

Review

Governance Structures and Checks and Balances in Private Equity Funds: Practice, Problems, and Improvement Paths

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Abstract: Private equity funds play an increasingly indispensable role in global capital formation, industrial upgrading, and corporate innovation. As fund sizes expand and transaction complexities escalate, robust governance design has emerged as a critical focal point for both fund managers and institutional investors. Within the prevalent limited-partnership model, the general partner or private fund manager typically exercises comprehensive control over strategic investment decisions and daily operational management. Consequently, limited partners must predominantly rely on established contractual rights, rigorous information disclosure protocols, advisory committee mechanisms, and structured exit arrangements to safeguard their financial interests. This review provides a comprehensive, business-oriented analysis of private equity fund governance, emphasizing the intricate checks and balances required to oversee fund management authority effectively. With a specific focus on the evolving regulatory and dynamic market environment in China, the study systematically evaluates the primary governance participants, prevailing practical governance models, and contemporary structural challenges. Furthermore, it proposes targeted improvement strategies and details their practical implementation across the entire fund life-cycle. The findings suggest that effective fund governance should not merely aim to restrict or weaken managerial discretion. Rather, it must proactively clarify the allocation of powers and responsibilities, optimize strategic decision-making procedures, and significantly enhance transparency through comprehensive information disclosure. Ultimately, mitigating conflicts of interest and strictly aligning fund governing documents with contemporary regulatory frameworks are essential steps toward fostering sustainable investor protection and long-term fund performance.

Keywords: private equity; fund governance; investor protection; information disclosure; conflict of interest; regulatory compliance

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1. Introduction

Private equity funds play a crucial role in facilitating the flow of capital to support corporate growth, industrial transformation, and technological advancements. In China, these funds have emerged as a vital component of the multi-tiered capital market, reflecting their growing significance in the financial ecosystem. This expansion underscores the need for robust governance frameworks: investors demand professional and efficient management, while regulatory authorities and market participants emphasize the importance of compliance, transparency, and effective risk management practices. By ensuring adherence to these principles, private equity funds can maintain their credibility and foster sustainable development within the broader financial landscape [1].

Recent developments in regulatory frameworks have heightened the relevance of this topic. New supervisory measures have clarified the operational scope of private funds, defined the responsibilities of fund managers and custodians, and established guidelines for fundraising and investment activities [2]. Additionally, updated provisions for venture capital funds and enhanced supervision mechanisms aim to strengthen

accountability and operational integrity. These measures reflect a broader effort to align private equity fund practices with evolving market expectations and regulatory standards. By emphasizing transparency and structured oversight, these changes seek to mitigate risks and promote a stable investment environment conducive to long-term growth.

In this context, the article explores strategies for private equity funds to balance professional management efficiency with the need to address potential governance challenges. These include avoiding undue centralization of decision-making authority, minimizing potential biases in management practices, and ensuring equitable access to information among stakeholders. The discussion begins by examining the theoretical and institutional foundations of fund governance, followed by an analysis of prevalent governance models. It then identifies key challenges and proposes actionable pathways for improvement, tailored to align with practical business needs and regulatory expectations [3].

2. Governance Structure and Checks and Balances in Private Equity Funds

2.1. Meaning of Governance Structure in Private Equity Funds

The governance structure of a private equity fund encompasses the institutional framework that defines the allocation of rights, responsibilities, decision-making processes, supervisory mechanisms, and communication channels among the key stakeholders involved in the fund. These stakeholders typically include the fund manager or general partner, limited partners, the fund entity itself, investment decision-making bodies, advisory or supervisory committees, custodians, auditors, legal advisers, and regulatory authorities [3]. This structure is designed to ensure clarity in roles and responsibilities while facilitating efficient operations and oversight within the fund.

In the widely adopted limited-partnership model for private equity funds, the general partner or fund manager is primarily responsible for managing the fund and executing investment strategies, whereas limited partners contribute capital and engage through predefined mechanisms such as voting rights, consent procedures, advisory roles, reporting obligations, and exit strategies. This model is considered efficient due to the necessity for professional expertise and swift decision-making in investment activities. However, it also introduces agency risks, as the general partner holds significant control over information and operational decisions, while the limited partners bear the financial outcomes. The core governance challenge lies in balancing the need for investment efficiency with the imperative to minimize agency costs and safeguard investor interests [1].

