

Private Equity and Venture Capital as Institutional Asset Classes

Risk, Liquidity, Governance, and Institutional Portfolio Design

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Abstract

Private equity and venture capital are widely treated as asset classes within institutional portfolios, providing a convenient framework for allocation, reporting, and benchmarking. However, this classification masks substantial variation in underlying exposures, liquidity characteristics, and governance requirements across strategies. While institutional investors are generally aware of this heterogeneity, allocation and evaluation frameworks continue to rely on simplified labels, creating a persistent gap between how capital is categorized and how it behaves in practice.

This paper examines whether private equity and venture capital function as coherent asset classes, or whether they are better understood as implementation channels through which distinct exposures are accessed. By analyzing risk, return dispersion, liquidity constraints, and governance demands, the paper shows that outcomes in private markets are driven less by the asset-class label and more by strategy selection, manager access, and institutional capability.

Reframing private equity and venture capital as implementation channels provides a more precise foundation for portfolio design. It shifts the focus from category-based allocation toward exposure-based decision-making, improving alignment between investment objectives, portfolio construction, and realized outcomes. The paper concludes that while asset-class labels remain useful for communication and governance, effective institutional investing requires a more explicit understanding of the exposures they represent.

Keywords: private equity; venture capital; institutional asset allocation; portfolio construction; illiquidity; governance; manager selection; return dispersion; investment strategy; asset classes; portfolio design; institutional investing

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1. Introduction — The Asset-Class Framing Problem

Institutional portfolios commonly treat private equity and venture capital as asset classes. In most policy portfolios, they appear alongside public equities, fixed income, and other broad categories, each assigned a target allocation and evaluated against long-term expectations. This framing is practical. It supports reporting, benchmarking, and communication with boards and stakeholders. However, it also compresses a wide range of fundamentally different strategies into a single label.

Private equity, as used in institutional contexts, typically encompasses buyout funds, growth equity, venture capital, distressed strategies, and hybrid approaches (Kaplan & Strömberg, 2009; Metrick & Yasuda, 2010). These strategies differ not only in investment approach, but in underlying economic exposures, use of leverage, cash flow characteristics, and outcome distributions. While venture capital is often treated as a subset of private equity, it is frequently considered separately in institutional allocation due to its distinct risk, return, and governance characteristics. Venture capital expands this range through early-stage investments characterized by high uncertainty and return profiles driven by a small number of extreme outcomes (Gompers & Lerner, 2004). Despite these differences, allocations are often made and evaluated at the aggregate level.

While institutional investors are well aware of the heterogeneity within private markets, allocation and reporting frameworks continue to rely on simplified asset-class labels, creating a persistent gap between how capital is categorized and how it behaves in practice. This gap is not primarily a matter of knowledge, but of how investment decisions are structured, reported, and governed (Ang, 2014). Even sophisticated institutions that understand the differences across strategies continue to allocate capital using aggregated categories and evaluate outcomes against asset-class level expectations.

The persistence of this framing reflects operational convenience more than analytical precision. Asset classes provide a common language for investment committees and consultants, enabling aggregation and comparison across portfolios (Swensen, 2009; Ang, 2014). But when the classification does not map cleanly to underlying exposures, it becomes less informative and can lead to misaligned decisions.

In practice, this misalignment appears in several ways. Return expectations are framed at the asset-class level, even though outcomes are driven by a subset of managers and strategies (Kaplan & Schoar, 2005; Harris, Jenkinson, & Kaplan, 2014). Liquidity is treated as a general characteristic rather than a set of distinct risks tied to capital calls, fund duration, and exit uncertainty (Ang, 2014; Ilmanen, 2011). Governance requirements are often underestimated, particularly for institutions without the resources to build diversified programs across strategies and vintages (Ambachtsheer, 2015).

In practice, even institutions with sophisticated private market programs rely on high-level allocation buckets for reporting and governance, while internally managing a more granular set of exposures. Institutions do not experience “private equity” returns in aggregate; they experience the outcomes of specific manager relationships, strategy exposures, and commitment

pricing decisions. These outcomes can differ materially from asset-class averages and are often driven by factors not captured in high-level allocation frameworks.

This paper examines whether private equity and venture capital function as coherent institutional asset classes, or whether they are better understood as heterogeneous implementation channels that deliver distinct exposures. By focusing on risk, liquidity, governance, and portfolio design, the objective is not to redefine terminology, but to address the gap between how capital is categorized and how it behaves in practice, and to improve how allocation decisions are made as a result.

