# Investor Relations and Fundraising (Private Equity)

Interview preparation summary · PE track

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INT.IR.1.a · The fundraising process and the LP universe

**Describe how a private equity fund is raised, from preparation to final close, including the roles of the placement agent, PPM, DDQ and data room, and the mechanics of closes.**

Raising a flagship fund commonly takes twelve to eighteen months, and often longer in a difficult market. Preparation comes first: the firm settles the target size, a hard cap, the strategy and the draft terms, and builds the materials. The private placement memorandum (PPM) is the main offering document, covering strategy, team, track record, terms and risk factors. Investors also send a due diligence questionnaire (DDQ) covering team, process, valuation, compliance and ESG, and the firm answers it from a library of approved responses. A virtual data room holds the track record by deal, the fund model, policies and draft legal documents. A placement agent is a third party that helps with positioning and introductions to investors; its fee is usually a percentage of commitments from investors it introduces, and is normally borne by the management company rather than the fund, with its role disclosed. Many established managers raise without one. Meetings, diligence and reference calls lead to negotiation of the limited partnership agreement and side letters. The first close happens once a minimum level of commitments is signed, after which the fund can start investing and charging fees from that date. Later closes follow until the final close, normally within a period set in the agreement, often twelve to eighteen months after the first close. Investors who join later are equalised: they contribute their share of capital already drawn, usually with interest, so that every investor is in the position it would have held at the first close, and they pay fees back to the first close date. Closing mechanics include subscription agreements, anti-money-laundering checks, tax forms and the advisory committee. Marketing materials are subject to financial promotion and fund marketing rules, so compliance and legal sign them off. Interview point: describe the process as a sequence with owners, and say that IR runs the process but never improvises claims.

WORKED EXAMPLE: EQUALISING A LATE-CLOSING INVESTOR

A fund has a first close of 200 million. At final close, ten months later, one more investor commits 50 million, so total commitments are 250 million. By then the fund has called 40 million from the first-close investors, all for investments. The agreement charges a management fee of 2% a year on commitments from the first close date. Ignoring interest, what does the late investor pay, and who receives it?

**Answer:** The late investor pays about 8.0 million of equalisation, which goes to the first-close investors, plus about 0.83 million of back-dated fees to the manager, plus interest.

> **Interview tip:** Say that equalisation puts the late investor in the position it would have had at the first close, and that the equalisation money goes to earlier investors while the fee goes to the manager. The interviewer listens for whether you keep those two flows separate.

INT.IR.1.b · The fundraising process and the LP universe

**Describe the main types of limited partner and what each wants from a private equity manager, and use that to plan an approach to a fundraising book.**

Different limited partners want different things, and good IR starts from that. Public and corporate pension funds have long-dated liabilities, write large cheques, run formal governance and consultant-led diligence, move on committee calendars and care about net returns, fees and transparency; public plans may also be subject to disclosure laws, so expect some of what you send to become public. Sovereign wealth funds are very large, patient and often seek co-investment, strategic relationships and a direct line to the senior team. Endowments and foundations have perpetual horizons and a spending rule, tolerate illiquidity well and value access to strong managers and consistent partnership. Funds of funds invest on behalf of their own clients, add a second layer of fees, and need detailed data to report onward. Family offices vary widely: they can decide

quickly, prize relationships and often ask for co-investment, but may have smaller teams and less formal process. Insurers are regulated, so capital charges on equity-like assets and look-through reporting shape what they can hold, and many prefer structured, yielding or lower-volatility strategies. Consultants and gatekeepers influence many pension and endowment decisions. In practice IR builds a book across types, watches concentration in any one investor, and sequences approaches so that faster deciders help a first close while slower committees are engaged early. Interview point: for each type, say what it needs from the manager and how that changes the way you present.

**WORKED EXAMPLE: READING A FUNDRAISING BOOK BY LP TYPE**

A fund has a 500 million target. Indications received are: two public pensions 75 and 50, a sovereign wealth fund 100, an endowment 30, a foundation 20, a fund of funds 60, five family offices 8 each, and an insurer 40 (all in millions). What is the total, the gap to target, the sovereign fund's share of indications, and what would you do next?

**Answer:** Total indications are 415 million, 85 million short of target, with the sovereign fund at 24.1% of the book. The plan is to convert indications, sequence faster and slower decision makers, and widen the base to reduce concentration.

> **Interview tip:** Show that you read the book by type and by size, and that you separate indications from signed commitments. The interviewer listens for concentration risk and for the point that each type has a different timetable.

INT.IR.2.a · Fund terms and performance

### Explain the main commercial terms of a private equity fund and the points investors negotiate, including fees, carry, hurdle, catch-up, GP commitment, key person, clawback, side letters, MFN and co-investment.

