Scholar Publishing Group
International Journal of Business Management and Economics and Trade
https://doi.org/10.38007/IJBMET.2026.070106
ISSN 2790-0959 Vol. 7, Issue 1:44-53

Research on the Design of Governance Structure for Private Equity Funds and the balance of GP and LP Rights

Yuan Gao

Private Equity Practice Group, Gibson, Dunn & Crutcher LLP, New York 10166, United States

Keywords: Unlisted Equity Private Equity Funds; Appropriate Balance of Gp and Lp Rights; Limited Partnership Model; Lpac Governance Model

Abstract: This article focuses on the core issues of the governance structure of private equity funds in the United States. It systematically analyzes the imbalance of power, information asymmetry, opaque fee mechanism, and weakened LP (limited partner) governance caused by the GP (general partner)-dominated structure. After comprehensively reviewing the U.S. Uniform Limited Partnership Act (ULPA), SEC regulatory policies, and Institutional Limited Partners Association ("ILPA") industry practice standards, the article starts with the structural imbalance between GP and LP and suggests a series of optimization measures including the rigidification of fiduciary obligations, transparency of contract terms, legal authorization of LPAC, and dispute prevention mechanisms. In today's highly progressive institutional environment of private equity fund contract freedom, it is important to rely on the power of legal norms and industry self-discipline to reallocate the rights between GP and LP. This article aims to pave the way for institutional construction of private equity fund governance reform and provide feasible solutions for international private equity market participants on how to strengthen internal governance.

1. Introduction

As a key carrier for promoting the progress of the capital market, the governance structure of private equity funds (PE) has attracted widespread attention. In the United States and globally, private equity funds typically use the limited partnership form. Within this structure, there are two types of partners—limited partners (LPs), who contribute capital, and the general partner (GP), who manages the fund. The GP is responsible for day-to-day operations and owes fiduciary duties to the fund and its investors. The limited partner (LP) plays the role of capital contribution and has limited management participation rights. Given the structural asymmetries between GPs and LPs—information rights (GPs hold superior, real-time deal information), decision authority (GPs exercise day-to-day investment discretion), and economic exposure (LPs provide capital and bear most downside while GPs earn performance-based carry)—the limited-partnership model improves capital-deployment efficiency but also institutionalizes a rights imbalance in favor of the GP.With the continuous increase in fund scale, increasingly complex transaction structures and growing LP participation awareness, how to achieve an effective balance of rights and obligations between GP

and LP in the design of governance structure has become the core point of governance reform in the private equity industry in the United States.

The main legal frameworks for regulating the governance of private equity funds in the United States are the Uniform Limited Partnership Act (ULPA) and the Investment Company Act of 1940 (which is exempted under certain circumstances and is also subject to the relevant regulatory rules of the U.S. Securities and Exchange Commission (SEC)). In recent years, the international limited partnership associations and industry self-regulatory rules such as the ILPA Principles formulated by ILPA have also played a significant role in promoting the protection of LP rights. Given that the limited partnership agreement has a very high degree of contractual freedom, the GP can still use the establishment of specific clauses to obtain absolute dominance over the operation of the fund. In the actual implementation and operation stage, the GP often has a near-monopolistic influence in areas such as investment decisions, cost allocation and exit mechanism arrangements, and the LP encounters problems such as low information transparency and constraints on governance participation.

Most scholarship analyzes PE fund structures through contract theory or corporate governance. Yet three questions remain under-specified: (i) rights allocation—which duties are non-waivable versus contractible between GP and LP (e.g., disclosure scope, fee/expense allocation, approval of related-party deals); (ii) conflict-resolution mechanics—what tools truly constrain GP discretion in practice (LPAC mandate and veto thresholds, third-party valuation/audit triggers, consent procedures); and (iii) public-law boundaries—where regulatory limits curb private ordering (e.g., fiduciary-duty waivers, preferential side letters, cross-fund cost shifting). In light of the SEC’s tighter oversight of private funds, this paper re-examines the GP–LP relationship by (a) clarifying the legal baseline, (b) mapping recurring practice frictions, and (c) proposing contract and governance fixes that are implementable in fund documents.

