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The Carlyle Compass

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*Welcome back to **The Carlyle Compass**, your weekly newsletter that brings together the latest research and market insights from our global team. This week's edition features guest authors Ruulke Bagijn, Global Head of Investment Solutions for Carlyle & Head of AlpInvest, and Peter Cornelius, Chief Economist at AlpInvest. Received this email as a forward? Subscribe here.*

Evergreen Funds as a Semi-liquid Strategy to Access Private Capital for Non-institutional Investors

Private Equity has been one of the fastest growing asset classes in recent decades. In 2024, AUM of private equity funds totaled $11.5 trillion worldwide (unrealized value and unfunded commitments), implying a CAGR

of 12% since 2000 (Preqin, accessed 3/10/25). This growth has been driven mainly by larger investment by institutional investors, such as pension plans, insurance companies, sovereign wealth funds, foundations and endowments. While we expect private equity to continue to grow rapidly, we believe that private wealth will become the main growth engine as many institutional investors have reached their target exposure to private equity (a growth scenario is outlined in our recent whitepaper, *Private Equity as an Asset Class: A Medium-Term Outlook*.) In this Compass, we discuss the emergence of evergreen funds as a major innovation fueling the growing importance of private wealth as a source of private equity.

Traditional Closed-End Funds

Traditionally, private equity has been intermediated by vehicles, which are mostly structured as limited partnerships that are closed-end vehicles with a standard life of ten years and a possible extension of up to two years. In these structures, capital is raised from investors and invested in privately held companies or publicly listed companies that are taken private. The Limited Partners (LPs) in a private equity fund make capital commitments that can be drawn down at the discretion of the fund managers, who act as the general partners (GPs). These draw-downs (or capital calls) are used to acquire portfolio companies, which are managed and ultimately sold by the fund. The returns that the LPs receive result from the difference between the acquisition cost of the portfolio companies and the sales price as well as any dividend paid during the holding period, which is usually several years. Several research studies have found that private equity has consistently outperformed public markets. For example, Gompers and Kaplan report that the median U.S. buyout and growth capital fund has outperformed the S&P 500 in 25 vintage years of the 27 vintage years between 1995 and 2021. On an annualized basis, the authors show an outperformance of almost 5% (direct alpha)[1]. Arguably, the consistent outperformance of private equity has been a main factor behind investors' decision to seek greater exposure to this asset class.

However, the structure of closed-end funds renders private equity investments largely illiquid and de facto limit the LP base to institutional investors, whose liability structures allow them to make long-term investments. Apart from a few ultra-high-net-worth individuals, private investors are usually unable to lock in capital for a prolonged period of time. Another hurdle, often insurmountable for private investors, is the high minimum investment in closed-end funds, which may be a few hundred thousand U.S. dollars, and in some cases, as much as a few million dollars.

Emergence of Evergreen Funds

A major innovation whose impact is becoming increasingly visible is the emergence of new fund structures that aim to make private equity more easily accessible to private investors (often called retail investors). These investors are drawn to private equity's attractive returns but are usually discouraged by the asset class's liquidity characteristics and high minimum investment thresholds. These investors may find evergreen funds a better option to access private equity as an asset class. Further, in the U.S., tax reporting is provided through a Form 1099, rather than the more complicated Schedule K-1 typically associated with private equity.

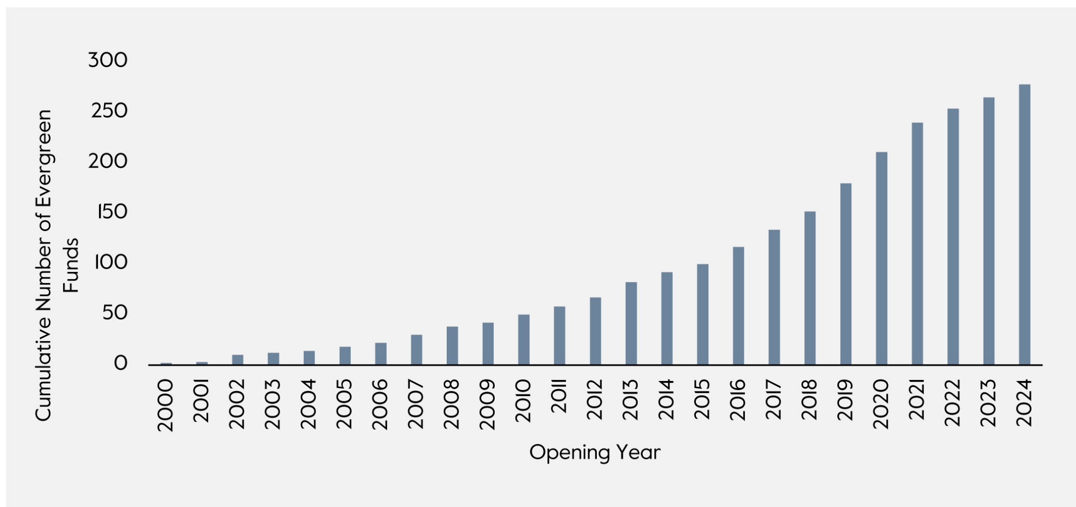
While the structure of an evergreen fund is similar to a traditional private equity fund in that it pools capital from multiple investors to invest in a diversified pool of private companies, there are some important differences. As their name suggests, evergreen funds are open-ended, with a perpetual lifespan. Capital is deployed immediately, with no multi-year commitment period. Importantly, investors may redeem part of their capital, usually on a quarterly basis. Therefore, evergreen funds are often described as semi-liquid investment vehicles. Another feature that helps broaden private equity's investor base is significantly lower minimum capital contributions, which often start as low as US $25,000. Capital contributions can usually be made periodically, monthly or quarterly, similar to redemptions. From a fund manager's perspective, cash management is an important consideration in an evergreen vs. closed-end structure as the manager will need to balance flows into and out of the fund in due consideration of the fund's liquidity terms.

