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IDB Invest

IMPACT MANAGER MASTERCLASS

2026

IDB Group

FUND STRUCTURING

FUND GOVERNANCE, STUCTURING AND LEGAL DOCUMENTATION

WHERE TO SET UP THE FUND?

1 Investor Base. Location of investors should be considered. Sophisticated investors will generally invest in structures in which they are familiar to minimize their legal due diligence and associated risks.

2 Reputation. Jurisdictions with with AML/CTF/anti-fraud to avoid reputational blows and have the ability to invest in or onboard investors from certain countries, and access certain financial services

3 Cost. Setting up the fund + administration expenses

4 Taxation. Investing through the fund will not lead to double taxation Investors do not wish to have an additional layer of taxation in the source country of income or the jurisdiction of the fund.

5 Regulation. Track record with fund structures, regulatory oversight, legal and tax certainty and available jurisprudence.

6 The Intangibles. Time, fundraising and marketing

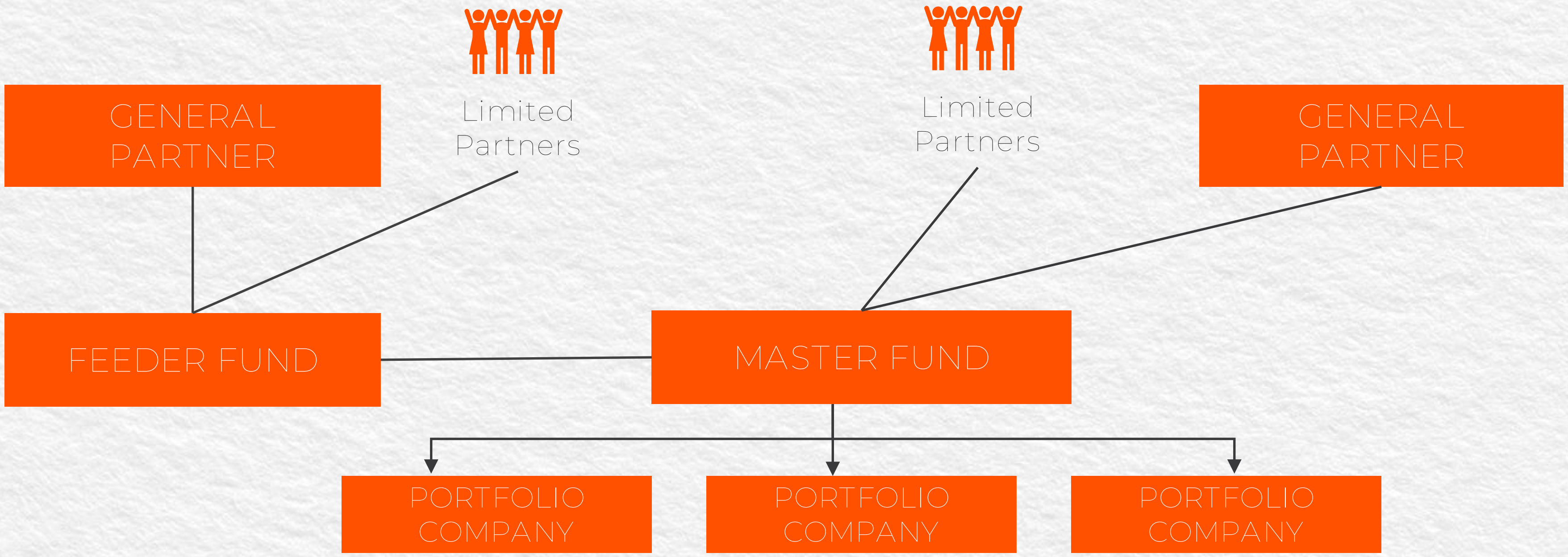
CORE JURISDICTIONS FOR INVESTORS

	Delaware	Cayman Islands	Luxembourg
Fund Structure	LP or LLC	Exempted Limited Partnership (ELP), Segregated Portfolio Company	Specialized Investment Fund (SIF), Reserved Alternative
Cost	Lower setup cost Administration: modest	Moderate Administration: moderate	Higher set up cost Regulatory and administrative cost higher
Timing	Fast No regulatory approval needed	Moderate No regulatory approval needed	Slower RAIFs: quick if AIFM is in place SIFs need CSSF approval