2. What Makes an Asset Class Useful to an Allocator?

For institutional portfolios, an asset class is not simply a category of investments; it is a decision-making tool. Its value lies in its ability to translate an allocation decision into a reasonably stable and interpretable set of exposures, risks, and expected behaviors within a portfolio (Ang, 2014). When a CIO allocates capital to an asset class, the implicit assumption is that the allocation will produce outcomes broadly consistent with the role that asset class is intended to play.

In practice, this requires a stable mapping across several dimensions. First, the asset class should have identifiable risk drivers. Public equities, for example, are primarily driven by economic growth, corporate earnings, and market sentiment (Ilmanen, 2011). Second, it should exhibit a recognizable return structure, allowing allocators to form expectations about long-term performance. Third, it should have a well-defined liquidity profile, including both the timing and certainty of cash flows. Finally, it should impose governance requirements that are understood and manageable within the institution's capabilities.

These dimensions—risk, return structure, liquidity, and governance—interact to define the role an asset class plays within a broader portfolio (Ang, 2014; Ilmanen, 2011). The usefulness of an asset class lies not in its label, but in the consistency of these relationships over time. When an allocation reliably produces a particular combination of exposures and constraints, the category becomes meaningful for portfolio construction.

In practice, these mappings are relied upon not only for portfolio construction, but also for communication with investment committees and boards, where clarity often takes precedence over precision. This reinforces the use of simplified categories even when underlying exposures are more complex.

However, when these dimensions vary widely within a category, the asset-class label loses analytical usefulness. Aggregation masks important differences, and allocation decisions become less precise (Ang, 2014). Strategies grouped under the same label may have fundamentally different liquidity profiles, risk drivers, and governance demands, yet be treated as interchangeable within a single allocation. In such cases, the category functions more as an organizational convenience than as a reliable decision framework.

This distinction is often understood conceptually but not consistently applied in practice. Institutions recognize that private markets are heterogeneous, yet allocation decisions, reporting structures, and performance evaluation continue to rely on aggregated categories. The result is a disconnect between how portfolios are described and how they behave.

From a practitioner perspective, this becomes most visible when allocation decisions do not translate into expected outcomes. Institutions may believe they are increasing exposure to growth, capturing an illiquidity premium, or diversifying risk, but realized results depend on the specific strategies and structures used to implement the allocation. When the mapping between category and outcome is unstable, the asset-class label becomes a shorthand rather than a reliable analytical framework.

This raises a practical question for institutional allocators: not whether asset classes should be abandoned, but whether the categories being used provide sufficient clarity for decision-making. In the case of private equity and venture capital, where internal variation is significant and implementation complexity is high, this question becomes central to effective portfolio design.

3. Private Equity and Venture Capital: One Label, Multiple Exposures

Private equity and venture capital are often discussed as if they represent coherent categories within institutional portfolios. In practice, they encompass a wide range of strategies that differ materially in underlying exposures, risk profiles, and portfolio roles (Kaplan & Strömberg, 2009; Metrick & Yasuda, 2010). The label remains constant, but what it represents varies significantly depending on how capital is deployed.

Within private equity, buyout strategies typically involve acquiring controlling stakes in established businesses, often with the use of leverage. The resulting exposure combines equity ownership with financial structuring, with returns driven by operational improvements, multiple expansion, and capital structure optimization (Axelson et al., 2013). Growth equity, by contrast, involves minority investments in companies that are scaling but not yet mature, with less reliance on leverage and a different balance between risk and upside.

Venture capital introduces a further shift. Early-stage investments are characterized by high uncertainty, limited operating history, and return distributions driven by a small number of outsized outcomes (Gompers & Lerner, 2004; Korteweg & Nagel, 2016). The economic exposure is less tied to current cash flows and more to the potential for future market adoption or technological leadership. Even within venture capital, differences between seed, early-stage, and late-stage investing create materially different risk-return profiles.

Distressed and special situations strategies add another layer of variation, often overlapping with credit markets and involving restructuring or turnaround scenarios. These strategies can behave differently from both buyout and venture capital, particularly in terms of downside protection and sensitivity to economic cycles.

Despite this range, institutional allocations are frequently made under a single “private equity” or “private equity and venture capital” category. This creates a disconnect between how capital is categorized and what exposures are actually being taken. Two portfolios with the same allocation to private equity may have materially different underlying exposures depending on their mix of buyout, venture, growth, and distressed strategies.

