DO GENERAL PARTNER INCENTIVES IMPACT THE DURATION OF PRIVATE EQUITY FUNDS?

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ABSTRACT

Using private equity fund data for 2,855 funds initiated in the period 2000-2012, we ask how general partner (GP) incentives impact the duration of a fund. Consistent with the premise that GPs maximize the lifetime revenue of their firm, i.e., both fees from the current fund and expected future funds, we find that a fund's duration is shorter when GPs raise a follow-on fund, even when distributed capital is below 100%. Funds with very long durations (Zombie Funds) are more likely when incentives are misaligned-smaller funds with low distributed capital and low expectations of raising future funds.

Keywords: Private Equity, Managerial Incentives, Fund Duration, Agency Theory