

Barwon Investment Partners is an investment management company specialising in private equity and real estate.

In addition to base fees and carry, unlisted private equity funds typically charge monitoring fees and transactions fees.

INTRODUCTION

In this research paper, we express private equity fees in Total Expense Ratio (TER) terms and compare the TERs for traditionally structured unlisted private equity funds with Listed Private Equity funds (LPEs). Contrary to what many observers might expect, we find that LPE is more fee-efficient.

UNLISTED PRIVATE EQUITY FUND FEES

Calculating the TER for the traditionally structured unlisted private equity fund is not straight forward. First of all there are a number of different fees. In addition to the base management fee there are other fees:

- carried interest
- monitoring fees
- transaction fees¹

Further compounding the TER computation problem, different funds charge different fees and have different fee bases. For example, base fees range between 1.25%-2.0% of committed capital for the first 5 years and then net invested capital thereafter but there are several variants on the fee base such as a declining fee schedule on the original committed capital. The median management fee for buyout funds according to Preqin is 2.0%².

The basis for carried interest can vary as well, having a very dramatic effect on the fee outcome. Carried interest is typically 20% of "gains", but the calculation base can be deal-by-deal or cash-on-cash. And the hurdle can be 8% (which is fairly standard) but with full catch-up, partial catch-up or no catch up.

This complexity means that it is difficult for investors to compute the fees associated with their private equity programs. This can be frustrating for investors familiar with investing in mutual funds or unit trusts for which the Management Expense Ratio (MER) and TER are fairly straightforward to compute³.

¹ See Appendix 4: Glossary for an explanation of these and other industry terms used in this paper.

² Source: 2013 Preqin Private Equity Fund Terms Advisor

³ If you are interested in more information on the range of fee terms, there are some good references. We'd recommend you consult any of the following: The Economics of Private Equity Funds by Andrew Metrick and Ayako Yasuda; Preqin's Private Equity Fund Terms Advisor; or Private Equity Partnership Terms and Conditions Report by Dow Jones.

UNLISTED PRIVATE EQUITY FUND TER

MER is calculated as the ratio of Management Fee Expenses to Opening NAV. TER is calculated as the ratio of **Total Fund Expenses (includes management fees, carried interest or performance fees, and other fees such as audit fees, administration fees, deal fees, monitoring fees) to Opening NAV.**

To compute a TER for a private equity fund, we need to make some assumptions about the timing of investments, the return on those investments, and the valuation of those investments over their holding period. These assumptions and our model unlisted PE fund terms are contained in Appendix 1.

Private Equity Fees – TER Equivalent

A private equity program using unlisted funds needs to run an over commitment strategy. As base fees for unlisted funds are charged on committed capital (at least for the investment period), this increases the fee burden.

To maintain a private equity exposure at a targeted level, investors are required to over-commit so that their net exposure remains at their targeted level. Although the required rate of over-commitment can vary considerably depending on investment returns, rate of capital calls and distributions etc., an over-commitment rate of about 40% would be considered normal for an investor to achieve a “steady state” exposure. This is where distributions are offset by drawdowns and NAV growth so as to maintain a targeted private equity exposure.

Based on the assumptions set out in Appendix 1, we calculate an investor with a \$100 steady state PE program incurs an MER of 2.8% p.a. This is broken down into:

- Fees on private equity assets: 1.9% blended rate on \$100 (portfolio NAV)
 - The investor is paying a 2% fee on committed capital for half the funds, and 2% on residual cost for the other half.
- Fees on committed but uninvested capital: 2% on \$44 (the over-commitment).

In total, an investor with a \$100 portfolio pays \$2.8 p.a. in management fees, implying an MER of 2.8% pa. Based on the return assumptions set out in Appendix 1, the TER which includes carried interest is 6.2% pa.

LISTED PRIVATE EQUITY FUNDS - FEES

As they do for unlisted private equity funds, fees for LPEs vary considerably. The organisation of LPEs also varies. Broadly speaking, we can categorise LPEs into:

- Internally- or externally-managed; and
- Invested in 3rd party funds, manager's own funds, or directly in underlying deals.

