Thompson Hine QuickLaunch

New Ventures Alert

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Closed-End Retail Funds Can Now Invest More Heavily in Private Equity and Venture Capital

On May 19, 2025, the Securities and Exchange Commission (SEC) signaled a pivotal shift in its traditional interpretation of U.S. securities laws. For the first time, closed-end retail funds listed on public exchanges—such as bond funds, business development companies, and many diversified funds—may invest more than 15 percent of their net assets in private funds, including venture capital funds and private equity vehicles.

What Changed?

Previously, SEC staff guidance effectively limited closed-end retail funds to investing no more than 15 percent of their net assets in private funds, relying on Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940. The cost and complexity of staying under this cap discouraged most retail funds from pursuing such investments.

That changed in May 2025, when SEC Chairman Paul S. Atkins and Division of Investment Management Director Natasha J. Greiner announced a more flexible interpretation of the law. Under this approach, closed-end retail funds can exceed the previous limit when doing so aligns with their investment objectives.

Why Investors Should Care

Broader Access to High-Growth Opportunities

Private equity and venture capital have historically delivered strong, market-beating returns—but access has been largely limited to institutions and ultra-high-net-worth individuals. The SEC's revised stance opens the door for everyday investors to gain indirect exposure to these high-growth sectors through publicly traded closed-end retail funds.

Portfolio Diversification and Risk Management

Private-market returns often move independently of public markets. By allowing closed-end retail funds to invest more in private deals, the new guidance could help reduce volatility and enhance overall risk-adjusted returns for investors.

Tailwinds for Emerging Fund Managers

The shift may direct fresh capital toward emerging fund managers, who often struggle to compete with large, well-established firms for a limited pool of investor dollars. A more diverse manager base could lead to broader perspectives and potentially increased funding for innovative startups.

Potential Economic Impact

Fueling Innovation and Job Creation

When venture capital flows more freely, startups have the capital they need to thrive and scale. The SEC's reinterpretation could spark a new wave of funding for early-stage companies, thereby supporting entrepreneurship and innovation across the country.

Strengthening Local Economies

Increased access to capital for smaller and regionally focused managers may drive more investments into local communities, helping to distribute the benefits of innovation beyond traditional venture hubs.

Key Takeaways

- The SEC now permits closed-end retail funds to invest more than 15 percent of their assets in private funds.
- Investors may gain greater access to high-growth opportunities, enhanced diversification, and potentially stronger potential returns.
- Emerging venture and private equity managers could benefit from a fresh influx of capital, helping to broaden the pool of innovative ideas receiving funding.
- Overall, the updated guidance has the potential to boost economic growth, create jobs, and expand investment options.

FOR MORE INFORMATION

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