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Part of HOWDEN

Evergreen Fund Framework in Private Markets

1. Introduction

For years, private market investing has been dominated by closed-ended fund structures. In these traditional models, capital is committed for a fixed term, typically spanning several years. The locked-up nature of these funds often excludes those who seek more flexibility or who are concerned that they may need to access their capital before the fund's maturity.

In response to this challenge, a new and increasingly popular solution has emerged: evergreen funds. Unlike closed-ended structures, evergreen funds are open-ended, continuously raising and deploying capital.

With an estimated $700 billion in assets under management (AUM) today (around 5% of total private markets) and expected to quadruple in the next decade, evergreen funds are reshaping how investors approach private capital.

Whether you're a DC investor, new to private markets, or simply looking for a way to optimise your private market portfolio, evergreen funds provide an alternative approach worth considering. This note will explore the rise of evergreen structures in private markets, outlining their key features, benefits, and potential risks.

2. Key features of evergreen structures

Closed-ended vs open-ended

The table below provides a comparison of key characteristics of traditional closed-ended funds versus an evergreen option.

	Traditional closed-ended (drawdown)	Evergreen (open-ended / semi-liquid)
Lifespan	10-15 years. May include option to extend.	Perpetual. No fixed term.
Deployment	Commit capital when general partner (GP) / manager is fundraising for their next vintage.	Regular subscription periods, typically monthly or quarterly.
Distrubutions	Made at the GP's discretion, typically at the end of investment period.	Typically accumulating, capital is recycled into new investments.
Return Profile	Returns usually start out negative in the early years as the fund is investing money (this is called the J-curve effect). It takes time before the investments start to generate profits.	Limited J-curve issues, investment deployed into a seasoned portfolio.
Investment size	Minimums can start at $5m. Primarily institutional investors.	Minimums can start as low as $10,000. Available to broader range of accredited investors.
Liquidity	No in-fund liquidity, use of the secondary market required.	Typically, quarterly redemption windows. Some have lock-up periods, restricting withdrawals for a set time after initial investment.
Fees	Annual management fee can be paid on committed or invested capital and performance fees typically upon realisation of investments.	Annual management fee on invested capital. For the performance fee, there are two common structures: NAV-based (fees on unrealised gains) or deal-by-deal (fees only on realised gains)

Asset class comparison

The private market landscape spans multiple asset classes, each with unique liquidity characteristics and at different stages of adopting the evergreen model. Below, we explore the trends we've seen across asset classes.

Infrastructure:

Semi-liquid funds have existed for some time. Infrastructure is well-suited to evergreen structures due to the long-term nature of its underlying assets and the stable, predictable cashflows that can provide ongoing liquidity.

Private credit:

Private credit's typical three–to four–year asset terms, coupled with regular interest payments, make it a natural fit for evergreen fund structures. The shorter duration enables efficient capital recycling, while steady income provides periodic liquidity. These characteristics are fueling a surge in evergreen fund launches, with more managers expected to follow.

Private equity:

This is the least developed asset class in this area, with most launches targeting the wealth market and smaller institutions.

Underlying assets in private equity generally do not generate natural liquidity (i.e. through distributing income) so funds may need to hold portions in cash, equities, or other liquid assets – potentially creating a drag on returns.

Following the recent distribution drought – unseen since the Global Financial Crisis (GFC) – and managers' desire to access new investors into the asset class (wealth channels), we anticipate significant growth in evergreen vehicles for this asset class.

Real estate:

Open-ended real estate space is very well established, with a multi-decade history of open-ended vehicles. However, the wave of redemptions triggered by the GFC and again in the 2022–23 UK gilts crisis highlights the liquidity mismatch inherent in offering evergreen structures backed by fundamentally illiquid assets.

Multiasset:

A range of evergreen funds invest across private markets. This has been the focus of the DC market, with long-term asset funds (LTAFs) the vehicle of choice. We question whether the current LTAF iterations are optimal for DC members. We see managers take a cautious approach to strategic allocation, often neglecting private equity, the typical return booster. Whether they can consistently access top-tier managers and deliver returns at the low fee level expected by DC members is yet to be seen.

Looking forward, we expect the DC market to evolve beyond multi-asset LTAFs, and we are aware of some DC providers pushing ahead in this space.

3. Liquidity management strategies in evergreen funds

There is no one-size-fits-all approach to managing liquidity in evergreen strategies. However, common liquidity tools and methods are frequently used across the market, and it is crucial that investors assess a manager's approach before investing.