Market Growth

The structuring of evergreen funds varies across different regulatory regimes. In the U.S., opening private equity to retail investors has concentrated on '40 Act Funds that are pooled investment vehicles offered by a registered investment company (RIC). Another important development has been the emergence of private, continuously offered evergreen funds that rely on 3(c)(7) exemptions. These funds are unregistered, feature periodic redemptions, and are available exclusively to qualified purchasers, allowing for greater investment flexibility while maintaining private fund status. At the end of 2024, there were 278 evergreen funds in the U.S. market that focused on buyouts (Figure 1). Additionally, approximately 130 U.S.-based evergreen funds pursue other private equity investment strategies. (Pitchbook, accessed 3/10/25). These evergreen buyout funds were opened between 2000 and

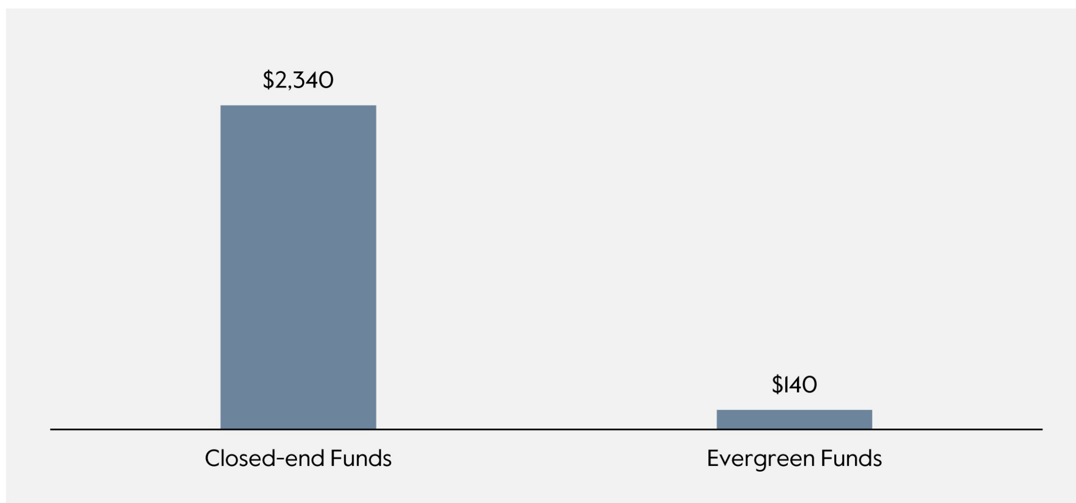
2024, with most after the Global Financial Crisis (Figure 1). Over time, the growth in the market for evergreen structures has accelerated meaningfully. In 2024, 12 new buyout evergreen funds were opened in the U.S., with the largest of them having raised almost $5 billion in its first 15 months of existence (January 2024 to March 2025). Overall, buyout evergreen funds that were opened between 2000 and 2024 currently (as of 3/10/25) manage assets totaling approximately $140 billion (Figure 2). By comparison, 2000–2024 vintages of closed-end funds targeting buyout in the U.S. held AUM (unrealized value and undrawn commitments) of around $2.3 trillion, mostly from institutional investors.

Figure 1: Cumulative Number of U.S. Evergreen Funds Targeting Buyouts Since 2000



Source: Carlyle Analysis; Preqin, March 10, 2025. There is no guarantee any trends will continue.

