PANTHEON

DECODING PRIVATE MARKETS

RECYCLING OVER RAISING: THE COMPOUNDING EDGE IN EVERGREEN AND SECONDARY FUNDS

PANTHEON OPINION

RECYCLING OVER RAISING: THE COMPOUNDING EDGE IN EVERGREEN AND SECONDARY FUNDS

By Victor Mayer
Head of International Private Wealth

In an environment where clients increasingly demand liquidity, consistency, and compounding from their private market allocations, the real differentiator among evergreen and secondary strategies isn't fundraising prowess, but capital efficiency. And at the heart of capital efficiency lies one powerful but underappreciated feature: recycling.

For private wealth investors assessing evergreen vehicles, understanding how – and how well – a strategy recycles capital can offer critical insight into its long-term sustainability and return profile. Recycling involves reinvesting distributions from earlier exits back into new opportunities within the same fund, without the need for new capital inflows. In closed-end structures, capital is typically returned to investors once an asset is exited, but in open-ended evergreen formats, that capital can be re-deployed, often quickly, into new opportunities.

How can recycling be powerful?

- **It avoids dilution:** Managers don't need to issue new units or bring in new investors, preserving the value of existing holdings. Recycling is the opposite of fundraising dilution.
- **It compounds NAV more effectively:** Reinvesting investment proceeds allows for gains to compound within the same portfolio.
- **It enhances portfolio balance:** By maintaining a consistent vintage profile, it can reduce concentration risk.
- **It reduces cash drag:** Idle capital is minimized, and investment activity remains steady, even without ongoing fundraising.

For private wealth investors seeking steady exposure to private markets without the commitment cycles of traditional closed-end funds, recycling can keep the engine running.

The hidden cost of constant fundraising

Recycling is especially important in open-ended evergreen structures, where a single capital call is typically made up front, and managers have an ongoing need to maintain investment activity without constantly going back to investors for greater commitments.

Because while bringing in new capital may seem like a positive endorsement of the manager and the strategy, from a performance perspective, mid-cycle fundraising can introduce a number of structural frictions:

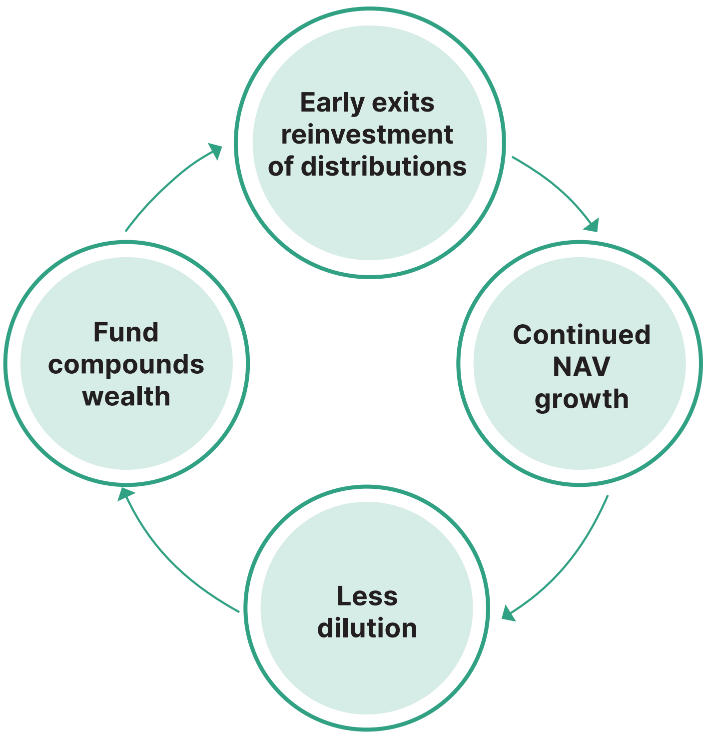
- New investors may dilute returns for existing LPs unless capital is deployed immediately into similarly priced, high-quality deals.
- The J-curve effect (or at least a softening of returns) can re-emerge, delaying returns and compounding.
- Issuing new shares or units can introduce complexity around valuation, fees, and liquidity management, especially if redemptions aren't well managed.

Some evergreen managers, particularly those running single-GP structures, are transparent about the above, acknowledging that fresh capital can create temporary headwinds. But even then, private wealth investors should scrutinize how effectively the strategy uses its own cash flows before relying on external inflows to sustain activity.

