

Fees & Expenses Survey

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SEC gets granular over fees

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Fees & Expenses Survey

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Insight

2

Seven charts that matter

Our *Private Funds CFO Fees & Expenses 2026 Survey* reveals an increasingly complex matrix of allocations and disclosure

EDITOR'S LETTER

7

Analysis

8

Methodology

How we reached our results

SEC scrutiny gathers pace

90 percent of firms were asked about fees and expenses during their most recent SEC visit

10

Getting granular on fees

Troutman Pepper Locke partners reveal that, with scrutiny increasing, there's a need for more detailed disclosures of fees and expenses

18

Broken-deal fees put alignment in spotlight

Overwhelming majority of firms charge failed deal expenses to the fund, but differences persist in other areas

20

Co-investment conundrum

LPs are demanding increasing transparency from PE funds, especially in co-investment vehicles, says Withum's Colleen Fay

24

Fees and expenses burden snowballs

Despite headline management fees decreasing, LPs are contending with a growing set of costs

26

Securing compromise on the costs

Scrutiny on the accuracy of fees and expenses allocations is a key CFO concern

33

Investors assert growing influence

LP demands for transparency are increasing in tandem with the variety of fees and expenses

37

Last word

Private equity's endless fee test

44



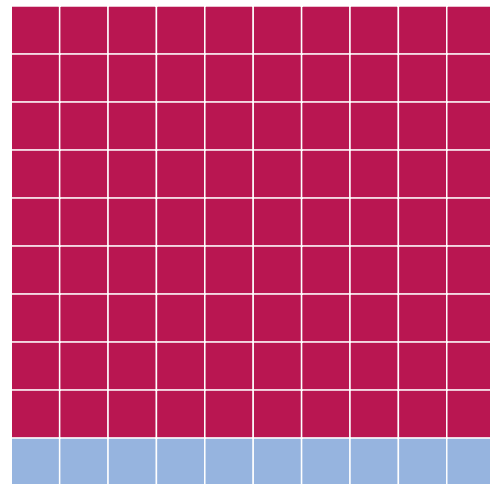
Insight

Seven charts that matter **Our survey of CFOs reveals an increasingly complex matrix of allocations and disclosure**

As CFOs navigate a growing set of obligations, while investors scrutinize every expense line item in the fund documentation, our biennial *Private Funds CFO Fees & Expenses Survey* reveals an industry that is rapidly evolving and becoming more sophisticated. Here are seven charts that describe the forces driving its direction.

During your most recent SEC exam, did regulators ask about your firm's fees and expenses?

Yes
90%



No
10%

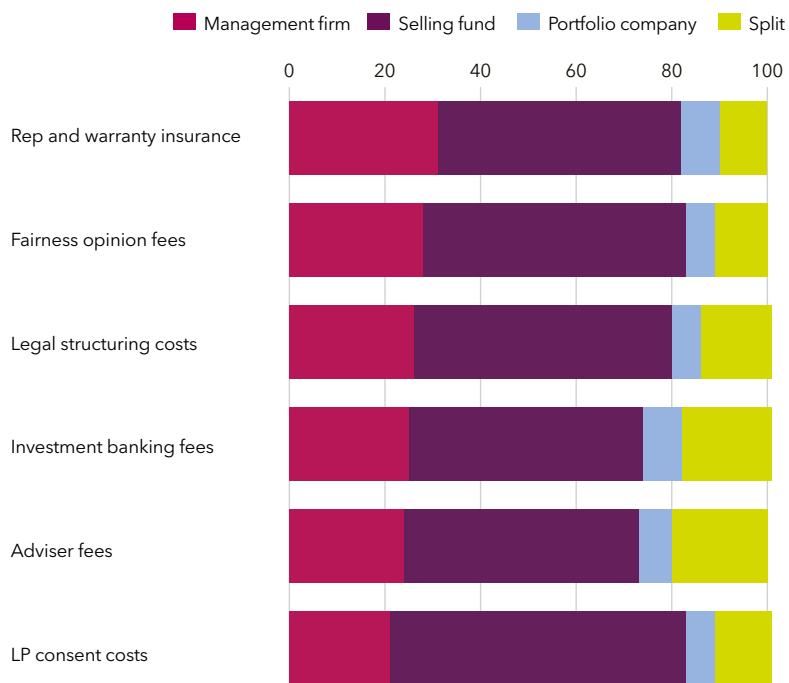
Syncing policy to practice

During US Securities and Exchange Commission examinations, the regulator is zeroing in on fees and expenses, and whether manager disclosure matches how they are allocating costs in practice. The result is "increased diligence by all parties with respect to both disclosure and record keeping, and the marrying up of disclosures and practices," says Stephanie Pindyck-Costantino, partner at Troutman Pepper Locke. "Managers are looking to make sure the policies and procedures they put in place are achievable to avoid a foot fault with the SEC."

Continuation vehicles go mainstream

GP-led secondaries or continuation fund transactions are becoming mainstream, but how costs – including failed transaction expenses – are allocated varies, “mainly because many LPAs were not drafted with continuation vehicles or GP-led restructurings in mind,” says Colleen Fay, financial services practice leader at Withum. “Where the transaction was positioned as liquidity or value enhancing for existing LPs, fund-level allocation is more defensible. Where the process is viewed as primarily serving GP objectives, LPs are increasingly pushing for management company absorption of failed costs.”

If a GP-led secondary or continuation fund transaction does not close, who bears the cost of the following? (%)

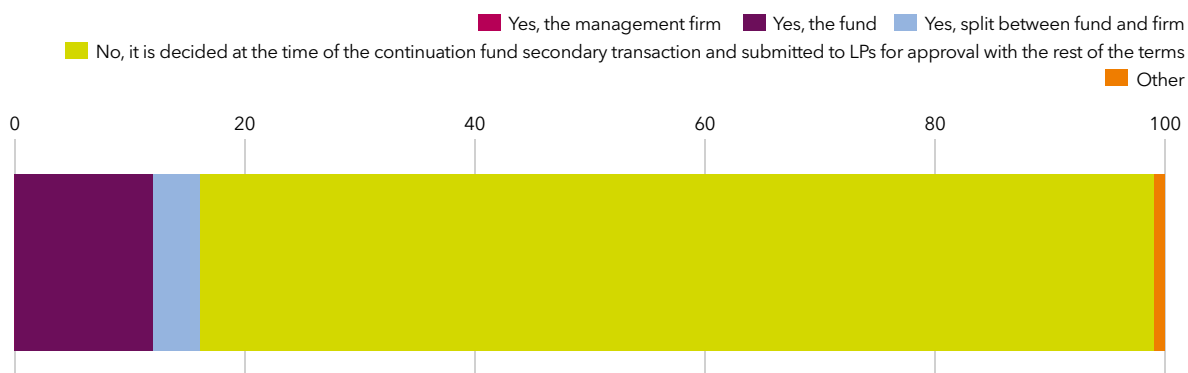


Getting CV transparency

Currently, reflecting the absence of specific language in existing fund documentation, the vast majority of managers allocate costs relating to a continuation vehicle at the time of the transaction and submit them to LPs for approval, along with the terms. Related issues of transparency and disclosure have not

gone unnoticed by the Institutional Limited Partners Association. “We are increasingly thinking about transparency for all LPs regarding the fees generated by a continuation vehicle,” says ILPA managing director of industry affairs Neal Prunier, who notes that CV-related fees can be considerable.

Does your LPA stipulate who pays for costs relating to a continuation fund secondary transaction? (%)



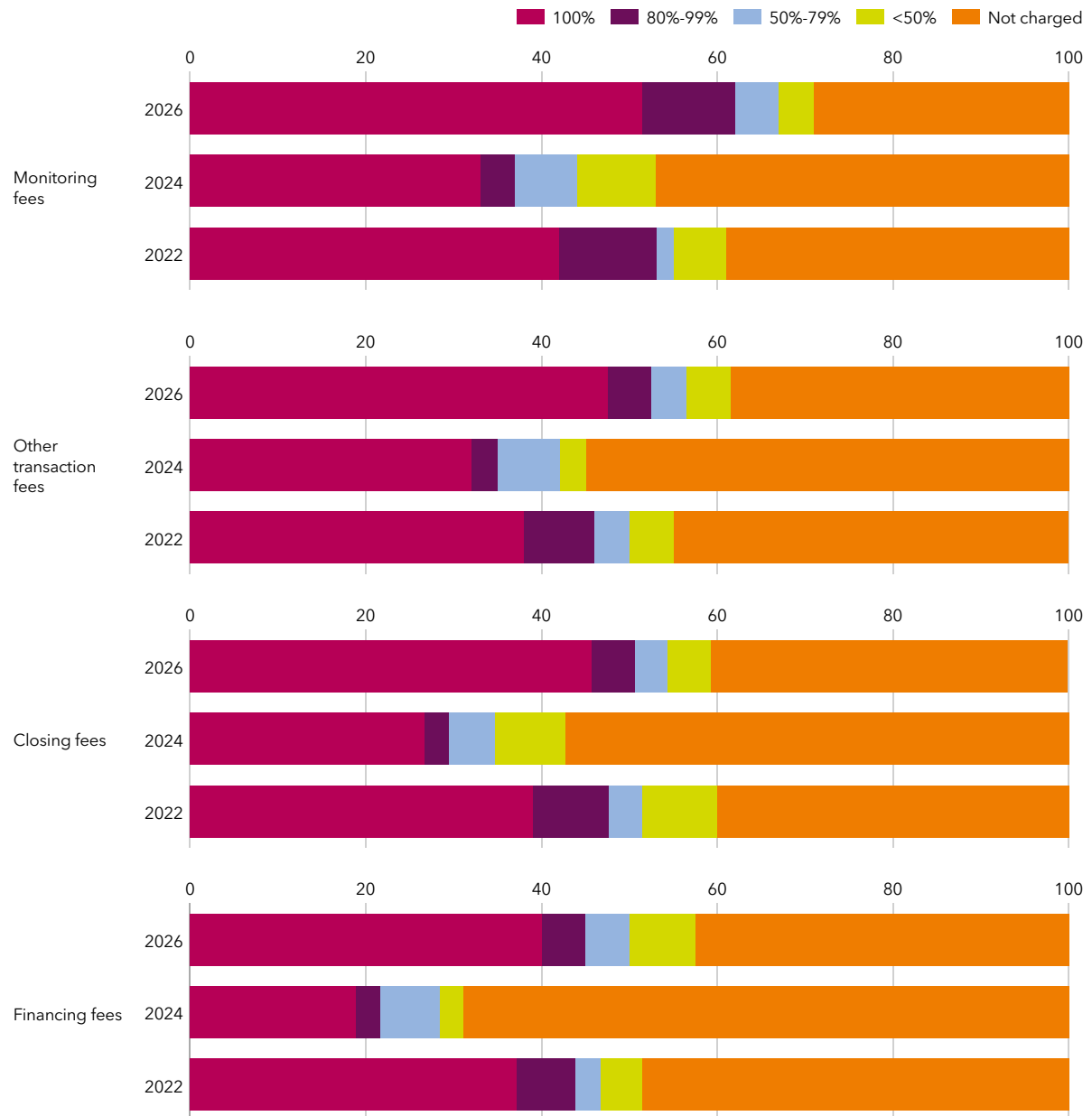
Source for all data: Private Funds CFO Fees & Expenses Survey 2026

Moving towards 100% offsets

Third-party offsets against management fees remain keenly studied by LPs. “The market is moving toward 100 percent offset, particularly for managers raising their second vehicle and beyond,” says Joshua Cherry-Seto, CFO and CCO at Velocity Capital Advisers.

At the other end of the market, “it’s not unusual for emerging managers to use a lower offset to supplement the management fee, where a 2 percent fee isn’t sufficient to execute on their strategy. As funds scale and the firm becomes established, that argument goes away and managers apply 100 percent.”

What percentage of your transaction, monitoring or any type of investment-related fee received by an affiliated entity is offset against your management fees? (%)



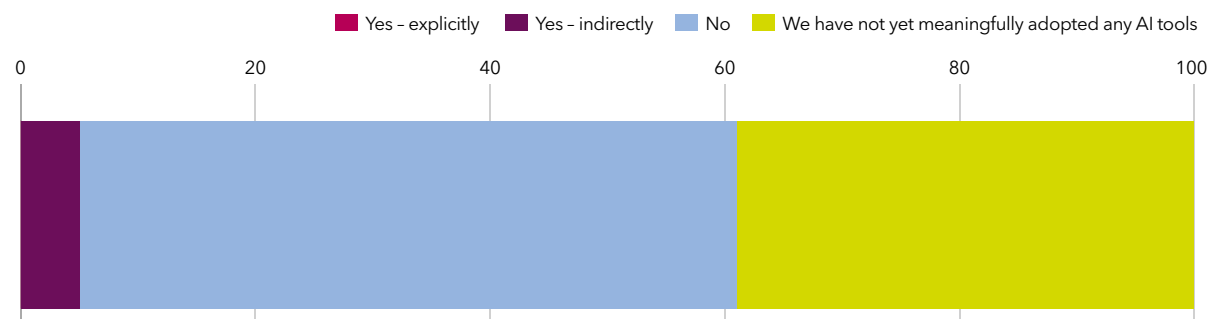
Source for all data: Private Funds CFO Fees & Expenses Survey 2026

Adopting AI

To date, managers say AI has had little impact on reducing costs and management fees. However, the “allocation of AI-related costs is an interesting development, as cybersecurity and software application expenses are usually more generally

allocated among funds and their managers,” says Theodore Edwards, partner at Troutman Pepper Locke. “Many managers have started to use AI, but we haven’t seen AI costs allocated to funds yet. To do so, managers would have to show LPs that the fund is gaining a real benefit from AI tools.”

Have cost savings from automation/AI reduced your operating budget and therefore management fees? (%)



46%

Firms that split adviser fees across the manager, selling fund and portfolio companies in a CV transaction

73%

Proportion of respondents with no plans to accept retail or semi-retail capital

5%

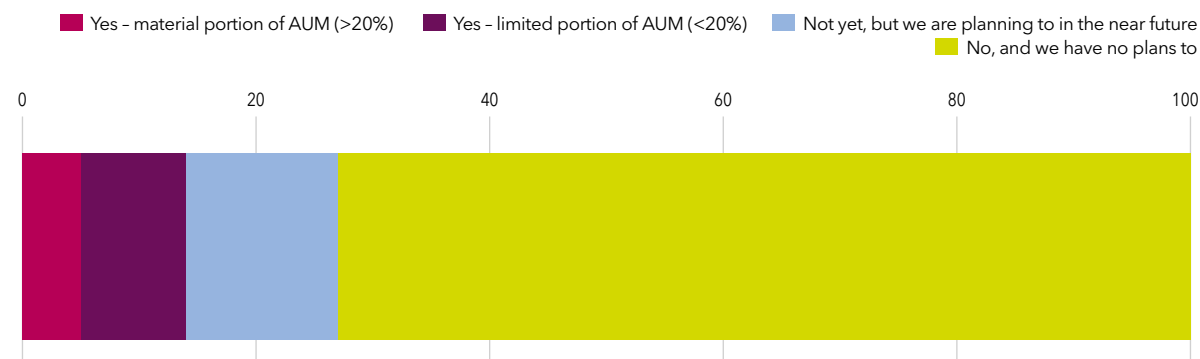
Managers that have seen cost savings from automation indirectly reduce their management fees

Going retail

The entrance of retail investors into the private funds space promises to impact fee structures and disclosures, and bring with them greater regulator and investor attention. With the democratization of private markets, “it’s going to get very complex,” says

Marshall Saffer, CSC managing director of fund and capital market services. “Fee structures will come under pressure and fees will need to become more clearly defined and comparable.” The 27 percent of managers who either already have some type of retail investor, or plan to, need to get ready.

Does your firm currently accept capital from retail or semi-retail sources? (%)

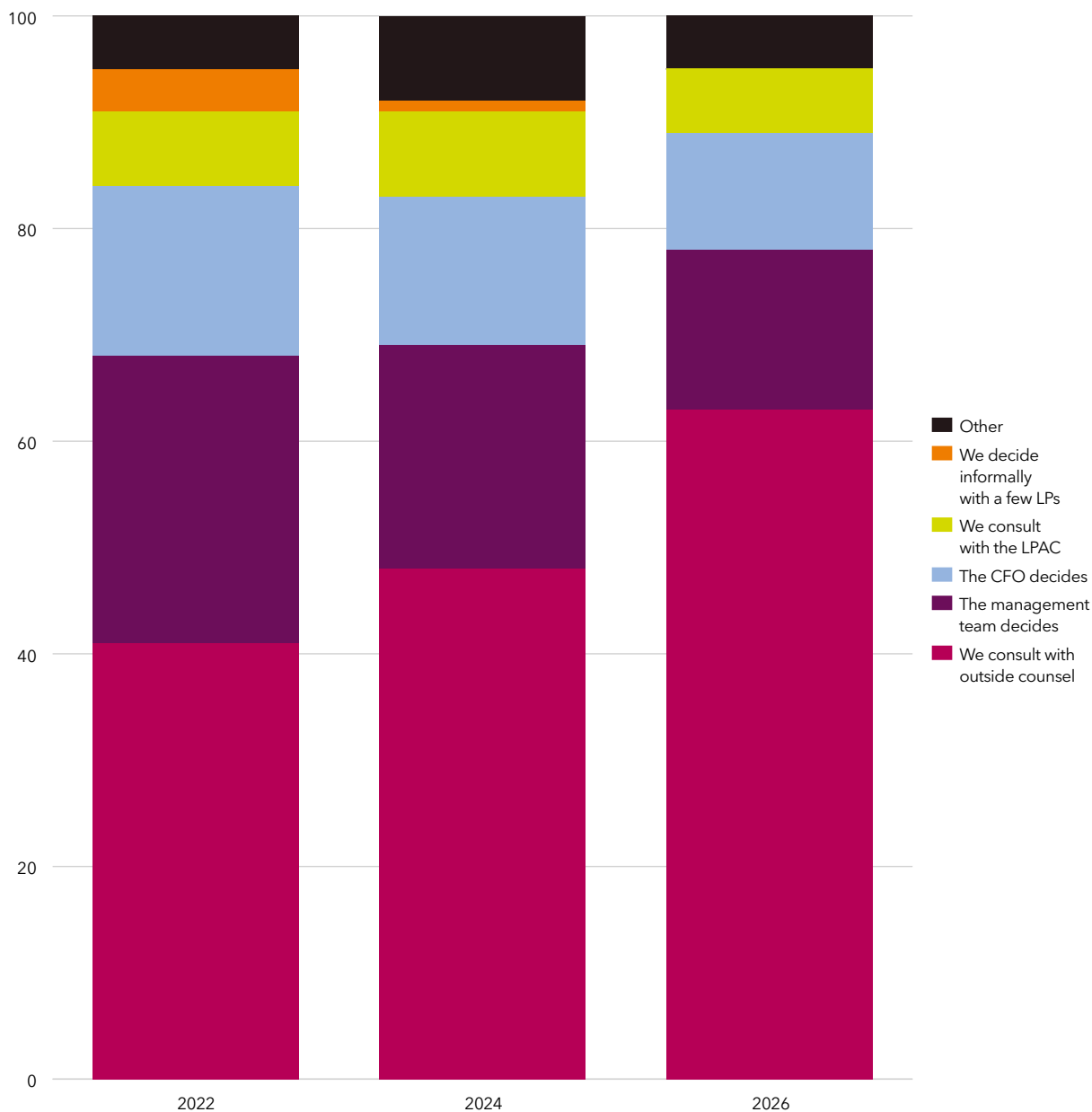


Avoiding ambiguity

Highlighting the sensitivity of potential conflicts, almost two-thirds of survey respondents consult with outside counsel when allocation questions are not addressed in documentation. "Ambiguity in documents is increasingly viewed as a failure of process, not a negotiating opportunity," notes Fay. "We see many

firms proactively revisiting older agreements, clarifying policies and documenting interpretations to avoid these situations altogether." Says one CFO: "If there's any ambiguity on a particular expense, we'll make it a management company expense. I'd rather do that than get a deficiency notice because I was aggressive."

How do you decide questions about fee and expense allocations that are not addressed in the PPM, LPA or policy documents? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026



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Editor's letter

Facing up to scrutiny



Edward Cleaver

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At a time of considerable industry evolution, fees and expenses are by no means immune from this upheaval. In the two years since our last *Private Funds CFO Fees & Expenses Survey*, fund managers have grappled with persistent scrutiny of their practices from both regulators and investors, while accommodating an expanding set of expectations and obligations. This year's findings underline how transparency remains the order of the day within the US private funds market.

First conducted in 2014, the survey has become a trusted benchmark for tracking funds' finance and compliance functions. Over a decade ago, this was an industry associated with privacy and a lack of clarity. Now, disclosure and openness have the wind in their sails.

Multi-faceted factors and multi-directional forces are responsible for these trends. As our Washington correspondent Bill Myers writes in his *Last Word* piece, even turbulent times at the SEC have not upended the overall direction of travel. Notably, 90 percent of respondents said their latest SEC exam featured questions about fees and expenses. Scrutiny is in vogue.

The LP base represents an alternative source of pressure, often advocating clearer frameworks on cost allocations. Continuation vehicles and other innovative fund structures have proliferated, making the wording of LPAs especially pertinent.

Different perspectives among managers nevertheless persist. The proportion of sponsors that disclose all deficiencies found in SEC examinations to LPs has halved to 25 percent since 2016. This has coincided with a rise in those who do disclose their deficiencies, but only due to side letter obligations.

Practice and preference may not always be aligned. As trends like AI adoption and retail reshape the industry, *Private Funds CFO* will be watching intently.