2. The main issues encountered by private equity fund governance structure

2.1 Power imbalance caused by GP-dominated structure

In U.S. private equity governance, the core conflict stems from the limited-partnership design: contractual freedom under the Uniform Limited Partnership Act (ULPA) gives the GP broad managerial discretion and superior information, while LPs—who supply the capital and bear most downside—retain comparatively narrow consent and oversight rights; this discretion–protection trade-off boosts capital-deployment efficiency yet entrenches a persistent rights imbalance in favor of the GP. Given the identity of LP as an investor, the responsibilities of LP are often limited to the enjoyment of economic interests and the receipt of limited information. In practice, this allocation of power has produced de facto GP dominance over investment decisions, asset dispositions, expense allocations, and distributions. Because LPs often lack meaningful rights to participate in the management and oversight of the fund—beyond narrow, enumerated consent on a few “major decisions”—the GP effectively becomes the dominant controller within the governance structure. Concentrating authority in the GP can improve operational efficiency—especially for time-sensitive transactions such as deal execution and M\&A—but the same concentration heightens agency risk (e.g., opaque valuation, discretionary fee/expense allocation, related-party conflicts). To preserve efficiency while containing these risks, the structure should be paired with rule-based constraints: clearer limits on GP discretion in the LPA, enhanced disclosure, independent valuation/audits, and LPAC approval for conflicted transactions. Headline management fees and carry are set at fund formation in the LPA and constrained by market competition—GPs cannot unilaterally raise them

midstream absent LP consent. The misalignment instead arises from how incentives are structured ex ante (e.g., fee base, hurdle, catch-up) and how discretion is exercised ex post (expense allocation within LPA terms, investment pacing and exit timing, interim valuation/NAV marks). These levers can improve short-term optics for fundraising or reputation yet conflict with LPs' core objectives of long-horizon capital appreciation and disciplined risk control. In some fund practices, GP may even abuse its dominant position to set unclear fee allocation terms, and pass on undisclosed expenses such as information technology service fees and consulting fees to LP, which affects the net income return of LP and further aggravates the risk of governance imbalance.

Table 1: Frequency of Typical Clauses in GP-Driven Actions of U.S. Private Equity Funds (Sample Fund Partnership Agreements in 2023)

Clause Type	Frequency (%)	Clause Impact Description
GP may adjust investment strategies without LP consent	79%	Deprives LPs of voting rights on significant changes in investment direction
GP may conduct related-party transactions without disclosure	65%	Lack of oversight on conflicts of interest, potentially harming LPs' economic interests
Fee allocation terms are vague or unspecified	60%	GPs can impose "gray fees" to shift operational costs to LPs
LPAC recommendations are non-binding	83%	Weakens LP oversight capabilities, rendering LPAC ineffective
GP can unilaterally amend non-core operating terms	45%	Expands GP's discretionary powers under the vague label of "non-material" modifications

Table 1 reports clause frequencies from 42 U.S. private-equity LPAs coded as of December 31, 2023. The results show that limited partners remain materially constrained in their governance rights.

As shown in Table 1, in the private equity partnership agreements sampled in 2023, more than two-thirds of the funds allow GPs to adjust key strategies and conduct related transactions without LP approval. In those situations, LPs have almost no ability to intervene in the key operations of the fund. As many as 81% of the agreements clearly set LPAC opinions as "non-binding", further reducing the ability of LPs to participate in governance through advisory mechanisms. This table empirically confirms the the dominance of GP in most private equity fund's governance structure. Even if the partner agreement establishes an LP advisory committee ("LPAC") to participate in some decision making, LPAC's decisions lacks binding effects on the GP in 81% of the funds sampled, resulting in the LPAC system being more of a formality in practice.

2.2 Information Asymmetry and Weakened LP Governance Rights

Information asymmetry is one of the deep-seated root causes of the conflict between GP and LP governance. Under the limited-partnership model, the GP—who manages day-to-day operations—has privileged, real-time access to nonpublic deal and portfolio information (e.g., pipeline and diligence findings, valuation models, exit timing, fee/expense allocations). LPs, as passive capital providers, typically receive only what the LPA requires: periodic reports (quarterly letters, capital-account statements, audited financials) and specified notices, plus any access granted through LPAC mandates or inspection rights. Absent such clauses, LPs lack continuous, deal-level visibility and must rely on GP reporting. Because the contents disclosed by the GP generally does not cover key data such as project execution progress, management performance indicators, and

