Democratizing Private Markets?
Private Equity Performance of Individual Investors

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Individual investors are increasingly important in private equity (PE)

Individuals hold roughly **$1 trillion** of $8 trillion total PE assets

- Faster growth than institutions, with individual share predicted to reach 30–50%
- Access expected to expand further, including to 401(k) plans (SEC, 2025) Details

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How do individual investors perform in PE?

- First systematic study of individual investors' PE performance
- Assess intermediation frictions: (i) access, (ii) skill, and (iii) fees
- Quantify impact on performance, cross-sectional variation with wealth

This Paper: PE Investments of U.S. Households

18k investors ($1m–1bn), 64k investments ($10k–5m), 4.5k funds

Buyout (BO), Venture Capital (VC), Fund of Funds (FoF) / Vintages 2000–2020

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Main findings:

1. Individuals invest in funds with similar performance as institutional investments
2. Most affluent investors outperform the least affluent by 9 pp in PME
3. Financial advisors provide consistent advice and persistent performance, and this holds in subsamples where access frictions are limited → skill
4. Fees amplify the performance gap by more than 50%

Data and Performance Measurement

Data

1. Investor-level Holdings & Quarterly Cash Flows (2000Q1–2024Q3)
   - Data from **Addepar**, technology and data wealth management platform
     - High-quality, audited cash flows and valuations
     - Broad cross-section of wealth and funds
     - Used in Balloch and Richers (2023), Gabaix et al. (2024), Mainardi (2025)

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   - **17,886** investors (PE share $\approx$ **13%**); **65,449** investor–fund positions
   - **4,593** funds in Buyout, VC and Fund of Funds across vintages 2000–2020
   - **745** advisors: RIAs, broker-dealers, family offices

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2. Institutional Benchmarks
   - Preqin: Fund characteristics, minimum commitments, performance
   - MSCI-Burgiss: Performance

Summary Statistics: Investors

Wealth Group	N	AUM ($m) Total	AUM ($m) PE	PE share (%) BO	PE share (%) VC	PE share (%) FoF	# Funds	Median commitment
<3m	3,541	1.7	0.2	29.1	30.3	40.6	1.9	0.1
3m–10m	3,682	8.3	1.0	30.4	25.6	44.0	2.3	0.3
10m–30m	4,308	24.7	3.2	34.5	25.1	40.4	3.4	0.4
30m–100m	3,635	71.4	9.3	35.9	29.2	34.9	5.6	0.6
>100m	2,720	615.3	107.8	39.6	33.2	27.1	10.7	1.5

- BO share, # of funds, and commitment size ↗ in wealth; FoF share ↘ in wealth
- Commitments much smaller than institutions ($\approx$ \$5m)
- 2,000 funds without performance in Preqin, >1,000 more than Burgiss

Fund Universe <3m Wealth Group

Standard performance metrics based on cash flows, net of GP fees

1. TVPI, IRR, Kaplan and Schoar (2005) PME
2. **Risk-adjusted PMEs following Brown, Lundblad, and Volckmann (2025)**
3. Korteweg and Nagel (2024) alphas (robustness)

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	Buyout		VC		Fund of Funds	
	Mean	S.D.	Mean	S.D.	Mean	S.D.
TVPI	1.83	0.89	2.08	2.11	1.77	0.72
IRR	16.8	19.8	12.0	17.5	13.3	9.0
PME ($\beta = 1$)	1.25	0.65	1.23	1.12	1.13	0.35
Risk adjusted PME	**1.21**	**0.58**	**1.01**	**0.93**	**1.07**	**0.29**
High beta PME	1.12	0.55	0.87	0.81	0.97	0.27
KN (2024) alpha	0.11	0.80	-0.06	0.79	-0.08	0.24

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For fund i, individual j's "net-net" return may differ, due to additional fees:

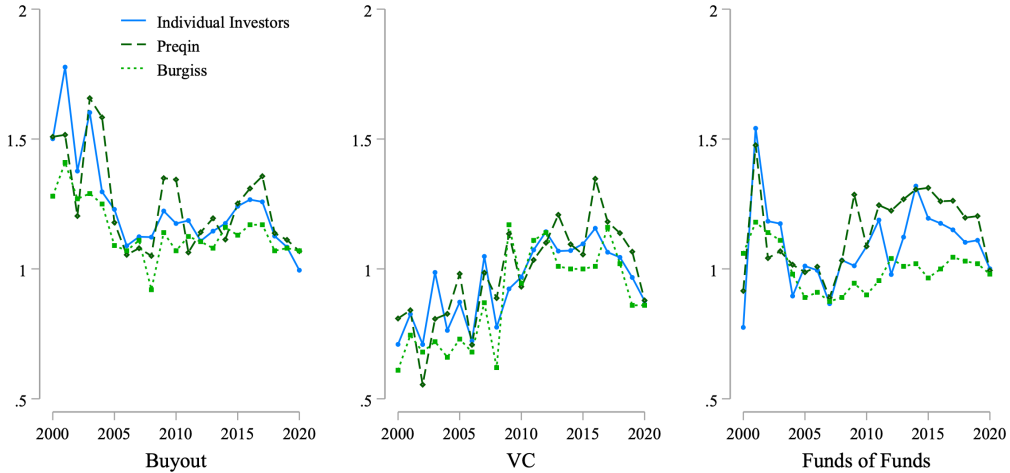
Median performance of fund i across investors j

$$r_{ij}^{net-net} = r_i - f_{ij}^{Tier} - f_{ij}^{Access} - f_{ij}^{Advisor}$$

- f^{Tier}: LP tiers in side letters (Begenau and Siriwardane, 2024)
- f^{Access}: Access fees charged by a platform or feeder fund
- $f^{Advisor}$: Fees charged by wealth advisor

Performance of Individual Investors

PME Comparison to Institutional Benchmarks (Median by Vintage)



Aggregate Performance Comparable to Institutions

For fund i: $PME_i^{\text{Excess}} \equiv PME_i - \overline{PME}_{\text{Benchmark} \in \{\text{Preqin, MSCI-Burgiss}\},\ \text{vintage}(i),\ \text{category}(i)}$

	BO		VC		FOF	
	EW	VW	EW	VW	EW	VW
Individual Performance	1.25	1.15	1.23	1.31	1.13	1.09
Excess vs Preqin	-0.10***	-0.14***	0.04	0.19***	-0.12***	-0.18***
Excess vs MSCI-Burgiss	0.14***	0.06***	0.11***	0.25***	0.14***	0.09***
N Funds	1,534		2,071		613	

- Excess performance sensitive to the choice of performance metric and benchmark
- Magnitudes much smaller than differences documented in the existing literature (Lerner et al. (2007): $>$ 20% IRR gap for endowments vs. public pension funds)

Wealth Gap in Performance

$$PME_{i(j)}^{risk-adjusted} = \beta_0 + \sum_m \beta_{1m} InvestorWealth_{m(j)} + \lambda_{ct} + \lambda_{k(j)} + \epsilon_{i(j)}.$$

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Fund category	All Funds (1)	All Funds (2)	Buyout (3)	VC (4)	Funds of Funds (5)	All Funds (6)
<3m	-0.075***	-0.052***	0.001	-0.115***	-0.049**	-0.012
	(0.022)	(0.017)	(0.021)	(0.037)	(0.023)	(0.013)
3–10m	-0.045***	-0.032**	0.016	-0.066**	-0.053***	-0.007
	(0.017)	(0.015)	(0.021)	(0.031)	(0.018)	(0.013)
10–30m	-0.025**	-0.021*	0.011	-0.044*	-0.035**	0.004
	(0.013)	(0.012)	(0.015)	(0.024)	(0.014)	(0.011)
30–100m	-0.016	-0.015	0.018	-0.035*	-0.037***	-0.007
	(0.011)	(0.010)	(0.013)	(0.020)	(0.010)	(0.007)
Constant	1.104***	1.100***	1.156***	1.068***	1.056***	1.088***
	(0.016)	(0.013)	(0.013)	(0.028)	(0.020)	(0.010)
Category × vintage FE	No	Yes	Yes	Yes	Yes	Yes
Advisor FE	No	No	No	No	No	Yes
Observations	65,449	65,449	25,386	26,111	13,952	65,393
R^2	0.002	0.126	0.089	0.118	0.131	0.191

Wealth Gap in Performance

Only **2pp** explained by category × vintage selection

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Wealth Gap in Performance

Wealth gap strongest in **VC**

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Wealth Gap in Performance

No wealth performance gap within advisor (advisor FE)

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Role of Intermediation Frictions

How important are advisors in explaining performance variation?

