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# Access Points for the Masses

## Analyzing the alternative asset ecosystem

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### Key takeaways

- Demand is increasing for alternative investment strategies by those who have historically been excluded from such investments, generally due to wealth and income hurdles.
- Those seeking the potential improvement of risk and return characteristics from adding strategies such as hedge funds, PE, and real assets to a portfolio have increasing numbers of options.
- Regulators have been warming to the idea of the democratization of alternative strategies, with changes coming from both the US Securities and Exchange Commission (SEC) and the Department of Labor in 2020 that broaden who and what sorts of accounts may access alternative strategies.
- The illiquidity of alternative assets has historically been a concern for smaller investors, but there are a number of products that provide liquid approximations of strategies that have typically only been accessible to much larger investors.


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## Introduction

The term alternative assets (alts) means different things to different people, but broadly speaking, most investors think of them as investments other than "traditional" cash or publicly traded stock and bond portfolios. Alts are actually a broad assortment of strategies with many different approaches, drawing from all the available asset classes to achieve their risk and return objectives.[1] Many alts strategies got their start with capital from institutional investors. Their level of sophistication and ability to make large dollar allocations—from the perspective of someone peddling a new fund—made for a fertile testing ground. Regulators also had a hand in restricting such strategies to large portfolios, as the Securities Act of 1933 set minimum wealth and/or income thresholds required to invest in many of the strategies now called alts.[2] This note discusses the alts options now available to those who, for lack of a better term, we'll call "the masses."

As the investment ecosystem has evolved, a number of forces have led to demand from and supply to the masses. For one thing, corporate defined-benefit pensions in the US have been on the decline for the past several decades,[3] so more retirement assets are going into individual accounts such as IRAs and 401(k)s, which rarely accumulate the level of assets required to access the alts funds so widely adopted by pensions and other institutional portfolios. As more dollars go into the public market offerings typical of 401(k)s, private market fund managers have sought ways to exploit these growing but disperse pools of assets. At the same time, individuals and their advisers have sought ways to access investment options that may provide benefits such as diversification and illiquidity premiums, and to gain exposure to portions of the economy not represented in the public markets.

During a time when interest rates remain at all-time lows and expectations for public market returns are muted, many feel that the masses should be able to access alts for what many feel will be improved returns. The decline of publicly traded stocks from over 7,000 to under 4,000 has also moved a good portion of the economy into the private markets, out of reach to the masses. Products are increasingly being made available, as regulators expand the pool of investors marketers may approach. Many of the alts strategies, including real estate, commodities, private equity, private debt, and hedge funds, are represented by options now accessible to many investors.

1: For more on what an asset class is: "What Is an Asset Class?" Enterprising Investor, Joachim Klement, December 30, 2020.
2: While this note largely represents the US perspective, other countries use similar wealth or income hurdles to keep strategies perceived to be riskier out of the hands of investors deemed to be less sophisticated: "Accredited Investors," Investor.gov, US Securities and Exchange Commission, n.d.
3: "The Rise and Fall of the American Pension," Wes Moss, July 9, 2019.

## How the masses have been defined

### *Accredited investors and the 1933 Act*[4]

In an effort to protect investors from themselves and the markets and economy from erratic behaviors, such as the GameStop situation playing out at the time of this note's writing in early 2021, regulations were formed under the Securities Act of 1933 that identify investments deemed higher risk because of the underlying investments or the illiquidity profile of the fund structures and requiring that those offering the investments disclose what those risks are. The regulation, and additional rules from Regulation D (Reg D) enacted in 1982, then went on to identify those most able to a) recognize those risks and b) suffer the consequences should the risks be realized. In essence, regulators wanted to protect the masses from throwing all their savings into risky ventures and losing all their assets, a situation that was front-of-mind after the 1929 stock market crash. The belief was that those controlling larger pools of assets would be more able to assess investment risks (a debatable point) and could also use the larger pools to diversify risks, ensuring that complete losses would be very unlikely.