Internally Managed / Invested in Manager's Own Funds or Directly

Examples include: KKR, 3i Group, Onex, Intermediate Capital, GIMV and Deutsche Beteiligungs.

Half the stocks in the LPX50 Index³ are internally managed.

Internally managed LPEs can be very fee efficient.

Internally managed funds can be extremely fee efficient. Several internally managed LPEs also manage substantial third party capital on which they earn fees (e.g. Onex, KKR, 3i Group). Much of the base fee income and carried interest (normally 40-60%) flows back to the LPE, the rest being distributed amongst the investment staff.

This fee income can defray or even offset the fees paid at the LPE level. In fact, fee income can be so significant that value should be attributed to the embedded management company in its own right.

Internalised management companies can result in some particularly attractive economics. In the case of Onex, a leading Canadian LPE focused on North American buyouts, the realisation of an underlying investment at a 15% gross IRR actually translates to a net IRR at the LPE level of 17%, compared to only 11% net IRR received by fund LPs. This is because of the additional carried interest earned on the management of third party capital, to which Onex shareholders are entitled 40%.

Externally Managed / Direct Investments

Funds with this model include Electra, Compass Diversified, HBM Healthcare.

The base management fee for these LPE funds is usually charged on NAV. A 2% base fee rate would be typical. When compared to the unlisted PE fund for which fees are charged on committed capital for the first 5 years and then invested capital thereafter, the TER of an LPE fund is approximately 15% lower.

⁴ The LPX50 Index is a cap-weighted index of the 50 largest and most liquid listed private equity stocks worldwide. We have classified the listed alternative asset managers as managed internally.

The carried interest calculation for these funds varies. The evergreen nature of LPEs has meant that carried interest could be paid on: unrealised gains, realised gains, or market capitalisation.

Basis of Carried Interest	Description	Examples
Unrealised Gains	Based on NAV growth, which includes realised and unrealised gains	Pantheon International Participations, NB PE
Realised Gains	Cash on cash basis. Investments typically grouped into pools based on vintage years. E.g. all investments made from 2007-09 are pooled and treated as a discrete fund	Dinamia Capital, Electra
Market Capitalisation	Incentivised through stock price	HBM Healthcare: management fee is 0.75% of market cap Melrose: performance fee is 20% of increase in market cap

The table below compares the fees of a traditional unlisted fund (per Appendix 1) with an LPE fund. Both have a 2% of NAV base fee and 20% of NAV growth carried interest structure:

TER Comparison	Fee Rate and Basis	Expense Ratio
Management fees		
<i>Listed PE Fund</i>	2% NAV + 0.25% other operating expenses	2.3%
<i>Unlisted PE Fund</i>	2% committed capital (years 1-5) 2% net invested capital (years 6-10)	2.8%
Carried Interest		
<i>Listed PE Fund</i>	20% NAV growth, 100% catch-up	3.0%
<i>Unlisted PE Fund</i>	20% gains, cash-on-cash, 100% catch-up	3.4%
Total Expense Ratio		
<i>Listed PE Fund</i>		5.3%
<i>Unlisted PE Fund</i>		6.2%

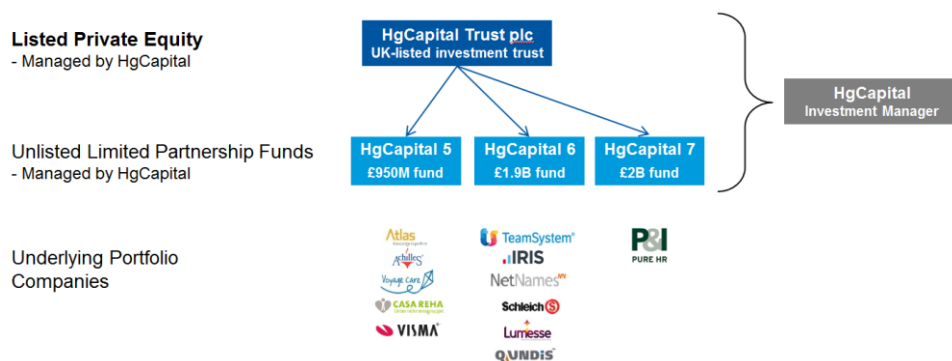
The TER of externally managed LPEs is generally lower than unlisted PE funds by circa 1% p.a.

