The Financial Advisor's Guide to Private Investments

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AXXES CAPITAL

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A Brief Note from the Authors:

Joseph E. DaGrosa, Jr.

When I began my career as a financial advisor at PaineWebber in the 1980s, the investment world looked very different from the one we know today. Back then, the options available to retail investors were limited almost entirely to public markets — stocks, bonds, and mutual funds. The idea of a financial advisor offering private equity, private credit, or hedge funds to clients was almost unthinkable.

Private investments were the domain of institutions. Large pension funds, insurance companies, and university endowments dominated the space. They had access to opportunities that everyday investors — and even most wealthy individuals — could never touch. At PaineWebber, we simply didn't have the ability to offer these strategies to our clients, and the concept of democratizing access was not even on the horizon.

By the early 1990s, a slow shift began. Opportunities started to open for family offices and a select group of extremely high-net-worth individuals. But even then, access was limited, the structures were complex, and only a small handful of advisors could guide their clients into these opportunities with confidence.

In 1996, I left PaineWebber to join the private equity business and was fortunate to have been involved in a number of successful leverage buyouts. Perhaps the most interesting for me was the acquisition of the specialty, warranty and insurance company, Jet Support Services, Inc. where I served as Vice Chairman and Co-Chief Investment Officer for over twelve years. I saw firsthand the value creation, opportunities, as well as the risks associated with private investments. I also saw the widening gap between what institutions could access and what individual investors were offered.

Now, more than 35 years later, I've launched Axxes Capital with a singular mission: to bridge that gap. The world has changed. Technology, regulation, and innovation have made private investments more accessible than ever before. Financial advisors today stand at a crossroads similar to the one I faced nearly four decades ago. But unlike the 1980s and 1990s, when access was impossible, today the door is open — and the financial advisors who step through it will define the future of wealth management.

Arun Kaul, CFA

When I began my investment career in the early 1990s as an investment analyst at a boutique firm, the financial world was dominated by public markets —stocks and bonds. The daily ticker tape seemed to hold all the secrets to wealth creation. I started on the fundamental side of the house using databases and computer analytics to analyze stocks and markets - first focusing on UK, Japanese, Canadian and U.S. equity markets. And yes, at the time, state of the art data and analytics were delivered to institutional investors via floppy disk.

In 1996, I joined a former colleague in launching an asset management firm focusing on building proprietary investment technologies driven by quantamental analysis. Our initial products focused on hedge fund strategies covering long / short equity and market neutral and eventually evolved to specialty equity strategies for institutional and private clients. As technology progressed so did our systems —as latency, co-location and algorithmic trading changed the cadence of equity markets. While managing investor capital through the GFC in 2008-09 could be a book itself, the experience taught me to appreciate the true breadth and enormity of capital markets.

After being the due diligence interviewee for hundreds of investors, I moved to the other side of the house as CIO and allocator for firms that were responsible for managing several billion in AUM. Since 2012, I have had the opportunity to interview over 700 managers and portfolio companies gaining tremendous insights from executives and alpha generators across every asset class covering public and private markets. In my opinion, being able to ask the hard questions directly to the actual decision makers remains the best way to gain insight into how markets truly work. Eventually, this experience culminated in founding my outsourced CIO firm, where we help family offices and investment advisors build customized solutions and portfolios that bridge traditional and alternative investments.

This book is born from decades of lessons learned at the intersection of these worlds, aimed at guiding advisors and investors contemplating or navigating the shift from public to private markets. Whether as a seasoned professional eyeing alternatives or a newcomer curious about the opportunities beyond the exchanges, I hope this book illuminates the tremendous opportunity available in private markets. In sharing these insights, Joe and I aim to demystify private markets, emphasizing that true success lies in always learning and adapting while staying in sync with the never-ending evolution of capital markets —both public and private.

Acknowledgements

Writing this book has been a journey that we could not have completed by ourselves – it's the product of many minds and much collaboration. First and foremost, we would like to thank our families whose encouragement and unwavering support have sustained us throughout this process.

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We have also learned so much from our friends and peers in the financial community who have shared their insights, challenged our thinking, and inspired us to grow in this field. Their influence has been invaluable in shaping the ideas presented here.

Finally, we want to thank you, the reader, for your curiosity and commitment to learning. It is our hope that this book provides you with practical tools, fresh perspectives, and the confidence to take meaningful steps in your role as a Financial Advisor.

Introduction

Why This Book Was Written — And How It Can Help You

This book was written to bridge the gap between the old 60/40 model and the new reality of wealth management. For decades, advisors relied on public markets to deliver growth and income, but today's environment demands more. Private equity, private credit, venture capital, hedge funds, and real assets are no longer niche strategies reserved for institutions and billionaires — they are increasingly essential tools for diversification, inflation protection, and long-term growth.

Yet for many retail investors, access has been limited, confusing, or intimidating. The goal of this book is to demystify private investments, explain how they fit into a modern portfolio, and show you how to approach them with clarity and confidence. It will not promise quick wins or overlook risks; instead, it will equip you with the knowledge to ask the right questions, understand liquidity trade-offs, and make informed decisions.

In short, this book was written to empower you: to help you move beyond the constraints of traditional portfolios, gain comfort with private market opportunities, and build an investment approach that is more aligned with the strategies used by institutions and sophisticated investors.

For decades, financial advisors thrived by helping clients build diversified portfolios of public stocks and bonds. The 60/40 portfolio became a cornerstone of modern financial planning — simple, repeatable, and easy to communicate. For a long time, it worked. Financial advisors could point to historical returns, highlight the balance between growth and stability, and reassure clients that the plan would hold up through market cycles.

But times have changed.

Markets today look very different than they did just 10 or 20 years ago. Interest rates have swung dramatically. Equity markets remain volatile. Global uncertainties, from geopolitics to technology disruptions, weigh heavily on traditional allocations. At the same time, clients are far more sophisticated, educated, and connected than ever before. They read headlines about billionaires, endowments, and institutional investors allocating heavily to private equity, hedge funds, and real assets — and they're asking a simple question:

"Why don't I have access to these opportunities?"

The Challenge Financial Advisors Face

Private investments are no longer just for large institutions or ultra-high-net-worth families. They are becoming an essential part of portfolio construction for investors at many levels. Yet most financial advisors are not fully prepared to guide clients through this space. Why?

- Complexity: Private investments come with unique structures, terminology, and risks that can intimidate even seasoned professionals.
- Access: Historically, these opportunities were limited to insiders, institutional platforms, or those with extensive networks.
- Compliance: Financial advisors often worry about suitability, accreditation requirements, and regulatory scrutiny.
- Education: Traditional training and certifications rarely go deep into the practical application of private markets.
- Client communication: Even when a financial advisor understands the basics, explaining private investments clearly and persuasively to clients can be daunting.

The result? Many financial advisors shy away. They avoid private investments altogether, or they mention them only in passing without conviction. That creates a dangerous gap — because if clients don't hear about private opportunities from you, they will hear about them from someone else.

And when they do, your role as their most trusted financial advisor is at risk.

The Opportunity in Front of You

But here's the good news: the very challenges that keep most financial advisors from leaning into private investments create a massive growth opportunity for those who do.

By developing confidence in this space, you immediately:

- Differentiate yourself from financial advisors who stick to the same old 60/40 script.
- Add real value by showing clients you can bring them ideas and access they can't get from a robo-advisor, a discount brokerage, or even many wirehouse competitors.
- Deepen client trust by educating them in an area they're curious about but don't fully understand.

- Win new relationships by positioning yourself as the financial advisor who can open the door to strategies that build wealth the same way institutions and family offices do.

Private investments are more than just another asset class — they represent a shift in how wealth is built and preserved. For financial advisors who embrace this shift, the payoff can be measured not just in portfolio returns, but in practice growth, client loyalty, and reputation.

How This Book Can Help You Grow

Let's get to the heart of the matter: why should you invest your time in reading and applying the lessons here?

Because the future of wealth management belongs to financial advisors who can combine access with education.

Clients don't expect you to be fund managers. They don't expect you to have all the answers. But they do expect you to be a trusted guide. They expect you to understand the landscape, to know which questions to ask, and to have a framework for helping them evaluate opportunities.

When you can do that — when you can sit across from a client and confidently explain why a particular private credit strategy might fit their income goals, or how private equity might serve as a growth engine alongside their public equities — you set yourself apart.

And when you combine that knowledge with the ability to communicate clearly, manage expectations, and provide ongoing guidance, you do more than just serve your clients. You build a reputation. You become known as the financial advisor who "gets it" — who can bridge the gap between Wall Street institutions and Main Street investors.

That reputation is magnetic. It attracts new clients. It leads to referrals. It gives you a story to tell in your marketing, in your client reviews, and in your community. And most importantly, it gives you a competitive edge in a marketplace where differentiation is hard to come by.

A Final Word Before We Begin

This book is about more than asset classes and portfolio construction. It's about your future as a financial advisor.

The wealth management landscape is changing fast. Clients are asking bigger questions. Technology is replacing commoditized advice. Competition is everywhere. To thrive in this environment, you need to bring something more to the table: access, insight, and confidence.

Private investments give you that edge. And this book will give you the roadmap to deliver it.

So, let's get started!

Chapter One

Understanding Private Markets

Chapter One: Understanding Private Markets

This chapter provides an introduction to private markets across private equity, debt and real estate and core characteristics including j-curves, illiquidity and mark to model accounting. The chapter also compares private and public markets in terms of size and growth trends while also noting some of the key investor segments allocating to private markets investments.

What Are Private Investments?

Private markets refer to the financial ecosystem involving assets or companies not traded on public exchanges such as private equity, venture capital, private credit and real estate. Unlike public markets, where stocks and bonds are listed on exchanges such as NYSE or NASDAQ and offer daily liquidity and accessibility to all investors, private markets involve transactions directly between parties with limited liquidity and are generally restricted to accredited or wealthier investors. Historically, the primary investors have been institutions, family offices and high-net-worth individuals seeking higher returns and greater portfolio diversification. However, as will be discussed, the universe of investors is greatly expanding to include the "mass affluent" markets. In comparison to public markets, private markets are characterized by longer term investment horizons, more innovation, less regulatory oversight, greater investment breadth, less liquidity and transparency and differing performance and valuation metrics.

The investable universe within private markets has grown significantly over the past two decades, driven in large part by the industry's ability to offer investors access to distinct opportunities and exposures not available in public markets. These include direct access and ownership of cutting-edge research, innovative technologies, patents and new products and sectors; direct exposure to all the capital stages of a firm from infancy and start-up phases through growth and maturation; and direct exposure to all levels of a company's capital structure across debt, equity and hybrid instruments. Together, these factors allow investors to create broader, more diversified and customized portfolios.

Over recent years, the industry has experienced tremendous growth. Given the private nature of the industry, lower regulatory reporting requirements and differing definitions and categories, obtaining precise data on the industry's size can sometimes prove challenging. As of June 2025, global assets under management are estimated to be approaching $15 trillion for traditional drawdown vehicles and as high as $22 trillion if other products such as evergreen, limited liquidity and permanent capital vehicles are included. By way of comparison, in 2010 assets under management in traditional drawdown vehicles was approximately $6 trillion. Estimates for future asset growth range from 4% to 5% from public and private pension funds, 10% from existing institutions and up to 12% from private client and retail channels.[1]

The sheer size and breadth of the private market universe indicates that, going forward, the industry can continue to grow at similar levels. According to the North American Industry Classification System ("NAICS"), there are over 170,000 private companies with annual revenue over $10 million and more than 20,000 private companies with revenue over $100 million.[2] On a global basis, there are an estimated 28,000 to 32,000 portfolio companies that have received investments from private equity and private credit firms. Within the U.S., there are an estimated 8,500 to 12,400 companies that have received investment funds from private equity and private credit firms. Clearly, private companies represent a substantially larger pool of investable assets when compared to the 4,650 U.S. publicly listed firms that trade on the NYSE and NASDAQ.[3]

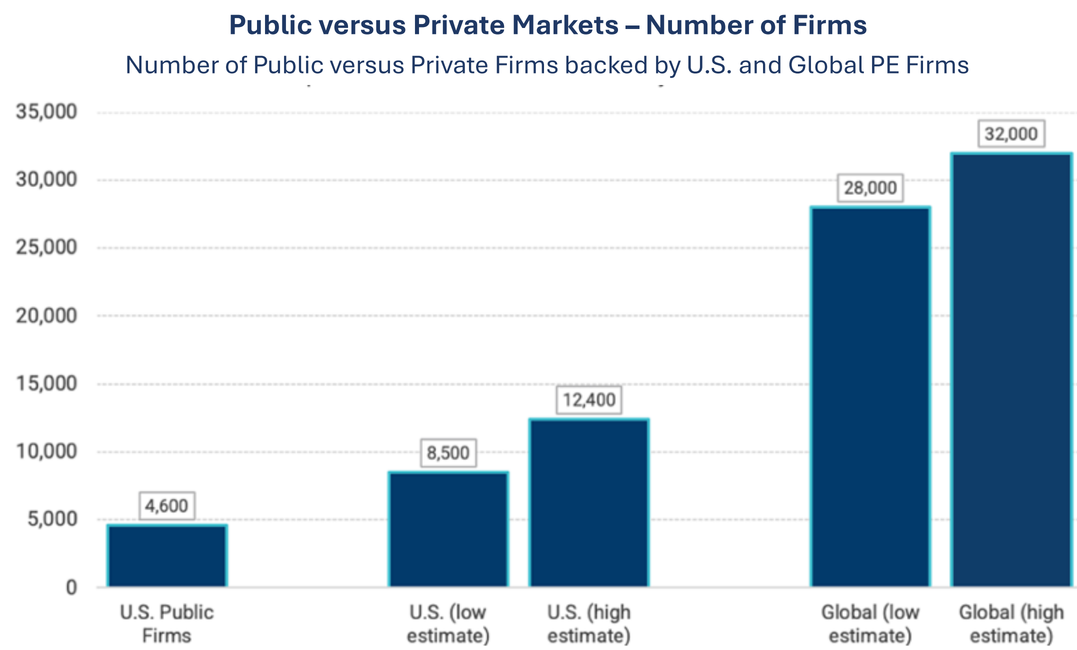


Figure 1.1[4]

[1] Various industry reports published by McKinsey Global Private Markets Report 2025, Pitchbook estimates for 2020 and 2025, Bain & Company analysis with reference to Preqin and PwC for future growth. Authors own calculations.
[2] Figures from NAICS include both public and private firms. December 2024.
[3] Data from Factset indicates that 4,650 corporations trade on the NYSE and NASDAQ exchanges, July 2025.
[4] Source: Factset for U.S. public firms, Pitchbook Preqin, Bain, McKinsey for industry estimates on number of PE backed firms, authors calculations

Public versus Private Markets

While the private market universe is large and growing, the public market universe, at least in the U.S., is actually shrinking. In the 1980s and 1990s, the average number of U.S. publicly listed firms peaked near 8,000. The number declined steadily during the early 2000s and today the number of public firms is just over 4,500. Post 2002, the introduction of the Sarbanes Oxley Act added significant regulations for all firms, domestic or global, that chose to list on U.S. public exchanges. These new regulations covered audit, internal controls, disclosures and financial reporting resulted in increased corporate costs and added personal liability exposure for executives. Today, key indices such as the MSCI World Index or the S&P 500 Index are dominated by giant, mega-cap firms and equity and sector weightings are significantly more concentrated. Private companies are staying private for longer, or, in certain instances, choosing not to go public at all.

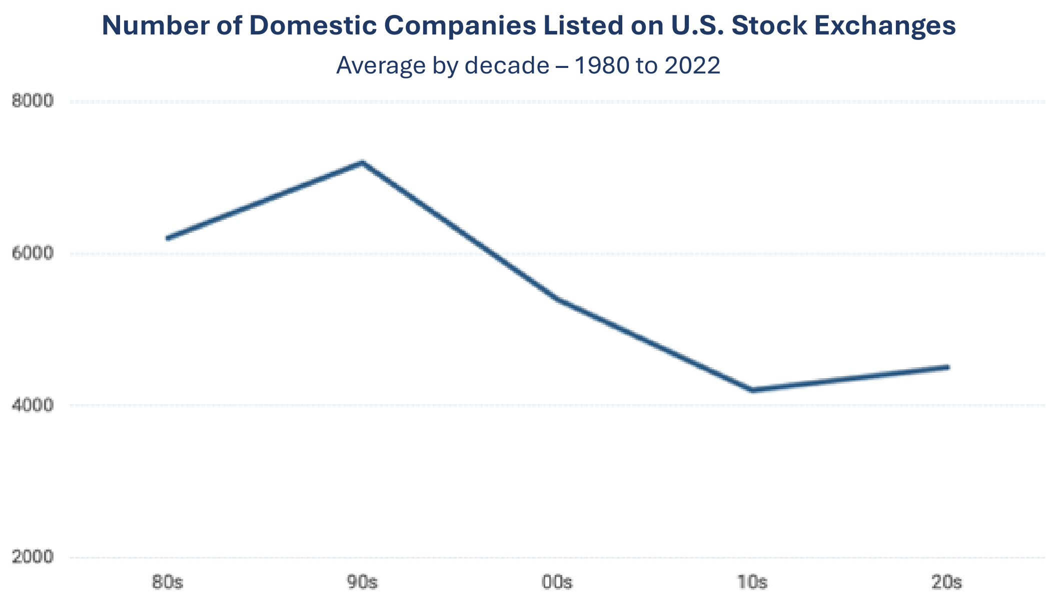


Figure 1.2[5]

On a global basis, there are now over 1,300 private firms, held by venture or private equity firms that have a market value above $1 billion. These firms, known as unicorns, have grown rapidly in number over the last 10 years. Several of these unicorns now have over $100 billion in market valuation based on their latest financing rounds and would easily qualify as large capitalization stocks as measured by the S&P 500 Index.

[5] Source: The World Bank, December 2022, '20s is five-year average from 2020 to 2024, data from Factset for years after 2022.

The holding period of portfolio companies by private equity funds has also risen over the past few years as the average age of a buyout backed portfolio companies is now over 3 years – the highest figure in more than 10 years. In addition, the number of companies that have been held for more than five years is over 30%, also a 10-year high.[6] From an initial public offering ("IPO") perspective, the average age of firms prior to IPOs is also rising. In 2023, the average age of an IPO was 10 years while in 2024, the average company age rose to 14 years prior to launching an IPO. Since 2020, 73% of IPOs have been venture capital ("VC") or private equity ("PE") buyout backed.[7] As the size of private markets grow and as the size of private firms continues to grow, public market investors are missing out on significant growth opportunities that occur prior to firms seeking public listings.

While private market growth has been impressive, the amount of assets under management remains small compared to public markets. On a global basis, public equities have a market capitalization over $105 trillion and public corporate debt outstanding is over $90 trillion. Together public markets for corporate equity and debt are over 12x larger than private markets.

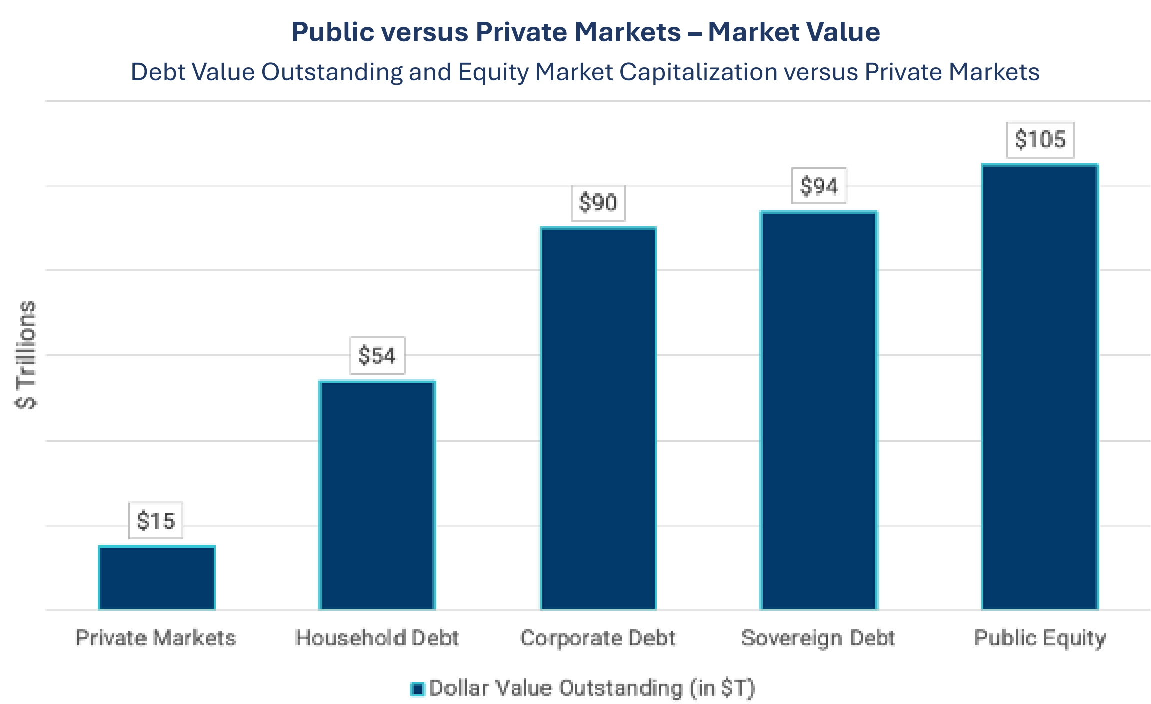


Figure 1.3[8]

[6] Pitchbook, Q1 2025.
[7] Jay Ritter, University of Florida, Warrington College of Business, May 2025.
[8] Source: IMF 2024 Global Debt Monitor for Household, Corporate and Sovereign Debt, World Federation of Exchanges for Public Equity Pitchbook for Private Markets, as December 2024.

Overall, the potential for private markets to generate returns and increase asset growth remains significant. The private markets universe provides a very large opportunity set for investors. The breadth and scope of private market offerings is significantly greater than public markets and significant growth and financial gains are accruing while firms remain private. Public market investors risk missing out if they remain unallocated to these areas. Given the differential in assets under management, significant growth opportunities remain as the private market financial ecosystem continues to grow.

Private Markets vs. Public Markets Returns

Over the past 15 years, private equity returns have significantly outpaced global equity returns. Private equity has returned on average 14.8% versus 5.6% for the MSCI x-USA Index.[9] However, private equity has only nominally outpaced returns for U.S. equities, with the S&P 500 gaining 13.9% over the same 15-year time period. This differential is low in large part because the forward price earnings ratio for U.S. public equities has risen from 11x in 2009 to above 20x in 2025. The multiple expansion is responsible for close to 50% of the return of the S&P 500 over this time period. Going forward, assume earnings growth is similar, public markets will likely have a difficult time achieving similar returns without a correspondingly similar gain in the multiple.

Private debt has provided substantially higher yields versus public markets and is therefore viewed as an excellent complement to existing bond portfolios. Over the past 15 years, private debt strategies have returned approximately 9.6%, significantly exceeding the Barclays World Bond Aggregate Bond Index which gained 0.9%, the Barclays Aggregate U.S. Index which gained 2.4% and the Morningstar LSTA Index which gained 4.9%.[10] The substantial underperformance in the public debt arena is to be considered in light of global central banks holding rates at or near 0% (and below). It should be noted however, that private debt has consistently returned 2.0% to 4.0% in additional returns versus comparably rated public debt.

Who are the Largest Investors and Allocators to Private Markets?

Today, the largest investors in private markets are sovereign wealth funds, pension funds, endowments, family offices and ultra-high-net-worth individuals. Sovereign wealth funds,

[9] Source: Factset for S&P 500 and MSCI x-USA Index as at 2024, Pitchbook for private equity, 2024
[10] Source: Factset for Barclays World Bond Aggregate Index, Barclays Aggregate U.S. Index, Morningstar LSTA Index, Pitchbook for private debt as at December 2024

which rank as the largest pools of global investable capital, allocate between 20% to 30% to alternative assets, including hedge funds. This allocation is ever higher if direct 'strategic' investments, often large-scale national projects, are included in the allocation figures. Allocations for global public pension funds also range between 20% to 30% based on estimates (which include hedge fund investments), from Pensions & Investments and the Thinking Ahead Institute Global Pension Asset Study 2024. Most institutions list several key reasons for allocating to private markets. Amongst the most common reasons are higher return potential, opportunity for better portfolio diversification and access to unique or innovative opportunities.

Endowments, on average, allocate approximately 45% to alternative investments (which includes hedge funds) with the largest entities, those with over $5 billion in assets, allocating more than 50%.[11] This large allocation to private markets is based in part on the research pioneered by David Swensen in the 1980s, now known as the Yale Model. Swensen drastically changed endowment investing by shifting the Yale University endowment away from traditional stock and bond portfolios towards a diversified allocation focused on private market assets like private equity, venture capital, and real estate. This approach, with its emphasis on long-term investing, directly aligned with the investment horizon and perpetual objectives codified in Yale's investment policies. The Yale Model aimed to enhance returns and diversify portfolio risk by investing in asset categories that were non-correlated with public equities and bonds. Swensen's success in generating enhanced risk-adjusted returns led to its widespread adoption by other endowments.

Family offices and ultra-high net worth individuals are the fastest growing group of allocators to private investments with recent estimates ranging from 27% to 45% allocations to private markets based on research, surveys and reporting from firms including CapGemini, Global Partnership Family Offices, Goldman Sachs and J.P. Morgan Private Bank. According to some surveys, crypto and other digital assets are close to 5% of the overall asset allocation – which may or may not be included in the private market category depending on how families articulate their investment policies. Many wealthy families have a long history of participating in private investments with some families tracking their exposure to private markets back generations, to merchant banks, funding for higher-risk ventures including trade, exploration and early commerce. We explore this topic further in Chapter 2.

[11] NACUBO National Association of College and University Business Officers Study of Endowments in partnership with the Commonfund Institute

Key Types of Investments in Private Markets

Private markets investments provide a wide range of alternatives to participate in a private company's capital structure. Listed below are some of the major types of private investments available to investors.

Private Equity

Private equity strategies include both buyouts and growth equity. Buyouts represent investors acquiring a controlling stake in the firm while working closely with the management team with aims of adding operational expertise. Buyouts are often leveraged, known as leverage buyouts ("LBOs"), with private equity firms using significant amounts of leverage, usually secured by the acquires assets, with the goal of increasing the operating company's value and selling for a profit usually after a period of three to seven years. Private equity investors provide growth equity to established firms with strong track records of success that are positioned for substantial growth. Private Equity differs from public markets by focusing on long-term value creation through hands-on management, rather than earning passive gains through short or long-term stock price gains. We cover private equity in detail in Chapter 4.

Private Equity – Secondaries:

Secondaries investments involve the purchase and sale of illiquid investments in stakes in private equity, venture capital, or other private market funds. These purchases are typically from existing investors such as limited partners ("LPs") seeking liquidity prior to the termination of the holding period of the fund. Secondaries allow investors to acquire pre-existing commitments from LPs, often at a discount, providing immediate exposure to a diversified portfolio of underlying assets. In addition, secondaries investments offer advantages, such as shorter holding periods and reduced J-curve effects. Secondary transactions currently do not occur on exchanges (such as the NYSE or NASDAQ), as transaction activity must still be arranged and there is currently no central repository listing all available offerings. Investments in secondaries require sophisticated due diligence to assess the quality and valuation of the underlying investments, distinguishing secondaries as a specialized strategy within private markets.

Private Equity – Co-Investments and Direct Investments:

Co-investments refer to investments made directly alongside a private equity or venture capital fund in a specific portfolio company, typically paying lower or none of the management or performance fees associated with a private equity fund. This strategy allows investors to gain greater exposure to high-potential deals, diversify their portfolios, and align closely with the general partner's ("GP's") investment strategy, while benefiting from the GP's due diligence and expertise. Co-investments are attractive for their lower cost structure and potential for higher returns, but they require investors to have the capacity to evaluate deals quickly and commit capital on a deal-by-deal basis.

Direct investments in private markets refer to the acquisition of equity or debt stakes directly in private companies without the intermediation of a private equity, venture capital or private debt fund. These investments involve hands-on due diligence, negotiation, and often active involvement in the company's strategy or governance, offering greater control over investment decisions and potentially higher returns by avoiding fund-level fees and carried interest. However, direct investments carry higher risks due to concentrated exposure, require significant expertise and resources for sourcing and managing deals, and lack the diversification provided by fund structures, making them a distinct and resource-intensive approach in private markets.

Venture Capital:

Venture capital strategies focus on early-stage, high-growth companies, often in technology or innovation-driven sectors. Venture capital firms provide capital to startups in exchange for equity, accepting high risks for potential outsized returns. Unlike public market investments, venture capital involves direct mentorship and strategic guidance, with investments often illiquid until an exit via acquisition or IPO. Venture capital's risk profile and long holding periods (typically 5–10 years) necessitate diversification with thoughtful portfolio allocations. We cover venture capital in greater detail in Chapter 4.

Private Credit:

Private credit encompasses non-bank lending to non-public traded companies. Unlike public market bonds, which are traded and standardized, private debt is customized and negotiated directly between lenders and borrowers. While direct lending is the largest category within private debt, other key categories include mezzanine and distressed financing, real estate debt, structured finance, asset backed lending, and other specialty finance segments. Private credit's flexibility in structuring loans and lack of public disclosure contrast with the more regulated, transparent nature of public debt markets. We cover private credit in greater detail in Chapter 5.

Real Estate and Infrastructure:

Private real estate involves investments in non-publicly traded properties such as commercial, industrial or residential buildings. Key categories include office, retail, industrial and logistics, multi-family housing and storage. There is significant overlap between publicly traded REITs and non-publicly traded REITs and direct fund investments. However, one key distinction of private markets is that investors are able to gain direct exposure to early stage, ground-up, development projects as well as renovation and refurbishment projects across many sectors.

Infrastructure as a category of private market investing involves allocating capital to essential services or systems, such as utilities, energy and transportation networks. Key categories include transportation across air, sea, road and rail; midstream energy such as pipelines, energy transition such as solar, wind or hydro generation and utilities such as water, electricity and gas. These investments typically offer stable, long-term cash flows, often backed by government contracts or regulated revenues, and are less sensitive to economic cycles due to their indispensable nature. We cover Real Estate and Infrastructure in greater detail in Chapter 6.

Core Characteristics of Private Market Investments

Understanding the characteristics of private market investments is crucial. Below are a number of these key considerations:

The Illiquidity Premium and Excess Returns

Private market investments are illiquid as investors may be locked in for an extended period of time. In return, investors require an ‘illiquidity premium’ which is the expectation of an excess return in comparison to a similar asset that is liquid and held for a similar period of time. The illiquidity premium is different from the risk premium which compensates investors for accepting higher levels of risk on a given investment. For example, private equity and private debt investors expect to earn returns in excess of what they would otherwise return on public debt or public equities, respectively, as a trade-off for sacrificing liquidity.

Mark to Model Valuation, Time Lags and Smoothing

Private market assets are generally not priced daily on an exchange, requiring periodic valuations based on appraisals, discounted cash flows, or comparable transactions resulting in higher levels of subjectivity and complexity compared to the real-time, market-driven pricing of public securities. Given the complexity of the modelling, there is often a time lag in reporting – often valuations and NAV calculations are released one or two quarters after quarter or year end. Because of the long-term nature of the investments, the mark to model estimate is purposely slow to move valuations recognizing that short term fluctuations may not be indicative of the underlying long-term cash flow or expected return. The end result is that valuations are often smoothed out over time and show less variance from quarter to quarter, especially in comparison to public markets. As we will discuss in Chapter 7 “Portfolio Constructions with Private Investments” and while somewhat controversial, this is a legitimate source of diversification for investors as private-illiquid-mark to model investments are a true offset to public- liquid-daily priced market investments.

Limited Transparency

Private markets operate with less regulatory disclosure requirements in comparison to public markets. As a result, private market investors have access to less publicly available information regarding valuations, financial performance, staffing and operations in comparison to public markets companies. Information disclosure will vary by private equity firm and fund, though it is typically greater than transparency levels provided by most public securities fund managers. However, the landscape is changing rapidly with the introduction of interval and tender offer funds, which are SEC registered, and therefore typically provide public reports with detailed financial and portfolio information ensuring greater transparency for retail investors.

Active Ownership and Control

Private Equity investors in particular, involve taking significant or controlling stakes in companies, allowing them to directly influence management, strategy, and operations. In comparison, most all public market investors are passive investors, with no influence over day-to-day operations of a firm - with the exception of activist funds that seek to influence corporate behavior across strategic decisions via board seats or controlling blocks of shares.

Capital Calls, Commitments and Blind Pools

With most traditional drawdown funds, investors commit capital upfront but contribute funds gradually over a period of time via capital calls as investments are made. Investors are generally not aware of the exact investments a fund will be making at the time of commitment, though they will know the industry segment, niche or theme of the investment – this is referred to as "blind pool" risk. The GPs make investment decisions as opportunities arise and request capital from investors at irregular intervals. This approach is far different from public markets investing as investments are fully funded at purchase. Unlike traditional drawdown funds, interval and tender offer funds are evergreen or continuous offering vehicles where the fund immediately deploys capital therefore eliminating the need for capital calls. Continuous offering funds may have some blind pool risk depending on the nature of the strategy and on the level of seeding at inception. Regardless, the blind pool risk in these funds is similar to mutual funds, where the investor will not know every position that a manager is buying but will generally have a clear idea based on regulatory disclosures of holdings.

J – Curve

Within private investments, the J-curve is a concept that describes the pattern of returns over the life of an investment fund. Initially, the fund may experience negative or low returns, due to upfront costs such as management fees, due diligence expenses or capex or operational costs that are sunk into early or growth stage firms. These costs may delay the generation of profits. Over time, as sales grow, operational improvements take hold, cashflows are established and exits are achieved, returns increase over a medium to long term horizon. Tender interval and offer funds will generally experience reduced J-curve exposure because capital will typically be deployed faster into an established and diversified portfolio. Also, regulated liquidity and reporting requirements, likely encourage managers to invest in assets that generate returns sooner.

Access Restrictions

Traditional private markets investment vehicles (drawdown vehicles) rely on an exemption under the Investment Company Act of 1940 ("The 1940 Act"), which enables GPs of traditional drawdown vehicles to generally avoid the regulatory constraints of the 1940 Act provided that these funds restrict their investor base qualified purchasers (investors with at least $5 million in investable assets) in the case of retail investors). As a result, smaller investors (those with less than $5 million in investable assets) have been unable to invest in the private markets. This is rapidly changing, however, with the introduction of investment vehicles that are regulated under The 1940 Act. These include interval funds, tender offer funds and business development companies ("BDCs"). These vehicles also offer some significant advantages over traditional drawdown vehicles which will be more fully discussed in chapter 8 to access investments, including limited partnerships, interval funds, BDCs and special purpose vehicles. The regulations focus on levels of liquid net worth and lean towards wealthy investors only, unlike public markets, wherein regulators do not place minimum requirements on investor wealth. Interval and tender offer funds again differ. The minimums allowed accredited investors, those with $1 million in investable assets, to invest and in many cases, retail investors may invest alongside provided they meet the minimum investment requirements, often $10,000 to $25,000. We cover key Regulations in Chapter 3 and Structures and Access Points in Chapter 8. The rules governing access to both public and private markets investing are generally codified in the I.C.A. of 1990 and the Securities Act of 1933.

Portfolio Considerations

Private markets offer access to distinct asset exposures and unique opportunities generally not available in public markets. As a result, private strategies offer opportunities for higher returns, meaningfully different risk profiles and lower correlations versus traditional assets. Differentiated risk profiles and lower correlations diversify traditional portfolio and often present opportunities for investors to achieve higher risk adjusted returns.

From a risk perspective, private markets offer a continuum of exposures. For investments such as venture capital, financial and operational risks are higher than typical public market exposures because these companies are typically much smaller and have business models that are yet to mature. For investments such as real estate or infrastructure, risks may be comparable to medium sized public operating companies though higher for new developments or smaller operating companies.

For investments in private credit, risk profiles run the range from similar to higher risk, depending on the size of the operating company, its financial strength, the seniority of the loan and its placement within the capital structure of the firm and any customized covenants that were written to back the loan. For private equity investments, risks profiles run the full gamut. We cover portfolio design in more detail in Chapter 7.

Manager Due Diligence and Return Dispersion

For private market investors, due diligence is critical. The range, scope, style and uniqueness of private markets strategies are much broader than those found in public markets. Many of the strategies are more complex or nuanced and often term sheets include special covenants or provisions that provide added benefits or protections to the investor. The level of resources and time required to diligence strategies usually exceeds that for comparable public market strategies.

The breadth, range, scope, style and uniqueness of private markets strategies also creates significant return dispersion amongst manager strategies and even among managers targeting similar. As a result, the dispersion of return amongst managers is materially higher than its comparable peer group within public markets. This is true across all strategies from venture capital and private equity to private credit and real estate. Most public managers adhere to risk guidelines that measure tracking error against a benchmark. Many and most have narrow bands of return dispersion versus each other. The opposite is true in private markets. Managers do not manage to a benchmark, and the concept of tracking error is irrelevant. Return sources are often idiosyncratic, niche, or unique opportunities that are differentiated from other managers and as such manager dispersion is extremely wide. Skill in manager due diligence and portfolio company oversight are a significant source of generating returns. We review manager due diligence in more detail in Chapter 9.

Chapter Two

From Family Fortunes to Institutional Private Markets

Chapter Two: From Family Fortunes to Institutional Private Markets

Chapter 2 takes a look at the long history of private investments starting with the European Renaissance era and moving toward the U.S. colonial era. It then takes a deeper look at the modern U.S. era starting in the post war period and notes some of the significant developments in each decade as well as commenting on some of the larger deals in each period and the firms behind the deals.

Europe and the Dawn of Private Markets

Early forms of private market investing appeared in Europe as far back as the 1500s and 1600s with prominent family-owned banking and trading houses funding economic activities such as trade, exploration and industry. During the Renaissance Period, the family-owned Medici Bank of Italy was amongst the most influential banks financing the wool, silk and spices industries as well as and lending money to monarchs and city states alike. The banking families of Genoa also provided loans to monarchs, funded Mediterranean and Atlantic trade expeditions and invested in enterprises including shipbuilding and textile production, often taking equity-like stakes or profit-sharing agreements akin to private equity.

In Germany, the Fugger and Welser families financed industry, trade and colonial ventures. The Fuggers, known as the 'Medici of the North', financed mining and trade in spices and textiles and lent to merchants, princes and emperors. Its war funding to Hapsburg emperor Charles V was secured by revenues from Spanish colonies. The Welser Family financed trade in spices, sugar and silver, lent money to the Spanish crown and also funded colonial expeditions to the New World. Many of these ventures were jointly financed where merchants formed partnerships to finance activities in order to diversify risk. Risk was shared amongst the partners usually with no formal legal structure and the ventures were generally short term in duration. In Antwerp, Europe's commercial capital in the 1500s, merchant houses run by the wealthiest families acted as financiers and intermediaries. The merchant houses not only funded trade in spices, textiles and metals but also supported a growing public stock exchange in the city and financed European rulers.[1]

[1] The Fuggers of Hapsburg, Mark Haberlein.

During the 1600s, The Dutch East India company became the first publicly traded company. The company raised capital from a broad investor base to fund long distance trade with Asia with profits being distributed by way of dividends. The structure was similar to venture capital with its early stage of operations and risks associated with piracy, storms and colonial conflicts. The English East India Company was established to compete with its Dutch counterpart. During its early stages, merchant families and nobles were financiers of specific voyages or direct investments in the firm, receiving a share of the profits in return. Later, the company adopted a more permanent capital structure resembling a private company.

With the inception of public stock exchanges - first in Amsterdam in 1602 and then much later in London in 1801 – the influence of the dominant European families began to wane. However, in countries with less developed public markets like Italy and Spain, families and private banks remained important for local trade and state loans.

Private Markets in the United States

During the Colonial Period of the 1700s, private market activity was limited. Capital was scarce and fragmented by colonial boundaries. Private loans were provided by wealthy merchants, landowners and certain European financiers mostly for production of grains, tobacco, ironworks and shipping. Investments were illiquid and high risk.

By the early 1800s, merchants and wealthy investors were funding voyages, typically with no formal structure, by pooling capital to outfit ships, hire crews, and cover provisions, with profits shared based on the value of goods returned. A big driver to this development was the whaling industry which supplied oil for lighting and lubrication. It was a high-risk, capital-intensive industry financed through private investments and joint ventures resembling early private equity and partnerships.

As the 18th century progressed, the Vanderbilt family amassed its initial fortune in steamship lines, then reinvested profits in railroads building New York Central Railroad and Chicago and Northwestern Railway. Investments resembled modern private equity as the family combined personal capital with strategic partnerships to gain controlling stakes. The family focused on infrastructure improvements and retained managerial oversight to streamline operations and enhance profitability. During the mid-1800s, the Rothschild banking dynasty played a significant role in financing U.S. business and industry financing railroads via loans and syndicated offerings in Europe. Loans were secured by railroad revenues and land grants and took limited equity like stakes via profit sharing and convertible notes.

In the late 1870s, J.P. Morgan played a key role in funding Thomas Edison's Edison Electric Light Company, the predecessor to General Electric. The investment was a mix of personal and syndicated funds, where J.P. Morgan and his partners took equity stakes, including control over key decisions with profits tied to patent royalites and future revenues from electric lighting systems. This funding enabled Edison to build the Pearl Street Station in 1882, the first commercial power plant in New York City, laying the foundation for the modern electric utility industry.

The Rockefeller family took private finance to the next level building Cleveland Refineries by merging and acquiring more than 20 competitors, capitalizing on growing demand for kerosene. Later the family created Standard Oil Trust by acquiring and merging over 40 firms, achieving nearly a 90% share of the U.S. refining market. The family enterprise was consolidated in 1882 via pooling capital from investors and issuing trust certificates tied to oil revenues. The financing model relied on equity, minimal debt and achieving massive scale while maintaining majority equity control. Investors earned dividends from operations and loan to subsidiaries were asset-backed. The Rockefeller's family wealth later financed ventures in mining, railroads, and real estate, often through direct investments or loans to trusted partners. Henry Phipps, a partner in Carnegie Steel, used his proceeds from the 1901 sale to J.P. Morgan to establish Bessemer Trust - one of the earliest entities resembling a private equity fund.

During the early 1900s, private equity was dominated by wealthy families using personal capital for buyouts or minority investments. Financing relied on cash, syndicated loans, or bonds, often for railroads, steel, or real estate. Techniques emphasized consolidation and operational control, resembling modern buyouts but without formal fund structures. Private market activity carried high risks and high rewards with long term returns across illiquid strategies - pursuing innovative technologies and industries similar to modern day venture capital strategies.

The Modern Era - Key Regulation and Early Deals

The modern private markets era began in the mid-20th century. In 1946, the American Research and Development Corporation ("ARDC"), founded by Georges Doriot, became one of the first venture capital firms, investing in early-stage companies like Digital Equipment Corporation. ARDC's success demonstrated the potential for high returns from private investments. Around the same time, private equity emerged as wealthy families and institutions bought controlling stakes in mature businesses.

The Small Business Investment Act of 1958 allowed Small Business Investment Companies ("SBICs") to borrow funds against equity raised. These borrowings were tied to U.S. Treasury yields and were repayable over long periods. The leverage mechanism enhanced returns when investments succeeded, promoted risk taking and drove additional capital into the space. Investments were intended for emerging industries like technology and manufacturing. By the early 1960s, over 600 SBICs were licensed – arguably laying the foundation for professional venture capital and private equity financing.

Creation of SBICs were followed by one of the earliest leveraged buyouts ("LBO") when financier Lewis Cullman assisted Rollins Broadcasting in acquiring much larger Orkin, a pest control company. The deal was levered over 5 to 1, anchored by Orkin's predictable cash flow to service the debt. The financiers put up virtually no equity capital resulting in an extremely profitable transaction and ushering in the LBO era and the modern-day private equity business.

The Employee Retirement Income Security Act ("ERISA") of 1974 opened the door for institutional investors to enter the world of private investments. Specifically, the 'prudent man' rule, established in 1978, that defined a plan sponsor's fiduciary responsibility. The new prudent man rule allowed pension fund managers to adhere to their fiduciary obligations and invest in more speculative vehicles such as private equity and venture capital as long as such funds fit within a diversified portfolio. This opened the floodgates for pension funds to allocate to private markets.

The influx of pension fund capital encouraged the creation of new private equity and venture capital firms. Key players included Thomas Lee Partners, founded in 1974, Kohlberg Kravis and Roberts ("KKR") founded in1976, and Forstmann Little, established in 1978. Other firms such as J.H. Whitney & Company and Warburg Pincus began to transition from venture capital to include LBOs and growth capital investments as the industry began to shift funding towards more established firms. Notable LBO deals at the time included KKR's acquisition of Houdaille Industries, an auto parts manufacturer, Kelso & Company's acquisition of American Standard, a diversified manufacturing firm, and Wesray Capital's acquisition of Gibson Greeting Cards, one of the largest greeting card companies. These deals involved the acquirer usually investing very modest levels of equity and borrowing significant sums to finance the acquisitions and then relying on the stable cash flows of the underlying company to service the debt.

Similar to LBOs, venture capital, was still in its infancy in the 1970s. Deals were much smaller and often lacked the level of transparency and reporting that investors see today.

Estimates for initial investments were typically less than $1 million and the market value of the firms was a fraction of what we see today. Sequoia Capital, based in Silicon Valley and founded in 1972, was one of the clear leaders in the venture capital arena. One of its earliest funding rounds included video game manufacturer Atari, which was valued at the time at approximately $2.5 million. At exit, Sequoia Capital earned an estimated 10x when Atari was acquired by Warner Communication in 1976. The firm followed this with an investment in Apple Computer in 1977, in a Series A round along-side Venrock, a Rockefeller family fund, with an estimated check size of approximately $250,000, valuing Apple Computer near $2.5 million. When Apple Computer went public in 1980, Sequoia Capital earned 300x to 500x of their original investment. Kleiner Perkins Caufield & Beyers seeded biotechnology firm Genentech in 1976 with an estimated $200,000 investment valuing the firm at $2 million. In 1980 when Genentech went public, Kleiner Perkins made an estimated 150x of their investment.

The Institutional Era

The 1980s and the LBO Era

Regulatory changes in the 1980s supported the continued growth of the industry. The SEC strengthened oversight of private placements under Regulation D, introduced in 1982, standardizing exemptions for private securities offerings and allowing private equity firms to raise capital from accredited investors without the costly and time-consuming process of a public offering.

In the 1980s, with KKR leading the way - financiers, investment banks and private equity firms - combined to transform the industry with blockbuster LBO deals. Large deals generally ranged from $2 billion to $6 billion in size, with the largest, KKR's massive $25 billion acquisition of RJR Nabisco in 1989, setting a record that lasted for almost 20 years. Other noteworthy deals included Ronald Perelman's acquisition of Revlon cosmetics for $2.7 billion in 1985 and KKR's acquisition of department store chain R.H. Macy & Co. for $3.5 billion in 1986. KKR went on to acquire grocery retailer Safeway Stores for $5.5 billion in 1986 and Beatrice Companies for $6.2 billion, also in 1986. In 1987, the Thompson Company, along with Citicorp Venture Capital, purchased convenience store operator Southland Corp (7-Eleven) for $3.5 billion and Merrill Lynch Capital Partners teamed with management to acquire automotive and chemical manufacturer Borg-Warner for $4.1 billion. Generally, the deals mentioned above were aggressively leveraged and financed with 75% to 90% debt, often utilizing junk bonds (bonds rated below investment grade) for funding. The LBO boom was fueled by firms such as Drexel Burnham Lambert, which underwrote and sold these bonds to institutional investors.

The 1990s

By the 1990s, private markets had become a mainstream asset class within institutional portfolios, offering potentially higher returns versus the public markets but with reduced liquidity. Firms like Blackstone, founded 1985, and The Carlyle Group, founded 1987, diversified private equity investments beyond companies into real estate, infrastructure, and private debt. Globalization spread private market activity to emerging economies, with firms like Temasek in Singapore investing in Asian private companies.