*There is, of course, a double standard, in that many risky activities—including casino gambling and lotteries—are not barred from the masses. Many securities laws resulted from economic crises that included severe collateral damage. While some people were "gambling" (called "speculating" in the financial markets) with stocks in 1929, those who did not suffered through the Great Depression as well. An individual's losses at a casino can do significant harm to that individual and his or her dependents, but entire economies do not suffer those losses, so those regulations, which are issued by state gaming agencies rather than the federal government, are less strict on individuals than securities regulations.*

Reg D was basically a trade-off: In order to sell their products with less regulatory oversight, funds could only sell to "accredited investors" who were considered "financially sophisticated and able to fend for themselves or sustain the risk of loss, thus rendering unnecessary the protections that come from a registered offering."[5] The governing rules for many years were essentially based on income and net-worth tests. The most recent rules, instituted in 1982, said a "natural person" had to have earned $200,000 in two consecutive years (or $300,000 combined with a spouse) or have a net worth over $1 million (alone or with a spouse).[6] In 2012, the equity in a primary residence was excluded from the net worth calculations as a part of the JOBS Act.

It is a strange assumption that earning a high income or having a sizable bank account means someone understands the nuances of complicated investment products—especially if that money was inherited or earned in some field far from investing. On the flipside, some professional investors responsible for investing billions of dollars in pension assets, for example, would not meet the accredited investor requirements, but their understanding of investment risks is more sophisticated than that of many wealthy individuals. It is also interesting that the dollar hurdles remain unchanged from nearly 40 years ago, when millionaires were much thinner on the ground. By not raising those limits, more and more people have become accredited investors through inflationary forces. The restrictions

4: This is an extremely convoluted topic, although these two posts do a credible job of discussing the fine points: "Qualified Purchaser: Is It Different from an Accredited Investor?" Parallel Markets, October 13, 2020. "Accredited Investor vs Qualified Client vs Qualified Purchaser," The White Coat Investor, October 2, 2020.
5: "Updated Investor Bulletin: Accredited Investors," Investor.gov, US Securities and Exchange Commission, January 31, 2019.
6: Ibid.

do not always make logical sense, but these have been the rules with which the industry has worked for the better part of a century.

Despite roots dating back to 1933, this is actually a timely topic, as August 2020 saw an update to the accredited investor definitions.[7] Partially addressing the sophistication question, the new rules allowed for individuals with "certain professional certifications, designations or credentials or other credentials issued by an accredited educational institution" to now be considered accredited investors.[8] The initial rule change has only listed certifications or designations administered by the Financial Industry Regulatory Authority (FINRA): the Series 7,[9] the Series 65,[10] and the Series 82.[11] These are designed more to regulate sales practices than to turn out sophisticated investors, but SEC oversight of the exams was deemed more important than exam rigor; therefore, holders of the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations were excluded, despite having more comprehensive investment exams and alternative investment curriculum. Also added to the accredited investor roster were "knowledgeable employees" of a private-fund issuer of securities being offered or sold. Entities were added as well, including SEC- and state-registered investment advisers and rural business investment companies, entities owning investments above $5 million, family offices, and "family clients."[12] This rule change gives the impression that it is more important to allow various individuals to sell these products than to understand how they work.

In essence, the changes to the 1933 Act made the world of alts easier to access for a broader swath of the population, as long as they are guided by those now deemed accredited by the SEC. According to one estimate, about 10.6% of US households would qualify as accredited in 2020, up from 8.3% in 2013.[13]

### *Qualified purchasers/qualified clients and the 1940 acts*

Another barrier to the masses accessing alts are the rules governing the funds themselves. Based on rules dating back to the Investment Advisers Act of 1940 and the Investment Company Act of 1940, funds can only

7: "Final Rule: Amending the 'Accredited Investor' Definition," US Securities and Exchange Commission, August 26, 2020.
8: "SEC Modernizes the Accredited Investor Definition," US Securities and Exchange Commission, August 26, 2020.
9: The Series 7 license is known as the general securities representative (GS) license. It authorizes licensees to sell virtually any type of individual security. Source: "Series 7," Investopedia, Julia Kagan, July 13, 2020.
10: "The Series 65 license, known as the Uniform Investment Adviser Law Examination, qualifies individuals to provide investing and general financial advice to clients. Passing the Series 65 exam qualifies individuals as Investment Advisor Representatives (IARs)." Source: "How to Get Your Series 65 License," Kaplan Financial Education, July 31, 2020.
11: "Series 82 is a certification focused on private securities transactions. Its creation was mandated under the Gramm-Leach-Bliley Act of 1999. [...] The Series 82 was created from this movement and established an individual license focused just on the transactions of private securities by registered representatives." Source: "Series 82," Investopedia, James Chen, November 4, 2020.
12: "SEC Modernizes the Accredited Investor Definition," US Securities and Exchange Commission, August 26, 2020.
13: "How Many Accredited Investors Are There in America?" DQYDJ, October 8, 2020.

charge performance-based fees to qualified clients, and they can only sell to qualified purchasers. Qualified clients are currently defined as having $2.1 million in investable assets or $1 million with his or her adviser, or is a qualified purchaser (more on this to follow), or is an officer or director of the fund manager, or an employee who participates in the investment activities of the investment adviser.[14] On the assumption that performance fees might incentivize fund managers to take more risk, regulators felt that the masses needed to be protected from this fee structure.

