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The Brief Case on Liquidity in Evergreen Private Market Funds

For many investors, liquidity is one of the defining differences between public and private markets. Understanding how it works in private equity, particularly in evergreen structures, is critical to setting expectations around access, liquidity, and performance. While evergreen funds offer a more flexible model than traditional closed-end vehicles, they are designed with specific safeguards to balance liquidity with long-term investment discipline.

UNDERSTANDING EVERGREEN LIQUIDITY MECHANICS

Evergreen funds provide long-term exposure to private markets with the potential for periodic liquidity. These funds are typically perpetual in nature, offering rolling subscriptions and redemptions (often monthly or quarterly) rather than following a defined investment and harvest cycle. However, the liquidity they offer is intentionally limited and managed differently than in public vehicles.

Unlike traditional closed-end private equity funds, evergreen structures are generally funded fully from the outset. Investors fund their capital at subscription, and the general partner manages cash flows within the vehicle. This design provides continuous exposure to private markets and allows managers to oversee inflows, outflows, and liquidity needs directly.

IN EVERGREEN STRUCTURES:

Capital is accepted on a rolling basis. Investors can subscribe periodically at NAV based on internal portfolio valuations.

Redemptions are periodic and capped. Most evergreen funds offer quarterly redemptions with 30–90 days' notice, typically limited to 2.5–5% of NAV per period.

Liquidity is managed through cash reserves, portfolio realizations, and new subscriptions, often supported by a liquidity sleeve (discussed in greater detail below).

Discretionary limits may apply. Managers may defer or limit redemptions in periods of market stress to protect the long-term value of the fund.

These structural elements are fundamental to how evergreen funds balance investor access with private equity's long-duration investment profile.

THE ROLE OF THE LIQUIDITY SLEEVE

To meet redemption requests without disrupting long-term investment strategies, evergreen managers often maintain a liquidity sleeve—a reserve of cash or liquid assets. These reserves are typically funded by new subscriptions, retained cash flows, or realized proceeds from exited investments.

Liquidity sleeves help buffer redemption activity during normal market conditions, but they are not unlimited. Redemption capacity remains subject to fund terms, and sleeves are not intended to support daily liquidity. During periods of elevated redemptions or market volatility, sleeves are used in conjunction with other fund-level tools such as advance notice requirements and discretionary gates.

HOW LIQUIDITY WORKS IN EVERGREEN PRODUCTS

Investors who are familiar with mutual funds and public markets often find it helpful to learn how liquidity works differently in evergreen private market funds. Clarifying the following distinctions is important when evaluating fund design and setting portfolio expectations.

Evergreen funds are not daily-liquid vehicles.
Although they offer more flexible access than closed-end drawdown funds, evergreen vehicles do not provide same-day or daily liquidity. Redemptions depend on fund-specific constraints, including liquidity reserves and recent portfolio realizations.

Redemption limits reflect investing discipline.
Quarterly redemption caps, typically set at 2.5% to 5% of NAV, are built into the fund structure to align investor pacing with portfolio capacity. These features support stable capital deployment and reduce the risk of asset fire sales.

Redemption gates are designed to be safeguards for investors.
Gates are procedural tools designed to manage redemption activity during periods of elevated volatility or market dislocation. When applied, they typically delay, rather than deny, investor access. Gates operate as a liquidity management mechanism intended to prevent redemption imbalances that could lead to forced asset sales, thereby promoting stability and the sustained realization of long-term value.

REAL-WORLD EXAMPLES OF EVERGREEN LIQUIDITY MANAGEMENT

Historical examples provide insight into how evergreen structures have operated under stress.

2020

Redemptions and gating during COVID-19.
During the onset of the COVID-19 pandemic, several evergreen funds implemented temporary redemption gates—not due to distress, but to avoid liquidating quality assets in a dislocated market. Redemption queues were fulfilled in subsequent quarters, and funds preserved the long-term integrity of their portfolios.

2022

Liquidity sleeves in tighter financial conditions.
As interest rates rose and financial conditions tightened in 2022, several evergreen funds experienced increased redemption activity. Those with well-managed liquidity sleeves and cash buffers were able to meet requests without triggering gates or divesting assets at inopportune times. These cases underscore the value of disciplined liquidity planning.

Unlike public strategies, evergreen funds are not subject to daily outflows. This stability allows managers to take a patient, value-focused approach: holding assets through cycles, avoiding forced sales, and deploying capital opportunistically.

While some evergreen funds may be priced daily, the private companies comprising their portfolios are not typically priced by the market on a daily basis, which may result in more stable portfolio valuations. This dynamic reinforces a long-term investment mindset and can reduce reactionary behavior. By accepting limited liquidity, investors may gain exposure to opportunities—such as operational turnarounds or growth strategies—that take time to realize but may offer attractive return potential over the long term.

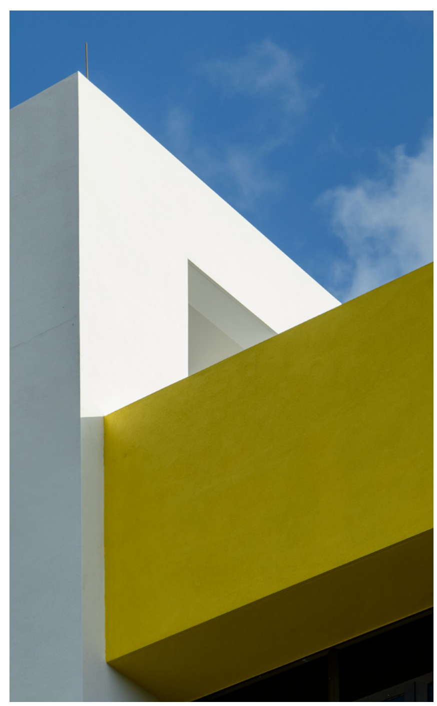
PUTTING IT TOGETHER

Evergreen private equity funds offer a way to access long-term strategies while retaining the option for periodic liquidity. While they are not daily-liquid vehicles, they are designed with tools—such as redemption caps, notice periods, liquidity sleeves, and gates—that support orderly investor access while protecting the integrity of the investment strategy.

Understanding these features is essential for portfolio construction. When combined thoughtfully with other investment strategies, evergreen funds can play a valuable role in balancing long-term return potential with the need for periodic access.

KEY TAKEAWAYS

- *Evergreen funds provide periodic liquidity through structures designed for long-term investing.*
- *Redemption tools—such as capacity limits, notice periods, liquidity sleeves, and gates—are designed as structural safeguards that support portfolio stability.*
- *Accepting limited liquidity may enable a more disciplined investment approach aligned with long-term goals.*



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