
XYZ Fund, LLC

Draft Due Diligence Questionnaire

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Part 1

INVESTMENT PHILOSOPHY, OBJECTIVES AND STRATEGY

1.1 Overview

XYZ LLC (“XYZ” or “the Manager”) is the leading African private equity fund manager with a differentiated strategy focused on mid-market growth capital investments in consumer demand driven sectors. Founded in 20xx, XYZ’s team has successfully raised and fully deployed XYZ Fund I LLC as its inaugural fund with US\$ XXX mn of assets under management (against a target fund size of US\$ XX mn), and has established a credible track record, built an attractive diversified portfolio and developed an extensive deal pipeline across the region. XYZ Fund I was raised during the 20xx-20xx global financial crisis, when capital commitments to African private equity were significantly constrained, following which the team has established a high quality portfolio of leading investee companies across attractive high growth sectors and geographies, with XYZ implementing a value-add approach to accelerate performance and value-creation in support of dynamic managers and partners.

Building on the success of XYZ Fund I and the credibility of its team, and supported by continued robust regional macro-economic fundamentals underpinning rising disposable income and consumer demand, XYZ has launched XYZ Fund II, LLC (“Fund II” or “the Fund”) with a target fund size of US\$ XXX mn, adopting a consistent mid-market positioning, regional focus and active investment strategy.

1.2 What is the investment philosophy?

XYZ will leverage its differentiated capability and maintain its core strategy as an active manager focused on mid-market growth capital investments in Africa, aggregating and harnessing the shared experience, expertise and successful track records of the team members in high growth sectors underpinned by xxxx. XYZ employs a proprietary approach in leveraging its xxxx in the identification and development of investment opportunities and a proactive hands-on, value-add investment approach to driving organisational change within portfolio companies so as to reposition them for out-performance.

XYZ leverages its xxxx as well as the team’s proven operational experience and regional market knowledge to strengthen its strategic positioning within the market.

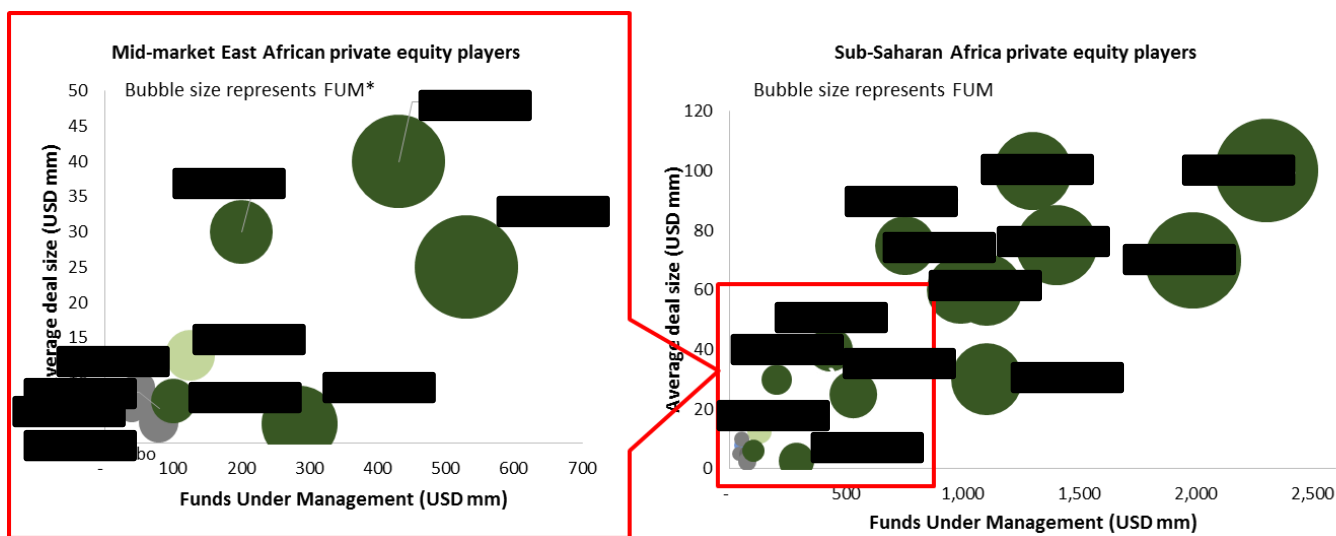
XYZ also enhances governance through the xxxx.