The Investment Company Act of 1940 had other provisions that have affected the masses' ability to access alts. If fund managers stay below 100 investors and do not market their fund publicly, then they may not need to register under the Act. If they exceed 100 investors but do not want to register, then all of the investors must be qualified purchasers. This last is defined as an individual (or business not formed just to invest in the fund) that owns $5 million or more in investments, or a trust that is managed by qualified purchasers and not formed just to invest in the fund, or an individual or entity not purposely formed to invest in the fund that owns and invests at least $25 million in investments, or an entity in which each beneficial owner is a qualified purchaser. To give themselves flexibility, many funds avoid requiring this highest wealth hurdle, preferring to set lower minimum investment requirements, and the ability to waive these minimums at their discretion, to populate their investor roster.[15]

## Suitability of illiquidity

While alts may be perceived to be amazing simply because they have been kept from the masses, one major caveat often overlooked is that they have higher risk and thus a higher chance of losing money. Various characteristics of the strategies, particularly illiquidity, make them questionable offerings for some investors. To that end, another part of the 40 Act rules are restrictions on fund managers based on the type of strategy they hope to run. As a sampling of the characteristics covered, if they want to run a daily priced mutual fund, often called a 40 Act fund, accessible to all investors, they:

- must offer daily liquidity to investors,
- are not allowed to agree to special terms with specific investors often found in "side letters,"[16]
- are not allowed to set aside illiquid investments in "side pockets,"[17]
- cannot collect carried interest payments or performance fees,

14: "Accredited Investor vs Qualified Investor vs Qualified Purchaser," The White Coat Investor, October 2, 2020.
15: An overview with a more complete view of PE registration rules: "Investment Adviser Registration for Private Equity Fund Managers," Morrison/Foerster, 2018.
16: For more on side letters: "Private Fund Side Letters: Common Terms, Themes and Practical Considerations," Dechert, October 28, 2018.
17: For more on side pockets: "Getting a Perspective on Side Pockets," Morningstar, Larissa Fernand, April 1, 2019.

- are not allowed to have restrictions on transfers or redemptions,
- are not allowed to discount or negotiate advisory fees,
- cannot use leverage above 33% of the gross asset value of the fund, and
- must cover the full value of liabilities created by any use of short sales by holding an equivalent amount of collateral within a separate brokerage or custodial account.[18]

To use any one of the features prohibited to mutual funds, a fund manager must operate funds that can only be offered to qualified clients or qualified purchasers, which has led private market funds and hedge funds into fund structures that restrict the types of clients to whom they may sell. The first item on the above list, daily liquidity, has been one of the least common characteristics of alts funds, as alts fund managers believe that having a fully liquid portfolio would neither allow them to invest in less-efficient areas of the financial markets nor give them enough time to realize improved returns.

When describing alts to newcomers, the subject of illiquidity typically comes up, and questions invariably arise as to why some investor types are more or less likely to embrace illiquid assets. The most basic answer is to look at what the investable assets will be used for. A pension, for example, will use the assets to pay benefits to retirees. Statistics such as age and size of the workforce are known figures that will play out in predictable ways when it comes to pension payouts. Because much of the workforce may still have two to three decades before they will retire, a pension can afford to have a less liquid portfolio because the calls on that money will be far in the future. On the other hand, insurance companies also have large piles of money, but for many, it is impossible to know with any precision when they will be called upon to make payouts. In fact, a large unanticipated event could wipe out the investments at an insurance company; if the investments were in illiquid assets, the company might have to sell them at a steep discount to free up the cash needed to pay claims. For this reason, insurance companies tend to have portfolios that are more liquid than those of pensions.

What about individuals? To some extent, the answer depends on the size of the investment pool and the intentions for that pool. If a family has $1 million in savings but is saving up for three kids to go to college over the next three to five years and the couple's retirement a few years after that, it would not be wise to put their entire savings into investments that will be locked up for 10 years or more. But if the family had $100 million and a high, steady income, it is likely their immediate needs are being met and the majority of the investment pool will not be called upon for planned or

18: List compiled from: "Introduction and Overview of 40 Act Liquid Alternative Funds," Citi Prime Finance, July 2013; "Finding the Right Fit: How to Leverage Alternative Portfolio Structures," NICSA, October 30, 2017.

unplanned large expenses. When thinking about illiquid assets, it is always important to think about the intended use of the capital.