As private equity firms grew in size, these firms ventured directly into public markets and executed strategic “take-private” deals, whereby the private equity firms took public companies back into private hands. a public firm back into private hands. Notable “take private” deals included Bain Capital’s acquisition of drug store operator Duane Reade and Texas Pacific Group’s acquisition of Oxford Health Plans

During the 1990s while overall growth remained strong, deal activity was slower, deal size was smaller and leverage levels were lower as banks rained in their aggressive lending practices for leveraged buyouts. Equity ratios increased from 5% to 20% to 20% to 40% for an acquisition. However the industry’s foundation was solid, its growth continued. The Institutional Era marked a transformative phase for private markets, as private equity and venture capital solidified into structured industries. Building on earlier investment practices, private markets shifted from semi-informal deals to formalized asset classes, driven by institutional capital, and supportive regulatory changes.

The Endowment Model Era

As mentioned in Chapter 1, the endowment model, pioneered by David Swensen at Yale University in the 1980s, revolutionized institutional investing by emphasizing significantly higher allocations to alternative assets, particularly hedge funds and private equity, venture capital and real estate. Swensen reduced Yale’s reliance on traditional stocks and bonds, increasing allocations to private equity and venture capital to over 30% of Yale’s investment portfolio by the 1990s. This was a significant departure from the norm, as most endowments at the time allocated less than 10% to alternatives. By leveraging the perpetual investment horizon of endowments, the Yale model sought to capture excess long-term returns offered by private market investments. Yale’s endowment grew from $1.3 billion in 1985 to over $10 billion by 2000 averaging annual returns of over 13% for the period thereby demonstrating the model's efficacy. Yale's success stemmed from the university's focus on sophisticated due diligence, selection of top-tier fund managers and a willingness to commit capital for extended time horizons. Yale's strategy reshaped how all institutional investors, including endowments, pension funds, and foundations, approached private markets. By the early 2000s, endowments and foundations became major limited partners in private equity and venture capital funds, alongside pension funds.

The Rise of the Private Markets – An Era of Exceptional Growth

In the early 2000s, deal success continued as venture and private equity earned significant returns bringing to market Facebook, Twitter, You Tube, LinkedIn, Google, Airbnb and Spotify. Google, though initially funded in the late 90s, received later round funding from Sequoia and Kleiner Perkins estimated at $25 million culminating in a 2004 IPO valuing the firm at $23 billion. Facebook, (now Meta) founded in 2004, went public via an IPO in 2012 valued at $16 billion. It received angel round funding from Peter Theil in 2004 followed by Accel adding $12.5 million in 2005 and Graylock Partners adding $27.5 million in 2006. Accel's stake was estimated to be worth over $1.5 billion by 2012 when the firm went public. Sequoia backed LinkedIn, Airbnb and YouTube in early series rounds. It led a Series A round for LinkedIn 2003 raising $12 million, Bessemer Venture Partners followed in 2004 investing $15 million in 2004 and its stake was valued at over $1 billion by 2011when it went public at over a $4 billion valuation. LinkedIn was later acquired by Microsoft in2016 for $26 billion. YouTube, founded in 2005, was backed by Sequoia in a Series A round in 2005 and $8 million in 2006 before it was acquired by Google later that year for $1.6 billion, yielding Sequoia an estimated 50x return.

As the industry entered the 2010s, strong growth continued driven by the acceleration across global markets, the creation of new and innovative products, ever larger deals and a two-handed assist from U.S. regulators. Private markets were assisted by U.S. regulators with the introduction of Dodd Frank Act of 2010. New rules imposed stricter regulations on banks, increasing capital requirements and limiting their ability to engage in high-risk lending activities like leveraged loans. This created funding gaps for certain market segments, specifically middle markets and mezzanine financing. Private markets responded by offering direct lending and specialty financing directly to these market segments. The Great Financial Crises created higher default rates and wider credit spreads for higher risk borrowers. Seeing an opportunity, private markets responded by increasing distressed debt strategies seeking to purchase distressed assets at discounted prices.

The industry received a second boost from U.S. regulators with the JOBS Act of 2012 (Jumpstart Our Business Startups Act), which eased restrictions on private capital raising and expanded investor participation. The Act lifted the ban on general solicitation for Regulation D offerings, allowing private funds to publicly advertise to accredited investors. It also introduced equity crowdfunding, enabling non-accredited investors to invest in private companies with limits. This provision expanded investor access allowing all investors, regardless of wealth level, to access early-stage or venture investments, putting access to crowdfunding on par with public markets.

The industry saw significant growth from international markets during the decade, especially within private equity and real estate. Asia in particular saw tremendous growth as assets under management grew from near $500 billion towards $ 3 trillion billion during the decade.[2] Firms such as EQT, Baring, Hillhouse, Bain, TPG and KKR established international and Asian focused funds. While Europe experienced slower growth than Asia, its rate was still near 100% as assets moved toward $ 2 trillion and were supported by massive investments from many sovereign wealth funds.[3]

Temasek, Government of Singapore Investment Corporation (GIC), Saudi Arabia's Public Investment Fund (PIF), Abu Dahbi Investment Authority (ADAI) and Qatar Investment Authority (QAI) all raised allocations during the decade. While not all funds release detailed allocations, Temasek is estimated to have raised exposure from 20% towards 40% [4], ADAI from 15% to 25% towards 20% to 30% and QAI from approximately 20% to 30%. PIF raised allocations as well, supported in large part by the country's Saudi Vision 2030 policy released in 2016. (1) The policy aims to reduce the nation's dependence on oil by promoting innovation, healthcare technology and mega infrastructure projects such as Neom. As a group, sovereign wealth funds increased direct investments in infrastructure from an estimated 10% towards 20% by decade's end.[5] International countries grew to represent near 50% of deal value within private equity, however, within private debt, North American remained dominant with an 80% share of capital raised.

The decade also saw some very large take-private deals as private equity firms purchased publicly traded corporations and took them back into the private market. As the private market ecosystem grows, take private-deals continue to scale in size. Some of the largest were Dell in 2013 ($25 billion market value), H.J. Heinz in 2013 ($24 billion), PetSmart in 2014

[2] McKinsey Global Private Markets Report 2025
[3] McKinsey Global Private Markets Report 2025
[4] Source Temasek Review 2010,2020, Sovereign Wealth Fund Institute, Bain and Company 2024, McKinsey 2025, (
[5] International Forum of Sovereign Wealth Funds, 2023

($9 billion) and First Data Corp in 2014 ($ 8 billion). Overall, take private deals totaled $259 billion in 2021, $301 billion in 2022 and $170 billion in 2023.[6]

The history of private markets reflects a shift from family driven, informal networks to a structured industry with diverse strategies and strong talent. Early firms like ARDC, KKR, and Sequoia set templates for modern private equity and venture capital, emphasizing long-term value creation. Along the way, assists from regulators continued expanding access and supporting and entrepreneurial risk taking embedded in the industry. The evolution of private markets underscores their role in funding innovation and growth, from Renaissance trade routes to today's tech unicorns, while adapting to economic and societal changes over centuries.

Looking Forward – The Democratization Era

Today, private markets are a key pillar of global finance managing an estimated $15 trillion[7] in assets. The majority of assets are in buyout, growth and venture capital strategies followed by private debt and real estate. Historically, most databases have focused on asset under management for drawdown funds, but including newer semi-liquid products lifts total assets under management by almost 50%. An estimated $5 to $7 trillion [8] in additional assets are invested in evergreen products and intermittent liquidity funds such as interval and tender offer funds and non-traded BDCs.

Future growth is expected to be driven by expansion of the investor base into the private client and advisory channel, continuing supportive policies from regulators, the current administration's push to allow retirement accounts to access private markets, specifically 401(k)'s and ongoing commitments from existing institutional investors.

Allocation targets from institutional investors indicate that many plan to raise allocations further, possibly by another 5% to 10%, to increase their focus on co-investments and direct investing and continue to sustainable and impact focused investments.[9]
Private client and advisory channel growth is supported by registered semi-liquid products such as interval funds and tender offer funds and a potential expansion into retirement accounts. The rise of these evergreen vehicles makes private markets more accessible by

[6] Source, Pitchbook, various reports, 2023.
[7] Pitchbook, 2024, Bain & Company, 2023.
[8] McKinsey & Company 2024, Bain & Company 2023.
[9] Preqin, 2024, Boston Consulting Group, 2024.

increasing liquidity and lowering entry barriers. Research and due diligence platforms are increasing access points for retail clients as is the integration of fund offerings with U.S. retail custodial systems. While at a very nascent level today, fractional ownership and tokenization are likely to increase exposure to private markets through ownership of private equity or real estate assets. These innovative structures are facilitated by blockchain technology and will expand the investor base further.

Another likely source of growth will be reinvestment of profits from exits from a record number of unicorns, some of which rival the top 10% of the S&P 500 in market valuation. Based on the last financing rounds, there are now 5 unicorns on a global basis with market valuations above $100 billion. They include U.S. aerospace firm SpaceX, U.S. AI research firm OpenAI, China TikTok owner Bytedance, China Alipay mobile payment platform owner Ant and India retailer Reliance Retail. There are another 15 names that have valuations above $30 billion. While some were valued or received funding in 2020 and 2021 when valuations were higher, even with potential NAV declines or subsequent down rounds, these firms will remain as large capitalization firms in comparison to public markets.

Industries with exponential growth opportunities, such as artificial intelligence, energy transition, life sciences, robotics, blockchain and space will continue to attract significant private market investments due to their high return potential. The synergy between these fast-growing sectors and the flexible, long-term capital provided by private markets supports sustained growth and transformative opportunities over the next decade. Looking forward, the industry's strong historical track record, favorable regulatory environments and increasing access and crowd funding platforms all indicate a continuation of strong growth and democratization within private markets.

Chapter Three

Navigating the Private Markets Regulatory Landscape

Chapter Three: Navigating the Private Markets Regulatory Landscape

This chapter reviews the key regulations that govern securities and funds within private markets. Investments are subject to a number of federal and state laws and regulations focused principally on investor protection, which apply varying degrees of regulation depending on the type of investor, the type of investment fund and the characteristics of the fund manager or investment adviser. An investment in a private investment fund is a security for purposes of the U.S. federal securities laws and subject to regulation by the Securities and Exchange Commission. In addition, private investment funds may be viewed as investment companies, subject to regulation under the Investment Company Act of 1940, and the fund managers or investment advisers may be subject to regulation under the Investment Advisers Act of 1940. We review each in turn from the perspective of private market investors.

Investor Classifications: Who's Eligible to Invest?

Most private markets offerings are limited to investors who meet certain wealth or sophistication thresholds, based on the assumption that these individuals or entities can bear the risks involved.

Accredited Investor

The baseline threshold for an investor to participate in the private markets is qualifying as an "accredited investor" under the SEC rules. This is a category of investors with sufficient financial resources and investment sophistication that the SEC believes do not require the most stringent investor protection requirements under the federal securities laws. Accordingly, transactions involving accredited investors are eligible for certain exemptions from the requirements of the federal securities laws.

An accredited investor is defined by the SEC under Rule 501 of Regulation D as including, among certain eligible individuals, organizations and entities, the following:

- ✓ Individuals with net worth, or joint net worth with that person's spouse or spousal equivalent, of over $1 million. For purposes of calculating net worth:
    - The value of the person's primary residence is excluded as an asset and the amount of debt secured by the primary residence up to its fair market value (subject to certain exceptions) is excluded as a liability; and

- the amount of the debt secured by the primary residence exceeding its fair market value is included as a liability;
- Individuals with income over $200,000 ($300,000 jointly with a spouse) in each of the past two calendar years, with the expectation of the same in the current year;
- Individuals holding in good standing one or more professional certifications, designations or credentials from an accredited educational institution designated by the SEC, which currently are financial professionals holding Series 7, 65, or 82 financial professional licenses;
- Individuals who are knowledgeable employees of private funds, which include executive officers and affiliated management persons of the fund and certain participating employees of the fund or an affiliated management person;
- Entities in which all of the equity owners are accredited investors;
- Family offices with assets under management of more than $5 million not formed for the specific purpose of acquiring the securities being offered and whose investment is directed by a person with knowledge and experience in financial and business matters capable of evaluating the merits and risks of the prospective investment; or
- Family clients of a family office qualified as an accredited investor and whose prospective investment is directed by a person with knowledge and experience in financial and business matters capable of evaluating the merits and risks of the prospective investment.

Accredited investors are eligible to invest in many types of private placements, including hedge funds, private equity, venture capital, and real estate investments.

Qualified Purchaser

"Qualified purchasers" are investors meeting more heightened financial resources standards that are eligible to invest in more exclusive types of private funds, including Section 3(c)(7) qualified funds (described below), which are exempt from the registration requirements of the Investment Company Act and, therefore, are subject to fewer restrictions and regulatory burdens.

Qualified purchasers are defined under the Investment Company Act to include investors who are:

- ✓ individuals, family-owned companies and trusts for family members having at least $5 million in investments;
- ✓ certain trusts not formed specifically to acquire securities whose trustee and all settlors are qualified purchasers;
- ✓ any other entity that owns and invests on a discretionary basis, for its own account or for the account of other qualified purchasers, at least $25 million in investments; and
- ✓ Entities in which all of the equity owners are qualified purchasers.

Investments mean:

- Securities, other than securities of an issuer that controls, is controlled by, or is under common control with, the qualified purchaser that owns such securities, unless the issuer of such securities is an investment vehicle, a public company or a company with shareholders' equity of at least $50 million;
- Real estate, commodity interests, and physical commodities held for investment purposes;
- To the extent not securities, financial contracts entered into for investment purposes;
- In the case of an investor that is a Section 3(c)(7) exempt company, a Section 3(c)(1) exempt company or a commodity pool, any amounts payable to the investor pursuant to a firm agreement or similar binding commitment pursuant to which a person has agreed to acquire an interest in, or make capital contributions to, the investor upon the demand of the investor; and
- Cash and cash equivalents (including foreign currencies) held for investment purposes.

Qualified Client

“Qualified clients” are investors who meet a stricter standard than that for accredited investors, enabling these investors to invest in certain types of funds that they would otherwise be prohibited from investing in.

A qualified client is defined under the Advisers Act as an investor that meets one of the following tests:

✓ Individuals with a net worth (or joint net worth with the individual's spouse), or entities with a net worth, in excess of $2.1 million. For purposes of calculating an individual's net worth:

- the value of the person's primary residence is excluded as an asset and the amount of debt secured by the primary residence up to its fair market value (subject to certain exceptions) is excluded as a liability; and

- the amount of the debt secured by the primary residence exceeding its fair market value is included as a liability;

- Individuals or entities with at least $1.1 million of assets under management with the adviser, or

- Individuals or entities who are qualified purchasers or knowledgeable employees of a private fund.

The statute requires the SEC to periodically adjust the qualified client net worth and assets under management thresholds to account for inflation once every five years.

Key Legislation – Securities Act of 1933

The Securities Act of 1933 (Securities Act) requires issuers of securities to provide full disclosure through registration with the SEC and regulates the offer and sale of securities to protect investors from fraud. The interests in a private investment fund are securities under the Securities Act and any sale of securities must be registered with the SEC pursuant to the Securities Act, unless an exemption from such registration is applicable. Registration of a securities offering under the Securities Act requires extensive disclosure requirements and a potentially time-consuming SEC review process. Most private funds seek to avoid registration under the Securities Act and typically rely on an exemption from registration for sales to U.S. investors.

Regulation D (Private Placement Exemption)

Although there are several exemptions from Securities Act registration that may be potentially available for raising capital, most private funds rely on Regulation D under the Securities Act for an exemption from registration for sales of interests in their funds to U.S.

investors. Regulation D is a non-exclusive safe harbor from registration which imposes certain restrictions on marketing of the investment and the types of investors permitted to participate, but allows the fund to avoid the burdensome disclosure requirements and other limitations applicable to registered offerings of securities under the Securities Act.

Regulation D has two primary exemption categories: Rule 506(b) and Rule 506(c). Rule 506(b) is the most commonly used exemption for traditional private placements to accredited investors. It allows making the offering available to an unlimited number of accredited investors and up to 35 non-accredited, but sophisticated, investors, subject to certain information disclosure requirements. However, Rule 506 prohibits the use of general solicitation and general advertisement such as newspaper, magazine and other media advertisements, unrestricted public websites, television and radio broadcasts, seminars (excluding demo days) or other communications that condition the market for the offering.

Rule 506(c) allows private funds to use general solicitation and general advertisement in the offering, provided that they have a reasonable belief that the potential investors are accredited investors and that they have taken reasonable steps to verify the accredited investor status of all purchasers (e.g., through third-party income verification).

Regulation D offerings are exempt from SEC registration but must file a Form D with the SEC to report the sale of interests in the fund and comply with applicable state securities (i.e., blue sky) laws.

The Rule 506 exemptions are not available for an offering if certain persons affiliated with the issuer, including its executive officers, directors, more than 20% beneficial owners, and certain persons participating in the offering are subject to specified disqualifying events, such as criminal convictions, certain court orders, judgments or decrees or state or federal regulatory orders barring the person from the securities industry based on fraud or violations of federal securities laws.

Until recently, most private funds relied on Rule 506(b) because of the additional cost and burden of the Rule 506(c) accredited investor verification requirement. However, in a March 2025 No-Action letter, the SEC provided guidance on satisfying the requirement to take reasonable steps to verify accredited investor status which would substantially reduce the cost and burden of compliance. The SEC stated that if the following were satisfied, a private fund issuer would be deemed to have taken reasonable steps to have verified an investor's accredited investor status:

The minimum investment amount in the fund for an individual is at least $200,000 and for an entity is $1 million;

The private fund has no actual knowledge of any facts indicating that the investor is not an accredited investor or that the investor's minimum investment amount is being financed by a third party; and

The private fund obtains written representations that the investor is an accredited investor and the investor's minimum investment amount is not being financed by a third party.

While the SEC guidance simplifies the Rule 506(c) accredited investor verification process, general advertisements used in a Rule 506(c) offering are still subject to other applicable securities laws and regulations, such as the Advisers Act and anti-fraud rules. Use of general advertising outside the United States would also be subject to the local law requirements of the non-U.S. jurisdictions in which the offers are being made.

Other Exemptions

Other exemptions from the full registration requirements of the Securities Act, such as so-called Regulation A+, the enhanced version of Regulation A introduced in 2015, or the crowdfunding exemption under Regulation CF, are more relevant in the start-up or crowdfunding context, but not commonly used with private investment funds.

To the extent that investors outside the United States are solicited, the exemption from registration pursuant to Regulation S may be used in conjunction with an offering in the United States pursuant to Regulation D. Regulation S provides that an offering of securities is made outside the United States and, therefore, outside the reach of the Securities Act registration requirements, if the offer and sale is made in an offshore transaction outside the United States to persons who are not U.S. persons and no directed selling efforts are made in or into the United States by the issuer, any distributor, any of their respective affiliates or anyone acting on behalf of any of the foregoing. U.S. persons are generally defined as entities organized in the United States or individuals resident in the United States (regardless of citizenship). Regulation S offerings also include additional restrictions and procedures to prevent flow-back to the United States of the fund interests placed internationally with non-U.S. persons and to prevent the creation of a U.S. trading market for these fund interests.

Key Legislation - Investment Company Act of 1940

The Investment Company Act of 1940 regulates the organization and operation of investment companies, like mutual funds, to ensure investor protection through diversification, disclosure, and governance standards. Funds that either primarily engage in the trading of securities and/or commit more than 40% of their assets to trading in investment securities are generally considered investment companies under the statutory definition in the Investment Company Act. These entities must register with the SEC as an investment company pursuant to the Investment Company Act or qualify for an exemption from registration by means of an exclusion from the statutory definition of investment company.

The registration requirements under the Investment Company Act are complex and burdensome and geared towards public investment funds, such as mutual funds. Private funds are almost always structured to avoid registration under the Investment Company Act by relying on two principal exclusions provided by Section 3(c)(1) and Section 3(c)(7).

Section 3(c)(1): Funds with 100 or Fewer Beneficial Owners

Section 3(c)(1) excludes from the statutory definition of investment company any private investment fund that has 100 or fewer beneficial owners who are accredited investors and that is not making or proposing to make a public offering.

For purposes of counting beneficial owners under Section 3(c)(1), there are special look-through rules that apply to certain investors, such as disregarding an investor entity and looking through to the beneficial owners of the entity for (i) entities formed for the specific purpose of investing in the fund or (ii) any investor that is an investment company or relies on either the Section 3(c)(1) or 3(c)(7) exemption and that owns 10% or more of the voting securities of the fund. For purposes of Section 3(c)(1), similar funds with the same sponsor may be viewed as a single beneficial owner unless the interests of the funds would be materially different.

A Section 3(c)(1) exempt fund will not be integrated with Section 3(c)(7) exempt fund for purposes of counting beneficial owners. As a result, fund sponsors often establish separate but parallel funds under both exemptions.

Section 3(c)(7): Funds Only for Qualified Purchasers

Section 3(c)(7) allows for an unlimited number of investors who are qualified purchasers by excluding from the statutory definition of investment company any private investment fund whose investors are all qualified purchasers and that is not making or proposing to make a public offering.

For purposes of counting beneficial owners or determining qualified purchasers, funds organized in the United States must count all investors worldwide. Funds organized outside the United States are only required to count investors who are “U.S. persons” (as defined in Regulation S) toward the beneficial owner and qualified purchaser limits. As a result, non-

U.S. funds may offer interests to an unlimited number of non-U.S. investors while at the same time complying with the Section 3(c)(1) or 3(c)(7) limits with respect to U.S. investors. In addition, knowledgeable employees (as described above under "accredited investors") are not counted towards Section 3(c)(1) beneficial owner limit or the Section 3(c)(7) qualified purchaser requirement.

The 100 beneficial owner and only qualified purchaser requirements are ongoing requirements and funds must implement restrictions on transfer and subdivision, keep track of their beneficial owners and monitor the qualified purchaser status of fund investors to ensure compliance.

Key Legislation – Investment Advisers Act of 1940

The Investment Advisers Act of 1940 governs investment advisers, mandating registration, fiduciary duties, and anti-fraud measures to protect clients receiving investment advice. Under the Investment Advisers Act of 1940, any person who (1) provides for compensation advice with respect to the value of securities or the advisability of investing in, purchasing or selling securities or (2) as part of a regular business issues analyses or reports on securities for compensation, generally must be registered with the SEC as an investment adviser and will be subject to its substantive requirement, or else rely on an exemption from registration.

Registration

Fund managers and investment advisers with $100 million or more of assets under management (AUM) must register with SEC under the Advisers Act. Smaller advisers with AUM between $25 million and $100 million are required under the Advisers Act to register with their home state(s). This allocation allows the SEC to focus its resources on bigger fund managers and investment advisers.

An investment adviser registers with the SEC by filing a Form ADV, which is comprised of Parts 1 and 2 and is publicly available. The Form ADV must be kept current by filing amendments, including filing an update at least annually.

An SEC-registered investment adviser (RIA) is required to deliver a "brochure" on Form ADV Part 2 with information about its business practices and its principals' education and business backgrounds to its clients at the time of investment and then annually thereafter.

Exemptions

The Private Fund Adviser Exemption applies to U.S.-based advisers who provide advice solely to private funds (i.e., funds that qualify for the exemption from registration under the Investment Company Act pursuant to Section 3(c)(1) or Section 3(c)(7)) and have less than $150 million of AUM. It also applies to Non-U.S. advisers whose principal places of business are outside the United States who have no advisory clients that are U.S. persons, other than "private funds," and have less than $150 million of AUM at a U.S. place of business;

The Foreign Private Adviser Exemption applies to Non-U.S. advisers with no U.S. place of business, fewer than 15 clients and investors that are U.S. persons, with less than $25 million in AUM attributable to U.S. clients and investors, and that does not hold itself generally to the U.S. public as an investment adviser and does not act as an investment adviser for a registered investment company or business development company (BDC). BDCs are closed-end investment management companies that primarily invest in small- and middle-market companies in the United States and are exempt from many of the regulatory requirements of the Investment Company Act applicable to traditional investment companies.

The Venture Capital Fund and SBIC Adviser Exemption applies to_Advisers who provide advice solely to venture capital funds or small business investment companies (SBICs).

An investment adviser relying on the Private Fund Advisor Exemption or the Venture Capital Fund Exemption described above is an exempt reporting adviser ("ERA") and must still file certain portions of Part 1A of Form ADV with the SEC, including information about the ERA and the private fund managed by it.

Marketing and Advertising Rules

In 2022, the SEC modernized the marketing and advertising rules applicable to RIAs through the Marketing Rule which amended Rule 206(4)-1 under the Advisers Act (the Advertising Rule) and combined it with the solicitation rule under Rule 206(4)-3 under the Advisers Act. The Marketing Rule provides, among other things:

- ✓ An expanded definition of advertisement which includes compensated testimonials and endorsements and certain communications that include hypothetical performance information, even if delivered in a one-on-one communication. However, the definition excludes hypothetical performance information that is provided in a one-on-one conversation (1) in response to an unsolicited investor request or (2) to a private fund investor and extemporaneous, live oral communications and information contained in a statutory or regulatory notice, filing, or other required communication.

- ✓ Testimonials and endorsements are allowed in an adviser’s advertisement, subject to certain disclosure and other conditions, and third-party ratings are also allowed, if the adviser reasonably believes that the rating clearly and prominently discloses certain information.

- ✓ With respect to performance advertising, advisers are required to present net performance information whenever gross performance is presented and to present performance data over specific time periods. The Marketing Rule also imposes requirements on advisers that show related performance, extracted performance, hypothetical performance, and predecessor performance.

- ✓ The Marketing Rule applies to certain communications sent to clients and private fund investors, other than advertisements about RIAs or BDCs.

- ✓ Seven principles-based general prohibitions of certain marketing practices apply to all advertisements and are intended to prevent fraudulent, deceptive, or manipulative acts. Specifically, an advertisement may not:

    - Include any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading;

    - Include a material statement of fact that the adviser does not have a reasonable basis for believing it will be able to substantiate upon demand by the SEC;

    - Include information that would reasonably be likely to cause an untrue or misleading implication or inference to be drawn concerning a material fact relating to the investment adviser;

    - Discuss any potential benefits to clients or investors connected with or resulting from the investment adviser’s services or methods of operation without providing fair and balanced treatment of any material risks or material limitations associated with the potential benefits;

    - Include a reference to specific investment advice provided by the investment adviser where such investment advice is not presented in a manner that is fair and balanced;

- Include or exclude performance results, or present performance time periods, in a manner that is not fair and balanced; or
- Otherwise be materially misleading

✓ Investment advisers will not be required to pre-review and approve their advertisements prior to dissemination.

✓ The books and records rule under Rule 204-2 under the Advisers Act and Form ADV were revised to reflect the Marketing Rule's investment adviser marketing requirements and to enhance data available to the SEC to support its enforcement and examination efforts, including by requiring that advisers maintain books and records for all advertisements distributed and disclose in Form ADV information about an adviser's use of performance results, testimonials, endorsements, third-party ratings, and references to its specific investment advice in its advertisements.

Compliance Responsibilities for Financial Advisors

Under the Advisers Act, an investment adviser is *a fiduciary* that owes fiduciary duties of care and loyalty to its clients. These fiduciary duties require an investment adviser to act solely in the best interests of its client. The SEC also recognizes that an investment adviser's fiduciary duty must be viewed in the context of the scope of the relationship between the adviser and the client. In particular, the specific obligations that flow from the adviser's fiduciary duty will depend upon what functions the adviser, as agent, has agreed to assume for the client, its principal.

The duty of care includes, among other things:

✓ the duty to provide advice that is in the best interest of the client, based on the client's objectives;

✓ the duty to seek best execution of a client's transactions where the adviser selects the broker-dealers to execute client trades; and

✓ the duty to provide advice and monitoring over the course of the relationship with the client.

The duty of loyalty requires an adviser to make full and fair disclosure to its clients of all material facts relating to the advisory relationship, such as the capacity in which the firm is acting with respect to the advice provided. In addition, under its duty of loyalty, an investment adviser must eliminate or make full and fair disclosure of all conflicts of interest which might incline the investment adviser to render advice that is not disinterested so that a client can provide informed consent to the conflict.

When recommending private investments, investment advisers must fulfill their fiduciary duties by undertaking, among other things:

- ✓ Suitability Analysis: Ensuring the investment fits the client's objectives, risk tolerance, and liquidity needs.
- ✓ Disclosures: Communicating the illiquid nature, lack of transparency, and fee structure.
- ✓ Due Diligence: Conducting and documenting independent research, even when using third- party platforms.
- ✓ Documentation: Keeping client notes, signed subscription documents, and investment committee memos (if applicable).

The Advisers Act includes broad *anti-fraud* provisions which apply to any investment adviser, whether registered with the SEC or exempt from registration, making it unlawful to engage in any of the following activities:

- ✓ Employing any devices, schemes or artifices to defraud any client or prospective client;
- ✓ Engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;
- ✓ If acting as a principal for its own account, knowingly selling or purchasing any security to or from a client, or if acting as a broker for another person, knowingly effecting the sale or purchase of any security for the account of the client, without disclosing to the client in writing the capacity in which it is acting and obtaining the client's consent to the transaction, before it is completed; or
- ✓ Engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative.

All RIAs are required to adopt and enforce written supervisory and *compliance procedures* that are reasonably designed to prevent violations of the Advisers Act and related regulations and a written code of ethics governing individual employee conduct, including personal trading reporting and restrictions and enforcement of insider trading procedures. An RIA also must appoint a chief compliance officer or a CCO, who will be responsible for administering the adviser's written policies and procedures. If affiliated with an RIA or broker-dealer, an investment adviser should consult its CCO before engaging in any private investment offering.

In order for an RIA to charge clients a performance-based fee for its management of the fund (e.g., carried interest or incentive allocation), the Advisers Act requires that:

- ✓ all investors in the private fund qualify as "qualified clients;"
- ✓ the fund is a BDC and the performance-based fee does not exceed 20% of realized capital gains;
- ✓ the fund is a Section 3(c)(7) exempt private fund; or
- ✓ the fund is not a U.S. resident.

In addition to filing and updating its Form ADV, an RIA must also file Form PF with the SEC containing more detailed information on the funds it manages or advises on an annual and quarterly basis and upon the occurrence of certain specified events. The SEC and the Commodity Futures Trading Commission recently further delayed to October 1, 2025, the compliance date for amendments to Form PF that were adopted in February 2024 in response to industry requests that additional time was needed to provide filers and their third-party service providers sufficient time to develop and test their reporting systems before submitting filings.

Key Legislation – Securities Exchange Act of 1934

The Securities Exchange Act of 1934 (Securities Act) established the SEC as the regulator of securities exchanges to enforce trading rules and to ensure transparency and fairness in secondary market transactions. Provisions of the Securities Exchange Act of 1934 may apply to a private fund or certain parties, such as the private fund's investment adviser or its employees, in connection with the offer or sale of interests in the private fund to investors. Under the Exchange Act, any person that effects transactions in securities (including private fund interests) or induces the purchase or sale of any security must be registered as a broker or dealer or be exempt from registration. A broker is a person engaged in the business of buying and selling securities for the account of others for a commission. A dealer is a person engaged in the business of buying and selling for its own account through a broker or otherwise.

Sales of interests in a private fund generally are made by the issuer (i.e., the fund, through its general partner or managing member) in reliance on the issuer's exemption under the Exchange Act because the issuer is not selling for the account of others, but rather for itself.

Under an SEC safe harbor, an associated person or employee of an issuer who participates in the sale of the issuer's securities (e.g., the fund's or its sponsor's marketing personnel) would not have to register as a broker-dealer if the person: is not subject to a statutory disqualification under the Exchange Act, is not paid commissions or other compensation based directly or indirectly on securities transactions, is not an associated person of a broker-dealer, performs substantial duties other than sales activities, and limits their sales activities for the fund to not more than once every twelve months.

Some larger fund sponsors with multiple funds have an affiliated broker-dealer registered under the Exchange Act and applicable state law through which sales of fund interests for various funds in the sponsor's group are made. Sales of fund interests are also commonly made through a third-party placement agent that is a broker-dealer registered under the Exchange Act and applicable state law.

In addition, under Section 12(g) of the Exchange Act, a private fund generally cannot have 2,000 or more security holders (i.e., investors) and remain private. If a fund exceeds the 2,000 investor threshold (e.g., a Section 3(c)(7) exempt fund that has more than 2,000 qualified purchaser investors), then the fund generally would be required to register as a public reporting company under the Exchange Act, and become subject to the requirement to file periodic public reports of its business and operations with the SEC.

This is another reason private funds need to carefully monitor and track the number of investors in their funds, in addition to compliance with the Section 3(c)(1) and 3(c)(7) exemptions from registration as an investment company discussed above.

Anti-fraud provisions are employed under Section 10(b) of the Exchange Act which provides for civil liability for material misstatements or omissions in a fund's offering materials in connection with the purchase and sale of fund interests. Rule 10b-5 provides for a private right of action against the fund, the fund sponsor and any person who made the misstatement or omission by an investor who can show:

- ✓ A misstatement of a material fact or a failure to disclose a material fact that there was a duty to disclose;
- ✓ The misstatement or omission was committed with an intent to deceive or was reckless;

- ✓ The investor reasonably relied on the misstatement or omission; and
- ✓ The damages claimed are proximately related to the misstatement or omission.

According to the *Commodity Exchange Act of 1936*, if the private investment fund will trade any amount of exchange-traded futures contracts, options on futures contracts or swaps, directly or indirectly, in connection with its investment strategy (including investing in another fund that traded futures), the fund generally will fall within the definition of a "commodity pool" and be subject to regulation under the Commodity Exchange Act.

In the U.S., the futures and commodities markets are regulated by a separate regulator, the Commodity Futures Trading Commission (CFTC), rather than the SEC, which regulates the securities markets. The operator of a commodity pool (i.e., the fund sponsor) must register with the CFTC as a commodity pool operator (CPO) and must become a member of the National Futures Association (NFA) unless it qualifies from an exemption. The investment manager to a commodity pool must register with the CFTC as a commodity trading adviser (CTA) and must become a member of the NFA unless it qualifies from an exemption. These registration exemptions are generally very narrow.

Under the *Employee Retirement Income Security Act of 1974 (ERISA),* if an employee benefit plans own 25% or more of a class of interests in a fund, the fund will be deemed to be plan assets under ERISA, and the fund will be subject to ERISA's extensive plan asset rules.

In calculating the 25% threshold, only plans that are subject to ERISA or Section 4975 of the Internal Revenue Code are counted, such as corporate pension plans, IRAs, and 401(k) plans. Government plans, church plans and foreign benefit plans are not counted towards the 25% threshold. The investors in the fund must be monitored on an ongoing basis, because the 25% threshold may be crossed as a result of withdrawals by non-benefit plan investors.

The ERISA rules can be very burdensome and may constrain the fund's operations. In addition, if the fund is subject to ERISA, the fund manager will become an ERISA fiduciary to the plans invested in the fund. As a result, private funds generally seek to limit investments by ERISA plans to avoid becoming subject to the ERISA plan asset rules.

Regulatory Trends

With the new presidential administration, a new Chair of the SEC, Paul Atkins, and a majority of Republican Commissioners on the SEC in 2025, the SEC's focus and the regulatory landscape have shifted significantly from those of the prior presidential administration and SEC Chair Gensler. Chair Atkins has been clear that he wants to focus on innovation and shifting the regulatory landscape to better reflect the realities of modern investment markets. Specifically, his goal is to reign in the SEC's scope to its three core priorities: (1) protecting investors, (2) facilitating capital formation, and (3) maintaining fair, orderly, and efficient markets.

In particular, Chair Atkins and Commissioners Mark Uyeda and Hester Peirce have been vocal on removing barriers to accommodate crypto and digital assets and to open up retail investor access to private markets.

As early as in a 2019 Division of Investment Management concept release, the SEC recognized that there are many structural barriers under the federal securities laws that limit the ability of investors who do not qualify as accredited investors, qualified purchasers or qualified clients to be able to invest in private markets. Opportunities for these retail investors to access private markets are generally limited to registered investment companies and BDCs, but liquidity requirements and structural limitations of these pooled investment vehicles currently make them imperfect means of providing retail investors with access to private markets.

The status as an accredited investor is the minimum requirement to unlock access to private investment funds and Commissioners Uyeda and Peirce have called upon the SEC to review and revise the definition of accredited investor to expand the pool of investors eligible to invest in private markets. Commissioner Uyeda has recommended that the SEC should explore more creative ways to enable broader investor participation. Specifically, he has proposed that instead of having the path to access private investments remain "all or nothing" approach of the accredited investor definition, the SEC consider an alternative "sliding scale" approach, which would allow all individuals, regardless of accredited investor status, to invest a small amount of their wealth in private offerings over the course of a year. He has stated that he believes the current formulation of the barriers to private investments ultimately harms "individuals by depriving them a source of wealth accumulation and reducing their risk diversification," as well as harming "entrepreneurs and start-up companies by denying them potential sources of capital." Commissioner Peirce has stated, "[t]he accredited investor concept assumes that individuals cannot be trusted to exercise proper due diligence before making an investment decision and therefore bars individuals from having the investment opportunity in the first place.”

There are several proposals in Congress which support opening up the definition of accredited investor to permit greater retail access. Recent examples include the Fair Investment Opportunities for Professional Experts Act bill passed by the House in June 2025, which, if enacted, would expand the eligibility criteria for an accredited investor for purposes of participating in private offerings of securities to include an individual determined by the SEC to have qualifying professional knowledge through educational or professional experience and the bipartisan Equal Opportunity for All Investors Act of 2025 bill introduced in the House in June 2025, which, if enacted, would require the SEC to establish its own examination system administered by FINRA to certify individuals as accredited investors.

In addition, it is expected that the Trump administration will reinstate, either through executive order or Department of Labor rulemaking, the ability of retirement plans to invest in private equity, which had been implemented during the first Trump administration but reversed under the Biden administration.

Congress is sensitive that senior citizen investors may have a heightened vulnerability with their invested assets as compared to investors who have a longer horizon before they approach retirement age. To address this, the Senior Security Act of 2025 bill was introduced in the House in 2025. If passed, it would create a Senior Investor Taskforce within the SEC, responsible for producing reports every two years with updates about the investment landscape and how it impacts investors aged 65 and above. The function of this taskforce would be to ensure that investors in this age group are not subject to the risk of financial exploitation.

In May 2025, at the direction of Chair Atkins, the SEC reversed a long-standing SEC staff position that closed-end mutual funds that proposed to invest more than 15% of their net assets in private funds had to limit the sale of their shares to investors (1) who meet the criteria for accredited investors and (2) whose initial investment in the fund was at least $25,000. This staff policy was never formally adopted into a rule or statute or otherwise codified as a mandatory requirement but was communicated to the closed-end funds through comments in the SEC registration process. While the SEC staff had in practice not applied the 15% limitation to real estate and infrastructure funds, the reversal of the staff policy now opens up the ability to invest in private equity and hedge funds. However, Chair Atkins acknowledged that this loosening up of the 15% limit should be considered in the context of growth of private markets and the increased oversight and enhanced reporting by private fund advisers and registered investment funds, emphasizing the need for a commonsense regulatory approach that gives all investors the ability to seek exposure to a growing and important asset class, while still providing the investor protections afforded to registered investment funds.

Other recent SEC actions that facilitate expanded retail access to private markets include: simplifying the co-investment exemptive relief process for registered closed-end funds and BDCs seeking to jointly negotiate or participate in certain investments alongside affiliates; and providing private BDCs with multi-class share relief allowing private BDCs to offer multiple share classes with differentiated distribution and servicing fees for specific distribution channels (i.e., RIAs, broker-dealers, institutional investors).

Takeaways

Navigating the regulatory landscape is not just about complying with the complex regulatory requirements—it's about protecting investors, the fund, and the adviser's reputation. Advisers who understand the rules can confidently expand into private markets, offer innovative solutions, and stay compliant in a fast-evolving space.

Investors should also understand the protections available to them under the applicable federal and state laws and ensure that they fully understand the risks, as well as the opportunities that private markets can provide to investors.

Chapter Four

Venture Capital and Private Equity — Structures, Strategies and Opportunities

Chapter Four: Venture Capital and Private Equity – Structures, Strategies and Opportunities

In this chapter, we provide a closer look at the inner workings of the venture capital and private equity markets including a review of the stages and sources of capital companies seek as they grow and mature as well as the progression and evolution of companies through the private markets ecosystem. This chapter also reviews the connection between private and public markets as companies increasingly integrate these two markets.

Capital Stages of a Company

A company's journey through capital sourcing usually begins with various stages of venture capital and, as a company matures, progressing to the private equity stage. In some cases, companies may ultimately monetize through a private sale or may transition to a publicly listed, exchange traded corporation.

Key Stages in Venture Capital

Venture capital strategies focus on funding early-stage, high-growth companies through various stages of growth, often in innovation-driven sectors. Venture capital firms provide capital to startups and earlier-stage companies in exchange for equity, accepting higher risks for potentially outsized returns. Companies in their earliest stages of growth are often pre-revenue or generating minimal revenue and are focused on prototypes, product development, market validation or customer acquisition. Typically, venture capital investors provide direct mentorship and strategic guidance. As companies continue to grow, venture capital can support more established companies with proven business models, aiming at scaling operations or preparing for an exit. Venture capital's risk profile and long holding periods (typically 5–10 years) necessitate adequate diversification with thoughtful portfolio allocations.

Evolution of a Venture Capital Company

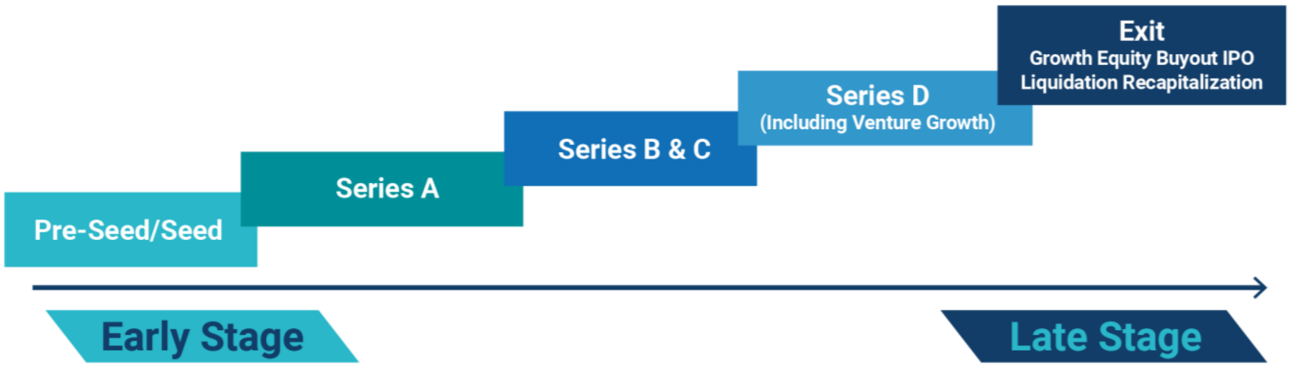


Figure 4.1

Pre-Seed / Seed Stage

The pre-seed/seed stage in venture capital represents the earliest phase of a startup company's funding, where entrepreneurs seek initial capital to transform an idea or concept into a viable business. At this stage, the company is typically pre-revenue, with little more than a prototype or perhaps just a business plan. Pre-seed/seed funding is used to cover foundational expenses such as market research, product development or early customer validation. Investors at this stage, often angel investors or friends and family, provide small amounts of capital—typically ranging from $250,000 to $3,000,000—in exchange for equity, accepting significant risk due to the unproven nature of the business.

Pre-seed/seed investors focus on the founding team's vision, expertise, and ability to execute, as there is often limited tangible evidence of market traction or financial performance. The funding is critical for establishing the company's groundwork, such as building a prototype, conducting initial seed market testing, or securing early partnerships. Unlike later venture capital stages, pre-seed/seed rounds are less structured, with simpler term sheets and valuations often based on the startup's potential rather than concrete metrics. A company's goal at this stage is to achieve key milestones, such as completing a prototype, assessing initial user feedback or determining total addressable market size.

While the pre-seed/seed stage is high-risk, it is also a period of opportunity, as investors can secure significant equity at lower valuations due to the company's infancy. Founders often leverage personal networks or accelerators to attract pre-seed/seed funding, with investors providing not just capital but also mentorship and industry connections. The high failure rate of pre-seed/seed startups underscores the speculative nature of this phase, where only the most promising ventures advance to the next stage of growth.

Pre Seed/Seed	Conceptual Create Prototype Establish Viability of Product Typically Pre-Revenue Investment - $250,000 to $3,000,000

Table 4.1

Series A

Series A is the first significant institutional funding round in venture capital, typically occurring after a startup has progressed beyond the pre-seed/seed stages. At this stage, startups generally seek $2 million to $15 million to scale operations, refine their product, expand customer acquisition, or enter new markets. Many times, venture capital firms lead Series A rounds, often joined by angel investors or seed investors, providing capital in exchange for equity at valuations based on metrics such as user growth, revenue, or market potential. Investors focus on the startup's ability to execute its business model, expecting a clear path to growth, with funds used to build teams, enhance technology, or boost marketing efforts. The goal is to achieve significant milestones, such as consistent revenue or market leadership, to prepare for subsequent funding rounds.

Series A	Client Acquisition Focused Generate Revenue Establish user growth Ability to execute and prove scalability Investment - $2,000,000 to $15,000,000

Table 4.2

Series B

A Series B capital round typically follows when a startup has proven its business model and is ready to accelerate growth, often raising $10 million to $50 million to expand market share, enter new geographies, or develop additional products. At this stage, the company typically has predictable revenue, a growing customer base, and operational stability, attracting larger venture capital firms, growth-stage investors, or corporate venture arms. Most are likely not cash flow positive at this stage. Series B funding focuses on scaling infrastructure, hiring additional talent, or investing in advanced technology to solidify the startup's competitive position. Valuations are higher, reflecting reduced risk compared to earlier stages, with investors expecting a clear strategy for significant growth in revenues and ultimately profits. The aim is to position the company for further scaling for later-stage funding or a sale.

Series B	Show predictable revenue Accelerate Growth Create scale Via new segment, region or product Investment - $10,000,000 to $50,000,000 Position for exit strategy

Table 4.3

Series C

Series C targets mature startups poised for significant expansion, global market penetration, or preparation for an exit such as an IPO or outright sale, with funding rounds often exceeding $50 million to several hundred million. These companies have established strong market presence, consistent revenue streams, and proven scalability, attracting late-stage venture capital firms, and even large institutional investors. Series C capital is used for large-scale initiatives, such as major acquisitions, international expansion, or heavy R&D for new product lines, with a focus on maximizing valuation and profitability and driving positive cash flow generation. Investors at this stage prioritize financial discipline and clear exit strategies, as the startup is expected to deliver substantial returns within a few years, either through public markets or a sale of the business.

Series C	Displayed actual revenue growth Ready for significant expansion Proven ability to scale Investment > $50,000,000 Clear exit strategy

Table 4.4

Series D

Series D and subsequent rounds are pursued by companies that need additional capital to further scale, delay an IPO, or to address specific strategic goals, often raising $100 million or more. These rounds are less common and typically involve firms with significant traction but which require funds for aggressive expansion, acquisitions, or to navigate competitive or economic challenges. Series D attracts similar investors as Series C, including large venture capital and institutional funds, with valuations often reflecting "unicorn" status (valuations of at least $1 billion). The focus is on optimizing operations, dominating market share, or preparing for a high-value exit.

Series D	Capital to further scale, delay an IPO Address specific strategic goals Support aggressive expansion or acquisition Investment > $100,000,000 Prepare for a high value exit

Table 4.5[1]

The Initial Public Offering Stage

The initial public offering ("IPO") stage marks the transition from private to public ownership, where a company offers shares to the public to raise substantial capital. This stage provides liquidity for early venture capital investors to exit partially or fully and can generate significant returns for early-stage investors. The company itself can sell shares using the proceeds from the IPO to fund further growth, acquisitions, or debt reduction. Alternatively, existing investors can use the sale to monetize a portion of their shareholdings. The IPO process involves rigorous regulatory compliance and financial disclosures with investment banks assessing the shares to determine an appropriate valuation and share price for market entry.