XYZ’s investment philosophy and value-creation strategy is underpinned by xxxx.

1.3 Provide a detailed description of the overall strategy.

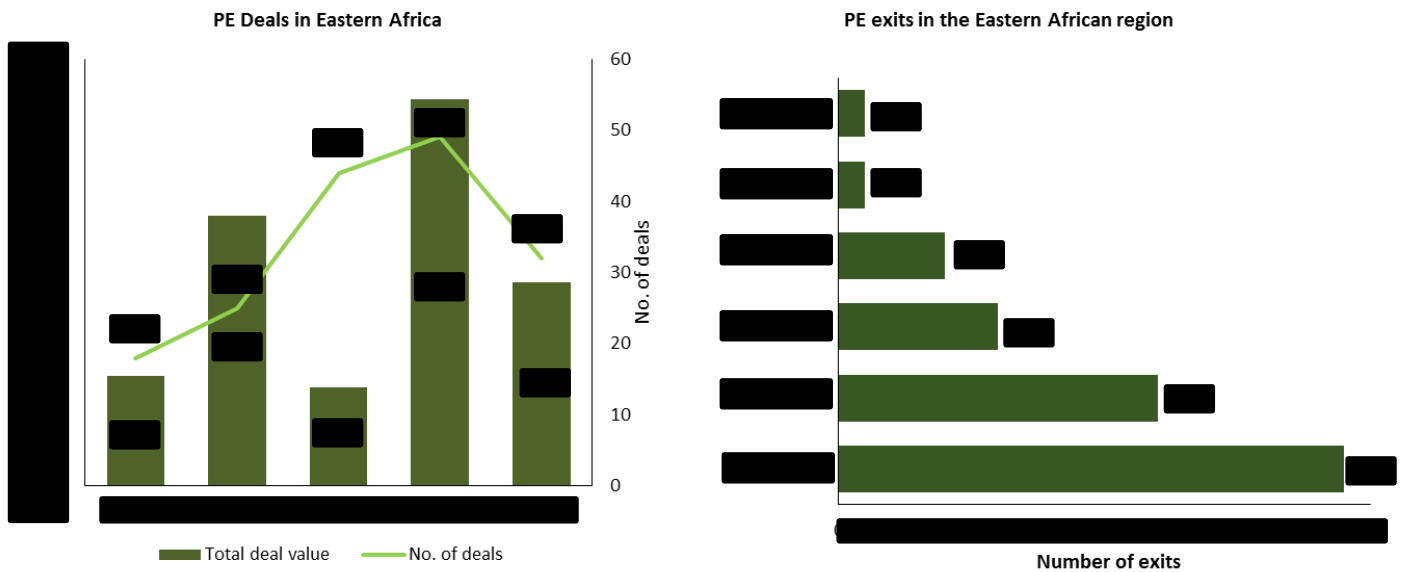
In the past decade, private equity investments in Africa were dominated by large pan-African funds that have traditionally focused on large investments in the largest economic blocs of southern, western and northern Africa, with large buyout, public-to-private, infrastructure and natural resource transactions dominating the private equity landscape. The chart below shows the Fund’s positioning vis-à-vis other funds in Africa by deal size and number of deals.

COMPETITIVE LANDSCAPE



XYZ is targeting an attractive sub-region in markets which other pan-African funds have generally over-looked and therefore have limited exposure to. In the wake of the adverse commodity cycle that has had a disproportionate negative impact on natural resource dominated economies in Southern, Northern and Western Africa, Eastern Africa is attracting more interest as a result of its broader based, more integrated and therefore more resilient regional economy that continues to experience strong underlying economic growth, although the intensity of competition remains substantially lower with a lower prevalence of private equity investments with dominance of smaller deal sizes as compared with the other regional economies on the continent.

PRIVATE EQUITY DEALS IN EAST AFRICA¹



The Fund’s strategy reflects a focus on xxx, with the average deal size for private equity deals in Eastern Africa ranging from \$xxm to \$Xxm over the past five years. The range of investment grade targets continues to increase, driven by ambitious entrepreneurs seeking medium to longer-term risk capital (currently in limited supply), to fund expansion, acquisitions and consolidation with the aim of capturing market opportunities generated by strong economic growth across an increasingly integrated, large regional market.

