PRIVATE MARKET FEES AND TERMS:

FROM TRANSPARENCY TO ACCOUNTABILITY IN PRIVATE MARKETS

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FOREWORD

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Related research
Preqin subscribers can read the first installment of this year's Private Capital Fund Terms Advisor, authored by Brigid Connor in the Private Markets Research group. The report explores shifts in LP–GP negotiating power and analyzes key fund terms, including those governing GP commitments and early-close discounts. Our detailed analysis of fees and other economic terms will follow later this year.

Private markets are entering a new phase of maturity – one defined not only by capital formation, fund innovation or manager selection, but by increasing scrutiny on how fund economics operate in practice.

Over the past decade, institutionalization has driven meaningful progress in transparency. Reporting frameworks have evolved, disclosure expectations have risen, and industry initiatives such as the ILPA reporting templates have introduced greater consistency across fee and expense reporting.

Yet as visibility improves, a more fundamental question has emerged: does reported information reliably reflect economic reality?

Fee and carried interest discrepancies in private markets are not isolated anomalies. eFront FAIR analysis indicates that they reflect a structural challenge at the intersection of legal drafting, operational execution, and financial reporting. Across reviewed funds, the most material issues arise from misapplication of waterfall mechanics and gaps in fee calculation processes, while recurring discrepancies also stem from failures to track lifecycle-based adjustments, such as commitment changes and step-down provisions.

These dynamics are unfolding against a market backdrop defined by constrained liquidity, extended holding periods, concentration of capital among larger managers, and heightened scrutiny from investment committees, boards and regulators. In this environment, fee outcomes are no longer peripheral operational details. They are direct drivers of net returns and central components of fiduciary oversight.

The industry has made important progress on transparency. But transparency alone does not ensure accuracy. Receiving data is not the same as validating it. Understanding reported fees is not the same as confirming that they align with governing agreements. The defining shift in 2026 is the movement from visibility to verification – from transparency to accountability.

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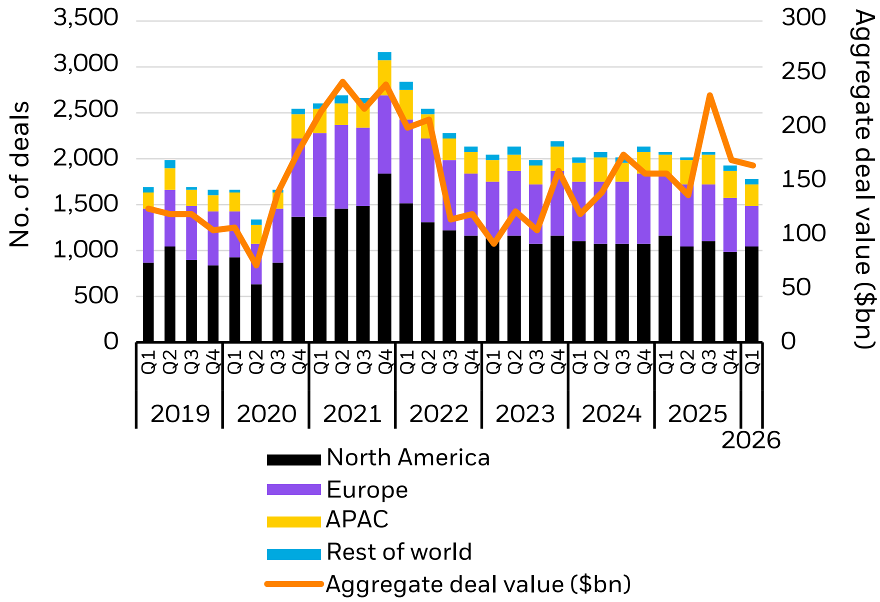
FUNCTIONING MARKET, CONSTRAINED CAPITAL

GOVERNANCE FRAMEWORKS TESTED BY A MORE COMPLEX MARKET

Private equity remains an active and important part of institutional portfolios. Deal activity continues across major regions, but the market has moved away from the expansionary conditions that defined the 2021–2022 period.