Regress standardized performance by category×vintage (mean 0, variance 1):

$$PME^{z}_{i(j)} = \underbrace{\gamma_{kct}}_{\text{advisor}\times\text{category}\times\text{vintage fixed effects}} + \varepsilon_{i(j)}$$

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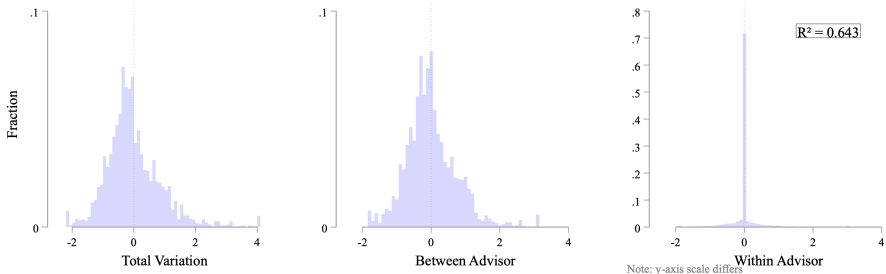
Advisors give consistent PE advice across clients: R-squared is 64.3%.

- Within advisors, 72% of observations are identical to the advisor×category×vintage mean



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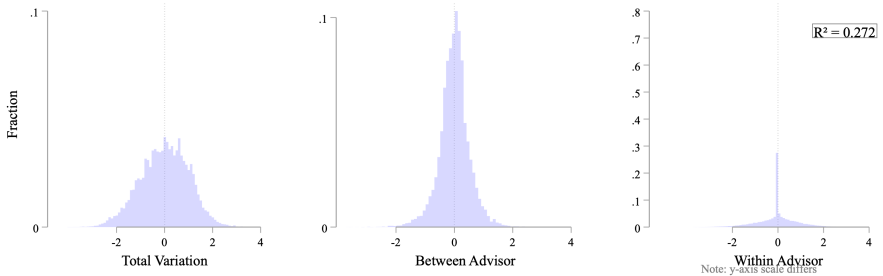
- Within public equities, corresponding advisor-time fixed effects explain only 27.2%



Advisors' Past Experience and Performance

$$PME_{i(j)}^{risk-adjusted} = \beta_0 + \sum_k \beta_{1k} AdvisorCharacteristics_{k(j)} + \lambda_{ct} + \lambda_{m(j)} + \epsilon_{i(j)}.$$

Advisors' Past Experience and Performance

Past performance quartiles associated with higher performance

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Investors:	All	All	New
Performance quartile	0.048***	0.048***	0.023
	(0.014)	(0.014)	(0.016)
Experience (number of past funds)	0.025***	0.024***	0.034***
	(0.005)	(0.008)	(0.011)
Ln(Total commitments)		-0.002	-0.002
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Ln(Advisor mean aum)		0.009	0.013
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Advisor type, Category × vintage, Investor Wealth FEs	Yes	Yes	Yes
Observations	61,904	61,904	12,297
R^2	0.140	0.141	0.215

Advisors' Past Experience and Performance

Investors with more experience advisors outperform by **3pp**

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Persistent differences in performance could be (i) access or (ii) skill → subsamples

Advisors' Past Experience and Performance

Similar for investors with no experience ⇒ **Advisor quality**

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Same tests, subsamples without access frictions

$$PME_{i(j)}^{risk-adjusted} = \beta_0 + \sum_k \beta_{1k} AdvisorCharacteristics_{k(j)} + \lambda_{ct} + \lambda_{m(j)} + \epsilon_{i(j)}.$$

Sample	All (1)	First Fund (2)	Minimum $<$ 1m (3)	Commitment $<$0.1m (4)	Oversubscribed (5)
Performance quartile	0.048***	0.041**	0.049**	0.072***	0.025
	(0.014)	(0.018)	(0.021)	(0.021)	(0.015)
Experience (number of past funds)	0.025***	0.033**	0.033***	0.027**	0.044
	(0.005)	(0.015)	(0.007)	(0.013)	(0.042)
Advisory category FE	Yes	Yes	Yes	Yes	Yes
Category $\times$ vintage FE	Yes	Yes	Yes	Yes	Yes
Investor Wealth FE	Yes	Yes	Yes	Yes	Yes
Observations	61,904	8,507	20,569	8,769	7,126
R^2	0.140	0.139	0.249	0.168	0.154