Portfolio construction

Evergreen funds have periodic redemption windows in which investors can request to exit. Fund managers may address redemption requests in several ways, depending on the available liquidity in the portfolio.

Click on each (+) to read more

- New subscriptions (Offset redemptions) +
- Distributions from illiquid investments +
- Cash and money market funds +
- Listed portfolio +
- Credit facilities +
- Sell illiquid investments +

Liquidity management tools

If the measures above are insufficient, managers may apply further controls to plan and protect liquidity requirements. Common mechanisms include:

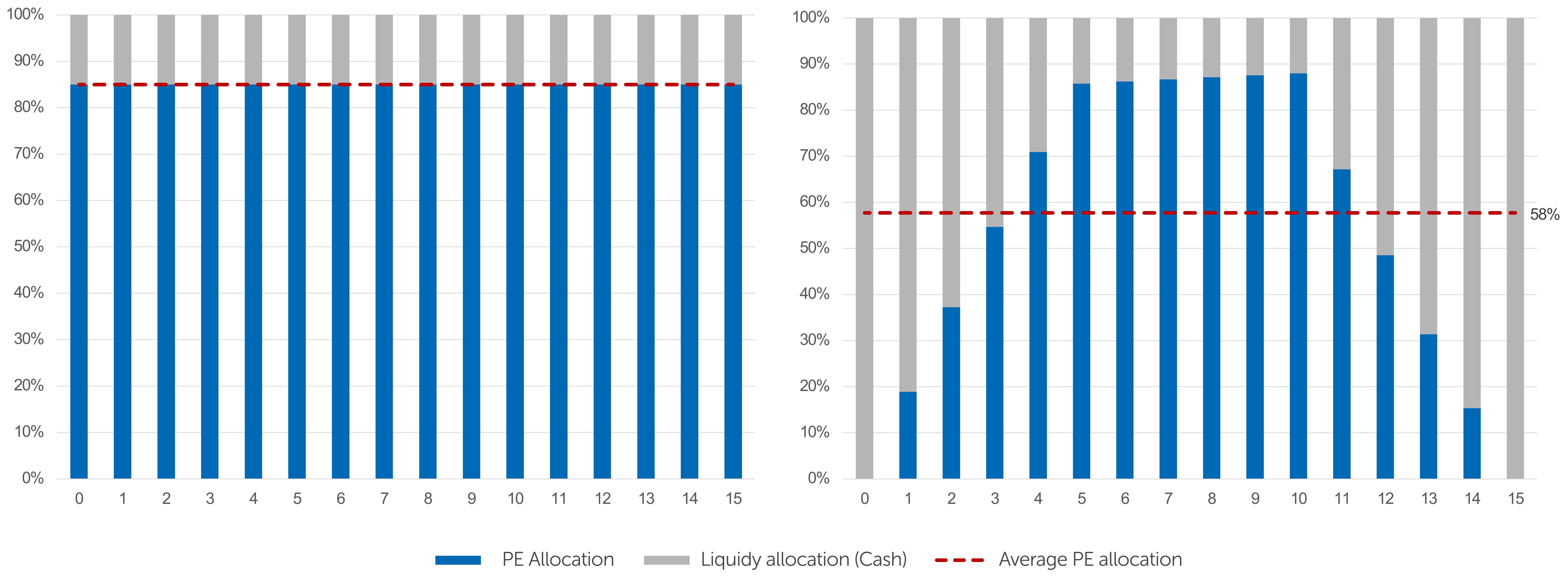
- Lock-up periods: Investors must commit their capital for a minimum time before redeeming. Early redemptions often incur financial penalties to discourage withdrawals.
- Redemption gates: Limits on the amount investors can redeem during each period to prevent large, sudden outflows.
- Redemption deferrals: Fund managers may defer redemption requests, placing investors in a queue and repaying them as cash becomes available, ensuring orderly redemptions without becoming a forced seller of assets.

These aren't just for show. In unexpected market events we've seen several strategies hit redemption limits and place investors in queues to get their money back, sometimes taking several years. This underscores one further area of due diligence that is particularly important for investors to undertake in advance of investing in these types of vehicles: due diligence on other investors within the fund. Understanding whether you are exposing yourself to a particular investor type/event that could cause a 'rush for the exit'.