In December 2019, AQR's Cliff Asness suggested that perhaps illiquidity should not provide a premium but instead a discount.[19] His remarks rekindled a debate about whether liquidity is actually desirable. For many investors, having ready access to funds is indeed a desirable trait. But for others, being invested in illiquid assets can curb the temptation to chase trends that lead to buying high and selling low, a behavior unfortunately seen across all investors, but particularly among the masses.[20] If anything is sought after by enough people and money, it puts upward pressure on the purchase price, thus limiting upside potential. While liquidity and illiquidity are each valuable to some subset of investors, the fact that PE returns have trended closer to public equities in recent years[21] indicates that perhaps more are finding illiquidity to be an advantage.

**Sample alt product types and corresponding options for smaller investors**

| Institutional alts product | Example of products for the masses | Implications for the masses |
|---|---|---|
| Real estate | Real estate investment trusts (REITs) | Like owning a common stock, high income, imperfect exposure to real estate investment characteristics |
| Commodities | Master limited partnerships (MLPs) | Like buying a common stock, more complicated tax reporting, high income, correlated to energy prices |
| Hedge funds | 40 Act interval funds | Less liquid than a mutual fund but otherwise operates like one, imperfect replication of true hedge fund strategies, very high fees |
| Private markets | Funds of funds of funds | Very illiquid, high fees, advisor may ask for full commitment up front |
| Private markets | 40 Act interval funds | Fairly liquid, potentially high fees |

## Access points

Despite the regulations and suitability questions raised earlier, alts have been finding their way into the portfolios of the masses in a variety of ways. Some of them, such as real estate investment trusts (REITs), have been readily available for years, while others have only recently become accessible through products packaged and sold through retail channels such as financial advisers. One way to differentiate the offerings is by their liquidity profiles. Liquid alts are the first type because they trade easily like a stock or mutual fund. The second category are the illiquid products

19: "The Illiquidity Discount?" AQR, Cliff Asness, December 19, 2019.
20: Technically, a residence would count as an alternative asset in which individuals are allowed to concentrate their wealth to a high degree without being accredited investors. In addition, home loans may be packaged, securitized, and sold in alts products to other investors, but these are topics for another day.
21: See "PMEs by Vintage Tables," in the PitchBook Benchmarks report.

gradually making their way into smaller portfolios through clever packaging and lobbying efforts by the industry to have the rules changed.

*Liquid alts*

The term “liquid alts” comes from the idea that while many alternative strategies require lock-ups from several months to many years, there are some that provide daily liquidity, transparent views of fund holdings, and low investment minimums. These characteristics make the strategies appealing not just to the masses, but also to institutional investors looking to diversify their more traditional asset allocation but who are still hesitant to take on the risks of illiquid holdings. The industry trend is to use the phrase “liquid alts” to refer to hedge fund substitutes, but there are liquid access points for real estate and commodities as well.

Some of the earliest liquid alts were REITs, which are often publicly traded vehicles that raise money to invest in real estate. The structure was created in 1960 to “allow all Americans to enjoy the benefits of investing in high-quality commercial real estate.”[22] While the concept originated in the US, similar structures are now found in many developed countries. REITs invest in a portfolio of real estate assets and operate with a requirement to distribute 90% of taxable income to shareholders, a provision that allows REIT operators to garner the benefit of avoiding corporate income taxes. Many investors buy REITs more for the dividend potential than for the exposure to real estate price movements, a situation that is clear when the stock returns tend to track more closely to dividend stocks than to real estate markets. For this reason, REITs can be an inexact replication of real estate investing.[23] An investor can purchase a single REIT to gain access to a portfolio of properties or mortgages, or they can buy shares of a REIT mutual fund, which will provide an even more diversified profile.

