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# How to Use the CFA Program Curriculum

The CFA® Program exams measure your mastery of the core knowledge, skills, and abilities required to succeed as an investment professional. These core competencies are the basis for the Candidate Body of Knowledge (CBOK™). The CBOK consists of four components:

A broad outline that lists the major CFA Program topic areas ([www.cfainstitute.org/programs/cfa/curriculum/cbok/cbok](http://www.cfainstitute.org/programs/cfa/curriculum/cbok/cbok))

Topic area weights that indicate the relative exam weightings of the top-level topic areas ([www.cfainstitute.org/en/programs/cfa/curriculum](http://www.cfainstitute.org/en/programs/cfa/curriculum))

Learning outcome statements (LOS) that advise candidates about the specific knowledge, skills, and abilities they should acquire from curriculum content covering a topic area: LOS are provided at the beginning of each block of related content and the specific lesson that covers them. We encourage you to review the information about the LOS on our website ([www.cfainstitute.org/programs/cfa/curriculum/study-sessions](http://www.cfainstitute.org/programs/cfa/curriculum/study-sessions)), including the descriptions of LOS “command words” on the candidate resources page at [www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.ashx](http://www.cfainstitute.org/-/media/documents/support/programs/cfa-and-cipm-los-command-words.ashx).

The CFA Program curriculum that candidates receive access to upon exam registration

Therefore, the key to your success on the CFA exams is studying and understanding the CBOK. You can learn more about the CBOK on our website: [www.cfainstitute.org/programs/cfa/curriculum/cbok](http://www.cfainstitute.org/programs/cfa/curriculum/cbok).

The curriculum, including the practice questions, is the basis for all exam questions. The curriculum is selected or developed specifically to provide candidates with the knowledge, skills, and abilities reflected in the CBOK.

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## CFA INSTITUTE LEARNING ECOSYSTEM (LES)

Your exam registration fee includes access to the CFA Institute Learning Ecosystem (LES). This digital learning platform provides access, even offline, to all the curriculum content and practice questions. The LES is organized as a series of learning modules consisting of short online lessons and associated practice questions. This tool is your source for all study materials, including practice questions and mock exams. The LES is the primary method by which CFA Institute delivers your curriculum experience. Here, candidates will find additional practice questions to test their knowledge. Some questions in the LES provide a unique interactive experience.

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## DESIGNING YOUR PERSONAL STUDY PROGRAM

An orderly, systematic approach to exam preparation is critical. You should dedicate a consistent block of time every week to reading and studying. Review the LOS both before and after you study curriculum content to ensure you can demonstrate the

knowledge, skills, and abilities described by the LOS and the assigned reading. Use the LOS as a self-check to track your progress and highlight areas of weakness for later review.

Successful candidates report an average of more than 300 hours preparing for each exam. Your preparation time will vary based on your prior education and experience, and you will likely spend more time on some topics than on others.

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## ERRATA

The curriculum development process is rigorous and involves multiple rounds of reviews by content experts. Despite our efforts to produce a curriculum that is free of errors, in some instances, we must make corrections. Curriculum errata are periodically updated and posted by exam level and test date on the Curriculum Errata webpage ([www.cfainstitute.org/en/programs/submit-errata](http://www.cfainstitute.org/en/programs/submit-errata)). If you believe you have found an error in the curriculum, you can submit your concerns through our curriculum errata reporting process found at the bottom of the Curriculum Errata webpage.

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## OTHER FEEDBACK

Please send any comments or suggestions to [info@cfainstitute.org](mailto:info@cfainstitute.org), and we will review your feedback thoughtfully.

# Private Markets Pathway



## LEARNING MODULE

# 1

## Private Investments and Structures

### LEARNING OUTCOMES

<i>Mastery</i>	<i>The candidate should be able to:</i>
<input type="checkbox"/>	contrast the features of private and public investments, and discuss characteristics of private and public markets
<input type="checkbox"/>	discuss private investment methods and structures and their uses
<input type="checkbox"/>	discuss the difference between public and private market performance, and calculate, interpret, and discuss the use of performance metrics including distributed to paid-in, residual value to paid-in, and total value to paid-in
<input type="checkbox"/>	compare the risk and return of investing in private markets and public markets as part of a strategic asset allocation

## INTRODUCTION

# 1

A major trend among institutional investors over the past few decades is the initiation of or significant increase in private market asset allocations to complement existing public market portfolios of listed equities, fixed-income securities, and cash. According to Preqin, an alternative data provider, private market assets under management (AUM) among global investors rose from under USD1 trillion in 2000 to nearly USD12 trillion in 2022. Historically dominated by the largest institutional investors (such as sovereign wealth funds and endowments), private market investments consisting of large direct purchases of entire companies or real estate properties have evolved over the past few decades to include professionally managed private investment portfolios. For example, private market funds in the form of closed-end limited partnerships have greatly expanded private market access among small institutional investors and high-net-worth individuals.

