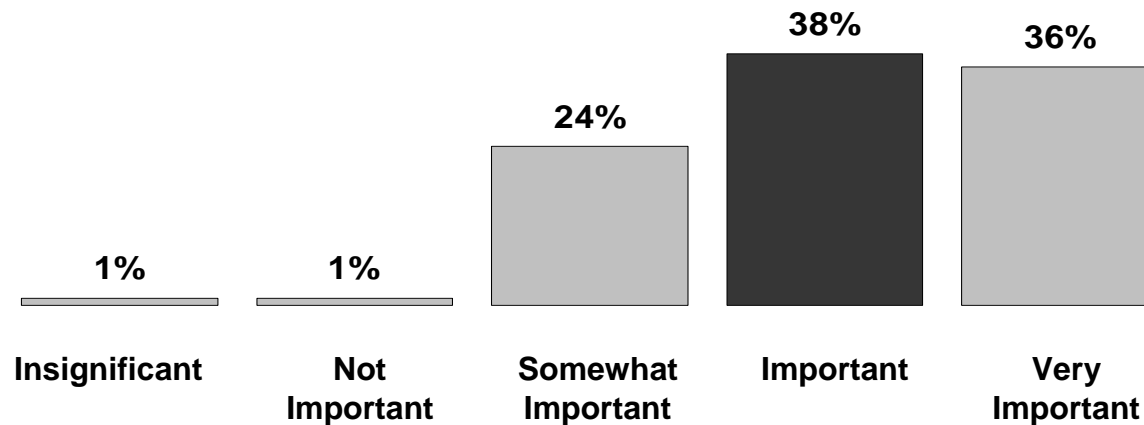
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## Partnership Governance Mechanisms

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**Q.17a “Please rate how important the following fund governance mechanisms are to you”**

**Advisory Board** (n=96)



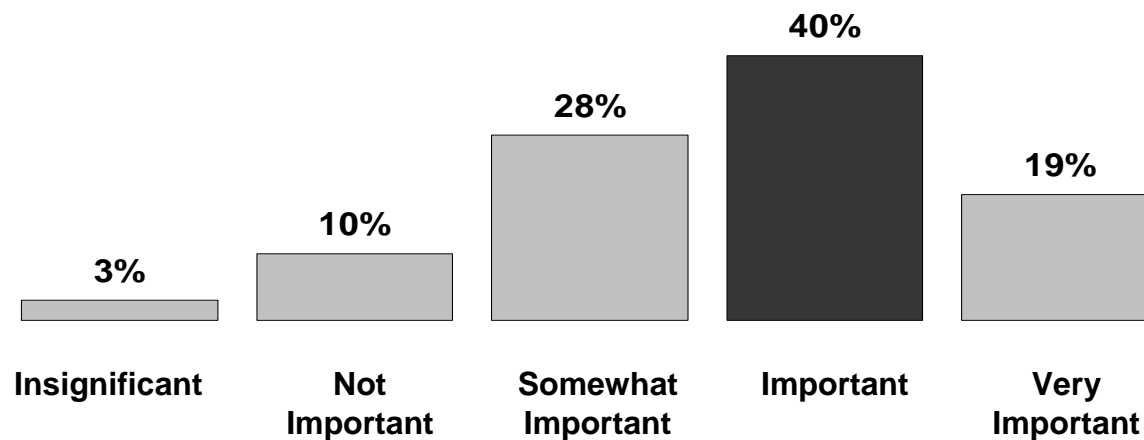
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## Partnership Governance Mechanisms

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**Q.17b “Please rate how important the following fund governance mechanisms are to you”**

**Valuation Policy Committee (n=96)**



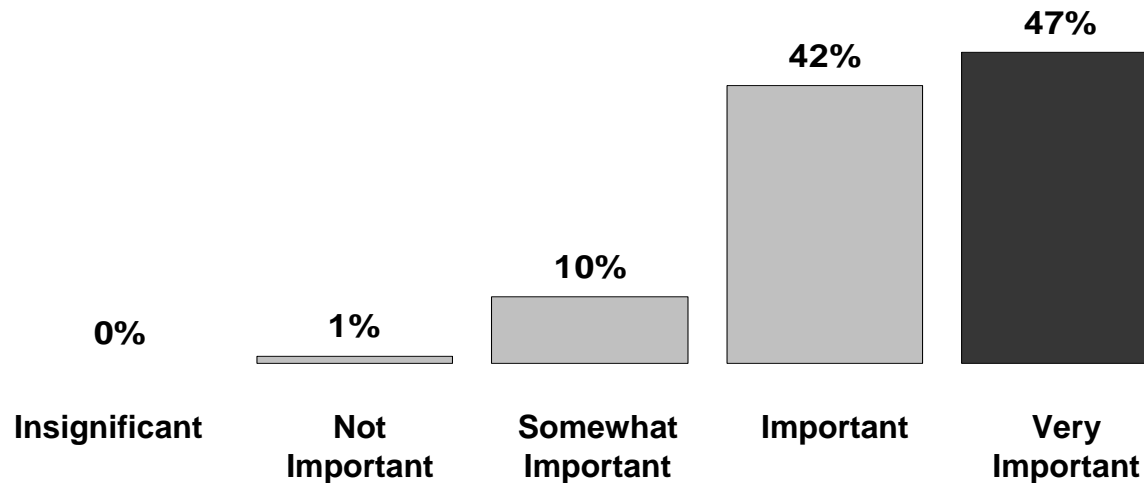
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## Partnership Governance Mechanisms

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**Q.17c “Please rate how important the following fund governance mechanisms are to you”**

**Specification of valuation methodologies (n=96)**



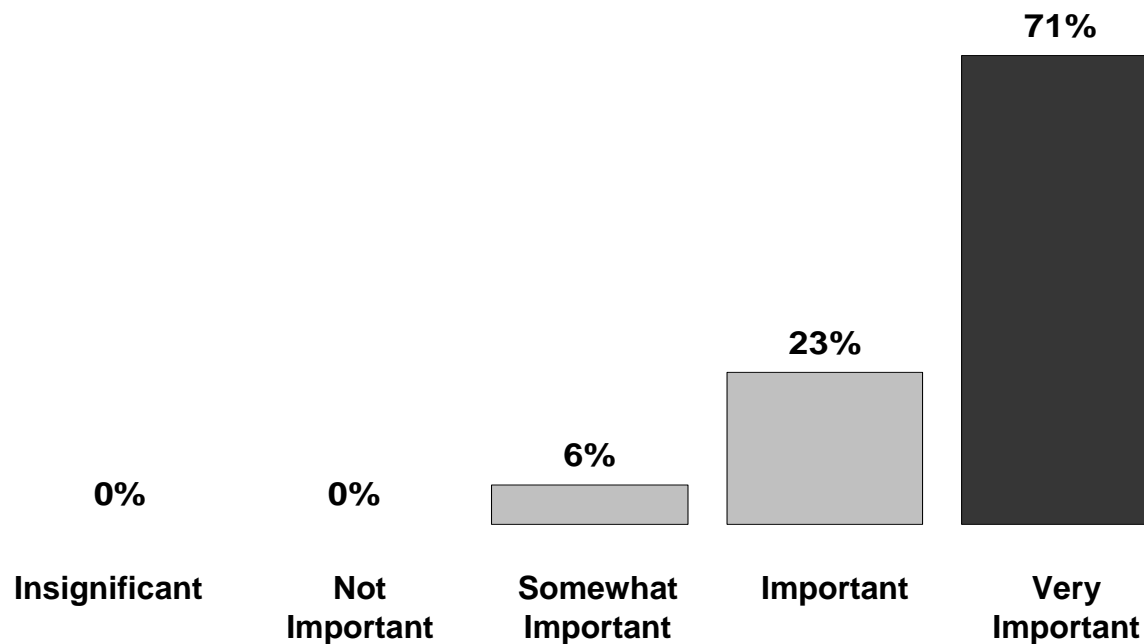
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## Partnership Governance Mechanisms