XYZ’s approach with xxx companies, for which substantial input is generally required in the refinement of strategy and in the execution of strategic imperatives, is to entrench

- Xxx
- Xxx
- Xxx

As distinct from export-oriented or resource dependent industries (which are necessarily highly susceptible to commodity cycles with cost/price factors and demand/supply dynamics substantially driven by overseas markets), XYZ targets

- xxx
- xxx

XYZ will generally make investments with the following key characteristics:

- xxx
- xxx

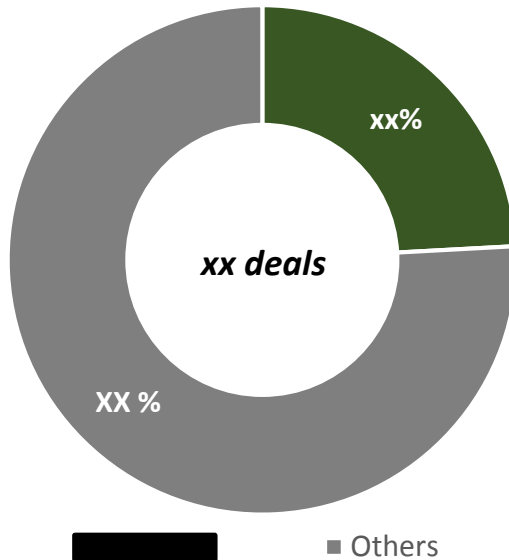
Leveraging its substantial investment management experience and transaction advisory expertise, XYZ will structure investments that optimise returns through the lifecycle of each investment and enhance capital gains prospects for the Fund, adopting approaches and instruments that:

- xxx
- xxx

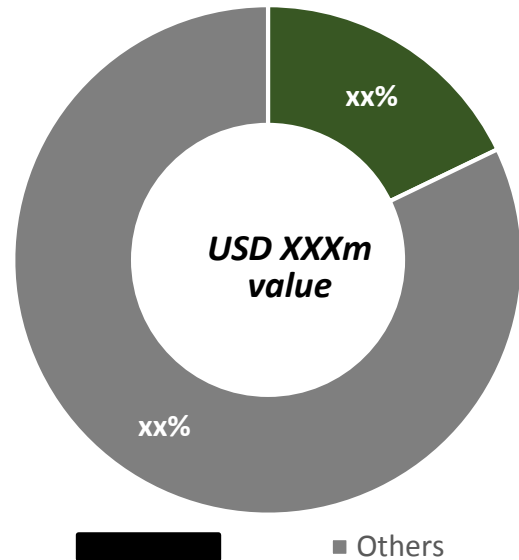
¹ Source ABC

STRONG POSITION IN THE EAST AFRICAN REGION²

No. of Eastern African deals completed
20xx-20xx; Deal size USDxm-USDxxm



Eastern Africa deals by value
20xx-20xx; Deal size USDxm-USDxxm



Source: ABC

XYZ has a differentiated approach in the eastern African region due to its focus on the xxxx, its regional presence and embedded network, and the depth of its investment team and Senior Advisors having world-class investment, management/strategy consulting, financial advisory, transactional experience, and a strong track record of successful private equity investment and corporate finance transactions in Africa and internationally.

The Manager is well placed relative to the other players active in the East African market, to

- xxxx
- xxxx
- xxxx

² Source: ABC

Part 2

DEAL FLOW / DEAL ORIGINATION

2.1 How are deals originated and sourced and how distinctive are the deal sources??

The Manager's access and networks will continue to generate a pipeline of proprietary investment opportunities that have been identified across all sectors of the relevant economies. The Fund's investors include reputable regional business leaders and institutions to extend the Manager's reach and to generate additional market intelligence and source attractive investment opportunities. Being on the ground in the region provides XYZ with a competitive advantage, which is compounded by a skilled investment team from different parts of the target region and a knowledgeable group of Investment Committee members, Senior Advisors and Industry Experts who are familiar with and embedded in the region, and are in turn able to leverage their own networks with sponsors, intermediaries, and managers.

