# The GP Selection Governance Framework

The 2025 Autumn Governance Series

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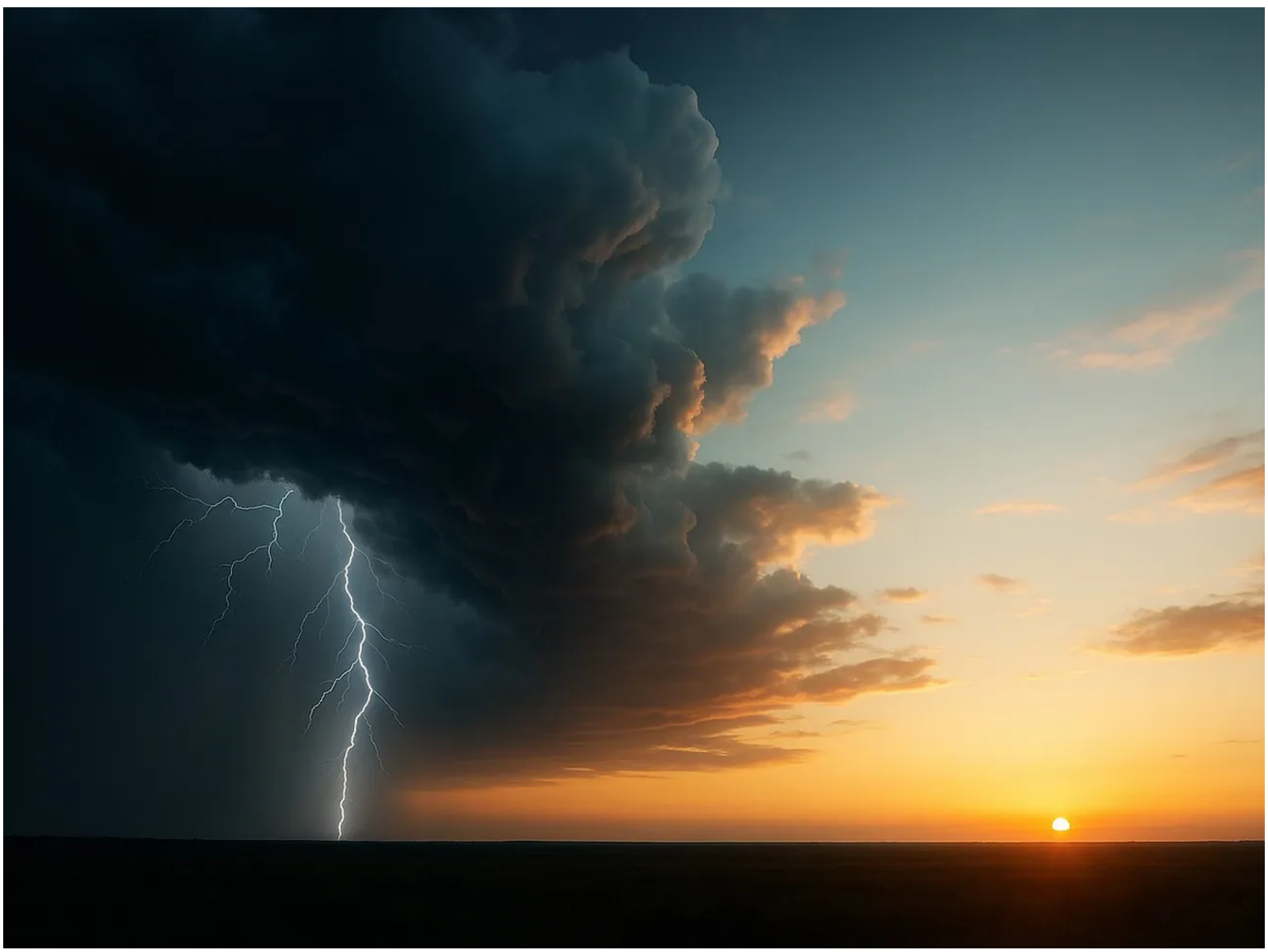

## Why This Matters

General partner (GP) selection is one of the most critical fiduciary responsibilities of investment committees. Historically, this process re heavily on human judgment—relationships, reputation, and subjective diligence. While human evaluation remains indispensable, it is inconsis prone to bias, and often weak in integrating tax and systemic risk considerations.

AI tools are now entering this process. They can screen managers fast aggregate broader data, and provide more consistent comparisons. Ye also introduce new risks: over-reliance on historical patterns, portfolio convergence, and blind spots around taxation and legal nuance. Gover must therefore evolve. This framework offers committees a structured approach to integrating AI into GP selection while safeguarding fiducia rigour and transparency with limited partners (LPs).

## The Traditional GP Selection Process

In the pre-AI model, GP selection typically began with screening based strategy, size, and track record. Quantitative analysis focused on IRR, multiples, and loss ratios, while qualitative diligence emphasized team cohesion, governance practices, and cultural alignment with LPs. Relationships and references were heavily weighted.

This model's strengths were adaptability and contextual awareness—h can detect red flags beyond the reach of models. Weaknesses included inconsistency, and limited integration of tax implications. Documentat often uneven, and overrides were justified through consensus rather t systematic protocols.

## AI's Role in GP Selection

AI augments this process by automating screening, aggregating datase Preqin, PitchBook, and internal records, and highlighting historical performance patterns. It can identify pacing anomalies, simulate outco under different macro assumptions, and deliver more consistent quan benchmarking.

But AI has limits. Models are only as good as their training data and str to adapt to regime shifts such as the post-2022 interest rate environm They lack the interpretive ability to address tax-legal structures and ca evaluate soft factors like team culture. Moreover, reliance on the same datasets across LPs and GPs risks convergence and correlation, erodin diversification.