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**Q.17d “Please rate how important the following fund governance mechanisms are to you”**

Quarterly disclosure of general fund-level information (n=96)



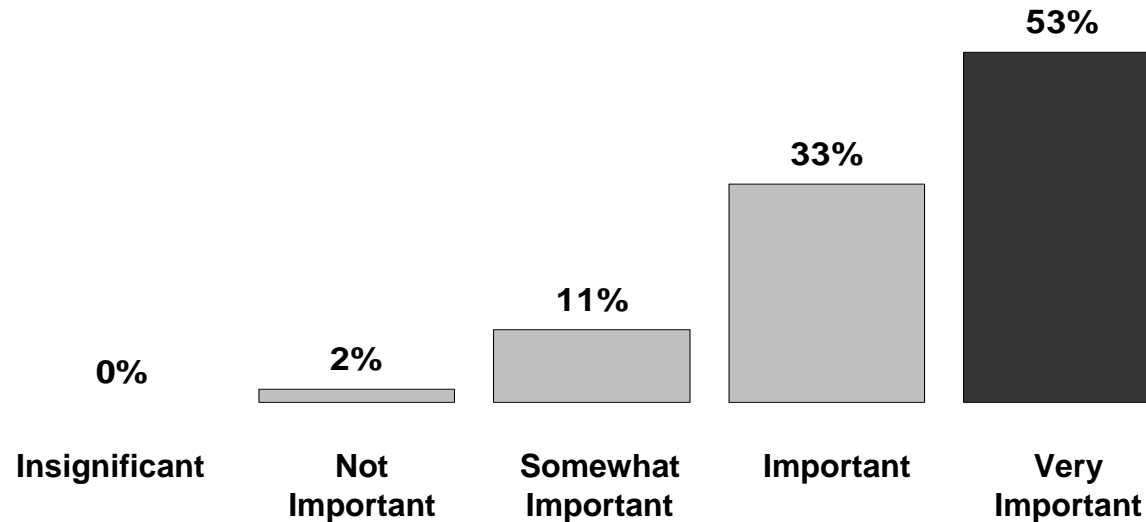
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## Partnership Governance Mechanisms

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**Q.17e “Please rate how important the following fund governance mechanisms are to you”**

**Quarterly disclosure of detailed fund (including portfolio company) information (n=96)**



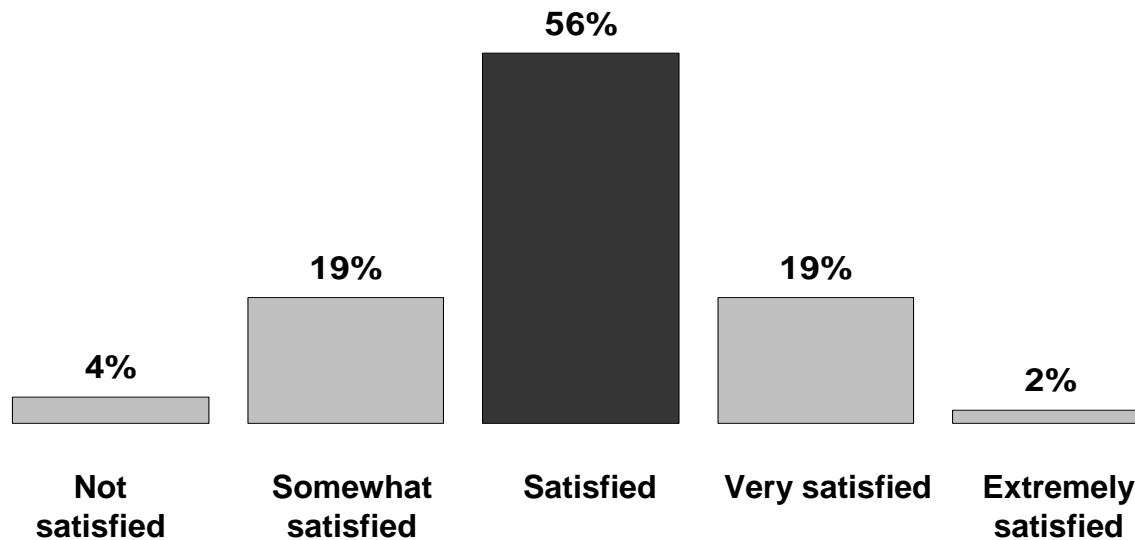
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## Partnership Governance Mechanisms

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**Q.18a “For funds in which you have invested, please rate, on average, how satisfied you are with the following.”**

**Advisory Board (n=95)**



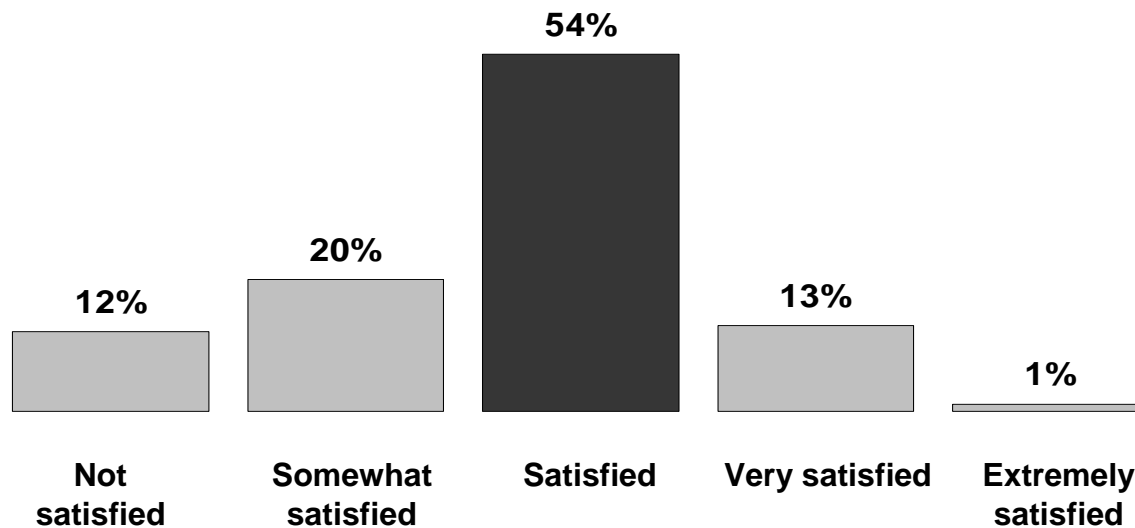
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## Partnership Governance Mechanisms

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**Q.18b “For funds in which you have invested, please rate, on average, how satisfied you are with the following.”**

VPC (n=82)



