Net-of-Fee Benchmarking: Measuring What a Gulf Manager Really Delivers

Why the family-office CIO should judge a Gulf manager on what reaches the investor, not on the headline gross return

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ABSTRACT

The return a fund manager reports and the return an investor keeps are different numbers, and the gap between them, the fee load, is large, variable and routinely under-examined. This paper sets out how a family-office chief investment officer should benchmark a Gulf manager on a net-of-fee basis, so that the question "what does this manager actually deliver to us?" is answered honestly. Drawing on the literature on private-market fee structures, the economics of carried interest, and net-of-fee performance measurement, it advances five propositions concerning how a manager should be assessed. Using a stylised, clearly-labelled framework, it decomposes the gross-to-net bridge, shows how the same gross performance produces very different net outcomes under different fee architectures, identifies the costs that sit outside the headline fee, and demonstrates how a modest annual fee difference compounds over a fund's life. The analysis finds that the management fee and the structure of the distribution waterfall, rather than the headline carried-interest rate, drive most of the difference in what the investor keeps; that a higher-gross manager can deliver a lower net result than a lower-gross one; and that net-return improvement is available to the investor through negotiation of the terms that matter, at no additional risk. The paper provides a net-of-fee benchmarking framework and checklist, and discusses the data limitations and avenues for further research.

JEL Classification: G11, G23, G24, G32, O53

Keywords: net-of-fee returns, fee structures, carried interest, benchmarking, family office, Gulf managers, private markets, waterfall

1. INTRODUCTION

A fund manager and its investor look at two different numbers when they assess performance. The manager sees the gross return, the return on the assets before the fees and carried interest it charges; the investor sees the net return, what remains after those charges. The two diverge by the fee load, and the fee load in private markets is large enough that the divergence frequently determines whether an allocation was worthwhile. Yet performance is most often reported, discussed and compared on a gross basis, or on metrics that obscure the fee load, so that investors form their impressions from a number that is not the one that pays their obligations. For the family-office chief investment officer assessing a Gulf manager, the discipline of benchmarking on a net-of-fee basis, of judging the manager on what reaches the family rather than on what the manager earns before charging the family, is therefore central rather than incidental.

This paper sets out how that net-of-fee benchmarking should be done. It is written for the chief investment officer, the head of alternatives and the investment committee of a single or multi-family office assessing a Gulf manager, whether before committing or in reviewing an existing commitment. Its purpose is not to argue that fees are too high or too low in the abstract, but to equip the investor to see clearly what a given manager, on its specific terms, will actually deliver net, and to compare managers on that basis rather than on the gross figures they prefer to present.

The motivation is that the fee load is both large and easy to overlook. The headline management fee and carried-interest rate are visible, but their combined effect over a fund's life, compounded across years, is larger than most investors appreciate, and the costs that sit outside the headline, transaction fees, monitoring fees, fund expenses, add materially to the total. Moreover, the structure of the fee, whether the waterfall is whole-fund or deal-by-deal, whether there is a genuine hurdle, whether transaction fees are offset, affects the net result as much as the headline rates do. A Gulf manager assessed on its gross return and headline fee alone may look very different once the full net picture is drawn, and drawing that picture is the work of this paper.

The paper makes three contributions. First, it decomposes the gross-to-net bridge and shows where the fee load actually falls, arguing that the management fee and the waterfall structure, rather than the carried-interest rate, drive most of the difference. Second, it demonstrates that the same gross performance produces materially different net outcomes under different fee architectures, so that a higher-gross manager can deliver a lower net result. Third, it shows how a modest annual fee difference compounds over a fund's life and identifies the terms through which an investor can improve its net return by negotiation, at no additional risk. Throughout, the figures are modelled and clearly labelled; they illustrate the mechanics of fees rather than report any specific manager's terms, and they are not forecasts.

The remainder of the paper is structured as follows. Section 2 reviews the literature on private-market fee structures, carried interest and net-of-fee measurement, and develops five propositions. Section 3 describes the data and the stylised methodology. Section 4 presents and discusses the results, covering the gross-to-net bridge, the comparison of fee structures, the hidden costs, the compounding of fee differences, the levers of net-return improvement and the divergence of gross and net manager rankings. Section 5 reports robustness. Section 6 sets out implementation considerations. Section 7 offers concluding comments, including limitations and directions for further research. A statement of disclosures, the references and appendices follow.

2. LITERATURE REVIEW AND PROPOSITIONS

The analysis draws on three strands of the literature: the structure and level of private-market fees; the economics of carried interest and the distribution waterfall; and the measurement of net-of-fee performance. This section reviews each and develops the propositions the analysis examines.

2.1 Private-Market Fee Structures

A substantial literature examines the level and structure of private-market fees and their effect on investor returns (Metrick and Yasuda, 2010; Phalippou, 2009). The consistent finding is that fees consume a large share of gross private-market returns, that the management fee, charged on committed and then invested capital regardless of performance, is a more reliable source of manager income and a larger drag on the investor than is often appreciated, and that the headline "two and twenty" understates the true cost once all charges are included. The literature also documents wide variation in fee structures across managers and strategies, which means that two managers with similar gross returns can deliver materially different net results. This heterogeneity is central to the present paper: benchmarking on gross obscures it, and only a net-of-fee comparison reveals it, which is the substance of the first and second propositions.

2.2 Carried Interest and the Waterfall

A distinct literature examines carried interest and the structure of the distribution waterfall, the rules governing how profits are shared between manager and investor (Metrick and Yasuda, 2010). Two findings are pertinent. First, the structure of the waterfall, whether carry is paid on a whole-fund basis only after the investor has received its capital and a preferred return, or deal-by-deal as individual investments are realised, affects the investor’s net result and risk substantially, often more than the headline carry rate. Second, features such as the hurdle rate, the catch-up and the clawback materially change the economics, and a token hurdle or a weak clawback can transfer value to the manager that the headline rate does not reveal. The implication is that the carried-interest rate alone is a poor guide to the cost of carry, and that the structure must be examined, which the analysis develops as the third proposition.

2.3 Net-of-Fee Performance Measurement

The literature on performance measurement establishes that the investor’s experience is captured only by net-of-fee returns, and that gross comparisons systematically overstate what the investor keeps (Phalippou, 2009; Harris, Jenkinson and Kaplan, 2014). It also establishes that the effect of fees compounds: a small annual difference in fees produces a large difference in terminal wealth over the long horizons private investments require, an effect well documented in the broader literature on the cost of investing (Bogle, 2014). For the family-office investor the implications are direct: benchmarking must be net, the comparison must run over the full life of the investment to capture the compounding, and the costs outside the headline must be included. These are the fourth and fifth propositions.

2.4 Synthesis and Propositions

Taken together, these literatures imply that an honest assessment of what a Gulf manager delivers must be net of all fees, must examine the structure of the fee and not only its headline rates, and must run over the full life of the investment to capture the compounding of fee differences. From this the paper develops five propositions:

Proposition 1. The gap between gross and net returns, the fee load, is large enough that benchmarking a manager on gross materially overstates what the investor keeps.

Proposition 2. The same gross performance produces materially different net outcomes under different fee architectures, so a higher-gross manager can deliver a lower net result.

Proposition 3. The management fee and the structure of the distribution waterfall drive most of the difference in net outcomes; the headline carried-interest rate matters less than is commonly assumed.

Proposition 4. Costs outside the headline fee, transaction, monitoring and fund expenses, add materially to the total fee load and must be included in any honest benchmark.

Proposition 5. A modest annual fee difference compounds into a large difference in net wealth over a fund's life, so net-return improvement through negotiation of the right terms is among the most reliable, risk-free gains available to the investor.

2.5 Fees, Alignment and Manager Incentives

A further strand of the literature, often overlooked in fee discussions, concerns what a fee structure reveals about a manager's incentives and alignment with the investor (Robinson and Sensoy, 2013). A structure in which the manager derives most of its income from the management fee, charged regardless of performance, signals an asset-gathering orientation in which scale matters more than results; a structure in which the manager accepts a leaner management fee and concentrates its upside in carried interest, behind a genuine hurdle, signals confidence in its ability to perform. The fee structure is therefore not only a cost to be minimised but a signal to be read, and the same net-of-fee analysis that quantifies the cost also illuminates the alignment. For the family-office investor this dual significance matters: a manager whose terms are investor-friendly is both cheaper and, on the evidence, better aligned, while one whose terms load income into the management fee is both more expensive and less aligned. The two considerations point in the same direction, which is why the net-of-fee discipline serves the investor twice, by lowering the cost and by selecting for alignment. The literature on whether managers earn their fees finds wide variation, with some managers delivering net outperformance that justifies their fees and others not (Robinson and Sensoy, 2013); the net-of-fee benchmark is precisely how an investor distinguishes the two.

