

WHAT IS A PREFERRED RETURN?

— And Why Investors Love It —

1 THE CONCEPT



A preferred return is the **minimum return** investors receive before the sponsor (GP) participates in the profits.

2 HOW IT WORKS

EXAMPLE



Investment: \$100,000
Preferred Return: 8%



Investor earns up to **\$8,000 annually** before profit splits begin.

3 WHY IT MATTERS



Aligns GP and Investor interests



Rewards investors first



Creates accountability

4 THE WATERFALL

- 1 Investors receive the preferred return.
- 2 Capital is returned to investors.
- 3 Remaining profits are split according to the operating agreement.

5 EXAMPLE

Investor: \$100,000
Pref: 8%

ANNUAL PREFERRED RETURN

\$8,000

After the preferred return is paid, profits are distributed based on the agreed split.

6 KEY TAKEAWAY



Preferred Returns **don't guarantee profits**. They simply establish who gets paid first.



STRONG DEALS REWARD INVESTORS FIRST.



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