Fig. 1: Deal activity continues but is slowing across regions

No. of private equity deals and aggregate deal value ($bn) by region, 2019 – 2026



Note: The data here excludes the February 2, 2026 $250bn SpaceX-x.AI Corp merger owing to the non-sponsor-backed nature of the deal. The deal is included in the Preqin Pro platform.

Source: Preqin, as of May 2026

The market is still functioning, but is operating under different conditions. North America remains the largest contributor by deal count, with 1,047 deals recorded in Q1 2026, compared with 441 in Europe, 236 in APAC, and 38 in the rest of the world. Aggregate deal value in Q1 2026 was approximately $163.8 billion (Fig. 1).

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That level of activity matters. It confirms that private equity has not stalled. Capital is still being deployed, opportunities are still being pursued, and investors are still committed to long-term private equity allocations. But the pace and composition of activity point to a more selective environment – one in which capital is increasingly disciplined, underwriting is more cautious, and investors are more focused on the quality and defensibility of outcomes.

For LPs, this is an important distinction. The question is not whether private equity remains relevant. It does. The question is whether governance frameworks have evolved sufficiently to match the complexity and scrutiny of the current market.

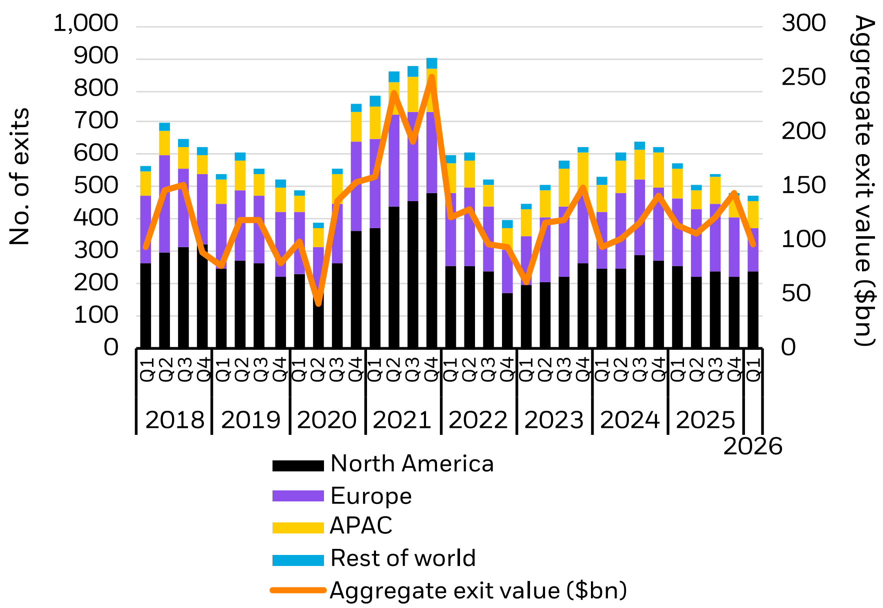
LIQUIDITY: THE CORE STRUCTURAL PRESSURE

The more defining pressure point is liquidity.

A softer distribution environment has emerged. In Q1 2026, aggregate exit value was approximately $95.6 billion, with North America contributing 238 exits, Europe 139, APAC 81, and the rest of the world 18 (Fig. 2). This matters because exit activity is the mechanism through which capital is returned to LPs. When exits slow, distributions slow. When distributions slow, re-up capacity tightens. When re-up capacity tightens, investment committees become more focused on capital efficiency, cost control, and the defensibility of net performance.

Fig. 2: Global exit activity slowed in recent years

No. of exits and aggregate exit value ($bn) by region, 2018 – 2026



Source: Preqin, as of May 2026

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The result is not necessarily a lack of demand for private equity. It is a liquidity bottleneck. Capital continues to be deployed, but cash is returned more slowly. Portfolio construction assumptions are tested. LPs are required to make more deliberate allocation decisions in an environment where every dollar of net return carries greater weight.

WHY FEE GOVERNANCE MATTERS MORE IN A CONSTRAINED ENVIRONMENT

In a higher-liquidity environment, fee inefficiencies can remain partially obscured by distributions, performance, and portfolio momentum. In a constrained environment, they become more visible. Every component of cost receives more attention: management fee bases; fee step-down; offsets; partnership expenses; carried interest accruals; waterfall mechanics; and reporting quality.

