

Private Equity Investors Association

Recommended Due Diligence Questionnaire

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Background and Purpose

Private Equity Investors Association (PEIA) was formed in 2002 in order to promote the interests of institutional investors in private equity partnerships. It aims to achieve this by providing (1) a focal point for raising standards and promoting best practice, (2) a forum for communicating both nationally and internationally with general partners and other interested bodies, and (3) a means for exchanging knowledge, information and experience. Members are drawn from the world of investors in private equity and represent pension funds, charities, family offices and insurance companies. At present, the Association can claim to represent many of the leading independent private equity investors in the UK.

As part of its programme to promote best practice, the PEIA formed a working party to develop a standardised questionnaire for limited partners to use in their due diligence process. It is hoped that it will be adopted by both limited and general partners and thereby improve the quality and quantity of the information presented in due diligence memoranda. It is recognised that the questionnaire does not cover all the needs of all limited partners and that some limited partners will request additional information.

PART I - Initial Due Diligence Material

1. General Fund Information

- a. Full legal name and address of Fund.
- b. Legal and tax structure of Fund (diagram if available).
- c. Jurisdiction of Fund.
- d. Full legal name and address of General Partner/Manager.
- e. Primary Fund contact person and contact details (phone, fax and e-mail)
- f. Brief overview of history of organization including information on when and how founded, funds under management currently and an overview of all investing activities carried out by the firm.

2. Placement Agents

- a. Name all placement agents and advisors, including contact names, addresses, e-mail addresses, telephone and fax numbers.
- b. Describe the placement agreements, including compensation structure. Please indicate who will be responsible for payment of placement agent compensation, and how and when compensation will be paid.
- c. Nature of any affiliations between placement agent(s) and General Partner.

3. Fund Raising and Corporate Governance

- a. Target Fund size including maximum (hard cap) and minimum target sizes, together with minimum and maximum size of individual LP commitments.
- b. Total commitments received to date and, if available, the names, contact details and amount committed by each investor.
- c. Actual or anticipated first closing date.
- d. If applicable, details of investments made to date.
- e. Expected total number of closings and date of anticipated final closing. Details of provisions regarding the admission of additional investors after first closing.
- f. General Partners' commitment to the Fund.
- g. Executive commitment to Fund.
- h. Describe the Fund's policy for making distributions in cash or *in specie* and the method for calculating the carried interest for *in specie* distributions. Please state the prior history of *in specie* distributions.
- i. Describe the Fund's policy regarding the reinvestment of previously distributed amounts. If permitted, describe the time constraints.
- j. Describe the Fund's policy regarding the reinvestment of undistributed realisations. If permitted, describe the time constraints.

- k. Is the Fund permitted to borrow other than for short-term working capital needs and, if so, within what limits?
- l. What is the expected life of the Fund? What is the process for extending its life? What is the investment period of the Fund? What about follow-on investments?
- m. Can the Fund invest in public securities? Indicate with what limitations and in what circumstances. Will the Fund be permitted to engage in hostile transactions?
- n. How will investment opportunities be allocated between concurrently active funds, if any? What will be the procedure for resolving any potential conflicts of interest between funds?
- o. Outline the conditions which have to be satisfied before the GP is permitted to devote time and resource to raising a subsequent fund.

4. Investment Strategy

- a. Describe the investment strategy of the Fund and what differentiates this strategy from the Fund's competitors.
- b. Explain the market opportunity and describe how the firm is equipped to address it.
- c. Describe the Fund's competitive edge in executing the investment strategy and in deal sourcing.
- d. Indicate how the stated strategy compares with that of prior funds.
- e. Provide a description of the Fund's competitive position relative to the market and other private equity funds. Also describe both the current and potential future developments that may have an impact on the Fund's competitive position.
- f. Explain the Fund's involvement in portfolio companies, such as operational involvement, financial engineering, board positions, required equity stake etc.
- g. Describe the risks involved in the Fund's particular investment approach and how does it plan to manage these risks.
- h. Sources of value creation including data showing where value has been created in previous investments. Please include case studies to illustrate this.
- i. Explain the Fund's approach to the valuation of investment opportunities and pricing discipline.
- j. Provide an analysis of the sources of investments in all prior funds and identify those investments where you were lead investor.

- k. Provide details of the proposed investment focus for the Fund:

Target %

Seed/early Stage

Later Stage/Development Capital

Small/Midcap Buy-out (please define criteria)

Large Cap Buy-out (please define criteria)

Special Situation

If others please explain

Total

Provide the same analysis for all prior funds.

