Capital Dynamics

«Your bridge to the world of private assets.»

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

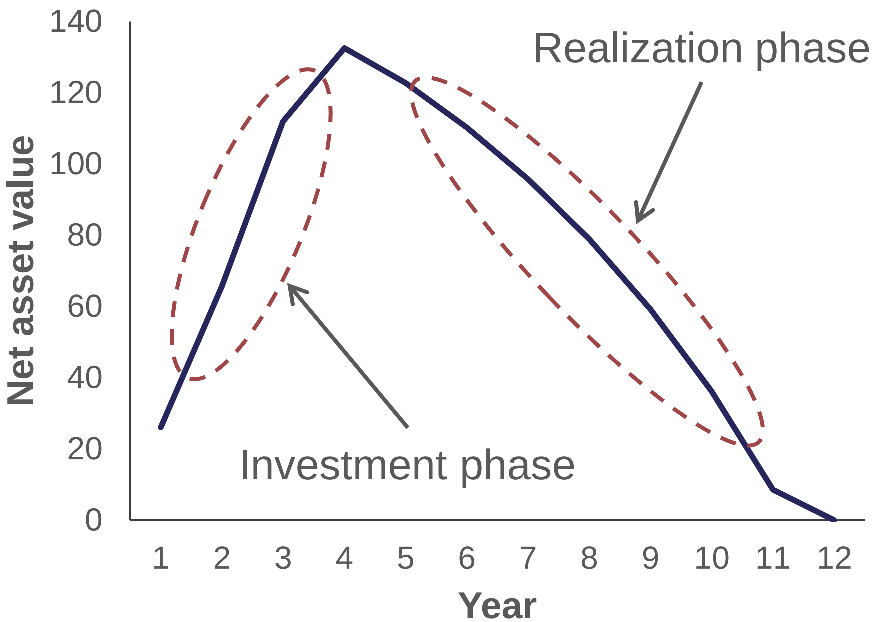
- Delivering to 1,000+ clients and investors in 26 countries through one fully integrated investment platform
- 20+ years of experience held by senior investment professionals[1]
- USD 19 billion AUM/AUA[2]
- Operating from 14 offices around the globe
- Direct, secondary and fund of funds, separate accounts and structured products
- Signatory since 2008 PRI Principles for Responsible Investment

* 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.

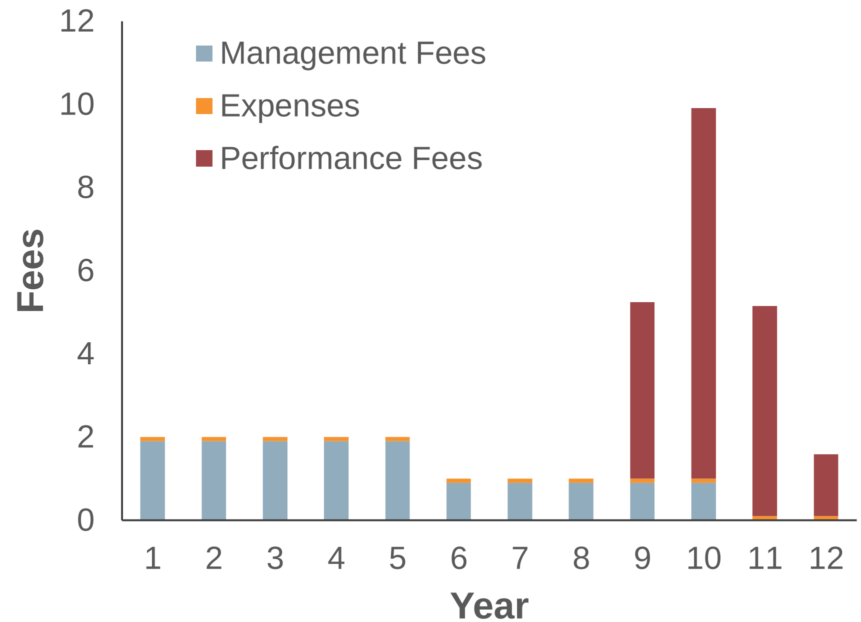
The total expense ratio is the relation between fees and NAV