Same tests, subsamples without access frictions

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	(1)	(2)	(3)	(4)	(5)
Performance quartile	0.048***	0.041**	0.049**	0.072***	0.025
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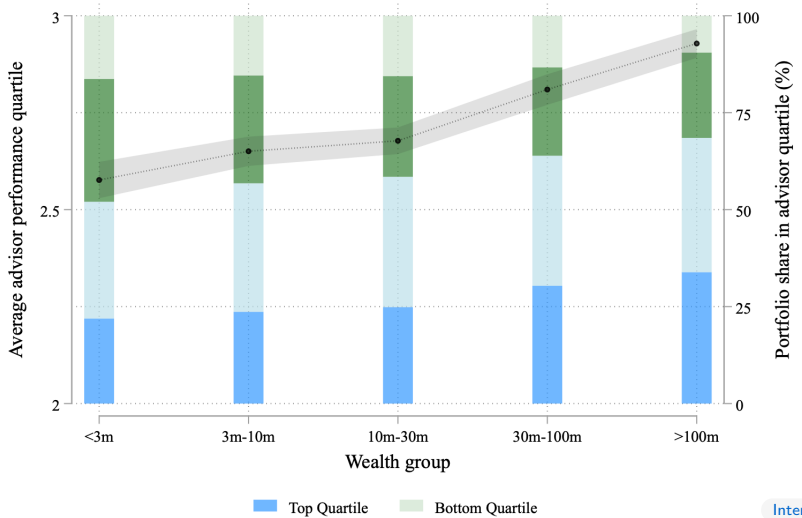
Investor Sorting into Advisor Quality

All investors, final PMEs

Wealthier investors match with better advisors
2.6–2.9 avg quartile for least vs most affluent
$\approx$ 10% of range



Interim PME (Appendix)

What is the impact of additional fees?

For fund i, individual j's "net-net" return:

Median performance of fund i across investors j

$$PME_{ij}^{net-net} = PME_i - f_{ij}^{Tier} - f_{ij}^{Access} - f_{ij}^{Advisor}$$

f^{Tier}: LP tiers in side letters

- Estimated using within-fund variation, extrapolated by wealth $\rightarrow \hat{f}_{m(j)}^{\text{Tier}}$

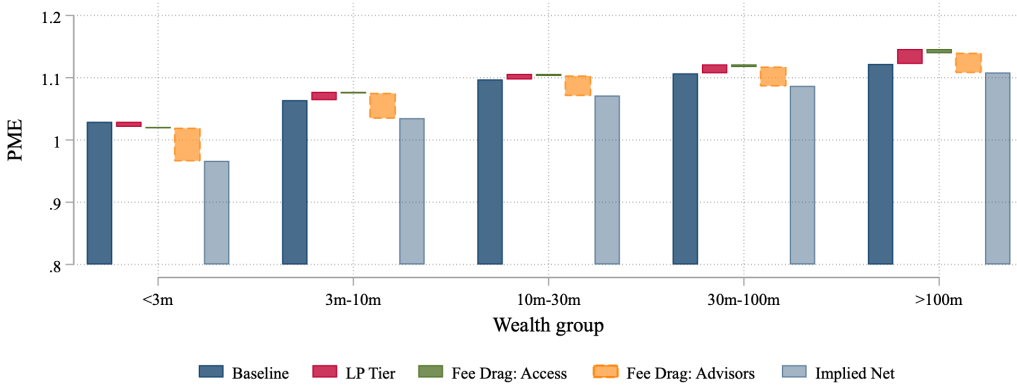
f^{Access}: Access fees charged by a platform or feeder fund

- Estimated using observed fees, extrapolated at advisor-fund level $\rightarrow \hat{f}_{ik}^{Access}$

$f^{Advisor}$: Fees charged by wealth advisor

- Simulated based on public fee disclosures, decreasing in wealth $\rightarrow \tilde{f}_{i,m(j)}^{Advisor}$

Fees Widen Performance Gap



Fees widen the gap by more than 50%, eliminate outperformance for the least affluent.

Conclusion

First systematic study of individual investors' PE performance.

- Individuals invest in funds of similar performance to institutions
- Significant wealth gradient with an important role for financial advisors
- Fees amplify this gradient and disproportionately affect the less wealthy

Policy implications:

- Little evidence of adverse selection in funds invested by individual investors
- Intermediation frictions (fees, skill) first-order for smaller investors
- Benefits of further "democratization" of PE hinge on successfully alleviating intermediation frictions: skill, fees

Policy implications details

Appendix

How would intermediation frictions shape individual investor performance?

