

Evergreens: The Tree That Never Sheds

A Closer Look at Performance, Risk, and Valuation Practices
in Private Equity Evergreens



About the Author



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Executive Summary

Evergreen private equity funds have grown rapidly in recent years, targeting wealth, retail, and increasingly, defined contribution (DC) pension plans. These vehicles promise access, convenience, and periodic liquidity – but closer analysis reveals structural features that pose material risks for investors.

US based Evergreen vehicles had amassed approximately \$380 billion of assets under management¹ (AUM) by end 2024, with some \$70 billion of that focused on private equity. This remains small relative to total private capital AUM of \$15 trillion and private equity AUM of \$5 trillion² but is more meaningful relative to secondaries AUM of \$450-\$500 billion³.

Key Observations

- **Performance driven by unrealised gains:** Since 2021, more than 70% of gains across SEC-registered Evergreen funds remain unrealised. For newer funds, that figure can exceed 90%. Reported returns are often inflated by quick markups on Secondaries' transactions.
- **Fee misalignment:** Management fees are charged on Net Asset Value (or NAV), and in some cases, incentive fees can be crystallised on unrealised gains without clawbacks. All-in annual fees can approach 300–600bp, consuming a substantial share of gross returns.
- **Illusory risk-adjusted performance:** Evergreen funds report low volatility, low drawdowns, and high Sharpe ratios, largely due to general partnership- (or GP) reported NAV smoothing. When compared to listed PE investment trusts – which trade at deep discounts and exhibit far higher price volatility – Evergreen results appear “too good to be true.”
- **Liquidity mismatch:** These funds suggest 5% quarterly tenders (20% annually), but may rely on inflows and distributions to meet redemptions. In stressed markets, this structure risks gating or forced sales – outcomes already familiar in private REITs.
- **Governance conflicts:** By investing alongside closed-end funds, Evergreen vehicles can dilute negotiated size caps and compete with limited partnerships (or LPs) for co-investments. This weakens Limited Partnership Agreement (LPA) protection and may lead to conflicts.

Evergreen funds may remain an important innovation in broadening access to private equity. But without improvements in **disclosure, fee alignment, liquidity planning, and governance**, investors risk overpaying for returns that rely heavily on accounting practices rather than underlying operational performance. A single high-profile failure could undermine confidence in the entire market. As Evergreens expand into DC channels, the stakes for improved governance and disclosure are rising.

1 - Morgan Stanley.

2 - S&P Global.

3 - Pitchbook (2024).

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Introduction

Among alternative asset managers, permanent and perpetual capital strategies have accelerated in recent years, in part due to market conditions. A combination of high institutional allocations to private equity and a liquidity freeze following the post-Covid inflation shock, has accelerated the trend. Evergreen funds are a component of this perpetual capital growth and are expected to be a large source of incremental AUM as the products proliferate through the private wealth segment and get introduced to DC pension systems. While private credit, private REITs, and unlisted Business Develop Companies have gathered most of the assets under management to date, private equity Evergreens have been playing catchup. Since 2021, asset gathering for private equity Evergreens has increased substantially.

In this paper, we focus on the growth of private equity Evergreen products, their increasing role in the market, and identify some concerns related to valuation disclosures, fee levels, performance and risk data, governance, and discuss liquidity risk in the structure. The paper begins by providing a brief overview of some of the catalysts that have spurred recent growth, including regulatory changes and industry dynamics. It then defines the market size and key players. We discuss the link between the growth of secondaries – both LP portfolios sales (LP led) and continuation vehicles (GP led) – and the growth of Evergreen funds.

To facilitate the analysis and discussion, we tracked 16 private equity Evergreen Funds that are registered under the Investment Act of 1940 and thus file periodic financial statements with the SEC. These funds represented over \$60 billion of AUM as of 31 March 2025, accounting for close to 90% of the AUM in the space. The funds represent a diverse mix of strategies within the private equity focused Evergreen market. There are secondary focused vehicles, co-investment/direct focused vehicles, and balanced funds.

We evaluate the purported advantages of the Evergreen fund structure and compare it with the key terms and features of a Limited Partnership, the most common private equity vehicle for institutional LPs. We raise some important risks associated with the terms in Evergreens, and how they can create a "heads I win, tails you lose" scenario for the advisor. The magnitude and nature of fees are addressed, including the paying of incentive fees on unrealised gains, which can lead to perverse incentives. We explore the asset mix of the vehicles, and how they try to manage a 'semi-liquid' structure with inherently illiquid assets as holdings. The prominent role of secondaries in the portfolio is discussed, and why these vehicles prefer allocating to secondaries vs primary funds, or even direct equities.

The paper looks at the reported results, returns, and risk of the funds. Despite the challenging return environment for private equity over the last three years, Evergreen funds managed to post very strong returns. We explore the source of those returns and find that a significant component of the returns is tied up in unrealised gains. This leads us into a discussion on valuations and examine the practices and disclosures of various funds. In particular, we look at the practice of writing up the valuation of secondaries purchases to the investee GPs NAV, a practice known as using "NAV as a practical expedient". This practice appears in both LP- and GP-led secondaries' transactions.

We explore the uncertainty surrounding Evergreen fund inflows and outflows and how this represents an important source of risk for the Evergreen fund investor. The paper finishes with a discussion of governance issues, particularly between Evergreen funds and institutional LPs, and suggestions for improved disclosures and practices.

Evergreen Fund Origins and Accelerants

Evergreen vehicles proliferated after 2010, led mostly by the private REIT and unlisted Business Development Company (BDC) market. Private Equity Evergreens, given their lumpier cash flow profile, were a less natural fit, and showed limited growth until 2021. With banks pulling back lending to smaller and mid-market companies⁴, private credit filled the gap, leading to rapid growth in the number of listed and unlisted BDCs. Blackstone's BCRED, which launched in 2020, has gathered more than \$73 billion of AUM⁵. Other major players, including Ares and Apollo, offer similar vehicles. The recurring cash flows of the instruments make it attractive to both the retail and institutional market.

In the US, the rise of Evergreen funds was largely a market response, while in Europe and the UK, there were policy initiatives to direct more capital into long-term investment vehicles that could fund infrastructure and other private assets (EU regulation – see European Parliament and Council (2015) and European Commission (2023)). The Long-Term Asset Fund (LTAF) in the UK was launched in 2021 by the FCA⁶ to channel pension schemes, insurers, and retail into illiquid assets. This followed from the Patient Capital Review (2017), from which UK policy makers wanted to channel savings into infrastructure and private markets more broadly. Unlike the US, the initial goal was to facilitate retail and DC pension savings into LTAFs. In the EU, The European Long Term Investment Fund (ELTIF) was created in 2015. Again, the goal was to channel savings into long term infrastructure or private assets. Despite launching in 2015, there was just €20Bn in AUM by the end of 2024 (Funds Europe) across all private asset classes. This accelerated with reforms that permit lower investor minimums, and the approval of the fund of funds structure (ELTIF 2.0).

The dream of permanent capital and "democratisation" of private assets even had earlier roots, with London Stock Exchange (LSE) hosting private equity investment trusts since the 1990s. This extended access to investors that were not eligible to invest directly in closed end Limited Partnerships. Several notable players including Pantheon, Partners Group, HarbourVest, and HG Capital have listed investment trusts, with the first three also having private equity Evergreen products with similar strategies. As we discuss later, the growth in this space has been challenged as the trusts have consistently traded at a material discount to NAV, having widened over the last three to four years.

Turning the focus to SEC registered private equity Evergreen funds, the market has experienced explosive growth since 2021. We touch on several factors that contributed to the change in trajectory since then:

1. Listing of GPs and Rise of GP Stakes

Many of the alternative investment managers operating Evergreen funds are listed companies. Hamilton Lane (IPO-2017) and StepStone Group (IPO-2020) are listed and have transitioned their business model to AUM from AUA based. They have joined several leading private equity firms who went public between 2010 and 2016, including KKR, Carlyle Group, Ares, Apollo, and Blackstone (2007).

Their valuations are supported, in part, by delivering stable and recurring "Fee-Related Earnings", which comes primarily from long term management fees. This has led to the pursuit of more permanent and perpetual capital strategies, to offset the potential lumpiness/uncertainty in their drawdown funds.

4 - Economist.

5 - Financial Times.

6 - PS21/14: FCA.

At the same time, there has been an institutionalisation of the GP stakes market, with many private equity firms having sold a stake in their GP to third party investors, usually GP stakes focused investment firms. This drives the same need to deliver a recurring earnings stream to their investors. As carried interest is both lumpy and necessary to incentivise employees, recurring management fees make up a disproportionate amount of the earnings stream for investors in GPs.

With GPs going public and selling stakes in their management companies, managers face heightened demands for stable, recurring fee income. Evergreen funds form part of this solution, but acquisitions of life insurance companies (KKR–Global Atlantic, Apollo–Athene), and the establishment of longer-term 'Core' funds, represent other examples.

2. Low Distribution Rates

The surge in private equity AUM during 2021–22 (Bain & Company, 2024), fuelled by capital chasing increasingly expensive deals, was followed by a lull in deal activity. Distribution rates plummeted beginning in 2022 (MSCI), impacting pacing models for LPs, starving many LPs for capital to re-up to new funds. This left investors with high allocations to private equity and limited cash flows available to recycle into new commitments, putting pressure on LP allocations. In response, several high-profile LPs – including major US endowments – turned to secondary transactions to reduce their exposure. At the same time, with traditional LPs slowing or cutting commitments, GPs were forced to pivot in search of new avenues for AUM growth.

This created the conditions for innovative structures to develop to provide liquidity to investors. The secondaries market, both GP Led and LP led, have grown tremendously since 2020. As we will document in the paper, Evergreen Funds are increasingly becoming a liquidity provider in this market.

3. Ease of Regulations and Technology Development

The expansion of the accredited investor definition in the US (2020) and guidance issued by the Department of Labor (2020/21) were supportive of growth. Similar easing occurred in the EU (ELTIF 2.0). Advances in technology, including fund platforms, has eased the process and lowered cost of distributing Evergreens through various wealth channels.

Despite the recent growth and potential of this market, most private equity Evergreen funds are untested. The rapid investor inflows into the vehicles have masked the impact of the weak distribution environment. Many of the concerns with Evergreens – valuations, high fees, return and risk data, liquidity, and poor governance – may not fully expose themselves until fund flows normalise. We explore the market in more detail in Part I.

Part One: Key Players and Characteristics

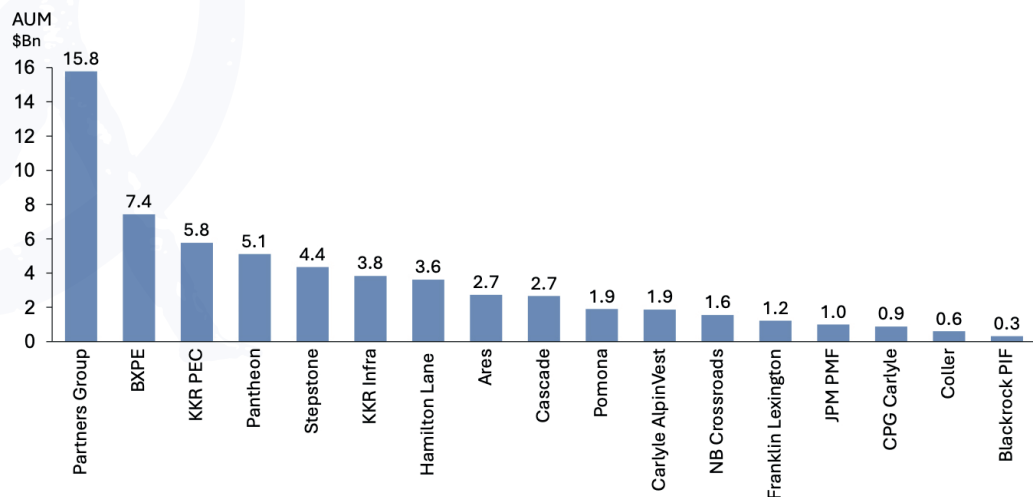
This section examines the rapid expansion of the Evergreen market, highlighting key players and contrasting Evergreens with traditional drawdown funds, with particular attention to fee structures. It also reviews the asset composition of Evergreen portfolios, noting the heavy allocation to secondaries, whose characteristics are particularly well-suited to Evergreen funds.

