

Fund Finance Insights

**The growth of evergreen funds:
Practical considerations**

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Introduction

Evergreen fund structures have regained popularity in private markets due to a conscious shift in how managers source capital and manage portfolios amid more complex fundraising conditions. Traditional closed end structures are facing challenges in several asset classes – private credit, private equity, real assets, and infrastructure – driven by longer holding periods, slower deployment in some strategies, and shifting investor preferences. In response, managers are introducing innovative products like evergreen funds to raise capital from new funding sources to support current and future strategies. Recognising these shifts is important for investors, lenders, and service providers as evergreen vehicles become more common.

Not a ‘one size fits all’ solution

No single evergreen fund structure suits all cases; though these vehicles generally have some common features, typically being perpetual (without a fixed end date) and semi-liquid (with the ability for investors to enter / exit on a rolling basis), each has distinct features. An investor – regardless of sophistication, type, size – must understand the terms of the vehicle it is committing its capital to.

In the past 12 months, there have been examples of managers exercising their more advanced rights available to them under the legal terms of their evergreen vehicles to actively manage liquidity, and this itself is a salient reminder to all investors to ensure that they understand the exact nature of what they are investing in.



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How liquid is an evergreen fund?

Evergreen funds are often marketed as offering “periodic liquidity”, but that phrase alone can denote a whole range of legal and practical liquidity terms built into their documentation. These vehicles fall between daily-traded open-ended listed vehicles and closed-end funds with fixed

investment periods, which are typical in private asset funds.

Redemptions may be subject to a range of tools including notice periods, pricing mechanisms (such as anti-dilution levy or an early redemption charge), gates (both investor-level and fund-level), and structural arrangements (such as ‘sidecars’ (e.g. separate liquidity sleeves) to hold more liquid portfolio assets and/or a parallel vehicle to manage cash flow needs), in each case, typically applied at the sponsor’s discretion – all of which are essential features for managing a vehicle investing in inherently illiquid assets – but which do inevitably constrain immediate liquidity available.

When redemption mechanics are exercised in full, investors should not be surprised by outcomes that are entirely foreseeable within the contractual framework. The lesson is simple: liquidity is intended to be provided for and built into the investment theses of these funds, but it is not guaranteed on-demand liquidity.

Regulators are recognising the need for better understanding and transparency of evergreen structures through mandated liquidity-management requirements. For example, in the EU, certain evergreen vehicles, such as European Long-Term Investment Funds (ELTIFs), are subject to new mandatory liquidity management tool (LMTs) requirements as part of new AIFMD

rules! Managers of these funds must, from spring 2026, select at least two LMTs from the harmonised list,² and the guidelines recommend managers selecting at least one quantitative tool (e.g. gates) and one anti-dilution tool (e.g. swing pricing).

While these requirements offer clarity as to what to expect when committing to these funds, regulatory guardrails are not designed to eliminate the need for investor understanding.

Evergreen mechanics at work

Evergreen design requires careful calibration to ensure a stable balance of inflows, outflows and portfolio realisations, involving several key factors:



Liquidity management tools: Gates, notice periods, soft lock-ins, redemption queues and subscription caps are common and investors should not assume they are 'red flags'; they are prudential tools to support liquidity management. Understanding when and how they are used is what matters.



Portfolio construction: Sustainable evergreen portfolios typically blend yielding assets (to support liquidity needs) with longer-duration assets (to generate returns). This balance varies materially by strategy.



Use of leverage and liquidity facilities: Facilities in evergreen funds often resemble working-capital lines secured against NAV. Their purpose is to act as a 'standby' and to be available to smooth timing mismatches – not to manufacture liquidity indefinitely.

Valuations – why so critical?

Valuation is one of the most crucial, and most challenging, parts of running an evergreen fund. This is because the valuation determines:



The price new investors pay for admission to the fund



The amount investors receive when they redeem



How performance fees are calculated.

Unlike closed-end funds, where valuations mainly support reporting and aid transparency, evergreen funds use valuations as the basis for investor transactions. This creates pressure to ensure valuations are accurate, timely, and fair.

The challenge becomes even greater when the evergreen fund invests in other funds. Those underlying funds typically report valuations quarterly, but evergreen funds often need monthly – or even more frequent – valuations to inform their NAV-based pricing. Managers therefore need to adjust valuations based on market movements or company specific events, using internal models. This introduces discretion on the part of the managers for which investors are increasingly seeking improved transparency.

For funds that invest in external managers, another layer of difficulty arises. Data from third parties may be inconsistent, delayed, or not directly comparable. Aggregating this information across strategies and jurisdictions can be complex.

Investors should therefore view evergreen fund diligence as part liquidity review, part valuation review – and managers should expect more probing questions on both.



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The manager perspective – Designing and administering the offering

Evergreen funds are now part of the mainstream fundraising toolkit for managers, sitting alongside flagship closed-end funds, fund-of-one SMAs and strategic co-investment strategies as the core channels to provide access for existing and new investors to managers' now often multi-strategy, managed private asset pools.