Fund Access:

↓ Adverse Selection
Fang-Ivashina-Lerner 2015; Braun-Jenkinson-Schemmerl 2020

↑ Reputation Gompers 1996; Chung-Sensoy-Stern-Weisbach 2012

Skill:

↓ Sophistication, fixed cost of due diligence
Lerner-Schoar-Wongsunwai 2007, Calvet-Campbell-Sodini 2007

↑↓ Delegated to Advisors
Gennaioli-Shleifer-Vishny 2015, Linnainmaa-Melzer-Previtero 2020

Fees:

↓ GP fees, Intermediation fees
Metrick-Yasuda 2010, Robinson-Sensoy 2013, Begenau-Siriwardane 2024

Institutional Background

1. **Closed-end Funds**, semi-liquid funds (evergreen, interval, tender offer) excluded
   - Limited partnerships (GP + LPs) with capital returned $\sim$15-year horizon
   - Fees: Standard "2 and 20," but tiers and side letters may create variation

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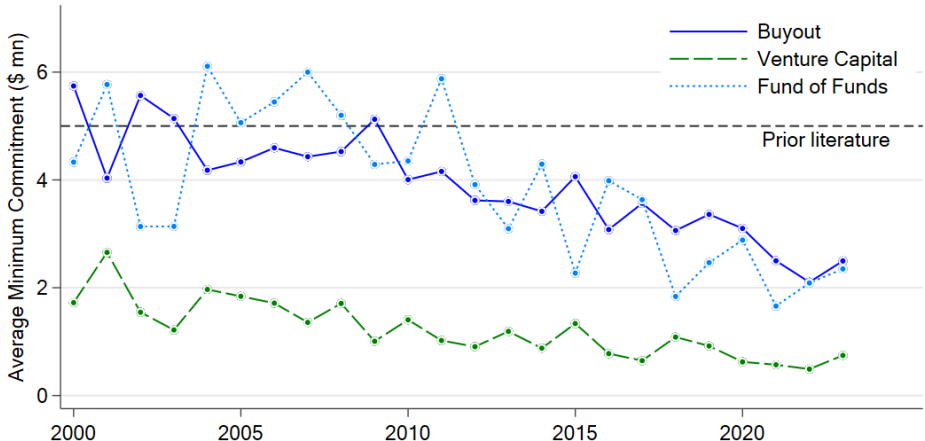
   - Limited partnerships (GP + LPs) with capital returned $\sim$15-year horizon
   - Fees: Standard "2 and 20," but tiers and side letters may create variation
2. **Access** via multiple channels, generally restricted to **accredited investors**
   - Channel 1: Direct Investing as an LP (UHNW or low commitment funds)
   - Channel 2: Pooled vehicles (feeder funds, platforms, pooling by wealth managers)

Institutional Background

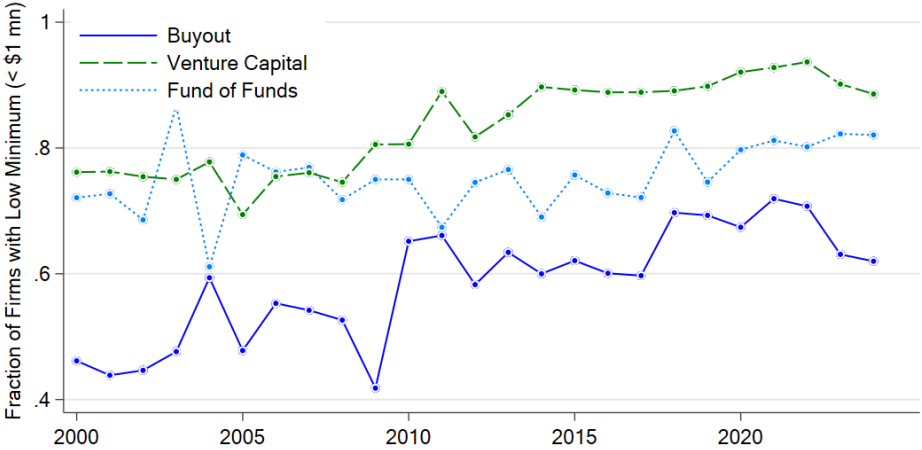
1. **Closed-end Funds**, semi-liquid funds (evergreen, interval, tender offer) excluded
   - Limited partnerships (GP + LPs) with capital returned ∼15-year horizon
   - Fees: Standard "2 and 20," but tiers and side letters may create variation
2. **Access** via multiple channels, generally restricted to **accredited investors**
   - Channel 1: Direct Investing as an LP (UHNW or low commitment funds)
   - Channel 2: Pooled vehicles (feeder funds, platforms, pooling by wealth managers)
3. **Intermediated** by various types of wealth managers/advisors
   - Registered investment advisors (RIA) – e.g. Edelman Financial Engines
   - Family Offices – e.g. MSD Capital (for Michael Dell)
   - Banks – e.g. Goldman Sachs Private Wealth
   - Broker-dealers – e.g. Charles Schwab

Decline in Minimum Commitment...



