SFP Infrastructure Partners

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Evergreen Funds in Infrastructure: Flexibility with Caveats – and the Growing Role of Secondaries

Introduction

Evergreen funds, open-ended private market vehicles with no fixed end date, have experienced rapid growth[1], particularly in illiquid asset classes such as private equity and infrastructure[2]. Their appeal lies in structural flexibility, ongoing access to capital, and periodic liquidity, attracting investors seeking long-term exposure to illiquid, income-generating assets.

However, this flexibility comes at a cost. To "square the circle", evergreen funds must make structural compromises that result in persistent challenges regarding performance dilution, liquidity management, valuation transparency, governance, and fee alignment. These issues become particularly acute during market downturns or periods of limited deal activity. Unlike closed-end funds, which benefit from full capital deployment and strong manager accountability, evergreen funds must balance inflows, redemptions, and valuations in real time, often resulting in lower returns, higher costs and reduced transparency.

Unlike traditional closed-end funds with defined lifecycles (typically 10-12 years), evergreen funds offer continuous capital inflows and redemptions, positioning them as a more adaptable alternative. Yet, as adoption accelerates, so too does scrutiny – especially when compared to the proven closed-end model.

This article explores the evolution and structural limitations of evergreen infrastructure funds and highlights the areas in which investors should be cautious. It also argues that traditional closed-end funds, particularly those pursuing secondary strategies, better serve investors' interests by mitigating risk, enhancing yield, and improving alignment in long-term private market portfolios.

The Evolution and Rise of Evergreen Funds in Private Markets

Originally developed to broaden access to private markets for investor groups, particularly affluent individuals, who lacked the financial capacity to make significant capital commitments required by traditional closed-end funds, evergreen funds typically accept much smaller investment amounts and allow for rolling subscriptions, periodic redemptions, and no fixed

[1] https://www.infrastructureinvestor.com/the-explosive-growth-of-open-end-funds/

[2] For simplicity, evergreen funds investing in infrastructure equity (e.g., stakes in companies or projects) are treated as part of the private equity evergreen funds universe in this analysis

wind-down date.[3] These features have proven especially attractive in infrastructure, where long asset durations and predictable cash flows align well with the requirements of institutional investors.

While evergreen funds were initially embraced by private wealth investors, often via private banking channels, their adoption by institutional investors accelerated post-COVID, as private market fundraising slowed and managers sought stable, long-term capital.

The appeal of evergreen funds for investors is understandable: they offer smoother capital flows, remove the operational burden of capital calls, and can support liability-matching objectives. Yet this flexibility comes at a cost. Evergreen funds face mounting challenges around performance dilution, liquidity, capital deployment, valuation, fee structure, long-term value creation, governance, and regulatory complexity – issues that tend to intensify during periods of market stress or limited deal flow.

Precisely because of these shortcomings, closed-ended funds continue to dominate private markets. They have stood the test of time, balancing the interests of both investors and managers in a more disciplined and efficient manner. It is anticipated, therefore, that institutional investors will keep favouring closed-end funds over evergreen funds, particularly in the core plus and value-add space. The following section will discuss a number of issues with evergreen funds that support this view.

Key Caveats of Evergreen Funds

Performance Dilution

Evergreen funds combine new capital inflows with legacy assets, a dynamic that can dilute returns when fresh capital is deployed into aging, underperforming, or previously marked-up holdings. Additionally, their need to maintain liquidity buffers – whether in cash or highly liquid securities – to meet structurally inherent redemption rights limits exposure to higher-yielding, illiquid investments, thereby reducing overall capital efficiency.

According to Goldman Sachs (2024), closed-end funds can outperform evergreen vehicles by 2.25 - 2.75% per annum in private equity, primarily as a result of more disciplined capital deployment and stricter liquidity management.[4] While evergreen structures typically mitigate the pronounced “J-curve” effect observed in closed-end funds, they often underperform over longer horizons due to persistent cash drag and timing inefficiencies.

Illusion of Liquidity

Although often marketed as liquid or semi-liquid, evergreen funds impose several structural constraints. They typically enforce lock-ups – ranging from one to three years – redemption penalties (calculated as a percentage of the prevailing net asset value, or NAV), and quarterly redemption gates, which commonly cap withdrawals at 5% of NAV or operate on a “best-effort” basis.

[3] Partners Group was amongst the pioneers and launched one of the first evergreen private equity funds in 2001

[4] https://am.gs.com/en-ch/institutions/insights/article/2024/a-closer-look-at-private-market-fund-structures

When redemption requests exceed these limits, they are prorated and deferred, potentially creating queues that extend across multiple quarters or even years in stressed market conditions. Consequently, liquidity can be effectively frozen precisely when it is most needed.

