



INSTITUTIONAL
LIMITED PARTNERS
ASSOCIATION

2025

WHITEPAPER

ILPA Retail Capital Analysis

Primer and Questions to Ask GPs





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ABOUT ILPA

The Institutional Limited Partners Association (ILPA) empowers and connects limited partners to maximize their performance on an individual, institutional and collective basis.

With more than 600 member organizations representing more than 3 trillion USD of private equity assets under management, ILPA is the only global association dedicated exclusively to advancing the interests of LPs and their beneficiaries through best-in-class education, content, advocacy and events.

Foreword

The Institutional Limited Partners Association (ILPA) believes that sustained focus on alignment of interest, good fund governance, and transparency serves as the foundation for the partnership between Limited Partners (LPs) and General Partners (GPs).¹ This effort is grounded by our broader commitment to the long-term health of the industry for all market participants, which requires a sensible balance between appropriate investor protections and efficient capital formation through a common-sense, principles-based approach to standards and best practices.

ILPA embraces these guiding principles in responding to developments that stand to fundamentally alter LP-GP dynamics and impact the long-term health of the industry. Retail vehicles, typically characterized by their fully funded nature (versus a drawdown model), continuous investment period with no defined end date, and ability to access liquidity through defined redemption windows,² represent a sea change for private markets. The rapid growth of these vehicles introduces a series of new issues for LPs to consider in their relationships with existing and prospective GPs, relating to investment allocation, conflicts of interest, economics and incentives, transparency, and governance.

For some LPs, the advent of retail vehicles presents an investment opportunity, with as many as one-third of investors in the June 2025 *Collier Capital Barometer* indicating past or planned investment in these vehicles.³ For other LPs, retail vehicles represent a challenge to their co-investment allocation or other alignment of interest concerns. Regardless of the perspective, retail capital's ongoing expansion into private markets is inevitable, as is the impact that this pool of capital will have on dynamics for LPs in institutional funds. This will impact alignment across specific investment and allocation decisions made by GPs, as well as the central mechanisms LPs rely on to ensure that the GP's economic and franchise success is directly tied to LPs' success.

With this whitepaper, ILPA intends to educate our LP members on the specific impacts these offerings have on institutional funds and the overall health of the market. Perhaps most importantly, this paper presents specific questions that LPs should ask GPs about current or planned retail vehicle offerings.

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This paper marks the first of a series that will consider additional topics such as:

- **Ongoing regulatory and policy developments in the U.S. regarding 401(k) capital**
- **Overview of offerings from global jurisdictions (such as ELTIFs in the EU and LTAFs in the UK)**
- **Overview of offerings and different investment approaches used by GPs in their retail vehicles**
- **Specific LPA language to watch for and recommended counterpoints to address the most concerning challenges**
- **Specific DDQ language to incorporate into the due diligence process**

¹ In later parts of the whitepaper, we will refer to GPs as "Investment Advisers", given this is the terminology found in the 1940 Investment Company Act (1940 Act).

² For simplicity, we use the term "retail vehicle" throughout the whitepaper. The referenced characteristics are why synonyms are used for these offerings: evergreen funds, perpetual capital funds or semi-liquid funds. The term semi-liquid is a misnomer - while technically these vehicles are "semi-liquid", they are more accurately described as "almost entirely illiquid".

³ Collier Capital, [Collier Capital Global Private Capital Barometer 42nd Edition, Summer 2025](#), June 16, 2025.



More pointedly, ILPA elevates these issues at a time when the underlying mix of investments of these products may exacerbate a strategy-structure misalignment, i.e., an increasing allocation to longer-hold private equity (PE) investments versus retail portfolios in private markets that more typically skewed in the past towards yield-generating investments in private credit, real estate, or infrastructure. PE has historically generated outperformance because its long-term investment strategy aligns with the long-term structure of institutional funds. Retail vehicles, by contrast, leave investors exposed to issues stemming from a “right strategy, wrong structure” dynamic, especially in times of economic stress (the most acute example being during the Great Recession).⁴

Further, the expansion of PE’s footprint in retail vehicles comes at a time of rapid growth in the space, with nearly 60% compound annual growth rate (CAGR) in market NAV over the last four years,⁵ coupled with anticipated changes to both the Accredited Investor definition in the U.S. and lowered hurdles to 401(k)⁶ and other defined contribution plans’ participation in the private markets (see Market Overview section for more details).

ILPA acknowledges that not all GPs will embrace this phenomenon, and that those who do will take tailored approaches to structuring these products in ways that seek to address potential conflicts of interest in the eyes of their existing LP relationships. Additionally, the nature of the GP’s existing investment program, i.e., a multi-product platform vs. a highly concentrated, single-sector focus, also impacts its suitability for retail vehicles. Finally, this analysis is focused on retail vehicles offered in the U.S. While there are similarities, the challenges associated with offerings from other geographies and the anticipated designs for 401(k) participation may differ.

Nevertheless, ILPA encourages its members to educate themselves on these developments and to initiate conversations with existing and prospective GPs to ensure more informed decisions based on the impact retail vehicles will have on institutional funds and broader market health.

⁴ Albourne, *Lessons from Navigating the Evergreen Private Markets Funds Landscape*, March 2025.

⁵ Goldman Sachs Global Investment Research, *Americas Asset Managers: State of Retail Alternatives*, March 10, 2025.

⁶ Employer-sponsored, personal defined contribution account in the U.S.