To better prepare candidates to identify, target, evaluate, and manage private market investments throughout their financial industry careers, CFA Institute has introduced a series of Level III Private Markets Pathway learning modules, the first of which focuses on private market investments and structures.

While public markets usually involve more standardized, liquid securities of mature issuers with price transparency, private investments are characterized by unique, illiquid investments across a broader range of company life cycle stages or project development phases held for longer periods. The distinct features of private markets also lead to different investment methods and structures, which vary based on investment

size, asset type, and the internal resources an investor is willing and able to commit to managing the private asset over the investment holding period. Given a greater focus on asset price appreciation over an investment life cycle among private market investments, private market performance is measured using compounded return over a multiyear period, as opposed to periodic measures more common among public market securities. These distinct features of private market investments contribute to their complementary role when combined with more traditional public equity and fixed-income securities in a strategic asset allocation.

### LEARNING MODULE OVERVIEW



- Public investments typically include non-controlling positions in debt or equity claims of mature issuers. Private investments, in contrast, often include controlling or large minority stakes in firms across the entire company life cycle, as well as private real estate or infrastructure. Public markets are characterized by the ability to readily buy or sell positions, while private markets are illiquid and trade on a negotiated basis.
- Private investment methods include a direct approach for the largest investors with sufficient expertise to manage positions over an investment period and indirect approaches, such as a closed-end limited partnership. Unlike security-based public investments, private investment structures are often created and tailored to a specific use, such as an acquisition company used for buyout equity or a special purpose entity formed to manage a project among investors and stakeholders in private real estate or infrastructure.
- While public markets typically use periodic income and asset appreciation performance measures based on observed prices, the relative illiquidity, uneven cash flows, and longer investment periods for private markets lead to the use of compounded return measures to gauge returns. For example, return multiples are often used to measure the proportion of realized and unrealized returns to a private fund investor relative to funds invested.
- The greater potential return and portfolio diversification often attributed to private market investments stems from both a longer, less liquid investment life cycle with greater uncertainty and a broader investment opportunity set across both the company life cycle and various asset types.

## 2

### FEATURES OF PRIVATE AND PUBLIC INVESTMENTS AND MARKETS



contrast the features of private and public investments, and discuss characteristics of private and public markets

Public investments generally involve listed securities representing debt or equity claims that are regularly traded on an exchange or among dealers in an over-the-counter market. Public fund managers invest in non-controlling debt and equity positions of

more mature issuers typically with stable cash flows. Public investments are characterized by an investor's ability to readily buy or sell positions and to observe current and historical prices for securities and relevant benchmarks, such as indexes.

Private investments are unlisted assets for which no organized exchange or over-the-counter market exists or involve companies that choose not to or cannot access public markets due to their size, stage of development, limited financial disclosure, or concentrated ownership. Private funds often acquire controlling or significant minority stakes held for longer periods over which value creation occurs, resulting in cash flow improvements, which are a primary driver of investor returns. Private debt and private equity claims are usually non-standardized contracts that are negotiated rather than exchanged on a regular basis. While private activities span a wide range of investments, including sole proprietorships, our focus here is limited to private investments of relevance to institutional investors. It is also important to distinguish between *alternative* investments and *private* investments, terms that are often used interchangeably. Alternative investments are those other than ownership of traditional public equity, public fixed-income, and cash instruments. While alternatives include most private markets, some alternative investments, such as exchange-traded commodities and hedge funds, use strategies involving public securities, which were addressed in detail in the Level II curriculum.

Some alternative investments are held in both public and private forms. For example, real estate investment trusts (REITs) hold income-producing properties and most often have publicly traded shares, while private real estate includes major refurbishment and development of commercial and residential properties, as well as timberland and farmland, which are covered in detail in a later learning module. In addition, some private companies issue public debt securities, such as high-yield bonds. The Private Markets Pathway covered in the following learning modules focuses on the following asset types:

- Private equity
- Private debt
- Private special situations
- Private real estate
- Private infrastructure

Key features that distinguish public and private investments are summarized in Exhibit 1 and are subsequently outlined in detail.