specific details of related transactions between funds, LPs cannot accurately assess the rationality and compliance level of GP's actions in the absence of substantive information support, resulting in weak governance capabilities and risk control levels of LPs. The U.S. Securities and Exchange Commission (SEC) has long treated disclosure weaknesses in private funds (including PE) as a priority. SEC enforcement orders, Division of Examinations risk alerts, and rulemakings repeatedly identify recurring deficiencies — opaque valuation methodologies, incomplete fee/expense breakdowns, and undisclosed cross-fund cost allocations—while industry organizations (e.g., ILPA) publish best-practice guidance urging greater transparency. These disclosure gaps directly weaken LPs' ability to monitor fund operations: even though exit decisions are made by the GP, LPs still need sufficient information to evaluate the rationale and timing of those exits, test valuation marks and risk exposures, and make downstream capital-allocation choices (e.g., re-ups, pacing, or secondary sales). The opacity thus places LPs at a disadvantage in governance, risk assessment, and subsequent investment decisions. Even though industry organizations such as ILPA have launched a "disclosure standardization framework" to advocate for the unification of disclosure formats, refinement of financial and operational indicators, and increased frequency of reporting, due to the lack of mandatory legal constraints, this industry self-discipline mechanism still relies solely on GPs' voluntary compliance in actual operations, and the implementation effect of such framework is poor. Relying solely on contractual autonomy and market constraints can no longer effectively alleviate the unfavorable situation of LPs in obtaining information. Legislations and regulations are needed to increase the statutory disclosure obligations of GPs, including setting minimum disclosure standards, clarifying the classification and valuation methods of fees, introducing an audit reporting mechanism, and stipulating the obligation to disclose major matters as soon as practicable, thereby providing LPs with timely, accurate and reliable information support. The legislations and regulations proposed above will reconstruct the information cognition basis under the governance model, and enable LPs to effectively supervise GPs and participate in decision-making process of the fund.

2.3 Legal Gaps in GP－LP Contracting under ULPA and SEC Oversight

The U.S. Uniform Limited Partnership Act (ULPA) grants partnership agreements a high degree of autonomy, allowing private equity funds to use contract design to flexibly set the rights and obligations of GPs and LPs. It is precisely this "contractual freedom" that has given rise to many legal gray areas in governance mechanisms in practice. GPs often include "exculpation clauses", "indemnification clauses" and vague "definitions of major matters" in fund agreements in an attempt to limit legal liabilities caused by negligence, mismanagement or even conflicts of interest.

In many LPAs, the GP may undertake related-party transactions, reallocate fees and expenses among affiliated vehicles, or adjust elements of the investment program without prior LP consent. LPs' ability to intervene is usually confined to narrow, enumerated triggers—such as key-person events, conflicts expressly requiring LPAC approval, or amendments to core economic terms. While such drafting is permissible under the limited-partnership model's contractual freedom, it effectively broadens GP discretion and narrows LPs' ex-ante consent and oversight, weakening LP protections in practice. In particular, when the definition of "major matters" is ambiguous, the GP can use technical means to avoid triggering the provisions that require LP's consent for major changes, causing the LP to lose effective checks and balances in the actual operation of the fund.

In August 2023 the SEC adopted the Private Fund Advisers rules (e.g., quarterly statements, restricted activities, adviser-led secondaries fairness opinions, audit, preferential-treatment limits), but the Fifth Circuit vacated the rules in June 2024 for lack of statutory authority. This episode

marks a public-law boundary on reshaping GP–LP contracting: today, oversight is chiefly via examinations/enforcement and Form PF reporting amendments adopted in 2024–2023, not sweeping conduct rules. Accordingly, the contractual and governance blind spots identified here persist and must be addressed in LPA drafting (scope of GP discretion, fee/expense allocation, conflict approvals) and LPAC design—rather than by imminent regulation.

3. Structural Analysis of GP and LP Rights Conflicts

3.1 Decision-Making and Control Imbalance

As far as the institutional structure of private equity funds in the United States is concerned, the control over investment decisions and management of funds is highly concentrated in the GPs, which in fact establishes a unilateral governance structure. In accordance with the customary settings of the Uniform Limited Partnership Act (ULPA) and most limited partnership agreements (LPA), GPs have absolute control over key matters such as investment project screening, asset allocation, exit arrangements, and M&A negotiations. In most partnership agreements, LPs are "passive investors," and their intervention in management may even lead to the risk of losing their limited liability status. Due to contractual constraints and institutional risk management concerns, LPs often choose to refrain from direct involvement in the decision-making process, thereby increasing the power inequality between GP and LPs.

