

VENABLE[®]_{LLP}

Best Practices for Effective Fund Life Cycle Management: Maintaining Alignment in Mature Funds for GPs and LPs

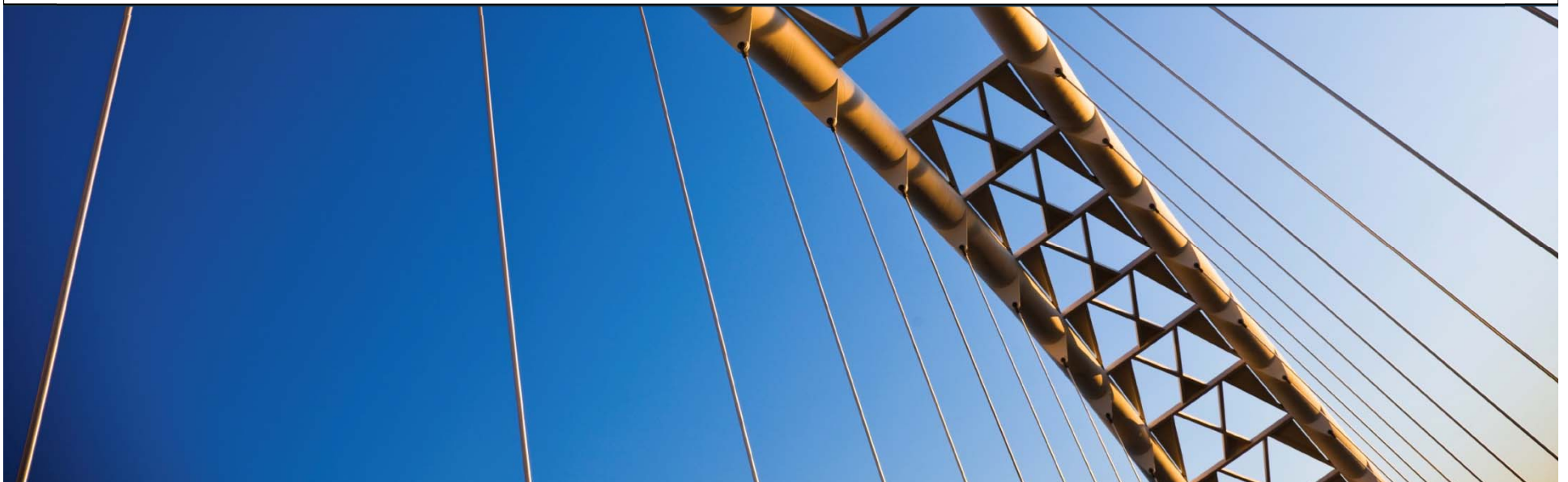
Target Audience: LPs and Fund Managers of Later Stage Private Equity and
Venture Funds



NEWPORT BOARD GROUP



AXIAL



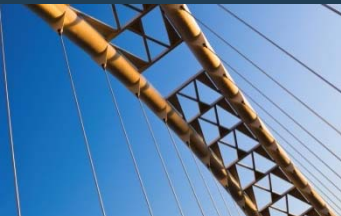
PANEL MEMBERS

- Moderator:

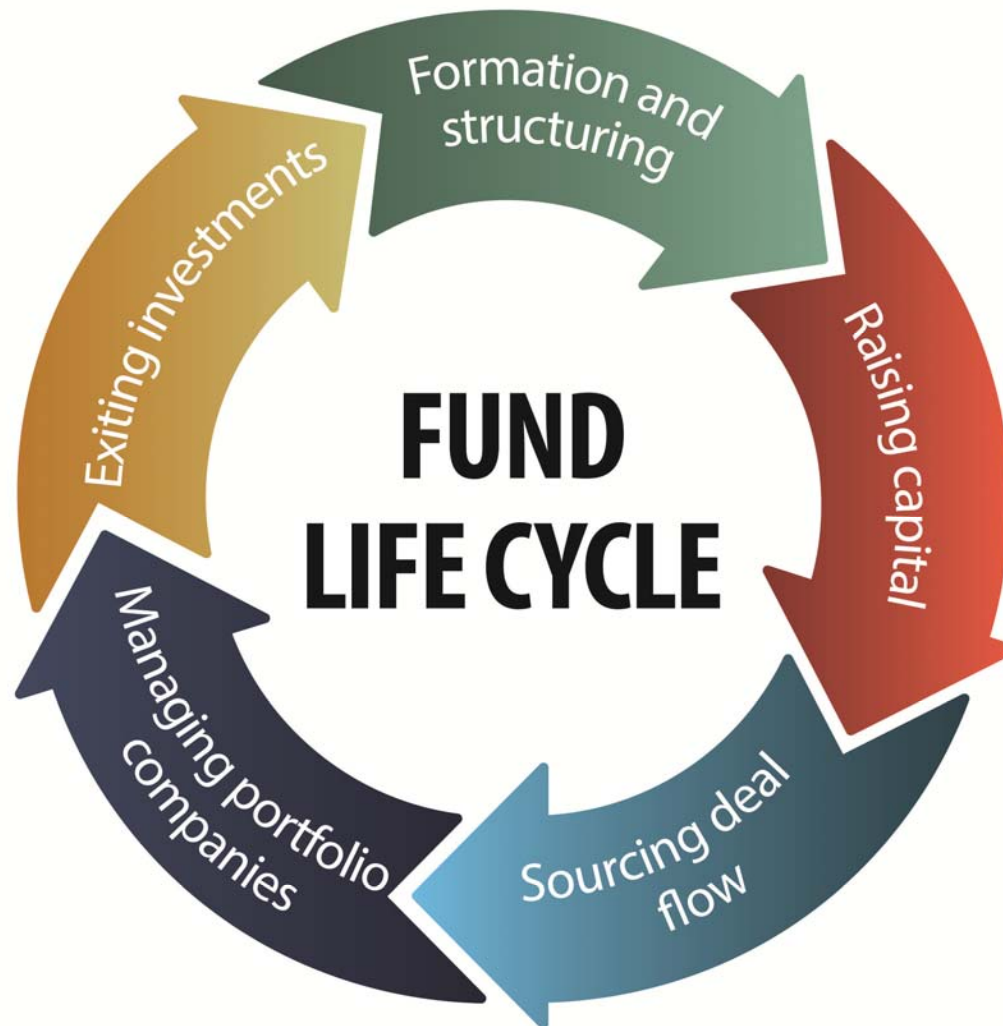
- Charles J. Morton Jr., Partner, Venable LLP

- Speakers:

- Michael R. Manley, Partner, Venable LLP
- Peter Rugg, Managing Director, Newport Board Group LLC
- Cameron E. Cook, Managing Director – Business Valuation, AccuVal-LiquiTec



