

Institutional Research Group



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Evergreen Funds: We Have Questions

Adapting the six P's of manager diligence for the evergreen fund space

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- **Evergreen funds introduce fundamentally different risks and incentives.** While branded as extensions of drawdown strategies, evergreen funds differ materially in cash flow management, liquidity obligations, valuation dependence, and fee structures. These differences can alter manager behavior, weaken their alignment with institutional investors, and make past drawdown performance a poor predictor of evergreen outcomes.
- **Due diligence for evergreen funds must go beyond traditional frameworks.** Investors face challenges in evaluating evergreen funds, which can feature short track records, evolving fund structures, reliance on secondaries, and complex valuation practices. To help, they need to adapt classic due diligence principles (The six P's) to address evergreen-specific issues like liquidity management, conflicts of interest, and valuation-driven returns.
- **Valuations, fees, and liquidity terms are critical pressure points.** Because investors transact at manager-determined NAVs, valuation process rigor and independence are far more consequential than in drawdown funds. At the same time, evergreen fund fees are often layered, opaque, and potentially misaligned, while redemption features (including gates and suspensions) mean "liquidity" may be more conditional than investors expect.
- **Firm reputation does not guarantee continuity of skill or oversight.** Investors should not assume that evergreen funds are managed by the same teams or with the same control and value-creation mechanisms that built a firm's reputation in drawdown funds. Increased use of secondaries, co-managed structures, and newly hired teams mean capital may ultimately be managed by people or entities investors did not originally underwrite.
- **Nuances of reported performance must be better understood to avoid improper comparisons.** Evergreen fund returns rely heavily on GP-determined marks rather than realized exits, especially in early or rapidly growing portfolios. Differences in return calculations, cash drag, and secondary markups mean investors should be cautious when developing return expectations for prospective fund investments from prior drawdown or evergreen fund performance.



The new landscape

As outlined in [The Evergreen Evolution](#) and other recent pieces of our research,¹ private markets are rapidly expanding into the portfolios of investors that had previously been excluded due largely to income or wealth restrictions. Asset managers, seeing a decline in institutional investors willing to make or grow commitments to private markets, have been adapting, creating products and structures that they believe will be more attractive to a source of capital still largely untapped: private wealth. These funds, which have lower account minimums, provide the ability to invest immediately rather than waiting for capital calls, and offer liquidity at times other than at the sale of a portfolio company, address some limiting features of private market drawdown funds to make offerings that will appeal to individual investors.

The US and UK governments also seem enthusiastic about making alternative investments available to more people, with several new developments in 2025. In January, the US Securities and Exchange Commission proposed amendments to how it defines accredited investors, expanding on an already expanded definition rolled out in 2020.² In December 2025, the US House of Representatives passed the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act,³ intending to update securities laws to bring more “Main Street” investors to the private markets. The Senate has yet to take up this legislation, however. Also in the US, President Donald Trump signed an executive order encouraging the inclusion of private market investments in 401(k) accounts, with rules expected from the US Department of Labor in February 2026.⁴ While this latter piece of news fits into the democratization trend, it is not the subject of this particular piece of research, as, at the moment, the implementation of private markets into 401(k)s is unlikely to be through evergreen funds, but will be rolled into existing structures common already to 401(k)s: target-date funds or multi-asset managed accounts. In the UK, the May 2025 Mansion House Accord also encouraged the inclusion of private market investments in defined contribution pensions. The UK implementation does appear to allow for the inclusion of evergreen options directly, rather than rolled into multi-asset offerings, as outlined comprehensively by my colleague in [Unlocking UK Pension Capital for Private Markets](#).

In 2023, I penned a piece for allocators called [An LP’s Guide to Manager Selection](#), which brought my 25 years of institutional investing and manager research experience to a framework for evaluating private market asset managers, particularly the qualitative questions that investors should consider when trying to determine how well a manager is positioned to do well going forward. That piece did not contemplate the evergreen space, however, and there are unique questions that investors considering evergreen funds should be asking. Utilizing the “six P’s” framework described in that

1: PitchBook clients may view all of our research pertinent to evergreen funds in this analyst workspace, which also includes research from our colleagues at Morningstar: [Evergreen/Semi-Liquid Funds](#).

2: “Accredited Investors,” US Securities and Exchange Commission, August 13, 2025.

3: “House-Passed Bill Updates Securities Laws and Helps Innovators,” House Committee on Financial Services, French Hill and Ann Wagner, December 12, 2025.

4: “Democratizing Access to Alternative Assets for 401(K) Investors,” The White House, Donald J. Trump, August 7, 2025.



piece, this note introduces questions specific to the semi-liquid fund world. Many of these questions should also be considered both by those who are and those who are not intending to invest in evergreen funds to get a sense for how an asset manager's priorities are shifting as they extend into new fund structures.

