Glossary

Accredited investor
An investor who is deemed to be sufficiently informed and sophisticated, benefits from a satisfactory knowledge of investments, and is thus able to handle private markets investments, which do not benefit from the protection offered by stock exchange regulations. In the US, this status is defined by the Investment Company Act of 1940.

Accrued
The amount that has been collected but has not yet been distributed.

Add-on
A company acquired by a private equity firm to be merged with an existing portfolio company (the 'platform').

Adjusted net asset value (NAV)
The value of a portfolio of private companies (or assets) appraised by a fund manager on the reporting date, plus the capital called and/or minus the capital distributed after the reporting date. These figures are estimates for information purposes only and may not reflect the actual valuation at the reporting date. They are net of the fees and costs of the underlying product.

Advisory board
A group of fund investors or third parties who advise a fund manager on a specific fund. The powers of this board are limited to simple advice on topics ranging from the valuation of assets to addressing conflicts of interests. This group is also referred to as the 'Limited Partners Advisory Committee' (LPAC).

Alternative Investment Fund Manager Directive
An EU-wide regulation introduced in 2011 to provide a common regime for the managers of funds dedicated to non-traditional assets, namely hedge funds and private markets funds. To market their funds within the EU, alternative investment fund managers must obtain an authorisation from at least one national EU regulator. This authorisation is delivered upon compliance with transparency and investor protection provisions.

Bottom quartile
The lowest 25% of a ranked sample according to specific criteria, such as a performance metric.

Buyout
Acquisition of the existing shares of a company through debt and equity financing. Normally, the company being acquired is put up as collateral to secure the debt. In a management buyout, the existing management team acquires the business from the vendor (with the support of private equity investors if it is sponsored). In a management buy-in, a group of external managers takes over the company. A leveraged build-up consists of buying a company (the 'platform') and making further acquisitions to complement it (the 'add-ons').

Capital account
A report on the position held by an investor in a private markets fund, including committed capital, paid-in capital, investments, valuations, and distributions.

Capital call
A request for payment to fulfil a funding obligation (the commitment) to a private markets fund. The capital called is used to fund an investment and/or for fees and expenses. Most of the commitment is called in the first four-to-five years (the investment period) of a fund and occurs at irregular intervals. These are also referred to as 'drawdowns'.

Carried interest
Also known as 'carry' or a performance fee, this is the share of profits (usually 20%) that the fund manager receives after the invested capital (and usually a preferred return) have been paid to the investors.

Closing
During the creation of a fund, the manager accumulates the commitments of interested investors. The closing consists of the effective gathering of a critical volume of commitments and the signature of subscription agreements by these investors. There can be several closings during the fundraising period. The term closing also applies to the effective investment in a portfolio company. In other words, the closing is the signature of the transfer of ownership (LBO) or of the capital increase (venture capital and growth capital) in the case of private equity investments.

Closed-end fund

A standard private markets structure that usually lasts ten years (although some direct lending funds can be shorter, and private real asset funds and funds of funds can last longer). Investors can only commit capital at fund inception, during the fund-raising period. The capital is first invested during an investment period of five years (three years in the case of direct lending and funds of funds). Then, private companies and assets are sold, and the capital is distributed during the divestment period (also referred to as the 'harvesting' period). If needed, the fund's lifespan can usually be extended by two-to-three years to sell the remaining companies or assets before liquidation.

Co-investment

An option or right that is offered to investors in a private markets fund who would also like to invest directly in a portfolio company or asset within that fund as a means of increasing their exposure to select companies or assets. In some cases, these co-investments can also be made by individuals who are not invested in the private markets fund.

Co-investment fund

Private markets fund investing in portfolio companies or assets jointly with other vehicles managed by a fund manager. This fund is usually offered to specific investors only and charges lower management fees and carried interest than usual.

Collateral

An asset from a borrower that is pledged to ensure that a debt or a security will be repaid or refunded. This can be linked to a specific debt or a series of transactions. For example, entrepreneurs must sometimes provide personal collateral for the loans provided to their company.

Commitment

A fund investor's obligation to provide a certain amount of capital to a fund.

Committed capital

The sum of all the amounts pledged by fund investors.