Executive Summary

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.⁷

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

Key Differences Between Retail Vehicles and Institutional Funds

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| <ul style="list-style-type: none"> • 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 | <p>.....</p> <p>Allowed Investments Include:</p> <p>LP-Led Secondaries</p> <p>GP-Led Secondaries (Unaffiliated)
(Including Continuation Vehicles)</p> <p>Co-Investments Alongside Unaffiliated Private Funds</p> <p>Co-Investments Alongside Affiliated Private Funds
(With Approved Co-Investment Relief from the SEC)⁸</p> <p>Traditional Drawdown Fund by Unaffiliated Investment Advisers</p> <p>Direct Investments</p> <p>Liquid Positions
(For the Purposes of Satisfying the Redemption Period Requirements)</p> |
|--|--|

⁷ 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.

⁸ 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."¹¹

⁹ Hamilton Lane, [Hamilton Lane 2025 Market Overview](#), March 12, 2025.

¹⁰ *Ibid.*

¹¹ Wall Street Journal, [Moody's Sounds Alarm on Private Funds for Individuals](#), June 10, 2025.

Market Overview¹² and Recent Developments

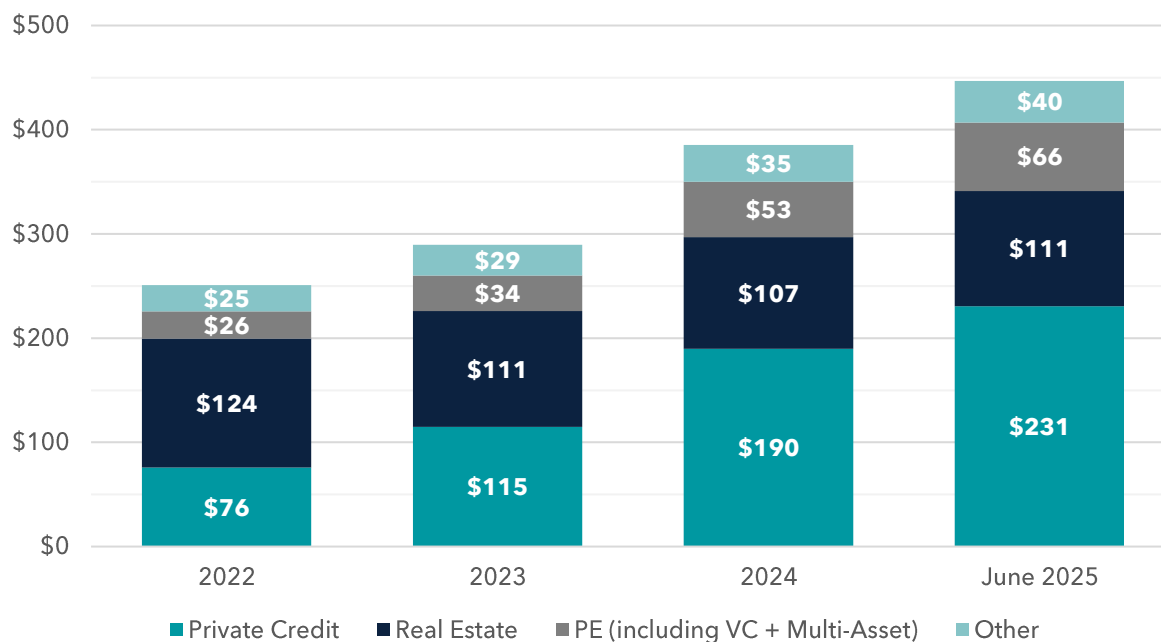
Retail investors, who are typically defined as individuals investing for the benefit of the individual, family or household, make up close to 50% of global wealth (with institutional investors making up the other 50%),¹³ representing around \$140-\$150tn.¹⁴ Among retail investors, the most targeted groups are high-net-worth individuals – typically defined as having assets between \$1mm and \$5mm – and other individual investors who meet the Accredited Investor, Qualified Client or Qualified Purchaser standard.

Retail investors' interest in private markets is driven by the diversification and exposure opportunities presented by gaining access to unlisted companies, especially considering that the number of public companies has fallen by nearly 50% from 1997 to 2024,¹⁵ and the potential for outperformance coupled with less volatility.

For Investment Advisers, tapping into retail investors represents a new, diversified source of capital in an otherwise challenging fundraising cycle, through vehicles that provide a steady fee stream and potentially a lower cost of capital.

Within these vehicles, private credit remains the dominant strategy offered, growing to \$190bn in 2024, up from \$115bn in 2023, whereas private equity grew to \$53bn in 2024, a 56% increase from 2023, while real estate fell to \$107bn in 2024, from \$111bn in 2023 (Table 1).¹⁶

Table 1: Growth in Total U.S. Retail Vehicle Strategy Net Assets (\$bn)



Source: Morningstar and PitchBook

¹² Some of the amounts will differ between sources across the overall size of the market or certain segments/offerings – what's important here is the consistent upward growth trajectory.

¹³ Bain & Company, [Bain & Company Global Private Equity Report 2025](#), March 3, 2025.