The TER of the unlisted fund is some 17% higher than the TER of LPE fund. The difference is largely attributable to unlisted PE funds charging fees on committed but uninvested capital in the first 5 years of its life.

In our analysis we make no adjustment for average cash balances held by LPEs. Unlisted private equity funds generally distribute all cash proceeds from deal exits soon after it is received. LPEs, on the other hand, typically hold some cash on their balance sheets, particularly after a strong run of deal exits. If the TER for LPEs were looked at in terms of Total Fund Expenses/ Opening NAV excluding cash, we believe the TER comparison would still be favourable for LPEs but probably not quite as favourable.

Externally Managed / Invests in Manager's Own Funds

Funds such as HgCapital Trust and Dunedin are externally managed and invest exclusively in their manager's own unlisted, traditionally structured limited partnerships. To illustrate, the structure for HgCapital is shown below:



At the HgCapital Trust level, fees are not charged on money invested in its manager's own funds, thereby avoiding duplication in fees. The Trust invests as a limited partner on the same terms as other investors.

Single-manager feeder funds incur a similar TER to unlisted private equity programs.

Investing through LPEs such as HgCapital Trust results in a fee outcome that is comparable to an unlisted private equity program operating at steady state. Such LPEs run an over-commitment strategy with the objective of remaining close to fully invested.

There are some additional fees associated with being listed on a registered exchange but these are fairly nominal, about 0.25% of NAV, and they include exchange listing fees and external board member fees.

Investing in LPE avoids the time and costs of building a diversified unlisted PE program through primary fund commitments.

There is one important advantage of building a program using listed stocks like HgCapital Trust. Investors in LPEs have not had to fund the "ramp-up" – i.e. the costs associated with building an unlisted private equity program to "steady state".

Expressed in IRR terms, we estimate the advantage of buying a ready-baked portfolio is 2-3% p.a. In simple terms, if a "ready-baked" portfolio is bought, an investor gets most of the returns but over a shorter holding period as he hasn't had to hold the investment and pay fees in the early years when there is typically little capital invested or NAV growth.

Externally Managed / Invests in 3rd Party Funds

Listed funds with this structure are called listed fund of funds (FOFs), and include: Pantheon International Participations and HarbourVest Global Private Equity Fund.

A listed fund investing in 3rd party funds (i.e. not a manager's own funds) is the least fee efficient structure due to the additional FOF level fee layer.

This structure can be more fee-efficient than the equivalent unlisted fund of funds, but less efficient than a steady-state unlisted private equity program. Again the listed FOF investor has had the advantage of being fully invested so that the investor does not have to fund the costs associated with the "ramp-up" stage.

CONCLUSION

The fees on LPE investments are generally lower than unlisted PE. At worst, some LPE structures deliver a fee outcome similar to unlisted PE. At best, they can be materially superior.

