

Private Equity Compensation (2026) and the PE Waterfall for Carried Interest



How to Make Your Bonus Flow Like
Downhill Rapids

PE Compensation and the Carry Waterfall

This video will use a different structure from others because I'll start with **compensation data** and then explain the “why” behind it.

Yes, PE compensation *can be* very high, but there are important caveats.

PE Compensation and the Carry Waterfall

Position Title	Typical Age Range	Base Salary + Bonus (USD)	Potential Carry (% of Cash Comp.)	Promotion Time
Analyst	22-25	\$125K-\$175K	0%	2-3 years
Associate	24-28	\$175K-\$400K	0-5%	2-3 years
Senior Associate	26-32	\$300K-\$550K	0-10%	2-3 years
Vice President (VP)	30-35	\$400K-\$650K	10-30%	3-4 years
Director or Principal	33-39	\$500K-\$900K	30-80%	3-4 years
Managing Director (MD) or Partner	36+	\$800K-\$2M	100-200%	N/A
Managing Partner (MP)	40+	\$1M-\$3M	200-400%	N/A

<https://mergersandinquisitions.com/private-equity-salary/>

PE Compensation and the Carry Waterfall

Base salaries and bonuses mostly come from the **Management Fee** that PE firms charge on their Committed Capital (and later, the Remaining Cost Basis).

Carried Interest is mostly for senior employees and is linked to the **investment profits** (with conditions).

PE Compensation and the Carry Waterfall

Point #1: Fundraising Size and Frequency
Matter **A LOT** – Things get tricky if your
firm does not consistently raise larger
funds!

Point #2: Carried Interest is *highly sensitive* to fairly small changes (e.g., 1.7x
vs. 1.6x multiple over ~10 years).

PE Compensation and the Carry Waterfall

For the files and resources, go to:

<https://breakingintowallstreet.com/kb/financial-sponsors/private-equity-waterfall/>

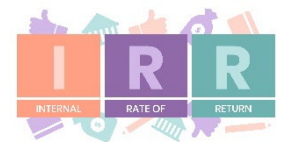
(This is a **summary** from our full [PE Funds of Funds and Secondaries](#) course.)

Plan for This Tutorial

- **Part 1:** Investments, Realizations, and Management Fees **4:41**
- **Part 2:** Return of Capital and Preferred Return Tiers **7:04**
- **Part 3:** GP Catch-Up and Post-Hurdle Cash Flow Splits **10:46**
- **Part 4:** Annualized Carry in Different Cases **14:59**

Part 1: PE Fund Assumptions and Setup

- **Waterfall Types:** “American” (company-by-company) vs. “European” (Hurdle and Carry based on *entire fund* performance); we’re using European here for simplicity
- **Required Assumptions:** Fund size (rough estimate – not precise), GP commitment, invested capital, investment period, expected MOIC and realization period, etc.
- **Fees:** Normally, it’s 2.0% on LP Committed Capital falling to 1.0% or 1.5% of the Remaining Cost Basis
- **Carry:** Normally 20% of Investment Profits with an 8.0% Hurdle Rate, or “minimum required annualized return”



Part 2: Return of Capital and Preferred Return

- **Step 1:** Before anything else can happen, the Limited Partners must **earn back** their Called Capital (Investments + Management Fees)
- **Process:** *Accrue* the owed balance based on these and record *payouts* based on the MIN between this and the Realizations
- **Step 2:** Next, the LPs must earn a **Preferred Return**, normally 8% per year, before the GP (firm Partners) earn anything
- **Process:** Accrue based on (Beginning Pref. Balance + Beginning ROC Balance) * 8%, and pay based on a MIN check



Accrual

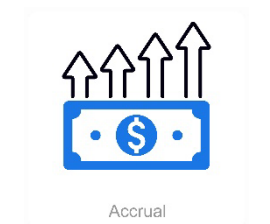


Accrual

Part 3: GP Catch-Up and Cash Flow Splits

- **Step 3:** The GP is now “caught up” based on 20% of the investment profits *corresponding to this 8% Hurdle Rate*
- **EX:** LPs earn a \$100 Preferred Return in the year
- **So:** The “total” investment profits are $\$100 / 80\% = \$125$, and the GPs should get $20\% * \$125 = \$25$
- **Process:** Accrue an amount to the GPs based on this number and do payouts based on the standard MIN check between the cash flows available and the running/owed balance

20%

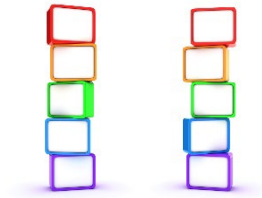


Part 3: GP Catch-Up and Cash Flow Splits

- **Step 4:** After the Catch-Up Return, do a simple 80% / 20% split of the remaining cash flows between the LPs and GP

80% 20%

- **Finally:** Aggregate everything at the bottom and check the split between the LPs and GPs



- **Borderline Cases and Below-Hurdle-Rate Results:** Will not be the standard 80% / 20% split – LPs should earn more



Part 4: Annualized Carry in Different Cases

- **Additional Drivers:** # of Partners for the fund (varies based on the firm, but might be 5 – 10 in this range) and the % Carry that goes to *non-Partners* (Principals, VPs, etc.)
- **Scenario #1:** 1.7x vs. 1.6x over 10 years – Seems very small but produces \$700K in Carry per year vs. \$0!
- **Scenario #2:** 2.0x over 8 years vs. 1.8x over 10 years – also seems small but produces a \$1.1M / year difference!
- **Scenario #3:** 1.8x over 8 years vs. 2.2x over 10 years – the higher multiple matters a lot, producing \$500K / year extra



Recap and Summary

- **Part 1:** Investments, Realizations, and Management Fees



- **Part 2:** Return of Capital and Preferred Return Tiers



8%

- **Part 3:** GP Catch-Up and Post-Hurdle Cash Flow Splits

20%



- **Part 4:** Annualized Carry in Different Cases

