



CTS PRIVATE MARKETS TEMPLATE GLOSSARY OF TERMS

This document is designed to aid understanding of the Cost Transparency Template (CTS) for asset owners and their advisors.

INTRODUCTION

The Cost Transparency Standard (CTS) provides a new industry standard for asset owner investment cost data. The Cost Transparency Standard (CTS) templates and tools provide a framework for asset owners to receive detailed, consistent and standardised cost and charges information from asset managers.

This information can be used to support assessments of value for money delivered.

The Private Markets Template is completed by managers of closed-ended private equity, private debt, real estate (property) and real estate (property) debt funds.

HOW INFORMATION IS PROVIDED

The Cost Transparency Standard (CTS) template will be completed by asset managers of closed-ended private equity, private debt, real estate (property) and real estate (property) debt funds.

Asset owners are recommended to employ a third-party provider to manage the Cost Transparency Standard (CTS) data collection process on their behalf.

Asset managers must complete a Cost Transparency Standard (CTS) template for each mandate requested.

SCOPE AND COVERAGE

Managers of closed-ended private equity, private debt and real estate (property) funds will need to complete the CTS Private Markets Template on request.

In a closed-ended private equity fund, an asset owner's holding/interest is not intended to be transferred or traded as the term of the private equity fund is typically ten years.

OTHER INVESTMENT COSTS

It is important to remember that there are several other components of costs of investment outside of asset management costs.

These could include investment consultancy costs, performance measurement, investment administration, risk reporting and investment committee expenses. For further information on custody costs particularly, see the 'Notes on interpretation' below.

GLOSSARY OF TERMS

The table below provides definitions of some of the fields within the Private Markets Template. The table also provides illustrative examples of the content you can expect to see.

Section	Item Name	Definition
3	Gross management fee	Gross management fee charged (i.e. before any deductions) in accordance with the fund's limited partnership agreement, investment management agreement or similar contractual document.
	Other rebates	Refund of any prior management fees to the fund or its asset owners. More information on this could be provided in the notes section of the PM Template if further detail is required.
	Transaction and other fees paid by portfolio to manager and amounts offset	This total will be calculated using the applicable offset percentages and should be shown as a negative number in the PM Template. The gross transaction and other fees noted above are shown as positive numbers in the PE Template.
	Transaction fees	Fees/costs that are paid/accrued to the General Partner (GP) / manager/related party (including any fees not subject to offset) regarding the purchase and sale of investments. Excludes broken deal fees. Includes fees/expenses related to bolt- on acquisitions for a portfolio company. Includes fees/expenses related to bolt- on acquisitions for a portfolio company. Costs that are a capital expenditure to purchases (e.g. agents' fees, legal costs, etc.) should be included here. Transaction costs and management fees should be reported even if they are charged to capital.
	Underwriting fees	Fees/costs that are paid/accrued to the GP/manager/related party (includes any fees not subject to offset) regarding the underwriting of investments. Excludes broken deal fees. Includes fees/expenses related to bolt- on acquisitions for a portfolio company.
	Monitoring fees	Fees/costs, including accelerated monitoring fees, that are paid/accrued to the GP/manager/related party (including any fees not subject to offset) as part of an agreement between the portfolio company and the GP/manager/ related party over a finite or indefinite period.

Section	Item Name	Definition
3	Monitoring fees (continued)	Monitoring fees are charged in respect of ongoing management services provided to portfolio companies, based on annually established fees as opposed to hourly or task-based fees.
	Directors' fees	Fees/costs that are paid/accrued (gross of any unapplied offset balance) to the GP/manager/related party (including any fees paid directly to individuals and/ or any fees not subject to offset) for their role on the portfolio company's board of directors. Includes any non-cash compensation (e.g. shares).
4	Depository/ Custody fees	Expenses charged to the fund for depository services on behalf of the fund. Expenses charged to the fund for the registration of securities and other custody-related activities. Excludes any legal costs associated with organising/ administering the fund. Excludes fund administration expenses.
	Administration fee	Expenses charged to the fund for fund administration, including accounting, valuation services, filing fees and IT activities. Excludes audit or tax administration expenses.
	Bank/ facility fees	Expenses charged to the fund for banking/finance services. Excludes fund administration expenses and interest. Includes fees related to credit facilities and other short-term financing at the fund level.
	Interest expense	Interest charged to the fund related to financing provided to the fund.
	Organisational/ fund set up costs	Expenses charged to the fund for the establishment of the fund, including any legal/advisory costs related to setting up the fund. Excludes any fund administration expenses or placement agent fees. Excludes ongoing legal, advisory or audit costs.
	Ongoing legal costs	Expenses charged to the fund for legal services on behalf of the fund.

