

Fund Investing

Due Diligence Checklist

Provided by



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Table of Contents

A Message from Steve	3
Topic 1 – Team	4
Key People	
Track Record	
Management Due Diligence	
Topic 2 – Investment Strategy	5
Sector	
Geography	
Size of Deals	
Topic 3 – Investment Process	6
Proprietary Deal Flow	
Deal Funnelling Process	
Due Diligence Process	
Topic 4 – Fund Details	7
Fees	
Waterfall Provisions	
Co-Investments	
Topic 5 – Reporting	9
Valuation	
Subscription Lines of Credit	
Returns	
Topic 6 – Secondaries	10
Past Secondary Transactions	
Secondary Sale Restrictions	
Conflicts of Interest	
Topic 7 – ESG	11
Commitment to ESG	
Governance	
ESG Integration Process	

A Message from Steve

Mink Learning created this Due Diligence Checklist to help you make more informed private equity fund investments. While private equity funds offer investors exposure to alternative investments with less risk or time commitment that come with direct investing, there are still plenty of questions investors should ask themselves and the fund's management team. This due diligence is especially important because after your capital is committed, you may not be able to exit the fund before the end of its life cycle.

This Due Diligence Checklist is a great starting point for private equity investors looking to ask the right questions and truly understand in which type of fund they will be investing.

As you go through the Due Diligence Checklist, check the boxes beside topics/questions to stay on track. There are also some extra pages at the end of this workbook you can use for taking down notes.

We are thrilled to be helping you along your journey through the complex world of private equity.



Sincerely,


A handwritten signature in black ink, appearing to read 'Steve Balaban', with a long horizontal flourish extending to the right.

Steve Balaban, CFA

Topic 1 – Team


Before investing in a private equity fund, you should have a detailed understanding of the fund’s management team.



 Key People		
1.1	Identification Who are the fund’s key people? Who is responsible for sourcing deals? Who is responsible for managing the portfolio companies?	<input type="checkbox"/>
1.2	Profile What is the educational background of the fund’s key people? From which post-secondary institutions did they graduate, and which professional designations do they hold? How might this help them in their current role?	<input type="checkbox"/>
1.3	Expertise What is each key person’s area of expertise? Does the team have an expert in operational excellence? Does the team have an expert in a specific industry? Does the team have an expert in financial modelling?	<input type="checkbox"/>
1.4	Professional Experience What is the tenure of the fund’s key people? Where were they before they joined this firm? What is the succession plan in place if a key person were to leave the fund?	<input type="checkbox"/>
1.5	Values What are the values of the fund’s key people? Is there any good/bad publicity you can find that helps you get to know them better? Do you have any mutual connections whom you can ask for an opinion on their work ethic and values?	<input type="checkbox"/>
 Track Record		
1.6	Past Returns What is the track record of the fund’s key people? Can they give you detailed examples of deals they led that had a positive impact on performance?	<input type="checkbox"/>
1.7	Firm’s Returns What is the track record of the firm as a whole? What is its track record when it comes to similar funds?	<input type="checkbox"/>

1.8	Underperformance Are there examples of portfolio companies that did not perform as anticipated? If so, what did the firm and/or individual learn from that experience?	<input type="checkbox"/>
1.9	Bankruptcy Are there examples of portfolio companies that filed for bankruptcy? If so, what did the firm and/or individual learn from that experience?	<input type="checkbox"/>
1.10	Audit Has a portfolio company of the firm ever received a modified audit opinion? If so, what actions were taken and what did the firm and/or individual learn from that experience?	<input type="checkbox"/>
 Alignment of Interests		
1.11	Firm Compensation How are the fund and firm compensated? How does this compare to other funds inside and outside of this firm?	<input type="checkbox"/>
1.12	Team Compensation How is the team compensated? Does the team have any performance incentives, profit sharing and/or equity ownership?	<input type="checkbox"/>
1.13	Skin in the Game Does the team have skin in the game? Will the firm's principals invest into this fund? If so, how much (dollar or percentage of funds raised)?	<input type="checkbox"/>

Topic 2 – Investment Strategy

When conducting due diligence, you want to make sure the proposed investment strategy aligns with your investor profile and objectives.

