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Why Private Equity Matters (Last of a Series)

THE LEAD | March 16, 2026

For most of its history, private equity was built for institutions – pension funds, endowments, sovereign wealth funds. Individual investors were limited to the ultra-wealthy who could write large checks, tie up capital for a decade, and navigate the nuances of limited partnership structures. In recent years, technologies have developed allowing retail investors to gain exposure. While these structures differ in terms of liquidity, complexity, and degree of separation, they have expanded access to an asset class whose benefits are well recognized.

‘40 Act Funds are private funds offered under exemptions to the Investment Company Act of 1940. These vehicles are designed to work within a regulatory framework familiar to retail investors while still investing in illiquid assets such as PE. Many of these vehicles are structured as interval funds or tender offer funds. Rather than offering daily liquidity like a mutual fund, they provide periodic, often quarterly opportunities for investors to redeem shares. They also offer lower minimums than traditional private equity funds and simplified Form 1099 tax reporting in place of the complex Schedule K-1s. Their evergreen structure eliminates capital calls entirely; investors deploy capital upfront and participate in compounding from day one.

Some ETFs invest entirely in public PE firms such as Blackstone, Carlyle, and Apollo. By investing in companies whose business models revolve around private market investing, these ETFs allow individuals to participate indirectly in PE. Although exposure is diversified and typically limited to mega-funds, these vehicles offer easy access, daily liquidity, and low investment minimums, making them one of the simplest ways for investors to enter private markets.

A third option is the Business Development Company, or BDC. A creation of Congress under the ’40 Act law, BDCs encourage investment in small- and mid-size companies. Unlike the above options, BDCs invest in fixed income securities that support leveraged buyouts. Because vehicles are underpinned by private credit, dividend yields play a key role. BDCs can be traded on public exchanges and offer daily liquidity or be privately sold through wealth management platforms. Although not equity exposure, BDCs still provide exposure to the PE ecosystem.

Each of these vehicles involves trade-offs among liquidity, direct exposure, and complexity. ‘40 Act funds offer the most direct access to private equity portfolio companies but the most limited liquidity. PE ETFs offer the simplest way to gain access and provide public market liquidity, but access is indirect and prices can be volatile. BDCs are a good choice for investors looking for current income through exposure to PE financing. Together, these vehicles have expanded the way in which individual investors can efficiently take part in private markets, bringing strategies to them once reserved for only the largest institutions.