Fund Economics and LP Alignment: Terms That Close First Closes in the GCC

A practitioner framework for the fees, carried interest and governance terms that win early commitments from Gulf limited partners and carry a fund to a credible first close.

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June 2026

ABSTRACT

Abstract. The terms of a private fund are usually presented as a matter of market convention, a two-and-twenty default that managers adopt and limited partners accept. This paper argues that, for a manager raising capital in the Gulf Cooperation Council in 2026, the terms are not a convention to be inherited but a design problem to be solved, and that the design of fee, carried interest and governance terms is the single most controllable determinant of whether a fund reaches a credible first close. The Gulf limited partner base, dominated by sovereign wealth funds, large family offices and a maturing set of institutional allocators, has become more sophisticated and more selective, and it reads terms as a signal of alignment rather than as a price to be haggled. The paper sets out a layered framework that separates the economic terms that determine who keeps the upside from the governance terms that determine who controls the partnership, and it shows how the two interact to produce, or to destroy, the alignment that anchor investors look for. It develops an alignment scorecard across six dimensions, compares the principal fee structures on a headline and an effective basis, contrasts the deal-by-deal and whole-fund distribution waterfalls, and traces the path from a gross fund return to the net return a limited partner actually receives. It then offers a negotiation map and a first-close playbook calibrated to Gulf conditions. The argument is practical throughout and is written for the placement-stage manager and the allocator who must read its terms. Nothing here is investment advice, and the figures are illustrative calibrations chosen to make the structure legible rather than forecasts or sourced data.

JEL Classification: G23, G24, G11, G34, F21, K22

Keywords: fund economics, limited partner alignment, carried interest, management fee, distribution waterfall, first close, GCC, sovereign wealth, family office, fund placement

1. INTRODUCTION

A manager who sets out to raise a private fund in the Gulf in 2026 faces a question that is easy to ask and hard to answer well. What terms should the fund offer. The temptation is to treat the question as already settled, to reach for the familiar two-and-twenty default, to copy the last documents that crossed the desk, and to move on to the supposedly more important work of pitching the strategy. That instinct is a mistake. The terms are not a formality that sits behind the strategy. For a first-time or early-stage fund raising from Gulf limited partners, the terms are a large part of the strategy, because they are the most direct statement a manager makes about whose interests the fund is built to serve.

This paper takes the terms seriously as a design problem. It argues that fund economics and the governance that surrounds them should be designed deliberately, calibrated to the specific limited partner base a manager is courting, and presented as evidence of alignment rather than defended as a price. The argument is sharpened by the conditions of the Gulf market as it stands in 2026. The capital is abundant and the allocators are more capable than they were even five years ago. Sovereign wealth funds and the larger family offices in the region now run substantial in-house teams, see a high volume of fund proposals, and compare terms across managers with a fluency that did not exist when the regional allocation programmes were younger. They are not passive recipients of market terms. They read terms closely, and they treat a manager's term sheet as a window into how the manager thinks about the partnership.

The central claim is simple to state. The terms that close first closes in the Gulf are the terms that demonstrate alignment between the manager and the limited partner, and alignment is a structural property of the whole package rather than a single generous concession. A low headline fee paired with a weak hurdle and a deal-by-deal waterfall is not alignment. A standard fee paired with a meaningful general partner commitment, a true preferred return, a whole-fund waterfall and a credible clawback is alignment, even if it looks more expensive on the cover page. The sophisticated Gulf allocator can tell the difference, and increasingly insists on it.

The paper is written for two readers. The first is the placement-stage manager, very often a spin-out from a larger institution or a first-time fund, who must decide what to offer and how to defend it. The second is the allocator, the family office principal or the institutional investment officer, who must read a set of proposed terms and judge whether they are fair, whether they are aligned, and whether they are worth negotiating. The framework is intended to be useful to both, because a negotiation goes better when both sides share a vocabulary for what is at stake.

Three caveats frame the analysis. First, this is a structural and educational document, not investment advice, and nothing in it is a recommendation to invest in, sponsor or transact any particular fund or instrument. Second, the numerical inputs used in the figures and tables are illustrative calibrations, chosen to make the mechanics legible and the comparisons clear, and they are neither forecasts nor sourced market data. Third, the analysis is general. Particular funds, strategies and jurisdictions differ, and the right terms for a Gulf private-credit fund are not the right terms for a Gulf venture fund. The framework is a way of reasoning, not a set of fixed answers.

The remainder of the paper proceeds as follows. Section 2 reviews the relevant literature on the principal-agent problem in fund management, on the economics of carried interest, and on the behaviour of sovereign and family-office allocators, and it draws from that literature a set of propositions. Section 3 sets out the data and method, which is an analytical framework illustrated with stylised calibrations. Section 4 develops the framework itself, separating the economic and governance layers and presenting the fee comparison, the waterfall analysis, the alignment scorecard and the net-to-limited-partner bridge. Section 5 turns to implementation and offers a negotiation map and a first-close playbook for the Gulf. Section 6 sets out the risks and limitations. Section 7 concludes.

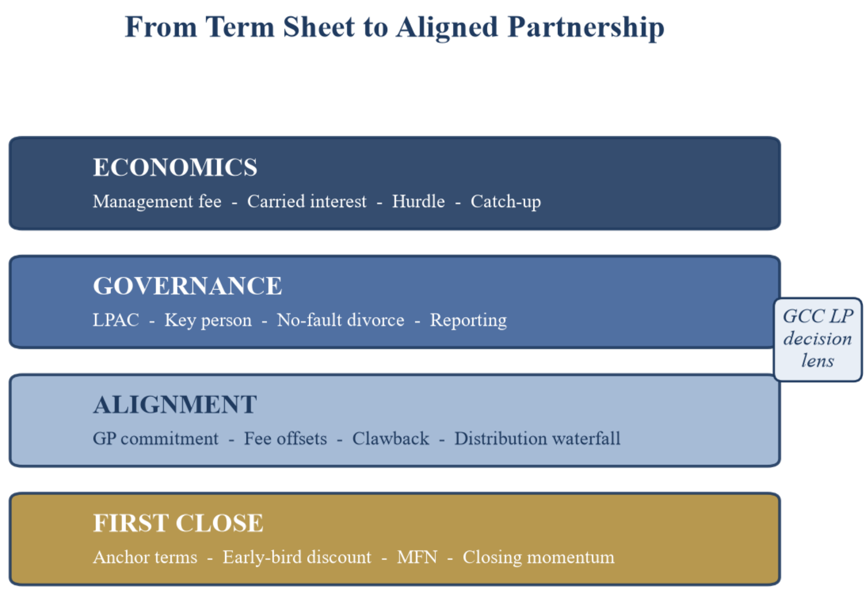

Figure 1. From Term Sheet to Aligned Partnership

Illustrative schematic. The fund's terms are read by a Gulf limited partner as four stacked layers. The economic layer sets who keeps the upside; the governance layer sets who controls the partnership; the alignment layer binds the two together through the general partner's own capital and the clawback; and the first-close layer adds the anchor and early-bird mechanics that build closing momentum. The figure is a schematic of the argument, not a model output.

