MACFARLANES

Private Capital Solutions

Evergreen fund models

Comparative analysis

February 2025

Read on

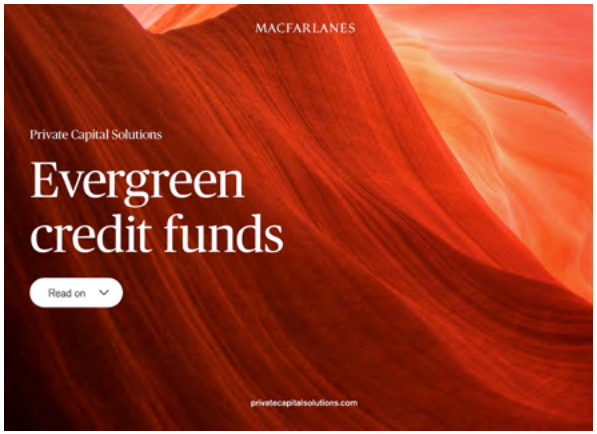
privatecapitalsolutions.com

Introduction

We have advised on the launch of a significant number of evergreen funds in recent years, particularly in the private credit space.

In this note, we summarise some of the key features of the three different models of evergreen fund that we most commonly see in the market:

- vintage models that closely follow closed-ended fund concepts, with investors "rolling" directly from one vintage to the next without having to make a fresh commitment;
- NAV-based subscription models, with exit achieved through a run-off mechanism; and
- pure NAV-based open-ended structures.



More details on evergreen credit funds can be found on privatecapitalsolutions.com

Contacts

Adam Caines
Partner
DD +44 (0)20 7849 2053
adam.caines@macfarlanes.com

Pete Chapman
Partner
DD +44 (0)20 7849 2042
pete.chapman@macfarlanes.com

Damien Crossley
Partner
DD +44 (0)20 7849 2728
damien.crossley@macfarlanes.com

Richard Fletcher
Partner
DD +44 (0)20 7849 2244
richard.fletcher@macfarlanes.com

Andrew Perkins
Partner
DD +44 (0)20 7849 2725
andrew.perkins@macfarlanes.com

Ryan Moore
Senior Counsel
DD +44 (0)20 7791 4172
ryan.moore@macfarlanes.com

Category	Vintage model	NAV-based subscriptions; run-offs	NAV-based subscriptions; NAV-based redemptions
Summary	A series of rolling "vintages" within the same vehicle, each effectively acting like the investment period of a standard closed-ended fund, with a fundraising period and equalisation for investors coming into each vintage. By default, investors "roll over" into subsequent vintages but may elect instead to have realisation proceeds distributed to them and eventually exit the fund after each vintage.	New investors may be admitted at any time, typically by accepting commitments which are then drawn into the fund periodically and dilute existing investors based on drawdown date NAV. Run-off elections are available (often after a lock-in period) which allow investors to elect not to participate in any new investments and instead receive the proceeds of investments attributable to their interest in the fund as and when they are realised (sometimes with the option for the manager to redeem the investor based on the NAV of investments within this "slice").	New investors may be admitted at any time, typically by accepting commitments which are then drawn into the fund periodically and dilute existing investors based on drawdown date NAV. Investors wishing to exit may give notice to redeem, following which their interest will be redeemed at the fund NAV as of the redemption day, subject to liquidity safeguards.
Corporate form	Typically, a partnership (e.g., a Luxembourg SCSp); sometimes using segregated sub-funds for vintages.	Dependent on the intended function of the vehicle. If being launched to be operated alongside a flagship closed-ended fund then a partnership (e.g., a Luxembourg SCSp) with contractually created synthetic "partnership units" is becoming typical. If being launched as a stand-alone offering then a unitised corporate vehicle (e.g., a Luxembourg SCA-RAIF(a partnership limited by shares) may be easier for European and global non-US investors to understand. US investors are more familiar with capital account-based partnership structures.	Typically, a unitised corporate vehicle (e.g., a Luxembourg SCA-RAIF (a partnership limited by shares)) if targeting a European and global investor base. US investors are more familiar with capital account-based partnership structures.