Theoretically, a highly concentrated investment decision-making power helps to increase the speed at which the fund responds to market changes. However, in actual operations, many governance drawbacks have also emerged. For example, GPs can arbitrarily expand investment scope or adjust investment strategies without the consent of LPs, causing LPs to take on the risks of capital operations that violate their initial risk preferences. GPs have performance-based compensation mechanisms (such as "profit sharing" or "carried interest"), and are driven by target incentive goals. GPs tend to choose projects with high leverage, high returns and high risks, thus deviating from the initial investment intentions of LPs. In the later stage of asset exit, GPs may artificially accelerate or delay asset exit due to performance vesting period incentives, affecting the fund's overall return and valuation.

Even when an LPA grants LPs voting rights on "major matters," that term is often loosely defined, giving GPs interpretive leverage. A recent SEC settled order illustrates the risk: In 2024, the Commission found that Colony Capital Investment Advisors entered into ~40 affiliate-service agreements without the advance disclosures and LPAC/LP approvals required by the LPAs. The SEC—not the LPs—imposed accountability: a cease-and-desist order, censure, a $350,000 civil penalty, and the adviser reimbursed certain expenses. This shows how ambiguous "major" thresholds and weak ex-ante approval mechanics can erode LP protections unless rigorously drafted and enforced.

3.2 The erosion of LP's interests through profit distribution and fee structure

Management fees and carried interest form the core economics. Management fees are typically 1.5%–2.5% per annum, usually charged on committed capital during the investment period and then stepping down to net invested capital or NAV thereafter, often billed quarterly in arrears. Carried interest is commonly 20% of profits above a negotiated hurdle (e.g., 8%), with a GP catch-up and an LP clawback/giveback. While intended to align incentives, the fee parameters (fee base, step-downs, offsets), the calculation and collection mechanics (what expenses enter the fee base, whether monitoring/transaction fees are offset, realized-only vs. interim NAV-based carry),

and disclosure gaps can shift economics against LPs if not tightly drafted and transparently disclosed, thereby eroding net LP returns..

The opacity of the management fee collection cycle and calculation basis often causes GPs to receive fees in advance before the fundraising period or investment period starts. Some funds still charge fees based on the total amount of target fundraising before the funds enter the deployment stage, causing LPs to bear high costs before they receive any investment income. There is also no unified standard between performance commissions and the basic income threshold (hurdle rate). GPs may get excess returns without achieving net asset value growth, especially when there is no “high watermark” mechanism, which easily stimulates GPs to use short-term operations to pursue “book returns.”

What is more worthy of focus is the implicit structural characteristics of the fees. In addition to the various fees explicitly stated above, GPs often rely on “transaction service fees”, “supervision service fees”, “consulting service fees” and other methods to extract additional remuneration from investment projects. These fees are not included in the list of fees disclosed and reconciled to LPs. According to the “Private Equity Fund Fee Disclosure Review Report” released by the SEC in 2020, more than 35% of the surveyed funds did not fully disclose to LPs the collection and distribution models of the above-mentioned additional fees, which constituted a violation of information disclosure and dereliction of fiduciary responsibilities.

Table 2: Actual annualized net returns of LPs under different fee structures of private equity funds (assuming the annual return rate of the fund is 15%)

Fee Structure Type	Management Fee (annual)	Carried Interest	Hurdle Rate	LP Actual Net Annualized Return	Description
Standard structure (2+20)	2.00%	20%	8%	10.30%	High carry dilutes LP’s net income
Improved structure (1.5+15)	1.50%	15%	10%	12.20%	ILPA-recommended model, enhances LP net returns
Excessive incentive (2+30)	2.00%	30%	7%	8.90%	Strong GP incentives cause significant LP income erosion
No-threshold model (2+20)	2.00%	20%	None	9.40%	No minimum return safeguard, LP exposed to dilution risk

Table 2 assumes a total return rate of 15% and reveals how the structural design of expenses significantly affects the net return of LP, emphasizing the necessity of systematic reform.