This governance issue is addressed within the legal framework in China. The Partnership Enterprise Law delineates the roles of general partners and limited partners, emphasizing the active management responsibilities of general partners and the restricted involvement of limited partners in daily operations. Additionally, laws governing securities investment funds and private equity funds underscore principles such as fiduciary duties, prudent management practices, segregation of fund assets, risk mitigation, transparency in information sharing, and robust investor protection mechanisms [4]. These legal provisions aim to establish a structured and secure environment for private equity fund operations, ensuring both efficiency and accountability.

2.2. Meaning of Checks and Balances over Fund Management Powers

Checks and balances over fund management powers are designed to ensure that the roles and responsibilities of Limited Partners (LPs) and General Partners (GPs) remain distinct and effective. LPs are not intended to take over the GP's role in daily investment management, as such actions could lead to inefficiencies, delays in decision-making, and unclear accountability. Instead, the purpose of these mechanisms is to establish safeguards that promote transparency, adherence to agreed procedures, and the proper evaluation of fund performance and associated risks. By implementing structured

oversight, fund governance can achieve a balance that protects the interests of all parties while maintaining operational efficiency [5].

Common mechanisms for ensuring effective oversight include LP approval rights for significant decisions, advisory committee reviews to address potential concerns, investment committee protocols, and restrictions on transactions involving related parties. Additional measures such as provisions for key personnel, suspension or termination of the investment period, mechanisms for replacing managers, fund custody arrangements, annual audits, and regular reporting further strengthen governance. Clear rules regarding valuation, distribution, transfer, and liquidation processes are also essential [6]. These tools are most effective when detailed comprehensively in the limited partnership agreement and other governing documents, ensuring clarity and consistency in their application (As shown in Table 1).

Table 1. Main Participants in Private Equity Fund Governance

Governance participant	Main function	Governance concern
GP / private fund manager	Fundraising, investment management, portfolio management, exit execution, reporting.	Power may be too concentrated if decision procedures, conflicts, and disclosure obligations are unclear.
LPs / investors	Capital contribution, major-matter consent, advisory committee participation, supervision through information rights.	Investor protection may be weak if LPs receive information too late or lack enforceable consent rights.
Investment committee	Reviews or approves proposed investments and exits according to agreed authority.	May become a formality if dominated by the manager or if review standards are vague.
Advisory or supervisory committee	Reviews conflicts of interest, valuation issues, related-party transactions, waivers, and other major matters.	Effectiveness depends on independence, access to information, meeting frequency, and clear authority.
Custodian, auditor, legal/compliance advisers	Support asset safety, audit, compliance review, recordkeeping, and external supervision.	External providers may be ineffective if their scope of work is narrow or their findings are not reported to investors.

3. Practical Governance Models in Private Equity Funds

3.1. The GP-LP Limited-Partnership Model

The GP-LP model is widely regarded as an effective structure for private equity funds due to its ability to separate professional management from capital contribution. In this model, the general partner (GP), often a professional manager or management team, assumes responsibility for identifying investment opportunities, conducting thorough due diligence, negotiating favorable investment terms, overseeing portfolio companies, and planning exit strategies. Limited partners (LPs), on the other hand, primarily contribute capital and typically do not engage in the day-to-day management of the fund. However, LPs can safeguard their interests through carefully crafted partnership agreements and other related fund documentation, which outline their rights and obligations within the fund structure. This separation of roles allows for a streamlined operational framework while ensuring that LPs retain mechanisms to oversee and protect their investments [7].

In practice, a comprehensive limited partnership agreement and associated fund documents are essential for defining key operational and governance aspects of the fund.