Custodian

A specialist institution dedicated to the certification of cash-flow movements of funds. It acts as a trusted third party to guarantee that the fund manager handles the cash of a private markets fund in a specific way.

Direct lending

A private debt strategy similar to traditional bank lending. A lender provides a borrower with an amount of debt that is progressively repaid along with the interest computed on the outstanding amount still due. This is also known as senior lending.

Distressed debt

A distressed debt fund invests in companies that are either in or close to default with a creditor.

Distribution

Proceeds received by a private equity fund that are disbursed to fund investors.

Distributed to paid-in (DPI)

The ratio between the amount of capital distributed by the fund (from the proceeds of its divestments) and the total amount of capital calls ('paid-in' capital).

Divestment period

Subsequent to the investment period of a private markets fund, the divestment period (i.e. 'harvesting period') represents a five-year time frame (it is ten for fund of funds and sometimes more for some private real asset funds) during which a fund develops and sells or lists its investments. At the end of the divestment period, the fund should have sold all its holdings and be free of any warranties. If not, the fund manager has the choice to sell the assets on the secondary market (direct secondaries) or to other investors, transfer these assets to a new fund (a GP-led restructuring), or extend the lifespan of the fund beyond the initial plan. The divestment period can then be extended by one-to-three years if this is allowed by the fund regulations.

Dividend recapitalisation

A partial or full refund of the capital injected into an LBO thanks to the payment of a special dividend. This dividend is usually derived from the proceeds of an increase in the LBO debt or, more rarely, the disposal of an asset of the underlying portfolio company.

Drawdown

See the definition for a 'capital call'.

Dry powder

At a fund level, it is the portion of the fund size that has not been called yet. At the private markets industry level, it is the sum of all the capital committed but not yet deployed.

Due diligence

This is an independent and detailed analysis that takes place before an investment is made. It is realised either by or for investors who would like to invest in a given target company or fund. In the case of a company, it includes a detailed analysis of the hypothetical business plan, as well as a confirmation of material facts (e.g. client accounts, contracts, bills, etc.) and opinions. When applied to a fund, it consists of determining the attractiveness, as well as the risks and issues, of an investment strategy and looking at the track record and set-up of the fund and its manager.

Eligible investor

A 'qualified purchaser' under the US Investment Company Act of 1940, as amended, or an 'accredited investor' under the US Securities Act of 1933, as amended.

Equalisation mechanism

A process that involves the establishment of strict equality amongst investors who join the roster of a fund at different closing dates. Investors who join after the first closing date must compensate the initial investors, usually by paying them interest. Interest is, in effect, collected by the fund manager and paid on a pro rata basis to investors during the first closing.

Equity bridge financing

Also known as credit lines, subscription line facilities, or capital call facilities, these financing instruments are short-term loans (usually less than 365 days) that are provided to private markets funds and are backed by the commitments of fund investors. Capital calls can then be delayed, along with the start of the computation of the IRR associated with them. Distributions can also be anticipated, thus affecting the computation of the IRR.

Evergreen

See the definition for an 'open-end fund'.

Exit

The sale of a stake ('realisation') in a portfolio company through a public offering, trade sale, or sale to another private equity fund. This therefore excludes dividend recapitalisations.

Fair market value

An estimate of the net asset value of a fund by making an assumption about what a buyer would pay in an open-market operation for an asset (or a group of assets, such as the portfolio companies of a private markets fund).

Fair value

The Financial Accounting Standard 157 (FAS 157) defines fair value as the price that would be received if selling an asset or paid to transfer a liability in an orderly transaction between market participants on a particular measurement date.

Fairness opinion

An evaluation made by a trusted third party on the situation and value of a portfolio or a portfolio company. This service is often used when a fund investor perceives a potential conflict of interest with regard to the valuation of a portfolio or a company by a fund manager.

Fee-offset mechanism

Distributions from portfolio companies (e.g. dividends, service fees, board attendance fees) are often not tax efficient if paid to the fund. However, they should not theoretically be paid to the fund manager, since the latter is paid (via management fees) to manage the fund and its portfolio. Hence, this mechanism is set up to direct the distributions to the fund manager while compensating the fund via reduced management fees.