The use of a single label creates an implicit assumption of comparability across strategies that are not directly comparable in their underlying exposures. In practice, portfolio construction decisions are not made at the level of the aggregate category, but at the level of specific strategies, managers, and vintages.

As a result, the variation within private equity and venture capital can exceed the variation between traditional asset classes. A portfolio concentrated in early-stage venture capital is fundamentally different from one focused on large buyout funds, not only in expected return, but in volatility, liquidity, and dependence on manager selection (Harris, Jenkinson, & Kaplan, 2014). Treating these strategies as a unified asset class obscures these differences and reduces the precision of allocation decisions.

From a practitioner perspective, this gap becomes evident in how allocations are discussed versus how outcomes are experienced. Institutions may report a single allocation to private equity, while internally managing exposures that behave in very different ways. Over time, this can complicate expectation setting, performance evaluation, and portfolio-level risk management.

The issue is not that the label is incorrect, but that it is incomplete. It captures a broad category of investments, but does not provide sufficient clarity on the underlying exposures that ultimately drive portfolio outcomes.

4. Risk and Return: Dispersion, Leverage, and Outcome Uncertainty

The risk and return characteristics of private equity and venture capital are often summarized at the asset-class level. Long-term return expectations, historical performance ranges, and benchmark comparisons are commonly used to inform allocation decisions. However, these summaries obscure the extent to which outcomes are driven by factors that vary significantly across strategies and managers.

A defining feature of private markets is the degree of dispersion in outcomes. Empirical evidence shows that the difference between top-quartile and bottom-quartile funds can be substantial, with median outcomes providing only a limited representation of the range of possible results (Kaplan & Schoar, 2005; Harris, Jenkinson, & Kaplan, 2014). In practice, institutional investors do not experience “average” private equity or venture capital returns. Outcomes are driven by manager selection, access, and the ability to construct a diversified program across vintages and strategies.

Access to top-performing managers is uneven across institutions, further widening the gap between reported asset-class performance and realized outcomes. Institutions with established relationships and consistent commitment programs are more likely to access top-tier funds, while others are limited to a different segment of the opportunity set. This structural difference is not reflected in asset-class level return expectations.

In buyout strategies, leverage plays a central role in shaping both returns and risk. Financial structuring can amplify returns in favorable conditions but increases sensitivity to credit markets and economic downturns (Axelson et al., 2013). As a result, buyout risk cannot be understood solely in terms of underlying business performance; it also reflects capital structure decisions and market conditions.

Venture capital introduces a different form of uncertainty. Return distributions are highly asymmetric, with a small number of investments accounting for a disproportionate share of total returns (Korteweg & Nagel, 2016). Many investments fail or generate modest outcomes, while a few successful companies drive overall performance. This dynamic creates a portfolio structure that differs fundamentally from both buyout strategies and public equities, and requires a different approach to diversification and risk management.

As a result, asset-class level return expectations can be misleading, as they imply a level of stability and comparability that is not reflected in realized outcomes. Statements about “expected private equity returns” or “venture capital outperformance” are difficult to interpret without understanding the underlying composition of the portfolio.

In practice, this creates a gap between how return expectations are communicated and how returns are realized. Allocations are often justified using aggregate performance data, but realized outcomes are driven by decisions made at a more granular level. Over time, this can lead to mismatches between expected and actual performance, particularly for institutions that lack the governance capacity or access required to build top-tier private market portfolios.

The implication is not that private equity and venture capital lack attractive return potential, but that their risk and return characteristics cannot be understood at the level of a single asset-class label. Outcomes are shaped by strategy selection, manager quality, and implementation decisions, all of which vary within the category.

5. Liquidity: Illiquidity Is Not a Single Risk

Illiquidity is often cited as a defining characteristic of private equity and venture capital. In institutional portfolios, it is commonly associated with an “illiquidity premium,” where reduced flexibility is exchanged for higher expected returns. However, this framing treats illiquidity as a single attribute, when in practice it consists of several distinct risks (Ang, 2014; Ilmanen, 2011).

Private market investments typically involve long holding periods structured through closed-end funds. Capital is committed upfront but drawn down over time, creating uncertainty around deployment. Distributions are similarly uncertain, depending on the timing of exits influenced by market conditions, company performance, and strategic considerations. This introduces not only duration risk, but also variability in cash flow timing that is difficult to model precisely (Ang, 2014).