Investment committees and oversight bodies increasingly ask sharper questions:

- What exactly was charged?
- Why was it charged?
- Was it calculated in accordance with the governing documents?
- Can the outcome be explained and defended?

This is where fee governance moves from a technical control to a fiduciary discipline. In a market where liquidity is constrained, every basis point matters more. Every calculation becomes more visible. Every reporting gap has the potential to undermine confidence.

THE LIMITS OF STANDARDIZATION

Standardized reporting frameworks represent meaningful progress. In particular, ILPA templates provide a more consistent structure for capturing and comparing fee and expense data. Recent efforts toward standardization, including the Q1 2026 expansion of the ILPA reporting templates, represent a meaningful step forward in improving transparency. However, adoption remains uneven and implementation is still maturing. Inconsistencies can persist between accounting records, ILPA templates, and investor reporting outputs. That distinction is important.

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Standardized reporting answers the first question:
what data do we have?

It does not, by itself, answer the more important governance question: can we rely on it?

Fee reporting templates provide structure. Governance requires interpretation and verification.

THE GOVERNANCE GAP

The modern challenge for LPs is not simply access to data. It is confidence in the accuracy, completeness, and contractual alignment of that data. Closing this gap requires LPs to move beyond passive receipt of reporting and toward a more active validation framework. That framework must connect:

- Legal terms
- Fee calculation models
- Fund lifecycle events
- Reported outcomes
- Investor-level economics

This is the context in which fees and terms diligence now operates.

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FEES AND TERMS DILIGENCE

WHERE FREQUENCY AND IMPACT CONCENTRATE

UNDERSTANDING WHERE RISK SITS

Fee risk in private markets is not random. It concentrates in specific areas where legal complexity, operational execution, and reporting limitations intersect.

Fig. 3: FAIR findings — frequency and financial impact by category

Carried interest: Calculation error **Impact:** $46,164,405	Carried interest: Reporting error **Impact:** $2,089,036	Carried interest: Commitment size discount **Impact:** $1,309,000	Reporting / Data disclosure **Impact:** Increased transparency
Management fee: Commitment size discount **Impact:** $745,800	Management fees: Calculation error **Impact:** $487,318	Management fee: Step-down **Impact:** $53,990	Partnership expenses: Calculation error **Impact:** $299,748

Source: FAIR

The FAIR findings show that management fee findings between 2023 and 2025 account for more than $1,280,000 of impact, partnership expense findings account for nearly $300,000 of impact, and carried interest findings account for almost $47 million of total impact, dominated by calculation errors (Fig. 3).

The pattern is instructive. Carried interest findings tend to be less frequent but highly material. Management fee issues recur because fee bases, commitments, and lifecycle triggers change over time.

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Reporting and data disclosure gaps may not always have immediate monetary impact, but they create the foundation for governance risk because unreliable data undermines downstream analysis.
The heatmap highlights four areas of focus for LPs.

(i) Carried interest – high impact
Carried interest miscalculations can produce significant economic consequences. Small differences in hurdle interpretation, catch-up mechanics, or waterfall sequencing can materially alter net asset value (NAV), accrued carry, and ultimate distributions.

(ii) Management fees – recurring risk
Management fee discrepancies often arise from incorrect fee basis application, missed commitment adjustments, unapplied discounts, or failure to implement lifecycle changes.

(iii) Lifecycle events – transitional risk
Step-downs, end-of-investment-period transitions, commitment transfers, and fund extensions are predictable events, but they are frequently under-monitored in practice.

(iv) Reporting and data quality – foundational risk
Reporting gaps may not immediately translate into cash impact, but they affect comparability, confidence, and governance defensibility.

The key point is not that errors happen. The key point is that controls matter.

EXPERT PERSPECTIVES: INTERPRETING FEE RISK IN PRACTICE

As fee transparency improves across private markets, the conversation is increasingly shifting from disclosure to validation. The following perspectives reflect three themes that emerge consistently throughout this report: the challenge of operationalizing legal terms, the growing importance of management fee governance throughout the fund lifecycle, and the increasing significance of carried interest oversight in a constrained-liquidity environment.