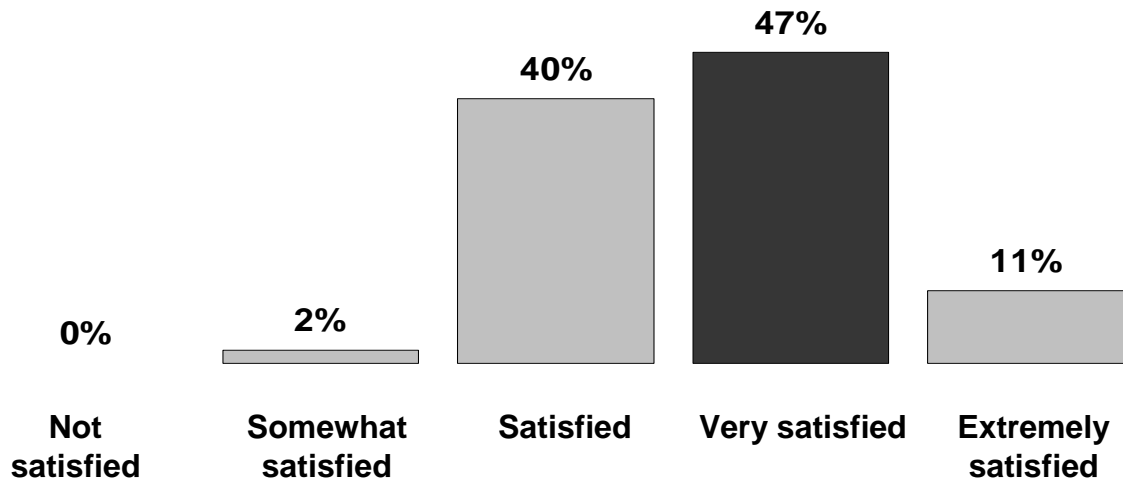
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## Partnership Governance Mechanisms

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**Q.18c “For funds in which you have invested, please rate, on average, how satisfied you are with the following.”**

Frequency of reporting (n=95)



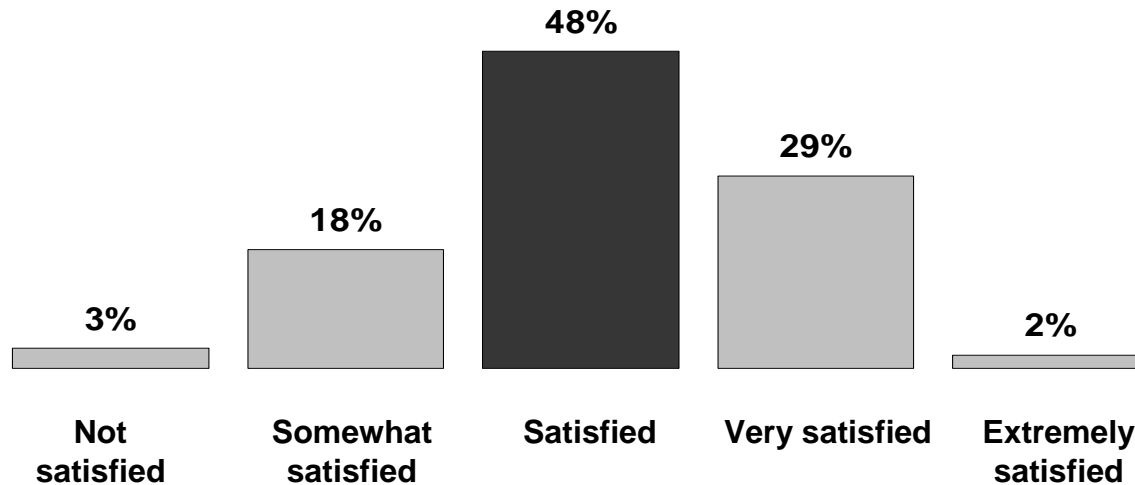
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## Partnership Governance Mechanisms

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**Q.18d “For funds in which you have invested, please rate, on average, how satisfied you are with the following.”**

Detail of reporting (n=94)



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## Partnership Governance Mechanisms

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### Q.19 “What other governance issues do you think could best be addressed within the LPA?”

Note: Only 25 responses were recorded to this question. The commentary is therefore viewed as having only anecdotal value

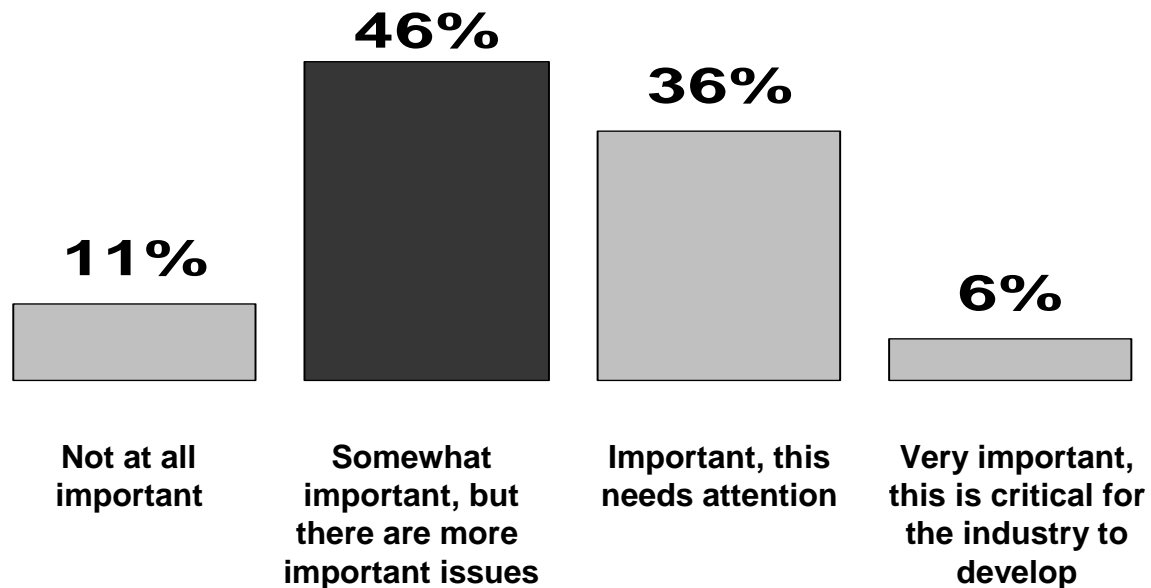
- “A rep attesting to the compliance with the terms of the LPA before and after a capital call would be useful.”
- “In general I am comfortable with further Governance issues being dealt with through side letter provisions.
- Obligation of GPs to offer existing LPs the right to participate in subsequent funds raised.
- “Vesting and allocation of GP carry.”

