

THE WINDOW NARROWS

Evergreen Funds and the Choice Before the Industry



FOREWORD

Georgina Tzanetos

Director of Content, CAIA Association

The past decade has produced a sustained campaign to democratize access to private markets, and evergreen funds are one of its most successful, yet controversial, instruments. Despite its recent turbulence, including redemption pressures and increasing scrutiny from the advisory community and beyond, the campaign's stated logic is difficult to argue with. Public markets have thinned, with the number of listed U.S. companies roughly halved from its 1996 peak, while value creation has migrated into private hands. Under these conditions, restricting individual investors to the shrinking public slice increasingly means restricting them to a smaller share of the economy itself. That said, the structure's central promise has already been tested more than once, first by way of BREIT's proration episode in late 2022. Most recently, in early 2026, a broader concern about credit quality across private credit tested the structure again. The concern itself was not specific to evergreen vehicles, as drawdown investors held comparable exposure, but what differed was recourse. Evergreen investors could act on the concern, and did, producing a surge of redemption requests, and several funds imposed gates limiting withdrawals. J.P. Morgan Asset Management's¹ own summary of the episode conceded that investors were reminded that semi-liquid can, at times, mean semi-*illiquid*.

On this account, the evergreen structure completes an unfinished project of financial inclusion, extending to the mass affluent what institutions and the very wealthy have long enjoyed.

The account is true as far as it goes, and it is worth noticing how far it goes. The democratization push did not arrive when the access gap was widest, but when institutional fundraising stalled. Private market fundraising declined steadily

starting in 2021², leaving general partners with mature platforms, large origination engines, and a shrinking supply of their traditional capital. If the wealth channel is the replacement supply, the evergreen wrapper is the pipe built to reach it.

None of this makes the product illegitimate; a structure can serve two masters and serve both honestly. It does mean that access and asset gathering arrived in the same vehicle, and that the two motives diverge under pressure. Expanding access counsels patience and a willingness to leave money on the table, but gathering assets counsels neither, and asset gathering is what compensation structures reward.

When the democratization narrative and the distribution incentive point in the same direction, the narrative gets the credit. When they diverge, the incentive tends to quietly win.

Every prior expansion of alternatives access examined in this paper began at precisely this junction, with a rationale that was true but with a motive that was stronger.

The argument that follows is therefore neither a brief for the product nor a case against it. It is an argument about the gap between what these funds are and what investors *believe* they are. It is about who bears the responsibility of closing that gap while closing it still remains voluntary.

The hope is that the industry recognizes the moment for what it is: a narrow window in which the standard of care can still be authored by the people best equipped to write it. The structure's durability will be determined less by its design than by the discipline of those who distribute it. Discipline adopted voluntarily has always aged better than discipline imposed by regulators writing in the aftermath of losses.

THE QUESTION BEFORE THE INDUSTRY

The vehicle is sound. Will the market around it rise to the same standard? That is the question CAIA leaves with the industry.

¹ "What Are Semi-Liquid Funds?" J.P. Morgan Asset Management, April 29, 2026, <https://am.jpmorgan.com/wr/en/asset-management/institutional/insights/market-insights/market-updates/on-the-minds-of-investors/what-are-semi-liquid-funds/>.

² PitchBook, Global Private Market Fundraising Report series. The Q2 2023 report identifies the decline in private capital fundraising as beginning in Q4 2021; the 2024 and 2025 annual reports document continued year-over-year declines, with the 2024 report noting managers' turn toward evergreen structures in response, <https://pitchbook.com/news/reports/q1-2026-global-private-market-fundraising-report/>.

INTRODUCTION

Evergreen funds have become one of the principal corridors through which private markets reach the private wealth investor. By year-end 2025, U.S. evergreen vehicles held \$534.6 billion in net assets across 548 funds, an increase of more than 25 percent over the prior year, with 98 new funds launched in 2025 alone.³ Morningstar and PitchBook project that the universe will surpass \$1.1 trillion by the end of 2029⁴, a base case implying roughly 20 percent annualized growth in the wealth-focused segment.⁵ The universe is also strikingly young. More than half of the funds in operation at year-end 2025 launched within the preceding four years, and 2025 set a record for new fund creation,⁶ with 123 vehicles introduced, the highest annual total in a decade.⁷

AT A GLANCE

\$535B in evergreen assets

548 U.S. funds

98 launched in one year

\$1.1T projected by 2029

Majority of funds launched within the last **4-5 years**

Growth at this pace invites two symmetrical errors of judgment. The first is more celebratory: to treat the expansion as the long-promised democratization of private markets and to wave through any product carrying a label as such. The second is a little more alarmist: to read every redemption headline as the opening chapter of a crisis and to conclude that perpetual structures holding illiquid assets are categorically unfit for individual investors. The two errors surprisingly share something. Each substitutes a verdict on the structure for an analysis of the practices surrounding it, and each has historically produced bad policy, bad journalism, and bad client outcomes.

“We argue that the principal risk in the evergreen expansion resides in the gap between what these funds are and what investors believe they are.”

The structural design, perpetual capital paired with periodic and capped liquidity, is coherent, well-precedented, and, for a definable (albeit not universal) class of investors, superior to the closed-end drawdown alternative. However, the record of prior access expansions in alternatives suggests that structures of this kind fail in a specific and repeatable way: a sound vehicle meets a distribution channel that oversimplifies its limits; investors act rationally on the incomplete picture they were given; a stress event exposes the difference between the product as sold or perceived and the product as built; and reform follows. That reform is written either in advance, by people who understand the product, or afterward, by people who do not. The industry is currently choosing between those two authors, whether or not it recognizes the choice.

The question has become real. Between late 2025 and early 2026, redemption requests in several evergreen private credit funds exceeded their standard quarterly caps of 5 percent of net asset value, prompting coverage that frequently blurred the line between a queue operating as designed and a fund in distress.⁸ The episode, examined below, is a live rehearsal of the dynamics this paper describes: the architecture held, and a meaningful share of investors appeared surprised that it existed.

The position taken here is pro-access *and* pro-responsibility. Expanding the investable universe for individual investors is a legitimate and arguably overdue project. Doing so durably requires that the machinery of distribution describe liquidity with the same precision the offering documents do. What follows is a framework for getting there.

³ Morningstar and PitchBook, *The Evergreen Fund Landscape* (quarterly research series; year-end 2025 data). Universe totals of \$534.6 billion in AUM across 548 funds, growth of over 25 percent versus year-end 2024, and 98 fund launches in 2025 as reported in Elaine Misonzhnik, “Evergreen Funds Reach \$534.6B Despite Headwinds,” *WealthManagement.com*, March 26, 2026, <https://www.wealthmanagement.com/alternative-investments/morningstar-evergreen-fund-aum-grew-by-25-in-2025>. Report series overview: <https://www.morningstar.com/business/insights/research/evergreen-fund-market-trends>.