Key Players

Figure 1 details the Net Assets of the major private equity Evergreen vehicles registered with the SEC as of 31 March 2025 (latest FYE). Collectively, they accounted for over \$60 billion of net assets, representing most of the private equity and infra-focused Evergreen assets gathered to date (total of ~\$70 billion). AUM growth has been explosive in the category, with the same group having grown AUM from \$10 billion as of 31 March 2021, to over \$60 billion as of 31 March 2025 (Figure 2 (left)). This means that the net assets are comprised predominantly of assets acquired during the last four years, a period in which traditional exits were subdued.

The longest standing Evergreen fund managers in the group include Partners Group Private Equity Master Fund LLC (2009), CPG Carlye Commitments Fund LLC (2014), AMG Pantheon Master Fund LLC (2015), and Pomona Investment Fund (2016). The remainder have all launched vehicles from 2020 onwards, and scaled rapidly, with the greatest inflows occurring over the last four years.

Figure 1: Assets Under Management for SEC Registered Evergreen Funds



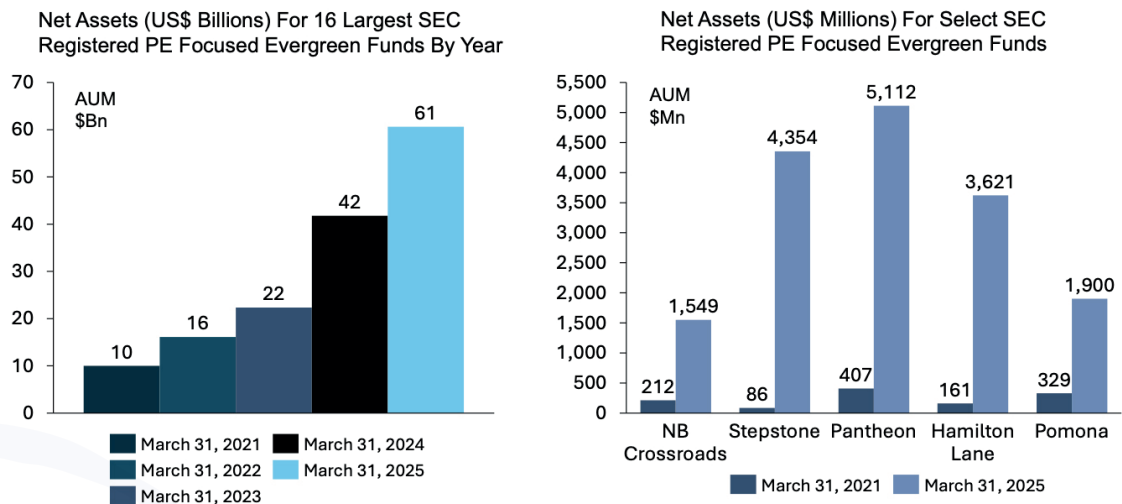
Source: SEC Filings. As of 31 March 2025.

Figure 2 (right) shows just how much growth has taken place since 2021. Most of these Evergreen funds were rather small in 2021, with Hamilton Lane's Private Asset Fund increasing AUM from \$161 million to \$3.6 billion during this time. Even Pantheon's Evergreen Fund (AMG Pantheon), which debuted in late 2015, had just over \$400 million AUM in 2021. This had surged to over \$5 billion by 31 March 2025.

The recent growth is an important consideration when evaluating the performance of these funds. With much of value unrealised, the returns are driven by valuation practices that are often not made transparent to the investor.

Part One: Key Players and Characteristics

Figure 2: Growth in AUM for SEC Registered and Select Evergreens



Source: SEC filings. As of 31 March 2025.

The growth of Evergreen funds has coincided with a period of tremendous growth in secondaries market activity, both LP- and GP-led transactions. This resulted from a decline in traditional exit activity (IPOs, strategic sales), with secondaries emerging to provide liquidity. The need to manage vehicle liquidity, including making distributions and meeting redemptions by unitholders, has led Evergreen funds to pursue assets that are shorter in duration. Secondaries, rather than primary funds, are deemed better suited to facilitate this liquidity. Secondaries' advisor Campbell Lutyens (2025) estimates that 60% of Evergreen funds capital raised in 2025 will be deployed into secondaries. This makes the supply of secondaries transactions crucial for continued growth of Evergreen funds.

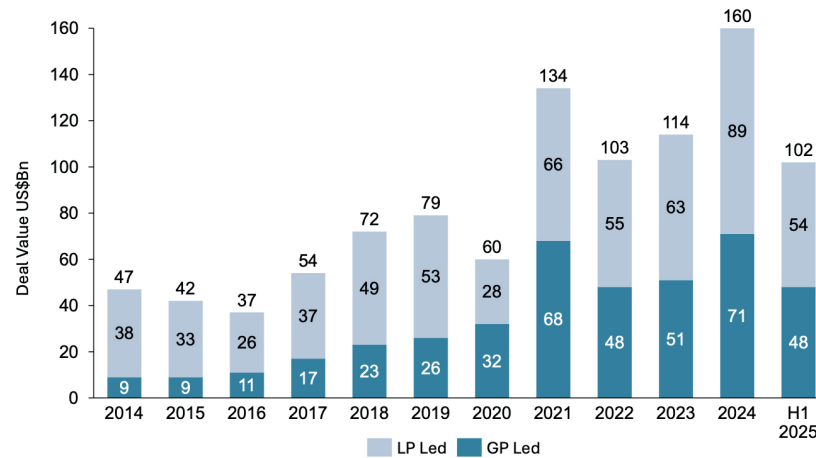
Figure 3 details the size and growth of the secondaries market across LP led and GP led transactions by value. The market accelerated in 2021, the same period the private equity Evergreens started to grow rapidly. LP led transactions grew from \$38 billion in 2014 to \$89 billion in 2024 and are on pace to surpass \$100 billion in 2025. The growth has been more demonstrable for GP led deals (continuation vehicles and fund transfers), which grew from \$9 billion in 2014 to \$71 billion by 2024, and is likely to approach or surpass \$100 billion in 2025. In fact, to demonstrate the importance of this segment, Jefferies (2025)⁷ estimates that GP led deals are nearing 20% of PE exit activity. The connection between secondary market activity and Evergreens is important to capture.

Evergreen funds, which have a number of governance and transparency issues, are increasingly investing in another opaque corner of the market, continuation vehicles. Both single asset continuation and multi-asset continuation vehicles are making their way into Evergreen funds' portfolios. In *The Rise of Continuation Funds (2023)*, Kastiel and Nili argue that both underperforming and top performing assets can be moved into a continuation vehicle, allowing the GP more time (in the former case) to turn around the asset, and to continue to participate in the growth of the asset (latter case – "trophy" assets – see Gottschalg, 2024). Further, it may allow for a capital injection into a portfolio company that would otherwise not take place if it was late in the fund's life and most capital had already been called. They balance these purported advantages with the conflicts of interest, include the GP's private interests (more fees), dual loyalties (new vs selling investors), and cite that the structure allows the GP to win regardless of outcome.

7 - Private Equity Continuation Vehicles Become CV-Squared Bloomberg.

Part One: Key Players and Characteristics

Figure 3: Secondaries Activity by Volume



Source: Evercore (2025).

Defining an Evergreen: Comparison with Drawdown Funds

Table 1 contrasts traditional closed-end limited partnerships (drawdown funds) with private equity Evergreen funds across several categories and features.

Table 1. Key Terms: Drawdown Funds vs PE Evergreen Funds

Category	Traditional Drawdown Fund	Evergreen PE Fund
Structure	Closed End with 10- to 12-year life	Closed End and perpetual, indefinite life
Capital Commitment	Five-year investment period, with step down	Via purchase of units/no ongoing calls
Management Fees	1.5-2.0% (commitments, then invested capital)	0.7-1.75% (NAV-based)
Incentive Fees	20% carried interest (realised)	10-15% of NAV growth; or None. Realised and unrealised.
Hurdle/Preferred Return	8% compounded annually on committed capital	Typically, None. Some 5%.
Waterfall	Yes, capital returned to LPs first	No, Incentive fees paid on unrealised & realised NAV growth
Clawback	Yes	No (Loss Recovery Account)
Liquidity	None	Up to 5%/Quarter, 20%/Year. No obligation in Tender Offer Funds
Distributions	Realisations distributed to LPs	>90% taxable income distributed to maintain RIC status
Performance Measurement	IRR (Money Weighted)	TWR (Time Weighted)
Performance Reporting Frequency	Inception to Date IRRs/TVPI/DPI	Monthly Returns
Portfolio Diversification	10-20 portfolio companies	Often hold 100s or 1000s of positions
Asset Mix	Private equities only	Secondaries/primaries/co-investments/ST investments (cash)
Benchmark	IRR – Direct Alpha	TWR – Alpha
Investors	Larger institutional investors	Individuals/family offices/smaller institutions/DC*
Entry/Exit	All investors enter/exit at same time	Investors subscribe monthly, and exit at different times
Valuation Frequency	Quarterly	At least monthly
Cash Flow and Liquidity Risk	LP manages capital calls, recycling of distributions	Evergreen Fund manages capital calls/recycling

Source: SEC filings, factsheets

Part One: Key Players and Characteristics

Relative to drawdown funds, Evergreen funds tend to be more diversified, holding a substantially greater number of assets. A typical private equity fund may hold just 10-20 portfolio companies, with direct interests in each. An Evergreen fund can be exposed to hundreds or even thousands of underlying portfolio companies via its exposure to primary investment funds, secondary interests, co-investments, private credit and other investments. Even a direct focused Evergreen, such as KKR's PEC, holds ~100 assets. Secondary focused Evergreens can number into the thousands, once looking through to the underlying fund's portfolio companies.

Apart from their Evergreen or perpetual structure, these vehicles differ from traditional drawdown funds across several dimensions. Fee mechanics are a notable distinction: in Evergreen funds, management fees are assessed on NAV, which includes both realised and unrealised gains. Similarly, incentive fees are tied to NAV growth rather than realised profits, as is standard in drawdown funds. This framework can create a potential misalignment of interests, since managers may be incentivised to prioritise investments that generate rapid gains, even if they are unrealised, which can then be crystallised as incentive fees. Moreover, Evergreen structures typically lack clawback provisions if those gains subsequently reverse.

A key differentiating feature is the liquidity offered by the vehicle. Most private equity Evergreens offer to purchase up to 5% of units quarterly, with an annual 20% cap. This is supported by distributions from underlying investments (though we will show this may not be sufficient), and more liquid securities and money market instruments held to compensate for the illiquid assets. Overall, the terms and characteristics of Evergreen funds are 'Advisor friendly'.

Performance reporting differs markedly between the two structures. In traditional private equity, results are typically expressed as internal rates of return (IRRs) and compared across vintage years. Evergreen funds, by contrast, publish monthly time-weighted returns. In a drawdown fund, LPs that commit at inception generally experience pro-rata capital calls and distributions on a similar schedule and, net of fees, achieve broadly similar returns. In Evergreen vehicles, however, investors subscribe and redeem at different points, which means performance outcomes vary across holding periods. Crucially, new investors purchase units at the prevailing NAV, effectively paying for the unrealised gains already reported on earlier investments. For this reason, Evergreen fund investors focus on their own holding-period return, and the key question becomes how that compares – on a risk-adjusted basis – to the performance of the broader private equity market over the same timeframe.

The recycling of investment proceeds into new deals is another key difference. Rather than receive distributions from realised investments, an Evergreen fund investor will receive realised gains and investment income, with the remainder re-invested, or used to service redemptions. The re-investment rate will have a large impact on the investors outcome.

Finally, the continuous fundraising is worth highlighting. Rather than having one final close like a drawdown fund, an Evergreen fund will be continuously raising capital. Until deployed, this additional capital can hinder returns. It also means that investments may be concentrated in times immediately following strong fund flows, which may not be the best time to acquire assets. The drawdown fund does not face the same pressure as capital is not called until required for investment.

Part One: Key Players and Characteristics

Most private equity Evergreens registered with the SEC fall under the Investment Company Act of 1940 (often termed the '40 Act), with others falling under the 1934 Securities Exchange Act⁸. Private equity focused Evergreens, though advertised as semi-liquid, are considered closed-end funds, and non-diversified, differentiating themselves from other investment funds (e.g., mutual funds) that fall under the '40 Act. The classification as a tender offer fund is an important distinction. Funds can tender for shares on a periodic basis (quarterly) but are not required to. Interval funds, a more common structure in private credit and private REIT vehicles, generate monthly income from investments that better aligns with the mandatory redemptions under an interval fund structure.