Feeder fund

A vehicle that pools commitments in a private markets fund. In general, the manager leverages relationships with prominent private markets managers to offer fund access with lower minimum commitments to investors.

Fund

An investment vehicle, often a limited partnership, to which investors commit capital.

Fund investors

Institutions or individuals who commit capital to a private markets fund. Their responsibility is limited to the capital committed. Fund investors are passive.

Fund manager
Party or parties responsible for raising, creating, investing, controlling, creating value from, and divesting a private markets investment vehicle.

Fund of funds
A fund that invests in a selection of underlying private markets funds. The advantages include diversification (strategy, manager, and vintage year), a lower minimum commitment, high-quality selection, and access to funds that might otherwise be closed to the investor.

Fundraising
The process through which a private markets manager solicits financial commitments from invest-ors for a newly formed fund. This takes place at the beginning of the fund's lifespan and usually lasts from a few weeks to 24 months. After this period, the fund is closed to new investors.

Fund regulation
A contractual agreement between investors and the fund manager of a private markets fund. This agreement defines the rules governing the management of the fund, the relations between the fund and its investors, and the rights and duties of the fund man-ager. Fund regulations are an instruction manual for the fund in the sense that they describe all the legal elements, the fees, the structure, and other con-ditions agreed upon by the investors and the fund manager. They can be amended at times and sup-plemented by side letters. An example of a fund reg-ulation is the Limited Partnership Agreement.

Fund size
The total amount of capital committed by the investors of a private equity fund.

General partner (GP)
See the definition for a 'fund manager'.

GP commitment
See the definition for a 'manager contribution'.

GP-led restructuring
The proactive liquidation of a private markets fund that is heading toward the end of its lifespan by its manager. This involves the transfer of the remaining assets of the fund to be liquidated to a new fund that is managed by the same manager. This new fund is not allowed to make new investments and is purely dedicated to the management of existing assets.

Gross figures or indicators
Figures or indicators calculated before accounting for the fees and costs of the underlying product.

Growth capital
The financing provided to profitable companies, i.e. those whose sales are usually growing in the double digits, in order to exploit growth opportunities.

Harvesting period
See the definition for 'divestment period'.

Holding period
The time during which an investment is held by a private markets fund. This usually ranges from three-to-eight years. In the case of buyouts, the usual holding period is four-to-five years.

Hurdle rate
The minimum internal rate of return (usually 8%) that private markets fund investors have the right to receive before the manager starts to collect its share of the return. In effect, the hurdle rate ensures that the manager shares the profits of the partnership only to the extent that investments perform above a certain level. This is also referred to as the 'preferred rate of return'.

Internal rate of return (IRR)
The IRR takes into account the time value of money and is dependent on a fund's cash inflows and outflows. It is a reconstructed (and theoretical) annualised rate of return. Given a certain investment amount, with all other things equal, the shorter the holding period of the investment, the higher the IRR.

Invested cost
The amount invested in private companies or assets.

Investment committee
When applied to a fund manager, the group of executives that decides on behalf of a private markets fund to invest in private companies or assets. When applied to a fund investor, the group of executives that decides to invest in private markets funds.

Investment period
The first part of the lifespan of a private markets fund (or a fund of funds) in which new investments

are made. This can last from three-to-six years, but it is usually five years.

Investment strategy

Rules and processes designed to support the choice of assets by an investor, usually along the lines of potential returns, risk, and duration dimensions. An investment strategy is usually refined thanks to additional dimensions, such as the maturity of the underlying asset, its industrial sector, its geographical location, and the type of strategy to be applied in order to create value and generate profits. By extension, this expression refers to groups of similar investment approaches, such as venture capital and leveraged buyouts

J-curve

The curve that is generated when tracing the cash flows of a private markets fund as time goes on, from its inception to its liquidation, has the form of the letter 'J'. The reason for the initial downward evolution is that fees, costs, and investments are paid through a series of capital calls. This means that the fund will first show negative accumulated cash flows. When the fund sells assets, distributions are made and the curve then changes direction. After four-to-seven years, the fund will usually break even and start to record net positive accumulated cash flows.

