

Accessing private markets: Evergreen funds

Discover the benefits of evergreen funds for investors seeking access to private markets and learn how these open-end structures can be an alternative – or a complement – to traditional closed-end funds



Evergreen funds are swiftly gaining traction in private markets, drawing in more investors and expanding in scale. Unlike traditional closed-end funds, evergreen vehicles offer investors instant access to an already-invested, diversified portfolio and more flexibility on maintaining and adjusting their investment exposure.

These features simplify the investment process by removing capital calls and allowing for greater vintage diversification. Additionally, evergreen funds have the potential to enhance portfolio performance with compounding returns over time, as the fund's manager can efficiently reinvest any investment distributions.

Having been a pioneer in evergreen funds more than 20 years ago, Partners Group is a firm believer in their potential to democratize private markets. In this paper, we outline the advantages of these structures and delve deeper into specific use cases for investors to consider how they could benefit from them.



What are evergreen funds?

Evergreens (also known as perpetual or open-end funds) are a type of investment vehicle that enables investors to buy a share of a re-investing, commingled private markets portfolio. Like with a traditional ETF or mutual fund, investors can subscribe and redeem capital on a periodic basis.

The table below outlines the key differences between evergreens and traditional closed-end funds.

Closed-end vs. evergreen funds Key differences overview		
Feature	Closed-end fund	Evergreen fund
Access	Investor commits capital during the fundraising period	Investor subscribes over time, usually monthly or quarterly
Fund life	10-15 years	Perpetual
Cash flows	Capital drawn over 3-5 years	100% invested upon subscription
Liquidity	Distributions are made at manager's discretion once investments are exited	Investors have flexibility and discretion to initiate redemption requests
Distribution policy	Paid back to clients typically after the end of the investment period	Typically accumulating, allowing investors to benefit from a compounding effect. Share classes distribution may be available
J-curve*	Net returns can initially be negative during investment build-up	No J-curve, as investors access an established portfolio
Return profile	Internal rate of return (IRR) on drawn capital	Annualized return on subscription amount
Fund gates	Not applicable	Outflow limits may vary by fund

*Trendline that shows a fund's initial loss, typically during the first years of the investment period, which is then followed by gains during the value creation period. Source: Partners Group (2024).

What are the key advantages of evergreen funds?

Investing in private markets has historically been more operationally complex than investing in public markets. However, evergreen funds simplify this process. Here are some examples:

Investing efficiently

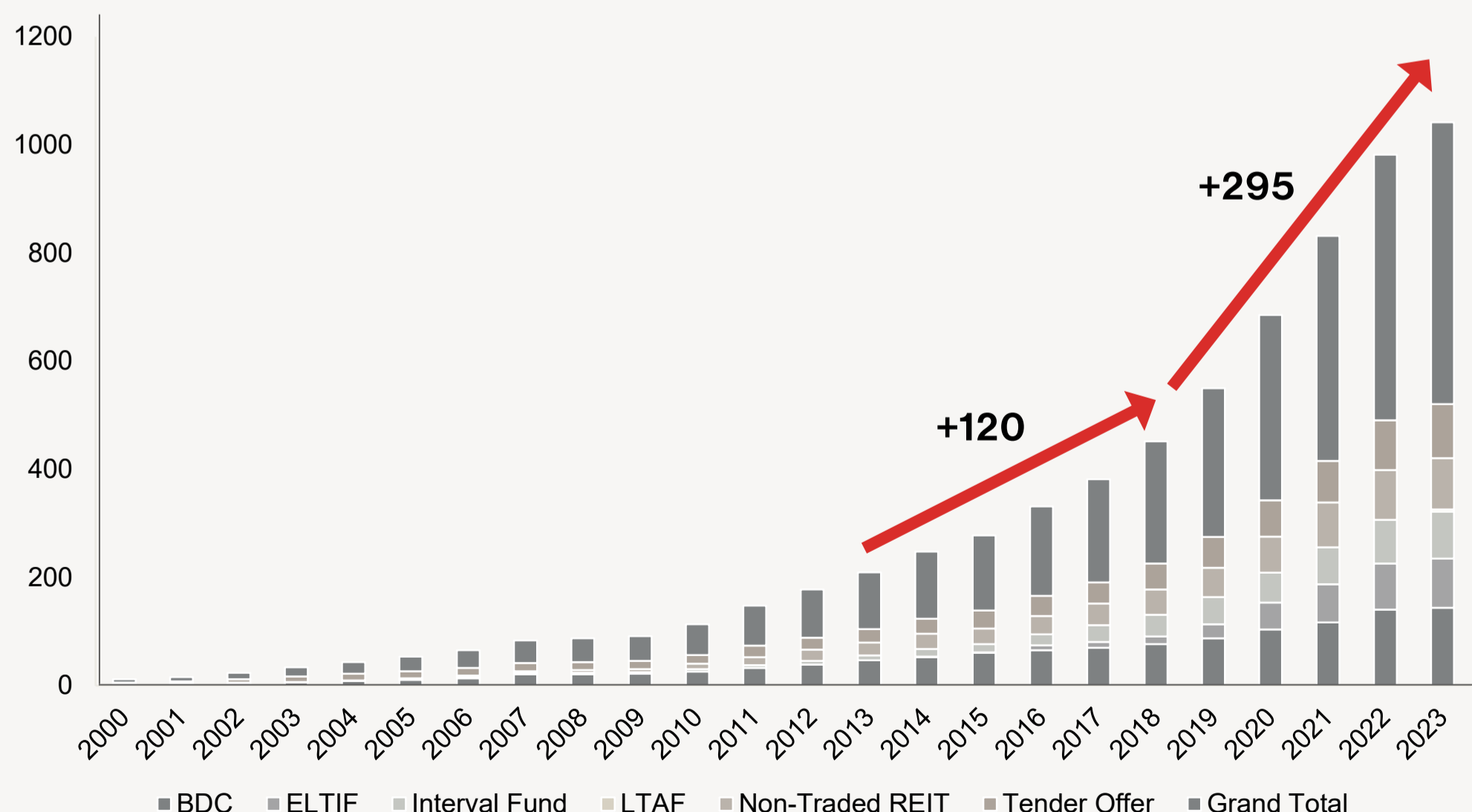
By offering immediate capital deployment, evergreen funds give investors greater control over their exposure level and allow them to avoid lengthy waiting periods and demanding cash management procedures, typical of traditional closed-end funds. They also often simplify portfolio tracking and performance reporting. Because evergreen funds are typically registered under fund types with more stringent regulations, they are often accessible to accredited investors and qualified clients with simplified tax reporting.

Nimble and diversified allocations

Evergreen funds offer an alternative to closed-end funds, which can lock investors into a static allocation for a long period. Investors in evergreens can harness a manager's continuously evolving relative value views to benefit from an asset allocation oriented towards the most attractive strategies over time. To achieve this, the breadth of a manager's investment platform must be large – both in the number of opportunities it generates and in its ability to invest across different transaction types, managers, geographies and vintages.

Evergreen growth spurt

The last few years saw a record number of evergreen funds launched globally



Source: Preqin Pro (2024)