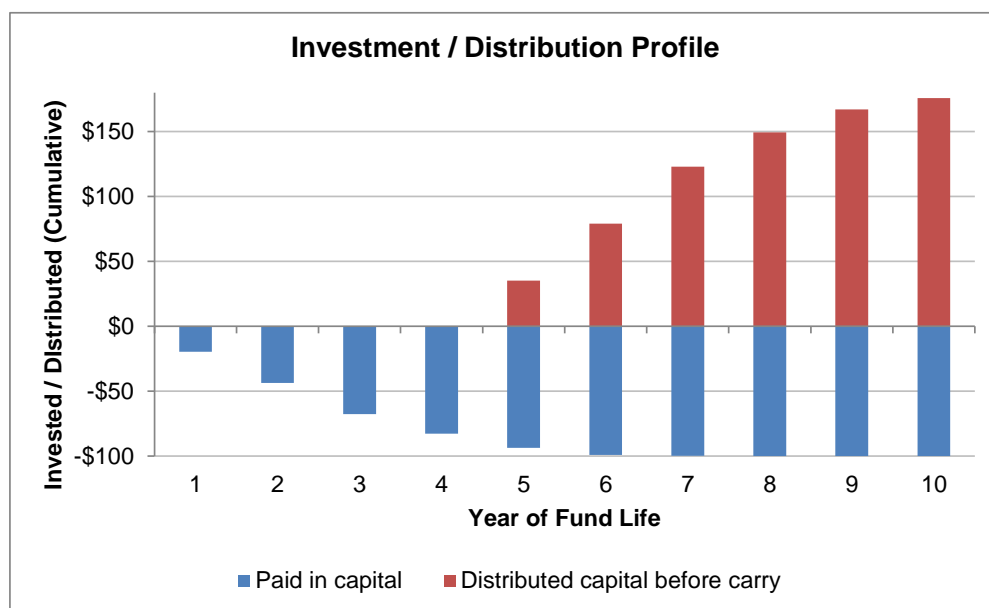
For those LPEs that are set-up as feeder funds (e.g. HgCapital Trust, Dunedin Enterprise) or fund-of-funds, the TER outcomes are similar to investing through the equivalent traditionally structured unlisted private equity limited partnership. But because you buy a ready-baked portfolio, the fee drag associated with the build-out of that portfolio has not had to be funded. In IRR terms, it results in a saving of 2-3% p.a. based on the assumptions in Appendix 1.

For those LPEs with more of a traditional investment trust model such as Electra, the TERs are considerably lower than a comparable portfolio of unlisted private equity funds (5.3% p.a. compared with 6.2% p.a.).

For LPEs with internalised management companies (more than half the LPX50 Index), the fee economics can be very attractive. Management fee income and carried interest earned on third party capital can offset (or more than offset) fees paid to manage the capital of the LPE.

Appendix 1 – Model Unlisted Private Equity Fund Cash Flows and Return Assumptions

- Gross return per investment: 2x
- Holding period per investment: 5 years
- Valuation per investment during holding period:
 - Year 1 and 2: valued at cost
 - Year 3-5: linear mark-up to 2x cost.
- Timing of fund cash flows:



Model Unlisted PE Fund Fee Terms

Fee Terms	Model Fee	Model Basis
Base Management Fee	2%	Committed capital for investment period (5 years); Invested capital thereafter
Carried Interest	20%	Profits
Hurdle	8%	Invested Capital
Catch-up	100%	The split of gains between LP/GP once the 8% hurdle has been earned, until the GP has received 20% of profits. Further gains are shared 80/20 between LPs and the GP.
Monitoring and Transaction Fees	0%	Varies. Mostly rebated on recent vintage funds*.
Other Fees (e.g. reporting and accounting)	0%	Assumed these are covered by the base management fee.

*On average, recent vintage (2011-13) buyout funds rebate 86% of transaction fees to LPs.
Source: 2013 Preqin Private Equity Fund Terms Advisor