The limited partnership agreement (LPA) is the contract that sets the economics and governance, and its terms are what investors negotiate. The management fee is a percentage a year, commonly 1.5% to 2% for buyout funds, charged on committed capital in the investment period and then often on invested capital at a lower rate; fee breaks may be offered for large commitments or early closers. Carried interest is the GP's share of profit, commonly 20%, paid only after investors receive their capital back plus a hurdle or preferred return, commonly 8% a year compounded. A catch-up then lets the GP receive a large share, up to all, of distributions until it holds the agreed share of total profit. In a whole-fund (European) waterfall carry is paid after investors have received contributions and the hurdle across the whole fund; in a deal-by-deal (American) waterfall carry is paid deal by deal, which is better for the GP early and so needs stronger protection. A clawback requires the GP to repay carry received in excess of its entitlement. The GP commitment, often one to a few percent of the fund, aligns interests. Key person provisions suspend the investment period or give investors a vote if named individuals stop devoting the required time. Side letters give an individual investor extra rights, such as reporting, fee breaks or excuse rights, and a most favoured nation (MFN) clause lets other investors elect comparable terms, usually limited to investors of equal or smaller commitment. Co-investment is the right to invest alongside the fund, usually with reduced or no fee and carry. Many investors refer to the ILPA principles when negotiating. Interview point: state the base, rate and trigger of each term before quoting a number.

**WORKED EXAMPLE: FEE BREAKS, THE BLENDED FEE AND AN MFN ELECTION**

A 400 million fund charges 2.0% a year on commitments. It gives a 1.8% rate to commitments of 75 million or more, and 1.6% to commitments of 150 million or more, applied to the whole commitment. Investors are A at 200 million, B at 80 million, C at 50 million and D at 70 million. Find the annual fee and blended rate. Investor B has an MFN clause covering terms given to investors with equal or smaller commitments: can B elect A's rate, and what would it be worth?

**Answer:** The annual fee is 7.04 million, a blended rate of 1.76%. B cannot elect A's 1.6% rate because A's commitment is larger than B's, so the MFN does not reach it; it would be worth 0.16 million a year.

> **Interview tip:** Quote the blended rate, not the headline, and explain that MFN rights are usually tied to commitment size. The interviewer listens for whether you understand that terms given for size are not meant to be matched by smaller investors.

INT.IR.2.b · Fund terms and performance

### Calculate and interpret the metrics LPs use to judge a fund (IRR, MOIC, TVPI, DPI, RVPI, PME, quartile) and present a track record fairly, including gross versus net and attribution.

Limited partners judge a fund on several measures and IR must present them consistently. IRR is the annualised, time-weighted return on the dated cash flows; it rewards early distributions and can be flattered by short holds or by borrowing that delays capital calls. MOIC, the multiple of invested capital, shows how many times cost has been returned but ignores time. For a fund LPs use total value to paid-in (TVPI), which is distributions plus remaining net asset value divided by paid-

in capital. It splits into DPI (distributions to paid-in, cash actually returned) and RVPI (residual value to paid-in, unrealised value). DPI is the most conservative because it is cash, so in a slow exit market LPs lean on it. A public market equivalent (PME) tests the fund's cash flows against what the same flows would have earned in a public index, so a Kaplan-Schoar PME above 1.0 means outperformance. A quartile ranking says how a fund sits against a peer group of the same vintage year, and depends on the peer set, the data provider, the measure and the date. Early in a fund's life the J-curve means IRR and TVPI are depressed by fees and cost-based valuations. Gross returns are measured at the investment level before fees, expenses and carry; net returns are what the LP receives, and both should be shown with definitions. Attribution means being clear which deals the firm and which individuals really led, and flagging anything from a prior firm. Interview point: lead with realised results, label every figure with its basis and date, and never choose a benchmark because it flatters.

**WORKED EXAMPLE: READING A FUND'S MULTIPLES AND WHAT IRR HIDES**

After six years a fund has called 200 million, distributed 50 million and reports a net asset value of 230 million, all net of fees and carry. Find DPI, RVPI and TVPI, and show how TVPI changes if the value were 20% lower. Then compare two deals that each returned 2.5 times cost, one over four years and one over six.

**Answer:** DPI is 0.25x, RVPI 1.15x and TVPI 1.40x, with 82% of value unrealised; a 20% lower value would give TVPI of 1.17x. A 2.5x deal gives an IRR of 25.7% over four years but 16.5% over six.

> **Interview tip:** Say what share of value is cash and how a valuation change would move the multiple. The interviewer listens for whether you present DPI, RVPI and TVPI together and refuse to quote IRR without the multiple and the date.