Over the past four decades, the average age of companies at the time of their IPO has risen from less than 8 years to over 10 years. In 2024, the average age of companies at the time of their IPO was nearly 14 years, its highest level since 2009. Of these firms, 35% were VC backed when they went public, 5% were growth capital backed and 13% were buyout backed.[2]

[1] Market Value, Pitchbook Venture Monitor, Q1 2024 based on estimated market value ranges from Q4 2023 to Q1 2024.
[2] Source: Jay Ritter, Professor, University of Florida, 2024.

The size of a typical IPO varies with economic cycle, but the median IPO over the past 40 years have averaged less than $1 billion, on an inflation adjusted basis. The year with the largest median value was 2021 at $1.7 billion.

In the 1980s, an average of 215 companies went public annually via an IPO while in the1990s, this number increased to 409. So far this decade, the average number of firms going public is at 107, down 74% from its peak during the 1990s. While the tech bubble flushed out many public companies, IPO launches have continued to drift lower in the post 2000 era. As noted in Chapter One, the number of U.S. publicly listed firms peaked nearly 8,000 in the 1990s and has now declined to approximately 4,500. Declining IPO activity is driving, in part, a significant reduction in the number of public market listings.

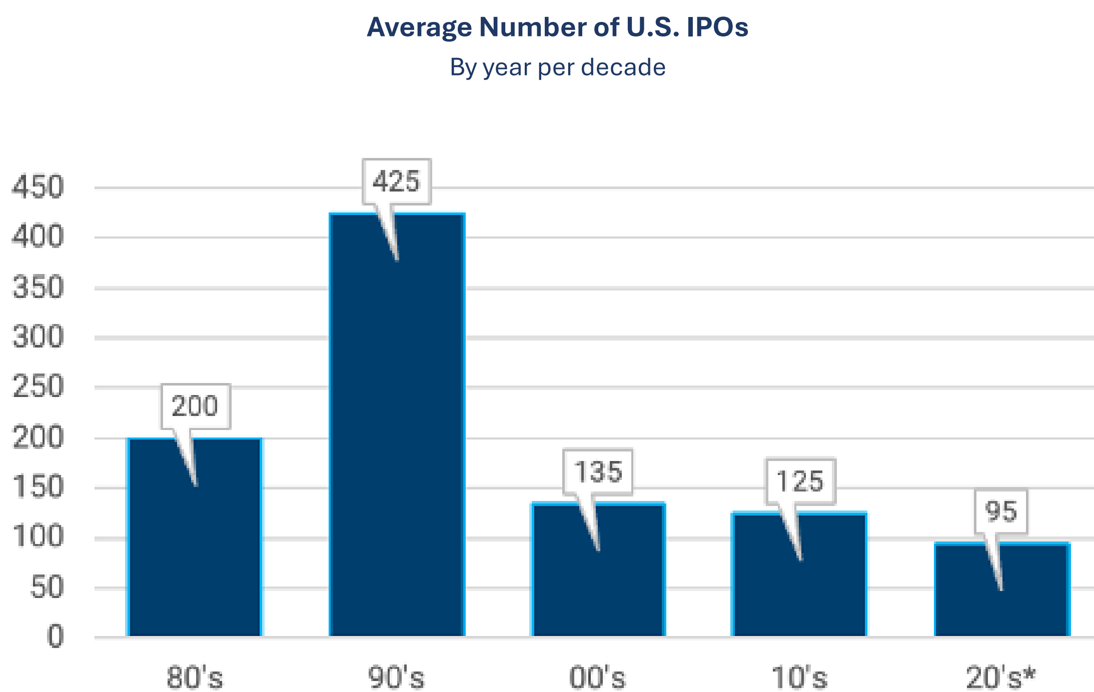


Figure 4.2[3]

At the same time, the number of private equity and venture capital based firms continues to increase. There are now between 8,500 and 12,400 PE backed private companies and over 1,300 unicorns, or private firms that have a market value over $1 billion. Whether private firms are delaying going public or choosing not to go public at all, the public market opportunity set is shrinking. For investors, as the number of new entrants to U.S. public

[3] Jay Ritter, Professor, University of Florida, 2024, 20s* represent 2020-2024

markets shrinks and the size of private markets grow, the opportunity cost of not participating in private markets continues to increase.

Today's Venture Capital Marketplace

Today, venture capital firms manage nearly $4 trillion in assets[4], a significant increase from 2015 when the figure was closer to $ 800 billion. Over the past 10 years, the industry has raised an average $243 billion in assets annually from investors. While 2021 was a record year, which saw the industry raise over $400 billion and 2022 was also very strong with over $350 billion raised, the last two years have been notably weaker with venture capital raised in 2024 at approximately $160 billion.[5] The industry has worked through lower fundraising, reduce exit activity and a slower IPO window but is sitting on a near record $500 billion in available capital to deploy. As valuation multiples reset to better match underlying fundamentals and as innovation across artificial intelligence, clean energy, robotics and life sciences continue at record pace, venture capital remains well positioned to capitalize on these opportunities to generate attractive returns for investors.

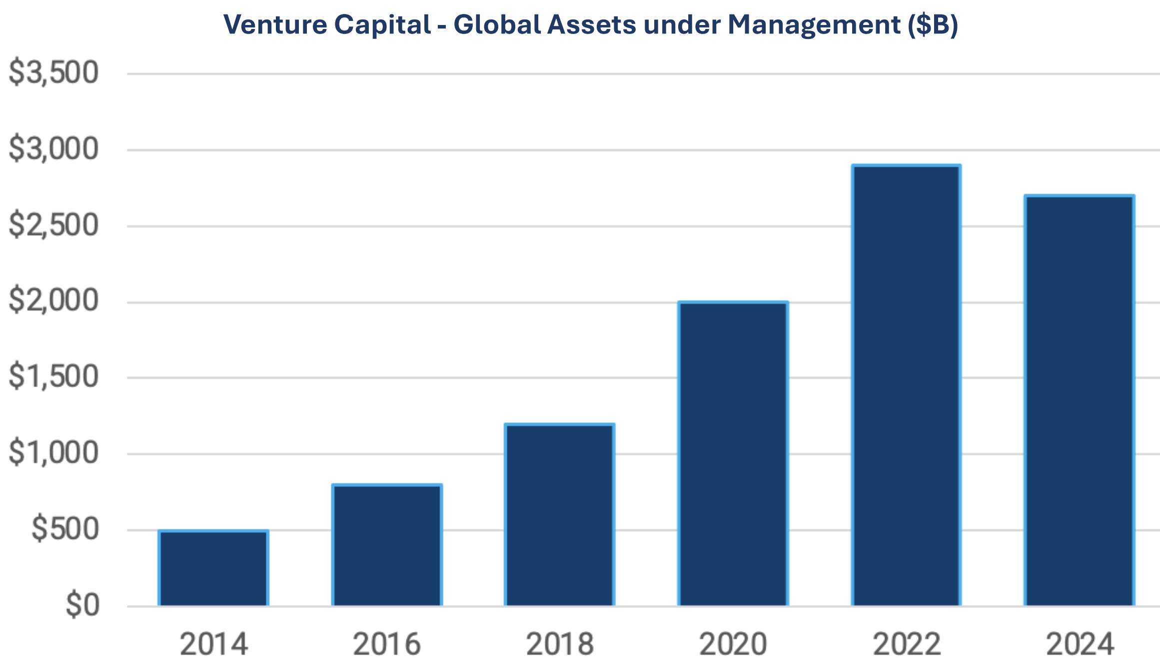


Figure 4.3[6]

[4] Pitchbook, 2024, Bain Capital, authors' estimates
[5] Pitchbook, 2024, authors' estimates
[6] Diagram to be replaced

Key Strategies in Private Equity

Private equity typically involves investing in more established companies with private equity ("PE") firms, often acquiring majority or significant minority stakes to drive value creation through operational improvements, acquisitions, or market expansion. The investment time horizon is generally much shorter than venture capital (typically 3 to 7 years), with exit strategies usually involving a sale to another private equity owner or strategic buyer. PE firms typically provide expertise and resources to help strengthen the company for its next phase of growth. The ultimate objective is to generate substantial returns for investors by selling the improved company at a higher valuation. Private equity strategies include both leveraged buyouts and growth equity.

Leveraged Buyouts

A leveraged buyout ("LBO") is one of the most prevalent private equity strategies, involving the acquisition of a company, business unit, or assets typically using borrowed funds to finance a portion of the acquisition price using the acquired company's cash flows or assets to secure the loan. Private equity firms use this approach to acquire companies with stable operating revenues and cashflows, often categorizing them as platform companies or add-ons. The strategy typically involves a private equity firm targeting to improve the company's performance through cost-cutting, operational enhancements, or strategic repositioning.

In many cases PE firms partner with company's management team to pursue an LBO. The management team leverages their deep knowledge of the business to drive operational improvements and increase its value for a future sale or exit. This approach aligns management's interests with investors, as their leadership and expertise are central to unlocking the company's potential. LBOs can carry inherent risks due to higher debt levels, which can strain the target company's finances if cashflows falter or economic conditions worsen. The success of this strategy hinges on the private equity firm's ability to manage leverage effectively and execute a profitable exit. This approach remains popular because it enables private equity firms to acquire potentially valuable assets, overlay operational improvements, and ultimately generate attractive returns.

Add-On Acquisitions

Add-on acquisitions ("Add-ons") represent a strategy where a PE firm will acquire smaller companies to integrate into a larger platform company already under its control. These transactions usually follow an initial buyout and are intended to enhance a company's market position, product offerings or operational efficiency. The goal is to create operating synergies and increase the company's value prior to an exit. The strategy leverages the firm's established infrastructure, allowing add-ons to benefit from shared resources, cross-selling opportunities, or cost reductions. Add-ons involve integration risk and complexity, as success depends on efficient mergers and cultural alignment, rather than organic expansion alone but can offer a faster path to scale.

Growth Capital Investments

Growth capital involves equity investments in relatively mature companies that need funding to expand operations, enter new markets, restructure, or pursue major acquisitions, without requiring a change in control. Private equity firms often take minority stock in order to provide growth capital to businesses that generate revenue and profits but lack sufficient financial resources for large-scale growth initiatives. This strategy balances risk and reward by targeting companies with proven models, allowing firms to support transformative projects like product diversification or geographic expansion. Unlike LBOs, growth capital relies less on debt and more on the company's organic growth potential, making it potentially a lower-risk option within the private equity universe. This approach appeals to PE firms seeking to partner with management teams to scale businesses rather than overhaul them, offering a collaborative investment style.

Today's Private Equity Marketplace

PE firms now oversee nearly $6 trillion in assets under management,[7] a significant increase from 2015 when the figure was approximately $2 trillion. Over the past 10 years, the industry has raised an average $487 billion in assets per year from investors, with 2021 being a record year, over $640 billion in assets raised. However, as the length of exit periods has increased and distributions have slowed, fundraising activity particularly from institutional investors, has correspondingly slowed.

[7] Pitchbook, 2024, Bain Capital, author's estimates

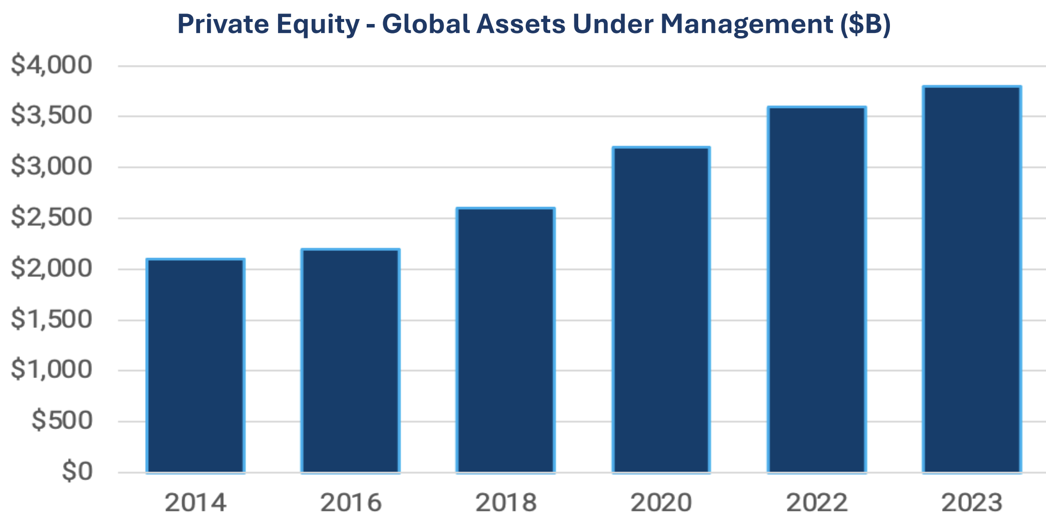


Figure 4.4

Deal Terms and Valuations

Large LBOs typically involve the acquisition of companies with enterprise values well into the billions. These deals frequently command higher valuation multiples, reflecting competitive bidding and established operations. Mid-sized LBOs target companies with enterprise values between $250 million and $2 billion, with valuation multiples ranging from 10% to 20% lower than for large LBOs. These transactions benefit from lower entry multiples and greater potential for operational improvements, making them attractive for value creation. Small LBOs target companies with enterprise values typically between $25 million and $250 million, with valuations that range from 10% to 20% lower than mid-sized LBO. They offer lower purchase multiples and generally less leverage, providing opportunities for higher growth and returns through operational enhancements.

In private markets, valuations are generally tiered across firm size, profit levels and growth rates and are supported by a long-term investment horizon. Unlike public markets which experience a wide dispersion of valuations across business cycles, dispersions among private equity valuations over time are generally much narrower. In addition, in comparison to public markets, private market multiples are generally lower.

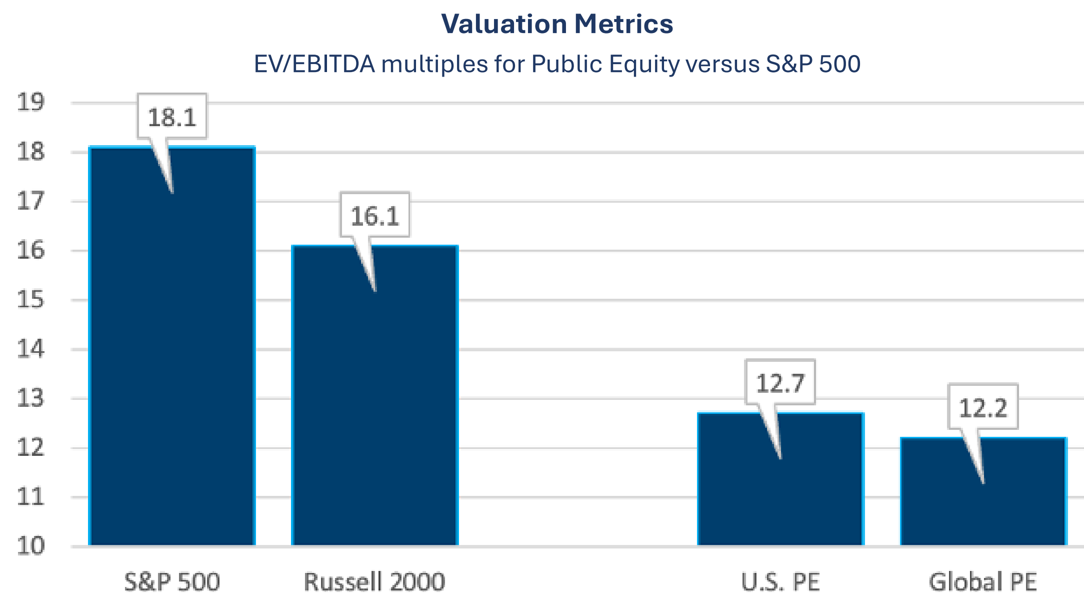


Figure 4.5[8]

This public-private valuation spread seems to persist over time although with a small lag during periods of market volatility. During the S&P 500 low in the fall of 2022, its EV/EBITDA multiple fell to approximately 12x. In comparison, private markets experienced a multiple low in 2023 falling to approximately a 10x EV/EBITDA multiple.

Global mergers and acquisitions activity has generally been very stable over the past 10 years, averaging $3.5 trillion per year. Deal activity over the same 10-year period has risen from nearly 34,000 deals per year to almost 45,000 deals per year. Of these deals, nearly 33% of the dollar value was attributable to private equity-backed transactions. As the private market ecosystem continues to grow, private equity backed deals continue to take a larger share of the market. From a valuation perspective, M&A activity continues to occur at lower multiples versus public markets levels as investors maintain a consistent discipline in the space.

Structuring within the Ecosystem

As the private markets ecosystem has expanded, new approaches to investing such as secondaries, continuation vehicles and co-investments have expanded, increasing the scope and intricacy of the marketplace. We discuss these below (see diagram 4.7).

[8] Pitchbook for Global and U.S. private markets, Factset for S&P 500 Index and Russell 2000, as measured by the iShares Russell 2000 ETF (IWM), December 2024

General Structures and Key Players

Drawdown Fund

A drawdown fund, also known as a closed-end fund or committed capital fund, is the primary investment vehicle used in private market investments tracing its inception to the creation of the private equity industry in the mid-1950s. Drawdown funds require investors, referred to as limited partners (LPs), to commit a specific amount of capital upfront. The capital is then "drawn down" or called by the fund manager, known as the general partner (GP). Capital calls occur over time, typically a two-to-five-year period as the manager identifies and invests in opportunities.

The structure aligns the interests of the GP and LPs, as the GP only accesses capital when needed for investments, reducing idle cash and focusing on long-term value creation. While it allows for flexibility in deploying capital efficiently it requires LPs to have sufficient liquidity to meet these calls when requested, often within a short timeframe (i.e. 10–30 days). The fund typically has a fixed lifespan, often 7–12 years, consisting of an investment period for acquiring assets and a harvesting period for managing and exiting investments to return capital and profits to LPs.

Distributions - which are the payment or transfer of cash or assets to its LPs – are usually made as investments generate dividends, cash flows or are sold. Drawdowns funds offer no liquidity during the lifespan of the investments as LP investors receive cash and funds only during distributions. For GPs, the structure incentivizes disciplined investment decisions, as their compensation often includes carried interest—a share of profits—earned only after returning capital to LPs.

Evergreen Fund

In contrast to a drawdown fund, an evergreen fund is an open-end investment vehicle without a fixed lifespan or predefined investment and harvesting periods. Operationally, evergreen funds maintain a perpetual existence, allowing GPs to manage a portfolio of investments over time. Investors or LPs can typically contribute or withdraw capital periodically at specified intervals, such as quarterly or annually. Though redemptions are often subject to restrictions to ensure the fund can manage its illiquid assets effectively.

Evergreen funds generate returns through capital gains, dividends, or interest from its investments, which may be distributed to LPs or reinvested to compound growth. Management fees are usually charged on committed capital and performance fees, such as carried interest, are applied based on realized profits. The structure does require GPs to manage liquidity, usually via the use of cash reserves or leverage, to meet redemption requests while holding illiquid assets. Overall, this structure provides greater flexibility for both fund managers and investors, enabling continuous capital recycling as the fund reinvests proceeds from exits or income back into new opportunities. Evergreen funds may be more appealing to investors seeking exposure to private markets without the strict timelines of closed-end funds.

Secondary Fund

In a secondary investment transaction, an investor will purchase an interest in an existing fund from a current investor replacing all or part of their interest in the underlying fund. This is not an investment at a company level but rather at the fund level. The transaction provides liquidity to the selling investor and the new investor benefits, typically buying at discount to the fund's underlying value. Depending on the vintage of the fund, the new investor mitigates j-curve exposure and blind pool risk (both described in Chapter One) since the fund has typically already invested most of its capital in portfolio companies. Furthermore, the investment horizon is significantly reduced as the fund owns seasoned positions. A secondary transaction may be limited partner or general partner led. A limited partner led transaction involves limited partners selling their interests in a fund without general partner involvement. In a general partner led transaction, the general partner facilitates a transaction by matching a limited partner seller seeking liquidity with a limited partner buyer seeking to gain access to the fund.

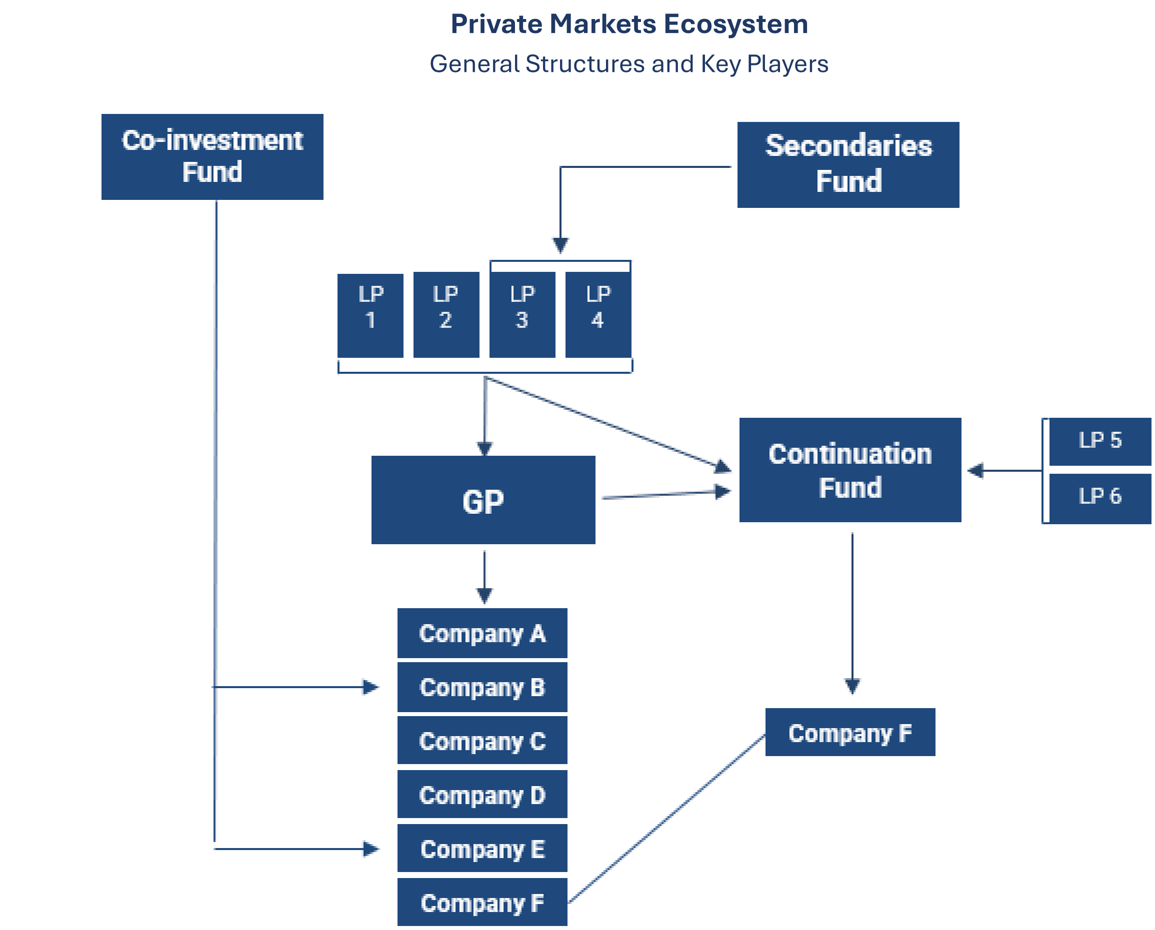


Figure 4.6- *For illustrative purposes only*

Continuation Fund

A continuation fund is a type of secondary transaction. It is led by the general partner and involves the transferring of one or more portfolio companies or assets from an existing fund to a new fund vehicle. A continuation fund allows the GP to extend the holding period of a portfolio company beyond the original investment horizon of the fund to further maximize the value of the investments. Existing LPs may choose to roll over their investments into the new fund or exit the investment with new investors in the continuation fund providing the liquidity to buyout existing investors. The investment horizon is typically two to three years as most portfolio companies are seasoned, with stable cash flows and strong business models and optimizing the exit strategy is key when launching a continuation fund.

Continuation funds provide an alternative exit mechanism for limited partner investors that need cash and also provide a liquidity window before an ultimate sale. Continuation funds will likely continue to grow given that holding periods for portfolio companies are rising.

Co-investment Fund

In a co-investment transaction, a co-investor or co-investment fund will invest directly in a portfolio company, usually alongside the general partner. Unlike a secondaries transaction, the co-investor is not buying from, nor providing liquidity to, the fund's limited partner investors. Co-investors benefit from the general partner's due diligence, gaining exposure to deals that might otherwise be inaccessible, with exits planned over 3-5 years. Compared to secondaries, co-investments offer greater control and alignment with the lead investor's strategy, enabling firms to influence outcomes directly rather than inheriting pre-existing portfolios. Secondaries may offer a lower entry risk since the investments are already underway, with valuations reflecting market conditions and the portfolio's performance history.

Chapter Five

Unlocking Yield and Stability — A Guide to Private Debt

Chapter Five: Unlocking Yield and Stability –A Guide to Private Debt

This chapter serves as a roadmap for financial advisors seeking to address income needs, enhance cashflows and diversify existing portfolios on behalf of their clients through the use of private debt. However, unlocking the full potential of private debt requires a clear understanding of its underlying fund structures, complexities, risks, and opportunities.

Private debt has emerged as a significant asset class among fixed income strategies, offering investors potential for enhanced yields and portfolio diversification. Unlike traditional fixed-income investments, private debt provides direct lending opportunities to borrowers, bypassing conventional banking systems. This allows investors to access differentiated risk-return profiles, tapping into opportunities ranging from middle-market corporate loans to specialized financing for a variety of assets.

Defining Private Debt and its Role in Private Markets

Private debt refers to loans or debt instruments provided by private entities, such as banks, private debt funds, hedge funds, or specialized finance funds, rather than public debt markets. These loans are typically extended to entities that may not have access to public debt markets or prefer tailored financing solutions. Unlike public debt, private debt is not traded on exchanges, offering less liquidity but potentially higher expected returns due to the expected illiquidity premium and higher risk profiles of borrowers. Private debt has grown significantly over the past two decades as banks tightened lending standards and, in particular, as institutional investors particularly among non-bank lenders have sought higher yields than those available in the public debt markets. in a low-interest-rate environment. Additionally, non-traditional lenders benefited greatly as many banking professionals shifted from failing banks to non-bank lenders expanding the skillset of these non-bank lenders.

The appeal of private debt lies in its customization and covenant protections, which give lenders greater control over terms and monitoring compared to public bond offerings. Private debt carries risks similar to public markets such as exposure to economic downturns, credit and interest rate risk and potential for borrower default. Regulatory oversight is lighter than in public markets, increasing due diligence demands on investors. These loans are mostly illiquid, oftentimes not rated by credit agencies and may not tradeable and exchangeable between investors or via an exchange. As a result, private debt strategies appeal to investors who are willing to forego liquidity in return for higher returns. For example, during the 2010 to 2023 period, direct lending to U.S. middle market firms returned 9.9% annually.[1] This was a dramatic outperformance over cash or cash-like instruments which returned less than 0.8%[2] and significantly above U.S. long term treasuries which returned 2.6% to 3.4%.[3]

Given the higher inflation and rising rate backdrop post 2022, private debt continues to offer materially higher rates than traditional public fixed income investments, though spreads are not as high as the pre-2022 environment. Today, public debt strategies are yielding 400 bps to 800bps above short term cash rates depending on the strategy.

Private debt focuses on providing financing to small and middle market businesses generally in the form of senior and secured loans. Within the private markets, middle market lending is the largest segment within private debt markets. Other key strategies include mezzanine, distressed, structured finance and niche categories such asset backed lending, aircraft leasing and litigation finance.

In comparison, public debt markets are dominated by bonds – specifically corporate bonds, treasuries as well as state and local bonds. These instruments are generally longer term in nature, more standardized versus a loan, rated by credit agencies, and are tradeable and freely exchangeable among investors.

Private loans from banks generally span three broad segments – commercial and industrial ("C&I"), residential mortgage and consumer lending. Banks provide lending to C&I borrowers, typically with standardized terms and within regulated frameworks. Broadly syndicated loans, also referred to as leveraged loans, are larger corporate loans, typically above $100 million towards $1 billion or larger that are originated by a group or syndicate of banks providing financing to single corporate entity. These loans are rated by external credit agencies, such as Moody's or S&P Group and are generally below investment grade, comparable in risk to high yield bonds. In contrast, private debt from non-traditional lenders involves customized loans generally to middle market firms or niche segments. These loans are often illiquid but are often senior secured, include more flexible terms and incorporate covenants providing additional protection for lenders. The loans are usually smaller in size ranging from $5 million towards $750 million depending on the strategy. However, as industry assets grow, loan offerings are increasing in size. One segment of the bank lending channel, known as the broadly syndicated loan market, is public, liquid and exchange traded.

[1] Cliffwater Direct Lending Index, 2010-2023
[2] Factset, annualized return for SPDR Bloomberg 1-3 Month T-Bill ETF
[3] Factset, annualized return for iShares 7-10 Year Bond ETF (IEF) returned 2.6%, iShares 20+ Treasury Bond ETF (TLT) returned 3.4%

Private Debt Ecosystem

The table below provides an overview of equity and debt across public and private markets. S&P 500 firms generally line up with the investment grade corporate bond market. S&P 400 Midcap or S&P 600 Small Cap firms are smaller and sometimes viewed as riskier or more highly leveraged and will generally align with the high yield corporate bond or broadly syndicated loan markets. MSCI micro-cap firms are smaller still.

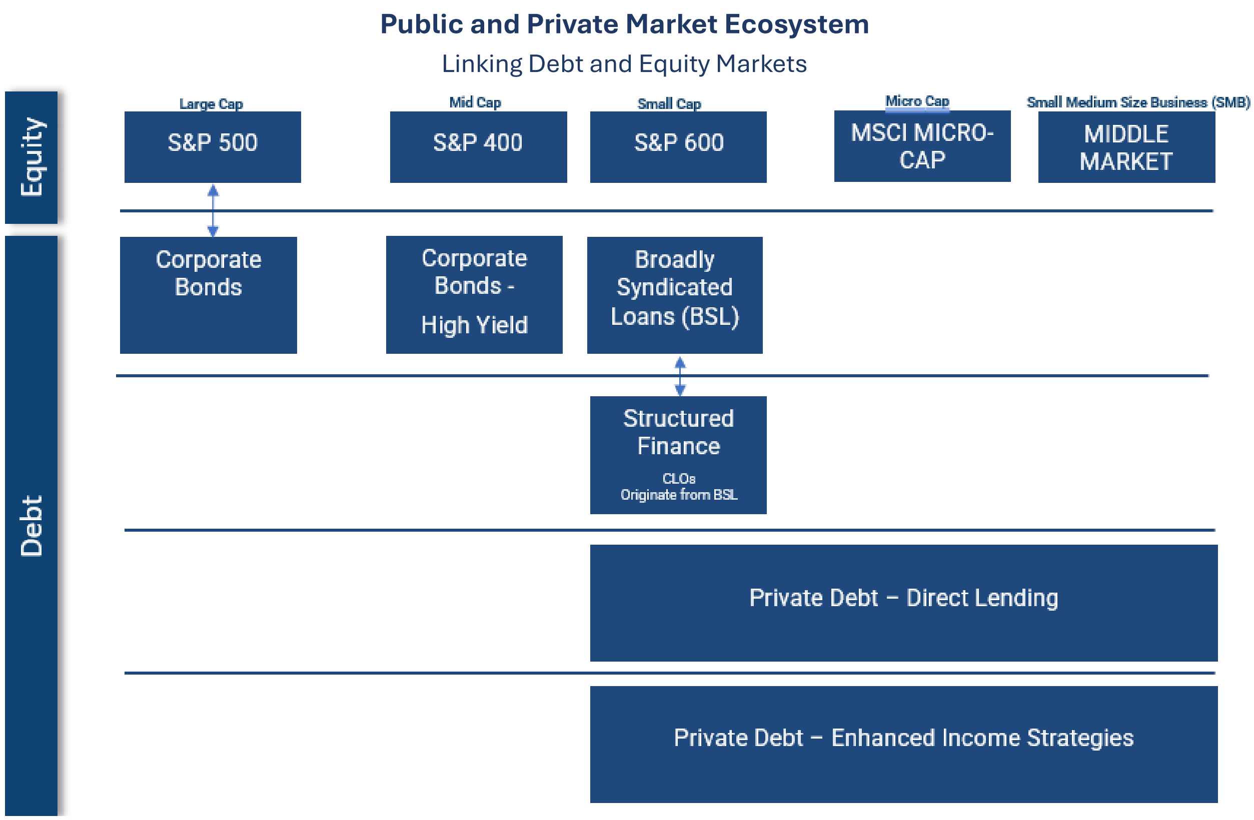


Figure 5.1- For Illustrative purposes only.

Middle market companies represent a huge swath of companies. Estimates provided by the U.S. Census Bureau, U.S. Chamber of Commerce and the Small Business & Entrepreneurship Council range from 75,000 to 85,000. A broader estimate from the National Center for the Middle Market puts the number closer to 200,000. The number of middle market[4] firms dwarfs the 4,500 U.S. publicly traded firms.

Other private debt strategies such as mezzanine, distressed or real estate lending tend to focus on similar business segments but may move towards larger entities given the niche

[4] Value of Public debt markets, SIFMA June 2024, Pitchbook for Private Debt, June 2024

aspect of the strategies. Other areas of specialty finance such as music royalties, litigation finance, aircraft leasing or asset backed lending range in size and are very sector specific. Structured finance, and collateralized loans ("CLOs") in particular, is a derivative of the broadly syndicated loan market. A CLO is a product that pools loans to companies and issues tranched securities with differing risk profiles, backed by cash flows.

Within the U.S. market, the share of private debt is similar, representing less than 2% of the total debt value outstanding. Private debt, which exceeds $2 trillion in market value is larger in size than the U.S. Broadly Syndicated Loan market and the U.S. corporate non-investment grade bond market, both of which are over $1 trillion. The private debt market is now almost half the size of the U.S. state and municipal market which is near $4 trillion in size.

Figure 5.2[5]

[5] SIFMA June 2024 for Treasuries, Corporate Bonds IG, State & Munis, Federal Reserve represents total Bank Lending including mortgages and personal loans, August 2024, Pitchbook for Private Debt, June 2024, Apollo for Broadly Syndicated Loans and Corporate Bonds High Yield, July 2024. Note total value of U.S. market is $56T, Private debt is $1.6T or < 2%. Source: SIFMA, Capital Markets Factbook 2024, Pitchbook 2024,

Key Strategies in Private Debt Investing

Direct Lending

Direct lending is considered a core strategy with private debt. It is the largest segment and is defined as loans issued directly to middle-market companies. Most often secured, of relatively short duration, covenant protected and often collateralized by the borrower's assets.

Further investor protection is provided by loan covenants which are contractual terms listed in the loan agreements imposing specific restrictions or limitations on the borrowing firms. Restrictions may include limitations on the borrowers' ability to seek additional debt, issue special dividends or other disbursements to equity investors, acquire assets or merge or consolidate operations. Other covenants focus on financial ratios such as interest coverage, debt levels and cash balances.

For investors, the key benefits include positioning at the top of the capital structure, collateral security, higher interest rates than treasury or public corporate debt instruments, customizable legal structures and stable income with minimal volatility.

The loans are tied to short-term interest rates and priced off the Secured Overnight Financing Rate (SOFR). SOFR is set daily by the Federal Reserve and is based on banks and investors lending or borrowing cash overnight using Treasuries as collateral. It is the key benchmark or reference rate for pricing loans, derivative and other financial instruments. Rates reset with changes in Federal Reserve interest rate policy. Importantly, almost all loans are senior in the capital structure and secured by corporate assets such as plant or equipment and provide a direct claim on the firm's assets in the event of borrower default.

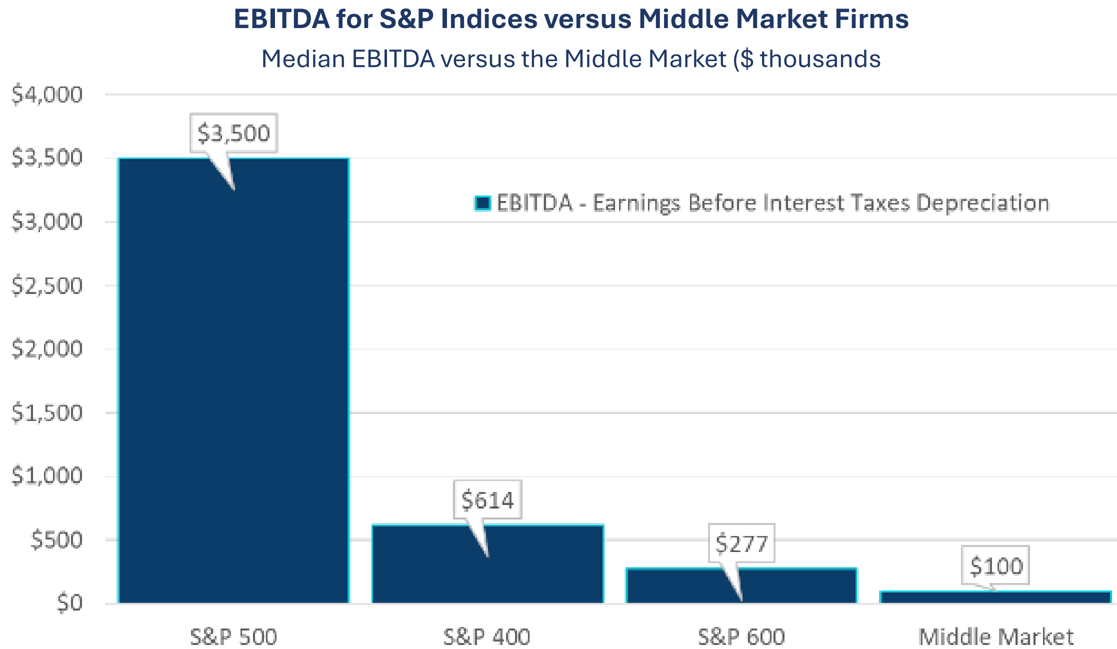


Figure 5.3[6]

Mezzanine Debt

Mezzanine debt is subordinate to senior loans but senior to equity. Financing is typically used to fund growth, acquisitions, or buyouts for middle-market firms. Mezzanine is often utilized if firms want to avoid equity dilution and can incorporate equity-like features such as warrants or profit participation rights. Mezzanine debt offers higher yields versus direct lending due to its subordinated status and higher risk profile.

Distressed Debt

Distressed debt involves investing in lending to companies facing financial difficulties, often acquiring debt at a discount to restructure or capitalize on potential recovery or lending in support of the same. Distressed debt investments typically target securities of companies in or near bankruptcy. Strategies often involve active engagement with borrowers, including negotiating new terms or taking equity stakes, relying on deep due diligence, sector expertise and knowledge of bankruptcy codes to assess recovery prospects. This strategy offers higher yields due their risks but with significant upside through restructuring and recovery, control of the company or asset liquidation. Hold periods are uncertain and often prolonged due to legal complexity.

[6] Factset for median EBITDA for S&P 500, S&P 400, S&P 600, Pitchbook for median EBITDA for middle market firms, July 2025

Asset-Based Lending

Asset-backed lending ("ABL") involves lending against specific, tangible assets such as receivables, equipment, intellectual property or inventory, providing lenders with a secured claim to collateral in case of default. Asset-backed loans are typically structured with a first lien on specific assets, ensuring priority repayment, and include covenants to maintain asset quality and value. ABL is more collateral-focused and common in capital-intensive or distressed industries. Lending ratios will vary across industry segments. For example, an asset backed loan supported by accounts receivables may involve advancing funds up to 70% to 90% of the eligible accounts receivables value. For an ABL supported by inventory (including raw materials, work in progress or finished goods), a lender may advance 50% to 70% of the inventory's appraised value. For an ABL supported by equipment and machinery, including machinery, vehicles or specialized equipment, a lender may advance 50% to 80% of the appraised value. Highly liquid collateral may support lower rate, shorter term, higher loan-to-value ratios.

Specialty Finance

Specialty financing is a growing category within private debt and features numerous niche segments including aircraft leasing, trade finance, consumer credit portfolios, litigation finance, and even film and music royalties.

Aircraft leasing involves providing financing for the purchase or lease of aircraft, with repayments backed by lease payments from airlines or operators. Aircraft leases are typically secured by the aircraft itself, with terms structured around lease agreements, featuring fixed or floating rates and covenants to ensure maintenance and borrower creditworthiness. They require detailed due diligence on aircraft valuation, market demand, and operator reliability, with advance rates often ranging from 60-80% of the aircraft's appraised value. Aircraft leasing offers the potential to generate attractive risk-adjusted returns, leveraging high asset value collateral with strong resale potential in a specialized market.

Trade finance involves providing short-term financing to facilitate the import or export of goods, often through instruments such as letters of credit or invoice financing. They are intended to support businesses with working capital needs. Trade finance loans are typically secured by trade receivables, inventory, or specific transaction cash flows, with terms tied to the trade cycle and advance rates of 70-90% of collateral value. They feature due diligence of counterparty creditworthiness and transaction documentation, with covenants ensuring timely payment and delivery to minimize risk. These strategies offer the potential for investors to generate stable, short-duration returns with low default risk, backed by trade-related collateral and self-liquidating transactions.

A consumer credit strategy involves investing in or originating loans to individual borrowers. Strategies include auto or student loans, credit card receivables or point of sale financing. Managers focus on high-yield opportunities often using large data sets to manage underwriting and credit risks. These strategies often target subprime or near-prime consumers, aiming to generate higher yields while navigating higher default risks tied to specific sector exposures or economic cycles.

These strategies may be direct or indirect wherein private lenders purchase loans from originators and rely on third party underwriting. With credit card receivables, a fund may invest in portfolios of credit card debt, purchasing receivables from a bank at a discount but accepting higher default or lower recovery risks. With auto loan financing, a fund may originate or acquire auto loans, often targeting near-prime borrowers. Generally, loans are secured by vehicle collateral to mitigate risk. With student loans, private debt managers may target private student loan pools, focusing on higher yielding loans but require strong systems and risk processes for repayment monitoring. With point-of-sale financing, funds may partner with retailers to offer installment loans to consumers at checkout, targeting short-term, higher frequency lending with fast repayment cycles.

Litigation finance involves funding legal cases or settlements in exchange for a share of the proceeds, providing capital to plaintiffs, law firms, or corporations pursuing litigation. Litigation finance agreements are typically non-recourse, meaning repayment depends solely on the case's success, with lenders receiving a portion of the settlement or judgment. These arrangements require extensive due diligence on case merits, legal teams, and potential outcomes, with terms including milestones or cost caps to manage risk. These strategies offer potential to generate high, uncorrelated returns, diversifying portfolios while addressing funding gaps in the legal sector.

Film and music royalties involve lending against future revenue streams from royalties from films, TV shows, music catalogs or intellectual property ("IP"), providing capital to artists, producers or rights holders. These loans are typically secured by royalty streams, with advance rates based on historical and projected revenues, often structured with fixed or variable payments tied to cash flow performance. They involve deep due diligence on the IP's marketability, legal ownership, and revenue consistency, with covenants ensuring proper management and distribution of royalty income. These strategies offer potential to generate predictable, high-yield returns from stable, long-term cash flows, offering diversification in portfolios with low correlation to traditional markets.

Structured Finance

Structured finance involves the use of relatively complex financial instruments, such as collateralized loan obligations (“CLOs”), asset backed securities (“ABS”) or collateralized debt obligations (“CDOs”) that are tailored to provide customized solutions for investors. Structured finance involves pooling assets like receivables, loans, or leases and then breaking these pools into different tranches to create securities with varying risk levels. These transactions feature detailed covenants to ensure asset performance and cash flow stability, aligning with investor and lender protections. These strategies are important in direct lending and private debt for their ability to unlock liquidity from diverse assets, enhance yield through risk tranching, and attract institutional investors seeking customized risk-return profiles.

Venture Debt

Venture debt involves providing loans to early-stage venture backed firms typically backed by intellectual property or future cash flows. Venture debt is often structured as term loans or revolving facilities with warrants or equity kickers, featuring interest rates of 10%-15% and repayment terms and covenants tied to company milestones. One of the key objectives is to provide an earlier stage with additional time and resources to achieve its goals without overly diluting equity. It requires extensive due diligence on the borrower’s business model, management, and growth potential, with covenants to monitor financial health and protect lender interests.

Real Estate and Infrastructure Debt

Real estate debt involves providing loans secured by real estate assets, including commercial properties or development projects. Real estate debt typically includes senior mortgages, mezzanine loans, or bridge financing, with interest rates reflecting the risk profile and level of loan-to-value ratios (“LTV”). These loans often feature covenants to maintain property value and performance, with terms tailored to project timelines or income-generating potential. LTV ratios may range from 60% to 80% depending time period within the economic cycle. Notably, LTV ratios are higher than traditional debt ratios for direct lending to middle market firms. Real estate debt seek to generate stable income, lower volatility and capital appreciation, and within private debt strategies, are generally considered less risky that other specialty lending strategies (please refer to chapter six for a complete review of real estate and infrastructure lending).

Key Features and Considerations for Private Debt

Feature	Consideration and Importance
Floating Rate Structure	Most private debt lending is floating rate protecting investors against a rising rate environment
Senior	Loans are often senior in the capital structure and have priority as first lien in the event of a default
Secured	Loans are often collateralized and secured by corporate assets
Covenants	Most loans offer covenant protections restricting management's ability to operate outside pre-defined parameters
Diversification	Many strategies target differentiated, niche or specialty segments of the economy providing diversification versus traditional treasury and corporate investment grade bonds
Customization	Many private debt loans are customizable versus market traded bonds which are more standardized
Illiquid	All private debt is illiquid and not exchange traded through certain offering structures such as interval or tender funds or non-trade BDCs provide limited liquidity on a quarterly or opportunistic time interval
Smaller firms	Most private debt focuses on smaller or middle market firms or niche or specialty segments with narrower business models
Non Rated	Private debt firms are not rated by credit rating agencies
Mark to Model	Returns are estimated based on financial models with reference to certain public market pricing, if available
Return Smoothing	Returns are often smoothed as financial models are based on longer term forecasts and are less sensitive to short term price and market movements
Lower Volatility	Benefit from valuation models, either internal or via third party valuators, often avoiding the market volatility associated with traded bonds, loans or BDCs especially over shorter term horizons

Table 5.1

Risk Management in Private Debt

Assessing Credit Risk – Key Financial Ratios

Lenders in private debt manage default risk by conducting thorough due diligence, including detailed financial analysis and stress-testing borrower cash flows, to ensure repayment capacity. They also structure loans with protective covenants and collateral requirements to mitigate losses if a borrower defaults, preserving capital and maintaining portfolio stability. Managing default risk is critical because private debt investments often involve illiquid, higher-risk borrowers, and effective risk management directly impacts lender returns and long-term viability. All lenders, regardless of strategy seek to minimize default rates in order to reduce potential credit losses.

In order to measure and monitor risk, lenders will also assess a borrower's key financial ratios to measure credit worthiness and to monitor financial performance. Key metrics may include interest coverage ratios, debt equity ratios and/or cash flow coverage ratios. In addition, borrowers are often required, via financial covenants, to remain within certain ranges of debt to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization).

Debt to EBITDA, which is a common metric in private debt markets, measures company's debt against its earnings before interest, taxes, depreciation and amortization. Generally, debt to EBIDTA ratios for direct lending typically range between 3x - 6x.

Interest coverage ratios are used to assess a borrower's ability to cover its interest expenses. It is calculated as EBITDA divided by interest expense. Another metric, operating cash flow coverage is calculated as operating cashflow divided by interest expense and is a cash-based measure that takes into account changes in working capital.