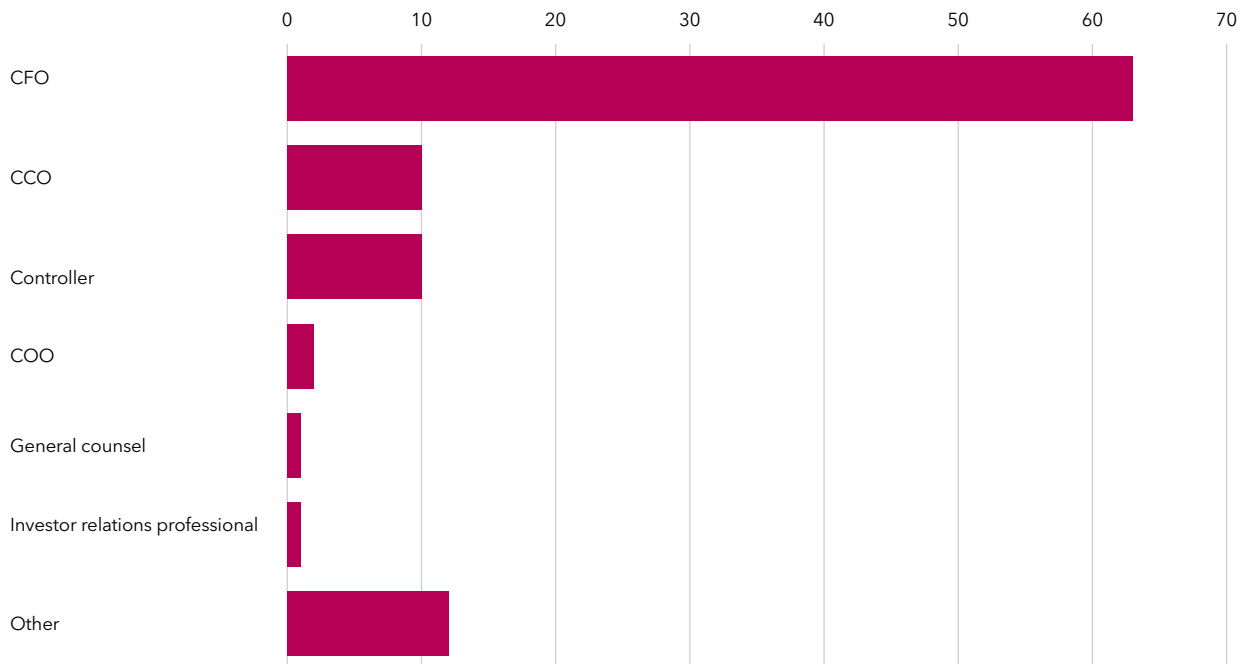
“ This year's findings underline how transparency remains the order of the day within the US private funds market ”

Edward Cleaver

How we reached our results

*Our survey provides a sweeping set of insights
into fees and expenses in the US private markets industry*

What is your primary job title? (%)



Where is your firm headquartered in the US? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

The *Private Funds CFO Fees & Expenses Survey* was launched in 2014 in response to fund managers' questions about who should pay for various fees and expenses. The report, which we produce every two years, is intended as a benchmark to compare and review fee-related practices across the private markets industry.

Creating the benchmark

PEI Group's Research & Analytics team surveyed 132 US alternative asset fund managers on their fee and expenses practices in February and March 2026. We targeted CFOs because they are most informed of these practices. However, if CFOs were unavailable, we sought responses from other professionals, including CCOs, COOs and IR professionals, provided they were aware of their firms' practices. The sample covers each region in the US and responses were received across the fund size spectrum.

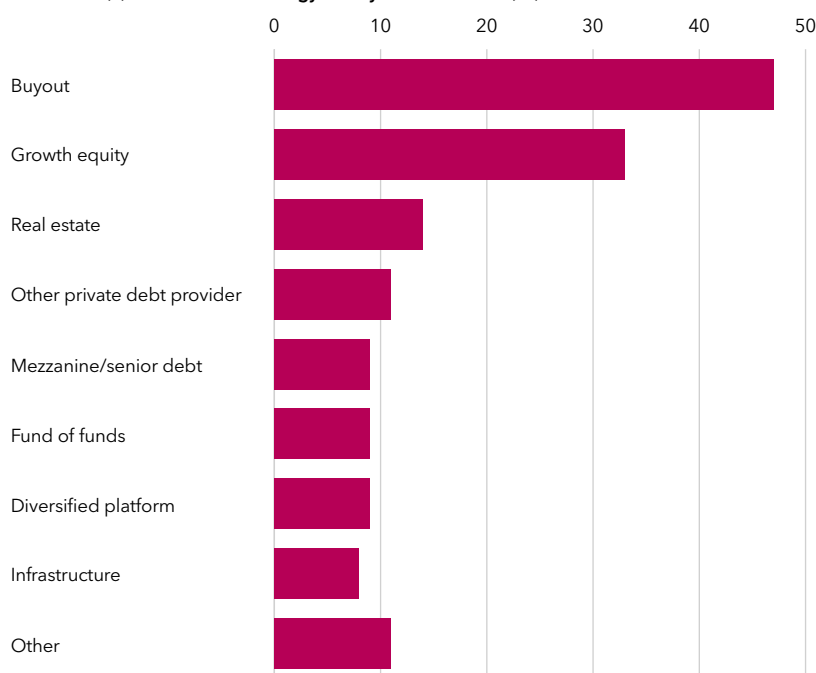
What about confidentiality?

To encourage wide participation, the survey is entirely confidential.

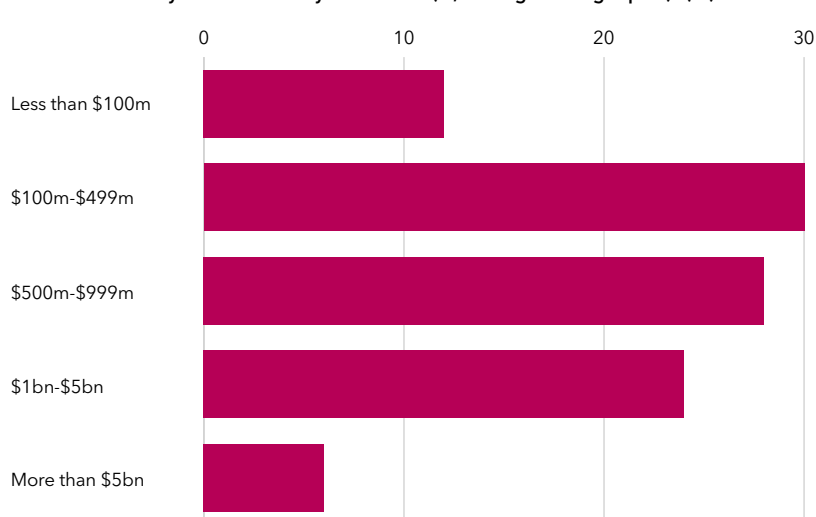
Why alternatives and not just private equity?

While the majority of survey respondents manage buyout or growth funds, we included fund managers in other illiquid alternative asset classes such as real estate and infrastructure because much of the scrutiny facing private equity firms is placed equally on those other asset classes. ■

Which kind(s) of investment strategy does your firm cover? (%)



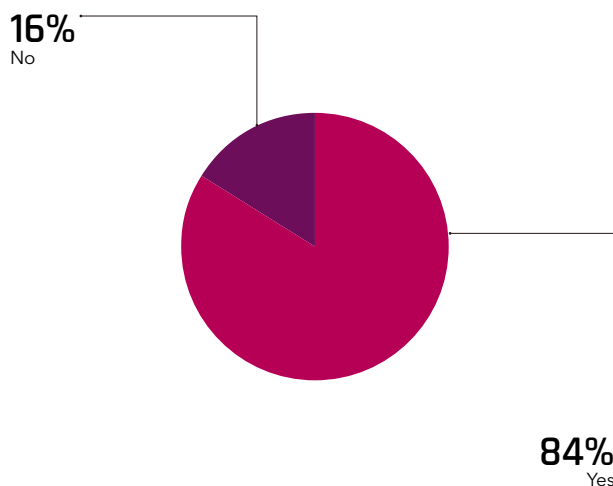
What is the size of your most recently closed fund (ie, no longer raising capital)? (%)



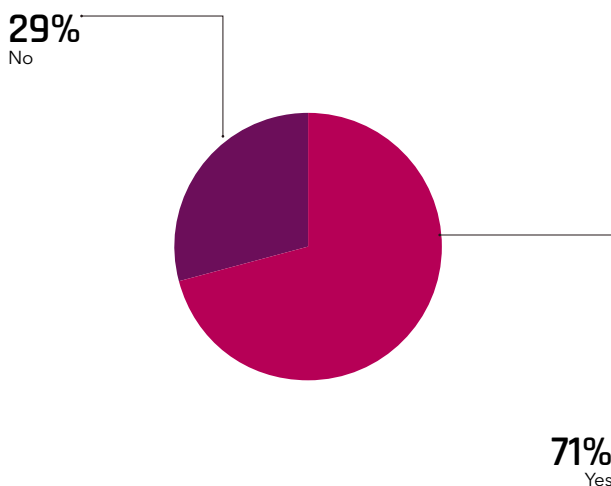
SEC scrutiny starts to gather pace

Nine out of 10 firms were asked about fees and expenses during their most recent SEC visit

Is your firm registered with the Securities and Exchange Commission?



Is your firm an Exempt Reporting Adviser?



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

The US Securities and Exchange Commission is laser-focused on ensuring managers' disclosure of policies and procedures matches actual practice. "The SEC has made it clear that disclosure isn't enough," says Stephen Mazzotti, partner at EisnerAmper. "Firms need to demonstrate that what they disclose reflects what they actually did consistently across vehicles and investors."

Or, as IQ-EQ managing director Jen Moldaver, who spent more than

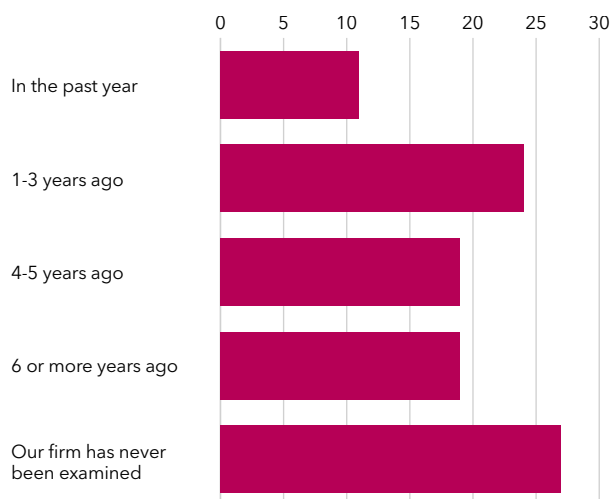
two decades at the SEC, puts it: "Disclose what you do, and do what you disclose."

Recent enforcement actions bear this out. In August, the regulator spotlighted overcharging of management fees by New York-based TZP Management Associates. The SEC stated that the firm breached its fiduciary duty to its private fund clients by "engaging in two fee offset calculation practices related to its receipt of transaction fees that created conflicts of interest that were not adequately disclosed to the funds or their limited partners and were

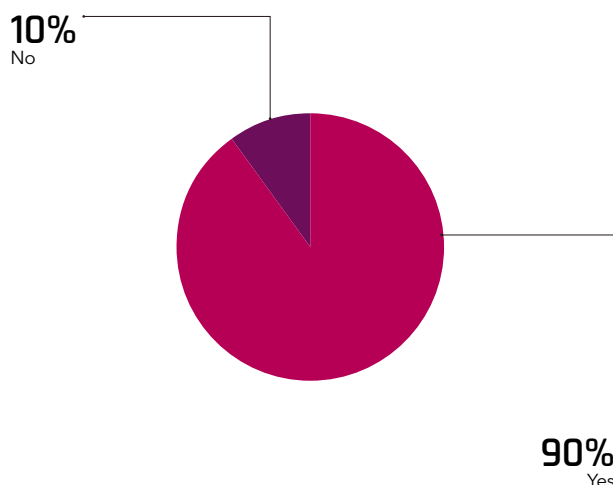
inconsistent with the relevant LPAs." The firm agreed to pay \$680,000 to settle the charges.

More than a third of managers have been examined by the SEC over the past three years, and 90 percent were asked about fees and expenses during the managers' most recent SEC visit, according to the *Private Funds CFO Fees & Expenses Survey 2026*. Preparing for an SEC examination can be expensive in terms of time, resources and money. While most managers spend less than 5 percent of their fund expenses on regulatory and compliance activities, a

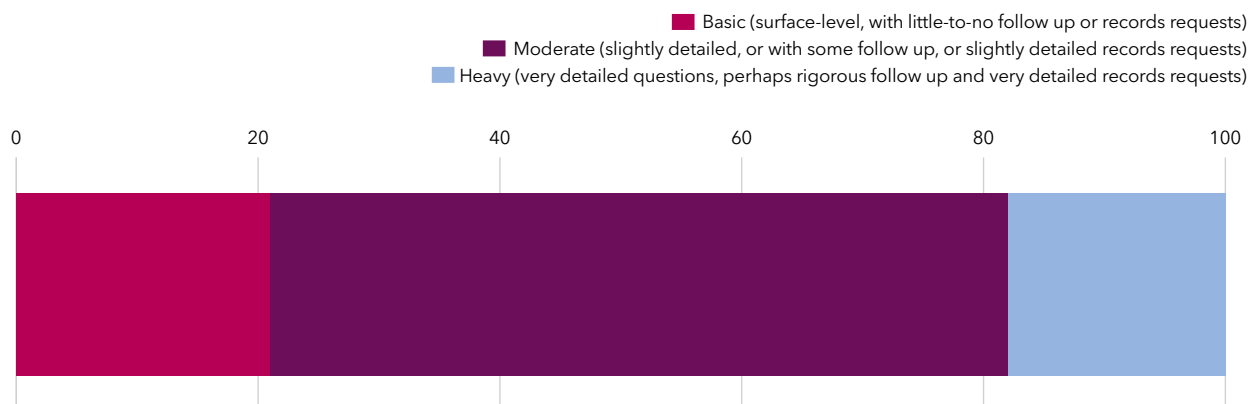
When was your most recent SEC exam? (%)



During your most recent SEC exam, did regulators ask about your firm's fees and expenses?



How would you describe the level of scrutiny? (%)



notable 3 percent spend more than 20 percent.

Of survey respondents, 8 percent had received a deficiency notice regarding fees and expenses over the past five years, and 1 percent were referred to a regulatory or other law enforcement agency or division.

Whether managers disclose deficiencies highlighted in an examination report to their LPs is roughly equally split between survey respondents who say they do so in all cases; those that do so because a side letter requires them to; those that disclose only when

a deficiency results in a fund expense; and those that “try very hard not to have to make any disclosure.”

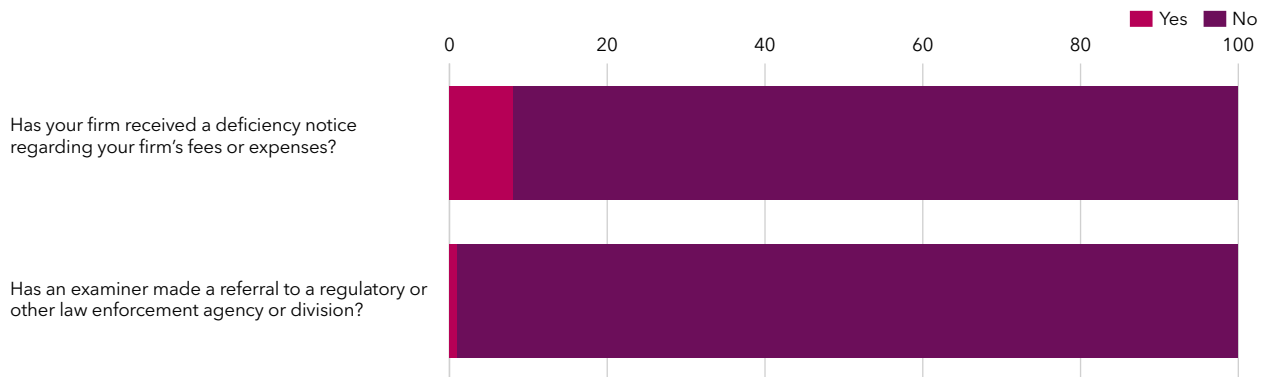
All managers are under the microscope. One CFO at a new manager, which is still formalizing its expense allocation policy and building infrastructure to automate the management of fees and expenses, notes that during its new registrant exam, the SEC was “very” focused on fees and expenses, asking questions about broken-deal expenses, transaction and closing fees, insurance costs and the new manager’s allocation methodology.

Another CFO, whose firm was last examined six years ago, expects a visit from the SEC “in short order.” During the firm’s first exam, it received a no action letter. “We were grateful there were no deficiency notices whatsoever back then. However, we were much smaller. Since then, the firm has grown quite a bit,” says the CFO.

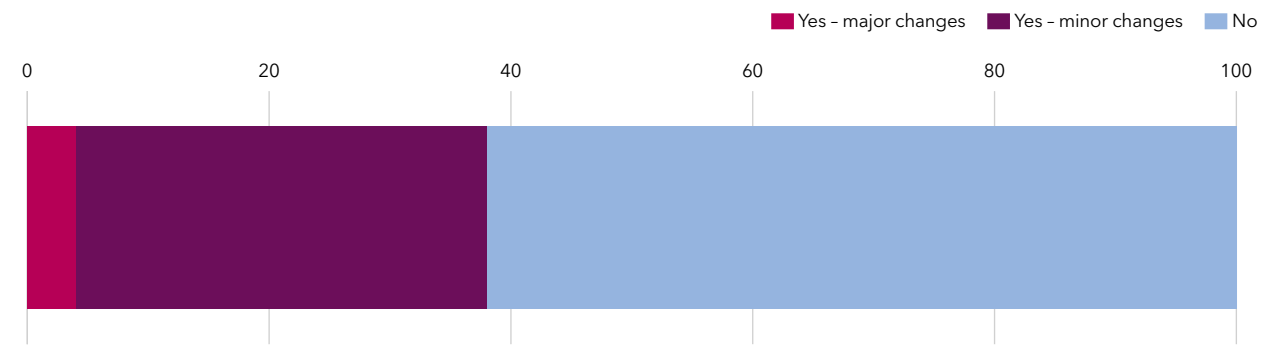
Today, the CFO’s firm invests through its main funds, co-investment vehicles, continuation vehicles and other SPVs. Fund expenses for its flagship vehicle agreement are described in detail over five pages of its LPA, says the

Analysis

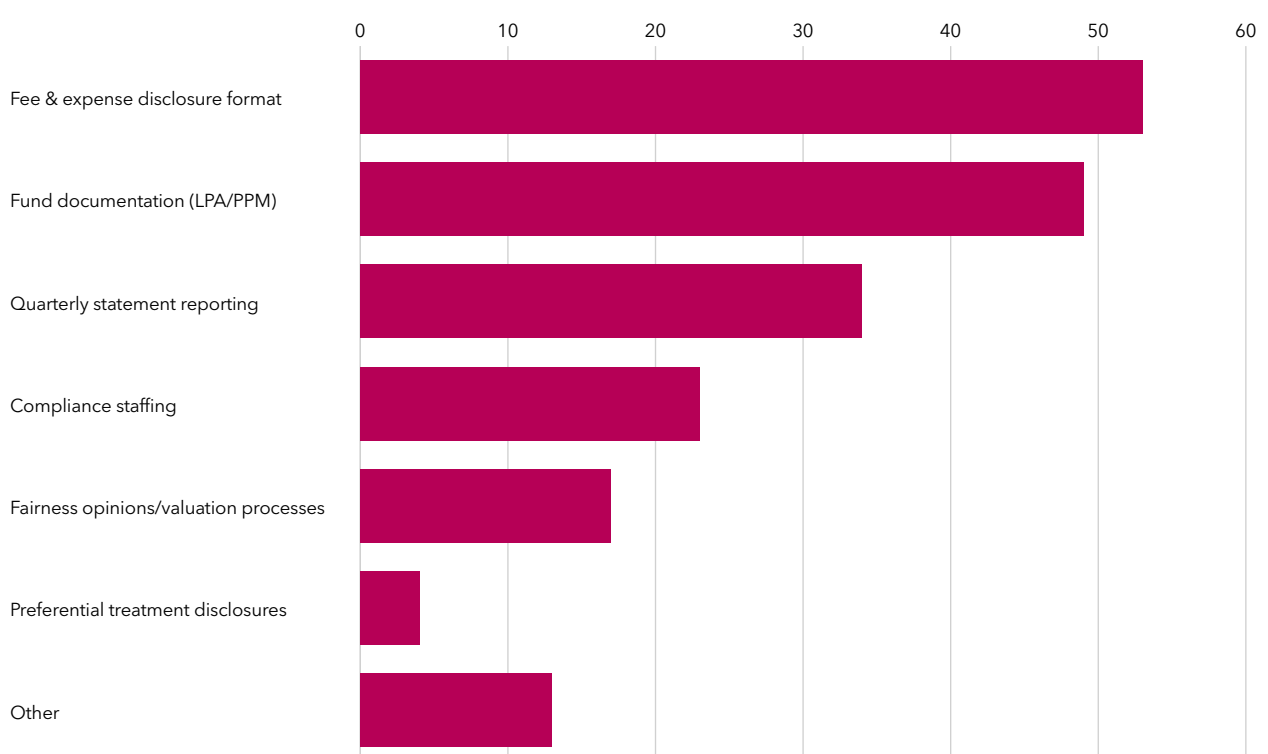
In the past five years... (%)



Has your firm implemented changes specifically due to the SEC's Private Fund Adviser Rules? (%)



If so, which areas were impacted? (Multiple answers allowed, %)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

8%

Firms that received a fees and expenses deficiency notice over the past five years

61%

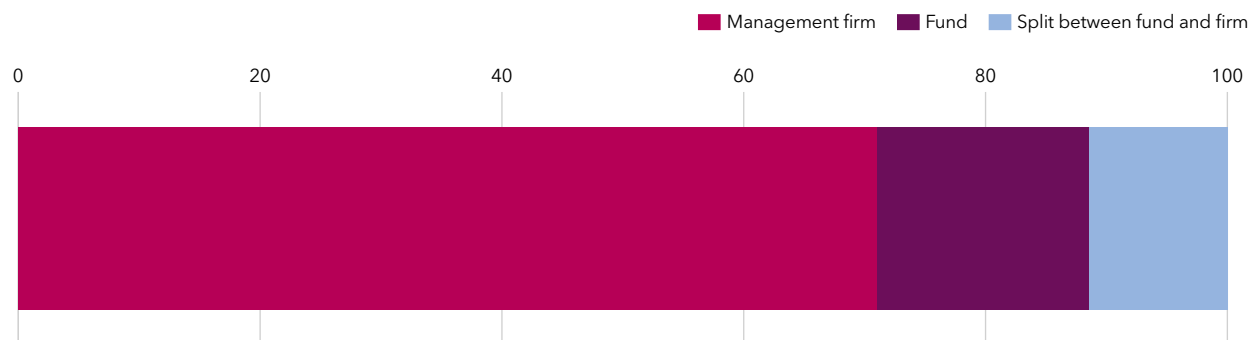
Proportion of firms that describe the level of scrutiny from the SEC as moderate

38%

Number of firms that implemented changes due to the SEC's Private Fund Adviser Rules

Your firm is visited by the SEC for a routine regulatory examination which leads to a deficiency finding around valuations.