2.6 Why Gross Reporting Persists

It is worth examining why, despite the clear superiority of net measurement, gross reporting and gross-anchored impressions persist so widely, because understanding the cause helps an investor resist it. The proximate reason is that managers, who originate the figures, have every incentive to present the most favourable number, and gross is more favourable than net; this is not dishonesty but the natural result of allowing the charging party to choose the headline. A deeper reason is cognitive: gross figures are simpler and more salient, the fee load is diffuse and its compounding invisible in any single period, and investors, like everyone, anchor on the first and largest number they see. A further reason is institutional: where the people assessing performance are also those who advocated for the manager, the gross figure that validates their decision is psychologically attractive. The literature on the cost of investing documents the same pattern in public markets, where investors persistently underweight the long-run effect of fees because it is invisible year by year (Bogle, 2014). For the family-office investor, the practical lesson is that net measurement must be imposed deliberately, as a standing discipline, precisely because the natural forces, managerial incentive, cognitive salience and institutional comfort, all push toward gross. An investor that recognises these forces can guard against them; one that does not will drift toward the flattering gross impression without ever deciding to, and will mis-assess its managers as a result.

3. DATA AND METHODOLOGY

This study is a methodological and framework paper supported by stylised, clearly-labelled illustration rather than an empirical study of specific managers' terms. Its aim is to make transparent how fees translate gross performance into net outcomes and to equip an investor to benchmark accordingly, using assumptions stated openly. The figures illustrate the mechanics an investor should apply to a manager's actual terms; they are not estimates of any manager's fees and are not forecasts.

3.1 The Net-of-Fee Framework

The framework assesses a manager through a sequence of analyses: the gross-to-net bridge, which decomposes the fee load; the comparison of net outcomes under different fee architectures for a fixed gross performance; the identification of costs outside the headline; the compounding of fee differences over the fund's life; and the levers through which net return can be improved. Together these allow an investor to see what a manager delivers net, to compare managers on that basis, and to identify where negotiation would most improve the result.

3.2 Assumptions and Their Justification

The stylised inputs, an illustrative gross return and a representative set of fee terms, management fee, carried interest, hurdle, waterfall type and fund expenses, are calibrations informed by the private-market fee literature (Metrick and Yasuda, 2010; Phalippou, 2009) and by common institutional terms. They are representative rather than estimates of any specific manager's terms, and are intended to illustrate the mechanics; Appendix A records them. The base-case assumptions are set out in Table 1.

Table 1. Base-Case Assumptions for the Net-of-Fee Framework

Parameter	Assumption
Illustrative gross return	16% p.a. (or 2.20x MOIC)
Management fee	1.5% to 2.0% on committed, then invested
Carried interest	15% to 20%
Hurdle rate	8% preferred return
Waterfall	Whole-fund (European) vs deal-by-deal
Fund-level expenses	~0.25% to 0.5% p.a.
Costs outside headline	Transaction, monitoring, admin, organisational

Indicative, forward-looking assumptions used to illustrate fee mechanics; not estimates of any manager's terms or forecasts. See Appendix A.

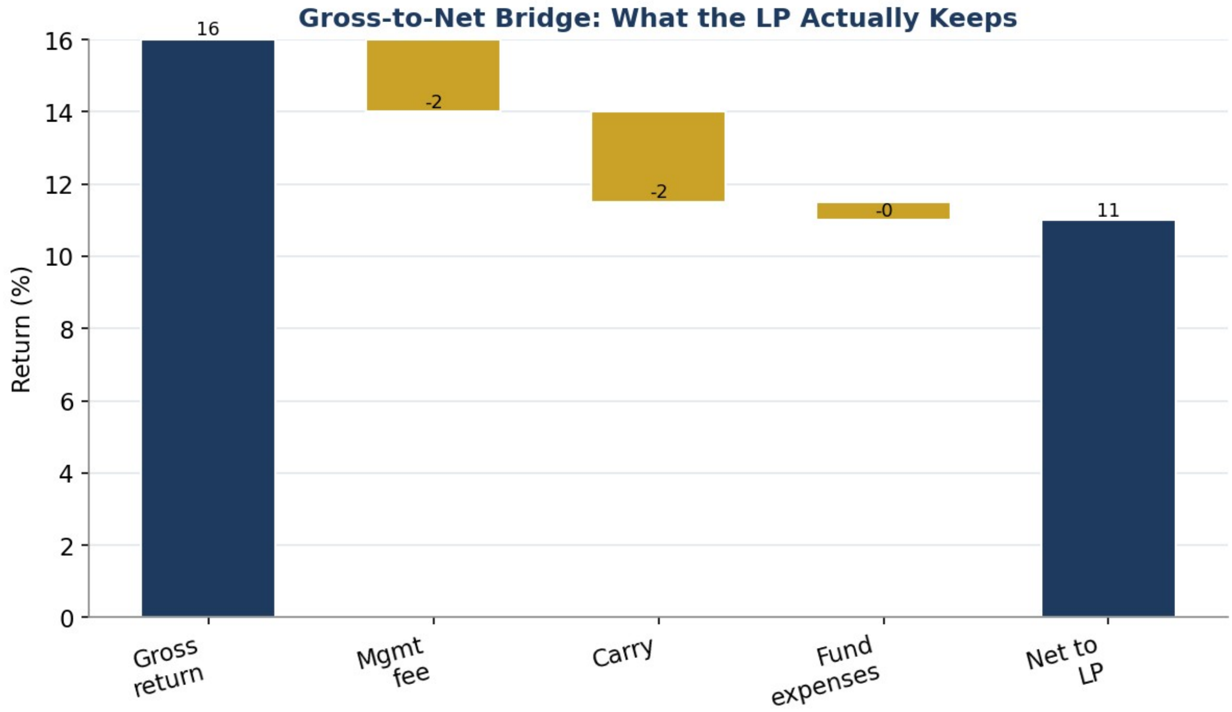
4. RESULTS AND DISCUSSION

This section presents the framework and supporting analysis in the order of the propositions: the gross-to-net bridge (Proposition 1); the comparison of fee structures (Proposition 2); the drivers of net difference (Proposition 3); the hidden costs (Proposition 4); the compounding of fee differences and the levers of improvement (Proposition 5); and the divergence of gross and net manager rankings.

4.1 The Gross-to-Net Bridge

The starting point is to decompose how a gross return becomes a net one, which Figure 1 sets out.

Figure 1. Gross-to-Net Bridge: What the LP Actually Keeps



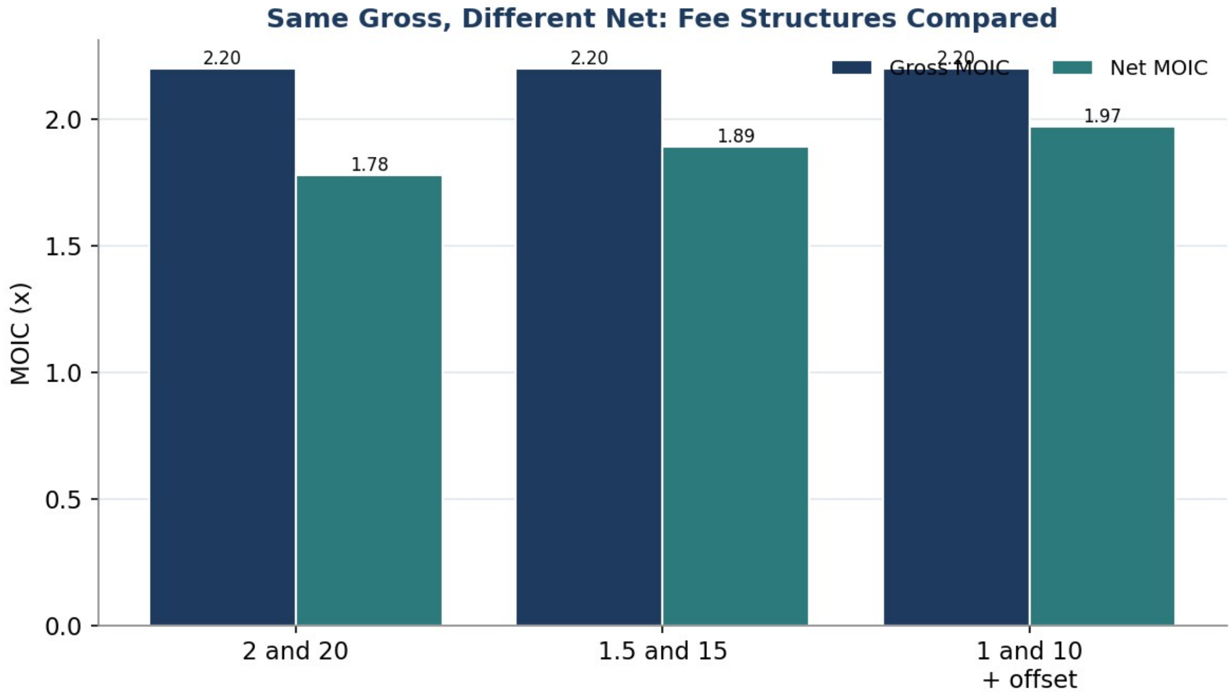
Indicative decomposition of a gross return into the management fee, carry, fund expenses and the net result.