4. Benefits of evergreen structures

Rapid investment:

This can allow investors to maintain a higher and more consistent allocation to private markets, potentially enhancing compounded returns, often referred to as multiple on invested capital ("MOIC"), over time. As a result, evergreen structures may support stronger long-term wealth accumulation compared to a drawdown model.



Reduces blind-pool risk:

In the past, investors in closed-ended funds were required to commit capital upfront without knowing the specific companies or assets they would ultimately have exposure to. This 'blind' commitment meant that investors had limited visibility into the portfolio. With evergreen funds, investors can evaluate the seasoned portfolio before committing their capital. Importantly, continued monitoring of future deals is critical to ensure it remains aligned with the manager's initial strategy.

Efficient capital management:

Closed-ended vehicles have fixed terms, so maintaining exposure requires recommitting to successor funds – adding administrative burden for both investors and fund managers. Evergreen structures, with their indefinite lifespan, offer uninterrupted private markets exposure, reducing the need for repeated fundraising and onboarding cycles.

Liquidity and flexibility:

Evergreen structures typically have quarterly redemptions and lower minimum investment amounts in comparison to closed-ended structures, making them more accessible and adding flexibility to an investor's portfolio.

J-curve mitigation:

The J-curve is experienced by private markets investors where returns are negative during the capital deployment phase of the fund's lifecycle. This initial drag of a typical closed-ended vehicle can be reduced as evergreen funds already have exposure to mature performing assets.

5. Risks and challenges of evergreen structures

Limited liquidity guarantees: Redemptions are ultimately at the manager's discretion, and funds can limit the capital an investor can recall.

There is a danger that the industry presents a false sense of liquidity which could fail in a crisis should many investors want to redeem at the same time. As set out above, investor due diligence is vital on this aspect.

Favouritism: Managers often run both evergreen and closed-ended strategies, and there is typically significant overlap in the underlying assets between the two, offering investors two different access points. However, investors should exercise caution and ensure the manager isn't using the evergreen portfolio as a 'holding pen' for assets they haven't been able to exit from the closed-ended flagship fund.

Investors should be comfortable that the manager remains incentivised to sell companies at the most appropriate time, rather than leaving assets in the evergreen fund indefinitely. We see this as a risk for underperforming assets where the manager has accepted they won't receive performance fees and would rather sit on the asset than realise a poor valuation.

Effective deployment: While much of the focus around evergreen structures is on redemptions, efficient capital deployment is just as critical. Managers must be equipped to handle ongoing subscriptions, which requires a robust private markets platform.

Where we've seen funds that offer access across asset classes, strategies and vintages, we've had greater confidence in deployment due to more levers to deploy capital. It highlights the importance of selecting a manager with a strong deal origination platform, to ensure they have the capability to meet regular subscriptions.

Valuation and dilution risk: In closed-ended illiquid funds, interim valuations matter less since returns are realised at maturity. However, in evergreen structures, accurate valuations are critical when investors enter or exit at that price. Mispricing can lead to overpayment or under-redemption. Where valuations determine performance fees, accuracy and managing conflicts of interest are critical – especially as regulators have flagged the potential for investor harm from mispricing in evergreen structures.

To mitigate risk, managers should have robust and frequent third-party valuation processes and, again, is an area of additional due diligence that investors should be undertaking.

Cash drag: Due to the illiquid nature of private assets, evergreen fund managers tend to hold around 5%-20% in liquid assets to meet potential redemption requests. A large allocation to liquid assets, usually cash or short-term government securities, can take away from returns.

As a result, the return targets we've seen on these vehicles compared to their closed-ended counterparts are generally lower.

6. Target audience: who should consider evergreen structures?

New private markets investors

Evergreen structures provide an accessible and flexible entry point for investors new to private market investing. Periodic subscription windows make these funds particularly appealing to those hesitant about committing large sums of capital to private assets, while occasional redemption periods offer comfort in knowing they can get out sooner than in a closed-ended structure.

