
An Introduction to Private Equity Funds

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What is Private Equity?

PE firms:

- **raise money** from a small group of sophisticated investors
- through a **private offering** of interests in order to
- **invest** that money to acquire businesses/other assets
- with **profits** from **sale** of investments to be shared among the investors and firm
- using a variety of **investment strategies**

Structure of Private Equity Funds

- Common to use a limited partnership structure
 - General Partner is a special purpose vehicle and has unlimited liability
 - Limited Partners provide capital, have very limited authority to make decisions and have limited liability
 - Limited partnership structure allows for great flexibility

The General Partner

- Unlimited liability
- Single-purpose vehicle (separate general partners for Fund I, II, III,...)
- Generally structured as a limited partnership, limited company or limited liability partnership
- Fund makes investments, but essentially a passive vehicle
 - Operates through its General Partner and / or its Manager

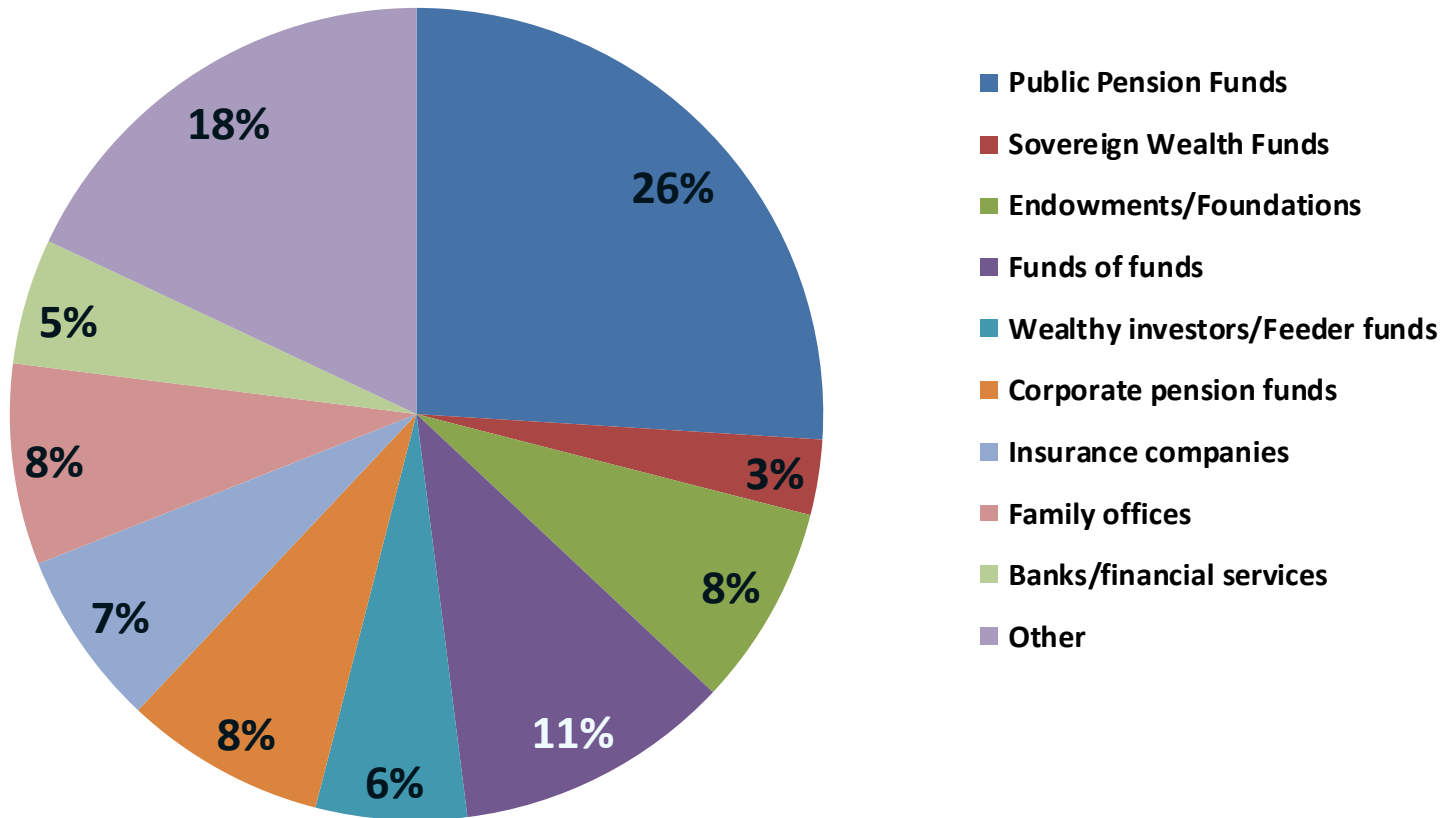
The Manager / Adviser

- The real “business” of the Fund Sponsor
 - Employees, real estate, corporate goodwill are here
 - Finds, negotiates, oversees investments
 - Receives a priority profit share, management fee or advisory fee
- Can manage or advise more than one fund
- Generally structured as a limited company or a limited liability partnership

Who are the Investors?