The bridge supports Proposition 1. The gap between the gross return and the net result, the sum of the management fee, the carry and the fund expenses, is large, and it is the part of the gross return the investor does not keep. The visual makes concrete what a gross comparison hides: a manager reporting an impressive gross figure may deliver, after the fee load, a net result substantially lower, and an investor that benchmarks on gross will systematically overstate what its managers deliver. The bridge also previews the central finding of the paper, visible in the relative sizes of the components: the management fee and the carry together dominate, and within them the management fee, charged every year on the whole capital base regardless of performance, is a larger and more certain drag than the carry, which is paid only on profits above the hurdle. This sets up the analysis of which terms actually drive the net difference.

4.2 Same Gross, Different Net

The most important result for an investor comparing managers is that the same gross performance produces materially different net outcomes under different fee architectures, illustrated in Figure 2.

Figure 2. Same Gross, Different Net: Fee Structures Compared



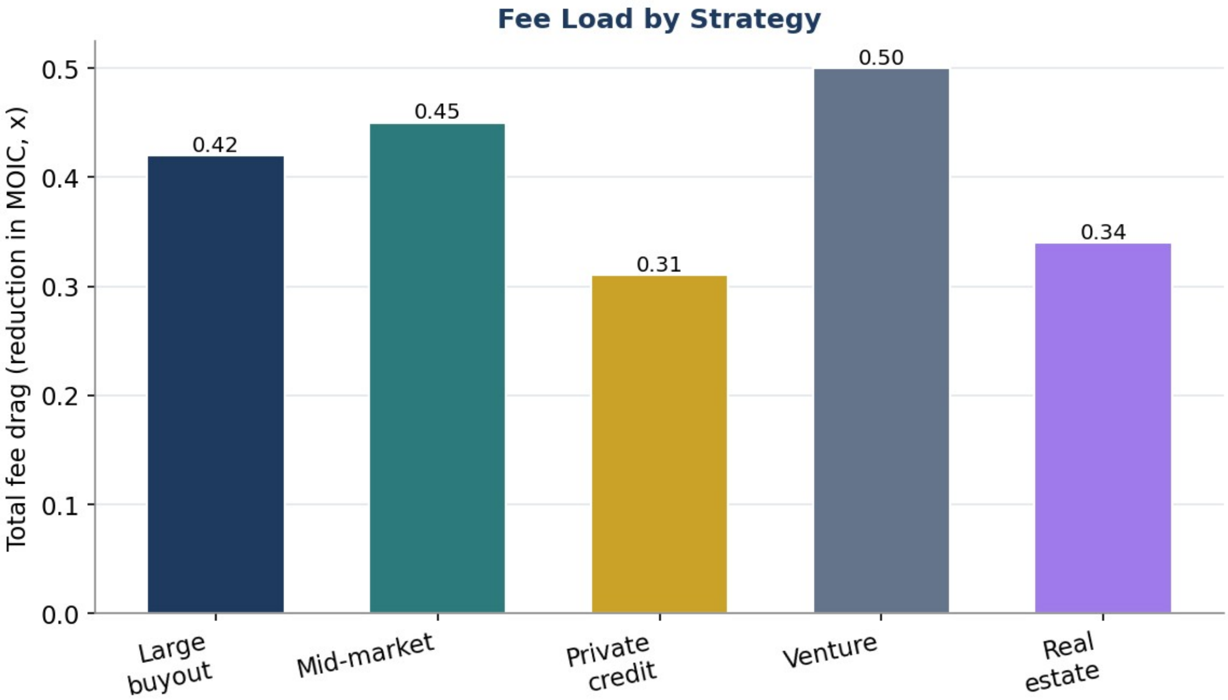
Indicative net multiple under three fee architectures for an identical gross result.

The figure supports Proposition 2 directly. Three managers delivering an identical gross multiple hand the investor materially different net multiples, and the difference comes entirely from the fee architecture: a lower management fee, a whole-fund waterfall that defers carry until the investor is made whole, a genuine hurdle and an offset of transaction fees against the management fee. The investor that compares these managers on gross sees three identical performers; the investor that compares them on net sees a clear ranking. This is the practical heart of net-of-fee benchmarking, and it explains why an investor must insist on net figures and must examine the structure rather than the headline rates: the structure, not the gross performance, determines the ranking among managers whose gross results are similar.

4.3 Where the Net Difference Comes From

If the structure drives the net difference, which elements of it matter most? Figure 3 reports the fee load by strategy, and the analysis identifies the management fee and the waterfall as the dominant levers.

Figure 3. Fee Load by Strategy



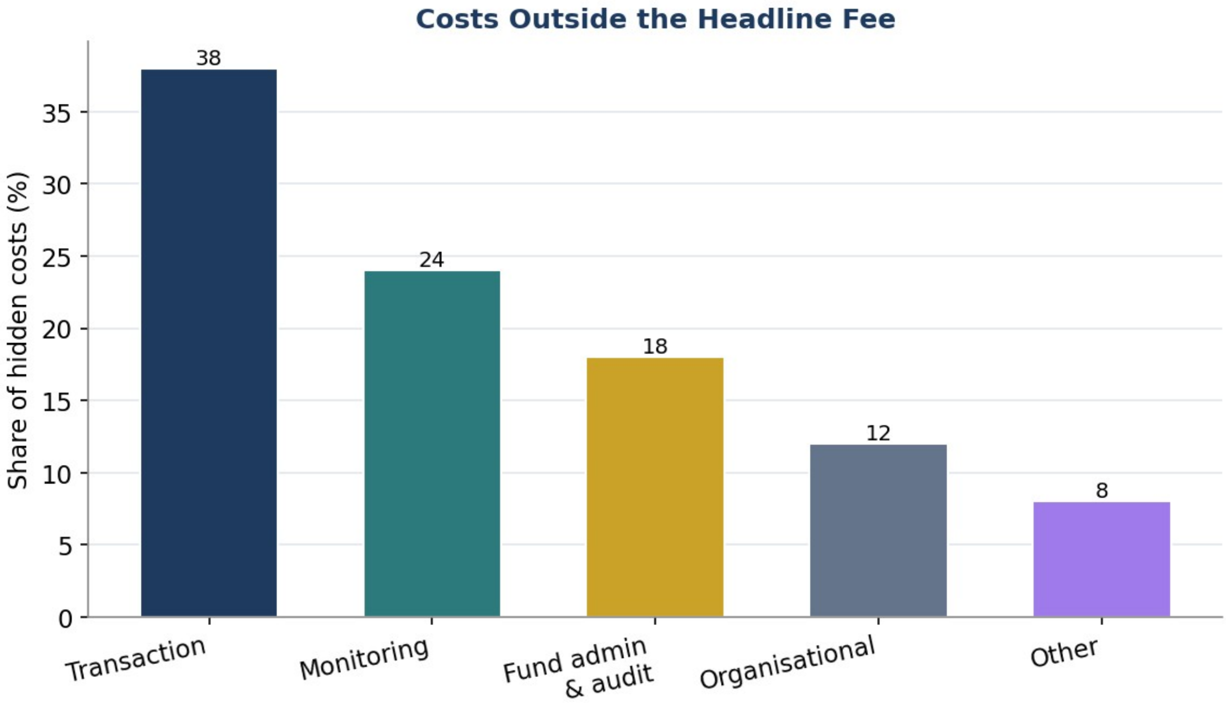
Indicative total fee drag, expressed as a reduction in multiple, across strategies.

The fee load varies by strategy, reflecting different conventional terms, but within any structure the analysis supports Proposition 3: the management fee and the waterfall structure drive most of the net difference, while the headline carried-interest rate matters less than commonly assumed. The reason is structural. The management fee is charged every year on the whole capital base, regardless of performance, so its drag compounds over the entire life of the fund; the carry, by contrast, is paid only once, only on profits, and only above the hurdle, so its effect, while real, is smaller and contingent. An investor that fixates on negotiating the carry rate while accepting the management fee and the waterfall as given is therefore negotiating the wrong lever, a point the levers analysis below quantifies.

4.4 The Costs Outside the Headline

A complete net benchmark must include the costs that sit outside the headline management fee and carry, which Figure 4 sets out.