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## Opinions Regarding Standardized Language

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**Q.20. “How do you view the absence of a commonly accepted guideline or model LPA?”** (n=96)

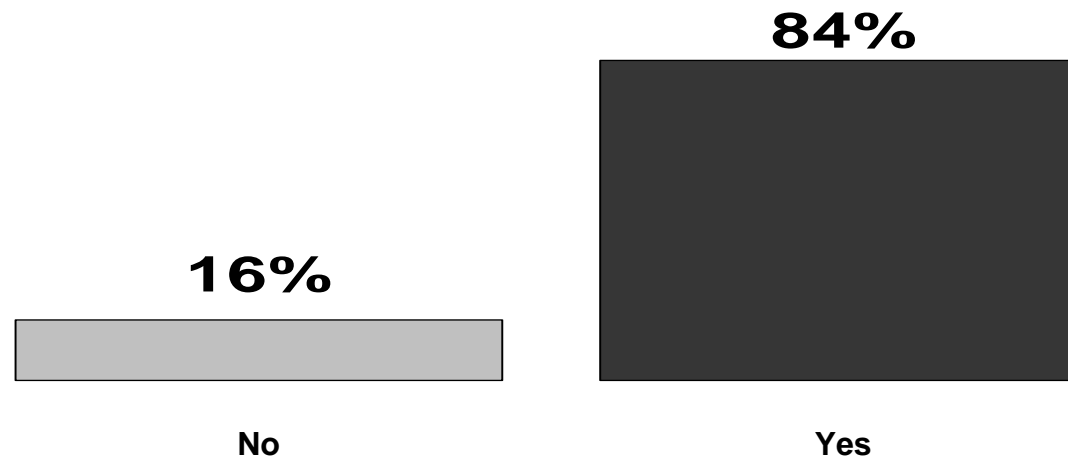


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## Opinions Regarding Standardized Language

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**Q.21 “Do you think that a guideline or model LPA would be useful as a starting point for negotiating investments in a private equity fund?” (n=93)**



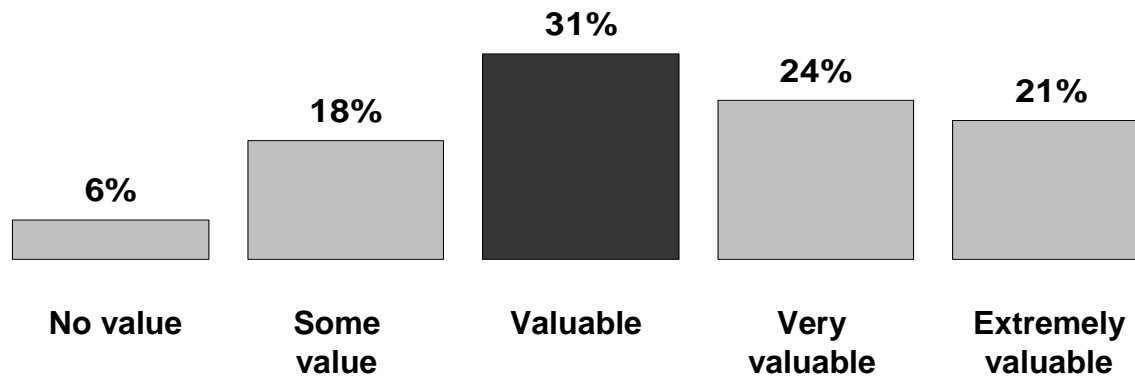
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## Opinions Regarding Standardized Language

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**Q.22a “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Reduce negotiation time and cost (n=94)**



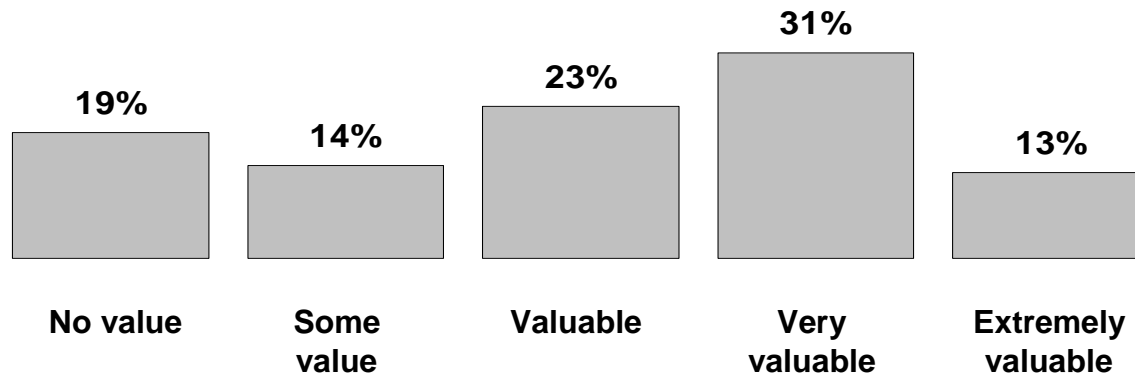
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## Opinions Regarding Standardized Language

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**Q.22b “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Facilitate more important due diligence (n=94)**



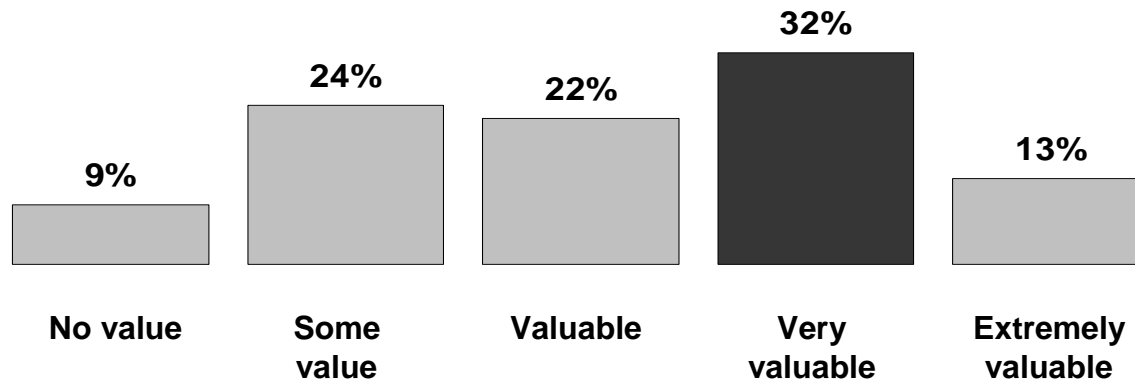
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## Opinions Regarding Standardized Language

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**Q.22c “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Improve reporting (n=94)**



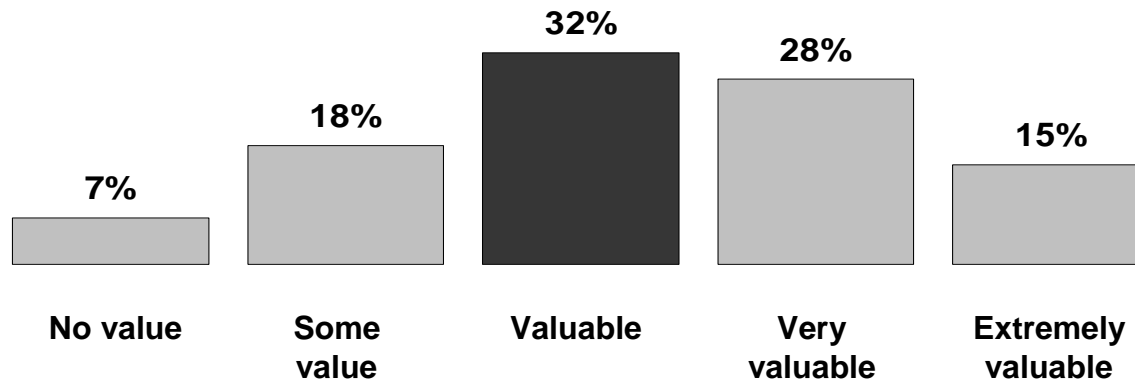
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# Opinions Regarding Standardized Language

