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Capital Calls & Equalization

Call, Allocate and Rebalance Investor Capital in a Private Fund

Course Book

Six modules, one fund, every figure computed.

Educational material. Not investment advice. Prepared with AI assistance.

About this course

This course follows the money of a private fund from the investors' commitments to their capital accounts: Northmoor Capital Partners III, L.P., a fictional US$ 500m buyout fund, over its first eighteen months. You build the notices of its calls, allocate them on the right bases, equalize two investors who join at a second closing, handle a recallable distribution and an investor that defaults, measure what a subscription line does to returns, and reconcile every account. It is written for fund accountants, controllers, investor relations and operations teams, fund administrators, and analysts at limited partners who check the notices they receive. Northmoor is the fund of the Private Fund Finance & Controllership course; this course stands on its own.

Module	What you learn and build
1. Commitments and the capital call notice	What an investor has promised, what the fund may ask for and how a call notice is built: investments, management fees and fund expenses.
2. Allocating calls: pro rata shares and the fee base	Who pays what: shares of commitments for capital items, fee-paying commitments for the management fee, and the unfunded commitment after each call.
3. The second closing and equalization	Two investors join after two calls: catch-up contributions, refunds to the first-close investors, the fee catch-up and equalization interest.
4. Recallable distributions and the defaulting investor	Capital that comes back and can be called again, then an investor that does not pay: overcall, forfeiture and default interest.
5. Subscription lines: timing, cost and IRR	The fund borrows first and calls later: the interest cost, the higher IRR, the lower multiple, and what to disclose.
6. Controls and capital account reconciliation	Tie every call to the investors, every investor to the fund: capital account roll-forward, unfunded commitments, the cash check and the pitfalls.

How to use this book

1. Read the module here: objectives, lesson, worked example, pitfalls, summary.
2. Open Case_Workbook.xlsx at the sheet of the module and follow every figure of the worked example to its formula.
3. Build the module tab of Exercise_Workbook.xlsx: the yellow cells turn green when your answer is right.
4. Answer the check questions (answers at the end of the book) and the module quiz; after module 6, take the certificate exam online (40 questions, 80% to pass).

The running case

Investor	Commitment (US$ m)	Closing	Pays the fee
Northmoor GP III (GP commitment)	10.0	first	no
Calder State Retirement System	150.0	first	yes
Ashgrove Mutual Insurance	120.0	first	yes
Wexford University Endowment	100.0	first	yes
Brightwater Fund of Funds IV	70.0	second	yes
Lindqvist Family Office	50.0	second	yes
Total	**500.0**		

Dates: initial closing 1 Jan 2027; call 1 due 31 Mar 2027; call 2 due 30 Sep 2027; second closing 31 Dec 2027; recallable distribution 31 Mar 2028; call 3 due 30 Jun 2028; default declared 30 Jul 2028; capital accounts at 30 Sep 2028.

MODULE 1

Commitments and the capital call notice

What an investor has promised, what the fund may ask for and how a call notice is built: investments, management fees and fund expenses.

Learning objectives

- Define a commitment, a contribution and the unfunded commitment, and say which document sets each.
- Read a capital call notice line by line: purpose, due date, cumulative position.
- Build the notice of a first call at fund level: capital items and the management fee.

The lesson

An investor in a closed-ended private fund does not pay for its interest on day one. It signs a subscription agreement and becomes a limited partner under the limited partnership agreement, with a **commitment**: a promise to pay up to a set amount when the general partner asks. Each request is a **capital call** (or drawdown). What has been paid is the investor's **contributions**; what can still be called is its **unfunded commitment**, the commitment less the contributions, plus any distribution the agreement makes recallable (module 4).

Our fund is Northmoor Capital Partners III, L.P., the fund of the Private Fund Finance & Controllership course. Its initial closing on 1 Jan 2027 admits four investors for $380m: three institutions and the general partner's own commitment of $10m. The fund targets $500m; two more investors will join at the second closing on 31 Dec 2027. The management fee is 2% a year on commitments during the investment period, called each half-year with the capital calls. The general partner pays no fee to its own manager.

A call notice is short but every line matters. Following the ILPA template, it gives the fund and the investor, the due date (often ten business days after the notice), the wire instructions, the amount due split by purpose (investments, management fee, partnership expenses, other), the investor's cumulative contributions before and after the call, and its remaining unfunded commitment. Investors book the investment and expense parts as contributions to their capital account, and the fee part as a contribution that is then expensed.

Call 1 is due on 31 Mar 2027. It funds Harlow Industrial Services ($45.00m) and $1.70m of partnership expenses, of which $1.5m of organizational expenses. Those are the **capital items**: $46.70m. The fee for the first half of 2027 is 2% x 0.5 x $370m of fee-paying commitments = $3.70m. The fund calls $50.40m in all.

Worked example: the notice of call 1, by investor (US$ m)

Capital items are split on the $380m of first-close commitments, the fee on the $370m of fee-paying ones. Calder pays $19.934m and keeps $130.066m unfunded.

Investor	Capital items	Management fee	Total due	Unfunded after
Northmoor GP III (GP commitment)	1.229	-	1.229	8.771
Calder State Retirement System	18.434	1.500	19.934	130.066
Ashgrove Mutual Insurance	14.747	1.200	15.947	104.053
Wexford University Endowment	12.289	1.000	13.289	86.711
Total	**46.700**	**3.700**	**50.400**	**329.600**

Pitfalls

- Allocating a first call on the target size of the fund instead of the commitments admitted at the due date.
- Billing the GP commitment a management fee it does not pay.
- Forgetting that fees and expenses use up commitment, like investments.
- Sending a notice without the cumulative position: the investor cannot check its unfunded commitment.

Summary

- Commitment, contributions and unfunded commitment are three numbers per investor, kept in one register.
- A notice splits the call by purpose; capital items and the fee use different bases.
- Call 1: $46.70m of capital items plus a fee of $3.70m, $50.40m in all.

Check your understanding

1. What is Ashgrove's fee in call 1?
2. What does the GP commitment pay on call 1?
3. What share of its commitment has Wexford paid after call 1?
4. Which base allocates the organizational expenses?

Exercise: tab M1 of the Exercise Workbook, 7 answers checked automatically. Suppose Harlow Industrial Services costs US$ 52.0m instead of US$ 45.0m. Rebuild call 1 and Ashgrove's line of the notice.