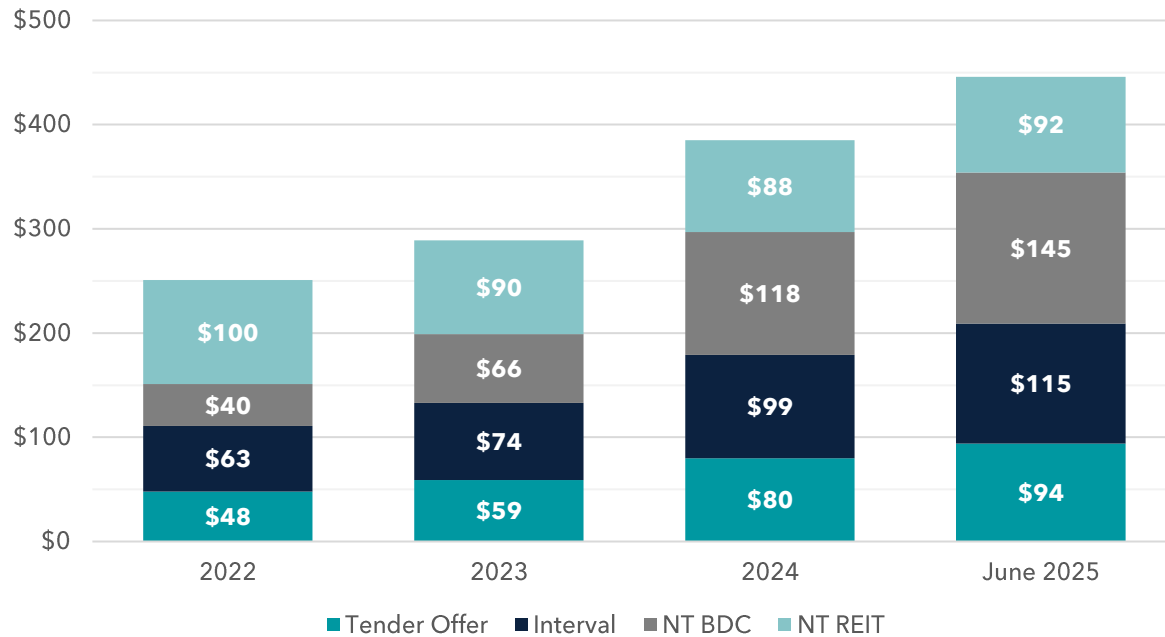
¹⁴ Bain & Company, [Bain & Company Global Private Equity Report 2023](#), February 27, 2023.

¹⁵ Forbes, [The Decline In U.S. Stock To Choose From: What It Means For Investors](#), February 3, 2025.

¹⁶ Data provided by Morningstar and PitchBook.

Across the different offering types, in 2024, there were 17 new Tender Offer Funds (bringing the total to 101), 35 new Interval Funds launched (bringing the total to 158), 9 new Non-Traded Business Development Companies (NT BDCs) (bringing the total to 117) and 3 new Non-Traded Real Estate Investment Trusts (NT REITs) (bringing the total to 48). Outside of NT REITs, these offering types have seen steady annual NAV growth since 2022 (Table 2).¹⁷

Table 2: Growth in Total U.S. Retail Vehicle Offerings Net Assets (\$bn)



Source: Morningstar and PitchBook

The market remains dominated by a handful of larger players—nearly 50% of the market share stems from retail vehicles managed by Blackstone, Cliffwater, Blue Owl, Partners Group, Apollo and Ares.¹⁸

The NAV within the retail market has grown at a CAGR of nearly 60% over the last four years to reach roughly \$360bn, increasing ~40% in the last year alone, with gross monthly flows over the trailing twelve-month (TTM) period ~70% higher than the pace in the prior TTM period.¹⁹

Hamilton Lane projects that retail vehicles will become at least 20% of the total private markets space in 10 years.²⁰ Within the U.S., Deloitte predicts that retail investors' allocation to private capital will grow at a 76.2% CAGR between 2024 and 2030.²¹

Moreover, several developments in the U.S. in 2025 point to an acceleration of this trend, as restrictions inhibiting retail participation in private funds are lifted or lowered.

¹⁷ Ibid.

¹⁸ Morningstar, [The State of Semiliquid Funds](#), June 24, 2025.

¹⁹ Supra 5.

²⁰ Supra 9.

²¹ Deloitte, [Increasing retail client exposure to private capital investing](#), April 24, 2025.



After initial comments in a speech in May 2025, the SEC officially issued [guidance](#) in August 2025, removing the staff position that required closed-end funds investing 15% or more of their assets in private funds to be available only to Accredited Investors investing \$25k or more.

In April 2025, the SEC formally introduced new conditions for providing co-investment relief for retail vehicles investing into joint transactions alongside affiliated funds. The changes represent a shift to a more principles-based approach that streamlines the process for Investment Advisers and requires less Board approval.

Also in 2025, the U.S. Congress has advanced multiple bills to the Senate that would revise the Accredited Investor definition to expand the number of individuals who can invest in private funds. These bills would introduce new avenues for retail investors to qualify as Accredited Investors, further increasing the pool of capital available to private markets.

In August 2025, the Trump Administration issued an Executive Order titled, **Democratizing Access to Alternative Assets for 401(k) Investors**, directing the Department of Labor to reexamine the rules governing multi-employer pensions' allocation practices, specifically to make investments in alternative assets available to participants. In addition, the Order directs the SEC and Treasury to identify other regulatory changes required to support developments in this space. With the deadline in the first week of February 2026, this Executive Order has the potential to open investments into private markets further.

Overview of Retail Vehicles

The key elements of retail vehicle offerings are summarized below—see the **Fund Structure Matrix** for more detailed information across these offerings.