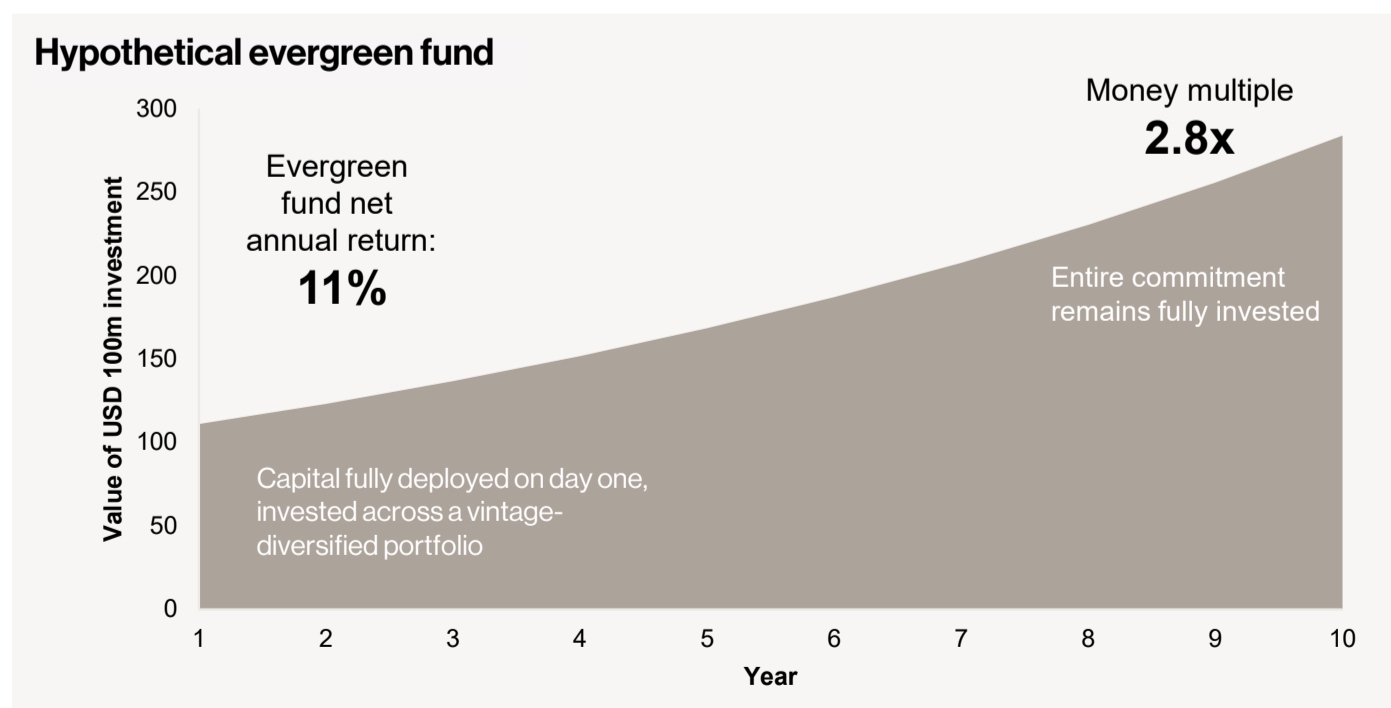
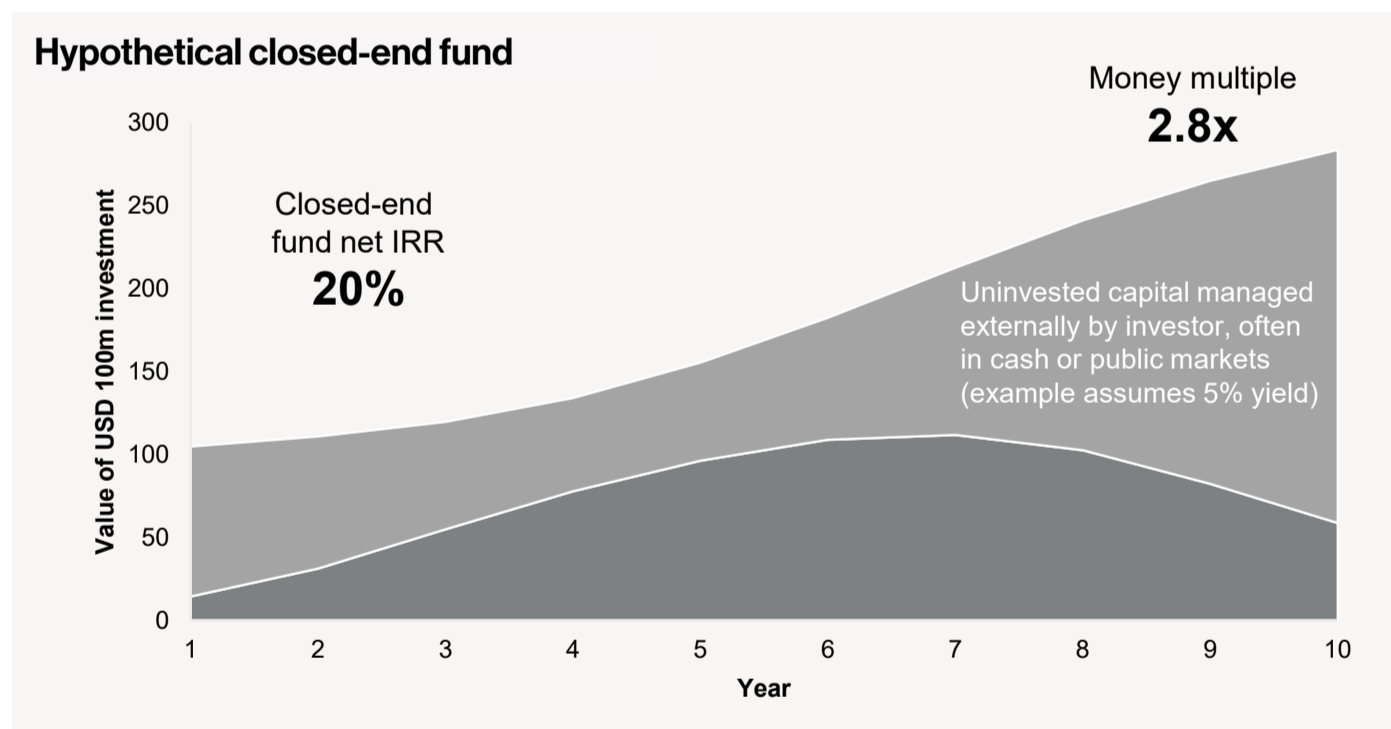
Compounding returns