KEY INSIGHT

The most common source of fee discrepancies is the translation of legal terms into operational processes.

Heather Heys – Director, Legal Insights, BlackRock

Why do fee discrepancies continue to emerge even when fund terms are clearly documented?
Heather Heys – Director, Legal Insights, BlackRock

The most common source of fee discrepancies is not ambiguity in the legal documents themselves. It is the translation of legal terms into operational processes.

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Most limited partnership agreements (LPAs) contain highly negotiated provisions governing management fees, carried interest, and investor economics. Defined terms such as committed capital, invested capital, and NAV are often carefully drafted, but their application depends on how those terms are interpreted and embedded into calculation models and reporting processes.

As funds evolve, so do the underlying economic inputs. Commitments transfer, investment periods end, fee bases change, and step-down provisions are triggered. If operational processes fail to evolve alongside those changes, calculations can remain mechanically consistent while becoming economically misaligned with the governing agreement.

For LPs, the key governance question is not simply whether a provision exists within the LPA. It is whether that provision continues to be applied correctly throughout the lifecycle of the investment.

KEY INSIGHT

For LPs, the central question is increasingly shifting from 'What have we been charged?' to 'Do we understand why we have been charged it?'

John Linck – Director, Aladdin Data PDS, BlackRock

Why is fee transparency no longer enough for sophisticated private markets investors?
John Linck – Director, Aladdin Data PDS, BlackRock

The industry has made significant progress in fee transparency over the last decade. Investors today have access to more information than ever before through enhanced reporting, ILPA templates, and improved disclosure practices. That is unquestionably positive.

The challenge is that transparency and understanding are not the same thing.

Receiving more data does not necessarily make fee economics easier to interpret. In many cases, private market fee structures are becoming more complex. Management fees, carried interest, offsets, partnership expenses, and investor-specific arrangements all interact to determine the ultimate economic outcome.

For LPs, the central question is increasingly shifting from 'What have we been charged?' to 'Do we understand why we have been charged it?'

That distinction is becoming particularly important in a market where distributions are slower and net returns are under greater scrutiny. When capital is returned less frequently, investors naturally focus more closely on the economics that sit between gross and net performance.

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KEY INSIGHT

A change in hurdle treatment, catch-up mechanics, or distribution sequencing can alter accrued carry, NAV, and, ultimately, investor returns.

Richard Stratford – Vice President, Solutions, BlackRock

The most effective governance frameworks therefore move beyond disclosure and reporting. They focus on interpretation, validation, and understanding – providing investment committees with confidence that reported outcomes are aligned with both the governing documentation and the intended economics of the investment.

Why are carried interest waterfalls becoming an increasingly important area of LP oversight?
Richard Stratford – Vice President, Solutions, BlackRock

Carried interest waterfalls sit at the intersection of legal drafting, financial modeling, and financial reporting. They are also one of the most consequential components of private market fund economics.

eFront FAIR findings show that carried interest discrepancies represent the highest impact category of observed findings, accounting for over $100 million of aggregate impact identified across reporting and calculation issues at the individual LP level.

What makes waterfalls particularly challenging is that relatively small differences in interpretation can produce materially different outcomes. A change in hurdle treatment, catch-up mechanics, or distribution sequencing can alter accrued carry, NAV, and, ultimately, investor returns. The case study featured in this report, which resulted in a $27.1 million NAV adjustment, illustrates how significant the consequences can be when the calculation model diverges from the governing agreement.

KEY INSIGHT

Across management fees, lifecycle events, and carried interest, the same principle applies: transparency tells investors what was reported, while validation provides confidence that reported outcomes align with governing agreements and investor economics.

This becomes even more relevant in a market where distributions are taking longer to materialize. As LPs focus increasingly on liquidity, DPI, and realized outcomes, understanding exactly how value will be allocated when distributions occur becomes a critical governance consideration.