**INT.IR.3.a · Reporting, market dynamics and the IR role**

**Explain how a manager reports to and works with its LPs, including quarterly reporting, valuation policy, ILPA templates, capital call and distribution notices, the LPAC, annual meetings and questionnaires, and how marketing rules affect IR.**

Reporting is how the manager earns re-up. Quarterly reports show net asset value, cash flows, the investor's capital account and performance (net IRR, TVPI, DPI) with commentary on each portfolio company; audited accounts follow each year. Valuations follow a written policy based on fair value, and many managers use the IPEV guidelines, with a valuation committee and often independent review; consistency matters more than any one mark. The ILPA reporting template standardises how fees, expenses and carry are shown, and the ILPA performance template standardises returns, including figures with and without fund-level credit lines. A capital call notice states the amount, purpose, due date (commonly around ten business days after notice) and payment details; distribution notices set out the source and any recallable amount. The limited partner advisory committee (LPAC), made up of some of the larger investors, reviews conflicts, valuation questions and requests for waivers or term extensions; it does not run investments. The annual meeting is a chance to review the portfolio and answer questions face to face. Investors also send ESG and operational diligence questionnaires, and IR coordinates the answers so that they are accurate and consistent. All investors must be treated fairly: equal information, no selective disclosure, and side-letter promises honoured. Marketing and performance materials are subject to rules such as the UK financial promotion regime and the AIFMD marketing regime, and in other jurisdictions to local securities rules, so compliance and legal review and sign them off before use; a candidate should know the rules exist, not apply them as legal advice. For complaints or a fund behind plan, acknowledge quickly, gather facts, be honest, escalate internally and follow up. Interview point: you are the single voice between the LP and the firm, so accuracy and speed both matter.

**WORKED EXAMPLE: SIZING A CAPITAL CALL FOR ONE LP**

A fund with 500 million of commitments needs 75 million for an acquisition and 2.5 million for fees and expenses. An LP has committed 20 million and has already paid in 40% of its commitment. What percentage is called, what does this LP owe, and what are its paid-in and unfunded amounts afterwards? What happens to the picture if the fund bridges the acquisition on a credit line and calls the money 60 days later?

**Answer:** The call is 15.5% of commitments, so this LP pays 3.1 million, leaving 11.1 million paid in and 8.9 million unfunded. A credit line raises IRR through timing, not through better investments, and returns should be shown with and without it.

> **Interview tip:** Say that a call is a percentage of commitments applied equally to every investor, and that a credit line lifts IRR but not value created. The interviewer listens for whether you would disclose its effect on the numbers.

**INT.IR.3.b · Reporting, market dynamics and the IR role**

**Explain the main private equity market dynamics (denominator effect, secondaries and continuation funds, concentration of capital, evergreen vehicles) and use them to tell a firm's story and answer why you want to work in IR.**

IR works inside a market with its own pressures. The denominator effect arises when public asset values fall: an investor's private assets, valued less often and more slowly, become a larger share of the total portfolio and can exceed their target allocation, so the investor slows or pauses new commitments. Slow distributions make it worse because less cash is coming back to fund new commitments. LPs respond by selling fund interests on the secondary market, where prices are quoted as a percentage of net asset value, and the buyer normally takes over the unfunded commitment. A GP-led continuation fund moves one or more assets from an older fund into a new vehicle, usually run by the same GP, so existing investors can take cash or roll; because the GP sits on both sides, investors expect an independent price discovery process, a fairness opinion, LPAC review and a fair choice between selling and rolling on equivalent terms. Capital has concentrated in the largest managers, so smaller and mid-sized firms face longer fundraisings and LPs consolidating their number of relationships. Evergreen or semi-liquid vehicles have no fixed term, accept new subscriptions at net asset value and offer limited, gated liquidity, and are aimed particularly at private wealth investors; they need strong valuation and liquidity management. For the behavioural side, a strong answer to why IR rather than investing shows genuine interest in communication, relationships and the structure of the industry, not a second choice. A good track-record story is truthful and structured: what the strategy is, how it has been applied consistently, what has gone wrong and what changed, and what evidence supports the next fund. Interview point: link the market trend to what it means for how you would pitch.

#### WORKED EXAMPLE: THE DENOMINATOR EFFECT AND A SECONDARY SALE

A pension fund has 10,000 million of assets, of which 1,000 million is private equity (target 10%) and 9,000 million is public assets. Public assets fall 20% while private equity values do not move. What share is now private equity, how far over target is it, and what would a secondary sale of the excess at 90% of net asset value yield?

**Answer:** Private equity is now 12.2% of assets, 180 million over target, and selling the excess at 90% of net asset value raises 162 million. The usual response is to slow new commitments, which makes fundraising harder.

> **Interview tip:** Explain the denominator effect as a ratio problem that arises without any change in private equity, then say what it means for your pipeline. The interviewer listens for whether you connect the market to your daily work.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.