Fund Marketing	Limited to US Investors Reg D / Reg S exemptions	Popular for global marketing (ex. EU)	Passporting across EU (if AIFM authorized)
Tax Treatment	Taxable unless structured as pass-through	Tax neutral	Investors taxed in home jurisdictions, withholding tax can apply

IN THE CARIBBEAN

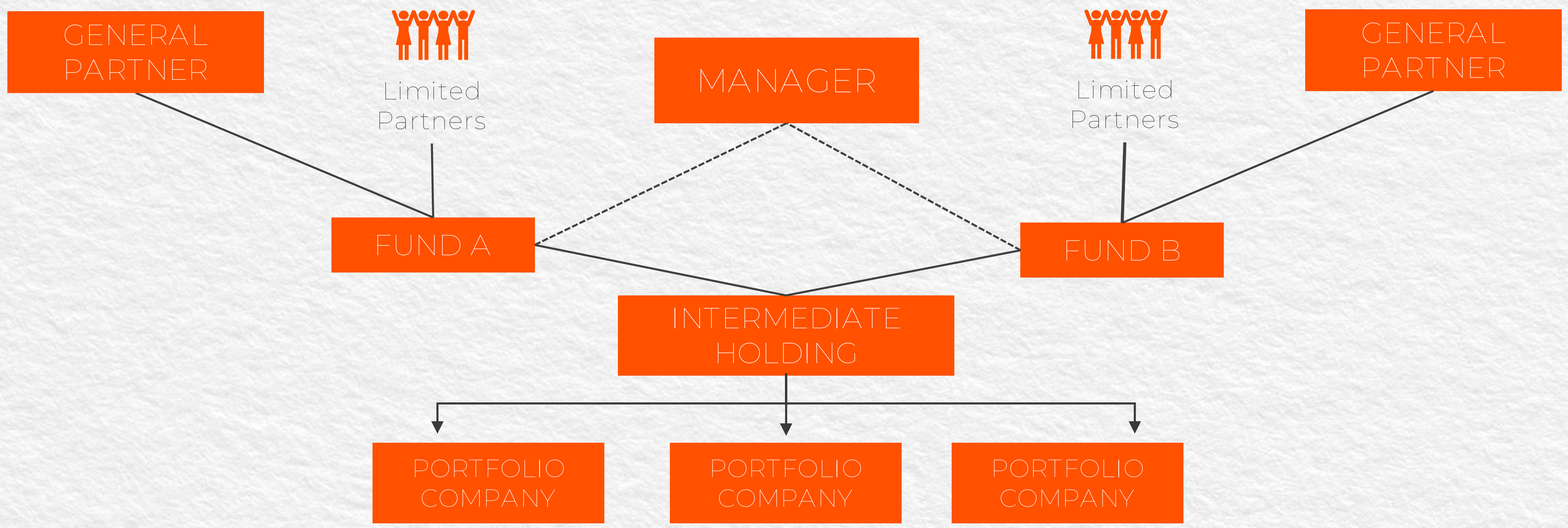
	Barbados	St. Lucia
Market Familiarity	Recognition amount regional investors and service providers	Growing visibility – commonly used in private or closely held structures
Typical Governance Features	More commonly includes advisory committees, valuation processes, conflict procedures and institutional reporting standards	More flexible and less prescriptive governance environment
Regulatory Overlay	More developed regulatory and governance framework; greater institutional familiarity	More developed regulatory and governance framework; greater institutional familiarity
Cost	Moderate setup and administration costs; generally lower than Luxembourg, higher than St. Lucia	Lower setup and maintenance costs; leaner administrative framework
Fund Marketing	Attractive for regional and international investors; treaty network may assist certain structures	Limited international recognition; often used for regional or closely held/private investor structures

FEEDER FUND



- All investors invest in a single master fund, either directly or through a feeder fund managed by the same group.
- Allows for operational efficiency while accommodating different investor needs.
- Institutional investors may prefer dedicated vehicles over pooled feeder funds for control and transparency.

