NCREIF Fall Conference 2025

Hollywood, Florida – Diplomat Resort

Code: pmcacc1

CARRIED INTEREST DISCUSSION & APPLICATION

Kim Everaerts – Walton Street Capital

Rosellen Bounds – ACA Group

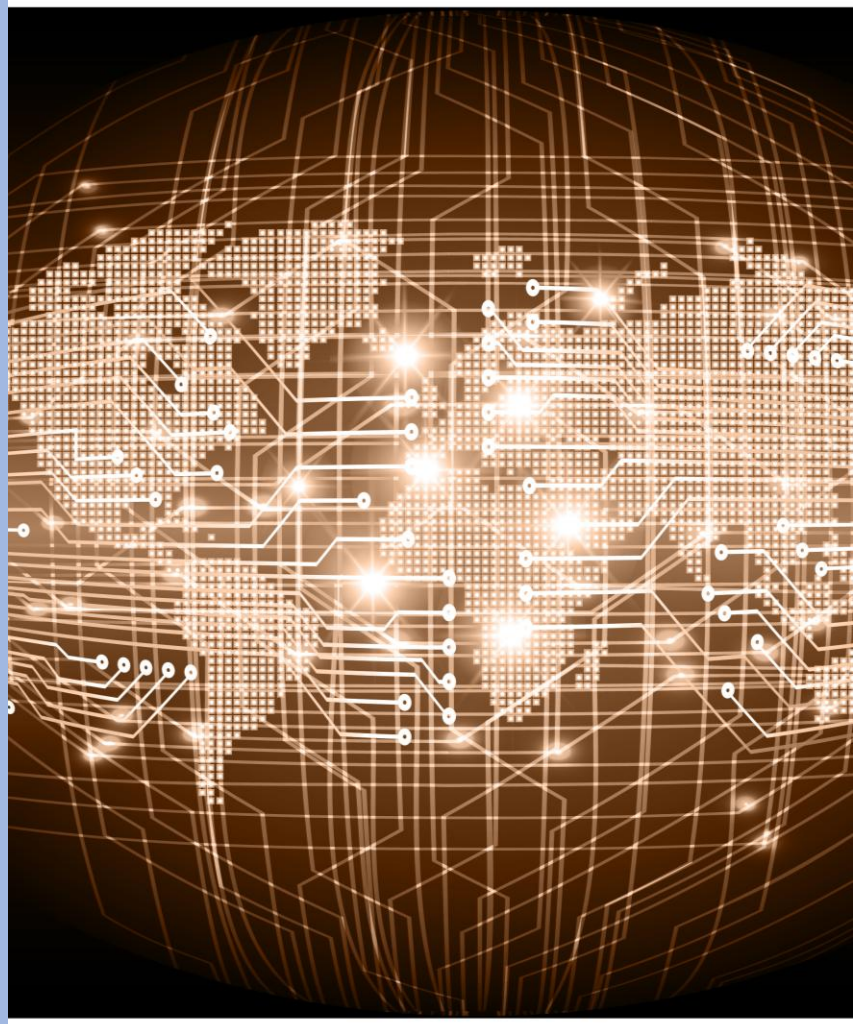
Lou DeFalco – PWC

Matthew Beebe – JP Morgan Asset Management

David DiPaolo – Clarion Partners

Tiffany Simonsen – Maybern Solutions

Jamie Kingsley – NCREIF



Speakers

Code: pmcacc1

- Introductions

Lou DeFalco

Partner

PWC

Matthew K. Beebe

Executive Director, Head of Finance- Real Estate Americas Debt

J.P. Morgan Asset Management

Tiffany Simonsen

Senior Managing Director, Head of Client Experience

Maybern

David DiPaolo

Senior Vice President, PMC Co-Vice Chair

Clarion Partners

Speakers

Code: pmcacc1

- Introductions (continued)