For sophisticated investors, waterfall validation is therefore not simply a technical exercise. It is a fundamental component of understanding how value flows through a private markets portfolio and ensuring that reported economics align with contractual entitlement.

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FEE AND EXPENSE CLARITY IN PRIVATE MARKETS

Gain visibility into fund fee structures, expense allocations, and carried interest arrangements with **eFront FAIR**.

Combining advanced technology with specialized legal and accountancy expertise, eFront FAIR helps investors track, validate, and govern private market fees with confidence.

→ **Fee data standardization** across managers, funds, and portfolios

→ **Fee validation** against fund agreements and supporting documentation

→ **Fee benchmarking** across peer groups, managers, and investment strategies

→ **Stakeholder-ready reporting** that simplifies complex fee data for investment, finance, and governance teams

→ **Quarterly reporting** to support ongoing monitoring, oversight, and decision-making

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DATA-LED DEEP DIVE

CASE STUDIES AND GOVERNANCE IMPLICATIONS

The following case studies bring the eFront FAIR findings to life. They are not isolated technical observations. They illustrate a broader governance reality: in private markets, fee outcomes are shaped by the interaction of legal terms, operational processes, reporting conventions, and investment lifecycle events. The FAIR heatmap provides the analytical foundation. The case studies show how those risks can appear in practice. Of course, as individual outcomes vary, these illustrative examples are not indicative of future results.

CASE STUDY 1: MANAGEMENT FEE BASIS CALCULATIONS – A MULTI-LAYER AFFAIR

The core insight

Management fee diligence often begins with the headline rate. But the economics rarely end there. A '2% management fee' may appear straightforward. In practice, the true cost to an LP is determined by the interaction of the management fee rate, fee basis, timing of lifecycle transitions, and accuracy of investor-level records.

The management fee rate chart shows useful directional information, but it does not tell the full story. Rates may appear relatively stable across periods or strategies, while the economic outcome may shift because there is a transfer of investor commitment or the fee basis changes, for example.

Management fee basis validation can be central to LP economics. In private equity, approximately 97.7% of funds use initial commitment as the fee basis during the investment period, while approximately 87.3% shift to actively invested capital after the investment period. Infrastructure shows a similar directional pattern, while private credit is more varied, with actively invested capital playing a more prominent role even during the investment period. The implication is clear: the headline rate is not the only factor that determines the overall economics.

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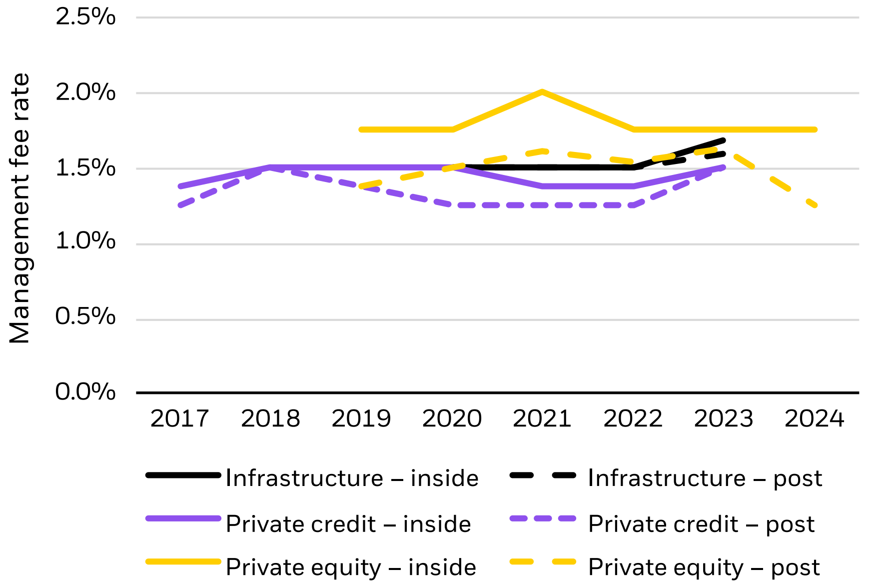
Fig. 4: Rates may appear relatively stable across periods or strategies, but the economic outcome may shift