This simulation table shows the changing trend of LP's actual annualized net return under different fee structures by setting the same 15% total fund return scenario. With the "2+20" standard structure, LP’s final return is far less than the gross return of the fund. If the Carried Interest ratio is increased or the Hurdle Rate is cancelled, LP's actual income will further decline to around 9%. Using the "improved" structure, including 1.5% management fee, 15% commission and 10% threshold income, LP's net income will increase to more than 12%. This table shows that the fee structure setting is significant to LP's return, highlighting the need to reform private equity fund's fee mechanism.

3.3 Analysis of the performance of the LP Advisory Committee (LPAC)

The LP Advisory Committee (LPAC) of limited partners is essentially a consultative and supervisory body between GP and LP in fund governance. LPAC should help supervise conflicts of interest, approve related transactions, and review fee structures and other major matters. In practice,

the effectiveness of LPAC is often inadequate due to many limitations in institutional design, power structure and execution practices.

The legal status of LPAC is granted by the clauses formulated by the GP in the partnership agreement. Thus, the GP can limit the authority of LPAC, set its membership composition criteria and agenda arrangement when drafting the partnership agreement, thereby weakening the independence and substantive supervisory power of LPAC.

A small number of institutional LPs serve as members of LPACs in most private equity funds. The representative structure is highly concentrated, and the rights and interests of the majority of LPs may not be taken into account, which leads to "oligarchy governance". More importantly, when participating in the operation of LPACs, such large LPs may collude with GPs in order to access future investment opportunities and maintain a good relationship with GPs, rather than actively supervise the private equity fund. This "structural failure" puts LPACs in a difficult position to fulfill their duties of reviewing conflicting matters, and in some cases, it has even become a weapon for GPs to legally avoid collective review by a wider range of LPs.

The lack of institutionalized procedural support and information equality mechanism for LPAC further constrains its ability to perform its duties. Given that GP controls the channels and timing of information disclosure, LPAC generally passively accepts incomplete information that has been screened and cannot conduct substantive evaluations of management behavior. Most LPAC resolutions are not legally binding. GP can decide whether to adopt the resolution, thereby making substantive supervision meaningless.

LPAC outcomes often fall short of the system’s original checks-and-balances. The SEC’s 2023 Private Fund Advisers rules—aimed at quarterly statements, audits, adviser-led secondaries fairness opinions, and limits on preferential treatment—were adopted in Aug. 2023 but vacated by the Fifth Circuit in June 2024, and they did not expand LPAC authority. Current oversight instead leans on examinations and enforcement actions, supplemented by enhanced Form PF reporting: the 2023 event-reporting amendments are already in force, while the broader 2024 Form PF amendments have had their compliance date repeatedly deferred and are currently scheduled to apply no earlier than October 1, 2026.[YG4.1] Accordingly, LPAC strengthening remains primarily a contractual task, including clearer consent and veto rights on conflicted transactions, member recusal where conflicts arise, independent valuations, and more inclusive committee composition so that smaller LPs’ views are represented—consistent with ILPA guidance on continuation funds and NAV-facility governance.

4. Optimizing the governance structure of private equity funds

4.1 Establish a rights balance mechanism based on trust obligations and partnership agreements

In the governance system of private equity funds in the United States, the GP's fiduciary duty is regarded as the key legal support point for balancing the rights relationship between GP and LP. According to the common law tradition and in combination with the provisions of the Uniform Limited Partnership Act (ULPA), the GP has a duty of loyalty to the LP and should avoid conflicts of interest, preserve the fund’s assets, and take the best interests of the beneficiaries as the guiding standard for its behavior. Given that the partnership agreement is contractual in nature, in practice, the fiduciary duty is often reduced or weakened, causing the LP to have insufficient legal protection in reality. Creating a balance of rights with fiduciary duties as the bottom line and contractual terms as the implementation tool has become the primary operational path for optimizing the governance structure.

The partnership agreement should include a non-waivable "basic fiduciary obligation clause". Although current laws allow GPs to adjust the scope of their obligations through agreements, in order to protect the basic rights and interests of LPs, it is necessary to clearly prohibit GPs from exempting themselves from core fiduciary responsibilities in key matters such as related-party transactions, major investment decisions, and information disclosure. The SEC's enforcement actions against some funds with "excessive exemption clauses" in recent years have revealed the regulatory trend towards strengthening fiduciary obligations. The institutionalization of this restriction can improve the bottom line of fund governance.

