

GOLDMAN SACHS INVESTMENT UNIVERSITY

How To Invest In Private Markets

Today, investors have more choices than ever before in how to access private markets. Traditionally, private market opportunities had been available exclusively through closed-end “drawdown” funds, which are structured to match the liquidity of the fund to that of the underlying investments. The majority of private market funds available today are structured in this manner. However, as the market evolves to better cater to the needs of a broader range of investors, evergreen structures are becoming increasingly prominent.

Sample Investment Characteristics: Comparison

Feature	Public Markets	Private Markets: Evergreen Funds	Private Markets: Drawdown Funds
Investment Vehicles	Open-ended funds or ETFs	Varies (Open-ended or closed-ended, traded or non-traded)	Closed-end partnership between manager and investors
Registration	Registered	Varies (some registered)	Not registered
Structure	Perpetual life	Perpetual life	Finite life (8-15 years is typical)
Composition At Time of Investment	Fully invested	Fully invested	Blind pool, funded over time
Subscription Window	Continuous, daily	Continuous, monthly or quarterly	During fundraise period only
Investor Eligibility	All investors eligible	Varies	Accredited Investor and/or Qualified Purchaser
Typical Investment Minimums	<\$1,000 typical	≤ \$25,000 typical	\$250,000 - \$1,000,000 typical
Liquidity Profile	Daily liquidity, typically without restrictions	Redemptions are typically quarterly. Subscription and redemption limits, introduced at the discretion of the manager, limit the total amount investors can invest or redeem in a given period (5% redemption per quarter is a typical maximum).	Illiquid. Cash is invested and distributed intermittently at the discretion of the manager. Capital in the fund is locked up and unavailable for several years.
Tax Reporting	1099	1099 in many cases	K-1

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Private Markets Evergreen Fund Structure

Subscriptions:

Subscriptions are available continuously, on a monthly or quarterly basis, giving the investor flexibility in timing fund subscriptions. The investor contributes the full amount of commitment at the time of subscription. Occasionally the manager may institute a queue to manage subscriptions—limiting new capital intake in a particular period in order to ensure orderly, thoughtful, timely cash deployment. In this case, it may take several months to become fully invested in the fund.

Holding Period:

The fund's underlying portfolio is fully funded throughout the investor's holding period. A portion of the portfolio is typically held in liquid securities and cash. This is done in order for the fund manager to be able to provide periodic investor liquidity, as well as to manage timing differences between receiving subscriptions and deploying cash into new private opportunities. Private opportunities, by definition, are not available on a continuous basis, and new investments take some time to execute.

These liquid securities tend to have lower returns than the underlying private market assets, creating a drag on overall returns.

Fund that invest in yield-generating strategies (e.g., credit, real estate, infrastructure) may pay monthly or quarterly distributions. Generally there are no distributions from underlying asset sales. Proceeds from investment sales are redeployed by the fund manager into new opportunities.

Redemptions:

Redemptions are typically available on a quarterly basis, giving an investor flexibility of redemption timing. Often, the full redemption request amount is honored. However, funds typically feature redemption limits on the total amount investors can withdraw in a given period—a 5% quarterly maximum is typical. When redemption demand exceeds these limits, redemption requests may not be honored in full (typically, redemptions are scaled pro-rata). This allows the fund manager to avoid liquidating assets at unfavorable prices in order to meet liquidity requests. The most likely scenario for redemption limits is in times of market stress, as this is when more investors tend to seek liquidity. As such, an investor may be gated at the time when liquidity may be most valuable. For this reason, these structures are considered “semi-liquid” rather than fully liquid.

Illustrative Cash Flows—Evergreen Credit Fund



Source: Goldman Sachs Asset Management. As of December 2024. For illustrative purposes only.

Private Markets Drawdown Fund Structure

Subscriptions:

Funds have a finite subscription period at the inception of the fund's life, during which the investor commits capital to the fund. The investor does not fund their commitment at the time of subscription. At this time, there are no investments in the fund.