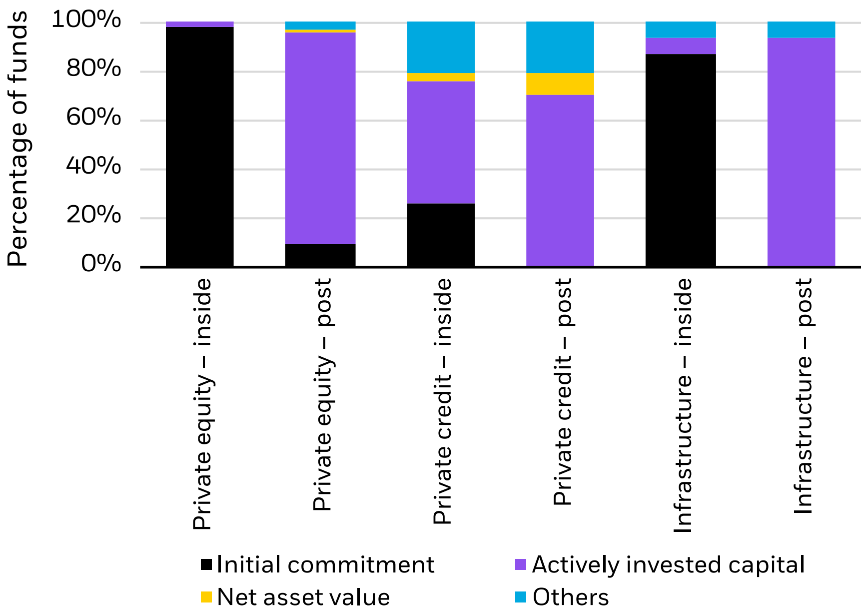
Management fee rates by asset class, investment period vs. post-investment period



Source: Preqin's Term Intelligence, as of May 2026

Fig. 5: The majority of funds use initial commitment as the fee basis during the investment period

Management fee basis by asset class – investment period vs. post-investment period



Source: Preqin's Term Intelligence, as of May 2026

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What happened?

Following a transfer of investor commitment in Q2 2023, management fees should have been calculated on the reduced commitment amount. eFront FAIR found that the GP had instead continued to use the original commitment amount in subsequent quarters. The result was an overcharge of approximately $615,000 and a cash rebate of $410,000 to the LP after correction.

This finding is powerful because the issue was not an obscure drafting point. It was a failure to update a core input. The fee calculation may have appeared consistent. The rate may have been familiar. The reporting may have looked routine. But the underlying commitment amount no longer reflected the investor's economic position.

Why it matters

This is where management fee governance becomes highly practical. LPs do not only need to know what rate applies. They need to know what the rate is applied to – and whether that basis remains correct over time.

- Important monitoring questions include:
- Has there been a commitment transfer?
- Has the commitment amount changed?
- Has the investment period ended?
- Has the fee basis shifted from commitment to invested capital?
- Has the calculation model been updated accordingly?

If the answers to any of these questions are missed, the calculation can remain mechanically consistent while becoming economically wrong.

Governance implication and investor takeaways

Management fee oversight should extend beyond validating rates. LPs should actively monitor:

- Fee bases
- Commitment changes
- Investment period transitions
- Capital account accuracy
- Side letter discounts
- Fee basis definitions

True cost is determined by the interaction of rate, basis, timing, and accuracy.

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CASE STUDY 2: MANAGEMENT FEE STEP-DOWN NOT APPLIED – LIFECYCLE EVENTS AS A CONTROL POINT