	TENDER OFFER	INTERVAL FUND	NON-TRADED BDC	NON-TRADED REIT
Structure	1940 Act registered closed-end fund ²²	1940 Act registered closed-end fund ²³	Not registered under 1940 Act, but may elect to be treated as BDC and subject to certain provisions	Not typically registered under 1940 Act
Minimum Eligibility	All investors ²⁴	All investors ²⁵	Accredited Investors	Based on NASAA ²⁶ guidelines, typically minimum annual gross income of \$70k and minimum net worth of \$250k
Subscription Period	Continuous – generally monthly or quarterly	Continuous – generally daily or weekly	Continuous – generally monthly	Continuous – generally monthly
Liquidity (i.e., Redemption Ability)	Discretionary – typically 5% of NAV Quarterly	Mandatory – typically 5% of NAV Quarterly	Discretionary – typically 5% of NAV Quarterly	Discretionary – typically 5% of NAV Quarterly
Valuations	When there is a subscription / repurchase period	At least weekly – and when there is a subscription / repurchase period	When there is a subscription / repurchase period	Periodically – generally annually or monthly
Primary Focus	Private Equity (represents ~90% of PE retail vehicles) ²⁷	Mix (limited use in PE)	Lower-to-Middle Market Private Credit ²⁸ (represents ~63% of Private Credit retail vehicles) ²⁹	Real Estate/Real Estate Related Securities (income-generating)
Co-Investment Relief	Required to invest alongside affiliated funds	Required to invest alongside affiliated funds	Required to invest alongside affiliated funds	Not required
Leverage Limits	Debt – 300% asset coverage Preferred Stock – 200% asset coverage	Debt – 300% asset coverage Preferred Stock – 200% asset coverage	Debt – 200% asset coverage Preferred Stock – 200% asset coverage	No limit
Notable Example	StepStone Private Markets	Cliffwater Corporate Lending Fund	Blackstone Private Credit Fund	Blackstone REIT

²² Many retail vehicles are governed by the 1940 Companies Act, which is why they are sometimes referred to as “40 Act funds”. Additionally, the closed-end terminology here refers to the absence of daily redemptions, based on the SEC’s definition, not to be confused with the perpetual nature of these funds, which is why these vehicles are sometimes described as open-ended.

²³ *Ibid.*

²⁴ Just recently changed from Accredited Investors for closed-end funds investing 15% or more of assets into private funds. There are eligibility requirements at the Qualified Client standard for closed-end funds to charge carried interest (BDCs can charge performance fees based on capital gains and appreciation with Accredited Investors).

²⁵ *Ibid.*

²⁶ The [North American Securities Administrators Association \(NASAA\)](#) is an international investor protection organization, which (among many focuses) issues model guidelines for real estate investments, including REITs.

²⁷ *Supra* 18.

²⁸ Must invest at least 70% of assets in domestic private or public companies with market caps that do not exceed \$250mm.

²⁹ *Supra* 18.



Investor eligibility is also an important element to understand with retail vehicles. This has changed recently and further changes are anticipated in the near future as well (see Recent Developments for more).

STANDARD	FINANCIAL CRITERIA	CERTIFICATION CRITERIA	NOTES
Accredited Investor	<i>Net worth:</i> >\$1mm (excluding primary residence) OR	Holders of the Series 7, 65, or 82 designations in good standing	Can invest in 3(c)(1) funds
	<i>Annual Income:</i> >\$200k individual; \$300k with spouse		
Qualified Client	<i>Net worth:</i> >\$2.2mm (excluding primary residence) OR	N/A	Must be at least at the Qualified Client standard for carried interest to be charged
	<i>AUM:</i> >\$1.1mm invested with the Investment Adviser		
Qualified Purchaser	<i>Investable Assets:</i> >\$5mm in "investments"	N/A	Can invest in 3(c)(7) funds

The following analysis focuses on specific considerations for Tender Offer and Interval Funds, given their greater prevalence in retail vehicles that offer access to PE investments.

Investments and Allocation

WHAT LPs NEED TO KNOW

- The 1940 Act³⁰ governs the types of investments that are allowed and restricted, with further parameters typically provided in the Prospectus
- The ability for retail vehicles to invest alongside an affiliated institutional fund as a co-investor is subject to co-investment exemptive relief provided by the SEC in response to a request from the Investment Adviser - co-investment relief was recently updated to be more principles-based and to streamline the process with less Board oversight required³¹
- Co-investment relief addresses the timing of permitted investments, such as purchasing or exiting co-investment positions at different times than the institutional fund, and outlines the role of the Board to address conflicts of interest, particularly for co-investments alongside an affiliated fund, including what can be pre-approved based on policy vs. requiring a Board vote
- Retail vehicles will have a perpetual (and concurrent) investment period and harvest period without a set time horizon for the life of the fund
- Retail vehicles will typically have more underlying investments than a traditional PE drawdown fund and seek to have greater diversity across types and ages of investments, i.e., either vintage of underlying private fund investments or “age” of underlying portfolio investments
- Generally, retail vehicles can invest in the following:
 - 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 by the SEC)
 - Traditional drawdown fund by unaffiliated Investment Advisers³²
 - Direct investments
 - Liquid positions (for the purposes of satisfying the redemption period requirements)³³

³⁰ There are restrictions on “cross trades”, as well as “principal” and “joint” transactions with affiliates that have an impact on the types of investments a retail vehicle can make, both with transactions that are always prohibited and those that are prohibited until receiving co-investment relief. Especially relative to a traditional drawdown fund, this illustrates another dimension of the retail space that differs from the “disclose and consent” nature of institutional funds.

³¹ In the updated co-investment relief, opportunities for co-investments alongside institutional funds - when aligned with the retail vehicles’ investment objectives - must be offered to retail vehicles in a manner that is “fair and equitable” based on the Investment Adviser’s fiduciary duty to the retail vehicle, provided the Board has approved the retail vehicles’ co-investment policies and procedures. In this case, the retail vehicle can invest in instances where the institutional fund is already invested (including doing follow-on investments) without requiring deal-specific Board approval.