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

The net asset value evolves

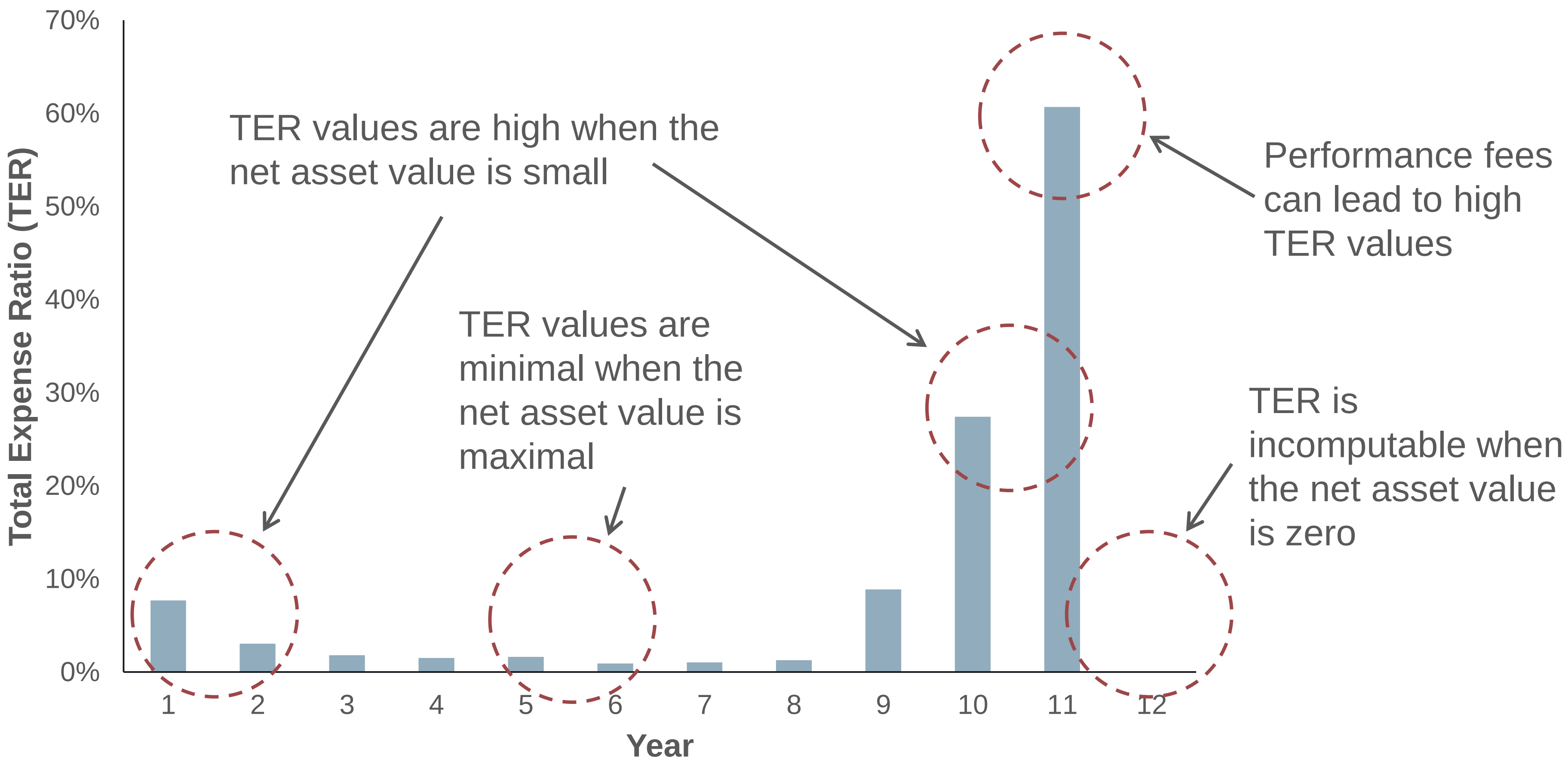


The fees paid by the investor also change



Source: Capital Dynamics

For private equity, the TER is an unstable measure



Source: Capital Dynamics

LTER solves this issue[1]

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

The net asset value evolves

Do not base the computation on net asset values

The fees paid by the investor also change

Take into account all the fees i.e. look at the total period

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

- 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

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.

Example

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

Public equity fund					
Year	Net Asset Value	TER	Fees	Net return	Gross return
1	107.3	1.5%	1.6	5.80%	7.30%
2	113.4	1.5%	1.7	5.80%	7.30%
3	119.9	1.5%	1.8	5.80%	7.30%
4	126.7	1.5%	1.9	5.80%	7.30%
5	133.9	1.5%	2.0	5.80%	7.30%
6	141.5	1.5%	2.1	5.80%	7.30%
7	149.6	1.5%	2.2	5.80%	7.30%
8	158.1	1.5%	2.4	5.80%	7.30%
9	167.1	1.5%	2.5	5.80%	7.30%
10	176.6	1.5%	2.6	5.80%	7.30%
11	186.6	1.5%	2.8	5.80%	7.30%
12	197.2	1.5%	3.0	5.80%	7.30%
			26.7		