Over the past 20 years, credit loss ratios for leveraged and middle market loans averaged near 1%. This figure is only moderately higher than commercial and industrial loans and notably lower than high yield bonds. Generally, high yield bonds and levered loans are larger firms with higher levered balance sheets. In comparison, middle market firm tend to have lower levels of debt and most lending is secured and sits senior in the capital structure.

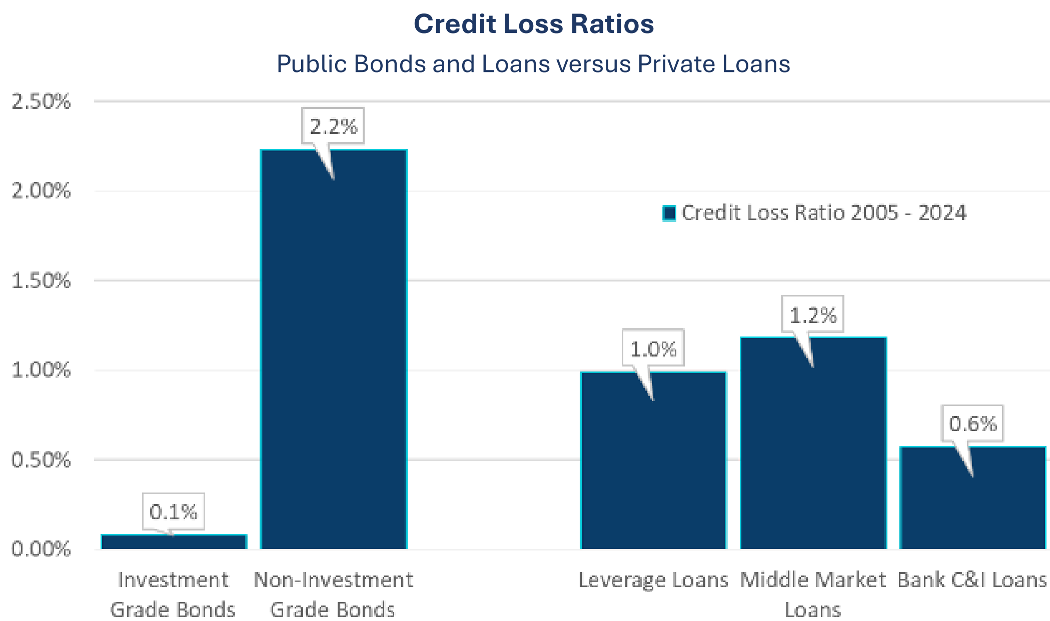


Figure 5.4[7]

Yields, Spreads and Risk Premiums

Almost all direct lending is floating rate (as opposed to fixed rate lending), as opposed to fixed rate lending, and spreads and risk premiums are based off the risk-free rate as represented by the Secured Overnight Financing Rate ("SOFR"). SOFR is set daily by the Federal Reserve and is based on banks and investors lending or borrowing cash overnight using Treasuries as collateral.

Over the past few years, Broadly Syndicated Loans ("BSL") have been priced at a 350 to 450 basis point spread over SOFR – though it varies through time. Given the current rate backdrop, BSL loans, which are publicly traded and liquid, are generally priced in the 7.9% to 8.9% range.

Direct loans to middle market companies will generally trade at 150 to 250 basis points (1.5% to 2.5%) over rates in the BSL market. The extra spread compensates for the illiquid nature of the loans in comparison to the BSL market. The spread may also compensate for the smaller size of the firms.

[7] Moody's for Investment Grade and Non-Investment Grade Bonds, 2024, Cliffwater Direct Lending Index for middle market loans, 2023, Federal Reserve for Bank C&I Loans, 2025, JP Morgan and S&P Global for Leverage Loans, 2023 including author calculations. Credit losses calculated from 2005 to 2023.

Credit Spreads and Risk Premiums

Figure 5.5

In summary, private debt markets cover a broad array of diversified strategies and niche opportunities, many of which are not accessible via public markets. While private debt has similar risk exposures across interest rate, credit risk or economic cycles, public debt markets often provide notably higher yields and stable return profiles.

Chapter Six

Private Real Estate and Infrastructure — Building with Tangible Assets

Chapter Six: Private Real Estate and Infrastructure – Building Wealth with Tangible Assets

This chapter provides a closer look at private investments in real estate and infrastructure by comparing and contrasting public and private markets for these assets and describing key private market strategies. It also reviews financial metrics such as net operating income, capitalization rates ("cap rates") and cash-on-cash yields and provides perspective across key real estate sectors. and infrastructure investments can offer investors the ability to own physical, income-generating assets while benefiting from potential capital appreciation, leverage and tax efficiency.

Defining Real Estate and Infrastructure Investments

Private real estate and infrastructure are two significant and growing categories within private markets. Real estate investments include land and permanent structures such as multi-family homes, commercial buildings, and industrial properties. Infrastructure investments encompass large-scale physical systems and facilities, such as roads, bridges, airports, utilities, and telecommunications networks, designed to support public and private functions. Both are tangible assets with long economic lifespans, often requiring significant capital investment. Both can generate income - real estate through rents or appreciation, and infrastructure through utility, toll or usage fees or contractual obligations.

Investors within both categories focus on acquisition, development or financing of properties offering compelling opportunities for wealth creation through income generation, capital appreciation, inflation protection, tax efficiency and portfolio diversification. Unlike public market real estate investments, such as Real Estate Investment Trusts ("REITs"), private real estate is characterized by its illiquidity, direct management of assets and potential for higher risk-adjusted returns driven by strategic value creation. Private real estate's appeal resides in its flexibility and reduced regulatory oversight. This flexibility allows investors to pursue strategies such as ground-up development, adaptive overhauls or distressed asset acquisitions. These investments span a range of strategies from core assets delivering stable cash flows to opportunistic developments targeting excess returns.

Public versus Private

Real Estate is by far the largest asset class in the world and the only one in which private markets are dramatically larger than public markets. On a global basis, commercial real is estimated to be valued at $50 trillion. This compares with global market caps of nearly $3.2 trillion for publicly listed and exchanged traded real estate firms. This figure includes REIT and non-REIT vehicles investment in commercial properties. The value of publicly listed infrastructure firms is estimated to be nearly $1.5 trillion. This figure includes listed corporations owning and managing railroads, electrical and water utilities, gas pipelines, airports and infrastructure service-related entities.

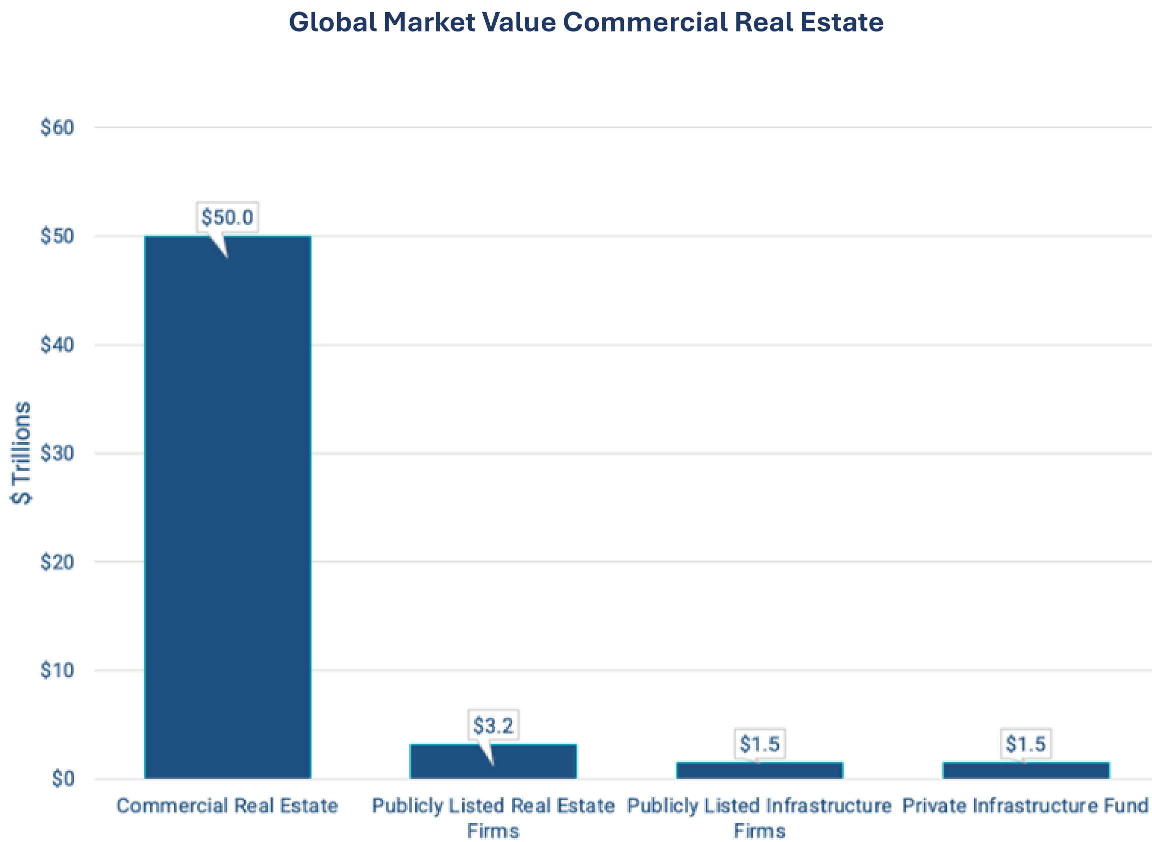


Figure 6. 1[1]

Within the U.S., the estimated value of private commercial real estate is nearly $21 trillion compared to publicly traded REITs which have an estimated market value of nearly $1.5 trillion. The USDA estimates U.S. farmland including buildings has a market value in excess of $3 trillion. For reference, private residential properties in the U.S. are valued at $53 trillion.

[1] European Public Real Estate Association for publicly listed non-U.S. real estate and REITS, Factset for public U.S. REITs, Pitchbook for private real estate, 2023, Preqin for infrastructure, Companiesmarketcap.com for public infrastructure top 125 companies

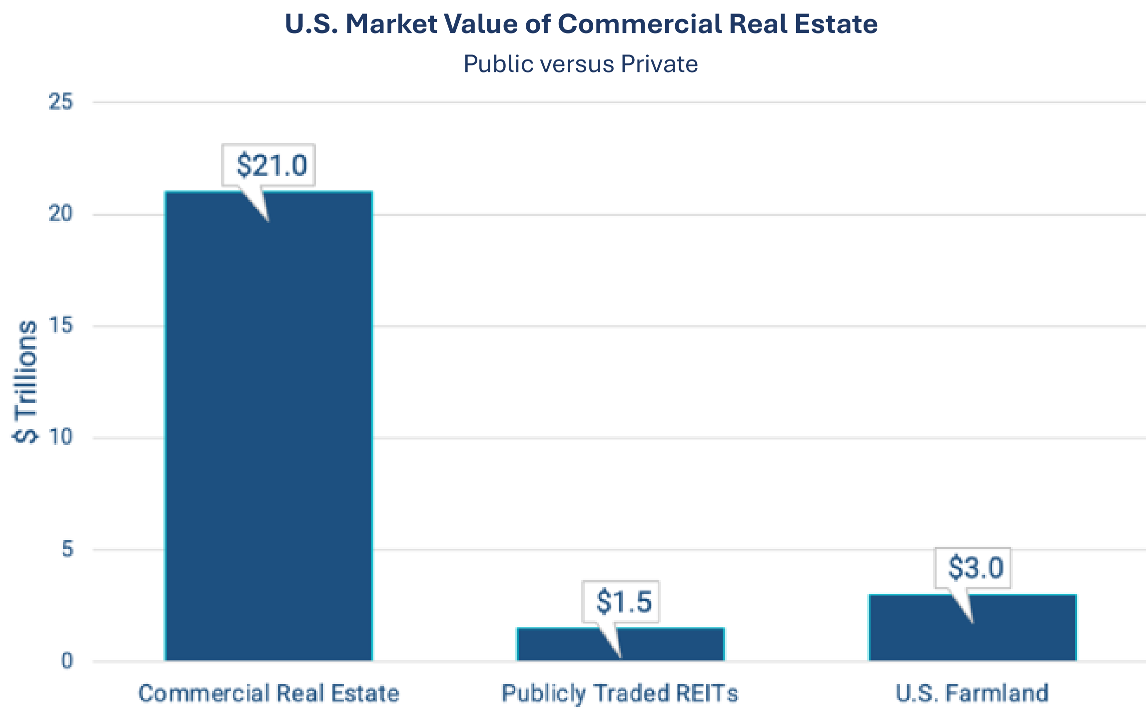


Figure 6. 2[2]

Liquidity and accessibility are key differentiators between public and private markets. Public real estate markets provide daily liquidity and reduced transaction costs. Public market strategies will be more diversified, focus on larger assets and focus on passive investing with no property management responsibility. Private market strategies are generally more concentrated but offer greater control over specific assets, allowing investors to select properties based on sector, region or quality.

Volatility and returns can also differ significantly between public and private real estate investments. Private real estate markets tend to exhibit lower volatility due to their illiquid nature and appraisal-based valuations, which tend to smooth out price fluctuations. Private commercial real estate indices, like the NCREIF Property Index, reported annualized volatility of 5%-8% over the past decade, compared to 15%-20% for public REIT indices.[3] REITs essentially trade like stocks and have a very high correlation with underlying benchmark price movements amplifying returns during both bull and bear market cycles. Private markets often provide higher and more stable income streams, with direct property investments yielding 4%-6% in rental income annually, compared to REIT dividend yields averaging 3%-4%. These quantitative differences highlight the trade-offs between control, liquidity, and risk in private versus public real estate markets.

[2] EPRA European Public Real Estate Association, Global Real Estate Total Markets Table, Q1-2025 estimates $40t. Savills research estimates $49 trillion as at 2022. St. Louis Federal Reserve z.1 reports, public REITs according to Factset July 2025. USDA U.S. Department of Agriculture

[3] NCREIF Property Index, Factset, Pitchbook December 2024

Real estate is sometimes described as a hybrid asset since it has characteristics of both equity and debt. Most properties generate a steady income stream like a bond but also provide an opportunity for capital growth similar to an equity investment.

An estimated 20% of capital raised real estate investing is for debt-focused strategies, while the vast majority of capital is focused on equity investments. Within infrastructure, nearly 10% of the capital raised is for debt financing and almost 90% represents equity.[4]

Investment Strategies and Approaches – Real Estate

Real estate investors seek to acquire and own properties with the goal of generating current income while also seeking capital appreciation. Investors generally focus on key sectors including industrial, commercial office buildings, multi-family housing and retail. Common equity strategies include core, core plus, value-add and distressed.

Core Strategies

Core strategies focus on marquee properties with high occupancy rates, consistent rental income and are generally located in prime locations. These locations include stable markets with favorable sector demand dynamics. Critically, most properties are considered 'stabilized' meaning the property has achieved consistent operational and financial performance. Stabilized properties are fully leased or near fully leased, occupancy rates are typically 90% or higher, tenants are of high quality and generally committed to long term leases. These properties are also well maintained, good physical condition and require minimal capital expenditures.

Core strategies may include assets such as Class A office towers occupied by blue-chip tenants locked into long term leases; or a fully leased modern multi-family apartment complex in a high demand urban setting, or a prime retail shopping center in an affluent neighborhood. Other examples include high quality industrial warehouses or medical office buildings. These strategies emphasize low risk and predictable returns, utilize moderate debt to enhance yields and apply conservative underwriting standards.

[4] Pitchbook, 2024 for Real Estate, 2025 for Infrastructure. Figures represent average levels from 2015 to 2024.

Core Plus Strategies

Core plus strategies focus on quality properties in good locations that require modest renovating or restoration to improve cash flow. They generally have a slightly higher risk profile due to pending lease expirations, secondary market exposures or moderately lower occupancy rates. Properties may benefit from light renovations, improved management, or lease-up of minor vacancies to boost cash flow and market value.

Core plus strategies may include assets such as a Class B office building in a growing business district of a gateway city with lower occupancy, where minor renovations and lease-up efforts could increase rental income; or a multifamily property in a developing neighborhood of secondary city that is 90% leased with potential for value increases through unit upgrades and improved amenities; or an industrial facility in a gateway city that is 80% leased but where cash flow can be improved through minor expansions or operational improvements. These strategies are global in nature, emphasize capital preservation with stable income, deploy modest leverage and seek increased returns via focused improvements or refurbishments to underlying properties.

Value-Add or Opportunistic Strategies

The value added or opportunistic investment strategy in private real estate targets properties with significant potential for higher returns through substantial improvements, repositioning, or development. These investments often involve some form of distress - either physical or financial. Physically, the building may be outdated or deteriorating and require major renovations or redevelopments to unlock value. Financially, a property may be partially leased, vacant or facing foreclosure or bankruptcy because of their inability to meet debt obligations. This strategy often capitalizes on market opportunities, such as acquiring assets in undervalued or transitioning markets where demand is expected to grow.

A value added, opportunistic strategy may include owning a distressed office building in a gateway city with low occupancy, requiring extensive renovations and re-leasing to transform it into a premium workspace; or a vacant retail complex in a secondary city targeted for redevelopment into a mixed-use property with residential and commercial components to capitalize on urban growth. Other examples may include an industrial site with potential for conversion into a modern logistics hub through significant capital investment and infrastructure upgrades; or a large plot of undeveloped land in a rapidly expanding suburb slated for development into a high-density residential and retail project to meet growing demand.

This strategy requires active management and expertise to execute complex business plans, such as upgrading facilities, attracting new tenants, or changing the property's use. Investors must possess specialized expertise to navigate challenges such as local zoning rules, tenant turnover or sensitivity to economic cycles, to maximize returns. This approach is higher risk and funds often employ higher leverage to amplify returns. These opportunities are often shorter term in nature and tend to focus more on capital appreciation and less on income.

The largest sectors by assets are noted in the chart below with Multifamily and Office representing the single largest share. Dollar construction spending on data centers has recently increased dramatically, following the release of online AI programs which require significant data center support.

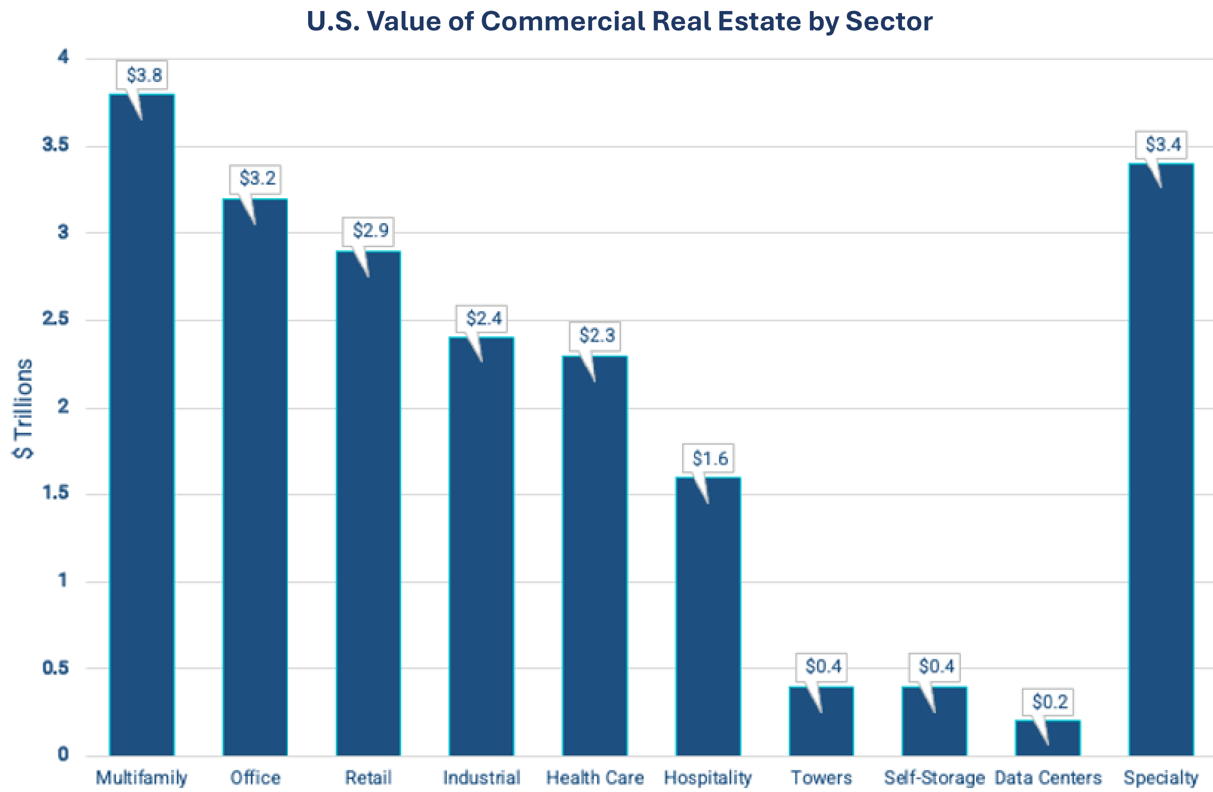


Figure 6.3 [5]

Investment Strategies and Approaches – Infrastructure

Infrastructure investors seek to acquire and own assets with the aim of generating income and also seeking capital appreciation. Unlike real estate investors, they invest in essential

[5] The Real Estate Round Table, NAREIT 2022

public or private assets such as toll roads, bridges, airports, utilities, renewable energy or data center projects. These investments often require significant capital and regulatory expertise with returns driven by user fees or contracted payments over decades. Common strategies are similar to real estate with a focus on core, core plus, value-add or opportunistic.

Core Strategies

The core investment strategy in private infrastructure focuses on investing in high-quality, operational assets with stable, long-term cash flows in developed markets with strong demand and minimal regulatory risk. These assets are typically fully operational with predictable revenue streams from user fees, government or inflation-linked contracts.

A core infrastructure strategy may include owning a regulated electric utility providing stable, inflation indexed cash flows through long-term government contracts with stable consumer and industrial demand; or a fully operational toll road with predictable revenue from steady traffic volumes and long-term concession agreements; or an international airport generating reliable income from gate and passenger fees and retail leases. For investors, this strategy is considered stable, lower risk and provides consistent cash flows.

Core Plus Infrastructure Strategies

The core plus infrastructure investment strategy seeks high quality operational assets with moderate opportunities for value enhancement through operational improvements or expansion. These strategies have a slightly higher risk profile due to pending lease expirations, and may focus on secondary or emerging markets. The strategy emphasizes capital preservation and steady income, moderate property enhancements, often using some leverage to enhance yields while prioritizing assets with regulatory or network characteristics.

Examples of a core plus strategy include owning a regional airport, offering stable passenger fee income but with potential for revenue growth through terminal expansions and new airline contracts; or an operational wind farm with long-term power purchase agreements, where efficiency upgrades and additional turbines could enhance cash flows; or a toll bridge generating consistent user fees but with upside potential through minor construction improvements or travel flow optimization. These investments offer moderate risk and the potential for higher returns than core strategies. However, managers may have to complete minor upgrades, or receive regulatory modifications to boost performance. Core plus infrastructure typically employs modest leverage to amplify returns while maintaining a focus on income stability and capital preservation.

Value-Add or Opportunistic Infrastructure Strategies

The value added or opportunistic investment strategy in private infrastructure targets assets with significant potential for higher returns through substantial development, repositioning or operational overhaul. These strategies are similar to the real estate sector but involve higher complexity due to inherently larger size of the utilities, ports or toll networks and regulatory guidelines surrounding monopolistic or similar assets. Investors pursue capital appreciation by addressing inefficiencies, expanding capacity, or securing new revenue contracts, often employing higher leverage to amplify returns.

An example of a value-add infrastructure strategy may be to own a distressed port facility with low throughput, targeted for modernization and expansion to capture growing regional trade volumes; or an underutilized rail network requiring significant upgrades and new commercial contracts to boost freight capacity and revenue; or greenfield solar or wind farm energy project in early development stages, with potential for high returns through government-backed offtake agreements; as a “greenfield” project which involves developing from the ground up on undeveloped land or sites with no existing facilities, for building a new highway, airport, or renewable energy plant. Greenfield projects start with a clean slate requiring significant upfront capital for design, permitting, construction, and regulatory approvals. This strategy demands active management, long-term horizons, deep sector expertise and tolerance for risks like regulatory uncertainty or construction delays. It generally appeals to investors seeking higher returns and those willing to accept higher risks relative to core or core plus infrastructure strategies.

Structure and Tax Considerations

REIT Structure

Most real estate investments are structured as Real Estate Investment Trusts (REITs). REITs were created in 1960 allowing investors to pool capital, similar to a mutual fund, to invest in large income producing real estate assets. The Tax Reform Act of 1986 allowed REITs to directly manage the properties. The Act exempts REITs from income tax if at least of 75% gross income is derived from real estate and 90% of all income passes through and is distributed to investors in the form of dividends. REITs must also adhere to operational, leverage and property sale limitations.

Tax Considerations[6]

Real estate investors benefit from specific rules in the tax code, specifically with regards to depreciation, like-kind exchanges and pass through deductions. Private real estate investors can deduct depreciation on income-producing properties, reducing taxable income without affecting cash flow. Multi-family homes can be depreciated over a 27-year period, commercial properties over a 39-year period. Depreciation across infrastructure properties follow similar parameters with toll roads and airport runways depreciated over 15-year periods. This non-cash expense lowers the tax burden on rental income, a benefit not available to public equity investors. Equity investors returns such as capital gains or dividends are taxed without similar deductions, making real estate investing a unique tax shield.

Like-kind exchanges, also known as 1031 exchanges, provide additional benefits for real estate investors. A 1031 exchange, governed by Section 1031 of the U.S. Internal Revenue Code, allows investors to defer capital gains taxes on real estate sales by reinvesting proceeds from the sale of a property into a similar or like-kind property. This tax-deferral benefits both individuals and institutions, such as corporations, partnerships, LLCs, and trusts.

The definition of similar or like-kind property is very broad and there is no restriction on the number of 1031 exchanges that can be filed. Most properties such as office, retail, multifamily qualify as "like kind". Investors must adhere to IRS rules including (but not limited to) timelines to identify and close on a replacement property and the market value of the new asset must exceed the value of the existing property. Section 1031 exchanges also generally apply to infrastructure investments, although the like-kind requirement is narrower. For example, selling a toll road and purchasing a commercial property would not qualify and public-private partnerships or leased government owned assets may face restrictions.

Many private real estate investors operating as pass-through entities can claim the Qualified Business Income (QBI) deduction under Section 199A, allowing up to a 20% deduction on qualified real estate income, subject to certain limits. This directly reduces taxable income from rental or lease activities. Section 199A deductions are available for infrastructure investments if the income qualifies as QBI. However, restrictions do apply in certain cases depending on the type of asset and the complexity of the revenue stream beyond rental

[6] The below is a general summary of tax considerations for real estate investors and is not necessarily complete. Please consult your tax advisor for the most up to date tax guidance.

income as items such as landing fees, dock charges, concessions or non-trade income such as government subsidies are generally excluded.

Qualified Opportunity Zones ("QOZ"), introduced by the Tax Cuts and Jobs Act (2017), enable investors to defer capital gains taxes (earned on any asset sale including securities investments or real estate) by reinvesting gains into Qualified Opportunity Funds ("QOFs") that develop or improve properties in designated economically distressed areas. Benefits include tax deferral for investments made prior to December 2026 and a deferral of 10% of the gains if held for five years, additional 5% deferral of gains if held for seven years and tax free growth on new appreciation if held for 10 years.

The One Big Beautiful Bill Act ("OBBBA"), signed into law on July 4, 2025, eliminates the December 31, 2026, sunset for new QOZ investments making the program permanent. It stipulates that states must redesignate QOZs every 10 years and introduces an enhanced program for rural opportunity funds. Beginning in 2027, investors can defer capital gains taxes by investing in QOFs for real estate or infrastructure projects in QOZs, with taxes due upon sale or five years after investment, whichever comes first. A 10% basis step-up applies after five years, or 30% for rural Qualified Rural Opportunity Funds ("QROF"). Holding investments for 10 years allows tax-free appreciation until the 30th anniversary of the investment. New rules also enhance reporting requirements and associated penalties for non-compliance.

Analyzing Key Metrics

Key metrics for real estate and infrastructure investors include net operating income, cap rates, cash on cash yields and vacancy rates. Net operating income ("NOI") represents a property's annual income after deducting operating expenses such as maintenance, utilities, and property management fees. The measure excludes debt service charges and taxes and indicates properties core level of profitability independent of its capital structure. It measures the operational profit of the property and its ability to generate stable cash flow. It is calculated by taking the property's gross rental income, plus any ancillary income such as parking fees or laundry revenue and deducting operating costs but excluding financing costs and one-time capital improvements.

Investors use NOI to assess operational efficiency and lenders focus on NOI to determine debt service coverage ratios and ensure that a property can cover loan payments. It is the foundational metric for assessing financial performance across property type and sectors.

NOI is used to calculate cap rates and establish market value for a property. Cap rates are a key metric that assess investment returns relative to cost and are used to provide a comparative lens for investment decision making.

The vacancy rate, a measure of the percentage of a property's leasable space that is currently unoccupied, is a key driver of NOI. Low vacancy or high occupancy rates drive rental income and increase NOI. High vacancy rates could signal a variety of issues such as weak market demand, mismanagement, overpriced rents or property specific concerns such as location and need for upgrades or repositioning. Investors use occupancy rates to assess a property's operational health, benchmark it against market averages and potential for value-add strategies like lease-up programs. A core plus investor might acquire a partially leased office tower Asia with a 15% vacancy rate, anticipating higher NOI through aggressive leasing, while a core investor might prioritize a fully leased property in a European gateway city for its for stability.

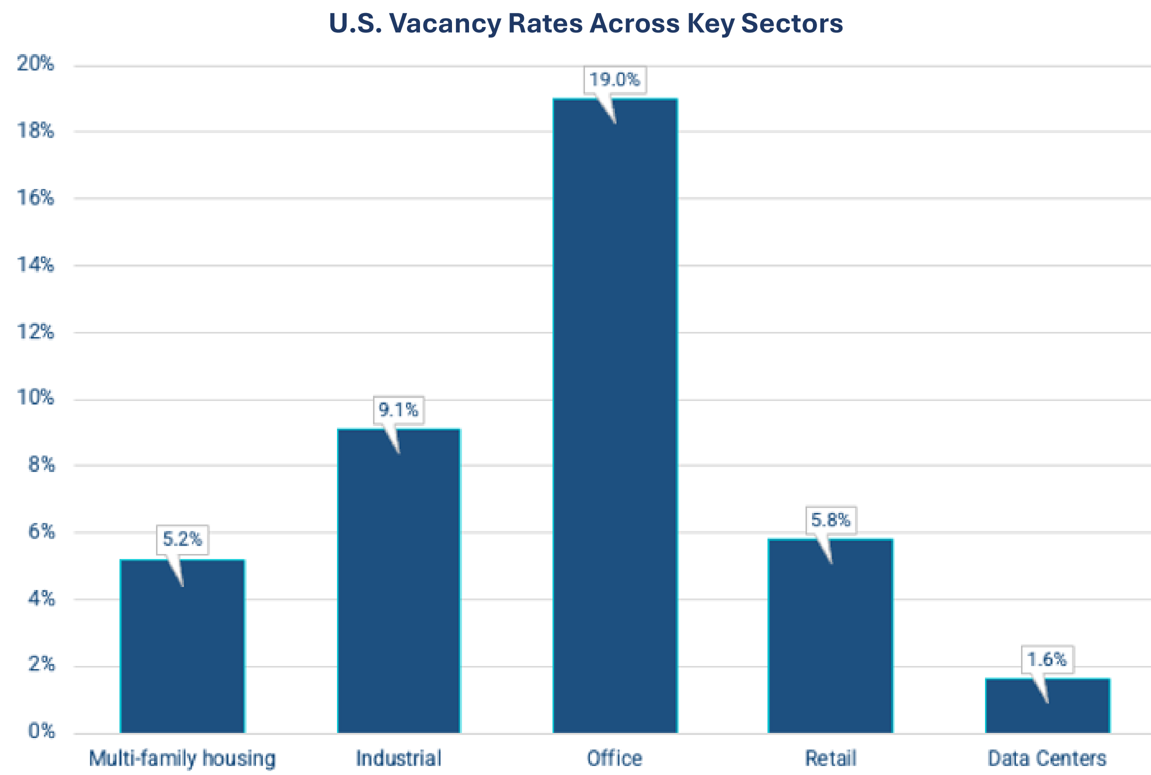


Figure 6. 4[7]

Vacancy rates differ by sector and region and also across classification factors such as quality, age, amenities and market appeal. Multi-family housing has vacancy rates near 5%,

[7] Witten Advisors, Callan for Multi-family housing 2024, CBRE for Industrial and Office 2025 Q2, Cushman & Wakefield for Retail, 2025 Q2, Avison Young for Data Centers 2025 Q2

retail near 6%, industrial near 9% and office near 19%. Vacancy also scales inversely with size. Smaller properties, those under 25,000 square feet, have vacancies near 3%, mid-size properties, those with between100,000 to 300,000 square feet, have vacancies hear 7% and the largest properties, those with over 700,000 square feet, have vacancies near 9%.[8]

Vacancy rates inform lenders who view high vacancies as a risk to debt service coverage and assist managers to adjust strategies by repositioning a property to attract tenants or divesting assets in oversupplied markets. By providing insight to both property specific or idiosyncratic exposures and market relative performance, vacancy rates are key to assessing property risk though they must be analyzed alongside NOI and cap rates for a comprehensive assessment.

Cap rates are calculated by dividing NOI by the property's market value or purchase price, reflecting the annual return. Its importance lies in its ability to provide a standardized, return metric that reflects the risk and reward profile of a property, enabling investors to assess whether a property's price aligns with its income stream. Investors use cap rates to make acquisition or disposition decisions, benchmark properties against market trends, and estimate property values by applying market-derived cap rates to NOI. As with bond yields, lower rates imply less risk equating with greater demand, stability and income and higher rates imply higher levels of risk or uncertainties associated with the property. A value-add investor might invest in a high-cap-rate property with low occupancy, anticipating NOI growth through renovations, while a core investor might prioritize a low-cap-rate, stabilized asset for predictable cash flows.

Cap rates vary greatly based on sector, region and quality as noted in the chart below. At the time of purchase, calculating a cap rate is a simple step. However, estimating fair market value for properties that have not traded for a long period of time is more complex. Given the illiquid nature of the assets, most cap rates are based on appraisals or internal assumptions, management estimates or model driven calculations. As we note in Chapter 10, all private real estate and infrastructure assets are categorized as level 3 asset meaning assumptions and models are the primary tool to calculate implied cap rates and fair market value. Cap rates offer a standardized way to compare investment opportunities across different properties, sectors and regions helping investors assess whether a property is priced appropriately given its income stream and inherent risk.

[8] MetLife Investment Management, 2025 Real Estate Outlook, January 2025.

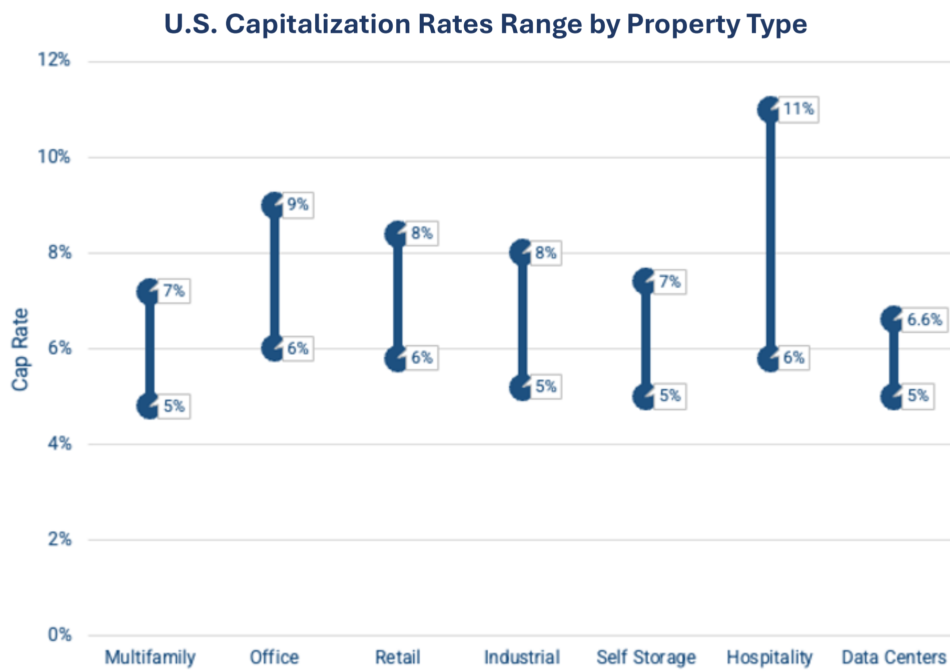


Figure 6. 5[9]

Within investor portfolios, cap rates are a key consideration in asset allocation. All cap rates are sensitive to overall borrowing costs and changes in interest rate levels. Rising long term treasury yields increase cap rates as investors demand higher returns to compensate for rising borrowing costs. Investors also demand higher cap rates to compensate for the illiquidity of holding real estate. Holding all else equal, rising cap rates drive market values lower as investors demand higher compensation.

Cash-on-cash yield measures the actual cash return generated by a property. It is calculated by dividing pre-tax cash flow by total equity invested. Unlike NOI, it is net of debt service charges and does not focus on market values. It is a key gage of a property's immediate income-generating ability particularly for leveraged investments. Investors use this metric to assess the viability of income-focused strategies investments across sectors or regions to measure cash flows relative to the capital at risk.

Within portfolio management, it is also a key metric allowing investors to compares yields across different asset classes. Similar to private debt, spreads on real estate investments should compensate for additional risk or illiquidity in comparison to cash rates such as government treasury bills or long-term yields on investment grade bonds. Assuming a market backdrop with

[9] 1Q 2025, Retail is multi-tenant retail, Includes sales $1 million and greater, Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Avison Young

cash rates near 3% and investment grade bonds yielding 5%, a core investor might prefer a property with a stable 6-8% yield in a prime market. Alternatively, a value-add strategy might target a property with a lower initial cash-on-cash yield near 5% due to high vacancy but anticipate a significant increase after renovations and subsequent lease ups.

In summary, private real estate and infrastructure cover over a broad array of sectors and niche opportunities across global markets. The sectors offer exposure to stable, income generating properties mixed with growing, technologically driven sectors such as data centers and renewable power generation. Exposures cover Class A buildings in primary markets across all sectors to higher return Class C buildings in tertiary cities with higher growth opportunities. The ability to generate cash flow, provide an inflation hedge with expedited depreciation and unique tax benefits make real estate and infrastructure key components in most investor portfolios.

Chapter Seven

Portfolio Construction with Private Investments

Chapter Seven: Portfolio Construction with Private Investments

This chapter provides a deeper insight for investors wanting to incorporate private market strategies within traditional portfolios. It reviews key differences between public and private markets covering active and passive management, systematic and idiosyncratic risk and portfolio rebalancing. The chapter also reviews the difference in long term performance between private and public assets across equity, debt and real estate and provides example portfolios that integrate strategies across public and private markets.

Key Considerations for Portfolio Design - Public and Private Markets

Investors' preferences across philosophy and investment methodology will play a key role when incorporating private market strategies within traditional public market portfolios. Below are key considerations within portfolio design covering active and passive management, systematic and idiosyncratic risk, portfolio rebalancing, liquidity management and valuation and volatility measurement.

Active versus Passive Portfolio Management

Within public markets, passive managers construct portfolios to replicate market indices, minimizing turnover and costs while accepting market risk without seeking alpha or excess returns. Active portfolio management in public equity markets involves trading and security selection to outperform benchmarks. It relies on manager skill in research, security selection, sector rotation or trading, trimming, and rebalancing with the objective of generating excess returns. Generally, it incurs higher fees and accepts higher tracking error versus benchmarks. Active managers, as a share of public market investors has shrunk dramatically over the past decades. Today, passive investing represents over 50% of all global equity mutual fund and ETF assets and over 40% of all global fixed income mutual fund and ETF assets. In the U.S., the figure is close to 60% for equity funds and nearly 35% for fixed income mutual fund and ETF assets.[1] Unlike public markets, there are few passive managers in private markets (with the exception of feeder vehicles and certain investment

[1] Apollo June 2025

vehicles) most managers are active, and the industry does not revolve around the creation of standardized and replicable benchmarks.

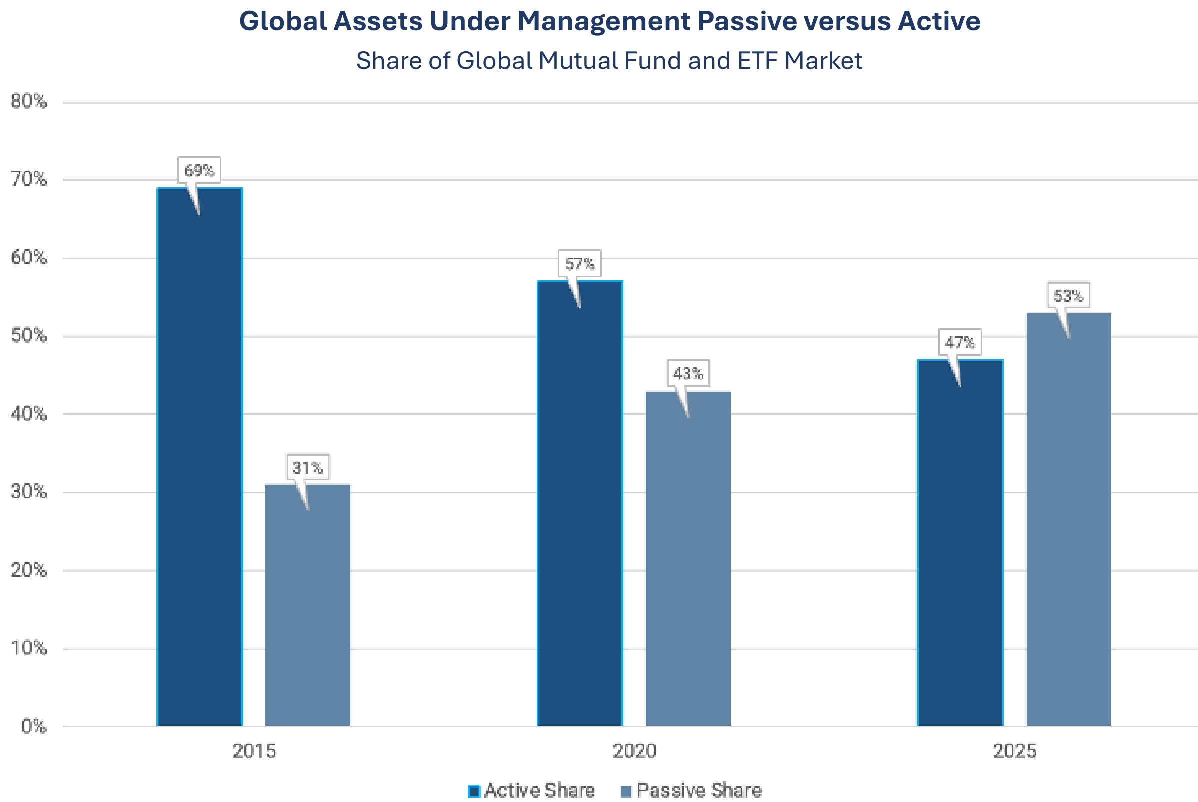


Figure 7. 1[2]

Systematic Risk versus Idiosyncratic Risk

In public equity markets, active managers active managers attempt to generate alpha, or excess returns, through security selection, industry exposure, or timing buy and sell decisions versus the overall movement of the market. In aggregate, the portfolio risk reflects a mix of systematic and idiosyncratic factors. However, returns are largely driven by the overall movement of the market with most strategies having a high correlation with major indices, such as the MSCI World Index, the S&P 500 or the Bloomberg Aggregate Bond Index.

Many active equity managers are considered 'closet indexers' because, although they aim to select stocks and attempt to outperform indices, their active share ratio is often very low. Active share is a key metric for public equity managers, measuring the percentage of

[2] Apollo, Bloomberg June 2025

portfolio holdings that differ from the benchmark index indicating the extent of active management. By definition, active managers typically require a higher active share to achieve potential outperformance through deliberate variances from an index.

Active share is largely driven by sector and position exposure as well as levels of portfolio concentration. A typical core manager may hold 60 to 100 names, target low tracking error and low active share aiming to deliver a small level of alpha. A focused manager may hold 30 to 50 positions, target higher active share and higher tracking error aiming to deliver a larger level of alpha.

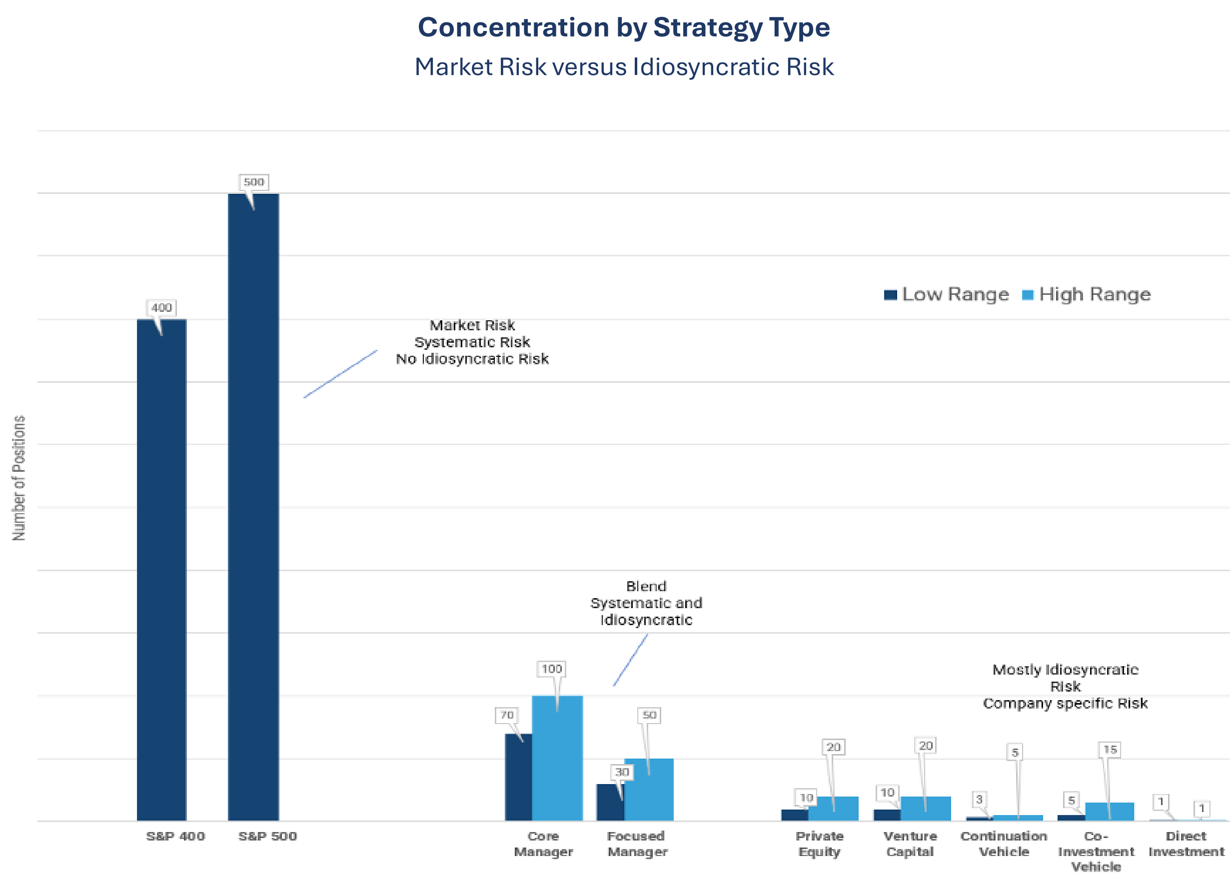


Figure 7. 2[3]

In private equity and venture capital portfolios, investments are more concentrated, typically comprising 10-20 companies per fund. Portfolio risk is highly idiosyncratic and non-systematic, meaning that it is driven by company specific exposures and not the overall movement of the market. Returns are largely attributable to operational improvements,

[3] Axxes Institute. For illustrative purposes only.

executive decision making, add-ins, leverage, and/or strategic exits. Active managers in private equity emphasize deal sourcing and post-acquisition value creation for portfolio outperformance.

