Evergreen Funds: An Open-Ended Alternative to Private Markets

Introduction

For the first time in decades, the private equity industry is experiencing a genuine contraction. According to Bain & Co., total buyout assets under management fell by 2% in the year to June 2024, settling at $4.7tn as exit pipelines narrowed and distributions failed to meet investor expectations. Pension plans and other long-term allocators, once reliant on consistent cash flows from closed-end buyout vehicles, are finding it difficult to recycle capital, prompting further hesitancy toward new commitments. Fee pressure has also intensified: co-investments and emerging low-fee products are reshaping the industry's economics. Against this backdrop, evergreen funds are drawing increased attention as a potentially more resilient vehicle. By offering rolling subscriptions, reinvestment of proceeds, and periodic liquidity within a single structure, evergreen models address many of the pain points that now vex traditional private equity, from delayed exits to limited cash flow. Investors eager for flexible, longer-term allocations in private markets increasingly view evergreen funds as a natural evolution beyond the conventional "commit-and-call" paradigm.

Structural Overview: Mechanics of Evergreen Funds

Evergreen funds are open-ended vehicles established as partnerships or adaptable legal entities (e.g., regulated fund structures known as ELITFs). Their flexible legal structures allow pre-existing investors to redeem capital at periodic times and new investors to continuously join the fund, typically on a quarterly basis, which aids with liquidity constraints. This differs from typical closed-end funds, which have fixed commitments, a set lifespan, and limited liquidity for inflows or outflows.

FEATURE	SEMI-LIQUID EVERGREEN FUND	CLOSED-END DRAWDOWN FUND
Fund Structure	Tender offer fund	Limited partnership
Redemption Frequency	At the discretion of fund management. Typically every 3 months, capped at 5% of fund net assets.	No redemptions. Periodic distributions are the sole source of liquidity.
New Investor Admissions	Continuously offered via monthly subscriptions.	Finite offering term, then closed to new investors.
Investment Minimum	~$25,000	~$250,000
Investment Due Date	100% due upon subscription.	Staged in over time as and when the fund identifies investment targets
Investor Capital Deployment	Fully deployed on a continuous basis.	~5 years to fully deploy.
Registration & Filing Status	Public. Financials filed regularly with the SEC.	Private. No financials required to be filed.
Fund Life	Perpetual. No defined end date.	Finite life. ~10-15 years.
Tax Reporting	Generally Form 1099.	Schedule K-1
Concentration Risk	Low. ~100+ portfolio company holdings via multiple acquired fund interests.	High. ~10-15 portfolio company holdings (buyout).

Source: BSIC, Morgan Stanley

Combining features of both closed-end and open-ended funds, evergreen funds have a hybrid model, making them suitable for yield-generating investments in private markets. The governance frameworks typically employ liquidity sleeves to ensure investor redemptions at set periods. These liquidity sleeves often hold around 15% of assets in very liquid investments to ensure orderly investor redemptions without compromising long-term private market

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opportunities. Evergreen funds also have very transparent valuation policies, using valuation committees independent of the fund, to price private assets. Gates and lockups during redemption periods are also implemented, preventing excessive capital withdrawals at once and redemptions can only occur at given periods. Capital pacing models further regulate new inflows, mitigating the risk of sudden allocations that could dilute returns or skew the fund's asset mix. Another critical point to consider, is that where the minimum investment for closed-end drawdown funds is high, typically ~$250,000, with a high concentration in companies, (holdings in around 10-15 firms) and the registration is private, semi-liquid evergreen funds often have a far lower minimum investment, sometimes around ~$25,000, with public registration, filing with the SEC and a lower concentration ratio.