These characteristics differ across strategies. Buyout funds, particularly those focused on more mature businesses, tend to have more predictable capital deployment and exit pathways, even if timing varies with market cycles. Venture capital, by contrast, involves greater uncertainty in both timing and magnitude of outcomes. Early-stage investments may take longer to mature, and exits are often dependent on broader technological and capital market developments. As a result, the liquidity profile of venture capital differs fundamentally from that of buyout strategies, despite being grouped under the same asset-class label.

Secondary markets and continuation vehicles have introduced additional flexibility, but they do not eliminate liquidity risk. Secondary transactions are often opportunistic and may occur at discounts to net asset value, particularly in stressed environments. Continuation structures can extend holding periods rather than shorten them. These mechanisms provide optionality, but not certainty, and their availability varies across market conditions (Preqin, 2020; McKinsey, 2021).

From an institutional perspective, treating illiquidity as a uniform premium can lead to misaligned expectations. The risks associated with long-duration commitments, uncertain cash flows, and limited exit optionality are not identical across strategies, nor are they consistently compensated (Phalippou, 2014). In some cases, any premium may be offset by fees, dispersion in manager performance, or adverse market timing.

These differences become most visible during periods of market stress, when liquidity constraints limit flexibility at precisely the time it is most needed. Institutions that rely on aggregate assumptions about private market liquidity may find that actual cash flows diverge significantly from expectations, particularly when distributions slow and capital calls continue.

In practice, institutions manage liquidity not at the asset-class level, but through detailed modeling of capital calls, distributions, and net cash flows across vintages and strategies. Even so, unexpected variations in deployment and exit timing can create constraints, particularly during periods when liquidity is most valuable.

The implication is that illiquidity should not be treated as a single risk factor attached to an asset-class label, but as a set of distinct constraints that vary across strategies and over time. When allocations are made at the aggregate level, these differences are obscured, making it more difficult to align private market exposures with broader portfolio liquidity needs.

6. Governance: The Hidden Cost of Allocation

Allocating to private equity and venture capital requires a level of governance that differs materially from traditional asset classes. Public equities and fixed income can be accessed through liquid markets and standardized vehicles, whereas private market investments require manager selection, ongoing monitoring, and active portfolio construction decisions that place significant demands on institutional resources (Ang, 2014; Ambachtsheer, 2015).

At the center of these demands is manager selection. Outcomes in private markets depend heavily on access to top-performing managers, which in turn depends on relationships, reputation, and the ability to commit capital consistently over time (Kaplan & Schoar, 2005). Unlike public markets, where exposure can be adjusted dynamically, private market allocations are built through commitments that lock in exposure for extended periods. Initial selection decisions are therefore particularly consequential.

Beyond selection, institutions must manage pacing and diversification across vintages, strategies, and geographies. Commitment decisions made in one period shape portfolio exposures for years, requiring forward-looking planning and coordination. Over-commitment can create liquidity strain, while under-commitment can lead to persistent underexposure relative to policy targets. These dynamics introduce complexity that is not captured in high-level asset allocation frameworks.

Governance requirements also vary across strategies. Venture capital often requires deeper engagement with emerging sectors, higher tolerance for uncertainty, and longer investment horizons. Buyout strategies involve different considerations, including leverage, operational improvements, and exit timing. Distressed and special situations strategies introduce additional complexity, including legal and restructuring dynamics. Treating these strategies as part of a single asset class obscures the extent to which they require different forms of expertise and oversight.

In practice, governance capacity is not simply a supporting factor, but a primary determinant of how effectively private market allocations translate into realized outcomes. Institutions with greater governance capacity—measured in internal resources, experience, and access—are structurally better positioned to capture the potential benefits of private market investing (Ambachtsheer, 2015). They are more likely to build diversified programs, maintain relationships

with top-tier managers, and manage pacing effectively. Institutions with more limited resources face constraints that affect both access and execution.

A common challenge is that governance requirements are underestimated at the allocation stage. Decisions are made at the level of target allocations, but the resources required to implement those allocations are not always fully accounted for. Over time, this leads to gaps between intended and realized exposures, as well as variability in outcomes across institutions with similar allocation targets.

From a practitioner perspective, this reinforces a broader point: outcomes in private equity and venture capital are not determined solely by asset characteristics, but by the interaction between those characteristics and institutional capabilities. When allocations are framed at the asset-class level, this interaction is often overlooked, even though it plays a central role in determining results.

