The Lifetime Total Expense Ratio – LTER

Zurich, March 17, 2014
A global, independent private asset manager

Capital Dynamics* invests in private equity and clean energy infrastructure

- Delivering to 1,000+ clients and investors in 26 countries through one fully integrated investment platform
- 20+ years of experience held by senior investment professionals¹
- USD 19 billion AUM/AUA²
- Operating from 14 offices around the globe
- Direct, secondary and fund of funds, separate accounts and structured products
- Signatory since 2008

* Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates. Capital Dynamics China is a legally separate company operating under a strategic cooperation with Capital Dynamics.

(1) Average years of experience held by Capital Dynamics' 20 most-senior investment professionals.
(2) AUM/AUA, as of September 30, 2013, include assets under discretionary management, advisement (non-discretionary), and administration across all Capital Dynamics affiliates. Investments are primarily on behalf of funds managed by Capital Dynamics.
The total expense ratio is the relation between fees and NAV

\[ TER \% = \frac{\text{Management Fees} + \text{Expenses} + \text{Performance fees}}{\text{Net Asset Value}} \times 100 \]

The net asset value evolves

The fees paid by the investor also change

Source: Capital Dynamics
For private equity, the TER is an unstable measure.

TER values are high when the net asset value is small.

TER values are minimal when the net asset value is maximal.

TER is incomputable when the net asset value is zero.

Performance fees can lead to high TER values.

Source: Capital Dynamics

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LTER solves this issue\(^1\)

\[
TER \% = \frac{Management \, Fees + Expenses + Performance \, fees}{Net \, Asset \, Value} \times 100
\]

\[
LTER \% = \frac{\sum_{\text{lifetime}} (Management \, Fees + Expenses + Performance \, fees)}{(\sum_{\text{lifetime}} Distributions) \times (\# \, years)} \times 100
\]

- Do not base the computation on net asset values
- Take into account all the fees i.e. look at the total period

\(^1\) LTER is not intended to replace the TER measure. LTER provides additional information to investors as comparability to other asset classes and global fees overview.

• Using the distributed capital as denominator will allow comparing private equity to other assets based on the performance the investor gets
• The LTER can be estimated relatively accurately by using models based on performance hypotheses and fund’s term sheet
Example

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Calls</th>
<th>Gross Distr.</th>
<th>Net Asset Value</th>
<th>Mgmt. Fees</th>
<th>Expenses</th>
<th>Perf. Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-33.3</td>
<td>0.0</td>
<td>26.0</td>
<td>1.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>2</td>
<td>-33.3</td>
<td>0.0</td>
<td>65.7</td>
<td>1.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>-33.3</td>
<td>0.0</td>
<td>111.9</td>
<td>1.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td>0.0</td>
<td>0.0</td>
<td>132.5</td>
<td>1.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>5</td>
<td>0.0</td>
<td>33.8</td>
<td>122.7</td>
<td>1.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>6</td>
<td>0.0</td>
<td>33.8</td>
<td>110.2</td>
<td>0.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>7</td>
<td>0.0</td>
<td>33.8</td>
<td>95.7</td>
<td>0.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>8</td>
<td>0.0</td>
<td>33.8</td>
<td>78.8</td>
<td>0.9</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>9</td>
<td>0.0</td>
<td>33.8</td>
<td>59.1</td>
<td>0.9</td>
<td>0.1</td>
<td>4.2</td>
</tr>
<tr>
<td>10</td>
<td>0.0</td>
<td>33.8</td>
<td>36.2</td>
<td>0.9</td>
<td>0.1</td>
<td>8.9</td>
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<tr>
<td>11</td>
<td>0.0</td>
<td>33.8</td>
<td>8.5</td>
<td>0.0</td>
<td>0.1</td>
<td>5.1</td>
</tr>
<tr>
<td>12</td>
<td>0.0</td>
<td>10.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>1.5</td>
</tr>
<tr>
<td>-100.0</td>
<td>246.5</td>
<td>14.0</td>
<td>1.2</td>
<td>19.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[ TVPI = \frac{246.5 - 19.7}{100 + 1.2 + 14} = 1.97 \]
\[ LTER = \frac{14 + 1.2 + 19.7}{(246.5 - 19.7) \times 12} \times 10 = 1.28\% \]

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Asset Value</th>
<th>TER</th>
<th>Fees</th>
<th>Net return</th>
<th>Gross return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>107.3</td>
<td>1.5%</td>
<td>1.6</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>2</td>
<td>113.4</td>
<td>1.5%</td>
<td>1.7</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>3</td>
<td>119.9</td>
<td>1.5%</td>
<td>1.8</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>4</td>
<td>126.7</td>
<td>1.5%</td>
<td>1.9</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>5</td>
<td>133.9</td>
<td>1.5%</td>
<td>2.0</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>6</td>
<td>141.5</td>
<td>1.5%</td>
<td>2.1</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>7</td>
<td>149.6</td>
<td>1.5%</td>
<td>2.2</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>8</td>
<td>158.1</td>
<td>1.5%</td>
<td>2.4</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>9</td>
<td>167.1</td>
<td>1.5%</td>
<td>2.5</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>10</td>
<td>176.6</td>
<td>1.5%</td>
<td>2.6</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>11</td>
<td>186.6</td>
<td>1.5%</td>
<td>2.8</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>12</td>
<td>197.2</td>
<td>1.5%</td>
<td>3.0</td>
<td>5.80%</td>
<td>7.30%</td>
</tr>
</tbody>
</table>

\[ TVPI = \frac{197.2}{100} = 1.97 \]
\[ LTER = \frac{26.7}{197.2 \times 12} \times 10 = 1.13\% \]

- At a comparable multiple, the lifetime total expense ratio of private equity is very close to the LTER of an average mutual fund.

Source: Capital Dynamics
Private equity is “expensive” only if it performs well

In bad market environments, the private equity fees scheme is more favorable to the investor.

In average market conditions, the fee levels are comparable.

When the performance gets higher, the performance fees lead to a higher LTER for private equity.

Source: Capital Dynamics

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