Figure 4. Costs Outside the Headline Fee



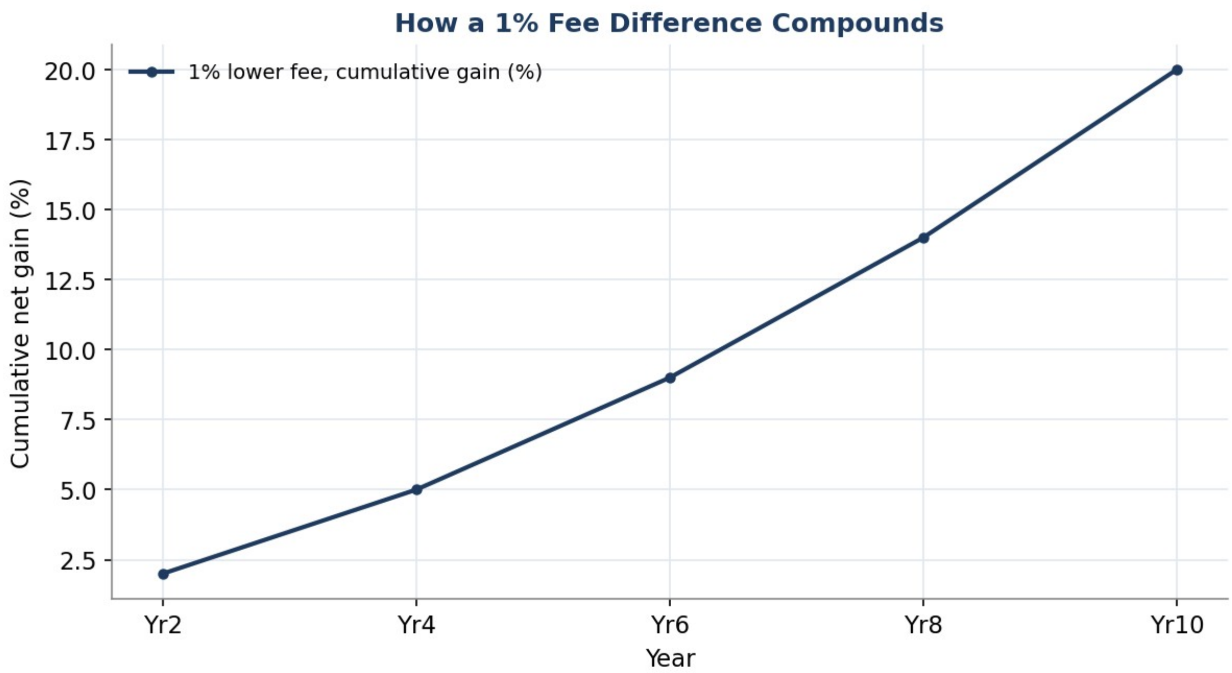
Indicative composition of the transaction, monitoring, administrative and other costs beyond the headline fee.

These costs, transaction fees on deals, monitoring fees charged to portfolio companies, fund administration and audit, and organisational expenses, add materially to the total fee load and support Proposition 4. They are easy to overlook because they are not in the headline, and because their disclosure varies across managers, but they reduce the net result just as the headline fee does. The most important of these, transaction and monitoring fees, can in well-structured arrangements be offset against the management fee, returning their benefit to the investor; in poorly structured ones they accrue to the manager on top of the headline fee. An investor benchmarking net must therefore ask not only the headline rates but how these additional costs are treated, because the same headline fee can deliver very different net results depending on whether the costs outside it are offset or retained by the manager.

4.5 How a Small Fee Difference Compounds

A fee difference that looks small in a single year compounds into a large difference in net wealth over a fund’s life, which Figure 5 illustrates.

Figure 5. How a One Percent Fee Difference Compounds



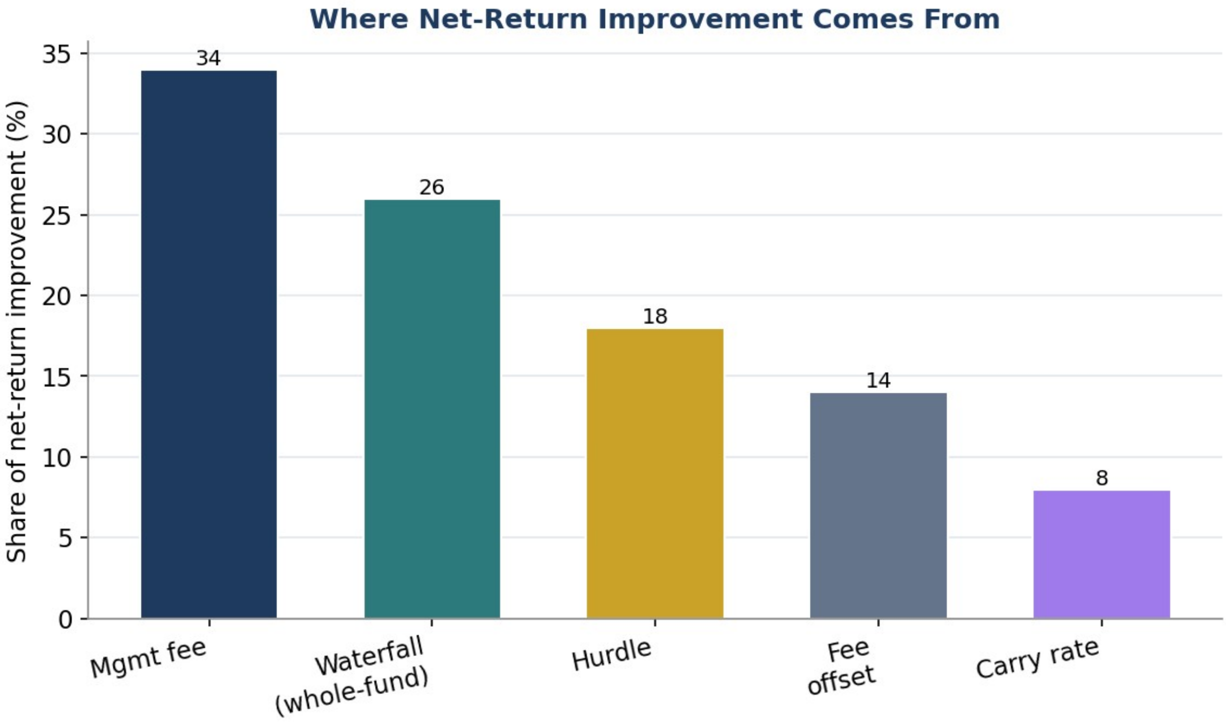
Indicative cumulative net gain from a one-percentage-point lower fee over a fund's life.

The compounding supports Proposition 5 and reframes the stakes of fee negotiation. A one-percentage-point difference in the annual fee, which might seem minor in any single year, accumulates over a fund's decade-long life into a substantial difference in what the investor keeps, because the saved fee remains invested and compounds. This is why fee negotiation is not a marginal activity but a primary determinant of the net result, and why the investor that treats the fee as fixed forgoes a large, certain, risk-free gain. The compounding also means that the difference between a well-negotiated and a poorly-negotiated commitment, holding gross performance equal, can rival the difference between a good and a mediocre manager, which is a striking and under-appreciated fact.

4.6 The Levers of Net-Return Improvement

If net return can be improved, which levers yield the most? Figure 6 ranks them.

Figure 6. Where Net-Return Improvement Comes From



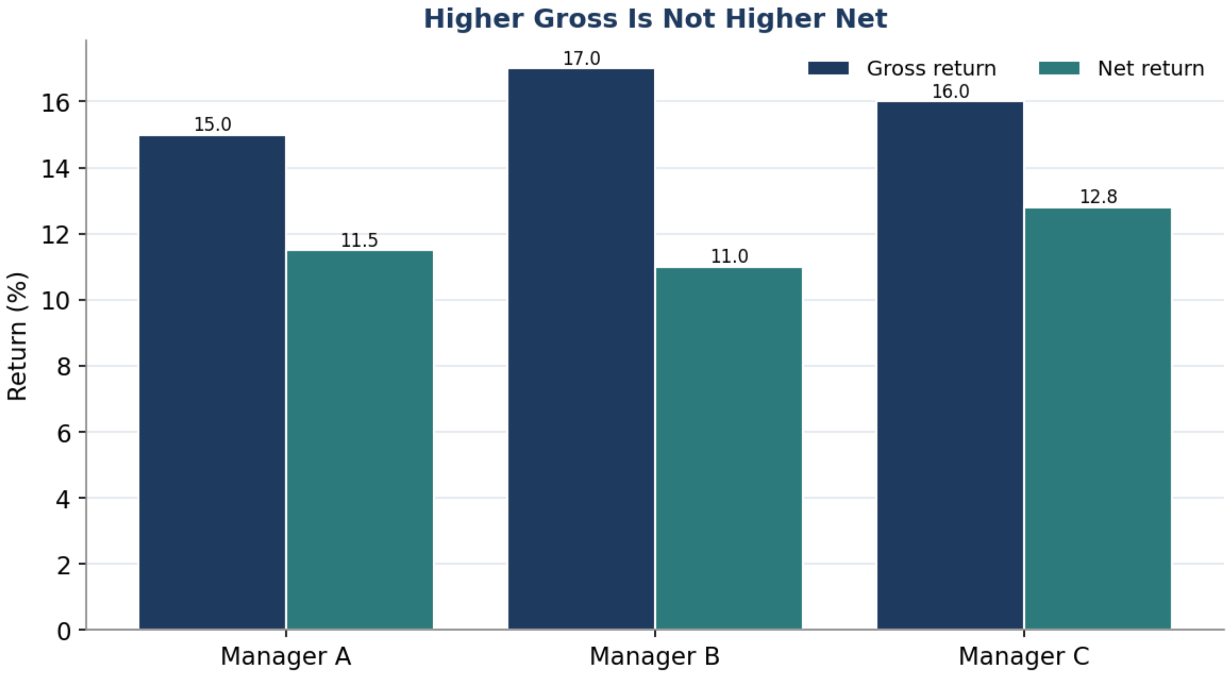
Indicative contribution of each negotiable term to net-return improvement.