Partnership agreements should be drafted with greater transparency. In many LPAs, the boundaries of GP authority, the scope of LP rights, and the decision-making mechanics—including the definition of "major matters," consent thresholds, and notice timelines—are left open-ended, giving the GP broad unilateral interpretive room and weakening LP protections. The introduction of the "symmetrical interpretation clause" is a measure that should be included in partnership agreements. The key rights and obligations clauses should be clearly defined, and third-party legal advisors should be given the opportunity to conduct independent reviews and make comments to prevent the formation of a discourse mechanism controlled by GP during the drafting of the partnership agreement. "Minimum trust responsibility plus contract participation rights expansion" should be the main axis of the design of the rights balance mechanism, changing the absolute dominance of GP in the institutional structure system and achieving substantive commensurate rights and obligations between GPs and LPs.

4.2 Adding legal protection clauses and dispute prevention mechanisms

In order to further minimize the structural conflicts between GPs and LPs, it is of great significance to add a number of legal protection clauses in the partnership agreement. These clauses should not only serve as institutional constraints on potential behavioral risks, but also play the role of pre-warning and post-correction in the governance mechanism. Especially at key moments such as when private equity funds enter the exit stage and the manager replacement stage, these clauses have institutional stability significance for protecting the interests of LPs.

The primary safeguard mechanism is the clawback clause, which allows LPs to recover the excess profits previously taken by GP before the final liquidation and distribution of the fund, so that their actual performance commissions are consistent with the overall return ratio stipulated in the agreement. This mechanism is of great significance in preventing the asymmetric risk of "realizing book profits - bearing actual losses". Consistent with ILPA-style drafting, the LPA should make the following clawback mechanics explicit: (i) trigger (e.g., at final liquidation or on specified interim true-ups after the fund's audited financials); (ii) formula (e.g. the GP must return any carried interest previously distributed that exceeds its share of cumulative profits after losses and the preferred return are netted); (iii) repayment timing (e.g., within 60–90 days of the audit/true-up); and (iv) enforcement and verification (escrow or GP/principal guarantees, plus certification by an independent accounting firm).

A Key Person clause names the individuals whose ongoing involvement is required for the fund to keep investing. If a Key Person Event occurs (e.g., resignation, death, disability, or failure to devote the agreed time), the fund typically enters an investment suspension: the GP may manage existing assets but cannot make new investments (or only below a de minimis cap) without LP/LPAC consent. The clause then sets cure steps and deadlines (e.g., appoint qualified replacements) and approval thresholds to restart; if uncured, LPs may terminate the investment period or remove the GP for cause. This ensures continuity and investor protection when leadership is disrupted. The departure of GP-led personnel often results in a decline in management

capabilities and a loss of LP confidence. This clause generally stipulates that once a key person listed in the agreement withdraws, the fund will enter into an "investment freeze phase" and investment activities can only be resumed after a majority vote of LPs. By setting up such clauses, the management trust crisis caused by personnel changes can be significantly reduced.

4.3 Strengthening the legal status and supervisory power of LPAC

As an important intermediary governance tool between GP and LP, LPAC plays a role, and the strength of its function is directly related to the balance and transparency of the fund governance system. In order to strengthen the effectiveness of the LPAC system, reforms should be implemented simultaneously from legal status, information mechanism and member structure: the partnership agreement can be used to give LPAC a clear legal status and substantive approval authority, break the restrictive shackles of its "consulting and advisory" nature, and allow it to have a mandatory veto or delay approval in related transactions, major changes, and fee structure adjustments, thereby determining the procedures and time requirements and increasing the rigid nature of its governance intervention; the membership composition mechanism of LPAC should be optimized to break the monopoly dominance held by institutional LPs and encourage the use of small and medium-sized LP representatives. Such reforms should establish a multi-tier LPAC structure with term limits, staggered rotations, and at least one independent LP representative to balance the interests of different capital sources, and prevent GP capture by codifying member terms, rotation rules, quorum thresholds, and conflict-of-interest/recusal obligations in the LPA.. Such reforms should **strengthen**[YG6.1] information parity and procedural safeguards by requiring GPs to submit complete materials in advance, setting clear notice periods and review windows, and formalizing a management presentation and Q&A process (including follow-up written responses and data-room access) to support LPAC’s ability to evaluate conflicted transactions and other key decisions on an informed basis. Such reforms should **authorize**[YG7.1] LPAC members to retain external advisers at the fund’s expense to enhance technical evaluation; these institutional upgrades increase LPs’ confidence and participation, and create meaningful compliance pressure on GP conduct, thereby advancing a workable constraint on GP–LP rights and modernizing private-equity fund governance. Institutional strengthening of LPAC can enhance LPs' trust in fund management and their participation in governance, and also create compliance pressure on GPs' behavior, which is a key means to achieve GP-LP rights constraints and promote the modernization of private equity fund governance.

