

Private Markets Due Diligence Questionnaire

Your Resource for Evaluating Private Market Partners

As you explore potential partnerships in private markets, it's important to recognize that these investments work differently than traditional public market investments held in daily liquid vehicles, such as mutual funds and ETFs. This questionnaire is designed to help you navigate those differences and conduct an informed due diligence process.

Key Distinctions: How Do Private Markets Differ from Public Markets?

Unlike public markets, private market success isn't measured primarily through standard metrics such as daily performance, risk stats and traditional alpha. Instead, success comes from a variety of factors - superior deal sourcing capabilities, information advantage, strong underwriting, accurate valuations and strategic industry relationships. These factors are important to assess but harder to quantify.

Additionally, when private market strategies are structured as liquid funds, they face unique operational complexities that are absent in funds of publicly traded assets. Managers need to balance cash inflows with deployment, set redemption policies, handle multiple fee layers and use leverage strategically. This means the traditional methods for evaluating firms, strategies and risk management need to be updated for interval funds, with different approaches needed for each asset class. The following questions will help you identify the qualitative factors and operational considerations that define private market success. It's important to note that this is not an exhaustive list of questions that should be addressed, but merely the first step in a thorough due diligence process.

GENERAL QUESTIONS

Firm & Platform

- Is your firm wholly employee-owned, or are there external owners? If there are external owners, please provide details of the economic relationship.
- What are your assets under advisement or management by asset class? Please detail all discretionary funds managed by your firm in each asset class.
- How long have you been investing in private markets?
- How many investment professionals do you have by asset class and what is their experience?
- Does your firm primarily work with institutions or retail clients?

Investment Strategy

- What is the investment opportunity you're seeking to capture? Please describe the market.
- What combination of sectors and exposures do you expect the fund to include?
- What is your process for sourcing deals?
- What kills a deal for your team?
Please describe a recent example.
- How do investment decisions get made and line items added to the portfolio?
- What do you anticipate would be the best and worst market conditions for this strategy?
- How do you compare to relevant benchmarks and peer groups?

Investment Risk

- How much leverage does the fund use? Please detail all look-through leverage, including CLOs and other off-balance sheet structures.
- What is the balance of private vs. public markets exposure?
- What's your maximum single position size and sector concentration limits?
- How do you stress test the portfolio under different economic scenarios?
- What early warning indicators do you monitor for portfolio companies?

Fees

- What is your overall net expense ratio? Is there an incentive fee?
- Is the management fee charged on gross or net assets?
- If the fund charges an incentive fee, what is the hurdle rate and how is the incentive fee calculated? Are there any clawback provisions?
- What is the cost of your leverage facility?
- Does the fund charge a sales or redemption fee?
- Does the fund incur acquired fund fees and expenses (AFFE)? If so, please describe.
- Are there fee breakpoints at certain AUM levels? If so, please describe.

Operations & Liquidity

- What are the subscription and redemption terms?
- Is liquidity guaranteed, or can the manager unilaterally restrict it? If so, please describe the liquidity gates.
- How do you manage large inflows or outflows?
- What was your biggest redemption to date? Please provide a table of historical redemptions at each period and asset growth of the fund.
- What might happen if there is a need to sell illiquid assets to meet redemptions?
- How might periodic liquidity affect your implementation relative to a traditional draw-down fund structure?
- What's the return impact from maintaining liquidity reserves?
- What paperwork does your fund require for subscriptions, redemptions and tax reports?

Valuation

- Who handles fund administration and is responsible for determining the NAV? What controls or guidelines are in place to ensure error potential is minimized?
- Who handles auditing the fund? What are their responsibilities regarding valuations?
- Does the auditor review the valuations for all investments or only a sample?
- What valuation methodologies are utilized by the Fund? What valuation methodology is most commonly used?
- How frequently are valuations conducted on each investment?
- What is the proportion of the portfolio by fair value level (1, 2, 3 or Net Asset Value)?
- How does the fund complete valuations of level 3 assets on any day a NAV is determined? How do these procedures differ from quarter-end procedures?

Governance

- Does the team manage additional track records in similar strategies?
- How do you handle key person risk, and do you have a succession plan in place?
- What is your investment committee process for decisions?
- What is your allocation policy between client portfolios and funds?

Red Flag Questions

- Have any senior investment professionals left in the last 5 years. If so, please describe.
- Are there any history of client complaints, regulatory actions, or pending litigation against your firm or its principals?
- What do you believe the current capacity limit is, and at what asset level would growth impact your ability to continue to deploy the strategy?
- What might cause you to close this fund to new investors?
- What's the biggest risk to your strategy that keeps you up at night?