Table 2 provides more detail on the management and incentive fees for the largest SEC registered private equity Evergreen funds. Base management fees range from a low of 70bp to a high of 175bp. Just over half of the managers have an incentive fee, with fewer still, having a hurdle. The last column includes the mean spread between gross and net returns, calculated directly from each fund's annual SEC filings. Evergreen fund level fees are high, ranging from 123-443bp, **and this excludes the fees at underlying fund managers that Evergreens access via Secondaries**. If an Evergreen fund allocates 60% of its portfolio to secondaries (split between LP-led and GP-led deals), the additional fees at the underlying manager level can range from 160 to 200⁹. Combined, the all-in fees for some Evergreen funds can exceed 500bp.

Evergreens without incentive fees have lower fee burdens at the Evergreen fund level (Cascade, Collier, Pantheon). However, it remains to be seen whether these funds will end up converging to a similar fee model. (e.g. 1.25% and 10%).

Management fees are charged on NAV, though some funds exclude money-market instruments from the NAV figure. The incentive fee is not investor friendly, as it is paid on the growth in NAV from operational items, including net investment income and all gains, realised and unrealised. Given that most of the gains are unrealised, the advisors earn generous incentive fees without requiring an exit. The Evergreen funds do not have a claw back mechanism, but instead have a "loss recovery account", which operates like a high-water mark. Preferred returns, or hurdle rates, are less common, but can appear in different share classes.

The total fee load of these funds will make it difficult for individual investors to achieve good net returns, particularly once the one-time secondaries bounce fade. There is plenty of research in both private and public equities, that fees consume alpha, leading to worse outcomes for investors. We do not see why private equity Evergreen funds would be an exception. In *The Performance of Private Equity Funds* (Phalippou and Gottschalg, 2009), it was shown that private equity returns trail listed equities, once adjusting for fees. Further, the total fee impact was estimated to be up to 600bp per year. In listed equities, *The Cost of Active Investing* (French, 2008) and *Luck vs Skill in the Cross-Section of Mutual Fund Returns* (Fama and French, 2010), established that paying for active management led to worse outcomes than low-cost passive investing. (See Harris, Jenkinson and Kaplan (2014) and Kaplan and Schoar (2005) for further discussion of private equity performance).

8 - Securities Exchange Act of 1934. 15 U.S.C. § 78a et seq.

9 - Assume Secondary Fund Gross/Net Spread of 300bp (Figure 6), and 1% fee + 10% carry on continuation vehicle transactions.

Part One: Key Players and Characteristics

Table 2: Management and Incentive Fees for Key PE Evergreen Funds

Fund	Inception	Registration	Mgmt Fee %	Incentive Fee	Hurdle	Gross/Net Spread (bp)
Ares PMF	2022	'40 Act	1.40%	12.5%	--	438
Blackrock PIF	2020	'40 Act	1.75%	--	--	198
Blackstone BXPE	2024	'34 Act	1.25%	12.5%	5.0%	365
Carlyle AlpinVest	2022	'40 Act	1.25%	10.0%	--	329
Cascade	2021	'40 Act	1.40%	--	--	134
Coller	2024	'40 Act	1.65%	--	--	156
CPG Carlyle	2014	'40 Act	1.20%	--	--	144
Franklin Lexington	2024	'40 Act	1.25%	12.5%	5.0%	226
Hamilton Lane PAF	2020	'40 Act	1.40%	10.0%	--	443
JPMorgan PMF	2023	'40 Act	1.00%	10.0%	--	371
KKR PEC	2023	'34 Act	1.25%	15.0%	5.0%	271
NB Crossroads	2020	'40 Act	1.50%	10.0%	--	241
Partners Group	2009	'40 Act	1.65%	10.0%	--	285
Pantheon	2015	'40 Act	0.70%	--	--	123
Pomona	2016	'40 Act	1.65%	--	--	335
Stepstone	2020	'40 Act	1.40%	--	--	238

Source: SEC filings.

Calculations by EIPA. Mean Gross vs Net Spread – Gross Returns is Annual Gross Change in Net Assets from Income & Gains divided by Average Net Assets. Net Returns deduct all fund expenses. Mean spread for all years since inception excluding year one.

Overall, fee levels are high and lack the alignment features that exists in drawdown funds (carried interest on realised gains, priority return of committed capital to LPs). Poor disclosures on fees make it difficult for an investor to determine the total fees paid to the Evergreen fund advisor and the various funds and co-investments the Evergreen fund has invested in. Evergreen funds should provide a “fully loaded” fee schedule so that investors understand what percentage of their capital is going to fees each year. Moreover, the funds should disclose both gross and net fees. We had to calculate the fee spread from the SEC filings, but the monthly fact sheets should show both gross and net returns.

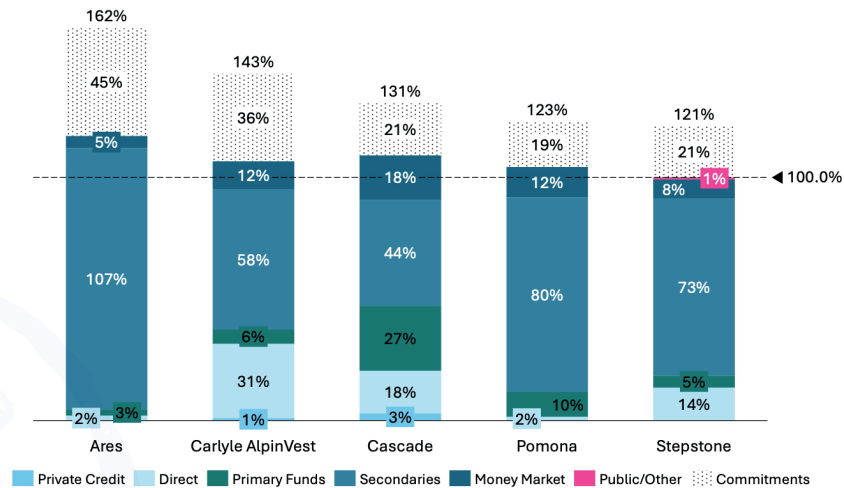
Asset Mix and Composition – How Evergreens Square the Circle

Evergreen fund managers must perform the difficult task of offering redemptions, meeting capital calls, and managing overall liquidity, while primarily exposed to illiquid private equity assets. Figures 4 and 5 show the asset mix of five secondaries' focused Evergreens and five direct focused Evergreens. Looking first at Figure 4, we observe that most of the assets are allocated to secondaries (LP and GP led), and co-investments. The allocation to primary funds is low as the managers avoid exposure to the lower return profile associated with early life primary fund investments, and the greater distance (time) to realisations. The funds maintain allocations to private credit and other credit instruments, with larger allocations to money market securities to manage liquidity in the fund. Most of the funds have a moderate degree of leverage, but it is rare to see this top 120% on fully drawn investments. Future unfunded commitments are shown at the top of the bars. This represents future capital calls for funds acquired via secondaries transactions, unfunded co-investments, and GP-led transactions.

Part One: Key Players and Characteristics

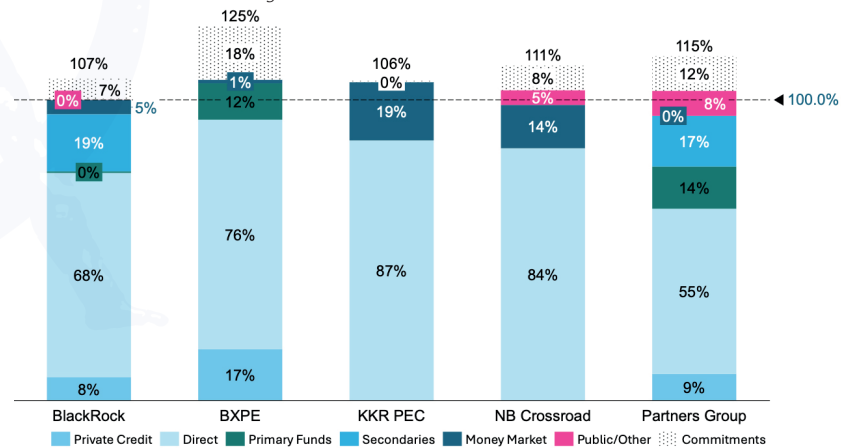
Like an LP investing across drawdown funds, the Evergreen vehicle must over-commit to get to a desired allocation. This introduces some vehicle liquidity risk. Direct focused Evergreens incorporate a more modest degree of leverage, and generally have lower outstanding commitments given the limited mix of primary funds in their portfolio.

Figure 4: Secondaries' Focused Evergreens Asset Mix



Source: Annual Reports filed with SEC. As of 31 March 2025.

Figure 5: Direct and Co-Investment Focused Evergreens



Source: Annual Reports filed with SEC. As of 31 March 2025.

The Appeal of Secondaries in Evergreen Funds

Secondary private equity investments – particularly acquisitions of LP fund interests – have proven to be a natural fit for Evergreen funds. By entering closer to the distribution phase and avoiding the early investment period of drawdown funds, these transactions place less liquidity pressure on the vehicle. More recently, Evergreen funds have also become active participants in GP-led secondaries, including both single-asset continuation vehicles and multi-asset continuation vehicles (MACVs).

Part One: Key Players and Characteristics

The alignment between Evergreen structures and secondaries is also reflected in pricing. According to secondary advisor Campbell Lutyens, Evergreen funds have paid, on average, a ~400bp premium for LP-led secondary transactions relative to the broader market. In the following section, we examine how the design of Evergreen vehicles and their compensation structures may be contributing to this premium, effectively pushing them to bid more aggressively in the secondary market.

Direct equity focused Evergreen funds tend to be dominated by players that have a long history of operating buyout drawdown funds. These Evergreen funds invest in deals originated by the corporate buyout funds, investing alongside the institutional LPs. Most Evergreen funds in the market have an asset mix that is heavily weighted towards secondaries and co-investments, with very little primary fund exposure. The nature of the Evergreen vehicle (continuously raising money at NAV) would break down if the NAVs had to continually be marked down to reflect the low or negative returns of a series of early life drawdown funds.

In Figure 6, we explore how this looks in practice by comparing the return profile of a primary fund and that of a secondary fund, both with identical characteristics. For the primary fund we assume the following characteristics:

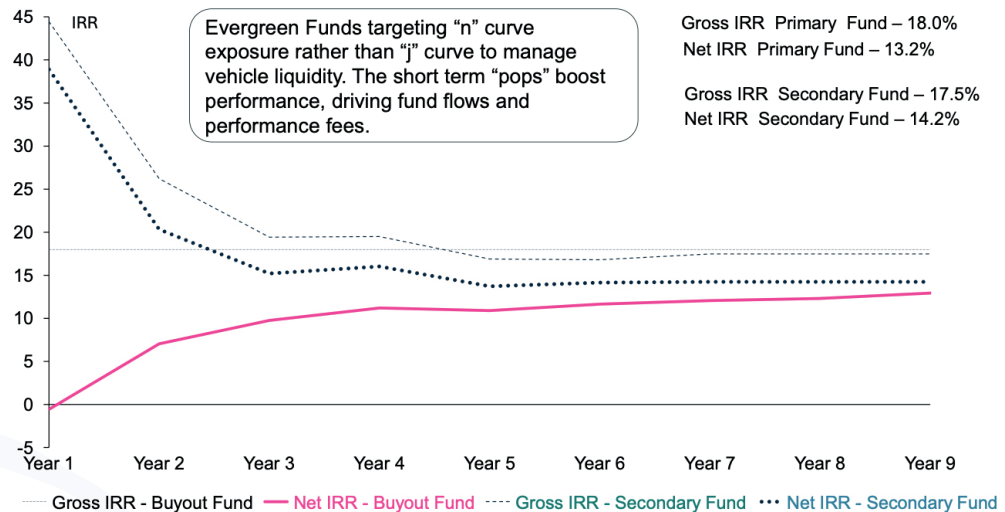
- 10 investments over the investment period, with two investments per year until year five
- Five-year hold period and exit, with an average 18% gross IRR achieved on investments
- Standard fund terms, including a 1.5% management fee, 20% carried interest, subject to an 8% preferred return. All committed capital and preferred return to LPs in priority.
- This leads to a gross/net IRR of 18% (13.2%) and a gross/net TVPI of 2.29x/1.84x.
- For the secondary fund, we assume that the fund buys a primary fund with the same characteristics at end of year 4 at 10% discount to NAV and assumes future fees and capital calls.
- Secondary fund assumed to have 1.25% management fee, 12.5% carried interest, and 8% preferred return.
- This leads to Secondary fund returns of gross/net IRR of 17.5% (14.2%) and gross/net TVPI 1.78x/1.59x.

The year-by-year IRR (gross and net) is shown in Figure 6. While the primary fund net IRR accretes to its full fund life net IRR of 13.2% over time, the early years show negative and low single digit returns. This is what people commonly call the "j-curve". Conversely, the secondary fund, by avoiding the early inefficiencies of the primary fund (fees on committed capital, low deployment), gains an initial 'pop' from the discount, with the IRR sliding down towards its full life IRR over time ("n-curve").