 Sector		
2.1	Sector(s) of Focus In which sector(s) does the fund plan on investing? Is its focus broad (technology) or specific (social media platforms)?	<input type="checkbox"/>
2.2	Sector Expertise How does the fund's sector of focus leverage the team's expertise?	<input type="checkbox"/>
2.3	Sector Exposure How does the fund's sector of focus benefit your desired exposure?	<input type="checkbox"/>

 Geography		
2.4	Geographical Focus In which geography does the fund plan on investing? Is its focus broad (Asia) or specific (southeastern Australia)?	<input type="checkbox"/>
2.5	Geographical Expertise How does the fund's geographical focus leverage the team's expertise?	<input type="checkbox"/>
2.6	Geographical Exposure How does the fund's geographical focus benefit your desired exposure?	<input type="checkbox"/>
 Size of Transaction		
2.7	Investment Size How much money will be invested in each portfolio company? How much EBITDA and/or revenue is a target company expected to have to be eligible for investment?	<input type="checkbox"/>
2.8	Lifecycle Stage How has the fund defined its target deal size? Will the investments be made in pre- or post-profit companies?	<input type="checkbox"/>
2.9	Size Expertise How does the fund's anticipated deal sizes leverage the team's expertise?	<input type="checkbox"/>
2.10	Risk & Return Given the lifecycle stage of the anticipated portfolio companies, what is your expectation of the risk and return for these investments? Does this align with your risk profile and your investment objectives?	<input type="checkbox"/>

Topic 3 – Investment Process


Private equity firms often have different investment processes, so you want to make sure you are investing in a fund with a process that you can understand.



 Proprietary Deal Flow		
3.1	Deal Sourcing How does the firm find investment opportunities? Does the firm have a competitive advantage sourcing its deals?	<input type="checkbox"/>

3.2	Deal Outsourcing Are any third parties hired to help the fund source deals? If so, what is their anticipated contribution to deal sourcing and how are they compensated?	<input type="checkbox"/>
 Deal Funnelling Process		
3.3	Filtering How will the fund filter through all possible investments? Are there any investment factors that would automatically solidify or end a deal?	<input type="checkbox"/>
3.4	Stars & Dogs How does this process eliminate suboptimal investments while narrowing down the list to the best options?	<input type="checkbox"/>
 Due Diligence Process		
3.5	Due Diligence Details How does the fund plan on conducting due diligence on potential investments? Is there a specific team responsible for due diligence? How much time does the fund anticipate spending on due diligence for each potential investment?	<input type="checkbox"/>
3.6	Due Diligence Outsourcing Are any third parties hired to conduct due diligence on potential investments? If so, what is the scope of their responsibilities?	<input type="checkbox"/>
3.7	Red Flags Has the firm ever discovered a fraudulent or shady business practice during its due diligence? If so, how did the firm find these red flags?	<input type="checkbox"/>

Topic 4 – Fund Details




Although a private equity fund may share key information initially, it is still important to ask specific questions to fully understand all its details.

 Fees		
4.1	Management Fees How much will the fund charge for management fees? Is this fee applied to committed capital or contributed capital?	<input type="checkbox"/>

4.2	Performance Fees How much will the fund charge in performance fees? What is the hurdle rate, if any, that the fund must exceed before it can charge performance fees? Will there be a catchup clause attached to this hurdle rate?	<input type="checkbox"/>
4.3	Fee Calculations Will the fund disclose the calculation of its fees?	<input type="checkbox"/>
4.4	Other Fees Are there any other fees that are not included in the management and performance fees?	<input type="checkbox"/>
 Waterfall Provisions		
4.5	Waterfall Type Will the fund charge performance fees on a deal-by-deal basis or on the whole fund?	<input type="checkbox"/>
4.6	Clawbacks Does the fund have any clawback provisions to protect its LPs?	<input type="checkbox"/>
 Co-Investments		
4.7	Co-Investment Offer Does the fund offer co-investment rights?	<input type="checkbox"/>
4.8	Side Letters Are there any side letters with certain investors?	<input type="checkbox"/>
4.9	Co-Investment Access If there are co-investments, how many investors have access to these co-investment rights? Do all co-investors receive the same co-investment opportunities?	<input type="checkbox"/>
4.10	Co-Investment Frequency If there are co-investments, how frequent are co-investment opportunities offered to investors? How does the fund determine which co-investments to offer?	<input type="checkbox"/>
4.11	Co-Investment Fees If there are co-investments, what are the fees on co-investments?	<input type="checkbox"/>




Topic 5 – Reporting

After you invest in a private equity fund, you do not want to be surprised by the reporting process, especially because it may be too late to do anything about it. Therefore, it is best to ask your reporting questions during your due diligence.