Designed to exist indefinitely, evergreen funds benefit from continuous capital inflows and outflows, allowing them to reinvest returns and avoid pressure to sell assets at a deadline, giving them a strategic vision and benefits from compounding investments. By contrast, fixed-term funds typically operate on a 10-year lifecycle divided into phases that involve initial fundraising and asset allocation, followed by a liquidation phase to return investor capital, which limits short-term liquidity. The rolling subscription model further distinguishes evergreen funds, as it allows the fund to continuously receive capital rather than only on set fundraising rounds. This is attractive to investors, as they have the flexibility to choose when the fund is best suited for their current investment strategy. Their liquidity sleeves and frequent exit intervals are suitable for investors seeking long-term investments in private markets but who may still wish cash in case a new opportunity arises, granting investors greater control over their investments. The funds reinvestment of returns also enables them to consistently grow their fund without the need to inquire if investors want to re-commit. This model of capital deployment reduces the exposure to market fluctuations, where long-term funds need to sell assets perhaps at an ill-suited time.

Evergreen funds also avoid the complications associated with capital-call models used by traditional closed-end funds. These capital-calls are based on a commitment model, where investors commit capital and the funds only calls for portions of this when investment opportunities arise, which is costly to manage and challenging if an opportunity arises suddenly. Additionally, these traditional funds cannot fully utilise all cash available as they need to hold enough cash in case of large amounts of capital-calls.

In terms of fee structures, evergreen funds typically charge management fees based on Net Asset Value (NAV) rather than on committed capital (often around 2% in traditional PE funds). NAV based fees are equitable, as investors only pay their pro-rata share of the capital invested in the fund, rather than committed capital fees where they pay on their promised capital where some of it is still unused. NAV-based fees incentivize managers to effectively deploy capital and provide greater alignment with the portfolio's performance. Furthermore, evergreen funds often use a "crystallized" carry structure paid periodically rather than through a standard waterfall seen in traditional PE firms. This allows managers to still receive performance-based bonuses, measured based off the appreciation of their NAV and realized gains, using a high-water marks approach, meaning performance fees are charged on NAV appreciation only above the highest previous NAV, so investors do not have to pay carry fees if the portfolio is down. Certain evergreen funds also impose performance hurdles, withholding carry unless managers exceed a specified annual return, further aligning interests with investors.

To mitigate the risk of simultaneous, heavy investor withdrawals, evergreen funds incorporate several liquidity management measures. Investors are required to provide advance notice (typically a couple of months) before redemption, allowing the fund to accumulate sufficient cash reserves. Redemption gates are commonly set at around 5% of NAV per quarter limiting the amount that can be withdrawn, while lock-up periods (or soft lock-up options for an additional fee) help reduce churn rate of early deployed capital by investors. A cornerstone of these measures is the accurate, quarterly determination of NAV by independent third parties, which accounts for both

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realized and unrealized gains. This meticulous valuation process is critical, as it underpins pricing for new subscriptions, redemptions, and even discounted offerings during liquidity constraints.

Historical Context & Evolution

The rise of evergreen funds started at the beginning of the 2000s, when new fund structures were introduced to try and better accommodate the demands of investors within the private market environment. The Swiss private equity fund Partners Group [SIX: PGHN], for instance, launched its first evergreen fund back in 2001 and has since been an active player in the space. Perpetual and open-ended funds, though, were already present even before, as Real Estate Investment Funds (REITs), for example, started to be launched since the 1960s. REITs function similarly to open-ended funds that invest in real estate assets, must distribute a huge part of their earnings, and typically can benefit from better tax treatments. They can also be listed, such as the Prologis REIT [NYSE: PLD], which in turn gives the possibility to investors to enter and exit the fund daily. More recently, evergreen funds have expanded within other asset classes, namely private equity, private credit and infrastructure investments, further increasing the interest of investors in this asset class.

Since the beginning of the millennium, the size of the evergreen funds market has strongly increased. According to Preqin, net asset value (NAV) reached about $350bn as of 2024, while the number of outstanding funds has passed the 500-mark. Interestingly, half of them were launched in the last five years. These evergreen funds typically follow specific strategies and mandates. Recently, for instance, Partners Group has announced the launch of an evergreen fund for institutional investors focused on its multi-sector royalty strategy, while it plans to launch another one for High-Net-Worth individuals shortly in the future. Furthermore, Hamilton Lane [NASDAQ: HLNE], the US alternative asset manager with around $960bn of AUM, also launched an evergreen fund, which instead invests in Secondary transactions.