The ranking confirms Proposition 3 from the improvement side: the management fee and the move to a whole-fund waterfall deliver most of the available net-return improvement, followed by a genuine hurdle and a fee offset, with the carry rate contributing least. The practical guidance for the investor is therefore clear and counter-intuitive: in negotiating a commitment, press hardest on the management fee and the waterfall structure, insist on a genuine hurdle and on the offset of transaction fees, and treat the carry rate as the least important of the levers. An investor that follows this ordering captures most of the available improvement; one that, as is common, concentrates on the carry rate captures little of it. This ordering also tells the investor where to focus its limited negotiating capital, on the terms that move the net result most.

4.7 Higher Gross Is Not Higher Net

The cumulative implication of the analysis is captured in Figure 7, which shows that the manager with the highest gross return is not necessarily the one that delivers the most net.

Figure 7. Higher Gross Is Not Higher Net



Indicative gross and net returns for three managers; the gross ranking and the net ranking differ.

The figure delivers the paper's central practical message. Three managers are ranked one way on gross and a different way on net, because their fee structures differ: the highest-gross manager charges a structure that consumes more of the return, while a lower-gross manager on leaner, better-structured terms delivers more to the investor. An investor that selects on gross, the figure most readily presented, will sometimes choose the manager that delivers less, which is precisely the error net-of-fee benchmarking prevents. This is not a hypothetical curiosity but a common situation, because gross performance and fee structure are not correlated, a manager can have strong gross performance and punitive terms, or modest gross performance and investor-friendly terms, and only a net comparison reveals which combination delivers the most. The lesson for the family-office CIO is to rank managers on net, on their specific terms, and to be especially wary of selecting a high-gross manager without examining what its structure leaves for the investor.

4.8 Fee Benchmarking Across the Gulf Sleeves

The fee analysis applies across the Gulf sleeves but with differences worth drawing out, because the conventional terms and the appropriate scrutiny vary by strategy. In Gulf private credit, where returns are more contractual and the dispersion of outcomes narrower, the management fee is the dominant consideration and a high carry is harder to justify, so the investor should press for a low fee and a structure that does not over-reward the manager for delivering the contractual return the strategy is designed to produce. In Gulf real estate, where returns blend income and appreciation over long holds, the interaction of the management fee with the hold period is especially important, since a long hold multiplies the fee drag, and the investor should scrutinise both the fee and the expected duration. In Gulf private equity and venture, where the dispersion is widest and genuine skill most determines the outcome, a higher carry behind a genuine hurdle can be justified for a manager with real edge, but the management fee should still be kept lean. Benchmarking net by sleeve, against sleeve-appropriate fee norms, therefore yields a more precise verdict than applying a single fee standard across the whole allocation, and it tells the investor which managers, in which sleeves, are charging terms commensurate with what they deliver.

This sleeve-level fee analysis connects to the broader benchmarking discipline: just as performance should be benchmarked sleeve by sleeve against appropriate comparators, so fees should be benchmarked sleeve by sleeve against appropriate norms, because a fee that is reasonable for a high-dispersion venture strategy may be excessive for a contractual credit strategy. An investor that applies a single fee expectation across all sleeves will over-pay in the low-dispersion sleeves and may under-appreciate value in the high-dispersion ones. The discipline is to know the fee norms for each sleeve and to assess each manager's terms against the norm for its strategy, which is more demanding than a blanket standard but yields the accurate, actionable verdict that net-of-fee benchmarking is meant to produce.

4.9 The Manager's Perspective and Sustainable Economics

A balanced treatment acknowledges the manager's perspective, because a fee structure that is unsustainable for the manager is not in the investor's long-term interest either. Talented investment professionals are expensive and mobile; regulation, technology, valuation governance and investor reporting have all raised the cost of running an institutional-quality firm; and a management fee that barely covers these costs, particularly for a smaller or younger Gulf manager, may leave the firm unable to build the team and systems the investor expects. The investor's aim, therefore, should not be to drive the fee as low as possible but to ensure it is fair in relation to the value created and transparent enough to be judged. A manager that can articulate where its costs sit, why its fee is set where it is, and how its economics align with the investor will, over time, attract more patient and loyal capital than one that competes purely on a low headline number while recovering margin through opaque charges. For the family-office investor building a long-term relationship with a Gulf manager, sustainable economics on both sides are a precondition for the durable partnership that good private-markets investing requires, and the net-of-fee discipline serves this by making the true cost transparent so that fairness, rather than either exploitation or naivety, can be assessed.

4.10 Co-Investment and the Blended Fee Load

A powerful lever on the net-of-fee result, available to investors of sufficient scale and capability, is co-investment, which a complete fee analysis must consider. Co-investment, investing directly alongside a manager in a specific deal, usually with reduced or no management fee and carry, lowers the blended fee load across the manager relationship: a family that commits to a fund and also co-invests pays the full fee on the fund commitment but little or none on the co-investment, so its average fee across the total capital deployed with that manager falls. Over a programme, a meaningful co-investment allocation can reduce the effective fee load materially, lifting the net return without taking additional manager risk, since the co-investments are in the same deals the manager has already selected. The catch is that co-investment requires the capability to evaluate deals quickly and the access to be offered them, which not every family possesses; but for those that do, it is among the most effective net-return levers available, and it should be considered alongside the negotiation of fund terms rather than treated separately. The net-of-fee framework of this paper extends naturally to the blended fee load across fund and co-investment, and an investor building a Gulf programme should model that blended load rather than the fund fee alone, because it is the blended figure that determines what the family ultimately keeps from the relationship.

This connects net-of-fee benchmarking to the broader architecture of a Gulf programme. The management fee, the waterfall, the offsets and co-investment are not separate decisions but components of a single question, how much of the returns the family's managers generate does the family actually keep, and the disciplined investor optimises them together. A family that negotiates fund terms well but ignores co-investment, or that pursues co-investment but accepts punitive fund terms, leaves value on the table; one that addresses the whole blended fee load captures the full available improvement. The net-of-fee discipline, in its complete form, is therefore the optimisation of the entire cost of a manager relationship, not merely the headline fee, and it is in that complete form that it delivers the largest, most reliable enhancement to the family's net result.

4.11 The Interaction of Fees and Performance Persistence

An important interaction, drawing on the manager-selection literature, is between fees and the persistence of performance. The evidence that strong private-market managers tend to persist (Harris, Jenkinson and Kaplan, 2014) might suggest that an investor should pay up for a top manager regardless of fees; the net-of-fee analysis qualifies this. A persistently strong manager can justify higher fees if its net-of-fee outperformance is durable, but the investor must still assess whether the fee leaves it a fair share of that outperformance, and whether the persistence is genuine or an artefact of a single fortunate fund. The danger is that a manager with a strong reputation uses it to extract a fee structure that captures most of the value its skill creates, leaving the investor with a net result no better than a cheaper, less celebrated manager would deliver. The net-of-fee discipline is the protection: it forces the investor to ask not "is this manager good?" but "after this manager's fees, does it deliver more to us than the alternative?", which is the only question that matters for the net result. A genuinely persistent manager whose terms leave the investor a fair share is worth backing; a celebrated manager whose terms capture its whole edge is not, however strong its gross record, and only the net comparison distinguishes the two.

This interaction is especially relevant in the Gulf, where the manager base is younger and reputations are still forming. An investor should be wary of paying premium fees for a regional manager on the strength of a short or borrowed track record, and should insist that the net result, after whatever fees the manager commands, genuinely exceeds the alternative. The combination of net-of-fee discipline and the manager-selection rigour examined in companion analyses is what protects the investor here: selection identifies the managers likely to perform, and the net-of-fee benchmark ensures the investor keeps a fair share of that performance. Neither alone suffices, a great manager on punitive terms and a fairly-priced mediocre manager both disappoint, and the family office must apply both disciplines together.

