



Tear Sheet: Rethinking Costs in Private Equity Fund Formation

Best Practices for Limited Partners

- **Advocate for Expense Caps:** Push for organizational expense caps at the lower of 5 basis points of a fund's total committed capital or \$10 million to constrain costs and ensure fairness.
- **Demand Transparency:** Request detailed legal rate schedules and draft budgets for all formation-related fund counsel services to understand and monitor costs.
- **Encourage Competitive Bidding:** Urge GPs to conduct competitive bidding processes for fund counsel, especially for funds targeting more than \$1 billion in total committed capital, to reduce legal expenses.
- **Monitor Budget Adherence:** Ensure that legal budgets are realistic and closely monitored, and advocate for GPs to bear 50% of the cost of any budget overruns.
- **Promote Standardization:** Support greater standardization of limited partnership agreements and side letter language to the extent possible to reduce negotiation complexity and associated costs.

Best Practices for General Partners

- **Adopt Cost-Sharing Models:** Agree to bear 50% of organizational expense overruns beyond the proposed caps to align incentives and promote cost discipline.
- **Set Realistic Budgets:** Work with fund counsel to establish realistic legal budgets and ensure they are adhered to during the fund formation process.
- **Increase Transparency:** Provide LPs with access to legal rate schedules, draft budgets, and billing details to foster trust and collaboration.
- **Conduct Competitive Bidding for Counsel:** For large funds, engage in competitive bidding processes to select fund counsel, ensuring cost efficiency and quality.

- **Streamline Documentation:** Reassess the use of long-term outside counsel for legacy funds and prioritize efficiency by leveraging standardized documentation and established relationships.

Best Practices for Outside Counsel Supporting This Guidance

- **Provide Transparent Billing:** Share detailed rate schedules and realistic draft budgets with both the GP and fund LPs to ensure clarity and trust in the cost structure.
- **Adhere to Budget Discipline:** Commit to staying within agreed-upon budgets and proactively communicate any potential overruns to both the GP and fund LPs.
- **Offer Competitive Pricing:** Participate in competitive bidding processes for large funds and provide cost-effective solutions without compromising the quality of legal services.
- **Standardize Documentation:** Develop and utilize standardized templates to the extent possible for limited partnership agreements and side letters to reduce complexity and streamline negotiations.
- **Focus on Efficiency:** Prioritize efficiency in fund formation processes by leveraging institutional knowledge from previous engagements and minimizing unnecessary revisions to legacy agreements.