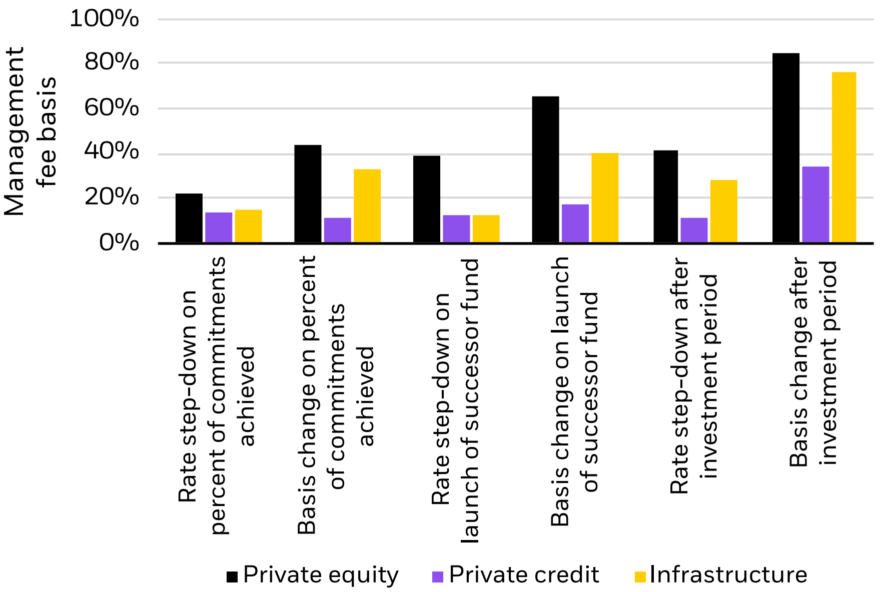
The core insight

Step-down provisions are designed to align fees with the changing lifecycle of a fund. Their purpose is straightforward: as a fund matures, the fee structure should evolve.

But step-downs only deliver value if they are identified, triggered, and implemented correctly.

Fig. 6: Management fee step-down triggers across asset classes

Management fee basis by asset class – investment period vs. post-investment period



Source: Preqin's Term Intelligence, as of June 2026

The step-down chart should be read as a lifecycle governance map. It demonstrates that fee provisions are not static. They are often dependent on dates, events, and conditions that must be monitored over time. Management fee step-down provisions are both frequent and variable across asset classes.

Private equity and infrastructure show broadly similar step-down dynamics following the end of the investment period, particularly in relation to fee basis transitions, although private equity exhibits somewhat larger rate reductions. More pronounced differentiation emerges around specific trigger events such as successor fund launches, where private equity exhibits larger reductions.

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By contrast, private credit tends to show more moderate and less consistent step-down behavior overall. This difference reinforces that step-down provisions are asset-class specific points that require active monitoring to ensure negotiated economics are realized, particularly in a constrained liquidity environment.

What happened?

A fund reached a soft close that triggered a contractual management fee step-down from 1.35% to 1.25%, effective January 1, 2024. Despite the trigger, eFront FAIR determined that fees continued to be charged at the higher rate through Q4 2024. The GP agreed to a true-up, with an estimated impact of $35,000.

This is a smaller monetary finding than the carried interest example below, but it is highly instructive. It demonstrates how lifecycle-driven provisions can be missed even where the contractual mechanism is clear. The issue was not that the step-down did not exist. The issue was that the operational process did not capture and apply the trigger.

Why it matters

Step-downs, extensions, and post-investment-period changes are all moments where economic meaning within a fund can change. They are also knowable events. They can be built into monitoring calendars, linked to the LPAs, and validated through quarterly fee review. That makes them highly governable. The opportunity for LPs is to convert negotiated economics into realized economics. A step-down negotiated in the LPA only benefits the LP if it is applied correctly in practice.

Governance implication and investor takeaways

The economics of a fund change over time. LP oversight should change with them. Lifecycle monitoring is one of the most practical ways to protect negotiated economics after commitment.

Effective oversight requires:

- Identification of trigger events
- Tracking of effective dates
- Validation of the first calculation period after transition
- Ongoing monitoring where provisions evolve over time
- Clear documentation of any GP interpretation or adjustment

Fee governance is not static. It must move with the fund lifecycle.

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CASE STUDY 3: CARRIED INTEREST WATERFALL MISAPPLICATION – SMALL DISTINCTIONS, MATERIAL OUTCOMES

The core insight

Carried interest waterfalls define how value is ultimately distributed. They determine whether carried interest is payable, when it is payable, how it is calculated, and how proceeds are allocated between LPs and the GP. The waterfall is a sequential mechanism. Each step matters. A change in hurdle interpretation, catch-up treatment, or sequencing can materially affect the allocation of value.