³² It is important to understand the type of offering and what is allowed from a regulatory standpoint. For example, a Retail Qualified Purchaser Fund (Retail QP) has the 3(c)7 exemption from the 1940 Act, meaning it can invest in affiliated traditional drawdown funds (i.e., its own Investment Advisers’ private funds), whereas an Interval Fund and Tender Offer can only invest in unaffiliated traditional drawdown funds.

³³ The liquid sleeve typically includes publicly traded securities, derivatives, and mutual funds/ETFs. If an Investment Adviser doesn’t have this capability, the liquid portion can be managed by an external sub-adviser.

- There are also limitations in place that impact the Investment Adviser's ability to invest in different parts of the capital structure and its ability to invest in control positions
- There are also parameters in place related to issuing senior securities representing debt or preferred stock, subject to leverage limits of 300% (for debt) and 200% (for preferred stock)

IMPACT ON INSTITUTIONAL FUNDS

- Given the influx of capital available for co-investments from retail vehicles, LPs may experience a decrease in their co-investment allocation, especially since retail vehicles will likely pay higher fees than the traditional LP co-investor
- The size or cap of the institutional fund might not be as meaningful since there will be even more investments coming from other investors, such that the true size of a fund (when counting retail vehicle investments) is hard to determine and might have an impact on the types of deals the institutional fund pursues
- Institutional funds may hesitate to invest across multiple parts of the capital structure or take control positions if that in turn impacts the retail vehicle's ability to co-invest alongside
- Given that the institutional fund can invest first in an underlying investment, the institutional fund could take on all warehousing fees for an underlying investment, only to have the retail vehicle come in later but not be charged any warehousing fees; similarly, broken deal fees may only be charged to the institutional fund, even though the retail vehicle would have otherwise invested in the deal
- Given that the retail vehicle needs to make more investments than the institutional fund, the deal team (both in terms of who gets placed on which fund and time and attention to the institutional fund) merits closer LP attention
- Given the lower hurdle rate with the retail vehicle, LPs should query the timing of exits when the retail vehicle is in carry, but the institutional fund is not
- Given the lack of a management fee stepdown in the retail vehicle post-investment period, LPs should consider whether hold periods for underlying portfolio investments are being artificially extended to capture excess management fees
- Given the potentially cheaper cost of capital for the retail vehicle and the imperative to deploy capital to avoid cash drag, there is a risk that LPs in institutional funds may be outbid on deals by the retail vehicle, an unsustainable dynamic that could result in returns compression over time

IMPACT ON MARKET HEALTH

- Retail vehicles' structure demands a more consistent pace of deployment of capital and therefore a higher volume of underlying portfolio investments than an institutional fund, which could call into question the caliber of the underlying portfolio investments and Investment Advisers' ability to invest the time necessary to cultivate maximum value with portfolio investments

- Given that retail vehicles have an unpredictable flow of assets into and out of the fund, the portfolio construction and deal-making can itself be more unpredictable and more challenging to execute
- “NAV squeezing,” or the practice of making secondary purchases at a discount and immediately marking up the paper NAV to the official NAV (or higher), can potentially impact the true health of the underlying investments³⁴
- Headline risk will likely increase if the performance of these retail vehicles lags behind more traditional open-ended funds, such as mutual funds/ETFs, especially factoring in the higher fees paid

Liquidity

WHAT LPs NEED TO KNOW

- The 1940 Act outlines the required liquidity (i.e., the ability to redeem) for retail vehicles, with a floor for the amount and frequency dictated by the type of offering, most commonly 5% of the Fund’s NAV, quarterly
- Retail vehicles are generally required to have liquid positions equal to the amount of permitted redemptions during the redemption period
- Retail investors could technically need 5 years to fully redeem, if not longer
- “Gates” on redemptions are somewhat of a mischaracterization; in reality, references to “gates” typically mean that redemption requests were greater than the required amount, and as a result, not all redemption requests were fulfilled³⁵

In 2024, 50% of Tender Offer Funds held tender offers four times a year, 13% held between one and three tender offers, and 37% did not hold any tender offers during the year³⁶

In 2024, 91% of Interval Funds have policies to repurchase shares at a quarterly interval³⁷

IMPACT ON INSTITUTIONAL FUNDS

- Given liquidity requirements and the possibility of being invested in the same underlying portfolio investments as the institutional fund, there are questions about the timing of investments (including initial and follow-on) and exits, as well as overall portfolio construction, and whether Investment Advisers will optimize outcomes for retail investors at the expense of institutional investors, i.e., expediting a portfolio investment sale or running a Continuation Vehicle process to maintain minimum liquidity to satisfy redemption requests

³⁴ Wall Street Journal, [The Future Ain’t What It Used to Be for These Funds](#), June 6, 2025.

³⁵ The challenges with redemption requests with BREIT were covered extensively from late 2022 to early 2024, when redemption requests were greater than the required amount given investor concerns with rising interest rates and valuations of commercial Real Estate properties. At the time, Blackstone identified, “BREIT is not a mutual fund and has never gated[.] It is a semi-liquid product and is working exactly as planned.” (Reuters, [Blackstone REIT limits investor redemptions again in March](#), April 3, 2023.)

³⁶ ICI, [ICI Research Perspective - The Closed-End Fund Market, 2024](#), April 14, 2025.