The due diligence ecosystem for evergreen funds

Investors have been struggling to evaluate evergreen fund offerings for a variety of reasons. In some cases, the funds' track records are still extremely short: In our inaugural [Evergreen Fund Landscape](#) report, we identified nearly 100 evergreen fund launches in 2025, through November, out of a population of around 500 total funds, indicating a roughly 25% expansion in the number of US evergreen funds in the market. Many of these funds are being launched by fund managers that have historically been specialist managers of only publicly traded assets or only private market assets; evergreen funds have structures that require a different approach to fund management, regardless of the direction from which the asset manager is hoping to expand. In some cases, an allocator may not be interested in investing in evergreen funds but may have concerns about what the fund manager's extension into this area will mean for its legacy drawdown funds. Investors looking to leap from public market funds like mutual funds or exchange-traded funds (ETFs) may also have questions about how these offerings introduce new risks to their portfolios.

To fill the void, Morningstar launched ratings on interval funds in 2025, providing one avenue of support for investors looking for thoughtful views on some of the products in the market. As the rating of funds is a time-intensive exercise, they are rolling out ratings over time, with the first two batches launching in September and November of 2025.^{5,6} Investors may familiarize themselves with the Morningstar manager research team's approach to the evaluation of semi-liquid funds in [A New Framework for a Converging Market](#), which outlines the semi-liquid-specific modifications to the three pillars that provide the foundation for all of Morningstar's medalist ratings: Process, People, and Parents.

Coming from a manager research background myself and realizing that private markets require a more qualitative assessment because every fund is a brand-new blind pool investment, the framework I have worked up certainly has some overlap with Morningstar's approach, but shines a brighter light on some aspects of diligence that are particularly important in the private fund world. While the evaluation of an evergreen fund can certainly benefit from the questions outlined in my earlier piece, the following are new areas of inquiry sorted into the same six P's of people, philosophy, process, portfolio construction, performance, and price, plus some for a bonus seventh P: potpourri. The hope is to benefit both investors seeking to evaluate evergreen funds for potential investments as well as those trying to determine if the introduction of evergreen funds is cause to question whether a manager's drawdown funds are no longer their highest priority.

5: "2 Funds Star in Debut of Morningstar Medalist Ratings for Semiliquid Funds," Morningstar, Bryan Armour, CFA, September 3, 2025.

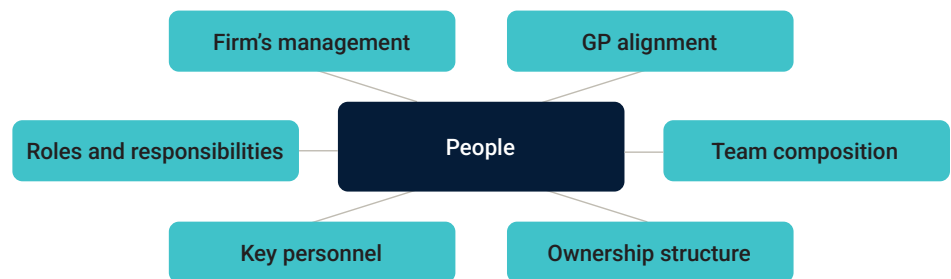
6: "New Ratings Reveal Challenges for Semiliquid Funds," Morningstar, Bryan Armour, CFA, November 12, 2025.



As an aside, the Institutional Limited Partners Association (ILPA) published a piece in October 2025 that aimed to help institutional investors “understand the growing influence of retail vehicles in private markets.”⁷ ILPA always does a great service to its LP community in formulating views on important issues, and that piece was no exception. This analyst note is slightly broader in scope than ILPA’s white paper and takes a different approach to the conversation.

This paper asks many more questions than it answers. We welcome dialogue with clients and others who may want to share their experiences or correct any misconceptions stated in this research.

People



The first P, people, includes everything about a firm’s management: how and why it came to be, who works for the firm and who runs it, who owns it, how firm-level decisions are made, and so on. Also falling under the “people” umbrella is the investment team responsible for the fund under consideration. At a small firm, there will likely be a large overlap between the investment and management teams, but for firms with multiple strategies on offer, investment and management teams typically have few members in common.

With the introduction of evergreen funds to a manager’s lineup, the people and firm require some additional avenues of investigation, which we outline below:

- **If multiple managers come together to manage an evergreen fund, who will be responsible for what decisions?** This is currently happening with Capital Group and KKR as well as with Wellington Management, Vanguard, and Blackstone, bringing a plethora of questions to mind. While their combined experience is important, how will asset allocation be decided over time and who will have control of the mechanical aspects of the fund, including inflows and redemptions, valuations, and liquidity management? The firms should be asked how a partnership will be better than management by a single entity. How will the marketing be handled? How will sales incentives be handled? All of these questions are meant to tease out what parts of the customer experience will be handled by which entity so that those aspects can then be evaluated at each respective firm. In a time when asset manager M&A has been active, it is worth asking these managers why they think a co-manager structure will work out better for investors.

⁷: “ILPA Retail Capital Analysis: Primer and Questions to Ask GPs,” Institutional Limited Partners Association, October 30, 2025.

