A REFERENCE FOR LP DILIGENCE

The LP Look-Through Workbook

How to trace where a private equity fund's distributions came from, and how much debt ranks ahead of your capital at every layer, from the portfolio companies up to the GP.

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A distribution notice tells an LP how much cash arrived. It rarely says where the cash came from. One payment can rest on a company's operating cash, a dividend recap, a holdco note, a NAV loan or a sale to the GP's own continuation vehicle, and each of those is disclosed in a different document to a different reader.

This workbook gives LPs the requests, the classification rules and the contract points needed to put those documents side by side. It is built for use in a live diligence process: before a commitment, at a re-up, or before buying a secondary position.

The two measures

Cash Provenance = earned distributions ÷ total distributions. Report the borrowed and related-party shares beside it.

Look-Through LTV = debt ahead of the LP ÷ (debt ahead of the LP + subscription line balance + reported NAV)

Debt ahead of the LP = portfolio company net debt at the fund's share + holdco debt including accrued PIK + NAV loan + NAV preferred equity. The subscription line stays out of the debt figure because LPs repay it through capital calls; reported NAV is stated after it, so its balance returns to the value base.

> *An LP owns the bottom of every layer in the stack, and usually receives a report on one of them.*

Inside

1. **The trace request list.** Six requests, what a complete answer contains, and the warning signs in a partial one.
2. **The Cash Provenance rulebook.** How to classify sixteen hard cases, from earn-outs to cross-fund sales.
3. **LPA and side-letter points.** Eleven terms to raise with counsel before you sign.
4. **The GP quarterly look-through page.** A fillable one-page report to send to any GP.
5. **Worked example.** The arithmetic, checked, and where to run your own numbers.

SECTION 1

The trace request list

Six requests to the GP. Most managers already hold every item. A GP who answers all six quickly has usually looked at its own fund this way.

REQUEST	A COMPLETE ANSWER CONTAINS	WARNING SIGNS
1 **Distribution notices with a source for each payment, last twelve quarters**	Every payment tagged as exit, dividend, recap, holdco proceeds, NAV draw or related-party sale, with dates and amounts net of carry and expenses	"Realization proceeds" as one line; sources given only for the fund as a whole; partial realizations not split out
2 **NAV loan or NAV preferred equity report**	Balance, loan-to-value against the test level, draws by quarter with the use of each draw, maturity, PIK terms, collateral and any recall rights	Facility held in an SPV and described as outside the leverage limit; use of proceeds given as "general purposes"
3 **Holdco debt by company**	Issuer, amount, cash or PIK coupon, interest accrued to date, maturity and what the debt is secured on	Holdco debt visible only as a lower equity value; no maturity schedule
4 **Leverage summary for each company**	Net debt at the fund's share, the excess cash flow sweep, restricted payments capacity left, and covenant headroom in numbers	"Within covenants" with no headroom figures; leverage quoted on adjusted EBITDA only
5 **Free cash flow after debt service, since the last payout, for each company that paid a dividend**	A bridge from EBITDA to free cash flow after interest, debt repayment, tax, capex and working capital, plus any revolver drawn in the period	Coverage shown against EBITDA; revolver draws left out; one year shown when the dividend used several years of cash
6 **How the GP commitment is funded**	The commitment amount, the share paid in partners' cash, any borrowing and its lender type, and what secures it (fees, carried interest or fund interests)	"The partners have committed" with no detail on funding; reluctance to give side-letter notice of GP-level financing

When the GP will not share

An outside-in estimate still narrows the question. Match distribution dates against NAV draws in the capital account statements, and against dividend recaps reported in the leveraged loan press. A distribution that lands within weeks of a recap at a portfolio company is rarely a coincidence. Ask the GP to confirm or correct the estimate; the reply is informative either way.

SECTION 2

The Cash Provenance rulebook

How to classify the cases that cause arguments. The test throughout: did the cash come from operations or a buyer with no tie to the GP (earned), from new borrowing at any layer (borrowed), or from a vehicle the GP also manages (related-party)?