Investors should be aware that the reported performance of Evergreen funds with secondary strategies often includes an early "pop" in returns. This arises when secondary assets are acquired at a discount and then quickly marked up, a dynamic that has a proportionally greater impact when the fund is small. As Evergreen funds scale, however, ever-larger purchases are needed to generate the same effect. In the absence of such markups, performance will naturally drift toward longer-term return levels. Many investors – particularly those less familiar with secondary funds – may not fully appreciate this pattern. Combined with the fee structures discussed earlier, this could leave investor outcomes falling short of expectations.

Part One: Key Players and Characteristics

Figure 6: Primary Fund vs Secondary Fund Gross and Net Returns



Source: EIPA calculations.

An otherwise identical Evergreen fund strategy (with same fees and returns) is likely to trail a Secondary fund optimised for cash flows. Three items will impact the Evergreen fund returns: (1) the need to maintain more liquid securities in the asset mix. (2) Continuous fundraising, which acts as a short term drag until deployed, and (3) Incentive fees paid on unrealised gains (paid out sooner than a drawdown fund).

Summary

Evergreens have grown from niche vehicles into a ~\$70 billion segment, with most of that expansion occurring since 2021. Two main models have emerged: those investing through secondaries and those co-investing in portfolio companies of their sponsor's buyout funds. This distinction is critical for understanding both fees and performance. The return characteristics of secondaries make them particularly well-suited to the Evergreen structure. However, fee levels remain very high, with incentive arrangements often misaligned and limited disclosure of expenses incurred at underlying funds or continuation vehicles. Compared to drawdown funds, the trade-off is broader accessibility but weaker terms. The next section builds on this discussion by examining returns, risk, and the importance of valuations.

Part Two: Performance and Valuations

Evergreen funds report performance that appears unusually strong and stable compared with the broader private equities market. This section analyses their reported return and risk metrics, highlighting the central role of valuation practices in shaping outcomes. Particular attention is given to unrealised gains, which account for a substantial share of reported returns. We look at two examples, where secondaries purchases lead to quick unrealised gains, bolstering returns and triggering incentive fees for the manager.

Performance – Returns and Risk

Table 3 presents detailed return and risk data for the Evergreen fund universe, organised by launch date. Funds shaded in blue follow a direct equity strategy, with only limited allocations to primaries or secondaries. Their performance lags the secondary-focused funds, particularly when viewed through annualised since-inception returns. With the exception of Blackstone's BXPE, these direct equity vehicles trail their peers by a wide margin.

What stands out is the number of Evergreen funds launched since 2020 reporting annualised net returns in the high teens or above 20% – figures that contrast sharply with the broader private equity environment, where the PrivateMetrics® private2000® Value Weighted Index has delivered a negative 0.5% annualised over the past three years. As discussed in the previous section, these elevated returns are partly explained by secondary purchases marked up shortly after acquisition.

This dynamic complicates both fund-to-fund comparisons and benchmarking. Not all vehicles benefit equally from one-time unrealised gains, and conventional indices cannot capture such effects. As a result, alpha measures appear overstated unless appropriately adjusted.

Volatility and Sharpe ratios for the Evergreen universe, calculated from disclosed monthly returns, are shown in Table 3. These are effectively "NAV volatility" measures, reflecting the valuations reported by the underlying fund managers in which the Evergreen vehicles invest. Without greater transparency into those valuation practices, the figures cannot be directly challenged – but they do appear unusually low.

Using data from each fund's inception, all reported annualised volatilities fall below 10%, with 10 of the 16 funds below 7%. By comparison, the private2000® Index, measured since its launch in June 2013, shows volatility of 17.8%. Sharpe ratios exceed 1 across all funds, with the highest ratios concentrated among newer launches, though their short track records limit interpretability.

Maximum monthly drawdowns offer a similar picture. Only Partners Group experienced a drawdown greater than 10%, while 14 of 16 funds reported maximum monthly declines of less than 5%.

Taken together, the return and risk data of Evergreen funds diverge sharply from both private equity indices and listed equity markets. Reported returns are higher and measured risks materially lower, producing risk-adjusted performance that appears "too good to be true." This creates a fundamental benchmarking problem: against a well-constructed private equity index with lower returns and higher volatility, Evergreen funds appear to deliver persistent alpha, though much of this may be a byproduct of valuation smoothing and the impact of marking up recent secondaries purchases.

Part Two: Performance and Valuations

Table 3: Returns and Risk for PE Evergreen Funds

Fund	Inception Date	Inception* Returns	YTD June 30	One Year	Three Year	Volatility	Sharpe Ratio	Max Drawdown
Partners	Dec 2009	10.3%	4.2%	8.8%	8.4%	5.14%	1.23	-11.90%
Pantheon	Oct 2015	12.5%	5.1%	14.7%	12.3%	6.10%	1.94	-3.19%
Pomona	Jun 2018	15.1%	4.3%	9.2%	8.5%	8.74%	2.22	-8.67%
HL PAF	Sep 2020	16.7%	10.8%	16.5%	16.4%	5.50%	2.28	-1.56%
SPRIM	Oct 2020	21.1%	7.3%	14.1%	11.8%	9.15%	1.81	-1.74%
Cascade	Jan 2021	21.0%	11.6%	25.0%	21.5%	8.95%	1.76	-4.46%
NB	Jan 2021	7.7%	3.5%	7.6%	8.3%	3.36%	1.24	-2.29%
BPIF	Jun 2021	6.8%	6.6%	11.0%	10.3%	3.70%	1.69	-2.58%
Ares PMF	Apr 2022	14.3%	7.5%	12.2%	15.7%	7.33%	1.31	-0.71%
CAPM	Jan 2023	17.7%	9.9%	19.5%	--	4.75%	2.60	-1.15%
KKR PEC	May 2023	11.3%	6.8%	12.4%	--	2.30%	2.85	-0.13%
JPM PMF	Jul 2023	29.9%	6.6%	11.1%	--	5.07%	2.41	-0.51%
BXPE	Jan 2024	16.5%	8.1%	17.2%	--	1.87%	5.95	+0.50%
Coller	Jul 2024	21.6%	13.3%	22.2%	--	4.24%	4.67	+0.44%
Franklin	Dec 2024	21.5%	7.8%	--	--	nmf	nmf	+0.04%
P2000VW	Jun 2013	12.0%	-7.2%	-6.2%	-0.5%	17.8%	0.64	-12.6%

Source: SEC filings.

Note: Inception* returns are annualised, USD, and net of fees. All figures are to 30 June 2025.

We can assess the reasonableness of this by looking to the listed private equity investment trusts on the London Stock Exchange. In *What The Stock Market Can Teach Us About Private Equity* (Ennis and Rasmussen, 2025), the authors argue that listed investment trusts consistently trade at a discount to NAV and that volatility and correlation with listed equities are higher than when determined with NAVs.

There are ten London Stock Exchange (LSE) listed private equity investment trusts, with nine of the ten trusts trading at a material discount to NAV. These trusts provide very similar exposure as the current Evergreen products – underlying private equity funds, secondaries, and direct private equities. Three of the listed trusts – Partners Group (PEY.L), Pantheon (PIN.L) and Neuberger Berman (NBPE.L) have both SEC registered Evergreens and listed PE investment trusts with similar strategies and asset mix. In one market (listed), the assets are valued at a ~30% discount to NAV. In the other, the units are issued at NAV. The discount has persisted over time and widened since 2022.

Table 4 details the listed investment trusts and their price per share relative to NAV per share as of 30 June 2025 to align with the prior table. With the listed investment trusts, we can observe both the NAV volatility (as discussed above) and the price volatility. NAV volatility for the listed investment trusts is similar to levels observed for the Evergreen funds. This makes sense as both are relying on valuations from the same source – underlying GPs. The price volatility is dramatically higher, ranging from 19–23%. Combined with the large discount to NAV, it is clear that when these vehicles (and underlying assets) are tradeable in the market, the valuations and risk appear materially different than that obtained from the NAV market alone.

Part Two: Performance and Valuations

The lower volatility in the NAV market is connected to the valuation issue. Less frequent and smoothed valuations may give the investor the impression that the vehicles are low risk, with limited drawdowns.

Table 4: NAV Discounts and Volatility for PE Investment Trusts

Investment Trust	Ticker	Market Cap (GBP millions)	Price/Share (GBP)	NAV/Share (GBP)	Premium/Discount	NAV Volatility	Price Volatility
Pantheon	PIN.L	1,480	314.5	492.3	-36.1%	6.6%	22.7%
Partners Group	PEY.L	733	9.72	13.79	-29.5%	8.1%	19.1%
Neuberger Ber.	NBPE.L	654	1390.4	1952.2	-28.8%	10.2%	23.2%
HarbourVest	HVPE.L	2,040	2500	4103.8	-39.1%	10.1%	17.5%
Apax Alpha Plus	APAX.L	792	124.2	197.0	-40.0%	9.4%	20.8%
Oakley Capital	OCI.L	976	510.0	742.0	-31.3%	6.3%	19.1%
CT PE Trust	CTPE.L	340	467.2	673.0	-30.6%	15.9%	23.8%
Patria	PPET.L	824	558.0	790.3	-29.4%	15.0%	20.9%
ICG Enterprise	ICGT.L	885	1365.1	1983.6	-31.2%	13.9%	19.9%
HG Capital	HGT.L	2,280	515.0	531.0	-3.0%	10.7%	21.1%

Source: Bloomberg. As of 30 June 2025.

Note: Apax Alpha Plus acquired by Ares at 18% discount to NAV.

In the next section, we explore the valuation issue in more depth and then unpack the returns for two of these Evergreen funds – Carlyle AlpinVest and Franklin Lexington. As both funds have launched more recently with secondaries' focused strategies (and high returns), this will shed some light on how secondaries bolster reported returns.

What Underpins the Returns? A Closer Look at Valuations

Valuation methodology and disclosures are of central importance for Evergreen funds given units in the vehicle are offered to investors monthly, and in some cases, weekly or daily. Investors buy units in an Evergreen fund at the most recent NAV, rather than at a price determined in tradeable market. In most cases, unrealised gains contribute meaningfully to the NAV and reported returns of the Evergreen funds, requiring a good understanding of the valuation inputs. Unfortunately, much improvement is needed to help investors understand what they are buying, and at what valuation.

We start the discussion by looking at Fair Value guidance under US GAAP and IFRS, and how current practices permit funds to report short term unrealised gains from secondaries purchases. We then show the portion of the returns (gains) that are unrealised in Evergreen fund portfolios, stressing the importance of getting valuations right. While we are covering US filers covered by US GAAP, the issue remains similar for IFRS reporting entities.

The Financial Accounting Standards Board (FASB) codified fair value guidance in ASC 820, *Fair Value Measurement* (originally issued as SFAS 157 in 2006 and effective for many entities beginning in 2008). ASC 820 establishes a single framework for measuring fair value and introduces the three-level hierarchy of inputs (Levels I–III).

Part Two: Performance and Valuations

In 2009, FASB issued ASU 2009-12, which created the net asset value (NAV) practical expedient. This allows reporting entities, as a policy choice, to measure the fair value of investments in investment companies using the investee's reported NAV, provided that the NAV is calculated in a manner consistent with the measurement principles of ASC 946, *Financial Services – Investment Companies*. The expedient is generally applied when investments do not have a readily determinable fair value.

In 2015, FASB issued ASU 2015-07, which amended ASC 820 such that investments measured using the NAV practical expedient are no longer categorised within the Level I/II/III hierarchy. Instead, these amounts are disclosed separately, along with any unfunded commitments.

By comparison, IFRS 13, *Fair Value Measurement*, issued by the IASB (2011), provides a largely converged fair value framework. However, IFRS does not include an explicit NAV practical expedient. Instead, entities may use the investee fund's NAV as a starting point if it can be demonstrated to represent an exit price under IFRS 13. Unlike US GAAP, such investments must still be classified within the Level I/II/III hierarchy, with corresponding disclosure requirements.

The adoption of the NAV practical expedient has served to simplify reporting, reduce costs, and promote greater consistency across the market. At the same time, however, it can also result in stale valuations, limited transparency around valuation inputs, and potential conflicts of interest, since GPs retain significant discretion in determining those inputs. Importantly, these standards were established at a time when the secondary market for private equity was still nascent, with relatively little annual transaction volume. Concepts such as continuation vehicles or the institutionalisation of LP-led secondaries did not exist in any meaningful form. The current environment is markedly different: with the rapid growth of both LP-led and GP-led secondary transactions, the NAV expedient framework is now being applied in ways that can produce instantaneous write-ups of secondary purchases – so-called "one-day gains." Because Evergreen funds are particularly active participants in the secondaries market, these accounting outcomes have a direct and material impact on their reported results.

