Glossary

Private Markets

Key Stakeholders of Closed-end Funds

Limited Partner (LP)

- An investor who contributes capital to a partnership but has no management authority or liability beyond their investment; investors in a fund are typically classified as LPs in the fund.
- LPs own units of the fund and usually represent most of the capital but are not usually involved in investments decisions or management of the fund.

General Partner (GP)

- An investor in a partnership business that is responsible for its day-to-day management; the fund manager is typically classified as the GP in the fund.
- GPs are responsible for investment decisions and ongoing management of the fund. GPs typically earn most of their income by charging fees to their LPs.

Types of Funds

Direct Investment Fund

- A type of fund that invests in companies or physical assets, including the purchase of an ownership stake in or providing a loan to a company/asset.
    - *Typically, **lower fees/higher net returns** as compared to a Fund of Funds since it only charges one layer of fees.*
    - *Typically, **more control** since the manager has full discretion over asset allocation or investment types.*
    - *Typically, **more transparent** since end investors have better visibility into underlying assets.*

Fund of Funds

- A type of fund that invests in other funds, rather than making Direct Investments.
    - *Typically, **higher total fees/lower net returns**, as compared to a fund that invests directly, since there are multiple layers of fees at each manager.*
    - *Typically, **less control** since the manager has no discretion over asset selection.*
    - *Typically, **less transparent** since end investors have lower visibility into underlying assets.*

Investment Types

Direct Control Investment

- A controlling investment made directly in a company/asset, typically executed by a GP of a Fund.
- The GP typically becomes the new majority owner with management authority of the company.
    - *The GP investor performs its own investment due diligence, value creation, and exit.*
    - *As the new majority owner, the GP investor will typically sit on the board of the company and be involved in the company's ongoing operations until sold.*

Co-Investment

- A minority investment made directly into a company/asset, executed by a LP alongside a GP.
- The LP is typically a passive, minority investor and relies on the GP to invite them into the deal.
    - *GPs often offer co-investment opportunities to their investors to strengthen investor relationships or if a deal is too large for them to acquire on their own.*
    - *The LP investor typically relies on the GP for sourcing the deal, investment due diligence, value creation, and exit.*
    - *The LP typically does not have access to the underlying investment company on an ongoing basis.*

Primary Fund Investment

- An investment commitment made to a new fund during its fundraising period.
- A portfolio of primary fund investments, also known as a Fund of Funds, enables investors to gain access

to many private equity managers and a variety of private companies through a single investment.

Secondary Investment

- Acquiring existing securities or assets from another investor, rather than from the original issuer, such as trading on the stock market or buying another investor's interest in a private equity fund.

Secondary Investment (LP-Led)

- *A type of secondary investment where a LP sells their interest in a private equity fund to another investor, usually at a discount to the net asset value (NAV) of the fund.*

Secondary Investment (GP-Led)

- *A type of secondary investment where a GP transfers one or more existing portfolio companies held bv a private equity fund to a new private equity fund, with new investors, usually with the consent of the existing limited partners and often with a restructuring of the existing private equity fund terms.*
- *It allows GPs to extend their ownership of high-performing assets, while providing liquidity and optionality to existing LPs.*

Fund Structures

Closed-End Fund

- A fund that has a fixed number of shares that are issued at inception and are not redeemable until the fund's termination.
- These funds typically have a limited life with 3 phases:
  - ***Fundraising period***: LPs *commit* capital but don't invest it (usually 12-18 months).
  - ***Investment period***: LPs *invest* capital at irregular intervals when the GP finds a worthwhile investment opportunity (usually 4-6 years).
  - ***Wind-down period***: where capital is returned to investors.

Evergreen Fund

- A fund with no fixed termination date and can continuously raise and invest capital.
- When a sale is made in the fund, the cash is reinvested into new investments rather than returned to investors.

Private Markets Asset Classes (Four Core Buckets)

Private Equity (PE)

- An investment in a privately held company to generate value with the end goal of exiting through an Initial Public Offering (IPO), merger, or sale.
- PE investments are typically classified by how mature a company is *(see 'Types of Private Equity Investments' below).*

Private Debt

- Providing loans directly to companies in privately negotiated transactions or acquiring these loans on the secondary market.

Real Estate

- A type of 'real asset' investment that includes the acquisition, financing, and ownership of physical properties or privately held companies that own, operate, or develop properties.
- Real Estate investments are typically classified by risk type *(see 'Types of Real Estate/Infrastructure Investments' below).*

Infrastructure

- A type of 'real asset' investment that includes the acquisition, financing, and ownership physical assets or privately held companies that provide essential services to society, such as transportation, energy, or sewage.
- Infrastructure investments are typically classified by risk type *(see 'Types of Real Estate/Infrastructure Investments' below).*

Types Of Private Equity Investments (By Company Stage)

More Mature

Venture Capital

- Investments in early-stage companies that need capital for research & development and growth.
- These are new companies with unproven products that have the potential to be transformative.

Growth Equity

- Investments in maturing companies with existing revenues but in need of capital to expand.
- Companies will typically use the capital to facilitate growth and expansion of operations, assist team in transition, or finance a transforming event.

Buyout

- Investments in mature companies, typically with stable cash flows; investors typically acquire a controlling stake in an existing company, either by purchasing all or most of its shares or assets.

Types Of Real Estate/Infrastructure Investments (By Risk Type)

More Risk

Core

- A low-risk, low-return strategy that focuses on acquiring stable, high-quality assets with long-term leases/contracts and credit-worthy tenants/counterparties (e.g., Buy & Hold).
- Core investments provide investors with yield and modest capital appreciation; target returns typically range from 6-9%.