⁴ Morningstar, “The Rise of Evergreen Funds: A New Way to Access Private Markets” (total net assets above \$493 billion as of Q3 2025; \$1.1 trillion projected by 2029), <https://www.morningstar.com/business/insights/blog/rise-of-evergreen-funds>.

⁵ PitchBook, “Forecasting the Growth of Wealth-Focused Evergreen Funds” (\$427 billion in wealth-focused evergreen AUM at year-end 2024; 20 percent projected annual growth; above \$1.1 trillion by end-2029 under the base case), <https://pitchbook.com/newsletter/forecasting-the-growth-of-wealth-focused-evergreen-funds>.

⁶ Morgan Stanley Investment Management, “Evergreen Private Equity Funds: Democratizing Private Equity,” citing PitchBook data as of November 30, 2025 (\$457 billion in net assets across 486 U.S. semi-liquid evergreen funds at year-end 2025, more than half launched in the preceding four years), <https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/evergreen-private-equity-funds.html>.

⁷ Preqin data (123 evergreen fund launches in 2025, the highest total in a decade), as reported in “Evergreen Funds Gain Traction Amidst Liquidity Concerns,” *Funds Society*, June 1, 2026, <https://www.fundsociety.com/en/news/alternatives/despite-concerns-evergreen-funds-continue-to-gain-traction/>.

⁸ Morningstar and PitchBook, *The Evergreen Fund Landscape*, Q1 2026 (universe of \$607 billion across 567 funds as of March 31, 2026; redemption requests in evergreen private credit exceeding typical quarterly caps of 5 percent of NAV), as reported in “Morningstar PitchBook: Evergreen Funds Grow to \$607B Despite Redemptions,” *WealthManagement.com* via Yahoo Finance, July 2026, <https://finance.yahoo.com/markets/stocks/articles/morningstar-pitchbook-evergreen-funds-grow-203816594.html>.

THE LANGUAGE PROBLEM: Retiring “Semi-Liquid”

“Terminology is the first disclosure an investor ever receives, and it is the only disclosure that survives every pitch deck and every headline.”

The industry’s chosen descriptor for these vehicles, “semi-liquid,” fails the accuracy standard that is demanded of financial disclosures in general.

The prefix implies a stable midpoint on a liquidity spectrum, a property the funds reliably exhibit in calm markets only. The defining characteristic of evergreen liquidity is that it is state-contingent: abundant when few want it, rationed when many do, and weakest at precisely the moment an investor is most likely to test it. Ironically, a term that describes the fair-weather state describes the state in which the description is least needed.

CAIA proposes that the industry retire “semi-liquid” from its lexicon and adopt language that names the constraint. A better representation is “capped liquidity,” which is accurate in both

CURRENT LANGUAGE —————> PROPOSED LANGUAGE

Semi-liquid

Capped liquidity

Suggests midpoint

Describes constraint

Accurate only in calm markets

Accurate in all markets

Promises flexibility

Explains limits

market states: liquidity exists, and it is subject to conditions such as caps, proration, board discretion, and the aggregate behavior of other investors.

Three tests should govern the choice: the term should name the binding constraint an investor will actually encounter, remain accurate in a stressed market as well as a calm one, and survive a hostile headline. “Semi-liquid funds halt withdrawals” is a story about a broken promise, whereas “capped liquidity fund applies its conditions” is barely a story at all. The nuance may seem trivial, but it determines what the buyer believes he owns: these products are largely designed to open access to new types of investors, and as historical record demonstrates in the sections below, investor sentiment has the power to override numerical logic.

Regulators already treat naming as a disclosure surface. The SEC’s 2023 amendments to the Investment Company Act Names Rule rest on the premise that a fund’s name can be materially misleading in itself, and they require that terms used in fund names be consistent with their plain English meaning or established industry use.⁹ “Semi-liquid” is a category label sitting outside the rule’s mechanical reach, but its plain English meaning is exactly the problem: a reasonable reader hears “half liquid” and prices in a level of exit access that the documents do not promise and stressed markets do not deliver. An industry that waits for the regulatory perimeter to expand to category vocabulary will have chosen, once again, the outside author.

Two objections here deserve answers. The first holds that renaming is cosmetic, since the offering documents disclose the mechanics regardless of the label. This gets the direction of influence backward: almost no retail investor reads a prospectus, nearly every investor absorbs the category label, and the label frames how every subsequent disclosure is heard. The second holds that a more cautious label would slow adoption. It would, at the margin, and the margin it would slow is the marginal investor for whom the product is least suitable, which is a filter operating exactly where a filter belongs. Sales that survive an accurate label are arguably more durable.

There is precedent for treating vocabulary as a regulatory surface: FINRA’s 15-02 reforms operated on the same insight at the level of account statements: the number investors saw had been technically defensible and substantively misleading, and the fix was to make the visible representation tell the truth.¹⁰ Nomenclature reform applies the principle one layer up, and the moment favors action, since the vocabulary remains visibly unsettled. Mainstream financial media currently use “evergreen” and “semiliquid” interchangeably in their research, and a coordinated move by index providers, credentialing bodies, and large sponsors could re-anchor the category’s language within a product generation. An industry that renames its own product to make the risk clearer makes an argument no regulator could make for it: that it intends to be trusted with investors.

⁹ U.S. Securities and Exchange Commission, “SEC Adopts Rule Enhancements to Prevent Misleading or Deceptive Investment Fund Names,” Press Release 2023-188, September 20, 2023 (amendments to the Investment Company Act Names Rule, Rule 35d-1, including the requirement that terms used in a fund’s name be consistent with their plain English meaning or established industry use), <https://www.sec.gov/newsroom/press-releases/2023-188>.

¹⁰ FINRA Regulatory Notice 15-02 (January 2015; amendments effective April 11, 2016). FINRA’s own description of prior practice: the offering price, typically \$10 per share, “often remains constant on customer account statements during this period even though various costs and fees have reduced investors’ principal and underlying assets may have decreased in value.” <https://www.finra.org/rules-guidance/notices/15-02>.

WHAT WE DO FROM HERE: *A Framework by Practitioner*

The prescriptive question is where the floor sits on who sells these funds, to whom, and with what informed consent. The connective thread is of course discretion: every role in the distribution chain holds discretion that no rule fully compels it to exercise. The provider's over where its product travels, the wholesaler's over what practice is taught, the advisor's over what a client understands, the industry body's over what competence means.