Figure 8: Hamilton Lane Private Asset Fund Fair Value Hierarchy

Assets	Level I	Level II*	Level III	Total
Investments				
Direct Credit.....	\$ —	\$ —	\$ 96,367,718	\$ 96,367,718
Direct Equity	—	—	280,240,958	280,240,958
Secondary Direct Equity	—	—	22,100,653	22,100,653
Short Term Investments.....	533,792,907	—	—	533,792,907
Total Investments.....	\$ 533,792,907	\$ —	\$ 398,709,329	\$ 932,502,236

* The Fund did not hold any Level II securities at March 31, 2025.

Certain portfolio investments fair valued using net asset value (or its equivalent) as a practical expedient are not included in the fair value hierarchy. As such, investments in securities with a fair value of \$2,999,268,268 are excluded from the fair value hierarchy as of March 31, 2025.

Source: Hamilton Lane Private Asset Fund FYE 2025 Annual Report

Part Two: Performance and Valuations

Figure 8 illustrates this dynamic using fair value hierarchy disclosures from an SEC-registered Evergreen vehicle. As of 31 March 2025, Hamilton Lane's Private Assets Fund reported \$3.93 billion in total investments. Of this, nearly \$3 billion relied on "NAV as a practical expedient," while less than \$400 million were classified as Level III assets. For holdings valued using the NAV expedient, investors have little to no visibility into the underlying inputs or valuation methodologies. Given that these positions represent the majority of the fund's NAV, investors are effectively relying on trust that reported figures reflect fair value. The concern is amplified by the fact that much of the fund's reported gains – like those of many Evergreen vehicles – remain unrealised, making it difficult to verify the true source and sustainability of returns.

Rapid expansion of Evergreen funds has meant that reported performance is driven largely by unrealised gains. For example, Hamilton Lane's Private Assets Fund has booked \$692 million in total gains since 2021, of which 78% are unrealised.

Looking across all 16 SEC-registered Evergreen funds, the weighted average share of gains that remain unrealised since 2021 is 69% – or 77% if Partners Group is excluded. Funds with longer operating histories, such as Partners Group, Pomona, and CPG Carlyle, report a higher proportion of realised gains. Yet even Pantheon, whose Evergreen fund dates back to 2015, has seen 82% of gains since 2021 come from unrealised marks, reflecting the pace of inflows and scaling.

Table 5 shows the breakdown of realised versus unrealised gains by vehicle since 31 March 2021. Among funds launched more recently, it is common for 90%+ of reported gains to be unrealised. This highlights the importance of valuation policies and disclosures.

The extent of valuation disclosure available to investors varies significantly by fund strategy. Figure 9 shows the proportion of private assets classified as Level III for each Evergreen vehicle. Direct-investment strategies – such as BlackRock PIF, KKR PEC, Blackstone BXPE, and, to a degree, Partners Group – invest primarily in deals sourced through their associated drawdown funds. As a result, these vehicles provide more transparency around valuation methods, including the use of EV/EBITDA multiples, EV/Revenue, WACC, and other approaches, along with the weighted average share of assets valued under each method. While investors do not receive granular portfolio company-level data, the level of disclosure is nonetheless higher than that offered by secondary-focused funds.

As we move down Figure 9, the strategies shift away from direct company investing towards LP secondaries, GP secondaries, and primaries. Evergreens with large weightings to these strategies rely almost exclusively on "NAV as a practical expedient", as we showed with the Hamilton Lane footnote. This means that the investor has limited or no information on how the investments are valued, and thus what valuation is implied when they buy units in a fund. We look at the valuation inputs for Level III assets across a number of direct focused Evergreen funds.

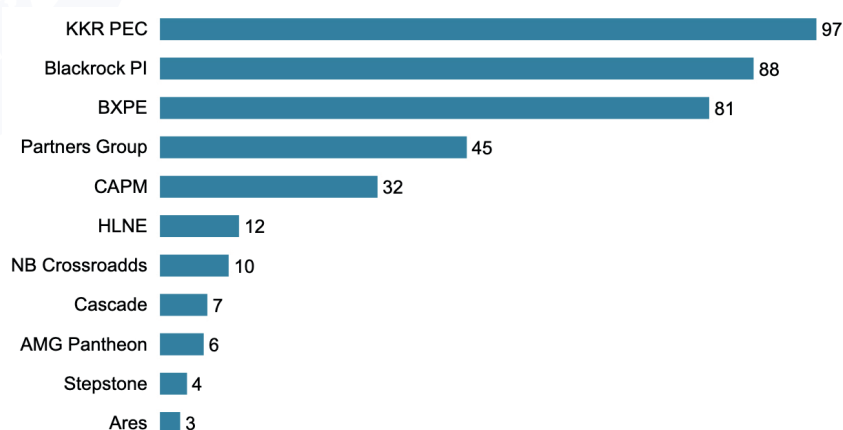
Part Two: Performance and Valuations

Table 5: Realised vs Unrealised Gains Since 2001 by Fund and Overall

Evergreen Fund	Realised USDm	Unrealised USDm	FX/Other USDm	Total Gains USDm	Unrealised % of Total Gains	Unrealised % of AUM
Partners Group	2,436	3,989	21	6,444	62%	26%
CPG Carlyle	355	155	(8)	501	31%	12%
Pantheon	221	853	(31)	1,044	82%	17%
Pomona	299	210	5	515	41%	10%
Hamilton Lane PAF	158	541	(7)	692	78%	15%
SPRIM	181	487	3	670	73%	11%
Cascade	18	607	(13)	612	99%	12%
NB Crossroads	6	203	0	209	97%	14%
BPIF	-1	38	3	40	94%	12%
Ares PMF	55	524	(10)	570	92%	20%
CAPM	13	290	(7)	297	98%	16%
KKR PEC	4	700	17	721	97%	13%
JPM PMF	6	116	--	122	95%	12%
BXPE	39	872	(11)	900	97%	12%
Coller	--	64	(2)	62	100%	11%
Franklin	1	107	(6)	102	99%	9%
ALL 16 Funds	3,741	8,031	(54)	11,718	69%	--
ALL 16 exc. Partners	1,306	4,043	(75)	5,274	77%	--

Source: SEC filings. To 31 March 2025.

Figure 9: Fair Value Hierarchy: Level III Assets as Percent of Total Assets



Source: Annual Reports filed with SEC.

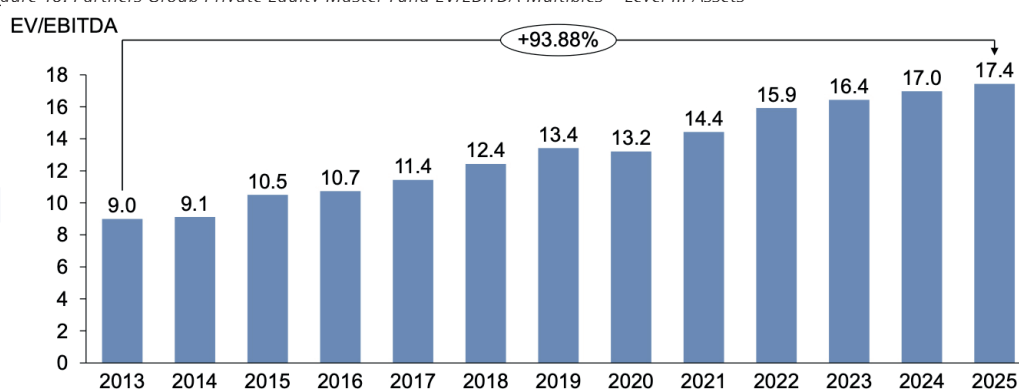
Note: Pomona, JPMorgan PMF, Coller, Franklin Lexington, CPG Carlyle all <1.5%.

Figure 10 details the disclosed valuation metric used predominantly by Partners Group for their large (~\$16 billion AUM) Partners Group Master Fund LLC, registered with the SEC. The valuations reflect a large percentage of their direct equity investments that are considered Level III assets for valuation purposes. For example, in FYE2025, the fund had total direct equity investments of ~\$8.6 billion, with ~\$6.8 billion of this total valued using an EV/EBITDA multiple. The weighted average multiple disclosed for FYE2025 was 17.43x. The total net assets of the fund at FYE2025 were \$15.8 billion, with the remaining assets made up of primary funds, secondaries, private credit, and other listed securities.

Part Two: Performance and Valuations

Figure 10 highlights how far valuation multiples have moved over the last 10+ years, from 9x EV/EBITDA in 2013 to 17.4x, nearly a doubling in the multiple. Despite the difficult exit activity, valuation multiples have remained high over the last three to four years. Investors buying into an Evergreen fund at NAV should understand what they are paying for the assets underpinning these funds. Even with the disclosures provided, the absence of detail on portfolio composition and operating performance makes it difficult to assess the basis for the valuation multiples applied.

Figure 10: Partners Group Private Equity Master Fund EV/EBITDA Multiples – Level III Assets

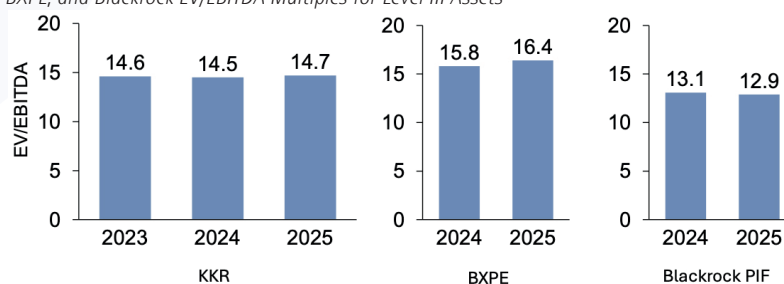


Source: Annual Reports filed with SEC.

Notes: March 31 FYE.

Figure 11 provides similar valuation multiples inputs for the three other Evergreen funds that have direct investing strategies. The figures show the EV/EBITDA multiples used since inception for these recently launched vehicles.

Figure 11: KKR PEC, BXPE, and Blackrock EV/EBITDA Multiples for Level III Assets



Source: Annual Reports filed with SEC

Turning to the secondaries' Evergreen funds, one does not get such disclosures on valuation inputs for the majority of the fund's assets. Combined with poor and confusing disclosures, it is challenging for an investor to understand what is driving returns. In the next section, we attempt to unpack the source of unrealised gains over time. For this, we will look more closely at the purchase of secondaries and how the quick mark-up can impact performance.

"One-Day Gains"

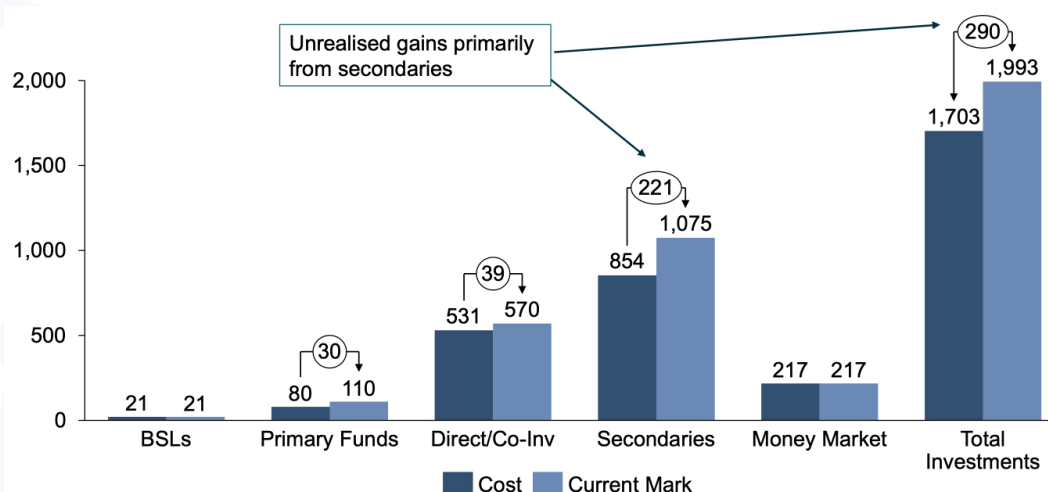
The use of NAV as a practical expedient may create an incentive for managers to pursue assets that can provide rapid unrealised gains. Secondaries purchases provide that opportunity in spades. We look at two Evergreen funds to explore this further, including Carlyle AlpinVest (CAPM) and Franklin Lexington Private Markets Fund.