These documents should address critical matters such as the scope of investments, duration of the investment period, overall fund term, mechanisms for capital calls, distribution priorities, management fees, carried interest arrangements, provisions for key-person events, rules governing related-party transactions, co-investment guidelines, valuation methodologies, schedules for information disclosure, protocols for LP meetings, advisory committee roles, procedures for manager replacement, liquidation processes, and mechanisms for resolving conflicts. The clarity and precision of these rules play a pivotal role in minimizing potential disagreements throughout the fund's lifecycle. By establishing well-defined covenants and contractual controls, funds can effectively address agency challenges and allocate control rights in a manner that promotes operational efficiency and reduces friction among stakeholders.

3.2. Decision-Making Committees and Advisory Mechanisms

Many funds establish an investment committee to enhance the quality and robustness of decision-making processes. It is essential that such committees are not merely symbolic entities but are structured to provide substantive governance value. The composition of the committee should include individuals with diverse expertise to ensure balanced perspectives. Additionally, the rules governing voting procedures, recusal in cases of potential bias, and the documentation of project materials and meeting minutes must be meticulously outlined. Clear delineation of the committee's approval authority is also critical to avoid ambiguity. If the committee's role is limited to merely endorsing decisions already made by the manager, its potential to contribute to effective governance is significantly diminished. Instead, the committee should serve as an independent body that critically evaluates proposals and ensures alignment with the fund's objectives.

Advisory or supervisory committees, such as those formed by limited partners (LPs), play a pivotal role in addressing areas requiring oversight and ensuring adherence to the fund's governing framework. These committees are particularly valuable in reviewing matters such as related-party transactions, extensions of the fund's duration, valuation methodologies, allocation of resources across funds, and waivers of specific restrictions [4]. Their primary function is not to select investment projects directly but to provide an additional layer of scrutiny in areas where the manager's interests may diverge from those of the investors. To operate effectively, these committees require timely access to comprehensive information and a well-defined process for organizing meetings and documenting decisions. This ensures transparency and accountability, fostering trust among stakeholders and reinforcing the integrity of the fund's operations.

3.3. Information Disclosure and External Supervision

Information disclosure serves as the cornerstone for enabling effective investor oversight. Timely and accurate reporting mechanisms are essential for ensuring that limited partners can exercise their voting rights and advisory roles effectively. Without access to comprehensive and reliable information, the ability of investors to make informed decisions is significantly compromised. Private equity funds must implement a structured approach to categorizing reports, including regular updates, major-event disclosures, audit summaries, valuation analyses, capital-call notifications, distribution statements, and liquidation reports. Such categorization ensures clarity and consistency in communication, fostering trust and transparency between fund managers and investors [6]. Furthermore, adherence to standardized disclosure practices enhances the overall governance framework, ensuring that all stakeholders are adequately informed about the fund's operations and financial health.

Private equity funds are increasingly expected to adopt robust information-disclosure practices to align with evolving regulatory standards. This includes the preparation and dissemination of periodic reports, interim updates for significant developments, and detailed disclosures related to liquidation processes. By adhering to agreed-upon protocols regarding the content, channels, methods, and frequency of disclosures, fund managers can ensure compliance while promoting transparency. Such measures not only facilitate investor oversight but also strengthen the credibility of the

fund in the broader financial ecosystem. Clear and consistent reporting practices enable limited partners to monitor fund performance effectively, assess risks, and make informed decisions regarding their investments. The emphasis on structured and timely communication underscores the critical role of information disclosure in fostering accountability and trust within the private equity sector [8].

External service providers play a pivotal role in enhancing the governance of private equity funds, provided their responsibilities are clearly defined and effectively integrated into the fund's operational framework. Custodians contribute to safeguarding fund assets, ensuring that they are managed in accordance with established protocols. Auditors enhance the reliability of financial statements, providing investors with confidence in the fund's financial integrity. Legal advisors, on the other hand, offer critical oversight by reviewing related-party transactions and ensuring compliance with regulatory requirements. However, it is important to recognize that external supervision serves as a complement rather than a substitute for internal governance mechanisms. A well-governed fund must establish clear decision-making processes, enforce accountability among management, and maintain robust internal controls to ensure operational efficiency and ethical conduct. The synergy between internal governance and external oversight is essential for achieving sustainable growth and maintaining investor confidence [9].