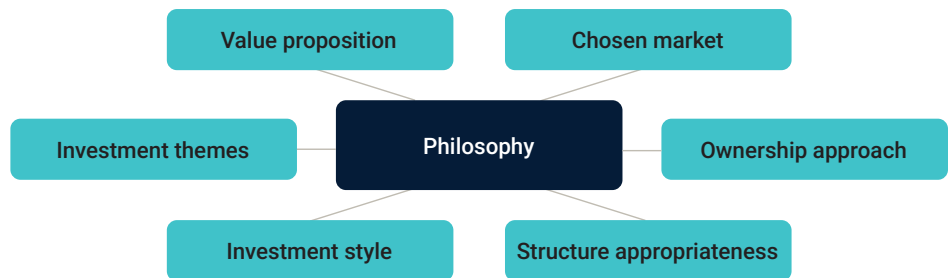


- **If a “name brand” firm is offering an evergreen product, will the team managing the product bear any relation to the team that built the brand?** There are a few things to unpack here. The number of evergreen funds utilizing secondary purchases to put inflows to work is steadily growing. It is a natural solution to the problem that when money flows into an evergreen fund, there may not be a great new investment opportunity to buy, as will be discussed further in the “Process” section. But this solution likely means that the team that an evergreen fund’s investors evaluated may not actually be managing the fund’s capital. If evergreen fund ABC bought secondary interests in drawdown fund XYZ, then some portion of ABC’s holdings are actually under the control of XYZ’s fund manager.
 - The other aspect of the question is that the actual team members of the evergreen fund may have never worked on the funds that turned that asset manager into a household name. They may have been brought in to start this product and are hoping to benefit from a halo effect by using the previously established brand name.
- **Is the asset manager making—or on its way to making—enough in management fees on all of its products to make the 20% incentive fee on its drawdown funds still meaningful?** Putting aside questions of capacity for now, it is quite possible that evergreen funds will easily eclipse the size of even the largest drawdown funds. Fewer than 20 drawdown funds have ever been raised that were \$25 billion or larger, but a handful of evergreen funds have already grown to much larger sizes. Given that fees tend to be higher in noninstitutional products, asset managers may be collecting a tidy sum from these funds, decreasing their alignment with investors in the drawdown products.
- **What is the ownership structure of the asset manager?** Is this structure incentivizing the manager to act in ways that are in conflict with its investors? Nearly all of the listed private markets firms are now offering products for the private wealth channel. Ignoring the fact that the same firms who tout the benefits of private ownership for their portfolio companies are themselves public, are the individuals at the public firm incentivized more by the stock price of the firm, fees from retail products, or by maximizing risk-adjusted returns? While there may be some relationship across these factors, keeping Wall Street happy demands stable but constantly growing earnings, which has led some to speculate that asset gathering has become more important than investment returns for public asset managers. These large firms have retooled to smooth out the ownership experience rather than experiencing booms and busts alongside their investors. But if an allocator is looking to find great managers that are truly aligned with its capital, the firms with revenues and incentives aligned with stock market gains may no longer be a good bet for those looking for a top-quartile fund experience.



- **How much do the asset manager and its employees have invested in the evergreen funds?** Are they required to maintain those exposures? In a drawdown fund, the GP commitment is generally held captive alongside its investors, but in an evergreen fund, it might be possible for them to take advantage of liquidity provisions and decrease their alignment over time. If the employees of the asset manager are living well on fees and not seeing their own capital rise and fall alongside that of their clients, the alignment of interests will diverge.

Philosophy



Philosophy is sometimes difficult to articulate, but it aims to understand the market opportunity the GP is hoping to address and how it plans to exploit it. This seems straightforward, but in a world where fund documents are typically written to provide the fewest constraints on the GP, it may be helpful for investors to press for a clearly articulated philosophy to get a better idea of what to expect. For evergreen funds, it is not enough to say something is going to be a PE fund, for example. For purposes of handling liquidity, the fund may end up holding more than just a dozen or so private companies, as many PE drawdown funds do, but may also have a sizeable liquidity sleeve and some secondary fund interests providing private equity exposure. Also, one cannot assume that the evergreen fund will be managed like past drawdown funds given the cash flow characteristics of the newer funds. As always, having a clear philosophy will help the GP focus on its key strengths and provide a rationale for avoiding out-of-scope investments, even if they do seem like the opportunity of the century.

Some additional questions to pursue:

- **What is the overall investment philosophy of the evergreen product?** In investment terms, is the manager looking to provide beta exposure, or do they feel they can provide alpha? For the reasons below, it may not be easy to have the patience to only invest in the best investment opportunities, work to make them better, and sell them off for a gain when the fund's investors may have expectations of immediate private market exposure. There is reason to be concerned that the high returns people seem to be expecting by adding private markets in their portfolios may not be realistic if exposure is the key tenet and the alpha-generating activities of the drawdown world are no longer as central to the strategy.

