RAYMOND JAMES

Private Capital Advisory **Insights**

Evergreen Funds: A Game-Changer for Private Equity

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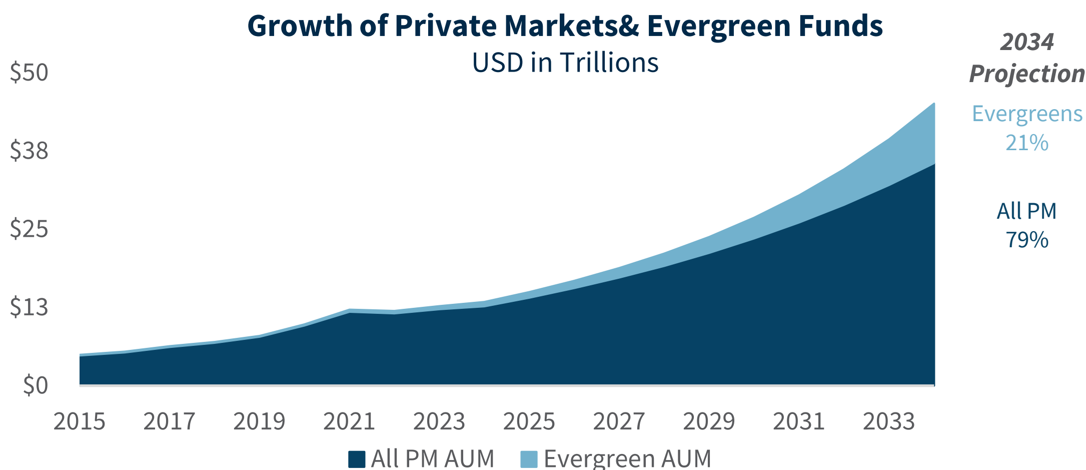
The emergence of evergreen funds is reshaping the private equity landscape, introducing a dynamic alternative that challenges the status quo. These open-ended, perpetual investment vehicles are not only broadening access to private markets but also redefining the investment experience for high-net-worth and retail investors. By offering continuous capital inflows and enhanced liquidity options, evergreen funds provide a compelling complement to the drawdown model, which has reliably served investors for over half a century.

Historically, private equity has been the domain of institutional investors, with high minimum commitments and long lock-up periods. Evergreen funds, however, are lowering these barriers. With investment minimums often starting at $25,000, and the added benefit of being fully funded after a single capital drawdown, evergreen funds provide a pathway for retail investors to tap into private markets that were previously out of reach. While liquidity has always been a sticking point for retail investors, particularly those with shorter investment horizons, evergreen funds solve this by offering periodic liquidity windows, typically quarterly, allowing redemptions at set intervals. This flexibility aligns with the needs of retail investors who value access to their capital, offering a significant departure from the inflexible lock-up periods associated with traditional funds.

The evergreen structure, designed for waves of high-net-worth and retail investors targeted by the likes of Blackstone, Blackrock, Apollo, KKR and EQT, is also proving increasingly popular with institutional investors and is now catching the attention of middle-market, multi- and single-strategy GPs. Surging investor appetite has prompted these GPs to rethink their strategies, with many preparing to dive into this burgeoning space. The allure? A chance to access a massive, untapped pool of capital while catering to a new class of investors eager to diversify their portfolios with private equity's promise of outsized returns.

As high-net-worth and retail investors continue to turn their eyes, and significant pool of assets, to private markets, it is not unreasonable to expect the evergreen market to represent ~20% of private market AUM in the next 10 years. In fact, U.S. high-net-worths only need to allocate 6% of their private market allocation to evergreens (from less than 1% currently) for that target to be hit[(1)]. This shift is already evident as major financial institutions, including wirehouses, private banks, and registered investment advisors (RIAs), adjust their offerings to include more evergreen funds. The allocation split between traditional drawdown funds and evergreen funds has evolved, ranging from a 70/30 ratio to a more balanced 50/50 in some cases, reflecting the growing appeal of evergreen structures.



Source: World Bank, Board of Governors of the Federal Reserve System, Hamilton Lane via Cobalt (January 2025)

While evergreens offer a welcome flood of new capital to the PE market, GPs need to be mindful around the competing pressures of managing different fund structures. Evergreen vehicles also require robust infrastructure to handle liquidity management, regulatory compliance, and investor relations. Aligning incentives where possible while addressing conflicts are essential to ensuring LP loyalty.

Measuring the performance of evergreen funds gives a further clue as to why high-net-worth investors are piling in…namely, closed-end funds need to sweat their assets harder to achieve the same return outcome as evergreens. For example, an evergreen's 13% average annual return is equivalent to a 23% return for a closed-end fund over an equal time frame[(2)].

This stark difference underscores the appeal of evergreen structures, their ability to address the "J-curve" effect, where returns are initially negative due to early-stage fees and slow capital deployment, by continuously reinvesting profits and maintaining a fully deployed portfolio. This structure not only mitigates the J-curve but also delivers smoother and more consistent returns over time. Additionally, evergreen funds can fully deploy committed capital immediately, unlike traditional closed-end funds which rely on staged capital calls and can leave investor money idle. By putting every dollar to work from day one, evergreen funds eliminate the inefficiencies of "cash drag" and accelerate wealth compounding.

These divergent return profiles raise a pertinent question: when evergreens and closed-end funds compete for the same asset, will the former be able to outbid the latter, knowing they are solving for a lower return target? We are already seeing this play out in secondaries market pricing where evergreen funds can often provide higher bids versus GPs managing traditional drawdown funds. This burgeoning dynamic is forcing GPs to rethink their approach to deal sourcing and fundraising.

Traditional buyout firms have a unique chance to reframe the emergence of evergreen funds, not as a disruptive challenge, but as a transformative opportunity to innovate and expand their investment strategies to include evergreen vehicles alongside their flagship closed-end funds. This dual approach would allow them to cater to a broader spectrum of LPs, bridging the gap between institutional strategies and individual investor needs.

The question is no longer whether evergreen funds will shape the industry, but how quickly they will become a cornerstone of modern private market investing. For GPs, embracing evergreen funds is not merely about staying competitive; it's about unlocking a new era of accessibility, flexibility, and growth.

RAYMOND JAMES

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800 Carillon Parkway, St. Petersburg, FL 33716 | (727) 567-1000

(1) Hamilton Lane 2025 Market Overview
(2) Partners Group, as of May 30, 2025. Closed-end fund capital calls and distributions based on real historical cash flow patterns from Partners Group and adjusted based on Partners Group's forward-looking expected returns framework. Closed-end fund IRR equivalent excludes cash return. The figures shown in this chart are simulated performance. The simulated performance shown above does not represent returns that any investor actually attained.

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