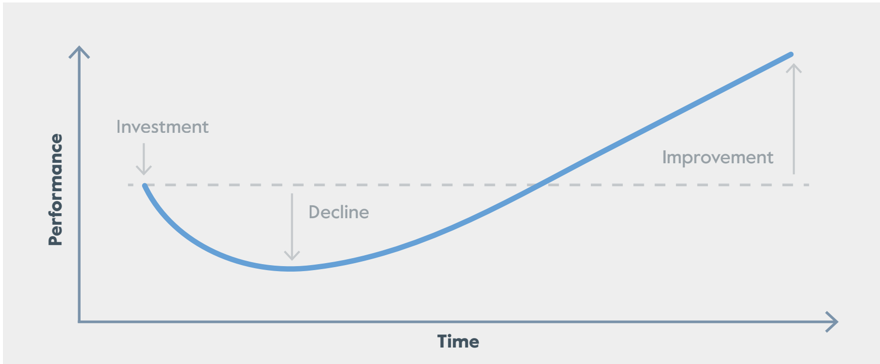
CARLYLE | GLOBAL WEALTH

# The Brief Case on the J-Curve in Private Equity

For investors new to private equity, the J-curve is a foundational concept, one that shapes expectations around cash flow, timing, and performance. Understanding how it behaves across different strategies—primary investments, secondaries, and co-investments—can help investors make more informed decisions and better align portfolios with their objectives.

## WHAT IS THE J-CURVE?

Private equity funds tend to exhibit negative cash flows in the early years of a fund's life, followed by a rise into positive territory as investments mature and exit proceeds are realized. Visually, this trajectory resembles the letter J.




*Source: Carlyle. For illustrative purposes only. Not representative of any real investment.*

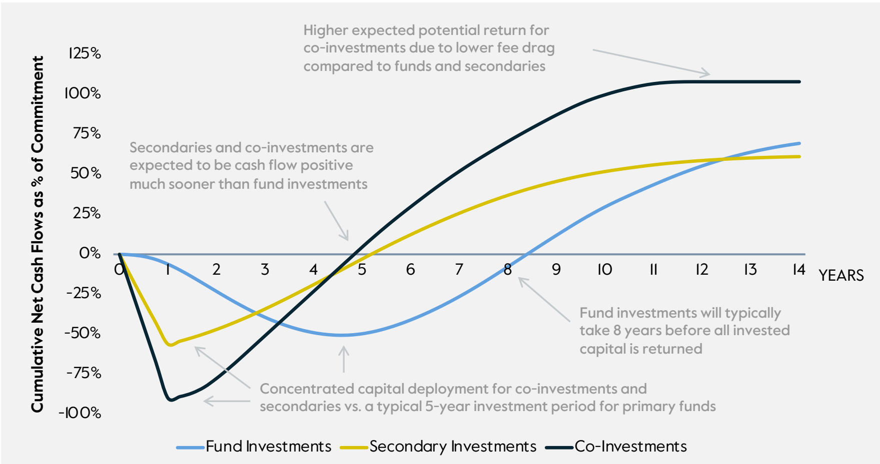
In the early stages of these funds, capital is called to make investments and pay management fees while value creation and realizations lag, resulting in a dip. Over time, as portfolio companies within the fund grow and investments are realized, the fund's net asset value increases and distributions to passive investors—generally referred to as limited partners (LPs)—begin to outpace contributions, resulting in the upward curve.

## THE IMPORTANCE OF TIME FRAMES WHEN MAKING PRIMARY INVESTMENTS

For investors making primary investments in private equity funds, understanding various time frames related to the J-curve is essential in order to manage liquidity needs and construct a diversified private equity portfolio with staggered vintages.

For these funds, the initial phase of the J-curve typically matches the fund's investment period, which often lasts five years. When investing, LPs commit capital upfront, but it is deployed gradually over the fund's investment period. During this phase, net returns are often negative, reflecting management fees, fund expenses, and the time required to build and scale portfolio companies.

The second phase of the J-curve typically matches a multi-year harvest phase throughout the remainder of the fund's life cycle. Many private equity funds operate on a 10- to 12-year life cycle, and it's often not until years five to seven that distributions begin to exceed contributions, marking the inflection point of the J-curve as it begins to move upward.

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## MITIGATING THE J-CURVE WITH SECONDARY INVESTMENTS

The J-curve is often different for investors making secondary investments, purchases of existing fund interests from other limited partners. Secondary investments tend to offer a more compressed or even inverted J-curve profile.

Because capital from secondaries is deployed into funds that are already partially or fully invested, much of the early drag from management fees and unseasoned assets has already occurred. Secondary investors gain exposure to more mature portfolios, with visibility into underlying companies and the potential for near-term distributions. As a result, secondaries may serve as a valuable tool for managing liquidity and mitigating the early cash flow demands of primary fund commitments.

The duration of secondary investments varies depending on the stage of the underlying fund at the time of purchase. Many secondaries have an expected holding period of five to seven years—shorter than a typical primary fund—making them a potentially useful instrument for balancing long-duration exposures and accelerating cash return profiles.