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**Q.22d “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Provide greater transparency (n=92)**



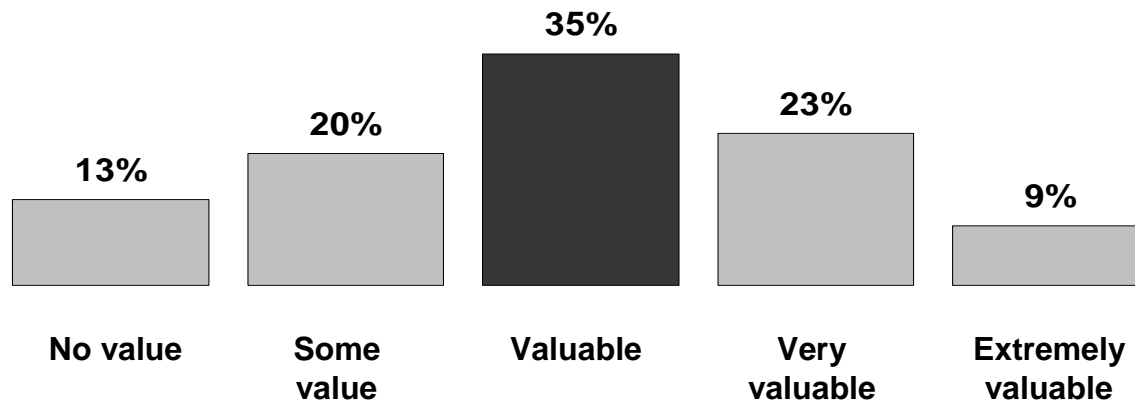
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## Opinions Regarding Standardized Language

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**Q.22e “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Facilitate dispute resolution (n=93)**



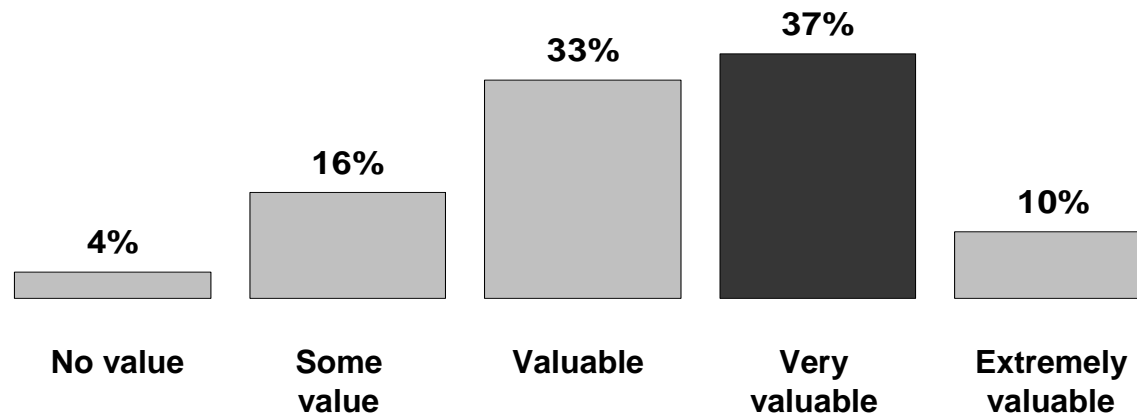
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# Opinions Regarding Standardized Language

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**Q.22f “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Identify alternative solutions, and provide specific language for such alternatives (n=93)**



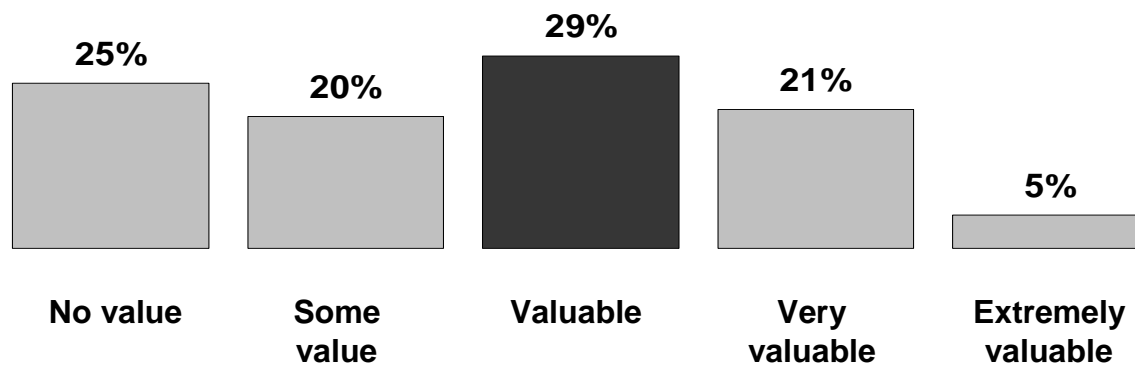
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# Opinions Regarding Standardized Language

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**Q.22g “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Reduce likelihood of litigation (n=92)**



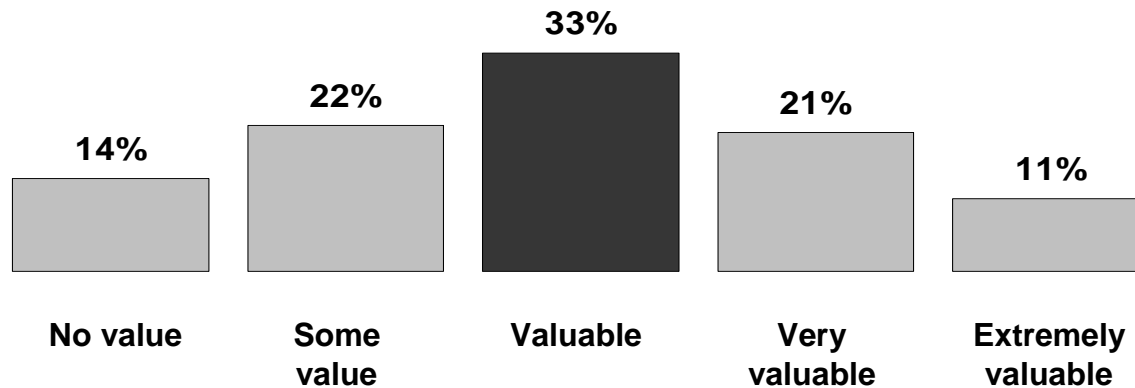
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# Opinions Regarding Standardized Language

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**Q.22h “Please rate how potentially valuable an industry-wide guideline or model LPA would be for addressing the following concerns”**

**Facilitate secondary market transactions (n=92)**



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## Opinions Regarding Standardized Language

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**Q.23 “If there are other important benefits of an industry – wide guideline or model LPA, please describe them below.”**

Note: Only 14 responses were recorded to this question. The commentary is therefore viewed as having only anecdotal value

**“Standardization drives out inefficiency which in turn may drive down future returns.”**

**“Each investment in a PE fund carries its own set of risk and return characteristics. A standard LPA would not address these, and I would view it to be of very little or no value. A great LPA does not make an investment in a PE fund perform better.”**