- l. Provide details about the planned diversification of the Fund:
- | | <i>Minimum</i> | <i>Maximum</i> | <i>Expected</i> |
|--|----------------|----------------|-----------------|
| <i>Number of portfolio companies</i> | | | |
| <i>Investment per portfolio company (in %)</i> | | | |
| <i>Target holding period</i> | | | |
- Provide the actual diversification details for all prior funds.
- m. Provide details of planned geographical spread of the Fund:
- | <i>Country/Region</i> | <i>Minimum %</i> | <i>Maximum %</i> | <i>Expected %</i> |
|-----------------------|------------------|------------------|-------------------|
| | | | |
- Provide the actual geographical spread data for all prior funds.
- n. Provide details of the Fund's proposed sector focus together with details of your particular expertise within these sectors and why you consider them to be attractive.
- | <i>Sector</i> | <i>Minimum %</i> | <i>Maximum %</i> | <i>Expected %</i> |
|---------------|------------------|------------------|-------------------|
| | | | |
- Provide the actual sector analysis for all prior funds.
- o. Describe the potential risks to the market opportunity that the Fund addresses.
- p. Indicate the projected portfolio gross and net rates of return to investors.
- q. Describe the Fund's syndication policies including those that relate to limited partner co-investments.
- r. Provide a description of any other affiliates who may participate in transactions.
- s. Describe how you expect the investment environment over the investment period of this Fund to differ from the past and the implications of these differences on the Fund's strategy?
- t. Which previous deals were led by other private equity groups?
- u. State the Fund's policy regarding finder's-fees. Please include a list of transactions where finder's-fees have been paid and state the amounts paid.
- v. Describe the Fund's policy regarding auctions and indicate the proportion of the portfolio that is expected to be deployed through auctioned deals. Please include a list of deals that were won in auctions and a description of their subsequent performance, including the IRR and multiple.
- w. Provide an analysis of the historic deal flow for all prior funds in terms of their source, i.e. investment banks, accountants, brokers, lawyers and direct relationships from contacts of the investment team.
- x. Describe the role of outside consultants in the evaluation of potential investments and the extent to which due diligence is outsourced. Please provide a list of consultants, the deals in which they have been involved, and their compensation arrangements including any share of the carried interest.
- y. Describe the extent that leverage will be used in a typical investment and if there are any lenders that the Fund favours.

5. General Partner Information

- a. Full legal name, address, telephone number, fax number and regulatory body registration number of the General Partner/Manager/Fund sponsor.
- b. Description of other entities that will participate in management of the Fund including advisors, custodians and administrators.
- c. Legal structure and date and jurisdiction of formation for each entity specified above together with details of any regulatory recognition obtained by each entity.
- d. Describe the management organisation, including partners, principals, associates, and support staff. (Please include organisation chart). Provide a list of all offices with contact information of each and a list of all staff.
- e. Describe the controls in place to avoid potential conflicts of interest between current and prior funds, and between the current Fund and other business interests of the GP management team.
- f. Describe the co-operation/communication between your various offices.
- g. Explain how the interests of the GP and LP will be aligned.
- h. Describe the Fund's policy regarding personal investment by team members in deals reviewed by the GP (both accepted and rejected deals). If permitted, please provide a list of all previous investments of this nature.
- i. Describe any limitations on the ability of the principals to assign their interests in the general partner.
- j. Provide details of all matters referred to your advisory committees/board over the period of your track record, including currently unresolved matters. How often do they meet?
- k. Describe the remit of the Advisory Board/Committee to be utilised by the Fund including names, affiliations and biographies.
- l. Provide summary tables of all realised and unrealised investments in previous funds, showing both IRR and multiple of cost data.
- m. Provide summary IRR and multiple of cost data (net of all fees) for all previous funds attributable to LPs.