Part Two: Performance and Valuations

Figure 12 shows the asset mix and cost versus carrying value of Carlyle AlpinVest's Evergreen fund as of 31 March 2025, its most recent fiscal year-end. The fund reported total investments with a cost basis of just over \$1.7 billion and a carrying value just under \$2 billion, resulting in \$290 million of unrealised gains. Secondary investments account for the majority of this figure, contributing \$221 million. We have tracked Carlyle AlpinVest's periodic filings and investment holdings since the fund's inception.

Secondaries represent approximately 50% of the cost base of the portfolio, but closer to 76% of the unrealised gains (221.2/290.3). Combined with primary funds, the two account for 251 million of the 290.3 million unrealised gains. Direct/co-investments, despite representing close to a third of the investment cost, account for just 13-14% of unrealised gains.

Figure 12: CAPM Cost and Carrying Value of Investments



Source: SEC filings and company website.

Note: As of 31 March 2025. Figures are in USD millions.

We analysed the unrealised gains within the secondaries portfolio across reporting periods to understand the extent to which these gains stem from the practice of purchasing interests at a discount and subsequently marking them up to the general partner's reported NAV, or other value.

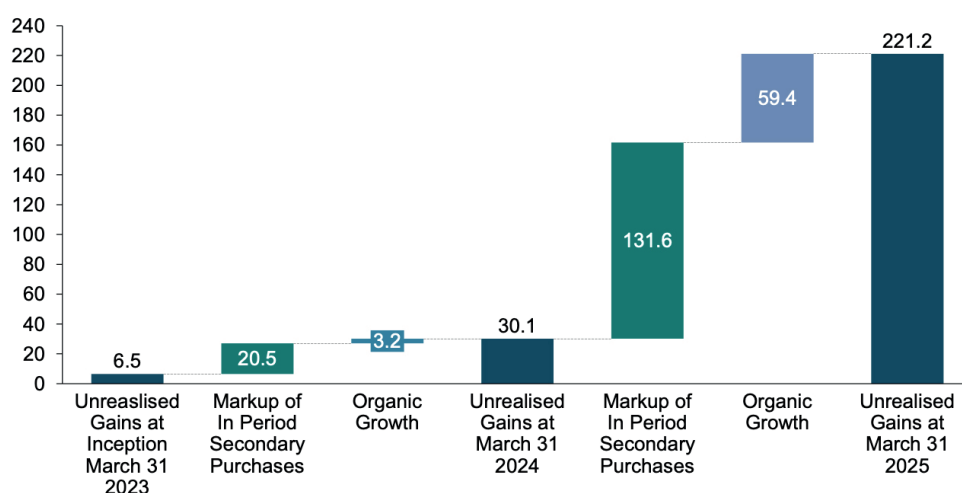
Figure 13 shows the progression of unrealised gains on secondary investments from the initial reporting date (31 March 2023) through 31 March 2025. With the exception of 30 June 2023, we were able to compile quarterly data on both cost and carrying value. This enabled us to identify, quarter by quarter, new secondary purchases by the Evergreen fund and the discounts at which they were acquired. We assumed that any holdings appearing in a given quarter that were absent in earlier reports represented new purchases, with the gap between cost and carrying value reflecting the implied discount. After the initial purchase and associated write-up, these assets were reclassified into the "organic" bucket, leaving only that quarter's newly acquired funds in the "Markup" bucket.

Figure 13 summarises annual results for the fund's secondary investments. At the initial reporting date (31 March 2023), unrealised gains stood at roughly \$6.5 million. By 31 March 2024, this had risen to \$30.1 million, with \$20.5 million of the increase attributable to new in-quarter secondary purchases. By fiscal year-end 2025, the balance of unrealised gains had surged to \$221 million – an

Part Two: Performance and Valuations

increase of \$190 million over the prior year – driven largely by \$131.6 million in gains from newly acquired secondary positions. Taken together, these purchases account for the bulk of unrealised gains reported by the secondaries portfolio to date.

Figure 13: CAPM Unrealised Gain Cadence of Secondaries Since Inception



Source: SEC filings and company website.

Note: Figures are in USD Millions.

We can look at the most recent quarter to show an example of how this looks in practice. Table 7 shows the secondary interests purchased in the most recent quarter to 31 March 2025. Eight investments were made in the month of March, five of which occurred on the last day of the month. The total investment cost was \$213.3 million and carrying value on 31 March 2025 was \$266.2 million, delivering a quick \$53 million gain. We do not express an opinion on the valuation change as there is not enough disclosure in the SEC filings to understand why such gains were possible.

The purchases in the quarter include three continuation vehicles, and five fund interests in Advent International funds.

Table 7: Secondary Purchases in the Most Recent Quarter

Secondary Purchase	Date of Purchase	Valuation Date	Deal Type	Cost USD million	Mark USD million	Discount
GA Continuity Fund II, L.P.	4/3/2025	31/3/2025	GP Led	68.2	95.7	28.8%
Bain Capital Beacon Holdings, L.P.	14/3/2025	31/3/2025	GP Led	88.9	87.3	-1.8%
CF24XB SCSp (Advent CV)	19/3/2025	31/3/2025	GP Led	30.0	55.4	45.8%
Advent International GPE X (2022)	31/3/2025	31/3/2025	LP Led	6.0	6.4	5.0%
Advent International GPE VIII (2016)	31/3/2025	31/3/2025	LP Led	2.9	3.2	6.2%
Advent International GPE IX (2019)	31/3/2025	31/3/2025	LP Led	12.0	12.4	3.3%
Advent Global Technology II (2021)	31/3/2025	31/3/2025	LP Led	3.1	3.3	5.8%
Advent Global Technology (2020)	31/3/2025	31/3/2025	LP Led	2.2	2.6	15.8%
Total				213.2	266.2	19.9%

Source: SEC filings and company website.

Notes: 1 January 2025 – 31 March 2025.

Part Two: Performance and Valuations

GA Continuity Fund II, L.P. (GA MACV) is a \$3 billion continuation vehicle raised by General Atlantic, a growth equity firm, to transfer four assets from its existing funds: EngageSmart, Squarespace, Sezane, and Gen II Fund Services¹⁰. For the Evergreen fund, the reported cost and fair value were \$68.2 million and \$95.7 million, respectively reflecting a sizeable gain on a purchase disclosed as 4 March 2025 (year-end 31 March). No explanation was provided for such a significant mark-up within the same month. Notably, Squarespace and EngageSmart had been sold in 2024, with General Atlantic retaining minority stakes, which we presume were the holdings moved into the continuation vehicle.

A second major position is Bain Capital Beacon Holdings, L.P. (Bain MACV), a multi-asset continuation vehicle created to consolidate five portfolio companies from Bain Capital's prior funds (X [2008], XI [2014], XII [2017], XIII [2021], and Europe IV [2015]). According to *Secondaries Investor*, the assets include US LBM (2020), Solenis, Bob's Discount Furniture (2013), QuVa Pharma (2015), and ExtraHop (2021). These positions were carried close to cost as of 31 March 2025.

The third continuation vehicle is CF24XB SCSp, established by Advent International for its portfolio company Xplor Technologies. Here, too, the mark-up was notable: an increase from \$30 million to \$55 million for an asset purchased as recently as 19 March 2025.

Across all three continuation vehicles, we observed significant allocations from '40 Act Evergreen funds. While much of the "one-day gain" discussion typically focuses on LP secondary purchases, in these cases, sizeable short-term unrealised gains were recorded in continuation funds.

Such mark-ups can materially influence reported returns and blur comparisons between Evergreens focused on secondaries and those pursuing direct deals. More importantly, the sustainability of this dynamic is questionable: the ability to generate gains of 25% within a single month is unlikely to be repeatable on a consistent basis.

The impact of in-quarter markups of asset prices can have a material impact on results. Figure 14 shows the annual change in net assets from operations (investment income minus expenses plus all gains) scaled by the average net assets for CAPM. For FYE 2024, this provided an 11.37% net return. By removing the impact of the in-quarter markups (from both the numerator and denominator), the returns drop close to 700bp to 4.39%. In FY2025, the impact was similar, with the one-year net return dropping from 18.69% to 7.45%. Often, a small number of these secondary purchases have a disproportionate impact on returns. An investor must first be aware of this impact, and second, ask whether this is sustainable.

Unrealised gains not only inflate reported performance but also drive incentive fee accruals. In FY2025, the CAPM Evergreen Fund paid \$13.2 million in management fees and \$23.9 million in incentive fees – underpinned largely by \$243 million in unrealised gains booked during the year. By contrast, realised gains amounted to only \$8.2 million for FY2025, and just \$13 million in total since the fund's inception in 2023. In effect, the advisor earned more in incentive fees for FYE2025 (\$23.9 million), than total realised gains (\$13 million) since the inception of the fund.

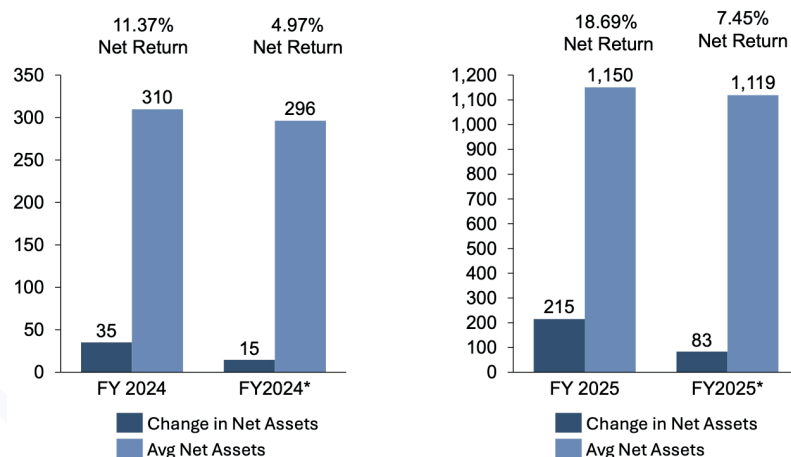
Consider the recently launched Franklin Lexington Private Markets Fund, which began operations on 20 December 2024. In its first annual report, filed for the period ending 31 March 2025, the fund disclosed more than \$1.1 billion in subscriptions, with capital allocated primarily to secondary

¹⁰ - HarbourVest leading \$3bn multi-asset CV from General Atlantic.

Part Two: Performance and Valuations

investments. The filing reported 44 secondary positions alongside six co-investments, all acquired in either late December 2024 or during the first quarter of 2025.

Figure 14: CAPM Return Estimates Without Secondary Discount Effect



Source: SEC filings and company website. EIPA calculations.

Note: Figures are in USD millions.

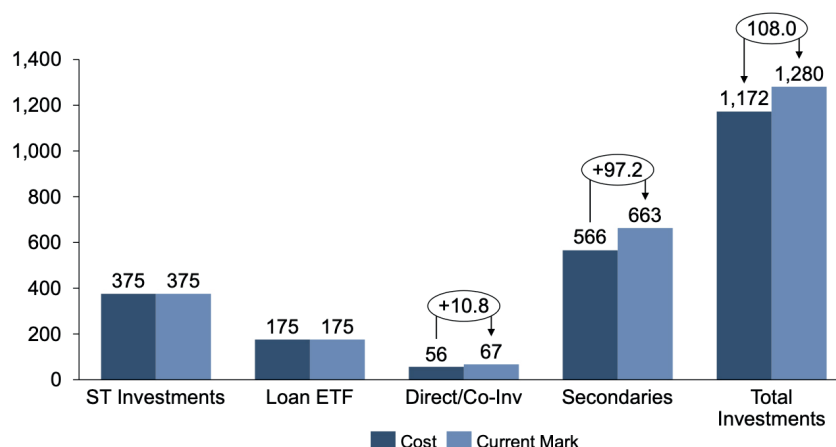
Despite the recent launch, the fund had over \$100 million of unrealised gains booked for the fiscal year end, allowing the advisor to report nearly \$11 million of incentive fees for the effort. The initial gains came from secondary interests acquired.

In total the fund paid \$565.7 million for 44 positions and carried them at \$662.9 million as of 31 March 2025. In other words, the weighted average price paid was just over 85% of value carried. The fund also completed co-investments for \$56.1 million, carrying them at \$66.9 million as of 31 March 2025 (83.9% of current value). Realised gains were less than \$1 million for the period.

Figure 15 shows the asset mix, cost, and current mark as of 31 March 2025.

Table 8 highlights several of the fund's largest positions, showing their cost, carrying value, and associated gains. Collectively, these holdings account for nearly half of the portfolio's unrealised gains – approximately \$50 million at fiscal year-end.