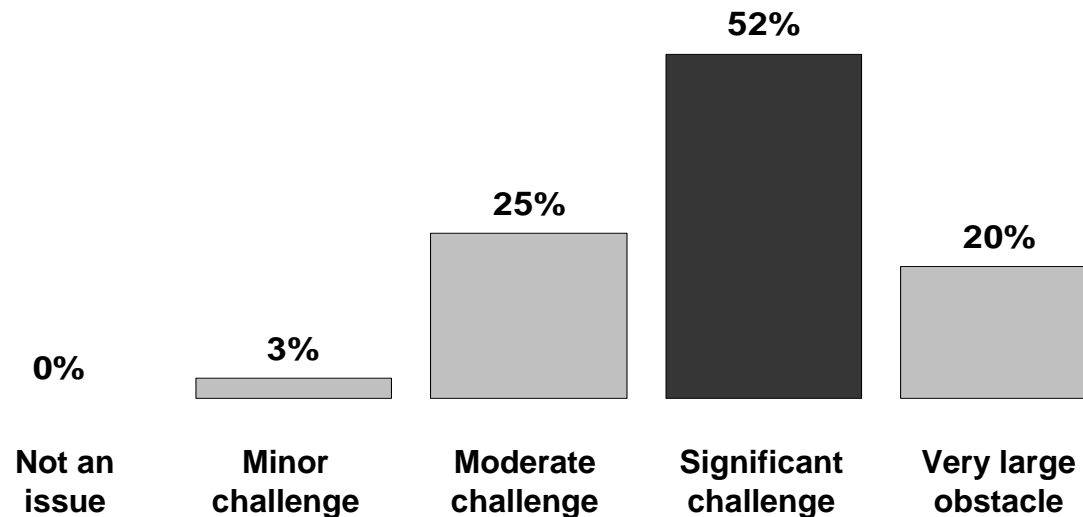
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# Obstacles and Opportunities for a Model LPA

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**Q.24a “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Low likelihood of agreement between GPs and LPs (n=96)**



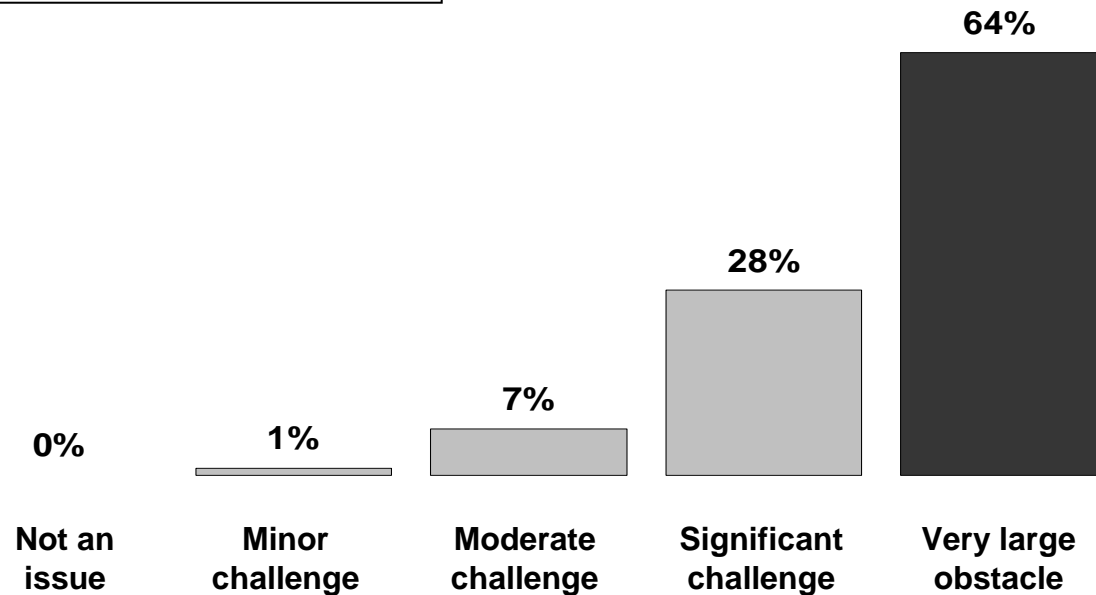
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# Obstacles and Opportunities for a Model LPA

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**Q.24b “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Top-tier GP resistance (n=96)**



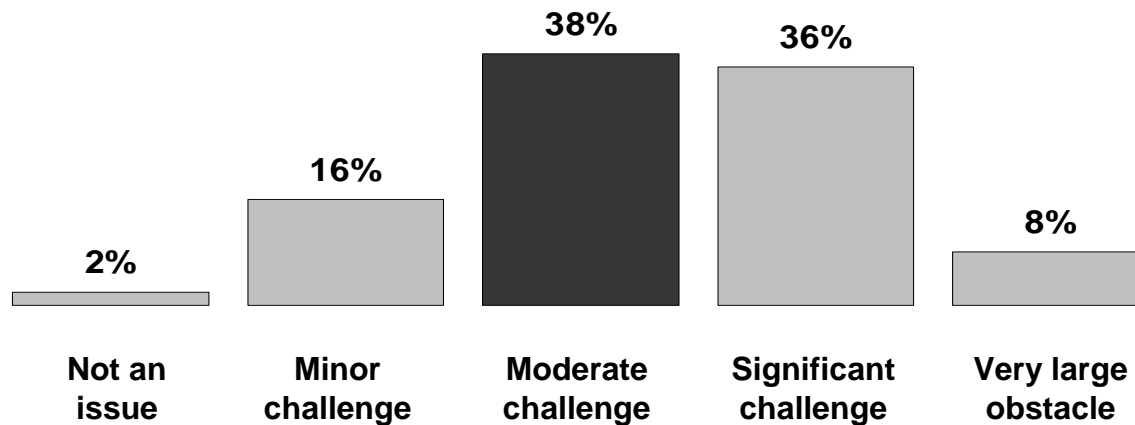
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# Obstacles and Opportunities for a Model LPA

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**Q.24c “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Commonality with prior funds (n=95)**



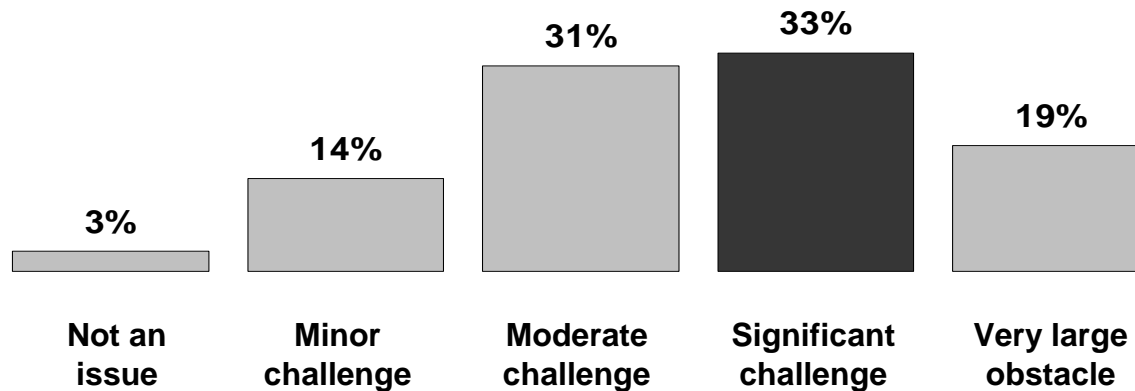
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# Obstacles and Opportunities for a Model LPA