## TARGETED EXPOSURE AND A MODIFIED J-CURVE WITH CO-INVESTMENTS

The J-curve is also modified for those making co-investments, direct stakes in individual companies alongside a lead sponsor. Co-investments tend to display a flatter J-curve than other forms of private equity investing.

Because co-investments are made directly into a specific portfolio company rather than committed to a blind pool, capital is deployed much faster than in a primary investment, which can flatten the J-curve. Since fees are often reduced or waived and investments are often made closer to an exit horizon, returns can begin to accrue earlier in the investment's life cycle. While outcomes depend on deal-specific dynamics, co-investments may offer earlier visibility into performance and can complement broader portfolio construction by providing focused, deal-level exposure.

Holding periods for co-investments are generally aligned with the strategic plans of the underlying company—often three to five years, though this can vary by sector and market environment. This shorter duration relative to traditional fund commitments can provide investors more frequent opportunities to recycle capital and manage portfolio pacing.

## PUTTING IT TOGETHER

While the concept of a J-curve is consistent across private equity investing, individual curves will vary across types of investments and vintages, and each private equity strategy exhibits a distinct cash flow profile:

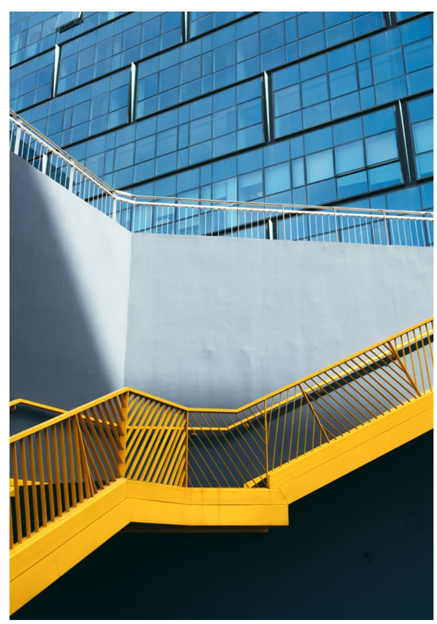
**Primaries:** Steep initial decline, long recovery, late upside

**Secondaries:** Shallow or inverted J-curve, typically faster distributions

**Co-investments:** Modest dip, slower to markup but potential for higher returns

Understanding not only the concept of the J-curve, but these differences across strategies is essential to constructing resilient portfolios that balance return potential with liquidity needs. By thoughtfully combining strategies with complementary cash flow profiles, investors can support long-term commitments through private market cycles while managing the pace of capital calls and distributions.

When considering private equity investments, we at Carlyle believe understanding and analyzing J-curves can be an effective tool in fund evaluations and portfolio construction.



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**Speculative Investment.** Carlyle cannot provide any assurance that it will be able to choose, make or realize any particular investment, asset, or portfolio on behalf of a Fund. There can be no assurance that investments made by a Fund will be able to generate returns or that the returns will be commensurate with the risks of investing in the type of transactions described herein. The activity of identifying, completing and realizing upon attractive investments is highly competitive and involves a high degree of uncertainty. A Fund must compete for investments with other private equity investors having similar investment objectives. The portfolio companies in which a Fund may invest (directly or indirectly) are speculative investments and will be subject to significant business and financial risks.

**Highly Illiquid and Difficult to Value**. A Fund is intended for long-term investment by investors that can accept the risks associated with making highly speculative, primarily illiquid investments in privately negotiated transactions. There is no organized secondary market for investors' interests in a Fund nor is there an organized market for which to sell a Fund's underlying investments, and none is expected to develop. Withdrawal and transfer of interests in a Fund are subject to various restrictions, and similar restrictions will apply in respect of the Fund's underlying investments. Further, the valuation of a Fund's investments will be difficult, may be based on imperfect information and is subject to inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such investments, from values placed on such investments by other investors and from prices at which such investments may ultimately be sold.

**Investors in a Fund will bear multiple layers of fees and expenses.** In general, a Fund's investors will bear the fees, expenses and carried interest of the Fund and will indirectly bear any fees, expenses and carried interest (if any) of the Fund's investments. Such amounts are expected to be material. This will result in greater expense to a Fund's investors than if such fees, expenses and carried interest were not charged by both a Fund and its underlying investments.

**Investors Must Fulfill Capital Drawdown Obligations.** Capital calls will be issued by a Fund from time to time. To satisfy such capital calls, investors may need to maintain a substantial portion of their capital commitment to the Fund in assets that can be readily converted to cash. An investor's obligation to satisfy capital calls will be unconditional and at its sole expense. Failure to satisfy a capital call to a Fund can result in adverse consequences in the discretion of the Fund's general partner, including complete forfeiture of the investor's interest in a Fund. If a limited partner of a Fund defaults on or is excused from its obligation to contribute capital to the Fund, other limited partners thereof may be required to make additional contributions to the Fund to replace such shortfall.

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