Figure 15: Franklin Lexington Private Markets Fund Investments



Source: SEC filings and company website.

Note: Figures are in USD millions.

Part Two: Performance and Valuations

Table 8. Franklin Lexington Private Markets Fund Investments

Secondary Purchase	Acquisition Date	Cost USD million	31 March 2025 USD million	Gain USD million	Discount
AEA Investors Fund VII	1/1/2025	\$27.73	\$34.27	\$6.54	19%
BAH Forefront	28/1/2025	\$45.14	\$54.76	\$9.62	18%
PSC IV	31/12/2024	\$43.51	\$54.90	\$11.39	21%
VIG PE Fund IV	31/12/2024	\$34.15	\$41.08	\$6.93	17%
Trinity Ventures 2024 LP	20/12/2024	\$18.32	\$23.67	\$5.35	23%
Castle Creek VIII Co.	27/12/2024	\$15.11	\$25.88	\$10.77	42%

Source: FY2025 Annual Report filed with SEC.

We look at a few of the recently purchased secondary assets in Franklin Lexington's fund. As most of these assets were acquired at the end of 2024, the current mark either reflects the purchase discount, or a very large annualised re-rating during the first quarter of 2025.

AEA Investors Fund VII is a 2019 vintage fund that appears to have struggled to return capital to date, consistent with funds of its vintage. According to PEI, as of 31 December 2024, the DPI was just 0.15x and TVPI 1.07x, with an IRR of 2.2%¹¹. This position was acquired for \$27.7 million in early 2025 and was carried at \$34.27 million as of 31 March 2025.

VIG Private Equity Fund IV is a Korean focused mid-market buyout firm. Despite Asian secondary assets trading at larger discounts (Evercore, Campbell Lutyens), this asset was acquired at similar prices to the other purchases and showed a big markup by 31 March.

Trinity Ventures 2024 LP is a multi-asset continuation vehicle¹² that was formed to recapitalise a group of portfolio companies from Trinity Ventures XI, a 2012 early-stage venture fund. Like Asian secondaries, venture funds trade at greater discounts to GP NAVs than buyout funds. Further, the fund is close to 13 years old, which seems rather old by any standard. These assets were acquired 20 December 2024, at a 23% 'discount' to the carrying value on 31 March 2025.

Finally, Castle Creek VIII is a co-investment fund that focuses on the community bank sector in the US. This asset was acquired at the end of 2024 at a 42% discount to its current carrying value. We are not sure how such a change is possible in a quarter and there is not enough disclosure in the financial statements to prove otherwise.

Unfortunately, like in our prior example, the annual filings with the SEC provide little detail to support the writing up of assets acquired at meaningful discounts to NAV. Moreover, one quirk of using NAV as a practical expedient is that all assets, regardless of quality, age, type, can be marked to NAV. This creates a perverse incentive to buy assets at a greater discount. This leads to:

- 1) higher returns that attract new capital; and
- 2) crystallised incentive fees that are not subject to a clawback.

This may raise the possibility that weaker assets are more likely to make their way into Evergreen funds.

¹¹ - PEI.

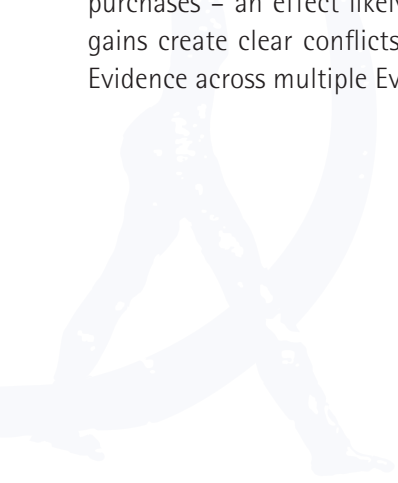
¹² - Trinity Ventures Announces Closing of \$435M Continuation.

Part Two: Performance and Valuations

Evergreen funds should be required to disclose the impact of in-quarter markups with clear, consistent definitions so that analysts and investors can assess their contribution to reported performance. Each reporting period, the fund should specify the share of unrealised gains attributable to new purchases and associated markups, while also providing additional detail to justify and support these rapid valuation adjustments. Existing disclosure often buries cost details in the footnotes, making it difficult to line up each investment's fair value and cost. Furthermore, collecting incentive fees on these 'accounting markups' seems highly inappropriate and ripe for abuse. Incentive fees exist to reward a manager for successfully exiting a deal with an attractive return, not taking a cut for marking up a recently acquired asset.

Summary

In a weaker private equity environment, Evergreen funds have reported strong returns with limited drawdowns and unusually low volatility. GP-reported NAVs may understate volatility and drawdowns, producing risk-adjusted results that look "too good to be true." Without improved valuation disclosures, investors face difficulties benchmarking Evergreen performance against private equity markets. A closer look reveals some of this performance is driven by the rapid markups of secondary purchases – an effect likely greater than most investors realise. Incentive fees paid on unrealised gains create clear conflicts of interest, rewarding managers without requiring actual realisations. Evidence across multiple Evergreen funds suggests this impact is widespread.



Part Three: Liquidity

Evergreens promise regular redemption windows, but the ability to deliver on this promise depends on inflows, distributions, and liquidity management. This section reviews cash flow dynamics and the risks of liquidity mismatches.

Liquidity: How Much Cushion is There?

One of the main attractions of Evergreen funds is that investors are not subject to ongoing capital calls. The liquidity and cash flow risks typically borne by LPs in drawdown funds are instead shifted to the Evergreen fund's advisor. Yet this structure introduces its own risks, as the fund's cash flows are largely outside the advisor's control. Subscriptions for new units, redemption requests, capital calls from underlying funds, and investment distributions all depend on market and investor behaviour.

As a result, the advisor must balance two competing objectives:

1. **Over-commitment** – to ensure the vehicle delivers full private equity exposure.
2. **Liquidity management** – to meet redemptions and capital calls, even if new subscriptions fall short.

Striking this balance is inherently delicate. To illustrate the challenge, we examine the cash flow dynamics of two vehicles: Partners Group Private Equity (Master) Fund LLC and the CPG Carlyle Commitments Fund.

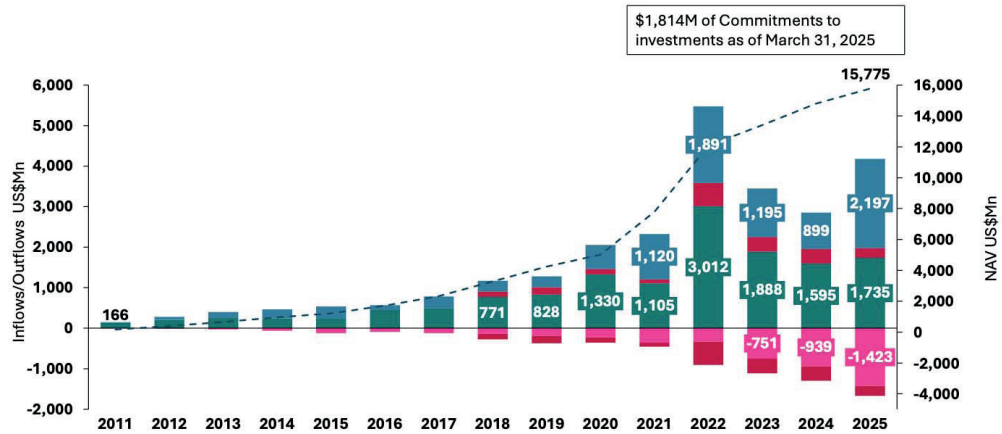
Figure 16 details the cash flows for Partners Group Master Fund LLC since 2011. This is the largest (\$15.8 billion) and longest standing of the major Evergreen Funds. The inflow/outflow of the fund are represented on the left Y axis, while the NAV is on the right Y-axis. Inflows (green) started to increase rapidly by 2019/20, reaching a high of \$3 billion in FYE 2022 (FYE 31 March 2022). Since that time, they have dropped back to \$1.6-1.7 billion. Distributions also fell substantially from 2021/22 levels but showed strong numbers in FYE 2025. Redemptions have been steadily increasing, reaching over \$1.4 billion in the latest year. The Dividend reinvestment program (DRIP) has meant that most of the payments to investors have been re-invested back into units. Outside of the inflows/outflows of the vehicle, there is on balance sheet safety in the form of liquid securities of \$1.3 billion and access to a credit facility. Despite increasing redemptions, the scale of the assets, distributions, and contributions still outpace redemptions by a wide margin.

Figure 17 shows the distribution rate by year. Here we look at the distribution rate as a percentage of net assets (red line) and the distribution rate* (blue line) by scaling distributions by private equity investments (direct, co-investments, secondaries). Distributions represent investment proceeds from underlying funds, or proceeds, from sales of portfolio companies. Evergreen vehicles are not immune from the slowdown in distributions as evidenced by Figure 17. For Partners Group, the rate fell from above 20% to a low of 8% in FYE 2024, before rebounding in FYE2025. Indeed, for FYE2024, redemptions of \$939 million exceeded investment distributions of \$899 million. In most other years, this coverage was much greater.

The distribution rate is a critical metric for assessing whether the 5% quarterly tender offers (equivalent to 20% annually) commonly provided by Evergreen funds are sustainable.

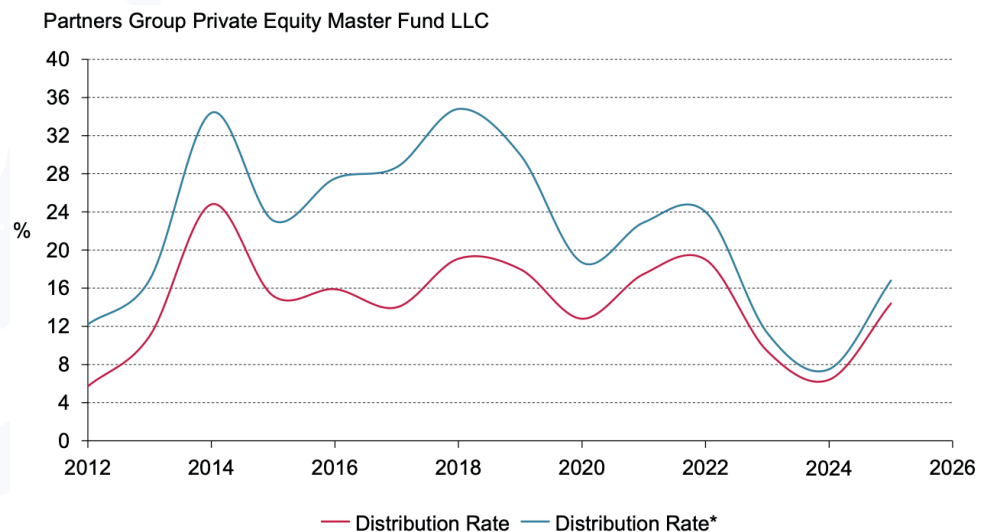
Part Three: Liquidity

Figure 16: Partners Group Private Equity Master Fund LLC Inflows/Outflows



Source: Annual Reports filed with SEC

Figure 17: Partners Group Private Equity Master Fund LLC Distribution Rate



Source: Annual Reports filed with SEC.

Note: Distribution Rate = investment distributions/average net assets. Distribution Rate* includes only private equity assets in the denominator.

But what does this situation look like if subscriptions for units level off? To answer, we look at CPG Carlyle Commitments Fund LLC. This fund was setup in 2014 by Central Park Group Advisors to invest in funds principally managed by The Carlyle Group. Macquarie Asset Management (MAM) purchased¹³ the advisor (Central Park Group (CPG)) in 2021 and is in the process of repositioning the strategy¹⁴ to broaden the exposure beyond Carlyle and to pursue more secondaries.

In this case, AUM growth has stalled and shows signs of decline by FYE 2025, with net assets falling to \$880 million from \$1.15 billion in FYE 2024. Subscriptions have steadily decreased over time, reaching only \$4 million in FYE 2025, while redemptions have risen and distributions from underlying investments have begun to taper off. During FY 2025, the fund also sold \$126 million of its fund investments, though the distribution figures include only proceeds from underlying assets (not fund interest sales proceeds).

13 - Macquarie buys CPG.

