

The Cornerstone LPA

A standardized limited partnership agreement template for emerging fund managers, with the clauses LPs negotiate hardest explained in plain language.

Overview

The Limited Partnership Agreement is the constitution of a fund. For a first-time manager, negotiating it from a blank page burns three to six months of legal fees and goodwill. The Cornerstone LPA is a market-standard starting point: terms that a reasonable LP will accept without redlining, and clear notes on the handful of clauses that are genuinely worth negotiating.

What the document covers

- Fund formation, term, and extension mechanics (typically 10 years plus two one-year extensions).
- Capital commitments, drawdown notices, and default remedies for LPs who miss a call.
- Management fee: rate, base (committed vs invested capital), and the step-down after the investment period.
- Carried interest, hurdle rate, catch-up, and the choice between deal-by-deal and whole-fund waterfalls.
- Key person provisions, removal for cause, and no-fault divorce thresholds.
- Investment restrictions: concentration limits, follow-on reserves, and prohibited asset classes.
- Reporting cadence, valuation policy, advisory committee composition, and LP consent rights.

Terms that are genuinely market standard

- 2% management fee on committed capital during the investment period, stepping down to 2% of invested capital afterwards.
- 20% carried interest with an 8% preferred return for institutional LPs; sub-₹100 Cr funds frequently run without a hurdle.
- Whole-fund (European) waterfall — LPs receive all contributed capital back before the GP takes carry.
- GP commitment of 1–2% of fund size, funded in cash rather than fee waiver where possible.

- Four-year investment period, with reserves for follow-ons callable through the full fund term.

Clauses worth negotiating hard

Key person: define the trigger precisely. "Devotes substantially all business time" is unenforceable in practice; a named list of individuals plus a suspension-of-investment-period remedy is cleaner and protects both sides.

Recycling: the right to recycle returned capital up to 110–125% of commitments materially raises deployed capital and therefore net returns. LPs accept it when it is capped and time-limited to the investment period.

Clawback: escrow a portion of carry distributions rather than relying on a bare personal guarantee. It is the single provision most likely to sour an otherwise good LP relationship at fund end.

India-specific considerations

- SEBI AIF Category I/II registration requirements and the continuing compliance calendar.
- Minimum LP commitment of ₹1 crore (₹25 lakh for employees and directors of the manager).
- Sponsor commitment of the lower of 2.5% of the corpus or ₹5 crore for Category I and II AIFs.
- Tax pass-through status for Category I and II AIFs, and the withholding obligations that follow.
- Whether the fund vehicle sits in India (trust structure) or GIFT City / offshore, and the LP base each implies.

How to use the template

Fill the term sheet summary first and circulate that to anchor LPs before anyone opens the full document. Most negotiation happens on four or five economic points; resolving them on one page avoids a redline war across ninety.

Have Indian counsel review before execution. This template is a drafting aid and a negotiation reference, not legal advice, and it does not replace a lawyer who knows your specific structure.

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