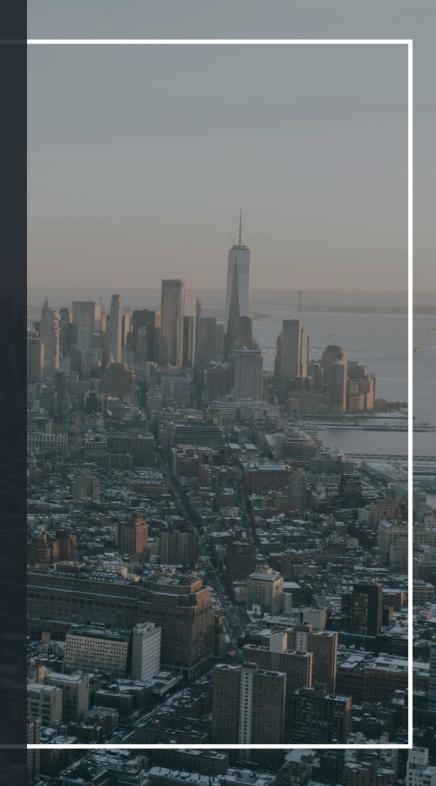
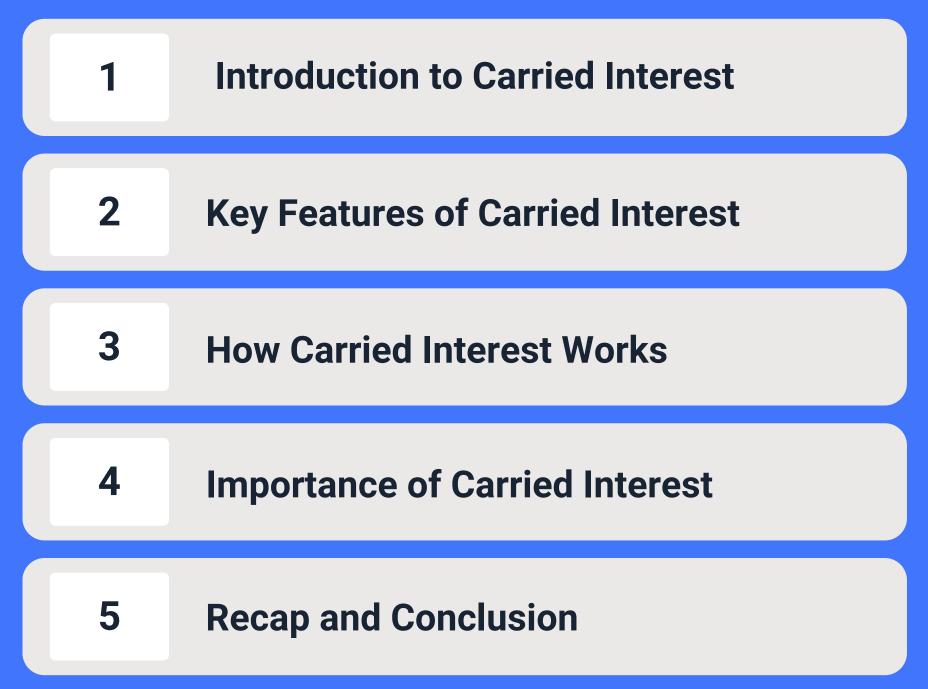
## Carried Interest What you Need to Know











### **Introduction to Carried Interest**

- Carried interest is a share of profits earned by General Partners (GPs) in private equity funds
- It is designed to align fund managers' interests with those of investors, ensuring that GPs are incentivized to achieve high returns



- Performance-based: To ensure performance alignment, GPs earn carried interest only if the fund meets a minimum return (hurdle rate)
- **Standard percentage:** Typically, carried interest is 20% of the fund's profits, creating a significant incentive
- Tax treatment: Taxed as long-term capital gains, benefiting from a lower tax rate compared to ordinary income



**Hurdle Rate:** Carried interest is earned if the fund exceeds a minimum return ensuring GPs are only rewarded based on fund performance

**Profit Sharing:** Typically, profits are split 80/20 between limited partners (LPs) and GPs once the hurdle rate is surpassed

**Vesting Period:** Often includes a vesting period, ensuring GPs remain committed to the fund's long-term performance

#### **Importance of Carried Interest**



- Incentive Alignment: Ensures that fund managers focus on achieving high returns for investors
- Performance Motivation: Encourages fund managers to strive for successful investment strategies
- **Risk and Reward:** Balances the risk taken by fund managers with the potential for substantial rewards





- Carried interest is crucial for aligning the interests of fund managers with those of investors, incentivizing high performance
- By tying compensation to performance, carried interest motivates fund managers to pursue optimal investment strategies and achieve outstanding results
- Its **preferential tax treatment** continues to spark debates and legislative scrutiny

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