You voluntarily decide to redo the last two quarters' reports and deliver the new ones along with an explanatory letter to your LPs. Who pays for the accounting and legal costs in getting through this correction process? (%)



You voluntarily decide to increase compliance processes and engage a compliance consultant. Who pays for the additional compliance costs on an ongoing basis? (%)



You voluntarily decide to enhance reporting to LPs. Who pays for the additional reporting costs on an ongoing basis? (%)



CFO. "Given the scrutiny, you need to be explicit. We use those definitions as a starting point to allocate the various expenses that come across my desk. Whether it's an expense for the flagship fund or other vehicles is the first question. Which entity is participating and who benefits?"

If it's not clear in the fund documentation which fund should bear the weight of the cost, rather than allocating it to the main fund by default and asking that fund's LPs to meet the cost, "there's flexibility to allocate across funds," says the CFO. If questioned on this approach during an SEC exam, the

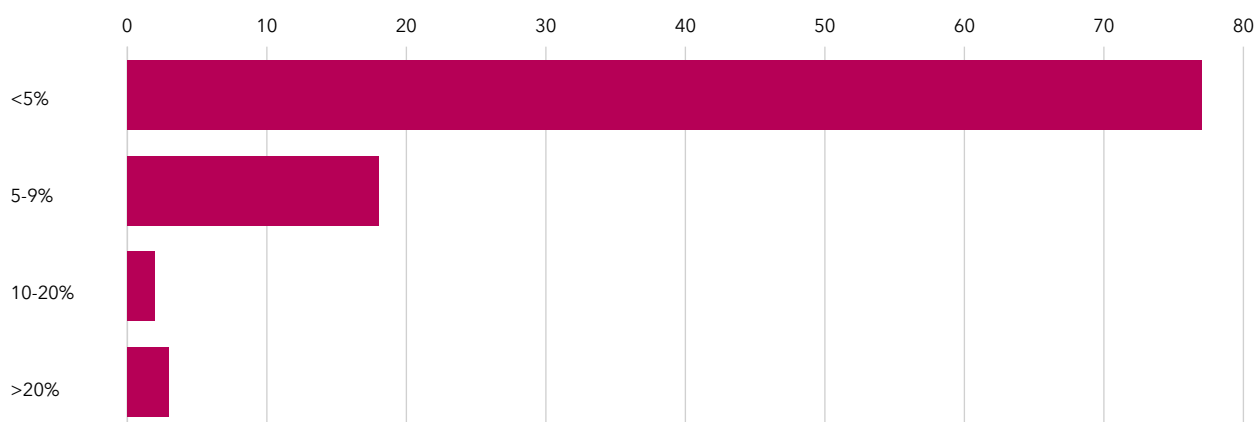
CFO says their response would be, "it's the fairest thing to do."

Going deep

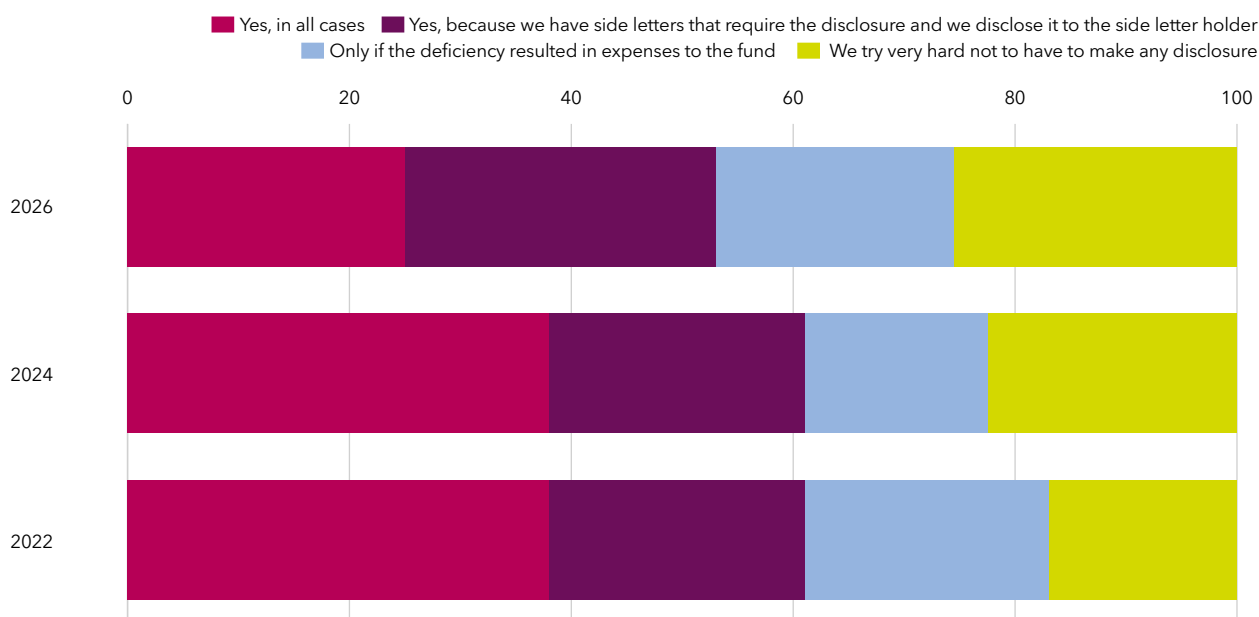
For established firms, including those that have been through previous SEC examinations, "we're seeing more specific SEC request lists and deeper dives

Analysis

Approximately what percentage of annual fund expenses are now attributable to regulatory/compliance activities? (%)



As a result of a routine examination, the SEC highlights deficiencies in the examination report. Do you disclose these deficiencies to your LPs? (%)



25%

Firms that always disclose deficiencies to their LPs that the SEC finds in routine examination reports

17%

Firms that made changes to valuation policy documentation following an SEC visit

into discrete areas,” says Moldaver, who, along with other market participants, notes that the SEC is operating with reduced headcount.

These areas include hidden fees and conflicts of interest, “where it might not be obvious to clients that their advisers are receiving compensation” from sources such as outside business activities, as well as disclosure of fees related to affiliated entities, portfolio monitoring and transaction fees.

There are “more targeted exams and a lot of new entrant exams,” Moldaver

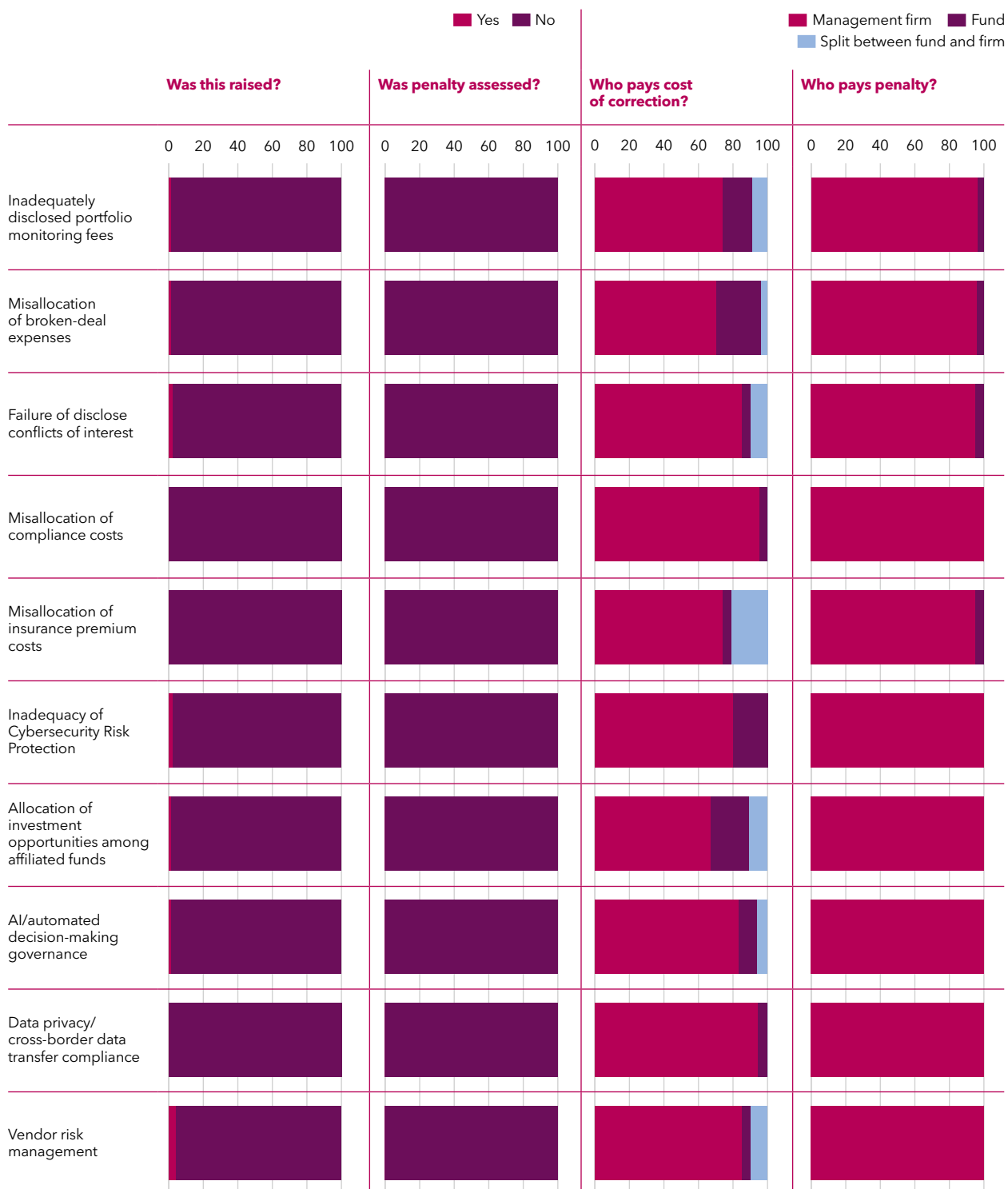
says. “The SEC is staying true to its priorities. If there’s an area where investors are paying more money than was disclosed in the documentation, or contrary to what they agreed to, the SEC is going to focus on it.”

“We are seeing the SEC staff do their homework prior to examining managers to see whether they have implemented the corrections they promised during prior exams,” says Thao Le, partner at Troutman Pepper Locke.

If they haven’t, “then there will be a really deep dive during the exam,” she

Has the SEC raised the following issues with your firm?

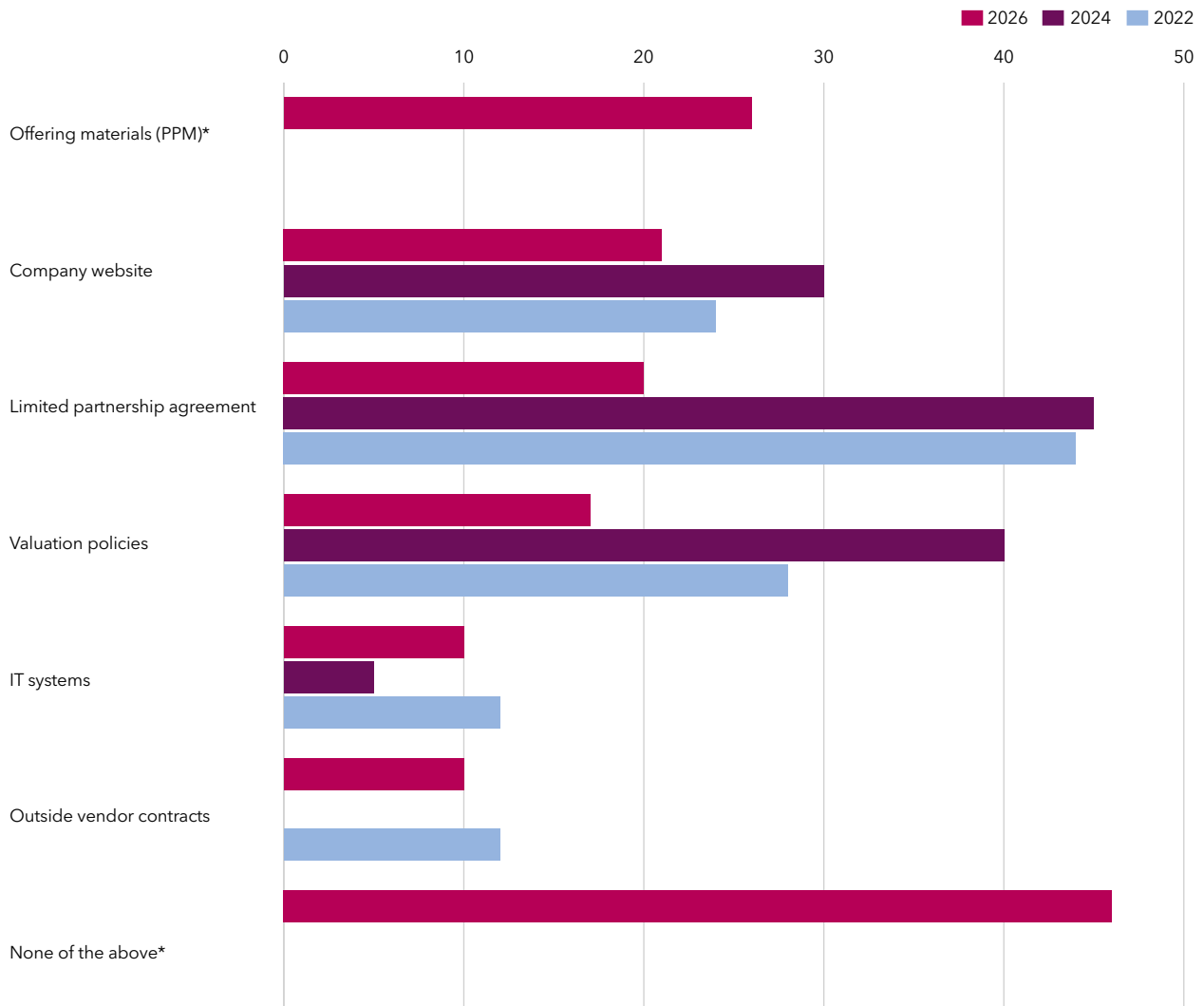
If they concluded you had a problem and you incurred costs to correct it, who bore the costs? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

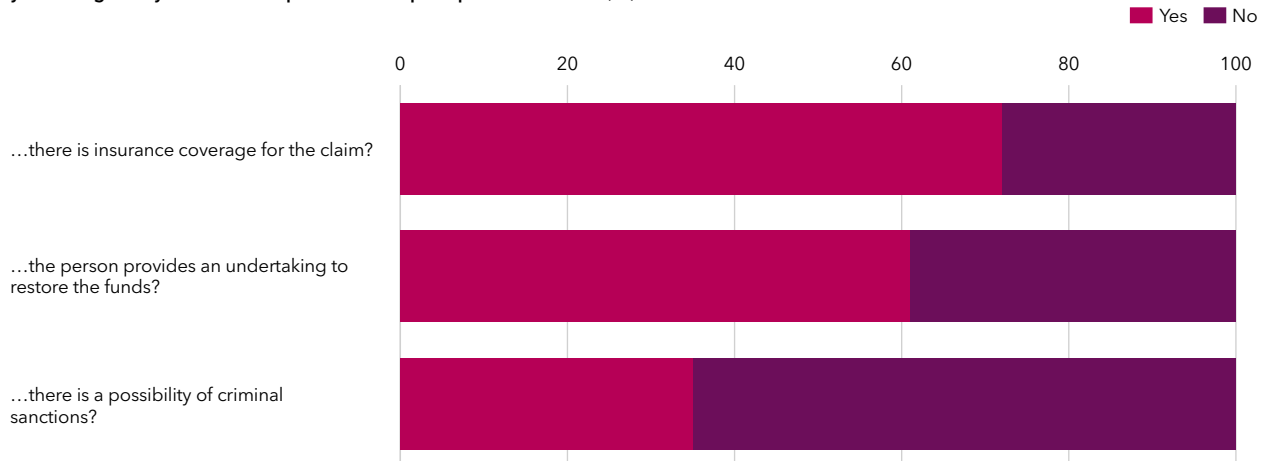
Analysis

Have you made changes to any of the following documentation following an SEC visit? (Multiple answers allowed, %)

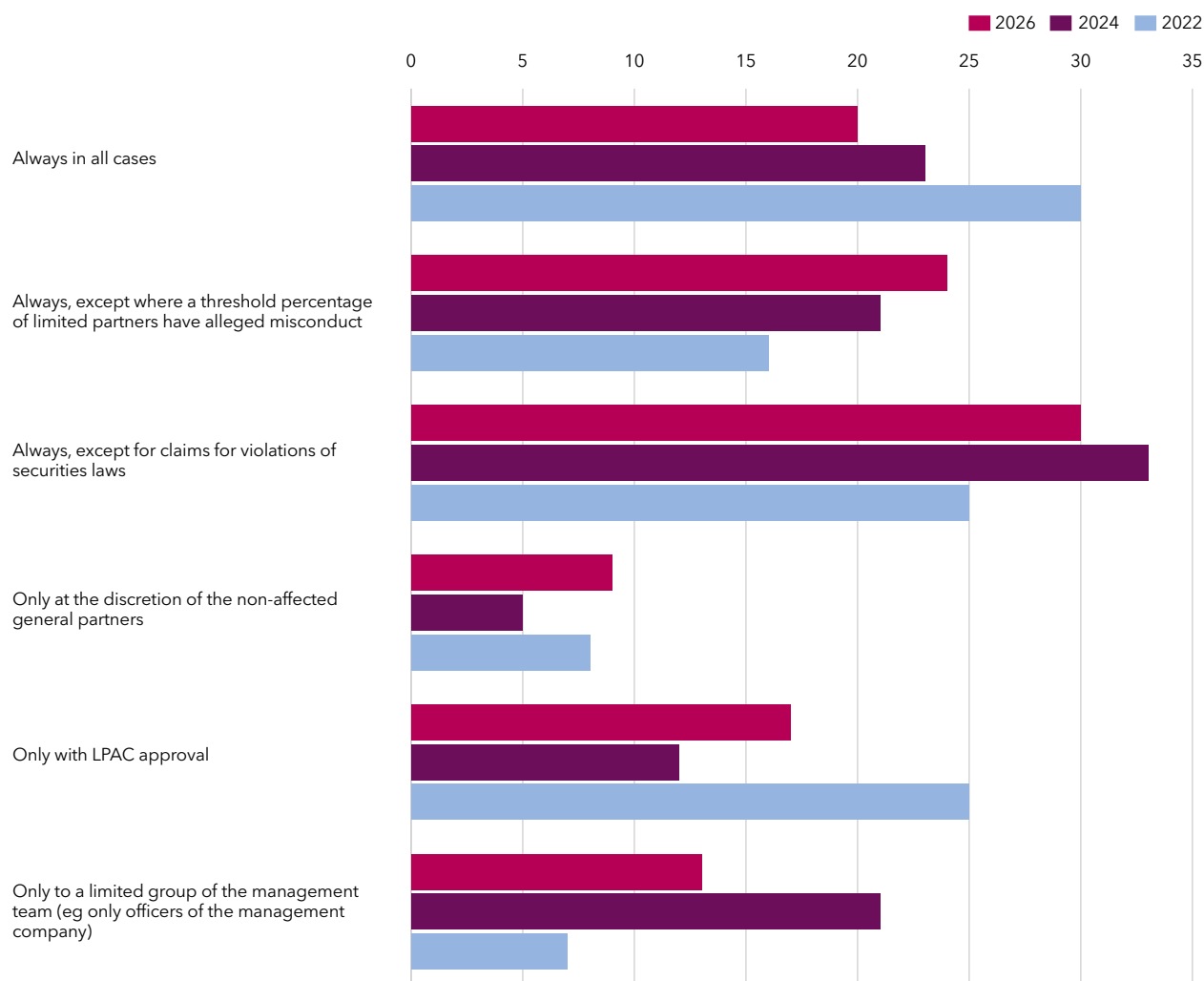


*Option not included in 2022 and 2024 surveys

An individual principal within your firm is the subject of an inquiry from the SEC that involves the firm's activities and the activities of the funds you manage. Do you advance expenses for the principal's defense if... (%)



If your LPA provides indemnification of principals serving on the management team, does that indemnity provide for advancement of expenses? (Multiple options allowed, %)



Source for all data: Private Funds CFO Fees and Expenses Survey 2026

says. “There’s particular sensitivity for regulators and LPs around affiliated party fees and whether they are adequately disclosed and properly monitored, as well as affiliated party offset fees (ie, management fees), paid by investors.”