PARALLEL FUND



- Both funds provide similar terms to their respective investors, other than those necessary to overcome the reasons that led to the structure.
- Funds enter into a co-investment agreement: investments are acquired and disposed of in the same terms
- Allocation of costs and expenses among the vehicles so that the resulting economics among the investors are substantially the same as an investment structure that has only one vehicle

FUND AS A PLATFORM
NOT A SIGNLE ENTITY

- ✓ Accommodate different LP requirements
- ✓ Broader investor access
- ✓ Jurisdiction-specific solutions
- ✓ Tax flexibility

YOU CAN HAVE IT ALL, BUT….

- x Cost
- x Operational complexity
- x Additional governance and compliance
- x More extensive legal and tax coordination
- x Multi-jurisdiction compliance burden

WHO RUNS THE FUND?

	FUND MANAGER	LPS	LPAC
Manage the fund on a day-to-day basis	✓	✗	✗
Make management decisions	✓	✗	✗
Make investment and divestment decisions	✓	✗	✗
Approve changes to fund terms	✗	✓	✓
Make conflict of interest decisions	✗	✗	✓

INVESTMENT COMMITTEE

Investment Committee functions

- Ultimate authority for investment decisions
- Ensure consistency of investment decisions with strategy
- These are GP/management functions

"Independent" members on Investment Committees

- Developmental rationale in markets with nascent fund management industries
- Dilutes accountability of GP management
- Should be used sparingly and on a temporary basis
- Must not compromise LP's legal status (i.e., should not be an LP staffer)

BOARD VS LPAC ROLE

Board Role

- Powers & duties defined by law and regulation
- Sets long term objectives & strategy of the business
- Determines and approves budgets, corporate values, senior HR structure, risk management and internal controls
- Does not get involved in day-to-day management
- Members have a fiduciary duty towards the business:
- Duty of loyalty
- Duty of care
- Duty of loyalty means sensitive information needs to be kept confidential

LPAC Role

- Role specified in the LPA/fund legal docs
- Advisory role only
- Need to be careful not to take operational role – tempting with inexperienced managers in EMs
- Does not get involved in the day to day
- management of the fund
- Represents LPs (ex officio nomination) and acts as a "sounding board" for the GP & advises on fund strategy
- Conflicts of interest and valuations
- No fiduciary duty to the fund. LPAC members follow their own interests but should always act in "good faith"
- LPAC members share all information with their LP no duty of confidentiality

LP VS LPAC ROLE

LP Role

- Hire & fire the fund manager
- Handle key person changes (might shift to LPAC)
- Fund life extension
- End of fund life asset disposition
- Decide policy opt outs
- Approve policies on Day One (investment policy & limits, ESG)
- Make any other decision if it does not involve running the fund
- Monitor the fund as they would any investment

LPAC Role

Advise, consent, and waive:

- General fund oversight
- Conflicts of interest
- Review valuations
- Review fund financials
- Some types of waivers (e.g. limits/geography)
- Extension of investment period
- E&S strategy amendments
- Impact objectives/metrics

If not explicitly an LPAC decision, the issue is a GP or LP decision

LPAC PROCESS AND PRACTICALITIES

Key Considerations			
How many members?	Who pays LPAC expenses?	GP Role	Who can call a meeting?
How often and where/how to meet?	Quorom	Ability to meet without the GP	Information sharing prior to meeting
Who chairs the meetings?	Voting	Meeting minutes	COI management of LPAC members

LPAC COMPOSITION

Size

- Smaller LPACs can better situated to advice on conflict, but not represent a full cross-section of investors
- Larger LPACs can give broader sounding board for GP on strategic decisions, but present challenges in managing large meetings and LP participation
- Red flag if below 3 or more than 12

