

---

## Table of Contents

<b>TABLE OF FIGURES.....</b>	<b>XIV</b>
<b>TABLE OF ABBREVIATIONS.....</b>	<b>XVII</b>
<b>TABLE OF SYMBOLS.....</b>	<b>XIX</b>
<b>1 INTRODUCTION.....</b>	<b>1</b>
<b>1.1 Relevance of Topic .....</b>	<b>1</b>
<b>1.2 Aims of Analysis and Research Approaches .....</b>	<b>5</b>
<b>1.3 Structure of Analysis.....</b>	<b>7</b>
<b>2 INVESTING IN PRIVATE EQUITY PARTNERSHIPS .....</b>	<b>11</b>
<b>2.1 Fundamentals of Private Equity .....</b>	<b>11</b>
<i>2.1.1 Definition of Private Equity Investments .....</i>	<i>11</i>
<i>2.1.2 Private Equity Funds as Intermediaries.....</i>	<i>13</i>
<b>2.2 Characteristics of Private Equity Partnerships .....</b>	<b>16</b>
<i>2.2.1 Generic Structure of the Limited Partnership.....</i>	<i>16</i>
<i>2.2.2 Life Cycle of the Limited Partnership .....</i>	<i>18</i>
<i>2.2.3 Partners in the Limited Partnership.....</i>	<i>20</i>
2.2.3.1 Private Equity Firms as General Partners .....	20
2.2.3.2 Fund Investors as Limited Partners.....	22
<b>2.3 Characteristics of Private Equity Partnership Investments .....</b>	<b>25</b>
<b>2.4 Governing the Relationship between Limited and General Partners...</b>	<b>27</b>
<i>2.4.1 Potential Conflicts of Interest .....</i>	<i>27</i>
<i>2.4.2 Direct Means of Control .....</i>	<i>31</i>
<i>2.4.3 Performance Incentives.....</i>	<i>34</i>
<i>2.4.4 Importance of Provisions in the Limited Partnership Agreement .</i>	<i>37</i>

<b>2.5</b>	<b>Fund Investors' Investment Process.....</b>	<b>38</b>
2.5.1	<i>Overview.....</i>	38
2.5.2	<i>Asset Allocation.....</i>	39
2.5.3	<i>Portfolio Construction.....</i>	47
2.5.4	<i>Portfolio Monitoring and Portfolio Management.....</i>	50
<b>2.6</b>	<b>Institutional Differences and Limited Partners' Investment Success... </b>	<b>51</b>
<b>2.7</b>	<b>Role of Information in the Relationship between General and Limited Partners.....</b>	<b>54</b>
2.7.1	<i>Overview.....</i>	54
2.7.2	<i>Decision-supporting Role.....</i>	56
2.7.3	<i>Governance-enabling Role.....</i>	58
2.7.4	<i>Relationship-building Role.....</i>	59
<b>3</b>	<b>FUND INVESTORS' MONITORING.....</b>	<b>63</b>
<b>3.1</b>	<b>Introductory Remarks .....</b>	<b>63</b>
<b>3.2</b>	<b>Research Methodology and Data.....</b>	<b>64</b>
<b>3.3</b>	<b>Relevance and Objectives of Monitoring.....</b>	<b>67</b>
<b>3.4</b>	<b>Monitoring Performance.....</b>	<b>70</b>
3.4.1	<i>Return Measures of Fund Investments .....</i>	70
3.4.2	<i>Interim Returns and the Relevance of Fund Valuation.....</i>	75
3.4.2.1	<i>J-curve Pattern of Interim Returns .....</i>	75
3.4.2.2	<i>Interim Fund Valuation .....</i>	77
3.4.3	<i>Benchmarking Returns .....</i>	82
3.4.3.1	<i>Peer Group Benchmarking .....</i>	82
3.4.3.2	<i>Public Market Benchmarking.....</i>	84
3.4.4	<i>Risks of Fund Investments .....</i>	90
3.4.4.1	<i>Different Types of Risks .....</i>	90
3.4.4.2	<i>Measurement of Risks.....</i>	94