Category	Vintage model	NAV-based subscriptions; run-offs	NAV-based subscriptions; NAV-based redemptions
Admission of investors	Closed-ended fund style initial fundraising period for each vintage (e.g., a three-year vintage period might have a one-year fundraising period). Closed-ended fund style equalisation for investors coming into a vintage. We have seen some direct lending managers keep fundraising available throughout the entirety of each vintage (albeit with new investors not buying into previously distributed income and with a correspondingly low equalisation rate e.g., SOFR). **Pros:** no NAV-based dilution so less pressure on valuations – likely to be appropriate where investors cannot get comfortable that a sufficiently robust NAV may be struck. **Cons:** may not be compatible with a perpetual fundraising, or may discourage investors from committing late in a vintage if not participating in prior income. New vintages may still require IC approval for certain investors, removing one of the advantages of an evergreen structure.	New investors may be admitted at any time, typically by accepting commitments which are then drawn into the fund periodically and dilute existing investors based on drawdown date NAV. Once commitments have been drawn down, the contributed amounts are then generally recycled within the fund (i.e., not usually distributed but available to be re-drawn). **Pros:** enables investors to be admitted perpetually throughout the life of the fund, generally at periodically scheduled subscription dates, but we have seen funds which admit subscriptions at any dates determined by the fund/GP. New investors buy into the entire portfolio of assets held by the fund since inception (subject to realisations). **Cons:** dependent on the ability to strike a robust NAV and to demonstrate this to the satisfaction of investors.	New investors may be admitted at any time, typically by accepting commitments which are then drawn into the fund periodically and dilute existing investors based on drawdown date NAV. Once commitments have been drawn down, the contributed amounts are then generally recycled within the fund (i.e., not usually distributed but available to be re-drawn). **Pros:** enables investors to be admitted perpetually throughout the life of the fund, generally at periodically scheduled subscription dates, but we have seen funds which admit subscriptions at any dates determined by the fund/GP. New investors buy into the entire portfolio of assets held by the fund since inception (subject to realisations). **Cons:** dependent on the ability to strike a robust NAV and to demonstrate this to the satisfaction of investors.
Drawdowns	Generally pro rata to commitments. Can pose difficulties in subsequent vintages as the commitments of rolling investors from the prior vintage are likely to be largely drawn and will only be "topped up" as and when realisation proceeds from that prior vintage arise. A subscription line facility may be used to smooth this but the security is likely to need to look to the undrawn commitments of all investors on a non-pro rata basis, given the likely low undrawn commitments of rollover investors. Alternatively, amounts could be drawn down pro rata to undrawn commitments, but this means that rollover investors will initially receive a lower allocation. **Pros:** superficially, looks like a closed-ended fund drawdown mechanism. **Cons:** difficulties with subsequent vintages, as described above.	Assuming a commitment/drawdown model is used, new investors may either be drawn into the fund on a queued model or an unqueued model. Under a queued model, older commitments are drawn before new commitments (or, sometimes, commitments made during a fixed time period, e.g., each year, are drawn down pari passu but before any commitments are drawn down from the next time period). Under an unqueued model, all commitments are drawn down pro rata to undrawn commitments. We do also see funds with the entire subscription amount paid in upon admission to the fund, but generally for funds targeting private wealth and other non-professional investors. **Pros:** flexibility to set a drawdown model that best suits the anticipated investor base and the manager's operational needs. **Cons:** quite different to closed-ended drawdown mechanism so may be unfamiliar for some investors.	Assuming a commitment/drawdown model is used, new investors may either be drawn into the fund on a queued model or an unqueued model. Under a queued model, older commitments are drawn before new commitments (or, sometimes, commitments made during a fixed time period, e.g., each year, are drawn down pari passu but before any commitments are drawn down from the next time period). Under an unqueued model, all commitments are drawn down pro rata to undrawn commitments. We do also see funds with the entire subscription amount paid in upon admission to the fund, but generally for funds targeting private wealth and other non-professional investors. **Pros:** flexibility to set a drawdown model that best suits the anticipated investor base and the manager's operational needs. **Cons:** quite different to closed-ended drawdown mechanism so may be unfamiliar for some investors.

