

A BEGINNER'S GUIDE

Investing in Alternatives

What they are, how they work, what they cost, what can go wrong, and how to get started

October 28, 2026 · For educational purposes, not investment, tax or legal advice

AGENDA

Ten questions to answer before you invest

01

Types

What can I own?

02

Structure

How do I buy it?

03

Duration

How long is my money tied up?

04

Returns

How do I judge results?

05

Risks

What can go wrong?

06

Taxes

What forms and bills to expect

07

Access

Can I invest, and how?

08

Diligence

What should I check?

09

Managers

Who should I trust?

10

How many

How many funds do I need?

GLOSSARY

Eight words you will hear a lot

Alternative

Any investment that is not a public stock, bond or cash.

Private

Not traded on a stock exchange, so there is no daily price.

Illiquid

Hard to sell quickly. Your money may be locked up for years.

GP and LP

The GP runs the fund. LPs, like you, put money in.

Capital call

The fund asking for part of the money you promised usually for investments org costs and expenses.

Distribution

Cash the fund pays back to you after it sells something or distributes profits.

Carry

The manager's share of the fund's profits, on top of an annual man. fee. The percentage of the carry / waterfall may vary

Accredited

An investor who meets SEC income or wealth tests.

Four reasons investors add alternatives



Higher growth

Some aim to beat the stock market as a reward for locking money up.



Steady income

Loans to companies, rent from buildings/real estate and fees from infrastructure pay regular cash (monthly, quarterly, annual).



Different behavior

Some strategies don't move in step with stocks and bonds.



Inflation defense

Real things like property, commodities and farmland can hold value when prices rise.

The price you pay: your money is harder to get back, fees are higher, and results depend heavily on who manages the fund.

What you can actually own

Private equity

Buying whole companies or big stakes in them, improving them, then selling.

Goal: growth

Venture capital

Backing young startups. Most fail; a few big winners pay for the rest.

Goal: big upside

Private credit

Lending money directly to companies instead of through a bank.

Goal: income & regular distributions

Real estate

Owning apartments, warehouses, offices and other property.

Goal: income, inflation

Infrastructure

Owning roads, power, pipelines, cell towers and data centers.

Goal: steady cash

Hedge funds

Funds that can bet on prices rising or falling, using many tools including AI and rapid trading

Goal: diversify

Secondaries

Buying other investors' existing fund stakes, often at a discount.

Goal: faster cash back

Real assets

Farmland, timber, commodities and royalties on music or energy.

Goal: inflation defense

Five ways to buy alternatives

Wrapper	How it works	Getting money out	Who can buy
Listed alternatives	ETFs and public REITs or BDCs that trade like stocks	Any trading day	Anyone
Interval fund	A mutual-fund-like wrapper that buys back shares a few times a year	Usually quarterly, often capped at 5%	Often anyone
Non-traded REIT / BDC	A property or lending company that is not listed on an exchange	Limited buyback programs	Investors meeting suitability rules
Multi-manager fund	One fund that spreads your money across many private funds	Depends on the fund	Usually accredited
Private fund (drawdown)	You promise money; it is called over years and paid back as assets sell	Usually locked 10+ years	Accredited, high minimums unless you invest through an aggregator.