## Authority Allocation and Override Protocols

A hybrid governance model should explicitly distinguish between wha automated, what requires AI-assisted validation, and what must remai human-led.

- **Automated:** routine filters (fund size, domicile, sector classificatio
- **AI-assisted:** performance attribution, pacing models, and risk-adju projections—subject to human validation.
- **Human-led:** qualitative judgments on governance quality, cultural alignment, and fiduciary-sensitive tax/legal issues.

**Override Authority:**

- Resting authority lies with the committee chair, supported by the v chair or lead independent director.
- If the chair is unavailable or conflicted, authority transfers to the v chair.
- The committee collectively may override a chair's decision not to c with a two-thirds supermajority.
- All overrides must be documented in minutes with a rationale tied fiduciary considerations.

## AI Vendor Governance

Where committees employ external AI tools, vendor oversight is critic Reliance on opaque or conflicted vendors introduces risks that cannot ignored.

Committees should require vendors to:

- Disclose methodology, including training data sources, model architecture, and validation approach.
- Demonstrate independence—vendors advising GPs in the same str should be prohibited.
- Submit to annual reviews of data governance, privacy, and cyberse protocols.
- Provide sufficient transparency to enable committees to assess th reliability.

Boards must retain authority to discontinue vendor relationships if qu
independence deteriorates.

## Tax Integration

AI models often optimize for gross IRR, yet fiduciary responsibility req focus on net, after-tax returns. OECD and IMF research shows that cr border structures can materially affect outcomes—but the impact vari widely.

- **Timeframe:** Drag may appear annually or across a fund's life.
- **Asset class:** More acute in private equity and infrastructure; less re in tax-sheltered real estate vehicles.
- **LP domicile:** US tax-exempt endowments may face negligible expo taxable European LPs investing in US PE funds may face withholdi carried interest treatment.
- **Fund structure:** Delaware LPs, Cayman exempted funds, and Luxe SCSp vehicles each create different exposure pathways.

**Board Protocol:** All references to "material" tax drag must be contextu Committees should state clearly that "cross-border structures can ma reduce investor outcomes, with impacts varying widely based on LP ta status, fund domicile, and treaty protections. External tax counsel sho assess exposure case by case."

To operationalize, committees should adopt one of three Tax Optimiz Layer models:

- **Minimal:** annual external tax review of AI-recommended allocatio
- **Standard:** quarterly external counsel review with formal sign-off.
- **Comprehensive:** in-house tax specialist with veto authority.

## Manager Evaluation

Nearly all GPs today use some form of data analytics. The governance challenge is to evaluate where a manager sits along the AI adoption sp

- **Full-stack adopters:** efficient but at risk of clustering.
- **Partial adopters:** balance efficiency with judgment.
- **Traditional-leaning:** potentially resource-constrained but may del uncorrelated exposure.

Committees should diversify across this spectrum rather than defaulti binary view of "AI vs. non-AI."

## Correlation Risk

The Bank for International Settlements has cautioned that reliance on machine learning models may create systemic convergence. In practic face data limitations that make direct measurement difficult. Most pos level transparency is annual, and vendor disclosure is often considerec proprietary.

Boards should acknowledge these constraints and apply correlation monitoring primarily to **new commitments forward**. For now, practica proxies include sector concentration, geography, and fund size cluster

Over time, as transparency improves, committees may integrate statis overlap metrics.

## Scenario Planning and Liability

Committees should prepare for scenarios where AI introduces govern stress. Model failure under new regimes, vendor herding, or data pois must be considered. Regulatory conflicts may emerge, as OECD BEPS prioritizes tax collection while SEC fiduciary standards prioritize inves protection.

Liability is a critical consideration.

- **When overriding AI:** Defensible rationale must be documented, id supported by independent validation.
- **When following AI,** Documentation should include awareness of A limitations, vendor methodology inquiries, and reliance on establis SEC guidance (IA Release No. 5248) and DOL fiduciary commentar

Boards must recognize that fiduciary duty cannot be delegated to algo Documentation and inquiry are the safe harbour.

## Limited Partner Transparency

Governance does not end with internal decision-making. LPs increasi expect transparency on the role of AI in manager selection. Committe should adopt a communication strategy that includes:

- Annual disclosure of AI's role in GP selection during LP meetings.

- Attribution analysis distinguishing AI-recommended allocations fr committee-modified ones.
- Incident reporting if an AI model failure materially affects outcome
- Availability of the governance framework upon LP request.

This transparency protects committees from reputational risk and ma LP expectations.

## Framework Review and Continuous Improvement

To avoid becoming a static compliance exercise, this framework must subject to continuous review. Committees should:

- Compare AI-driven and human-overridden decisions annually, wit attribution analysis.
- Commission a biennial external review by a consultant or peer inst
- Trigger reviews automatically following material underperformanc market regime shifts.
- Apply a three-year sunset clause, requiring revalidation or revision framework.

## Conclusion

The GP selection process is shifting from relationship-driven discretio hybrid human–AI governance. AI offers speed, scale, and consistency, brings convergence risk, tax blind spots, and liability challenges. By cla override authority, embedding tax optimization protocols, scrutinizing vendors, communicating transparently with LPs, and embedding revie

mechanisms, boards can capture AI's benefits without abdicating fiduc
responsibility. This framework balances innovation with accountability
ensuring that committees remain credible stewards of LP capital in an
increasingly algorithmic financial landscape.

*This article explores ideas from “Shaping the Decade: Governance, Sustainability, and AI 2026–2036,”* a comprehensive guide for boards navigating the intersection of governance, technology, and stakeholde capitalism. For those ready to learn more about AI, this book offers pra strategies and insights.
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