This article examines the impact of private equity (PE) fund-level dynamics on the PE fund's general partner's (GP) divestment decisions and whether these decisions are to the detriment of the PE fund's limited partners, indicating a moral hazard problem. We use a unique sample of 1,112 buyout transactions realized between 1995 and 2008 which allows us to link fund and deal-level data. We find that the exit routes chosen change (i) if a PE GP is in the process of fundraising and if the PE fund (ii) has distributed comparatively little capital back to its investors. However, as related deal-level equity returns are not lower, we observe no moral hazard problem associated with these fund dynamics. In contrast, if a PE fund (iii) approaches the end of its lifetime, not only the exit route decision is affected but these exits also yield lower deal-level equity returns. We conclude that GPs do not maximize income from the current and next fund, but all future funds. Hence, they refrain from divestment decisions harming their limited partners' returns. However, this relationship breaks down as a fund approaches the end of its lifetime and the GP increasingly focuses on managing subsequent funds.
GPs focus on maximizing returns across all funds, not maximizing individual fund performance.

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- Discipline-based Research

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**Occurences:**
- Einrichtungen > Fakultäten > Fakultät für Wirtschaftswissenschaften > Kompetenzfelder > Finance & Accounting > Lehrstuhl für Entrepreneurial Finance (Prof. Achleitner) > Other

**entries:**