The strong growth and development of the evergreen funds have been driven by several factors. One of the most significant is that the traditional private equity fund model is not well suited to all types of investors. Family offices, for instance, could typically access the private markets through direct investments in closed-end private equity funds. As a result, they were subject to capital calls, high investment tickets, and a lack of liquidity to exit the investment for several years. Such features, though, were not very aligned with the needs of a family office, which instead aims at managing and maintaining the wealth of the family across generations and would prefer to have a higher degree of liquidity and flexibility in their investments. A similar rationale applies also for the investment of High-Net-Worth individuals (HNWIs), whose number has been steadily increasing over the past years, along with investments in alternative assets.

At the same time, the regulatory environment is shifting and focusing on making private investments more accessible for retail investors. In Europe, for instance, the ELTIF 2.0 regulation, introduced in 2024, aims at facilitating retail investments into the private markets sector, while also broadening the spectrum of allowed investments for the funds that fall in this category. In addition, the push towards an increase of the investor base for the private markets, by tapping into the retail investors savings is being supported by asset managers. For instance, Larry Fink, CEO of Blackrock [NYSE: BLK], recently stressed this concept in his 2025 Annual Chairman's Letter to Investors, after the several acquisitions that the firm did within the private markets space over the last two years. In the document, he also underlines the concept of a portfolio based on 50/30/20, i.e. 50% stocks, 30% bonds, and 20% private assets. The point, though, is that such a composition remains very complicated to build for a retail investor, and evergreen funds might gradually start to play a role in this.

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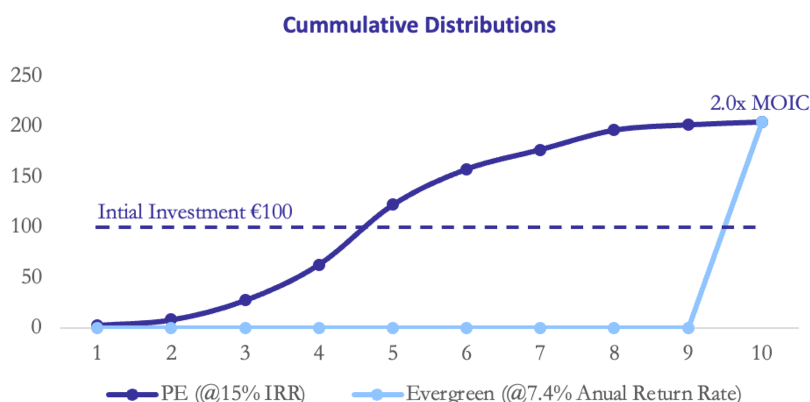
Return Metrics and Past Performance

Evergreen funds have risen in prominence as an alternative to traditional closed-end private equity funds. A critical question is how these evergreen funds perform and how their performance can be fairly evaluated relative to classic private equity partnerships. The answer requires navigating differences in return metrics, risk/volatility profiles, and emerging empirical track records. In practice, evergreen fund managers report performance using metrics more akin to mutual funds (e.g. annualized total returns or multiple on invested capital) rather than the vintage-specific IRRs used by traditional private equity. Understanding these distinctions is key to interpreting results and benchmarking these vehicles against both their closed-end counterparts and public markets.