Appendix 2: Fee terms for externally managed LPEs

Stock	Investments	Deal Stage	Base Management Fee		Incentive Fee		Hurdle Rate	Catchup Rate
			Rate	Basis	Rate	Basis		
ALTAMIR AMBOISE	Funds	Buyouts/ Growth Capital	2.0%	net assets	20.0%	capital gains & income	8.0%	100.0%
APOLLO INVESTMENT CORP	Directs	Private Debt	2.0%	gross assets, net of payable for investments and cash equivalents purchased	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
ARC CAPITAL HOLDINGS LTD	Directs	Buyouts/ Growth Capital	1.0%	net assets	2.5%	net proceeds from asset sales, fee rate decreases by 10% p.a.	asset sales >NAV	
ARES CAPITAL CORP	Directs	Private Debt	1.5%	total assets (excluding cash or cash equivalents but including assets purchased with borrowed funds)	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
BLACKROCK KELSO CAPITAL CORP	Directs	Private Debt	2.0%	total assets, including any assets acquired with the proceeds of leverage	20.0%	1) See notes (Column Z) 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	8.0%	50.0%
CANDOVER INVESTMENTS PUBLIC	Funds	Buyouts/ Growth Capital	1.5%	portfolio value	None	Pantheon has agreed to pay Arle (manager) carried interest on 2005 fund	N/A	N/A
CHINA MERCHANTS CHINA DIRECT	Directs	Buyouts/ Growth Capital	2.25% 0.75%	unlisted investments cash and listed	15.0%	increase in NAV	12.0%	0.0%
COMPASS DIVERSIFIED HOLDINGS	Directs	Buyouts/ Growth Capital	2.0%	consolidated book value	20.0%	profits, deal by deal	7.0%	100.0%
DINAMIA CAPITAL PRIVADO	Funds	Buyouts/ Growth Capital	1.75%	portfolio value	20.0%	realised gains, grouped into vintage year pools	avg 3-yr Spanish govt bond	
EAST CAPITAL EXPLORER AB	Funds	Buyouts/ Growth Capital	2.0%	on value of direct investments fees on fund investments are same as external LPs	20.0%		8.0%	100.0%
ELECTRA PRIVATE EQUITY PLC	Directs	Buyouts/ Growth Capital	1.5%	gross assets	18% / 9%	Net profits of direct investments on 3 year vintage pools / Net profits of funds on 3 year vintage pools	8.0%	
FIFTH STREET FINANCE CORP	Directs	Private Debt	2.0%	gross assets, which includes any borrowings for investment purposes but excluding any cash and cash equivalents	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	8.0%	100.0%
GLADSTONE CAPITAL CORP	Directs	Private Debt	2.0%	total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings	20.0%	1) Quarterly NII (before incentive fee) over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
GLADSTONE INVESTMENT CORP	Directs	Private Debt	2.0%	total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings	20.0%	1) Quarterly NII (before incentive fee) over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
GRAPHITE ENTERPRISE TRUST	Funds	Buyouts/ Growth Capital	(1) 1.5% (2) 0.5%	(1) portfolio value (2) undrawn commitments to funds in investment period	10.0%	deal-by-deal gross capital gains & income	8.0%	100.0%
HBM HEALTHCARE IVST-A	Directs	Venture Capital	1.5%	50% portfolio ex cash 50% market capitalisation	15.0%	of NAV growth	0%, current NAV must exceed HWM by 5%	N/A
HGCAPITAL TRUST PLC	Funds	Buyouts/ Growth Capital	1.75% 1.5%	committed capital in investment period residual cost after investment period applies to Hg6 and Hg7: same as LPs	20.0%	NAV growth applies to Hg6 and Hg7: same as LPs	8.0%	100.0%
MVC CAPITAL INC	Directs	Buyouts/ Growth Capital	2.0%	total assets excluding cash, the value of any investment in a Third-Party Vehicle covered by a Separate Agreement and the value of any investment by the Company not made in portfolio companies but including assets purchased with borrowed funds that are not Non-Eligible Assets	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
NGP CAPITAL RESOURCES CO	Directs	Private Debt	1.8%	gross assets	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	8.0%	0.0%
PENNANTPARK INVESTMENT CORP	Directs	Private Debt	2.0%	gross assets (net US treasury bills/repurchase agreements etc)	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
PROSPECT CAPITAL CORP	Directs	Private Debt	2.0%	gross assets, appropriately adjusted for any share issuances or repurchases during the current calendar quarter	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
SOLAR CAPITAL LTD	Directs	Private Debt	2.0%	gross assets, adjusted for any share issuances or repurchases during the current calendar quarter	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	7.0%	100.0%
SVG CAPITAL PLC	Funds	Buyouts/ Growth Capital	0.5%	gross assets	None	Staff are participate in LTIP scheme	N/A	N/A
TICC CAPITAL CORP	Directs	Private Debt	2.0%	gross assets, adjusted for any equity or debt capital raises, repurchases or redemptions during the current calendar quarter	20.0%	1) Pre-incentive fee NII over value of net assets of preceding quarter 2) cumulative net realised gains and net unrealised capital appreciation (annual, no hurdle)	5% + 5yr U.S. Treasury Notes	0.0%