Rosellen Bounds

Managing Director

PMC Co-Chair

ACA Group

Kim Everaerts

Executive Vice President
PMC Co-Vice Chair

Walton Street Capital

Jamie Kingsley

Data Governance and Reporting Standards Director

NCREIF

Code: pmcacc1

Polling Question #1

Joint Session: Accounting and Performance Measurement Committees

- Add the session
- Be sure you signed in
- Open the app and locate polling question
- https://cvent.me/r3PRmA

Code: pmcacc1

Polling Question #2

Joint Session: Accounting and Performance Measurement Committees

- Add the session
- Be sure you signed in
- Open the app and locate polling question
- https://cvent.me/r3PRmA

Code: pmcacc1

Carried Interest Background

What is Carried Interest

What is it: Carried interest is the portion of investment profits allocated to fund managers (general partners) as compensation for successfully managing a fund.

Performance-Based: It is earned only after investors (limited partners) first receive their invested capital and any agreed preferred return (the “hurdle rate”).

Typical Structure: Commonly 20% of profits above the hurdle rate, distributed according to an investment vehicle’s contractual waterfall.

Form of compensation: Can be structured either as a fee or as an allocation of profits, each with different tax implications.

Purpose: It ensures managers’ rewards are directly linked to the fund’s performance – they benefit only when investors do.

How Carried Interest is Structured

Code: pmcacc1

- Two Common Structures:
  - As a fee: The General Partner (GP) receives carried interest as a compensation payment from the fund.
    - Treated as ordinary income by GP for tax purposes
  - As an Allocation of Profits: The GP receives a partnership allocation of the fund's investment profits
    - Taxed based on the character of underlying income (e.g., typically capital gains treatment).
    - More tax-efficient for the GP generally
  - Economic Outcome: Both structures deliver the GP a share of profits – but the tax treatment and accounting presentation differ.
  - Common Practice: Most funds' structure carried interest as an allocation of profits to align GP and LP interests and benefit from capital gains treatment.

Reporting Presentation: Fee vs. Allocation Structures

Code: pmcacc1

Structured as Fee (less common)

Balance Sheet (excerpt)	$ (millions)
Assets	
Investments, at fair value	600
Cash	5
Total Assets	**605**
Liabilities	
Accrued unrealized incentive fee payable	10
Other liabilities	5
Total Liabilities	**15**
Net assets available to partners	**590**

Income Statement (excerpt)	$ (millions)
Investment Income	100
Increase in unrealized incentive fee	10
Net increase in net assets from operations	**90**

Structured as Profits Allocation(most common)

Statement of Changes in Net Assets (excerpt)	$ (millions)		
	Limited Partners	General Partner	Total
Net assets available to partners, beginning	495	5	500
Net increase in net assets from operations	99	1	100
Unrealized performance allocation	(10)	10	0
Net assets available to partners, ending	**584**	**16**	**600**

Key Takeaways:

Structured as Fee: Reduces fund net income and is treated like an operating expense from the fund's perspective.

Structured as allocation: Reallocates profits among partners rather than reducing fund income – it's an equity-based treatment, NOT an expense.

Calculating Carried Interest: Important Considerations

Code: pmcacc1

Compounding Frequency

Carried interest returns can compound on different schedules: annually, quarterly, monthly, daily

The compounding convention affects timing and magnitude of the GP's incentive

Periodicity of Cash Flows

Defines when contributions start accruing returns and when distributions count towards returns to investors.

- Actual contribution / distribution date
- 1st day of period
- Mid-month convention
- End-of-period convention

Small timing differences can create material variances in IRR or preferred-return calculations

Historical Fund Cash Flows

Accurate tracking of all contributions and distributions is essential to calculation

Historical cash flows drive:

- The base on which returns are earned, and;
- The measurement of cumulative profit before carried interest is crystallized

Inaccurate or incomplete cash-flow data can distort carried-interest allocations

Illustrative Impact of Different Compounding Mechanisms

Code: pmcacc1

Annual	
Dates of cash flows	**Investor**
10/29/2020	(89,745,346)
3/1/2021	(40,497,810)
6/4/2021	(20,727,780)
8/6/2021	(21,006,380)
03/07/2022	(36,640,620)
5/27/2022	27,809,000
6/16/2022	(12,955,000)
9/9/2022	42,560,000
10/11/2022	77,035,000
12/22/2022	(7,425,000)
12/31/2022	111,935,999
Return	9.00%