Section	Item Name	Definition
4	Ongoing legal costs (continued)	Includes legal analysis to interpret or amend the fund's limited partnership agreement and investment due diligence. Excludes any legal costs associated with organising/setting up the fund.
	Aborted deal due diligence costs/ broken deal fees	Termination fees/costs received from counterparties of the fund's unconsummated deals, netted against any termination fees/costs paid to counterparties that were not reimbursed by the fund. Include any fees not subject to offset.
	Audit fee	Expenses charged to the fund for the audit of the fund's financial statements. Excludes any costs related to organising/ setting up the fund, investment due diligence and fund administration expenses.
	Tax administration costs	Expenses charged to the fund for the preparation of tax documents and returns related to the fund. Excludes any costs related to organising the fund, investment due diligence and fund administration expenses.
	Other expenses	Any other expenses charged to the fund that appear in the periodic profit and loss account/income statement that do not directly relate to investments.
5	Property utilities and service charges	Service charges should be net i.e. irrecoverable service charges.
7	Accrued carried interest at start of period	Prior period-ending balance for GP's/ manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest or GP profit share), less any potential clawback obligation. Balance also includes any uncollected profits from realised investments, if applicable. The definitions here for carried interest cover a whole fund carried interest model. The calculations will differ for different types of carried interest model, e.g. deal-be-deal arrangements.

Section	Item Name	Definition
7	Carried interest paid during the period	<p>GP's/manager's/related parties' share of any realised profits from an investment paid to the GP/manager/related party (also known as carried interest and GP profit share), less any returned clawback.</p> <p>Balance reflects carried interest paid to the GP/related parties, including amounts held in escrow.</p>
	Carried interest charge for the period	<p>Periodic change in GP's/manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest and GP profit share), less any potential clawback obligation.</p> <p>Change also includes any uncollected profits from realised investments, if applicable.</p> <p>This could be a negative number due to clawbacks and changes in valuation.</p>
	Accrued carried interest at end of period	<p>Current period-ending balance for GP's/ manager's/related parties' expected share of any unrealised profits that would be paid upon realisation of all remaining investments, based on current valuations (also known as carried interest or GP profit share), less any potential clawback obligation.</p> <p>Balance also includes any uncollected profits from realised investments, if applicable</p>

NOTES ON INTERPRETATION AND COVERAGE

The following costs and charges should be included in the Private Markets Template in the case of private equity investments.

- Expenses charged to the income statement/profit or loss account of a fund for the provision of services. They include items such as management, audit and administration fees, as well as sundry expenses (for example, travel expenses). We note that management fees may also be shown as a profit allocation and this should also be disclosed.
- The nature and source of all benefits and fees paid directly or indirectly by portfolio companies to the GP and/or any related entities/individuals (such as employees, operating partners, advisers or similar) should be disclosed. This could include transaction and other fees that are not offset. If the cost is a reimbursement of out-of-pocket expenses already paid by the general partner, this should not be included.

- Carried interest/incentive fees - the fund manager's profit participation/allocation where performance is in excess of a specified hurdle. This is shown as an expense from an accounting perspective under International Financial Reporting Standards (IFRS) but may also be shown as an allocation of profits (US or UK Generally Accepted Accounting Practices - GAAP).

The following items will not be included as they are not within the scope of CTS:

- Costs relating to the acquisition of an investment that are capitalised as part of the assets on a fund's balance sheet and therefore not shown as a cost in the income statement/profit or loss account.
- Portfolio company holding structure costs that are incurred and recognised at the holding structure level which sits a level below the fund. These are currently reported to asset owners as costs at the level of the investment vehicles and not charged to the fund. However, any amounts charged to the fund should be disclosed.
- Detailed expenses relating to the underlying funds a Fund of Funds has invested in.

The asset owner's share of the fund (the % Of Total Commitments To Fund) should be the percentage holding at the date of the report.

It is recognised that the information provided in the Private markets Template is provided in capital account statements sent to asset owners and that there are a number of metrics that could be used relating to gross and net performance, including Internal Rates of Return and Multiple on Invested Capital. A space for notes has therefore been added to the Private Markets Template so that firms can cross-refer to reports including more detail on capital accounts and performance.

The following costs and charges should be included in the Private Markets Template in the case of real estate (property) investments:

- VAT should be included as part of fees only to the extent it is irrecoverable.
- Cost figures should be given as a percentage of the average NAV during the year (consistent with AREF guidance).
- For other regular ongoing charges e.g. Environmental consultancy, Subscriptions, etc. a decision should be taken as to whether costs are fund or property costs (as is already considered when calculating the TER). If they should appear they should be included in 'other expenses'.

The following items will not be included as they are not within the scope of CTS:

- Valuation adjustments for lease incentives (and other matters) should not be included.
- Capital expenditure to increase the value of a property should not be regarded as a cost item.
- Ground and head rents are not expenses and therefore should not be included.

TOTAL COST OF OWNERSHIP

Investment costs are also not the full picture; the total cost of ownership also include pension management costs including executive costs, administration and processing costs, advisory and control costs and rent, for example.