From a manager’s perspective, Troutman Pepper Locke partner Stephanie Pindyck-Costantino notes that increased SEC supervision has resulted in “increased diligence by all parties with respect to both disclosure and record keeping, and the marrying

up of disclosures and practices. Managers are looking to make sure the policies and procedures they put in place are achievable to avoid a foot fault with the SEC.”

Over the next few years, regulatory scrutiny of “co-investments, expense allocations and management company reimbursements will remain front and center,” says Colleen Fay, financial services practice leader at Withum. “Any area where judgment is applied rather than a clear formula is likely to attract attention.”

One potential minefield for managers is failing to anticipate future changes in the way a fund might operate over the course of its lifespan and neglecting to update relevant fund documentation and disclosure, resulting in potentially improperly disclosed and charged fees and expenses. “The disclosure has gotten so complex that any change in process or any decision made previously potentially could create a foot fault because it is not the exact way it is described in the overly specific disclosure,” says one CFO. ■

KEYNOTE INTERVIEW

SEC gets granular on fees



With scrutiny increasing, there's a need for more detailed disclosures of fees and expenses, say Troutman Pepper Locke partners Stephanie Pindyck-Costantino, P Thao Le and Theodore D Edwards

As private fund fees and expenses become more varied and scrutiny of their allocation sharpens, we caught up with Troutman Pepper Locke partners Stephanie Pindyck-Costantino, Thao Le and Ted Edwards to ask what this means for managers and their takeaways from our *Private Funds CFO Fees and Expenses Survey*.

Q More than a third of respondents have been examined by the US Securities and Exchange Commission over the past three years, and almost all were asked about fees and expenses. What impact is this scrutiny having on the way CFOs disclose fees and expenses?

Stephanie Pindyck-Costantino: The staff's heightened scrutiny is driving

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managers to tighten both their disclosures and their record-keeping, and to ensure that what they say and what they do are fully aligned. We're also seeing managers avoid overpromising in policies and offering documents. They are trying to be practical about what they can actually deliver.

Thao Le: Although fund documents typically require LPs to bear all fund operating expenses, many managers are now explicitly itemizing costs which should be viewed as 'fund operating expenses' to avoid any ambiguity.

At the same time, there is heightened sensitivity around how affiliated

party fees are disclosed, calculated and used to offset management fees. For example, where an affiliate provides services to a portfolio company, managers are increasingly focused on ensuring those fees are calculated and applied timely as management fee offsets, in accordance with their policies and procedures.

The practical takeaway is that managers need clear, operationally workable policies and procedures, so they don't inadvertently foot fault with their investors and the SEC.

Ted Edwards: SEC scrutiny frequently focuses on how fees and expenses are disclosed, particularly if the fees are described as 'market' or arm's length. Once a manager uses that language, regulators will expect to see

support – whether market data, benchmarks or other evidence – that the fees actually align with prevailing rates, and that the manager maintains that support as part of its books and records. If the SEC spots an issue, the financial burden of remediation typically falls on the manager, not the fund or the LPs.

Q Monitoring fees are an enduring bone of contention. To what extent are they negotiable?

TL: As monitoring fees have become more common, LPs are less focused on the size of the fee itself and more focused on the fund economics – specifically, whether 100 percent of the monitoring fee is used to offset the management fee.

By contrast, investors in independent sponsor deals tend to scrutinize the size of the monitoring fee and often push for an annual cap to limit its drag on returns. From a regulatory standpoint, the key issue is clear, transparent disclosure of the monitoring fee and associated conflicts of interest.

Q The survey reveals that when an LPA provides indemnity for management team principals, it includes the advancement of expenses ‘always and in all cases’ for a declining number of managers. Why is this significant?

TE: The move away from ‘always and in all cases’ indemnification is a positive development for LPs and reflects a more sophisticated approach to risk management. Once fund assets are used to cover the manager’s legal costs, it’s extremely difficult – and often takes years – for LPs to recover these amounts, regardless of how the underlying proceeding is resolved.

We’re also seeing more fund documents require third-party insurance as a first layer of protection before the fund’s indemnity is triggered. There may be caps on premiums or

joint policies with the management company, but in practice a meaningful share of that insurance cost is still being allocated to the fund.

SPC: Insurance, advancement of expenses and the definition of ‘cause’ have become core economic and governance negotiation points between managers and investors. We’re seeing much closer scrutiny of how ‘cause’ is defined, including whether serious misconduct – such as securities fraud – is expressly carved out from indemnifiable events.

There is also an increasing focus on the threshold for a cause finding – who makes that determination (a court or an arbitrator), whether that decision itself is indemnifiable and whether it is covered by insurance.

Equally important are the consequences of a cause event for the GP – for example, whether carry continues to accrue until formal removal or is cut off earlier. The unifying theme is that the documentation must be clear, enforceable and structured to minimize protracted, costly disputes that can easily outlive the fund’s insurance coverage.

Q What challenges does the increased use of continuation vehicles (CV) create for fee and expense allocations, and how do parties resolve them?

TL: Governing documents for older vintage funds often don’t contemplate secondary transactions and continuation vehicles. As a result, funds that are strong candidates for a secondary transaction may lack clear authority to allocate the transaction’s fees and expenses solely to liquidating LPs.

In those cases, managers need to review existing fund documents for any cost-allocation provisions, and where they’re silent, work with the LPAC and a broader investor base to amend the documents. The goal is to permit allocation of secondary deal expenses

(other than the organizational and operating costs of the CV itself) to liquidating LPs, given the material impact on investor economics.

SPC: For funds coming to market now, continuation vehicle provisions have become heavily negotiated or, in some cases, removed. Earlier CV language tended to favor GPs, but as LPs better understand the economic and governance implications, many are pushing to strike those preset terms. Where that’s not feasible, LPs are increasingly seeking side letter protections that allow them to elect whether to participate in any future CV transactions.

On expenses, continuation vehicles can be costly, and because the manager is typically on both sides of the deal, existing fund LPs are focused on which expenses will be borne by the legacy fund, particularly if the CV ultimately does not close.

There is heightened attention on clearly articulating expense allocation as between the existing fund and the new CV. In practice, the lead secondary investor – often a specialist in these structures – plays a key role in negotiating terms with the GP and effectively setting the market on expense allocation for the broader LP base.

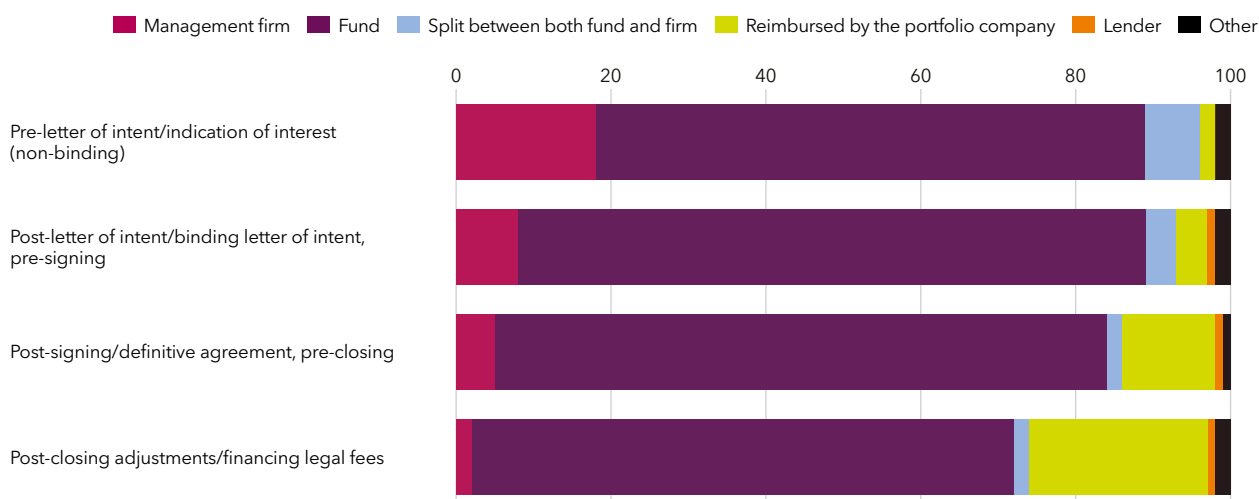
Q Where is the market headed in terms of fees and expenses allocation and disclosure?

SPC: We’ve seen fees and expenses disclosures become increasingly detailed and comprehensive. How those costs are allocated over time will continue to be shaped by market conditions and what investors are prepared to accept. When fund performance is struggling, scrutiny of fees and expenses intensifies. LPs are also paying much closer attention to when GPs start calling capital for management fees and expenses – whether that’s after the first close or after the first investment – and are using that timing as a data point in assessing the manager’s performance. ■

Broken-deal fees put alignment in spotlight

*Overwhelming majority of firms charge failed deal expenses to the fund, but differences persist in other areas, writes **Victoria Robson***

For the following stages of a transaction, who typically bears the broken-deal or deal-related expenses? (%)



Taking a look through an LPA at the pages of expense definitions that describe what can be charged to a fund, it can be difficult for LPs to discern how those costs might be allocated in practice.

“It’s important for LPs to see any issues arising,” says Neal Prunier, managing director, industry affairs, at the Institutional Limited Partners Association. “Are some costs significantly greater than an LP would expect, what needs to be looked at more closely?”

Prunier suggests that LPs seeking greater transparency and comparability

might, among other questions, ask: “Does a particular GP have a much greater proportion of broken-deal expense than other GPs?”

The allocation of broken-deal expenses remains a contentious topic. “The primary tension is alignment,” says Colleen Fay, financial services practice leader at Withum. “LPs increasingly question whether allocating failed deal costs to the fund, especially very early-stage diligence, appropriately incentivizes disciplined screening.

“With standardized reporting, LPs are also looking less at one-off events and more at patterns of broken-deal spend over time, which can surface

concerns around process quality rather than execution risk.”

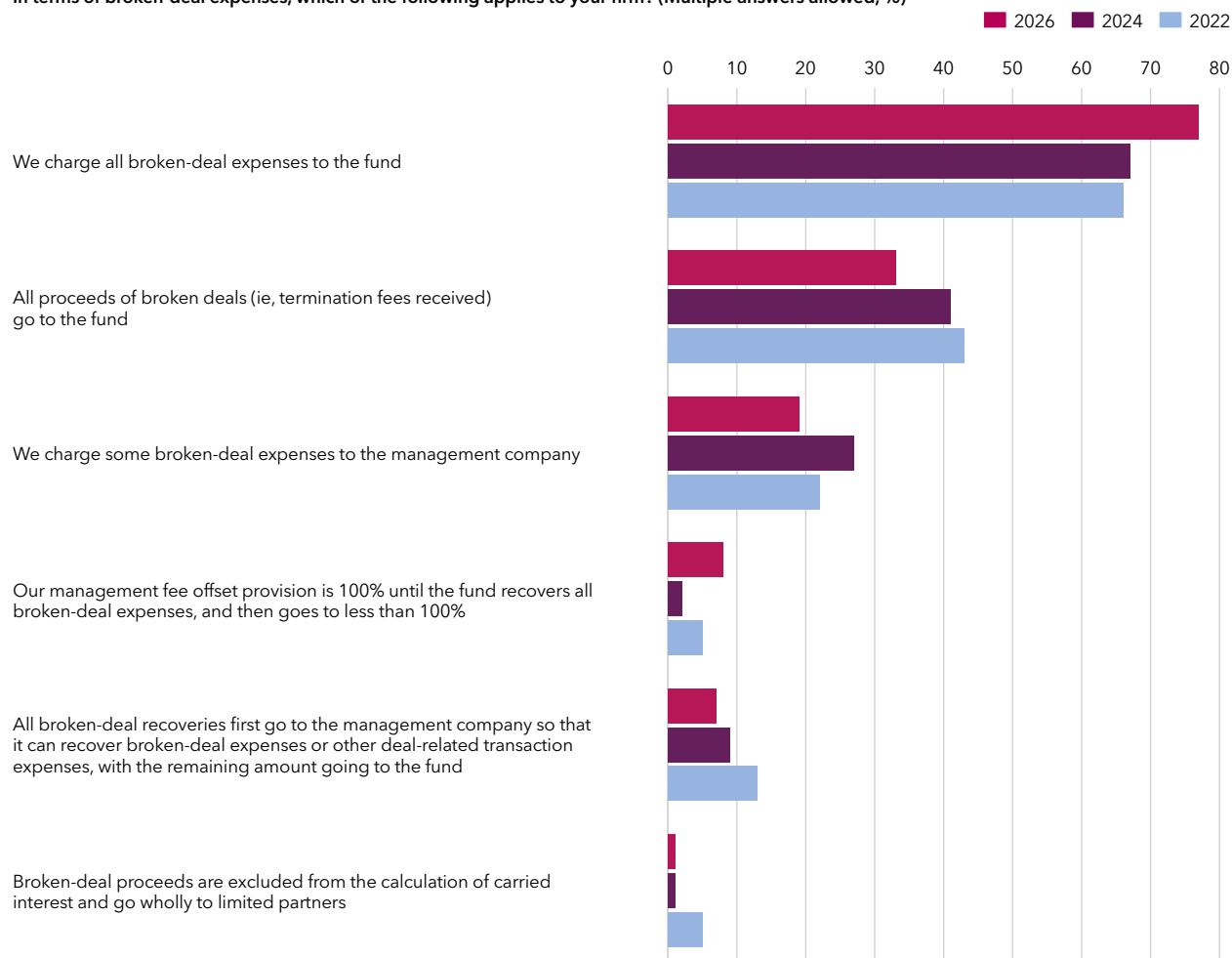
Tightening definitions

These issues are generally resolved “through clearer LPA drafting and transparency rather than wholesale reallocation,” says Fay.

One consequence is “newer funds are tightening definitions around what constitutes a fund-borne broken-deal expense.”

“There has to be both an incentive to proactively seek deals and to manage costs,” says Stephanie Pindyck-Costantino, partner at Troutman Pepper Locke. “Some LPs will look for broken-deal costs to be capped before

In terms of broken-deal expenses, which of the following applies to your firm? (Multiple answers allowed, %)



Source for all data: Private Funds CFO Fees and Expenses Survey 2026

being borne all or in part by the house. In addition, LPs may look for broken-deal costs to be returned as part of a hybrid waterfall if a GP originally suggested a deal-by-deal waterfall.”

At all stages of the failed transaction, from pre-letter of intent to post-closing adjustments, the vast majority of respondents to the *Private Funds CFO Fees & Expenses Survey 2026* allocate broken-deal or deal-related expenses to the fund.

While 77 percent of respondents charge all broken-deal expenses to the fund, up from previous years of the survey, only 33 percent said all proceeds of broken deals – for example, termination fees – go to the fund.

“There are broken-deal fees, but it can also happen in the other direction where termination fees are paid to the fund,” notes Joshua Cherry-Seto, CFO and CCO at Velocity Capital Advisers. “If the fund pays 100 percent of broken-deal fees, it should also benefit from 100 percent of fee income if the other side breaks the deal.”

Reflecting the lack of standardization in the treatment of costs related to GP-led secondaries or continuation fund deals, 46 percent of respondents split adviser fees, 19 percent allocate to the selling fund, 14 percent to the continuation vehicle, 11 percent to the management firm and 8 percent to selling LPs.

For a GP-led secondary or continuation fund deal that doesn’t close, roughly half of respondents allocate most related costs to the selling fund, rising to almost two-thirds for LPs’ consent costs.

“The costs around a GP-led or secondary transaction are heavily negotiated and, in some instances, can cause one or more potential investors to walk away from an otherwise desirable investment opportunity,” says Pindyck-Costantino.

“We document the cost sharing arrangements in as many scenarios as possible at the outset of the deal, the term sheet stage, if at all possible.” ■

Doing it differently

At LongRange Capital the firm treats broken-deal expenses differently from most GPs

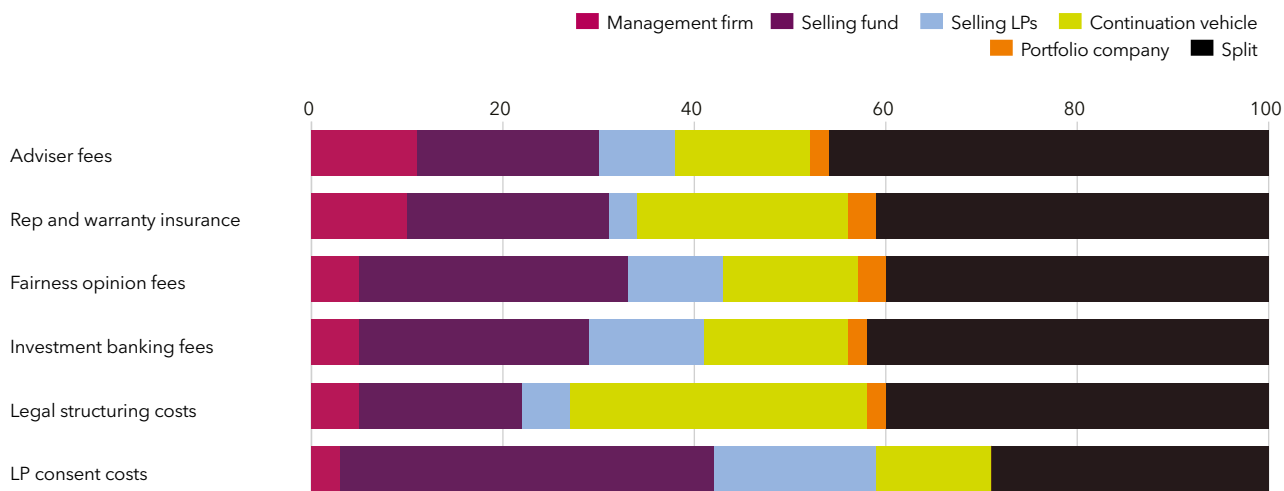
“We have a broken-deal expenses cap,” says Michele Reing, LongRange Capital CFO, COO and CCO. The purpose of the cap, which stands at \$2.5 million for a 12-month period, is “to instil discipline in the team so they have real conviction when spending on third parties. It forces the team to really dig in and understand the business and its economic proposition,” says Reing, adding that the firm’s investment committee needs to approve any third-party expenditure.

The approach fits with the firm’s wider stance on

fees and expense allocations. Every year it sets a budget – approved by its LPs – for the management fee, paid quarterly and trued up with an annual audit, and “against which we net any receipts of monitoring and deal fees, or expense reimbursement,” says Reing, noting it equates to a management fee of around 1 percent.

The LPA spells out what expenses are allocated to the fund, such as audit and tax fees, and deal expenses. “We make money when our investors make money, we don’t make any money off of the spread of our fees,” she says.

For GP-led secondary or continuation-fund transactions, who bears the cost of the following costs? (%)



If a GP-led secondary or continuation-fund transaction does not close, who bears the cost of the following? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

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Joshua Cherry-Seto

*Managing Director, CFO & CCO,
Velocity Capital Advisors*



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KEYNOTE INTERVIEW

Co-investment conundrum



*LPs are demanding increasing transparency from private equity funds, especially in co-investment vehicles, says **Colleen Fay**, financial services practice leader at Withum*

Q From what you are seeing with private equity sponsors, how central have co-investments become to overall fund strategy?

Co-investments have shifted from being opportunistic to strategic. For many sponsors, they are now a core part of capital formation and portfolio construction rather than an occasional accommodation for select LPs. We see GPs using co-investments to deepen relationships with anchor investors, manage concentration limits in flagship funds and increase flexibility around deal sizing.

What's notable is that co-investments are no longer limited to mega-funds. Middle market and lower middle market sponsors are increasingly offering them as LPs become more sophisticated and selective about how and

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where their capital is deployed. The expectation today is that if a sponsor has access to attractive dealflow, some form of co-investment opportunity will likely be part of the conversation.

Q Most respondents structure co-investments as separate entities nearly all of the time. Why do GPs continue to prefer that structure?

Separate co-investment vehicles provide clarity, both operationally and from a governance perspective. They allow sponsors to ring fence economics, tailor expense allocations and manage regulatory and fiduciary considerations more cleanly than if

co-investments were folded into the main fund. Standalone vehicles also simplify reporting and audit processes. LPs know exactly what they're invested in, what expenses apply and how returns are calculated. This separation gives sponsors more defensibility and flexibility.

Q The survey shows a meaningful split on whether co-investors share in broken-deal expenses. How do firms approach this in practice?

Broken-deal expenses remain one of the most sensitive areas we see in practice. While many governing documents allow co-investors to share in these costs, whether a GP actually charges them often depends on the relationship, the nature of the deal and how the opportunity was sourced.

Sponsors are increasingly cautious. Even when permitted, many avoid allocating broken-deal expenses to co-investors unless there is a very clear nexus between the expense and the opportunity offered. The reputational and relationship risks often outweigh the incremental cost recovery.

Q What does the survey tell us about how GPs are charging co-investment vehicles?

The survey aligns closely with what we see day to day. Co-investment vehicles are generally charged at cost, with minimal or no management fees and carried interest that is often reduced or structured differently to the flagship fund. What's important is consistency and disclosure. LPs may accept different economics for co-investments, but they expect those terms to be clearly articulated upfront and applied consistently across investors.

Q A majority of firms provide co-investors with the same expense disclosure as fund LPs. Is full transparency becoming standard?

Full transparency is increasingly the baseline expectation. Co-investors expect at least the same visibility into expenses as they receive in the flagship fund. Many sponsors now default to mirroring disclosures rather than creating a separate, streamlined reporting framework.

Q With only a small percentage of firms meaningfully accepting retail or semi-retail capital today, what challenges are holding sponsors back?

Operational complexity is the biggest hurdle. Retail and semi-retail capital come with fundamentally different requirements, more frequent reporting, enhanced controls, investor servicing infrastructure and heightened regulatory oversight. Many firms are not

yet built for that operational intensity.