2. LITERATURE REVIEW AND PROPOSITIONS

The design of fund terms sits at the intersection of three bodies of work: the theory of the principal-agent relationship as it applies to delegated investment management, the specific literature on the economics and incentive properties of carried interest, and the growing literature on how sovereign wealth funds and family offices behave as limited partners. Each contributes a piece of the argument.

2.1 The Principal-Agent Problem in Delegated Investment

The starting point is the classical analysis of the separation of ownership and control and the agency costs that follow from it. Jensen and Meckling (1976) framed the firm as a nexus of contracts and showed that when an agent manages capital on behalf of a principal, the contract must be designed to align the agent's incentives with the principal's interests, because the agent will otherwise rationally pursue private benefits at the principal's expense. A private fund is a near-perfect instance of the problem. The limited partners supply almost all of the capital and bear almost all of the loss, while the general partner makes the decisions and is compensated through a fee on assets and a share of the gains. The contract that governs this relationship, the limited partnership agreement and the economic terms it encodes, is the principal device for managing the agency cost.

The literature identifies two distinct distortions that fund terms must address. The first is effort and selection risk, the concern that the manager will not work hard enough or will take poor risks because the downside falls on the limited partner. Carried interest, a share of profits, is the standard response, because it gives the manager a stake in the upside. The second distortion, less often discussed but more dangerous in practice, is that a poorly designed incentive can encourage the wrong behaviour, such as excessive risk-taking or the premature crystallisation of gains. Gompers and Lerner (1999), in their foundational study of the economics of venture and buyout partnerships, showed that the structure of the compensation, and not merely its level, shapes manager behaviour, and that the details of the hurdle, the catch-up and the timing of distributions matter as much as the headline carry rate.

The practical lesson the agency literature offers the fund designer is that no single term aligns interests on its own. Alignment is produced by the interaction of several terms, and a generous-looking concession on one can be undone by a weakness on another. This is the theoretical root of the paper's central claim.

2.2 The Economics of Carried Interest and the Management Fee

A second literature examines the two components of fund compensation directly. Metrick and Yasuda (2010), in their detailed study of the economics of private-equity funds, decomposed the manager's revenue into the fixed component, principally the management fee, and the variable component, principally carried interest, and showed that for many funds the fixed component is a far larger share of expected lifetime compensation than managers and investors typically assume. Their finding has a direct consequence for alignment. A high management fee provides the manager with a substantial income regardless of performance, which weakens the incentive that the carry is meant to supply. The effective fee burden over the life of a fund, properly computed on committed and then invested capital across the investment and harvest periods, is the figure that matters, and it often diverges from the headline rate.

The literature on the hurdle rate, or preferred return, and the catch-up provision is more specialised but equally important. The hurdle ensures that the manager earns carried interest only after the limited partners have received a minimum return, conventionally around eight per cent, and the catch-up then allows the manager to receive a disproportionate share of profits above the hurdle until the agreed profit split is restored. The interaction of the two determines how much the limited partner truly keeps. A full catch-up at a high rate can substantially erode the protection the hurdle appears to provide, which is why sophisticated investors examine the catch-up as carefully as the hurdle itself.

The distinction between the deal-by-deal, or American, waterfall and the whole-fund, or European, waterfall is the third strand of this literature and the one with the largest practical consequence for limited partners. Under a deal-by-deal waterfall the manager receives carried interest as individual investments are realised, before the fund as a whole has returned capital, which exposes the limited partner to the risk that early winners pay carry while later losers leave the fund short. The whole-fund waterfall defers carried interest until the entire drawn capital has been returned with the preferred return, and is materially more protective. The clawback provision, which obliges the manager to return excess carried interest at the end of the fund's life, is the backstop, but the literature notes that a clawback is only as good as the escrow and the creditworthiness behind it.

2.3 Sovereign Wealth Funds and Family Offices as Limited Partners

The third literature concerns the specific allocators who dominate the Gulf capital base. Sovereign wealth funds have been studied extensively as long-horizon, return-seeking institutional investors that nonetheless carry distinctive governance and reputational sensitivities. Bernstein, Lerner and Schoar (2013) examined the investment behaviour of sovereign wealth funds and found that their decisions are shaped not only by financial return but by governance arrangements and by the involvement of the fund's leadership, a finding that bears directly on how such investors read fund terms. A sovereign allocator that intends to commit substantial capital cares about governance rights, reporting, and the manager's own commitment, because its mandate requires it to demonstrate prudence as well as to earn returns.

The family-office literature is younger but converging on a consistent picture. Gulf family offices have professionalised rapidly, many now run by investment teams recruited from global institutions, and they increasingly behave like institutional investors while retaining the speed of decision and the appetite for direct alignment that a family principal brings. The literature on family-office allocation emphasises the premium these investors place on co-investment rights, on fee economics that reward scale and early commitment, and on a personal alignment with the manager that a large institution may not require. For a manager raising in the Gulf, the family office is often the most natural anchor, because it can move quickly and values the alignment terms that the framework in this paper foregrounds.

A common thread across the sovereign and family-office literature is that these investors read terms as a signal. A manager that offers strong alignment terms is understood to be confident in its strategy and respectful of its investors, and a manager that clings to the most aggressive market terms is understood to be either inexperienced or extractive. In a market where capital is abundant and the binding constraint is trust, the signalling value of terms is large.

2.4 Synthesis and Propositions

Taken together, these literatures yield five propositions that the rest of the paper develops and illustrates.

Proposition 1. Alignment is a property of the whole terms package, not of any single term, and is produced by the interaction of the management fee, the carried interest, the hurdle, the waterfall, the general partner commitment and the clawback.

Proposition 2. The effective economic burden a limited partner bears differs systematically from the headline fee and carry rates, and the sophisticated Gulf allocator evaluates the effective figures rather than the headline.

Proposition 3. The choice of distribution waterfall, between the deal-by-deal and the whole-fund structures, is the single term with the largest consequence for limited-partner alignment, and the whole-fund structure is the stronger signal.

Proposition 4. Gulf limited partners, both sovereign and family-office, read terms as a signal of the manager's confidence and integrity, so the terms carry an informational value that exceeds their direct economic cost.

