

Navigating the relationship between retail funds and institutional capital

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As the private funds market continues to evolve, fund sponsors are increasingly launching (or seeking to launch) retail-oriented investment products to invest in or alongside traditional private funds. This steady change has been driven both by investor demand (including a broadening investor base) and regulatory changes. This article explores what retail funds are, how they differ from institutional private funds, key considerations for sponsors marketing both products and diligence priorities for institutional investors. This article expands on previous guidance from us⁴.

What are retail funds?

Retail funds are investment vehicles designed to provide certain non-institutional investors, who would not typically have access to private funds given regulatory constraints (i.e., accredited or high-net-worth individuals), with access to alternative strategies. Historically, participation by retail investors in the private funds market has been limited by the illiquidity of closed-end funds, high minimum investment thresholds, limited transparency compared to public markets and regulatory restrictions on who private fund sponsors could market to and subsequently bring into their private fund products.

Retail funds are structured in such a manner as to make them more accessible while still maintaining an ability to be exposed to private markets, including by (i) using evergreen or semi-liquid structures, such as interval funds, tender offer funds, non-traded REITs, and business development companies (BDCs) in the United States or mutual fund trusts in Canada; (ii) enabling (or requiring) retail investors to fully fund commitments rather than employing the capital call model used by many private funds (or using a hybrid approach); (iii) providing for periodic liquidity windows, typically monthly or quarterly, as opposed to a multiple year lock-ups; and (iv) setting lower entry contribution minimums.

What is driving the democratization of private equity?

In addition to interest from retail investors, there are other factors driving the acceleration of the retail funds market, including:

- sponsors seeking alternative sources of capital;
- demand from investors for strong performance and diversification;
- technology-enabled solutions that are built to aggregate smaller investor commitments into institutional-size tickets, and the emergence of new fintech firms focused on these solutions; and

- regulatory changes in the United States, most notably (i) the SEC’s expansion of the definition of “accredited investor” to include individuals based on “professional knowledge and experience” in addition to the financial thresholds, and (ii) the U.S. Department of Labor guidance permitting companies to include certain types of managed private equity in 401(k) retirement plans.

What differentiates a retail fund from a typical private fund?

Private funds formed for investment by institutional investors are typically closed-end, with capital call structures and defined investment periods and harvest periods (often locking up capital for 10–12 years in total). Private funds offer investors limited liquidity such that capital contributions are locked in until the wind-down of the fund; however, investors in private funds have the opportunity to negotiate preferential economics, governance rights and bespoke reporting, including via a side letter. Retail funds, by contrast, prioritize accessibility and liquidity, the pursuit of which imposes operational complexity and regulatory compliance obligations. As noted above, retail funds are often open-ended and allow for intermittent subscriptions and redemptions; however, retail funds also only provide investors with standardized disclosures, and there is no flexibility for negotiation of bespoke terms or other rights.

What should sponsors marketing both products consider?

Private fund sponsors offering, or looking to offer, retail funds in parallel with their other private funds (or otherwise) should consider the following:

Alignment: In their white paper titled “ILPA Retail Capital Analysis” (the ILPA White Paper), released on October 30, 2025, ILPA identifies the disruption of alignment between sponsors and institutional investors as one of the primary considerations relative to retail funds. In this vein, sponsors should consider how they will manage allocations between their institutional and retail products to the extent they are making the same investments, including whether the allocation to the retail fund will dilute the co-investment opportunities available for their institutional investor partners. Sponsors should expect increased scrutiny on these questions as part of the investors’ operational due diligence exercises and should consider providing guidance in their allocation policy as to how retail products will be factored in when allocating investment and co-investment opportunities.

Compliance: Given they are more regulated, retail products trigger additional obligations on the sponsor (which may, in certain cases, trigger additional scrutiny by regulators, even with respect to institutional funds that would not otherwise be subject to such obligations). In the U.S., retail fund sponsors must comply with SEC rules for registered investment companies, including Regulation Best Interest (Reg BI), which raises the standard of conduct for broker-dealers when making recommendations to retail customers, imposing a “best interest” obligation in place of an older suitability standard. In Canada, depending on how they are structured, retail funds will typically be considered “mutual funds” for securities legislation purposes, triggering certain reporting requirements and the obligation for the fund manager to be registered as an investment fund manager with the relevant Canadian securities regulatory authorities.

Liquidity: Given that retail funds provide intermittent or on-demand liquidity, sponsors need to have strategies and systems for processing and meeting redemption requests, managing portfolio liquidity (including through liquidity stress analysis) and running regular valuations, as well as consider how to manage any potential valuation lag and stale pricing if they rely on third-party valuations.