Evergreen funds: the middle ground

~\$600B

invested in these funds as of
March 2026

2x+

more than doubled in size since
2022

~3%

average yearly cost, often before
performance fees

5%

of the fund is the usual limit on
withdrawals each quarter

What's good

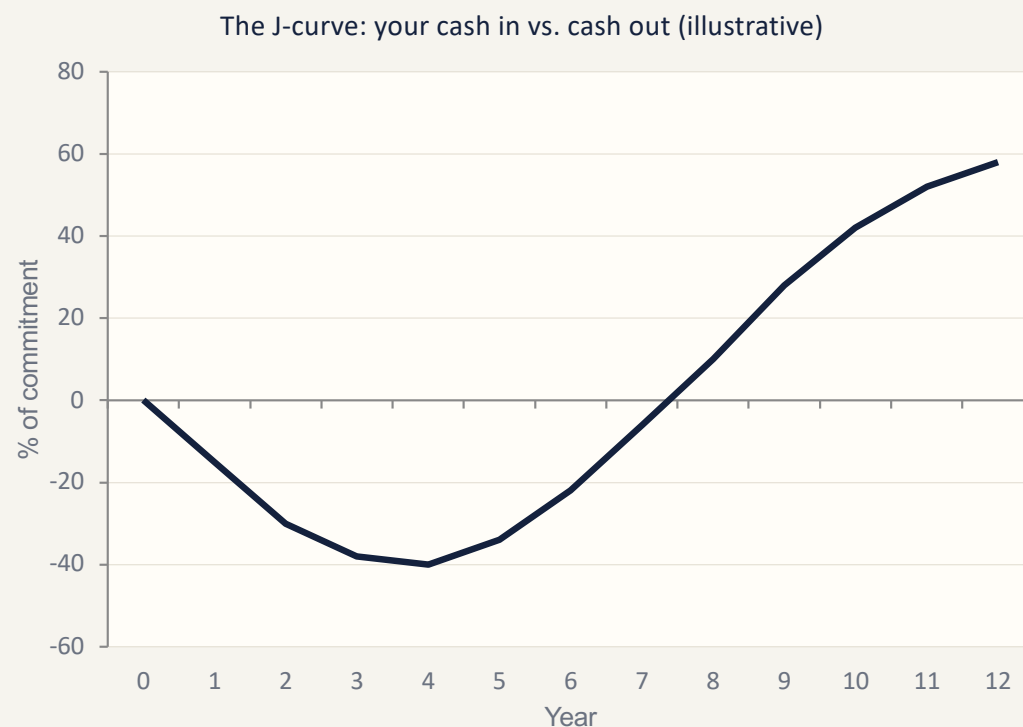
Your money is invested right away, there are no surprise capital calls, minimums are lower, and you can generally ask for money back every quarter unless there is a lockup.

The catch

"Can ask" is not "will get." If many investors want out at once, the 5% cap means you may wait several quarters. Costs are high, so check them first.

03 • DURATION

Expect to wait 10 years or more



Timing is typical, not guaranteed. Chart is illustrative. Source: J.P. Morgan Asset Management

Years 1–5: you pay in

The fund asks for your money as it finds deals and pays expenses incl org. costs. Early results often look negative.

Years 4–10: you get paid

Investments are sold and cash comes back to you unless recycled.

Years 10–12+: wrap-up

The fund may extend to finish selling. Plan for 10–12 years.

Evergreen funds differ

No end date and invested at once, but exits depend on the quarterly limit and lockup.

Why it takes longer and costs more

Follow-on rounds

Reserves: Venture and growth funds hold back part of your commitment for their best companies' later rounds or problem companies, so capital calls can continue into years 5–8.

Dilution: if no one invests again, each new round shrinks your share of the company.

Investing directly? You may be asked for more money each round (pro rata) or see your stake shrink.

Also stretching the clock: fund extensions, recallable distributions and "continuation vehicles."

Also passed to investors: setup costs, legal fees, compliance fees audits and administration, K-1 preparation, deal costs and credit-line interest. Evergreen funds average above 3% a year, every year.

Costs over 12 years on \$100,000

Years 1–5: 2% on \$100,000	\$10,000
Years 6–10: 1.5% on ~\$60,000	\$4,500
Years 11–12: 1% on ~\$30,000	\$600
Fund expenses: 0.25% a year	\$3,000
Total before carry	\$18,100 (~18%)

Four numbers to ask for

Number	In plain English	Example
Multiple (TVPI)	How much your money grew in total, counting what's not sold yet (unrealized)	1.8× = \$1 became \$1.80
Cash back (DPI)	How much real cash you've received so far vs. investment	0.6× = \$0.60 back per \$1
Yearly rate (IRR)	The annual return, considering when money went in and out	Can look high if held briefly
Net return	What you keep after all fees and the manager's profit share	Always compare net, not gross

Until real cash comes back, a private fund's results are mostly an estimate. Also ask: "Did this beat an index fund over the same period?"

Who you pick matters most

Yearly return gap between the best 10% and worst 10% of managers, last 10 years



~10×

bigger gap than with stock funds. A bad pick costs far more.

1 in 3

top buyout funds were followed by another top fund. Past wins don't guarantee future ones.