Master limited partnerships (MLPs) are another business structure created out of a tax incentive in which the owners receive the flow-through tax benefits of a private partnership with the liquidity of a publicly traded company. While the first MLP was created in 1981 with Apache Oil Company, Congress limited their use in 1986 to real estate and natural resources in an effort to limit the loss of tax revenue that would result from a wholesale shift of companies to the MLP structure. Today, most MLPs invest in oil and gas properties, and the publicly traded indexes tracking MLPs tend to move with energy prices, so their returns are often highly volatile.[24] Like REITs, MLPs have high dividends, as they are required to distribute available cash to investors to avoid paying federal taxes.[25]

22: “History of REITs & Real Estate Investing,” Nareit, 2021.
23: The following discusses the criteria and how well REITs meet the criteria of an alternative investment: “REITs Aren’t a True Alternative: They’re Just Stocks that Look a Little Different,” Morningstar, Daniel Sotiroff, August 14, 2019.
24: For an examination of the correlation of MLP returns against various indicators, please reference this white paper: “Crude Correlations and MLPs: The Biggest Frustration of 2017,” Alerian, December 2017.
25: The following link provides a more complete overview of MLPs: “Master Limited Partnerships 101: Understanding MLPS,” MLPA, August 2017.

***Direct investments***

*Many know crowdfunding as a way to provide money to turn an idea into a product, such as the Exploding Kittens card game or the Veronica Mars movie project. These examples were set up to hopefully provide funders with a product, not an investment stake in the company. Equity crowdfunding, however, is a way for individuals to put relatively small sums into a startup that will result in a valuable ownership stake if the company is successful. As was outlined in a November 2020 note, the SEC changed the rules to expand access to equity crowdfunding, hoping to provide another avenue for startups and small businesses to access capital. The initial rules, found in the JOBS Act of 2012, "set out to help US-based companies raise capital from investors who didn't historically have access to private markets, while also helping to cut costs of traditional financing routes."*

*Angel investing is another way that the masses have been able to participate in the formation of businesses, though they must be accredited investors to do so. PitchBook published a note on the subject in September 2020 that discusses the role of angel investors, who tends to participate in angel investing, what the role is of angel investors, and supplies data surrounding the size and count of angel investments over time.*

Both REITs and MLPs operate under stringent laws to avoid abuse of tax advantages. Only business income from these investments qualifies for the break. Investors in REITs receive the standard 1099-DIV for the dividend income they receive, but MLPs send out a K-1, an IRS tax form issued to investment partners of pass-through entities, reporting each partner's share of the earnings, losses, deductions, and credits of the partnership. The receipt of a K-1 adds complexity to tax return calculations, something individual investors may choose to avoid.

Since the 1990s, interval funds have been an option for alts managers who want to register products as 40 Act funds for broader distribution,[26] but without the daily liquidity of typical mutual funds.[27] The interval in question is how often the fund offers a chance for investors to redeem shares, typically every three, six, or 12 months. There is also usually a maximum net amount of the total fund value (NAV) that the fund manager will allow to be redeemed at each interval, often only 5%. Given the extended period of low interest rates in the US, thirst for yield has caused the available interval funds to skew toward income-generating investments, including credit, real estate, and insurance-linked securities.[28]

Unless offered exclusively to accredited investors, interval funds are not allowed to collect incentive fees, unlike hedge funds or private market funds, so the fund expenses tend to be extremely high to compensate fund managers for the loss of revenues they would have expected to collect from their more usual alts portfolios. According to a Morningstar study, "of the interval funds that Morningstar tracks, gross expense ratios ranged from 1.5% to 5% and management fees ranged from 0.50% to more than 2%."[29] These annual rates are significantly higher than the typical equity mutual fund's and the typical private market fund's 2% management fee.

In addition, the rules listed in the earlier section about 40 Act funds apply to interval funds being offered to non-accredited investors, hindering hedge fund managers from providing exact replicas of their flagship strategies through this structure. Limiting short selling, leverage, side pockets, and more, prevents buyers of these funds from receiving the best idea portfolios offered by managers of more usual hedge funds. A typical hedge fund manager may have a 1,000-stock long-short hedge fund portfolio with a number of small, illiquid, and maybe even non-public company holdings, necessitating liquidity provisions that lock investors into infrequent redemption dates. The interval fund strategies might purchase a portfolio with similar characteristics but use only the 40 most liquid stocks in the hedge fund, attempting to provide similar returns but with much less liquidity risk. In general, though, the liquid alt version is usually fundamentally different, despite being directed by the same investment manager.

26: "The History of Interval Funds—and Where They're Heading," Interval Funds, September 9, 2020.
27: For the SEC definition of the rules surrounding interval funds, the following link provides a simplified description: "Investor Bulletin: Interval Funds," US Securities and Exchange Commission, September 25, 2020.
28: A list of active interval funds can be found here: "Active Interval Funds," Interval Fund Tracker, 2020.
29: "Are Interval Funds the Next Big Thing?" Morningstar, Cara Esser, March 20, 2017.