There's also a cultural shift required. Sponsors need to think differently about transparency, liquidity expectations and communication. It's not a trivial transition.

Q When fee and expense questions aren't clearly addressed in governing documents, how do firms typically resolve them?

Firms generally default to a conservative, investor-friendly approach. That often means the management company absorbs the cost rather than risk a dispute or reputational damage. Ambiguity in documents is increasingly viewed as a failure of process, not a negotiating opportunity. Many firms are proactively revisiting older agreements, clarifying policies and documenting interpretations to avoid these situations.

Q Nearly half of respondents have decided not to charge the fund for expenses that were technically allowed. What's driving that behavior?

This reflects heightened sensitivity to optics and LP relationships. Sponsors are balancing legal rights against long-term franchise value.

There's also a growing recognition that institutional LPs are benchmarking these practices closely. Charges that appear aggressive, even if compliant, can raise red flags during fundraising or due diligence.

Q What trends are you seeing around how insurance costs are allocated?

Insurance is one of the most actively debated expense categories we see. While D&O and E&O policies often span both the fund and the management entity, allocation methodologies are under increased scrutiny. More firms are adopting clearer allocation frameworks or shifting a greater share of insurance costs to the management company to prevent disputes. Again,

transparency and consistency are key.

Q The survey shows management firms typically pay for most technology investments, including AI tools. What's driving that split?

Technology, especially AI, is viewed as infrastructure rather than a fund specific expense. Many of these tools benefit the broader organization, so charging them to a single fund is difficult to justify.

There's also a strategic component. Firms see technology investment as essential to scalability, controls and competitiveness. Absorbing those costs at the management company level is increasingly seen as table stakes.

Q Why hasn't standardized reporting fully taken over?

Audited financials remain the gold standard because they provide assurance, consistency and comparability. While dashboards and customized reports are useful, they typically supplement – not replace – the audit.

Standardization is improving, but sponsors and LPs still value the independence and rigor that audits provide, particularly around fees and expenses.

Q What fee and expense areas are most likely to draw regulatory scrutiny over the next one to two years?

Co-investments, expense allocations and management company reimbursements will remain front and center. Regulators are focused on consistency between disclosures and actual practices. Any area where judgment is applied rather than a clear formula is likely to attract attention.

Q If there's one takeaway for GPs, what would it be?

Intent matters, but execution matters more. Transparency, consistency and defensibility across fees and expenses are no longer just best practices, they're expectations. ■

Fees and expenses burden continues to snowball

*LPs are contending with a growing set of costs, despite headline management fees decreasing, writes **Victoria Robson***

As LPs with scale use their leverage to negotiate management fee discounts on larger commitments, and fundraising incentivizes GPs to bring LPs on board, it might seem that the latter are receiving some relief over costs. However, with the evolution of new fund types, including continuation vehicles, and additional operating costs, such as AI implementation, the variety and amount of fees and expenses seem only to be expanding.

“You do see management fees below the historical standard 2 percent these days,” says Neal Prunier, managing director, industry affairs, at the Institutional Limited Partners Association. “But that has been significantly offset by the number of expenses that are passed onto the partnership. Sentiment from our members has been that their total fee experience has actually increased, even if the headline management fee has decreased.”

For LPs to know where they should push back and negotiate terms related

to the headline management fee and carry waterfall, they require transparency about how fees are being allocated and what they are being used for, says Prunier.

Getting granular insight into internal chargebacks and partnership expenses is vital, he notes, highlighting portfolio-related fees and the use of affiliates, and how those costs are offset against the management fee as key areas of focus. “The expectation is 100 percent offset,” says Prunier, noting that LPs want to be able to question managers if it’s not the case.

Around half of respondents to the *Private Funds CFO Fees & Expenses Survey 2026* reported they charge 100 percent offset of monitoring fees against

the management fee, up from a third of respondents in 2024 and the highest level recorded by the survey. Eleven percent charged an 80-99 percent monitoring fee offset and 5 percent charged 50-79 percent. More than a third of respondents said they followed ILPA-aligned principles for fee offset calculations fully and a further 30 percent said they follow them partially.

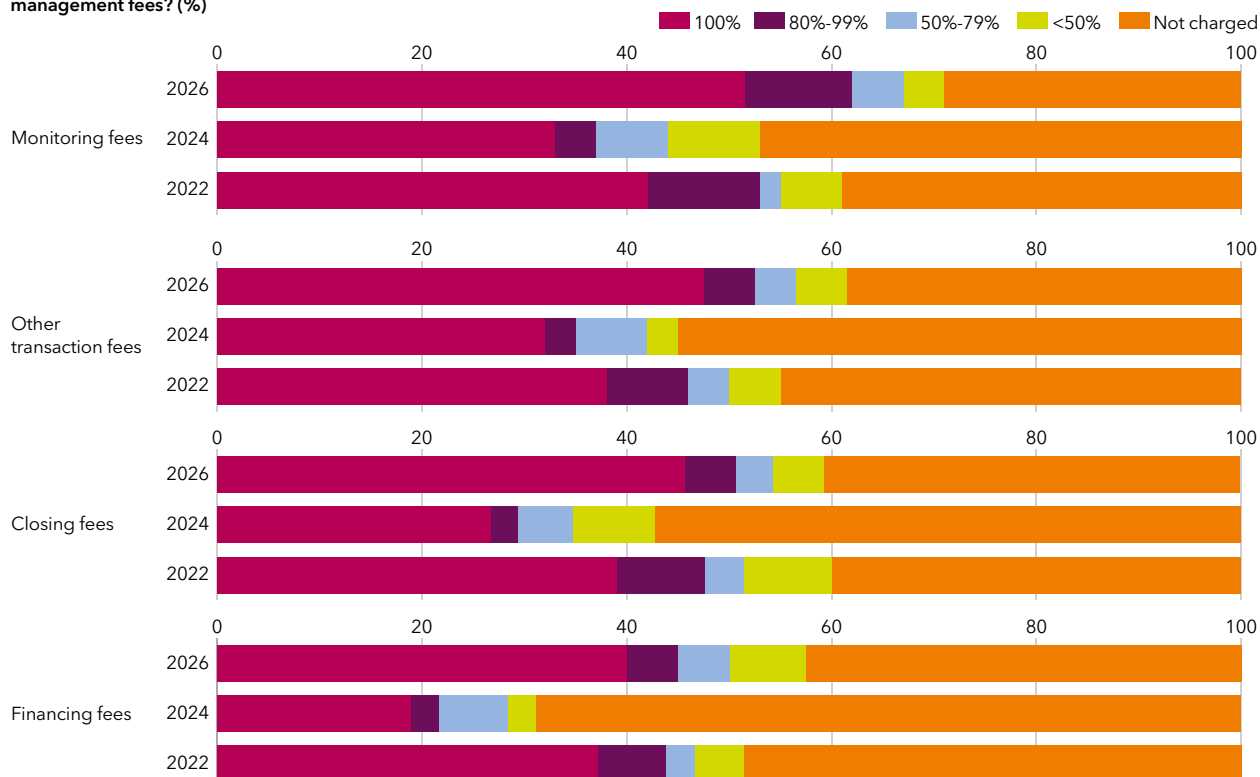
Rather than negotiating the amount of a monitoring fee, “where LPs will seek to negotiate is an offset of any monitoring or advisory fees against the management fee,” says Thao Le, partner at Troutman Pepper Locke.

“The market is moving toward 100 percent offset, particularly for managers raising their second vehicle and beyond,” says Joshua Cherry-Seto, CFO and CCO at Velocity Capital Advisers. At the other end of the market, “it’s not unusual for emerging managers to use a lower offset to supplement the management fee, where a 2 percent fee isn’t sufficient to execute on their strategy. As funds scale and the firm becomes established, that argument goes away and managers apply 100 percent.”

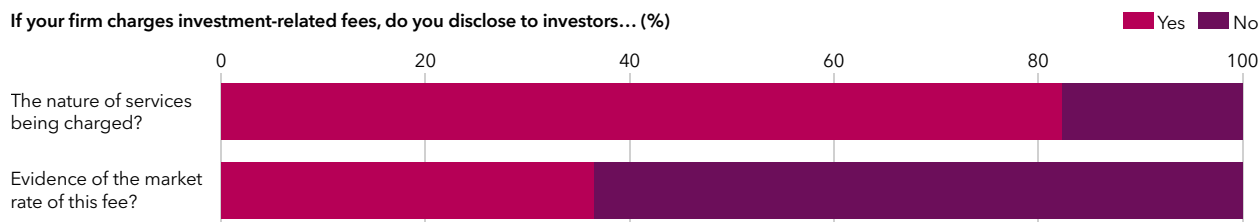
25%

Firms that do not charge a management fee until they call capital for the first time

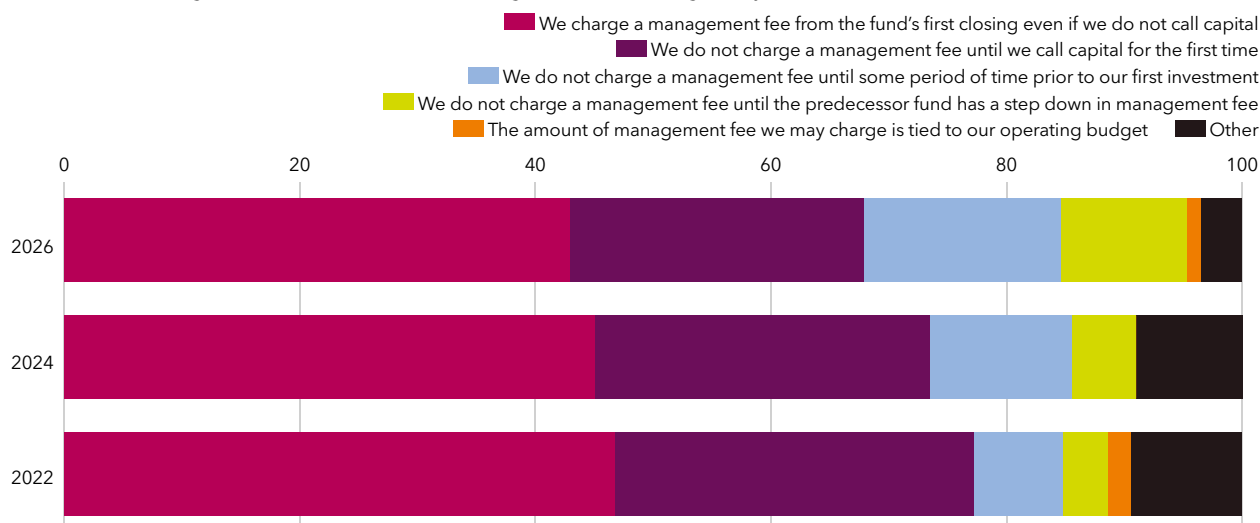
What percentage of your transaction, monitoring or any type of investment-related fee received by an affiliated entity is offset against your management fees? (%)



If your firm charges investment-related fees, do you disclose to investors... (%)



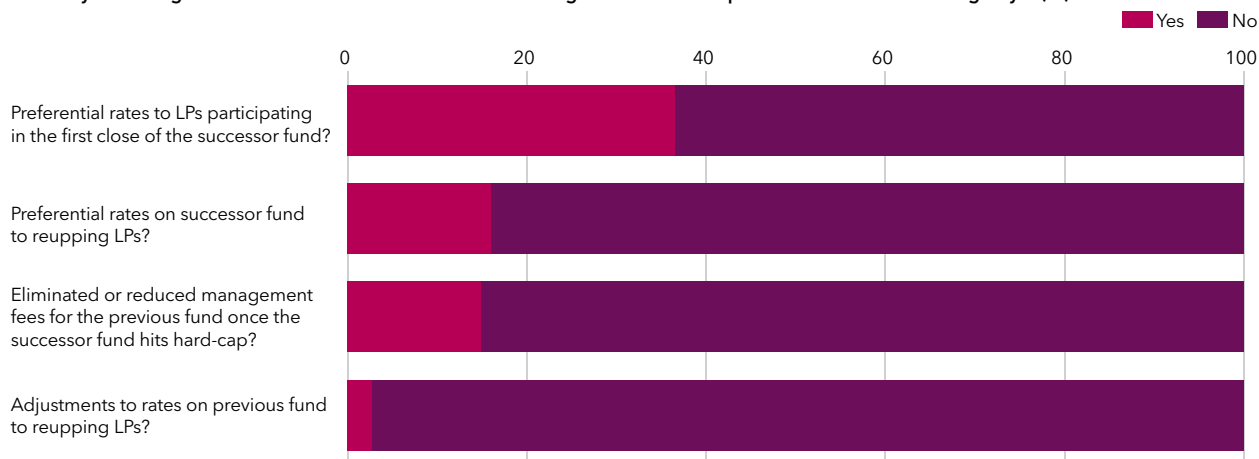
Which of the following statements best reflects when management fees are charged for your most recent fund? (%)



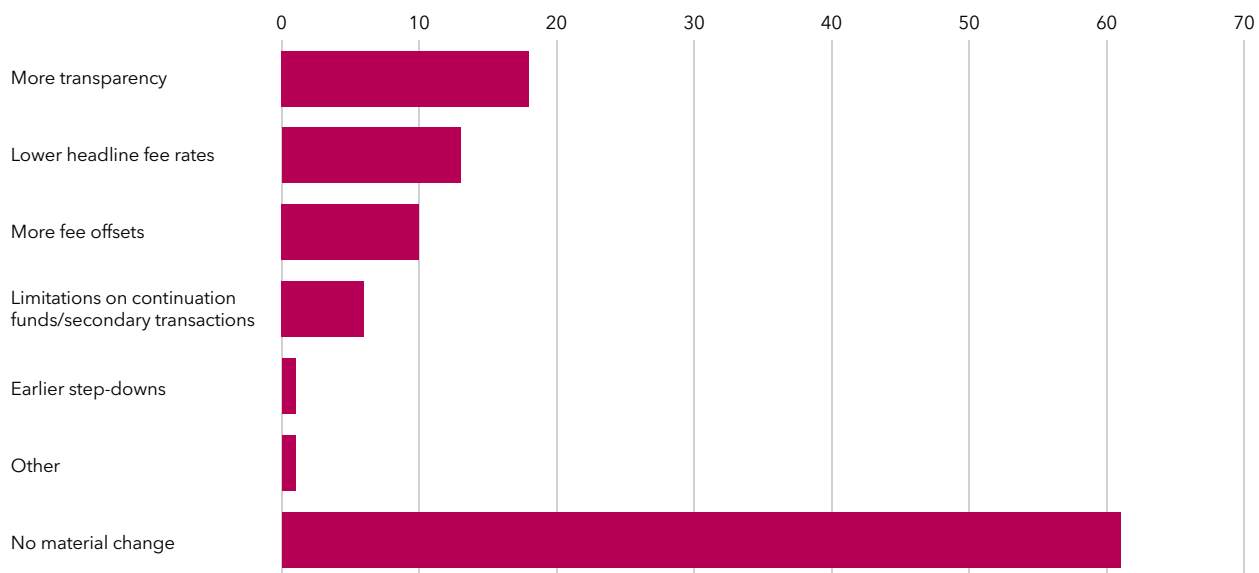
Source for all data: Private Funds CFO Fees & Expenses Survey 2026

Analysis

How do your management fees on successor funds relate to management fees in the previous fund in the following ways? (%)



Compared with your prior fund, have LPs demanded any of the following? (Multiple answers allowed, %)



The amount of the offset is “always a point of contention,” notes another CFO, who adds that there is often confusion among LPs around what 100 percent means. “It refers to 100 percent of the LP’s percentage share in an asset. That’s in the LPA. But not everyone understands that,” he says.

Benchmarking

For firms charging investment-related fees, 82 percent of respondents said they disclosed the nature of those services, but only 37 percent provide evidence of the market rate.

If a firm discloses a fee based on a market rate or benchmark, it needs to show how it arrived at that “market” fee and provide supporting documentation, says Theodore Edwards, partner at Troutman Pepper Locke. “That’s an area of inquiry for SEC staff and goes to the core of whether managers can substantiate the ‘market’ fees being charged to investors, whether that’s internal calculations or reference to a benchmark or external information.”

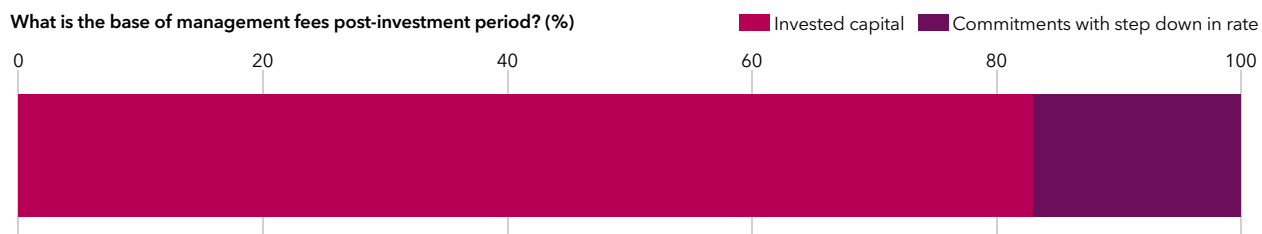
The point at which firms begin to charge management fees varies. Almost half (43 percent) of survey respondents

reported that they charge from the fund’s first closing even if they do not call capital. A quarter said they do not charge until they call capital for the first time. And 17 percent do not charge a fee until some period of time prior to its first investment.

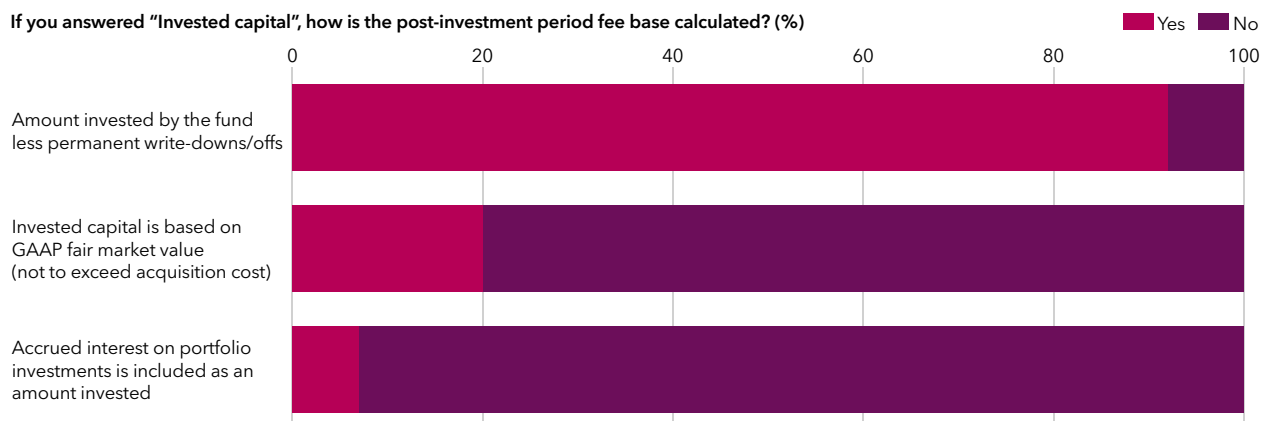
“We don’t charge management fees until we activate the fund, and that’s not until we have a deal,” says the CFO. “That’s when the investment period starts.”