A notable example is Blackstone's BREIT in 2023[5]: redemption requests totalling USD 4.5 billion were met with only USD 666 million in available liquidity (15%), underscoring the conditional and often illusory nature of liquidity in semi-liquid fund structures.

Capital Deployment and Cash Drag

Closed-end funds benefit from drawdown flexibility, calling capital gradually as attractive investment opportunities arise and thereby reducing deployment pressure. This approach mitigates the risk of premature investment and enables full allocation to illiquid, high-quality assets. From an investor's perspective, the downside may be slow capital calls; however, this can be mitigated by focusing on secondary investments, which enable faster capital deployment.

In contrast, evergreen funds are typically fully funded upon the subscription of each investor. This structure often necessitates rapid deployment – even during periods of limited deal flow or elevated valuations – and requires the maintenance of a liquidity sleeve. Taking the average case of 5% redemptions each quarter, a liquidity sleeve of about 20% of total commitments must be held in cash or cash-equivalent securities. The result is persistent cash drag, suboptimal investment timing, and, ultimately, lower net returns.

Valuation Challenges

Investors in evergreen funds typically enter and exit at the prevailing net asset value (NAV). This creates a valuation dependency that is absent in closed-end funds. Because NAVs are based on periodic appraisals – often audited only once a year – mispricing risks arise. Lagged or overly optimistic valuations can result in unintended value transfers between incoming and exiting investors.

These NAVs rely on manager-derived projections and assumptions, sometimes benchmarked against market data for comparable assets. While such models provide useful guidance, they cannot replicate true market pricing: every asset is to some degree unique, attracting different buyers with varying valuations. In closed-end structures, NAVs therefore function only as reference points – for example, in secondary market transactions where interests may trade at a premium or discount to NAV – rather than as binding prices. Ultimately, only the market can establish a definitive price.

This reliance on appraisal-based NAVs presents governance and fairness challenges in evergreen funds. Valuation lags may inflate prices during downturns, penalize existing investors with overly conservative marks, or obscure real-time market dynamics. Limited transparency – especially in retail-accessible funds – further compounds the issue, leaving investors dependent on internal manager assessments. Closed-end funds mitigate these risks by admitting investors during defined commitment periods, where reallocations occur at cost or at mutually agreed prices, reducing reliance on appraisal-driven NAVs as transaction benchmarks.

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[5] Given that Blackstone BREIT fund is composed primarily of non-listed real estate assets, it provides a useful example to illustrate the risks by evergreen funds that invest predominantly in illiquid holdings

Fee Structure and Potential Conflicts of Interest

Evergreen funds commonly charge management fees based on NAV, including both unrealised gains and liquid positions, and accrue performance fees on total return rather than realised profits. In contrast, closed-end structures generally link management fees to invested capital, with carried interest or performance fees payable only upon realisation of actual gains. Levying fees on NAV may create conflicts of interest, as managers have a strong incentive to inflate or maintain valuations – even in the face of underlying operational challenges – through optimistic projections of uncertain recoveries. This issue is particularly pronounced for assets held indefinitely. Even when an evergreen fund's NAV grows in line with its target return, often high single- or double-digit, the effect is an annual increase in fees for the manager, which can compound significantly over holding periods of 10-12 years. By comparison, closed-end funds maintain a stable basis for fee calculation during the investment period, focusing on creating real value that is ultimately recognized by the market at exit rather than on NAV inflation during the holding period.

The closed-end fund model generally also provides stronger alignment with investor interests regarding performance fees. In closed-end funds, performance fees are typically charged only at the end of the fund's term, based on a cash-on-cash calculation that ensures investors have achieved at least the minimum target return over the life of the fund. By contrast, in evergreen funds, performance fees are often calculated and deducted at regular intervals – sometimes even quarterly – creating a short-term focus that can be considered aggressive. This structure can incentivize managers to report higher NAVs rather than lower ones. Unlike closed-end funds, where performance fees are tied to actual realized cash flows, fees in evergreen funds are based on theoretical, unrealized valuations, which may not reflect the true economic value delivered to investors.

Furthermore, if transaction costs from new subscriptions are not properly allocated, existing investors in evergreen funds may inadvertently subsidize incoming investors.