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**Q.24d “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Difficulty in writing specific clauses (n=96)**



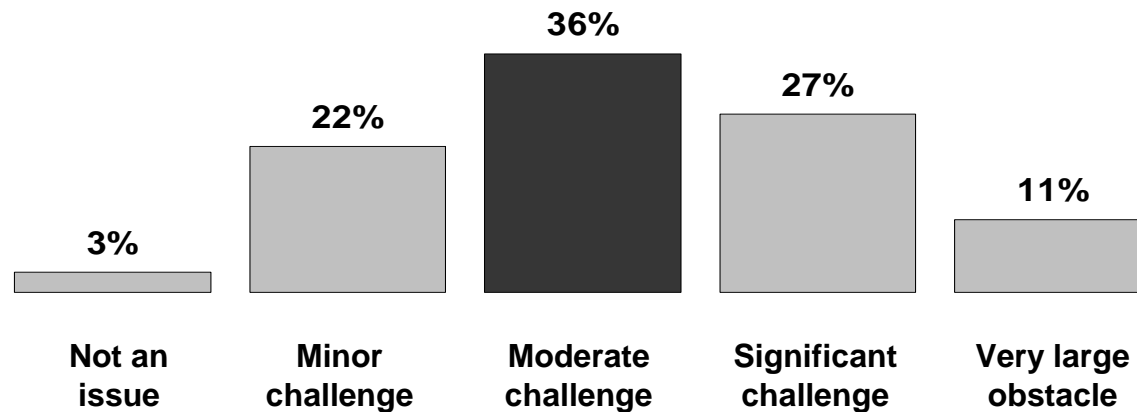
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# Obstacles and Opportunities for a Model LPA

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**Q.24e “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Overly complex and unique regulatory requirements (n=96)**



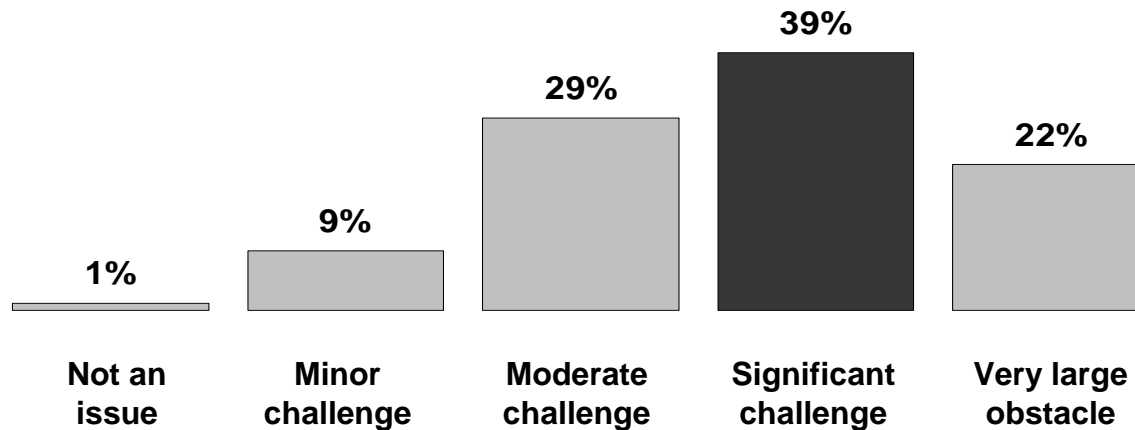
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# Obstacles and Opportunities for a Model LPA

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**Q.24f “How would you rate these potential challenges of developing an industry-wide guideline or model LPA?”**

**Differences among venture, buyout, and mezzanine (n=96)**



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## Obstacles and Opportunities for a Model LPA

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**Q.25 “If there are other notable obstacles to developing an industry-wide guideline or model LPA, please describe them below.”**

Note: Only 28 responses were recorded to this question. The commentary is therefore viewed as having only anecdotal value

**“Adverse selection: the best funds won't need to participate, and aggressive LP's will want to negotiate favorable terms with 1st time/emerging mgrs.”**

**“The attorneys used by GPs and LPs alike have a 'model' LPA. The differences are on the margin and are specific to the GPs and their strategy. This will not change with a model LPA.”**

**“A big obstacle is conflicting objectives of corporate and public employees' funds. corporations want financial results while public funds tend to emphasize political and social objectives along with generating publicity.”**

**‘Legal firms will not tolerate a boiler plate.’**

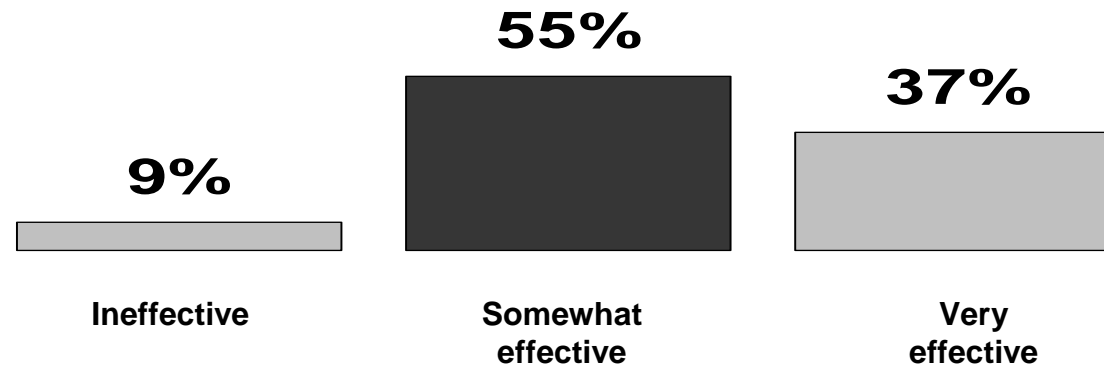
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## Value of an LPA Template

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**Q.26a “How would you rate the overall usefulness of a guideline or model LPA in the following areas?”**

**Structuring the investment (n=93)**



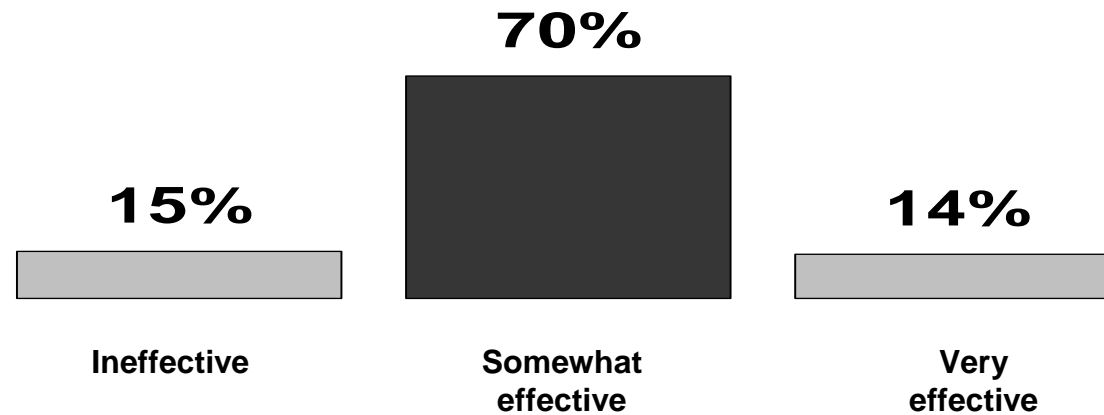
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## Value of an LPA Template

