# Due diligence checklist for public-private funds

One of the advantages of public-private funds is that they can provide access to both traditional public markets as well as private markets, which historically were predominantly available to larger institutional investors.

Comprehensive due diligence, particularly in this emerging space, is necessary for financial professionals before making investment recommendations to clients. Knowing who to partner with is just as important as knowing what investment strategies to offer to investors.

The outline below is meant to offer guidance on how to approach this research. It lists questions that we believe are key to consider when choosing whether – and with whom – to invest in public-private funds.

We hope you'll return to it, and to all the materials in this learning experience, when considering public-private funds for your clients.

## Fund governance

### Who is the fund manager?

- Do they have a long track record investing in public and private markets?
- Has the manager invested adequately in the technology and human capital required to successfully execute the fund strategy?
- What is the manager's experience overseeing assets at scale?

### How is the fund managed?

- What is the fund's objective and how is the mix of public and private assets structured to align with this objective?
- How transparent and comprehensible is the fund's investments process, holdings and underlying exposures?

### What is the manager's approach to private market investing?

- How does the manager get access to private markets exposure: directly, through a partner/subadviser or a fund of funds?
- How does the manager address the unique risks associated with private market investments?
- What sort of ongoing relationships do the fund managers maintain with portfolio companies, borrowers, etc., throughout their lifecycle?

## Fund profile

### What are the sector exposures of the fund?

- What types of private market sectors does the fund focus on?
- What are their risks and how does this compare to other public and private markets? (e.g., public equity vs. private equity)
- What balance of public vs. private assets does the fund target? With what degree of flexibility can the fund deviate from the targets?

### What is the liquidity profile of the fund?

- How often does the fund offer liquidity? I.e., how often can an investor request to redeem or how often is a repurchase offered? Similarly, how often can investors purchase shares in the fund?
- What is the limit on redemptions in any period?
- Is the fund vehicle and liquidity structured in a way that allows for the orderly and consistent management of the underlying public and private assets?

### What are the risks of the fund investments?

- How is the overall risk of the portfolio managed?
- In what type of market environments could the fund's underlying assets face challenges or have the potential to benefit? How are the private assets priced and how frequently?
- Does the fund use leverage? If so, how much?
- Is there a summary of all risk factors, including but not limited to exposures among direct lending investments, underlying loans and public securities such as bonds?

### Who is eligible to invest in the fund?

- Are there eligibility requirements to invest in the fund? Does an investor need to be an accredited investor*? Or a qualified purchaser*?
- What type of documentation is required to invest in the fund?

## Financial considerations

### What are the fund fees?

- What are the total fund fees including incentive fees, if applicable?
- How are the fees of underlying managers or third-party vehicles in the fund reflected in the fund's total fees?
- How do the fees compare to other public or private offerings?

### How does the manager approach fund dividends?

- Does the manager expect to make regular fund distributions?
- Are there tax implications for those distributions?

## Client-product fit

### Do your client's investment goals align with the liquidity profile of the vehicle being used to access the investment opportunities?

- Does your client have a long-term investment horizon?
- If investing in an interval fund (refer to key terms on page 3 for more information on this type of vehicle), is your client willing and able to forgo some liquidity for potentially higher long-term returns?
- Does your client understand and accept that the money invested in an interval fund cannot be recovered at any moment, only at the fund's scheduled repurchase window?
- Do they understand that their repurchase requests may be prorated if the total requests from all clients exceed the fund's predetermined repurchase limit?

*Refer to key terms on page 3 for definitions.

### Do the fund's investment objectives align with your client's?

- Is your client mostly seeking growth opportunities, or mostly seeking to preserve their wealth? Does that align with the product's overall strategy?
- How would a public-private fund fit into the rest of your client's portfolio? How would this investment impact the portfolio's overall risk, liquidity, volatility and potential return?

### What sort of ongoing support should investors expect from fund managers?

This may include:

- Guidance on portfolio or model construction
- Educational services
- Client communications assistance

## Key terms

**Private markets** – Investments that are not traded on public exchanges, such as the New York Stock Exchange, or are not marketed for purchase to retail investors. **Subadviser** – An independent investment adviser who is contracted by another investment adviser to manage all or part of a fund's portfolio, typically providing investment analysis and selection in a particular, sometimes niche area of the investment universe. **Fund of funds** – A type of investment fund that invests into other funds on the behalf of shareholders to pursue an investment objective. **Public-private fund** – A public-private fund (or solution) is a fund that invests in a mixture of public and private assets, with a goal of potentially outpacing the returns of public-only investment. Public-private solutions can use the vehicle of an interval fund to offer periodic liquidity while holding illiquid private assets. **Private equity** – Private equity involves investment firms acquiring ownership stakes in private companies, often with the goal of restructuring, growing or eventually selling the businesses for a profit. These investments are typically long-term and involve active management to enhance the value of the company before an exit strategy, such as a sale or initial public offering (IPO), is executed. **Public equities** – Public equities refer to shares of ownership in publicly traded companies that are listed on stock exchanges. Investors can buy and sell these shares in the open market, providing liquidity and the opportunity to participate in the company's profits through dividends and capital appreciation. **Interval fund** – An interval fund is a closed-end, registered investment company that offers liquidity to investors at pre-scheduled "repurchase windows," up to an amount between 5% and 25% of the fund's total outstanding shares. These funds are used as a mechanism to bring periodic, interval-based liquidity to investors while holding illiquid assets such as private credit. **Repurchase window** – A repurchase window refers to a specific period during which investors in certain investment vehicles, such as interval funds, can sell back their shares to the fund at the current net asset value (NAV). These windows occur at predetermined intervals, providing limited liquidity to investors. **Pro rata or prorating** – In an interval fund, if all of the investors' combined repurchase requests exceed the fund's repurchase limit, each investor's repurchase will be prorated (reduced) based on the excess request relative to their ownership of shares in the fund. **Yield to maturity** – Yield to maturity is the potential yield that can be realized by holding a bond (or similar investment) to maturity. **Leverage** – Leverage involves using borrowed capital to increase the potential return of an investment. While it can amplify profits, leverage also increases the risk of losses, as obligations to repay the borrowed funds remain regardless of the investment's performance. **Accredited investor** – An individual with a net worth of at least $1 million, excluding primary residence; with an income of more than $200,000 per year (individually) or $300,000 (with spouse or partner) for at least 2 years; or who meets certain professional criteria (e.g., an investment professional in good standing holding Series 7, Series 65 or Series 82 FINRA licenses). **Qualified purchaser** – A higher bar than the accredited investor standard. For individuals, typically requires an investment portfolio worth at least $5 million. **Incentive fee** – Typically a fee charged by an investment manager that is based on a fund or investment's returns. This fee is often calculated as a percentage of the investment or fund's results beyond that of a particular benchmark.

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses, which can be obtained from a financial professional and should be read carefully before investing.**

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