Proposition 5. The terms that secure an early anchor commitment, and so carry a fund to a credible first close, are disproportionately valuable, because closing momentum is itself a form of evidence that later investors rely upon.

3. DATA AND METHODOLOGY

This study is analytical and descriptive rather than empirical. It builds a framework for reasoning about fund terms and alignment, and it illustrates that framework with stylised calibrations rather than estimating parameters from a dataset. The choice is deliberate and is defended below.

3.1 The Alignment Framework

The framework has four components. The first is the layered model of the terms, set out in Figure 1, which separates the economic terms that determine the division of returns from the governance terms that determine the control of the partnership, and identifies the alignment mechanisms that bind the two. The second is the alignment scorecard, a six-dimension scoring of how well a given set of terms aligns the manager with its limited partners. The third is the fee and waterfall analysis, which compares the principal structures on a consistent basis and traces the effect of each on the net return a limited partner receives. The fourth is the first-close playbook, which translates the analysis into a sequence of practical steps for a manager raising in the Gulf.

3.1a What the Framework Does and Does Not Do

It is important to be clear about scope. The framework is a tool for reasoning about how a set of fund terms distributes economics and control between a manager and its investors, and for judging whether that distribution is aligned. It is not a pricing model that produces the correct fee for a given strategy, and it is not a valuation of any fund. It does not forecast fundraising outcomes, and the momentum curves in the figures are illustrative shapes rather than predictions. The scorecard scores are relative and illustrative, intended to show how the dimensions trade off, not to certify any real fund. Used within these limits, the framework helps a manager design terms and helps an allocator read them.

3.2 Assumptions and Their Justification

The stylised inputs used in the figures, the fee rates, the hurdle, the catch-up, the waterfall tiers, the gross return and the scorecard weights, are indicative calibrations chosen to lie within the range a practitioner would recognise as plausible for a mid-sized Gulf-focused private fund in 2026. They are set out in full in Appendix A. The purpose of fixing them is to make the comparisons concrete and the mechanics visible, not to assert that any particular number is the market rate. A reader who prefers different inputs can substitute them; the structure of the argument is unchanged.

The decision to proceed analytically rather than empirically reflects the nature of the subject and the audience. Fund terms are negotiated privately and are rarely disclosed in a form that supports robust estimation, particularly in the Gulf where the largest commitments are bilateral and confidential. A framework that a manager and an allocator can apply to their own situation is more useful, and more honest, than a regression on a thin and unrepresentative sample. The illustrative calibrations make the reasoning transparent without making false claims to empirical precision.

Table 1. Base-Case Assumptions for the Alignment Framework

Indicative, illustrative calibrations used to make the framework legible; not forecasts or sourced data. See Appendix A.

Parameter	Illustrative value	Role in the framework
Target fund size	USD 300m	Scale of a mid-sized Gulf-focused raise
Management fee (headline)	1.5% to 2.0%	Fixed compensation on commitments
Effective fee (life-of-fund)	1.1% to 1.6%	After step-downs and offsets
Carried interest	20% (30% in high-carry case)	Variable, performance-linked compensation
Preferred return (hurdle)	8%	Minimum LP return before carry
GP catch-up	Measured, not full	Share of profit above the hurdle
GP commitment	2% to 3%	Manager capital at risk; alignment signal
Fee offset	100% (well-aligned case)	Portfolio fees netted against management fee
Distribution waterfall	Whole-fund (base case)	Timing and conditionality of carry
Gross fund IRR	18%	Stylised portfolio return before terms
Investment period	5 years	Fee step-down trigger
First close target	Month 6	Anchor-led close milestone

4. THE ECONOMICS AND GOVERNANCE OF ALIGNED TERMS

This section develops the framework in the order of the propositions. It first separates the economic from the governance terms, then compares the fee structures, dissects the distribution waterfalls, presents the alignment scorecard, and traces the path from a gross fund return to the net return a limited partner keeps.

4.1 The Economic Layer: Fees and the Effective Burden

The economic layer of a fund's terms determines who keeps the returns, and its two principal elements are the management fee and the carried interest. The management fee is the fixed component, charged annually, conventionally on committed capital during the investment period and on invested or net asset value thereafter. The carried interest is the variable component, a share of profits, conventionally twenty per cent, paid to the manager after the limited partners have received their capital and a preferred return.

The crucial point, established by the literature and confirmed by practice, is that the headline management fee rate overstates neither nor understates the burden in a simple way; rather, the effective rate over the life of the fund, computed across the investment and harvest periods and net of any offsets, is the figure that matters, and it usually sits below the headline. A two per cent fee on committed capital during a five-year investment period, stepping down to a fee on invested capital during the harvest period, produces an effective life-of-fund rate materially below two per cent. A manager who understands this can offer a headline that anchors the negotiation while structuring step-downs and offsets that make the effective burden competitive. An allocator who understands it will not be distracted by the headline.

Figure 2 compares five fee structures on both a headline and an effective basis. The comparison shows two things. First, the gap between the headline and the effective rate is consistent across structures, which means the headline alone is an unreliable basis for comparison. Second, the structures that combine a moderate fee with a higher carry can be more aligned than those with the lowest headline fee, because they shift the manager's compensation towards performance. The lowest-fee structure is not automatically the most investor-friendly once alignment is taken into account, a point that the sophisticated Gulf allocator grasps and the unsophisticated one misses.

Fee offsets are the quiet lever that often matters most. Transaction fees, monitoring fees and directors' fees that a manager earns from portfolio companies can be offset against the management fee, in full or in part, and the offset percentage is a term that materially changes the economics without changing the headline. A hundred per cent offset is a strong alignment signal; a low or zero offset is a red flag that a careful investor will probe. Including a generous offset in a first-close term sheet is an inexpensive way to demonstrate alignment, because the fees in question may never materialise, while the signal is immediate.