What high-performing evergreen strategies do differently

The strongest evergreen and secondary strategies are less likely to rely on external capital to grow. They generate early distributions, often via secondaries or shorter-duration private credit, and reinvest those proceeds into similarly priced, high-quality assets.

When done well, this creates a harmonious cycle



This compounding effect is especially powerful in portfolios with a strong allocation to secondaries, where assets are often acquired closer to maturity and can be more predictable in how they generate liquidity.

In practical terms this can mean:

- Fewer capital calls
- Less dependence on market timing
- More consistent NAV growth
- Greater alignment with client-outcome objectives

What fund selectors should watch out for

While recycling is a hallmark of efficient fund design, not all recycling strategies are created equal. There are certain warning signs that may suggest the strategy may not be sustainable:

Additionally, while secondaries can support recycling, not all discounted deals are value-enhancing, so investors should be cautious of secondary funds chasing deep discounts. While the discount may look attractive, if the underlying assets are low quality or highly illiquid, the result can be poor recycling capacity and weak long-term performance.

Metric	What it means
High internal rate of return (IRR), low total value to paid-in capital (TVPI)	Front-loaded returns that suggest early wins, but weak follow-through or shaky reinvestment discipline
Low DPI in mature portfolios	Could imply underperformance or poorly timed deals
Heavy reliance on fundraising versus reinvesting	Possible structural cashflow inefficiency or failure to generate organic liquidity

A final thought: look beyond IRR, and ask how they recycle

The smartest evergreen strategies understand that capital efficiency drives investor outcomes.

The highest-performing evergreen funds don’t simply distribute gains, they recycle and grow, recognizing that capital efficiency drives investor outcomes They avoid the dilution, drag, and complexity of constant fundraising, and instead focus on building a compounding machine from within.

- Investors looking to identify these funds should ask: How does the manager generate and use internal liquidity?
- Is the strategy designed to recycle capital, or to raise it?
- How is dilution managed as the fund scales?

In evergreen investing, the focus should not just be on how quickly capital is returned, but how that capital is actively managed. The best strategies don’t just return capital, they compound it.

IMPORTANT DISCLOSURE

This publication has been prepared solely for illustration, educational, and/or discussion purposes. It does not constitute independent research and under no circumstances should this publication or the information contained in it be used or considered as an offer, inducement, invitation, solicitation, or recommendation to buy or sell any security or financial instrument or service or to pursue any investment product or strategy or otherwise engage in any investment activity or as an expression of an opinion as to the present or future value or price of any security or financial instrument. Nothing contained in this publication is intended to constitute legal, tax, securities, or investment advice. This publication may include “forward-looking statements”. All projections, forecasts, or related statements or expressions of opinion are forward-looking statements. Although Pantheon believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct, and such forward-looking statements should not be regarded as a guarantee, prediction, or definitive statement of fact or probability. Pantheon has taken reasonable care to ensure that the information contained in this document is accurate at the date of publication. However, no warranty or guarantee (express or implied) is given by Pantheon as to the accuracy of the information in this document, and to the extent permitted by applicable law, Pantheon specifically disclaims any liability for errors, inaccuracies, or omissions in this document and for any loss or damage resulting from its use. Unless stated otherwise, any opinions expressed herein are current as of the date hereof and are subject to change at any time. Unless stated otherwise, all views expressed herein represent Pantheon’s opinion. This document is distributed by Pantheon, which is comprised of operating entities principally based in San Francisco, New York, London, Dublin, Singapore, and Tokyo. Pantheon Ventures Inc. and Pantheon Ventures (US) LP are registered as investment advisers with the U.S. Securities and Exchange Commission (“SEC”) and Pantheon Securities LLC is registered as a limited purpose broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). Pantheon Ventures (UK) LLP is authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. Pantheon Ventures (Ireland) DAC is regulated by the Central Bank of Ireland (“CBI”). Pantheon Ventures (Singapore) Pte. Ltd holds a capital markets service license from the Monetary Authority of Singapore (“MAS”) to conduct fund management with accredited and institutional investors. The registrations and memberships described above in no way imply that the SEC, FINRA, SIPC, FCA, CBI, MAS, or the Securities and Futures Commission (“SFC”) have endorsed any of the referenced entities, their products or services, or this material. All materials published on the Site are protected by copyright, and are owned or controlled by Pantheon as the provider of the materials. If you download any information or software from this Site, you agree that you will not copy it without the prior written consent of Pantheon or remove or obscure any copyright or other notices or legends contained in any such information.