#### Exhibit 1: Features of Public vs. Private Investments

Feature	Public	Private
Asset prices	Traded, observable	Negotiated, estimated
Performance measurement	Periodic	Compounded over holding period
Liquidity	Mostly liquid, with few trading restrictions	Illiquid, with sale prohibited or restricted
Investment process	Open-end, security selection	Closed-end, with due diligence, value creation, and exit

Feature	Public	Private
Investment manager skills	Industry, company, and financial analysis	Industry, management, and technical experience and expertise, legal and financial analysis
Portfolio diversification potential	Based on correlations of observed periodic returns	Based on different company and investment life cycle phases, as well as unique asset types

## Asset Prices and Performance Measurement

Immediate access to current and historical price data for individual securities and relevant benchmarks supports a variety of public market investment approaches. For example, investors can easily measure returns, volatility, and correlations across time and construct portfolios with an efficient risk–return trade-off. Public market data are a critical input in judgement-based investment approaches seeking to capitalize on a market view, rule-based strategies using factor analysis, and index-based investment strategies.

Private market investors, in contrast, have little or no price transparency for prospective, existing, or comparable investments. As a result, investors rely on relative valuation techniques, discounted cash flow methods, and recent transactions among other approaches to estimate prices. Fund managers provide valuation estimates to investors with delays and at less frequent, often quarterly, time intervals, limiting the usefulness of such data for asset allocation purposes.

Periodic public market performance measures generally assume an initial cash outflow upon asset purchase and periodic inflows, including bond coupons, stock dividends, and net operating income for real estate. In contrast, private market investments involve far less predictable cash flows, with multiple cash outflows and inflows of uncertain timing. Performance metrics for private investments will be addressed in detail later in this reading.

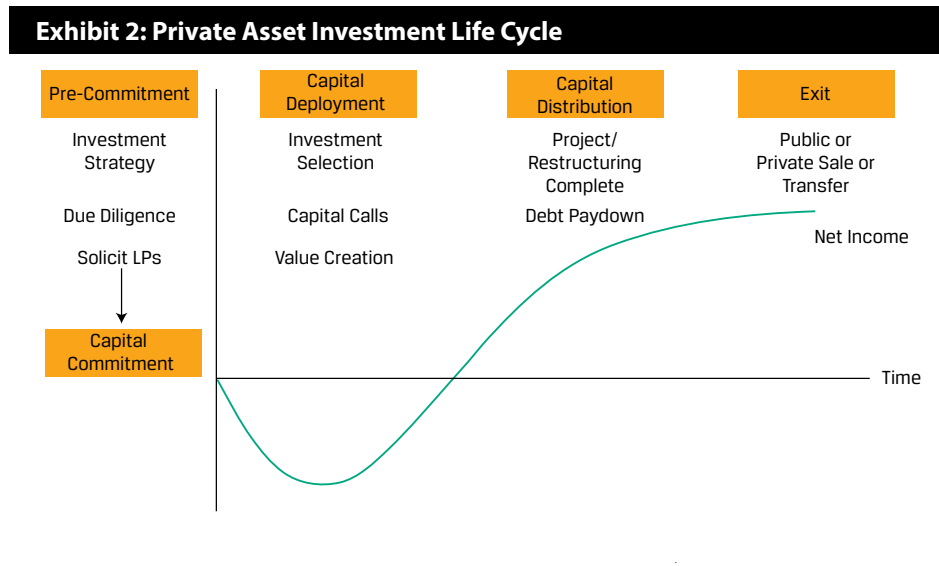
## Liquidity and Investment Process

Active trading of listed securities in public markets offers a high degree of liquidity and relatively low transaction costs. The purchase and sale of listed securities can be as simple as executing a market order, and short-term market developments may prompt a public fund manager to sell securities whose observed price exceeds what a manager considers to be fair market value or to purchase undervalued securities based on public market developments. Issuers of public equity and debt are usually in a mature phase of development with predictable, stable cash flows.

Privately held controlling or minority stakes in a firm, a project, or a real asset are inherently illiquid. Fund managers usually seek a larger capital commitment from investors and require a far longer investment time horizon than for public funds, sometimes up to 10 years or more. Private purchases and sales are often negotiated between two or very few potential buyers and sellers, leading private fund managers to prohibit or severely restrict investors from selling fund positions to avoid the need for early liquidation.

The different features of public and private investments also give rise to distinct investment processes. For example, the greater liquidity and price transparency of public investments allow for a more open-end investment approach and structure. Investments in illiquid private assets held for longer periods benefit from a closed-end approach in which investors align manager compensation with investment performance.

We refer to the development or transformation of private assets over this longer investment holding period as the **private asset investment life cycle**, whose distinct phases are shown in Exhibit 2.



