Harris Williams

Five Key LPAC Considerations

The following considerations can help LPAC members evaluate a proposed CV transaction. Please **contact us** for additional details and guidance.

01 THE CV'S RATIONALE AND STRUCTURE

- Common rationales for CVs include providing accretive follow-on capital and enabling transformative M&A, continuing to invest in high-potential assets beyond the planned hold period, providing LPs with additional liquidity options, and avoiding significant costs or risks that may be triggered by a change of control.
- Important structural elements include the proposed asset(s) to be transferred and the target valuation range and pricing; any new terms and conditions for rolling LPs, and the timeline and structure of the transaction, including the process that has been followed to establish the price and terms.

02 THE ASSET'S PROPOSED VALUATION

- Valuation must take into account the remaining value potential of the assets within the existing vehicle, the current expected duration of the existing vehicle versus the extended duration of the CV, and whether the CV is a better holding structure for the asset, given its value-creation potential and current fund dynamics.
- Details must be considered of relevant valuations, financial models, and projections, and proposed valuations and pricing must be compared with current market comparables and trends.
- Evaluators should ask whether the valuation is supported by a competitive process, a thorough assessment of alternatives via a sector specialist, relevant third-party transactions in the company, and/or an independent fairness opinion?

03 GP INCENTIVES

- The GP's continued capital contribution to the CV should be understood, as well as how future exposure from reinvesting the carried interest and proceeds from the exit of the asset(s) to the CV compares to current exposure.
- The proposed transaction must be evaluated in the context of the exit plans and history for the rest of the fund.
- It must be determined whether any blind pool funds under the same GP are participating in the deal.
- Any potential conflicts of interest should be identified in carried interest terms, management fees, and other incentive mechanisms. It should also be confirmed that any changes from previous agreements conform with market norms (or the rationale for exceptions should be provided).

04 OPTIONALITY, FAIR TREATMENT, AND TRANSPARENCY FOR LPS

- LPs should have the option to sell their interest and/or receive their pro rata share of the cash purchase price or to roll over/re-invest their pro rata interest in the existing fund into the CV.
- Adequate time and information must be provided for LPs to evaluate their options. The Institutional Limited Partners Association recommends 20 business days for existing LPs to evaluate the liquidity/roll options and make their choice.
- Fair treatment and transparency must be provided for both large and small LPs. LPs should have access to the same information as buyers. This is especially sensitive with stapled secondaries, where CV investors will be also committing capital to the GP's new fund.

05 MARKET CONDITIONS AND ASSET PERFORMANCE

- The way in which current M&A and secondaries markets could impact pricing must be understood, and deal attractiveness evaluated from a liquidity perspective.
- Evaluators should determine whether the GP has considered alternative exit options.
- The timeline of the CV process and any material changes since key terms were agreed upon must be established.

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