Representation

- A representational cross-section of LPs by:
  - Commitment size
  - Type
  - Relationship with the GP

Voting

- LPAC members should participate in all votes, unless there is a conflict
- No "deemed consent"
- Quorum of 50% of members
- No single organization should have (formal) veto power
- Equal voting rights for all members (not dependent on amount invested)

Membership

- GPs should not be LPAC members, have no vote, and no right to attend all meetings
- GPs usually participate, in practice run most meetings, prepares documents, presents fund updates (on markets, pipeline, exist, portfolio and team), and organizes meetings
- Limit members with co-investments or minority interests in management company (potential conflicts)

LPAC MEETINGS

- An LPAC member should be appointed as Chair
- Meetings should be held once a year at a minimum and quarterly as a maximum, plus whenever the GP or an LP calls one (to consider an issue within the LPAC's competence)
- LPAC meetings should not be combined across affiliated funds, even if membership similar
- LPs on the committee may receive sensitive information which should, until decided otherwise, be shared with the member's LP
- Meeting minutes sent to all LPs
- Sessions need to be well-structured to solicit a broad range of views
- Good practice is to schedule in camera sessions of LPs (= without the GP)
- LPAC members should have right to call for external counsel or expertise, at the fund's expense
- LPAC meeting agendas and materials should be provided to LPAC members in advance (1 week minimum)
- LPAC members should be able to add an item to the meeting agenda

LPAC Meeting agenda elements:

- Disclosure of any conflicts of interest
- Overall GP update (firm) such as team changes
- Fund's financial statements
- Compliance with LPA provisions (e.g. concentration limits, key person)
- Overall investment conditions & the effect on strategy
- Fund overview/investment performance
- Dashboard on performance per company relative to original plan
- Portfolio company valuations & methodology
- Review of new deals/realizations/pipeline (if applicable)
- Discussion of potential exits
- Detailed fund expenses
- Disclosure of capital call line usage (fund debt; if applicable)
- ESG reporting, regulatory and legal update
- Annual in camera discussion with fund auditor

KEY DOCUMENTS

Fund documents are a mosaic – all parties need to have clarity on how the pieces fit together

Documents that form and impact the GP / Manager and LP relationship

- Partnership Agreement
- Subscription Agreement
- Investor Questionnaire
- Management Agreement
- Private Placement Memorandum
- Side Letter
- Legal Opinions
- Guarantees
- Confirmation Letters
- Upper Tier Documents
    - General Partner Organizational Documents
    - Management Company Organizational Documents
    - Employment Agreements

DOCUMENT DUE DILIGENCE

Private equity investors (especially LPs like DFIs, pension funds, or sovereign wealth funds) use a points-based system or matrix to evaluate partnership agreements. These systems are internal tools used during due diligence to assess the alignment of interests, risk allocation, and governance rights in fund documents.

#	Topic	Preferred Terms	Actual terms & Recommendations
		by which objections to valuations can be resolved to be included. (c) AC should have the right to challenge GP valuations. A mechanism by which valuation disputes are settled (e.g. binding third party valuation) should be specified.	
		Fund Fees and Expenses	
25.	**Management Fees**	(a) During the commitment period, management fees are charged on commitment amounts. After the commitment period, management fees should be charged on invested capital less dispositions, write-offs and (preferably) write-downs. (b) To ensure alignment with fund profitability, fees should cover costs but should not be a material source of GP profit. (c) The management fee earned by the fund manager should be inclusive of all costs incurred from the management of the fund, including: (i) all operating costs including salaries, rent, and other overhead. (ii) travel expenses (iii) transaction fees (iv) consultant fees (v) general compliance costs (vi) placement agents' fees and expenses, particularly travel expenses (d) If the fund manager chooses to outsource non-investment functions to third parties, the cost of such services should be borne by the fund manager (paid from the management fee) and not be treated as a fund expense paid by the fund.	
26.	**Broken Deal Expenses**	(a) To encourage strong investment screening and cost discipline, the GP bears all or a portion of broken deal expenses.	
27.	**Fee Sharing and Offsets**	(a) To ensure alignment with fund profitability, all fees received by GP and its affiliates from portfolio companies (including director, transaction, break-up and advisory fees) should be 100% netted against the management fee.	
28.	**Organizational**	(a) Expenses associated with organizing the fund subject to a cap of the lesser of 1% to 1.5% of total commitments, and a	