CASE	BUCKET	RULE
Exit to an unaffiliated buyer, including another sponsor	EARNED	Arm's-length price from a buyer with no tie to the GP
Escrow or earn-out release from that exit	EARNED	Follows the exit it came from, counted when received
Partial sale to an unaffiliated minority investor	EARNED	Arm's-length; record the exposure the fund still holds
IPO proceeds, or shares distributed in kind once freely tradable	EARNED	Public-market buyers; value in-kind shares at what LPs could realize, net of any lock-up
Dividend or shareholder-loan interest within retained free cash flow	EARNED	Covered by free cash flow after debt service kept since the last payout, less new borrowing
Dividend above retained free cash flow	BORROWED	Only the covered part is earned; someone lent the company the excess
Dividend recap	BORROWED	New company debt paid out at once
Refinancing that releases cash to the fund	BORROWED	A recap by another name
Holdco note or PIK proceeds paid up	BORROWED	Debt above the company, usually outside its covenants
NAV loan draw paid out	BORROWED	Fund-level debt; check whether the payment can be recalled
NAV preferred equity proceeds paid out	BORROWED	Ranks ahead of LPs in the same way as a loan
Sale to the GP's continuation vehicle, for LPs who sell	RELATED	The GP sits on both sides. Report separately the sales priced through a process with outside bidders and an independent lead
Sale to another fund managed by the same GP	RELATED	Same reasoning as a continuation vehicle
Recallable distribution	BY SOURCE	Classify by where the cash came from, and flag it as recallable until the recall period ends
Proceeds recycled into new investments	NOT COUNTED	Counts only when paid to LPs
Sale of an LP's own fund interest on the secondary market	NOT COUNTED	Cash from the buyer of the interest, not from the fund; outside DPI

SECTION 3

LPA and side-letter points to raise with counsel

The terms that decide how much of the stack an LP will ever see. Wording belongs to your counsel; these are the questions to put to them.

TERM	WHAT TO LOOK FOR	WHY IT MATTERS
Fund leverage limit	Whether it covers NAV loans, NAV preferred equity and borrowing through SPVs, and how it is measured	Preferred equity and SPV borrowing can sit outside a limit written for debt
NAV facility consent	LPAC consent or advance notice before any NAV facility, and before any draw used to fund distributions	Borrowed distributions are a decision about the LP's own future cash
Use of proceeds	Disclosure of each draw's purpose: follow-ons, defensive capital or distributions	The same facility can be prudent or costly depending on its use
Recall clause	Whether NAV-funded distributions can be recalled, for how long and up to what amount	A recallable payment is not final cash
Fee base	Whether a NAV-funded distribution reduces the management fee base	Otherwise fees continue on capital returned with borrowed money
Waterfall treatment	How borrowed distributions count toward the preferred return and carried interest	Returning capital early can bring carry forward under an IRR-based hurdle
Holdco debt reporting	A quarterly schedule of holdco debt by company, with accrued PIK and maturities	Company leverage ratios do not show it
Continuation vehicles	A competitive price process, an independent lead investor and a status-quo option for LPs who stay	A fairness opinion documents a process without creating one
GP-level financing	How the GP commitment is funded, and notice of any financing secured on the fund's fees, carry or interests	A borrowed commitment is a smaller real stake than the headline
Reporting templates	Adoption of ILPA's Reporting and Performance Templates, including the analysis with and without the subscription line	The templates are voluntary; agree adoption in writing
Look-through report	The quarterly page in Section 4, or the GP's own equivalent	No standard template yet covers holdco, NAV and GP-level debt together

Worked example (illustrative)

Paid in / distributed / NAV	$1,000M / $600M / $1,100M
Earned: exits $290M, covered dividends $40M	$330M · 55%
Borrowed: recap $100M, NAV draws $70M	$170M · 28%
Related-party: continuation vehicle	$100M · 17%
Debt ahead: $1,400M + $150M + $200M	$1,750M
Look-Through LTV (company view 49%)	61%
Enterprise value down 20%: LP NAV	down 52%

Run your own numbers

The free Look-Through Leverage Calculator applies both measures and a stress test to any fund, suggests what to ask next, and saves a one-page PDF.

areteven.com/look-through-leverage-calculator

The full argument: areteven.com/post/look-through-leverage

Arete Ventures advises GPs, LPs, family offices and investment committees in the United States on fund strategy, buy-side diligence and portfolio performance. Gaurav Shah leads every engagement. areteven.com/contact

SECTION 4 · FILLABLE

The GP quarterly look-through page

Type into the shaded fields, save, and send to the GP, or ask the GP to complete it. Amounts in $ millions at the fund's share.

Fund	
Quarter end	

CLAIMS AND VALUE	THIS QUARTER	PRIOR QUARTER
Portfolio company net debt		
Holdco debt, including accrued PIK		
NAV loan and NAV preferred equity		
Subscription line balance		
Reported NAV		
Look-Through LTV		

DISTRIBUTIONS	SINCE INCEPTION	LAST 12 MONTHS
Earned		
Borrowed		
Related-party		
Cash Provenance (earned share)		

OTHER ITEMS	DETAIL
PIK accrued this quarter: company, holdco, fund	
Next maturity at any layer: amount and date	
GP commitment: share in cash and share borrowed	
Recallable distributions outstanding	
Notes	

Look-Through LTV = (company net debt + holdco debt + NAV loan and preferred) ÷ (that total + subscription line + reported NAV). Cash Provenance = earned ÷ (earned + borrowed + related-party). Classify each payment with the rulebook in Section 2.