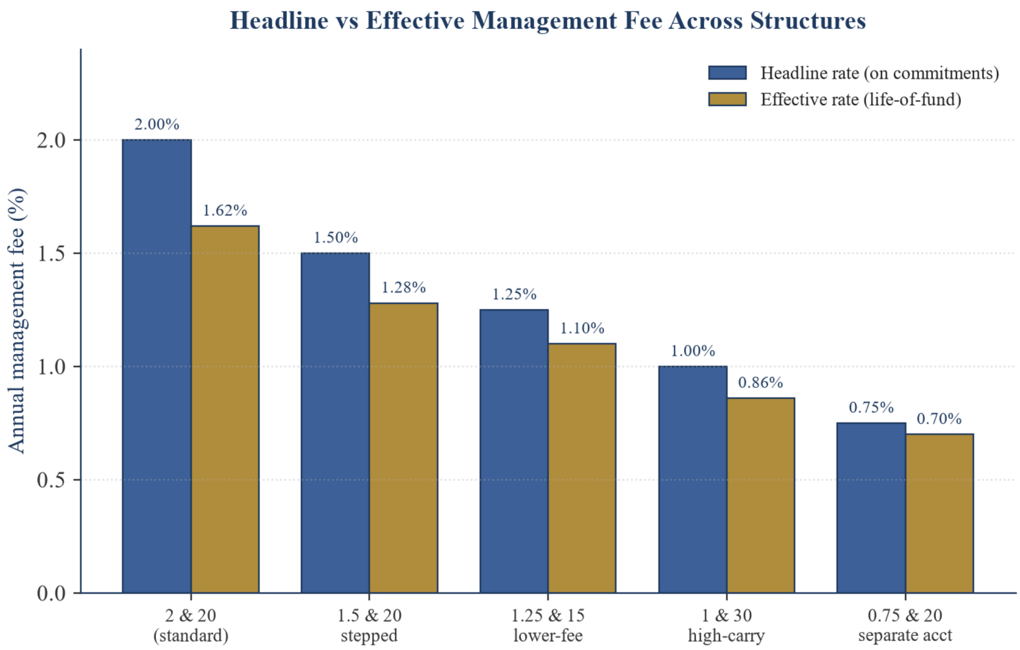

Figure 2. Headline vs Effective Management Fee Across Structures

Illustrative calibration. For each of five fee structures the figure contrasts the headline annual rate, charged on commitments, with the effective life-of-fund rate once step-downs from committed to invested capital and fee offsets are taken into account. The persistent gap between the two shows why the headline rate alone is an unreliable basis for comparing funds. Values are indicative, not sourced data.

4.2 The Distribution Waterfall: The Term That Matters Most

If a single term deserves the most attention from a Gulf limited partner, it is the distribution waterfall, because it governs the timing and the conditionality of the manager's carried interest and so determines how much of the headline alignment is real. The waterfall is the sequence in which distributions flow: first the return of drawn capital to the limited partners, then the preferred return or hurdle, then the general partner catch-up, and finally the agreed profit split, conventionally eighty per cent to the limited partners and twenty per cent to the manager.

The decisive choice is between the whole-fund and the deal-by-deal structures. Under the whole-fund, or European, waterfall, the manager receives no carried interest until the limited partners have received back all of their drawn capital plus the preferred return across the entire fund. This is strongly protective of the limited partner, because it ensures that the manager's profit share is genuinely a share of the fund's profit and not a payment on early winners that later losers might erase. Under the deal-by-deal, or American, waterfall, the manager receives carried interest as each investment is realised, which advances the manager's economics and exposes the limited partner to the timing risk that carry is paid before the fund as a whole is in profit. The clawback provision exists to correct this, but a clawback is a promise to return money already paid and spent, and it is only as reliable as the escrow that secures it and the balance sheet that stands behind it.

Figure 3 sets the two waterfalls side by side. For a Gulf first close, the whole-fund waterfall is both the more aligned structure and the stronger signal, and a manager that offers it communicates confidence that the whole fund will perform, not merely that a few early deals will. A manager that insists on a deal-by-deal structure should expect a sophisticated Gulf allocator to demand a substantial escrow, an interim clawback test, and a higher general partner commitment as compensation, and should be prepared for the family-office anchor to walk if those protections are refused.

The hurdle and the catch-up complete the picture. A true preferred return, paid before any carry, is a meaningful protection; a high catch-up that follows it can quietly undo much of that protection by routing the first profits above the hurdle disproportionately to the manager. The aligned design pairs a real hurdle with a measured catch-up, so that the limited partner keeps a substantial share of the early upside rather than surrendering it to a full and rapid catch-up. The Gulf allocator increasingly negotiates the catch-up rate explicitly, and a manager prepared to soften it signals that the hurdle is meant to protect the investor rather than to be neutralised.

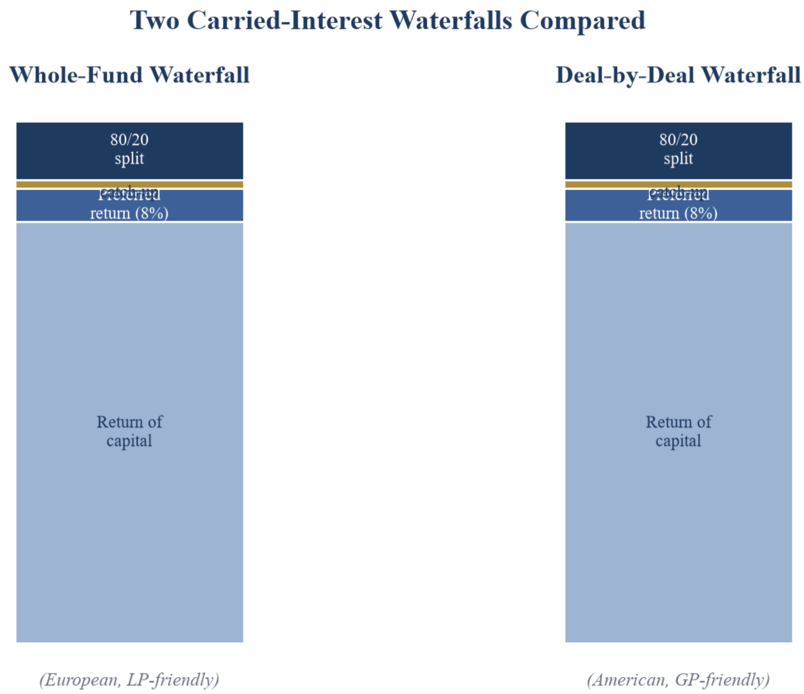

Figure 3. Two Carried-Interest Waterfalls Compared

Illustrative schematic. The whole-fund, or European, waterfall defers all carried interest until drawn capital and the preferred return have been paid across the entire fund, and is the more limited-partner-aligned structure. The deal-by-deal, or American, waterfall pays carry as individual deals are realised and relies on a clawback to correct over-distribution. The tiers shown are indicative, not sourced data.

4.3 The Governance Layer and the Alignment Scorecard

The governance layer determines who controls the partnership and how the limited partners protect themselves between the negotiation of terms and the return of capital, a period that for a closed-end fund runs to a decade or more. Its principal elements are the limited partner advisory committee, which gives the largest investors a voice on conflicts and key decisions; the key-person provision, which suspends the fund's investment activity if named individuals depart; the removal and no-fault divorce rights, which allow the limited partners to replace the manager in defined circumstances; and the reporting and transparency obligations, which determine what the investors can see. For a Gulf sovereign or institutional allocator, these governance terms are not secondary to the economics; they are a precondition for committing at scale, because the allocator's own mandate requires it to demonstrate that it can protect its capital.