7. From Asset Classes to Implementation Channels

The preceding discussion highlights a recurring pattern: private equity and venture capital are commonly treated as asset classes, yet their underlying characteristics vary significantly across strategies. This raises a practical question for institutional allocators: if these categories do not provide a stable mapping to exposures, how should they be understood within a portfolio framework?

A more precise way to view private equity and venture capital is as implementation channels rather than coherent asset classes. In this framing, the focus shifts from the label itself to the underlying exposures it aggregates. Private market structures—closed-end funds, long-duration commitments, and active ownership—serve as mechanisms through which capital is deployed, but they do not define a single, uniform economic exposure (Ang, 2014).

In this sense, private equity and venture capital are not exposures in themselves, but structures that package different underlying exposures. Buyout strategies, for example, are best understood as leveraged equity exposure, combining ownership of operating businesses with financial structuring (Axelson et al., 2013). Growth equity provides exposure to expanding companies with less reliance on leverage, often sitting between traditional private equity and public equities in terms of risk and return. Venture capital represents exposure to innovation and optionality, where outcomes are driven by a small number of highly successful investments (Korteweg & Nagel, 2016). Distressed and special situations strategies may overlap with credit markets, combining elements of equity upside and downside protection through restructuring.

Viewed in this way, variation within private equity and venture capital is not a source of noise to be simplified, but a defining feature that should inform allocation decisions. The same label can encompass exposures that differ in sensitivity to economic cycles, liquidity characteristics, and dependence on manager selection. Treating these exposures as interchangeable within a single allocation obscures how they contribute to overall portfolio risk and return.

This reframing does not imply that asset-class labels should be abandoned. Labels remain useful for communication, reporting, and high-level organization. However, for decision-making purposes, the relevant question shifts from “how much private equity” to “which exposures are being represented, and through which structures.” This distinction is particularly important when

integrating private markets into a broader portfolio, where overlaps with public equities, credit, and other asset classes can be significant (Ilmanen, 2011).

In practice, this framing aligns more closely with how outcomes are experienced. Institutions do not realize returns from “private equity” in aggregate; they realize returns from specific exposures implemented through particular structures and managers. Viewing private equity and venture capital as implementation channels provides a clearer link between allocation decisions and portfolio outcomes, and reduces reliance on categories that do not fully capture underlying risks.

8. Implications for Institutional Portfolio Design

Reframing private equity and venture capital as implementation channels has direct implications for how institutional portfolios are constructed and managed. While asset-class labels may remain in place for reporting and governance, allocation decisions can be made with greater precision by focusing on underlying exposures.

First, allocation sizing can be defined in terms of exposure rather than category. Instead of setting a target allocation to private equity as a single bucket, institutions can identify the exposures they seek—such as leveraged equity, growth-oriented equity, or innovation-driven returns—and determine the mix of strategies required to achieve them (Ang, 2014). This approach improves alignment between portfolio objectives and the characteristics of the investments used to achieve them.

Second, diversification within private markets can be defined more explicitly. Diversification is often measured by the number of funds or managers in a portfolio, but this does not necessarily translate into diversification of underlying exposures. A portfolio concentrated in a single strategy, even across multiple managers, may still be exposed to similar risks. Diversification across strategies—such as buyout, venture, and distressed—provides more meaningful differentiation in risk drivers, liquidity profiles, and return structures (Ilmanen, 2011).

Third, commitment pacing can be aligned more closely with liquidity characteristics. Illiquidity is not a single risk, but a combination of duration, cash flow uncertainty, and exit timing variability. Recognizing this allows institutions to design commitment strategies that reflect these dynamics, including managing capital calls and distributions, balancing commitments across vintages, and maintaining flexibility to respond to changing market conditions (Ang, 2014).

Fourth, integration with the broader portfolio becomes more transparent. When private equity and venture capital are viewed as implementation channels, their relationship with other asset classes can be assessed more directly. Leveraged buyout exposure may overlap with public equity and credit risk, while venture capital may provide differentiated exposure to innovation and technological change. Recognizing these overlaps improves portfolio-level risk management.

Fifth, governance considerations can be incorporated more explicitly into allocation decisions. Different strategies require different levels of expertise, resources, and access. Linking allocation decisions to governance capacity allows institutions to align their private market ambitions with their ability to execute effectively (Ambachtsheer, 2015). This influences not only allocation size, but also strategy selection and implementation approach.