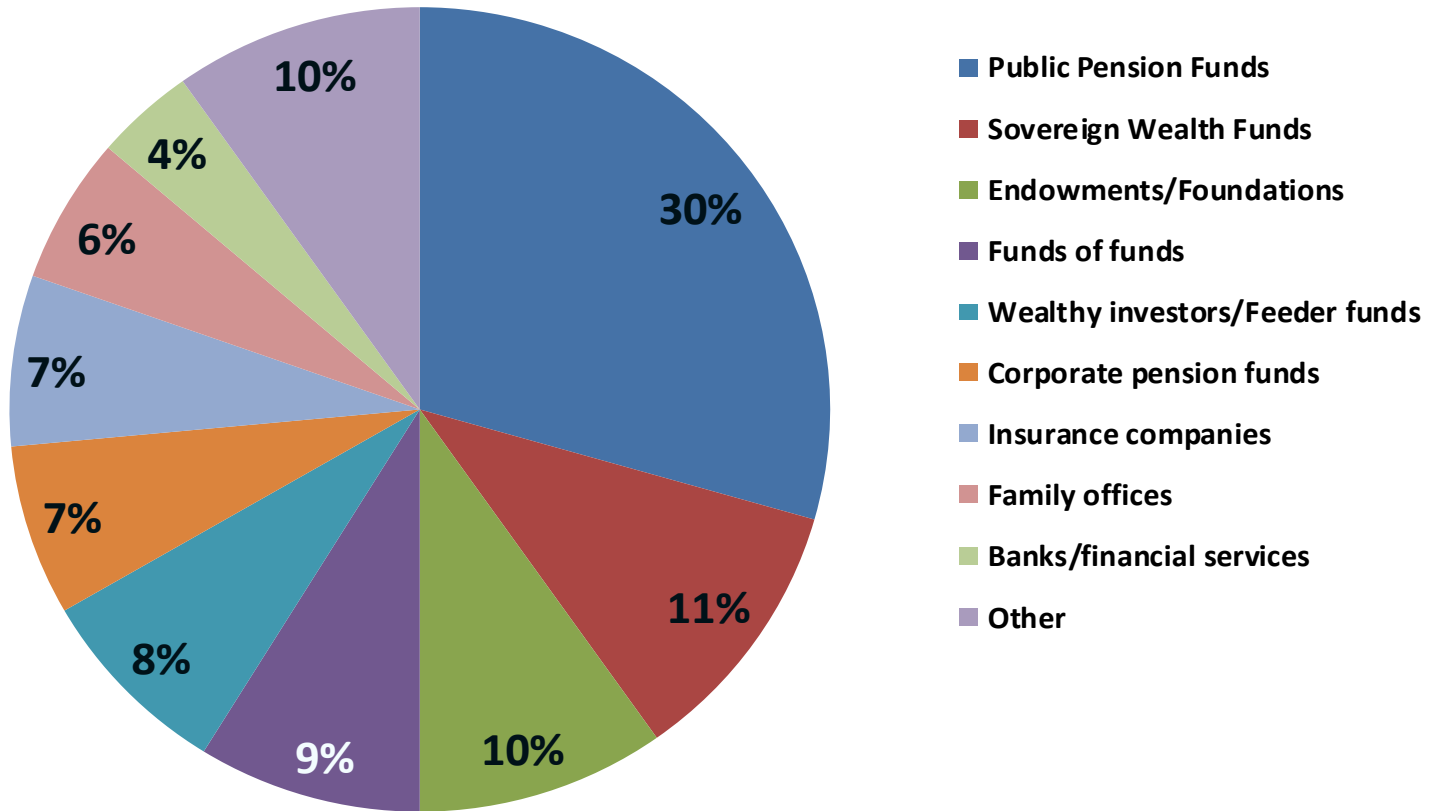
- Pension plans (tax exempt, public and private/ERISA)
- Endowments and private foundations (tax exempt)
- Life insurance companies (taxable)
- Financial institutions (taxable)
- Funds of funds (mixed taxable/tax exempt)
- DFIs (tax exempt)
- SWFs (tax exempt)
- High-net-worth individuals and family trusts (taxable)