³⁷ *Ibid.*

IMPACT ON MARKET HEALTH

- The requirement to provide periodic liquidity can result in portfolio construction that produces a cash drag by virtue of allocation to more liquid, lower return investments
- The most likely time for high redemption requests will be during broader market downturns or other challenging market environments, which will put additional pressure on the retail vehicles to meet investor needs and could lead to asset divestments at sub-optimal times or sub-optimal valuations to meet redemptions
- Headline risk will likely increase should retail investors be unable to redeem when liquidity limits are reached

Valuations

WHAT LPs NEED TO KNOW

- The 1940 Act defines the frequency and the minimum standards for the overall valuation process (for Fund NAV and the underlying portfolio investments)
- At a high level, this includes the good-faith determination of fair value, the role of the Board of Directors, Audit Committee, “valuation designee” (typically the Board appoints the Investment Adviser), use of an independent valuation firm (selected by the “valuation designee”) and reporting
- Generally, retail vehicles will calculate Fund NAV when there is a subscription period or a repurchase period, along with other set frequencies, such as weekly for Tender Offer Funds
- Underlying portfolio investments will be valued at least quarterly, with additional information made available semi-annually and annually³⁸

IMPACT ON INSTITUTIONAL FUNDS

- The involvement of the retail fund’s Board in the valuation of shared portfolio investments can be a positive from a governance perspective, however because the Board’s fiduciary duty is to the retail vehicle rather than the institutional fund, this may raise questions around whether valuations have been adjusted to accommodate the needs of the retail vehicle to the detriment of the needs of the institutional fund

IMPACT ON MARKET HEALTH

- While there are minimum standards in place, valuations for portfolio investments in retail vehicles face the same challenges as those in institutional funds; however, the impact of valuations on retail vehicles is much greater given the structure of the products

³⁸ Reporting on the valuations of underlying portfolio investments is publicly available on the [SEC’s EDGAR website](#) (search by the legal Fund name). The N-CSR (annual) or N-CSRs (semi-annual) filings with audited and unaudited financial statements, including the Consolidated Schedule of Investments, will list out the underlying investments, with the acquisition date, initial cost and current fair value (sometimes costs will be next to the fair value in the table, sometimes costs will be listed in a footnote). The N-PORT filing contains portfolio investment values and is provided on a quarterly basis.

- There are reported examples of “NAV squeezing”,³⁹ where purchases are made in the secondary market at an implied discount to the seller’s NAV and immediately marked up to the official NAV (or higher), with examples of increases over 1000% in one day, which are then publicly available for scrutiny⁴⁰
- Valuations on unrealized portfolio investments are factored into the calculation of the management fee and carried interest style performance fee (where allowed),⁴¹ as well as the share price and performance calculations,⁴² leading to potential conflicts of interest and a misalignment between the Investment Adviser and investors
- Reduced volatility is identified as a feature of retail vehicles, but there will be questions about the accuracy of valuations when the public markets face particularly volatile periods, if retail vehicle valuations remain at high levels
- Headline risk will likely increase as scrutiny of publicly available valuations becomes more common, especially in instances where the valuations appear high

Governance / Board of Directors

WHAT LPs NEED TO KNOW

- The 1940 Act requires retail vehicles to establish a Board of Directors, with the majority of the Board being independent (at least 50.01%)
- The Board 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 alongside the institutional fund)
- A Chief Compliance Officer (CCO) who reports to the Board is required for each retail vehicle
- Retail vehicles do not have negotiations; instead, parameters are delineated within offering documents, and all investors (within the same share class) are treated the same as preferential treatment is strictly prohibited
- There is heightened potential for legal, regulatory and compliance risks associated with operating a retail vehicle, given the greater possibility of litigation, regulatory investigations, and compliance complexities

³⁹ *Supra* 34.

⁴⁰ Wall Street Journal, [Funds Are Booking Big One-Day Windfalls Buying Private-Equity Stakes](#), June 7, 2024.

⁴¹ Only retail vehicles that are offered to (at least) Qualified Clients can charge carried interest (i.e., performance fees based on capital gains and appreciation). Otherwise, retail vehicles can charge a fee on income or a fulcrum fee as their performance fee without any investor eligibility requirements.

⁴² Retail vehicles use a time-weighted return approach for performance calculation, rather than the money-weighted return (i.e., IRR) found in traditional drawdown funds. The typical retail vehicle performance is also based on the whole fund (rather than on a deal-by-deal basis), with the calculation structured as follows: change in NAV per share during the period, plus distributions per share (assuming dividends and distributions are reinvested), divided by the beginning NAV per share.

IMPACT ON INSTITUTIONAL FUNDS

- The retail vehicle's Board is a separate entity from the Limited Partner Advisory Committee (LPAC) – the Board does not need to take into consideration the LPAC or the institutional fund in any oversight responsibility or decision taken
- With the Board, which has fiduciary responsibilities to the retail vehicle, there is now another group involved (beyond just the LPAC) that has a say in shared portfolio investments (valuations, non-pro rata investments or exits)
- The existence of the Board (and the advisory contract the Investment Adviser has from the Board to run the retail vehicle) adds a complicating factor should the institutional fund want to pursue a GP Removal

IMPACT ON MARKET HEALTH

- The Board provides an additional layer of oversight to protect retail investors; however, the existence of the Board is not a panacea that resolves all issues with conflicts, valuations or other governance matters and has no duty to institutional funds alongside which it invests