“
*The historical record
is a record of where
discretion declined.
What follows assigns
the floor by role.*

liquid assets, while private credit funds hold roughly half that share.¹¹ The third should be a plain-language disclosure anchored by a worked example, such as: in a quarter where requests reach twice the cap, here is the dollar amount a redeeming investor receives, here is what happens to the remainder, and here is how long a full exit takes if the condition persists. Disclosure language satisfies the lawyers, but the worked example satisfies the obligation.

PRODUCT PROVIDERS. The standard originates here, because every downstream actor inherits the provider's choices. Three obligations follow. The first is selective distribution: choosing platforms by demonstrated client fit rather than asset-gathering capacity. The second is realistic stress testing of the redemption program, which means modeling correlated request behavior, including the over-requesting reflex documented in 2008 and again in 2022–24, rather than average behavior; a liquidity sleeve calibrated to polite demand is calibrated to the state of the world in which it is unnecessary. The question is conveniently quantifiable: private equity evergreen funds hold on average 15 percent of portfolios in

WHOLESALERS AND DISTRIBUTION PROFESSIONALS. This is the highest-leverage education point in the chain and the role most exposed to volume-driven misalignment, since compensation rises with flows and flows rise fastest through the practices that ask the fewest questions. Treating fit as part of the job means training a practice on queue mechanics and proration arithmetic before the first ticket is written, and declining to place product into books whose clients cannot absorb a conditional exit; a wholesaler is frequently the only person in the chain positioned to know that early enough. Compensation design belongs on this list as well. A wholesaler paid identically for a well-placed dollar and a poorly placed one is paid a premium for the easier sale, since the poorly placed dollar is by construction the cheaper one to win.

ADVISORS. Fiduciary duty sits here, the last checkpoint before the gap between product and understanding becomes a client's problem. The obligations are concrete: explain the cap, the proration, the resubmission requirement, and the multi-year arithmetic of a full exit before subscription rather than during a stress event. Then, size the allocation by asking what share of this client's capital can be unavailable for three years without altering their life and record the client's understanding in writing, since an expectations letter disciplines both parties the way an investment policy statement does. Sizing has a second-order dimension, as evergreen marks move slowly while public holdings reprice daily. Therefore, a public market drawdown mechanically inflates the private allocation's weight, and the natural rebalancing trim runs into the redemption cap at the moment everyone else's does too. An allocation sized to survive that denominator effect without a stressed-market exit can remove the most predictable source of client pressure in advance.

INDUSTRY BODIES. Curriculum, credentialing, and the definition of competent practice sit with the associations, and this is where advance authorship of the standard becomes institutionally possible. A credentialing body can set the technical baseline for distributing conditional liquidity products. This may include redemption mechanics, liquidity sleeve analysis, NAV construction and its smoothing biases, the behavioral dynamics of queues, and can adopt and propagate the terminology reform of Section II, which costs nothing. It can also accelerate adoption of the emerging benchmark and disclosure infrastructure, such as the Morningstar PitchBook index suite,¹² as the reference standard in client reporting. These efforts are what stands between the industry and a definition of competence written for it by regulators after the next crisis.

¹¹ Morningstar data (semi-liquid private equity funds hold on average 15 percent of portfolios in liquid assets; private credit funds hold roughly half that share), as reported in Funds Society, op. cit., <https://www.fundssociety.com/en/news/alternatives/despite-concerns-evergreen-funds-continue-to-gain-traction/>.

¹² PitchBook, Q4 2025 US Evergreen Fund Landscape (wide performance dispersion across managers and asset classes in early index readings), <https://pitchbook.com/news/reports/q4-2025-us-evergreen-fund-landscape>.

THE PROBLEMS EVERGREENS SOLVE

Evergreen funds are pooled investment vehicles with no end date and raise capital continuously or at regular intervals, invest without a fixed termination, and let investors redeem periodically within explicit limits. In the United States, the category spans four main legal wrappers. Interval funds must, under Rule 23c-3 of the Investment Company Act, offer to repurchase between 5 and 25 percent of their shares at set intervals;¹³ tender offer funds repurchase when their boards choose to; and non-traded business development companies and non-traded REITs operate through board-approved repurchase plans. Whatever the wrapper, market practice has settled on a common formula: investors can redeem roughly 5 percent of net asset value per quarter, with non-traded REITs usually adding a monthly limit of 2 percent. When requests exceed the cap, everyone receives a proportional share and must resubmit for the rest. The cap sets the ceiling on how fast money can leave but, the queue determines what exiting actually *feels* like, and a rush of simultaneous redemptions can turn that queue into a bottleneck — and, often, into unnecessary panic.

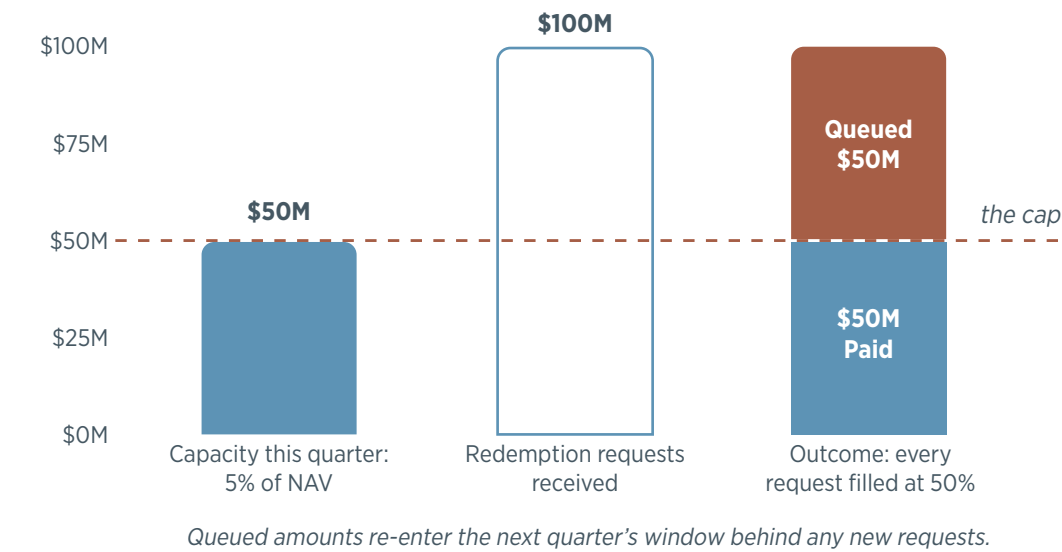
The design solves real problems with the traditional private fund model. A drawdown fund asks investors to commit capital that the manager calls unpredictably over several years, with returns typically negative in the early years while fees run ahead of gains (the J-curve). Building a sensible program means spreading commitments across several vintage years, meeting minimums sized for institutions, and absorbing tax paperwork that defeats many individual investors and the platforms that serve them.