Figure 2: Assets Under Management of U.S. Buyout Funds (Traditional Closed-End Funds, Vintage Years 2000-2024) Versus Evergreen Funds (Opening Years 2000-2024), US$B



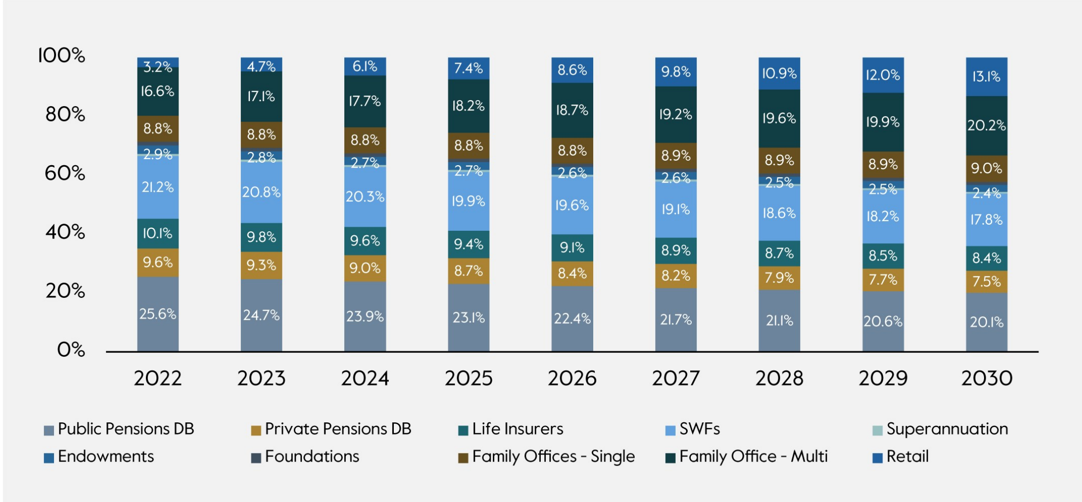
Source: Carlyle Analysis; Preqin, Pitchbook, March 10, 2025. There is no guarantee any trends will continue.

In Europe, evergreen private equity funds are generally structured as a Société d'Investissement à Capital Variable (SICAV). These open-ended investment structures are publicly traded and are similar to open-ended mutual funds in the U.S. Shares in the funds are sold and bought based on the fund's current net asset value. In 2024, there were 80 evergreen funds; the earliest had opened in 2000. While these vehicles have raised less capital than their peers in the U.S., their role in intermediating private capital has also grown meaningfully in recent years. Importantly, this sample does not include European Long-term Investment Funds (ELTIFs), which have typically been structured as closed-end funds, with recent updates to the regulations allowing for open-ended structures with limited liquidity as well.

Private Wealth as Private Equity Future Growth Engine

We do not expect evergreen structures to replace closed-end funds. Rather, we believe that these different types of investment vehicles will co-exist, serving different groups of investors. However, with many institutional investors having reached or getting close to their target allocation, we think that private wealth will become a major source of capital for private equity. Evergreen structures therefore represent a major innovation in intermediating private capital, accompanied by other efforts to make it easier for retail investors to invest in private equity and other illiquid asset classes. Some of these efforts have been based on fintech, including the tokenization of assets. While retail investors are estimated to have accounted for approximately 3.2% of global private equity assets under management in 2022, our medium growth scenario suggests that under plausible assumptions, their share could rise to around 13% by 2030 (Figure 3). We believe that this expected shift in private equity's investor base could help sustain the asset class's growth trajectory, with its global AUM reaching $16 trillion by the end of this decade.

Figure 3: Private Wealth Expected to Drive Future Increase in Private Equity Assets



Source: Carlyle Analysis; AlpInvest Partners, Private Equity as an Asset Class: A Medium-Term Outlook, April 2024. There is no guarantee any trends will continue.

Overall, we welcome that private investors enjoy easier access to private equity, as investing in the asset class may help enhance the returns of their overall investment portfolios. The increased capital supply is met by robust demand for patient capital for company restructurings and expansions. Thus, we don’t see any evidence of declining returns due to larger inflows into private equity. As Brown and Kaplan show, private equity's attractive performance has persisted over time, both in absolute terms and relative to public markets[2]. Instead, we believe that private wealth channeled into private equity could bring about positive macroeconomic effects in terms of economic growth and job creation.

[1] Gompers, P.G. and S.N. Kaplan (2022). Advanced Introduction to Private Equity. Cheltenham & Northhampton: Edward Elgar Publishing.

[2] Brown, G. & S.N. Kaplan (2019). “Have Private Equity Returns Really Declined?” Journal of Private Equity 22, No. 4, pp. 11–18.

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