4.12 Fee Terms and the Manager Life-Cycle

Fee terms vary predictably with where a manager sits in its life-cycle, and an investor benchmarking a Gulf manager should read its terms in that light. A first-time or emerging manager, common in a younger market, often offers more investor-friendly terms, lower fees, founder-friendly commitments and flexibility, precisely because it is establishing a track record and needs to attract capital; an established manager with a strong reputation can command fuller terms because demand for its funds exceeds supply. This life-cycle pattern creates both opportunity and risk for the investor. The opportunity is that backing a capable emerging Gulf manager early can secure attractive economics that will not be available once the manager is established, so an investor with the diligence capability to identify good emerging managers can capture both performance and favourable terms. The risk is that an emerging manager's favourable headline terms may conceal weaker operational maturity or a shorter track record, so the net-of-fee attractiveness must be weighed against the additional diligence required, as the companion analysis on manager selection sets out. The disciplined investor neither over-pays an established manager on reputation nor under-diligences an emerging one on attractive terms; it assesses each on its net-of-fee delivery and its risk, reading the fee terms as one input among several and understanding what the life-cycle stage implies about both the economics and the risk.

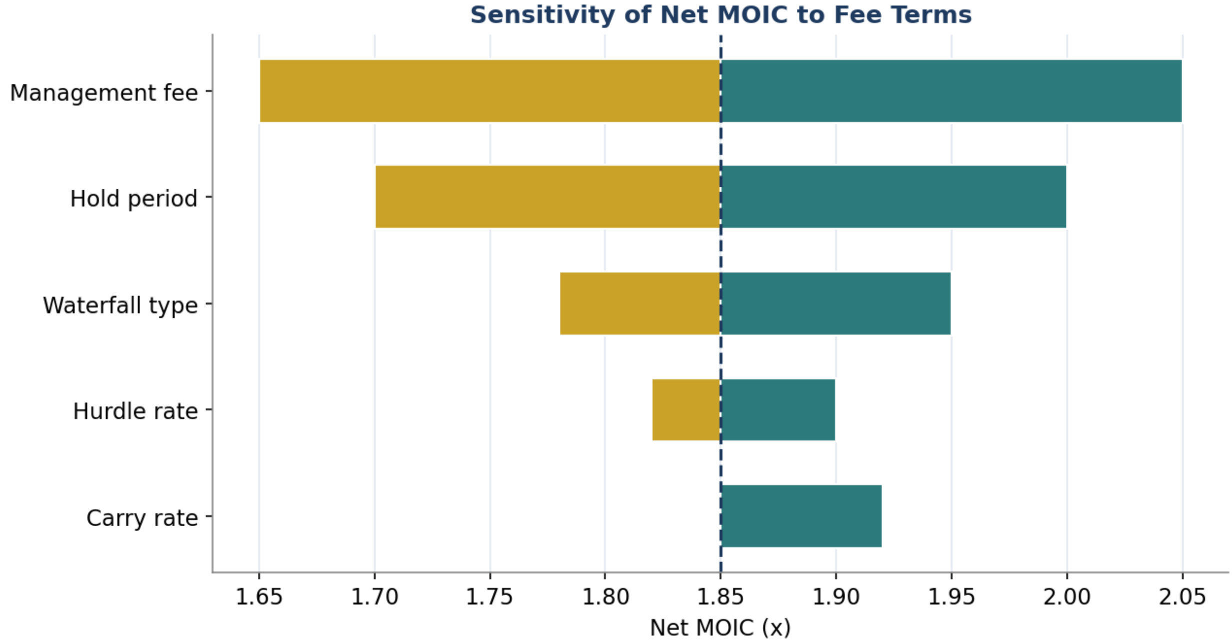
5. ROBUSTNESS AND SCENARIO ANALYSIS

A framework that ranks fee terms by their effect on the net result must be tested against its assumptions and across scenarios. This section reports a sensitivity analysis and considers how the conclusions hold across different performance environments.

5.1 Sensitivity of the Net Result to Fee Terms

Figure 8 reports the sensitivity of the net multiple to the principal fee terms, each varied around the base case.

Figure 8. Sensitivity of Net Multiple to Fee Terms



Each bar shows the swing in net multiple from varying one fee term around the base case.

The sensitivity ordering confirms the central finding: the management fee and the hold period move the net result most, the waterfall structure and hurdle follow, and the carry rate moves it least. The prominence of the hold period is worth noting, because it interacts with the management fee: the longer an investment is held, the more years of management fee it bears, so a manager that holds assets longer extracts more in management fees even at the same annual rate. This reinforces the guidance to focus negotiation on the management fee and the structure, and it adds a consideration, the expected hold period, that an investor should factor into its net assessment. The robustness of the ordering across reasonable variations gives the investor confidence that pressing on the management fee and the waterfall, rather than the carry, is the right strategy in essentially all cases, not merely the base case.

5.2 Across Performance Environments

The relative importance of the fee terms shifts somewhat with the performance environment, and an investor should understand the interaction. In a high-return environment, the carry becomes more significant in absolute terms, because there is more profit above the hurdle for the manager to share in, so the carry rate and the waterfall structure matter more. In a low-return environment, the management fee dominates even more completely, because it is charged regardless of performance and consumes a larger share of a smaller gross return; in a poor outcome, the management fee can be the difference between a modest positive net result and a negative one. The implication is that the management fee is the most important term across all environments, the lever to press in every case, while the carry and waterfall warrant additional attention where high returns are expected. For a Gulf allocation, where returns are expected to be solid but not extraordinary, this points to the management fee and the waterfall as the priorities, with the carry a secondary consideration, consistent with the base-case ordering.

6.4 Building a Net-of-Fee Reporting Standard

Beyond assessing individual managers, a family office should adopt a net-of-fee reporting standard for its whole alternatives programme, so that every manager and the programme as a whole are reported and reviewed on the net basis that matters to the family. The temptation, often driven by managers' own reporting, is to track and present gross or partially-netted figures; the discipline is to insist that all internal and stakeholder reporting be net of all fees and costs, including those outside the headline. This standard has two benefits. It ensures that the family's own understanding of its programme reflects what it actually keeps, which is the basis for sound decisions about adding to or exiting managers; and it imposes a consistent measure across managers, so that the family can compare them fairly and identify which are delivering net value and which are not. A net-of-fee reporting standard is to a family office what honest accounting is to a business: the foundation of clear-sighted management, and its absence a source of persistent self-deception about how the programme is actually performing.

6.5 Fee Negotiation as a Repeatable Capability

A family office that commits to multiple managers over time should treat fee negotiation not as a one-off event but as a repeatable capability it builds and improves. This means maintaining a record of the terms it has secured and the terms prevailing in the market, so that each negotiation is informed by the last; developing standard positions on the levers that matter, the management fee, the waterfall, the hurdle and the offset, so that the family negotiates from a consistent and considered stance; and using its cumulative commitment across managers as negotiating leverage where appropriate. Over a programme of many commitments, the net-return improvement from a well-developed negotiation capability compounds into a substantial enhancement of the family's overall result, at no additional investment risk. The family office that treats each negotiation in isolation forgoes this cumulative advantage; the one that builds negotiation into a capability captures it, and in doing so converts the analytical insight of this paper, that the right levers yield large, risk-free net improvement, into a standing source of value for the family.

6.6 A Worked Net-of-Fee Comparison in Practice

To make the implementation concrete, consider how a family office would compare two Gulf managers in practice. It would obtain each manager's full terms, the management fee and its basis, the carry rate, the hurdle and catch-up, the waterfall type, the clawback, and the treatment of transaction, monitoring and fund expenses, and it would build the gross-to-net bridge for each on a common assumed gross performance. It would then compare not the gross returns the managers present, nor the headline fees, but the net multiples the bridges produce, and it would examine which terms account for any difference. Suppose Manager A presents a higher gross track record but charges two and twenty on a deal-by-deal waterfall with no fee offset, while Manager B presents a slightly lower gross record but charges one and a half and fifteen on a whole-fund waterfall with full offset. The family's net model may well show Manager B delivering more to the family despite the lower gross, and it will show exactly why, in the management fee, the waterfall and the offset. Armed with this, the family can both choose correctly and negotiate from evidence, asking Manager A to improve the specific terms that account for the gap. This worked approach, applied to every prospective commitment, is the practical embodiment of the paper's argument, and it is well within the capability of any family office willing to build a simple net model.