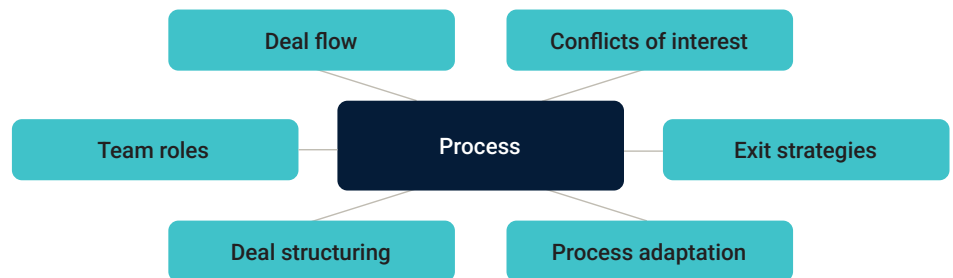


- **How will the approach to this fund differ from similar drawdown products offered by the same manager?** Given the cash flows of evergreen funds, there may be a tension between attempting to maximize returns and providing the exposures that investors are looking for; fund managers may be incentivized to just buy something rather than buying only when the time and price is right. Even if a fund manager has experience in managing a similar-sounding strategy, that experience may not be the best indicator of what investors should expect in the evergreen structure.
- **What does the manager believe its value-add to be?** There are some private market strategies where control (and what the manager does with that control) have led to outsized returns in drawdown funds. If the fund manager has to give up that control because they are buying secondary stakes or do not have enough capital to invest in the manner that has brought them success previously, then investors should be cautious in their expectations that past success can be replicated in the evergreen structure.
- **What is in scope for the holdings in the fund?** Many evergreen fund managers are purchasing secondary interests to put incoming cash flows to work. They may also hold public index positions or derivatives to equitize cash and have a source of liquidity in case of redemption requests. For this latter reason, they may also just hold significant cash. It is likely that fund documents will be broadly written, allowing the manager to do what it feels is best, but potential investors should probe further how the fund manager is planning to manage the fund, particularly if this is a new structure and they are depending on their drawdown experience to attract new investors.
- **Is the evergreen structure truly the right structure for what this fund manager does?** To put it bluntly, many fund managers are exploring the evergreen fund space because it has been tough to fundraise for drawdown funds and they want to open up new avenues for raising capital. Have they truly thought through the implications of the structure given the time horizon of their investment strategy, the size and experience of the team, the robustness of their deal flow sweet spot, and the extra burden on the investor relations side of managing more but smaller investor relationships, reporting requirements, and more? For those investors currently in the drawdown funds of a manager exploring evergreen offerings, these questions should be asked to ensure also that the time and attention of the fund manager is not being sapped by new products.
- **Can the fund manager articulate philosophical differences between the investment approaches of its different fund structures?** Is it obvious which investment opportunities belong in which fund? The fund manager may have previously identified investments that would not work in a drawdown structure—long-term infrastructure projects that would do better with more permanent capital come to mind—so perhaps they had deal flow previously that did not have



a good home. Other investment opportunities may be deemed appropriate for both structures, but if the time horizon is different in the evergreen fund versus the drawdown fund, what is the manager's philosophy for how to handle when to exit a holding. Should they sell it outright because the drawdown fund is reaching its conclusion? Or do they create a continuation fund, sell to the evergreen fund, or sell outright? There are conflicts of interest inherent to these decisions that the fund manager needs to consider before it heads down the path of co-ownership across different structures.

Process



Process is the end-to-end description of how a fund manager will source and close deals, manage portfolio companies, work with co-investors, and profitably exit investments. GPs need to articulate not just the deal sourcing funnel, but also how they will manage the companies and bring them to a profitable exit. Given the perpetual nature of evergreen funds, cash flow considerations will be a newer area of focus for the investment team, as having capital in their control and needing to fund redemptions will have an influence on how the investment process develops.

Questions about process revolve around how translatable a drawdown fund manager's process is to the new structure:

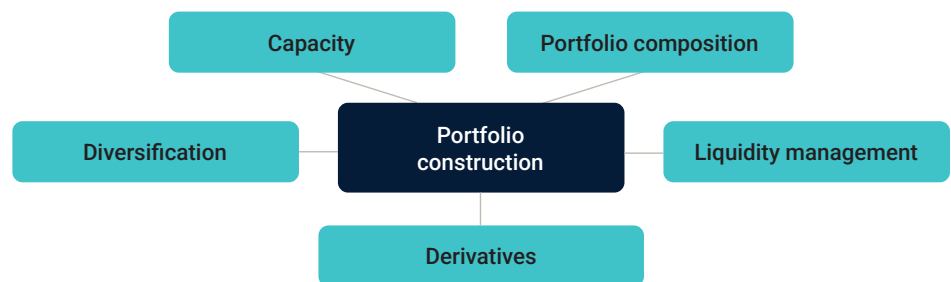
- **Does deal structuring or the profile of targeted deals change with an evergreen fund structure?** What about the types of companies that are targeted for the fund? Having a perpetual capital mindset and also needing to be able to fund redemptions may make income more important than it was for a fund manager's drawdown funds. A firm that earned its reputation by fixing companies may not target such companies in a longer-term scenario but may look for more stable earners. Investors need to be aware that, on this and other questions, the fund manager's drawdown track record may not be directly analogous to what investors should expect from an evergreen fund.
- **Can a drawdown fund manager's highly selective process work in an evergreen fund structure?** Should a flood of capital be invested in the fund, does the team have a continuous flow of high-quality deal flow to absorb the capital? Does the workflow of the investment team need to change for an evergreen mindset? Does a team of generalists need to specialize in order to source and manage