This requires a shift from allocating to categories toward defining target exposures first and selecting implementation strategies second. While this approach introduces additional complexity at the design stage, it provides a more consistent basis for decision-making and reduces the risk of misalignment between intended and realized outcomes.

Taken together, these implications reflect a broader principle: effective portfolio design depends on alignment—between allocation decisions and exposures, between expectations and outcomes, and between investment strategy and institutional capability. Reframing private equity and venture capital as implementation channels provides a clearer foundation for achieving that alignment.

9. Rethinking the Role of Labels in Allocation Decisions

Asset-class labels remain central to institutional investment frameworks. They provide a common language for communication, facilitate reporting to boards and stakeholders, and enable benchmarking across portfolios (Swensen, 2009; Ang, 2014). In this sense, labels serve an important operational function, simplifying complex portfolios into categories that can be monitored, compared, and governed over time.

However, their usefulness depends on how they are applied. When treated as shorthand for underlying exposures, they support efficient decision-making. When treated as precise representations of those exposures, they introduce ambiguity and can lead to misaligned expectations (Ang, 2014). The distinction is subtle but consequential.

In private equity and venture capital, this distinction becomes particularly important. These categories encompass a wide range of strategies with differing risk drivers, liquidity profiles, and governance requirements (Kaplan & Strömberg, 2009; Metrick & Yasuda, 2010). While institutions are generally aware of this variation, allocation and evaluation frameworks often continue to operate at the level of the aggregate label. The result is a disconnect between how portfolios are described and how they behave.

In practice, this leads to several recurring issues. Performance is evaluated against asset-class benchmarks that may not reflect the portfolio's actual composition (Harris, Jenkinson, & Kaplan, 2014). Risk exposures are aggregated in ways that obscure underlying concentrations. Liquidity planning relies on assumptions that do not hold across strategies (Ang, 2014). Governance structures are designed around categories that do not align with implementation complexity (Ambachtsheer, 2015).

These issues do not reflect a lack of sophistication. Rather, they arise from the need to operate within simplified frameworks that balance clarity, comparability, and operational efficiency. Asset-class labels persist not because they are fully accurate, but because they are useful.

From a practical standpoint, labels should be treated as an entry point rather than a conclusion. They organize thinking and facilitate communication, but should not replace a more precise understanding of underlying exposures. For institutional allocators, the relevant question is not whether a portfolio has an allocation to private equity or venture capital, but what that allocation represents in terms of risk, return, liquidity, and governance.

This perspective does not require abandoning existing frameworks, but it does require using them more deliberately. Maintaining awareness of the gap between labels and underlying

exposures allows institutions to improve decision-making while continuing to operate within established governance and reporting structures.

10. Conclusion — From Categories to Exposure-Based Thinking

Private equity and venture capital play an important role in institutional portfolios, providing access to investment opportunities that differ from traditional public markets. They are widely treated as asset classes, with defined roles in allocation frameworks and portfolio construction. This classification has practical value, supporting communication, benchmarking, and governance (Swensen, 2009).

At the same time, these categories do not function as coherent asset classes in the same way as more traditional groupings. The variation within private equity and venture capital—in risk drivers, return structures, liquidity profiles, and governance requirements—is substantial (Kaplan & Strömberg, 2009; Korteweg & Nagel, 2016). As a result, allocations made at the asset-class level do not always map cleanly to the exposures that determine portfolio outcomes.

Reframing private equity and venture capital as implementation channels provides a more precise way to understand their role. The focus shifts from the category to the underlying exposures accessed through different strategies and structures (Ang, 2014). This improves alignment between allocation decisions and portfolio objectives, and provides a clearer basis for managing risk, liquidity, and governance.

For institutional allocators, the implications are practical. Allocation decisions can be defined with greater specificity, diversification can be structured around exposures rather than categories, and governance considerations can be incorporated more explicitly into portfolio design. These adjustments do not require abandoning existing frameworks, but they do require a more detailed understanding of what lies beneath familiar labels.

Ultimately, the objective is not to replace asset-class frameworks, but to use them more effectively. Recognizing the limitations of simplified categories and focusing on the exposures they represent improves the alignment between how capital is allocated and how it behaves in practice. This shift—from category-based to exposure-based thinking—provides a more consistent and decision-relevant foundation for managing complex, multi-asset institutional portfolios.

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