This chapter first provides a comprehensive overview of private equity by categorizing the private equity investments into financing stages, divestment strategies, and types of financing. Different ways of investing in the asset class private equity are characterized, ranging from direct investments, which are hard to access, to listed private equity (LPE) investments, which provide a liquid means for investors to consider private equity in their portfolios. A Markov-Switching model is presented, which is able to capture the characteristics of the asset class LPE. By applying several risk measures and optimization frameworks, the question of the optimal fraction for an LPE investment in an investor’s portfolio is scrutinized. Depending on the risk aversion of the investor, the optimal fraction of an LPE investment in this study ranges between 0 percent for a very risk-averse investor, 7.5–11.8 percent for a moderately risky investor, and 16.9–27.9 percent for an investor willing to take higher risks.