Quarterly	
Dates of cash flows	**Investor**
10/29/2020	(89,745,346)
3/1/2021	(40,497,810)
6/4/2021	(20,727,780)
8/6/2021	(21,006,380)
03/07/2022	(36,640,620)
5/27/2022	27,809,000
6/16/2022	(12,955,000)
9/9/2022	42,560,000
10/11/2022	77,035,000
12/22/2022	(7,425,000)
12/31/2022	113,024,240
Return	9.00%

Monthly	
Dates of cash flows	**Investor**
10/29/2020	(89,745,346)
3/1/2021	(40,497,810)
6/4/2021	(20,727,780)
8/6/2021	(21,006,380)
03/07/2022	(36,640,620)
5/27/2022	27,809,000
6/16/2022	(12,955,000)
9/9/2022	42,560,000
10/11/2022	77,035,000
12/22/2022	(7,425,000)
12/31/2022	113,279,268
Return	9.00%

Code: pmcacc1

Carried Interest Mechanism in Open End Fund

- **Issue**
  - Incentive fees in closed ended vehicles are typically only paid upon liquidation of the fund, or when specific investments are sold and realized. However, in an open-ended product these fees are paid following predetermined measurement periods and based on net asset value at a measurement date which does NOT necessarily represent realization from the sale of investments.
  - Due to the cyclical nature of real estate investments, NAV could rise in certain periods, and a manager could theoretically earn an incentive fee. During subsequent periods, the same investment portfolio could decrease without any of the investments ever being sold or realized.
  - If performance rises from the decreased value in subsequent periods, a manager could be entitled to carried interest, effectively **earning a fee on the same profit twice.**

High-Watermark and Loss Recovery Concept

Code: pmcacc1

- **Solution: High Watermark and Loss Recovery**
  - Assume the Fund has a 3 year measurement period for incentive fees whereby the advisor receives 10% of any profits over a 7% IRR.
    - Unit Price on Day 1: $100
    - End of year 3, unit price is $102 → no incentive earned as return is below 7% IRR
    - At the end of year 6 (the end of second measurement period), unit price went from $102 to $95 →Once again, there is no incentive fee.
      - However, the fund lost money and therefore a 'Loss Recovery' threshold should be established. Diversity in practice exists as to how loss recovery is measured.
    - At the end of year 9 (the end of the third measurement period) unit price is $130, which equals a **11.02%** return over this measurement period (from $95/unit to $130/unit)
      - The excess over the amount required to achieve a 7% return is $13.62. HOWEVER, the manager must now deduct the loss recovery amount from the $13.62 excess before calculating an incentive fee.
- **Result:** Because of the loss recovery, the manager did not receive an incentive fee on the full $13.62 of excess over the hurdle, because they need to first make the investor whole for the loss experienced during the 2nd incentive measurement period.
- Additionally, a new 'High Watermark' of $130/unit has been established. In future measurement periods, the manager would not earn an incentive fee on any amount below the $130/unit.

Carried Interest in Financial Highlights

Code: pmcacc1

Closed End Fund – Structured as Allocation

	December 31, XXCY
Total return:	
Beginning of year - Internal rate of return [1]	14.0 %
End of year - Internal rate of return [1]	15.0 %
Ratios/supplemental data:	
Net assets, end of period	$ 318,162
Ratios to average net assets[2]:	
Total expenses	8.1 %
Incentive allocation	0.0 %
Total expenses and incentive allocation	8.1 %
Net investment income	18.4 %
Ratio of total contributed capital to committed capital	90 %

Open End Fund – Structured as Allocation

Fund Returns [1]	
Total return, Gross	12.62%
Management fee & performance allocation [2]	(0.85)%
Total return, Net [3]	11.77%

Expense Ratios [1]	
Operating expense	0.99%
Performance allocation	0.21%
Total expenses and performance allocation	1.20%
Net investment income ratio [2]	**1.84%**