6. Terms

- a. Describe the terms of the management fee charge and, if applicable, the step down schedule after the end of the investment period.
- b. Is the management fee to be taken from committed capital or charged as additional cost?
- c. Describe the terms of the carried interest charged by the Fund and its basis e.g. overall fund or deal by deal. Please attach a worked example of the calculation.
- d. Describe the terms relating to the preferred return.
- e. Describe the Fund's policy regarding catch-up.
- f. Describe the clawback features of the Fund and whether it is guaranteed by the general partners on a joint or several basis.
- g. Explain the Fund's policy for the allocation of costs and expenses between the GP and LPs, including
 - i) Start up Fund costs, including placement agent fees
 - ii) Ongoing operational expenses
 - iii) Due diligence costs
 - iv) Abort costs
 - v) Deal monitoring costs
 - vi) Legal fees
- h. Please estimate the amount of annual operating expenses based on the experience from prior funds. What is the maximum amount of expenses to be paid to the general partner by the Fund?
- i. Please provide an estimate of recurring expenses for the proposed Fund, including annual meeting costs and advisory board fee costs.
- j. Describe the Fund's policy regarding the allocation of receipts from transaction fees, investment banking fees, monitoring fees, director's fees and any other form of income to the Fund versus the general partner.

7. Additional Documentation

Please provide the following in hard copy and electronic format to the extent not previously supplied.

- a. Offering Memorandum
- b. Presentation to prospective investors

Appendix A - IRR Schedule Instructions

Please provide detailed performance information on *each investment in each prior fund* in the format of an Excel spreadsheet. The basic data should include the following:

- a. Full investment name
- b. Country of investment headquarters (or primary operation)
- c. Sector
- d. Exact dates and amounts of gross cash flows per investment
- e. All fees incurred with each investment and the date when charged
- f. Residual value and valuation method for unrealised investments
- g. Name and contact details of person supplying data

Note: All figures should be in the same currency. Please clearly specify the currency and the unit amount i.e. millions, thousands, etc.

PART II - Additional Due Diligence Material

1. General Partner Information

- a. A description of the ownership structure of the General Partner entity, including percentage of ownership for each of the principals, and the vesting schedule for such ownership.
- b. An analysis of the allocation of the carried interest between all participants in the General Partner, including a vesting schedule for such participation.
- c. Summarise any current or past litigation between the GP and its LPs, and between the GP and its investee companies.
- d. List the debt service requirements for the management or advisory company. Does any of this debt involve personal guarantees and if so, by whom? Has the firm (or any affiliate, subsidiary or partnership) ever failed to make payments due under any secured or unsecured indebtedness? If so, please explain.

2. General Partner Experience

- a. Full name and date of birth for all partners or principals of the General Partner. Indicate which principals will be covered by key man provisions.
- b. Details of recruitment plans, if any.
- c. Details of any departures in the last five years and the reasons for such departures. Is any litigation pending? Are there any unresolved matters regarding clawback/carry?
- d. Complete résumés of the key partners and principals of the General Partner entity, including education and employment history together with current and past business interests and current board representation.
- e. Describe any health, financial, litigation, personal or other conditions of any of the general partners and principals that might influence their ability to execute their duties to the Fund.
- f. A discussion of the number and amounts of investment transactions previously completed by each of the partners and principals, including those attributable to principals who are no longer with the firm.
- g. Describe the prior investment or professional activities in which the General Partner's key partners and principals have worked together. Please specify time periods, their capacity and whether in the current or another organization.
- h. Describe any investments written off, sold or disposed of at a loss managed by any of the partners or principals.
- i. List all institutional investors in all prior funds or other investment portfolios, including full name of institution, contact name, title, address and telephone number, and date of admission (e.g. 1st closing, 2nd closing, secondary purchase) and amount of commitment. Please indicate which of these investors will not be investing in the new Fund and the reasons why.
- j. Ten professional references for each partner and principal, including references that can comment on prior investment activities, if applicable.

3. Resources

- a. Explain the role of each of the general partners including an allocation of time between deal sourcing, deal execution, operations, portfolio management, realisations and investor reporting etc.
- b. Describe the allocation of time by each general partner to new and existing funds, including the average number of days spent on a portfolio company per month.
- c. Which companies in the existing portfolio require a more than average amount of time and attention? Why is this the case? Is this additional time requirement expected to continue?
- d. Describe how is the investment team staffed and who designates which individuals work on which transactions.
- e. Describe any partner succession plans, if any.

4. Evaluation and Monitoring Processes

- a. Describe the process by which opportunities are screened and how you decide which of these opportunities you wish to analyse in further detail. Illustrate this by reference to actual deals in your prior fund, perhaps using a one page case study.
- b. Describe your investment process through to fund investment committee approval, for both new and follow on investments
- c. Describe the composition of the investment committee.
- d. Describe the Fund's policy regarding board seats in portfolio companies, including the maximum number of intended board seats per partner.
- e. List the board positions of all of the Fund's investment professionals.
- f. Describe the reports to be provided to LPs and specify the frequency.
- g. Please discuss reports/accounts provided by the portfolio companies and specify the frequency.
- h. Describe the Fund's internal monitoring process.