Back to Institutional Background

...Not Limited to Small Number of Firms



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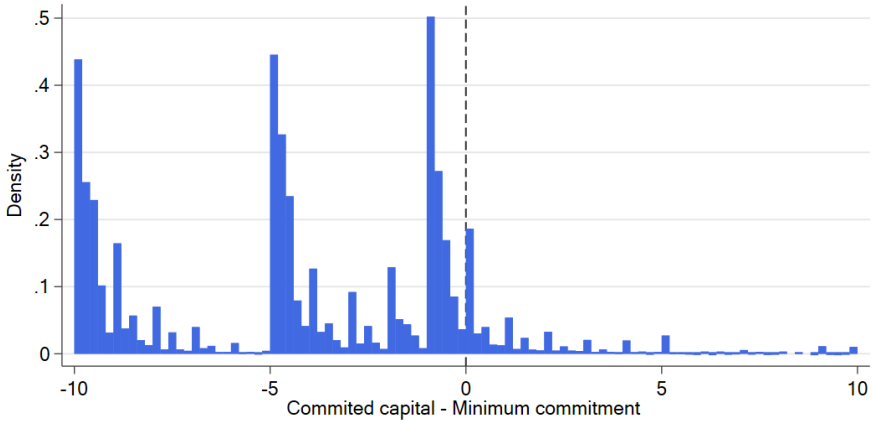
Commitment Pooling via Advisors

Distribution of (Individual Commitment - Minimum Commitment)



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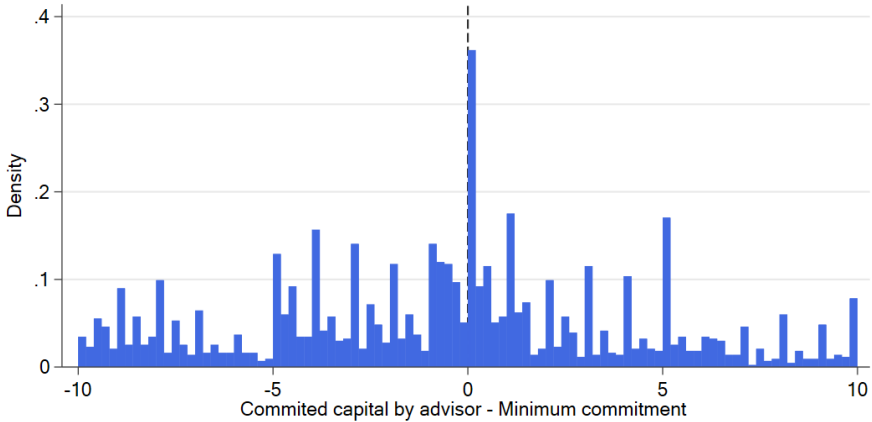
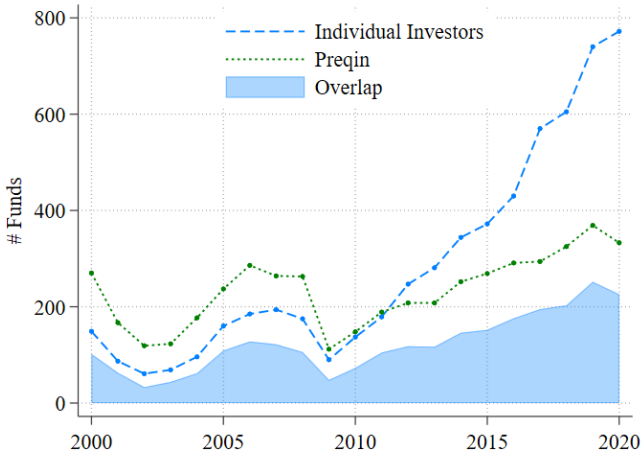
Commitment Pooling via Advisors

Distribution of (Aggregated Commitment - Minimum Commitment)



Back to Institutional Background

Summary Statistics: Fund Universe



Preqin: funds with performance data available in Preqin.