2.2 How do you avoid adverse selection?

The majority of deals done to date have been sourced proprietarily using the team's professional networks, industry contacts, or personal relationships, which has allowed XYZ to negotiate the best possible deal without the adverse implications of competitive processes. XYZ adheres strictly to a rigorous internal due diligence process supported by a group of seasoned advisors and Industry Experts who provide industry insights and local advisors who assist in vetting investment opportunities. The Manager's governance approach includes an investment committee approach that encourages early team-wide participation in the decision process.

2.3 Please provide details of your pipeline.

The current pipeline of investment opportunities shown below is the result of the team's on the ground sourcing capabilities and strong network which generates proprietary or preferential deal flow.

SAMPLE PIPELINE DEALS

DESCRIPTION				INVESTMENT HIGHLIGHTS				
Business	Sector	Country	Sourcing	Revenue (\$mm)	Transaction Type	Equity (\$mn)	Potential Co-investment (\$mn)	Status

Further details on the pipeline are available upon request.

Part 3

INVESTMENT PROCESS

3.1 Describe all stages of the decision-making process.

The Fund's investment process is modelled on global best practice for the private equity industry. XYZ has developed robust internal processes and procedures, and its management of the investment process will be highly disciplined, entailing well defined steps throughout the investment cycle, including origination, assessment, screening, due diligence, evaluation, negotiation, monitoring, and divestment. The Manager's internal process will be thorough and efficient, with the ability to move quickly as needed.

Investment Process					
Investment Origination and Assessment	Initial Screening	Due Diligence, Evaluation and Negotiation	Investment Decision, Proposal and Execution	Active Ownership, Monitoring	Divestment
- xx	- xx	- xx	- xx	- xx	- xx
- xx	- xx	- xx	- xx	- xx	- xx

Part 4

MARKET OPPORTUNITY

4.1 What is the case for investments in East African mid-market segment in the proposed focus sectors?

The Eastern African region is undergoing an unprecedented level of economic growth and regional integration. Between 20xx and 20xx, the real GDP growth in the target region averaged x.x%. This has occurred as Eastern African economies have been driven by a migration from low levels of industrialisation to moderate complexity and diversity, fostering deepening knowledge and manufacturing skills and development of increasingly complex products and services to achieve sustained economic growth.

Also, the Eastern African countries have been following different economic models to achieve sustainable growth. For instance, xx has a vibrant and sophisticated private sector that has been driving economic growth, while xx has an underdeveloped private sector with state-driven led economic growth model. As a result, xx has emerged as a hub of financial and economic activity and a destination market for PE industry in the region. On the other hand, xx, a relatively smaller country and known for its forward thinking and strong institutions, has seen considerable economic activity with positive steps by the government to encourage entrepreneurship.