A vast majority of managers surveyed said they could extend the fund term at least once at their own

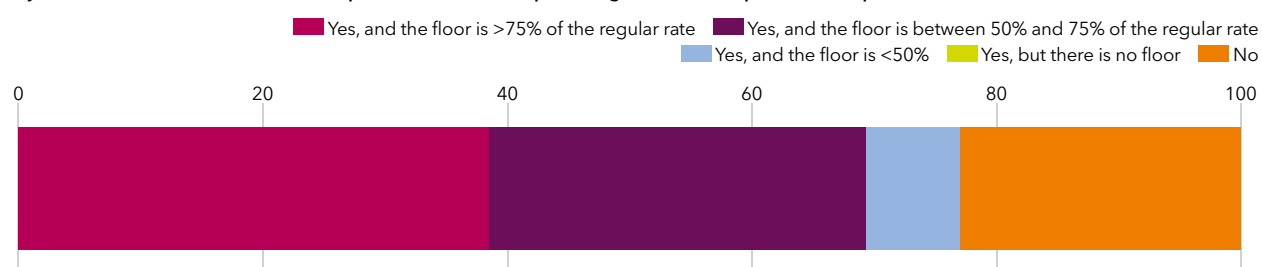
What is the base of management fees post-investment period? (%)



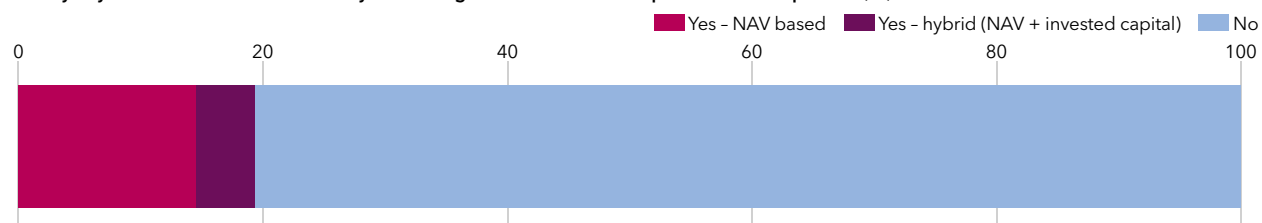
If you answered "Invested capital", how is the post-investment period fee base calculated? (%)



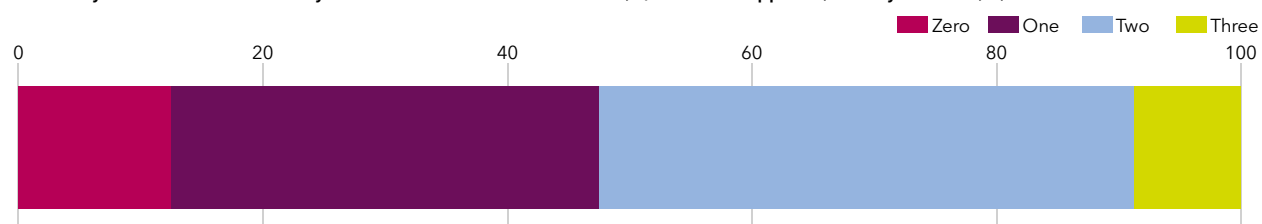
If you answered "Commitments with step down in rate", is the percentage of annual stepdown of the pre-investment rate? (%)



Do any of your funds use NAV-based or hybrid management fees structures post-investment period? (%)



How many fund term extensions may be exercised at the GP's discretion (ie, without LP approval) under your LPA? (%)



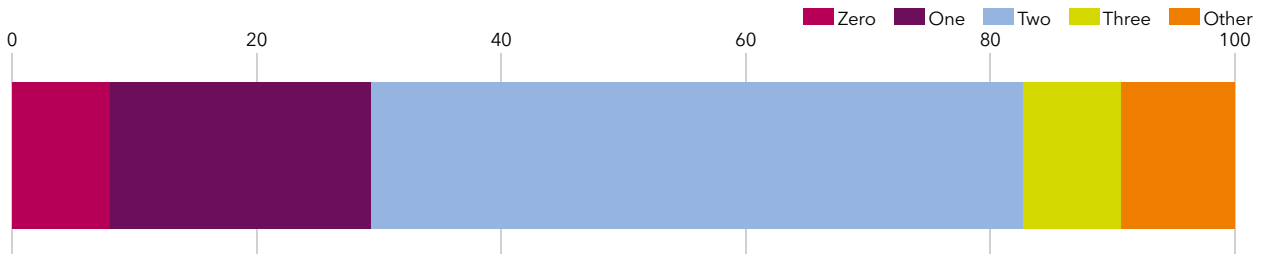
Source for all data: Private Funds CFO Fees & Expenses Survey 2026

Analysis

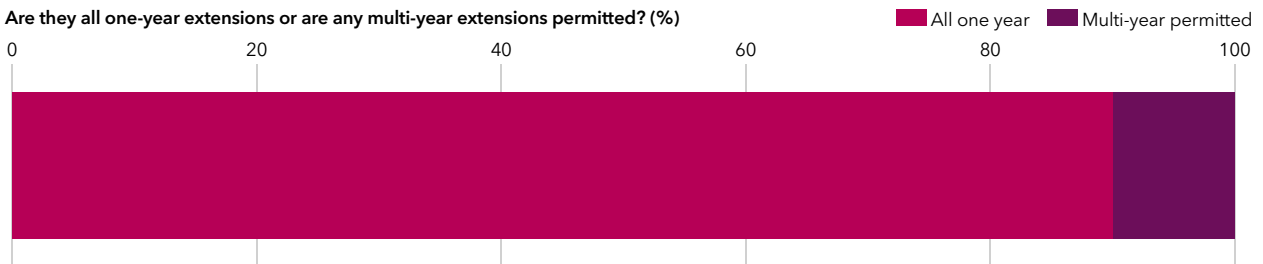
What does your LPA provide about the management fees charged during an extension period? (%)



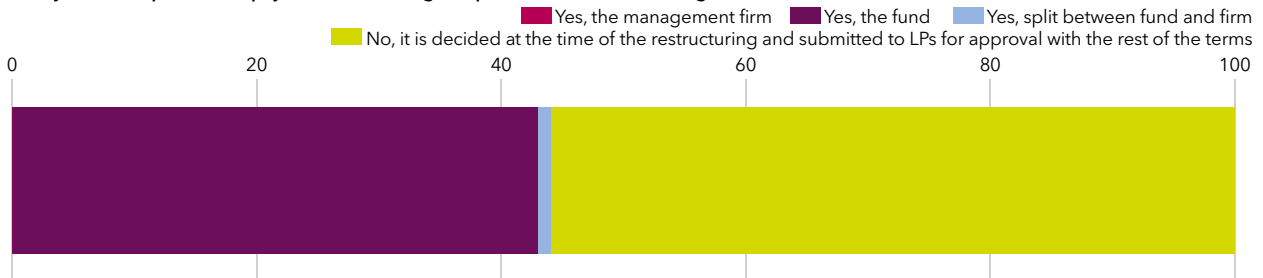
How many additional fund term extensions are permitted with LP approval under your LPA? (%)



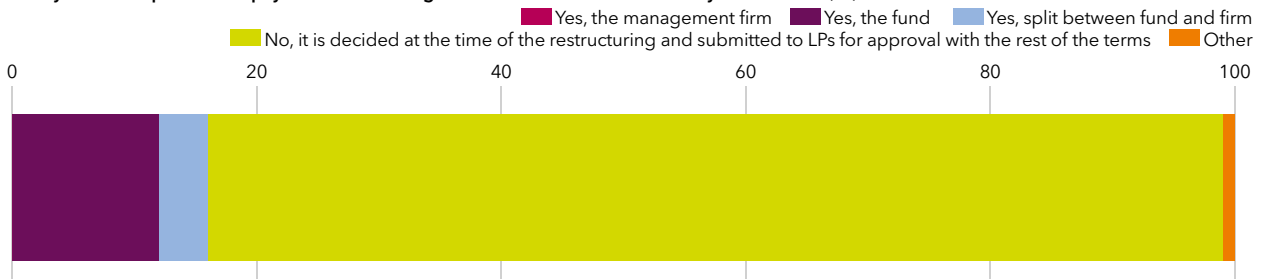
Are they all one-year extensions or are any multi-year extensions permitted? (%)

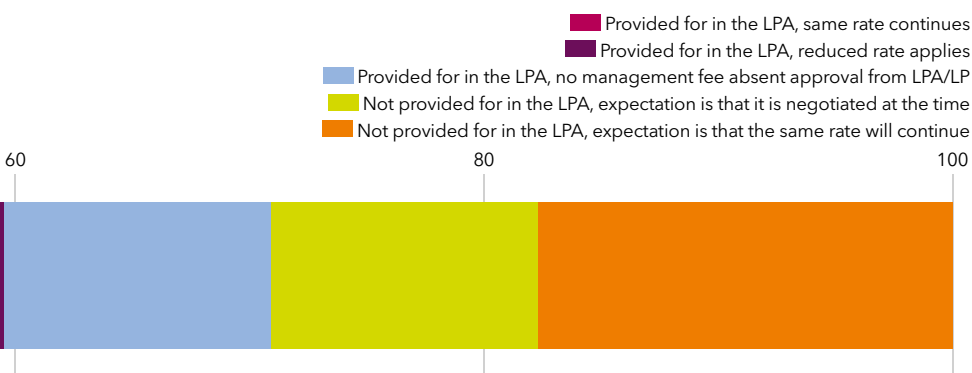


Does your LPA stipulate who pays for costs relating to a potential fund restructuring? (%)

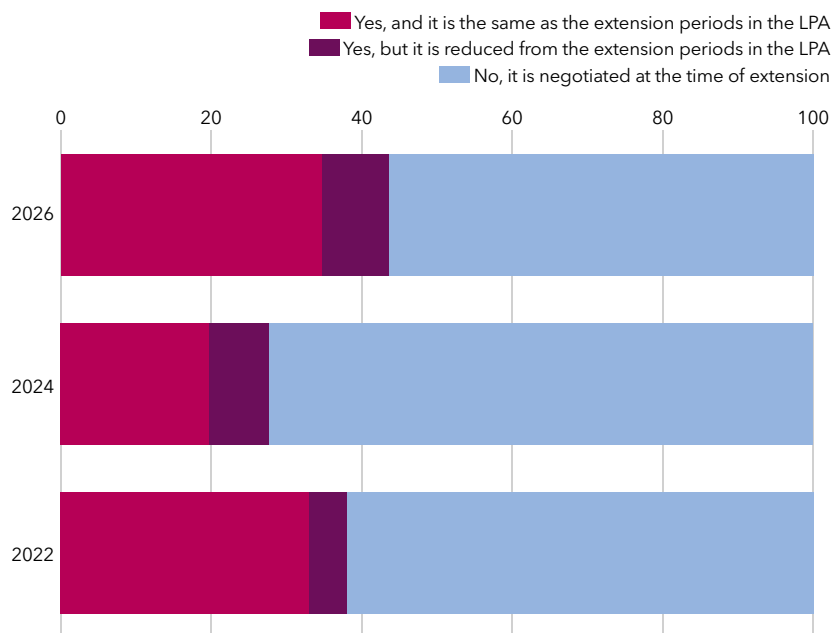


Does your LPA stipulate who pays for costs relating to a continuation fund secondary transaction? (%)

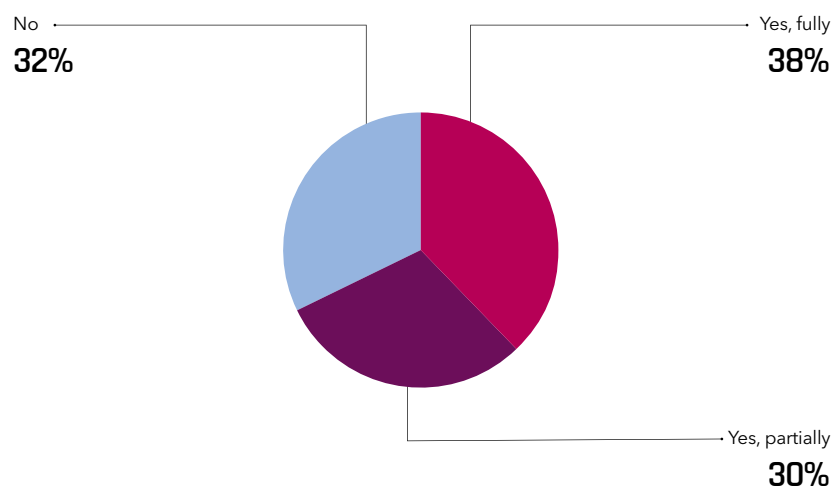




Does your LPA stipulate the fee and expense arrangements if your fund life is extended beyond the extension periods allowed in the LPA? (%)



Do you follow ILPA-aligned principles for fee offset calculations? (%)



Source for all data: Private Funds CFO Fees and Expenses Survey 2026

discretion, with half reporting that the LPA provides for charging management fees at the same rate during an extension period. When it comes to a fund restructuring, for 43 percent of respondents the LPA states the fund bears restructuring costs, while more than half said their LPAs stipulate that this would be decided at the time and submitted to LPs for approval with the rest of the terms.

This mirrors allocation of costs for a continuation vehicle, where for a vast majority of survey respondents (83 percent) this is decided at the time the CV is submitted to LPs for approval along with the rest of the terms.

Improving transparency around fees associated with continuation vehicles is on ILPA's agenda. "The sheer amount of fees that come along with a continuation vehicle is challenging, even if it involves existing investors," says Prunier. "For the 80-90 percent of new money coming in, that's typically accompanied by a fresh set of management fees and carry that can result in a huge financial gain for the GP on fees alone even before considering the performance of the asset."

Software trials

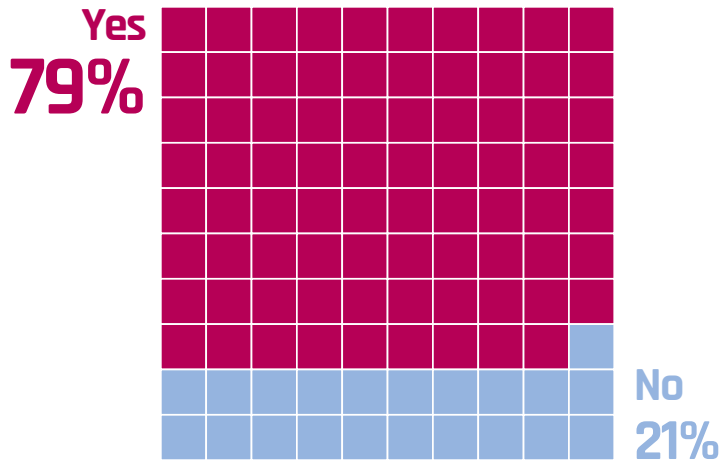
AI-driven automation offers huge potential to facilitate evermore complex fee and expense allocation and disclosure, even though currently most respondents to the survey report that they have yet to realize any cost savings from adopting AI tools.

To reap the benefit of AI tools, standardized fees and expenses data will become increasingly critical for GPs and LPs alike. The updated ILPA Reporting Template now includes a line for internal IT costs, as well as third-party technology expenses.

However, whether AI is a management or partnership expense is "still an active conversation," Prunier notes. "If AI is something that helps across an organization, that fits more into the camp of something that should be covered by the management fee." ■

Analysis

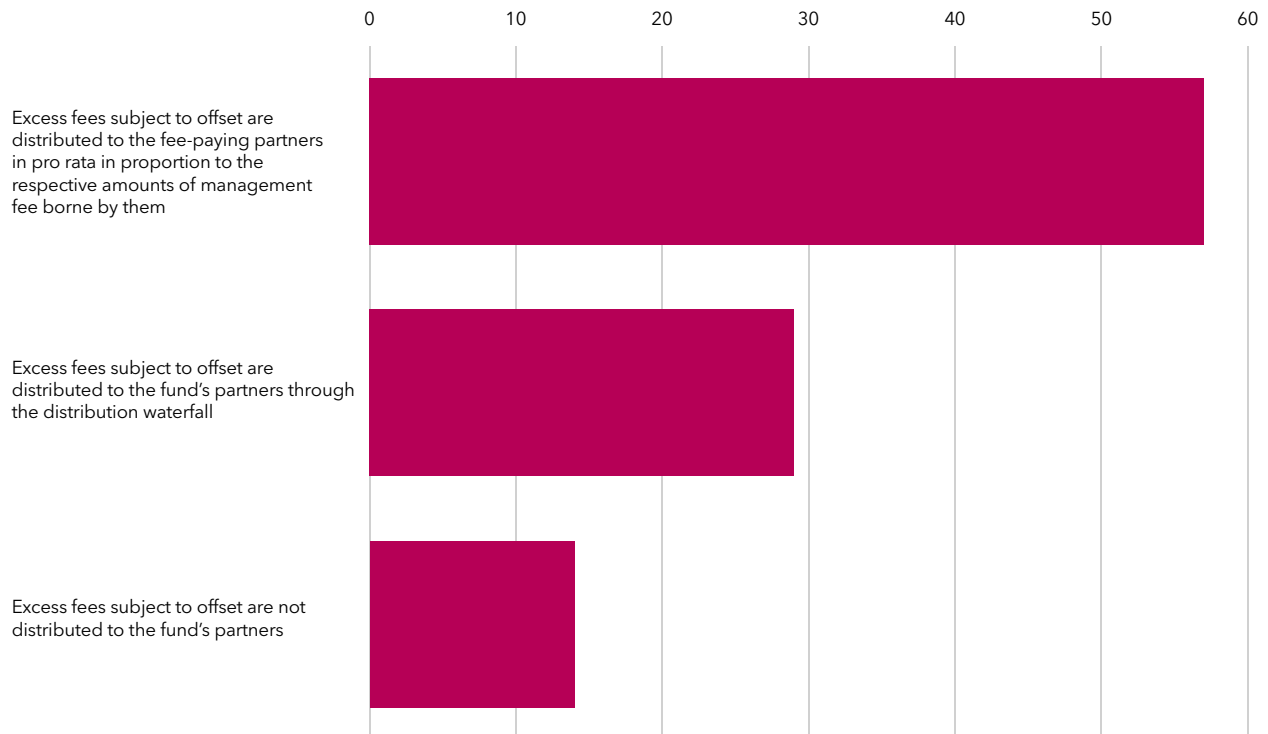
Do you carry over excess fees subject to offset to the following quarter to reduce management fee? (%)



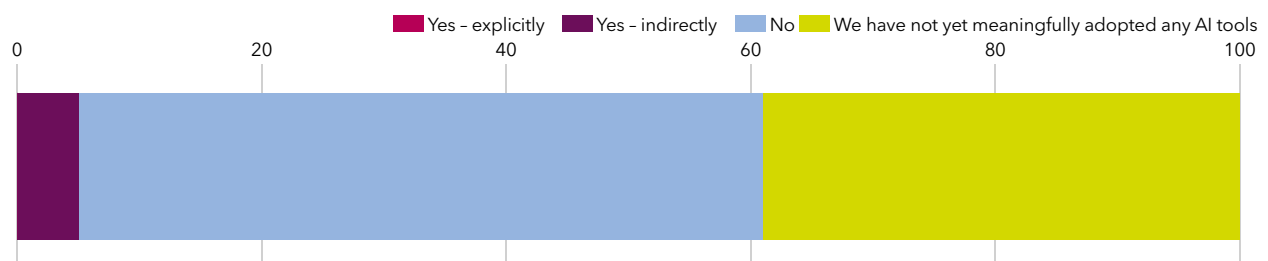
“The sheer amount of fees that come along with a continuation vehicle is challenging, even if it involves existing investors”

NEAL PRUNIER
Institutional Limited Partners Association

What is the mechanism for return of excess fees subject to offset at the end of the fund life? (%)



Have cost savings from automation/AI reduced your operating budget and therefore management fees? (%)



Source for all data: Private Funds CFO Fees and Expenses Survey 2026

Securing compromise on the costs

*Scrutiny on the accuracy of fees and expenses allocations is a key CFO concern, writes **Victoria Robson***

Disclosing the proper allocation of fees and expenses across an expanding variety of fund types and structures is a source of anxiety shared by respondents to the *Private Funds CFO Fees & Expenses Survey 2026*.

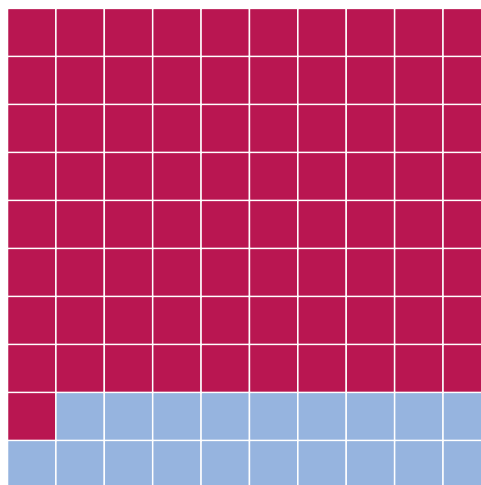
When asked what aspects of fees, expenses or related disclosures concern them the most with respect to potential US Securities and Exchange Commission scrutiny over the next one to two years, one CFO responded: “Allocation methodologies of shared expenses where there is not a clear calculation in the LPA. We have used guidance from outside counsel on what they believe the intent should be and cross-referenced that with peer firms in the industry. But it’s not black and white spelled out in the LPA.”

Another CFO noted that they were most concerned about disclosing “increased co-investment and allocation of partnership expenses in a detailed and accurate manner between fund and co-investment funds.”

They are not alone. “Co-investment raises legitimate concerns and questions about cost sharing, particularly when GP resources are supported by multiple capital sources with different fee

Does your firm offer co-investments? (%)

**Yes
81%**



**No
19%**

Source: Private Funds CFO Fees & Expenses Survey 2026

structures,” says Stephen Mazzotti, partner at EisnerAmper. “Conflicts typically arise not because the economics are inappropriate, but because the mechanics of how those economics are applied aren’t always clear and consistent.”

Ring-fence economics

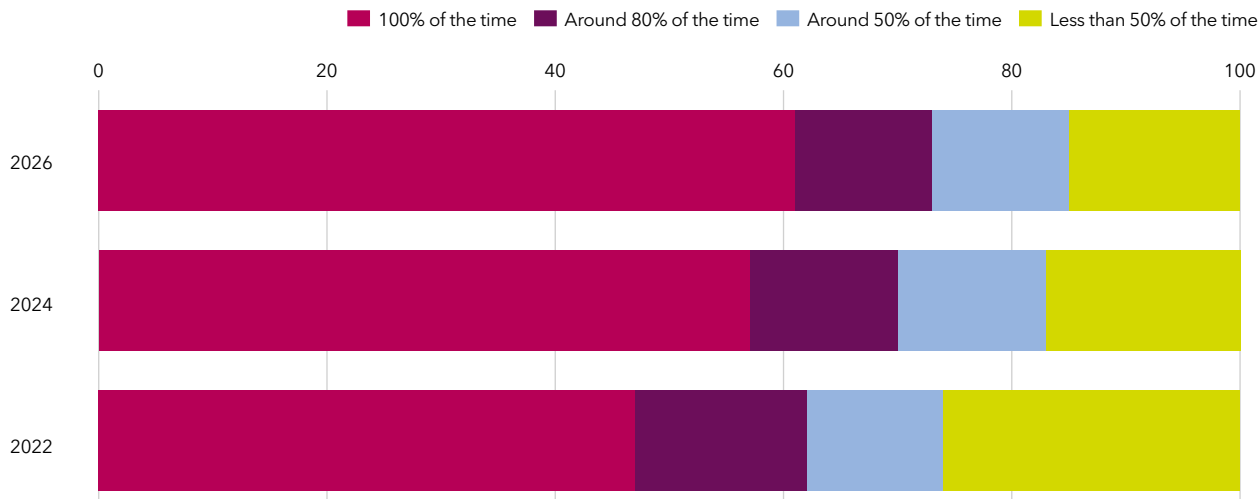
According to the survey, almost two-thirds of managers always structure their co-investments as a separate entity, a preference that has become more established over time. Separate

co-investment vehicles allow managers to ring-fence economics and tailor expense allocations, giving LPs clarity over what they are invested in, the expenses that apply and the return, says Colleen Fay, financial services practice leader at Withum.