#	Topic	Preferred Terms	Actual terms & Recommendations
	Expenses	specified cap. Cap may be increased in certain exceptional circumstances, including difficult jurisdictions/structures. (b) Cost overrun to be borne by the fund manager.	
29.	**Fund Expenses Including Broken Deal Expenses**	(a) If an investor's default causes a prospective investment to fail, all costs to be borne by the defaulting party. Otherwise, broken deal costs should be paid (or otherwise borne) by the fund manager.	

What is it?

- A structured framework to assess fund investments
- Compares against preferred terms
- Translates legal, corporate governance and financial analysis into risks

Why it matters?

- Ensures consistency across transactions
- Links legal review to investment decision
- Holistic review of the fund

MATERIAL TERMS FOR LPS

- Economics
  - Management fees
  - Carried interest
  - Preferred return
  - Fee offsets
- Governance & LP Protections
  - Key person provisions
  - Removal rights
  - Investment period suspension / termination
  - Advisory Committee
- Fund Terms
  - Term
  - Excuse right
  - Co-investment rights
  - Reinvestments
- Reporting
  - Reporting obligations
  - Valuation methodology
  - Right to audit/review
  - AML/KYC

MAIN CONCERNS FOR DFIS

DFIs are mission-driven investors with a strong focus on governance, transparency, E&S impact, and alignment of interests. When investing in private equity and debt funds, they often negotiate more intensively than commercial LPs to ensure the fund's operations align with their development mandates and risk appetite.

Material terms for DFIs
(just some of them…)

- ESG requirements
- Impact measuring and reporting
- Governance rights
- Anti-Corruption and AML provisions
- Transparency and disclosure
- Fees and expenses
- Excuse and opt-out rights
- Sponsor commitment
- Investment limitations
- Side letters with MFN protections

→

LPA
Policy
Schedule
Side Letter

POTENTIAL GP/MANAGER COIS

Fund Raising

- Third-party advisors
- Fund size
- Transaction fees

Investment

- Conflicting investment strategies (multi-strategy managers)
- Investment allocation
- Co-investment by GP
- Co-investment by LPs

Management

- Other fees paid to GP or affiliates
- Directors on boards of portfolio companies
- Allocation of resources
- Enforcement of LP defaults
- Rescue financing

Exit

- Extension of fund life
- Divestment timing
- Retained interest / investment by multiple funds
- Sales of LP interests (permission)

Source: IOSCO, Private Equity Conflicts of Interest, consultation report, November 2009

COIS: GP, AFFILIATES, EMPLOYEES, AND LPS

Conflicts regarding the GP

- GP needs to adopt a clear & comprehensive conflicts policy
- Potential for conflicts for the GP/key persons/affiliates
  - Cross-fund investments or concurrent investments
  - Transactions with affiliates
  - GP/key persons invest in a portfolio company of the fund
  - Outside activities
- GP to disclose (material) potential conflicts to the LPAC
  [ILPA: As materiality is a subjective criterion, it is best to consult the LPAC in all instances of any conflicts and/or non-arm's length transactions.]
- LPAC needs to approve any actions in writing

Conflict for LPs

- LPs may also face potential "conflicts" on LPAC matters
  - Co-investments in underlying portfolio company
  - Exposure to the GP in other funds
  - Financial interest/stake in the GP
- Should be disclosed to the LPAC before the relevant discussion and LPAC vote

THANK YOU!

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IDB | Invest SW26 Let's get moving