6.7 Common Errors in Net-of-Fee Assessment

Several errors recur in net-of-fee assessment, and naming them helps an investor avoid them. The first is comparing managers on gross while believing the comparison is meaningful; only net comparison ranks managers by what they deliver. The second is treating the headline fees as the whole cost, ignoring the transaction, monitoring and fund expenses outside them. The third is negotiating the carry rate while accepting the management fee and waterfall, which captures little of the available improvement. The fourth is assessing the fee in a single year rather than over the fund's life, which hides the compounding. The fifth is paying premium fees for a strong gross reputation without checking that the net result exceeds the alternative. And the sixth is allowing the manager to define the performance reporting, so that the investor sees the manager's preferred figures rather than its own net calculation. Each of these errors leads the investor to give away more than it needs to or to mis-rank its managers, and each is avoided by the disciplines this paper sets out: model net on the full terms, over the full life, focusing on the levers that matter, and on the investor's own calculation rather than the manager's presentation. An investor that audits its own process against this list of errors will quickly identify where it is leaving value on the table.

6.8 Embedding Net-of-Fee Discipline in Governance

For the discipline to endure rather than depend on an individual's diligence, a family office should embed it in its governance. This means requiring, as a matter of policy, that every commitment proposal presented to the investment committee include a net-of-fee model on the manager's actual terms, a comparison against alternatives on a net basis, and an account of the terms negotiated and those still sought; that all performance reporting to the committee and to the family be net of all costs; and that the assessment of a manager's value, for the purpose of adding, holding or exiting, rest on its net delivery rather than its gross record. Embedding the discipline in governance ensures it survives changes of personnel and resists the natural drift toward gross impressions, and it signals to managers that the family assesses on net as a matter of course. A family office that relies on a single capable individual to insist on net measurement is vulnerable when that individual leaves; one that embeds the discipline in its governance makes it a durable institutional habit, which is what converts the insight of this paper from a one-time exercise into a standing source of value for the family across all its commitments and over time.

6.9 Net-of-Fee Discipline and the Family-Office Mandate

It is worth situating net-of-fee discipline within the specific mandate of a family office, which differs in instructive ways from that of an institutional allocator. A family office manages the wealth of a single family or a small group, often across generations, with objectives that blend return, preservation, liquidity for the family's needs and, frequently, a desire for control and transparency over how the wealth is managed. Net-of-fee discipline serves each of these objectives. It improves the return the family keeps, which compounds across the long, multi-generational horizons family wealth is invested over; it aids preservation by ensuring that costs do not silently erode capital; it supports the family's desire for transparency by insisting on a clear view of what is paid and kept; and it embodies the stewardship that a family office exists to provide. Moreover, a family office is often better placed than a large institution to act on the discipline, because its decisions are less bureaucratic, its relationships with managers more direct, and its ability to pursue co-investment, where capability allows, more flexible. The net-of-fee discipline is therefore not a generic institutional practice imported into the family-office context but a natural expression of the family-office mandate itself, which is to steward the family's wealth with care, transparency and an unflinching focus on what actually reaches the family. For the Gulf-based or Gulf-allocating family office in particular, applying this discipline to its regional managers is simply good stewardship of the family's capital, conducted in the market the family knows best.

6. IMPLEMENTATION CONSIDERATIONS

The framework translates into practical steps for a family-office CIO assessing and negotiating with a Gulf manager.

6.1 Always Model Net Before Committing

The first and most important step is to build a net-of-fee model for every prospective commitment, running the full gross-to-net bridge on the manager's specific terms, including the costs outside the headline, before deciding. This converts the manager's gross presentation into the net figure that matters to the family, allows managers to be compared on a like-for-like net basis, and reveals where the manager's terms are favourable or punitive. An investor that commits without building this model is, in effect, accepting the manager's gross framing, and is unable to compare managers on what they actually deliver. The model need not be elaborate, the mechanics in this paper suffice, but it must be built for every commitment, because the net result cannot be read off the headline rates.

6.2 Negotiate the Right Levers

The second step is to direct negotiation at the terms that move the net result most: the management fee, the waterfall structure, the hurdle and the fee offset, in that order, rather than at the carry rate. Many investors, anchored on the headline "and twenty", concentrate their negotiating effort on the carry and accept the management fee and structure as given, which captures little of the available improvement. An investor that reallocates its negotiating effort toward the management fee and the waterfall, insisting on a whole-fund structure, a genuine hurdle and the offset of transaction fees, captures most of the improvement available, and does so at no cost to the relationship beyond the negotiation itself. The levers analysis of Section 4.6 provides the priority order, and an investor should enter every negotiation with it in mind.

6.3 Insist on Transparency of All Costs

The third step is to insist on full transparency of the costs outside the headline, transaction fees, monitoring fees, fund expenses, and on their treatment, in particular whether transaction and monitoring fees are offset against the management fee. A most-favoured-nation clause, ensuring the investor receives terms at least as good as those granted to other investors, is a further protection. An investor that secures transparency and offset of these costs improves its net result and removes a common source of hidden drag; one that does not may find that a competitive headline fee conceals a higher effective cost. Transparency is also a signal: a manager willing to disclose and offset these costs is signalling a partnership posture, while one that resists is signalling the opposite, which is itself information for the selection decision.

It is worth drawing out the connection between this paper and the broader programme of which it forms part. Companion analyses argue that the Gulf is an attractive and under-owned destination, that its currency risk is removed by the peg, and that its returns should be benchmarked honestly. This paper supplies the manager-level discipline that complements the allocation-level ones: having decided to allocate to the Gulf and to benchmark the allocation fairly, the investor must also ensure that, manager by manager, it is keeping a fair share of the returns those managers generate. The two disciplines are complementary, the allocation case determines whether to be in the region, and the net-of-fee discipline determines how much of the region's returns the family actually retains, and an investor that attends to the first while neglecting the second may find that a sound allocation delivers a disappointing result because too much was given away in fees. Net-of-fee benchmarking is, in this sense, the final link in the chain that runs from the decision to allocate to the return the family ultimately keeps.

A final reflection concerns why this discipline is so often neglected despite its evident value. The reasons are familiar and human: gross figures are what managers present and what flatter a decision; the fee load is diffuse and its compounding invisible in any single year; the carry rate is salient and the management fee mundane; and negotiating fees can feel adversarial in a relationship an investor wishes to build on trust. Each of these is understandable, and each leads the investor to give away more than it needs to. The remedy is not suspicion of managers but discipline in measurement: to insist, as a matter of routine and not of confrontation, on seeing and negotiating the net result, because that is the number the family lives on. A manager worth partnering with will respect an investor that understands its own economics, and the act of net-of-fee benchmarking, far from damaging the relationship, establishes the family as a serious, informed partner. The discipline, in the end, serves both the family's returns and the quality of its manager relationships, which is why it deserves to be a standing habit rather than an occasional exercise.

Stepping back, the argument of this paper is an instance of a general principle that applies across investing: that the controllable beats the uncontrollable as a source of reliable return. An investor cannot control the market, cannot reliably predict which manager will outperform, and cannot eliminate risk; but it can control, to a substantial degree, the fees it agrees to pay, and the net-return improvement available from doing so is large, certain and risk-free. In a discipline where so much is uncertain, the fee load is a rare lever the investor can pull with confidence, and the family office that pulls it, by modelling net, negotiating the right terms, and insisting on transparency, captures a return that requires no forecast and no additional risk. This is why net-of-fee benchmarking, though it can seem a technical or even mercenary concern, is in truth among the most important disciplines a serious investor practises, and why it deserves the same care the investor brings to the more glamorous questions of allocation and selection. What the family keeps, after all, is what the fees leave it, and the fees are the part of the equation the family most directly controls.

In the end, the message of this paper is both simple and easily neglected: judge a Gulf manager, and every manager, on what it delivers to the family net of all costs, not on the gross figure it prefers to present, because the fee load between the two is large, structurally driven and substantially negotiable. The family office that internalises this, that models net before committing, negotiates the management fee and the waterfall rather than the carry, includes the costs outside the headline, accounts for the compounding over the fund's life, and embeds the whole in its governance, will keep materially more of the returns its managers generate, at no additional risk, than one that benchmarks on gross. In a discipline where genuine edges are scarce, the net-of-fee edge is real, durable and within the family's own control, and capturing it is among the most reliable contributions an investor can make to its own long-term result. That, more than any single manager or allocation decision, is the enduring case for the discipline this paper has set out.

A closing word on the relationship between this discipline and trust. It might be feared that insisting on net measurement and negotiating fees hard would strain the trust on which a good manager relationship depends. The opposite is true, and the distinction matters. Trust in a manager should rest on its integrity, its process and its alignment, not on the investor's willingness to leave its own economics unexamined; an investor that understands and negotiates its terms is not distrusting the manager but discharging its own duty, and a manager worth partnering with understands and respects this. Indeed, the clarity that net-of-fee discipline brings to the relationship, an explicit, shared understanding of what each party earns, tends to strengthen rather than weaken trust, because it removes the ambiguity and the latent resentment that opaque or one-sided economics breed. The strongest, most durable manager relationships are those in which both parties understand and accept the economics, and the net-of-fee discipline is how the investor reaches that understanding. Far from being adversarial, it is the foundation of a partnership that can endure across the long horizons that private-markets investing, and family wealth, require.

