



# NAV, Secondaries, J-Curves, Oh My!

## A quick-reference guide to common terms in the private markets asset class.

In our Private Markets Due Diligence blog series, we highlighted important questions to ask as you evaluate evergreen funds. As you research these strategies further, you'll likely come across some private equity lingo with which you might not be all that familiar.

With that in mind, we've endeavored to explain some of the more common terms you might encounter on your journey down the evergreen road.

### **Benchmark**

A point of reference against which the performance of a fund is measured. The benchmark can be a comparison to the performance of other similar funds, a specific threshold return, or a public market index.

### **Capital Call/Drawdown/Paid In-Capital**

A capital call, also known as a drawdown, is where the general partner ("GP") of a fund calls on LPs to supply a portion of the amount of capital they committed at the beginning of the investment. The timing and amount are at the GP's discretion, and once capital has been called, it is considered "paid-in capital."

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## Carried Interest/Incentive Fee/Performance Fee

Carried interest is a percentage of the profits, usually between 10-20%, that a GP earns if the investment makes a return above a certain threshold (i.e., the hurdle rate). Carried interest is often also called an “incentive fee” or “performance fee.”

## Cash Drag

Cash drag is the result of a portfolio holding a portion of its assets in cash instead of higher-returning assets. Cash drag can have an adverse impact on a fund in rising market environments.

## Co-Investment

A co-investment is an investment by an LP alongside a GP directly into the underlying investment, outside of the GP's traditional fund structure.

## Committed Capital vs. Invested Capital

Committed capital is the amount the limited partner has pledged to the fund over the entire life of the investment. Invested capital is the amount that has already been called by the GP to make investments or generally operate the fund.

## Distributions

Distributions are any cash or stock that has been paid out to the limited partners from the fund.

## Distributions to Paid-In Capital (“DPI”)

DPI is calculated by dividing the cumulative distributions an investor has received by the amount of paid-in capital. This can provide the investors with some insight into how much of the fund's return has actually been “realized” or paid out to investors.

## Exit

Exit is the process of liquidating a private market position. There are several possible ways that a private market position can exit a portfolio, including but not limited to management buyout, initial public offering (IPO), SPAC, sale to strategic buyer or sale to financial buyer.

## Internal Rate of Return (“IRR”)

IRR is the annualized rate of return generated from the underlying cash flows of an investment. This metric is commonly used in the private markets due to the drawdown structure of most closed-end funds.

## J-Curve

A “J-Curve” refers to the typical pattern of return of closed-end private markets funds over their lifecycle. In the early years of a fund's life, the internal rate of return (“IRR”) of a fund is typically negative due to the relatively small amount of invested capital as compared to the management fees that have been paid. The return, if graphed over time, resembles a “J,” as negative early performance turns increasingly positive over time as underlying investments within the portfolio begin to appreciate and generate a return.

## Limited Partner (“LP”) vs. General Partner (“GP”)

A Limited Partner (LP) is an entity that invests into a private fund, such as an institution or high-net-worth investor. The General Partner (GP) is the fund manager and is responsible for managing the investments within the portfolio on behalf of LPs.

## Net Asset Value (“NAV”)

The sum of all assets minus any liabilities within the fund. NAV per share is then the NAV divided by the number of shares outstanding.

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## Preferred Return/Hurdle Rate

The preferred return, also commonly referred to as the “hurdle rate,” is an annual return that limited partners are entitled to receive prior to the general partner receiving carried interest. In practice, it is a way to ensure limited partners make a profit before the GP earns their carried interest.

## Public Market Equivalent (“PME”)

A Public Market Equivalent (PME) is a relevant public market benchmark whereby the IRR, or Internal Rate of Return, of a private market investment can be compared, assuming similar investment timeframes. PMEs are helpful to judge the opportunity cost of a private market investment relative to the equivalent strategy in the public markets.

## Secondary

A secondary is an investment that purchases existing stakes in private funds on the secondary market. (The secondary market is where previously issued financial products are bought and sold). Due to the illiquidity of the market, these may be purchased at a discount, and the portfolio of companies purchased is often more mature and closer to exit than in a traditional primary investment.

## Total Value to Paid in Capital (“TVPI”)

TVPI is the total value of an investment as a proportion of the capital invested. Total value is calculated by adding the current value of unrealized investments and any previous distributions from the fund. This multiple is the total value to paid-in capital (TVPI).

## Unfunded Capital/Dry Powder

Unfunded capital, or dry powder, is the amount of capital yet to be called by the GP from committed capital.

## Vintage Year

The vintage year is the first year that the fund calls capital.

As you come across other private equity terms with which you aren't familiar, please let us know by [emailing](#) or calling 866-361-1720. We're happy to help you better understand them and how they apply to your due diligence process.

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