The general partner commitment is the hinge between the economic and the governance layers, because it is the manager's own capital placed at risk alongside the limited partners. A commitment of one per cent of the fund is the historic convention, but the sophisticated Gulf allocator increasingly looks for more, and reads a larger commitment as the clearest possible evidence that the manager believes in the strategy and shares the downside. For a first-time manager raising in the Gulf, a meaningful general partner commitment, funded in cash rather than waived against management fees, is often the term that converts interest into a commitment, because it answers the alignment question more directly than any fee concession can.

Figure 4 brings the economic and governance terms together in an alignment scorecard across six dimensions: the general partner commitment, the fee offsets, the hurdle and catch-up design, the clawback and escrow, the governance and advisory rights, and the transparency and reporting standard. The scorecard makes the central proposition concrete. A well-aligned fund scores strongly across all six dimensions, while a poorly-aligned fund may score well on a headline dimension and badly on the rest, and it is the shape across all six, not the height on any one, that a sophisticated allocator evaluates. The scorecard is a diagnostic for the manager designing terms and a checklist for the allocator reading them.

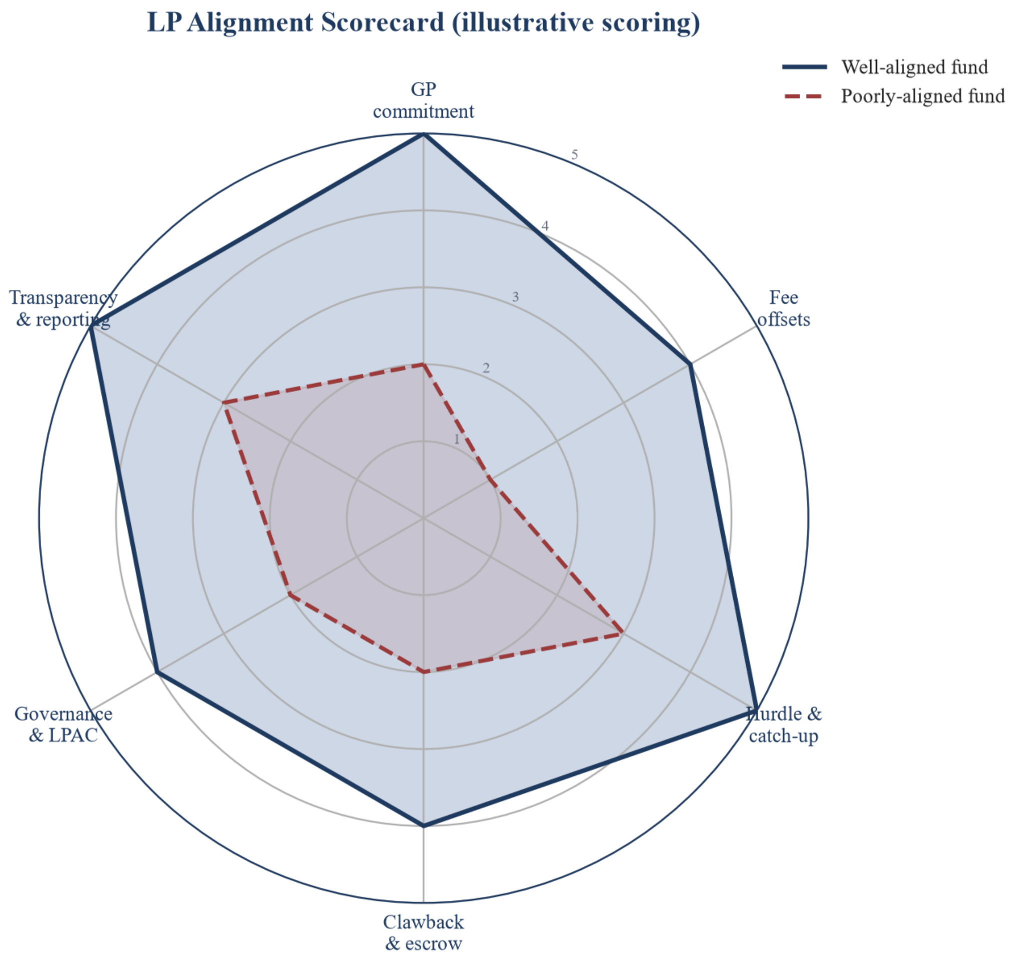

Figure 4. LP Alignment Scorecard

Illustrative scoring. Each axis scores a dimension of alignment from one to five for two stylised funds: a well-aligned fund that scores strongly across all six dimensions, and a poorly-aligned fund that is weak on most. The proposition the figure makes concrete is that alignment is the shape across all six dimensions, not the height on any single one. Scores are indicative, not an assessment of any real fund.

4.4 From Gross Return to Net-to-LP

The ultimate test of a set of terms, from the limited partner's point of view, is the net return that survives them. A fund's gross return is earned by the portfolio; the management fees, the carried interest and the fund expenses each take a slice, and what remains is the net return to the limited partner. The terms determine the size of each slice, and so the same gross performance can produce materially different net outcomes under different terms.

Figure 5 traces this bridge for a stylised fund. A gross internal rate of return is reduced by the management fees, then by the carried interest, then by the fund's operating expenses, to arrive at the net return the limited partner receives. The bridge makes visible what the headline terms obscure: that the cumulative effect of the terms on the net return is large, and that a difference of a few percentage points in the gross return can be entirely consumed or preserved by the design of the terms. For the Gulf allocator, the net-to-limited-partner figure is the only one that matters, and the framework's purpose is to show how the terms drive it.

Figure 6 then connects the terms to the fundraising outcome they are meant to produce. A fund offering well-aligned terms, with a meaningful anchor commitment secured early, reaches its first close faster and builds the momentum that draws later investors; a fund offering manager-favourable terms struggles to secure the anchor and builds slowly, if at all. The shapes are illustrative, but the mechanism is real and is the heart of the paper's practical claim. Terms are not merely a cost the manager bears; they are the instrument by which the manager earns the early commitments that make a fund viable.