 Valuation		
5.1	Valuation Policies What is the fund's valuation policy? Is this in line with the IPEV Valuation Guidelines? Does this differ from the firm's typical valuation policy?	<input type="checkbox"/>
5.2	Review & Independence Will the LPAC review and/or approve the fund's valuations? Will any part of the valuation process be outsourced to an independent third party?	<input type="checkbox"/>
 Subscription Lines of Credit		
5.3	Existence Does the fund anticipate using a subscription line of credit? If so, what will be its main purpose?	<input type="checkbox"/>
5.4	Disclosure If the fund uses a subscription line of credit, will the fund disclose returns with and without the use of the subscription line of credit?	<input type="checkbox"/>
 Returns		
5.5	Calculation How will returns be calculated? Will they be based on committed or contributed capital?	<input type="checkbox"/>
5.6	Disclosure of returns How often will returns be disclosed to LPs? Which metrics (ex: IRR, MOIC) will be disclosed to LPs?	<input type="checkbox"/>

Topic 6 – Secondaries

Similar to reporting, you do not want to uncover a disadvantageous clause after you invest in the fund. Thus, you will want to ask about secondaries, as these may allow you to exit the fund early if desired.

 Past Secondary Transactions		
6.1	History On average, how many LPs (count and/or percentage) have sold their stake through a sale on the secondaries market for the firm's previous funds?	<input type="checkbox"/>
6.2	Support Does the firm offer support for secondary transactions?	<input type="checkbox"/>
 Restrictions		
6.3	Firm Restrictions Does the firm prohibit secondary transactions? If so, does this restriction apply for the entire duration of the fund?	<input type="checkbox"/>
6.4	Outside Restrictions Do the creditors prohibit secondary transactions? If so, does this restriction apply for the entire duration of the fund?	<input type="checkbox"/>
 Conflicts of Interest		
6.5	Conflict of Interest Identification How does the firm identify potential conflicts of interest?	<input type="checkbox"/>
6.6	GP-Led Secondaries Has the firm ever conducted a GP-led secondary? If so, how were potential conflicts of interest addressed?	<input type="checkbox"/>
6.7	Continuation Fund Has the firm ever offered a continuation fund? If so, how were potential conflicts of interest addressed?	<input type="checkbox"/>
6.8	Other Have there been any other events where the firm identified a possible conflict of interest? If so, how was the situation resolved? Were any independent parties involved?	<input type="checkbox"/>

Topic 7 – ESG

Investors continue to focus more on the environment, social impact and governance structures when deciding where to allocate their funds. Private equity funds are no different.

 Commitment to ESG		
7.1	Policy How are the firm and fund committed to the environment, social impact and proper governance? Who is accountable if the firm and fund do not meet these commitments?	<input type="checkbox"/>
7.2	ESG in Deal Funnelling Where does ESG fit in the fund's investment selection process? Is ESG used to rule out specific investments and/or is it used to identify investment opportunities?	<input type="checkbox"/>
 Governance		
7.3	Best Practices How will the management team ensure governance best practices are followed at the firm, within the fund and in its portfolio companies?	<input type="checkbox"/>
7.4	Diversity & Inclusion What D&I targets does the fund set for itself and/or its portfolio companies?	<input type="checkbox"/>
 ESG Integration Process		
7.5	Methodology How does the fund anticipate integrating ESG into its portfolio companies? Will ESG be used as part of the fund's value creation strategy?	<input type="checkbox"/>
7.6	Recognized Guidelines Will the fund and its portfolio companies use standardized ESG guidelines such as the SASB Materiality Map and the United Nations' Sustainable Development Goals?	<input type="checkbox"/>
7.7	Measure & Reporting How will the fund and its portfolio companies measure and report its ESG progress? Will an independent third party be hired to oversee this process?	<input type="checkbox"/>

Topic 1 – Team (NOTES)



Key People



Track Record



Alignment of Interests

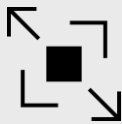
Topic 2 – Investment Strategy (NOTES)



Sector



Geography



Size of Deals

Topic 3 – Investment Process (NOTES)



Proprietary Deal Flow



Deal Funnelling Process



Due Diligence Process

Topic 4 – Fund Details (NOTES)



Fees



Waterfall Provisions



Co-Investments

Topic 5 – Reporting (NOTES)



Valuation



Subscription Lines of Credit



Returns

Topic 6 – Secondaries (NOTES)



Past Secondary Transactions



Secondary Sale Restrictions



Conflicts of Interest

Topic 7 – ESG (NOTES)



Commitment to ESG



Governance



ESG Integration Process

EXTRA NOTES



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www.youtube.com/c/SteveBalaban



www.linkedin.com/company/mink-learning/