

5 key questions to ask before making a private equity investment

New financial technology platforms are making it possible for high-net-worth investors to access private equity investments that have previously only been available to institutional investors like pension funds, university endowments and insurance companies.

Private equity has historically outperformed public markets and almost all major asset classes over the 5, 10, 15 and 20-year periods, as illustrated by the chart at right¹. At the same time, private equity has distinct risks and characteristics that make it significantly different from traditional investments like stocks, bonds and mutual funds. This asset class is not appropriate for all investors, but, in certain cases, can be a valuable addition to a well-diversified portfolio.

Before making a private equity investment, investors and their advisors should consider five key questions:

01 What's your time horizon?

Private equity investments take years to mature. It takes time to identify and source the right deals, time to improve the underlying investment, and time to successfully exit the investment. Investors looking to fund obligations years down the road (e.g. retirement, charitable giving or passing wealth on to younger generations) may find private equity opportunities attractive; those looking for short-term, tactical allocations may find that other investments are better suited to their purposes.

02 Can you afford illiquidity?

By their nature, private equity investments are illiquid – they are difficult to buy and sell. The long time horizon discussed above may enhance the potential for return, but is also a key consideration for investors with liquidity needs. While certain strategies and funds (generally debt funds) may offer relatively shorter lock-up periods and/or a current distribution component that can mitigate illiquidity, most

PRIVATE EQUITY RETURNS VS. PUBLIC MARKETS



private equity funds have 10-year terms and a classic J-curve profile. If investors do not have sufficient cash to lock up a portion for a longer period of time or anticipate an event that will require liquidity, the public markets, where they can get in and out with greater ease, may make more sense.

03 Where does an investment fit in your overall portfolio?

An allocation to private equity may provide a variety of benefits to a portfolio: higher return potential, lower correlation to the public markets, and diversification. Some investors may use private equity as part of their overall equity strategy for its potential to deliver outsized returns; others may find it an attractive counterbalance to publicly traded investments or highly correlated assets in their portfolio. Regardless of the size of the allocation or its role in the portfolio, investors should ask themselves what they are looking to achieve with an allocation and work with an advisor to monitor if that position is performing as anticipated.

04 Are you comfortable with less transparency into performance?

Investors who seek consistent reassurance on performance via daily price quotes or frequent reporting as is available in the public markets, should generally look elsewhere than private equity. While private equity managers report returns and significant portfolio developments to their investors on a quarterly basis, private equity holdings are inherently difficult to value and it can be hard to quantify the impact a manager has had on underlying investments until those investments are sold. It is worth noting, however, that the public market movements reflected daily in a portfolio, while providing increased visibility, can cause investors to buy or sell based on fear or other momentum-related sentiment, which is generally not the ideal approach. Conversely, with a private equity investment investors are placing their faith in the manager to create value over a long period of time, with results that are difficult to appraise until the latter half of the fund's life. This is an important reason why thorough due diligence is key prior to investing.

05 Are you comfortable with the private equity fund and pricing structures?

The concept of a performance fee and the capital commitment, draw down and distribution structure of private equity funds may be unfamiliar for some and difficult to prepare for. Investors considering private equity investments should make sure they understand their responsibilities as a limited partner, as well as all fees and expenses before investing.

Determining whether private equity is an appropriate investment requires an in-depth evaluation of an individual's financial situation and portfolio objectives. Prospective investors should discuss their goals and potential risks with an advisory professional before investing.

1 Source: Cambridge Associates, September 30, 2015. Past performance is not indicative of future results. Historical returns are solely for the purpose of providing information regarding private equity industry returns and returns of other assets classes over certain time periods. While investments in private equity funds provide potential for attractive returns, they also present significant risks not typically present in public equity markets, including, but not limited to, illiquidity, long term horizons, loss of capital and significant execution and operating risks.

These materials are for informational purposes only and are not intended as, and may not be relied on in any manner as legal, tax or investment advice, a recommendation, or as an offer to sell, a solicitation of an offer to purchase or a recommendation of any interest in any fund or security described herein. Any such offer or solicitation shall be made only pursuant to the final confidential offering documents which will contain information about each fund's investment objectives and terms and conditions of an investment and may also describe certain risks and tax information related to an investment therein.

Past performance is not indicative of future results. The private equity products described, including any products made available to clients of iCapital, are private placements that are sold only to qualified clients of iCapital through transactions that are exempt from registration under the Securities Act of 1933 pursuant to Rule 506(b) of Regulation D promulgated thereunder ("Private Placements"). An investment in any product issued pursuant to a Private Placement, such as the funds described, entails a high degree of risk and no assurance can be given that any alternative investment fund's investment objectives will be achieved or that investors will receive a return of their capital. Further, such investments are not subject to the same levels of regulatory scrutiny as publicly listed investments, and as a result, investors may have access to significantly less information than they can access with respect to publicly listed investments. Prospective investors should also note that investments in the products described involve long lock-ups and do not provide investors with liquidity.

The information contained herein is subject to change and is also incomplete. This industry information and its importance is an opinion only and should not be relied upon as the only important information available. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission.

Securities offered through iCapital Securities, LLC, a registered broker dealer, member of FINRA and SIPC and subsidiary of Institutional Capital Network, Inc. These registrations and memberships in no way imply that the SEC, FINRA or SIPC have endorsed the entities, products or services discussed herein.

Additional information is available upon request.