The private asset investment life cycle common among investment types consists of capital commitment, deployment, distribution, and exit phases, which will be addressed in detail in later learning modules. The private asset investment life cycle is characterized by negative returns in early phases followed by cash flow and income growth in later phases, referred to as the **J-curve effect**.

Public market investors with non-controlling stakes have little influence over issuers beyond the exercise of voting rights. Private investment managers, in contrast, are actively engaged in managing and controlling assets throughout the investment life cycle. Tasks range from identifying ideal targets, conducting due diligence, and creating detailed business and financing plans to managing the value creation process from capital deployment until an investment is ultimately sold or exited and capital is returned to investors.

## Manager Skills

Distinct investment processes, as well as roles and responsibilities, among public and private fund managers give rise to different skill sets required for success in managing portfolios in these respective markets. As public fund managers largely delegate the value creation process to company managers, much of the underlying investment research is conducted across securities, companies, and industries. For example, publicly available corporate financial statements and other data sources are used to create and compare financial ratios and other relevant metrics as a basis for investment analysis.

Private market investments often lack the market price transparency of public market securities and include investment opportunities ranging from new real estate developments to mature firms in financial distress to startup companies with little more than a business idea. The manager skill set required to successfully shepherd these investments from selection through exit goes well beyond security analysis. In the case of real estate, local market knowledge and project development and management experience are critical. Private equity fund managers often bring significant operational experience and industry expertise. In addition, they bring industry relationships and

management experience in founding, growing, or restructuring businesses, as well as legal, accounting, tax, and other qualifications, to their role in managing such investments. Given the prevalence of less standardized contracts in private markets, both investors and managers must be prepared to conduct additional legal analysis when considering such investments.

Early-stage companies with little or no revenue often solicit private equity investments known as **venture capital**, which involve both high risk and a high rate of failure. A company's initial success is usually measured by non-financial milestones, such as establishing a product and go-to-market strategy, as well as identifying market potential well before the company generates revenue or profits. Therefore, in addition to capital, startup investors often bring relevant experience, contacts, and partnerships to young companies to help establish a successful business as demonstrated in the following example.

### EXAMPLE 1

#### CRISPR Therapeutics AG's Startup Phase

In 2013, French professor and researcher Emmanuelle Charpentier co-founded CRISPR Therapeutics AG, together with Rodger Novak and Shaun Foy. Using genome editing and engineering discoveries for which Charpentier and Jennifer Doudna were later awarded the Nobel Prize in Chemistry, CRISPR Therapeutics was established in order to use these new gene-editing tools in biotechnology and biomedical applications.

In the following year, CRISPR Therapeutics raised USD25 million in Series A equity from Versant Ventures, a US-based venture capital firm focused on the health care and biotechnology industries. Given Versant's multidisciplinary team of scientists and researchers, the company announced a broader team of leading experts in various fields of science to capitalize on this new technology at the time of financing.

According to Crunchbase, a startup and early-stage financing data provider, CRISPR Therapeutics conducted three additional equity financing rounds with 16 investors, including established pharmaceutical companies, such as Celgene and Bayer AG, as well as other venture capital firms, such as New Enterprise Associates (NEA).

NEA is a US-based private investment firm focused on the technology and health care industries and one of the world's largest venture capital funds, with over USD25 billion in committed capital. NEA's health care industry team members include physicians, research scientists, pharmacists, and other experts with extensive experience in the areas of biotechnology, pharmaceutical drug trials and medical devices. NEA partner Ali Behbahani, MD, MBA was appointed to CRISPR Therapeutics AG's board of directors at the time of NEA's investment.

In October 2016, CRISPR Therapeutics became public in an IPO on the NASDAQ exchange, which valued the company at USD590 million. The company has since reached a market capitalization over five times that of its IPO valuation, establishing many partnerships and developing several drugs for blood diseases, cancer, diabetes, and other illnesses.

As the example suggests, both the equity capital and industry expertise provided by private fund managers often contribute to a startup's success. For example, NEA's board membership and its involvement, along with other investors, in establishing partnerships and helping establish drug trials were key factors in expanding CRISPR's business at an early stage.