Appendix 3: Historical TER of LPX50 constituents

Stock	Structure	Investments	Deal Stage	FY 11				FY 12			
				MER	Other fees	Perf fees	TER	MER	Other fees	Perf fees	TER
3I GROUP PLC ORD	Internally Managed	Funds	Buyouts/ Growth Capital	2.3%	N/A	N/A	2.3%	3.4%	N/A	N/A	3.4%
ALTAMIR AMBOISE	Externally Managed	Funds	Buyouts/ Growth Capital	2.3%	0.4%	0.7%	3.4%	3.1%	0.3%	2.1%	5.6%
AMERICAN CAPITAL LTD	Internally Managed	Directs	Private Debt	3.7%	N/A	N/A	3.7%	3.7%	N/A	N/A	3.7%
APOLLO INVESTMENT CORP	Externally Managed	Directs	Private Debt	3.1%	0.6%	2.4%	6.1%	3.6%	1.1%	2.4%	7.0%
ARC CAPITAL HOLDINGS LTD	Externally Managed	Directs	Buyouts/ Growth Capital	2.2%	1.0%	0.0%	3.2%	1.2%	1.2%	0.0%	2.4%
ARES CAPITAL CORP	Externally Managed	Directs	Private Debt	2.3%	1.2%	3.6%	7.1%	2.2%	0.8%	3.2%	6.1%
BLACKROCK KELSO CAPITAL CORP	Externally Managed	Directs	Private Debt	2.8%	1.1%	1.7%	5.6%	3.3%	0.9%	3.3%	7.5%
BRAIT SE	Internally Managed	Directs	Buyouts/ Growth Capital	0.3%	N/A	N/A	0.3%	0.3%	N/A	N/A	0.3%
CANDOVER INVESTMENTS PUBLIC	Externally Managed	Funds	Buyouts/ Growth Capital	2.4%	4.4%	0.0%	6.8%	1.8%	1.2%	0.0%	3.0%
CHINA MERCHANTS CHINA DIRECT	Externally Managed	Directs	Buyouts/ Growth Capital	2.0%	1.2%	0.0%	3.2%	2.0%	0.5%	0.0%	2.5%
COMPASS DIVERSIFIED HOLDINGS	Externally Managed	Directs	Buyouts/ Growth Capital	1.9%	N/A	1.2%	3.1%	1.9%	N/A	1.4%	3.3%
DEA CAPITAL SPA	Internally Managed	Directs	Buyouts/ Growth Capital	-1.0%	N/A	N/A	-1.0%	-4.1%	N/A	N/A	-4.1%
DEUTSCHE BETEILIGUNGS AG	Internally Managed	Funds	Buyouts/ Growth Capital	4.9%	N/A	N/A	4.9%	5.7%	N/A	N/A	5.7%
DINAMIA CAPITAL PRIVADO	Externally Managed	Funds	Buyouts/ Growth Capital	1.4%	0.5%	1.3%	3.2%	1.1%	0.6%	0.0%	1.7%
EAST CAPITAL EXPLORER AB	Externally Managed	Funds	Buyouts/ Growth Capital	3.0%	0.4%	-0.3%	3.1%	2.2%	0.3%	1.4%	3.9%
ELECTRA PRIVATE EQUITY PLC	Externally Managed	Directs	Buyouts/ Growth Capital	2.1%	0.2%	1.4%	3.7%	1.9%	0.2%	4.0%	6.1%
EURAZEO ORD	Internally Managed	Directs	Buyouts/ Growth Capital	0.6%	0.4%	0.0%	1.0%	0.6%	0.5%	0.0%	1.1%
FIFTH STREET FINANCE CORP	Externally Managed	Directs	Private Debt	2.7%	1.1%	2.3%	6.1%	2.6%	1.1%	2.4%	6.1%
GIMV NV	Internally Managed	Funds	Buyouts/ Growth Capital	1.5%	N/A	N/A	1.5%	2.3%	N/A	N/A	2.3%
GLADSTONE CAPITAL CORP	Externally Managed	Directs	Private Debt	2.7%	1.4%	2.2%	6.2%	3.3%	1.8%	2.5%	7.5%
GLADSTONE INVESTMENT CORP	Externally Managed	Directs	Private Debt	2.0%	1.2%	1.5%	4.7%	1.6%	1.4%	0.0%	2.9%