Key-man provision

A contractual clause which states that, if a specified number of named principals from the fund management team ceases to devote a specified amount of time to the fund, then the manager is prohibited from making new investments until such a time that new key executives are appointed.

Leveraged buyout (LBO)

See the definition for a 'buyout'.

Limited partner (LP)

See the definition for 'fund investors'.

Limited partnership

The most frequently used vehicle to delegate the process of investing in private markets. The partnership is managed by a general partner (i.e. the fund manager), and the investors are called the limited partners.

Liquidity event

The actual listing of a company on a stock exchange or the selling of a company via a trade sale or a secondary sale that leads to the exit of a private investment.

Management fee

Financial remuneration for the services provided by a fund manager, which is usually paid quarterly by the fund to its manager. The manager uses such fees to cover its operational costs, such as wages, office space rent, and other costs. Management fees are determined notably by the size of the fund, the type of strategy, and the region where the manager is based. Macroeconomic conditions and the relative bargaining power of the fund manager and fund investors during the fundraising period also influence the level of fees. Management fees can be reduced by a fee-offset mechanism.

Manager contribution (or commitment)

The amount of capital that the fund manager contributes to the private markets fund it created. The manager is therefore also an investor. This is a way for fund investors to ensure that their interests are aligned with those of the manager. The usual minimum commitment is 1% of the fund's size.

Markup

An increase in the valuation of a private company or asset.

Markdown

A decrease in the valuation of a private company or asset.

Mezzanine financing

The term associated with the middle layer of financing in leveraged buyouts. In its simplest form, a type of financing that sits between equity and secured debt. The risk is higher with mezzanine financing than with senior debt, the interest charged by the provider is higher than that charged by traditional lenders, and an equity provision (through warrants or options) is often incorporated into the deal.

Minimum commitment

The lowest threshold that an investor must reach to be accepted into a private markets fund.

Monitoring

A process by which private markets investors (such as fund managers) control the evolution of a portfolio company or asset, notably by comparing it with preset targets, such as sales, the cash situation, and (if applicable) debt service and repayment. Methods of monitoring include presence on the board, regular reports, and meetings. These methods should provide investors with a way of identifying any problems early and taking corrective action rapidly. Close monitoring by investors provides management with access to new ideas, contracts, and a certain amount of help from investors.

Most favoured nation clause
Provision of a fund regulation in which the fund manager agrees to automatically provide each fund investor with the best terms negotiated by any other investor in the fund, for example, by means of direct negotiations with the fund manager in a side letter.

mPME
See the definition for 'public market equivalent (PME)'.

Multiple of invested capital (MOIC)
This performance metric measures the total return on an investment. For an investment of USD 500,000 that yields a total return of USD 1.5 million, the multiple of invested capital is 3x. The MOIC is gross of fees and costs. See also the definition for 'total value of paid-in (TVPI)'.

Net asset value (NAV)
The estimated fair market value of portfolio companies or assets minus any debt.

Net performance figures or indicators
Figures or indicators calculated after accounting for the fees and costs of the underlying product. They exclude the fees and costs charged by Julius Baer for in-house products.

Open-end fund
A private markets structure that has no pre-defined liquidation date. Although, investors can theoretically invest and divest at any time, the fund manager often sets limits at entry and exit. Alternatively, an investor can try to buy/sell a portion of the fund from/to another investor. The capital provided by an investor is invested throughout the life of the fund. Distributions are often recycled by the fund into new investments. This is also referred to as an evergreen fund.

Operational improvements
Efforts taken by a portfolio company to increase its efficiency in sales and/or profitability.

Overcommitment
Investors often promise a higher financial contribution to a private markets fund in order to ensure that more of their capital is deployed on a net basis. Managers progressively deploy the capital committed by investors to make new investments, usually during the first five years of the fund. During that time, it is possible that some companies or assets are sold or listed, which decreases the amount of capital at work. On a net basis, capital is usually not invested at 100%. Thus, overcommitments serve as a means of compensating for the early distributions of a fund to reach a higher level of net exposure.

Oversubscription
A situation in which the demand from investors significantly exceeds the supply of a financial instrument, such as a private markets fund.

Partial exit
An investor receives proceeds from the exit of an investment but still remains partially invested. This happens, for example, during a dividend recapitalisation or when investors sell part of their stake in a portfolio company but also decide to keep some.