potentially more and longer-term investments? Will exits be as top of mind in a permanent capital structure versus in a drawdown structure with a set timeframe? With an unlimited holding period, will that lessen the urgency to create value by finding a buyer willing to monetize the value-add created by the manager of the evergreen fund?

- **How does the portfolio get managed with multiple asset managers involved?** This consideration was covered largely in the “People” section, but it also touches on process: How do cash flows get managed across strategies in a multimanager approach? Is one manager essentially hired by the other or are they both involved in the overall management of the portfolio? Who is calling the shots on what decisions?
- **How will the investment team handle conflicts of interest when a position is held in two different fund structures?** If the fund manager offers essentially the same strategy in two different structures and puts their best ideas into both funds, there will be times when the drawdown fund will no longer have commitments to draw upon for additional capital infusions. Continuation funds have been popular in recent years, but if evergreen capital is available, will the natural inclination be to provide funds from there? If so, does this mean that the drawdown funds will be diluted? Who will represent the interests of each of the funds to ensure that conflicts of interest are handled as fairly as possible when positions are jointly held? In the case of additional capital required, it could be to rescue a portfolio company or to fund growth, so the scenario of the evergreen fund contributing capital could be advantageous to the fund or not, depending on the situation.
- **Will secondaries be used to put capital to work?** Many are heralding the increased liquidity in the secondaries market of private assets, some of which is coming from evergreen fund managers trying to put capital to work. But investors should be aware that if a fund manager buys a secondary stake, they may be buying a fund from a revered asset manager, yet the ultimate manager of your assets may be a hodgepodge of other fund managers the allocator has not vetted. Also, are secondaries being purchased just to ramp up and mature the portfolio, or does the fund manager intend to use them on an ongoing basis?

Portfolio construction





In the drawdown fund world, this P is largely about how the asset manager plans to diversify its fund across several dimensions, but in the evergreen space, the additional factor is liquidity management. We have found that a surprising number of managers are still exploring how they are going to approach both the accumulation of cash as well as the need to fund redemptions. For each of the questions in this section, GPs should not only have an answer but also a reason for why they have made that decision. There may not be a single right answer, but investors should be aware of the fund manager's approach and its potential risks before investing their capital. Investors may also want to share their preferences, as there may still be an ability to shape the conversation.

Some questions to tease out what managers are doing:

- **How does the manager's prior experience translate to the evergreen fund model?**
 - *For managers who previously managed drawdown funds:* Liquidity considerations will be new to such managers. Evergreen funds also have a provision to allow redemptions; investors wanting liquidity from a drawdown fund have to go to the secondary market, but with evergreen funds, the provider of liquidity is the fund itself, so the investment team has to have enough capital available to fund redemptions, but not have too much liquidity such that the cash drag is significant. Our recent analyst note, [Sink or Swim: Interval Funds Liquidity](#), addresses the different approaches to liquidity sleeves in detail, but the basic models include just having cash on hand available for the maximum allowed redemptions, counting on income and exits from portfolio companies to fund redemptions, and relying on lines of credit to fund redemptions in the event that portfolio liquidity cannot meet redemption requests. This last option would surely minimize cash drag, but it does carry some risk if redemptions come during a time like the global financial crisis when creditors decide to lessen their own risks by pulling back from the market at exactly the time when redemptions are at their peak. In a time of crisis, some fund managers will depend on clauses that allow the fund manager to gate the fund if they deem that it is necessary for the integrity of the fund as a whole. That will risk alienating investors, but if investors are properly educated, they should be aware this is allowed in the fine print.
 - *For managers who previously managed funds of public assets:* Illiquidity considerations may be new. As discussed in [What's Old Is Now New Again](#), some public fund managers have been dabbling in private market assets for a while, but there is a big difference between 10% or so of a portfolio in private companies and a portfolio of primarily illiquid investments. How does the manager plan to source these investments and what experience do they have with adding value to private market investments and finding exits? It seems like most of the public managers heading into privates are going into income-producing investments, so in the case of private credit, portfolio



holdings will likely self-liquidate in many scenarios, but if a company should run into trouble, it may be the asset manager's responsibility to manage through the distress, which may not be something they have done when purchasing public fixed income.