¹³ Investment Company Act Rule 23c-3, 17 C.F.R. § 270.23c-3 (periodic repurchase offers of no less than 5 percent and no more than 25 percent of outstanding common stock), <https://www.ecfr.gov/current/title-17/chapter-II/part-270/section-270.23c-3>.

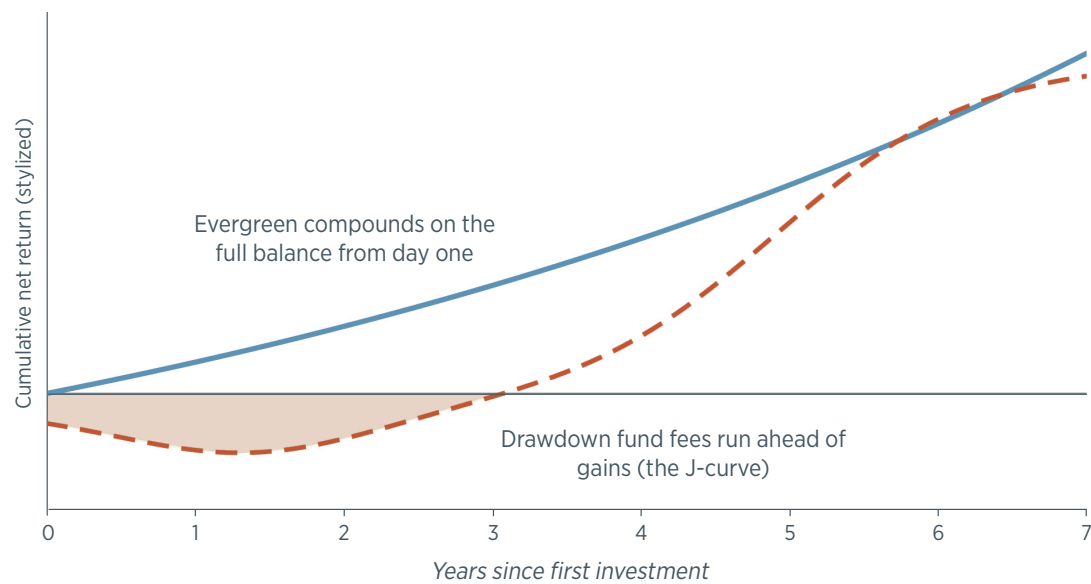
FIGURE 1.

The redemption cap, the queue, and the J-curve trade

A. One redemption window: \$1B fund, 5% quarterly cap



B. The trade investors accept: immediate deployment against capped exit



Note: Illustrative example; not to scale and not a forecast. Market practice pairs the quarterly cap of roughly 5 percent of net assets with, in the non-traded REIT format, a monthly sub-limit of 2 percent. Panel B is stylized to show the timing of returns, not their expected level.

The evergreen wrapper mitigates these frictions. In established funds, capital goes to work immediately in an existing portfolio and compounds without reinvestment decisions. One subscription replaces a multi-year commitment program, minimums fall by an order of magnitude or more, and registered structures issue a standard 1099 instead of a K-1. For the wealth channel, these barriers were always about operational plumbing, and rarely about investor sophistication.

FIGURE 2.

	DRAWDOWN FUND	EVERGREEN WRAPPER
Deployment	Capital called unpredictably over several years	Invested from day one into a working portfolio
Compounding	Distributions come back; investor must redeploy	Returns compound inside the fund automatically
Program Build	Commitments to several funds across vintage years	One subscription
Minimums	Institutional size	An order of magnitude lower, or more
Tax Reporting	K-1 partnership forms	Standard 1099

One qualification deserves emphasis: the J-curve mitigation is a property of portfolio maturity, not of the wrapper itself. An investor entering an established fund buys a seasoned, time-diversified book; an investor subscribing at or near launch does not, because few funds open with a diversified portfolio on day one. And because more than half of today’s universe has operated for fewer than four years, a meaningful share of current evergreen investors entered close enough to launch to have lived through this experience. Fund maturity therefore belongs on the diligence checklist alongside strategy and fees.

The structure fits some asset classes far better than others. Private credit is a natural tenant. Loans pay interest and repay principal on a schedule, and that steady cash flow can fund redemptions without forced sales. It is no accident that direct lending is the largest evergreen strategy, at \$236.7 billion in AUM at year-end 2025.¹⁴ Core real assets and infrastructure share that income orientation. The fit weakens where returns arrive in large, unpredictable lumps, as in early-stage venture and traditional buyouts. Those strategies need bigger cash reserves, slower deployment, or regular secondary sales to keep the redemption promise credible.

The economics involve a trade. Relative to a drawdown fund, the evergreen investor accepts three costs: part of the portfolio sits in cash and liquid securities to fund redemptions, diluting the private exposure the investor came for; fees are layered, pushing median expense ratios above 3 percent;¹⁵ and continuous inflows mean the manager must sometimes invest on the market’s schedule rather than the opportunity’s. In exchange, capital is deployed from day one and compounds on the whole balance, which typically beats a drawdown commitment that spends its early years partly idle. Whether the trade favors a given investor depends on horizon, on what the uncommitted capital would otherwise have earned, and on the manager’s discipline when inflows are heavy. Put simply, the structure converts an institutional cash management problem into a fee, and the fee is worth paying by investors who lack the apparatus to manage that problem themselves.

There is likewise a suitable investor for whom the format works exactly as intended: a long horizon, spending needs covered comfortably by other assets, an allocation sized so that a delayed or partial exit is an inconvenience rather than a hardship, and an understanding, (before subscribing), that the ability to redeem depends on how many other investors want out at the same time. For that investor, an evergreen vehicle can beat the drawdown alternative on access, compounding, and simplicity. The argument here concerns the perimeter of appropriate use, and who bears responsibility for holding it.

¹⁴ Morningstar and PitchBook, *The Evergreen Fund Landscape*, op. cit. (direct lending AUM of \$236.7 billion at year-end 2025, the largest strategy in the universe), <https://www.wealthmanagement.com/alternative-investments/morningstar-evergreen-fund-aum-grew-by-25-in-2025>.

¹⁵ Morningstar, “New Quarterly Report from Morningstar and PitchBook Brings Transparency to Rapidly Expanding Evergreen Fund Universe,” December 2025 (median expense ratios above 3 percent across the evergreen universe), <https://newsroom.morningstar.com/news/news-details/2025/New-Quarterly-Report-from-Morningstar-and-PitchBook-Brings-Transparency-to-Rapidly-Expanding-Evergreen-Fund-Universe/default.aspx>.