Fees / Expenses

WHAT LPs NEED TO KNOW

- Management fees are typically charged quarterly and are typically a flat rate between 1%-2%, without a step down at different stages of the retail vehicle's life
- Management fees are typically charged on Fund NAV (both realized and unrealized); in 30% of retail vehicles with more than \$500mm in assets as of year-end 2024, fees are charged on total assets, which also includes leverage⁴³
- Performance fees that operate as carried interest (when allowed, i.e., where at least the Qualified Clients standard is applied) are typically charged quarterly or annually with performance based on Fund NAV (including both realized and unrealized) and typically structured as 10-15% carry, with a 5%-8% hurdle rate (and a 100% catch-up)
- Retail vehicles feature fees that may differ among share classes, such as distribution services, shareholder services and administrative services, as well as fees that must be consistent across share classes, such as advisory fees and custodial fees
- Retail vehicles that invest in traditional PE drawdown funds still pay the corresponding fees related to those investments (i.e., 2% and 20% plus other partnership fees)
- When making investments at the same time as the institutional fund, fees need to be allocated pro-rata between the retail vehicle and institutional fund; however, there are carveouts for instances when the retail vehicle does not invest at the same time, including broken deal fees and warehouse fees, that will be covered in full by the institutional fund

⁴³ *Supra* 18.

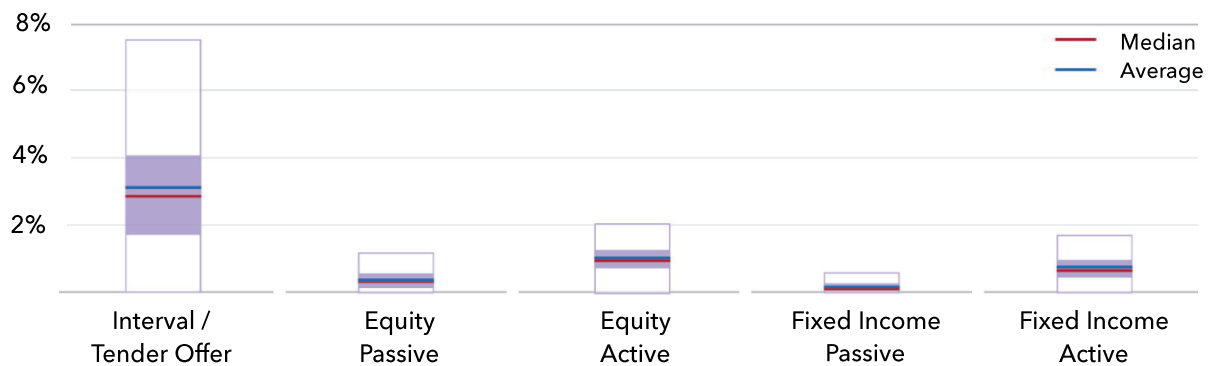
IMPACT ON INSTITUTIONAL FUNDS

- Given the higher fees Investment Advisers can charge for co-investments from retail vehicles, there could be a reduction in co-investment allocation to LPs
- Greater scrutiny will need to be placed on broken deal fees and warehousing fees
- Greater scrutiny will also need to be placed on any fees associated with legal, regulatory and compliance costs to ensure the additional costs associated with running a retail vehicle are not passed on to the institutional fund, including any fines or other expenses stemming from legal, regulatory or compliance action taken against the retail vehicle

IMPACT ON MARKET HEALTH

- Given the impact valuations have on fees in retail vehicles, there is much greater sensitivity to the accuracy of valuations in retail vehicles
- When management fees can be charged on total assets, there are incentives for the Investment Adviser to utilize as much leverage as possible
- Headline risk will likely increase as retail vehicles have much greater fees than open-ended funds, such as mutual funds/ETFs, in some cases as much as 2-3 times higher (Table 3);⁴⁴ this will put greater pressure on retail vehicles to deliver outperformance relative to open-ended offerings

Table 3: Annual Report Net Expense Ratios for Interval / Tender Offer vs. Open-Ended Funds



Source: Morningstar, *The State of Semiliquid Funds*, June 24, 2025

⁴⁴ On a more granular level, the average annual reported net expense ratio for retail vehicles was 3.16%, compared to the annual net ratio for passive mutual funds and ETFs of 0.37% and 0.97%, respectively. (*Supra* 18.)

Questions for LPs to Ask GPs

ILPA encourages LPs to consider asking their GPs the following questions. In cases where their GPs do not currently manage retail vehicles, it remains critical to ascertain a GP's intentions to either introduce a retail vehicle or to raise funds from unaffiliated, third-party retail vehicles in the future.

Note: The questions below were constructed with an emphasis on GPs that manage funds investing primarily in PE strategies.

OVERALL

- What are your plans regarding introducing a retail vehicle?
- What are your plans regarding retail vehicles managed or co-managed by unaffiliated, third-parties?
- What is the current size of the retail vehicle(s) you manage? What is the anticipated size in the next 1, 3, 5, 10 years?
- What are the benefits to institutional investors of your increased exposure to retail capital?
- What steps have you introduced to mitigate conflicts of interest between the institutional fund and retail vehicles?
- Who at the firm is responsible for marketing to retail investors and for fundraising to the retail channel? Will the firm hire new team members for marketing, fundraising and investor relations, or reallocate existing team members to these efforts?
- Have LPA terms been modified or added to support the development of retail vehicles? If so, what terms?
- How are you thinking about increased headline risk and potential for legal, regulatory, and compliance risks related to managing retail capital? What are you doing to mitigate the risks?