4. Main Problems in Current Fund Governance Practice

4.1. Imbalance between Management Authority and Investor Protection

One of the primary challenges observed in fund governance is the over-centralization of decision-making authority within the management structure. In many cases, the general partner (GP) or fund manager retains significant control over critical aspects such as investment selection, information dissemination, valuation processes, arrangements involving related parties, and the timing of exits. While a certain degree of centralized professional management is essential for the effective operation of private equity funds, issues arise when partnership agreements fail to incorporate robust mechanisms to safeguard investor interests. These mechanisms could include clearly defined consent rights for investors, transparent review processes for sensitive decisions, comprehensive reporting obligations, and enforceable remedies in cases of significant breaches of fund agreements. Without such safeguards, the balance between managerial authority and investor protection becomes skewed, potentially leading to governance inefficiencies and reduced trust among stakeholders.

Another significant issue pertains to the ambiguous delineation of rights and responsibilities within fund documentation. While some agreements appear to grant limited partners (LPs) broad rights, such as the ability to oversee or participate in major decisions, these rights are often vaguely defined. Key aspects such as the scope of these rights, the timing and format of information to be provided, the thresholds required for voting, and the implications of objections are frequently left unspecified. This lack of clarity can result in a superficial appearance of governance without offering substantive or enforceable protections for investors. To address this, fund agreements should aim to provide precise definitions and actionable frameworks that ensure LPs can meaningfully exercise their rights, thereby fostering a more transparent and equitable governance structure.

4.2. Weak Implementation of Checks and Balances

Many funds include governance mechanisms on paper, but their practical application often falls short of expectations. For instance, investment committees may struggle to exercise independent judgment due to insufficient autonomy or expertise. Similarly, advisory committees may convene infrequently, reducing their ability to provide meaningful oversight [1]. Limited substantive agendas during LP meetings further hinder effective governance, as critical issues may not receive adequate attention. Additionally, veto rights, which are intended to empower investors, can become

ineffective if crucial information is provided too late in the decision-making process. When investors are presented with materials only after decisions have been effectively finalized, their consent rights risk being reduced to a mere formality rather than a substantive safeguard. Strengthening these mechanisms requires a commitment to timely and transparent communication, as well as fostering a culture of accountability and proactive engagement among all stakeholders.

Weak implementation is also evident in the area of recordkeeping. Incomplete documentation of investment proposals, meeting summaries, recusal decisions, valuation methodologies, and review materials can significantly undermine the ability of investors to assess whether fund managers have acted responsibly and in alignment with the agreed-upon governance framework. This lack of thorough recordkeeping not only hampers transparency but also creates challenges in evaluating the prudence of managerial actions. Effective governance, therefore, necessitates not only well-designed institutional structures but also a disciplined approach to execution. Ensuring comprehensive and accurate documentation is essential for fostering trust and enabling investors to make informed evaluations [10]. By prioritizing meticulous recordkeeping and operational rigor, funds can enhance their governance standards and better align with the expectations of their stakeholders.

4.3. Conflicts of Interest and Information Asymmetry

Potential challenges can arise in private equity fund management due to varying interests among stakeholders. These situations may stem from transactions involving related entities, allocation of investment opportunities across different funds, collaborative investment arrangements, continuation of certain funds, incentives tied to management fees, discretion in valuation practices, or the manager's interactions with portfolio companies [11]. While such situations do not inherently indicate improper conduct, they require careful handling. Some of these practices may be commercially justifiable, but it is essential that they are transparently disclosed, thoroughly reviewed, and approved through established procedures to ensure fairness and accountability.

The 2023 Private Fund Framework provides explicit guidance on addressing these challenges. It emphasizes the principle of prioritizing the interests of investors and mandates the establishment of robust systems to prevent the transfer of undue benefits or the emergence of competing interests. Additionally, it requires the implementation of comprehensive management mechanisms for transactions involving related entities. The framework strictly prohibits inappropriate dealings with related parties and necessitates adherence to agreed-upon decision-making processes [10]. Furthermore, it underscores the importance of providing timely and accurate information to investors and custodians whenever such transactions occur, thereby fostering transparency and trust within the investment ecosystem.