Nine things that can go wrong

Money locked up

You may not be able to sell for years, or only at a discount and the secondary market is small.

Estimated prices

Values are estimates updated quarterly, so they can look calmer than reality. This is why DPI matters

Withdrawal limits

Evergreen funds cap withdrawals, often at 5% a quarter.

Borrowed money

Many funds use debt, which magnifies both gains and losses due to the leverage.

High fees

Yearly fees plus a share of profits(carry) can eat a large part of returns and especially in fund of funds.

Key people leave

Results often depend on a few people at the firm (Founders, Operators, Deal Team).

Too concentrated

One fund may hold only a handful of companies or one sector. The fund's documents will dictate this.

Fraud or sloppiness

Less regulation and disclosure than public funds. Check the back office. Is there an audit and third-party admin.

Loans going bad

Private credit worries led to investor outflows in early 2026.

Taxes are more complicated

What to expect

Different tax form. Private funds send a K-1, which often arrives late; you may need to extend your tax return. Interval funds, BDCs and REITs usually send a simpler 1099 Div but you may be tax disadvantaged.

More states. A fund's activity can mean filing tax returns in other states unless a state composite return is filed.

Income type. Interest from private credit is taxed like wages/ordinary income; profits from selling companies are usually lower-taxed long-term gains.

Retirement accounts. Some funds create "UBTI," which can trigger tax even inside an IRA.

Good to know (2025 tax law)

Fees: you generally still can't deduct fund fees on your personal return.

REIT dividends: the 20% deduction on regular REIT dividends is now permanent.

Startup stock (QSBS): up to \$15M of gains on qualifying stock can be tax-free after 5 years, with partial breaks at 3 and 4.

Opportunity Zones: the program is now permanent.

Talk to a tax professional before you invest.

What you're allowed to buy

If you are...	Which means	You can generally buy
Any investor	No income or wealth test	Listed alternatives, interval funds, many non-traded REITs and BDCs
Accredited investor	\$1M+ net worth not counting your home, or \$200K+ income (\$300K joint), or certain licenses	Most private funds, at their minimums
Qualified client	\$2.7M+ net worth, or \$1.4M+ invested with the adviser	Funds that charge a share of profits
Qualified purchaser	\$5M+ in investments	The widest range, including large institutional funds

Could change

The SEC has proposed letting people qualify by passing an exam or holding a CFA, CPA or CFP. Separate rules may bring alternatives into 401(k)s. Neither is final.

Where and how you actually buy in

Your brokerage account

Listed alternatives and many interval funds buy like a mutual fund. Some brokers offer private funds to eligible clients.

An adviser, allocator or private bank

Can get you into private funds through pooled "feeder" funds at lower minimums, for an added advice fee and possible carry.

Online platforms

Websites that pool smaller investors into private funds or real estate. Check fees, registration and exit terms.

Retirement accounts

Some IRAs can hold alternatives (watch for UBTI). 401(k) access is proposed but not yet common.

How a purchase works

1. **Prove eligibility**, for example with tax returns or a letter from a CPA or lawyer.
2. **Read the offering documents** (prospectus, term sheet or private placement memo).
3. **Sign the subscription agreement** stating how much you commit.
4. **Fund it**: all at once for evergreen funds, or as capital calls arrive for private funds with a larger percentage of the commitment in years one to five.

Questions to ask before you invest

About the investment

- What exactly does this fund buy, and why?
- How much cash has it actually returned?
- Has the same team been in place for years?
- Do the managers invest their own money?
- What are all the fees, in dollars and carry?
- How and when can I get my money out?
- Does it generate UBTI or is it safe to invest in an IRA

About the firm

- Is it registered with the SEC? Read its Form ADV.
- Is there an outside auditor and administrator?
- Who decides what the holdings are worth?
- Any lawsuits or regulatory problems?
- Can I speak with current investors?
- Check the adviser on FINRA BrokerCheck.

Walk away if: they won't share details, promise guaranteed returns, push you to decide fast, or can't explain how you get your money back.