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**Q.26b “How would you rate the overall usefulness of a guideline or model LPA in the following areas?”**

**Managing the GP relationship (n=91)**



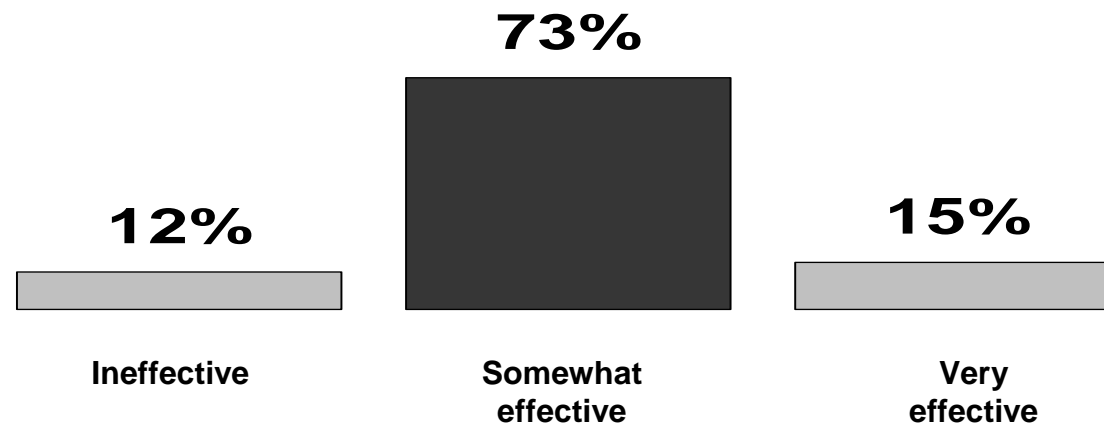
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## Value of an LPA Template

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**Q.26c “How would you rate the overall usefulness of a guideline or model LPA in the following areas?”**

**Managing transfers of interest (n=93)**



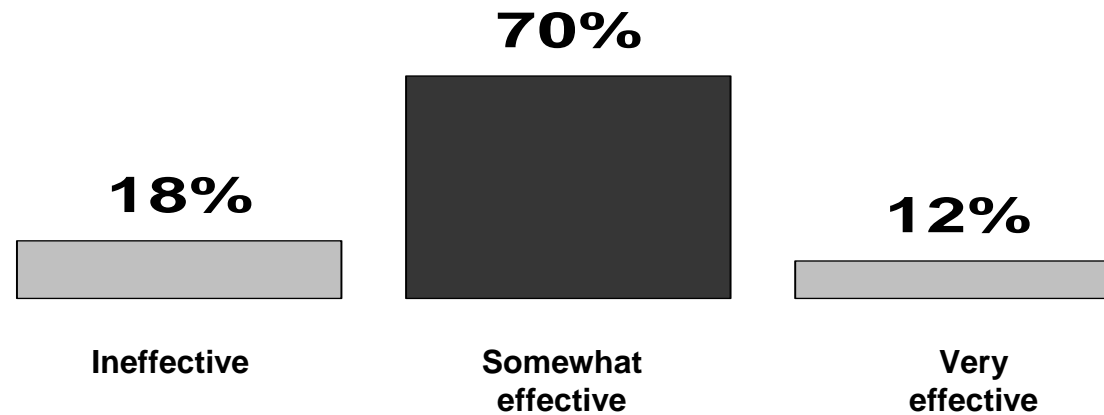
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## Value of an LPA Template

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**Q.26d “How would you rate the overall usefulness of a guideline or model LPA in the following areas?”**

Closing out a fund (n=82)

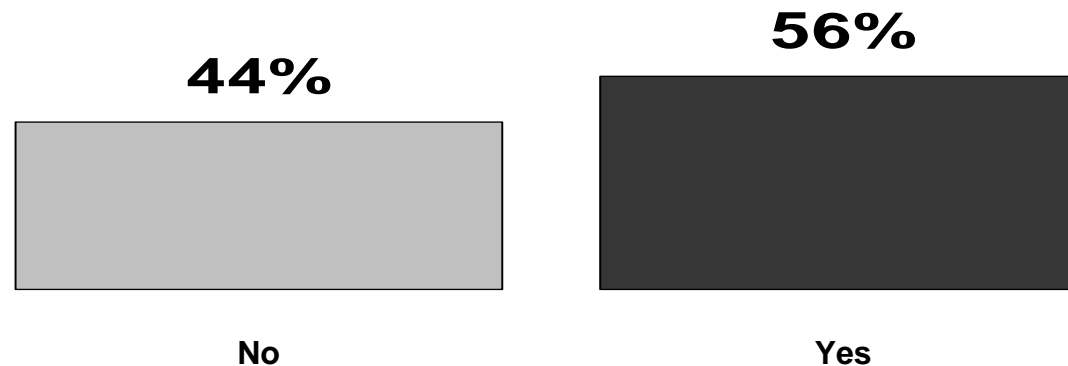


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## LPA Conference

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**Q.28 “If a conference were to be held regarding development of a guideline or model LPA document, would you be interested in participating?” (n=94)**



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## About the Center for Private Equity and Entrepreneurship

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The Center for Private Equity and Entrepreneurship aims to produce practical and insightful global private equity and entrepreneurship research and education. The Center intends to be a trusted independent source of information on best practices and trends in private equity and entrepreneurship. It covers both macro and micro issues relating to private equity in areas such as capital markets, financing structures, governance and entrepreneurship. The Center is actively involved in the practitioner communities of private equity and entrepreneurship, both to gain information about current trends and challenges and to share insights and solutions. The Center interacts with institutional investors, venture capitalists, buy-out investors, corporate ventures, angel investors, entrepreneurs, portfolio companies, industry lawyers and accountants, industry associations, and the media.

A thought leader in the field of private equity, the Center's work is represented in prestigious publications and industry conferences. The Center is a regular contributor to the *Venture Capital Journal*, the leading industry magazine, and its directors are often sought out as authorities by top business publications, such as *The Wall Street Journal*. The Center seeks to educate Tuck students in private equity investing and entrepreneurial management through such courses as Private Equity Finance, Advanced Entrepreneurship, Field Studies in Private Equity and through supporting internships, fellowships and independent studies.

For additional information on the Center for Private Equity and Entrepreneurship please visit: <http://mba.tuck.dartmouth.edu/pecenter>

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# Acknowledgements

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- The survey questionnaire was developed by the team of the Center for Private Equity and Entrepreneurship led by Professor Colin Blaydon and Adjunct Assistant Professor Fred Wainwright. Tuck research assistants Erickson DeOliveira and Angela Groeninger made strong contributions to this effort. The Limited Partnership Agreement committee members provided valuable insights and suggestions.
  
- The analysis and presentation of the survey results were conducted and developed by:
  - Professor Colin Blaydon
  - Adjunct Assistant Professor Fred Wainwright
  - Research Assistant Erickson DeOliveira