5. Additional Documentation

Please provide the following in hard copy and electronic format to the extent not previously supplied.

- a. Limited partnership agreement or other form of constitutional document
- b. Side letters/special agreements with other limited partners
- c. The most recent annual and quarterly reports for each prior fund
- d. An investment recommendation for a recent transaction
- e. Three year operating budget for GP/Fund sponsor
- f. Recent deal log

Appendix A - Individual Partner Questionnaire

To be completed by each general partner/principal

RESPONDENT NAME: _____

FUND NAME: _____

Note: Please provide details of any "Yes" answers on a separate sheet.

1. Have you ever been convicted of any offence involving fraud or other dishonesty or an offence under legislation relating to companies (including insider dealing), building societies, industrial and provident societies, credit unions, friendly societies, insurance, banking or other financial services, insolvency, consumer credit or consumer protection?

Yes____ No____

2. Have you ever been convicted of any offences (excluding minor traffic offences) other than those listed above, or been subject to any convictions for tax evasion?

Yes____ No____

3. Are you currently engaged in, or subject of, any criminal or civil proceedings or arbitration (other than as a witness or member of a jury)?

Yes____ No____

4. Have you in the previous 10 years been a defendant in any civil proceedings, including judgement of debts, or arbitration (other than as a witness or member of a jury)?

Yes____ No____

5. Have you at any time been declared bankrupt or had your estate sequestrated, are you currently the subject of bankruptcy proceedings for the sequestration of your estate, or are you aware of any such proceedings pending?

Yes____ No____

6. Has any organisation of which you are, or have been, a director, partner or controller been put into liquidation, had a receiver or administrator appointed or entered into an arrangement with its creditors?

Yes____ No____

7. Are you or have you ever been the subject of an investigation by the FSA, SEC or similar regulatory authority?

Yes____ No____

Signature

Date

Appendix B - Unrealised Investment Summaries

For each unrealised investment please provide a full description, including the following information:

- Responsible partner (s)
- Board seat – name
- Source of investment
- State nature of introduction e.g. auction, limited auction, proprietary. If auction, state names of other private equity bidders.
- Industrial sector
- Business description
- Location
- Key contact and telephone number
- Date of transaction
- Investment amount by LP fund
- Total equity invested
- Other institutional investors (indicate if they are client funds)
- Total transaction size
- Lead investor
- Transaction description and use of proceeds
- Stage/type of investment
- Capital structure of investment
- Purchase price multiple of EBIT and EBITDA (historic, current, forecast)
- PE multiple (historic, current, forecast)
- Equity interest in company
 - ~ LP fund
 - ~ Other institutional investors
 - ~ Management
 - ~ Other
- Investment rationale
- Performance of investment relative to original investment case, including narrative and summary financial data.
- Describe any changes to the management team taken place post investment and the reasons why.
- Annual company financial performance for year prior to investment to most recent reported year, including turnover, gross margin, EBITDA, EBIT, PBT, net debt, splitting P&L items between organic and acquired growth.
- Company valuation estimate stating assumptions and basis of valuation.
- Proposed exit route, including time scale and, if trade sale, identify the potential buyers.

Appendix C - Realised Investment Summaries

For each realised investment please provide a full description, including the following information:

- Responsible partner
- Source of investment
- Nature of introduction
- Business description
- Location
- Key contact and telephone number
- Date of transaction
- Investment amount
- Transaction description and use of proceeds
- Type of investment
- Capital structure of investment
- Actual purchase price multiple of EBIT and EBITDA
- PE multiple – Actual
- Equity interest in company
- Investment rationale
- Performance of investment relative to original investment strategy
- Annual company financial performance for year prior to investment to most recent reported year, including turnover, gross margin, EBITDA, EBIT, PBT, net debt, splitting P&L items between organic and acquired growth.

Exit Details:

- Buyer
- Exit date
- Exit value
- Exit EBIT and EBITDA multiple
- Exit value attributable to the Fund versus cost (capital and income)
- Gross IRR on exit
- Analysis of value creation by sales, margin and profit growth, cash flow, deleverage, multiple growth, etc.