WE HAVE BEEN HERE BEFORE

Every prior expansion of access to alternatives has followed a recognizable anatomy. A structure emerges that solves a real problem for a real investor. A distribution channel compensated on volume compresses the structure's limits into a footnote, a selling point, or an omission. Investors act rationally on the incomplete picture they were given. A stress event then reveals the distance between the product as sold and the product as built, and the reaction is calibrated to the surprise rather than to the economic loss. Reform then arrives, usually from outside, and the structure survives in improved form. Importantly, prohibition is almost never the outcome. Three recent episodes illustrate the sequence, and each maps onto a specific pressure point in today's evergreen market.

A. NON-TRADED REITS:

A Broken Distribution Model Around a Sound Product

The non-traded REIT of the 2000s and early 2010s offered the legitimate proposition of income-producing commercial real estate in an unlisted wrapper, at accessible minimums, and was durable enough that its successors now manage roughly \$90 billion. What failed was the apparatus around it. Combined selling and offering costs were permitted to reach 15 percent of gross proceeds under FINRA Rule 2310,¹⁶ and account statements displayed the \$10 offering price as the security's estimated value for as long as seven and a half years, in FINRA's own words, remaining constant "even though various costs and fees have reduced investors' principal and underlying assets may have decreased in value."¹⁷ Investors who believed they held a stable \$10 asset paying a reliable distribution discovered, at a liquidity event or revaluation, that the distribution had in some programs been funded partly from their own capital and that value had eroded for years while their statements said otherwise.

¹⁶ FINRA Rule 2310 (Direct Participation Programs), which caps total organization and offering expenses, including selling compensation, at 15 percent of gross offering proceeds, <https://www.finra.org/rules-guidance/rulebooks/finra-rules/2310>.

¹⁷ FINRA Regulatory Notice 15-02, op. cit., <https://www.finra.org/rules-guidance/notices/15-02>.

NON-TRADED REITS
The Lesson:
Suitability failed.
What Survived:
The structure.

HEDGE FUND GATES
The Lesson: Liquidity
restrictions worked
as designed. Investor
expectations did not.
What Survived:
The mechanism
endured. The surprise
around it became
the real source of
damage.

Suitability arbitration accumulated, and reform arrived from outside with FINRA Regulatory Notice 15-02, which required statement values based on net investment or independent appraisal rather than the offering price.¹⁸ The product concept survived and improved: today's NAV REITs carry institutional sponsorship, regular independent valuation, and materially lower loads. The structure outlived the practices, a signature of the pattern.

B. HEDGE FUND GATES IN 2008

The second episode concerns the redemption machinery itself, and this distinction matters. Investor-level gates, which cap what any single investor may redeem in a period, are explicit and mechanical as they induce neither gaming nor grievance. Fund-level gates give the manager the right, but not the obligation, to cap aggregate redemptions above a threshold, and before 2008, many LPs had never seen one triggered. In the autumn of 2008 the provision moved from afterthought to front page: by October, roughly 18 percent of hedge fund industry assets were subject to withdrawal restrictions,¹⁹ at an implied cost estimated at 5 to 15 percent of investment value.²⁰

The mechanism performed its task, slowing exits and protecting remaining investors from subsidizing those who left first, but as investor relations, it was a disaster. Some gated LPs wanted their money back at any cost, while others understood that liquidating into that market would have come at a substantial loss. The most corrosive reaction attached to the legitimate concern was that some managers were gating not to prevent forced liquidations but to hoard assets and keep fee income high. To say the least, discretion that cannot be distinguished from self-dealing ends up taxing every manager exercising it honestly. The surprise also made the underlying problem worse: investors learned to request early and to inflate requests in anticipation of proration, so queues overstated true demand, and a raised gate advertised distress whether or not distress existed (sound familiar?). The design assumed informed counterparties, but the information had never truly been delivered. The relevance to a retail-adjacent channel operating similar machinery, with less experience of it, requires little elaboration.

¹⁸ FINRA Regulatory Notice 15-02, op. cit., <https://www.finra.org/rules-guidance/notices/15-02>.

¹⁹ Nicolas Bollen's analysis of hedge fund liquidity restrictions, Vanderbilt Owen Graduate School of Management, "The Cost of Hedge Fund Restrictions," citing GFIA data (approximately 18 percent of hedge fund industry assets subject to withdrawal restrictions as of October 2008) and estimating the implied cost of redemption restrictions at 5 to 15 percent of investment value, <https://blogs.owen.vanderbilt.edu/vanderbiltbusiness/the-cost-of-hedge-fund-restrictions/>.

²⁰ Bollen, op. cit., <https://blogs.owen.vanderbilt.edu/vanderbiltbusiness/the-cost-of-hedge-fund-restrictions/>.