Holding Period:

Investor capital is drawn down in a series of capital calls, as the fund manager identifies investments to add to the portfolio. This investment period typically lasts 3-5 years, and the timing and amount of each capital call are at the discretion of the manager. Fund investments are held over a multi-year period. All assets in the fund are private assets.

The value of investments in the portfolio at any given time make up the fund's Net Asset Value (NAV). NAV grows in the early years of the fund as capital is called and invested, and declines in later years as investments are realized.

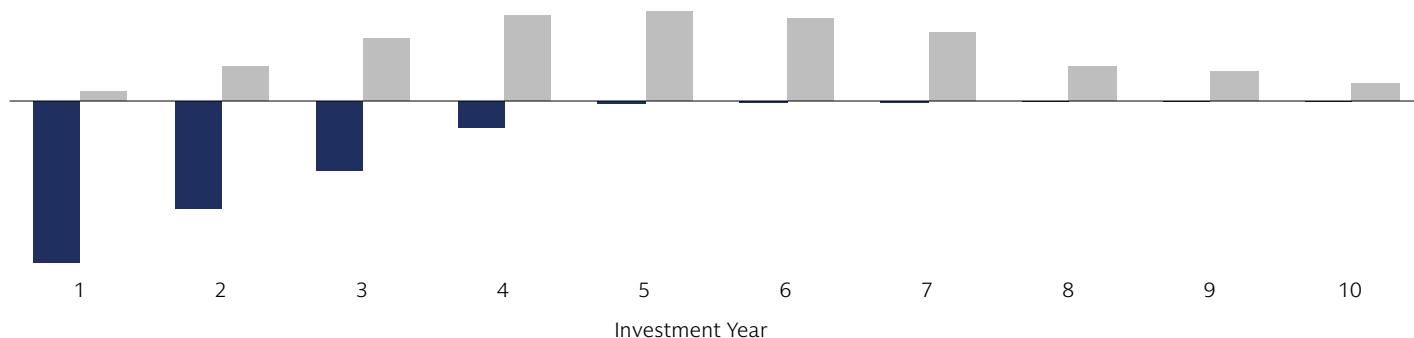
Distributions:

Once investments are exited (asset is sold, loan is repaid), the proceeds are distributed back to investors. These distributions tend to start at the end of the investment period and continue until the end of the fund's life. Most capital is returned within the first 8-12 years, but some strategies can take several more years to distribute all proceeds. Investments in yield-generating strategies (e.g., credit, real estate, infrastructure) may pay periodic distributions (e.g., quarterly) in the meanwhile. When the final investment is exited, the fund is wound down.

Distributions are at the discretion of the fund manager. The investor should consider the capital in the fund as locked up and unavailable for several years. An investor can sell their stake in the fund in the secondary market, but this process takes time, is not guaranteed to result in a transaction (especially for small transaction amounts), and will likely price at a discount to net asset value.

Illustrative Cash Flows—Drawdown Private Credit Fund

■ Contributions ■ Distributions



Source: Goldman Sachs Asset Management. As of December 2024. For illustrative purposes only.

Maintaining The Allocation

Because of the finite nature of drawdown funds, maintaining desired exposure to the asset class using these vehicles calls for a consistent investment program of commitments to new funds on an ongoing basis. Distributions of capital from mature funds can be redeployed by investors to help fund capital calls from younger funds. While it can take approximately 7-9 years to reach the target allocation, a consistent, well-balanced portfolio can become self-funding, or cash flow positive, over time. We believe this approach can also help diversify the program across market environments.