Private debt funds typically have a higher number of holdings than PE funds, often ranging from 20 to 100 loans or debt instruments. Direct lending funds, for instance, may hold 50 to 100 loans to middle-market companies, while diversified debt funds or those investing in syndicated loans might hold even more. Private debt funds allocate to more debt instruments to diversify credit risk, as their returns come primarily from interest payments and fees rather than equity upside. This broader diversification mitigates the impact of defaults or underperformance by individual borrowers but position sizing will vary greatly based on fund size, strategy, and market conditions. Overall, debt funds tend to prioritize stable, predictable returns with lower risk compared to private equity.

Portfolio Monitoring, Rebalancing & Dollar Cost Averaging

Public active management involves ongoing monitoring through frequent performance measurement, reviewing quarterly earnings and credit reports, periodic shareholder engagement, and portfolio rebalancing via trading. Public managers actively rebalance portfolios, adjusting holdings based on market conditions, valuation shifts, price momentum, or tactical strategies to optimize risk-return profiles. Some rely on algorithmic or high frequency trading.

A majority of the largest 1,500 publicly traded companies in the U.S. trade more than 1% of their shares outstanding each day. This means that over 100 trading days (or a five-month period), these company's entire float changes hands. Names such as Berkshire and Walmart are held on average for the longest periods, near nine months, others such as Coinbase, Etsy, Abercrombie and Fitch, Enphase, Footlocker and Reddit can trade up to 10% of their float in one day.[4]

Private equity managers rebalance less frequently due to illiquid, long-term investment with the main focus on board seats, operational actions, follow-on investments or strategic exits. Investments are typically held over long-term investment horizons averaging between 5 to 10 years depending on the strategy. This compares with public market investors where the average hold for a stock is 5 to 7 months.[5]

[4] AK Global Investment Management, LLC, Factset, trade data over last one year from July 2025.
[5] AK Global Investment Management, Factset. Average hold of public firms is based on total trading volume over the past year divided by total shares outstanding across the S&P 1500, July 2025

With private debt strategies, the relationship is more contractual and less operational with oversight focused on adherence to financial covenants. The objective is primarily on managing credit risk, the time frame is tied to the term of the loan and the manager is not seeking transformational processes. Though with mezzanine or distressed financing, the role may involve greater operational input involving advisory roles or board seats. Distressed lending may be very active operationally involving debt restructuring or negotiating turnaround plans.

For investors in public markets, dollar cost averaging is a common investment technique, especially for equity investors. Investors will invest fixed amounts regularly, mitigating market timing risks by spreading purchases across a variety of market cycles. Private equity investors do not typically employ dollar cost averaging, as investments are made in large, discrete commitments driven by opportunistic or strategic timing rather than market fluctuations. Though new investor vehicles such as interval or tender offer funds do provide opportunity for investors to dollar-cost average. These vehicles are continuous offering, open-ended structures similar to mutual funds and ETFs and accept investor funds on an ongoing basis, thereby enabling investors to employ a dollar cost averaging approach.

Portfolio Liquidity Management

Active public market investors can take advantage of highly liquid, low-cost trading environments to rebalance, hedge or exit positions quickly. High liquidity levels support frequent portfolio rebalancing and the creation of large, highly liquid derivative markets such as options and futures. These markets provide additional means for investors to trade or manage risk within public market portfolios. Private equity portfolios are illiquid, with capital commitments locked for years, requiring managers to focus on long-term portfolio planning and staggered fund vintages for cash flow management.

While the growth of the secondaries market has added liquidity to private markets, the overall transaction level and latency remain low, limiting investors' ability to trade at volumes comparable to public markets. However, continued growth in secondary strategies will add to available liquidity for private market participants. In addition, the advancement of interval and tender offer funds creates a bridge between private and public markets, allowing investors to access open ended, continuous offering vehicles with flexibility to sell or exit at quarterly or staggered intervals.

The limited liquidity of private markets drives an expectation of an 'illiquidity premium'. The illiquidity premium in private markets refers to the additional return investors expect for holding assets, like private equity or debt, that cannot be easily sold or converted to cash due to their long lock-up periods and limited secondary markets. This premium compensates for the increased risk and reduced flexibility compared to liquid public market investments. As noted below, over the long term, private markets have generated excess returns over public markets, though the illiquidity premium will vary widely over differing time periods.

Portfolio Valuation and Volatility

Public equity portfolios are valued daily based on market prices, providing real-time portfolio performance transparency. Managers navigate price volatility by using daily market fluctuations to adjust portfolios through trading or hedging, and through tactical allocations to capitalize on short-term price movements or mitigate losses.

Private equity managers face limited price volatility in their portfolios due to infrequent valuations and long-term holding periods. Managers typically use mark-to-model NAV pricing, employing valuation models like discounted cash flows or comparable techniques to estimate portfolio company values. The estimates are typically calculated on a quarterly or annual basis, often with a time lag resulting in less frequent and more subjective NAV updates. Most managers purposely ignore shorter-term market disruptions or noise as they are focus on long-term horizons and estimates of fair market value at exit. The net result is that private market returns are purposely smoothed through time. This smoothing results in less price variance and lower volatility when comparing private market returns to public market peer groups.

This smoothing effect may hide near-term risks or uncertainties in underlying portfolio companies or economic conditions, or it may lead to negative surprises upon exit if the estimated model price is not realized. Smoothing may also understate actual risk levels and incorrectly enhance risk-adjusted return metrics. This is the opposite issue faced by long term investors in public markets, where dramatic short term price movements or headline driven trading often overstate near term risks. Short term price volatility driven by price reversals (whether up or down), tend to smooth out over time and are often immaterial when measuring long term performance.

Measuring Return across Private Markets

Returns in private markets reflect sensitivities to the same macro drivers as public markets, such as economic cycles, monetary policy, interest rates, inflation, demographics and labor market conditions, commodity prices, fiscal and tax policy, regulatory changes, and technological disruption. These factors interact in numerous and complex ways and the impact varies greatly across private equity, debt or real estate and across global regions or sectors. Over the long-term, private equity has outperformed public markets with significant variances over time especially for shorter investment horizons.

Over the 25 year period from 2000 to 2024, private equity, which includes buyout and growth capital strategies, has outpaced public market equity returns by a significant amount. Private equity returned 12.3% versus 7.7% for the S&P 500, and 7.6% for the Russell 2000 and less than 5% for the MSCI World x US Index. Secondaries experienced very strong performance outpacing private equity by 20 bps. Venture capital underperformed public markets, returning 5.8% (nearly 200 basis points lower) impacted by a very weak post bubble 2000 period in which the strategy experienced a 65% drawdown. The inception period represents an unfavorable valuation backdrop for public markets as it coincides with the top of an extended period of high multiples, wherein the S&P 500 was priced at its all-time record high near 24x forward P/E. Real estate returned 8.7%, outpacing the S&P 500 by 100 basis points but returning less than the FTSE NAREIT which gained 9.6%.

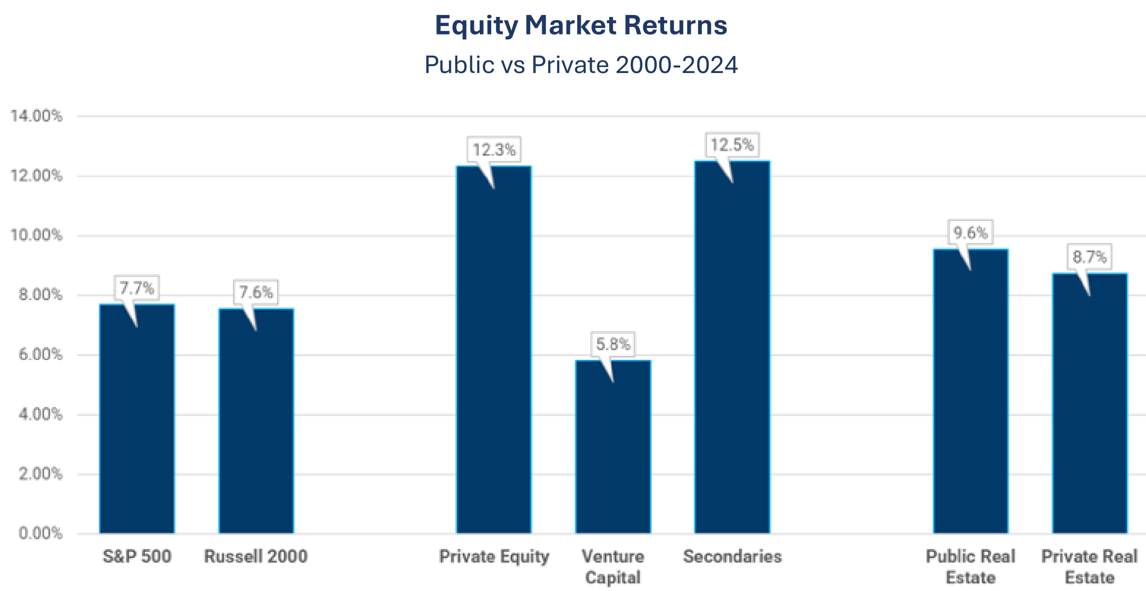


Figure 7. 3[6]

[6] Factset for public market figures, Pitchbook for private market figures, Axxes Capital, December 2024

The 20-year period starting in 2004 is a more valuation neutral period for the S&P 500 and over that time period, private equity still outperformed returning 14.3% versus 10.4% for the S&P 500, and 5.5% for the MSCI World x US Index outpacing by 390 and 880 basis points respectively. Venture capital essentially tied the index returning 10.5%. Secondaries outperformed the S&P 500 but returned 150 basis points less than private equity. Private real estate returned 7.9%, losing to the S&P 500 by 260 basis points but outperforming the NAREIT which return 6.5%.

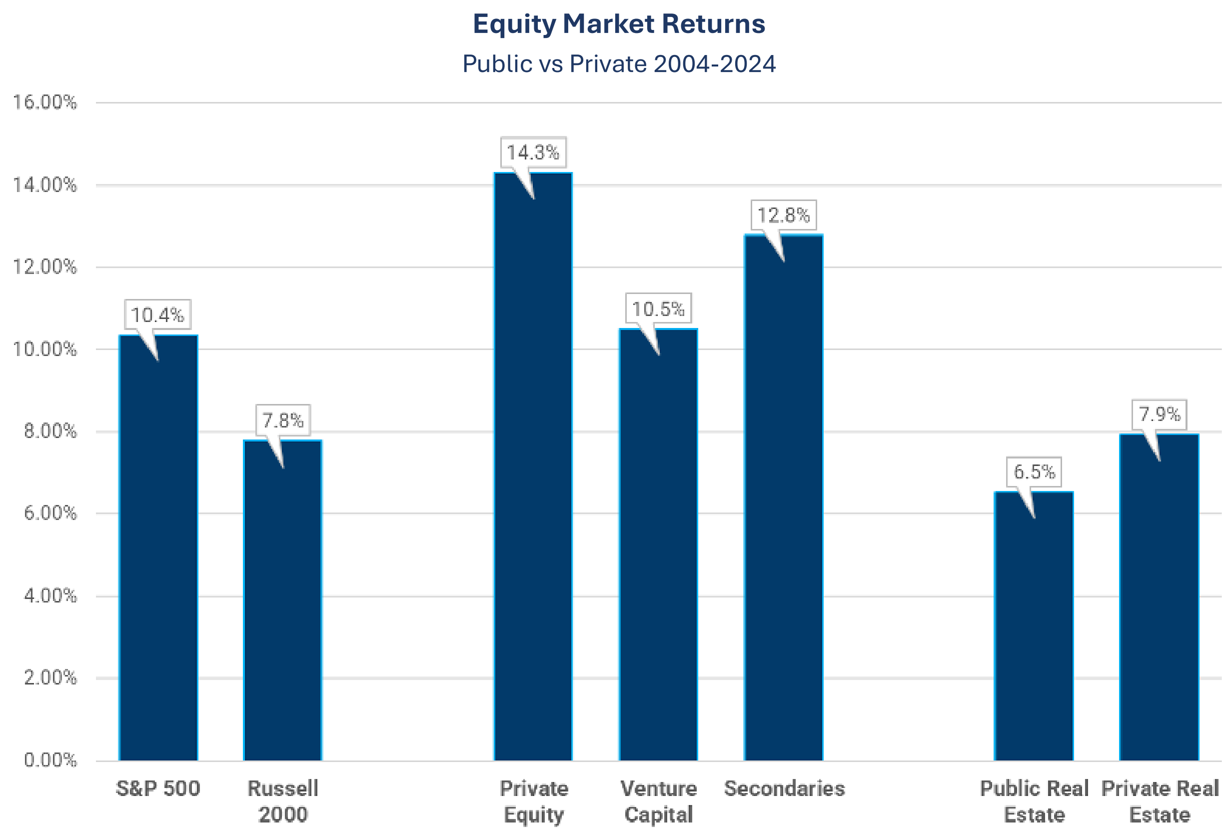


Figure 7. 4[7]

The past 15 year period represents a highly favorable valuation backdrop for public equities as the 2009 inception date coincides with the March bottom of the Great Financial Crises when the S&P 500 reached a valuation low near 11x forward P/E multiple. Nonetheless, over this time period, private equity again outperformed the S&P 500 though by a much narrower margin, returning 14.8% versus 13.9% though it easily outpaced the MSCI World x-US Index which returned 5.8%. Secondaries returned 20bps less than the S&P 500 at 13.7%, while Venture Capital returns were 12.8%. Real Estate returned 9.6% underperforming the S&P

[7] Factset for public market figures, Pitchbook for private market figures, Axxes Capital, December 2024

500 by 430 basis points but outpacing the NAREIT index by 50 basis points, which returned 9.1%.

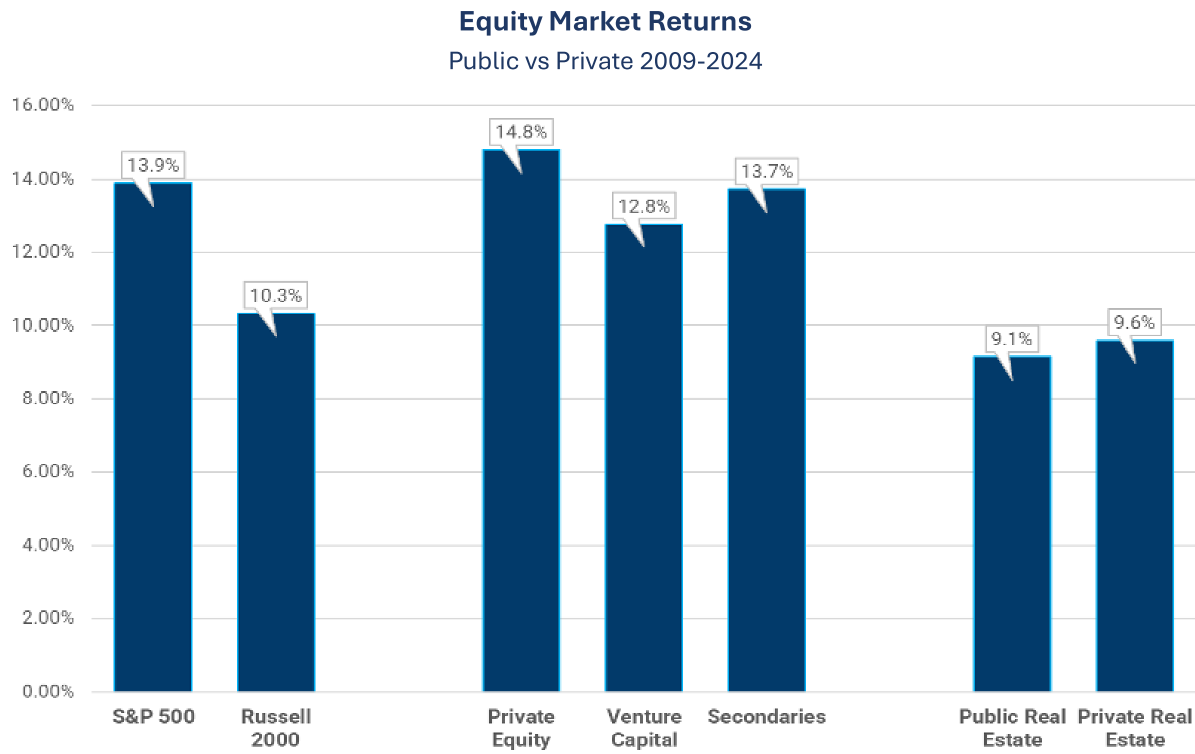


Figure 7. 5[8]

From a debt perspective, over the 25 year period from 2000 to 2024, the outperformance of private market strategies versus public market bonds and loans has been significant and consistent over all time periods.

Public debt, which includes direct lending, mezzanine and distressed debt strategies, generated annualized returns of 9.5% versus the Bloomberg U.S. Aggregate Index which gained which returned 3.9% and the Bloomberg World Aggregate Index which returned 3.2% outpacing each by over 550 basis points. High yield bonds, which have comparable risk characteristics to private debt returned 6.9%. Real Estate also outpaced returning 8.8%.

[8] Factset for public market figures, Pitchbook for private market figures, Axxes Capital, December 2024

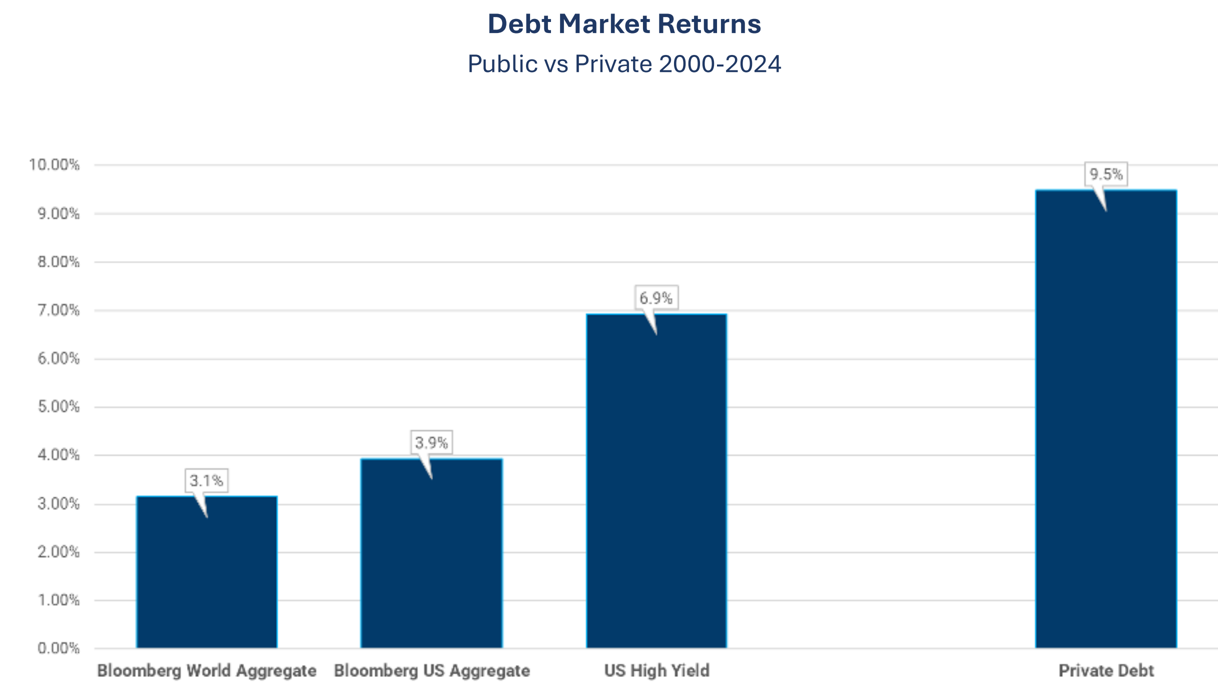


Figure 7. 6[9]

Over the 20-year period from 2004 to 2024, private debt markets again outpaced public markets by wide margins. Overall private debt returned 9.0% while direct lending returned 9.5%, both outpacing the Bloomberg U.S Aggregate which returned 2.3% and the Bloomberg World Aggregate Index, which gained 1.9%. High yield bonds gained 6.4% while broadly syndicated loans, also referred to as leveraged loans, returned 4.5%. Direct lending and leveraged loans are typically structured as floating rate loans making short term instruments, such as 3-month U.S. treasury bills a more appropriate benchmark. T-Bills returned 1.6% over the comparable time period.

[9] Factset for public market figures, Pitchbook for private market figures, Axxes Capital, December 2024

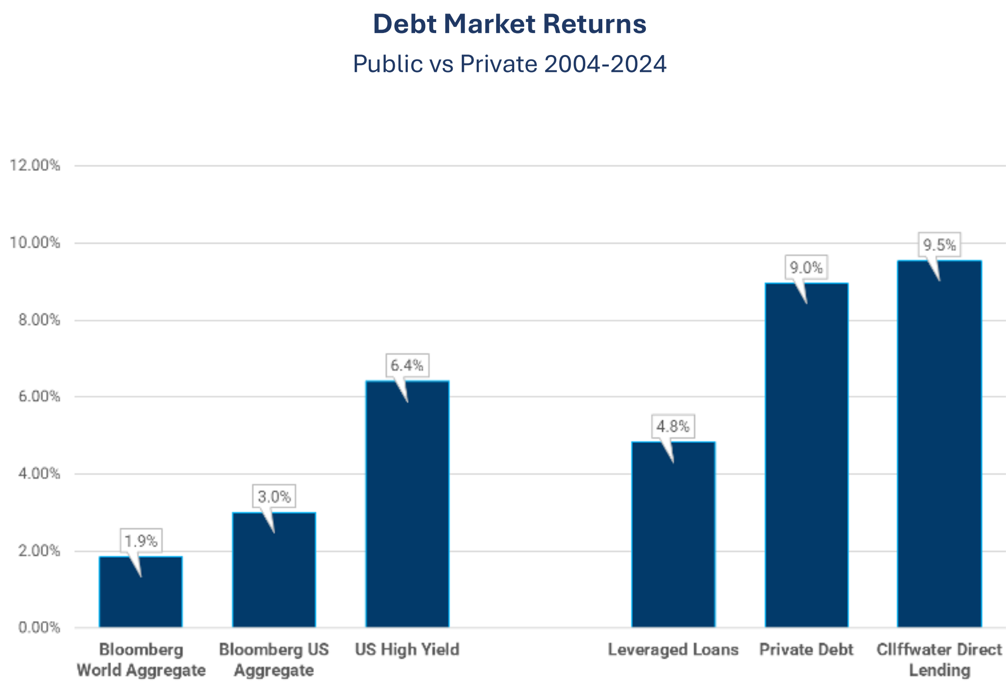


Figure 7. 7[10]

Measuring Risk Across Public and Private Markets

From a risk perspective, private markets typically display comparable or lower levels of volatility compared to their public market peer group. For measuring volatility, annualized standard deviations of returns are calculated for both public and private market strategies using quarterly data. Much of the lower volatility may be attributed to return smoothing, especially for private equity and venture capital strategies. Return smoothing and potential techniques to adjust returns are addressed in the section below. In this section, long-term private and public market volatility is compared using 'as reported' data from private managers.

For equity markets, based on manager's reported NAV data, private equity and venture capital returns display lower volatility than public markets. Over the past 25 years, the volatility of private equity managers has measured 9.7% versus 16.5% for the S&P 500, 18.5% for the MSCI World x-US Index and 21.5% for the Russell 2000 Small Cap Index. Given the inherent difference in size between private market equities and large cap indices, the Russell 2000 is a more comparable measure given the overall similarity in size. Venture capital reports higher volatility at 12.5% and Secondaries record lower volatility levels at

[10] Factset for public market figures, Pitchbook for private market figures, Cliffwater for Direct Lending, Morningstar for Leverage Loans Index, Axxes Capital, December 2024

9.0%. Real estate, which has measured volatility at 10.5%, measures half the level of the NAREIT index which is at 20%.

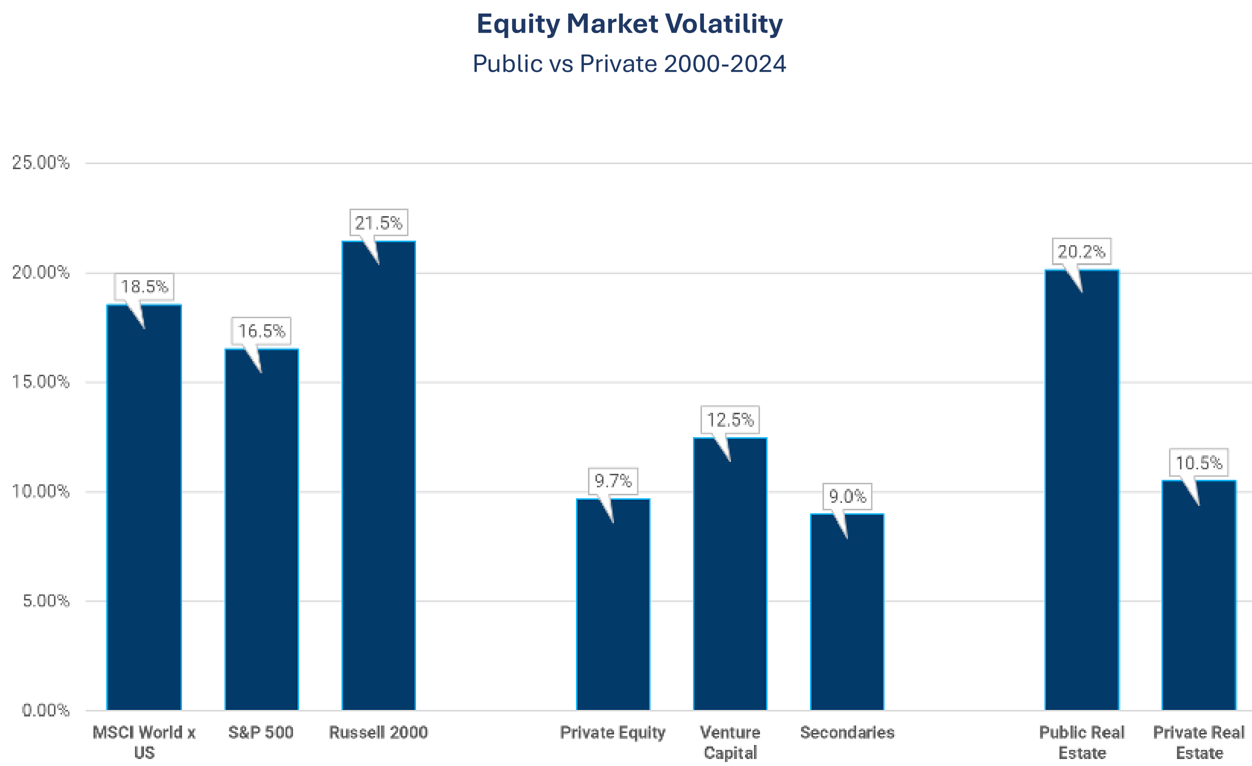


Figure 7. 8[11]

In looking at debt markets over the past 20 years, private debt returns have displayed higher volatility than the Bloomberg U.S. Aggregate Index recording 7.6% annualized volatility versus 4.5%. High yield corporate loans, which have a more similar risk profile to unrated, smaller firm private debt markets, recorded higher volatility at 11.8%. Another direct comparable for private debt is the publicly traded broadly syndicated loan, or leveraged loan, market which recorded volatility levels at 9.0%. One of the broadest benchmarks within private debt, the Cliffwater Direct Lending Index - covering near 17,000 non-traded, private, middle market loans issued by BDCs - recorded 3.4% volatility.

[11] Factset for public market figures, Pitchbook for private market figures, Axxes Capital, December 2024

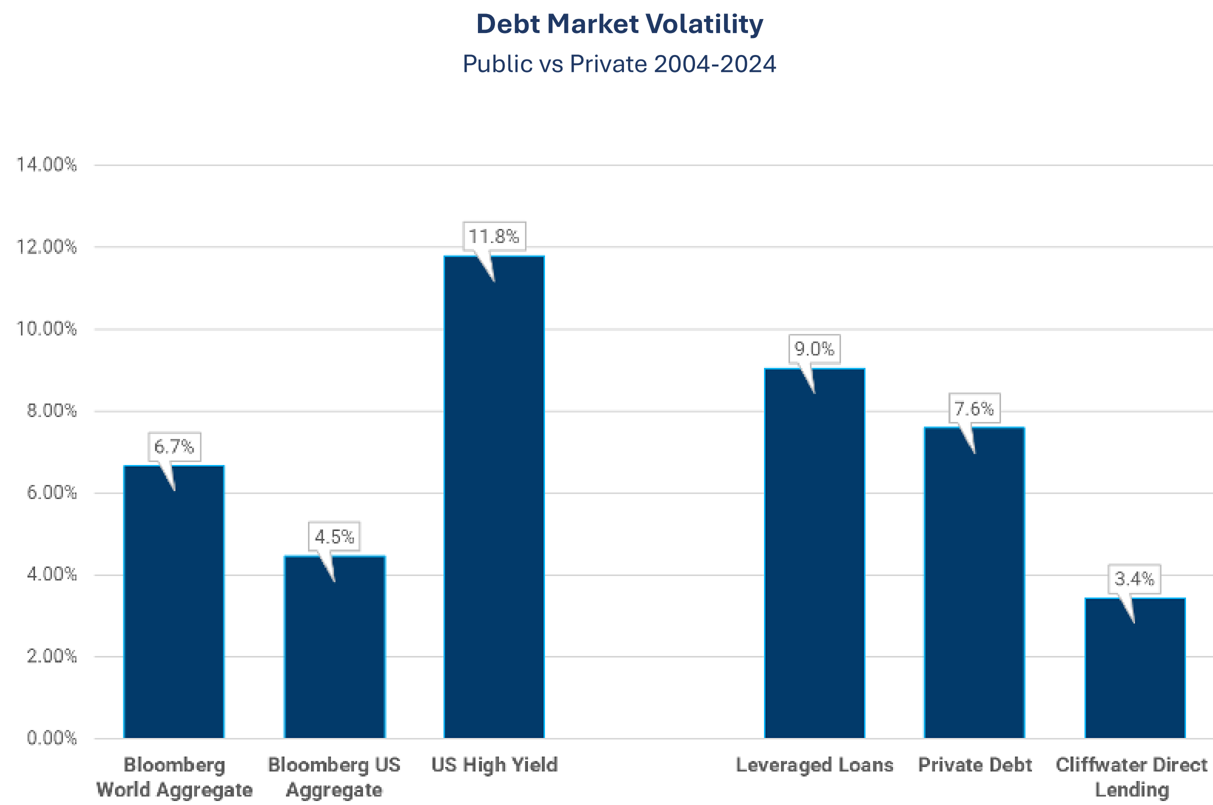


Figure 7. 9[12]

Drawdowns

Drawdowns are a measure of the decline in the value of a portfolio from its peak (highest value) to its subsequent trough (lowest value), before a new peak is reached. Measuring drawdowns is another good measure of risk, particularly within private equity and venture capital markets, and may be more directly comparable to public market equity measures than measures of unadjusted standard deviation.

Incorporating drawdown metrics mitigates potential issues with return smoothing and time lag reporting. Depending of the specific strategy, private and public markets may have very similar underling exposures to these risk measures. Effective drawdown forecasts should be based on underlying economic risks such as sector, interest rate, credit, recession and valuation exposures. It is an important metric that investors should incorporate into their

[12] Factset for public market figures, Pitchbook for private market figures, Cliffwater for Direct Lending, Morningstar for Leverage Loans Index, Axxes Capital, December 2024

risk modeling framework as it places private and public markets on a more comparable footing and requires no adjustments to any underlying NAV data.

Manager Dispersion

Manager dispersion refers to the range of performance outcome delivered by different investment managers within the same asset class, style or strategy over a given period. As noted more extensively in Chapter 8, manager dispersion across private markets is dramatically greater than public market strategies. Venture capital strategies display the highest level of dispersion, followed by growth and buyout, specialty finance and value added real estate strategies. For all asset classes, manager dispersion in private markets is greater than manager dispersion in comparable public categories. The level of dispersion, by category, is a good measure of the uncertainty around expected future returns for private assets – and requires no adjustments to the underlying NAV data.

Diversification Opportunities Utilizing Private Market Strategies

Due to the level of smoothing inherent in private markets quarterly returns may produce a potential bias in estimating volatility and correlations across managers or strategies. In an attempt to adjust for potential bias, industry analysts use statistical methods to provide insight into the pattern of how past valuations may influence future valuations.

The table below reviews the correlation of returns over the past 20 years using actual reported NAV data from public market managers.

Correlation Summary

Key Strategies Public and Private Markets

	S&P 500	Cliffwater DL	Bloomberg High Yield	FTSE NAREIT	Russell 2000	Bloomberg World Agg	MSCI World	Bloomberg US Agg	Morningstar LSTA	US Treasury 3 Month	Private Equity	Buyout	Growth/ Expansion	Venture Capital	Real Estate	Private Debt	Distressed	Mezzanine	Secondaries
S&P 500	100.00%																		
Cliffwater DL	68.11%	100.00%																	
Bloomberg High Yield	70.60%	73.49%	100.00%																
FTSE NAREIT	69.81%	55.50%	67.40%	100.00%															
Russell 2000	90.91%	65.92%	70.18%	73.18%	100.00%														
Bloomberg World Agg	70.60%	73.49%	100.00%	67.40%	70.18%	100.00%													
MSCI World	88.75%	64.22%	73.18%	67.62%	85.54%	73.18%	100.00%												
Bloomberg US Agg	-8.47%	-14.75%	9.52%	24.10%	-9.99%	9.52%	0.32%	100.00%											
Morningstar LSTA	67.15%	75.59%	93.86%	54.77%	63.95%	93.86%	68.12%	-5.97%	100.00%										
US Treasury 3 Month	-3.80%	10.79%	-3.77%	1.25%	-5.28%	-3.77%	0.28%	10.42%	3.13%	100.00%									
Private Equity	68.76%	68.30%	46.97%	50.91%	61.35%	46.97%	70.26%	-17.69%	45.37%	-1.93%	100.00%								
Buyout	68.35%	67.93%	47.06%	51.18%	60.73%	47.06%	70.52%	-17.21%	45.33%	-2.11%	99.85%	100.00%							
Growth/ Expansion	51.37%	64.83%	34.05%	36.19%	48.54%	34.05%	48.06%	-7.47%	37.76%	9.34%	73.18%	70.84%	100.00%						
Venture Capital	43.45%	43.84%	18.96%	25.47%	38.53%	18.96%	32.39%	-14.22%	20.68%	-3.62%	64.98%	63.09%	80.32%	100.00%					
Real Estate	24.60%	38.12%	2.39%	25.02%	20.43%	2.39%	28.42%	-13.19%	-2.34%	17.91%	61.82%	62.05%	44.32%	29.89%	100.00%				
Private Debt	63.64%	73.65%	65.90%	59.08%	59.25%	65.90%	70.67%	-10.86%	65.46%	3.68%	70.61%	71.01%	46.80%	30.17%	46.12%	100.00%			
Distressed	60.79%	72.99%	66.17%	56.30%	57.37%	66.17%	65.67%	-18.70%	66.51%	0.47%	65.99%	66.23%	41.58%	24.57%	41.56%	94.71%	100.00%		
Mezzanine	28.96%	28.06%	12.68%	26.17%	25.33%	12.68%	35.91%	12.76%	11.04%	-0.02%	42.93%	43.59%	33.36%	32.52%	30.80%	45.55%	23.62%	100.00%	
Secondaries	15.73%	42.46%	-2.30%	24.35%	14.45%	-2.30%	20.38%	-7.18%	-0.28%	17.86%	47.15%	46.65%	36.99%	52.18%	45.81%	29.06%	24.51%	28.54%	100.00%

Figure 7. 10[13]

Some key observations using actual returns data include:

- ✓ S&P 500
  - Biggest offset to the S&P 500 Index within the private market universe are Secondaries, Mezzanine and Real Estate strategies

- ✓ Bloomberg U.S. Aggregate Index
  - Least correlated of all strategies (excluding Treasury Bills)
  - Similar to the S&P 500, the following strategies are also negatively correlated – Buyout, Distressed, Venture Capital, Private Equity, Secondaries

- ✓ Within the private debt universe
  - Mezzanine strategies are the biggest contributor to diversification
  - Mezzanine and Distressed are both good offsets to Direct Lending

[13] Factset for public market figures, Pitchbook for private market figures, Cliffwater for Direct Lending, Morningstar for Leverage Loans Index, Axxes Capital, December 2024

- ✓ Within the private equity universe
    - Correlations are much higher in comparison to the private debt strategies
    - Growth and Buyout are near 90% while Venture capital is near 73%

- ✓ Within real estate strategies
    - Private real estate is a good diversifier across the board with low correlations versus public and private equity and public and private debt
    - FTSE NAREIT correlates 78% with SP 500 and 77% with Russell 2000
    - Private real estate is a much stronger diversifier, correlating 25% and 19% respectively

- ✓ Within public debt markets
    - High Yield Bonds and Leverage Loans are very highly correlated, near 90%
    - Direct Lending is a good offset to the Bloomberg U.S. Aggregate but has higher correlations with Distressed Strategies and publicly traded Leveraged Loans.

- ✓ Within public equity markets
    - Correlations are the highest with the Russell 2000 at 91% and MSCI World x US at 89% versus the S&P 500

Overall, the diversification benefits from adding private market investments can be significant. Not only are many strategies non-correlated to traditional markets, but also most provide access to distinct sectors, technologies, regions or niche segments that are under-represented in public markets.

Building a Client Portfolio

Given the breadth of private market strategies, the range of returns, the differing risk profiles, and the broad range of correlations, there are many different ways that investors can incorporate private market strategies within traditional portfolios.

As noted, prior, over the past 25 years, private equity, debt, and real estate strategies have outpaced their respective public market counterparts. Private equity has done so while recording lower levels of volatility versus the S&P 500 and the MSCI World Index while private debt has done so while recording higher levels of volatility versus the Bloomberg Global Bond Aggregate.[14]

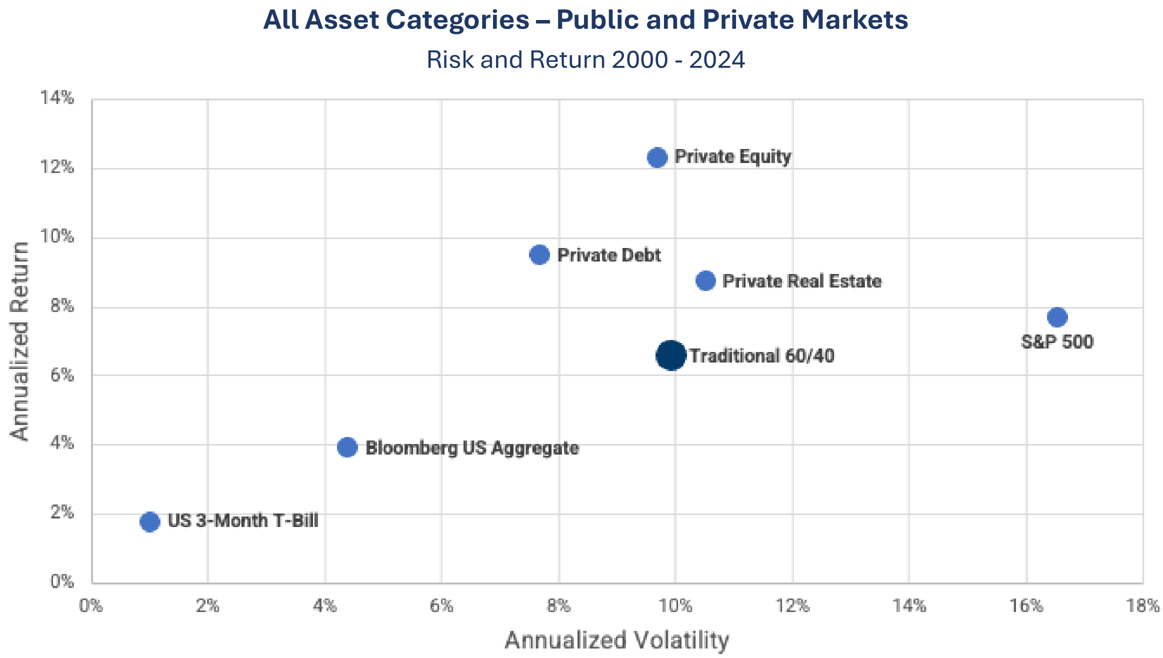


Figure 7. 11[15]

Below we look at opportunities to diversify across equity, debt, traditional 60/40 and multi-asset strategies.

Equity Strategy Diversification

Within equity strategies, adding secondaries and venture capital strategies are one of the best ways to diversify traditional equities portfolios. Secondaries have the lowest correlations near 0.3 with venture capital near 0.5. Secondaries provide accelerated opportunities for return and risk offset given that most are past the blind pool stage and closer to the exit phase, typically providing higher returns with less uncertainty. Venture capital offers a distinctly different exposures to start up and innovative technologies but with higher associated risks.

The 25-year risk return profile of a global equity portfolio with a 70% S&P 500 weighting, 20% MSCI World x US and 10% Russell 2000 small cap weighing is noted below. The strategy

[14] Volatility is measured using as reported data for private market strategies.
[15] Pitchbook for private market data, Factset for public market data, Axxes Capital for 60/40

returned 7% annualized with a standard deviation over 16%. Adding a 30% weight to private markets by adding 10% buyout equity, 10% venture capital and 10% secondaries, maintain the same return at 7% while reducing risk by 400 basis points - using unadjusted data. The drawdown decreases from -47% to -38%%.

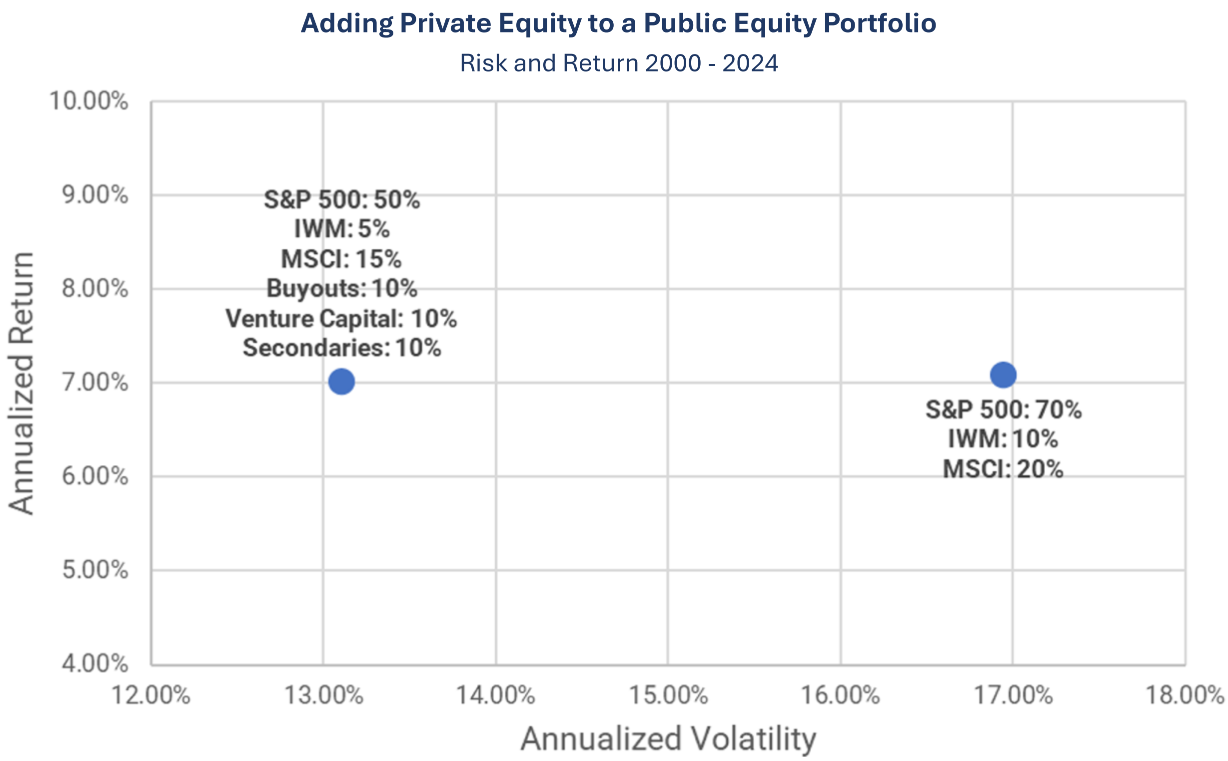


Figure 7. 12[16]

Fixed Income Strategy Diversification

The 20-year risk return profile of a U.S fixed income portfolio with an 80% Bloomberg U.S. Aggregate weighting and a 20% Bloomberg U.S. high yield weighting is noted below. The strategy returned 4.6% with an annualized standard deviation of 4.3%. Incorporating private debt by adding 10% direct lending, 10% distressed and 10% mezzanine would have increased return by near 150 basis points and reduced volatility by over 15% - again using unadjusted return data. The drawdown decreases by 100 basis points.