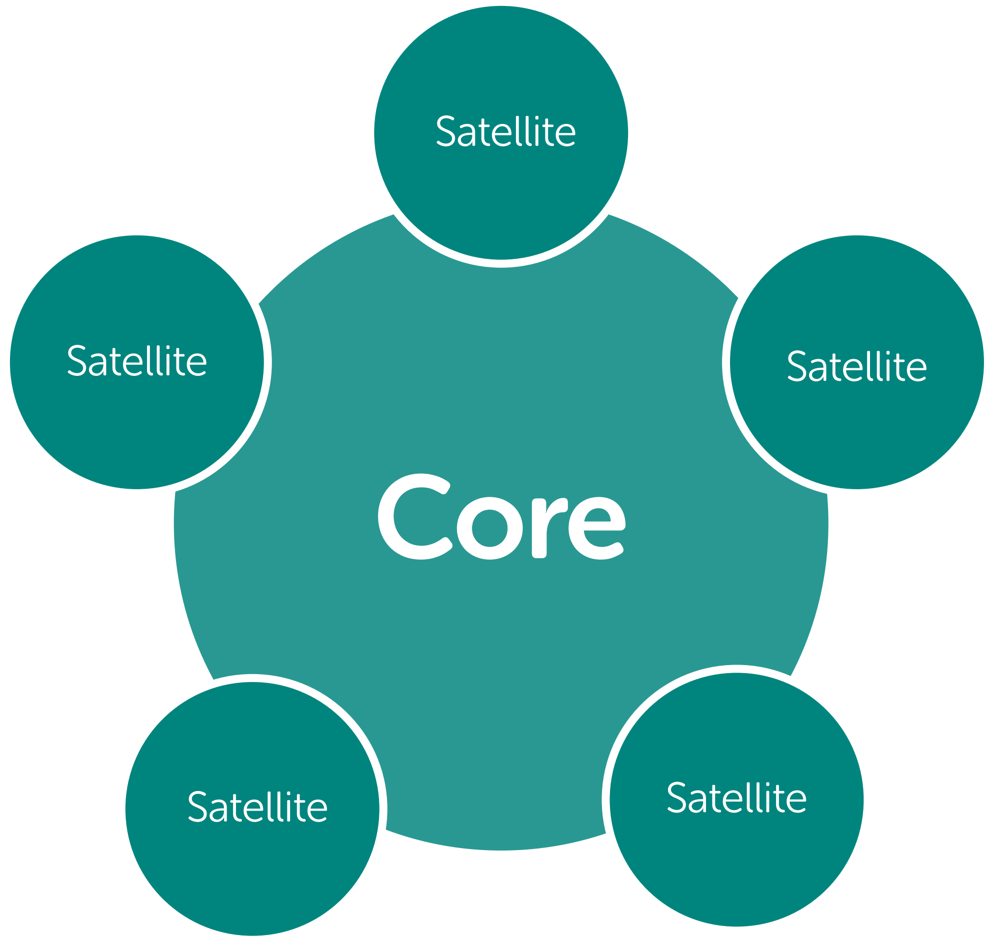
Creating a diversified private markets portfolio through closed-ended funds can require substantial capital and governance structure and can take many years. An evergreen vehicle offers more immediate exposure to a diversified, transparent portfolio from day one, simplifying the investment process for first time investors.