Reporting: Sponsors need to be equipped to provide the granular reporting expected by institutional investors as well as the standardized, plain-language disclosures relied upon by retail investors, which could require an increase in back-office presence. Given the different needs and considerations for these different groups of investors, a single reporting strategy for both institutional and retail platforms, even when co-invested in the same assets, will often not be the most appropriate approach.

What should institutional investors keep in mind?

Institutional investors may be impacted if they invest with a sponsor that manages both institutional and retail capital, even if the two do not appear to intersect. Investors should diligence their sponsors in a way that helps them understand how the retail structures work in practice, how institutional capital could be impacted and, more generally, what is contemplated by the relevant fund sponsor. In evaluating a private fund managed by a sponsor that is also managing a retail product, or has otherwise disclosed its intention to launch retail funds, there are a number of lines of inquiry institutional investors should pursue. The ILPA White Paper provides over fifty sample diligence questions covering allocations, economics, conflicts, governance and transparency. Generally, institutional investors should be sure they have received sufficient information and are comfortable in respect of the following:

Allocation: One key consideration concerns how the sponsor expects to ensure a fair allocation between vehicles, which could include a cap on allocation to the retail fund codified in the fund LPA or a contractual pro rata allocation, as well as reporting to the institutional investors in respect of any allocations to retail products. Allocation policies may provide sponsors with flexibility even if they are silent on retail products, and relying on these policies to understand how a given sponsor intends to implement allocations will often not be sufficient. It is important to also diligence how the sponsor intends to apportion costs (in particular, broken-deal expenses and warehousing costs), among various vehicles with respect to a given asset.

Co-investment: It is important to understand whether the allocation to the retail fund will reduce the portion of each investment opportunity that might be available for co-investment by institutional investors. Institutional investors could seek assurances that co-investment allocation will not be impacted materially, including by way of a cap on the retail fund allocation (as noted above).

Economics: Given that retail funds often carry higher management fees and have performance fees based on the value of the portfolio, including unrealized assets (as opposed to institutional closed-end funds, which tend to have a carried interest calculated on the cash actually distributed), there could be an economic disparity between the institutional fund and the retail fund, with the sponsor incentivized to take in more retail capital and collect higher fees. It will be important for institutional investors to understand the fee structure of the retail product and ensure protections are in place to moderate sponsor decision making in this regard.

Time dedication: Retail funds may require more involvement by the sponsor and, as such, institutional investors could seek to understand how the investment teams and key persons will allocate their time among the various institutional and retail strategies. It may be useful to require disclosure of events (such as litigations initiated in connection with a retail product) that may impact such time allocation.

Valuation: Institutional investors should ensure they understand how redemption requests by retail clients are met without disadvantaging the other private funds participating in the same investments, including confirming that valuations are consistent across the sponsor's platform.

Liquidity: Retail funds take multiple forms, including feeder or access funds that aggregate small commitments into an institutional-sized ticket and evergreen funds that offer periodic liquidity. Therefore, it is important that institutional investors diligence whether the varying strategies and structures and the increased liquidity needs of retail platforms could create systemic risk for the sponsor's platform in the event of increased liquidity stress or a market downturn. This will include understanding the sponsor's operational readiness and asking questions around what levers are in place to protect in those scenarios. Institutional investors should consider including questions in their diligence relative to the liquidity strategies and tools that the sponsor intends to use with respect to retail funds. While securities rules will often prevent cross-trades between funds managed by the same sponsor, investors should understand whether the sponsor may use cross-trades as a potential remedy to a liquidity crunch and what strategies might be implemented to avoid the liquidity needs of a retail fund provoking divestitures at sub-optimal times.

Final thoughts

While retail funds offer new opportunities for sponsors and investors alike, they bring with them considerations that challenge longstanding alignment principles between institutional investors and private fund sponsors. Sponsors are navigating regulatory landscapes, expanded operational needs and heightened governance requirements, while institutional investors should proactively engage their sponsor partners on the implications of the retail side of their business. As the ILPA White Paper emphasizes, the future should not be about institutional and retail capital as opposing forces, but rather an evolution toward coexistence, while ensuring consistency in transparency and alignment.

FOOTNOTE

1. See, “[Retail investors and access funds: ‘hey, we want to invest in private funds, too!’](#)” (2023); “[Retail revolution? The democratization of private equity](#)” (2023); and “[Alternative asset managers in the quest for capital: attracting Canadian retail investors through mutual fund trusts](#)” (2025).

To discuss these issues, please contact the author(s).

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