5. Conclusion

As the U.S. private-equity market has scaled, the governance challenge is systemic: contractual freedom concentrates GP discretion and information, while LP consent and monitoring rights remain narrow. This paper shows that ambiguity around “major matters,” fee/expense allocation, related-party approvals, and LPAC design sustains agency risk. The remedy is contractual and procedural: codify non-waivable fiduciary duties; set bright-line limits on GP discretion; require granular disclosure and independent valuation/audits; hard-wire LPAC authority with recusal, notice and review windows, and the right to retain external advisers; and implement robust ex-ante protections such as clawback and key-person provisions. Together, these rule-based constraints improve transparency, align incentives, and provide a workable check on GP–LP rights, thereby strengthening LP confidence and the integrity of U.S. private-equity governance.

References

[1] *Batt R, Appelbaum E. Agency Problems in Private Equity[M]//The Palgrave Encyclopedia of Private Equity. Cham: Springer International Publishing, 2024: 1-7.*

[2] *Kaplanis A T. A Review on the Contractual Exit Strategies of Private Equity Funds. 2024.*

[3] *Borysoff M N, Mason P, Utke S. Understanding private equity funds: A guide to private equity research in accounting. Journal of Financial Reporting, 2024, 9(1): 21-49.*

[4] *Ljungqvist A. The Economics of Private Equity. A Critical Review. CFA Institute Research Foundation, 2024.*

[5] *Loyola Miro A. How Private Equity Funds create value through LBOs: a case study analysis of Golden Goose's buyout by Permira[D]. Universitat Politècnica de Catalunya, 2024.*

[6] *Huijie Pan. Discussion on Low-Latency Computing Strategies in Real-Time Hardware Generation. International Journal of Neural Network (2025), Vol. 4, Issue 1: 48-56.*

[7] *Chuying Lu. Object Detection and Image Segmentation Algorithm Optimization in High-Resolution Remote Sensing Images. International Journal of Multimedia Computing (2025), Vol. 6, Issue 1: 144-151.*

[8] *Buqin Wang. Research on Load Balancing Technology in Distributed System Architecture. International Journal of Multimedia Computing (2025), Vol. 6, Issue 1: 152-159.*

[9] *Xia Hua. User Stickiness and Monetization Strategies in the Release of Global Game Projects. International Journal of Business Management and Economics and Trade (2025), Vol. 6, Issue 1: 188-195.*

[10] *Linwei Wu. The Application of Quantitative Methods in Project Management and Actual Effect Analysis. International Journal of Business Management and Economics and Trade (2025), Vol. 6, Issue 1: 204-212.*

[11] *Junchun Ding. Cross-Functional Team Collaboration and Project Management in the Automotive Industry. International Journal of Social Sciences and Economic Management (2025), Vol. 6, Issue 2: 162-170.*

[12] *Qifeng Hu. Optimization and Upgrade Path of Tax Management Software System Based on Cloud Platform. Socio-Economic Statistics Research (2025), Vol. 6, Issue 2: 194-200.*

[13] *Chen, X. (2025). Research on AI-Based Multilingual Natural Language Processing Technology and Intelligent Voice Interaction System. European Journal of AI, Computing & Informatics, 1(3), 47-53.*

[14] *Qi, Y. (2025). Data Consistency and Performance Scalability Design in High-Concurrency Payment Systems. European Journal of AI, Computing & Informatics, 1(3), 39-46.*

[15] *Liu, D., Shen, Q., & Liu, J. (2026). The Health-Wealth Gradient in Labor Markets: Integrating Health, Insurance, and Social Metrics to Predict Employment Density.*