Platform
A company acquired by a private equity firm that will be merged with other companies (the 'add-ons').

Preferred rate of return
See the definition for 'hurdle rate'.

Primary fund investments
These are commitments made by investors in newly established private markets funds. Underlying investments are usually unknown at the time of capital commitment, and investors typically have very little or no ability to influence the underlying investments that are made during the fund's life. The lifespan of primary funds is usually ten years (but it can vary from eight-to-fifteen years or more), and the money is used, on average, for four-to-seven years.

Private debt investing
Institutional lending to businesses that does not involve banks. The purpose of this investment strategy is to lend, recover, or restructure the debt of a company to generate interests and/or capital gains. This investment strategy includes direct lending (also known as senior lending), venture debt, unitranche, mezzanine financing, distressed debt,

non-performing loan investing, and other niches, such as litigation financing and trade finance.

Private equity investing
Capital infusion in a company or its transfer of ownership, with the intention of implementing a plan to increase the value of the company and eventually sell it, usually after three-to-seven years, at a significant profit. This plan is set up with the full support of the entrepreneurs/management of the firm. This investment strategy includes venture capital, growth capital, leveraged buyout, turnaround capital, and other niches.

Private markets investing
Investing in the equity and debt securities of companies or assets that are not listed on a stock exchange. Private equity represents 60%–65% of private markets assets under management, whereas private debt represents 10%–15% and private real assets 25%–30%.

Private equity
The equity securities of companies that are not listed on a stock exchange. Any investor wishing to sell them must find a buyer at arm's length (i.e. directly or with the help of an intermediary, as opposed to through an organised market such as a stock exchange). There are usually many transfer restrictions on private securities.

Private placement memorandum
A prospectus that sums up the features of a private markets fund that is being created. This sales document notably includes an executive summary, a detailed investment strategy, a description of the operational capacity of the fund manager, its track record (if any), and its differentiating factors, as well as the key terms of the fund.

Private real assets investing
Equity or debt investments in private real assets, whether tangible or not, and whether fixed or not, thus ranging from royalties to airports. The purpose of this investment strategy is to develop, structure, or restructure the asset to generate a mix of dividends and capital gains. The holding period is usually from three-to-twelve years, or even fifteen years. This investment strategy includes private real estate, private infrastructure, the oil and gas value chain, timberland and farmland, and other niches, such as intellectual property and royalty financing, mining, and leasing.

Public market equivalent (PME)
A performance benchmarking method that is used to compare the performance of a private markets investment or fund with an index. The PME essentially mimics the cash-flow pattern of a private markets fund with an index: when a fund invests, the units of an index are virtually acquired, and when a fund sells, the units of an index are virtually sold. Different variations exist: the PME+ and the mPME regulate the distribution by computing a factor that either adjusts the NAV of the fund (PME+) or the weight of the distribution in the fund (mPME). The latter two methods are used for the analysis of active private markets funds, while the initial PME method is used for fully liquidated funds.

Public to private
This occurs when a listed company is delisted and taken into private ownership.

Quartile
The segment of a sample that represents a sequential quarter (25%) of the group (i.e. the first 10 out of 40 funds, first quartile, etc.).

Realisation
See the definition for 'exit'.

Recapitalisation
A change in the initial financing structure of a buyout to reschedule the debt payments or further capitalise the company's structure due to insufficient funds to pay the debt of the acquisition or the need for more capital to make further investments. Alternatively, a recapitalisation could lead the initial investors to exit from a successful leveraged buyout in order to enable the management team to continue without an initial public offering or a trade sale.

Recycling
See the definition for 'reinvestment of distributions'.

Reinvestment of distributions
A provision of fund regulations that allows the fund manager to reinvest the early distributions, as long as the fund is in its investment period. The aim is to allow the fund manager to effectively invest up to 100% of the fund's size, thereby compensating for the fees paid by the fund.

Reporting
A process that supports the provision of regular and recurring information to a fund's investors by their

agent. In the case of a private markets fund, the reporting is often provided on a quarterly basis and consists of a written report from the fund manager to the fund's investors. In the case of a private company or asset, the reporting for investors is done by the management and can be done monthly, quarterly, or less frequently.