1. **Novelty:** 45% of funds not covered by Preqin; Not "twin" vehicles issued in parallel with institutional offerings

2. **Composition:** 2/3 Venture Capital; Coverage concentrated in post-2010 vintages

3. **Characteristics:** Lower minimum commitments (avg. \$1.4M vs. \$8.6M)

Back to Investors

Summary Statistics: Investors $<$ \$3m

			PE Portfolio share (%)				
Wealth group	# Investors	Wealth (\$m)	BO	VC	FoF	# Funds	Median commitment
$<$0.5m	937	0.3	31.2	27.5	41.3	1.8	0.05
0.5m–1m	699	1.0	29.5	32.2	38.3	1.9	0.1
1m–3m	1,905	2.6	28.2	30.7	41.1	2.0	0.2

Back to Investors

Standard performance metrics in PE, based on complete cash flows

1. Total Value to Paid-In (**TVPI**): (total distributions + NAV) / (total contributions)

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Standard performance metrics in PE, based on complete cash flows

1. Total Value to Paid-In (**TVPI**): (total distributions + NAV) / (total contributions)
2. Internal Rate of Return (**IRR**): Discount rate that sets NPV of cash flows to zero
3. Public Market Equivalent (**PME**) of Kaplan and Schoar (2005)

$$PME_i = \frac{\sum_{t=1}^{T} \frac{Distribution_{i,t}}{\prod_{s=1}^{t}(1+r_{m,s})} + \frac{NAV_{i,T}}{\prod_{s=1}^{T}(1+r_{m,s})}}{\sum_{t=0}^{T} \frac{Contribution_{i,t}}{\prod_{s=1}^{t}(1+r_{m,s})}}$$

   i.e. discounted TVPI using the realized public stock market return.
   - Baseline: CRSP Value-Weighted Market Index
   - Comparison to institutions: Russell 3000 Index
   - However, implicitly assumes that $\beta = 1$
4. **Risk-adjusted PMEs** following Brown, Lundblad, and Volckmann (2025)
5. Korteweg and Nagel (2024) **alphas** (robustness)

Wealth Gap in Performance: Advisors with all Five Wealth Groups

135 advisors with clients spanning all five wealth groups

- Average advisor manages 99 individuals (median: 45)

Fund category	All Funds (1)	All Funds (2)	Buyout (3)	VC (4)	Funds of Funds (5)	All Funds (6)
<3m	-0.079***	-0.061***	-0.007	-0.128***	-0.046*	-0.010
	(0.025)	(0.021)	(0.025)	(0.044)	(0.027)	(0.016)
3m-10m	-0.063***	-0.045***	-0.011	-0.065*	-0.051**	-0.006
	(0.021)	(0.018)	(0.023)	(0.036)	(0.022)	(0.015)
10m-30m	-0.035**	-0.031**	0.008	-0.069**	-0.025	0.007
	(0.016)	(0.014)	(0.018)	(0.028)	(0.017)	(0.012)
30m-100m	-0.026*	-0.023*	0.009	-0.044*	-0.030**	-0.005
	(0.014)	(0.013)	(0.016)	(0.024)	(0.014)	(0.009)
Constant	1.120***	1.115***	1.170***	1.104***	1.045***	1.094***
	(0.022)	(0.017)	(0.016)	(0.036)	(0.025)	(0.012)
Category × vintage FE	No	Yes	Yes	Yes	Yes	Yes
Advisor FE	No	No	No	No	No	Yes
Observations	45,484	45,484	16,324	18,137	11,023	45,484
R^2	0.003	0.156	0.111	0.151	0.168	0.212

Back to Wealth Gap

Advisors with all Five Wealth Groups, no family offices

102 non-family office advisors with clients spanning all five wealth groups

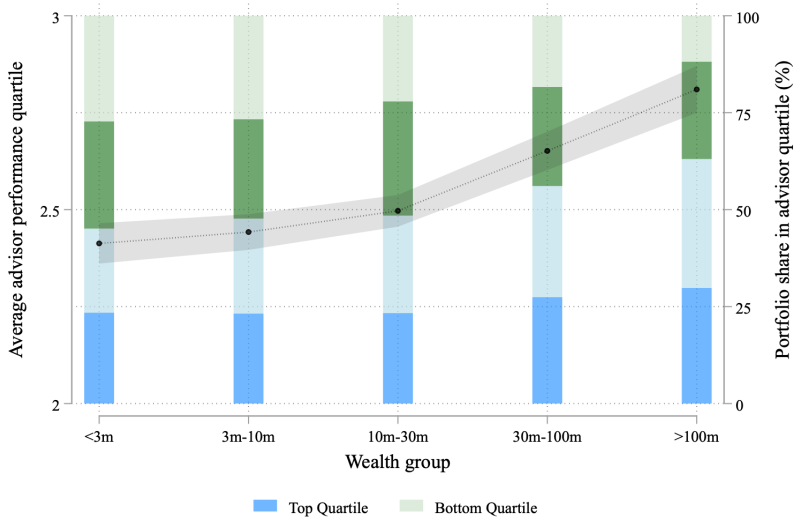
- Average non-family office advisor manages 116 individuals (median: 57)