4.4. Gap between New Regulatory Requirements and Older Market Practice

The regulatory framework for private investment funds has undergone significant improvements, aiming to establish a more systematic and standardized approach [12]. However, a noticeable gap persists between these updated requirements and the practices embedded in older fund agreements. Many legacy agreements lack comprehensive provisions addressing key areas such as the frequency of disclosures, reporting of significant events, oversight of transactions involving related parties, access to critical information for investors, procedures for replacing fund managers, and protocols for liquidation. Additionally, some fund managers may not have implemented adequate internal systems, such as dedicated compliance personnel, structured registers for identifying potential misalignments of interest, standardized reporting templates, or advanced technological tools to meet contemporary operational expectations. These deficiencies highlight the challenges faced by fund managers in aligning their practices with evolving standards. Addressing these gaps requires not only legal compliance but also a strategic focus on governance design, ensuring that operational frameworks are robust enough to meet both regulatory and business demands.

Consequently, the core challenge extends beyond the mere existence of updated requirements. It lies in the ability of fund managers to effectively integrate these requirements into their operational frameworks. This involves translating technical standards into actionable elements within fund documentation, internal workflows, investor communication strategies, and day-to-day management practices. The process necessitates a holistic approach, where governance design is treated as a critical business imperative rather than solely a legal obligation. By embedding these principles into their operational ethos, fund managers can not only ensure compliance but also enhance transparency, build investor trust, and foster long-term sustainability [6]. This underscores the importance of adopting a forward-looking perspective, where governance is viewed as a dynamic and integral component of fund management, capable of adapting to both regulatory advancements and evolving market expectations (As shown in Table 2).

Table 2. Common Problems in Private Equity Fund Governance

Problem area	Typical manifestation	Risk impact
Power allocation	Manager controls most key information and decisions; LP rights are vague or hard to exercise.	Investor protection weakens and disputes increase when performance deteriorates.
Committee operation	Investment or advisory committees exist but lack independence, agenda control, records, or timely materials.	Checks and balances become formalistic rather than substantive.
Conflicts of interest	Related-party transactions, cross-fund allocations, or co-investments are not clearly disclosed or approved.	Risk of benefit transfer, unfair allocation, and loss of investor trust.
Information disclosure	Reports are incomplete, late, or too general; major-event disclosure is unclear.	LPs cannot evaluate risk or exercise consent rights effectively.
Regulatory alignment	Fund documents and internal systems do not reflect current registration, filing, disclosure, and conflict-management requirements.	Compliance risk increases and governance arrangements may fail in practice.

5. Improvement Strategies for Governance and Management Checks and Balances

5.1. Clarify Powers and Responsibilities in Fund Documents

The first improvement path is to make fund governing documents more operational and precise. It is essential to ensure that the limited partnership agreement and related fund documents delineate the scope of authority and responsibilities for all key stakeholders. Specifically, these documents should clearly define which matters fall under the control of the general partner (GP), which require investment committee review, which necessitate advisory committee input, and which demand limited partner (LP) consent. Examples of significant matters include adjustments to the investment strategy, transactions involving related parties, extensions of the fund's duration, modifications to fees or carried interest structures, capital recycling, borrowing arrangements, issuance of guarantees, valuation disagreements, replacement of the fund manager, early termination, and liquidation processes. By establishing such clarity, the governance framework becomes more transparent and actionable, reducing potential ambiguities and conflicts [5].

A practical drafting principle is to avoid granting abstract rights without accompanying procedural guidelines. For instance, if LPs are granted veto or consent rights, the agreement should explicitly outline the procedural details, such as the notice period, the required information package, the response timeline, the voting threshold, rules for deemed approval, and protocols for handling urgent situations. Additionally,

the agreement should specify the consequences of withholding consent to ensure all parties understand the implications of their decisions. This approach transforms governance from being a collection of broad statements into a set of executable and enforceable rules. By embedding such procedural clarity, the governance structure not only becomes more robust but also minimizes the likelihood of disputes arising from misinterpretations or procedural gaps.