- **What will the fund's approach be to large inflows of capital?** Drawdown funds do not face this problem, as they only call capital when an investment target has been identified. Many managers will be tempted to say that their approach will not change, that they will only invest in the very best companies that hit their sweet spot. But the time when capital is flowing into the evergreen fund most heavily may be a moment when investments are too expensive and the manager feels that it should not chase opportunities just to put money to work. This may not be a satisfactory message for those seeking exposure in that moment, however. Some fund managers will invest inflows as they arrive, either through primary investments or through the purchase of secondary stakes. This may lead to subpar investment holdings or a significant portion of the portfolio being managed by other managers—the GPs of the purchased fund stakes. Others may choose to equitize cash with public market investments that can be liquidated when a new investment is identified. Investors will have to decide whether holding assets other than the headline strategy is acceptable and in what quantities.
- **At what point does the fund manager believe the fund will be fully mature?** Many products are being created in the evergreen space. With fewer than 200 interval funds currently being managed, it seems likely this number could grow exponentially in the coming years just as mutual funds and ETFs have. The holdings of newer funds may not be reflective of what the fund will look like when it has reached a more stable size. In the beginning, or after a bout of excellent performance, the fund manager may not have enough ideas to absorb the capital flowing in. They may choose to season the portfolio artificially by purchasing secondary interests that will provide a portfolio of more diverse ages more readily. In the mature phase, an evergreen fund will hopefully be selling a few investments a year and buying a few a year, but if most of the capital is invested at one time in new investments, then they may all be ready for sale in a similarly narrow band of time. Knowing what a mature state will look like and managing the portfolio to that state is an important goal for fund managers to aim for.
- **What is the capacity of the fund?** Many fund managers of public assets must think about how much is too much capital, with factors being how quickly assets can be bought or sold without impacting asset prices. Even private fund managers should consider if they are sized right for the opportunities they are planning to pursue. Having more money than you need can lessen discipline in both pricing target investments as well as in seeking only high-quality assets. With the ability to continuously add capital to evergreen funds, unlike drawdown funds that have a final closing and then raise a new fund to deploy more capital, there may be the inclination to take as much as the market is willing to invest with them. Assuming the fund manager has adequately prepared for promised redemption levels, the



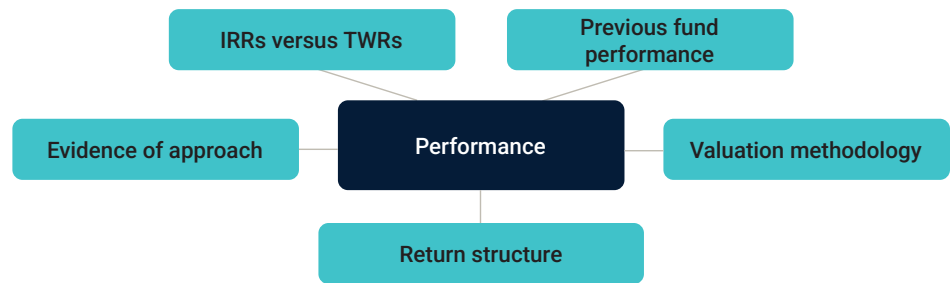
capacity concern is more about having so much capital to put to work that there are not enough good investment opportunities in the manager's chosen approach, prompting overdiversification and the watering down of the best ideas in the portfolio. If the fund manager does not have a capacity figure in mind, the follow-up question is how they will know when it is time to stop accepting capital.

- While upper-end capacity is a good problem to have, fund managers should also have an idea of how much capital on the low end would mean that they could not adequately implement the strategy. Unlike a public portfolio, when funds can buy a diversified portfolio with a small amount of assets, in the private markets, many are investing in very significant stakes—often controlling stakes in the case of PE. Having too little capital may hinder a manager from being able to invest and diversify the fund. Every strategy has some level at which it cannot achieve the desired portfolio with the assets under management.
- **To what extent is leverage employed in the portfolio?** This is a good question to ask any private fund manager, of course,⁸ given that more options are becoming available for fund financing. While maybe not leverage in the strictest sense, some evergreen fund managers are leaning on lines of credit to solve their possible need for liquidity in the case of redemptions. Others are layering on liquidity to boost returns, but that boost can amplify returns in both directions. It would behoove prospective investors to inquire as to the fund manager's intended use of and experience with leverage, particularly during times of market stress and liquidity crunches.
- **To what extent does the fund manager intend to utilize derivatives and are these fully collateralized?** While some private fund managers may hedge currency, the vast majority of them do not employ derivatives in the usual drawdown fund. Evergreen fund managers have considerable freedom regarding the types of assets they can hold. This can include derivatives, which serve various purposes. Derivatives can be used for simple currency hedges, but in other cases, these instruments can be employed to create more complex and diverse exposures, mainly in fixed income. Such use introduces risks that may be underestimated during normal times, but these risks can be heightened during a crisis. For investors, understanding the end goal of derivatives use and how they are implemented is essential.

8: For more on NAV loans in particular, please enjoy [NAVigating Considerations and Controversies Around NAV Loans](#).