Code: pmcacc1

Polling Question #3

Joint Session: Accounting and Performance Measurement Committees

- Add the session
- Be sure you signed in
- Open the app and locate polling question
- https://cvent.me/r3PRmA

Code: pmcacc1

Real World Challenges in Calculating Carried Interest

REAL WORLD EXAMPLES/CHALLENGES

- Realized and Unrealized Incentive fee/Promote should be reflected in net performance regardless of whether paid or not (SEC/GIPS/RS requirement).
- Promote calculations should be reflected in time weighted returns based on the hypothetical liquidation at fair value of the fund. This typically requires quarterly calculations.
- Incentive fees paid outside of the vehicle and carried interest should be reflected even if they are not technically "expenses" of the fund for comparability of net performance.

REAL WORLD EXAMPLES/CHALLENGES

- TWR Denominator impact of carried interest. Different incentive/promote structures are reflected differently in vehicles and have a denominator impact to performance. We HAVE addressed numerator consistency, but we HAVE NOT addressed denominator consistency (we currently use accounting NAV).
    - Denominator consistency issue may affect the comparability of performance across different vehicles/different promote incentive structures.
    - Not generally material unless there is significant unrealized promote.
    - Fees paid inside vehicle = Net of fee denominator
    - Fees paid outside of vehicle = Gross of fee denominator
    - Carried Interest, LP Returns post allocation = Net of fee denominator
    - Carried Interest, LP Returns before CI allocation = Gross of fee denominator

PRACTICAL ISSUES

- "Every carry calc is a snowflake. Each one is unique, and some melt when you try to model them"
- Concept is simple → execution is not
  - ➢Docs, timing, and systems all introduce risk
  - ➢European/American/Hybrid waterfalls shift timing and clawback logic
- Real world consequences when calcs are inaccurate

DOCUMENTATION AND STRUCTURAL COMPLEXITIES

- Example 1: Ambiguity on expense contributions
  - Whether to include certain contributions for expenses as capital contributions
- Example 2: References not fully defined.
  - CPI-linked hurdle didn't specify if CPI was seasonally adjusted → 40 bps swing in preferred calc
- Example 3: Levered cash flows
  - Property-level debt required to be treated as a capital contribution at the fund level for purposes of the carry calc

INSTITUTIONAL MEMORY LOSS

- Some accounts don't pay out for years. Creating calc at inception wasn't a priority
- By the time carry is calculated, the people who drafted the docs are gone
- Carry math becomes archeology- reconstructing intent from old files and emails

MOVING TOWARD STRUCTURE

- What was manual is now controlled and automated
- Governance and documentation are the foundation
- Repeatability requires tools and systems
- Technology helps make good controls scalable

Polling Question #4

Code: pmcacc1

Joint Session: Accounting and Performance Measurement Committees

- Add the session
- Be sure you signed in
- Open the app and locate polling question
- https://cvent.me/r3PRmA

Code: pmcacc1

Approach

1

Commingled funds: fund admin's carry tool — integrated, scalable, auditable

2

Separate accounts: vendor-built models coded from governing docs — tailored but controlled