Private Equity

Investment Strategy:

- How does your firm originate private equity deal flow and access high quality GPs?
- Please provide your private equity track record, including IRR, TVPI, and DPI by vintage year, and if possible, by both gross and net.
- Please disaggregate this track record across primary funds, secondaries, and co-investments.
- How do you expect to deploy capital across primary funds, secondaries, and co-investments, and will those allocations change over time?
- What do you expect portfolio composition to be across strategies – buyouts, growth equity, venture capital, distressed for control/turnaround, and other?
- What return drivers do you see as most pertinent to your strategy, such as secondary discounts, revenue growth, margin enhancement, and multiple expansion? If possible, please provide this detail for your track record as well.

Risk Management:

- Do you run a pacing model on the portfolio to understand potential distribution curves? If so, can you provide details of the model?
- What is the current portfolio composition across vintage years as a percentage of fund assets?
- How much of the portfolio is expected to be invested in the top 10 positions as a percentage of fund assets?
- What is the maximum and average position size as a percentage of fund assets?
- How diversified will the fund be by industry?

Operations:

- What percentage of the portfolio stays liquid for redemptions?
- What other sources of liquidity are in place for redemptions?
- Please provide details on the size and outstanding balances of credit facilities.
- What happens if redemptions exceed limits during stress?

Private Credit:

Investment Strategy:

- Describe the factors you consider critical to the underwriting process.
- What's the portfolio average LTV and maturity?
- What is the mix between senior and subordinated debt positions?
- What are the allocations across the following sectors: corporate credit, consumer loans, real estate credit and asset backed loans?
- What is the current yield on the portfolio?
- How diversified is your portfolio by industry and geography?

Risk Management:

- How do you monitor credit performance? How does your team manage potential defaults?
- How much of the portfolio is currently considered non-performing?
- What are the historical default and credit loss ratios?
- How much Payment in Kind (PIK) exposure is in the portfolio?
- How much of the portfolio is expected to be invested in the top 10 positions as a percentage of fund assets?
- What is the maximum and average position size as a percentage of fund assets?

Operations:

- How much of the portfolio is in assets with daily liquidity?
- What is the distribution of the portfolio across duration, as a percentage of fund assets?
- Are there any other sources of liquidity for the portfolio?
- Please provide details on the size and outstanding balances of all credit facilities.
- Is there a scenario that might require forced selling of credit positions to meet redemptions?

Hedge Funds:

Investment Strategy:

- Are all investments into commingled funds or do you expect to invest via SMA, Fund of Ones or direct investments?
- What is your expectation for portfolio turnover? Why would portfolio turnover occur?
- What is your expectation or target for returns? What has been the historical return profile of the fund?
- What are the expected allocations across hedge fund strategies?
- Are there maximum or minimum allocation ranges?

Risk Management:

- How do you monitor and aggregate risks, including underlying liquidity, across the portfolio?
- Do you have any limitations on sectors, geographies, industries, holdings, etc.?
- How do you size individual positions in your portfolio?
- Do you use leverage at the fund level? How do you monitor the use of leverage from underlying managers?
- Do you regularly stress test the portfolio? What assumptions do you use?
- How do you expect the portfolio to behave in periods of significant market volatility (2008, 2020, etc.)?
- Do you apply any additional hedges at the portfolio level?

Operations:

- Do you conduct background checks on fund managers and key employees?
- Have you ever had exposure to a fund involved in fraud or significant operational failure?
- How often do you update your operational due diligence assessment of underlying managers?
- Who are your key service providers (auditor, fund administrator, legal counsel)?

Real Assets

Investment Strategy

- What's your investment strategy, and how is that impacted by current economic/political climate?
- How do you position for different market cycles?
- How do you balance current income vs. total return?
- What's your approach to geographic and asset type diversification?
- What is your overall risk/return profile?
- What's the fund's historical performance?
- How does the fund compare to public benchmarks?

Risk Management

- How do you utilize leverage?
- How do you assess and price risk on long-dated assets, e.g. regulatory, environmental, and obsolescence risk?
- How do you manage liquidity risk?

Operations

- How do you accommodate redemptions?
- What happens if you need to sell assets for redemptions?
- What's your approach to capital expenditure and property improvements?
- What's the history of NAV volatility?



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