

Private Equity Fund Start-Up Checklist



Operating Considerations

✓ *Clarify your investment strategy and unique edge*

Demonstrate your specific expertise and discuss the kind of strategy you will invest in and the investment types you will use to implement your strategy.

- » Growth equity/capital
- » Leveraged buyout
- » Mezzanine debt/capital
- » Venture capital
- » Distressed and other situations
- » Secondary markets
- » Other

✓ *Develop a strategic business plan*

- » Budget
- » Cash flow projections – fixed vs. variable costs
- » Evaluate which expenses should be paid by the management company and which can be absorbed by the fund
- » Timeline for execution

✓ *Prepare an executive summary and basic term sheet*

Include a description of basic terms

- » Strategy
- » Fund life and investment period
- » Capital raise and closing period
- » Minimum capital commitment
- » Management fee
- » Carried interest

✓ *Select external consultants*

Consider their experience and reputation in the private equity industry and their ability to grow with the business and adapt to change. Weigh that against costs, the level of service you expect and the importance of your business to the provider.

- » Attorney
- » Qualified custodian
- » Independent accountant
- » Fund administrator
- » Regulatory consultant
- » Independent valuation consultant
- » Independent directors
- » Information Technology (IT) consultant and support
- » Third party marketers/fundraisers



✓ **Select names for the operating entities and the fund(s)**

- » Fund
- » General partner
- » Managing member
- » Investment manager

✓ **Select members of the management team**

Consider forming an Advisory Board and Valuation Committee, and outsourcing the CFO and CCO positions.

- » Chief Executive Officer
- » Chief Operating Officer
- » Chief Investment Officer
- » Chief Financial Officer
- » Chief Compliance Officer
- » Others

✓ **Set-up shop**

- » Banking relationships – consider obtaining line of credit arrangements for bridge loans
- » Office space
- » Business equipment
- » Staffing
- » Website
- » Technology
- » Compliance
- » Research subscriptions and services (Capital IQ, Bloomberg)
- » Other

✓ **Human resources**

Consider outsourcing to a professional employer organization (PEO) that will handle everything from payroll to benefits to retirement plans.

- » Staffing
- » Compensation
- » Health benefits
- » Profit sharing
- » Retirement plans

✓ **IT Support**

- » Network and computer systems
- » Disaster recovery plans
- » Cybersecurity
- » The Cloud

✓ **Purchase adequate insurance**

Business, life and health, E&O, D&O, Cybersecurity

✓ **Select general ledger and accounting systems**

Leverage fund administrator

Structure

✓ **Specify structure and type of investment entity based on type and number of investors**

- » LP vs. LLC
- » 3(c)-1 or 3(c)-7

✓ **Determine legal entity, structure and appropriate jurisdiction**

- » Onshore
- » Offshore
- » Parallel
- » Master-feeder vehicles

✓ **Consider investment types**

- » Equity
- » Debt
- » Warrants
- » Options

- ☑ **Evaluate registration options and costs to assure compliance**
Register as a Registered Investment Adviser (RIA); develop compliance program and manual.

- » Blue sky laws
- » Potential regulatory changes

- ☑ **Determine the provisions to be included in your offering documents**

- » Capital calls
- » Distributions, waterfall calculations
- » Allocation of profits and losses
- » Carried interest, preferred return and claw-back clauses
- » Management fee and offsets
- » Portfolio valuation

- ☑ **Determine year-end tax reporting needs**

- ☑ **Establish compliance, risk and valuation guidelines**

Document the process, review by a valuation committee and approve on a regular basis. Valuation Policy must be in accordance with generally accepted accounting principles (GAAP)

- **Market valuation approach:**
 - Broker quotes
 - Comparable public companies
 - Recent transactions and last round of financing
 - Market multiples and EBITDA calculations
- **Income approach:**
 - Future/ discounted cash flows
 - Capitalization rates



Document Review

- ☑ **Prepare and review with appropriate parties**

- » Articles of Association
- » Offering Memorandum
- » Subscription Agreement
- » Partnership Agreement/ Operating Agreement
- » Investment Management Agreement
- » Due Diligence Questionnaire
- » Compliance and Risk Guidelines and Manuals
- » Custody Agreements
- » Counterparty Risk Agreements
- » Valuation Policy
- » Marketing and Website Materials
- » Code of Ethics
- » Form ADV