Performance



Valuations must come into sharper focus for evergreen funds. While interesting, valuations on the illiquid assets of drawdown funds are something of an academic exercise, as the true record of value comes when portfolio investments are sold and capital is distributed. The exception is when secondary transactions of fund stakes occur, but even then, the buyers and sellers determine the ultimate transaction price, not the fund manager. Investors in evergreen funds, however, buy in and redeem from the funds based on the valuations provided by the fund managers. In addition, some evergreen funds allow for performance incentive fees based on the fund manager's assessment of the value of illiquid investments. Thus, much more rides on the marks of evergreen funds, necessitating very close attention to valuation practices.

Some avenues of inquiry related to performance that prospective investors should explore with evergreen fund managers:

- **What are the valuation policies of the fund as they are applied to illiquid investments?** Illiquid investments trade infrequently. True market-based valuations on these assets are thus rarely available, so some method of estimation is required. Many will use private market comparable valuations, but in an environment when little is transacting, those may be stale. Others will use public company valuations as a point of comparison, but often the sizes or other characteristics of those companies may mean they are poor proxies for private holding valuations. The estimations are imprecise, despite real money changing hands based on them.
- **Has the manager engaged any third parties to evaluate the valuations that a fund's shares transact at?** In drawdown funds, there is typically an annual audit of the fund's valuation practices, but that does not typically provide an opinion on whether the valuation is a good one, just that the fund manager followed its own valuation policies. With more and more demand for liquidity in the private markets, both via evergreen funds and the trading of secondary interests in private companies, third-party firms are stepping up to fill the need for pricing on illiquid assets. How those service providers are determining these values should be probed, if possible.
- **How has the manager adapted its valuation approach with the launch of evergreen funds?** For fund managers who also run drawdown funds, previous valuation policies may not be adequate for the evergreen fund structure. The fact that



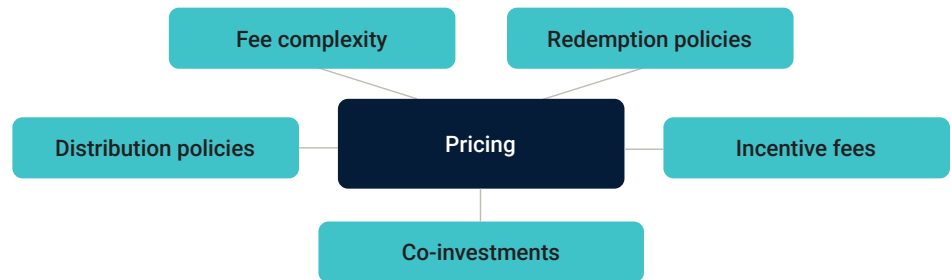
investors are now transacting on a fairly frequent basis based on the GP's valuation necessitates a more robust process to ensure all investors are being treated fairly. Asset managers should have taken some very clear steps to evolve their valuation practices when establishing evergreen funds.

- **How much of the evergreen fund's performance will be reliant on a GP's assessment of illiquid investment valuations?** Asset managers are evaluated by the performance they provide. In public market funds, the public markets provide an unbiased valuation for portfolio assets. In drawdown funds, the most complete and accurate assessment of a fund is when the fund manager has secured exits for portfolio investments—the third main pillar of a manager's valuation creation (the other two being buying at a good price and managing the asset while it is being held). In an evergreen fund, the portfolio's maturity will influence how much of the return can be attributed to markups, to income, to purchase price, or to sales price. If a portfolio has a short history, then most of its historical return will be estimated rather than realized performance.
 - This question also should touch on markups related to secondary purchases. Often secondary stake purchases are purchased at a discount to the NAVs that other GPs have placed on their funds and then immediately marked up to the reported NAVs, providing a nice short-term gain that can juice the evergreen fund return. Investors need to be aware of this phenomenon and probe how much of a fund manager's past performance is truly repeatable in the long run through its own skills managing private market assets.
- **Can the fund manager properly translate its historical drawdown fund performance to return expectations for its evergreen funds?** It feels like some managers are allowing misconceptions to persist around performance reporting of drawdown versus evergreen funds. Fund managers may be allowing prospective investors to assume that past IRRs are a good indication of what the manager's evergreen fund can provide, when that is a totally inappropriate inference to make. As explained in [Benchmarking and Returns: Why Are There So Many Numbers?](#) the fact that evergreen fund managers receive an investor's entire allocation on day one rather than drawing it down and giving it back as investments are made and exited means the return calculation used is not, and should not be, the same as the dollar-weighted IRR calculation that is better suited to drawdown funds. Investors seeing a 14.3% 10-year global PE return might be very excited at the prospect of getting access to that asset class when global equities have returned only 10.2%.⁹ But the first return is an IRR, and the second is a time-weighted return. Drawdown funds enjoy the benefit of not having to be responsible for committed capital that is uncalled or has already been distributed, while evergreen funds have to deal with cash drag on capital when attractive investments are scarce. Even if the exact same private market assets were purchased by a fund manager in both its evergreen and drawdown funds, the returns would rarely be the same.