C. THE RESERVE PRIMARY FUND:
Panic Calibrated to Surprise, Then Reform That Misfired

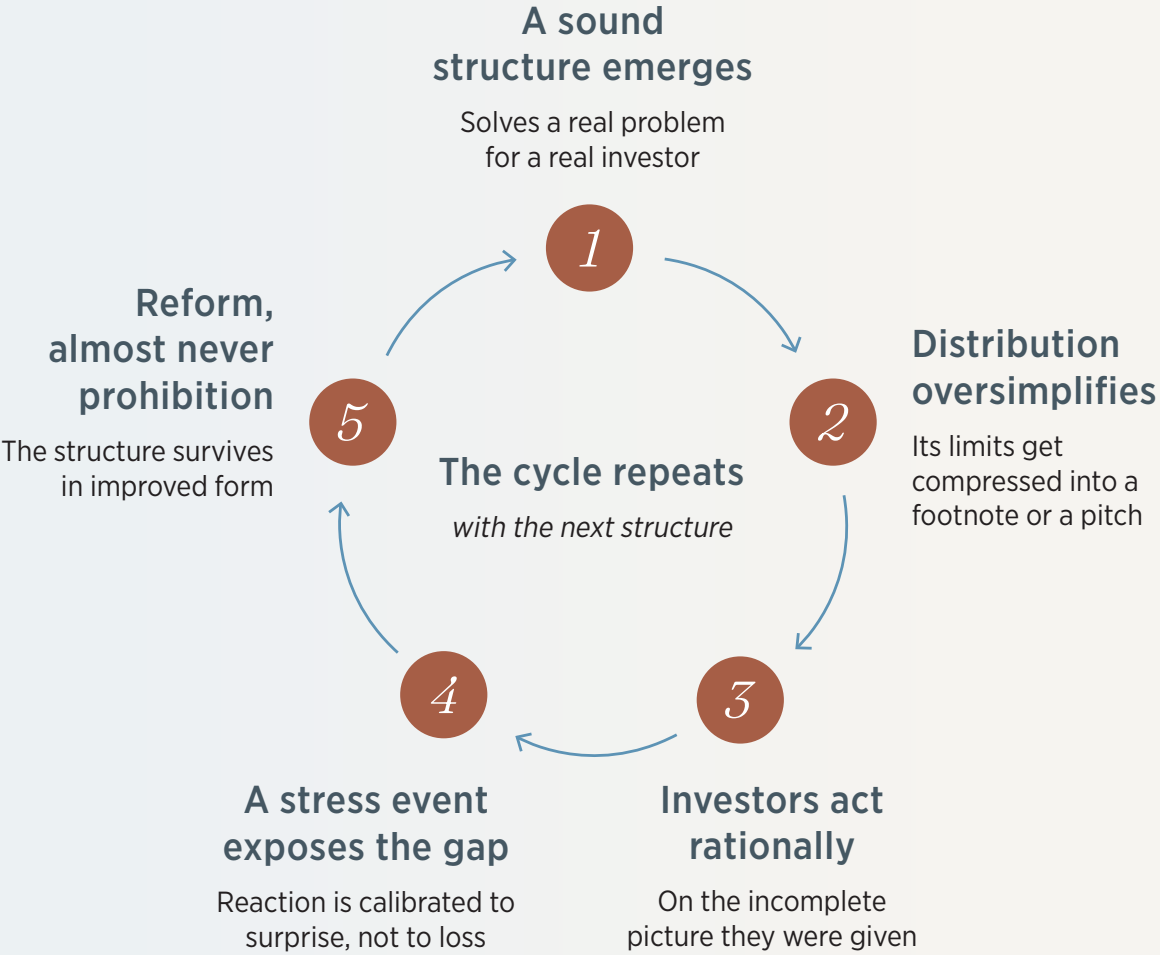
The third episode is the sharpest illustration of the gap between economic loss and investor reaction. In September 2008, the Reserve Primary Fund held \$62.5 billion in assets, of which 1.2 percent sat in Lehman Brothers commercial paper. Within two days of Lehman's bankruptcy, redemption requests exceeded \$40 billion;²¹ the trustees wrote the position to zero, and the net asset value fell to \$0.97, the first retail money market fund ever to break the buck.²² Investors ultimately recovered 99.1 cents on the dollar.²³ A terminal loss of nine-tenths of one cent per dollar nonetheless produced a run measured in tens of billions, industry-wide contagion, and an extraordinary federal guarantee program, because the stable dollar had been absorbed as a guarantee when it was a convention resting on amortized-cost accounting and sponsor support. The reaction priced the broken promise, not the loss. The aftermath carries its own lesson: the SEC's 2014 reforms added liquidity fees and redemption gates,²⁴ and in 2023 the Commission removed the gate provisions after concluding that the prospect of a gate had itself accelerated preemptive redemptions in March 2020.²⁵ Reform written under duress, at a distance from the product, can institutionalize the wrong mechanism and require a second reform to undo the first.

RESERVE PRIMARY FUND

The Lesson:
Investors reacted to a broken expectation more than an economic loss.

What Survived:
Money market funds remained. The rules governing them did not.

FIGURE 3.
The anatomy of the pattern



Note: The sequence recurs across the episodes examined in Section III: non-traded REITs (2000s-2016), hedge fund gates (2008), and the Reserve Primary Fund (2008-2014). The open question at stage five is authorship: reform written in advance by practitioners who understand the product, or afterward by parties who do not.

²¹ Anmol Makhija, "United States: Reserve Primary Fund Suspension, 2008," *Journal of Financial Crises* 7, no. 2, Yale Program on Financial Stability (\$62.5 billion in assets; \$785 million in Lehman Brothers commercial paper, 1.2 percent of AUM; redemption requests above \$40 billion within two days), <https://elischolar.library.yale.edu/journal-of-financial-crises/vol7/iss2/9/>.

²² In re The Reserve Primary Fund, opinion of Judge Paul G. Gardephe, U.S. District Court, S.D.N.Y. (trustees' write-down of the Lehman position to zero produced a net asset value of \$0.97 per share on September 16, 2008), available via SEC.gov, https://www.sec.gov/spotlight/reserve_primary_fund_investors/gardephe_opinion.pdf.

²³ Makhija, op. cit. (recoveries of roughly half of assets by end-October 2008, 79 cents on the dollar by early December 2008, 99 cents within two years, and 99.1 cents at the final distribution in December 2014), <https://elischolar.library.yale.edu/journal-of-financial-crises/vol7/iss2/9/>.

²⁴ U.S. Securities and Exchange Commission, "SEC Adopts Money Market Fund Reform Rules," Press Release 2014-143, July 23, 2014 (floating NAV for institutional prime funds; liquidity fees and redemption gates), <https://www.sec.gov/news/press-release/2014-143>.

²⁵ U.S. Securities and Exchange Commission, "SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers," Press Release 2023-129, July 12, 2023 (removal of the temporary redemption gate provisions adopted in 2014), <https://www.sec.gov/news/press-release/2023-129>.

D. THE CONNECTING THREAD

The three episodes differ in wrapper, asset class, and investor base, but they converge on a single sequence. In each case, the structure was defensible and survived. In each case, the failure occurred in the transmission of the structure's limits: statement values that flattered, liquidity terms absorbed as entitlements, and an implicit promise mistaken for a guarantee. Investors behaved rationally given what they had been told, the stress event punished the gap rather than the design, and the reform that followed was written after the fact, from outside, at a cost in precision and trust that advance self-regulation would have avoided.

The evergreen market of 2026 contains every ingredient of the sequence: a sound structure, a fast-moving distribution channel, an investor base new to the machinery, and a vocabulary that flatters the product's liquidity. What remains open — and where the opportunity still lies — is the authorship of stage five. The participants who understand these vehicles can define the standard now, or it will be defined for them by regulators, plaintiffs' counsel, and headline writers after the first serious stress event, and defined less well.

The conventional postmortem of every episode arrives at the same conclusion: the investors were insufficiently educated in what they held. The diagnosis may be accurate, but it is beside the point. A product built with known hemorrhage points, by professionals who have watched the same sequence play out three times in living memory, carries those lessons as design requirements. This is all to say that ignoring them is a choice rather than an oversight.

The analogy is unflattering but hard to ignore:

Imagine cutting a sinkhole into a major highway, mailing out pamphlets warning of the sinkhole, and then blaming the out-of-state drivers who fall in for not reading their mail.

THE CONNECTING THREAD
The Lesson: Markets rarely fail because the structure breaks. They fail because investors discover the structure too late.

What Comes Next:
The evergreen market still has the opportunity to write its own standard—before someone else writes it instead.