3

Automation scales math, but it doesn't outsource judgment

Code: pmcacc1

Solutions for Calculation of Carried Interest

Agenda

01 Industry Complexity in Fund Waterfalls

02 Common Challenges with Waterfall Management

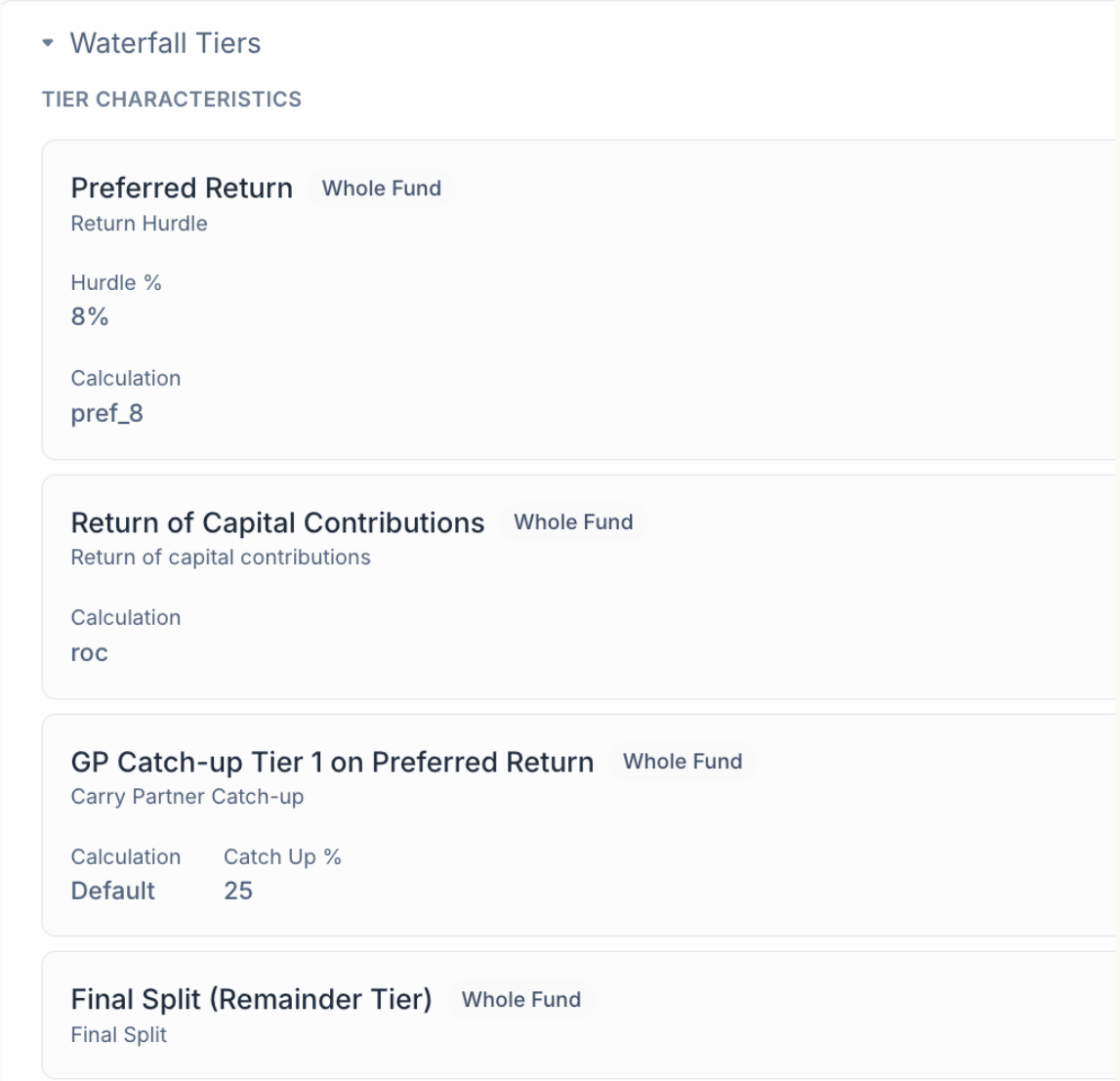
03 Limitations of Excel

04 Maybern's Approach

Code: pmcacc1

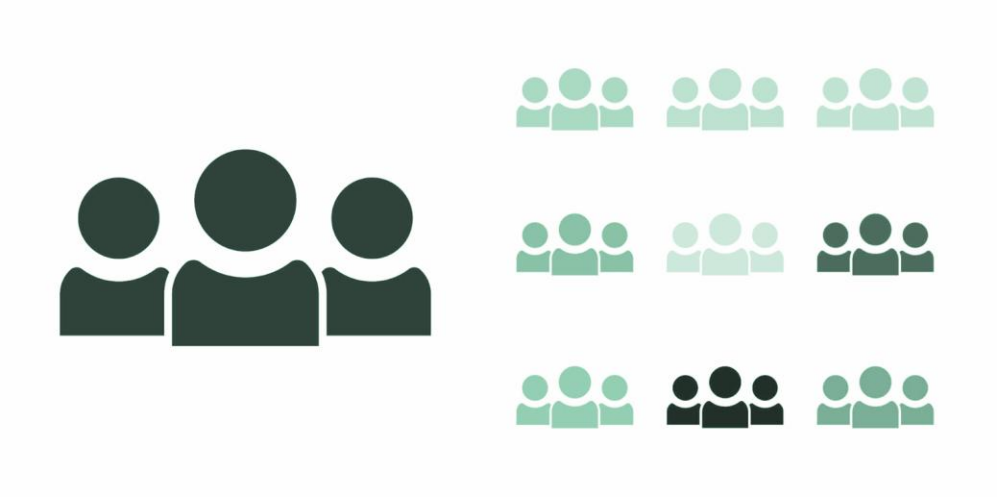
Waterfall complexities

1. **Unique Waterfall Calculations:** European & Hybrid, unique tiers
2. **Preferred Return**: Accuracy of inputs to calculation and proper methodology
3. **Complex allocation logic**: Tracking historical cash flows, preferred returns, and expense allocations across investments
4. **Investor terms**: Different LP terms, hurdle rates, and opt-out provisions complicate every calculation