7. CONCLUDING COMMENTS

This paper has set out how a family-office chief investment officer should benchmark a Gulf manager on a net-of-fee basis, and has argued that the fee load, large, variable and often overlooked, frequently determines whether an allocation is worthwhile. The findings are consistent across the propositions. The gap between gross and net is large enough that benchmarking on gross materially overstates what the investor keeps (Proposition 1). The same gross performance produces materially different net outcomes under different fee architectures, so a higher-gross manager can deliver a lower net result (Proposition 2). The management fee and the waterfall structure, not the headline carry rate, drive most of the net difference (Proposition 3). Costs outside the headline add materially to the total and must be included (Proposition 4). And a modest annual fee difference compounds into a large difference in net wealth, so net-return improvement through negotiation is among the most reliable, risk-free gains available (Proposition 5).

The implications for the family-office investor are direct and actionable. Model net before committing; compare managers on net, not gross; negotiate the management fee and the waterfall rather than the carry; insist on transparency and offset of the costs outside the headline; and recognise that the net-return improvement available through these steps, compounded over a fund's life, rivals the difference between a good and a mediocre manager, at no additional risk. An investor that adopts these disciplines will both measure what its Gulf managers actually deliver and improve it, while an investor that benchmarks on gross and negotiates the carry will misjudge its managers and forgo a large, certain gain.

The deeper message is that net-of-fee discipline is a form of humility and of respect for the distinction between what a manager earns and what the family keeps. The most reliable source of improvement in an investor's net return is not a better market view or a riskier bet but the part of the return it agrees to give away, which it controls through the terms it accepts. For the family-office CIO, whose mandate is precisely to maximise what reaches the family net of all costs, the benchmarking and negotiation disciplines set out here are not peripheral to the job but central to it, and the Gulf manager, like any other, should be judged and engaged on that basis.

The study is subject to limitations that also define its contribution. It is a methodological and framework paper supported by stylised illustration rather than an empirical study of Gulf managers' actual terms, which vary and are often confidential; the figures show the mechanics, not the market's actual fee levels. The relative importance of the fee terms, while robust across the scenarios considered, depends on assumptions about the gross return and hold period that an investor must tailor to the specific manager. These limitations point to the natural avenues for further research: empirical study of the fee structures prevailing among Gulf managers; measurement of the gross-to-net gap realised by regional funds; and analysis of how fee terms in the region compare with global norms. As that data emerges, the framework here can be applied to it. In the meantime, the contribution is the discipline itself: a way for the family-office investor to see, and to improve, what a Gulf manager actually delivers, which is the only number that ultimately matters to the family.

It remains to connect this paper to the wider body of work on Gulf allocation of which it forms part, so that its place is clear. The case for allocating establishes that the region merits institutional capital; the analysis of the currency peg explains why its risk is lower than its label implies; the benchmarking paper shows how to judge the allocation honestly against the investor's alternative; the first-allocation framework sets out how to diligence and execute a first commitment; and this paper completes the chain by showing how, manager by manager, the investor ensures it keeps a fair share of the returns its managers generate. Read together, these analyses describe a complete approach to the Gulf for the international and family-office investor, from the strategic decision to allocate, through the correct measurement of risk and return, to the diligence of the first commitment and the management of fees on every commitment thereafter. Net-of-fee benchmarking is the last link, and a fitting one with which to close the chain, because it returns the focus to the only number that ultimately matters: what the family keeps. An investor that has worked through the whole chain, and that applies the net-of-fee discipline to each of its Gulf managers, will have done everything within its control to convert the genuine opportunity the region offers into a result the family actually realises, which is, in the end, the whole purpose of the exercise.

DISCLOSURES

The author is an independent researcher and transaction advisor who advises institutional and family-office investors on matters including manager selection, fee negotiation and structuring related to the markets discussed in this paper, and may have professional or commercial interests in transactions involving the Gulf region. This paper is provided for information and educational purposes only; it does not constitute investment, tax or legal advice, an offer or solicitation, or a recommendation regarding any manager, fund or strategy. The figures presented are modelled and illustrative of fee mechanics, are not estimates of any manager's actual terms and are not forecasts, and should be independently verified. Readers should obtain advice appropriate to their own circumstances and jurisdiction before acting.

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About the Author

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APPENDIX A. BASE-CASE ASSUMPTIONS

Table 2. Parameters Used in the Net-of-Fee Framework

Parameter	Indicative value
Illustrative gross return	16% p.a. (2.20x MOIC)

Management fee	1.5% to 2.0%
Carried interest	15% to 20%
Hurdle rate	8% preferred return
Fund-level expenses	0.25% to 0.5% p.a.
Net MOIC, 2 and 20, deal-by-deal	~1.78x
Net MOIC, 1.5 and 15, whole-fund	~1.89x
Net MOIC, 1 and 10, whole-fund + offset	~1.97x
One-percent fee saving, 10-year cumulative	~20% of capital

Indicative figures illustrating fee mechanics; not estimates of any manager's terms or forecasts.

APPENDIX B. A NET-OF-FEE BENCHMARKING CHECKLIST

- Has a full gross-to-net model been built on the manager's specific terms?
- Are managers compared on net, not gross, returns?
- Is the management fee charged on committed or invested capital, and how does it step down?
- Is the waterfall whole-fund or deal-by-deal, and is the clawback robust?
- Is there a genuine hurdle, and how does the catch-up operate?
- What share of transaction and monitoring fees is offset against the management fee?
- Have all costs outside the headline been identified and included?
- Is there a most-favoured-nation clause?
- Has the compounding of fee differences over the fund's life been quantified?
- Is negotiation focused on the management fee and waterfall rather than the carry rate?

APPENDIX C. GLOSSARY

The following terms are used in this paper. Definitions are provided for the general reader and are not intended as formal definitions.

Carried interest (carry) The manager's share of fund profits, typically 15-20%, paid above a hurdle.

Catch-up A waterfall feature letting the manager collect a larger share of profit immediately above the hurdle until its overall carry share is restored.

Clawback An obligation on the manager to return excess carry if later losses mean it was overpaid.

Deal-by-deal waterfall A distribution structure paying carry as individual investments are realised, before the whole fund is in profit; favours the manager.

Fee load The total of all fees and carry, the gap between gross and net returns.

Fee offset The crediting of transaction and monitoring fees against the management fee, returning their benefit to the investor.

Gross return Return before fees and carry; the manager's headline number.

Hurdle rate The preferred return an investor must receive before the manager earns carry.

Management fee An annual fee, typically 1.5-2.0%, charged on committed then invested capital regardless of performance; the largest and most certain fee drag.

Monitoring fee A fee charged by the manager to portfolio companies for oversight; a cost outside the headline that may or may not be offset.

Most-favoured-nation clause A provision entitling an investor to terms at least as good as those granted to other investors.

MOIC Multiple on invested capital; total value divided by capital invested.

Net return Return after all fees and carry; what the investor actually keeps.

Transaction fee A fee charged by the manager on completing a deal; a cost outside the headline that may or may not be offset.

Waterfall The order in which fund cash flows are distributed between investor and manager.

Whole-fund waterfall A distribution structure (European) deferring carry until the investor has received its capital and preferred return across the whole fund; favours the investor.

Alignment The degree to which a manager's economic incentives match the investor's interests; revealed in part by the fee structure.

Asset-gathering A manager orientation prioritising growth in assets, and hence management-fee income, over investment performance.

Net-of-fee reporting standard A discipline of reporting all performance net of all fees and costs across an investment programme.

Preferred return Another term for the hurdle: the return an investor must receive before the manager earns carry.

Sustainable economics A fee structure that fairly compensates the manager while leaving the investor a fair share, supporting a durable relationship.

Blended fee load The average fee across all capital deployed with a manager, including lower-fee co-investment alongside fund commitments.

Co-investment Direct investment alongside a manager in a specific deal, usually with reduced or no fee and carry.

Gross-to-net bridge A decomposition showing how a gross return becomes a net one after each fee and cost.

Effective fee The total fees and costs as a share of capital, including those outside the headline; the true cost to the investor.

Performance persistence The tendency, stronger in private than public markets, for a manager's relative performance to repeat across funds.

Salience The cognitive prominence of a figure; gross returns are more salient than the diffuse, compounding fee load.

Controllable return Return improvement an investor can secure with certainty, such as through fee negotiation, as distinct from uncertain market or manager returns.

Effective cost The total cost of a manager relationship as a share of capital, including all fees, expenses and the blended effect of co-investment.

Emerging manager A newer manager building a track record, often offering more investor-friendly terms; common in younger markets.

Manager life-cycle The progression of a manager from first fund to established franchise, which shapes the terms it can command.

Founder-friendly terms Favourable economics offered by an emerging manager to attract early capital.

Governance (of fees) The embedding of net-of-fee assessment in an institution's policies so it endures beyond any individual.