A subscription to an evergreen fund is fully invested on the subscription date, harnessing the power of compounding returns from the outset. Staying invested (rather than committed) and compounding returns maximize the actual value generated in an investment (that is, the money multiple), as opposed to solely enhancing internal rate of return (IRR). In a traditional closed-end fund, the undeployed capital can often average up to 50% of the committed amount over its lifespan, potentially diluting the money multiple it generates.

In the illustrative charts below, we demonstrate how an evergreen fund can achieve the same money multiple as a closed-end vehicle, even when the evergreen fund's net annual return is lower than the closed-end fund's IRR¹. This difference arises from the evergreen fund's ability to continuously reinvest capital, thereby reducing the impact of uninvested capital and potentially benefiting from the compounding effect of returns over time.

¹The key difference in the calculation methodologies is that the annual return measures the annualized percentage gain or loss of an investment over a specific period, without accounting for the timing of cash flows, while IRR calculates the annualized effective rate of return that makes the net present value of all cash flows (both inflows and outflows) from an investment equal to zero, factoring in the timing and scale of those cash flows.

The power of compounding in evergreen funds



For illustrative purposes only. Simulated performance refers to the hypothetical performance an investor would have obtained had it invested in the manner described in hypothetical funds of each type and does not represent returns that any investor actually attained. The above information is a hypothetical scenario to illustrate the compounding return difference between closed-ended funds and evergreen funds generally. It is in no way related to existing Partners Group products nor performance. Source: Partners Group (2024).



How and when to get started?

The advantages of evergreen funds are gaining widespread recognition as demonstrated by the increasing popularity of these structures among both investors and managers. But how can investors determine if an evergreen is the right fit for them? Below, we outline some typical scenarios where evergreen funds may be suitable, though this list is not exhaustive.

For investors new to private markets

Evergreen funds are often the best starting point for new investors in private markets. Similar to mutual funds or ETFs for public markets, high-quality evergreens provide diversified private markets exposure from the start, avoiding common challenges such as overconcentration and the J-curve effect. Additionally, evergreens offer a low operational burden and compounding returns, without sacrificing the flexibility to allocate to other private market holdings at the same time.

For investors underwhelmed by their "fund-of-funds" portfolio

Maintaining a diverse private markets portfolio through closed-end fund commitments can be challenging, particularly when it comes to managing cash flows and investment targets. For instance, reinvesting distributions during prosperous periods and handling capital constraints during slower times both pose significant obstacles. For investors who find these challenges overwhelming, evergreen funds with sufficient diversification may provide a more effective solution.

