Finance Recruiting Seminar
Alberta School of Business
Department of Finance

Presents:

Hyeik Kim
Ohio State University

Topic:

Opening the Black Box of Private Equity: When Interests Conflict Between GPs and LPs

Wednesday, February 2, 2022
10:30pm – 12:00pm

Zoom details located in the calendar invite.
If you are not a member of the Finance department and would like to attend, please contact Beth Boison (boison@ualberta.ca) for the Zoom meeting details.

ABSTRACT

Can the incentives implicit in general partners' contracts lead them to make value-destroying investments? Using a sample of European buyouts, I show that the structure of compensation contracts encourages GPs to overinvest in deals that are in later period of the investment phase to maximize their fee profits, even if the deals are unprofitable. Within each fund, deals made in later period of the investment phase have lower profit growth and lower net returns than those made earlier. This relationship persists after controlling for GP skills, fund sequences, and vintage year. Importantly, later period deals are more likely to be value-destroying. The results are concentrated in funds with higher earlier performance and in more established funds, suggesting that GPs with lower
reputation costs are more likely to engage in such behavior. The results further suggest that the current fee structure can induce GPs to maximize their profits at the expense of LPs.