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我们将专注于打造一个金融课程优选的平台。包括但不限于 cfa frm cpa ( )

精选机构包括了 jc/gd/东 ao/中 hua 等等

另外还有我们还为大家精选了市面上最好的金融实务课程

分类	课程名称	机构
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	02-秦小明金融思维训练营	秦小明
	03-大师课	华尔街见闻
	04-并购汪 12 期精研课	并购汪
	05-并购汪 2019 线上课	并购汪
	06-中国的资管业务大全	博人金融
	07-中国金融业务全体系	法询
	08-王牌团队教你挑研报	萝卜投研
	09-商业分析学徒计划	小灶
	10-中国供应链金融大全	结构化金融
金融工具	01-Python&Tableau：商业数据分析与可视化	职问
	02-Excel 实务技能与金融应用	华尔街
	03-三大金融技能工具	华尔街
	04-向《华尔街日报》学图表 两季	网易云
	05-向《经济学人》学图表	网易云
	06-ibanker-金融 EXCEL · 实战指南	ibanker
	07-向咨询顾问学习商业 PPT(从思维到技能)	网易云
	08-python 金融实务从入门到精通	华尔街
	09-Tableau 数据分析实战	华尔街
	10-Python 数据分析	网易
	11-Python 金融数据分析高级训练营	陆家嘴
	12-《职场人必学的 Python 技能课》	网易
	13-财务总监的 EXCEL 私房课 · 实务篇	excelhome
	14-掌握高效数据可视化技法	网易
行业分析	01-华尔街学堂行业分析	华尔街
	02- 职问-行业研究专题课	职问
	03-ibanker-15 天行业研究集训营	ibanker
	04-行业研究专题课（基础班+提高班）	华尔街
	05-《新财富行业研究特训班》	华尔街
	06-华尔街学堂 · 行业研究体系班级课	华尔街

	07-面向投资的行业分析	jc
	08-上市公司商业模式分析与实战	立方
财务分析	01-华尔街学堂（财务分析基础与实务）	华尔街
	02-ibanker-财务报表分析基础篇	ibanker
	03-ibanker-财务报表分析进阶篇	ibanker
	04-华尔街学堂一门课学通财务分析	华尔街
	05-现金流量表解析与实务要点	华尔街
	06-报表舞弊	ibanker
	07-财务案例分析专题课	职问
	08-财务分析实战课	career buddy
	09-财务报表分析及造假甄别	陆家嘴
	估值建模	01-企业估值与建模
02-30天，如何快速成为估值高手？		ibanker
03-ibanker-估值建模实务专题		ibanker
04-企业估值建模与财务预测专题		华尔街
05-估值研报库		并购私塾
06-小马估值标准班+提高班		小马
07-手把手教你搭建3大估值模型		ibanker
08-财务估值分析师		jc
投行专题	01-华尔街学堂-大投行操作实务专题	华尔街
	02-ibanker-投行系列课 PLUS	ibanker
	03-债券训练营	领带金融
	04-顶级投行、金融估值建模培训资料	整理
	05-招商证券投行培训课件	整理
	06-中信银行投资银行业务培训资料	整理
	07-投行专题-全面解析企业上市	华尔街
	08-投行系统学习资料包	整理
	09-券商技能课	华尔街
	10-股权融资系列	华尔街
	11-青年金融家投资经理训练营	华尔街
	12-biws	biws
	13-金融基本技能强化课	cbd
	14-固收微大学	领带金融
	15-十大并购案例剖析	梧桐树下
	16-不良资产全体系	法询
	17-债券交易员课程	弘禾
	18-金融分析师技能课	职问
	19-并购重组：企业重组基础与实务要点	华尔街
	20-上市公司并购重组	华尔街
	21-中美贸易战与美国上市公司收购	华尔街
	22-跨境并购	华尔街
	23-小马估值投行券商零基础入门课	小马
	24-信贷业务	领带金融

	25-房地产金融	领带金融
	26-基础设施投融资	领带金融
	27-供应链金融	领带金融
	28-期权期货业务	领带金融
	29-债券投资经理菁英计划	领带金融
尽职调查	01-投资圈基本功修炼·尽调手册	ibanker
	02-财务尽调基础与实务	华尔街
	03-ibanker-尽职调查实训营	ibanker
	04-华尔街 财务尽职调查基础与实务	华尔街
资产证券化	01-ibanker-资产证券化实操训练营	ibanker
	02-ibankeri-资产证券化基础篇	ibanker
	03-ibanker-供应链金融专题课程	ibanker
	04-reits 案例库	整理
	05-ibanker-资产证券化·进阶篇	ibanker
	06-资产证券化详解	价值立方
私募投资	01-私募基金全面解析	华尔街
	02-PEVC 实务专题班	华尔街
	03-私募基金全体系	法询
量化投资	01-邢不行 股票量化交易 2019	慕课
	02-刑不行 数字货币量化投资课程	慕课
	03-量化金融分析师 AQF 实训项目	jc
	04-清华学霸尹成. python. 量化交易教程	整理
	05 华尔街见闻 量化小学	华尔街见闻
	06-量化投资 24 小时	华尔街见闻
	07-量化风控+金融（加密）	jc
个人投资	01-时间的玫瑰基础篇	gd mike
	02-时间的玫瑰进阶篇（2020）	gd mike
	03-吴晓波我的股票计划训练营	吴晓波
	04-老梁价值投资实战训练营	老梁
	05-基金实务与进阶成长营	gd
	17-债券交易员课程	弘禾