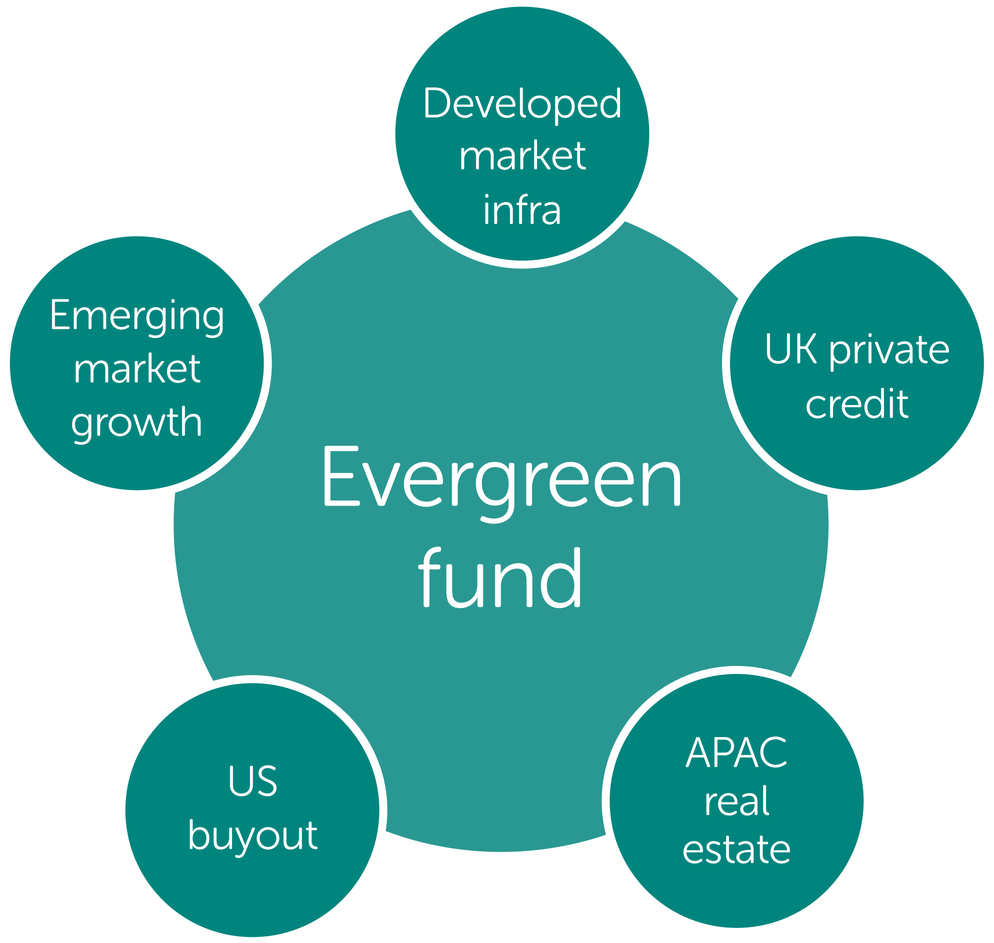
Existing closed-ended private markets investors

Institutions that already have private asset exposure through closed-ended commitments can still find implementing evergreen funds useful in their wider portfolio.

Core-satellite approach

Evergreen funds can be utilised as the core element of the private market exposure. Around this, an investor can allocate to closed-ended vehicles as satellite positions, targeting more specialised strategies, sectors, or geographies. This core-satellite structure allows for efficient portfolio management while enabling targeted return generation through complementary closed-end investments.





Under - exposed investors

Over a typical closed-ended fund's life, only 60–70% of an investor's commitment is deployed. To stay fully invested, investors can over-commit or reinvest proceeds across multiple vintages. Evergreen funds – despite liquidity buffers – offer higher long-term allocations. Investing in a single fund with exposure to multiple vintages from a performing manager reduces governance burden significantly.

Concentration risk

Investors allocating to a single closed-ended fund face concentrated manager and strategy risk. Evergreen funds increasingly offer exposure across a manager's full range of strategies within an asset class, often spanning multiple vintages and enhancing diversification. Lower minimum investment amounts enable a greater range of investors to diversify across more managers.

While these structures present compelling opportunities, it's important to note that only a limited number of managers currently offer such breadth compared to traditional closed-ended funds. However, as the evergreen market matures, we expect the range of accessible, diversified options to grow.

Defined contribution pension schemes

There has been a growing push for defined contribution (DC) pension schemes to invest in illiquid assets. The LTAF, a version of an evergreen fund, introduced by the Financial Conduct Authority (FCA) in 2021, was designed to encourage DC schemes to invest in long-term, illiquid private capital. The term LTAF has become synonymous with illiquid investment for DC schemes, even though it is just one specific legal structure and there are others available.

The FCA has approved over 30 LTAFs, half of which are multi-asset. We are evaluating portfolios as they ramp up but remain conscious about the fee challenge, liquidity puzzle and the pressure to invest in the UK. It is early days, but we hope to see increased allocations to private equity to boost member returns and access to top-tier managers.

7. Our views

Evergreen private market funds are no longer just an emerging trend – they are becoming a key component of modern private market investing. We see evergreen funds as a natural evolution in private market investing.

We believe evergreen structures will continue to gain traction, driven by investor demand and manager innovation. Many top-tier fund managers are expanding their evergreen offerings, reflecting confidence in the model. We see these vehicles as a significant opportunity for investors looking to build long-term private market exposure with added flexibility and efficiency. However, investors should carefully assess key factors before committing to an evergreen fund:

Liquidity mechanics

Understanding redemption structures, lock-up periods, and potential gating is critical to managing expectations.

Manager selection

Choosing a manager with a strong track record and clear alignment of interests ensures a well-managed fund.

Governance and transparency

Ongoing monitoring of valuations, liquidity, and portfolio composition is crucial for effective decision-making.

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Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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