Who are the Investors? 2010



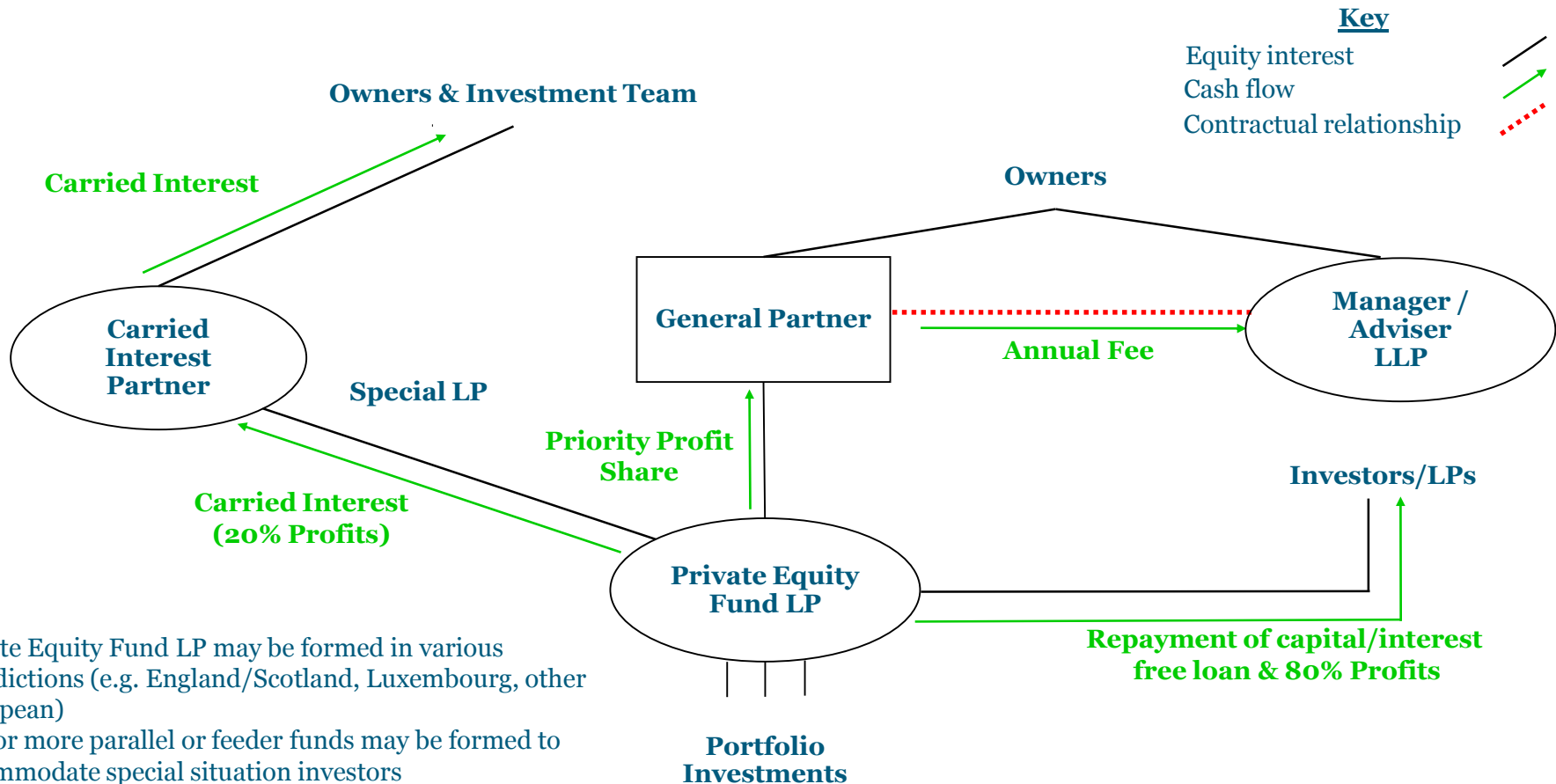
* Other includes corporations directly, GP contribution, discretionary advisors, union pension funds, retail investors (public stock markets) and co-investment funds.