What happened?

FAIR identified a multi-million-dollar NAV adjustment driven by incorrect application of a fund's carried interest waterfall.
The manager applied a catch-up mechanism after the preferred return, as described in the financial statements. But this approach did not align with the governing LPA, which permitted incentive fees only on gains above the hurdle. The discrepancy was not identified through the audit process. FAIR raised the issue with the GP, which confirmed an error in the waterfall model and reversed the accrued carry. The total NAV adjustment amounted to $27.1 million.

This is the clearest example in the report of why independent validation matters. The financial statements reflected one interpretation. The LPA supported another. The economic difference was material.

Distribution environment context

Waterfall mechanics are increasingly relevant in a low-distribution environment. While distributions depend on multiple factors, consideration of waterfall structures may offer LPs a small reprieve from low DPI in young funds.

In a market where distributions are constrained, waterfall structures deserve closer attention because they influence how value is allocated when cash flows emerge. When cash is delayed or limited, the sequencing of distributions becomes even more important.
The FAIR finding demonstrates that waterfall mechanics can also affect value before cash is distributed, through NAV accounting and carried interest accruals.

Why it matters

This case highlights a critical distinction for LPs: financial statement presentation and contractual entitlement are not always the same thing. A reported carried interest accrual may be internally consistent with the model being used. But if the model does not reflect the LPA, the output may still be wrong.

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That is why waterfall validation requires more than reviewing reported outputs. It requires connecting the LPA terms, waterfall model, financial statement treatment, and investor-level economic outcome.

Governance implications and investor takeaways

Carried interest validation requires integration of three disciplines:

1. **Legal interpretation** – what does the LPA actually permit?
2. **Economic modeling** – how should the waterfall operate?
3. **Reporting review** – do financial statements and investor reports reflect the correct mechanics?

Outputs alone do not provide assurance. Alignment between contractual terms and calculation models is essential.

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LP MITIGATIONS

BUILDING A GOVERNANCE TOOLKIT

Key areas for LP focus

VALIDATE THE FEE BASIS

LPs should monitor not only fee rates, but the basis to which those rates are applied. Commitment, invested capital, actively invested capital, and NAV can each produce different outcomes.

TRACK LIFECYCLE EVENTS

Investment period end dates, step-down triggers, final closes, fund extensions, and commitment transfers should be treated as governance events.

RECONCILE LEGAL TERMS TO OPERATING MODELS

Legal language should be translated into calculation logic and reviewed against actual reported outcomes.

REVIEW WATERFALL MECHANICS INDEPENDENTLY

Carried interest waterfalls should be validated against the governing documents, with particular focus on hurdle definitions, catch-up provisions, and accrual treatment.

ASSESS REPORTING QUALITY

Data quality should be assessed as part of fee governance. Even where reported economics appear correct, incomplete or inconsistent data can weaken oversight.

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CONCLUSION – FROM TRANSPARENCY TO ACCOUNTABILITY

Fee-related risks in private markets are structural rather than incidental. They arise from the interaction of complex legal provisions, evolving operational processes, fragmented reporting frameworks, lifecycle-driven changes, and variable data quality.

The industry has made significant progress on transparency. ILPA templates and improved reporting frameworks have created a more consistent foundation for fee and expense oversight. But transparency alone does not ensure accuracy, consistency, or alignment with governing agreements. The next phase of evolution will be defined by validation of reported outcomes, continuous monitoring across the fund lifecycle, integration of legal, operational, and accounting perspectives, and defensible governance frameworks.

For sophisticated LPs, the central question has evolved. It is no longer sufficient to ask: do we have the data? The more important question is: can we rely on it – and can we defend it?

Independent validation and structured fee governance provide that confidence.

Key takeaways

- Fee risk is structural and recurring
- Carried interest often drives the highest impact discrepancies
- Management fee issues recur through basis changes, commitment movements and lifecycle transitions
- Step-downs, extensions and post-investment-period changes are critical control points
- Data quality underpins every aspect of fee governance
- Transparency improves visibility, but validation creates confidence
- Accountability gives LPs control

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