Category	Vintage model	NAV-based subscriptions; run-offs	NAV-based subscriptions; NAV-based redemptions
Investment period	Each vintage is comparable to the investment period of a closed-ended fund. **Pros:** easy to understand for investors used to closed-ended funds. **Cons:** splits groups of assets among the vintages, so investors in new vintages will not buy into an existing portfolio.	No investment period; new investments may be made at any time from cash arising to the fund, new amounts drawn down and/or financing facilities. **Pros:** maximum flexibility for the manager. Means investors may diligence and buy into the whole portfolio of the fund. **Cons:** less easy to understand for investors used to closed-ended funds.	No investment period; new investments may be made at any time from cash arising to the fund, new amounts drawn down and/or financing facilities. **Pros:** maximum flexibility for the manager. Means investors may diligence and buy into the whole portfolio of the fund. **Cons:** less easy to understand for investors used to closed-ended funds.
Borrowing and leverage	Vintages present a more straightforward approach to segregation of portfolios compared to the other models. Separate asset holdcos can be established below the investor-facing vehicle to allow for that segregation (and potentially also segregated sub-funds for each vintage, if using an umbrella vehicle for the fund itself). **Pros:** easier to segregate portfolios between investors and also for banks (different banks can be used per vintage/ asset holdco). **Cons:** vintages tend to have short(er) investment periods than a comparable closed-ended fund which potentially amplifies the higher cost of using leverage (versus sub lines) and the need to ramp a portfolio quickly to access that leverage. Could be addressed using a subscription facility (potentially on an umbrella model – i.e., across all vintages).	Although there is no investment period, leverage would still usually be provided for a specific term (e.g., 7 years in total over ramp-up period and amortisation). Whilst costs are amortised over that specific term, they are shared by all investors that come into the fund during the life of the leverage (unlike a vintage model). **Pros:** costs are shared by all investors, reducing the impact felt by individual investors vs. a vintage model (or closed-ended fund). The absence of an investment period also means that diversity/ concentration issues (that impact amortisation requirements in leverage facilities) are unlikely to be an issue vs. a vintage model. **Cons:** investors will need to understand that they remain exposed to the impact of leverage until they have been redeemed. Accordingly, any default under the leverage will affect an investor in run-off (and its return) even though they are not exposed to new investments.	From a leverage perspective, structurally similar to the NAV-based subscription/run-off model. **Pros:** investors are redeemed at a single point in time and so do not continue to be exposed to the performance of leverage. **Cons:** the liquidity required to redeem investors will have implications for the leverage both in terms of a requirement to maintain a certain level of liquidity for investor redemptions (in addition to, e.g., delayed draw assets) and possible draw-stop triggers or, in extreme cases, prepayment of the leverage. If assets are required to be sold, it could reduce the utility of the leverage (e.g., through a diversity-based draw-stop and/or amortisation triggers).

Category	Vintage model	NAV-based subscriptions; run-offs	NAV-based subscriptions; NAV-based redemptions
Expenses	Establishment expenses may either be borne by the first vintage or amortised across the first and second (and potentially subsequent) vintages. Ongoing expenses split between fund-wide expenses to be attributed/ amortised across multiple vintages and vintage-specific expenses. **Pros**: easier to segregate expenses such that they are borne by certain investors but not others. **Cons**: administratively complex.	All expenses borne by the fund as a whole, with establishment expenses typically amortised over five years, and expenses incorporated into the NAV. **Pros**: administratively straightforward. **Cons**: investors generally bear all costs pro rata as part of the NAV, and may query this (although we have seen some NAV-based funds with the ability to attribute specified expenses only to certain investors).	All expenses borne by the fund as a whole, with establishment expenses typically amortised over five years, and expenses incorporated into the NAV. **Pros**: administratively straightforward. **Cons**: investors generally bear all costs pro rata as part of the NAV, and may query this (although we have seen some NAV-based funds with the ability to attribute specified expenses only to certain investors).
Management fee	Management fees generally calculated for each vintage in the same manner as if for a closed-ended fund (i.e., for credit assets, typically a percentage of the acquisition cost of unrealised assets). **Pros**: familiar to investors used to closed-ended funds. Not susceptible to decreases in the NAV. **Cons**: assuming based on unrealised acquisition cost, resets each vintage (although this should be smoothed by unrealised investments remaining in the prior vintage). No uplift for increases in NAV.	Management fees generally calculated as a percentage of the fund's NAV (or sometimes GAV, to incorporate undrawn commitments). **Pros**: continuous base for calculation throughout the fund life. Uplift for increases in NAV. **Cons**: less familiar to closed-ended fund investors (although not typically controversial). Susceptible to decreases in the NAV.	Management fees generally calculated as a percentage of the fund's NAV (or sometimes GAV, to incorporate undrawn commitments). **Pros**: continuous base for calculation throughout the fund life. Uplift for increases in NAV. **Cons**: less familiar to closed-ended fund investors (although not typically controversial). Susceptible to decreases in the NAV.