Core Plus

- A low-to-moderate risk/return strategy that involves slightly lower quality assets than core, with some potential for value enhancement through renovations, repositioning, or increased occupancy (e.g., Buy → Improve → Hold).
- Core plus investors typically use moderate leverage (30% to 50%); target returns typically range from 9% to 13%.

Value-Add

- This is a moderate-to-high risk/return strategy that involves acquiring assets in need of significant improvements, and then increasing their value through active management, capital expenditures, or operational efficiencies (Buy → Fix → Sell).
- If the Value-Add investor is successful, the asset is typically de-risked and sold to a core investor on exit.
- Value-add investors typically use high leverage (up to 80%); target returns typically range from 13% to 15%.

More Risk

Opportunistic

- This is a high-risk, high-return strategy that involves investing in distressed, undervalued, or niche assets that require extensive redevelopment, repositioning, or conversion (e.g., Buy→Fix→Sell).
- If an Opportunistic investor is successful, the asset is typically de-risked and sold to a core investor on exit.
- Opportunistic investors typically use very high leverage (up to 90%); target returns are typically 20%+.

Fund Fees

Management Fees

- A management fee earned by the GP for managing a fund (typically a % of NAV or commitments), paid regardless of how the fund performs.
- The management fee is intended to compensate the managers for overhead, time, and expertise for managing the portfolio.

Performance Fees

- An incentive fee is earned by the GP for strong performance.
- The performance fee is typically only paid if the fund exceeds a minimum return threshold (hurdle rate, high-water mark).
- Performance fees are intended to align the interests of fund managers and their investors, and to incentivize fund managers to generate positive returns.

High-Water Mark

- A performance fee clause that states a GP will only be paid for performance over the highest peak in value that a fund has reached.
- This clause prevents GPs from earning performance fees twice and ensures that any losses must be made up before performance fees are paid.
- For example, if a fund appreciates 20%, then declines to cost, then appreciates 20% back to its previous high, the GP only gets paid for the first

20% appreciation. The second rise in value did not exceed the previous high-water mark.

Performance Terms

Volatility

- Measure of the dispersion of returns for an investment. It represents how large the price swings are around the investment's average price. Volatility is typically measured by either the standard deviation or variance of returns.
- Generally, higher volatility means higher risk because prices are more unpredictable.

Beta

- Measure of the volatility of an investment relative to the market as a whole (e.g., S&P 500). It represents how correlated the returns of an investment are to the broader market, and typically higher Beta mean higher risk as prices are more volatile.
- Beta = 2.0 means an investment moves in the same direction, at the twice the magnitude of the market (e.g., if market declines 6% then stock declines 12%).
- Beta = -1.0 means an investment is 1:1 inversely correlated to the market (i.e., it moves in the opposite direction, at the exact same magnitude as the market).

Sharpe Ratio

- The Sharpe ratio is a measure of the return of an investment, normalizing for how risky it is (i.e., an investment's risk-adjusted return).
  - ***The numerator:*** the return of an investment minus the risk-free rate, which represents the 'excess return' that investors require for investing in the specified investment (over a risk-free investment, like US government bonds).
  - ***The denominator:*** the standard deviation of returns over the same period of time, a measure of an investment's risk.

$$Sharpe\ Ratio = \frac{R_p - R_f}{\sigma_p}$$

where:

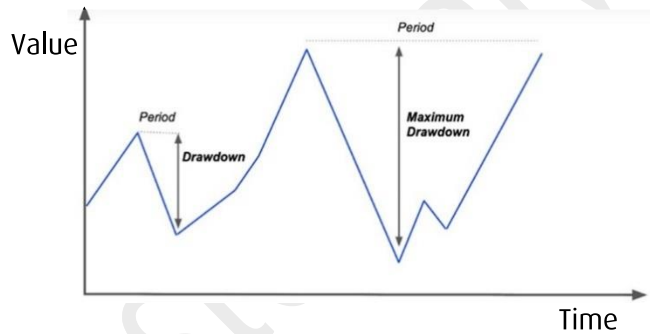
R_p = return of portfolio

R_f = risk-free rate

σ_p = standard deviation of the portfolio's excess return

Max Drawdown

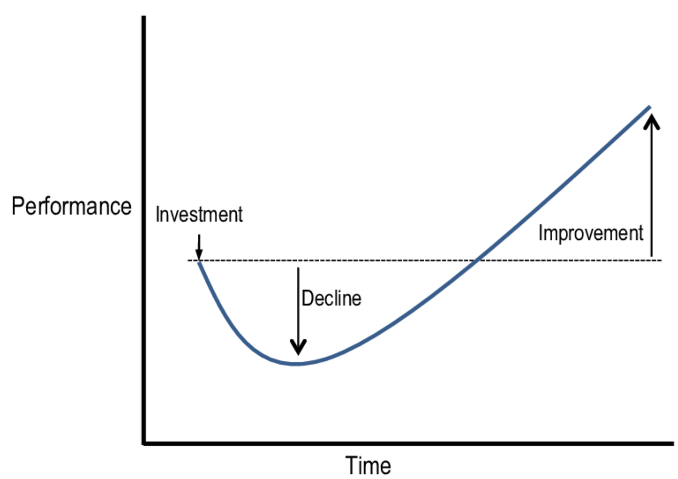
- An investment's max drawdown is the maximum loss experienced over a period of time, as measured by the difference between the peak to trough, until the peak value is re-attained.
- Similar to Volatility and Beta, it is another measure of how risky an investment is.



Additional Terms

J-Curve

- Describes the return profile (shape) of a typical closed-end fund.
  - ***EARLY YEARS:*** *returns are negative as capital is deployed, fees are incurred, and appreciation is minimal.*
  - ***LATER YEARS:*** *returns increase as investments begin to appreciate and are eventually sold.*



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