

How can private equity help your clients achieve their goals?

How to introduce strategies, and potential risks and benefits

Private equity seeks to provide enhanced long-term capital appreciation by investing in private, non-traded companies and helping them optimize operations to drive future growth. This guide is designed to reinforce key concepts from Fidelity’s private equity learning module and help you confidently guide your clients on alternative investments, outlining:

Key differences between private and public equity investments—and how to explain them to clients.

Types of private equity investments, how they may benefit your clients, and how to introduce them.

How do private and public equities differ?

Comparing potential returns and risks

Potential opportunities

	Private equity	Public equity
Return potential	Historically higher returns due to active management and illiquidity premium	Competitive returns but constrained by market efficiency
Diversification	Low correlation to public markets; access to niche sectors	Broad market diversification but exposed to macro trends
Access to high-growth companies	Invests in early-stage or private businesses before IPO; many of the fastest-growing companies remain private longer, limiting public market investors' access	Limited to already-public companies; IPO access restricted

Potential risks

	Private equity	Public equity
Liquidity risk	Highly illiquid; capital potentially locked up for the fund's term	High liquidity; shares can be bought/sold anytime
Market volatility	Lower day-to-day price swings due to infrequent valuations	High volatility; subject to daily market movements
Valuation risk	Based on estimates, subjective methodologies	Market-driven valuations, transparent pricing

Guide to private equity strategies

Organized according to AUM (highest to lowest)

Buyouts (leveraged buyouts or LBOs)

Involve acquiring controlling stakes in mature companies, often using debt (leverage) to finance the purchase, with the goal of improving operations and profitability before exiting via a sale or initial public offering (IPO). Buyouts can offer moderate to high returns with relatively lower risk compared to other private equity strategies due to established cash flows.

Investor profile:

- High-net worth individuals or institutions
- Higher risk tolerance
- Longer investment time horizons
- Diversified portfolios
- Private market experience

Starting the client conversation:

"Buyouts let us invest in established companies with steady cash flow, with the added upside of hands-on improvement. These companies often grow stronger and more profitable through strategic changes and financial restructuring."

Questions to ask:

1. What's your appetite for pursuing enhanced returns with a higher degree of risk? How can we mitigate those risks?
2. Are you comfortable with committing assets for the duration? Let's explore other sources of liquidity in your portfolio.
3. Where might LBOs fit as part of your balanced portfolio? What goals could they help us achieve?

Venture capital (VC)

Invests in early-stage, high-growth startups, often in technology, healthcare, and other innovative sectors. While the deal sizes are smaller, the potential returns can be substantial. VC investments present high risk but also the potential for outsized returns if a company succeeds.

Investor profile:

- Seeking high growth potential for risk and volatility
- Longer investment horizon
- Diversified portfolio
- Accredited or institutional investors

Starting the client conversation:

"Venture capital is about investing early in innovative companies. Think of getting in on the ground floor of the next big thing, like a cutting-edge tech startup. Yes, it may be risky, but the potential for growth can bring strong rewards to your portfolio."

Questions to ask:

1. How do you feel about a higher degree of risk compared with LBOs, in exchange for potentially higher rewards?
2. What other areas of your portfolio, such as small-cap stocks, might require adjustment if you pursue VC?
3. What sources of liquidity can we secure to balance the risk of VC investments being tied up for several years?

Guide to private equity strategies (continued)

Growth equity

Focuses on investing in relatively mature companies that need capital to expand operations, enter new markets, or make acquisitions—without the use of significant leverage. Targets companies in expansion mode, balancing moderate risk and strong upside potential as firms scale operations.

Investor profile:

- Seek moderate-to-high returns with lower risk than early-stage VC
- Medium-to-long-term investment horizon
- Can accept some illiquidity
- Want to capitalize on private market growth
- Accredited high-net-worth individuals or institutions

Starting the client conversation:

“Growth equity focuses on companies that have already proven their business model but need capital to scale up. It’s less risky than a startup but still offers strong growth potential — a potentially great way to balance early-stage risk and mature-company stability.”