For investors falling short of their private markets target allocation

The unpredictability of capital calls in fund-of-fund strategies can pose significant challenges for investors. This uncertainty makes it difficult for investors to anticipate their investment levels, a crucial metric for those managing their target allocation to private markets as a percentage of their overall portfolio. When investors consistently miss their targets, implementing a supplementary evergreen allocation can help achieve these targets and maintain flexibility.



For investors looking to optimize underwriting resources

All investors can benefit from incorporating an evergreen fund into their allocation strategy. By gradually transitioning a portfolio of closed-end fund commitments, using reinvested distributions, they can create a hybrid portfolio consisting of a core evergreen holding (50-80%) alongside a selection of fund commitments and co-investments. This approach allows for the diversification of the core portfolio within the evergreen structure, freeing investors to concentrate on selecting a few managers with specific performance outcomes in mind.

For investors seeking to implement a relative value strategy

Utilizing a range of strategy-specific evergreen funds (e.g., private equity, private credit, real assets) offers an appealing solution for investors seeking the flexibility to implement their own relative value perspectives. This can be achieved by dynamically adjusting allocations and rebalancing across various strategies over time through periodic subscriptions and redemptions, providing tactical flexibility for the investor.

Is an evergreen allocation for me?

Examples of evergreen fund implementation strategies					
	New private markets investor	Underwhelmed "fund-of-funds" investor	Under-exposed investor	Efficiency-seeking investor	Tactical relative value investor
Challenges with closed-end funds	<ul style="list-style-type: none"> • Long investment deployment • Risk of missing out on past vintages • J-curve and fees on commitment • Starting manager relationships from scratch 	<ul style="list-style-type: none"> • Operational burden: frequent underwriting, cashflow processing, reporting • Risk of missing out on attractive vintages 	<ul style="list-style-type: none"> • Changing investment levels • Missing private markets target allocation 	<ul style="list-style-type: none"> • At risk of being "spread too thin" and over-concentrated to a single manager • Overdiversification with too many funds 	<ul style="list-style-type: none"> • Delay between relative value decision and investment • Capital locked into commitments, limiting tactical flexibility
Solution	<ul style="list-style-type: none"> • Seed private markets portfolio with diversified evergreen fund 	<ul style="list-style-type: none"> • Re-invest existing fund distributions into diversified evergreen fund 	<ul style="list-style-type: none"> • Use evergreen fund as "completion strategy" to reach exposure target 	<ul style="list-style-type: none"> • Transition closed-end fund commitments into hybrid portfolio with core evergreen holding 	<ul style="list-style-type: none"> • Gradually build portfolio invested across a range of strategy-specific evergreen funds
Benefits	<ul style="list-style-type: none"> • Diversified portfolio from day one • Multi-asset class and asset class-specific fund solutions • Investing alongside institutional investors 	<ul style="list-style-type: none"> • Streamlined portfolio monitoring and performance measurement • Simplified cashflow management • Immediate investment exposure 	<ul style="list-style-type: none"> • Subscription amount invested from day one • Control over asset allocation level 	<ul style="list-style-type: none"> • Option to use time saved on underwriting to select a group of alpha-generating fund commitments 	<ul style="list-style-type: none"> • Ability to adjust portfolio of strategy-specific evergreen funds over time • Dynamic relative value implementation

Making the most of the evergreen tool



In the evolving private markets landscape, we believe it is essential for investors to understand the strengths that evergreen funds have in order to identify the scenarios in which they are most effective.

At the same time, it is also important to be transparent about the challenges of evergreen funds. In our recent paper *Navigating the evergreen fund frenzy*, we shed light on the key differentiators among evergreen funds and managers and their potential shortcomings. We recognize that effectively managing evergreen funds in private markets requires a vigilant and experienced manager that also has access to a flow of consistent and diverse investments.

Drawing from our extensive experience at Partners Group, where we have meticulously managed evergreen funds for over 20 years, we emphasize the importance for investors to select managers that exercise the same discipline and due diligence. With such prudence applied, we anticipate that an expansion in evergreen offerings will prove beneficial for investors and the markets.

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