Traditional private equity funds typically measure performance with Internal Rate of Return (IRR) and multiples like TVPI (total value to paid-in, essentially MOIC – multiple on invested capital) calculated over a fixed life. Performance is often benchmarked by vintage year – for example, a 2015 vintage buyout fund might boast a 15% net IRR and 1.8x MOIC, which would be compared to the industry median for 2015 funds. Evergreen funds, by contrast, do not have a defined vintage or termination; they continually accept new capital and reinvest exits. As a result, they usually report time-weighted returns (akin to compound annual growth rates) net of fees, along with cumulative MOIC for investors who have been in since inception. For instance, an evergreen fund might advertise an annualized net return of +12% since inception and a current NAV per share that has doubled (2.0x MOIC) over a certain period. However, directly comparing a 12% annualized return with a 12% IRR can be misleading – the two metrics assume different deployment of capital and timing of cash flows. An IRR accounts for the fact that capital in closed-end funds is called gradually and distributions occur intermittently, whereas an evergreen fund's CAGR assumes continuously invested capital. This is an "apples vs. oranges" situation and should be translated both into a common metric (such as long-term net MOIC or total value) for a fair comparison.

In order to better understand the differences in return profiles of traditional PE funds and evergreen funds we conducted a side-by-side simulation of two funds – a traditional closed-end PE structure (with a 15% Net IRR) and an evergreen vehicle – both with the same initial investment of €100, and ultimately reaching the same MOIC at the end of the 10-year investment horizon.



Source: BSIC

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Return Analysis (10Y Period)	IRR	Annual Return	MOIC
PE Fund (Simulation)	15.0%	N/A	2.0x
Evergreen Fund (Simulation)	N/A	7.4%	2.0x
Evergreen Fund (Target Market Return)	N/A	13.0%	3.4x

Source: BSIC

Remarkably, the evergreen fund achieves that equal outcome at a lower annual return (7.4% vs. the higher IRR required in the PE fund) thanks to continuous compounding and immediate reinvestment of proceeds. Of course, 7.4% is well below typical industry targets for evergreen strategies, so we further tested a scenario using a more realistic long-term target of 13%. In that case, it's clear how the compounding effect positively impacts MOIC, going from 2.0x to 3.4x. Put simply, continuous compounding leads to less reliance on higher IRRs, and when an evergreen fund aligns with market-level performance, its final MOIC can outperform a comparable closed-end approach.

Beyond raw returns, evergreen funds exhibit different risk and cash flow profiles that influence their reported performance smoothness. Traditional private equity funds are known for the J-curve – in the early years, reported IRRs are often low or negative as fees and investment costs precede major portfolio exits. Evergreen vehicles largely mitigate this effect. When an investor buys into an evergreen fund, they typically receive immediate exposure to an existing, diversified portfolio of assets (often dozens or hundreds of companies across vintages). There is no multi-year wait to deploy capital – the fund is already "up and running." Consequently, returns can accrete from day one, and the classic J-curve dip is avoided or greatly softened. Proceeds from any realizations are continuously reinvested rather than distributed, so the NAV experiences a steadier compounding upward, without the start-stop of capital calls and distributions. This means an evergreen fund's performance line tends to start positive and smooth, in contrast to a drawdown fund that might only show strong results after year 5 once the harvest phase kicks in. For example, an evergreen private credit or core real estate fund often generates consistent quarterly income almost immediately, and an evergreen private equity fund can record gains as portfolio companies appreciate and are sold with proceeds reinvested.

Another key difference is reported volatility and valuation frequency. Evergreen funds typically provide NAV updates monthly or quarterly based on periodic appraisals of their illiquid holdings. These valuations are not subject to daily market swings, and managers have some discretion in smoothing out short-term fluctuations. As a result, evergreen funds tend to exhibit much lower observed volatility and beta to public markets than one might expect if the same assets were mark-to-market daily. Historically, private equity as an asset class has outperformed public equities with lower volatility – for instance, over the last 20 years private equity indices have surpassed the S&P 500 by ~5% per annum on average, with significantly lower volatility, in part due to genuine diversification and in part due to the lagged, appraisal-based pricing of private assets. Evergreen funds inherit this characteristic and often report very high Sharpe ratios. It's not unusual for a diversified evergreen private markets fund to have an annualized NAV volatility in the mid-single digits (say 5–8%), a fraction of the ~15–20% volatility of public equity indices. Low correlation to public market moves can also make evergreen funds attractive for portfolio diversification, however, it is important to recognize that risk is not eliminated, in severe downturns, private holdings do lose value, and NAVs will eventually reflect that.

