ArchBridge Family Office

A Compounding Convergence: How Private Market Investments Could Soon Be in Your ETF

In recent decades, investments in private assets like private equity, venture capital, and real estate have experienced remarkable growth, driven by increasing investor interest and a surge in assets under management. A pivotal moment in this expansion was Yale Endowment Chief Investment Officer David Swensen's influential book, *Pioneering Portfolio Management*, which advocated for significant allocations to private investments to enhance returns. However, private markets have remained largely inaccessible to the average investor despite their potential for high returns. Investing in private companies is typically exclusive and reserved for accredited investors, venture capitalists, and institutional players capable of committing substantial capital. Investments in private companies usually come through illiquid funds with long investment horizons.

In contrast, the public markets offer broad, transparent access to a range of freely traded investments. Investors can easily buy and sell public assets through passive or active strategies through mutual funds, separately managed accounts, or the increasingly popular exchange-traded funds (ETFs).

Now, imagine if private market investments could be bundled into an ETF, making them as accessible as shares of the S&P 500. Owning an ETF that includes high-profile private companies—like SpaceX—is appealing. The investment industry is responding to this desire by focusing efforts on integrating private assets into the highly liquid and widely available ETF structure. **But what does this mean for public market investors? Should this innovation be met with enthusiasm or skepticism?**

While this might seem like an unprecedented leap, we can draw on past examples to weigh the pros and cons. Some public investment vehicles have had elements of private market investments for nearly two decades. Going back to 2007, a handful of mutual funds held shares in private companies, such as Uber, well before their IPO. Similarly, variations of closed-end funds, which trade on public exchanges but can include private equity, debt, and real estate, offer another means of bridging the gap. These structures have been employed to provide public investors with exposure to private markets.

While some average investors have benefitted from those private market access points in their portfolios, risks remain. The key issue lies in the natural mismatches between private investments, which are opaque, illiquid, and difficult to value, and public market vehicles designed for transparency, liquidity, and frequent valuation. To account for these challenges, fund managers often impose higher fees, liquidity restrictions, or complex derivative strategies to make these funds functional. These adjustments can hamper investor returns, complicate liquidity, and add layers of complexity that may confuse or mislead.

While investors should view ETFs that invest in private assets with skepticism, they shouldn't necessarily dismiss

them altogether, and some of these funds may be valuable additions to a portfolio. The key to success lies in understanding the underlying assets and the unique risks involved. Informed investors who maintain diversification, discipline, and a strategic approach can still thrive. As private assets find their way into ETFs, investors should remain vigilant but not fearful, embracing innovation while staying focused on sound investment principles.

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