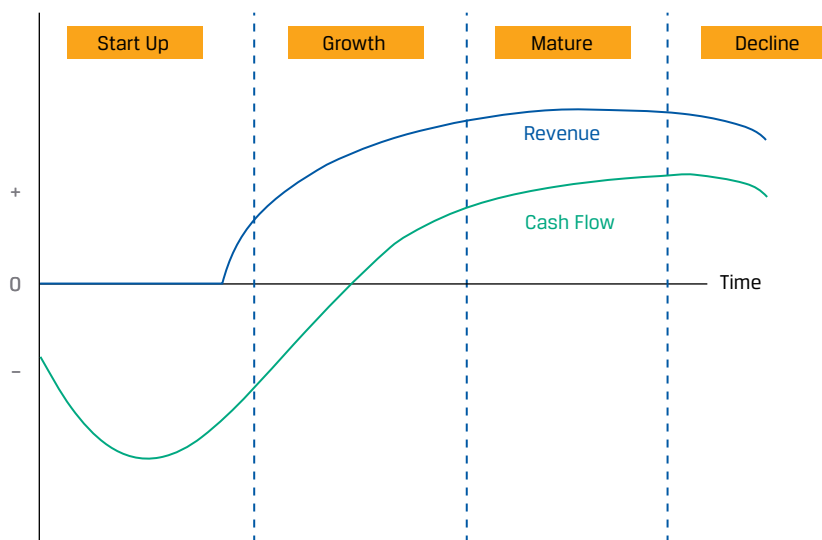
## Portfolio Diversification Potential

The distinct features of private markets and investments are commonly assumed to result in relatively low correlations between private market returns and those of public market securities. While a public market security's correlation may be estimated easily relative to the existing public market portfolio because of observed market prices, private market illiquidity and longer investment periods preclude such a comparison. The diversification potential of private market investments is assessed differently. The following are key sources of potential diversification in private markets:

- Private company debt and equity exposures in life cycle phases, which are unavailable to public market investors, such as exposures to rapid growth or restructuring opportunities
- Private company debt and equity return dynamics over an investment life cycle, which vary from those of mature public companies
- Exposures other than private company debt or equity that exhibit return dynamics different from those of public securities

Successful firms emerge from a startup period via rapid expansion, with cash flows and profitability rising until they reach a mature, stable phase and subsequently facing decline, as shown in Exhibit 3.

**Exhibit 3: Company Life Cycle Stages**



While public markets and investments are concentrated among mature companies, private investments span the entire company life cycle.

The CRISPR example illustrates the first of these diversification sources. Startup and early-stage companies usually fail to meet public equity listing criteria, nor do they reach minimum profitability or interest coverage requirements of traditional debt providers. While startups such as CRISPR Therapeutics have a very high return potential, they also have a high failure rate. If successful, early-stage and young companies in an expansion phase tend to exhibit above-trend growth that is less driven by the business cycle, which generally impacts more established firms. Private investors play a role in the success of these companies by applying industry-specific and other skills in selecting and managing investments, as discussed in detail in later learning modules.

A second potential source of diversification is more common among so-called **buyout equity** investments in existing public companies. Private equity buyouts often involve taking a mature public company private using debt and equity with the intent to transform, divest, or acquire businesses and sell the reorganized firm at a higher price. Given these steps taken by private fund managers over the investment life cycle, buyout company performance may diverge significantly from that of public equities. In some cases, private manager skill in selecting, acquiring, financing, restructuring, and selling companies may result in relative outperformance, while in other cases, timing differences of otherwise similar trends in private and public equity may result in reduced correlation.

A third area of potential variation among private and public market returns involves alternative asset classes, such as real estate or infrastructure. Private real estate often involves major refurbishment or new construction as opposed to more stable income-producing properties held by public REITs. Publicly traded infrastructure companies issue debt and equity securities with diversified exposure to a changing project portfolio as opposed to the large, single-use illiquid assets that characterize private infrastructure. Private real estate and private infrastructure are characterized by an investment life cycle, which distinguishes their risk and return features from those of public markets.