While comprehensive industry-wide data on evergreen funds' performance remain elusive, a handful of well-known vehicles offer a glimpse into their potential. Hamilton Lane's Global Private Assets Fund (HLGPA), for instance,

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has clocked mid-teen annualized net returns since its 2019 launch. Partners Group's Global Value SICAV (PGGV) boasts an 18-year track record of about 10–12% annual growth, comfortably outpacing comparable public market benchmarks. BlackRock's Private Investments Fund (BPRIV), although more recent, has delivered single-digit to low-double-digit net returns since 2021 – even in volatile markets. Meanwhile, credit-focused evergreen products often aim for mid-to-high single-digit yields with a more muted volatility profile. While these examples do not define the entire evergreen space, they hint at how a well-managed perpetual strategy can sustain competitive performance over the long run.

Challenges, Regulatory Outlook & Future Developments

Despite their structural appeal, evergreen funds are not without vulnerabilities – particularly when it comes to liquidity, fee transparency, and valuation governance. One core issue is the "liquidity mismatch" that arises when investors can redeem capital periodically, yet the underlying private assets remain illiquid. Unlike publicly traded securities, private equity or credit holdings cannot be readily sold without significant transaction costs or valuation haircuts. In periods of market stress, when multiple investors may seek to exit at once, the fund may be forced to gate redemptions or delay payouts. In such scenarios, the very promise of liquidity becomes untenable without resorting to fire sales, exposing the fund to structural fragility. As noted by Hamilton Lane, the probability of such gating events remains non-negligible, especially in prolonged drawdown environments.

A second layer of complexity concerns fee opacity. Evergreen fund structures often differ from traditional PE waterfalls, using NAV-linked fee mechanisms or high-water marks that can be difficult for investors to fully evaluate. Without uniform reporting standards, understanding the true cost of management and performance fees becomes more difficult – especially when NAV is recalculated frequently and may fluctuate based on manager-led assumptions.

Valuation practices further heighten complexity. While fund NAVs are typically derived using fair value principles supported by internal models and third-party valuation agents, regulatory frameworks such as the AIFMD require that this process be performed independently from the investment management function. Even when valuation is conducted in-house, strict separation of responsibilities and oversight mechanisms must be in place. However, valuation in private markets remains inherently subjective. Since NAV serves as the basis for subscriptions, redemptions, and performance compensation, even small mismatches between estimated fair value and ultimate realizable value can lead to systematic distortions. These distortions may favour either incoming or exiting investors and – more critically – affect the timing and fairness of fee crystallization.

Regulatory scrutiny is also on the rise. Structures such as ELTIFs (EU), LTAFs (UK), and BDCs or interval funds (US) reflect regional efforts to provide regulated access to semi-liquid private market vehicles. While regulatory frameworks are still catching up, the shift toward retail capital and broader wealth channels will likely drive increased scrutiny, particularly around liquidity provisions, disclosure standards, and valuation practices. According to Hamilton Lane, the probability of enhanced regulatory intervention is already considered high. In parallel, fund managers are experimenting with evolving models – including hybrid structures with gated liquidity, redemption queues, and side-pocket arrangements – to balance investor flexibility with asset illiquidity.

Looking forward, many market observers predict that evergreen vehicles will expand rapidly, possibly capturing up to 20% of private market AUM by 2035. This growth is driven by allocators looking for smoother capital deployment, rolling liquidity, and reduced administrative burdens compared with the classic "commit-and-call" model. Recent macro events – high interest rates, prolonged exit timelines, geopolitical tensions, tariffs, and elevated market volatility – may also work in favour of perpetual structures that let managers sidestep forced

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dispositions. Over time, continuous innovation around gating policies, side-pocket arrangements, and robust valuation oversight will be essential to ensure evergreen funds remain a viable, scalable complement to traditional closed-end private equity.

TAGS: Evergreen Funds, Private Equity, Private Credit, Open-Ended Investment, Closed-End Funds

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