The challenge for managers is ensuring that where there are multiple investor access channels to broader platforms, their approach to all of governance, allocation policies, valuation processes, conflicts and liquidity management evolve in a transparent, fair and compelling manner in parallel with harnessing a broader universe of capital.



¹ Directive (EU) 2024/927 of the European Parliament and of the Council amending Directives 2011/61/EU (“AIFMD”) and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds (“AIFMD II”).

² Annex V, points 2 to 8, of the amended AIFMD II.

The LP perspective – Understanding the opportunity

For insurance companies, defined contribution (DC) pension schemes (notably UK ones, many of which have publicly committed to building up to targeted private asset allocation exposures) and private wealth channels, evergreen funds provide exposure to private markets in a different fashion – specifically, with mitigated operational complexity compared to closed-ended commitments and an ability to remove the inherent uncertainty in terms of time horizons for a return on capital typically associated with traditional private asset exposure. This can offer tangible benefits, but the exact terms of every evergreen vehicle may not be appropriate for all investors at all times; rather, the risk profile is different, including for each evergreen vehicle, and ought to be utilised only where it fits any particular investor's specific allocation, liquidity and return objectives.

Key considerations for investors when assessing evergreen vehicles are detailed above. In short, a detailed understanding of each vehicle's approach to liquidity management, portfolio construction (including associated conflicts management), valuations and leverage will always be fundamental.

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Many of these issues are manageable – indeed, industry bodies have encouraged dialogue between managers and investors to bridge understanding, most notably through the ILPA white paper on [Retail Capital in Private Markets](#) published in November 2025. However, they require deliberate mutual engagement rather than reliance on product labels.

The lender's perspective – Building appropriate leverage terms

As evergreen funds become more common, lenders increasingly view them as regular borrowers. Unlike traditional closed-end funds, evergreen fund facilities are often structured as revolving credit lines – usually for 1–3 years, extendable – designed to provide liquidity for redemptions and bridge financing. This structure minimises cash drag and avoids forced asset sales. Their 'standby' nature also means the fee structure is commercially different from traditional closed-end fund finance facilities. These vehicles have no fixed end date or wind-down period, so facilities often include periodic review and renewal provisions and allow recycling of proceeds (giving the fund time to sell assets or raise new capital before requiring repayment).

These facilities are secured against the portfolio's net asset value (NAV), with borrowing bases subject to haircuts, concentration limits, and eligibility criteria. Advance rates are regarded as being conservative to reflect the illiquidity of underlying assets.

Key underwriting factors specific to evergreen facilities include:



Portfolio analysis:

- The portfolio is dynamic; therefore, lenders must maintain the quality of the borrowing base to ensure effective management over time. This is done by extending credit up to a percentage of NAV based on a pre-agreed universe of eligible investments. Haircuts and eligibility criteria apply. For example, limiting credit to a fraction of each asset's estimated fair value, and excluding



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or heavily discounting assets that are too concentrated, illiquid, or encumbered.

- These adjustment mechanisms are essential to maintain the quality of the borrowing base. If the borrowing base shrinks (due to valuation drops or asset exclusions), there may be a requirement to repay part of the loan to re-align with the lending base (i.e. a margin call mechanism).
- Lenders often impose loan-to-value (LTV) limits to maintain collateral coverage. If the LTV threshold is breached, the fund is typically required to prepay or post additional collateral to cure. Other covenants include periodic collateral valuation, minimum asset diversity or quality criteria, and notice of material adverse changes.



Valuation governance:

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- This is crucial for monitoring a significant decline in NAV or a breach of borrowing base, which ought to trigger a draw-stop and potential default if not remedied (to protect the lender (given the illiquid assets). The fund's failure to honour large redemption requests (beyond agreed limits) might also be negotiated as a default event as it can signal stress.

Control mechanisms:

- The lender typically has step-in rights on collateral upon default, e.g. to direct asset sales or take control of distribution accounts.

As an evergreen fund's NAV increases, the facility is often expected to expand accordingly. To manage exposure, original lenders often syndicate risk to others. To support this, agreeing documentation which minimises the need for subsequent material amendments or substantive negotiation is essential for an efficient syndication process.

With the rise of evergreen vehicles and their increasing integration into managers' fundraising strategies,

lenders can act as knowledgeable partners, helping shape best practices. This is especially relevant in areas like valuation reporting methods, transparency standards and proactive liquidity management.

Final thoughts

Evergreen structures are becoming a more established feature of private markets, and their growth brings both opportunities and new points of complexity around valuations, liquidity management and stakeholder alignment. As these vehicles continue to evolve, a shared understanding of how they operate, and how they differ from closed-end funds, will be increasingly important for managers, investors and lenders alike.

The LMA is actively working with its members to encourage open dialogue on these topics and to foster education that reflects the realities of how evergreen structures behave in practice.



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Authors



Kam Hessling,
Managing Director –
LMA



Tara Walsh,
Funds Counsel
(Consultant) –
LMA



To learn more about the LMA's work to support efficiency, liquidity and transparency in the fund finance market, please visit the LMA's Fund Finance Microsite:

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For more information contact:

kam.hessling@lma.eu.com

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