⁹ The first return is the 10-year horizon IRR as found in the [PitchBook Benchmarks](#) report as of Q2 2025. The second return is the Morningstar Global 10-year time-weighted return through the same date.



Pricing



This P of due diligence is about the fund's fees and terms. Our colleagues at Morningstar are doing more granular analyses on the fees of semi-liquid funds,¹⁰ but at a high level, the findings are that they can be complicated, difficult to compare across funds, multilayered, and very advantageous to fund managers. Some hope that investor pressure or even regulatory pressure will bring more transparency to evergreen fund terms, which could result in more investor-friendly terms, but it behooves those evaluating evergreen funds to do the work to truly understand what they are signing up for.

There are a few terms-related questions that investors should use to probe potential conflicts of interest or misalignment among asset managers and their sources of capital:

- **What are all of the potential fees that will be charged to the fund by share class?** This seems like a simple question, but the responses may surprise even seasoned investors. Investors should push for an itemized list of different fees being charged, including “acquired fund fees and expenses,” from the underlying funds in a fund of funds or secondaries funds situation. They should also identify management fees, interest expenses, any front or deferred loads, and anything else that may be charged to the fund. The things that these funds may charge for seem innumerable and they can certainly add up. Particularly for share classes that have lower account minimums—smaller investors will typically pay more for access.
- **What are the terms surrounding redemptions?** Is there a lockup period following initial investment? How much may be redeemed from the fund at what intervals? Investors need to be very aware that this is typically a fund-level determination, not what an individual investor may experience. Is there a redemption load fee? Are there clauses that allow the fund manager to suspend redemptions and what do those entail?
- **Does this fund allow for incentive fees?** In drawdown funds, carried interest represents what many see as a sensible alignment of interests: The fund manager will seek to maximize LPs’ returns because it will be paid handsomely from the gains of the fund’s investments only after they have sold those investments at a

¹⁰: “5 Things You Need to Know About Interval Fund Fees,” Morningstar, Jason Kephart, August 28, 2025.



price an external third party was willing to pay. Hedge funds also take performance fees, but their underlying holdings are typically liquid and continually priced in the public markets. Performance fees on evergreen funds, however, have the appearance of alignment but introduce a serious conflict of interest. These fund managers take cash payments on unrealized investments that the manager itself is responsible for valuing. Not all funds have these fees, but those that do should have their practices closely examined to ensure that investors will be made whole if an asset manager's performance fees are followed by write-downs. Hedge funds have been known to shut down because the asset managers feel like it will take too long for the fund to return to a high-water mark that will allow them to receive incentive fees again. This practice can break the trust between asset managers and their investors; it would be a shame to see it introduced in the evergreen space.

- **What is the asset manager's thinking related to co-investments?** Many institutional investors are concerned that their performance-enhancing strategy of seeking out low/no carry co-investments to bring down the average costs of their private market allocations will be jeopardized if capital is available from the evergreen fund the firm manages. In December 2025, EQT signaled that it is weighing higher charges on institutional investors for co-investment opportunities, potentially setting a trend that shows that institutional investors are no longer the most favorable source of capital.¹¹ This may also set a trend of institutional investors seeking managers who still show their appreciation for this long-term source of capital.
- **Beyond redemptions, are there provisions to receive income payouts or distributions when fund holdings are sold?** The majority of interval funds hold income-producing assets, but that does not mean that investors will receive that income, only that it will be a large portion of the fund's return. Certain structures, like REITs, must pay out income in order to maintain their tax status. Investors may have reasons on both sides of the equation—some may want to take advantage of compounding value by reinvesting income, while others may enjoy steady income payouts, so there is not a right answer to this question, but investors with a preference will want to explore the available options.

Potpourri

The promise was for only six P's, but below are some additional thoughts that do not fit neatly into the above framework that may potentially be useful to investors with funds to allocate:

- **Investor concentration:** Who are the big investors in the fund? What percentage of the fund is held by the largest investor? Do you have an upper limit on how big one investor can be? Do larger investors get any rights that could disadvantage other fund holders? Asset managers will often seek out an anchor investor that will get

¹¹: "EQT Weighs Higher Charges on Large Investors Thanks to Retail Cash," Financial Times, Alexandra Heal, December 1, 2025.



the fund to a scale that will both make the intended investment approach viable but also attract other investors who are comforted by the presence of “smart money.” But if there is too much concentration and the larger investors choose to depart the fund, smaller investors may be left with a pile of illiquid investments as the fund’s liquidity is tapped out in funding just one investor’s redemptions.

- **Suitability:** Just because an investor can access private markets, that does not mean they should. Any prospective investment should still be evaluated for suitability. Even with the presence of some liquidity, it still makes sense to match investors to investments that fit within that investor’s risk tolerance and time horizon. Some managers of evergreen funds wince at the oft-used term semi-liquid, as they want investors to think of private market investments as long-term investments rather than something they can get into or out of at will. And then there are the fees: Getting access to the benefits of private markets funds may come at too high of a cost, especially for lower investment minimum share classes.



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