GP INVESTMENTS LTD	Internally Managed	Funds	Buyouts/ Growth Capital	1.1%	N/A	N/A	1.1%	1.2%	N/A	N/A	1.2%
GRAPHITE ENTERPRISE TRUST	Externally Managed	Funds	Buyouts/ Growth Capital	1.3%	0.2%	0.0%	1.4%	1.6%	0.6%	0.0%	2.1%
HARRIS & HARRIS GROUP INC	Internally Managed	Directs	Venture Capital	4.1%	2.1%	N/A	6.2%	5.1%	2.3%	N/A	7.4%
HBM HEALTHCARE IVST-A	Externally Managed	Directs	Venture Capital	1.9%	0.4%	0.0%	2.3%	1.8%	0.3%	0.0%	2.1%
HERCULES TECHNOLOGY GROWTH	Internally Managed	Directs	Venture Capital	3.8%	1.9%	N/A	5.7%	3.4%	1.6%	N/A	5.0%
HGCAPITAL TRUST PLC	Externally Managed	Funds	Buyouts/ Growth Capital	1.8%	0.4%	0.5%	2.7%	2.3%	0.5%	0.6%	3.4%
ICG GROUP INC	Internally Managed	Directs	Venture Capital	5.5%	0.0%	0.0%	5.5%	7.5%	0.0%	0.0%	7.5%
INTERMEDIATE CAPITAL GROUP	Internally Managed	Funds	Private Debt	-0.3%	N/A	N/A	-0.3%	0.6%	N/A	N/A	0.6%
JAFCO CO LTD ORD	Internally Managed	Funds	Venture Capital	-0.1%	0.0%	0.0%	-0.1%	0.2%	0.0%	0.0%	0.2%
MAIN STREET CAPITAL CORP	Internally Managed	Directs	Private Debt	2.7%	0.6%	N/A	3.3%	2.1%	0.4%	N/A	2.4%
MARFIN INVESTMENT GROUP HOLD	Internally Managed	Directs	Buyouts/ Growth Capital	0.3%	0.4%	N/A	0.7%	0.3%	0.7%	N/A	0.9%
MCG CAPITAL CORP	Internally Managed	Directs	Private Debt	3.2%	3.2%	N/A	6.5%	3.5%	3.8%	N/A	7.3%
MVC CAPITAL INC	Externally Managed	Directs	Buyouts/ Growth Capital	2.1%	1.1%	0.5%	3.6%	2.2%	1.3%	-2.1%	1.4%
NGP CAPITAL RESOURCES CO	Externally Managed	Directs	Private Debt	2.6%	2.6%	0.1%	5.3%	2.3%	2.5%	0.0%	4.7%
ONEX CORP SUB-VTG	Internally Managed	Funds	Buyouts/ Growth Capital	-0.8%	N/A	N/A	-0.8%	-0.8%	N/A	N/A	-0.8%
PENNANTPARK INVESTMENT CORP	Externally Managed	Directs	Private Debt	3.2%	1.2%	2.8%	7.2%	2.6%	1.1%	2.1%	5.8%
PROSPECT CAPITAL CORP	Externally Managed	Directs	Private Debt	2.0%	1.0%	2.1%	5.2%	2.4%	0.9%	3.1%	6.3%
RATOS AB ORD B	Internally Managed	Directs	Buyouts/ Growth Capital	0.8%	0.5%	0.0%	1.3%	0.9%	0.6%	0.0%	1.5%
SAFEGUARD SCIENTIFICS INC	Internally Managed	Directs	Venture Capital	6.1%	N/A	1.0%	7.1%	5.2%	N/A	0.6%	5.8%
SOLAR CAPITAL LTD	Externally Managed	Directs	Private Debt	2.6%	0.7%	2.5%	5.8%	2.7%	0.9%	2.3%	5.9%
SVG CAPITAL PLC	Externally Managed	Funds	Buyouts/ Growth Capital	0.3%	N/A	N/A	0.3%	0.5%	N/A	N/A	0.5%
TICC CAPITAL CORP	Externally Managed	Directs	Private Debt	2.4%	1.1%	1.1%	4.6%	2.7%	1.1%	2.7%	6.5%
TRIANGLE CAPITAL CORP	Internally Managed	Directs	Private Debt	N/A	3.6%	N/A	3.6%	N/A	3.9%	N/A	3.9%
WENDEL SA	Internally Managed	Directs	Buyouts/ Growth Capital	0.9%	N/A	N/A	0.9%	1.0%	N/A	N/A	1.0%

