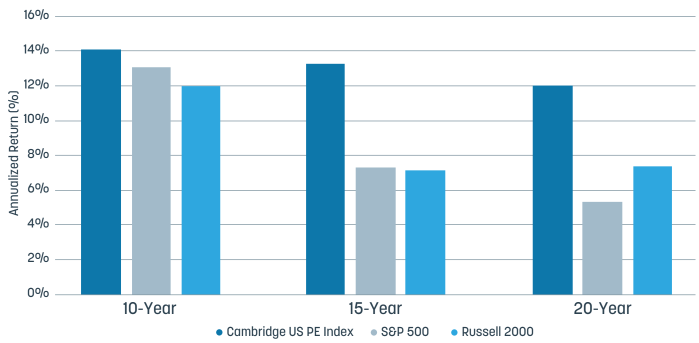
5 KEY QUESTIONS TO ASK BEFORE MAKING A PRIVATE EQUITY INVESTMENT

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 10, 15 and 20-year periods, as illustrated by the chart at the right.[1] 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.

PRIVATE EQUITY RETURNS vs PUBLIC MARKETS[1]



For illustrative purposes only.

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 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 funds 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.

END NOTES

1. Cambridge Associates, US Private Equity Index and Selected Benchmark Statistics, Q4 2018. 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.

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