$$TVPI = \frac{246.5 - 19.7}{100 + 1.2 + 14} = \mathbf{1.97}$$

$$TVPI = \frac{197.2}{100} = \mathbf{1.97}$$

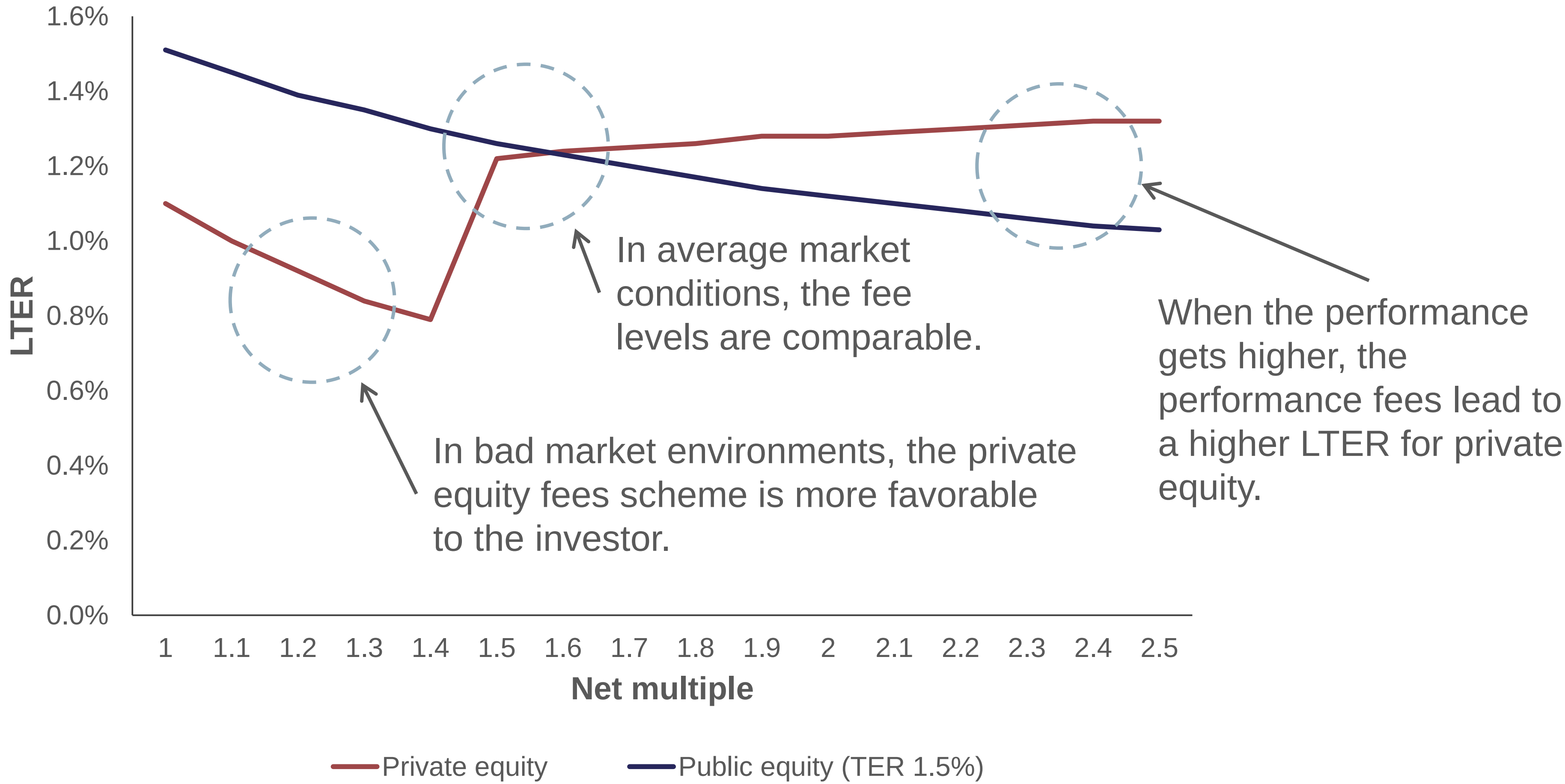
$$LTER = \frac{14 + 1.2 + 19.7}{(246.5 - 19.7) \times 12} \times 10 = \mathbf{1.28}\%$$

$$LTER = \frac{26.7}{197.2 \times 12} \times 10 = \mathbf{1.13}\%$$

- 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



Source: Capital Dynamics

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* Capital Dynamics China is a legally separate company operating under a strategic cooperation with the Capital Dynamics group.

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