5.2. Strengthen the Independence and Execution of Governance Bodies

Investment committees and advisory committees should establish clear membership qualifications, rules for recusal in cases of overlapping interests, structured voting procedures, and detailed record-keeping practices. For funds that include external participants, the advisory committee should incorporate members who can provide balanced perspectives and ensure that decisions are made with a focus on collective interests rather than aligning solely with managerial preferences. To enhance transparency and preparedness, relevant materials should be distributed to committee members in advance of meetings, and meeting records should comprehensively document key inquiries, areas of concern, voting outcomes, and subsequent actions to be taken.

The objective is to maintain operational efficiency while ensuring robust oversight mechanisms. To achieve this, decisions can be categorized based on their associated risk levels. Routine matters related to investment management may remain under the purview of the manager, whereas decisions involving higher levels of complexity or sensitivity—such as transactions involving related entities, investments beyond the predefined scope, extensions, or significant deviations from agreed terms—should undergo a more thorough review process. This stratified approach allows for streamlined decision-making in routine cases while ensuring that critical decisions receive the necessary scrutiny to uphold accountability and safeguard the interests of all stakeholders [13].

5.3. Build a Disclosure and Conflict-Management System

Information disclosure should be managed as a structured and systematic process rather than treated as an occasional reporting task. Fund managers are encouraged to establish a comprehensive disclosure calendar that includes regular updates such as quarterly or semi-annual operating reports, annual audited financial statements, capital-account statements, portfolio updates, valuation explanations, fee and expense breakdowns, major-event updates, and liquidation summaries. This approach ensures transparency and consistency in communication with stakeholders. Additionally, the importance of maintaining robust disclosure practices is underscored by regulatory measures that emphasize the content, channels, methods, frequency, and management systems for information dissemination. By adhering to these principles, fund managers can enhance trust and accountability while meeting compliance requirements effectively.

Management of sensitive operational dynamics should involve clear identification, reporting, review, approval, and ongoing monitoring processes. To achieve this, managers can maintain a register that tracks relationships with related parties, portfolio-company interactions, cross-fund investments, co-investments, employee participation, and service-provider engagements. For significant operational matters, fund governing documents should mandate prior disclosure to advisory committees or limited partners before proceeding with transactions, except in cases where predefined exceptions apply. This proactive approach fosters transparency and ensures that all stakeholders are adequately informed, thereby minimizing potential risks and promoting a well-governed investment environment.

5.4. Improve Compliance Systems and Regulatory Coordination

Fund governance relies heavily on the manager's ability to establish and maintain robust internal compliance systems. Managers must ensure that their internal policies are aligned with the latest legal and operational frameworks governing the securities and private fund industries. These frameworks include laws and guidelines that address

critical aspects of fund management, such as fundraising protocols, investor suitability assessments, capital call procedures, investment approval workflows, and custody arrangements [14]. Additionally, effective governance systems should incorporate mechanisms for accurate valuation, transparent information disclosure, oversight of related-party transactions, and the ethical conduct of employees. Data preservation and complaint-handling processes are also essential components of a comprehensive compliance structure. By addressing these areas systematically, managers can enhance operational integrity and reduce risks associated with non-compliance.

The role of industry self-regulation in improving governance cannot be overstated. Registration and filing requirements established by industry associations serve as a foundation for defining market-entry standards and ensuring ongoing compliance with information disclosure obligations. Over time, these associations, along with custodians, auditors, and legal advisers, can contribute to the development of standardized governance templates and reporting formats. Such standardization facilitates the adoption of best practices across the industry, particularly benefiting small and medium-sized managers who may lack the resources to develop mature internal systems independently. Additionally, the establishment of consistent risk-warning practices can further enhance transparency and investor confidence, creating a more stable and trustworthy market environment (As shown in Table 3).

Table 3. Improvement Strategies for Fund Governance

Governance objective	Recommended measure	Implementation focus
Balance GP efficiency and LP protection	Define reserved matters, consent rights, and manager authority clearly.	Use specific thresholds, notice periods, voting rules, and consequences.
Improve decision quality	Strengthen investment committee procedures.	Require complete project materials, conflict recusals, minutes, and follow-up records.
Control conflicts of interest	Create related-party and conflict-review procedures.	Maintain a conflict-of-interest register and require advisory committee or LP review for significant conflicts.
Enhance transparency	Build a disclosure calendar and reporting templates.	Cover periodic reports, major-event reports, audits, valuation, fees, expenses, and liquidation.
Align with regulation	Update fund documents and internal policies.	Reflect current rules on registration, filing, custody, disclosure, investor protection, and compliance.

