

# PRIVATE MARKETS PERSPECTIVES

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## How Evergreen solutions solve the liquidity challenge

Private markets are becoming increasingly accessible to institutional investors and wealth investors through semi liquid Evergreen funds. These vehicles offer regular subscription and redemption opportunities, bringing a level of flexibility traditionally absent from private assets. Yet the underlying investments remain long-term and inherently illiquid. How can a fund offer periodic liquidity while investing in assets designed to be held for years?

At first glance, private market assets seem fundamentally illiquid. Private equity investments may take years before generating distributions, and the timing of these exits often depends on broader market conditions such as the strength of the mergers and acquisitions market or the availability of financing.

Cash flows are also uneven. Capital calls occur when managers identify investment opportunities, while distributions arrive only when underlying assets are sold or refinanced. This creates a cash flow profile that differs significantly from that of listed securities.

At the same time, there are differences across private market segments. While private credit strategies often generate predictable income through interest payments, private equity returns tend to be more concentrated and event-driven, often linked to specific exit events.

The Evergreen model introduces a notable change in the private market framework. Unlike traditional closed-end private funds, evergreen structures operate with continuous inflows and outflows. Investors can subscribe on an ongoing basis and request redemptions within predefined windows, typically monthly or quarterly. Portfolio valuations are updated regularly through a Net Asset Value (NAV) process.

This model therefore requires careful alignment between the liquidity profile of the underlying assets and the redemption features offered to investors. Managing this balance is a core responsibility of the general partner. It requires combining commercial attractiveness with disciplined liquidity management.

### The importance of liquidity management

Maintaining stability in an Evergreen structure relies on several complementary mechanisms that allow managers to anticipate and manage liquidity needs.

The first pillar is the management of liquidity buffers and credit facilities. Funds typically maintain a cash reserve that allows them to meet short-term redemption requests or capital calls without forcing asset sales. The liquidity pocket generally ranges from 5% to 15% (sometimes up to 30%) of fund assets, depending on the strategy.

Determining the optimal size of this buffer requires careful calibration. Too little liquidity increases risk, while excessive cash reduces cash at work, investment exposure and may weigh on performance.

Many funds complement this buffer with subscription credit facilities. These credit lines allow managers to bridge temporary liquidity needs, smooth operational flows, and reduce delays between subscriptions, investments, and redemptions. Their use still requires discipline, as borrowing introduces financing costs and increases leverage within the structure.

A second pillar lies in investment pacing. Evergreen portfolios are usually built progressively across multiple vintages, meaning investments are made over time rather than concentrated in a single period. This diversification by vintage helps smooth the timing of future distributions. The ramp-up period of an Evergreen fund (particularly during the first year) is crucial. The ability to deploy capital swiftly, while maintaining selectivity, is essential. Investing in assets that can generate short-term performance, such as secondaries, is particularly well-suited during this phase. Additionally, deployment into strategies that will create value over time ensures a balanced approach, supporting both near-term results and long-term portfolio growth.

Managers must also reinvest distributions efficiently to maintain the target exposure to private assets. Without this discipline, the portfolio could gradually accumulate excess liquidity, reducing its ability to generate long-term returns. Investment pacing must also remain aligned with subscription flows, ensuring that capital deployment evolves in line with the fund's growth.

### A balancing act

Evergreen funds typically offer periodic redemption opportunities combined with notice periods that allow managers to anticipate liquidity needs. These redemption windows are an essential feature of the structure, providing investors with a degree of flexibility that traditional private funds do not offer. Redemptions are usually permitted up to 5% of the fund's NAV per period, following an initial lock-up period. This mechanism balances investor liquidity with the fund's ability to manage its portfolio efficiently.

To ensure that redemption activity does not destabilise the portfolio, several protection mechanisms can be implemented. Redemption gates limit the proportion of the fund that can be redeemed during a given period, typically capping withdrawals at a set percentage of NAV (e.g., 5%). This mechanism protects portfolio stability by preventing forced asset sales and ensures fair treatment of remaining investors. If redemption requests exceed the gate, they are fulfilled pro-rata, with excess requests deferred to the next window, allowing managers to maintain orderly liquidity management. Swing pricing allows the net asset value to be adjusted temporarily when subscription or redemption flows become unusually large, ensuring that transaction costs are borne by entering or exiting investors rather than by remaining investors. Queueing systems may also be used when redemption requests exceed the available liquidity.

Equally important is the robustness of the valuation process. Since subscriptions and redemptions occur at the fund's net asset value, the NAV must provide a fair representation of the portfolio's underlying value. In periods of market volatility, prudence in valuation becomes particularly important.

Valuation discipline, however, is only one component of a broader liquidity framework. Evergreen strategies are designed to remain resilient in adverse market environments. Stress testing plays a central role in this process.

Managers typically model scenarios in which redemption requests increase while portfolio distributions decline. Such situations may occur during economic slowdowns, when exit markets become less active and investors simultaneously seek additional liquidity.

To monitor these risks, managers track several indicators. Liquidity coverage ratios measure the fund's ability to meet redemption requests with available resources. Detailed cash flow forecasts help anticipate future capital movements, while asset liability analysis assesses the degree of mismatch between portfolio liquidity and investor redemption rights.

## The sources of liquidity

One of the most effective sources of liquidity comes from the portfolio itself. Mature private market investments generate distributions that naturally replenish the fund's liquidity. Next, private credit strategies contribute regular coupon payments, which can support redemption activity without requiring asset sales. Finally, mature private equity investments, particularly those acquired through secondary transactions, can also generate earlier distributions. Managers may also sell selected positions in the secondary market to release liquidity and adjust exposures. Dynamic allocation across private equity, private credit and infrastructure strategies also helps maintain a stable liquidity profile over time.

The regulatory environment further reinforces these practices. The evolution of the European Long-Term Investment Fund (ELTIF) framework in Europe has facilitated the development of semi liquid private market structures while strengthening governance standards and liquidity risk management requirements.

## Liquidity management as a defining capability

As private markets expand within wealth portfolios, semi liquid Evergreen funds are likely to become a central access point for investors seeking diversification beyond listed markets. Their success, however, depends on the discipline with which liquidity is managed.

Managers that combine disciplined cash buffers, careful investment pacing, robust valuation practices, and comprehensive risk monitoring can build Evergreen strategies that remain stable through different market environments. This makes liquidity management a key capability that differentiates private market platforms and underpins the long-term credibility of the Evergreen model.



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