Lack of Long-term Value Creation Focus

In closed-end funds, managers are incentivized to create and preserve value in their assets over a defined fund life, with value ultimately recognized by the market at exit. This alignment ensures that managers and investors share a common goal: maintaining and enhancing asset value. The structured lifecycle of closed-end funds encourages active asset management, disciplined exits, and a clear focus on value creation.

By contrast, evergreen funds can be suitable holding vehicles for core or "super-core" infrastructure assets with ultra-long durations and contracts – such as 30-year off-take agreements – where stable, long-term ownership is the priority and active value creation is less central. However, this emphasis on ultra-long-duration, low-activity assets generally does not align with the broader infrastructure investor universe, which often targets core-plus, value-add, or opportunistic strategies that rely on active management and timely exits to generate alpha.

Potential Governance Gaps

The absence of a fixed maturity date in evergreen funds can weaken governance discipline. Without a defined end point, managers may remain in place irrespective of long-term performance, as there are typically no performance-based triggers for replacement. Investor oversight is further constrained by structural features such as redemption gates and investor inertia, which together limit the ability of investors to exert timely discipline on fund managers.

By contrast, closed-end funds are less susceptible to these shortcomings. Their finite lifespan provides a natural governance mechanism: valuations do not directly determine investor cash flows, and the approaching maturity date enforces discipline by requiring asset sales, triggering manager accountability, and ultimately leading to fund liquidation. This built-in timeline creates a governance framework that evergreen structures inherently lack.

Managing Regulatory Complexity

Evergreen funds are frequently subject to periodic revisions of their legal documentation. This is driven, on the one hand, by their continuous offering structure, which can admit new investors on an ongoing basis, and on the other, by increasingly stringent regulatory frameworks. The latter is particularly relevant for evergreen funds accessible to individual investors, where heightened compliance standards necessitate regular amendments to governing documents in order to remain aligned with evolving regulatory requirements. Addressing such revisions typically demands highly specialised legal expertise, often sourced externally, with the capacity to monitor and interpret cross-border regulatory developments.

The Case for Infrastructure Secondaries

For institutional investors seeking long-term, stable infrastructure exposure, secondary focused closed-end funds offer a practical solution to the structural limitations of evergreen funds, particularly when market conditions make fresh deployment challenging.

Secondary strategies bring several key advantages:

- **Immediate Access to Operating Assets**
  Investors avoid the J-curve by entering at a later stage, gaining exposure to de-risked, income-generating infrastructure. In times of increased volatility, secondaries are often acquired at attractive valuations or even at discounts to NAV, providing potential for immediate valuation uplift.

- **Accelerated Distributions and Improved Liquidity**
  With assets that are already operational, cash flows come early and consistently – effectively de-risking the investment over time and enhancing liquidity while reducing the wait for returns.

- **Valuation Transparency**
  Buyers benefit from periodic financials, observable performance histories, and negotiated pricing effectively reflecting real market value, offering clearer entry points and mitigating valuation risk.

- **Established Governance and Stronger Alignment**
  Secondary transactions typically involve mature and over time improved governance frameworks as well as investor-favourable terms, often tied to realized outcomes rather than projected NAVs.

These attributes make secondary closed-end funds a practical alternative to evergreen funds, especially in uncertain market conditions.

For the sake of completeness, one could also ask whether secondaries could be used as the preferred portfolio tool for evergreen funds, to mitigate the aforementioned challenges and, so to speak, act as a cure-all. However, such an approach does not appear to resolve the issues sufficiently, given that the discussed shortcomings of evergreen funds are mostly rooted in their structure.

Conclusion: Enhancing Portfolio Efficiency Through Secondaries

Evergreen funds have broadened access to private infrastructure, giving investors long duration exposure, diversification, and steady capital deployment. Yet their open-end structure lacks the discipline of closed-end funds and can leave investors with liquidity and valuation challenges. These flaws can only partly be overcome by structural tweaks, such as changing the fee basis.

Particularly, institutional investors who have the capacity to manage high minimum investment amounts and operational requirements will find that their interests are better served with closed-end funds. Pairing core-focused evergreen allocations with more return-focused strategies – such as infrastructure secondaries – may, however, offer a practical remedy: mature assets, faster deployment, stronger governance, and better alignment – all of which boost capital efficiency and portfolio resilience.

As demand for more liquid solutions accelerates, secondaries are evolving from a tactical liquidity tool into a core element of strategic asset allocation. For institutions seeking to create durable, well-performing portfolios, combining primary (direct) and secondary strategies across closed-end funds, alongside core (only!) evergreen funds may be a worthwhile avenue to explore.

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