



Key Questions to Ask Your Open-Ended Private Markets Fund Manager

When considering an investment in an open-ended private assets fund, it is critical that an investor ask certain key questions of the potential manager to ensure that the strategy aligns with the investor's goals. While the following is not an exhaustive list, it can be a good start to help an investor gain confidence in a potential investment.

Track Record

- How long has your firm been investing in private markets?
- What is your firm's private markets AUM?
- How much do you deploy into the private markets each year?
- How many relationships have you built with external private equity firms?
- Please provide firmwide private markets track record.
- Describe your firm's experience in managing evergreen portfolios.

Deal flow

- What is the composition of your deal flow? Where is it coming from? Is it all internal or do you source from external managers as well?
- What is the size of your deal flow? What have you seen historically?
- What is your selection rate? How many deals are sourced that you ultimately invest in?
- Please describe the allocation process/policy for the fund and the firm.
- How do investment teams globally accommodate capital allocation for investments that may be relevant for multiple mandates?

Data

- Please describe the systems you use to source data on private markets to inform your investment process.
- How many fund managers do you meet per year?
- How do you benchmark investment opportunities?
- What do you use to forecast cashflows?

Investment Team

- How many dedicated investment professionals do you have?
- Are they split by strategy or do they cover everything?
- Where is the team located?
- Please describe the diligence process for each investment team.
- Please provide investment team organizational chart including years of experience in the field.
- Do you have a dedicated team that sources secondary opportunities?

Portfolio Management

- Do you have a dedicated portfolio management team for this strategy or is this managed by the investment team?
- How do they monitor and manage the liquidity of the fund?
- How do they manage cashflow modeling?

Liquidity/Risk Management

- Are redemptions monthly or quarterly? Is there an initial lock up period?
- How are redemptions managed? Please provide redemption history of the fund.
- Where does the liquidity come from? Does the portfolio generate natural liquidity to support redemptions or is it sourced from inflows?
- What is the average duration of the investments and how do they align with the liquidity requirements of an evergreen fund?
- Does the fund use leverage? Is there a credit facility in place? Please provide terms and historical usage.
- What is the path to liquidity if the fund was to become gated? What is the maximum amount of time that it would take to receive our redemption proceeds in a worst-case scenario.
- How is liquidity risk measured/monitored? Is any stress testing of the portfolio performed? If so, how regularly?

Portfolio Composition

- What is the composition of the portfolio today and why does this make sense for an evergreen structure?
- What is the portfolio construction philosophy of the fund? Has this changed since inception?
- What are the target returns for the fund? How were those developed?
- Is this strategy single-manager or multi-manager?
- If you have an exposure to public markets within the fund, what impact does this have on the volatility?
- If you have an exposure to primary funds, what impact does this have on the cash drag within the portfolio?
- Please provide portfolio composition of the fund quarterly since inception.
- What are the long-term allocation targets for the fund?

Deployment

- How long does it take to deploy capital in your fund?
- What is the maximum amount of inflows you can take in for any given month without creating a large cash drag?
- Please provide net flow history of the fund since inception.

Valuations


- What is the valuation policy of the fund? What are the key inputs in the process?
- Who performs the valuations? Are valuations done in house or outsourced?

Performance Drivers

- Please describe the performance drivers for the portfolio since inception, YTD, and for the past quarter, and how these align with the performance and liquidity objectives of the portfolio.

Fees

- What are the fees associated with an investment in this fund?
- What percentage of direct investments in the portfolio are done on a “no-fee” basis?
- Are there any double layers of fees associated with investments in the portfolio, such as primary fund exposures or secondaries?

 **Track Record**

One of the most important questions to ask a manager of private assets is their experience managing private assets. Evergreen funds are no different. Managing an evergreen fund presents unique challenges to management of traditional private assets, and you want to make sure that your manager has the relevant experience, preferential fees and terms, exposure to a diversified group of quality assets, and proprietary analysis and insight. While the structure of evergreen funds is unique, the underlying investments are the same as traditional closed-end funds, and a manager's experience managing these types of assets is critical.

 **Deal Flow**

One of the unique aspects of an evergreen fund is its constant investment period. Since the portfolio is open for new subscriptions on a regular basis, hence the "evergreen", it is up to the manager to have a basis of deal flow that can accommodate optimal deployment of capital from subscriptions. It is important to understand where the manager is sourcing their deal flow from, and how those sources have evolved over time. It is also important to understand the size of the deal flow and whether that can accommodate the manager's projections for growth of the strategy. Understanding how the size of that deal flow has evolved over time is also helpful to understand the manager's ability to consistently source deals in support of the growth of the fund.

Additionally, it is important to understand the selection rate of the manager. Of the deals that are sourced on the platform, what percentage are ultimately invested into? Essentially, the investor should have a sense for how selective the manager is being, or can afford to be, in the deals it ultimately selects for client portfolios. Additionally, it is important for an investor to understand if an investment manager allows for multiple funds/mandates under management to invest in the same deal. If so, understanding the manager's allocation process and philosophy is helpful for the investor to gain comfort with the fund's ability to get adequate allocation.