Who are the Investors? 2013



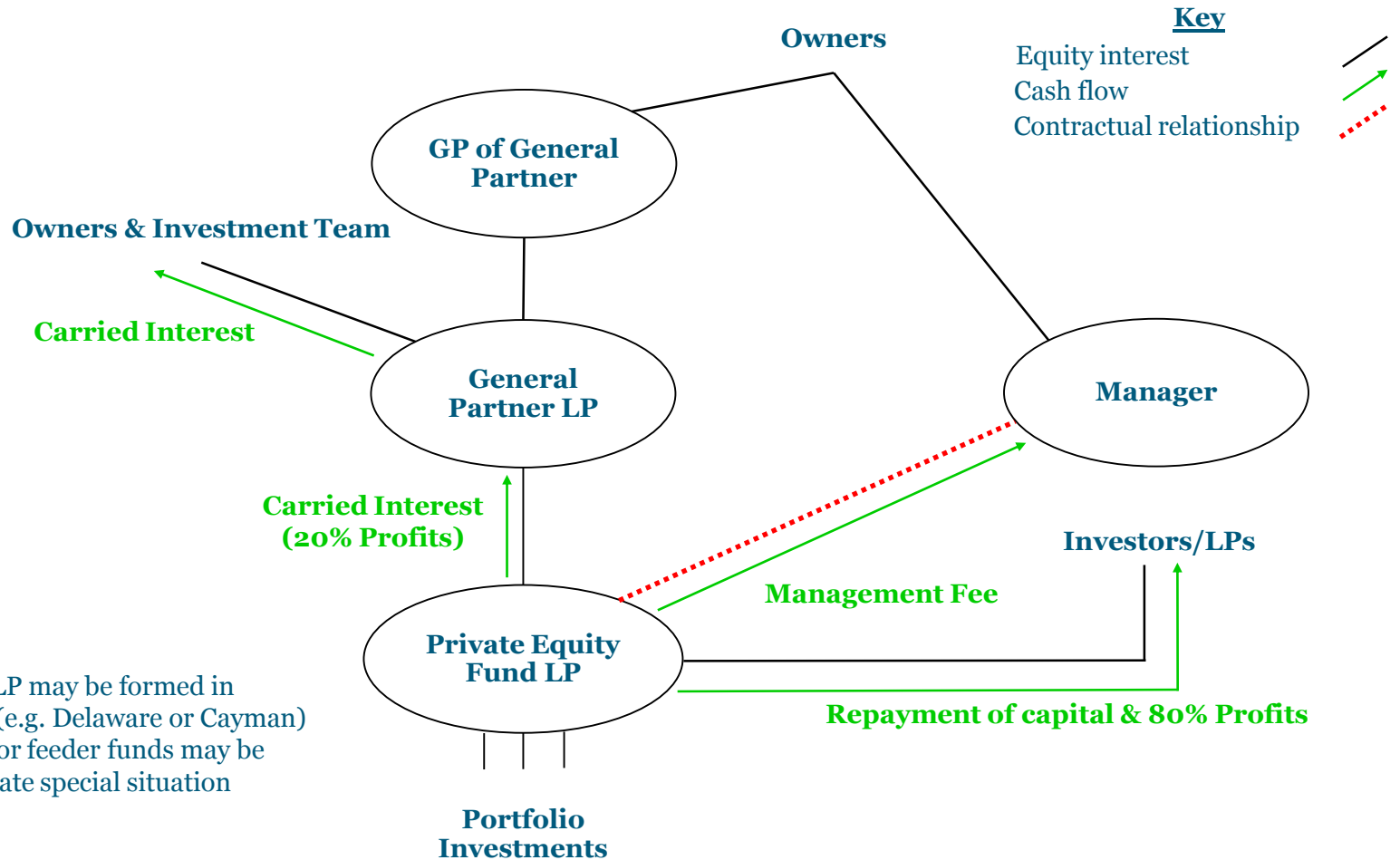
* Other includes corporations directly, GP contribution, discretionary advisors, union pension funds, retail investors (public stock markets) and co-investment funds.