5. **Operational bottlenecks**: Manual inputs, dependencies, and version control slow everything down
6. **Key person risk:** Limited number of people truly understand the Excel model
7. **Audit and transparency issues:** Hard to review, train, explain, or reproduce results confidently. IR team generally has to go and ask internal teams to answer LP questions



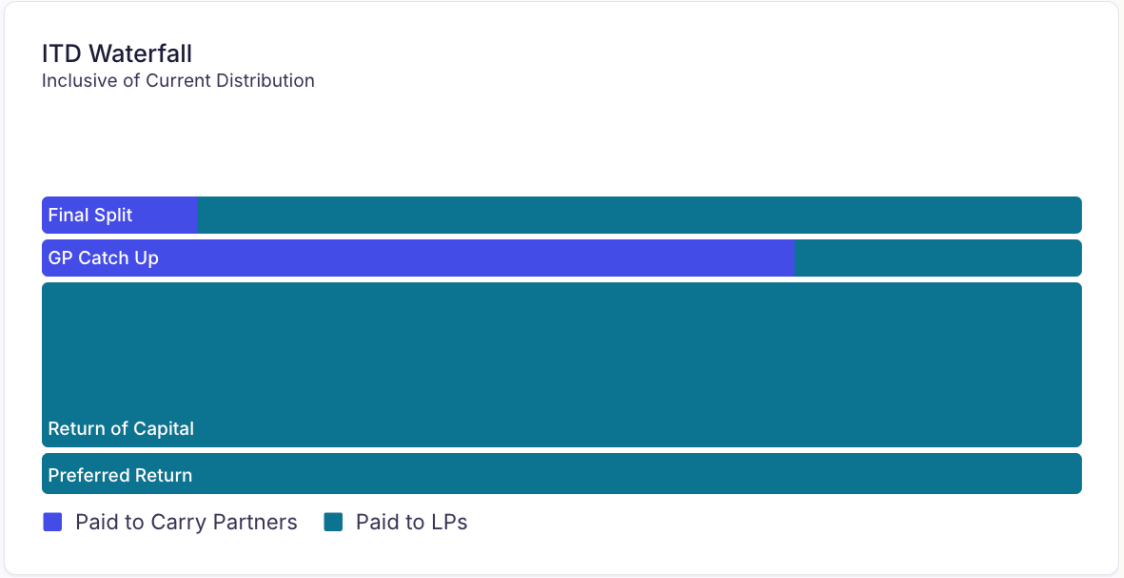
Common challenges in waterfall management

1. Excel is powerful — but it's not built for fund-scale complexity
2. Manual updates = human error
3. Key source data lives across multiple Excel spreadsheets
4. Fragile links = hard to maintain, hard to audit (lots of F2'ing)
5. No real-time visibility into "what-if" scenarios or risk exposure
6. Increasing LP and auditor scrutiny magnify these weaknesses