Despite the fees and the hamstrung products, interval funds have seen tremendous growth, expanding at a 36.9% annual rate between 2014 and March 2020, when interval fund assets were valued at $33.1 billion.[30]

*Less liquid alts*

Some financial advisers have managed to gain access to PE for their clients by pooling the assets of clients into a vehicle that is large enough to meet minimums at PE firms, much like a mutual fund pools the assets of investors to provide a diversified portfolio that a smaller investor would find difficult to assemble. Even this approach will not necessarily provide a diversified PE portfolio if an investor can only afford to commit to one vehicle. In response, some advisers will combine assets of clients into a pool that then commits to a fund that in turn invests in other funds (for example, a "fund of funds," or FoF).[31] At each level, however, a fee is imposed, making this avenue an expensive proposition for smaller investors.

The main advantage many cite for desiring PE is the illiquidity premium. But, as cited earlier, if that premium diminishes or even disappears, added layers of fees could make the private markets a difficult place for the masses to earn returns that are better than they could get in the public markets. This option may be even less attractive on a risk-adjusted basis, as individuals putting a significant portion of wealth into these very illiquid structures (FoFs tend to have longer lives because they commit to funds over several years, so it takes longer to reach full liquidation of the entire fund) may have little recourse if a sudden cash need arises. Granted, secondaries funds are now delighted to buy distressed positions in PE funds, but a) they prefer primary fund commitments over FoFs and b) they price small and FoF positions at steep discounts, delivering yet another blow to the small investor in these products.

For several years, the investment industry has been abuzz over the idea of alts being available to individual investors through their defined contribution investment portfolios—the most common being the 401(k) plan. In June 2020, the Department of Labor, which is the regulator overseeing employer-based retirement plans, indicated that certain types of managed PE funds would be allowed in 401(k) plans. As they would need to be offered under the guidance of an accredited investor, market participants gathered that the first inroads to this market would be through target-date funds, where the limited liquidity of PE, which would be restricted to 15% of the fund, would be balanced by the high liquidity of the other holdings. While the new ruling was not met with universal approbation,[32] the industry is still buzzing over the possibility. However, the main product so far has merely been asset-manager-sponsored content discussing why the ruling is a good idea. There is no sign yet that target date funds have moved en masse to adopt PE into their asset allocation as of this writing.

30: "Unlisted Closed-End Funds: Continued Growth During Uncertain Markets," UMB Fund Services, October 2020.
31: For more on the typical private market access points, read PitchBook's Primer on Private Market Access Points.
32: "401(k) Plans Can Now Invest in Private Equity Funds," Investopedia, Jim Probasco, June 5, 2020.

In February 2020, the Vanguard Group, the investment management firm arguably more aligned with the masses than any other due to its governance and fee structures,[33] announced a partnership with HarbourVest to offer its first PE FoF. While the FoF was only to be sold to Vanguard's institutional clients, an announcement was made in January 2021 that a closed-end investment vehicle registered as a 40 Act fund would be made available to accredited investors.

Hamilton Lane has also offered a PE vehicle for the masses, packaging both PE and private debt into one fund to offer a product that the recently expanded roster of accredited investors could access.[34] With a minimum investment of $50,000, quarterly liquidity events, and an objective to target fee-efficient investments, the fund appears to offer less affluent investors the ability to access the private markets with fewer of the disadvantages that smaller investors typically face. With that said, there are two share classes. The first operates with an investment minimum of $50,000 but charges a 3.5% sales load, while the second, no-load option has a minimum investment of $1 million. As has often been the case with alts—the less money you have, the less economical it is to invest in them.

One final note about the less liquid fund options is that the legal documents accompanying these investments can be daunting, often surpassing 100 pages of difficult-to-understand text. Most institutional investors will engage attorneys to review fund documents to ensure that the terms are not overly skewed to the benefit of the asset manager. That level of legal oversight is something that the masses may not know how to properly engage, leaving them exposed to exploitation by fund managers with an informational advantage about the mechanics of the various fees and terms.[35]

33: "Who Are the Owners of Vanguard Group?" Investopedia, John Edwards, June 22, 2019.
34: "Private Assets Fund: A Unique Opportunity to Access the Private Markets," Hamilton Lane, n.d.
35: For more on the nuances of fees and terms found in fund documents, please read: "The Fine Print: Unraveling Fund Fees and Terms."