Category	Vintage model	NAV-based subscriptions; run-offs	NAV-based subscriptions; NAV-based redemptions
Performance fee/ carried interest	A closed-ended fund style waterfall generally applies to each vintage (with safeguards such as carry clawbacks). We have seen certain funds apply annual waterfall calculations within vintages based on actual proceeds arising during each year, or even deal-by-deal waterfalls, but these reflected specific fact patterns and are unlikely to be popular with investors. **Pros:** familiar to investors used to closed-ended funds. Paid on cash arising to the fund only so no risk of fees being paid on performance never actually realised. May enable carried interest tax treatment under certain circumstances. **Cons:** generally paid on a back-ended (albeit vintage-by-vintage) basis and subject to clawback.	We have seen several NAV-based evergreen credit funds opt for no performance fee, but we think this reflects the particular circumstances of the managers raising those funds. If a performance fee is to be charged, likely to be a hedge fund-style annual performance fee based on realised and unrealised gains (i.e., performance-based NAV uplift), typically over an annual performance period and sometimes with a hurdle/preferred return (with catch-up). **Pros:** enables more frequent payments (generally annually) and includes unrealised gains in the performance metric. **Cons:** investors may have concerns over performance fees being paid for NAV uplifts that never translate into realised gains (some sort of payment deferral mechanism may mitigate this).	We have seen several NAV-based evergreen credit funds opt for no performance fee, but we think this reflects the particular circumstances of the managers raising those funds. If a performance fee is to be charged, likely to be a hedge fund-style annual performance fee based on realised and unrealised gains (i.e., performance-based NAV uplift), typically over an annual performance period and sometimes with a hurdle/preferred return (with catch-up). **Pros:** enables more frequent payments (generally annually) and includes unrealised gains in the performance metric. **Cons:** investors may have concerns over performance fees being paid for NAV uplifts that never translate into realised gains (some sort of payment deferral mechanism may mitigate this). May create complications if a performance fee is sought on uplifts to the NAV if an investor holds liquidating shares (i.e., during a "slow payout" redemption period).
Run-off/ redemptions	Not usually any ability to redeem or elect to run off during vintages, although we have seen at least one fund that offered annual run-off opportunities during three-year vintages (i.e., the investor electing to run off ceased to participate in any new investments but only received the proceeds of the investments they participated in when realised in the ordinary course). Exits are usually achieved by investors electing not to participate in a new vintage (and by receiving distribution proceeds from the prior vintage(s) when investments are realised). **Pros:** no risk of any liquidity mismatch. Unless intra-vintage run-off elections are permitted, provides certainty of available capital during each vintage. Closed-ended for AIFMD II leverage limit purposes. **Cons:** not much advantage to investors over a closed-ended fund.	Investors may elect to put some or all of their interest into run-off, often following a lock-in period (generally between 12 months and 3 years, depending on the purpose of the vehicle and the underlying assets) at specified run-off dates (for example, every six months or every year). Upon a run-off election, the investor ceases to have exposure to new investments (other than follow-on investments) and has a corresponding portion of their undrawn commitment (if any) cancelled. A "vertical slice" of the assets of the fund corresponding to the assets attributable to the run-off investor's interest as of the run-off date is designated and the investor receives distributions of the realisation proceeds of the run-off portfolio instead of them being re-invested. In some cases, the manager (but not the investor) may elect to redeem all or tranches of the investor's run-off interest based on the NAV of the assets within the run-off portfolio. **Pros:** no risk of any liquidity mismatch. Likely to be closed-ended for AIFMD II leverage limit purposes (provided carefully constructed). If the manager may elect to redeem the investor's run-off interest, provides a means to deploy newly committed capital quickly by using the new capital to pay redemption proceeds. Enables investors to "switch off" exposure to new assets in case (for example) they wish to rebalance their strategic asset allocation). **Cons:** no guarantee of a quick payout to investors. Less certainty of available capital to the manager versus closed-ended or vintage model.	Investors wishing to exit may give notice (often after a lock-in period as for NAV-based subscriptions with run-offs) at specified redemption dates (for example, every six months or every year), following which their interest will be redeemed at the fund NAV as of the redemption day, subject to liquidity safeguards. These may include gates (maximum percentages permitted to be redeemed as of a redemption date) and slow payout mechanisms (where the investor remains exposed to the fund's NAV until cash becomes available to pay out their redemption proceeds, if the manager determines this to be in the best interests of the fund as a whole). **Pros:** may provide the perception of redemption proceeds being likely to be paid more quickly than in a true run-off model. Redemption provisions likely to permit payment of redemption proceeds from new commitments, proceeds arising from investments and borrowing, so flexibility to ensure redemption proceeds are available under all normal conditions. **Cons:** there is a theoretical risk of a liquidity mismatch, since redemptions are payable based on fund NAV as of the redemption date, unless sufficient redemption safeguards can be agreed with investors. May risk the fund being viewed as an "ATM" by investors looking for liquidity, if most of their holdings are in closed-ended funds, since the perception is likely to be that redemption proceeds will quickly be available. Will be open-ended for AIFMD II leverage limit purposes.

Macfarlanes LLP | 20 Cursitor Street London EC4A 1LT

T +44 (0)20 7831 9222 | F +44 (0)20 7831 9607 | DX 138 Chancery Lane | macfarlanes.com

privatecapitalsolutions.com