The Pulse of Private Equity – 12/15/2014

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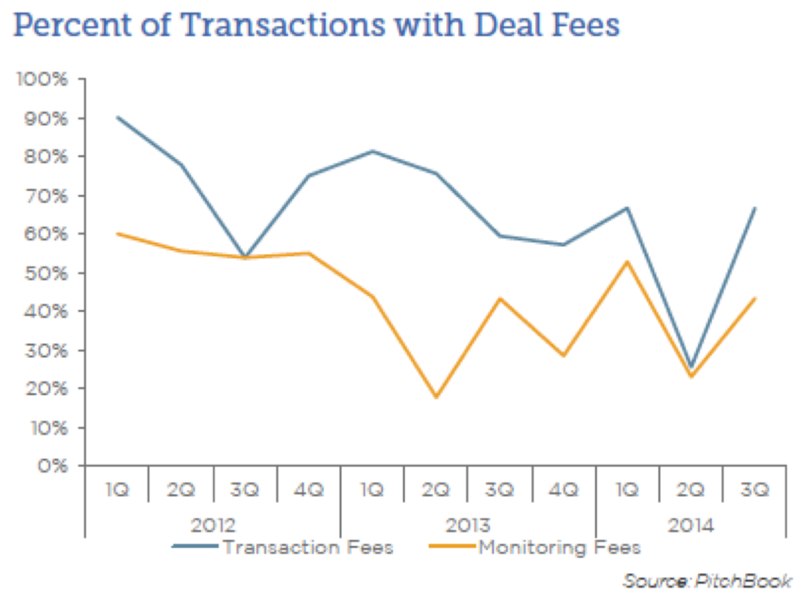
A Closer Look at Fees

For several months now, the SEC has been keeping a closer eye on fee disclosures from PE firms, particularly whether they're telling their LPs that transaction and monitoring fees are being charged to portfolio companies. We've been keeping track of fee inclusion on PE deals through our Deal Multiples & Trends survey, which anonymously collects the percent of transactions that includes deal fees. Between early 2012 and 2Q 2014, you can see the gradual decline in the percentage of deals with fees attached, with transaction fees dropping big, from 90% in 1Q 2012 to 30% in 2Q 2014. The median size of transaction fees has dropped quite a bit, too, from 3.4% in 1Q 2012 to just 1.5% in 3Q 2014, the lowest median we've recorded.



Curiously, though, our latest survey brought back a big increase in the percentage of deals including fees. It may be a quirk in the data, but one factor that jumped out is the number of European and ROW transactions that included fees (100% of them) versus North American transactions (about half). U.S.-based investors are getting more regulatory scrutiny than their global counterparts.

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