[16] Factset for public market figures, Pitchbook for private market figures, Axxes Capital for sample portfolio, December 2024

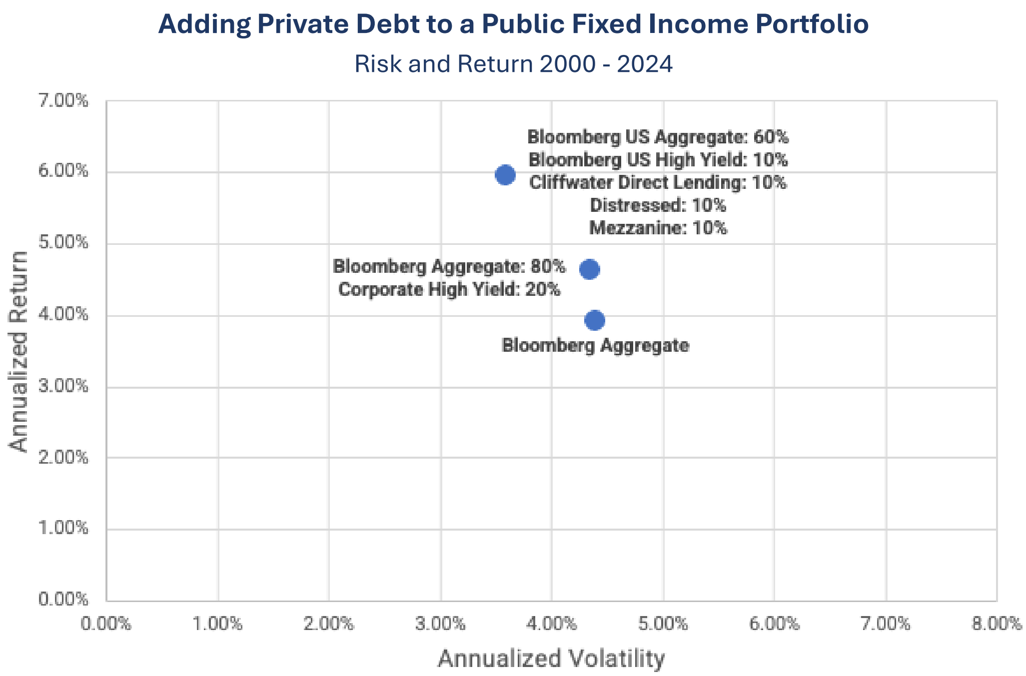
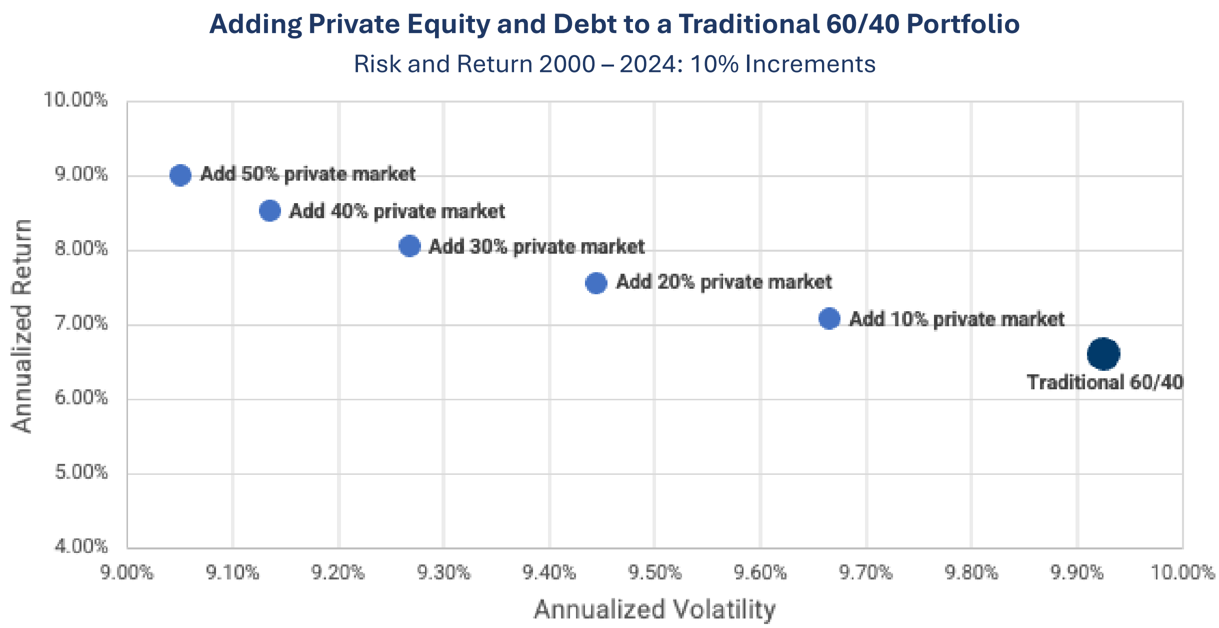


Figure 7. 13[17]

Traditional 60/40 Diversification

The 20-year risk return profile of a U.S 60/40 portfolio with a 60% in the S&P 500 and 40% in the Bloomberg U.S. Aggregate weighting is noted below. The strategy returned 6.5% annualized with a standard deviation near 10%. The results of adding private markets equally balanced between debt and equity are added in increments of 10% are noted below. (i.e. for 10% blend, private equity is 5% and private debt is 5%). Adding a blend of private equity and private debt enhances return and reduces risk with each incremental increase in allocation. The diversification results in drawdown measures that rises by 2% from -27% to -20% at the allocation to private strategies increases towards 50%.

[17] Factset for public market figures, Pitchbook for private market figures, Cliffwater for Direct Lending, Axxes Capital, December 2024.



*Each incremental 10% adds an equally weighted blend of private equity and private debt
For 10%, each weight is 5%, for 20%, each weight is 10%, etc.

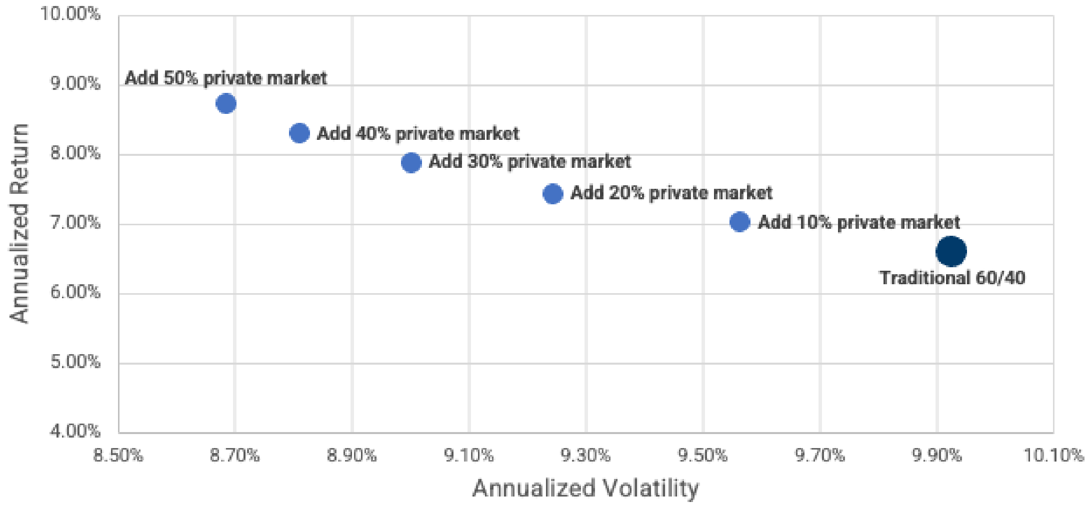
Figure 7. 14[18]

Incorporating real estate into the mix results in a very similar risk profile. In the sample portfolio below, an equal weighted portfolio of private debt, private equity and private real estate are added in increments of 10%. (i.e. for 10% blend private equity is 3.33%, private debt is 3.33% and private real estate is 3.33%). Adding a blend of each strategy enhances return and reduces risk with each incremental increase in allocation. The diversification results in drawdown measures that rise moderately from -27% to -32% as the allocation to private strategies increases towards 50%.

[18] Factset for public market figures, Pitchbook for private market figures, Axxes Capital for sample portfolio, December 2024. Note that the overall equity / debt exposure remains at 60 /40 in this example.

Adding Private Equity, Debt, Real Estate to a Traditional 60/40 Portfolio

Risk and Return 2000 – 2024: 10% Increments



*Each incremental 10% adds an equally weighted blend of private equity, private debt, and real estate
For 10%, each weight is 3.33%, for 20%, each weight is 6.66%, etc.

Figure 7. 15[19]

Multi Asset Strategies Diversification

Using the full breadth of strategies and building optimized portfolios can result in meaningfully differentiated portfolio solutions. A multi strategy asset mix, similar to an endowment model, that incorporates all main assets categories and certain key sub strategies is noted below. The 25-year risk return profile of a U.S 60/40 portfolio with 60% in the S&P 500 and 40% in the Bloomberg U.S. Aggregate generates a 6.5% annualized return a standard deviation near 10%. An unconstrained multi asset strategy that adds private equity, venture capital, private debt, real estate and mezzanine a 60/40 weighting would have added over 200 basis points of return and reduced annualized standard deviation by close to 25%.

Adding Multi-Asset Strategies to a Traditional 60/40

Risk and Return 2000 – 2024: Sample Endowment Model

[19] :Factset for public market figures, Pitchbook for private market figures, Axxes Capital for sample portfolio, December 2024

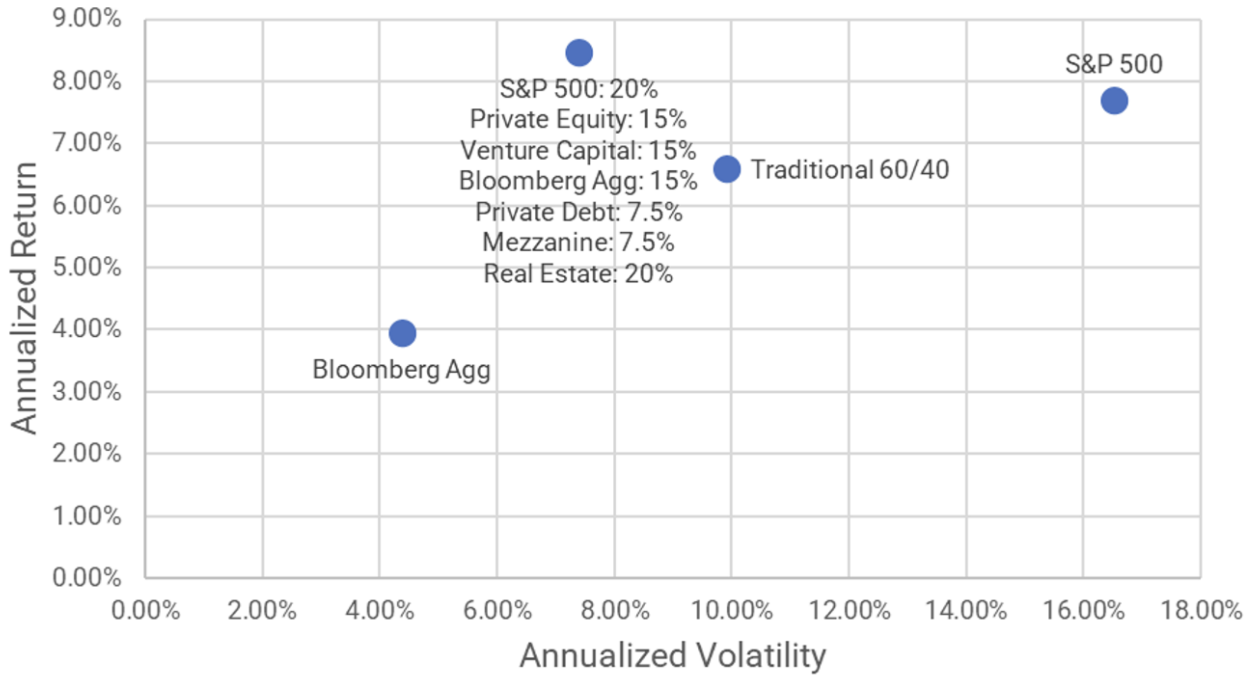


Figure 7. 16[20]

Incorporating private market strategies within overall portfolio design may significantly enhance investor options. Investors can access meaningfully differentiated strategies beyond traditional public market offerings, by accessing unique opportunities, seeking higher returns, offsetting traditional risk exposures, incorporating new risk mandates or better diversifying existing portfolio risks. This increased access allows investors to create curated portfolios and design more customized solutions.

[20] Factset for public market figures, Pitchbook for private market figures, Axxes Capital for sample portfolio, December 2024

Chapter Eight

Structures and Access Points

Chapter Eight: Structures and Access Points

This chapter outlines the practical mechanics of private markets investing, with a focus on how these investments are structured legally and the evolving platforms that provide access to them. Understanding investment structures—from traditional limited partnerships to newer interval funds and non-traded vehicles—is essential for investors and financial advisors to find appropriate opportunities through the evaluation of investor needs, risk tolerance, and liquidity requirements. Equally important is navigating the expanding ecosystem of online access platforms that have helped democratize private markets thereby expanding investment opportunities for retail investors. These platforms may not only lower minimum investment requirements and simplify operations, but also provide built-in due diligence, reporting, and client service infrastructure necessary for effective private markets evaluation and investing.

Common Legal Structures and Understanding Their Objectives

There are various structures for private investments that each serve unique purposes, accommodate alternative regulatory requirements, and appeal to different types of investors. It is critical for investors and financial advisors to understand the distinctions between these structures to identify the right vehicle for their clients' needs, circumstances, and goals.

Private Funds

Limited Partnerships

A limited partnership is a legal structure where investors (limited partners or "LPs") provide capital to fund investments. Limited partnerships are typically organized by a general partner ("GP") who is responsible for managing the limited partnership's capital and its day-to-day operations. The advantage of a limited partnership for a limited partner is that liability is generally capped at the amount of the limited partner's capital investment. The legal liability for the general partner is generally unlimited as the general partner bears full responsibility for all operations and investments. Limited partnerships are typically private investment vehicles and are therefore not registered with the Securities and Exchange Commission ("SEC") as a public investment vehicle. The limited partnership structure is the most common within private markets representing the vast majority of assets under management.

In a typical private equity limited partnership, the general partner will commit a relatively small amount of the limited partnership's total capital (in many cases 1% to 5%). However, the general partner will receive a disproportionate share of the limited partnership's profits (typically 10% to 20%) after limited partners receive a return of their invested capital plus a preferred return on their invested capital (typically 6% to 10%). Limited Partners' capital is committed upfront and is drawn down by the general partner via periodic capital calls as the fund identifies investment opportunities. These funds are commonly referred to as "drawdown funds" due to this capital drawdown mechanism. Limited Partnerships are generally illiquid as capital is locked up for an extended period (often 7 to 10 years) and returns on investments, or distributions, to investors typically begin in the later years.

The limited partnership structure is ideal for sophisticated investors with higher illiquidity tolerances and long investment horizons who understand the trade-off between illiquidity and potential excess returns.

Limited Liability Companies (LLCs)

A limited liability company ("LLC") is a flexible business entity that combines the liability protection of a corporation with the pass-through taxation of a partnership. In private markets, LLCs are commonly used for investment funds, real estate ventures, or private businesses due to their adaptability and favorable tax treatment.

The LLC structure provides flexibility in both tax treatment and governance while maintaining limited liability protection for investors. LLCs can elect tax treatment as partnerships or corporations, each providing alternative benefits depending on investor needs and tax optimization strategies. LLCs also allow for different classes of membership interests with varying economic rights, voting powers, and liquidity provisions. This makes LLCs particularly suitable for direct investments, real estate projects, and customized investment vehicles.

1940 Act Registration Investment Vehicles

Interval Funds

Interval funds are closed-end investment vehicles registered under the Investment Company Act of 1940. They differ from traditional private market vehicles by offering periodic liquidity through scheduled share repurchases at net asset value. Interval funds typically allow investors to redeem up to 5% (which is quickly becoming the market standard) although in some cases as much as 25% of their holdings may be redeemed, on a quarterly, semi-annual or annual basis. As registered investment companies ("RICs"), they are designed for retail investors, often concentrating portfolios in illiquid or alternative assets like real estate, private debt, or equity. To maintain RIC status and pass-through tax treatment, interval funds must distribute at least 90% of income to investors. Investor profits on share repurchases are generally treated as capital gains for tax purposes, either short term (if held for less than one year) or long-term (if held for one year or longer).

The interval fund structure eliminates many complexities often associated with traditional limited partnership structured funds. Interval funds require investors to provide their full commitment upfront and therefore don't rely on capital calls. Investors receive simple and familiar 1099 tax forms rather than the more complex K-1s associated with limited partnerships and limited liability companies, and NAVs are reported regularly, creating more transparency. However, the trade-off for the convenience and simplicity of this structure is the need to maintain a portion of the interval fund's assets in liquid investments since fund managers must maintain liquidity to meet potential redemption requests. Interval funds are well suited for retail investors who seek a more familiar investment format as they enter the private market.

Tender Offer Funds

Tender offer funds are another form of closed-end investment vehicle registered under the Investment Company Act of 1940, designed to provide periodic liquidity to investors. Unlike interval funds which have a regulatory mandated requirement to repurchase a certain percentage of shares at net asset value at regular intervals, tender offer funds repurchase shares from investors at net asset value on a discretionary basis.

Similar to Interval funds, tender offer funds invest in less liquid assets such as private equity, real estate, or private credit. Similar to interval funds, tender offer funds are structured as RICs and must distribute at least 90% of their income to investors. Liquidity events through tender offers are typically infrequent and discretionary, and tax treatment depends on the investor's individual cost basis and holding period, with gains generally subject to capital gains taxation.

Business Development Companies (BDCs)

Business Development Companies ("BDCs") occupy a unique position in the private investment landscape, as they are available in both public and non-traded formats. BDCs were created by the U.S. Congress in 1980 through the Small Business Investment Incentive Act of 1980. BDCs typically use debt and equity to invest in middle-market private companies making them a natural vehicle for private credit and growth equity strategies. Public BDCs trade on exchanges and while they offer immediate liquidity they can expose investors to market volatility as shares trade independent of the fund's net asset value. Non-traded BDCs provide more stable valuations based on actual asset performance. This structure allows non-traded BDCs to focus on long-term investment performance without concern for short-term market fluctuations that often move publicly traded BDC prices away from their underlying asset values.

BDCs offer significant advantages for income-focused investors, as they must distribute a minimum of 90% of their taxable income each year. This provides steady cash flows for investors, thus appealing to retirees and other income-seeking individuals. These funds can employ leverage up to a 2:1 debt-to-equity ratio, though actual usage varies and may require shareholder approval. Recently, this structure has evolved to include monthly NAV BDCs—a newer format that offers monthly net asset value reporting and structured share repurchase programs, blending aspects of traditional non-traded BDCs with greater transparency and periodic liquidity.

Real Estate Investment Trusts ("REITs")

Similar to business development companies, real estate investment trusts are available in both public and non-traded formats.

Non-traded REITs focus on investing in income-generating real estate while providing limited liquidity options. The private REIT structure avoids publicly traded REIT volatility which is often more closely correlated with stock market movements rather than underlying real estate fundamentals. Managers of non-traded REITs can therefore focus on long-term property performance and value-add opportunities without concern for short-term market volatility. Recently, this structure has evolved to include monthly NAV REITs which provide investors with more frequent valuation updates and more structured liquidity programs.

Exempted Vehicles from the 1940 Act

Drawdown Funds

A drawdown fund, also known as a closed-end fund or committed capital fund, is the primary investment vehicle used in private market investments tracing its inception to the creation of the private equity industry in the mid-1950s. Drawdown funds require investors, referred to as limited partners (LPs), to commit a specific amount of capital upfront. The capital is then "drawn down" or called by the fund manager, known as the general partner (GP). Capital calls occur over time, typically a two to five year period as the manager identifies and invests in opportunities.

The structure aligns the interests of the GP and LPs, as the GP only accesses capital when needed for investments, reducing idle cash and focusing on long-term value creation. While it allows for flexibility in deploying capital efficiently it requires LPs to have sufficient liquidity to meet these calls when requested, often within a short timeframe (i.e. 10–30 days). The fund typically has a fixed lifespan, often 7–12 years, consisting of an investment period for acquiring assets and a harvesting period for managing and exiting investments to return capital and profits to LPs.

Direct Investments

As the name suggests, direct investments enable investors to invest directly into companies or projects—ranging from real estate developments to private equity deals—without going through a fund intermediary. Because these are not pooled vehicles, investors take direct ownership stakes in single assets or ventures. Direct Investments offer better transparency, enabling investors to review specific business plans, financials, and management teams before committing capital. Unlike blind pool structures—commonly used in drawdown funds where capital is committed upfront but invested over time without full visibility into future deals—direct investments allow for informed, asset-specific decisions from the outset. Additionally, because capital is typically invested upfront, direct investments avoid J-curve return patterns typically associated with multi-year fund deployment schedules (discussed in Chapter 10).

Direct investments present other advantages including full control over the selection and terms of the investment, access to unique opportunities unavailable to traditional funds, and potentially better economics as management fees and profit sharing with general partners may be reduced or eliminated. However, direct investments expose the investor to idiosyncratic risk, as the outcome hinges on the success or failure of a single project rather than a diversified portfolio. Direct investments also require extensive due diligence capabilities, which may be unavailable to many investors. Finally, oftentimes direct investments lack the operational infrastructure required for standardized tax reporting and investor communications that many clients expect from traditional fund structures.

Co-Investments

Co-investments act as a bridge between direct investments and traditional LP fund structures representing individual investment opportunities offered alongside a private fund's primary vehicle. Under this structure, investors can invest directly in a specific deal alongside a private fund manager, typically with reduced fees or carried interest. Unlike pure direct investments—which are sourced and executed independently—co-investments leverage a fund manager's initial sourcing, underwriting, and due diligence, while still providing investors with transparency into the specific asset.

Co-investments also offer attractive economics for investors, often including minimal management fees. These opportunities may include time constraints due to the accelerated nature of the investment process or urgency of the underlying funding requirement often compressing due diligence timelines. Generally, concentration risk is higher compared to traditional diversified fund investing, thus requiring careful position sizing and portfolio construction.

Feeder Funds

Feeder funds are a type of investment vehicle that pools capital from various investors to gain access to larger, more institutional funds. This fund structure has been instrumental in democratizing access to premier managers who previously only accepted large commitments from institutions and the highest-income individuals. Popular on platforms such as iCapital and CAIS (discussed later in this chapter), these funds provide investment access that would otherwise be unavailable to smaller investors, at times lowering minimums from the standard $5 million to $50,000 or even lower. However, feeder funds typically add another layer of fees (usually around 50-100 basis points annually).

There are various types of feeder funds that each serve unique purposes depending on the characteristics of the investor. For instance, U.S. domestic feeder funds seek to accommodate tax-exempt and taxable U.S. investors, while offshore feeder funds serve non-U.S. investors who are seeking to minimize U.S. taxes.

Fund of Funds (FoFs)

Fund of Funds ("FoFs") are pooled vehicles that invest across multiple private funds at a time, offering built-in diversification across strategies, managers, and vintages. For investors who lack the resources to build a strong diversified private market portfolio directly, this structure provides a simplified capital commitment and manager selection process.

A fund of funds commitment can provide investors with exposure to multiple strategies and investment stages, reducing single-manager risk, mitigating vintage exposure, while increasing diversification. However, FoFs can be very expensive in terms of fees. Investors must be very selective in the use of fund of funds vehicles.

Private Investment in Public Equity (PIPEs)

Private Investments in Public Equity ("PIPEs") are transactions in which institutional or accredited investors provide capital directly to a publicly traded company in exchange for equity or equity-linked securities, typically at a discount to the current market price of the company's shares. These deals are executed privately and outside the public markets, typically under exemptions from standard SEC registration requirements. PIPEs are commonly used by small to mid-cap companies that need capital quickly—whether for growth initiatives, acquisitions, debt restructuring, or to shore up liquidity—without engaging in a more time-consuming public offering process.

From an investor's perspective, PIPEs offer the opportunity to acquire shares at favorable terms, often including discounted pricing, registration rights, and structured protections such as warrants or convertible securities. However, they also come with risks—such as illiquidity during the lock-up period, potential dilution, and the operational or financial fragility of the issuer. Institutional investors participating in PIPEs must perform rigorous due diligence, analyzing both the company's fundamentals and the terms of the deal to ensure alignment with their investment objectives and risk tolerance.

PIPEs occupy a unique space in the broader private investment landscape: they blend the characteristics of public market exposure with the negotiated, less liquid nature of private transactions. Unlike venture capital or traditional private equity investments, PIPEs can offer shorter durations and potentially quicker exits, particularly once registration rights are exercised. They are frequently used by hedge funds, family offices, and private equity firms seeking opportunistic, event-driven returns. For financial advisors and clients exploring alternatives to conventional public equity or fixed income, PIPEs may provide asymmetric upside—but they require careful structuring, legal scrutiny, and an understanding of market timing and issuer motivation.

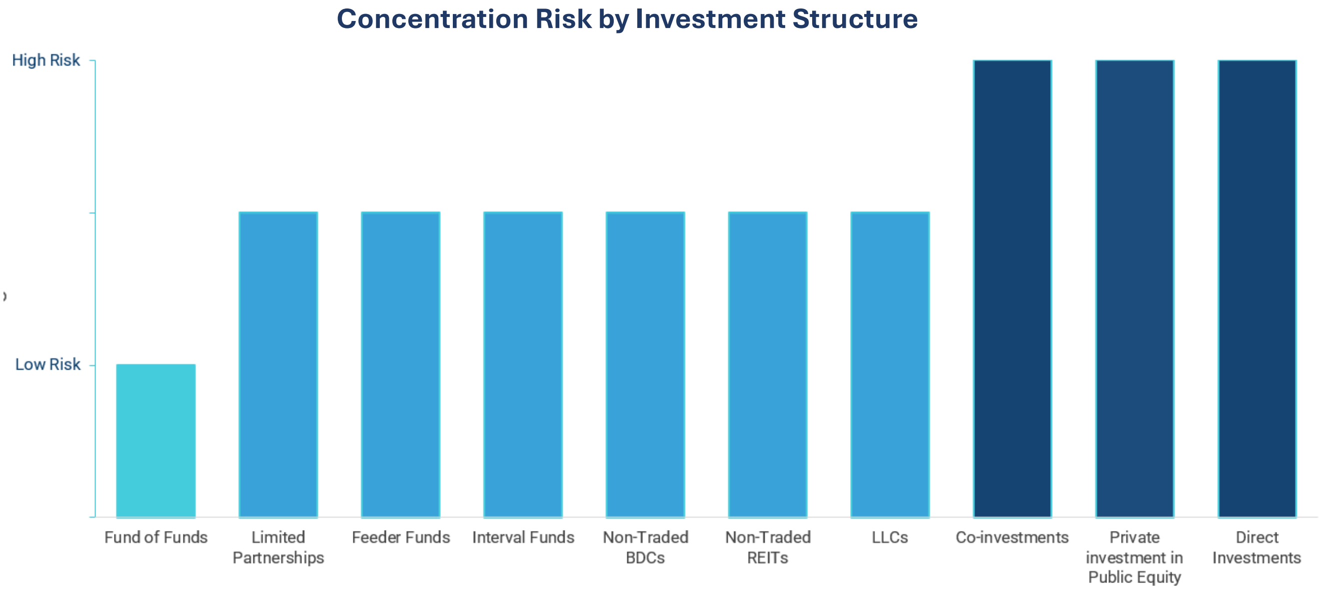


Figure 8. 1

Platform Evaluation Essentials

The first factor in determining the best platform to use is fee transparency. Platform fees, on average, add 25-100+ basis points to client costs (in addition to fund fees and potential carried interest). Understanding the complete fee structure of a particular platform requires a careful analysis of who pays what fees and how they're disclosed to clients. While some platforms charge fees at the fund level, others charge advisor-level or client-level fees directly, making it a confusing metric to navigate.

In addition to fees, revenue-sharing arrangements between platforms and fund managers can also create potential conflicts of interest that financial advisors must understand and disclose appropriately. Most platforms receive placement fees or ongoing revenue sharing from fund managers, which innately influences fund selection and marketing emphasis. Understanding these arrangements is integral in the evaluation process.

The next essential in the evaluation process is due diligence. Each platform offers due diligence capabilities that vary drastically across providers and significantly impact the financial advisor's workload. Some platforms provide internal investment committees with experienced professionals, while others rely mainly on third-party research or manager-provided information. It is crucial for a financial advisor to understand these differences to help determine how much additional independent research they must conduct in order to offer clients sufficient information to make an informed decision.

Furthermore, integration capabilities with existing CRM and reporting systems can significantly impact operational efficiency. Some platforms offer advanced API connectivity that automates data flow, while others require manual processes that limit scalability. For financial advisors and investors to find the best platform, they must be able to match their own integration needs with the specific technological capabilities of the various platforms available to them.

Finally, access to specialized opportunities represents an important differentiator for financial advisors serving more sophisticated clients. Some platforms present primary fund investments exclusively, while others provide broader access to co-investments, secondaries, and customized solutions.

White-labeling and Co-branded Solutions

Many of the platforms available offer white-label solutions, where financial advisors can bring forth investment offerings under their firm's name, creating the appearance of proprietary investment products. This process builds brand equity and client loyalty by positioning the financial advisor as a sophisticated investment manager rather than simply a distributor of third-party products. This enhanced positioning can justify premium pricing and differentiates the financial advisor from their competitors. By creating increased exclusivity around investment offerings, financial advisors can strengthen their client relationships and reduce the likelihood of clients seeking similar investments elsewhere.

While these benefits are appealing, white-labeling arrangements involve significant considerations. Added compliance burdens often include enhanced regulatory requirements and potentially greater liability for investment outcomes. Of course, increased responsibility for performance communication requires financial advisors to be prepared to explain investment strategy and performance directly to clients without platform support. Therefore, these structures are best suited for firms with strong client loyalty, advanced operational infrastructure, and a clear long-term vision for building proprietary investment capabilities.

Listed below are some of the top private markets platforms.

Access Platforms

Today's investors has seen a significant increase in the resources available to access private markets, due to the emergence of modern "supermarket" platforms that provide curated private investment opportunities. These platforms have transformed how financial advisors serve clients by expanding access and lowering minimums—often reducing entry points from millions to tens of thousands of dollars.

These platforms not only expand access, but typically offer lower minimums than traditional institutional funds, often lowering entry points from millions to tens of thousands of dollars. They also provide consolidated paperwork that eliminates much of the administrative burden that previously deterred smaller investors from entering private markets, and their built-in due diligence from experienced investment teams and ongoing monitoring of fund managers rivals institutional-level analysis. Additionally, their ongoing reporting and servicing capabilities provide regular updates on investments, organized tax documentation, and performance tracking that matches traditional fund standards. The platform landscape includes several key players, each with distinct approaches.

iCapital

iCapital, formally Institutional Capital Network, Inc., is a New York–based fintech firm founded in 2013, with the mission of democratizing access to private-market investments for high-net-worth individuals via financial advisors. Its platform serves approximately 114,000 financial professionals across more than 2,900 wealth management firms, providing an integrated ecosystem that spans private equity, private credit, hedge funds, real assets, structured investments, and annuities. As of mid-2024, the platform managed around US $191 billion in direct assets, growing to over $220 billion in alternative investments by early 2025 from a broader base of platform assets exceeding $880 billion. Its robust infrastructure combines digital onboarding, curated investment menus, automated subscription processing, due diligence tools, and consolidated reporting—positioning iCapital as a leading "operating system" for financial advisors and asset managers alike.

In 2025, iCapital attracted major investor attention, completing an $820 million funding round led by T. Rowe Price and SurgoCap Partners, raising its valuation to over $7.5 billion. The capital will fuel further acquisitions and international expansion into Asia-Pacific, Europe, and the Middle East—where the company is forging partnerships, opening new offices, and launching the dedicated iCorporate division focused on M&A advisory and family-office services. Included in its growth strategy is the recent acquisition of Citi's Global Alternatives feeder-fund platform, which adds over 180 private market funds under iCapital's management operations, reinforcing its dominance in feeder-fund distribution infrastructure.

Compared with platforms like Moonfare or CAIS, which emphasize curated or specialized offerings, iCapital stands out for its scale, breadth, and enterprise-grade technology. It differentiates by delivering a white-label, advisor-centric operating system that incorporates research, compliance documentation, portfolio construction tools, identity verification modules, and lifecycle reporting—making it a deeply embedded partner for both asset managers and wealth firms. With its ability to enable seamless onboarding, automate complex subscription logistics, and support structured products, iCapital offers an end-to-end solution that bridges alternative investments and advisor workflows in a way few rivals can match.

CAIS

CAIS focuses most specifically on investor and financial advisor needs, containing broad product sets and extensive educational resources that allow them to serve independent investors, financial advisors, and hybrid firms effectively. The platform acts as a marketplace to connect investors and financial advisors with a wide variety of alternative asset managers and investment strategies, including hedge funds, private equity, private credit, and structured notes. CAIS typically charges a platform fee of 0.50% to 0.75% annually on assets—without any performance-based fees—providing financial advisors with a straightforward cost structure that complements its emphasis on education and accessibility. It also places a strong emphasis on investor and financial advisor education and support, offering comprehensive training materials, webinars, and ongoing market insights.

Their approach prioritizes investor and financial advisor relationships and client service, offering dedicated support teams and streamlined onboarding processes. Through their partnership with Mercer, CAIS provides clients with access to institutional-grade due diligence and portfolio construction tools. Over the years, CAIS has built a reputation as a leader in the field in terms of accessibility and investor and financial advisor-friendly policies, making them particularly appealing to independent practices and smaller RIAs who value personalized attention and educational support alongside access to institutional-quality private investments.

Moonfare

Moonfare is a German-founded digital private equity platform launched in 2016 in Berlin. Specializing in making top-tier PE and VC funds (e.g. KKR, EQT, Carlyle) accessible to high-net-worth individuals via curated feeder vehicles, it allows minimums as low as €50,000 in Europe or $75,000 in the U.S. Moonfare has expanded rapidly—at over €3 billion

AUM as of mid-2024, operating across 20+ countries including offices in Paris, London, New York, Singapore, Zurich, and Luxembourg. It also offers co-investments, secondaries, semi-liquid strategies, proprietary portfolios, and twice-yearly secondary-market auctions facilitated by institutional buyers like Lexington Partners.

Where iCapital (founded in 2013) and CAIS (founded in 2009) are U.S.-based platforms with broader alternative investment capabilities, Moonfare is more narrowly earned as a focused private-equity gateway. iCapital has grown into a global alts infrastructure hub with partnerships with BlackRock, JPMorgan Asset Management, IQ-EQ and a network reaching over 100,000 financial advisors globally; its AUM and distribution breadth is significantly larger, offering products spanning private equity, credit, hedge, real assets and structured notes. CAIS, meanwhile, serves ~2,000 advisory firms and offers feeder funds to alternative assets, transparent fee structures (as low as ~0.05%) and an expanded structured capital-markets division targeting hedging, defined-outcome strategies and structured products.

In terms of positioning: Moonfare differentiates through tight concentration on curated private equity access, digital onboarding, secondary liquidity, and relatively modest minimums geared to HNW investors and boutique financial advisors. By contrast, iCapital and CAIS offer broader multi-asset alts platforms, deeper integration with advisor networks, educational tools, and institutional back-end infrastructure. iCapital tends to lead in scale and global reach, while CAIS places emphasis on fee transparency, capital markets tools, and structured investment wrappers. Moonfare remains more boutique and boutique-focused in comparison but excels in PE fund access and liquid secondary offerings.

Securitize

Securitize is a pioneering platform in the field of asset tokenization, leveraging blockchain technology to digitize and streamline private market investments. Founded in 2017, the firm enables issuers to tokenize ownership interests in a wide range of private assets—including private equity, real estate, venture capital, and yield-generating credit products—making them accessible to a broader base of investors. Through the use of digital securities, or "security tokens," Securitize simplifies cap table management, investor onboarding (including KYC/AML), secondary transfers, and dividend or interest distributions, all executed via smart contracts on blockchain infrastructure.

One of Securitize's key innovations is its fully regulated ecosystem. The firm is a registered transfer agent and broker-dealer with the SEC and FINRA, and it operates an SEC-registered alternative trading system (ATS) for secondary liquidity. This regulatory compliance allows investors and financial advisors to access tokenized private investments with a level of trust and legal certainty not commonly found in decentralized finance (DeFi). Securitize has also partnered with major firms like KKR, Hamilton Lane, and Arca to bring institutional-quality products into tokenized formats, offering fractional ownership and lower minimums—typically starting around $5,000–$20,000.

Compared to traditional platforms like iCapital and CAIS, which rely on feeder fund structures and custodial integrations, Securitize is built from the ground up as a blockchain-native solution. While iCapital and CAIS excel at integrating alternatives into existing wealth management workflows, Securitize's model is more disruptive—aiming to create a fully digitized private markets ecosystem. For investors, this means the potential for greater liquidity, faster settlements, and global access to a broader universe of private assets. While still early in adoption, tokenization platforms like Securitize represent a glimpse into the future of private investing—one that is more accessible, transparent, and technologically advanced.

Opto Investments

Opto Investments focuses on empowering investors and financial advisors to implement their own private market solutions rather than merely distributing existing funds. The platform enables investors and financial advisors to launch white-label funds with their institutional-quality due diligence and operational support. Their advanced technological solutions dramatically streamline the building, fundraising, and managing process, allowing investors and financial advisors to scale their offerings with limited external support needed.

Opto Investments was built as a fiduciary with an integrated fee structure that aligns with clients, thus they do not receive compensation from fund managers and rather frequently invest their own capital into the deals chosen for the platform. They do not charge any fees for creating, holding, or trading in their basic accounts—including stocks, ETFs, and folios—and there are no fees for deposits or withdrawals. Instead, Opto earns a small share of interest on uninvested cash balances and plans to introduce a Premium Account with added features for a flat monthly fee. Opto provides comprehensive due diligence, white-label fund creation, and streamlined back-office management that simplifies the investment research process for investors and financial advisors. This makes the platform an ideal place for investors and financial advisors who seek to differentiate their practice with proprietary investment offerings while maintaining institutional-grade operational standards.

YieldStreet

YieldStreet is a New York–based fintech platform founded in 2015 that specializes in bringing a wide array of alternative investments—such as real estate, private credit, legal finance, art finance, marine finance, and short-term notes—to individual investors (especially accredited ones). Its hallmark is a curated marketplace model, drawing on partnerships with institutional-grade managers to offer exclusive deals previously accessible only to sophisticated or institutional investors. Investors can choose from standalone offerings or invest in the Alternative Income Fund, a multi-asset closed-end fund that provides quarterly distributions and broader exposure—with a minimum investment of around $10,000 and slightly higher fees than some competitors.

The platform emphasizes income generation through debt-style investments with defined yield profiles—typically targeting annual returns in the 5–15% range depending on asset type and duration. YieldStreet rigorously vets each opportunity through a four-step due diligence process and ongoing portfolio monitoring. Performance transparency and personalized investor relations support are core to its value proposition. As of March 31, 2025, roughly 74.8% of YieldStreet's offerings had matured, representing $4.98 billion invested and $3.84 billion returned to investors, reflecting an average realized net IRR of 7.4% with caveats around un-realized or defaulted deals. The firm's acquisition of Cadre in late 2023 expanded its institutional real estate deal origination capabilities.

Compared to platforms like iCapital and CAIS, which typically focus on structured feeders, registered vehicles, and broader multi-asset access via financial advisors, YieldStreet stands out for its direct-to-investor interface and retail accessibility—albeit with investment minimums and liquidity limitations. While iCapital and CAIS primarily serve wealth managers and financial advisors integrating alternative strategies into client portfolios, YieldStreet markets directly to individual accredited investors and public users of its Alternative Income Fund. In your guide, YieldStreet represents a distinct category: clinics for alternative income-oriented investors seeking yield and diversification outside traditional public markets, offering a curated, tech-enabled gateway to non-equity private assets.

Gridline

Gridline, headquartered in Atlanta, launched its digital private markets platform in early 2022. It offers curated access to vetted venture capital and private equity managers, enabling RIAs and accredited investors to build diversified alternative portfolios via thematic multi-manager funds or single-manager feeder vehicles. The platform automates key lifecycle tasks—performance reporting, capital calls, treasury and tax management—allowing investments to be deployed in minutes through a unified dashboard. Minimums start around $100,000, and Gridline charges simple AUM-based fees ranging from 50 to 100 basis points, with no carried interest charged to investors.

When compared to iCapital, Gridline is notably more focused on smaller, niche managers and emerging strategies. While iCapital is built to support broad institutional-grade scale—serving over 100,000 financial advisors with a diversified lineup of private equity, credit, hedge funds, real assets, and structured products—Gridline emphasizes targeted, high-conviction opportunities from smaller managers and thematic funds, designed to scale more efficiently on lower fees . In contrast, iCapital focuses heavily on backend infrastructure, advisor workflow integration, and global partnerships with large asset managers. Both platforms leverage digital onboarding and automation, but iCapital tends to serve larger advisory firms and bank networks, whereas Gridline targets independent financial advisors seeking curated access with administrative simplicity and modern UX.

InvestX

InvestX, founded in 2014 in Vancouver (with a U.S. base in New York), specializes in granting access to late-stage, pre-IPO private equity for accredited investors via Special Purpose Vehicles (SPVs) and multi-investor funds. Traditional entry to such growth-stage companies typically requires minimums in the millions, but InvestX enables participation with much lower thresholds—often from tens to hundreds of thousands—by pooling capital from investors into syndicated SPVs backed by leading broker-dealers like Jefferies, Virtu, and Canaccord Genuity. Its platform includes the InvestX GEM (Growth Equity Marketplace), an electronic trading venue offering price discovery and secondary liquidity for SPV shares—addressing a key liquidity constraint in private markets.

InvestX emphasizes transparency and efficiency in a traditionally opaque market. Through GEM, broker-dealer clients can trade single shares or blocks of private company stock, leveraging real-time information, FIX connectivity, and automated workflows—a feature not commonly found among direct-to-investor platforms. The platform also provides curated insights into growth-stage opportunities across sectors like fintech, AI, biotech, and aerospace, aiming at a 12- to 36-month hold horizon tied to potential IPO or acquisition outcomes. It generates revenue via annual SPV management fees (around 2%) and profit-sharing upon exits, offering alignments comparable to venture-style investment models.

Compared to broader alternative platforms like iCapital, CAIS, or Moonfare, InvestX stands apart by specializing in single-asset or multi-issuer SPVs tied to late-stage companies, rather than multi-asset fund offerings. While iCapital and CAIS provide holistic ecosystems—advice tools, compliance infrastructure, model portfolios, and access across private credit, real assets, structured products, and hedge funds—InvestX's niche is pre-IPO equity and secondary liquidity via broker-dealer networks. This means financial advisors seeking broader alternative exposure, multi-manager funds, or institutional-grade operational support may lean toward iCapital or CAIS, while InvestX caters to those focusing on pre-IPO growth opportunities and trading access. It fills a unique space in the private investment landscape—bridging early liquidity and targeted late-stage equity access in a more digitized, broker-integrated format.

Comparing Platforms

To navigate the rapidly evolving landscape of private investment platforms, financial advisors and investors must understand not only what each platform offers, but also how they differ in terms of access, structure, fees, and liquidity. The rise of fintech-enabled marketplaces—such as iCapital, CAIS, Moonfare, YieldStreet, and Securitize—has democratized private markets, enabling broader access to previously exclusive asset classes like private equity, private credit, hedge funds, and tokenized real estate. Each platform brings a unique model to the table: some prioritize institutional-grade infrastructure and multi-asset access through wealth managers, while others focus on retail-friendly user interfaces, secondary liquidity, or blockchain-enabled efficiencies.

The matrix on the following pages summarizes key features of these leading platforms. It outlines their typical fee structures, investor minimums, liquidity mechanics, and distinguishing characteristics to help financial advisors determine the best fit for their clients. Whether you're seeking a platform that integrates seamlessly with RIA workflows (like iCapital or CAIS), one that curates high-conviction private equity access (like Moonfare or InvestX), or a technology-forward solution offering tokenized assets and faster settlement cycles (like Securitize), this reference is designed to inform better selection and implementation of private investments within a diversified portfolio.

Characteristics of Key Platforms

Platform	Fee Structure	Liquidity Terms	Additional Notes
iCapital	1-2% manager fees + carry; no advisor platform fees	Lockups 7-10+ yrs; no secondary market	Institutional scale; multi-asset; advisor workflow integration
CAIS	~0.05% feeder platform fee + fund manager fees	Interval funds with quarterly or semi-annual liquidity windows	Structured notes, education tools, and model portfolio capabilities
Moonfare	0.5-1.5% upfront + 0.35-1.15% annual mgmt fees	Twice-yearly secondary auctions; limited redemptions	Private equity-focused; strong secondary access; lower minimums
YieldStreet	Management and servicing fees per product; some flat, some revenue shares.	Fixed terms (6-60 months); mostly illiquid until maturity	Focus on income-generating alts (credit, art, marine, legal)
InvestX	2% SPV mgmt fee + carry at exit	No daily liquidity; tied to IPO/acquisition events	Late-stage equity via SPVs; trading via GEM for broker-dealers
Securitize	Varies by issuer; typically lower due to tokenization	Secondary trading via blockchain-enabled ATS	Tokenized access; smart contracts; fractional investing
Opto	Custom depending on underlying funds and allocations	Depends on individual manager terms	RIA-tailored private market portfolios
Parallel Markets	N/A (infrastructure, not investment provider)	N/A	Digital KYC, accreditation & onboarding for platforms

Table 8.1

Chapter Nine

Manager Due Diligence and Operational Compliance

Chapter Nine: Manager Due Diligence and Operational Compliance

Chapter 9 offers a deeper look at manager due diligence and compliance for private market investments covering issues such as benchmarking, transparency and dispersion across manager returns. It also focuses on key elements of operational compliance and provides several checklists for financial reporting, investment risk, regulatory compliance and fund structure.

Manager Due Diligence

For registered financial advisors, the responsibility of evaluating and recommending asset managers and investment funds is central to delivering fiduciary-level service. The selection process must go beyond past performance to encompass a holistic assessment of strategic focus, risk management and operational excellence.

Financial advisors recommending private investments to retail clients must navigate a complex web of compliance obligations, including suitability, disclosure, supervision, and documentation. Each type of private investment vehicle presents different risks and requirements, which necessitate tailored compliance practices. Additionally, with variations to each fund strategy or segment there is a significant amount of additional diligence and compliance review and oversight not typically needed for public market strategies.

Given the various nuances to each fund structure, when recommending an asset manager or fund to a retail client, financial advisors must coordinate closely with their compliance teams as well as their internal due diligence officers to ensure regulatory obligations are met, internal policies are followed, and client protection is upheld.

Investment Philosophy and Process

Undertaking investment manager due diligence for public market managers differs from private market managers due to their differing investment and operational approaches.

For public equity managers, the investment philosophy is a set of core beliefs guiding portfolio construction, such as prioritizing growth, value, or momentum strategies, often focusing on stock selection. Their investment process is typically a structured, repeatable methodology to implement this philosophy, involving steps such as screening for undervalued stocks, conducting financial analysis, and managing portfolio risk through diversification or sector allocation. For a private equity manager, the investment philosophy centers on creating value through active ownership, such as buyouts, growth capital, or distressed turnarounds, targeting non-public companies with high return potential. Their process involves deal sourcing, rigorous due diligence, evaluating management and operations, structuring transactions, and executing value-creation strategies including operational improvements to maximize value at exit. The time horizon is generally longer term and features hands-on management compared to a more analytical, market-driven process of public equity managers. Consistency over time, consistency of team (especially key persons) and specific deal experience are strong indicators of manager skill.

For a public fixed income manager, the investment philosophy centers on generating stable income and managing risk through investments in securities such as government bonds, corporate bonds, or municipal bonds, often emphasizing yield, duration, or credit quality. Their investment process involves systematic steps including credit analysis, yield curve positioning, and portfolio diversification to optimize returns within market constraints. For a private debt manager investing in direct lending, mezzanine, or distressed strategies, the investment philosophy focuses on generating high returns through illiquid, non-public debt instruments, leveraging deep operational involvement to capitalize on mispriced or restructuring opportunities. Their process includes sourcing proprietary deals, conducting intensive due diligence on borrower financials and collateral, structuring customized loan terms, and actively managing investments to enhance value or navigate distress. The investment is typically focused on longer horizons and may involve hands-on engagement compared to the market-driven, analytical process of public fixed income managers.

For private real estate and infrastructure managers, the investment philosophy centers on stable income and appreciation through properties or projects with a focus on leveraging location, building and tenant quality, renovations, zoning requirements and regulatory frameworks. Their process includes sourcing assets, evaluating market demand, property condition, or regulatory risks, structuring acquisitions, or developments.

Benchmarking

Public and private markets differ in their approach to benchmarking. Unlike public markets, which maintain rigorous rules requiring benchmarks to be investable, measurable, appropriate, and unambiguous, the same approach is not possible for private markets given their illiquid nature and niche approach of the strategies. Key benchmark providers such as

Cambridge Associates, Preqin and Burgiss do address certain issues through standardizing methodologies, but on balance they may not meet the rigor or public benchmarks. As such, when assessing performance, investors rely on broad benchmarks to begin, but then typically drill down to appropriate performance metrics and peer comparisons that reflect the underlying objective of their strategy.

Benchmark providers offer an array of metrics covering strategy, sub-strategy, vintage year and geography to assess performance. The returns are generally based on pooled approaches that aggregate cash flows from multiple funds into a single cash flow stream to calculate key performance metrics. This method effectively weights larger cash flows more heavily than smaller ones and is similar in approach to market-cap weighting in public equity indices where larger companies have greater influence on index returns. Investors will need to drill down to the peer group comparisons to properly assess relative performance and manager skill.

Measuring Performance

Evaluating managers includes ensuring that financial advisors can help clients withstand the "J-curve" effect common in private equity and venture capital, where early performance may be negative due to fees and timing before value creation materializes (discussed more fully in chapter 10).