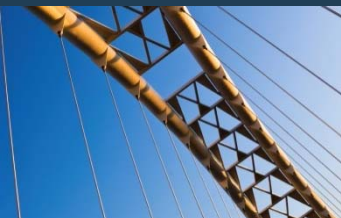
LIFE CYCLE OF A FUND



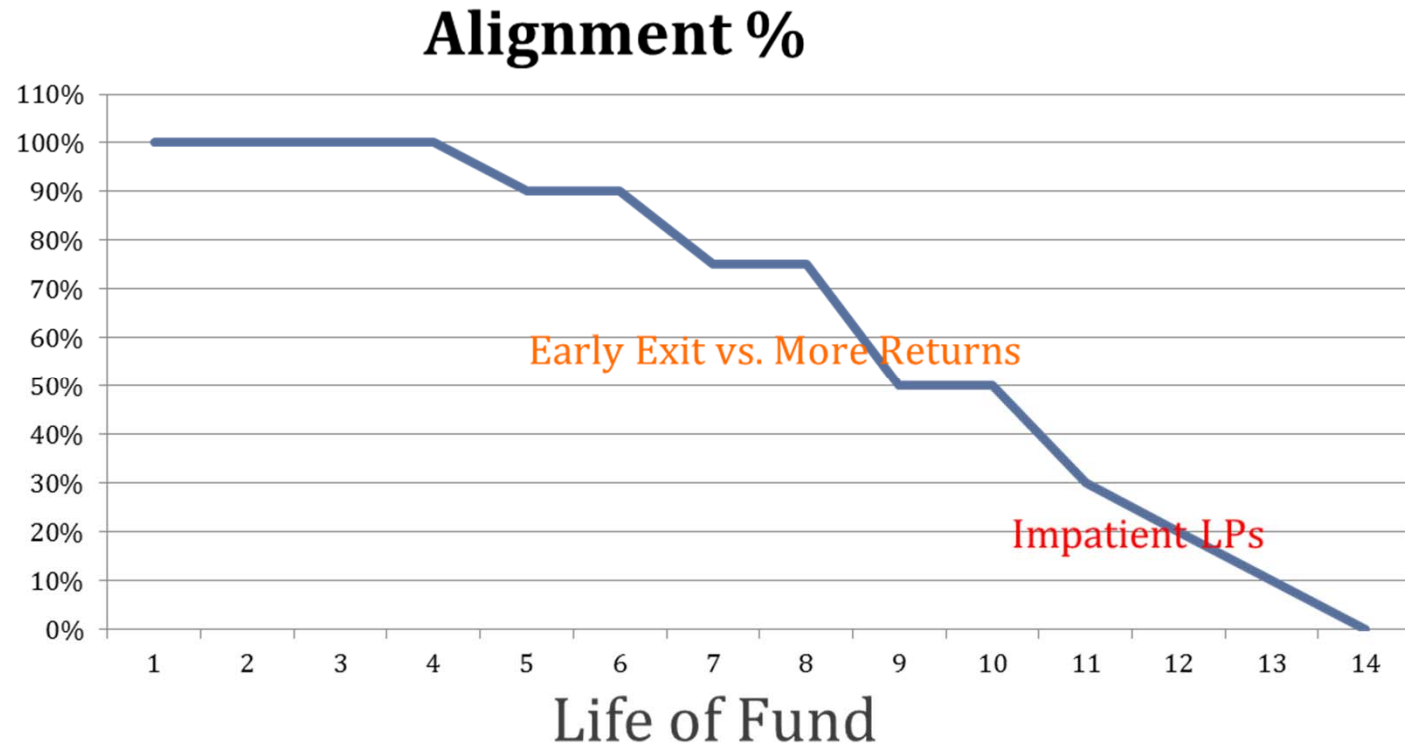
THE LANDSCAPE IS CHANGING

- Record number of funds in the market
 - Note: 2,199 funds according to Preqin
- LP due diligence increasing
- LP exploring different structures to protect their interests
- The result? 85% of LPs are not planning to reinvest with GPs whose last two funds they backed
 - Source: Coller Capital Global Private Equity Barometer

Alignment between General Partners (GPs) and Limited Partners (LPs) arising as a key issue



ALIGNMENT MAY SLIP OVER TIME



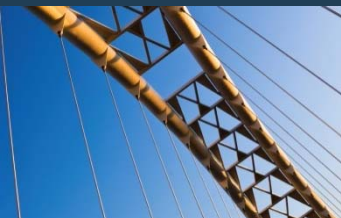
FORMATION AND STRUCTURING

ALIGNING GP AND LP INTERESTS BEGINS AT INCEPTION

- Structure creates alignment
- Agreements clearly set forth rights and obligations
- Robust compliance and reporting program instills confidence
- Valuation policies and procedures should be strong, clear and transparent

**TIP: CLEAR DISCLOSURE CREATES ALIGNMENT
BASELINE**

**TIP: LP'S – READ THE VALUATION POLICY. BUILD IT INTO
YOUR REVIEW OR AUDIT PROGRAM.**

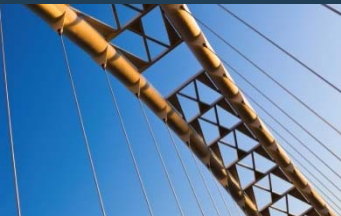


RAISING CAPITAL

HOW YOU RAISE CAPITAL AFFECTS ALIGNMENT

- INSTITUTIONAL vs. INDIVIDUAL INVESTORS
- ACCESS TO SENIOR ADVISOR/INDUSTRY RESOURCES
- USE YOUR STRONG POLICIES AND REPORTING PROGRAM TO HELP MARKET YOUR FUND

