



INSTITUTIONAL
LIMITED PARTNERS
ASSOCIATION

2025

ILPA Retail Capital Analysis

Executive Summary





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The vehicles through which retail investors participate in private markets have governance and regulatory requirements distinct from those of institutional funds, as well as fundamental differences in liquidity, valuations, investments, fees and transparency. There are also two pools of capital (retail investors and institutional investors) with vastly different needs and profiles across risk, liquidity, diversification, time horizons and performance expectations. At the same time, retail vehicles invest in, and may sometimes compete for allocation in, the same underlying portfolio investments as institutional funds.¹

These mechanical and structural differences merit LP attention, as summarized below.

Key Differences Between Retail Vehicles and Institutional Funds

- Rigid regulations on the type of investments they are allowed to make, rather than the “disclose and consent” nature of institutional funds; however, they will often invest in many of the same underlying portfolio investments as the institutional fund
- Perpetual (and concurrent) investment period and harvest period
- Higher number of underlying investments than an institutional fund; the need for more deal flow than an institutional fund can lead to greater use of secondaries
- Limits on nature of investments, i.e., placement within capital structure, size of underlying investments, minority vs. control positions
- Liquidity requirements, i.e., set amounts of redemptions at set frequencies
- More frequently required reporting on valuations, which have an outsized impact given valuations of unrealized portfolio investments are connected to share price for new investments and redemptions, performance calculations, as well as management fees and carried interest style performance fees (where allowed)
- Substantially higher fees versus more liquid offerings such as mutual funds/ETFs, including a management fee that does not step down

Allowed Investments Include:

LP-Led Secondaries

GP-Led Secondaries (Unaffiliated)

(Including Continuation Vehicles)

Co-Investments Alongside Unaffiliated Private Funds

Co-Investments Alongside Affiliated Private Funds

(With Approved Co-Investment Relief from the SEC)²

Traditional Drawdown Fund by Unaffiliated Investment Advisers

Direct Investments

Liquid Positions

(For the Purposes of Satisfying the Redemption Period Requirements)

¹ Retail vehicles are also different than what the industry has experienced for decades with feeder funds through private banks coming in and investing alongside the institutional fund.

² Co-investment relief is the process in which an Investment Adviser requests approval (i.e., exemptive relief) from the SEC for their retail vehicles to invest alongside an affiliated institutional fund as a co-investor in portfolio investments (see section on Investments and Allocation for more).

- All terms of the retail vehicle and particular share classes are outlined in advance with no negotiations; preferential treatment is strictly prohibited
- Independent Board of Directors that has a fiduciary duty to the retail vehicle and retains responsibility for oversight, which includes the review and approval of the retail vehicle's advisory contract(s), underwriting agreements, distribution plans, selection of the independent accounting firm, appointing a "valuation designee," participating in the Audit Committee and other valuations review, approval of the compliance policies and procedures, and oversight of potential risks and conflicts (including related to co-investments)

Potential Impacts on LPs in Institutional Funds

The differences noted in the previous section may also change GP motivations and behaviors, thereby impacting institutional funds, as summarized below.

- Co-investment allocation for LPs could decrease at a time when, for many LPs, co-investments have never been more important
- Size caps for institutional funds may become less meaningful if GPs have access to potentially unlimited co-investment capital from a retail vehicle to invest alongside the institutional fund
- Amendments to a fund's allocation policy and conflict disclosures may be required to accommodate retail vehicles
- Investment decisions related to individual deals (timing of investments and exits, size, capital structure placement) may be influenced by the needs of the retail vehicle, which may conflict with the interests of the institutional fund
- Greater deal flow requirements for retail funds may test a GP's investment discipline or impact on the fund's long-term investment strategy
- Fees paid by LPs in institutional funds could potentially be used to seed investments in a retail vehicle, particularly fees associated with warehousing assets
- Depending on personnel allocation to the retail vehicle, GP time and attention may be diverted away from the institutional fund to support the greater volume of deal flow required
- Differentiated incentives, i.e., lower hurdle rate and computation of carry based on realized and unrealized NAV, could influence GP decision-making in favor of retail vehicles
- Certain fees, such as warehousing fees and broken deal fees, can potentially be charged only to the institutional fund; moreover, certain compliance costs associated with retail vehicles may be shared across all funds

Reputational and Market Health Considerations

More broadly, the increasingly public profile of retail vehicles presents heightened potential for headline risk if investor education and expectations are not appropriately managed.

- Despite minimum requirements for liquidity within retail vehicles, redemptions are not guaranteed, which represents headline risk if retail investors are unable to redeem during a market downturn
- Potential for misalignment between the strategy, i.e., long-hold assets, and the structure, i.e., availability of periodic redemptions, could yield negative sentiment towards PE
- Performance will be closely scrutinized, particularly in light of higher fees than mutual funds/ETFs; any underperformance will carry with it headline risk
- Given disclosure requirements, valuations of portfolio investments held by retail vehicles will similarly be subject to heavy scrutiny; any instances of contrived acceleration of valuations held by retail vehicles, such as with aggressive markups of assets purchased on the secondaries market or cases in which valuations appear artificially higher than public markets, will also carry headline risk
- There are also additional legal, regulatory and compliance risks associated with operating a retail vehicle, which can open a GP up to a greater possibility of litigation, regulatory investigation, and compliance complexities (and the fees/expenses associated with such developments)

**According to
Hamilton
Lane:**

75%

Likelihood there is a market decline or major event that causes most evergreen funds to gate investors.⁹

65%

Likelihood evergreen fund growth causes increased regulatory scrutiny in various jurisdictions.¹⁰

Moody's warns that selling funds to retail investors will introduce new risks to GPs, including "reputation loss, heightened regulatory scrutiny and higher costs," and that challenges could have "systemic consequences."⁵

³ Hamilton Lane, [Hamilton Lane 2025 Market Overview](#), March 12, 2025.

⁴ *Ibid.*

⁵ Wall Street Journal, [Moody's Sounds Alarm on Private Funds for Individuals](#), June 10, 2025.

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— ● 2025 ● —