Fund Structure – Simplified English Private Fund



- Private Equity Fund LP may be formed in various jurisdictions (e.g. England/Scotland, Luxembourg, other European)
- One or more parallel or feeder funds may be formed to accommodate special situation investors

Fund Structure – Simplified US Private Fund



- Private Equity Fund LP may be formed in various jurisdictions (e.g. Delaware or Cayman)
- One or more parallel or feeder funds may be formed to accommodate special situation investors

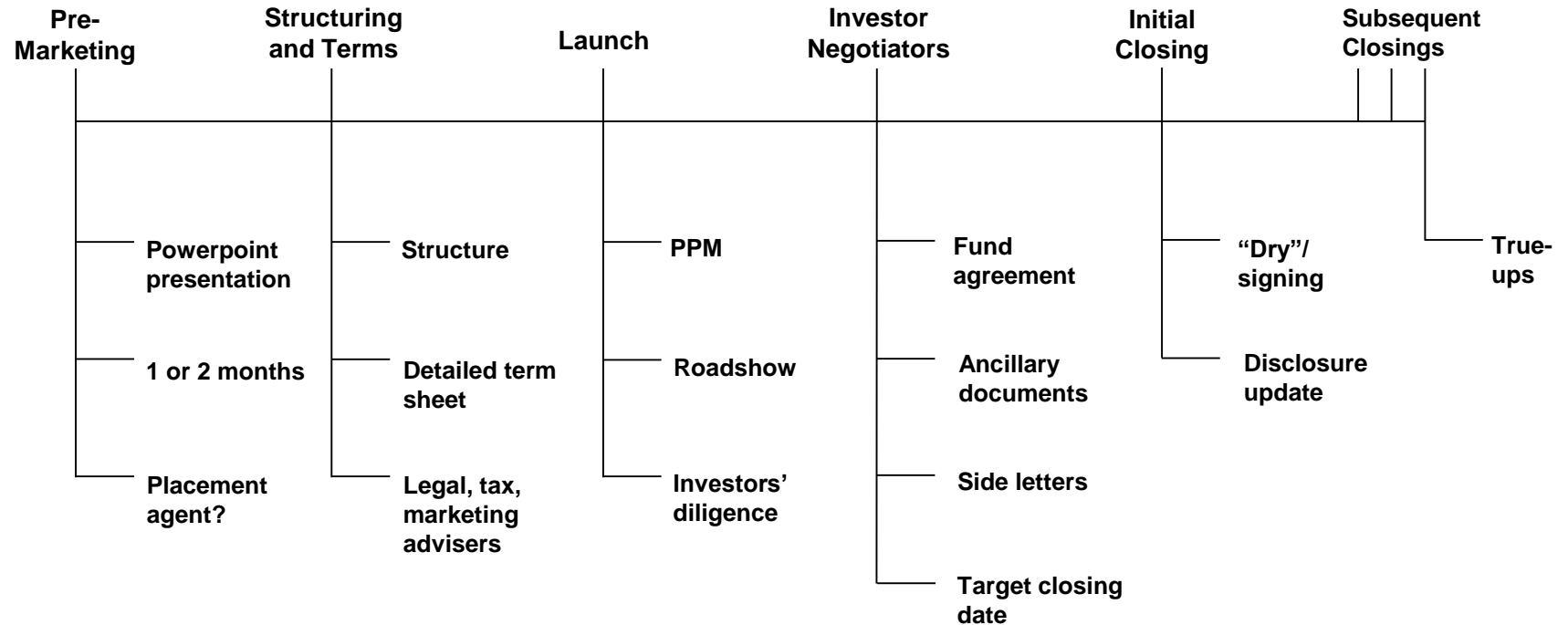
Core Economic Deal

- Management Fee/Profit Share – Typically 2% of committed capital during investment period; 1.5%-2% of invested capital thereafter
- Typical Distribution Provisions (aka “The Waterfall”)
 - First: 100% to the Limited Partners to return contributed capital
 - Second: 8% preferred return – 100% to the Limited Partners to give them an 8% return on those amounts
 - Third: Sponsor catch-up – 100% to the General Partner/Carried Interest Partner to “catch up” to the 80/20 deal
 - Fourth: 80/20 split – 80% to the Limited Partners and 20% to the General Partner/Carried Interest Partner
 - **US model**: more likely to return only capital on realised deals and management fees and other fund expenses allocable to such amounts prior to carried interest

Core Investor Protections

- Typically some permutation of the following rights (exercisable “for cause” and/or on a “no fault” basis):
 - general partner removal
 - fund dissolution
 - investment period termination
- Key person suspension
- Advisory committee oversight
 - conflicts of interest
 - investment restriction waivers
 - other negotiated rights (valuations, key person replacements, etc.)

Fundraising Steps



Wine Funds

Jurisdictions of choice

Bermuda, BVI, Cayman, Guernesey, Ireland, Luxembourg, Malta, ...

Which legal forms may be adopted?

Contractual forms
Partnerships
Corporate forms

Wine Funds

Fundraising - Marketing

(Reverse) Solicitation
Private Placement
EU passport
Crowdfunding

Core issues

Liquidity for investors
Valuation
Safe-keeping