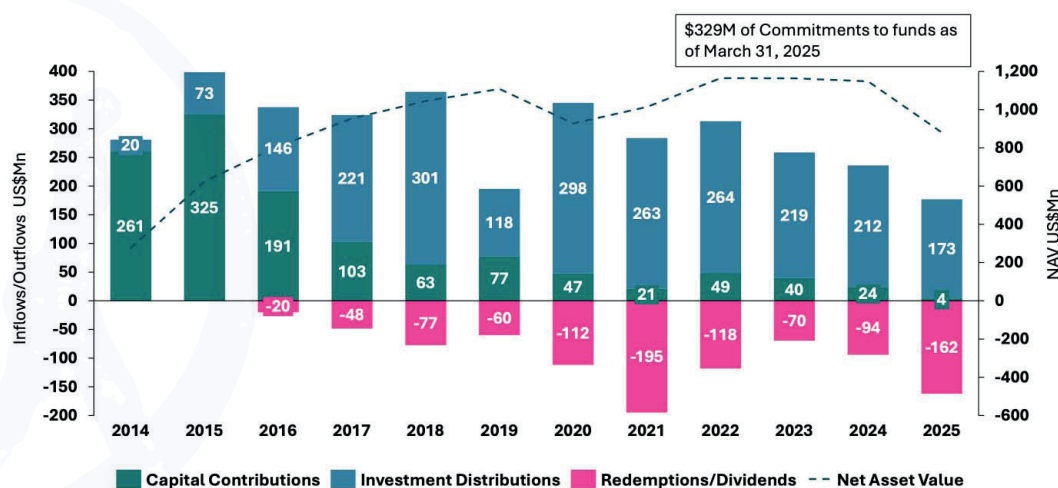
14 - 2025 Annual Report Discussion.

Part Three: Liquidity

With subscriptions drying up, the fund has relied on distributions to repurchase units and meet redemptions at NAV, rather than recycling capital back into new private equity investments. For non-redeeming unitholders, this does not enhance NAV and may even be detrimental, as redemptions are being honoured at NAV despite evidence that such units could trade at a discount in other markets (as shown earlier). While an Evergreen fund could choose to suspend redemptions to preserve capital, doing so risks sending a negative signal to investors.

Liquidity risk is most likely to manifest itself with declining fund subscriptions. As subscriptions wane, the risk in the structure becomes more apparent. Over-commitment (unfunded commitments), redemptions, and lower distributions all contribute to putting pressure on the Evergreen fund. A fund could find itself having to sell assets and/or halt redemptions. Further, it becomes a challenge to engage in accretive investments while facing liquidity challenges.

Figure 18: CPG Carlyle Commitments Fund LLC Fund Inflows/Outflows



Source: Annual Reports filed with SEC

Liquidity: Unfunded Commitments and Hidden Source of Leverage

Adding to liquidity pressures is the unfunded commitments made by the Evergreen fund. As part of buying secondaries portfolios, the Evergreen funds absorb future commitments for the underlying funds it has purchased. For CPG Carlyle, this figure was ~\$329 million as of 31 March 2025. This is a meaningful obligation for a fund with net assets of \$880 million and flatlining subscriptions. In effect, some of the distributions from the net assets will need to be used to meet capital calls. The SEC filings only disclose the absolute figure. There is no schedule of payments associated with the commitments figure, so it is not obvious how acute the problem is.

Liquidity: Can Distribution Rates Support 5% Quarterly Tender Offers?

Figure 19 shows the investment distribution rate¹⁵ for four funds that have a long enough history to be meaningful: Partners Group, Pomona Investment Fund, AMG Pantheon, and CPG Carlyle. For the funds that have launched since 2021, distribution rates are also low, but the results are noisy given the recent rapid scaling of assets.

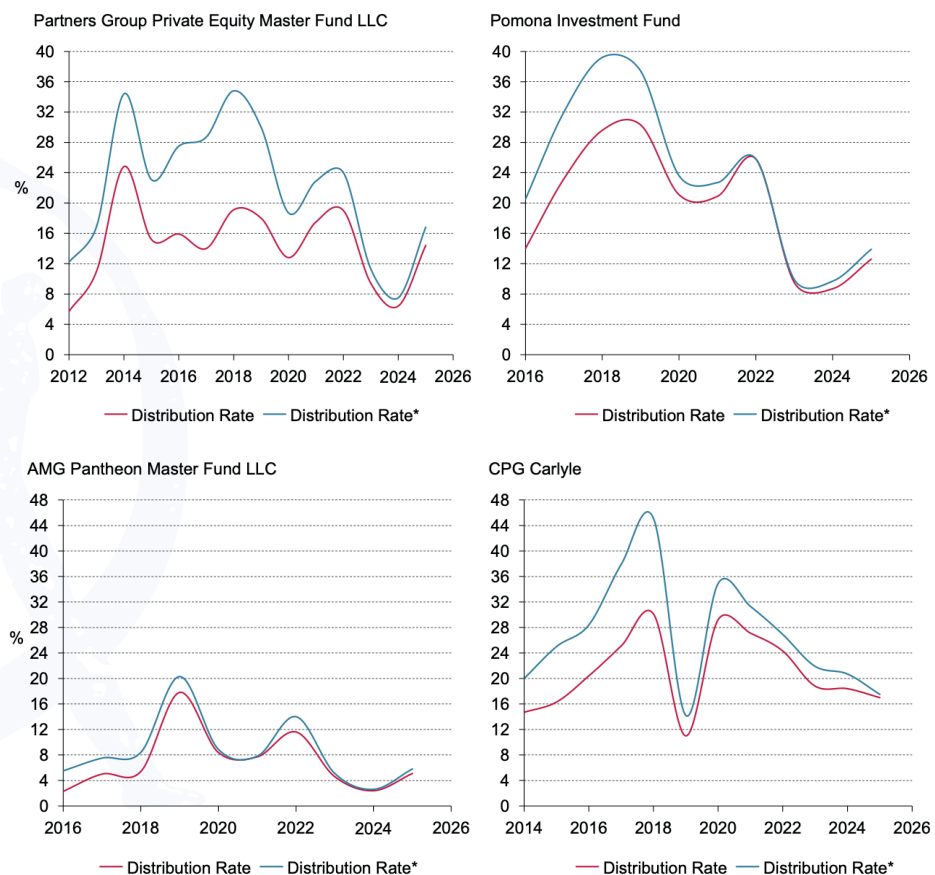
15 - Distribution rate = Proceeds from investment distributions or asset sales scaled by average Net Assets. Distribution* scales by average private equity assets.

Part Three: Liquidity

Distribution rates look a lot like the underlying private equity market, having declined meaningfully since 2021/22. Apart from Partners Group, the other funds have meaningful secondaries exposure yet still show distribution rates well below 20%. At these rates, the organic investment distributions would not support the 20% (5% quarterly) redemption.

Relying on new money coming in to manage all the demands on liquidity is dangerous. An investor should assume that in challenging periods, when liquidity is most valuable, it may not be available.

Figure 19: Investment Distribution Rates for Select Evergreen Funds



Source: Annual Reports filed with SEC.

In the institutional drawdown fund market, the distribution rate is a well-established metric and a key indicator of market health. For Evergreen funds, it should be an even more critical measure, given their promise of periodic redemptions. Yet this figure is not disclosed directly. Investors must parse cash flow statements to approximate it, and even then, reporting often leaves ambiguity – such as whether distributions exclude short-term investment activity or the proceeds from asset sales. Advisors should therefore publish a clear investment distribution rate, enabling investors to assess the sustainability of redemption policies.

Summary

Liquidity is a key selling point in Evergreen funds. While the structure removes capital calls for investors, it shifts cash flow risk to the manager, who must juggle redemptions, subscriptions, distributions, and unfunded commitments. In a period with enormous net subscriptions to the funds, the risks are masked, and it appears the vehicles can manage the various demand for funds. However, distribution rates across the universe remain too low to support the 5% quarterly tender offers, meaning liquidity often depends on new capital. This reliance can result in a vicious cycle: if subscriptions weaken, Evergreens may be forced into asset sales, redemption suspensions, or other measures that undermine investor confidence, exacerbating the issue.



Evergreen funds coexist alongside traditional closed-end funds, but their uncapped, perpetual structure raises questions of alignment and fairness. This section examines governance risks, deal allocation issues, and conflicts with institutional LPs.

Governance Challenges

The relationship between Evergreen funds and institutional limited partners has the potential to be explosive. The LPA is an important tool used to align the interests of the GP and LPs. Evergreen funds introduce potential complications in this alignment, since they invest in the same transactions as the closed-end vehicles. By design, an Evergreen fund is uncapped, meaning that the effective scale of the GP's capital pool can exceed the committed size of the closed-end fund. This dynamic may undermine negotiated size caps in the LPA, reducing the protections LPs believed they had secured.

In addition, Evergreen vehicles may participate as co-investors, effectively competing with institutional LPs for opportunities that those LPs view as central to their investment rationale. The presence of an Evergreen fund thus creates the possibility that the GP makes trade-offs across its investor base – leveraging the weaker terms of the Evergreen structure to erode some of the negotiated provisions of the LPA. Unsurprisingly, many LPs are likely to push back against or express discomfort with side-by-side investing by uncapped Evergreen vehicles.

On the other side of the coin, Evergreen Funds may be providing liquidity (bailing out?) to the institutional LPs, when traditional exit routes are inactive. As DC plans enter these Evergreen funds, it may bring scrutiny if it becomes apparent that DC plans are providing liquidity to DB plans, particularly, if they are paying higher prices than other market participants.

Deal allocation is another concern. Will the LPA have formal rules on how all deals will be allocated? Will the Evergreen fund invest in every deal at some prescribed percentage (e.g. 20%)? For those GPs that have both Secondaries drawdown funds and Evergreen Funds, there should be clear rules on how deals are allocated. Those rules should be available not just to LPs but also Evergreen funds investors. There should not be a situation where an Evergreen fund makes a large secondary purchase with dozens of assets, allocating assets of different quality among the vehicles. This could allow the fund to do deals it may otherwise not, if able to syndicate unwanted assets to another vehicle.

Continuation vehicles present other challenges. The paper documented examples of multi asset continuation vehicles for assets that were sometimes already held for 10+ years in the GPs funds. Further, we covered examples where the majority stake of an asset was sold, with the prior fund maintaining a minority position. This minority position was then moved to a continuation vehicle. This is a weaker position than the former control positions, with timing in the hands of other investors. These assets and positions may not be easy to liquidate.

Conclusion

The rapid growth of private equity Evergreen funds underscores both the demand for broader access to private markets and the industry's ability to innovate to address an industry wide liquidity drought. Private Equity Evergreens have grown from niche products to a significant segment of semi-liquid private markets, attracting institutions, retail, high-net-worth, and potentially, defined contribution investors. Their appeal is clear: simplified access, broad private equity exposure, and the promise of some degree of liquidity in an asset class long defined by illiquidity.

Yet, as this paper has shown, the model introduces a number of tensions. Heavy reliance on secondaries and the use of NAV as a practical expedient create the appearance of strong, low-volatility returns, often driven by unrealised gains and in-quarter write-ups. There is a long history of blowups for investment products that promise the impossible – high returns and low volatility. Fee structures that crystallise on unrealised gains risk misalignment between managers and investors, while liquidity management challenges expose investors to structure risks that could impair unit values.

Existing valuation practices make benchmarking returns a challenge. Returns comprised of stale NAVs or bolstered by periodic writeup of assets acquired at a discount tend to overstate risk adjusted performance relative to a private equities benchmark. Furthermore, it is unlikely an individual investor or DC participant will understand how returns are achieved in these funds. Comparisons with listed private equity trusts highlights the gap between reported fund valuations and market-based pricing, raising further questions about whether GPs valuations reflect the true mark, and the risk of the assets.

Eliminating the incentive fee on unrealised gains would go a long way to aligning interests. Evergreen funds have adopted "hedge fund" like fee structures without the same liquidity. It would make more sense to structure it as a long-term incentive plan, with vesting rules, time and performance based, where payouts take place only if long term value creation has occurred. By allowing incentive fees on unrealised gains, assets could sit in Evergreen vehicles indefinitely, supported by dubious valuation practices, and enriching the Advisor.

The relationship between Evergreen funds and institutional LPs is a real concern. Institutional LPs fear losing some of the protections they negotiate in Limited Partnership Agreements. Caps on fund sizes and allocation of deals are top of mind. An uncapped Evergreen fund co-investing with a hard capped drawdown fund, effectively uncaps the overall pool of capital. GPs may find themselves having to make concessions to one or the other. If an Evergreen fund were to lose access to deals, pay higher fees for co-investments, or face changing secondary market activity, the model may be impaired.

The future of Evergreens will be shaped by how these issues are addressed. Greater disclosures around valuation practices and inputs will go a long way to resolving the issues identified with returns and risk. As Evergreens expand into regulated pension channels and represent a larger share of private capital inflows, scrutiny from investors and regulators will only intensify.

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