Fund category	All Funds (1)	All Funds (2)	Buyout (3)	VC (4)	Funds of Funds (5)	All Funds (6)
<3m	-0.085***	-0.068***	0.008	-0.136***	-0.063**	-0.015
	(0.028)	(0.023)	(0.029)	(0.049)	(0.028)	(0.018)
3m-10m	-0.070***	-0.055***	-0.017	-0.065*	-0.071***	-0.011
	(0.023)	(0.019)	(0.023)	(0.039)	(0.023)	(0.016)
10m-30m	-0.047***	-0.042***	-0.001	-0.083***	-0.031*	0.001
	(0.017)	(0.015)	(0.021)	(0.029)	(0.018)	(0.013)
30m-100m	-0.037**	-0.030**	-0.011	-0.044*	-0.029**	-0.007
	(0.015)	(0.013)	(0.017)	(0.025)	(0.015)	(0.010)
Constant	1.123***	1.117***	1.171***	1.118***	1.042***	1.093***
	(0.023)	(0.018)	(0.017)	(0.038)	(0.024)	(0.013)
Category × vintage FE	No	Yes	Yes	Yes	Yes	Yes
Advisor FE	No	No	No	No	No	Yes
Observations	37,992	37,992	12,302	16,108	9,582	37,992
R^2	0.003	0.158	0.105	0.154	0.194	0.212

Back to Wealth Gap

Investor Sorting by Advisor Performance Quartiles

New investors, interim PMEs



Final PME

The PE Democratization Landscape

(1) Eligibility & Thresholds

- Expansion of accredited investor definition (2020)
- New no-action guidance eases Rule 506(c) verification burden (2025)
- Decline in minimum investments ($25k–$100k vs. $5–10m institutional)

(2) New Platforms & Vehicles

- Solving for liquidity: New fund structures (e.g. interval or tender offer funds)
- Solving for access: Tech platforms (e.g. iCapital, MoonFare)

(3) Retirement Accounts

- 2025 Executive Order directs DOL to expand private assets in 401(k)s
- DOL rescinded 2021 guidance that discouraged private funds in plans

Global Interest in Expanding Access to Private Markets

UK: Long-Term Asset Funds (LTAFs)

- Open-end vehicles that enable investment in long-term, illiquid assets

EU: European Long-Term Investment Fund (ELTIF)

- Regulated investment funds with low minimums, designed to be accessible
- Introduced in 2015, with new rules in effect since 2024 (ELTIF 2.0)

Australia: ASIC Oversight

- Heightened scrutiny on valuation practices and conflicts of interest
- Recent discussion paper in February 2025 highlights regulatory perspective

Back to Motivation

PE Providers on Expanding Retail Access

Apollo (Marc Rowan, Q4 2024 call)

- "Everywhere in the world where privates have been added to retirement solutions, the results are not just a little bit better, they are **50–100% better**."

Blackstone (Jon Gray, Q4 2024 call)

- "It certainly seems logical given the way the market's developed over time, and we really wanted to **democratize access** to these products into higher returns"

Carlyle (David Rubenstein, PEI NEXUS Conference 2024)

- "[Carlyle] is going to try to be at the forefront with other large private equity firms trying to make opportunities to invest in the kind of funds we have available to... **individual investors**."

Back to Motivation

Policy Implications

"Democratization" of PE takes three main forms:
(i) Eligibility & Thresholds, (ii) New Platforms & Vehicles, (iii) Retirement Accounts

1. **Lack of access does not seem to be the main problem.**
   (i), (ii): Little evidence of adverse selection in universe of funds for individuals
   (iii): Potentially subject to sponsors' restricted fund choice

2. **Intermediation quality matters.**
   (i), (ii): More experienced advisors associated with better fund selection
   (iii): Lack of advisors may be a concern

3. **Fees have first-order impact on performance.**
   (i), (ii): Erases gains from private markets for less wealthy investors
   (iii): No advisory fee $\Rightarrow$ Reduced fee

Back

SEC Investor Advisory Committee (09/18/2025)

Policy Recommendations in Context:

1. Retail access via registered funds (interval, tender offer, ETFs, mutual funds)
   - "Optimal" due to protections (audits, diversification, oversight, liquidity)
   - This Paper: Advisor pooling works; registered funds add fee layers

2. Direct access only with guardrails
   - Shift from wealth $\Rightarrow$ sophistication tests, prudential limits, stronger filings/disclosure
   - Our Paper: Outcomes hinge on advisor quality, not wealth

3. Expand investor protections
   - Better disclosure and enforcement
   - This Paper: Fee drag is the core retail risk