Uniformity of disclosure is key. “LPs may accept different economics for co-investments, but they expect those terms to be clearly articulated upfront and applied consistently across investors. Any deviation, even

Analysis

How often are your co-investments structured as separate entities (as opposed to direct investments in portfolio companies)? (%)



Do the co-investors have any responsibility for broken-deal expenses if the deal does not go forward? (%)



if economically immaterial, can raise questions,” says Fay.

Among areas where conflicts arise, “broken-deal expenses remain one of the most sensitive areas we see in practice,” says Fay.

“While many governing documents allow co-investors to share in these costs, whether a GP actually charges them often depends on the relationship, the nature of the deal and how the opportunity was sourced.”

Indeed, the survey reveals that whether a co-investor bears the cost

62%

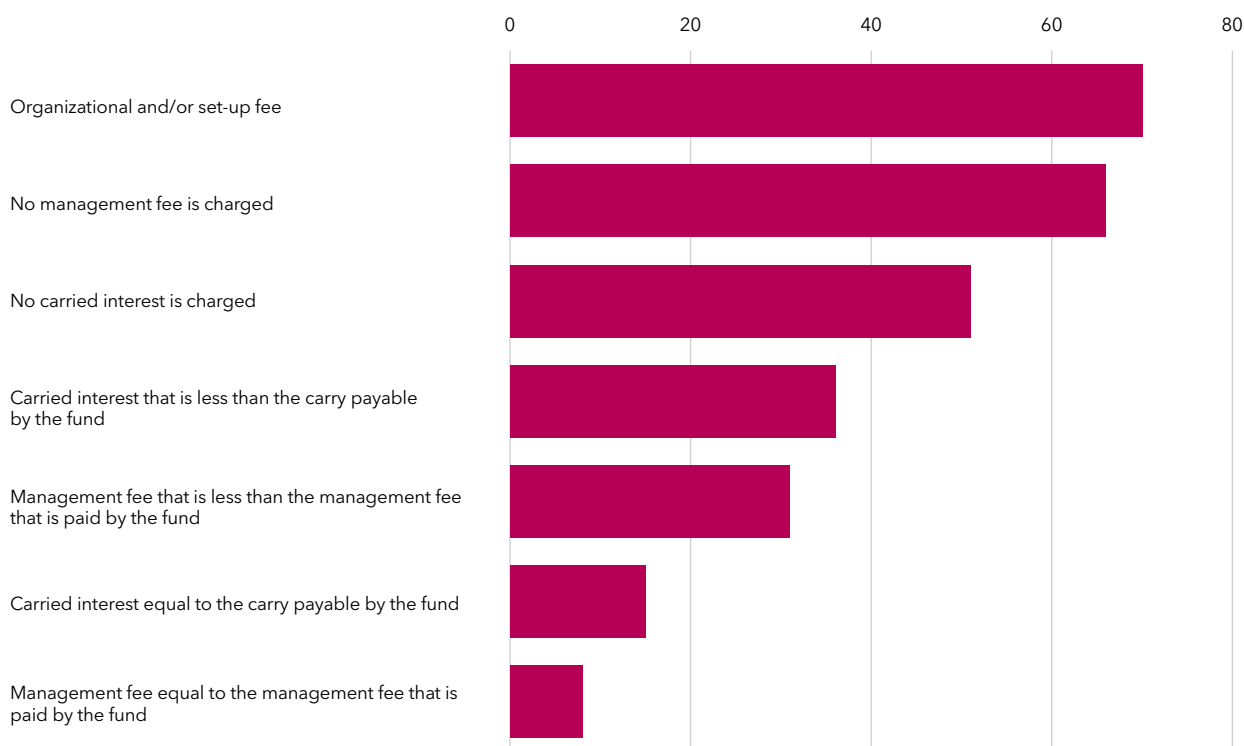
Proportion of firms that structure co-investments as separate entities 100% of the time

45%

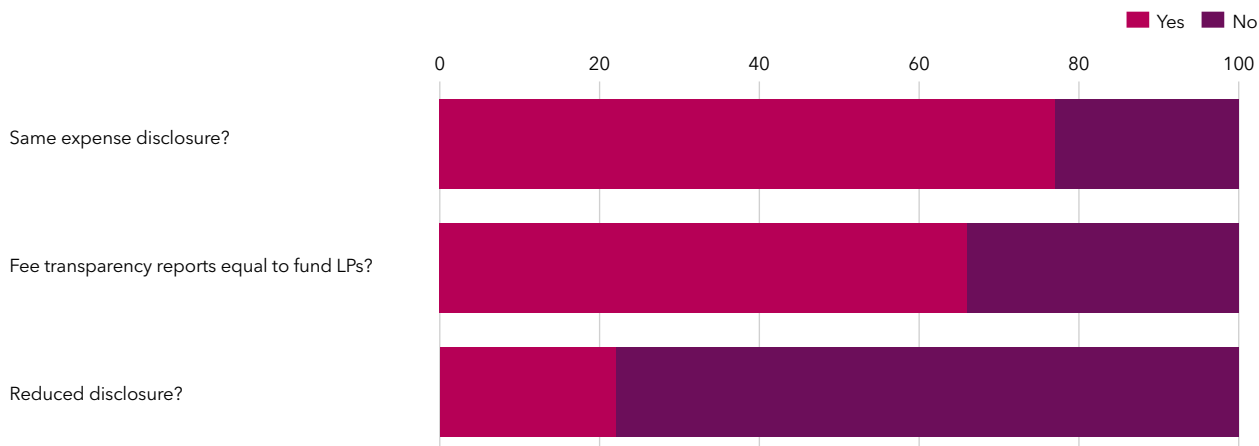
Firms that say co-investors have no responsibility for broken-deal expenses if the deal does not proceed

of a broken deal varies. A third of survey respondents indicated that the co-investor bears responsibility for broken-deal expenses once the co-investment entity has been formed; 11 percent justified allocating the cost because it's part of a co-investor's indication of interest; the same percentage said they didn't because they charge a fee for each co-investment deal that closes to compensate for the risk of broken deals; and 45 percent noted that any broken-deal expense is purely a fund expense.

Which of the following do you charge to your co-investment vehicles? (Multiple answers allowed, %)



Do co-investors receive any of the following? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

66%

Respondents that provide co-investors with fee transparency reports equal to fund LPs

14%

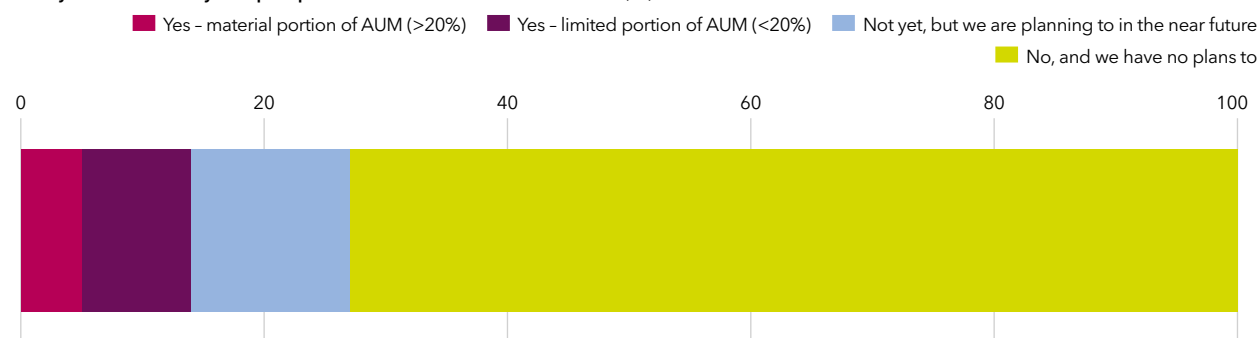
Number of firms that accept capital from retail or semi-retail sources

67%

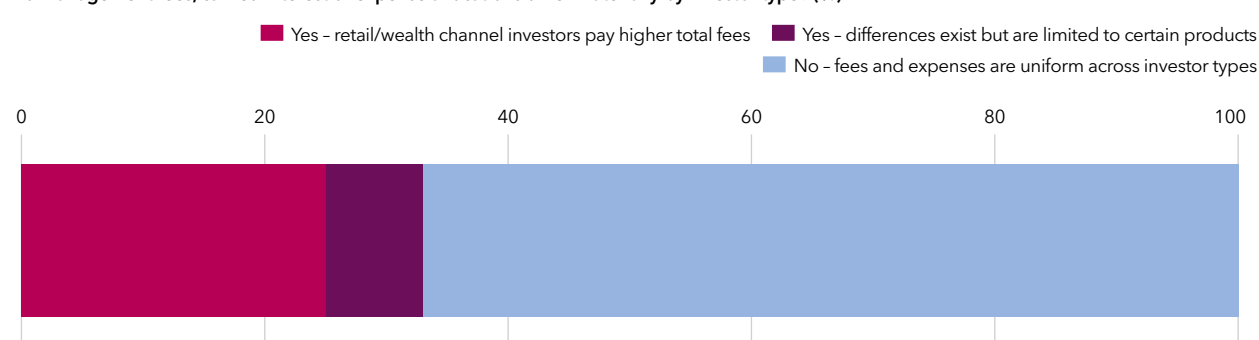
Firms that advocate uniform fees and expenses across all investor types

Analysis

Does your firm currently accept capital from retail or semi-retail sources? (%)



Do management fees, carried interest or expense allocations differ materially by investor type? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

One CFO says that “if we were in a situation where a co-invest entity signed up to be part of every opportunity, we would allocate broken deals to that entity. If it’s a shared benefit expense, they would also bear the cost. LPs are already getting a good deal investing in a fee-free, carry-free co-investment vehicle. I’m not motivated to make that deal any better by not allocating broken-deal expenses.”

However, in practice, the CFO notes that their firm typically acquires any potential co-investment opportunity through its main fund first before it has sold it down to co-investors, avoiding any chance of them incurring any broken-deal expenses.

Not all managers give their co-investors a fee-free ride.

While two-thirds do not charge a management fee to the co-investment vehicle, around a third charge a management fee that is less than that paid by

“Conflicts typically arise not because the economics are inappropriate, but because the mechanics of how those economics are applied aren’t always clear and consistent”

STEPHEN MAZZOTTI
EisnerAmper

the fund, and a further 8 percent charge a management fee equal to the management fee paid by the fund. Around half forgo carried interest charges, but for 15 percent of respondents, carry is equal to that of the fund. And 70 percent charge organizational and/or set up fees to their co-investment vehicles.

The intricacy of allocating and disclosing fees across fund and investor types is only going to increase with the entry of retail investors into private markets, and the launch of evergreen and semi-liquid vehicles to accommodate them.

While only 14 percent of survey respondents report their firms accept retail or semi-retail sources of capital, 13 percent report they are planning to accept capital from these sources in the near future. They can expect the SEC and their new clients to pay keen attention to costs and should prepare accordingly. ■

Investors assert their growing influence

LP demands for transparency are increasing in tandem with the variety of fees and expenses. By Victoria Robson

As competition for capital remains steep, LPs are using their leverage to demand greater transparency over fees and expenses allocations over the lifecycle of a fund. “Transparency, consistency and

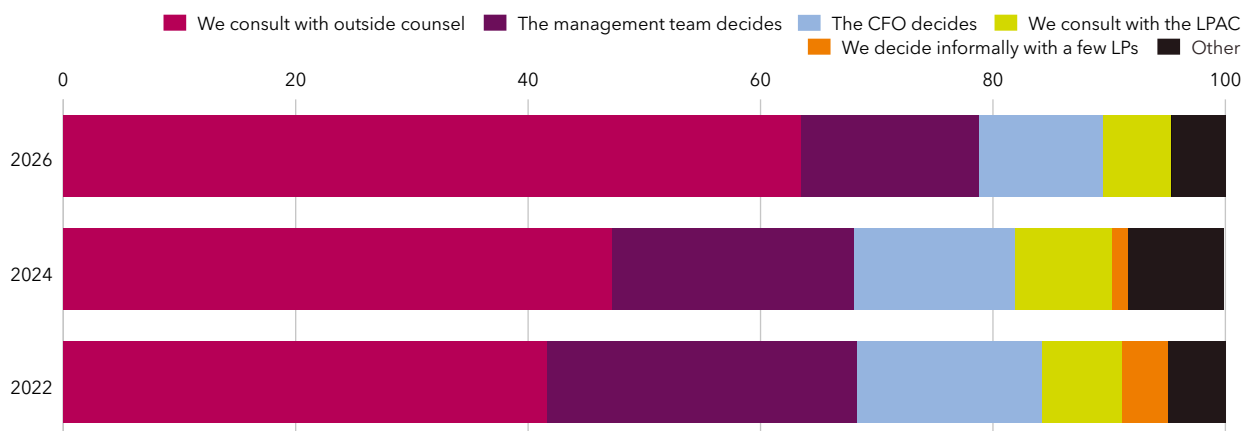
defensibility across fees and expenses are no longer just best practices; they’re expectations,” says Colleen Fay, financial services practice leader at Withum.

The vast majority of respondents (72 percent) to the *Private Funds CFO Fees & Expenses Survey 2026* provide fees and expenses information to investors

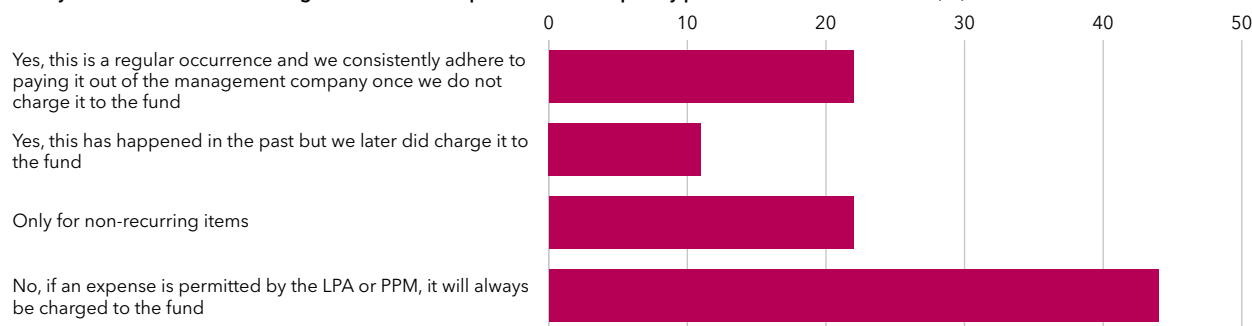
through annual audited financial statements. A further 41 percent respond to investor requests in the form they request. Almost a quarter use the Institutional Limited Partners Association’s Reporting Template and a further 19 percent use a modified version of it.

“LPs are highly sophisticated and

How do you decide questions about fee and expense allocations that are not addressed in the PPM, LPA or policy documents? (%)



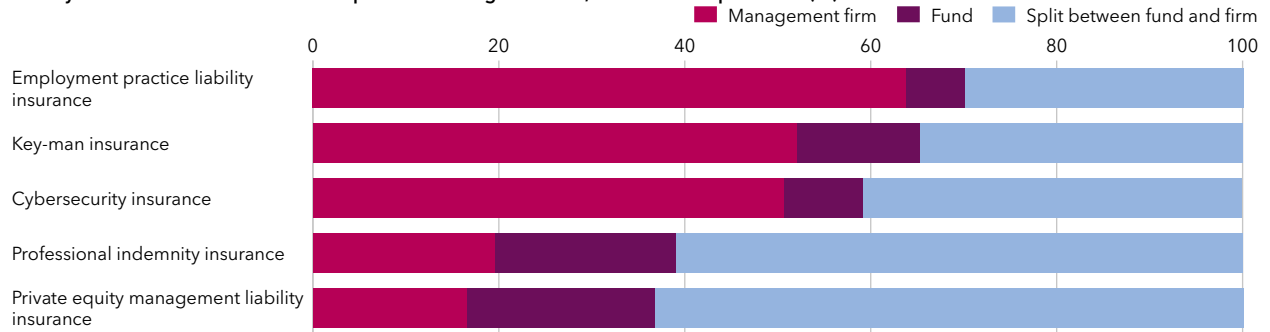
Have you ever decided not to charge to the fund an expense that was expressly permitted in the LPA or PPM? (%)



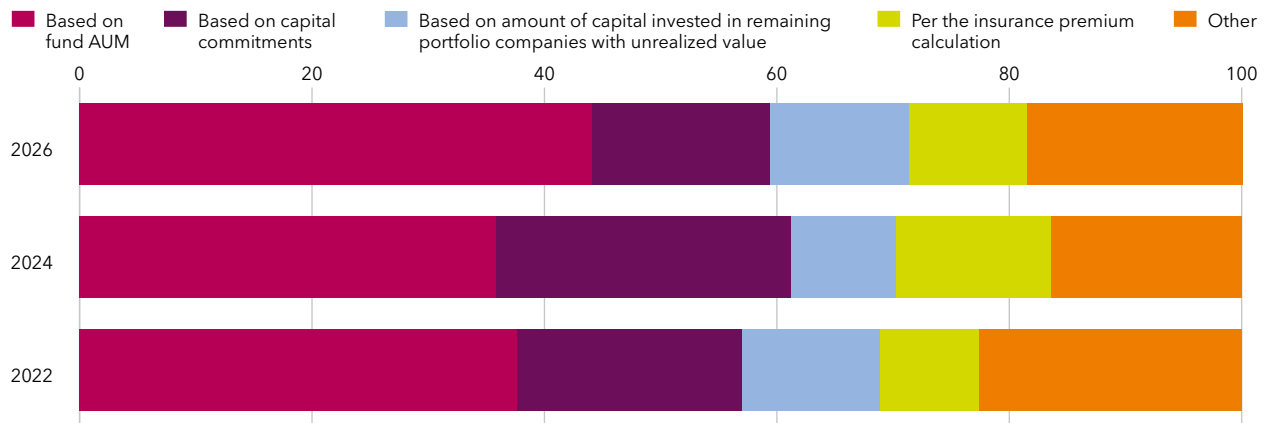
Source for all data: Private Funds CFO Fees & Expenses Survey 2026

Analysis

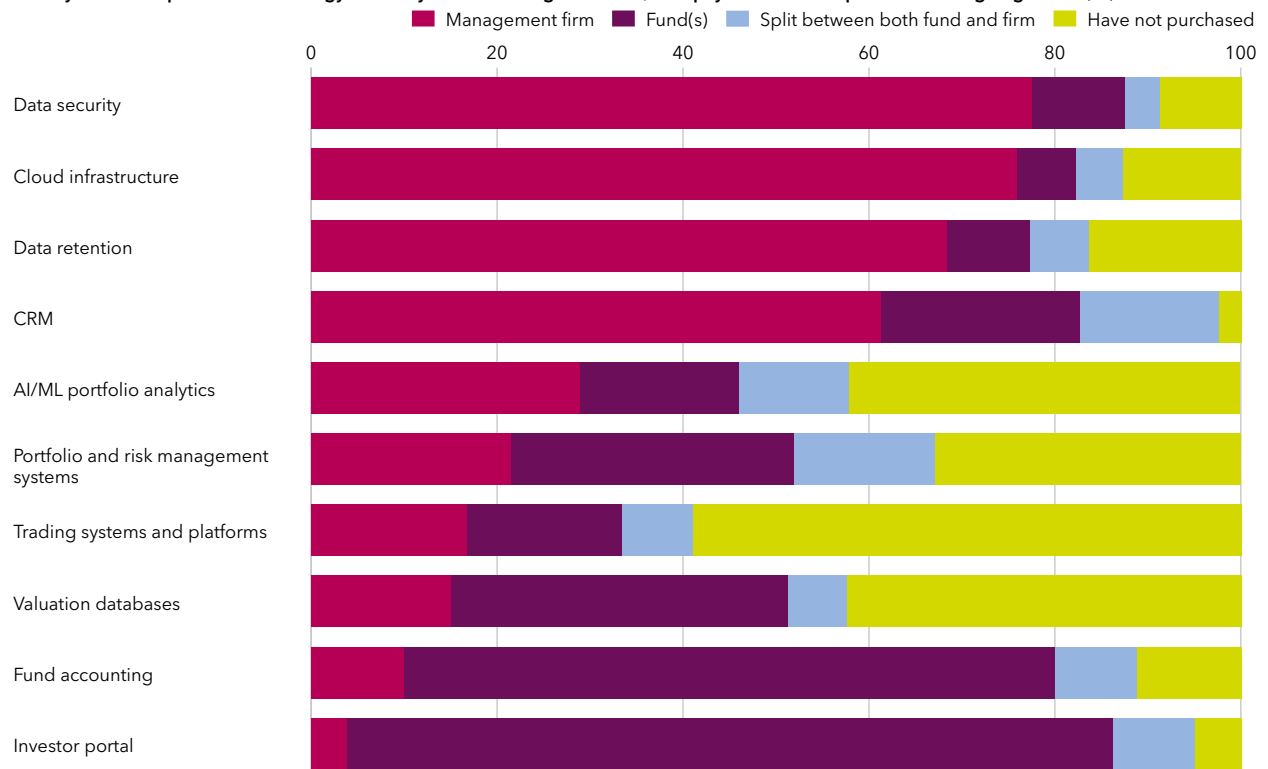
When your firm takes out new insurance policies covering the below, who bears the premium? (%)



If you allocate these costs across funds, how is this allocation calculated? (%)



When your firm implements technology-driven systems covering the below, who pays the initial acquisition and ongoing costs? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

always obtain the information they want and need via investor requests,” notes one survey respondent. “There are direct relationships between LPs and GPs that allow for bespoke information to be delivered directly to LPs.”