The driver population is never fixed. New and more varied participants enter constantly, which is exactly the outcome the democratization project celebrates. Yet, an industry cannot recruit drivers from everywhere while designing roads only for locals. Handing over a prospectus discharges the legal duty while leaving the behavioral one untouched, and the behavioral one is where every prior episode collapsed.

A harder case also deserves mention: the investor who has been misled about nothing. The LP who understands the gates and the mechanics yet remains a poor fit because their assessment of their own liquidity needs and behavioral tolerance is unrealistic. A retail investor who was misled and a seasoned LP who chose to test their limits are different problems, but they teach the anatomy's most durable lesson: human nature does not change easily, and in every case examined here, investor behavior mattered more than economic loss. A product can be mathematically and legally sound and still answer the wrong question. What investors purchase, however casse-cou they fancy themselves, is peace of mind with an edge of adventure: the feeling of leaving home while knowing home remains within reach. A product designed without that psychology has omitted its most load-bearing component. To build against a record this well documented, and then assign the failure to investor education completely, invites a harder question than negligence: how a future arbitration panel, or a future Congress, will characterize the knowledge that was in the room when the product, and its commission structure, was designed.

In short, why do we keep drilling sinkholes if a constant pipeline of new, inexperienced drivers is on the way?

“Why aren't we building smarter products when we know our troubled history well enough to anticipate a repeat? Surely there is a point where reason overcomes appetite, however low the commission fruit hangs.

WHERE THE LEGITIMATE CONCERNS LIVE

Honest advocacy for the structure requires an honest catalogue of its pressure points. Four stand out, and each descends directly from one of the historical episodes above.

Distribution

Volume-compensated channels are carrying a young product to ever-smaller investors, faster than suitability discipline is following.

Redemption

The caps work as designed. Investors who never learned the queue over-request and convert a functioning mechanism into an apparent run.

Valuation

Everyone transacts at NAV, so stale marks become a wealth transfer between redeeming and remaining investors.

Media

Coverage that reads a queue as a collapse can manufacture the run it reports, and the industry has not taught anyone to read it otherwise.

A. DISTRIBUTION CHANNEL MISMATCH: THE REIT PROBLEM

Wealth investors now represent approximately one-fifth of evergreen AUM, and the asset base grew more than 30 percent in the twelve months through September 2025.²⁶ Median expense ratios exceed 3 percent, with wide dispersion driven by layered fee structures.²⁷ More than half the funds in the universe have operated for fewer than four years,²⁸ which means a majority of managers

have never run a redemption program through a full credit cycle, and a majority of the advisors distributing these funds have never watched one operate under stress. The channel’s expectations are racing ahead of its experience. In a 2025 State Street survey, 55 percent of investment firms said they expect at least half of private markets fundraising to arrive through semiliquid vehicles aimed at retail investors, potentially within two years.²⁹ The preconditions of the non-traded REIT era are assembled in updated form: volume-compensated distribution, complex fee stacks, a young product set, and an investor population that has not yet been surprised. Sponsorship quality is higher, and loads are lower than in the 2000s, which improves the odds considerably. The vector, however, is identical, and it runs through suitability.

The risk steepens as the wrapper travels down the accreditation scale. Registered interval and tender offer funds reach non-accredited investors at mass-affluent minimums, and the push toward private market exposure inside defined contribution plans extends the gradient further.

“The suitability calculus that works at a \$5 million portfolio, where a gated 5 percent allocation is an annoyance, works very differently at \$500,000, where the same allocation may represent a home repair, a tuition payment, or a bridge through unemployment. The fund is identical at both wealth levels, but what changes is how much a locked-up dollar hurts.

²⁶ MSCI Research, “The Ascendancy and Implications of Evergreen Funds in Private Markets” (wealth investors represent approximately one-fifth of evergreen AUM; assets grew more than 30 percent in the twelve months through September 2025), <https://www.msci.com/research-and-insights/blog-post/the-ascendancy-and-implications-of-evergreen-funds-in-private-markets>.

²⁷ Morningstar, “New Quarterly Report from Morningstar and PitchBook Brings Transparency to Rapidly Expanding Evergreen Fund Universe,” op. cit., <https://newsroom.morningstar.com/news/news-details/2025/New-Quarterly-Report-from-Morningstar-and-PitchBook-Brings-Transparency-to-Rapidly-Expanding-Evergreen-Fund-Universe/default.aspx>.

²⁸ Morgan Stanley Investment Management, op. cit., citing PitchBook data as of November 30, 2025, <https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/evergreen-private-equity-funds.html>.

²⁹ State Street 2025 survey of investment firms (55 percent of respondents expect at least half of private markets fundraising to come through semiliquid vehicles focused on retail investors, potentially within two years), as cited in RSM US, “The Funds That Never End: Why Evergreen Fund Structures Are Here to Stay,” <https://rsmus.com/insights/industries/financial-services/evergreen-funds-rise-in-asset-management.html>.

B. REDEMPTION ARCHITECTURE UNDER STRESS: THE GATE PROBLEM

The most instructive modern test of evergreen redemption machinery is Blackstone’s non-traded REIT, BREIT. Beginning in November 2022, repurchase requests exceeded the fund’s 2 percent monthly and 5 percent quarterly limits, triggering proration that persisted for fifteen consecutive months; the fund returned more than \$15 billion to redeeming shareholders before February 2024 became the first month in which all requests were met in full.³⁰ The architecture performed as designed with no suspension, no fire sale, and no failure; investors who queued received their capital over time at NAV — yet the episode demonstrated how thoroughly the queue surprised a channel that had marketed monthly liquidity as a headline feature, and how quickly a functioning mechanism becomes a national news story when investors did not know it existed.

The private credit version arrived on schedule. In late 2025 and early 2026, redemption requests across several large evergreen credit funds exceeded the typical quarterly caps of 5 percent of NAV.³¹ The arithmetic of that cap deserves to be stated plainly because, while it appears in every prospectus, no rule requires any document to show investors what it compounds into across a multi-quarter queue. A full exit under sustained proration can take years, with partial payments at each window and continued exposure to the portfolio in the interim. Rational investors who understand this respond exactly as hedge fund investors did in 2008 (requesting early and requesting more than they need), inflating the queue and converting a manageable liquidity event into an apparent run. The mechanism that protects the fund simultaneously manufactures the appearance of distress. Managing that reflexivity is an education problem before it is a portfolio problem.