What a good manager looks like

An edge

Can clearly explain why they find better deals and their pipeline

Real improvements

Grows companies, not just borrowing to boost returns

Cash returned

Has paid investors back through good and bad markets

Stable team

The people who earned the record are still there

Skin in the game

Invests real personal money alongside you

Not too big

Hasn't grown the fund faster than its opportunities

Reality check for beginners

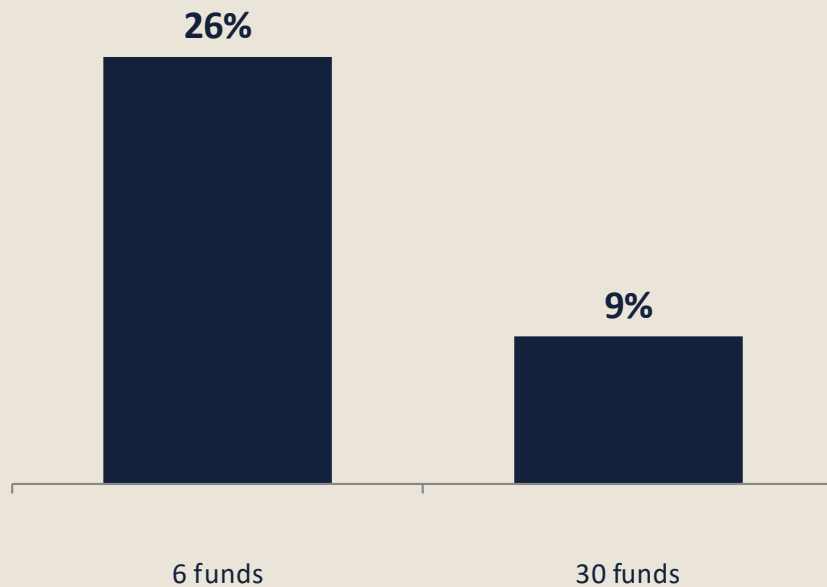
The best-known managers are often closed to new, smaller investors.

A great last fund is not a promise: only 1 in 3 top funds repeat.

Multi-manager funds and investment platforms let you reach established managers with smaller amounts.

One fund is not enough – Diversification

Chance a portfolio returns less than 1.5× your money
(hypothetical)



20–30 funds

is what large investors aim for to spread out manager risk.

For a beginner: one or two multi-manager funds can give you that spread in a single purchase.

Spread over time: add money over several years rather than all at once.

The trade-off: an extra layer of fees, about 0.8% a year plus a profit share in Vanguard's estimate.

GETTING STARTED

A beginner's five-step path

1

Basics first

Have an emergency cash fund, retirement savings and a simple stock and bond core in place.

2

Start small

Use only money you won't need for years. J.P. Morgan's smallest example is 5% of a portfolio.

3

Easy access first

Begin with listed or interval funds before locking money into private funds.

4

Go broad

Prefer a diversified multi-manager fund over a single manager.

5

Get help

Review fees, carry, taxes and fit with a fee-only adviser and a tax professional.

You don't have to own alternatives at all. A low-cost mix of stocks and bonds is a complete plan for many investors.

KEY TAKEAWAYS

Five things to remember

- 1 Only invest money you can leave alone for many years.
- 2 How you buy it matters as much as what you buy: it sets access, fees and taxes.
- 3 Judge results by cash actually returned, after all fees and carry.
- 4 The manager matters enormously, so ask hard questions every time.
- 5 Start small, start diversified, and get professional advice.

SOURCES & DISCLOSURES

Where the numbers come from

- [J.P. Morgan Asset Management, Considerations and questions for new investors · dispersion, lock-ups, allocation sizing](#)
- [Moonfare, Dispersion in private markets \(2026\) · quartile gap, 34% persistence](#)
- [Morningstar, The State of Semiliquid Funds 2026 · evergreen assets, fees, flows](#)
- [Vanguard, Benefits of a fund-of-funds strategy in private equity · number of funds](#)
- [Foley & Lardner, OBBBA tax considerations for investment funds · 2025 tax changes](#)
- [New SEC qualified client thresholds \(June 29, 2026\) · qualified client test](#)
- [Mayer Brown, Proposed expansions to the accredited investor definition \(Oct 2026\)](#)
- [DOL proposed rule on alternative assets in 401\(k\) plans \(Mar 2026\)](#)

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