

Private Equity Fees & Costs

No	Type of Fee	Description	Where the fee/ cost is typically paid from/ incurred				Disclosure			
			Fund/ Limited Partnership	General Partner (GP)	Operating/ Holding Company/ SPV	Portfolio Company	Managed Investment Scheme	Superannuation Fund	Additional Notes	
1	Management Fees (less any reductions/ rebates)	The fee paid out of the fund's assets to the manager (GP) in consideration for the provision of investment management services. Often management fees are reduced for things such as: a) placement agents fees b) equalisation payments (see 14 below) c) organisational fees that exceed agreed caps d) director's fees (where a representative of the GP serves on a portfolio company board).	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)	Typically paid on committed capital rather than invested capital and reduced at the end of the commitment period. If the GP has an interest in the fund for which it has contributed capital on an arm's length basis, distributions received by the GP are not considered costs for RG97 disclosure (ASIC FAQ 11). If the GP receives an interest in the investment as a form of remuneration, this interest must be disclosed too (ASIC FAQ 11).	
2	Performance Fees/ Carried Interest	The portion of distributions paid from the Fund to the GP above a return of capital contribution and preferred return paid to LPs.	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)	Preference to use annual accrual + realised methodology (see ASIC FAQ 9 & 10 and IWG worked example).	
3	Transactional and Operational Costs	<u>Organizational expenses</u> : Costs relating to establishing and offering interests in the Fund (typically capped).	✓ (up to cap)	✓ (above cap)			Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
4		<u>Investment expenses</u> : costs relating to the sourcing (due diligence), negotiation, acquisition, holding, monitoring and disposal of the portfolio investments: e.g. brokerage, commissions, bank service fees and hedging costs.	✓				T&O Costs	Investment Fee (or Indirect Cost Ratio if trustee elects) & T&O costs	See ASIC FAQ 13 and note 16 below. SPV/PE Fund <u>establishment and acquisition costs</u> must be disclosed even if the costs are later reimbursed to the PE Fund/SPV by the Portfolio Company. However, costs that relate to the Portfolio Company do not need to be included even if they have been paid out of the PE Fund/SPV; for example, listing costs, remuneration costs of staff and directors operating the Portfolio Company. Also, see RG97.53, where 'capitalised' acquisition costs must be disclosed as fees.	
5		<u>Service provider expenses</u> : costs relating to the engagement of tax advisers, accountants, administrators, consultants, lawyers, auditors, custodians, brokers, valuation firms and other professional advisors or service providers to the fund.	✓		✓ (e.g. blocker company for US tax purposes)		T&O Costs - if they relate to the investment/ divestment of portfolio companies. Otherwise disclosed as Management Costs (indirect costs).	Investment Fee (or Indirect Cost Ratio if trustee elects)		
6		<u>Insurance expenses</u> e.g. Professional Indemnity & Directors and Officers insurance. The Fund operator, the GP, each of the affiliates, members of the Investment Advisory Committee (IAC) and a broad range of connected people have the benefit of a wide indemnity in connection with services undertaken by them for the Fund.	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
7		Costs of <u>investor reporting/ meetings</u> .	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
8		<u>Investment Advisory Committee expenses</u> : The costs of operating the IAC of the fund as well as reimbursement for reasonable expenses incurred by Committee members.	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
9		<u>Regulatory expenses</u> : costs relating to the fund's compliance with laws/ regulations, including the costs of the fund operator/ manager making and maintaining necessary registrations and making regulatory filings.	✓		✓ (e.g. blocker company for US tax purposes)		Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
10		<u>Tax expenses</u> : relating to compliance with all tax filing requirements and any taxes, fees or other govt charges levied on the fund or expenses and costs relating to a tax audit, investigation or review of the fund.	✓		✓ (e.g. blocker company for US tax purposes)		Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
11		<u>Fund termination expenses</u> : Costs relating to closing down the fund.	✓		✓ (e.g. blocker company for US tax purposes)		Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)		
12		Extraordinary expenses	For example, the costs of any litigation the fund is involved in.	✓				Management Costs (indirect costs)	Investment Fee (or Indirect Cost Ratio if trustee elects)	
13		Borrowing costs	Such as interest on, and fees and expenses arising out of borrowing or other indebtedness of the Fund.	✓				AEFC - separate borrowing cost disclosure		
14	Equalisation payments	A capital contribution made after the initial closing by an existing or new investor that equates to the amount that investor would have been required to contribute had that investor been admitted at the initial closing. There may also be an additional sum equivalent to interest on the capital contribution accrued from the initial closing date to the date of payment. This additional amount is not treated as a capital contribution of the investor. Existing investors will often receive a rebate as a result of the equalisation payment.	✓ (paid by subsequent investor & rebated to existing LPs)				Management Costs (indirect costs)	Investment Fee	Capital contributions are not a cost; they are a change in the invested value. Interest paid on the capital contribution would be the equalisation payment, which should be disclosed as either a positive or negative payment. Trustees cannot generally make an election to disclose an equalisation payment in the ICR because they are a cost specific to the relevant LP (late investor) as opposed to the fund as a whole.	

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15	Placement Agent Fees	Placement agents help a PE fund attract investments, however may provide other services to a fund in its initial stages (e.g. marketing, & drafting presentations). Placement agents are usually paid a % of the funds they raise, typically of around 2%.		√			N/A	N/A	Disclosure will generally not be required as placement agent fees are a cost of the GP. However note that in practice placement agent fees are often expensed through the fund and offset against management fees (such that the net effect is nil).
16	Portfolio company costs	The costs that relate to the business held by the operating/ holding vehicle (e.g. staff costs, director fees, rent etc.). ASIC also extends this to include the cost of issuing shares in the operating/ holding vehicle to the PE fund and the costs of listing the operating/ holding vehicle on a financial market.					N/A	N/A	Generally disclosure of these costs is not required. However, ASIC FAQ # 11 states that if amounts are paid to the manager or its associates for providing services to the portfolio company (e.g. for serving on its board) in excess of amounts that would be paid on an arms' length basis, the excess amounts should be treated as a cost.

Notes

The fund operator may require all or certain investors to invest through one or more Alternative Investment Vehicles (AIV) for legal, regulatory, tax or other considerations. The expectation in this case is that the economic result of the AIV will be combined with the main PE Fund and fees, costs and expenses relating to any portfolio investment in which the AIV and PE fund participate are typically borne in proportion to the capital committed. Any Management Fee paid by an investor with respect to an AIV should reduce its management fee payable with respect to the main PE fund.