---

3.4.5	<i>Fund Investment's Costs</i> .....	97
<b>3.5</b>	<b>Monitoring and Fund Governance</b> .....	<b>100</b>
3.5.1	<i>Advisory Board Representation</i> .....	100
3.5.2	<i>Value Adding</i> .....	103
3.5.3	<i>Crisis Management</i> .....	106
<b>3.6</b>	<b>Monitoring and Fund Re-Investing</b> .....	<b>109</b>
3.6.1	<i>Evaluating a Fund Investment Opportunity</i> .....	109
3.6.2	<i>Differences to the First-time Decision</i> .....	112
<b>3.7</b>	<b>Monitoring and Fund Portfolio Management</b> .....	<b>114</b>
3.7.1	<i>Monitoring Portfolio Diversification</i> .....	114
3.7.2	<i>Monitoring Portfolio Liquidity</i> .....	118
3.7.3	<i>Portfolio Management with Secondary Transactions</i> .....	123
<b>3.8</b>	<b>Resulting Information Requirements</b> .....	<b>127</b>
3.8.1	<i>Information Sources</i> .....	127
3.8.2	<i>Satisfaction with the Fund Managers' Reporting</i> .....	131
3.8.3	<i>Implications for the Content of the Fund Managers' Reporting</i> ..	134
3.8.4	<i>Limitations of Fund Managers' Reporting</i> .....	141
<b>4</b>	<b>FUND MANAGERS' REPORTING</b> .....	<b>145</b>
<b>4.1</b>	<b>Introductory Remarks</b> .....	<b>145</b>
<b>4.2</b>	<b>Statutory Financial Statements</b> .....	<b>147</b>
4.2.1	<i>Relevance of International Financial Reporting Standards</i> .....	147
4.2.2	<i>Elements of Statutory Financial Statements</i> .....	148
4.2.3	<i>Accounting for Portfolio Company Investments</i> .....	152
4.2.3.1	Financial Instruments and Level of Ownership .....	152
4.2.3.2	Accounting for Financial Instruments .....	155
4.2.3.3	Accounting for Associates and Joint Ventures .....	161
4.2.3.4	Accounting for Subsidiaries .....	163

---

4.2.4	<i>Discussion of Financial Reporting Requirements</i> .....	166
4.2.4.1	Consolidation of Portfolio Company Investments .....	166
4.2.4.2	Distinguishing Private Equity Funds from Non- Investment Companies .....	172
4.2.4.3	Information Gap of Statutory Financial Statements for Fund Investors .....	176
<b>4.3</b>	<b>Fair Value Measurement of Private Equity Portfolio Company Investments .....</b>	<b>178</b>
4.3.1	<i>Definition and Concept of Fair Value</i> .....	178
4.3.2	<i>Valuation Process</i> .....	180
4.3.3	<i>Accounting Standards Requirements</i> .....	183
4.3.4	<i>Private Equity Industry Valuation Guidelines</i> .....	188
4.3.4.1	Objectives of Industry Valuation Guidelines .....	188
4.3.4.2	Development of Industry Valuation Guidelines.....	190
4.3.4.3	Comparison of Industry Valuation Guidelines.....	194
4.3.5	<i>Valuation Techniques for Private Equity Investments</i> .....	197
4.3.5.1	General Considerations .....	197
4.3.5.2	Market-based Valuation Techniques.....	200
4.3.5.3	Model-based Valuation Techniques.....	204
4.3.5.4	Selecting a Valuation Technique.....	206
4.3.5.5	Considering other Indicators of Value .....	210
4.3.5.6	Considering the Impact of Options and Contractual Rights.....	213
4.3.6	<i>Discussion of the Appropriateness of Fair Value Measurement for Private Equity Investments</i> .....	216
4.3.6.1	Incentives to Manage Valuations .....	216
4.3.6.2	Fair Value as Measurement Basis .....	220

---

<b>4.4</b>	<b>Investor Reporting .....</b>	<b>224</b>
4.4.1	<i>Introductory Remarks.....</i>	224
4.4.2	<i>Framework for the Analysis of Investor Reporting.....</i>	226
4.4.2.1	Overview on Existing Literature .....	226
4.4.2.2	Industry Reporting Guidelines .....	228
4.4.2.3	Categories of Information in Fund Reports.....	231
4.4.2.4	Information on Fund Level .....	232
4.4.2.5	Information on Portfolio Company Level.....	236
4.4.3	<i>Possible Influence of Fund Characteristics on the Disclosure....</i>	238
4.4.4	<i>Level of Disclosure.....</i>	241
4.4.4.1	Research Methodology.....	241
4.4.4.2	Sample Description .....	243
4.4.4.3	Results .....	245
4.4.5	<i>Discussion of Results.....</i>	254
4.4.6	<i>Limitations of the Study.....</i>	261
<b>5</b>	<b>CONCLUSION.....</b>	<b>263</b>
<b>5.1</b>	<b>Summary .....</b>	<b>263</b>
<b>5.2</b>	<b>Implications for Practitioners .....</b>	<b>269</b>
<b>5.3</b>	<b>Implications for Further Research .....</b>	<b>274</b>
	<b>APPENDIX A: LIST OF INTERVIEW PARTNERS .....</b>	<b>277</b>
	<b>APPENDIX B: INTERVIEW QUESTIONNAIRE .....</b>	<b>280</b>
	<b>APPENDIX C: DISCLOSURE INDEX.....</b>	<b>291</b>
	<b>REFERENCES.....</b>	<b>294</b>