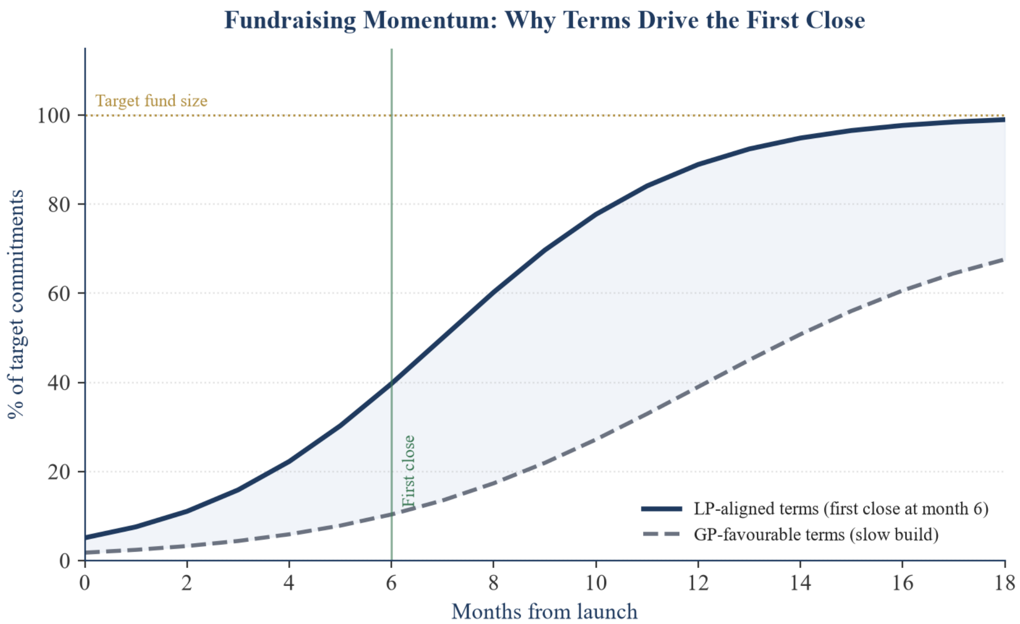

Figure 5. From Gross Return to Net-to-LP: The Cost of Terms

Illustrative calibration. The bridge starts from a stylised gross fund internal rate of return and deducts, in turn, the management fees, the carried interest and the fund expenses to arrive at the net return received by the limited partner. The size of each deduction is set by the terms, which is why the design of the terms, and not only the performance of the portfolio, determines the net outcome. Figures are indicative, not forecasts.

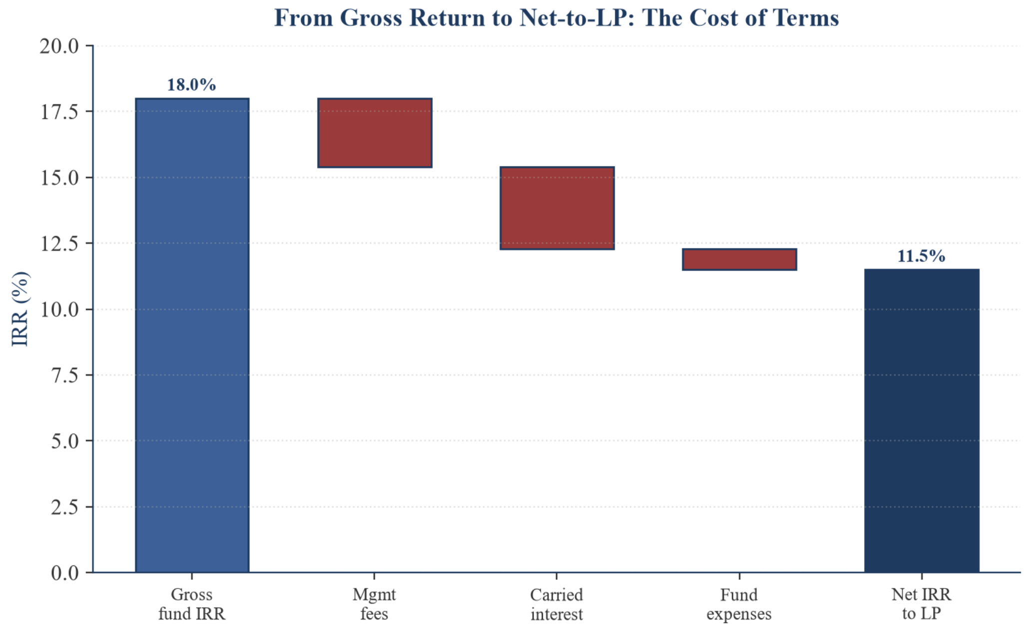

Figure 6. Fundraising Momentum: Why Terms Drive the First Close

Illustrative schematic. The curves contrast the path to a target fund size for a manager offering limited-partner-aligned terms, which secures an anchor and reaches a first close early, against a manager offering more aggressive terms, which builds slowly. The shapes are stylised to make the mechanism visible and are not predictions of any particular raise.

5. IMPLEMENTATION: A FIRST-CLOSE PLAYBOOK FOR THE GULF

The framework becomes useful when it is turned into a sequence of decisions a manager can act on. This section sets out a negotiation map that sorts the terms by how much they should be defended and how much they can be conceded, and a ninety-day to sixteen-week playbook for carrying a fund to a credible first close in the Gulf.

5.1 The Negotiation Map

Not all terms are equally negotiable, and not all carry the same weight for the limited partner. A manager who treats every term as equally precious will exhaust goodwill on terms that do not matter, while a manager who concedes indiscriminately will give away alignment that anchors value. Figure 7 sorts the principal terms into four quadrants by their negotiability for a first-close investor and their economic impact on the limited partner.

The terms a manager should defend are those that protect the manager's own viability and that a sophisticated allocator does not in fact want weakened, such as a real hurdle, a meaningful general partner commitment and a credible clawback, because conceding these would signal weakness rather than generosity. The terms a manager can win goodwill by offering early are the high-impact, highly-negotiable ones, such as a fee discount for anchor investors, co-investment rights and a most-favoured-nation clause, because these are valued highly by Gulf investors and cost the manager little when offered to the first close. The terms to monitor are the lower-impact governance items such as reporting cadence and expense caps, which should be set at a credible standard but rarely make or break a commitment. The terms to concede, where pressed, are the negotiable, lower-impact items such as the catch-up rate, the closing window and the scope of side letters, which can be given to secure an anchor without damaging the core alignment.

The discipline the map enforces is to know in advance which terms are which, so that the negotiation with the anchor investor moves quickly and the manager never trades away alignment to win a point that did not matter. For a Gulf family-office anchor that values speed, the ability to concede the right terms quickly is itself a competitive advantage.