Manager Dispersion

The range, scope, style, and uniqueness of private market strategies are quite broad. Many of the strategies are more complex or nuanced and often fund documents include special covenants or provisions that provide added benefits or protections to the investor. While public market managers often closely follow benchmarks and aim to achieve returns in excess of those benchmarks, private market managers do not attempt to track specific benchmarks. The concept of calculating tracking error as a measure of risk is generally non-existent in private markets. Sources of return in private markets are idiosyncratic and are created through managers pursuing unique opportunities available in the marketplace. As a result, the dispersion of return amongst managers is materially higher than its comparable peer group within public markets.

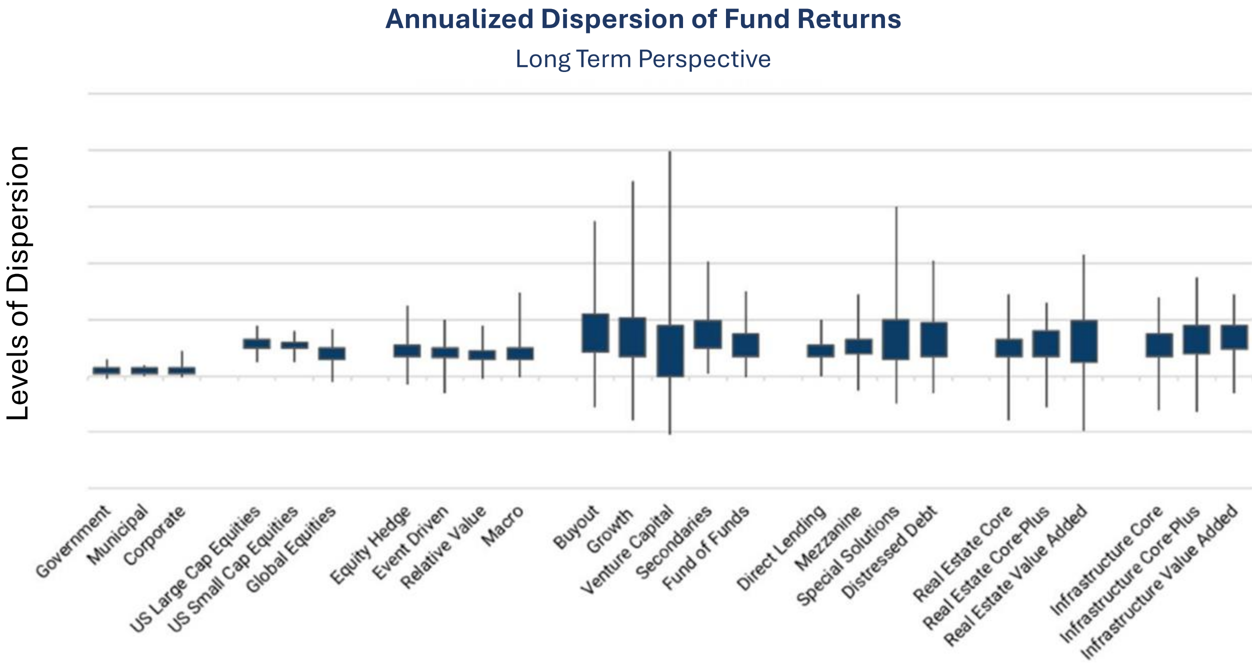


Figure 9. 1[1]

Given the greater dispersion of returns, manager selection is critical within private markets. Returns from lower decile managers are significantly below benchmark averages. This is especially true for venture capital strategies where top decile managers can produce significant excess returns by taking a firm for early Series A rounds all the way through to IPO. Certain top tier managers have displayed an ability to consistently generate excess returns. For all strategies in private markets, debt, equity, venture and real estate, manager dispersion is considerably greater than their public market peer groups.

Illiquidity

Illiquidity represents perhaps the most significant difference between private and public market investing. While public market investments typically offer daily liquidity at transparent pricing, private market strategies typically require capital commitments spanning multiple years with limited interim liquidity options. Alternative structures like interval funds, tender offer funds, and BDCs seek to bridge this gap by offering periodic redemption opportunities, however these vehicles still impose restrictions absent in public markets. Manager selection should therefore include assessment of capital call pacing and timing of exit strategy execution to ensure alignment with client liquidity needs and investment timelines.

[1] Axxes Institute. For Illustrative Purposes Only.

Transparency

Limited transparency in private markets versus the public markets may be an important factor in fund manager evaluation. Private market investments typically report quarterly with 45–90-day lags and rely on appraisal-based or mark-to-model valuations rather than observable market transactions. Regulations require public funds to adhere to strict guidelines for standardized disclosures, daily NAV reporting, portfolio holdings and performance metrics. Due to limited regulatory oversight, and to the proprietary nature of certain deal structures, transparency of private market managers can be limited. In lieu of full transparency, investor diligence will often focus on summary information, past deal profiles, sector allocations, consistency of team, performance of differing vintages and verifying internal processes.

Organizational Stability and Key Personnel

The nature of public and private market strategies is very similar when assess organizational stability and key personnel. Manager tenure, team stability, and the depth of resources are critical indicators of whether strong performance is likely to persist. Frequent turnover or heavy reliance on a single “star manager” may introduce key-person risk. Financial advisors should evaluate the ownership structure of the firm, incentives for portfolio managers, and whether there is meaningful alignment of interests—such as managers investing in their own strategies.

Before recommending an asset manager to a client, a wealth adviser needs to thoroughly evaluate the organizational stability of the manager's firm. This includes assessing the firm's ownership structure, financial health, regulatory history, and operational infrastructure. A stable organization is more likely to maintain consistent investment practices and provide reliable client service over time. The adviser needs to look for signs of longevity, such as a well-capitalized business model, a clear succession plan, and a history of retaining institutional clients. Any recent mergers, acquisitions, or structural changes are closely scrutinized, as these may impact the firm’s culture, priorities, or investment continuity.

Equally important is the evaluation of key personnel, particularly those directly involved in managing client assets. A financial advisor should examine the experience, qualifications, and tenure of portfolio managers and analysts, as well as the cohesion and turnover within the investment team. High turnover or reliance on a single individual may raise red flags about the firm’s ability to consistently execute its strategy. While evaluating the investment team’s qualifications, it is important to ensure that, to the extent specialists are needed to execute the fund’s strategy, that they are part of the investment team and have the relevant qualifications. Additionally, an adviser needs to consider whether the team has meaningful personal investment in their strategies, aligning their interests with those of their clients. This people-focused due diligence ensures that the asset manager not only has the resources but also the human capital to deliver consistent, long-term value to investors.

Fees

As discussed more extensively in Chapter 10, private investment fee structures differ from public market funds and encompass not only management fees and carried interest but also complex waterfall structures that determine the order of capital distribution between limited and general partners. When evaluating asset managers, investors should assess whether fee arrangements align with value creation and performance incentives. While public market funds present straightforward management fees ranging from 0.03-2.00% annually and generally don't receive a portion of investors' profits, private markets operate through intricate arrangements where performance thresholds must be met before managers receive a share of the profits (in addition to management fees). Evaluating these structures helps determine whether the manager's interests are properly aligned with investor outcomes. Platform fees and access fees often add additional layers of costs. The total cost of ownership in private markets includes expenses such as placement fees, organizational expenses, broken deal costs, and monitoring fees that result in substantially higher effective annual costs for private market strategies compared to public market alternatives. However, the overall returns from proper manager selection can significantly outweigh these additional fees and expenses.

Operational Due Diligence

In manager due diligence, operational due diligence ("ODD") is important for both public equity and private equity managers but varies in scope and importance due to their distinct investment approaches. For public equity managers, ODD focuses on evaluating the operational infrastructure supporting portfolio management, such as trading systems, pricing accuracy, compliance frameworks, risk management processes and back-office operations. For private equity managers, ODD is more critical and complex, encompassing not only fund-level operations such as deal sourcing, valuation processes, investor reporting but may also include an assessment of portfolio companies including management quality or governance. While both require robust ODD to mitigate risks, private equity places greater emphasis on monitoring portfolio company operations and deal-specific execution, whereas public equity focuses on scalable, repeatable systems within a regulated, transparent market.

For public fixed income managers, ODD emphasizes the robustness of systems supporting bond trading, credit analysis, and portfolio management, such as pricing accuracy, compliance with regulatory requirements and risk management for interest rate or credit exposures in highly liquid, transparent markets. The key focus is on scalable, repeatable processes to ensure operational efficiency and error-free execution. For private debt managers, ODD is more critical and intricate, as it extends beyond fund-level operations to include detailed scrutiny of borrower-specific operations, collateral management, and restructuring capabilities, given the illiquid, high-risk nature of private debt investments. While both require strong ODD to safeguard investor capital, private debt managers face greater operational complexity due to bespoke deal structures and sometimes active management of assets, whereas public fixed income managers prioritize standardized systems within regulated, market-driven environments where liquidity options are much higher.

The following table outlines critical red flags that financial advisors should identify during operational due diligence, organized by key functional areas. These warning signs can indicate potential risks to investor capital, regulatory compliance failures, or operational weaknesses that may compromise fund performance. Recognizing these red flags early in the evaluation process helps financial advisors make informed recommendations and protect client interests.

Organizational and Valuation Due Diligence

Function	Consideration	Red Flag	Why It Matters
Organizational & Governance	Ownership structure	Opaque, frequently changing, or complex unclear control structures	Can obscure accountability or regulatory jurisdiction
	Key-person risk	Heavy reliance on a few individuals	Business continuity risk if key person departs
	Lack of independent board or advisory committee	Especially in private funds or BDCs	Reduces oversight, increases potential for conflicts of interest
	Unclear or conflicting roles	Dual roles between investment and operational teams	Creates potential for conflicts and weakens internal controls
	Unexplained staff turnover	Particularly in finance, compliance, or operations	May signal cultural or ethical issues
Valuation & NAV (mark-to-model) Risk	Lack of disclosure of internal models	limited transparency	accuracy of performance measurement, validity of fees
	Change in mark to model methodology	Consistency or returns	Hampers investor understanding; delays reveal of losses
	Overly smooth returns	Unrealistically consistent	Could suggest manipulated valuations or selective pricing
	No independent pricing source for key positions	Illiquid loans, private equity, or structured manager-priced products	Lacks independent check on fairness of valuations
Operations, Compliance, & Infrastructure	Lack of a dedicated COO or CFO	Especially in firms managing complex portfolios	May signal operational weakness or poor resource allocation
	No external administrator or weak administrator	Internal mark-to-model calculations, capital calls, and redemptions	Concerns about independence and accuracy of reporting

Table 9. 1

The following additional red flags focus on financial reporting, regulatory compliance, and fund structure considerations. These areas are particularly critical for private market investments where transparency is limited, and regulatory oversight may be less stringent than public markets. Identifying deficiencies in these areas can reveal fundamental issues with fund governance, financial integrity, and investor protection mechanisms.

Financial Reporting and Regulatory Compliance

Function	Consideration	Red Flag	Why It Matters
Audit & Financial Reporting	No independent annual audit or unknown auditor	Or audit by firm with no track record	Raises credibility concerns; potential hiding of financial issues
	Frequent audit changes or delays in audit delivery	Or qualified audit opinions	Indicates potential accounting or internal control issues
	Limited transparency into fund expenses or affiliate arrangements	Ambiguous language on related-party transactions	May obscure excess fee extraction or self dealing
Legal & Regulatory	Missing or inconsistent ADV Part 1 / Part 2	Or disclosure docs that don't match the firm's actual structure	Sign of sloppy compliance or misrepresentation
	Poor documentation of investor communications	Especially for side documents or liquidity policies	Can cause investor confusion and disputes
Cybersecurity & Data	No formal cybersecurity policy or disaster recovery plan	Or a vague "we have something" answer	Client data and fund assets at risk; may violate fiduciary duty
	No annual penetration testing or staff training	Especially if firm handles client PII or bank info	Heightens vulnerability to attack or internal error
	No insurance coverage for cyber/fraud losses	Or extremely limited coverage	Exposes firm (and investors) to major downside in event of breach

Fund Structure & Terms	Misaligned liquidity terms vs asset mix	E.g., monthly liquidity for 10-year private loans	Can lead to gates, suspension, or forced sales
	Excessive or hidden fees	Layered management/incentive fees across SPVs or feeders	Reduces net returns and creates transparency concerns
	Lack of clawbacks or high-water marks on performance fees	Especially in private funds	Misaligns incentives and encourages risk-taking
	Overly complex or exotic structure	Multi-level SPVs, offshore feeders, obscure fund wrappers	Harder to monitor, more tax/legal friction, potential for abuse

Table 9. 2

Organizational Compliance and Documentation

Given the nuances in various fund structures, when recommending an asset manager or fund to a retail client, financial advisors must coordinate closely with their compliance teams to ensure regulatory obligations are met, internal policies are followed, and client protection is upheld.

However, more generally for all fund types, the following are core compliance considerations:

✓ Suitability / Fiduciary Standard*:* As discussed in the first section of this chapter, a financial advisor must ensure that a particular manager or fund strategy aligns with the client's financial situation, risk tolerance, liquidity needs, and objectives.

- For RIAs: fiduciary duty under Advisers Act, financial advisors must act solely in client's best interest with undivided loyalty. Illiquid or opaque funds require high due diligence and clarity on how they serve the client's goals.[2]

[2] Securities and Exchange Commission

- For broker-dealers: Reg BI (best interest) obligations must meet four obligations: care, disclosure, conflict of interest, and compliance. Illiquid or high-fee investments require detailed justifications and mitigations.[3]

✓ Product Understanding: Financial advisors must demonstrate an understanding of the fund's strategy, liquidity terms, fees, risks, and tax implications. Cannot recommend based solely on yield or brand.

✓ Disclosures*:* Must provide written and verbal disclosures about risks (e.g., illiquidity, leverage, valuation uncertainty), fees, and any conflicts of interest.

✓ Due Diligence *(covered in more detail in the first part of this chapter):* Must conduct reasonable due diligence on the fund and manager before recommending—especially critical for non-traded vehicles.

✓ Supervisory Review*:* Broker-dealers must have supervisory procedures for product approval, account review, and suitability documentation. RIAs should document investment rationale and ensure compliance policies are followed.

✓ Conflicts of Interest*:* If receiving compensation (e.g., selling agreements, trails), financial advisors must disclose conflicts clearly and mitigate them where possible.

✓ Books and Records*:* All recommendations and related disclosures must be documented and retained per SEC or FINRA rules.

Compliance Considerations by Fund Structure

Different fund structures present unique compliance challenges that require tailored approaches to meet regulatory obligations and protect client interests. The following table outlines specific compliance considerations that financial advisors must address when recommending various private market investment vehicles to retail clients. Understanding these fund-specific requirements is essential for proper suitability assessment, disclosure practices, and documentation to ensure adherence to both federal regulations and firm policies.

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[3] U.S. Government Publishing Office

Compliance Considerations by Fund Type

Fund Type	Unique Compliance Considerations
Business Development Companies ("BDCs") (Public and Non-Traded)	FINRA Notice 10-22 governs communications and sales practices for direct participation programs and non-traded REITs/BDCs
	State-level concentration limits (e.g., no more than 10% net worth)
	Must assess investor understanding of leverage, credit risk, and distribution sustainability
	Must provide prospectus and ensure share class clarity (A, I, L, etc.)
	NAV pricing (non-traded) requires explaining lack of daily liquidity
Interval Funds	Must disclose quarterly liquidity limits and risks of not being able to redeem shares in full
	Document client understanding of redemption delays (7–15 days post-quarter)
	Advisor must understand fund's gate policy and valuation methodology
	Ensure investor understands potential NAV (mark-to-model) volatility and use of leverage
Tender Offer Funds	Must clearly explain tender process, timing (quarterly/semi), and uncertainty of full liquidity
	Highlight "soft lock" or redemption penalties, if any
	Confirm investor understanding of illiquidity and pricing lag
	For accredited investor-only vehicles, document eligibility screening and investor acknowledgment
Traditional Drawdown Funds (Private Equity, Venture Capital, Real Estate, etc.)	Must verify and document accredited or qualified purchaser status
	Detailed capital call modeling: advisors should confirm client readiness for calls and lack of liquidity
	Must explain "J-curve" effect and long duration (7–12 years)
	Carefully disclose waterfall structure, carried interest, clawbacks
	Subscription agreements may require representations—advisor should guide client through them carefully

Table 9. 3

Investment Risk Considerations

Beyond fund-specific compliance requirements, financial advisors must also address common investment risk factors that span multiple private market investment structures. The following table identifies key risks that require specific disclosure and suitability considerations, along with the compliance actions financial advisors must take to ensure proper client protection. These risk-based compliance requirements help ensure that clients fully understand the potential challenges and limitations inherent in alternative investments before making investment decisions.

Investment Risk Considerations

Investment Risk	Applies Especially To	Compliance Angle
Liquidity Risk	Interval, Tender Offer, Drawdown Funds	Must match client time horizon and tolerance for delayed redemptions
Valuation Uncertainty	BDCs (non-traded), Private Funds	Highlight risks of stale or subjective NAVs based on mark-to-model
Leverage Risk	BDCs, Interval Funds, Drawdown Funds	Confirm client can handle amplified losses
Complex Fee Structures	BDCs, Drawdown Funds	Explain impact of management + incentive + fund-level fees
Distribution Sustainability	BDCs, Income Interval Funds	Avoid misrepresenting yield as guaranteed or permanent
Tax Complexity	Drawdown Funds (K-1s), ETFs (if leveraged), BDCs	Confirm client's CPA readiness and document K-1 expectations if applicable

Table 9. 4

Compliance Coordination Areas

To ensure proper oversight and clear accountability throughout the investment process, financial advisors must understand the various compliance processes and their role within each stage. The following framework outlines key compliance processes, and the specific actions financial advisors must take to support and coordinate with these oversight mechanisms.

Compliance Oversight

Compliance Coordination Areas	Item	Compliance Role	Advisor Action
Pre-Approval & Product Vetting	Platform Approval	Reviews and approves new funds/strategies for use with retail clients	Confirm that the fund or manager is on the approved product list
	Due Diligence	Conducts or validates operational and investment due diligence on the asset manager	Coordinate to ensure the manager has passed internal review, especially for alternatives or private funds
	Vendor Onboarding	Legal and compliance may require review of offering documents, ADV, sub-docs, etc.	Alert compliance when considering off-platform or new third-party relationships
	Product Risk Rating	Assigns risk level to fund (low/mod/high) based on structure, liquidity, complexity	Ensure recommendation aligns with client's risk profile and documentation matches
Suitability & Best Interest Documentation	Reg BI/Fiduciary Review	Ensures recommendation meets suitability or best interest standards	Document how fund fits client's goals, risk, time horizon, liquidity needs
	Concentration Checks	Monitors exposure limits to illiquid or complex products	Run allocation reports to ensure within client or platform guidelines
Fee & Compensation Conflicts	Fee & Compensation Conflicts	Ensures disclosure of any differential compensation (trails, 12b-1, placement fees)	Disclose to client and log in CRM or note system
	Client Classification	Verifies accredited investor or qualified purchaser status (for private funds)	Provide documentation or assist client in certifying eligibility

Disclosures & Materials Review	Marketing & Presentations	Ensures recommendation meets suitability or best interest standards	Document how fund fits client's goals, risk, time horizon, liquidity needs
	Prospectus/Offering Documents	Ensures delivery of required disclosures (Form CRS, ADV, offering documents)	Confirm client receipt and understanding of key risks
	Subscription Documents	Reviews forms for completeness and regulatory compliance	Coordinate on investor attestations, signatures, and disclosures
Monitoring & Ongoing Supervision	Surveillance & Alerts	Monitors account activity for red flags (e.g., excessive allocations, early redemptions)	Notify compliance of any changes in client circumstances or fund issues
	Annual Reviews	Reviews client portfolios for ongoing suitability	Participate in periodic reviews, especially for illiquid or underperforming funds
	Performance Reporting	Ensures performance figures used are GIPS-compliant or approved	Only use pre-approved or sourced data in client communications

Table 9. 5

Certain situations require immediate escalation to compliance teams to ensure proper oversight and regulatory compliance. The following triggers demand prompt financial advisor action to protect both firm and client interests.

List of Trigger Items

Trigger	Advisor's Action
Off-platform product being considered	Notify compliance before engaging the client
Unusual compensation arrangement (finder's fee, revenue share)	Disclose and get approval before proceeding
Client wants to invest above platform limits or outside guidelines	Escalate to compliance for exception handling
Illiquid or private fund subscription issues (e.g., liquidity mismatch)	Escalate and ensure documentation supports suitability

Table 9. 6

Financial advisors should work closely with their firm's compliance team to ensure that all recommendations of asset managers and funds are well-documented, suitable, and aligned with regulatory standards. This begins with maintaining clear, consistent documentation of the due diligence process - including investment rationale, fees, risk assessments, and how the recommendation fits within the client's objectives and portfolio. Financial advisors should record conversations, disclosures, and any client approvals to establish a defensible audit trail.

Ongoing collaboration with compliance is essential to monitor changes in fund structure, performance, or regulatory status that may affect suitability. Financial advisors should participate in regular training and stay informed about firm policies, product updates, and regulatory developments. By involving compliance early and often, financial advisors help mitigate legal and reputational risks, ensure adherence to fiduciary responsibilities, and reinforce a culture of transparency and accountability in the client relationship.

Chapter Ten

Client Suitability and Education

Chapter Ten: Client Suitability and Education

This chapter addresses criteria to ensure success in private market investing, moving beyond regulatory compliance to client profiling and investor education. While meeting accreditation thresholds represents a starting point, investor suitability requires evaluating financial capacity, behavioral readiness, and client fit for illiquid investments with extended time horizons with varying degrees of complexity. Equally important is developing educational frameworks that help clients understand fundamental differences between private and public markets—from capital call mechanics and J-curve performance patterns to performance metrics such as Internal Rate of Return ("IRR"), Multiple On Invested Capital ("MOIC"), and cash-on-cash returns.

Determining Client Readiness and Fit

Suitability: Beyond Accreditation

The legal minimums for participating in private markets are defined in the Regulation D, Section 501 of the Securities Act of 1933. As outlined in Chapter 3, there are three main categories: accredited investors, qualified clients, and qualified purchasers. Accredited investors must have either a net worth of at least $1 million (excluding primary residence) or $200,000 in annual income ($300,000 jointly with spouse) for two years. Qualified clients require net worth exceeding $2.2 million (excluding primary residence), while qualified purchasers need at least $5 million in investable assets.

Meeting these regulatory thresholds represents a starting point. In addition to reviewing a specific client's return and risk parameters, additional considerations are generally required for liquidity needs, investment horizon, tax considerations, reporting and performance measurement. For financial advisors and clients alike, investor profile assessment becomes particularly critical when evaluating suitability for more complex investments. Both financial advisors and investors must evaluate suitability across three key dimensions: financial capacity, behavioral readiness, and psychological fit.

Financial Capacity

Private investments typically involve extended capital lockup periods, making liquidity planning paramount. In addition to traditional financing planning metrics, financial advisors and investors must also consider reserving for capital commitments that occur in the early years associated with drawdown funds.

For private equity and venture capital strategies in particular, financial advisors and investors need to plan for capital calls which typically occur in the first three years of the drawdown fund's life. Capital calls are not based on a pre-defined schedule but rather occur on an irregular basis as investment managers seek opportunities that match the fund's strategy. Alternatively, investors that select interval or tender offer funds, do not have capital call commitments and do not need to focus on this extra layer of cash reserving. Similarly, investors that select direct investments and co-investments funds generally do not face capital calls as well.

Most private market strategies are more concentrated than broadly diversified mutual funds. Investing in public securities for many private funds, concentration levels can be quite high. Direct investments and co-investments usually focus on a very narrow set of portfolio companies, often only one company. This level of concentration introduces idiosyncratic "stock specific" risk to a portfolio and the position should be scaled accordingly. Broader fund vehicles are usually industry or thematically focused and often undertake higher industry exposures. For example, a venture fund may focus solely on life sciences or a private equity fund may focus solely on middle market industrial companies. Real estate vehicles, many focus on a single sector – i.e. multifamily housing or storage facilities – in a single region such as an individual city in a single state. To minimize concentration risks, an investor may consider reducing position size, accordingly, investing in a greater number of funds or seek more broadly focused multi-regional or sector funds.

Behavioral Readiness

Longer time horizons and less frequent and lagged performance reporting are also important considerations. Private market investments are usually valued ("marked") on a quarterly basis with such valuations often occurring with a significant time lag. This applies most generally to drawdown funds across private equity, venture capital and direct and co-investments. Most are marked to an initial investment model, and, in certain circumstances, the valuation may not change for several quarters.

In addition, traditional drawdown funds experience a "J-curve" effect associated with initial returns meaning clients may experience losses in the first several quarters as management fees, particularly on undrawn capital, weigh down returns. Additionally, most investor face "blind pool" risk – meaning they do not know which exact investments a manager will place in the fund.

Furthermore, liquidity is limited, so investors will not be able to sell in the near term or even the medium term. For certain private debt and real estate strategies, investors may receive regular income payments, for example, monthly or quarterly, but again can expect to face limited liquidity if they seek an early exit from a fund. However, as the secondary markets develop, investors may gain access to additional liquidity to facilitate transactions. Currently, secondary markets represent less than 10% of invested AUM so transaction activity is still limited and trades are usually negotiated at a discount to net asset value.

Most offering documents are long, legal documents encompassing technical, legal or regulatory terms. Comfort levels with complex investment structures may vary widely among investors and therefore, ongoing education and market reviews for both financial advisors and investors are recommended.

Client Suitability

Matching client risk and return expectations within private markets follows the same process as in public markets. For instance, opportunistic, entrepreneurial or aggressive growth investors may gravitate towards higher return/risk strategies such as venture capital, private equity or direct and co-investment opportunities. While income-focused investors may find private debt strategies more appealing for their steady cash flow needs. Similarly, other investors may prefer core real estate or infrastructure strategies that emphasize stable income, capital preservation and align with stable, utility or utility-like industries.

Client Suitability Assessment Framework Table

Client Trait	Suitable for Private Investments?
Long time horizon	✓
Accredited investor status	✓
Need for near term liquidity	✗
Has investing experience	✓
Uncomfortable with lagged reporting	✗
Opportunistic/Entrepreneurial mindset	✓
Seeks greater portfolio diversification	✓
Seeks higher yield strategies	✓
Seeks higher returns	✓

Table 10. 1

Explaining Key Differences Between Private and Public Markets

Financial advisors and investors who have successfully implemented private market strategies in portfolios have typically prioritized research and education prior to committing capital. Key differences between public and private markets include illiquidity, capital call mechanics, j-curve impacts, fee structures, mark to model valuations, cash reserve management and performance measurement terminology. We discuss each in the following section.

Fundamentals of Illiquidity

Private investments are illiquid. In contrast to public markets where shares trade daily, private investments typically lock up capital for extended periods of time either without redemption options or with very limited redemption rights. The trade-off for owning illiquid private assets comes with the expectation of a higher return premium than similar liquid public assets. The expectation of an illiquidity premium is one of the key drivers of return within private markets. Newer fund structures, such as interval funds, tender offer funds and certain BDC funds do provide limited liquidity but tend to restrict redemptions to a small percentage of a fund's assets.

Capital Call Mechanics

Most private market strategies use drawdown structures where investors commit capital upfront which is then called by the manager over time as investment opportunities arise. The timing and amount of capital calls remain unpredictable, and investors need to maintain appropriate liquidity throughout the commitment period. Capital call and distribution charts, noted below, provide useful visual of timelines for these cash flows, illustrating the contrast between the initial commitment amount and actual distribution of capital based on successful exits from the underlying investments.

Sample Capital Call and Distribution Chart

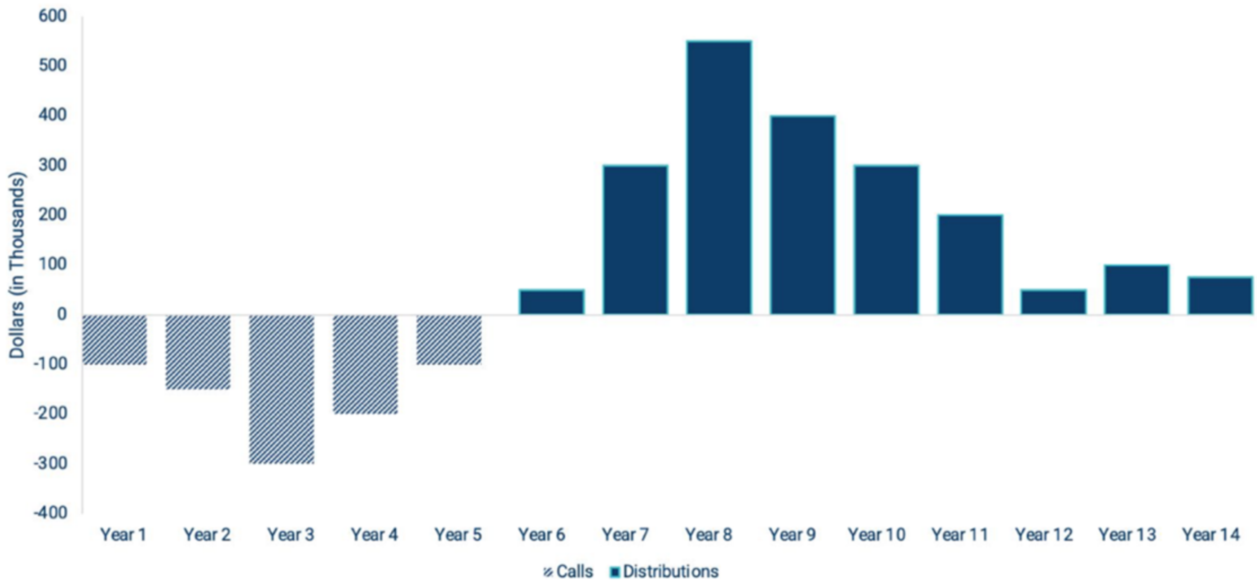

Figure 10. 1

J-Curve Performance Pattern

Early period performance from many private equity and venture capital funds are typically modest or negative due to management fees, deal costs, and the time required for portfolio companies to mature. The slow developing return creates a J-shaped performance curve where returns appear negative initially before potentially rising sharply later in the investment lifecycle. While public market investors may utilize dollar cost averaging to smooth out short term performance fluctuations in public markets, such an approach is generally with private market strategies utilizing drawdown funds in particular. However, dollar cost averaging is possible with interval and tender offer funds and other evergreen offerings that allow continuous capital inflows, a key benefit of these structures.

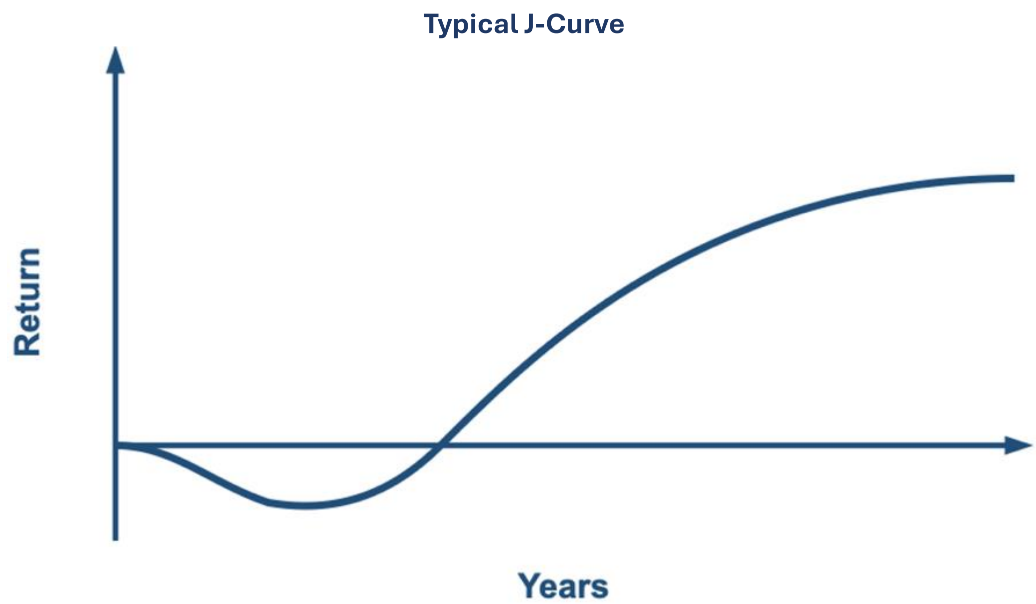

Figure 10. 2

Fee Structures

Private investment fee structures typically include not only management fees and costs but also somewhat complex mechanisms for distributing profits between investors and managers (as described before). In most private investment structures, performance thresholds must be met before managers receive a share of the profits ("carried interest") while protective provisions safeguard investor returns. Other fees (for example, fees charged by managers to cover the costs of running the funds) and access fees (fees paid to intermediaries or fund platforms) often add additional layers of costs.

In private markets, the waterfall structure represents the sequential order in which cash flows are distributed between limited partners (investors) and general partners (fund managers). Under a typical waterfall structure, capital is first returned to limited partners, followed by a distribution of a preferred return to limited partners, with remaining profits split according to a pre-agreed ratio between limited partners and general partners. The profit sharing ("waterfall") structures that are most common are the American-style waterfall structure where distributions are applied on a deal-by-deal basis, and the European-style waterfall structure in which the distribution schedule is applied at an aggregate basis at the fund level. Waterfalls ensure that fund managers are only compensated for their performance once investors achieve their targeted returns.

Within fee arrangements, there are various performance benchmarks that determine how and when fund managers receive compensation for their performance. Hurdle rates (also referred to as preferred returns) are the minimum return threshold that funds must distribute to investors before general partners can receive carried interest. Most funds utilize compound hurdle rates that accumulate over time if not met in earlier periods, providing additional protection for investors. High-water marks represent another performance threshold that prevent managers from earning fees following periods of losses by requiring them to first recover previous declines before becoming eligible for performance compensation. While more commonly used in hedge funds, high-water marks are increasingly adopted in private debt strategies to ensure performance fees are only paid on genuine value creation rather than recovery of previous losses.

Beyond these performance thresholds, “clawback” provisions serve as an integral protection that safeguards investor returns from timing mismatches between early successful exits and later portfolio company failures. These contractual clauses require general partners to return previously distributed profits to limited partners if the fund’s overall performance falls below a pre-agreed upon threshold at final liquidation. This ensures that a fund’s performance compensation reflects the fund’s ultimate results rather than any short-term gains that may have been generated.

Alongside these core protective mechanisms, there may be additional fees that impact returns. For instance, placement fees, which typically range from 1%-3% of committed capital, are paid to intermediaries who help raise capital for the fund, while organizational expenses cover fund formation and legal setup costs. Additionally, broken deal costs can be included to compensate for failed transactions during due diligence, and monitoring fees may be charged by general partners for ongoing oversight of portfolio companies. These ancillary costs can materially impact overall investment returns, making comprehensive fee analysis essential for investors to make informed decisions.

Mark-to-Model Valuation

Unlike exchange-traded securities with transparent real-time pricing, private assets rely on various analytical frameworks to calculate fair market value. These techniques include discounted cash flow models, comparable transaction analysis, and asset-specific appraisals. These valuations are typically calculated on a quarterly basis using internal models or third-party appraisals. They may incorporate a significant level of judgement and, given the longer investment horizon, are generally less subject to short term fluctuations in price. While interval and tender offer funds provide more frequent pricing, most market valuation calculations are still based on mark-to-model estimates and will likely experience less short-term price fluctuations.

Differing accounting standards specify how non-traded assets are assessed and marked to fair value. These rules are intricate in structure and hierarchy and are discussed in further detail below.

Fair Value Hierarchy and Valuation Complexity

The Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") have established rules and regulations for valuing assets. FASB rule ASC 820 and IASB rule IFRS 13 articulate a standardized framework for measuring fair value and ensuring adequate disclosure requirements.

The rules establish three different levels or hierarchies for measuring the fair value of an asset. Level 1 represents quoted prices for identical assets or liabilities in active markets such as publicly traded stocks or bonds. Level 2 utilizes observable inputs beyond level 1 prices from similar assets or market-based data, such as yield curves or comparable properties. Level 3 uses unobservable inputs, relying on internal models and assumptions, such as discounted cashflow models or management estimates.

Almost all assets traded on public markets meet the criteria for level 1. They benefit from the transparency and objectivity of fair value where securities trade on established exchanges with continuous price discovery through buyer and seller interactions. In contrast, private market assets are not publicly traded and do not satisfy the criteria for level 1 measurement. Almost all assets traded on private markets fall within the rules covering level 2 and level 3 assets. For level 2 assets, managers will observe valuations on similar assets or market-based data as a reference for calculating fair market value. By way of example, a real estate manager may value a commercial property using recent sales prices from similar properties in a comparable city or location adjusting for condition, age or occupancy. A venture capital manager may value its assets based on a recent funding round of a similar start up in the same industry adjusting for specific differences in product, managerial experience, expected margins or balance sheet risk. A private debt fund may value a loan by observing interest rates or market yields on similar instruments with similar maturities adjusting for differences in credit or balance sheet risk. A private equity firm holding a middle market company may value it based on the market value of an exchange traded small capitalization company in the same industry with similar products adjusting for differences in growth rates or margins. As estimated 10% to 30% of private market assets fall into this category, with private debt being at the higher range and venture capital at the lower end.

The majority of private assets fall within the level 3 category, meaning fair value is based on unobservable inputs such as internal models. A private equity firm may value its stake in an industrial manufacturing firm using a discounted cash flow model based on management estimates for revenue growth, profit margins and risk adjusted discount rates. A real estate firm may value an undeveloped land by estimating future cash flows from a development project and applying a capitalization rate based on management estimates. A venture capital firm may value its investment in an early-stage AI or life sciences firm based on the value of patents in hand or estimated cash flows by calculating a share of the total addressable market and then applying a discount rate. A private debt fund may value a distressed loan based on a model that estimates default and recovery rates and blend it with management's estimate of the firm's ability to repay. All inputs and assumptions used in these assessments are considered unobservable as they rely on management assumptions, model estimates or market forecasts.

These valuations are usually done with a time lag, purposely focused on long term horizons while aiming to ignore short term fluctuations. Return smoothing is a common outcome but for investors that are locked into illiquid investments or focused on long term results. For investors seeking to offset public-liquid-daily priced investments, adding private-illiquid-mark to model investments to a traditional portfolio is a legitimate source of diversification, especially over a long-term investment horizon. Below is a summary of mark to fair value and mark-to-model techniques.

Valuation Considerations for Private Market Assets

Level	Asset Class	Description	Valuation Approach	Prevalence	Example
Level 1:	Public Markets	Quoted prices for identical securities in active exchanges	Direct market quotes, real-time pricing	Dominant	S&P 500 index funds, Apple stock
	Private Equity	Quoted prices for identical private company shares in active markets	Direct market quotes (extremely rare)	Virtually None	Secondary Platform trading
	Private Debt	Quoted prices for identical private loans or bonds	Active market pricing	Virtually None	Liquid syndicated loans
	Real Estate	Quotes prices for identical properties	Active market transactions	Virtually None	Standardized REIT shares
Level 2:	Private Equity	Valuations using observable market data from similar companies	Comparable company multiples, recent transaction data	Moderate	EV/EBITDA from public peers
	Private Debt	Yields from similar debt instruments with adjustments	Market-based yield curves, credit spreads	Moderate	SOFR + credit spread
	Real Estate	Comparable property sales or rental data	Comparable sales method, market cap rates	Moderate	Similar property sales/sq ft
Level 3:	Private Equity	Internal models using management projections and assumptions	DCF models, venture capital method, option pricing	Dominant	Startup DCF with 25% discount rate
	Private Debt	Borrower-specific models with credit assumptions	Internal yield models, default probability estimates	Dominant	Mezzanine loan with 12% IRR assumption

	Real Estate	Property-specific models with growth assumptions	DCF with rental projections, cost approach	Dominant	Development project DCF

Table 10. 2

Cash Reserve Management

Private market investments require careful liquidity planning that extends beyond the initial invested capital. With drawdown funds, in addition to regular liquidity requirements, investors must maintain adequate cash reserves to cover expected capital calls. With interval, tender offer or other evergreen vehicles, investors do not require reserves as those are continuous offering vehicles and receive cash on an ongoing basis. They do not rely on capital calls. For investors incorporating drawdown funds, the following charts shows how an allocation may transition from a traditional public market allocation to a blended public-private allocation with a drawdown fund.

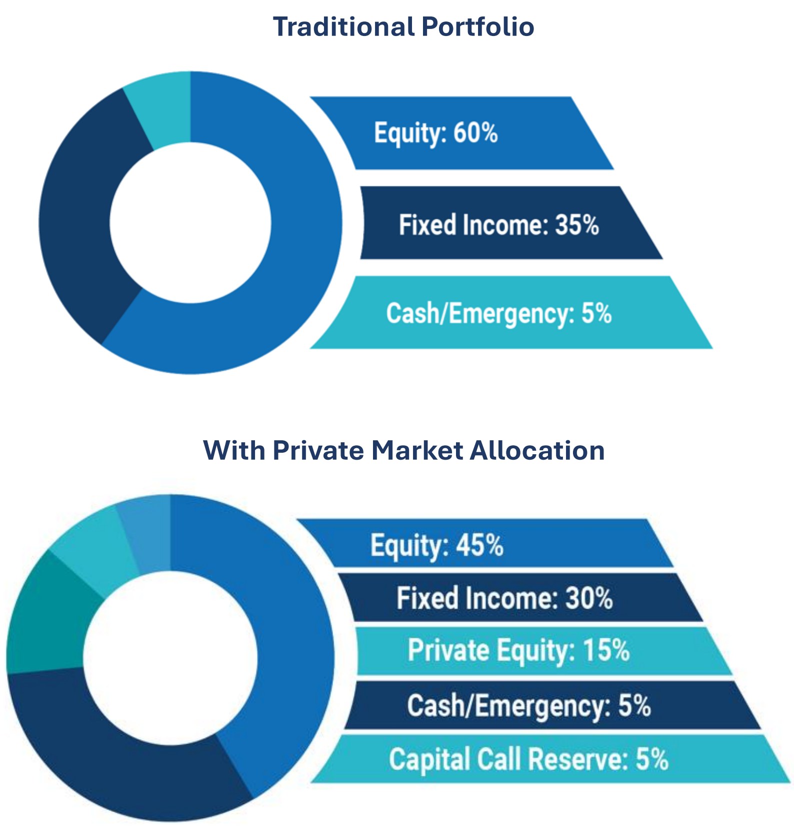

Figure10. 3

Performance Measurements: Public vs Private Markets

Unlike public securities that rely on metrics such as annualized return, total return or dividend yield, private investments rely on different terms and metrics for assessing risk and return. These differences stem from private investment features such as irregular capital calls, unpredictable distributions or exits, timing lags around reporting and long-term exit windows. Private equity and venture capital structures utilize metrics such as Internal Rate of Return ("IRR"), Multiple on Invested Capital ("MOIC"), and Distributed to Paid-in-Capital ("DPI") while real estate funds tend to focus on "cap rates". Both real estate and private debt use on cash-on-cash returns. Below is a breakdown of some of the metrics used within the various private market segments.

Private Equity and Venture Capital Metrics

Internal Rate of Return (IRR)
Internal Rate of Return represents the annualized rate of return that equates the present value of cash outflows (capital calls) to the present value of cash inflows (ongoing and final distributions). This time-weighted metric is common since it can capture the impact of irregular cash flows. Unlike public market investments that typically use total return or compound annual growth rates, IRR accounts for irregular cash flows, extended deployment periods and concentrated exit events common in private markets.
Example: A venture capital fund calls a total of $10 million from investors equally over the first three years, then distributes $30 million in year five when portfolio companies are sold. The IRR calculation determines that this represents approximately 24.6% annualized return, accounting for the specific timing of each cash flow.

Multiple on Invested Capital (MOIC)
Multiple On Invested Capital measures total return by dividing the combined value of distributions and residual portfolio value by the total capital invested. This metric provides a measure of absolute returns without the complexity of time-weighted calculations. While public markets typically focus on percentage returns or market-to-market gains that fluctuate daily, MOIC remains static and reflects total value creation at any given point. MOIC is a useful instrument for evaluating long-term, illiquid investments where timing matters less than the ultimate value created by the investment.

Example: A private equity firm invests $50 million in a portfolio company and receives $150 million at exit five years later. The MOIC equals 3.0x, indicating the investment tripled the original capital regardless of the specific timeline.

Distributed to Paid-In Capital (DPI)

Distributed to Paid-In Capital calculates actual cash returned to investors relative to the capital they have committed to the fund, representing a pure cash-on-cash return. This metric provides an accurate assessment of investor returns excluding unrealized portfolio gains. DPI shows only realized returns in the form of actual distributions, providing transparency about what investors have received back from their commitments. This metric is particularly useful for measuring interim performance during the investment period. Upon final exit and completion of the investment period.

Example: A private equity fund calls $100 million in capital from limited partners over three years and distributes $80 million in cash from successful exits. The DPI equals 0.8x, indicating investors have received 80% of their contributed capital back in cash distributions.

Private Real Estate Metrics

Cash-on-Cash Return

In real estate, the cash-on-cash return measures the annual pre-tax cash flow generated by a property (net operating income minus debt service) divided by the equity capital invested. This calculation focuses on the immediate cash yield from property operations, providing insight into a property's capacity to generate income independent from its appreciation. Public market REITs use dividend yield based on stock market prices that fluctuate daily, while cash-on-cash return in the private real estate market focuses exclusively on actual property-level cash flows.

Example: An investor contributes $1 million in equity to acquire a rental property that generates $100,000 in annual cash flow after all operating expenses and debt service. The cash-on-cash return equals 10%, providing a clear measure of current income relative to invested capital.

Capitalization Rate

Capitalization rates ("cap rates"), represent a property's net operating income divided by its current market value or acquisition cost. This metric expresses a property's income-generating potential as a percentage and provides a snapshot of the investment's yield at a specific point in time, independent of financing considerations.

Example: A commercial property generates $200,000 in annual net operating income and has a current fair value, based on management estimates, of $4 million. The cap rate equals 5%, indicating the property produces a 5% income yield before considering any financing or capital appreciation.

Private Debt Metrics

Cash Yield

Cash yield is often used in private debt to measure the annualized percentage of interest payments received relative to invested capital, typically based on the interest or monthly payment received from the private debt investment. This metric focuses exclusively on cash interest distributions before considering any principal repayment or exit proceeds. Unlike the public bond market where investors focus on yield to maturity (YTM) which incorporates daily price fluctuations, direct cash yields are calculated based on the initial investment value with no reference to interim price changes. Thus, cash yield calculations focus solely on contractual interest payments versus invested capital.

Example: A $10 million private loan carries a 10% annual interest rate, generating $1 million in yearly interest payments. The cash yield equals 10%, providing a clear measure of current income regardless of any changes in the loan's theoretical market value.

The below comprehensive checklist covering key private market concepts.

Key Item Checklist

Category & Item	Completed
Suitability Assessment	
Financial capacity verified (adequate liquidity reserves maintained)	
Behavioral readiness confirmed (patience and uncertainty tolerance)	
Psychological tilt assessed (investment experience and risk tolerance)	
Concentration risk limits understood (10% maximum per single asset)	
Investment Understanding	
Illiquidity fundamentals explained (7–12-year commitment period)	

Capital call mechanics understood (drawdown structure and timing)	
Fee structures detailed (management fees + carried interest)	
J-curve performance pattern acknowledged (typical negative performance in early years)	
Performance Measurement Education	
IRR (time-weighted returns accounting for irregular cash flows)	
MOIC (total value multiple (distributions + residual value)	
DPI (actual cash distributions returned to investors)	
Asset-specific metrics (Cash-on-cash Return, Cap Rate, Cash Yield, Levered IRR)	
Risk Factors	
Concentration risk at both fund and portfolio levels	
Mark-to-model valuation limitations and quarterly reporting	
Very limited market liquidity	
Adequate liquidity to meet capital call requirements	
Timeline Expectations	
Investment horizon commitment confirmed (7–12-year investment period)	
Redemption rights unavailable (no early exit or liquidity options)	
J-curve early effect acknowledged (typical negative performance for 2-4 years)	
Distribution timing understood (returns concentrated in later years of fund life)	
Offering Documentation and Communication	
Fund documents disclosed (private placement memorandum, pitch deck, etc.)	
Subscription documents disclosed (investment agreement and legal forms shared)	
Regulatory considerations disclosed (all relevant disclosures communicated)	
Progress update schedule confirmed (periodic investor reporting planned)	

Table 10. 3

Chapter Eleven

How Wealth Advisors Can Grow Their Business Using Private Investments

Chapter Eleven: How Financial Advisors Can Grow Their Business Using Private Investments

This chapter addresses considerations facing financial advisors and clients allocating to private markets investments. Key issues include operational approaches, addressing value-add of investments, educating and communicating and addressing pricing and fee differences versus similar public market vehicles.