 **Data**

In the private markets, there is perhaps no greater differentiator than data. One of the hallmarks of the public markets is instant access to data on companies, for essentially any investor. This same ability is not extended to every eligible investor in the private markets. Investing with a manager that has access to meaningful data, and who uses that data in the most useful and productive way, is one of the easiest ways to feel confident in an allocation to the private markets.

 **Investment Team**

Central to understanding a manager's ability to successfully construct any private markets fund is confidence in the professionals who are managing the assets. Ultimately, this comes down to having confidence in the team that is actively sourcing and providing recommendations for investment into deals, and their process for doing so. Having a large, dedicated investment team, with experience analyzing companies in their areas of expertise, can be a large differentiator for a manager. Equally important is having those investment professionals based in the geographies in which they are investing. This gives the investor confidence that the investment team not only understands how to analyze the assets, but also understands the market.

 **Portfolio Management**

While it is important for the manager to have a large investment team that is located in the markets in which they are investing, for an evergreen portfolio it is also critical to have a portfolio management team dedicated specifically to the strategy. Managing an evergreen private assets fund requires a dynamic approach to portfolio management, different from what is required for traditional, closed-end funds. A dedicated portfolio management team that is focused solely on portfolio construction, cash flow management, duration and liquidity, should give an investor reassurance that the manager is dedicated to the success of the evergreen strategy. Understanding who is managing the portfolio, what the investment objectives are, whether this team manages the liquidity mechanisms directly, and whether the team has grown or how they have developed over time, are all critical elements for an investor to feel comfortable with when choosing a manager for the evergreen allocation in their portfolio.



Liquidity/Risk Management

One of the hallmark elements of an evergreen fund is the availability of semi-regular liquidity. Because liquidity is not an aspect of diligence on traditional closed-end funds, it is important for an investor to understand how the manager of an evergreen strategy approaches liquidity in their offering. The investor must understand the liquidity mechanisms in place for the strategy: does the fund generate natural liquidity to support redemption terms, does the fund use leverage, is there a credit facility in place, and how redemptions are managed, are some of the main questions an investor should be asking of their evergreen strategy manager during diligence. Strong liquidity management policies and practices can be a differentiator for a manager of an evergreen strategy and should be a focus of investors during diligence.

Hand in hand with questions of liquidity come questions of risk and risk management. Understanding a manager’s approach to risk management and monitoring through policies, procedures, systems, and regular testing, is crucial for an investor to be comfortable with the inherent risks in an evergreen fund.



Portfolio Composition

For any private assets fund, a critical component is the portfolio construction, and evergreen funds are no different. It is important for an investor to understand the portfolio construction philosophy of the fund, why certain investment types and strategies are included, and what the expectations are for those allocations. It is also important for an investor to understand how that philosophy has developed over the course of the funds life, and what the reasoning has been for any changes. Feeling confident in the strategic direction for the portfolio, and the rationale behind those decisions, is an important piece of diligence for an evergreen fund.



Deployment

When considering an investment into an evergreen fund, a managers ability to deploy the capital raised over the course of a constant fundraising period is a crucial point to consider. As capital is being invested into the fund on a regular basis, a manager needs to be able to deploy that capital regularly and swiftly to avoid an oversized cash balance that can weigh on performance. It is important for investors to understand how long it takes the manager being considered to deploy capital into the fund, as well as to have an understanding of inflow history for the fund since inception. This will allow the investor to gain insight into the amount of capital that the manager is tasked with deploying on a regular basis.



Valuations

Perhaps the most unique aspect of an evergreen fund is its regular liquidity and constant fundraising period. As a result, investors are entering into and redeeming out of the fund at a certain price, whether that is monthly or quarterly. As such, the portfolio is being valued on a more frequent basis than a traditional, closed-end fund, and that pricing can impact an investors decision to invest or redeem. Therefore, it is essential that an investor considers an evergreen fund managers valuation policy for the fund. Essential elements include understanding the manager’s valuation timing, methodology, and if their process involves internal or third-party analysis.



Performance Drivers

When considering an investment in an evergreen portfolio, it is important for investors to have an appreciation for the sustainability of the portfolio performance. Investors should want to know whether the various strategic allocations in the portfolio are contributing in the ways that they are meant to. Asking a manager to provide performance drivers, both positive and negative, for the portfolio for various time periods including YTD, since inception, etc., and how those drivers align to the investment objectives of the fund, can help inform investors’ decisions on an evergreen fund appropriate for their portfolio. Investors should also understand from the manager how the assets generate performance. For example, are the Secondaries generating returns from closing discounts, or from asset appreciation? An allocation to secondaries can be extremely additive to a fund’s performance, but an investor should be careful to understand whether that value is being created organically, or through a steep discount as opposed to post-close value appreciation from quality assets.



Fees

An important aspect of any investment decision is understanding fees and expenses associated with the investment in question. In private assets, there can sometimes be fees and expenses that exist that an investor was not expecting, such as a “double layer” of fees from an investment into a primary fund or a secondary investment. Also, one of the benefits of private markets investing is that a manager with size and scale can sometimes negotiate preferential fees and terms on investments. Clearly understanding the entire fee picture is an important step in the diligence process.

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