6. Practical Implementation Across the Fund Life Cycle

Governance should not be designed only at the fundraising stage and then disregarded. A private equity fund operates through a structured life cycle, encompassing the stages of fundraising and establishment, investment, portfolio management, exit, and liquidation. Each of these stages introduces unique governance considerations and challenges that require tailored approaches to ensure effective oversight and operational efficiency.

During the fundraising and establishment stage, the primary focus is on drafting comprehensive fund documents that accurately reflect the commercial agreements between stakeholders. Key areas of attention include defining the investment scope, assessing manager qualifications, structuring fees and carried interest, and establishing protocols for capital calls, default scenarios, and information-sharing mechanisms. Additionally, provisions for advisory committee roles, key-person contingencies, and manager replacement should be clearly articulated. In the investment stage, disciplined

decision-making processes are critical. This involves rigorous due diligence, preparation of detailed investment committee materials, and adherence to compliance reviews. At the portfolio management stage, the fund must prioritize monitoring the performance of portfolio companies, ensuring accurate valuation practices, and overseeing significant developments within these companies. Finally, during the exit and liquidation stages, the fund should focus on managing valuation processes, ensuring accurate and timely distributions, addressing tax and audit requirements, and maintaining transparent communication with investors.

Adopting a life-cycle perspective in governance helps mitigate a common oversight: overemphasizing entry-stage documentation while neglecting operational procedures throughout the fund's duration. The most robust governance frameworks integrate three essential components [15]. First, they rely on clear and enforceable legal documents that establish the foundation for operations. Second, they implement well-defined internal management procedures to guide day-to-day activities. Third, they emphasize ongoing information sharing and transparent communication with investors to maintain trust and alignment of interests. This comprehensive approach ensures that governance remains dynamic and responsive to the evolving needs of the fund across its entire life cycle.

7. Conclusion

The governance structure of private equity funds is not merely an internal organizational matter. It has direct implications for investment efficiency, risk management, investor protection, operational transparency, and the long-term credibility of the private fund industry. Under the GP-LP model, the manager must retain sufficient decision-making authority to identify opportunities, conduct due diligence, execute transactions, and oversee portfolio management across different stages of the fund life cycle. At the same time, such authority should be accompanied by clearly defined duties, timely and accurate information disclosure, effective mechanisms for reviewing sensitive matters, and practical remedies available to investors when governance standards are not met. A sound governance framework therefore serves both managerial effectiveness and institutional accountability.

Effective governance accordingly requires a structured system of checks, review, and procedural balance rather than a simple reallocation of management authority from GPs to LPs. The objective is not to require LPs to participate in day-to-day fund management, but to ensure that major decisions, related-party transactions, disclosure obligations, and exit arrangements are addressed through transparent, predictable, and enforceable procedures. In China, the 2023 Private Fund rules, AMAC registration and filing requirements, and the 2026 information-disclosure measures together provide a more systematic framework for this purpose. In response, fund managers and investors should revise fund governing documents in a timely manner, strengthen the operation of investment and advisory committees, improve internal disclosure systems, clarify approval thresholds for significant matters, and align compliance procedures with current supervisory expectations and market practice.

Overall, private equity fund governance must combine professional management with credible oversight. A fund that grants broad authority to the manager without adequate transparency may generate agency risk, weaken investor confidence, and reduce the reliability of internal decision-making. By contrast, a fund that imposes excessive limits on managerial discretion may impair responsiveness, delay transactions, and reduce investment efficiency in competitive markets. A more workable approach is therefore to define responsibilities with precision, apply enhanced review to high-risk matters, disclose material information in a timely and comprehensible manner, and maintain coherent governance arrangements throughout fundraising, investment, portfolio monitoring, and exit. In this sense, effective governance is not a static drafting exercise, but a continuous institutional process that supports lawful operation, prudent decision-making, and sustainable development of the private equity fund sector.

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