Residual value
The sum of the net asset value of all the assets held by a private markets fund as of a given date.

Residual value to paid-in (RVPI)
The ratio between the net asset value of a fund (its residual value) and the total capital called by this fund (paid-in capital).

Retail investor
A non-professional, unqualified, or non-accredited individual who purchases financial instruments for their own personal account.

Secondary buyout
The exit path from an investment where the initial professional investors can realise all or part of their investment through a sale to another professional investor.

Secondary investing
Investment in a pre-existing asset. This can lead to the acquisition of an existing stake in a portfolio company by a fund (direct secondary) or an existing stake in a private markets fund by a fund investor (fund secondary). Direct secondary investments differentiate themselves from direct primary investments in the sense that there is no new instrument created in the operation (i.e. there are no new shares in the case of a direct venture capital secondary).

Secondaries
Funds that buy existing private equity interests from funds investors. Sometimes investors choose to sell their interest in a partnership, typically to raise cash or because they cannot meet their obligation to invest more capital. Certain investment companies specialise in buying these partnership interests at a discount.

Semi-liquid fund
See the definition of 'open-end fund'.

Side letter
An agreement signed between the fund manager and (a) fund investor(s) outside the fund regulations. This usually does not involve any significant change in the fund regulations but rather adds precision, e.g. to ensure compliance with specific tax regulations. Side letters are often generalised to all the investors in a given fund due to the most favoured nation clause.

Start-up
A new business venture that is in its earliest stage of development. A start-up is usually less than five years old, although the definition of a start-up could extend to eight-to-ten years in specific sectors, such as biopharmaceuticals.

Subscription fee
A one-time fee charged to investors upon subscription.

Style
The investment strategy of a fund, including industry and asset-size focus.

Subscription agreement
A legal document that is signed by an investor to confirm their financial commitment to a fund.

Successor fund
The next generation of a series of funds that are dedicated to a specific investment strategy and raised by a fund manager. The right to raise a successor fund can be limited by the fund regulations of the current active generation of the fund. For example, the fund regulations can state that a successor fund cannot be raised if the current one is not invested up to at least 70% of its fund size.

Takedown schedule
When fund investors are called to make a capital contribution (a 'capital call'), the amount and timing of the contribution is called the takedown schedule.

Top quartile
The top 25% of a sample which ranks the highest according to a specific criterion, such as a performance metric.

Total value of paid-in (TVPI)
A multiple of invested capital that is net of fees and costs. It is the sum of the distributed to paid-in (DPI) capital and the residual value to paid-in

(RVPI) capital. A TVPI above 1.0x implies that the investor is expected to book a profit. If it is below 1.0x, the investor is expected to book a loss. If it falls to zero, the investor will book a full loss. This figure changes during the lifespan of the fund as investments are made and assets and companies evolve and are ultimately sold or listed.

Track record
The historical performance of a private markets fund manager, which notably includes multiples of investment (e.g. TVPI) and internal rates of return (IRR) and, at times, its public market equivalent (PME).

Trade sale
The sale of a company to another operating company.

Underlying investment
The primary asset or financial instrument that serves as the basis or foundation for a financial product (such as a feeder fund). An underlying investment can be a direct stake in a company or a fund investment.

Unfunded commitment
The difference between the commitment and the paid-in capital.

Undrawn capital
Capital that has not yet been called by a private markets fund. Also referred to as dry powder.

Venture capital (VC)
Investments in early-stage companies that generally generate little or no stable cash flows.

Vintage year
The year in which a private markets fund was created and usually when the first capital call (or, in specific cases, its final closing) or first investment was made. This is also a reference point for comparing funds that were created in the same year.

Write-down
A downward adjustment of the value of an asset for accounting and reporting purposes. These adjustments are estimates and tend to be subjective, although they are usually based on events that affect the investee company or its securities detrimentally.

Write-off
The act of changing the value of an asset due to an expense or a loss.

Write-up
An upward adjustment of the value of an asset for accounting and reporting purposes. These adjustments are estimates and tend to be subjective, although they are usually based on events that beneficially affect the investee company or its securities.