Why Private Investments Matter for Financial Advisors

In today's market environment, financial advisors face intense competition, margin pressure, and increasingly savvy clients seeking differentiated sources of return and diversification. Private investments—broadly defined to include private equity, private credit, real estate, venture capital, and infrastructural assets—have moved into the mainstream over the past decade. They now offer an opportunity for financial advisors to deliver unique value to high-net-worth ("HNW") and ultra-high-net-worth ("UHNW") clients, differentiating their practices while also generating new streams of revenue and stickier client relationships.

For financial advisors, private investments can serve multiple strategic goals. First, they provide portfolio diversification and return enhancement, especially when correlations with public markets are low, allowing clients to access uncorrelated return streams that can improve risk-adjusted performance. Second, these investments enhance client retention by giving access to high-barrier alternatives not readily available on all public platforms. Third, private investments drive business growth through fee-sharing arrangements, referral cross-selling opportunities, and scalable offerings such as interval funds or model portfolios that can be deployed across multiple client relationships. Finally, they enable service differentiation, positioning the financial advisor as solutions-oriented in an increasingly commoditized environment where traditional investment management is becoming a lower-margin commodity.

To leverage private investments effectively, financial advisors must understand product structures, governance models, liquidity mechanics, client suitability, and legal/regulatory frameworks. Equally important is choosing the right technology platforms or distribution partners, whether feeder-fund intermediaries like iCapital and CAIS, direct-to-consumer platforms like YieldStreet, co-invest-focused structures, or blockchain-native vehicles such as Securitize. The rest of this chapter aims to guide financial advisors on how to integrate private investments into their practice—covering strategy, operations, due diligence, marketing, and long-term scaling.

Understanding the Value-Add: What Private Investments Bring

Improved Diversification and Return Potential

Private investments fundamentally transform portfolio construction by offering exposures that operate independently from traditional equity and bond market cycles. Unlike public markets, which increasingly move in tandem during periods of stress, private investments provide true diversification benefits through their unique risk-return profiles and market inefficiencies.

Enhanced Client Stickiness

Access to exclusive investment strategies creates a powerful competitive moat for financial advisors, fostering deeper client loyalty through differentiated value proposition. When clients recognize their financial advisor as a gateway to opportunities unavailable through traditional channels—such as secondary shares in a pre-IPO unicorn or co-investment alongside established private equity sponsors—the relationship transcends typical fee-based advisory services.

This exclusivity effect is particularly pronounced among entrepreneurial, growth or higher income seeking clients who value access over cost. Tools such as direct co-investment programs allow clients to invest alongside institutional sponsors without paying management fees on their co-investment portion, creating substantial value while deepening engagement. Secondary offerings enable clients to access mature private equity vintages at discounts to net asset value, providing attractive entry points with potentially shorter time horizons to liquidity.

Private equity interval funds create ongoing engagement through their structured repurchase windows and capital deployment strategies. Unlike traditional private equity funds that may have limited communication between capital calls, interval funds provide regular updates, NAV reporting, and liquidity opportunities that keep clients engaged with their investments and, by extension, their financial advisor.

The educational component of private investments also strengthens relationships. Financial advisors who can articulate complex strategies, explain market dynamics, and provide insights into private market trends position themselves as trusted partners rather than transactional service providers. This expertise becomes particularly valuable during market volatility when clients seek reassurance and strategic guidance.

Fee and Revenue Opportunities

Private investments create multiple revenue streams that extend beyond traditional asset-based fees. Where legally permitted, financial advisors can participate in fee-sharing arrangements with fund sponsors, earning referral fees or revenue sharing from platform relationships. Platforms like CAIS and iCapital often provide sub-referral shares or management fee participation, creating additional compensation without directly charging clients.

Offering private investments may enable financial advisors to increase overall advisory fees by demonstrating differentiation and value add. Clients recognize the additional due diligence, ongoing monitoring, and expertise required to access and manage private investments.

Branding and Expertise Enhancement

Financial advisors with demonstrable alternative investment expertise elevate their professional brand within both client and professional networks. This expertise manifests in multiple ways: documented due diligence processes, successful track records with private investment selection, and thought leadership on emerging trends.

Publishing research on relevant private investment topics may position financial advisors as industry experts. . This thought leadership often generates inbound referrals from other professionals—attorneys, accountants, or other advisors—who recognize specialized expertise.

These branding benefits extend not just to client retention, but also client acquisition. Prospective clients may increasingly evaluate financial advisors based on their ability to access unique opportunities and provide sophisticated investment solutions. A financial advisor known for successful private equity allocations or innovative alternative strategies attracts clients seeking these specific capabilities.

Additionally, participation in industry conferences, alternative investment roundtables, or platform advisory councils enhances professional credibility and creates networking opportunities that can drive business development. The alternative investment ecosystem rewards expertise and relationship-building, making specialized knowledge a valuable business asset beyond its direct application to client portfolios.

Structuring Private Investment Offerings in Your Practice

Segmentation of Clients: Strategy by Net Worth & Risk Appetite

Successfully implementing private investments requires a strategic approach to client segmentation that aligns investment opportunities with client sophistication, risk tolerance, and liquidity needs. Financial advisors may categorize their clients into distinct tiers based on net worth, accreditation status, and investment objectives. This segmentation enables financial advisors to match appropriate private investment vehicles with client capabilities while ensuring suitability requirements are met and expectations are properly managed. The framework below illustrates how different client tiers align with specific investment strategies and access levels.

Client Tiering and Investor Access

Client Tier	Investment Strategy & Access
Tier 1: (UHNW)	Customized co-investments, secondaries, direct PE fund commitments, high minimums, longer horizons
Tier 2: (HNW and Accredited)	Tender offer funds, registered alternatives, structured products, moderate liquidity constraints
Tier 3: (Accredited with limited liquidity appetite)	Interval funds, lower minimum platforms, semi-liquid access, shorter lock-ups

Table 11.1

This tiered approach not only ensures regulatory compliance but also creates a scalable framework for business growth. By clearly defining which clients receive access to which types of private investments, financial advisors can develop standardized processes, educational materials, and service offerings for each tier. Additionally, this segmentation creates natural progression paths where clients can advance to higher tiers as their wealth and sophistication increase, providing built-in opportunities for relationship expansion and increased advisory fees.

Integration into Advisory Services

Successfully integrating private investments into an advisory practice requires a systematic approach across multiple operational areas. The goal is to create a seamless experience that maintains the same level of professionalism and oversight that clients expect from traditional investment management. The following framework outlines the five critical areas that financial advisors can address to successfully integrate private investments into their service offering.

Key Considerations for Integrating Private Investments

Integration Area	Key Activities & Considerations
Due Diligence and Selection	Qualification guidelines, fund history, manager reputation, fee schedule, liquidity terms
Client Education	Structured materials (videos, decks), investment dynamics, lock-up periods, tax implications, redemption mechanics
Portfolio Design	Core diversifiers vs satellite positions, 10%-30% typical allocation range, client risk tolerance alignment
Lifecycle Management	Capital call monitoring, distribution tracking, NAV updates, liquidity calendar management, automated reminders
Compliance Framework	Suitability confirmation, accredited investor thresholds, disclosure requirements, platform agreements, KYC/AML protocols

Table 11.2

Many financial advisors find success beginning with due diligence protocols and client education materials, as these form the foundation for all subsequent activities. As comfort and expertise develop, portfolio design methodologies and lifecycle management systems can be refined and standardized.

Technology plays a crucial role in successful integration, particularly for compliance tracking. Financial advisors can prioritize platforms that offer consolidated reporting, automated reminders for capital calls and redemption windows, and integrated compliance documentation. This technological foundation not only improves operational efficiency but also enhances the client experience through timely communication and professional presentation of complex investment information.

Pricing & Margins

Establishing appropriate pricing structures for private investment services requires careful consideration of the additional value provided and the operational complexity involved. Financial advisors must document advisory fees that accurately reflect the time spent on due diligence, investment structuring, and ongoing monitoring activities. These enhanced services typically justify premium pricing above standard advisory fees, as they require specialized knowledge, additional compliance oversight, and more intensive client communication. When legally permissible, financial advisors should also establish clear arrangements regarding access to platform-shared fees or referral compensation, ensuring all fee-sharing agreements are properly disclosed and compliant with regulatory requirements.

The fee structure should align with the type of private investment offering and client engagement model. For packaged solutions such as interval funds or standardized model portfolios, flat-rate fees often work best as they provide predictable revenue streams and simplified billing. These arrangements are particularly effective for Tier 2 and Tier 3 clients who prefer transparent, all-inclusive pricing. Conversely, for customized direct co-investment opportunities typically offered to UHNW clients, marginal advisory fees calculated in basis points may provide better alignment with the investment size and complexity involved.

Successful fee implementation requires transparency and clear communication with clients about the value proposition. Financial advisors should articulate how private investment access justifies premium pricing through enhanced diversification, exclusive opportunities, and specialized expertise. Additionally, the fee structure should be scalable across different client tiers, allowing for efficient operations while maintaining appropriate margins that reflect the sophistication and service level required for each client segment.

Marketing & Business Development Through Private Investments

Thought Leadership & Educational Events

Establishing thought leadership in private investments creates a powerful marketing differentiator that attracts high-quality prospects while reinforcing credibility with existing clients. Educational initiatives can encompass both live events and written content to maximize reach and impact. Hosting webinars and workshops and partnering with managers on timely topics such as private credit market dynamics, and co-investments and secondary liquidity opportunities, positions the financial advisor as a forward-thinking expert who understands emerging market trends. These pieces could highlight practical considerations like fee structures, minimum investments, liquidity provisions, and platform integration capabilities that directly impact client outcomes.

Client case studies represent perhaps the most powerful form of thought leadership, as they provide concrete evidence of successful implementation and outcomes. Anonymized examples of successful private equity portfolio allocations, highlighting specific return profiles, diversification benefits, and risk management outcomes, create compelling narratives that resonate with prospective clients. These case studies may include both quantitative results and qualitative benefits such as enhanced portfolio resilience during market volatility or access to unique investment opportunities. When presenting these examples, financial advisors build credibility while providing social proof that validates their private investment expertise and execution capabilities.

Referral Networks & Strategic Partnerships

Building strategic partnerships creates powerful referral networks that can significantly accelerate business growth in private investments. Smaller family offices, estate planning attorneys, tax accountants, and third-party institutional allocators often encounter clients seeking alternative investment access but may lack the specialized expertise or platform relationships to provide these solutions. By positioning as the go-to expert for private market access, financial advisors can capture referrals from these pre-qualified prospects who typically represent accredited higher-net-worth individuals.

Client Segmentation & Upselling

Effective client segmentation for private investments requires identification of suitable candidates based on investment capacity, accreditation status, and risk appetite. . A successful approach may involve proposing pilot allocations to a carefully selected subset of clients who demonstrate both financial capability and genuine interest in diversification beyond traditional assets. These initial implementations serve dual purposes: they provide valuable learning experiences for the financial advisor to refine processes and communication while generating early success stories that create powerful social proof for broader client adoption. Once pilot programs demonstrate positive outcomes, financial advisors can leverage these results to offer bundled alternatives packages or model portfolios as premium services, positioning private investments as exclusive opportunities that justify higher advisory fees and deeper client relationships across their broader client base.

Case Studies & Financial Advisor Scenarios

The following case studies illustrate how financial advisors across different practice sizes and client segments can successfully implement private investments to drive business growth and enhance client outcomes. These examples demonstrate two sample approaches: a traditional financial advisor introducing interval funds to moderate-wealth clients and a boutique RIA leveraging platform partnerships for scalable solutions. Each case study highlights the importance of matching investment strategies to client sophistication, selecting appropriate platforms for practice capabilities, and creating value for both clients and the advisory business.

Case Study 1: Traditional Financial Advisor Introducing Axxes Interval Fund

- Client Profile: A 55-year-old couple with $3M investable assets in balanced equities and bonds.
- Potential Approach: Allocate 10% ($300K) to private equity and private credit interval funds. Implementation required three educational meetings over two months to explain liquidity mechanics and fee structures before the clients felt comfortable proceeding.
- Outcomes: Quarterly liquidity window, simplified tax reporting, exposure to mid-market private equity co-investments. Achieved realized annual return of ~8%-10% over three years. The financial advisor provided quarterly updates highlighting NAV changes and distribution schedules, which kept clients engaged and informed.
- Financial Advisor Benefits: Strengthened trust, recurring advisory fee, demonstrated added value. The success led to a 25 basis point fee increase on the overall relationship and referrals to two similar couples.

Case Study 2: Boutique RIA Leveraging iCapital and CAIS Model Portfolios

- Client Segment: Financial advisors with $100-500M AUM serving multiple HNW families.
- Approach: Built diversified model templates across private credit, venture, real assets via CAIS Models Marketplace and iCapital feeder options. The firm spent six months developing standardized allocation models and client education materials before launching to their top 20 client families.

- Outcomes: Easier onboarding, automated capital call/admin workflows, better compliance, scale benefits. The standardized approach reduced implementation time per client while maintaining consistent due diligence standards.
- Financial Advisor Benefits: Streamlined operations, enhanced offerings at scale, modest referral revenue from platform relationships. Platform partnerships generated an additional revenue sharing while the premium positioning justified 15 basis points in additional advisory fees.

These case studies reveal common success factors across different implementation approaches: proper client segmentation ensures suitable matches between investment complexity and client sophistication, platform selection must align with practice size and operational capabilities, and successful private investment programs create dual value streams through both client portfolio enhancement and financial advisor business benefits. Effective implementations may start with pilot programs using proven platforms, focus on education and expectation management, and leverage early successes to build reputation and attract additional clients. Regardless of practice size or client segment, financial advisors who approach private investments systematically—with clear processes, appropriate technology, and realistic expectations—can successfully differentiate their services while generating meaningful business growth.

Operational Playbook: Bringing it All Together

Setting Infrastructure and Workflow

Establishing the foundational infrastructure for private investments requires a systematic approach to platform integration and technology selection that creates efficient, scalable workflows. Platform onboarding begins with establishing accounts across key feeder-platform providers such as iCapital, CAIS, and other selected intermediaries, followed by comprehensive financial advisor integration training to understand each platform's unique workflows, reporting capabilities, and client communication tools. This initial setup phase may include testing all systems with small pilot transactions before broader client implementation. Simultaneously, portfolio management systems must be selected based on their ability to consolidate alternative positions, NAV tracking, liquidity calendars, and performance reporting within unified dashboards that integrate with existing client reporting processes. The goal is to avoid fragmented systems that require manual reconciliation and instead create streamlined technology infrastructure that can scale as the private investment program grows.

Staff training represents a crucial component of successful implementation, as private investments require specialized knowledge across multiple operational areas that differ significantly from traditional investment management. Junior associates and paraplanners must understand platform selection criteria, fund due diligence processes, documentation requirements, and subscription logistics to effectively support client relationships and ensure consistent service delivery. This training should include hands-on experience with actual transactions, regular updates on platform changes, and clear escalation procedures for complex situations that require senior financial advisor involvement. Effective staff preparation ensures that the private investment program can operate efficiently without requiring constant senior financial advisor oversight for routine operational tasks.

Due Diligence Framework

Implementing a systematic due diligence process is fundamental to maintaining fiduciary responsibility and ensuring consistent evaluation standards across all private investment recommendations. Unlike traditional investments where standardized metrics and public disclosures provide transparency, private investments require financial advisors to dig deeper into operational details that can significantly impact client outcomes and regulatory compliance. The following checklist provides a comprehensive framework for evaluating private investment opportunities across all critical assessment areas.

Manager Due Diligence Considerations

Due Diligence Area	Key Evaluation Criteria
Manager Track Record	Performance history, team tenure, AUM stability
Fee Structure	Management fees, carried interest, total expense ratio transparency, waterfall structures
Liquidity Provisions	Lock-up period, redemption frequency, secondary market options
Tax Implications	K-1 timing, 1099 reporting, state tax considerations
Minimum Requirements	Initial and subsequent commitment thresholds
Platform Reliability	Onboarding process, documentation quality, settlement speed
Strategy Alignment	Client suitability, portfolio fit, risk profile match
Regulatory Compliance	Accreditation requirements, disclosure adequacy
Exit Mechanisms	Distribution schedule, redemption procedures, transfer rights
Reporting Standards	NAV frequency, performance attribution, client communications

Table 11.3

This checklist should be customized based on the financial advisor's specific client base and investment focus areas, with scoring mechanisms that enable objective comparison across opportunities. Regular updates to the framework ensure it remains current with evolving market practices and regulatory requirements.

Client Onboarding & Education Materials

Successful private investment implementation depends on comprehensive client education that demystifies complex concepts and sets appropriate expectations from the outset, especially for clients that have limited experience with private markets. The onboarding process should combine scalable investor-facing content—including slide decks explaining investment mechanics, comprehensive FAQ sheets addressing common concerns, interactive dashboards for ongoing monitoring, and detailed liquidity calendars outlining capital call schedules and redemption windows. Some advisor may offer walk-through calls that personally guide clients through capital call commitments, projected investment timelines, risk and reward profiles, lock-up periods, and available exit mechanisms.

Compliance, Suitability, and Disclosure

Compliance requirements for private investments extend far beyond traditional investment management, requiring meticulous documentation and ongoing suitability assessments that protect both clients and financial advisors from regulatory scrutiny. The following framework outlines the essential compliance components that must be addressed for every private investment recommendation.

Operational Compliance Considerations

Compliance Area	Required Documentation & Actions
Accreditation Verification	Signed accredited investor certification, income/net worth verification, annual re-certification
Risk Disclosure	Comprehensive risk disclosure forms, illiquidity acknowledgments, fee transparency documents
Suitability Assessment	Risk tolerance questionnaire, investment objectives documentation, time horizon confirmation
Client Acknowledgments	Signed understanding of lock-up periods, capital call obligations, potential for total loss
Investment Policy Statement	Written rationale for allocation, client-specific justification, monitoring procedures
Ongoing Monitoring	Annual suitability reviews, material change assessments, portfolio rebalancing documentation
Regulatory Filings	Form ADV updates, state registration requirements, platform relationship disclosures

Table 11.4

Written investment policy statements ("IPS") should document the rationale for private investment allocations, including specific client circumstances that justify alternative investments, expected outcomes, and ongoing monitoring procedures that demonstrate continued suitability over time.

Performance Monitoring and Client Updates

Effective performance monitoring and client communication for private investments requires a more sophisticated approach than traditional portfolio management due to the irregular timing of capital calls, distributions, and lagged NAV updates that characterize private market investments. The following communication schedule ensures clients remain informed while maintaining operational efficiency throughout the investment lifecycle.

Performance Monitoring and Reporting

Communication Type	Frequency	Key Content & Actions
NAV Updates	Monthly/Quarterly	Net asset value changes, performance attribution, distribution notices
Capital Call Notifications	As Required	Funding deadlines, wire instructions, commitment status updates
Distribution Reports	Upon Receipt	Cash distributions, return of capital, tax implications, reinvestment options
Liquidity Window Alerts	Quarterly	Redemption deadlines, available capacity, processing timelines
Annual Performance Review	Annually	Total return analysis, benchmark comparisons, rebalancing recommendations
Portfolio Rebalancing Assessment	Semi-Annually	Allocation drift analysis, strategic adjustments, exit timing considerations
Calendar Reminders	Ongoing	Automated alerts for deadlines, redemption windows, review meetings

Table 11.5

Top Challenges and How to Manage Them

Managing Liquidity Expectations

Managing client liquidity expectations represents perhaps the most critical challenge in private investment implementation. Private strategies typically involve lock-up periods ranging from quarterly redemption windows in interval funds to multi-year commitments in traditional drawdown vehicles, requiring financial advisors to thoroughly educate clients about withdrawal constraints, capital call obligations, and realistic liquidity timelines. While interval funds can provide some liquidity relief through periodic redemption windows, these solutions still deliver constrained exit opportunities that may not align with client emergency needs or changing circumstances. Successful liquidity management requires financial advisors to ensure that private investment allocations represent truly patient capital that clients can afford to have locked up for extended periods, while also maintaining clear communication about upcoming capital calls and available redemption windows throughout the investment lifecycle.

Navigating Fee Complexity

Fee complexity in private investments creates significant transparency challenges that can undermine client trust if not handled proactively and systematically. Unlike traditional investments with straightforward expense ratios, alternatives typically involve multi-layered fee structures that require careful explanation and ongoing monitoring. The following breakdown illustrates how different fee components impact total investment costs and net returns.

Fee and Cost Considerations

Fee Type	Typical Range	Description & Impact
Management Fee	1.5% - 2.5% annually	Annual fee on committed/invested capital, reduces net returns directly
Carried Interest	15% - 25% of profits	Performance fee above hurdle rate, taken from investment gains
Platform/Distribution Fee	0.25% - 1.0% annually	Access and administration costs may be charged separately or embedded
Advisory Fee	0.75% - 1.25% annually	Advisor compensation for selection and monitoring services
Total Annual Cost	2.5% - 5.0%	Combined ongoing fees before performance-based charges, higher for PE and VC and lower for private debt
Net Return Impact	200-400 basis points	Estimated reduction in gross returns due to fee structure

Table 11.6

Financial advisors must develop clear methodologies for presenting total cost of ownership to clients, demonstrating the difference between gross and net return while ensuring ongoing reporting tracks fee impact on performance throughout the investment lifecycle.

Regulatory & Suitability Risks

Regulatory and suitability risks in private investments present complex compliance challenges that require meticulous attention to accreditation standards, accurate platform documentation, and evolving tax considerations. Financial advisors must navigate specialized requirements including wash-sale rule applications to private securities, K-1 tax processing timelines that can delay client filings, and emerging tokenized asset reporting requirements, all while staying current with evolving SEC and FINRA guidance on alternative investment marketing and suitability standards. Success requires ongoing education, relationships with specialized compliance consultants, and robust documentation procedures that ensure all client recommendations align with both current regulations and individual suitability requirements.

Access to Quality Deal Flow

Access to quality deal flow represents a critical challenge that directly impacts client outcomes and financial advisor reputation. Established platforms typically maintain rigorous institutional-quality due diligence processes that screen managers based on track records, operational capabilities, and risk management protocols, providing financial advisors with pre-vetted opportunities that meet institutional standards. However, niche providers may offer unique deals with potentially attractive terms but require financial advisors to conduct deeper independent vetting to ensure manager quality and deal structure appropriateness. Successful deal flow management requires financial advisors to understand each platform's due diligence methodology, develop relationships with multiple providers to access diverse opportunities, and maintain internal evaluation capabilities that can assess manager quality and investment merit regardless of the platform's screening rigor.

Scaling and Resource Intensity

Incorporating private investments significantly increases operational complexity and resource requirements compared to traditional portfolio management, creating challenges in administrative overhead, client education demands, and performance tracking. The solution lies in leveraging technology platforms that automate routine tasks, developing standardized templates for client communications and educational materials, and strategically delegating implementation responsibilities to trained paraplanners who can handle subscription logistics and ongoing monitoring under senior financial advisor oversight. Successful scaling requires financial advisors to view private investments as a systematic business process rather than ad hoc client services, investing upfront in operational infrastructure and staff training that enables efficient delivery of private investment services across growing client bases without proportional increases in senior financial advisor time commitment.

Private investments have emerged as critical tools for financial advisors seeking to enhance client value, differentiate their services, and drive sustainable business growth in an increasingly competitive landscape. When implemented systematically, these strategies deliver meaningful client benefits through portfolio diversification, access to uncorrelated return streams, and exclusive investment opportunities that strengthen advisor-client relationships while justifying premium fee structures.

The operational framework presented throughout this chapter demonstrates that successful private investment integration requires deliberate planning across multiple dimensions. Client segmentation ensures appropriate matching of investment complexity with individual sophistication levels, while platform selection must align with practice capabilities and strategic objectives. The due diligence frameworks, compliance protocols, and performance monitoring systems outlined provide a foundation for scalable operations that can grow with financial advisor practices.

Chapter Twelve

The Future of Private Markets

Chapter Twelve: The Future of Private Markets

Fundamental shifts in technology, regulation, and distribution are democratizing access to alternative investments while creating unprecedented opportunities for growth. This chapter will outline five key developments that are defining the next decade of private investing: retirement account private market integration, modernized regulatory frameworks, distribution methods with tokenization, the expansion of the secondaries market, and private equity growth within the small business economy. Developments in each of these areas is breaking down the traditional barriers of private markets, creating new opportunities for fund managers and investors alike.

The convergence of each of these trends represents more than just incremental change, it signals a drastic transformation in how the private market operates. As the global private market industry approaches total assets valued over $20 trillion, the industry's evolution from an exclusive investment vehicle to a mainstream financial infrastructure acts as a microcosm of the broader economic shifts toward technology-enabled growth, demographic changes, and increased institutional demand for alternative sources of yield. This transformation creates both unprecedented opportunities for those who understand the market and new challenges for managers and investors who must navigate an increasingly sophisticated private markets landscape.

Private Markets Enter Mainstream Retirement Savings

Current Market Opportunity and Growth Potential

The scale of opportunity in retirement savings represents perhaps the largest market for private investments in history. In the first quarter of 2025, total US retirement assets reached $43.4 trillion, while global retirement fund assets reached a record $58 trillion.[1] Within the U.S. specifically, IRAs held roughly $16 trillion while 401(k) plans contained $12 trillion, both contributing to the massive potential of private market integration.

As of 2025, 97.6% of 401(k) plans don't offer private investment options, representing an enormous growth opportunity.[1] The 401(k) market, which contains approximately $12 trillion in total assets, presents a massive addressable market for private investment

[1] Investment Company Institute, "Release: Quarterly Retirement Market Data, Fourth Quarter 2024," 2024.

integration. While self-directed IRAs already permit private investments, 401(k) plans currently operate under far more restrictive regulations despite the Department of Labor's 2020 guidance that allows private investments within target-date funds. These funds, which held a record $4 trillion in assets in 2024, serve as the default investments for most workers. Thus, when target-date funds incorporate private investment allocations, millions of Americans will instantly gain exposure to alternative investments, driving a dramatic increase in total investments within the industry.

Global demographic trends also amplify this opportunity, as many experts project life expectancy to rise to nearly 81 by 2050.[2] This will subsequently increase demand for the higher investment returns created by private investments.[3] Industry experts anticipate significant growth in retirement plan adoption of private investment options over the next decade, with increased capital flows expected as regulatory barriers continue to decrease. The projected extension of life expectancy creates a fundamental shift in retirement planning that strongly favors the foundational characteristics of private market investments. As people live longer, their retirement savings must sustain them for 25-30 years or more, compared to the traditional 15–20-year retirement periods of previous generations. This increased time frame necessitates investment strategies that can generate higher long-term returns to outpace inflation and ensure adequate income. While traditional bond and conservative equity portfolios are stable, broadening the universe to provide greater opportunities for meeting long term objectives could add additional returns to retiree portfolios.

Private investments, on the other hand, align seamlessly with these extended investment horizons due to their typical holding periods of 7-10 years or longer. Compared to public markets that experience daily volatility, private investments are designed for patient capital while pursuing superior long-term returns. Private market’s illiquidity premium becomes a strategic advantage rather than a constraint for retirement savers who won’t need access to their funds for decades. This ideal time horizon alignment permits retirement portfolios to capture the full value creation cycle of private investments, from operational improvements and strategic repositioning to exits at premium valuations. By accessing these long-term private investments, retirement savers may add significant annual returns compared to traditional public market portfolios.

[2] Investment Company Institute, "Release: Quarterly Retirement Market Data, Fourth Quarter 2024," 2024
[3] Investment Company Institute, "Release: Quarterly Retirement Market Data, Fourth Quarter 2024," 2024

Institutional Adoption Accelerated

Major plan sponsors such as Vanguard, Fidelity, and Charles Schwab have already begun to evaluate private investment options by developing infrastructure to support alternative investments within their defined contribution plans. These early adopters have reported positive participant feedback as they present private investments as diversification tools rather than complex alternatives.

As of 2024, only 15% of private sector workers have access to defined benefit plans compared to 84% in 1980. This has made 401(k) plans the primary retirement vehicle for most Americans. This drastic shift has created an added fiduciary responsibility for plan sponsors to evaluate all the available tools for improving participant outcomes, with private investments emerging as a very suitable option.

The growing need for improved retirement plan portfolios has resulted in new legislation, including various laws that make it substantially easier for 401(k) plans to offer private equity and private credit as core investment options. For instance, the Trump administration has recently appointed Daniel Aronowitz-a known private equity advocate-as the EBSA (Employee Benefits Security Administration) secretary to oversees retirement accounts. Moreover, the House of Representatives recently passed the bipartisan Fair Investment Opportunities for Professional Experts Act, which has broadened the definition of "accredited investor". Specifically, the Act would permit individuals to qualify as accredited investors if they hold current financial services licenses registered with the SEC, FINRA, or issued by a state, or if they have demonstrable education or job experience related to investments as determined by SEC regulation and verified by a self-regulatory organization.[4] This will pave the way for more participants in existing 401(k) plans to access private equity, private credit, and other alternative investments that were previously only available to high-net-worth individuals or institutions.[5]

This momentum accelerated significantly on August 7, 2025, when President Trump signed Executive Order Democratizing Access to Alternative Assets for 401(k) Investors, mandating that the Department of Labor reexamine its guidance on fiduciary duties within 180 days and rescind the Biden administration's December 21, 2021 Supplemental Private Equity Statement that discouraged private market investments in retirement plans.[6] The order explicitly defines six categories of alternative assets now available to 401(k) participants: private market investments including private equity and private credit, real estate

[4] Reuters, "Trump signs order broadening access to alternative assets in 401(k)s," 2025.
[5] Reuters, "Trump signs order broadening access to alternative assets in 401(k)s," 2025.
[6] Reuters, "Trump signs order broadening access to alternative assets in 401(k)s," 2025.

investments, actively managed vehicles investing in digital assets such as cryptocurrencies, commodity investments, infrastructure projects, and lifetime income strategies. The executive order requires the SEC to revise accredited investor regulations to facilitate broader access and directs agencies to curb ERISA litigation that constrains fiduciaries from offering these investment options. This represents a major victory for private asset managers seeking access to the $12.5 trillion held in 401(k) accounts, effectively reversing the Biden administration's restrictive stance and creating a clear regulatory pathway for over 90 million Americans in employer-sponsored retirement plans to access investment strategies previously reserved for wealthy individuals and institutional investors.[7]

Implementation Solutions and Infrastructure Development

With regulatory barriers continuing to ease, financial service firms are actively developing and implementing the operational infrastructure and investment vehicles necessary to make the transition feasible at scale. Interval funds and tender offer funds are being redesigned with enhanced operational capabilities, including daily NAV calculation systems to meet financial advisor platform requirements, streamlined shareholder servicing processes to handle millions of retirement accounts, and modified liquidity management frameworks that can accommodate the unique cash flow patterns of 401(k) participants. Specifically, tender offer funds, which provide enhanced liquidity by allowing periodic share redemptions, are being remodeled with more frequent quarterly repurchase schedules, pro-rata redemption systems for oversubscribed offers, and hybrid fund structures that efficiently combine public and private investments within single registered funds. This makes private equity and private credit investments more suitable for retirement savers who require greater access to their funds compared to institutional investors who can be locked into longer-term commitments.[8]

Regulatory Evolution Across Private Investment Structures

Private Equity and Venture Capital Regulatory Modernization

Another leading development in the future of private investments is the shifting private equity regulatory environment that is creating a more favorable landscape for fund managers and investors. In 2024, a federal appeals court struck down SEC rules that had previous required quarterly fee reports and restricted fee arrangements. This court decision removed what many viewed as overly burdensome compliance requirements that had

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[8] Chapman & Cutler LLP, *Interval and Tender Offer Closed End Funds: Investment Company Alternatives to Traditional Funds* — 2024

drastically increased operational costs and regulatory complexity for private fund managers.[9] Meanwhile, remaining SEC transparency requirements are continuing to drive standardized reporting making it easier for institutional investors to evaluate and compare competing private investment funds. This may result in an increase in capital flows into the private market as investors gain confidence through improved visibility into fund performance operations.

Additional expected rule changes by 2027 include expanded Regulation D exempt offerings and regulatory sandbox programs that enable private equity firms to access retail investor capital through expanded distribution channels. Regulation D offerings are expected to be expanded to include higher investment limits for accredited investors and streamlined filing requirements that significantly reduce compliance costs for fund managers seeking to raise capital from wealthy individuals and institutions. Similarly, regulatory sandbox programs will offer private equity firms' temporary regulatory relief to test innovative investments structures and distribution methods. This will provide them the room to experiment with news ways to reach retail investors, such as digital distribution platforms and tokenized fund offerings, while maintaining appropriate investor protections under SEC oversights. Furthermore, the One Big Beautiful Bill Act's, signed by President Trump in July 2025, enhanced QSBS benefits encourage private equity firms to target smaller portfolio companies valued under $75 million in assets. This will increase the number of investments in earlier-stage markets for tax optimization, expanding the realm of possibilities for private investments.

The One Big Beautiful Bill Act further improves tax incentives for venture capital portfolio companies through its enhanced QSBS (Qualified Small Business Stock, a federal tax incentive that allows shareholders to exclude up to 100% of capital gains taxes from federal taxation when selling eligible small business stock held for at least five years) benefits which include 50% capital gains exclusion after 3 years, 75% after 4 years, and 100% after 5 years. These tax advantages are designed to stimulate entrepreneurship and early-stage investments by making VC more attractive to both founders and investors alike. Similarly, increased regulation convergence by 2026-2027 will further allow VC funds to offer interval fund structures that enable broader investor reach while maintaining regulatory protection. These developments reflect a modernizing regulatory landscape that encourages capital formation and innovation within private equity and venture capital.

Private Debt & Direct Lending Expansion

The private debt market—particularly direct lending—has emerged as one of the fastest-growing private asset sectors. While demand for flexible, non-bank financing has been a main driver of its expansion, recent regulatory and institutional developments have helped accelerate its adoption. Particularly, stricter capital and liquidity rules under the Basel III framework require banks to hold significantly greater capital against risk-weighted assets including commercial loans, tightening leverage ratios, and restricting the amount of long-term lending banks can offer. As a result, many of these traditional banks are pulling back from middle-market and leveraged lending activities. This has opened a door for private credit funds, who aren't subject to these same capital or liquidity requirements, to step in with greater structuring flexibility and faster execution. These specific fund structures are now used in sponsor-backed transactions, refinancing, and growth capital deals.

With the growth of this private market sector, U.S. regulators have more recently begun to address the private credit ecosystem more formally. Industry-led initiatives have enhanced private credit's infrastructure, improving transparency and operational robustness. For instance, in September 2024, the Loan Syndications & Trading Association (LSTA) published its "Private Corporate Credit – Representative Liability management Transaction Protections for Credit Agreements", which offers best-practice frameworks for lending structures in private credit. These include guidance on covenant design and liability-management provisions which standardize documentation and facilitate better secondary market functioning.[10] Furthermore, in August 2023, the SEC finalized a set of Private Fund Advisor Rules that mandate quarterly investor statements with standardized disclosures on performance, fees, and expenses.[11] These rules also impose new restrictions on preferential treatment and expense allocations, improving investor protections and governance. These regulatory changes are helping to institutionalize private credit, reinforcing its legitimacy as a core allocation within diversified portfolios.

Distribution Methods - Tokenization and Blockchain

Market Opportunity and Infrastructure Development

As private markets increasingly embrace digital innovations, tokenization and blockchain technology is emerging as a fundamental tool that is restructuring asset distribution, ownership structures, and market accessibility. Tokenization is the process of digitally

[10] Loan Syndications and Trading Association, *Morningstar LSTA US Leveraged Loan Index Analysis (Sept 2024)* — September 2024

representing ownership rights within real-world assets, such as real estate, credit, equity, or funds, by secured tokens. After doing so, these tokens can be easily bought, sold, and transferred, making trading, tracking, and managing assets more seamless while providing enhanced operational efficiency. Tokenization, as a process, typically works by creating a smart contract on the blockchain that issues tokens that represent fractional claims on an asset. The valuations of these tokens are based on the underlying asset's appraised or market value, and their prices can be updated dynamically depending on trading activity or periodic NAV calculations.[12]

Today, increased tokenization enables fractional ownership of traditionally illiquid assets in the private market. They come in various forms, including real estate portfolios (such as those issued on platforms such as RealT), private credit and equity funds (through firms like Securitize), and U.S. Treasury-backed funds (like Arca's Ethereum-based offering). Tokenization technology is already gaining real-world applications in the private sector. For instance, blockchain-based lending platform Figure Technologies currently facilitates over $9.9 billion in active loans, making it one of the most established early integrators of blockchain technology.[13] These particular loans are mainly home equity lines of Credit (HELOCs) and are secured with residential real estate. Figure originates loans directly to consumers and then records and manages the associated liens, servicing, and settlement on the blockchain.

Similarly, tokenization is expanding to the money market fund sector of private markets. Funds such as BlackRock's BUILDL, which utilizes blockchain integration to provide 24/7 trading availability and instant settlement capabilities, are approaching $2 billion in assets. Tokenized funds like these hold short-term government securities and allow qualified investors to access daily liquidity through blockchain-native tokens that mirror the fund's underlying NAV. The current tokenized real-world assets market grew over 60% from the end of 2023 to December 2024, excluding stablecoins (cryptocurrencies pegged to assets like the U.S. dollar to maintain price stability). This growth brought the market to a total of $3.1 billion in tokenized real-world assets, with the majority of the activity concentrated in U.S. Treasuries, private credit, and tokenized real estate.[14] These advancements mark a significant shift from experimentation to real-world application, as blockchain infrastructure is beginning to become embedded in the operational fabric of private market distribution.

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[12] Boston Consulting Group, *Tokenized Funds: The Third Revolution in Asset Management Decoded* — October 2024
[13] CB Insights, *Figure - Products, Competitors, Financials, Employees, Headquarters Locations* — 2024
[14] Markets Media, *Sustainable Investment Expected to Rise Despite Backlash* — December 19, 2024

Institutional Integration and Custody Solutions

Traditional financial institutions are working to build tokenization capabilities within their existing infrastructure to serve institutional clients. JPMorgan's JPM Coin has processed over $1 trillion in notional value, while Goldman Sachs launched GS DAP (Digital Asset Platform) in 2022 to offer tokenized alternative investments to major wealth management clients. These emerging developments are just a few examples of how incumbent financial institutions are leveraging existing infrastructure to enable tokenized asset distribution within their existing structures.[15] Furthermore, custody solutions (platforms that securely hold and safeguard financial assets on behalf of investors) are evolving to bridge the gap between traditional and digital asset management. Large institutions such as State Street and Northern Trust are developing these hybrid custody platforms that manage both conventional private fund interest and tokenized versions of those same assets. These platforms are explicitly designed to meet institutional requirements for regulatory compliance, insurance protection, and transparent audit trails.

Growth Areas and Future Potential

Current investor adoption of these technologies shows strong momentum with private market applications expanding rapidly. According to an EY survey of over 300 institutional investors, 37% of institutional and 61% of high-net-worth investors plan to invest in tokenized assets by 2027. To prepare for this, fund administration is merging with tokenization through established partnerships. For instance, platforms like Securitize acts as transfer agents while traditional custodians like Bank of New York Mellon integrate blockchain capabilities into their existing services. Specifically, Securitize assists in managing ownership records, processing investor subscriptions, and facilitating digital share transfers through smart contracts (self-executing contracts with terms directly written into code that automatically execute when predetermined conditions are met), making private fund administration faster and more automated.[16]

Meanwhile, regulatory frameworks are evolving favorably for tokenized assets in the private markets domestically, where the SEC has shown increasing flexibility. In 2020, the SEC issued a no-action letter allowing Arca to launch a tokenized U.S. Treasury fund on the Ethereum blockchain. Ethereum is a decentralized, open-source blockchain network that enables smart contracts and secure peer-to-peer transactions. Similarly, the UK government's Asset Management Taskforce is approving tokenization development and the

[15] JPMorgan via Ledger Insights, *JP Morgan's JPM Coin processes $1 billion daily – report* — October 26, 2023

majority of jurisdictions are addressing tokenization as a tech medium rather than a restriction on underlying assets. These developments signal that institutional infrastructure for tokenization is growing and has the potential to reshape how private markets are regulated, accessed, and administered.

Secondaries Market Revolution

Market Opportunity and Liquidity Solutions

Another structural trend that will inherently impact the future of private markets is the rise of secondary markets. These markets are a rapidly evolving sector that offer essential capital access as traditional exit timelines extend and investors seek more flexible investment options. According to Bain & Company's Global Private Equity Reports, approximately $288-312 billion of buyout capital held in private funds is at least four years old, representing 24-26% of the $1.2 trillion in buyout dry powder as of 2024.[17] Therefore, substantial opportunities exist for secondaries firms to provide much-needed liquidity solutions to limited partners.[18] This market presents attracting supply-demand dynamics with over $200 billion in secondaries dry powder available, offering favorable supply-demand conditions that allows buyers to be selective while still offering competitive pricing to LPs looking for liquidity. By 2028, these secondaries firms are expected to experience robust growth, with AUM expected to increase over 51.8% from its 2022 $462 billion figure.[19]

Infrastructure and Future Growth Drivers

The secondaries market demonstrates enormous growth potential that reflects the overall expansion of private markets over the past decade. While private market AUM grew 250% since 2012, secondaries AUM increased 203%, indicating substantial room for continued expansion and market development.[20] With liquidity concerns at the forefront of the market, continuation funds are becoming key generators that allow GPs to extend holding periods for high-performing assets while providing liquidity options to LPs who seek exits.

Continuation funds and GP-led secondaries are establishing themselves as the primary liquidity mechanism for both investors and fund managers alike. These GP-led secondaries involve a general partner restructuring or rolling existing portfolio companies into a new vehicle, often to extend holding periods or offer liquidity to existing limited partners. While

[17] Bain & Company, Hugh MacArthur, Rebecca Burack, Graham Rose, Alexander Schmitz, Kiki Yang & Sebastien Lamy — March 2025
[18] PitchBook, *US Leveraged Loan Index Monthly Wrap (May 2024)* — June 3, 2024
[19] PitchBook, *US Leveraged Loan Index Monthly Wrap (May 2024)* — June 3, 2024
[20] PitchBook, *US Leveraged Loan Index Monthly Wrap (May 2024)* — June 3, 2024

industry estimates vary, base case scenarios suggest 10% annual fundraising growth and 15% returns, with upside scenarios reaching over $800 billion.[21]

PE-Backed Small Business Growth

Recent data reveals that the industry has grown to become a fundamental source of growth capital for America's small businesses. In 2024 alone, PE-backed American small businesses directly employed over 1.5 million workers while generating over $290 billion in GDP.[22] Further, 85% of PE-backed companies employ less than 500 workers, with the majority of those firms employing less than 75 employees.[23] 15% of PE-backed companies have fewer than 10 employees, 25% have between 11-50 employees, and 40% have fewer than 50 employees in total.

Private equity's growing economic impact on small businesses spans across diverse sectors of the economy. Within those numbers, the largest employment concentration came from the business services sector (roughly 550,000 workers accounting for 36% of PE-backed small business employment), followed by manufacturing (nearly 300,000 workers accounting for 19% of PE-backed small businesses). Furthermore, when evaluating the broader economic multiplier effects, PE-backed small businesses supported over 4.8 million workers while earning $395 billion in wages and benefits, and generating $725 billion in total GDP through direct operations, supplier relationships, and consumer spending.[24]

The following table exemplifies the reach of private equity within America's small business economy.

21 PitchBook, US Leveraged Loan Index Monthly Wrap (May 2024) — June 3, 2024
22 Ernst & Young, Economic Impact of Private Equity: 2024 — 2024
23 Ernst & Young, Economic Impact of Private Equity: 2024 — 2024
24 Ernst & Young, Economic Impact of Private Equity: 2024 — 2024

PE-backed Small Businesses by Type of Economic Activity

Thousands of Jobs

Economic Activity	Jobs	% of total
Business services	571	36%
Manufacturing	296	19%
Personal services	235	15%
Information	141	9%
Wholesale trade	115	7%
Construction	73	5%
Retail trade	69	4%
Transportation and warehousing	41	3%
Mining, quarrying, and oil and gas extraction	21	1%
Utilities	19	1%
Agriculture, forestry, fishing, and hunting	6	0%
Total Employment	1588	100%

Figure 12.1[25]

The growth of small businesses through private equity integration has gained increasing recognition from policymakers, with small businesses account for nearly two-thirds of new job creation in America.[26] Additionally, the geographic distribution of PE-backed small business investments has evolved, as cities such as Dallas and Austin emerge as dynamic hubs for small business growth and investment. This not only expands the scope of small business investment to new areas of the country but represents a shift away from the traditional concentration in Silicon Valley, New York, and Boston, untapping the true growth potential of the industry. Thus, the evolution of private equity investment in small businesses has empowered American entrepreneurs to build and expand their businesses across to new states and congressional districts, driving essential capital and operational expertise to previously underserved markets.

The significant impact of private capital on entrepreneurial growth is clearly demonstrated through landmark investments in companies that originated as small ventures yet evolved into global market leaders. Venture capital firms have repeatedly demonstrated keen judgment in identifying transformative potential within emerging enterprises: Accel

25 EY, “Economic contribution of the US private equity sector in 2024”
26 Van Duyne, “Investing in America: How Private Equity Empowers Main Street”, June 2025)

Partners' $12.7 million investment in Facebook occurred when the social networking platform employed merely 30 individuals and generated negligible revenue in 2005, ultimately delivering extraordinary returns as Meta achieved a trillion-dollar market capitalization. Similarly, Kleiner Perkins' $8 million commitment to Amazon in 1995 supported a small book retailer with just 20 employees and less than $10 million in revenue. Additional notable investments include Benchmark Capital's $11 million Series A funding of Uber during its early operations with 50 employees, Sequoia Capital's foundational investment in Google when the search engine company possessed only 10 employees and no revenue stream, and Lightspeed Venture Partners' modest $485,000 seed investment in the pre-revenue messaging application Snapchat. These strategic capital investments underscore the essential role of private investment in identifying, nurturing, and scaling entrepreneurial ventures that ultimately reshape entire industries while generating substantial economic value through innovation, employment creation, and market transformation.

Final Thoughts

After our combined sixty-years in financial services, we have seen the industry transform again and again — yet one truth remains constant: clients depend on financial advisors to guide them through complexity with clarity and confidence. Private investments are no longer the exclusive domain of institutions and billionaires; they are becoming an essential part of modern portfolios. That shift inspired the launch of Axxes Capital — to break down the barriers that have kept many retail investors on the sidelines and to deliver institutional-quality private market access through structures designed for financial advisors and their clients.

Our hope is that this guide has given you both the knowledge and the confidence to engage in private investments thoughtfully and productively. Your clients will look to you for leadership in navigating this next era of wealth management, and we believe those who embrace it will be better positioned to succeed.

At Axxes Capital, our mission is to support that success by equipping financial advisors with the tools, strategies, and access needed to bring private markets into client portfolios with transparency and simplicity. Thank you for joining us on this journey, and we look forward to seeing your success in the years ahead.