Many of the characteristics of private markets and investments that offer the possibility of attractive risk-adjusted and less correlated returns also historically represented barriers to entry for many institutional investors. For example, the relative lack of price transparency, illiquidity, large minimum investment size, and specialized knowledge necessary prevented all but the largest asset owners from taking advantage of private market investment opportunities. The following example describes one sovereign wealth fund's journey in investing in private market strategies.

## EXAMPLE 2

### GIC's Private Markets Investment Strategy

Government of Singapore Investment Corporation (GIC) is among the world's largest sovereign wealth funds, with an estimated USD700 billion in AUM. Established in 1981 with a mission to preserve and grow the global purchasing power of Singapore's strategic reserves, GIC gradually shifted from a conservative policy of 70% developed market bonds and cash to a greater equity and private market allocation similar to those of major endowments.

In conjunction with these changes, GIC disclosed a new investment framework in 2013:

- *Reference Portfolio:* A 65% global equity, 35% global bond benchmark representing the Government of Singapore's overall risk tolerance
- *Policy Portfolio:* GIC's asset allocation across six asset classes, which include real estate and private equity
- *Active Portfolio:* GIC has the flexibility to pursue what it refers to as skills-based and opportunistic investments within each asset class, as well as across and outside of the six primary asset class distinctions, within a predetermined risk budget set by the GIC board.

GIC rapidly adapted to this more active investment approach over the following decade, with a reported private equity allocation of 17% and real estate allocation of 13% as of 2022–2023. Despite its lack of disclosures of private investments outside of private equity, GIC's active role in private markets is evidenced by the growth in its investment team and in the number and size

of private market transactions in which it participates. For example, GIC now employs over 2,000 investment professionals, 70 of whom are solely dedicated to infrastructure investments, in 11 global offices. According to a survey by Global SWE, a research firm, GIC participated in the largest number of private market transactions among state-owned investors in 2022, with 72 private market deals totaling USD39 billion.

Given its size, scope, and skilled management team, GIC can invest through private market funds, as well as acting as a direct investor or co-investor, to build a diversified private portfolio across vintage years, industries, and geographies. For example, in early 2023, GIC partnered with Oak Street, a US-based real estate private equity firm, to acquire STORE Capital Corporation, a publicly traded commercial REIT specializing in single-tenant operational real estate, for USD15 billion.

While most investors lack the size, scope, and in-house professional expertise of the sovereign wealth fund described in the previous case study, private market investments have evolved to become more widely accessible to a broad range of institutional investors and high-net-worth individuals. In what follows, we will review the various structures, forms of ownership, and investment methods that have made this situation possible.

#### QUESTION SET



1. Which one of the following skills is more essential to private market investment relative to public market investment?
  - A. Company analysis
  - B. Legal analysis
  - C. Industry analysis

#### Solution

B is the correct response. While company and industry analyses are common in all investment analyses, both private and public, private investments involve taking large stakes in a company or asset. As such, a private investor should have the ability to conduct legal analysis as part of the due diligence process.

2. Which one of the following statements best describes a source of portfolio diversification potential from private market assets?
  - A. Private markets offer potential access to higher-risk investments compared to public markets.
  - B. Private markets offer potential access to investments in different company life cycle stages compared to public markets.
  - C. Private markets offer the potential to invest in lower-risk companies in the mature phase of the company life cycle.

#### Solution

B is the correct response. Private company debt and equity investments create exposures in company life cycle phases that are unavailable to public market investors. A is not correct, because higher risk can always be achieved in public market investments by increasing leverage. C is not correct, because public markets also offer investors the potential to invest in lower-risk companies in their mature phase. The diversification benefits of

private market investments stem from the fund manager's efforts to transform a mature business during the investment life cycle.

3. Discuss an important contrast between private and public market investments related to ownership stakes.

**Solution**

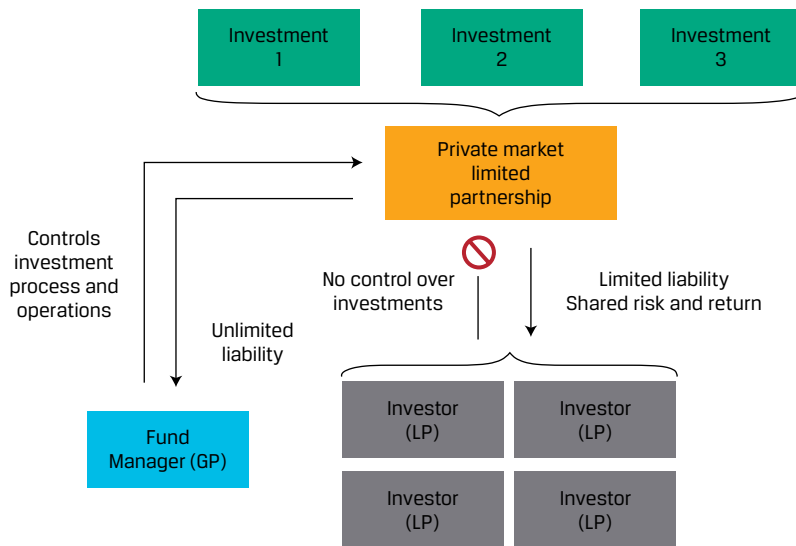
Private funds acquire controlling or significant minority stakes in companies or assets and hold these for longer periods. In contrast, public fund managers invest in non-controlling debt and equity positions of companies or assets and can readily liquidate them in traded markets.