Maybern's approach & advantages to automation

1. **Centralize key inputs** capital activity, management fees, dates, P&L and investor terms and in one integrated system
2. **Automate calculation logic** while preserving transparency
3. Built to model **any waterfall structure** that reflects your LPA - European, Hybrid, or custom
4. **Intuitive workflow** for setup, review, and reporting
5. Auditable **transparency** — every step documented, every result traceable
6. Reduce operational dependency on spreadsheets and key individuals



Carry Breakdown

	Current Quarter $	Year to Date $	Inception To Date $
Carry Earned	14,894,134.46	14,894,134.46	36,890,518.33
Carry Paid	-	-	12,811,860.02
Unrealized Carry at Liquidation	14,894,134.46	14,894,134.46	24,078,658.31

Maybern platform enables shift from operational to strategic focus

One Integrated Engine

maybern

CUSTOMIZABLE CONFIGURATIONS

Accuracy
Auditability

- Entity Structure
- Waterfall Logic
- Allocation Rules
- Management Fee Rules
- Calculation Methodologies

WORKFLOW TOOLS

Efficiency
Traceability

- Capital Activity
- Closings & Equalizations
- Management Fees
- Credit Facility
- Financial Reporting

PERFORMANCE REPORTS

Real-time Insights
Effective Storytelling

- Configurable perf metrics
- Custom Reports
- Dashboards & Visualizations
- Custom Aggregations

CALCULATION ENGINE

Automation • Reduced risk of human error

DATABASE

Single source of truth

Differentiated Business Outcomes

SUPERIOR RESULTS

- Enhance fund performance
- Fundraise with confidence
- Repeat investors

EFFICIENCY

- Scale with a lean team
- Optimize tech & services model

REDUCE RISK

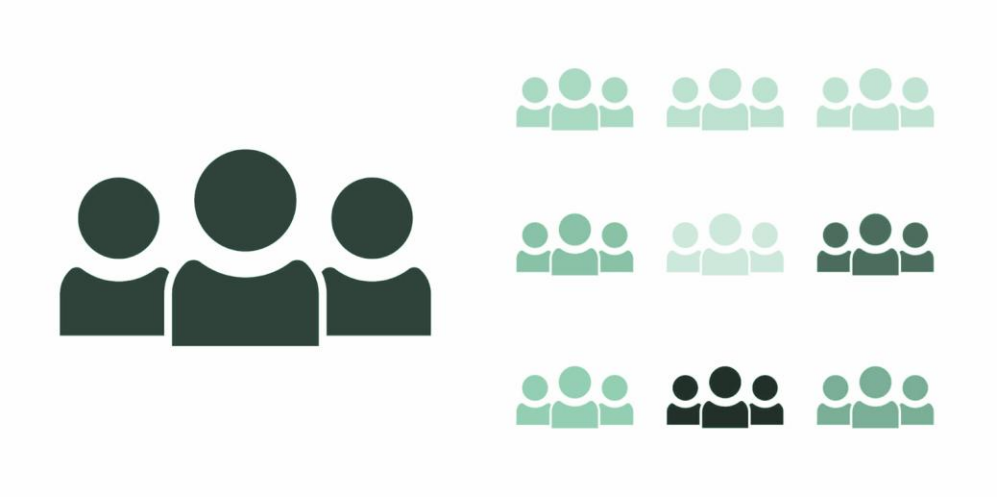
- Headline, reputation, financial

DAILY EXPERIENCE

- Attract & retain the best

Common challenges in waterfall management

1. Excel is powerful — but it's not built for fund-scale complexity
2. Manual updates = human error
3. Key source data lives across multiple Excel spreadsheets
4. Fragile links = hard to maintain, hard to audit (lots of F2'ing)
5. No real-time visibility into "what-if" scenarios or risk exposure
6. Increasing LP and auditor scrutiny magnify these weaknesses



Code: pmcacc1

NCREIF Perspective: Benchmarking Treatment of Carried Interest

- ODCE- Not going to have much in it since it is core and open-ended
- OE- typical spread 20bps

Code: pmcacc1

QUESTIONS & ANSWERS