For another CFO, “our approach is to get out in front” of any LP questions about its fees and expenses allocation policy. “Our ADV Part 2A is extremely lengthy in terms of what we’re telling LPs we’re doing,” says the CFO, in

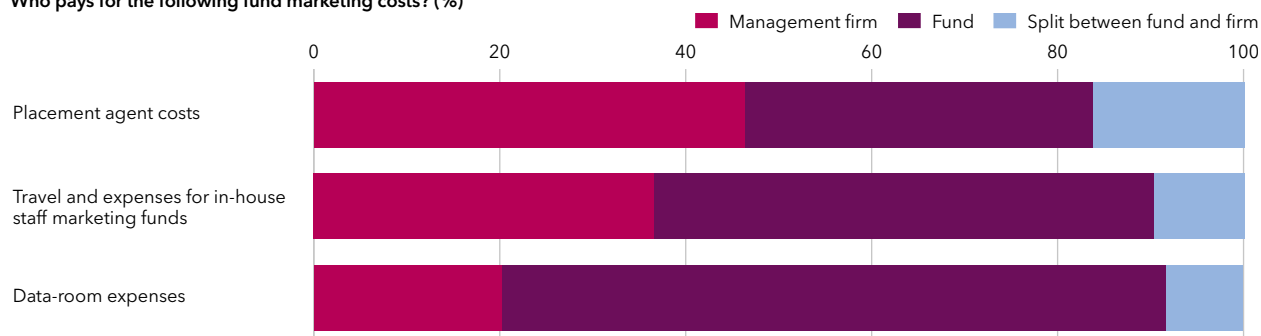
reference to US Securities and Exchange Commission mandated disclosure requirements.

But investors still seek additional clarity. “Sometimes LPs will come back and ask us to drill down a little further into, for example, what’s in this technology expense, or ask what’s in these buckets on the income statement of the audited financial statement,” says the CFO, adding that the firm also provides information using the ILPA

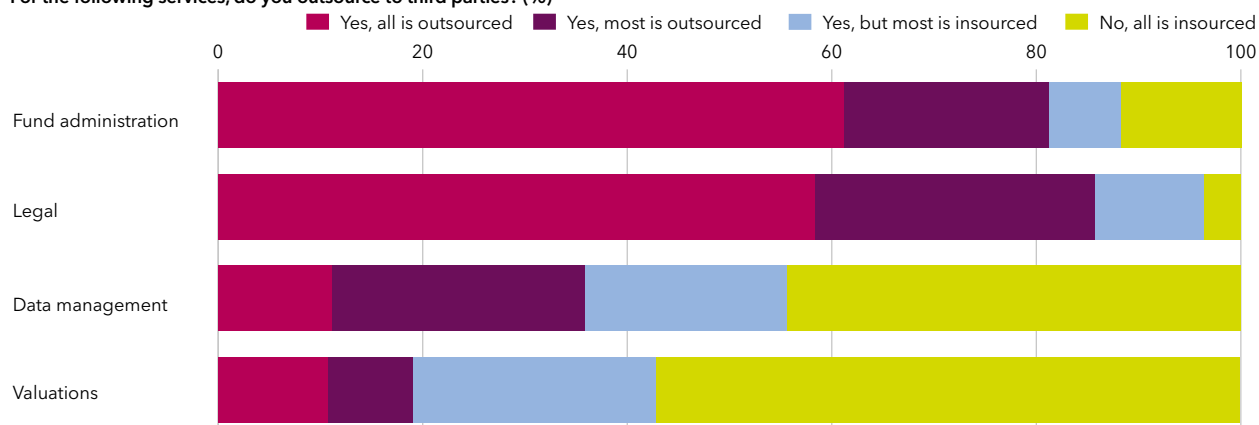
Reporting Template to some LPs, as required by their side letters.

Pension funds and large allocators pushing for greater transparency are driving adoption of the ILPA Reporting Template, says Jen Moldaver, managing director at IQ-EQ. “When people have access to standardized information, that is helpful. Managers can use [this standardized data] to assess where they are in comparison to their competitors,” she says, adding

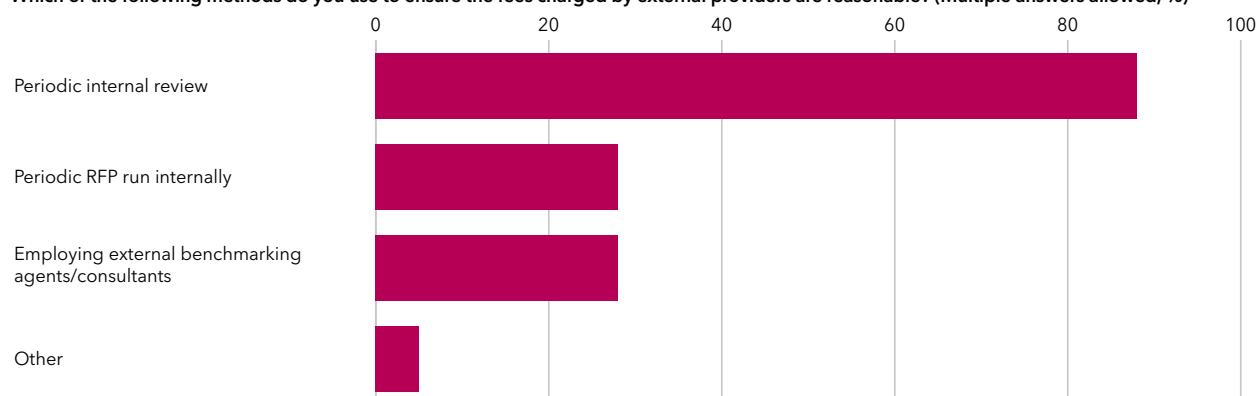
Who pays for the following fund marketing costs? (%)



For the following services, do you outsource to third parties? (%)



Which of the following methods do you use to ensure the fees charged by external providers are reasonable? (Multiple answers allowed, %)



Analysis

that the template provides LPs with a way to consistently compare fees and expenses across different managers.

Most LPs negotiate to use the ILPA Reporting Template in a side letter, says Neal Prunier, ILPA managing director, industry affairs. The updated version of the template launched in 2025, and for which the first completed templates will be returned to LPs in the second quarter, including a number of revisions. These encompass specific

breakouts of partnership expenses like internal chargebacks, for example legal costs, and external partnership expenses, like subscription lines.

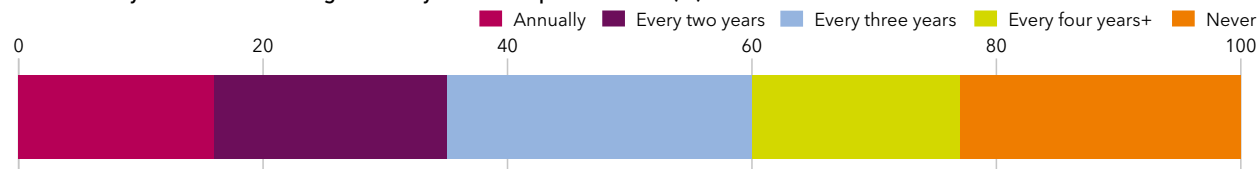
“With interest rates where they are, the single biggest quarterly charge an LP might receive can be the subscription line charge,” says Prunier. “That can be greater than even the management fee.”

For LPs, being able to see the full and detailed picture is essential. “Some

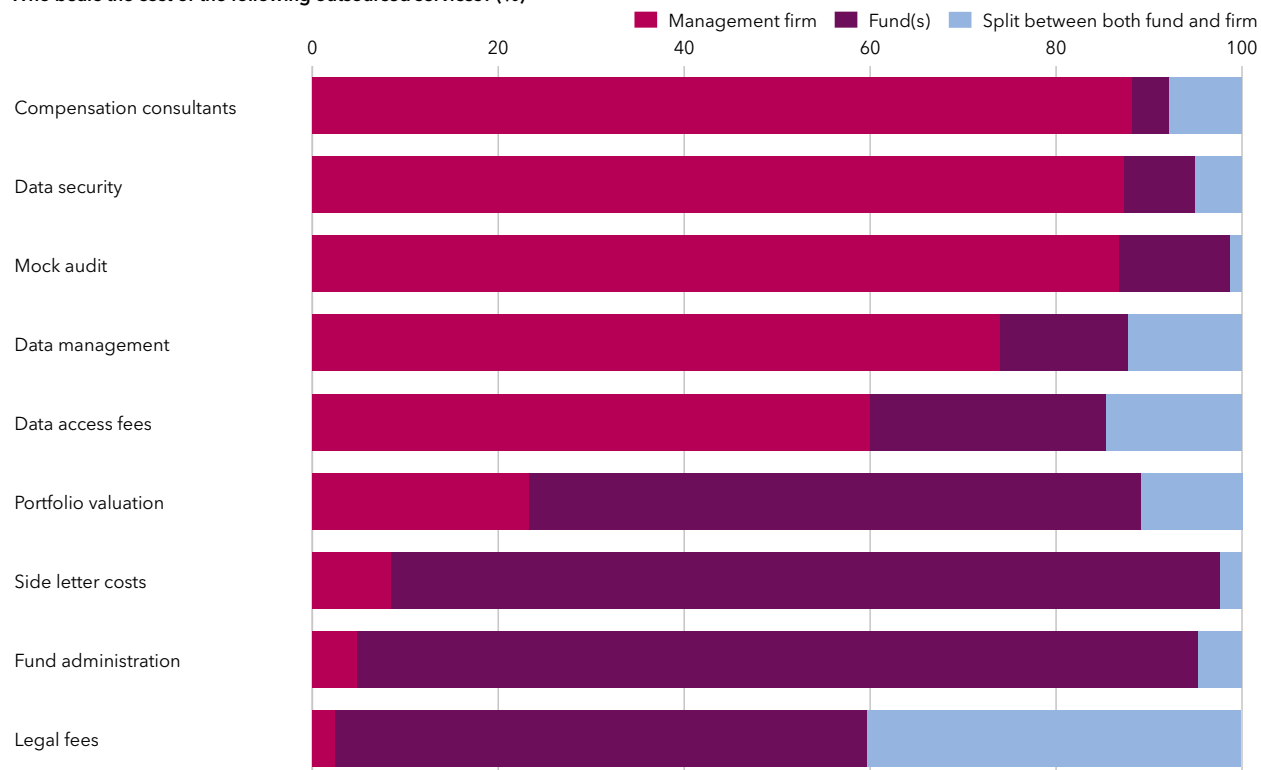
fees are complicated to calculate, and there can be instances where there are miscalculations,” says Prunier. “LPs need to have the information at hand to undertake very deep dives into that. It is important for LPs to understand what the total cost is of investing in the GP.”

Prior to making a commitment, during operational due diligence, LPs will scrutinize fee and expense allocations, and ask about “hot button expenses,

How often do you run a benchmarking review of your external providers fees? (%)



Who bears the cost of the following outsourced services? (%)



If you are insourcing any of the services above, do you charge them to the fund in addition to the management fee? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

like insurance,” says the CFO, focusing on whether the management company is bearing its fair share of the expense.

For almost two-thirds of survey respondents, private equity management liability insurance is split between the management firm and the fund, as is professional indemnity insurance.

Another area of LP scrutiny is the use of third-party providers. Most GPs outsource their fund administration

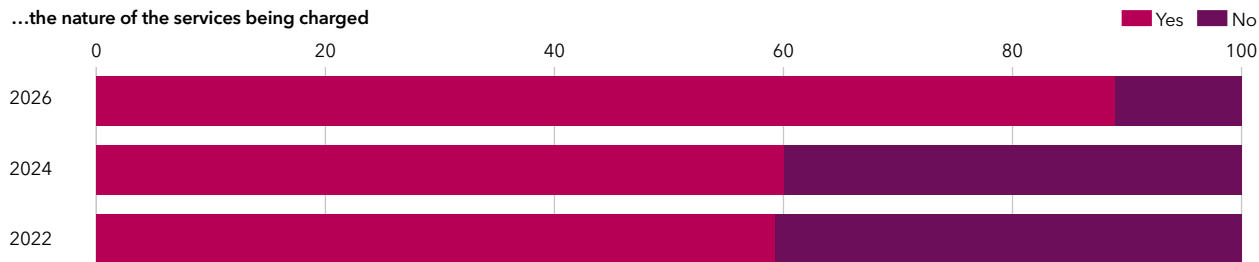
with the cost borne by the fund. For the 58 percent of managers that outsource legal services, 57 percent allocate legal fees to the fund, 40 percent split them between the fund and firm, with most allocating those fees to the fund. When it comes to assessing fees charged by external providers, 88 percent of respondents subject them to periodic internal review to ensure they are reasonable. But only 16 percent

of respondents run an annual benchmarking review of external provider fees, and almost a quarter never benchmark them.

“As the industry becomes more sophisticated and firms use consultants and operating partners, investors understand it’s to their advantage that managers have these relationships, but they want to be clear how the costs are being managed,” says Joshua

If you are insourcing any of these services and charge any to the fund in addition to the management fee, do you disclose... (%)

...the nature of the services being charged



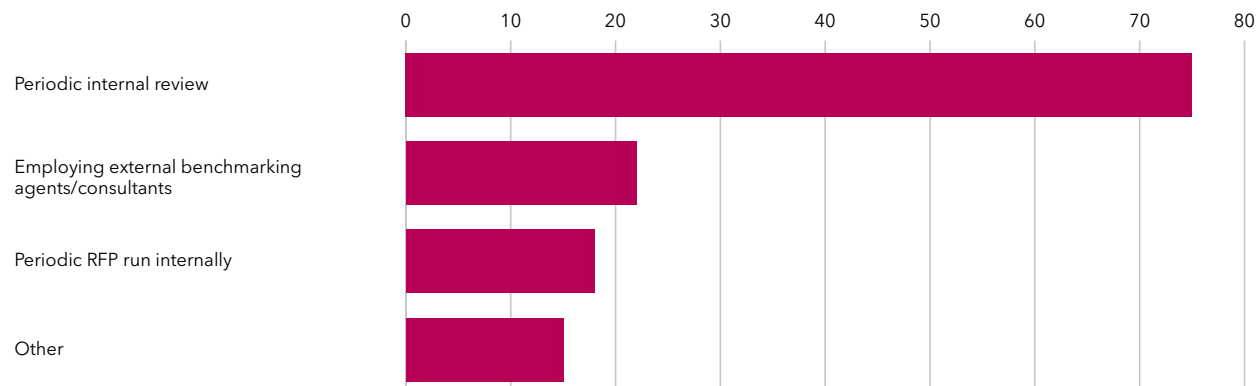
...the allocation methodology used to determine amounts charged



...evidence of the market rate of this fee



Which of the following methods do you use to ensure the fees charged by internal providers are reasonable? (Multiple answers allowed, %)



Analysis

Cherry-Seto, CFO and CCO at Velocity Capital Partners.

Operating partner costs sit outside the management fee, he notes, “as the alternative is the portfolio company would hire them directly, which would be costly. The manager can offer scale, and that benefits the fund.”

However, LPs are paying close attention. “LPs try to put guardrails around the use of third parties and how those costs are offset against the management fee,” Cherry-Seto notes.

Increasingly, technology-related expenses, and specifically costs related to artificial intelligence, are coming under scrutiny. “We have to start

thinking about AI – we’re using it more robustly,” says the CFO, who currently allocates AI as a management company expense, but says that might change “if we start using it extensively for fund operations and things like dealflow.”

“Allocation of AI-related costs is an interesting development as cybersecurity and software application expenses are usually more generally allocated among funds and their managers,” says Theodore Edwards, partner at Troutman Pepper Locke. “Many managers have started to use AI, but we haven’t seen AI costs allocated to funds yet.”

When it isn’t clear in the PPM, LPA or policy documents where an

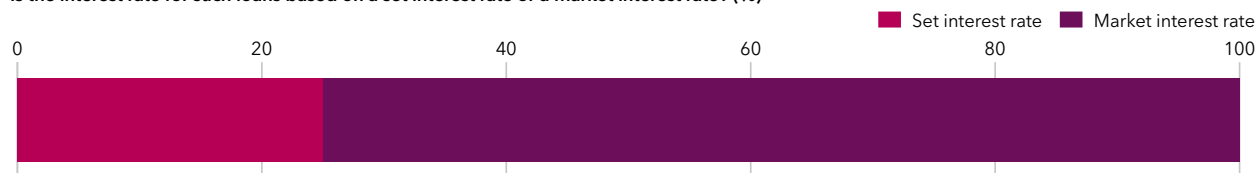
expense should be allocated, almost two-thirds of survey respondents consult with outside counsel. For 15 percent, the management team decides and 11 percent reported the CFO decides. Only 6 percent consulted with their LPAC. “Firms generally default to a conservative, investor-friendly approach,” says Fay. “That often means the management company absorbs the cost rather than risk a dispute or reputational damage.”

The CFO agrees: “If there’s any ambiguity on an... expense, we’ll make it a management company expense. I’d rather do that than get a deficiency notice because I was aggressive.” ■

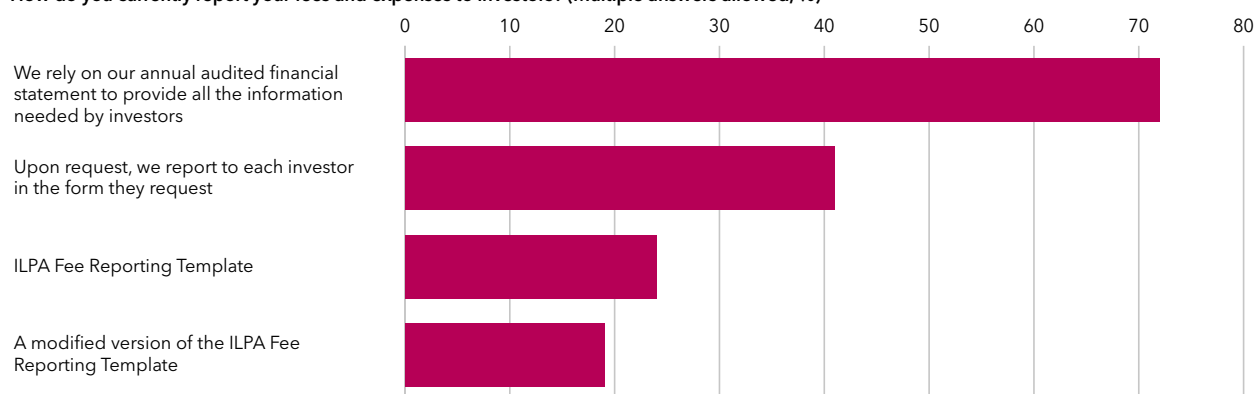
Do you allow affiliates to loan money to your fund? (%)



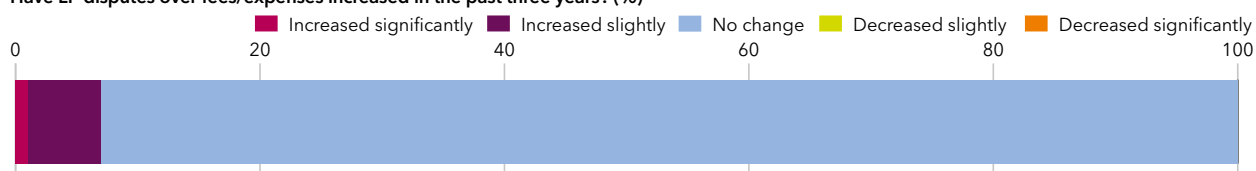
Is the interest rate for such loans based on a set interest rate or a market interest rate? (%)



How do you currently report your fees and expenses to investors? (Multiple answers allowed, %)



Have LP disputes over fees/expenses increased in the past three years? (%)



Source for all data: Private Funds CFO Fees & Expenses Survey 2026

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Private equity's endless fee test

*Most private funds managers will stay away from retail investors.
But all private funds managers will deal with the consequences of retail's
migration into their industry. By **Bill Myers***

The good news is, private equity managers are passing the fee test. In our latest biennial fees-and-expense survey, 90 percent of firms that had been examined by Securities and Exchange Commission regulators in the last five years said they'd been asked about their fees or expenses. Only 8 percent of those examinations turned into deficiency letters, and 1 percent turned into a referral to the SEC's enforcement division.

The bad news is, private equity managers must keep passing the fees and expenses test. That 90 percent tells you that regulators see rigorous fee-and-expense hygiene as table stakes. Indeed, we looked closer at the way fund managers felt about their fee-and-expense exams. Barely one in five said the questions were "basic." Almost two-thirds said the questions they answered were "moderately detailed." Nearly one-in-five (18 percent) said examiner's scrutiny had been "heavy."

Lots more fund managers are in line for their next exam. Sixty-five percent of fund managers who responded to the survey said it had been at least four years

since their last exam. Nearly one in five said it had been at least six years since their last exam and more than a quarter said they'd never been examined. The SEC says its goal is to examine 15 percent of fund advisers every year, so the results suggest a lot of private funds are due for a knock at the door.

Borrowed time

That knock may be a while in coming. The SEC is coming out of a year-long meltdown that has pushed nearly one in every five employees out the door. It has landed especially hard on examiners and enforcers. In March, enforcement division director Margaret Ryan quit.

All of this chaos may buy private equity managers time, but it's worth noting two things. First, the statute of limitations for civil fraud violations is five years. Second, enforcement may have slowed, but it's still moving. In the past year, the SEC's Republican-only commissioners have approved enforcement actions that show they're worried about post-commitment fees and – the mother of all fee-and-expense questions – valuations.

Some of this can be blamed on private credit's recent troubles. Commission chairman Paul Atkins returned to Washington as a champion of private funds. He and his colleagues are moving heaven and earth to "harmonize" the retail and private markets. He has not wavered from that cause, but it's hard not to notice a sharper edge in his voice lately.

Atkins isn't the only one proctoring private funds' ongoing fee test. Former SEC chairman Jay Clayton – whose commission released the first-ever risk alert for private funds (examiners said there were problems with disclosures, insider information and fees and expenses) – is now the top federal prosecutor in New York. Clayton has been open about his ambitions to become the US attorney general. He has also all but begged the public to help him bring a criminal valuations case.

Most private funds managers will stay away from retail investors. All private funds managers will deal with the consequences of retail's migration into their industry. The tests will go on, all right. ■

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and their learnings that have
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