### 3 PRIVATE VS. PUBLIC INVESTMENT STRUCTURES

- | discuss private investment methods and structures and their uses

Public market investors typically face a relatively simple choice between direct selection of individual securities and an indirect approach in which security selection is delegated to a public fund manager. The longer investment holding period and more active manager engagement over the investment life cycle of private market investments give rise to more complex investment methods, including closed-end fund structures based on a **limited partnership** structure, as shown in Exhibit 4.

**Exhibit 4: Limited Partnership Structure**



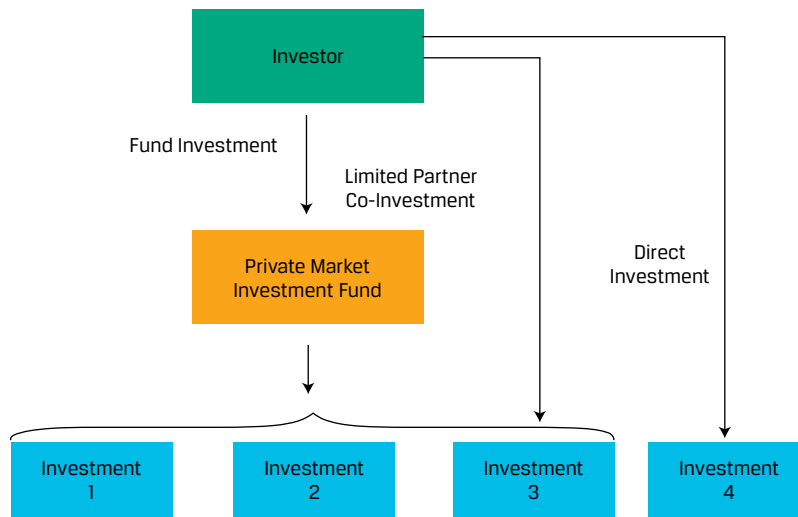
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These partnerships are used to align the interests of private market fund managers, or **general partners (GPs)**, and private market fund investors, or **limited partners (LPs)**, as described in greater detail later.

## Private Investment Methods

In private markets, the choice of a direct or indirect investment method depends on the investor's commitment size and the ability and willingness to commit the necessary resources to actively manage the position over the investment life cycle. Three common private market investment methods are shown in Exhibit 5.

**Exhibit 5: Direct Investment, Co-Investment and Fund Investment Alternatives**



## Direct Investment

**Direct investment** involves the purchase of an equity ownership stake or private debt investment *without* the use of a partner or an investment intermediary. This investment method may, for example, involve a controlling stake in a buyout equity transaction. If acquiring a majority equity stake, a direct investor must not only negotiate the purchase price but also establish and execute a successful business plan to create value over the investment holding period. For this reason, as well as due to the potential portfolio concentration risk of large-scale acquisitions or projects, the largest asset owners, such as GIC in the earlier example, tend to be the primary users of the direct investment approach. With 17% of its roughly USD700 billion in investments committed to private equity, a new USD1 billion buyout investment would represent less than 1% of GIC's exposure to this asset class.

Co-investment occurs either as a **direct co-investment** or as a **limited partner co-investment**, as shown in Exhibit 5. Direct co-investment involves the *direct* purchase of an ownership stake or private debt investment with the use of one or more partners, one or more of whom may be a private fund manager. The earlier example described GIC's acquisition of STORE Capital with Oak Street, an example of an Asian sovereign wealth fund co-investing with a private equity firm with a focus on US real estate. Direct co-investment offers investors the opportunity to reduce the size of their private market portfolio positions, benefit from the expertise of investment partners, and reduce fees as compared to indirect investment approaches. A limited partner co-investment, in contrast, involves the purchase of an ownership stake or private debt investment in a single investment that is managed by a private fund manager. In some