SELECT FASTEST GROWING ECONOMIES IN SUB-SAHARAN AFRICAN REGION

Rank	Country	GDP growth (20XX-20XX)
1	xx	xx%
2	xx	xx%
3	xx	xx%
4	xx	xx%
5	xx	xx%

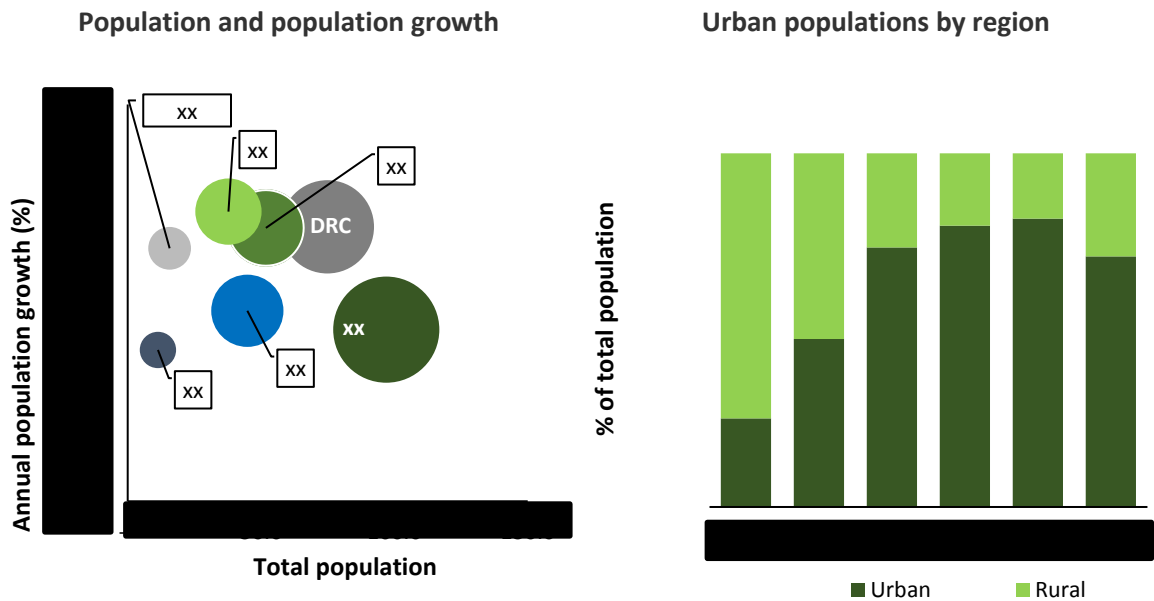
Source: ABC

The investment potential of the region is based on strong fundamentals:

- Improving Business Climate:** Improving macroeconomic policies, emerging democracies, growing accountability, improved regional geopolitics and governance, increased public sector productivity, and strengthening infrastructure have created an attractive business environment that underpins investment prospects. On the back of these developments, several economies in the region have witnessed an improvement in their competitiveness rank as well as ease of doing business rank. xx saw maximum improvement in global competitiveness rank from xxxth to xxxth between 20XX-XX and 20XX-XX. Among the bigger African economies, Xx gained the most, with its ranking having advanced from 125th to 120th during the same period

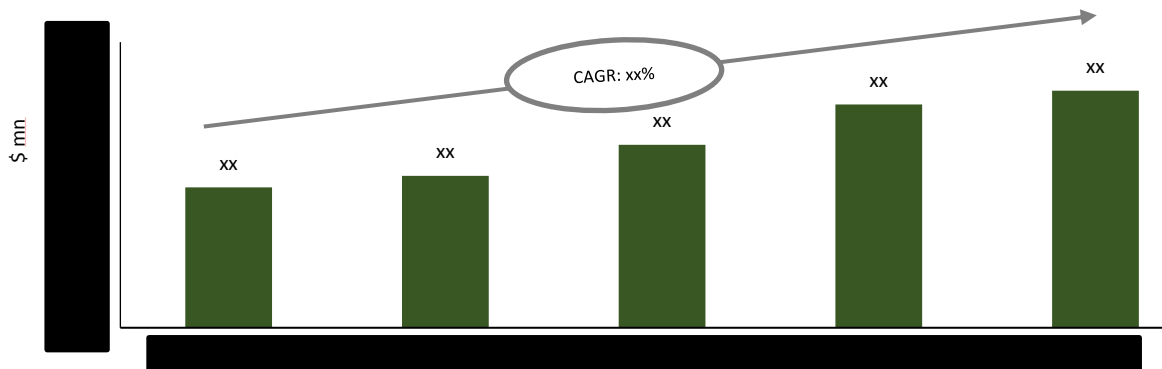
- Rising Consumer Demand:** Rising consumer demand fuelled by compelling young demographics, along with urbanization and an increasingly aspirational middle class, have created robust demand for companies providing goods and services. Given the rapid rate of urbanisation, the urban population is projected to increase from xx% currently to Xx% of total by 20xx. Moreover, extension of distribution of basic goods to rural communities, and increased affordability and accessibility of quality products and services in smaller pack sizes and transaction amounts have also been significantly stimulating substantial volumes of mass markets consumption at the bottom of the economic pyramid.

POPULATION TRENDS IN THE EASTERN AFRICAN REGION



- Intra-regional Trade and Transport:** The regional economic activity is being substantially supported by growing intra-regional trade across a diverse base of products, including consumer goods, construction materials and industrial supplies. The integrated regional transport infrastructure linking Eastern African ports, airports, roads and rail networks is a critical component of the strong regional import and export flows, and the development of the interdependent transport infrastructure is recognised as a key stimulus for economic growth. Regional governments have already embarked on concession programs to drive investment, capacity and efficiency improvements via public-private partnerships.

INTER-REGIONAL TRADE IN THE EASTERN AFRICAN REGION



Source: ABC