Questions to ask:

1. If risk is a concern, could growth equity provide the return potential you seek, with somewhat lower risk than VC?
2. What is your current exposure to high-growth public market equities, and what adjustments may be in order if you pursue a growth equity strategy?
3. How might the J-curve effect—in which there may be initial losses followed by potential gains—affect your comfort level with growth equity investments?

Secondaries

Involve purchasing existing private equity fund stakes from other investors seeking liquidity. It provides an alternative exit strategy for limited partners (LPs). Secondaries offer moderate returns and lower risk by providing liquidity and diversification.

Investor profile:

- Seek private equity exposure with shorter holding periods
- Prefer reduced risk compared to direct PE investments
- Want diversification across vintage years
- Need a more predictable exit timeline
- Are institutional or accredited investors

Starting the client conversation:

“Secondaries allow us to invest in private equity with less risk and a shorter timeline. Instead of waiting years for a fund to mature, we step in partway through, giving you quicker cash flow and access to a more mature investment portfolio.”

Questions to ask:

1. What growth goals could secondaries help us achieve, at a lower level of risk than with other private equity strategies?
2. If liquidity is a concern, could secondaries offer some of the benefits of LBOs, but with a potential shorter investment time horizon?
3. There are potential tradeoffs with secondaries—less information about underlying companies—which you’d need to be comfortable giving up in exchange for potentially lower risk and higher returns. Are you comfortable with that?

Three additional considerations when introducing alternatives to your clients.

Tax Implications and complexity	Investment Location	Liquidity and redemption constraints
Many alternatives, especially those structured as limited partnerships, issue K-1s instead of 1099s. K-1s often arrive late, requiring clients to file tax extensions and estimate payments—an ongoing administrative burden.	Choosing the right account type for alts is critical and advisors should guide clients in strategic asset location to maximize after-tax performance and reduce complexity	Some investments, such as private real estate or credit funds, may offer quarterly liquidity, often subject to redemption gates (e.g., 5% of fund assets per quarter).



Unless otherwise expressly disclosed to you in writing, the information provided in this material is for educational purposes only. Any viewpoints expressed by Fidelity are not intended to be used as a primary basis for your investment decisions and are based on facts and circumstances at the point in time they are made and are not particular to you. Accordingly, nothing in this material constitutes impartial investment advice or advice in a fiduciary capacity, as defined or under the Employee Retirement Income Security Act of 1974 or the Internal Revenue Code of 1986, both as amended. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in the products or services and may receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Nothing in this content should be considered to be legal or tax advice, and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision.

Alternative investments are investment products other than the traditional investments of stocks, bond, mutual funds, or ETFs. Examples of alternative investments are limited partnerships, limited liability companies, hedge funds, private equity, private debt, commodities, real estate, and promissory notes. Some of the risks associated with alternative investments are: Alternative investments may be relatively illiquid. It may be difficult to determine the current market value of the asset. There may be limited historical risk and return data. A high degree of investment analysis may be required before buying. Costs of purchase and sale may be relatively high.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets. These risks are particularly significant for investments that focus on a single country or region.

Investing involves risk, including risk of loss.

Past performance and dividend rates are historical and do not guarantee future results.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

All indices are unmanaged. You cannot invest directly in an index.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC.

In the U.S., Fidelity Investments® provides investment products through Fidelity Distributors Company LLC; clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC (Members NYSE, SIPC); and institutional advisory services through Fidelity Institutional Wealth Adviser LLC.

Personal and workplace investment products are provided by Fidelity Brokerage Services LLC, Member NYSE, SIPC.

Institutional asset management is provided by FIAM LLC and Fidelity Institutional Asset Management Trust Company.

© 2026 FMR LLC. All rights reserved.

1258818.1.0

1.9922847.100