Appendix 4: Glossary of Terms

Total Expense Ratio (TER)

The TER is calculated by dividing the total annual cost of running the fund by the fund's opening net assets and is denoted as a percentage. Total costs include management fees and other fees (e.g. audit fees, custody fees, administration fees, legal fees and performance fees).

Management Expense Ratio (MER)

The MER is calculated by dividing the fees paid to the fund's manager (base fees plus performance fees) by the fund's opening net assets. It excludes other fees such as audit fees, custody fees and administration fees.

Carried Interest

The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund. The industry norm is 20 per cent. The fund manager will normally therefore receive 20 per cent of the profits generated by the fund and distribute the remaining 80 per cent of the profits to investors.

Hurdle Rate or Preferred Return

This is the minimum amount of return that is distributed to the limited partners until the time when the general partner is eligible to deduct carried interest. The preferred return ensures that the general partner shares in the profits of the partnership only after investments have performed well.

Catch-up

Once the private equity manager provides investors with their preferred or hurdle rate of return, the manager then typically enters a catch-up period in which he receives the majority (partial catch-up) or all of the profits (100% catch-up) until the agreed upon carry share (normally 20%) is reached.

Monitoring Fees

Monitoring fees are payments made by acquired companies to private-equity managers for ongoing advisory and management services after the acquisition. These fees are typically 0.10% pa or 1-2% of EBITDA (source: *Preqin, "Transaction and Monitoring Fees: On the Rebound?"*, November 2011)

Transaction Fees

When a buy-out fund buys or sells a company it is common for them to charge a one-time transaction fee, similar to M&A advisory fees. Typically they are 1% or so of the transaction value. It is normal practice for the manager to share this fee with investors in the fund. With the more difficult fund raising environment of late, investors have had the upper hand in fee negotiations. According to Preqin, on average, recent vintage (2011-13) buyout funds have had to rebate 86% of transaction fees.

Deal-By-Deal Carry Basis

Under the deal-by deal carry basis, returns are generally calculated for each investment, and the manager receives his/her carried interest (provided preferred return hurdles are exceeded) as profits are realized on the particular investment.

Internally Managed

All operating expenses of the fund (listed or unlisted) including compensation expenses and other overheads are paid directly by the fund. Furthermore, the management team is employed directly by the fund (i.e. the management team is internalised within the fund).

Externally Managed

The management of the fund is performed by a separate management company under a contractual arrangement with the fund. The fees paid to the external management company are typically expressed as a fixed percentage of funds under management plus an incentive fee.

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