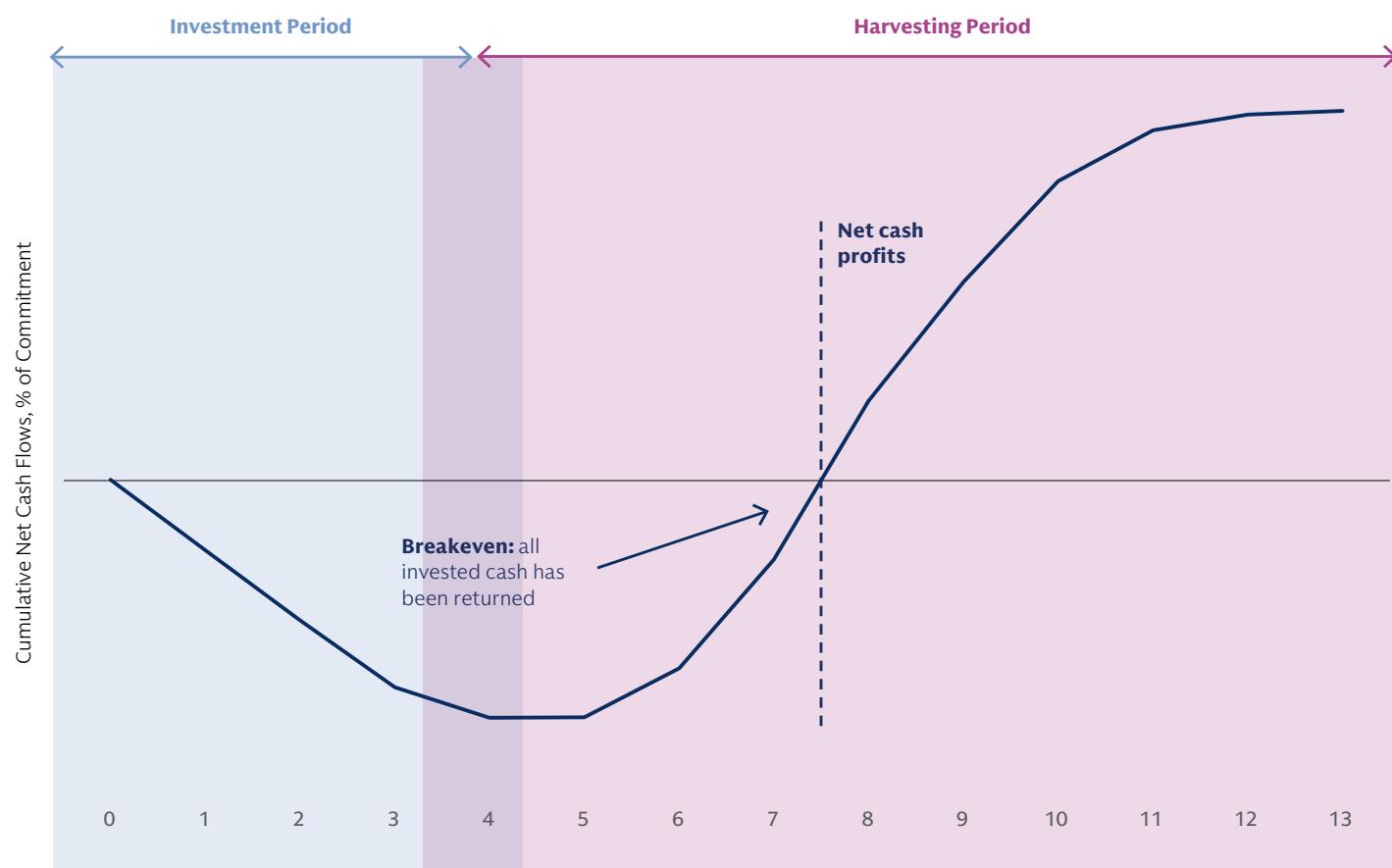
Appendix:

Cash Flow J-Curve in Traditionally-Structured Private Funds

The cumulative, since-inception net cash flow pattern of a typical drawdown fund resembles the letter J, giving rise to the term “j-curve.” Cumulative cash flows start off negative as investor capital is called, and reach an inflection point once investment realizations start. It typically takes a fund several years to distribute all cash.

Returns may start off negative due to fees and expenses charged on a relatively low amount of invested capital. They grow over time toward the fund’s final performance as the fund harvests its investments.

Illustrative Cash Flows—Drawdown Funds



Source: Goldman Sachs Asset Management. As of December 2024. These assumptions are for illustrative purposes only and are not actual results.

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