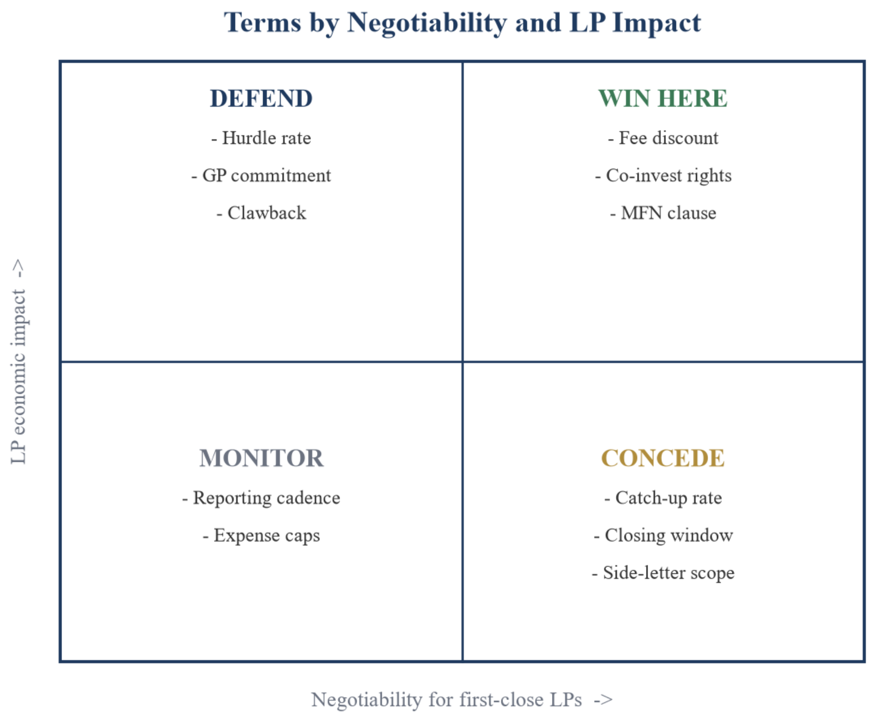

Figure 7. Terms by Negotiability and LP Impact

Illustrative schematic. The principal fund terms are sorted into four quadrants by how negotiable they are for a first-close investor and how much they affect the limited partner's economics. The map is a tool for deciding in advance which terms to defend, which to offer early as goodwill, which to monitor and which to concede under pressure. The placements are indicative and strategy-dependent.

5.2 The Anchor and the First Close

The first close is the moment a fund becomes real, and in the Gulf it is most often a single anchor investor, very frequently a family office or a sovereign-linked institution, that makes it possible. The anchor takes the greatest risk, committing before the fund has momentum, and it is reasonable and customary that the anchor receives the best terms, whether a fee discount, an enhanced co-investment allocation, a seat on the advisory committee or a most-favoured-nation right that guarantees it the benefit of any better term offered to a later investor. The art of the first close is to make the anchor's terms attractive enough to secure the commitment while preserving enough for later investors that the fund can still scale.

The most-favoured-nation clause deserves particular attention in the Gulf, because the largest allocators expect it and because mishandling it can stall a raise. An over-broad clause can force the manager to extend every concession to every investor and so eliminate the flexibility needed to close later commitments; a well-drafted clause tiers the benefits by commitment size, so that the largest investors receive the best terms and smaller investors receive a defined subset. Getting this structure right before the first close, rather than renegotiating it afterwards, is one of the marks of a manager who understands the Gulf market.

Closing momentum is itself a form of evidence. A fund that has secured a credible anchor and reached a meaningful first close has demonstrated that at least one sophisticated investor has done the diligence and is satisfied, and later investors rely on that signal. This is why the terms that secure the anchor are disproportionately valuable, and why a manager should be willing to be generous at the first close in ways that it need not be later. The early generosity buys momentum, and momentum raises funds.

5.3 A Sixteen-Week Playbook

Figure 8 sets out a stylised playbook from launch to first close, organised into four phases. In the first phase the manager identifies a small number of credible Gulf anchors and drafts a term sheet that is aligned by design rather than copied from a template. In the second phase the manager calibrates the terms to the chosen anchor, settling the fee and carry, framing the most-favoured-nation structure, and preparing the concessions it is willing to make. In the third phase the documentation is prepared, the limited partnership agreement, the private placement memorandum and the due-diligence questionnaire, and the composition of the advisory committee is agreed with the anchor. In the fourth phase the anchor signs, the first close is declared, and the manager carries that momentum to the wider market.

The playbook is a template, not a guarantee, and real raises rarely run as cleanly. Its value is in the sequencing: that the term sheet is designed before the marketing begins, that the anchor is identified early and its terms calibrated deliberately, and that the documentation is ready when the anchor is ready to sign. A manager that follows this sequence is far more likely to reach a credible first close than one that begins to think about its terms only when an investor asks.

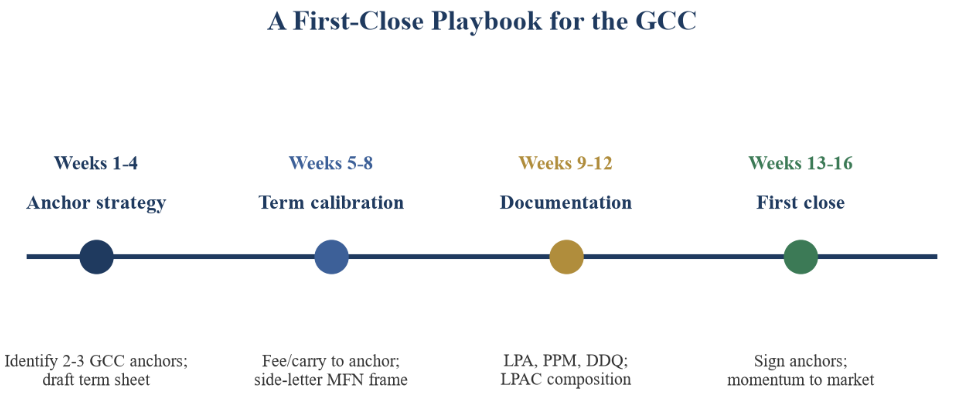

Figure 8. A First-Close Playbook for the GCC

Illustrative schematic. The path from launch to first close is organised into four phases over roughly sixteen weeks, from anchor strategy and term-sheet design, through term calibration and documentation, to the signing of the anchor and the declaration of the first close. The timeline is indicative and will vary with strategy, fund size and investor; it is a template for sequencing, not a schedule.

6. RISKS, CAVEATS AND LIMITATIONS

The framework is a way of reasoning about fund terms, and like any framework it has limits that an honest account must state.

The first limitation is that the right terms depend on the strategy, and the framework does not prescribe them. A private-credit fund with a steady contractual yield can and should carry different economics from a venture fund chasing a small number of outsized outcomes, and a real-assets fund with a long hold and a stabilised income differs again. The hurdle that is generous for one strategy is punitive for another, and the waterfall that suits a self-liquidating credit portfolio is wrong for a buy-and-build equity strategy. The framework sorts the terms and shows how they interact; it does not set the levels, which must be calibrated to the strategy.