INVESTMENTS AND ALLOCATION

- What is the stated return expectation for the retail vehicle? How does that return expectation impact which investment opportunities the retail vehicle invests in alongside the institutional fund?
- What is the allocation policy for the retail vehicle? What is the allocation policy for the institutional fund? How are conflicts managed?
- Has your allocation policy changed to reflect the needs of your retail investors? Do you anticipate future changes to reflect the needs of your retail investors further?
- How has the LPA changed regarding allocation policy to reflect the needs of your retail investors?

- What is the stated investment strategy of the retail vehicle? What types of investments does the retail vehicle make (across secondaries, co-investments, unaffiliated traditional drawdown funds, direct investments) and what is the investment policy of the retail vehicle related to asset classes, geography, sector and size? (How) does it differ from the strategy of the institutional fund?
- Will retail capital impact the institutional fund co-investment allocation policy?
- Does the availability of retail capital have any bearing on institutional co-investor follow-on rights? Will institutional co-investors be offered a pro rata proportion of the follow-on opportunity?
- Will retail capital impact policies related to dilution of the fund's investment?
- Would you consider having either the retail vehicle or the institutional fund exit portfolio companies at different times and/or in different transactions?
- Will you disclose when retail capital is investing in portfolio investments alongside the fund? Will you disclose what percentage of capital is from a retail vehicle vs. the institutional fund?
- Will you disclose when retail capital is invested in an existing portfolio investment of an institutional fund?
- Where the retail vehicle is co-invested alongside the institutional fund, will you disclose when it crosses the hurdle rate and is in carry?
- Do you have different hold period expectations for portfolio investments where retail capital is invested?
- How will you manage follow-on investments between the institutional fund and retail vehicles?
- What details will you disclose to institutional LPs regarding the rationale for allocation of investment opportunities to the retail vehicle? How does this impact the approach with deal warehousing?
- What are the caps on capital deployment each quarter/year? Are there caps on the amount of retail capital that can be co-invested alongside the institutional fund? Are there caps on the amount of retail capital that can be co-invested alongside a particular portfolio investment?
- What safeguards or provisions are in place to prevent post-investment changes, such as relocating assets between the institutional fund and retail vehicle?
- How has the time and attention of the investment team changed with the addition of the retail vehicle?
- Does the retail vehicle have a different investment team? Who are the individuals on the retail investment team? How are time and costs apportioned between the institutional fund and retail vehicle?
- How has the LPA changed regarding time and attention to reflect the shifting focus of key persons on the retail capital channel and/or products?

LIQUIDITY

- What liquidity provisions exist for retail investors?
- How will the cash sleeve of the retail vehicle be managed?
- Would potential liquidity challenges with the retail vehicle impact sell decisions?
- How do you plan to balance the liquidity demands of retail investors against institutional investor expectations and the cash management needs of running the fund?

VALUATIONS

- Does the valuation approach differ between the institutional fund and the retail vehicle? If so, why?
- What is the process and timing for determining the NAV of the retail vehicle and its underlying portfolio investments? How are third-parties engaged in the valuation process? How is the Board involved in the valuation process? Will the institutional fund receive valuations at the same frequency as the retail vehicle?

GOVERNANCE / BOARD OF DIRECTORS

- How do you expect the retail vehicle and institutional fund to communicate over governance/conflict of interest decisions?
- Does the retail vehicle have an independent Board of Directors? If so, who is on the Board and what is the selection process?
- Do you allow for LPAC/fund governance approval over decisions to bring on third-party follow-on investors, including potential retail vehicles? Do you disclose the identity of new third-party follow-on investors?
- Is there information shared with the retail vehicle's Board, or with retail investors, which is not shared with LPs in the institutional fund? If so, will you commit to providing the (at minimum) LPAC with the same information provided to the Board related to deal allocation, investment decisions, fees, and economics?
- Who at the firm is responsible for compliance associated with retail vehicles? Are the same individuals at the firm who are responsible for compliance associated with retail vehicles also responsible for compliance matters related to the institutional fund?

FEES / EXPENSES

- What is the fee structure for the retail vehicle?
- What are the fee rates paid by retail investors? How does this compare to the fee rates paid by institutional investors? Can retail investors potentially pay lower fees than institutional investors for access to the same underlying portfolio investments?
- How frequently is carried interest paid out on the retail vehicle? Is it based on realized and unrealized? Will carried interest be deferred until assets are realized in the institutional fund?

- Where do the management fees and annual incentive fees flow?
- If there is a high watermark on the retail vehicle, how does it work? How will you handle clawbacks for retail investors?
- Has your policy on allocating broken deal fees or warehousing fees been updated to reflect the interests of retail investors? Do you have a policy that ties the anticipated deal allocation to the allocation of broken deal fees?
- Did the firm hire any new personnel or allocate additional resources to serve retail investors? How did the firm fund any new resources? Can you confirm that the institutional fund will not bear any costs for upgrades or specialized systems used to manage retail vehicles or comply with retail regulatory and reporting requirements? Can you confirm that the institutional fund will not bear any costs for fines and other expenses associated with legal, regulatory or compliance action against the retail vehicle?



Acknowledgements

ILPA would like to thank the following contributors who provided meaningful guidance and input on the development of the white paper:

Han Hu, Aegon Asset Management

Steve Taylor, Albourn

Jody Shaw, Allstate Investments

Josh Geller, Los Angeles City Attorney's Office

Tyler Hull, Teacher Retirement System of Texas

Freddie Allen, Temasek

Fernando Prieto, Afore SURA

We also want to acknowledge and thank the other ILPA members and industry stakeholders who contributed their insight and perspective to this work without being credited.

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Primer and Questions to Ask GPs**



— ● 2025 ● —