TIP: CONSIDER HOW SIDE LETTERS AFFECT ALIGNMENT

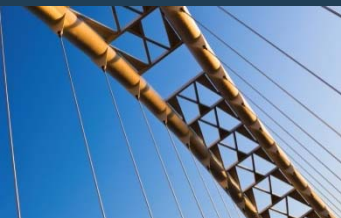


SOURCING DEAL FLOW

INVESTMENT PERFORMANCE DIRECTLY IMPACTS ALIGNMENT

- HAVE A DIFFERENTIATED DEAL STRATEGY
- SENIOR ADVISORS SUPPORT DUE DILIGENCE
- VALUATION IMPACTS FINANCING
- DEAL STRUCTURE PROVIDES PROTECTION

TIP: STICK TO YOUR STRATEGY (WANDERING OFF COURSE DESTROYS ALIGNMENT)



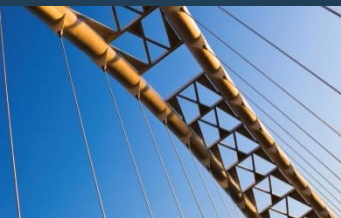
MANAGING PORTFOLIO COMPANIES

CONSISTENT PORTFOLIO MANAGEMENT SUSTAINS ALIGNMENT

- REGULAR INFORMATION REPORTING
 - Administrators, Custodians and Prime Brokers support data collection, monitoring and analysis
 - Correctly sized infrastructure/systems facilitates quality reporting
- VALUATION PROCESS
 - Improve the consistency and relevancy of information reported to investors and promote accountability by obtaining periodic independent valuations of fair value (ASC 820)
 - Integrate add-ons more efficiently by hiring the same appraiser to perform valuation work for financial reporting (ASC 805 etc.)
- PORTFOLIO COMPANY MONITORING
 - Senior advisers serve as independent board members or operating partners
 - Special projects may require executive level services

TIP: CONNECT BACK OFFICE, MIDDLE OFFICE AND FRONT OFFICE FUNCTIONS

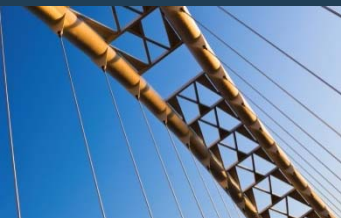
TIP: CONSIDER ADDING AN OUTSIDE VALUATION PROFESSIONAL TO YOUR FAIR VALUE COMMITTEE OR VALUATION COMMITTEE



EXITING INVESTMENTS

BAD ALIGNMENT JEOPARDIZES A GOOD EXIT

- REPUTATION: Exiting portfolio companies effectively is crucial to maintaining a strong reputation
- EXIT PROCESS
 - Unique challenges of later stage funds
 - Review agreements for rights and obligations of GPs and LPs
 - Clear communication with investors
- INCREASING SCRUTINY
 - By Investors
 - LPs are requiring more frequent, transparent valuations.
 - By Regulators
 - SEC focusing on expense allocation, valuation policies, and fee calculations. .
- SENIOR ADVISORS
 - Assist in managing businesses to be sold or restructured
 - Access private equity and other networks investors

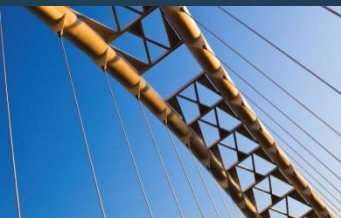


EXITING INVESTMENTS (Cont'd)

- VALUATION
 - Mature illiquid holdings are typically hard to value – like stale inventory
 - Third party valuations and Fairness Opinions can help reassure exit deals are fair to all stakeholders
- SALE PROCESS
 - Private, Auctions, IPOs
 - Role of Bankers, Accountants, and Other Advisers
 - Maximizing Returns
 - Closings
 - Disclosure

TIP: MAXIMIZING VALUE AND TRANSPARENCY ALIGNS INVESTORS

TIP: UNDERSTAND LP AND GP RISK TOLERANCE



Thank you!

Moderator:

- Charles J. Morton Jr., Partner, Venable LLP
cjmorton@Venable.com

Speakers:

- Michael R. Manley, Partner, Venable LLP
mmanley@Venable.com
- Peter Rugg, Managing Director, Newport Board Group LLC
peter.rugg@newportboardgroup.com
- Cameron E. Cook, Managing Director – Business Valuation, AccuVal-LiquiTec
ccook@accuval.net