The second limitation is that alignment, however well designed, does not substitute for performance. The best terms in the world will not save a poor strategy or a weak team, and a manager that wins a first close on alignment must still deliver the returns. The framework is about raising capital fairly and quickly, not about earning it; those are different problems, and a manager that confuses them will raise a fund it cannot justify.

The third limitation concerns the calibrations. The figures in this paper are illustrative, chosen to make the mechanics legible, and they are not market data. A manager should establish the actual current market terms for its strategy and geography before drafting a term sheet, and an allocator should benchmark a proposed set of terms against genuine comparables rather than against the stylised numbers used here. The framework provides the reasoning; the numbers must come from the market.

The fourth limitation is regulatory and jurisdictional. The structuring of a fund and its terms is shaped by the law of the domicile and by the regulation of the centres through which it is marketed, including the regimes of the Dubai International Financial Centre and the Abu Dhabi Global Market in the Gulf and the offshore domiciles commonly used alongside them. Tax, enforceability of the clawback, the validity of side letters and the marketing rules all vary by jurisdiction, and a term that is standard in one venue may be unenforceable in another. Specialist legal and tax advice is indispensable, and nothing in this paper is a substitute for it.

The final and most important caveat bears repeating. This paper is a structural and educational analysis, not investment advice, and not a recommendation to invest in, sponsor or transact any fund or instrument. The illustrative figures are not forecasts. Any actual decision to launch or to commit to a fund requires its own diligence, its own professional advice and its own assessment of the specific facts.

7. CONCLUSION

The terms of a private fund are too often treated as a convention to be inherited rather than a design to be chosen. This paper has argued that, for a manager raising capital from the sophisticated and abundant limited-partner base of the Gulf in 2026, that habit is a costly mistake. The terms are the most direct and the most controllable statement a manager makes about whose interests the fund is built to serve, and the Gulf allocator reads them as exactly that.

The central lesson is that alignment is structural. It is not produced by a single generous concession but by the interaction of the management fee, the carried interest, the hurdle, the catch-up, the distribution waterfall, the general partner commitment and the clawback, and a weakness in any one can undo apparent generosity in another. The whole-fund waterfall, the real hurdle with a measured catch-up, the meaningful general partner commitment and the credible clawback together signal an alignment that a low headline fee on its own cannot. The sophisticated Gulf allocator evaluates the effective economics and the shape of the alignment across all dimensions, not the headline of any one.

The practical pay-off is the first close. Terms that demonstrate alignment secure the anchor commitment, and the anchor commitment builds the momentum that carries a fund to a credible first close and then to scale. A manager that designs its terms deliberately, sorts them by what to defend and what to concede, and offers the right early generosity to its anchor, will raise faster and on better terms than one that thinks about its economics only when an investor asks. In a market where capital is plentiful and trust is the binding constraint, the terms are not the price of admission. They are the argument.

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ABOUT THE AUTHOR

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APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the illustrative calibrations used in the figures. They are indicative inputs chosen to make the framework legible for a mid-sized Gulf-focused private fund, and they are neither forecasts nor sourced market data.

Parameter	Illustrative value	Role in the framework
Target fund size	USD 300m	Scale of a mid-sized Gulf-focused raise
Management fee (headline)	1.5% to 2.0%	Fixed compensation on commitments
Effective fee (life-of-fund)	1.1% to 1.6%	After step-downs and offsets
Carried interest	20% (30% in high-carry case)	Variable, performance-linked compensation
Preferred return (hurdle)	8%	Minimum LP return before carry
GP catch-up	Measured, not full	Share of profit above the hurdle
GP commitment	2% to 3%	Manager capital at risk; alignment signal
Fee offset	100% (well-aligned case)	Portfolio fees netted against management fee
Distribution waterfall	Whole-fund (base case)	Timing and conditionality of carry
Gross fund IRR	18%	Stylised portfolio return before terms
Investment period	5 years	Fee step-down trigger

First close target	Month 6	Anchor-led close milestone

APPENDIX B. FIRST-CLOSE TERM CHECKLIST

The following checklist distils the framework into the questions a manager should answer before taking a term sheet to a Gulf anchor, and that an allocator should ask when reading one.

Economics. Is the headline fee competitive, and is the effective life-of-fund rate, after step-downs and offsets, clearly understood and defensible. Is the carried interest set at a level appropriate to the strategy. Are fee offsets generous and clearly stated.

Waterfall. Is the waterfall whole-fund or deal-by-deal, and if deal-by-deal, are the escrow, the interim clawback test and the general partner commitment strong enough to compensate. Is the hurdle a true preferred return, and is the catch-up measured rather than full and rapid.

Alignment. Is the general partner commitment meaningful and funded in cash. Is the clawback credible and secured by escrow. Does the package score strongly across all dimensions of the alignment scorecard, not merely on the headline fee.

Governance. Is there a limited partner advisory committee with real authority. Are the key-person and removal provisions adequate. Is the reporting standard one a sophisticated institutional allocator will accept.

First close. Is a credible anchor identified, and are its terms, including any fee discount, co-investment right and most-favoured-nation clause, calibrated to secure the commitment while preserving room to scale. Is the most-favoured-nation structure tiered by commitment size. Is the documentation ready for signing.

APPENDIX C. GLOSSARY OF KEY TERMS

Carried interest. The share of a fund's profits, conventionally twenty per cent, paid to the manager after the limited partners have received their capital and the preferred return.

Catch-up. The provision that, once the preferred return has been paid, allows the manager to receive a disproportionate share of further profits until the agreed overall profit split is restored.

Clawback. The obligation on the manager to return carried interest that, at the end of the fund's life, is found to have exceeded the manager's true entitlement.

Deal-by-deal (American) waterfall. A distribution structure under which the manager receives carried interest as individual investments are realised, before the whole fund has returned capital.

First close. The point at which a fund accepts its initial commitments and begins to invest, before the fundraising is complete.

General partner commitment. The manager's own capital invested in the fund alongside the limited partners, the clearest direct signal of alignment.

Hurdle (preferred return). The minimum return, conventionally around eight per cent, that the limited partners must receive before the manager earns any carried interest.

Most-favoured-nation clause. A right that entitles an investor to the benefit of any more favourable term granted to another investor, often tiered by commitment size.

Whole-fund (European) waterfall. A distribution structure under which the manager receives no carried interest until the limited partners have received all drawn capital plus the preferred return across the entire fund.