C. VALUATION OPACITY AND NAV SMOOTHING: The Reserve Primary Problem

Evergreen investors transact at NAV, and NAV in these vehicles rests on appraisal-based or model-based marks rather than continuous market prices. The smoothing consequences are well

documented — understated volatility, dampened correlation with public markets, marks that can lag fair value by quarters — but in an evergreen wrapper the stakes are higher than in a drawdown fund, because investors continuously subscribe and redeem at the reported number. If reported NAV sits above realizable value in a falling market, every redeeming shareholder is paid out of the remaining shareholders’ capital at a premium, and every subscriber overpays for entry; if NAV lags a recovery, the transfer runs the other way. Sophisticated holders who suspect staleness have an incentive to redeem before marks adjust, which loads the queue with precisely the investors best equipped to read the fund and leaves the least informed holding the eventual write-down. Early readings from the Morningstar PitchBook indexes show wide performance dispersion across nominally similar strategies,³² which is partly a fact about skill and partly a fact about marks.

A drawdown fund’s marks can be equally stale with no such consequence, because nobody transacts on them. The evergreen wrapper, however, converts a measurement problem into a fairness problem. The Reserve Primary lesson applies clearly, as when investors discover that reported values were softer than believed, the reaction is calibrated to the breach of trust rather than the economic magnitude, and trust breaks nonlinearly. A fund that has smoothed its way through a downturn has borrowed credibility from its own future, at an interest rate that only becomes visible under stress.

D. MEDIA CONFLATION OF REDEMPTION REQUESTS WITH FUND FAILURE

The fourth pressure point sits in the interpretive layer between fund mechanics and investor behavior. Coverage of the 2025–26 credit redemptions repeatedly presented queues at the cap as evidence of failure. Context suggests a more measured reading: Morningstar notes that close to 94 percent of actively managed funds and ETFs have experienced at least one quarter with outflows above 5 percent of assets, which makes an evergreen fund paying out its full quarterly cap

³⁰ Bloomberg reporting via InvestmentNews, “Blackstone REIT Hits Key Milestone, Lifts Redemption Limit,” March 2024 (proration from November 2022; February 2024 requests of \$961 million, down 82 percent from the January 2023 peak, fulfilled in full), <https://www.investmentnews.com/alternatives/blackstone-reit-hits-key-milestone-lifts-redemption-limit/250253>; and The Real Deal, “BREIT Fulfilled Every Redemption Request in February,” March 4, 2024 (more than \$15 billion returned to redeeming shareholders during the restriction period), <https://therealdeal.com/national/2024/03/04/breit-fulfilled-every-redemption-request-in-february/>.

³¹ Morningstar and PitchBook, *The Evergreen Fund Landscape*, Q1 2026, op. cit., <https://finance.yahoo.com/markets/stocks/articles/morningstar-pitchbook-evergreen-funds-grow-203816594.html>.

³² PitchBook, *Q4 2025 US Evergreen Fund Landscape*, op. cit., <https://pitchbook.com/news/reports/q4-2025-us-evergreen-fund-landscape>.

³³ Morningstar data as reported in the Q1 2026 *Evergreen Fund Landscape* coverage, op. cit. (close to 94 percent of all actively managed funds and ETFs experienced at least one quarter with outflows above 5 percent of assets; 78.5 percent experienced at least one twelve-month period with outflows above 20 percent), <https://finance.yahoo.com/markets/stocks/articles/morningstar-pitchbook-evergreen-funds-grow-203816594.html>.

unremarkable by the standards of conventional fund management.³³ The sentiment transmission was nonetheless real — the VanEck BDC Income ETF, a public proxy for the sector, lost 15 percent of its value in January and February 2026,³⁴ even as the universe grew to \$607 billion across 567 funds, with alternative credit interval and tender offer funds recording \$12.3 billion in positive net flows over the trailing twelve months.³⁵

The conflation matters because it is itself a risk channel: coverage that reads a queue as a collapse can manufacture the run it reports. It would be convenient to file this under media illiteracy and move on. The harder truth is that the industry built its exposure to the conflation. Press corporations and investor bases that were taught precisely and in advance what a proration event looks like, and why it exists, would have less raw material for alarm. Comprehension is part of the product’s operating environment, and the industry is the only party positioned to supply it.

³⁴ Morningstar research as reported in Misonzhnik, op. cit. (the VanEck BDC Income ETF, tracking a market-cap-weighted BDC index, lost 15 percent of its value in January and February 2026), <https://www.wealthmanagement.com/alternative-investments/morningstar-evergreen-fund-aum-grew-by-25-in-2025>.

³⁵ Morningstar and PitchBook, Q1 2026, op. cit. (interval and tender offer funds focused on alternative credit recorded \$12.3 billion in net flows in the twelve months through March 2026; direct lending recorded \$6.3 billion; the Morningstar PitchBook US Evergreen Fund Index returned 1.6 percent year-to-date through April 2026 versus 7.4 percent in 2025), <https://finance.yahoo.com/markets/stocks/articles/morningstar-pitchbook-evergreen-funds-grow-203816594.html>.

CONCLUSION

THE CHOICE

WRITE THE STANDARD NOW

- Industry-led
- Better disclosure
- Better suitability
- Better trust

WAIT FOR THE NEXT CRISIS

- Regulation
- Litigation
- Headlines
- Lost trust

The incentives that created evergreen funds are durable on every side of the market. General partners want permanent capital and have found the wealth channel underallocated, and advisors want private market access that fits inside their operating model. Investors want the return streams and new economy exposure that a shrinking public market no longer supplies, and the regulatory current is running toward broader access, including through retirement accounts. Vehicles this well aligned with their environment persist. The productive response to persistence is to raise the floor now, while the raising is voluntary, rather than to wait for a stress event to set the floor by force and set it badly, as the fates of money market redemption gates demonstrate it can.³⁶

In every prior episode, the structure survived and the practices reformed; the damage concentrated in misapplication, in the sale of a sound vehicle to an investor who had been given an unsound description of it. Evergreen funds deserve their place in the toolkit, for the right investor, at the right size, with the right understanding, and each of those qualifiers names a human decision made somewhere along the distribution chain. Providers decide where the product travels. Wholesalers decide what practice is taught. Advisors decide what is communicated to a client. Industry bodies decide what competence means, and what the product is called. Holding the standard is shared work, and the era in which it can be done by choice is the era currently open. The hope is we collectively work to share in the responsibility of improvement before the choice is made for us.

³⁶ U.S. Securities and Exchange Commission, Press Release 2023-129, op. cit., <https://www.sec.gov/news/press-release/2023-129>.

THE RESPONSIBILITY AHEAD

Evergreen funds have opened private markets to a broader group of investors.

That access is meaningful. So are the obligations that come with it.

Their durability will depend as much on how they are used as on how they are designed.

The opportunity is to get the standard right while the industry still has the chance to set it.

ACKNOWLEDGEMENTS

AUTHOR

Georgina Tzanetos
Director of Content
CAIA Association

EDITORIAL

John Bowman, CFA
Chief Executive Officer
CAIA Association

Dianne Regnier
Director of Content Marketing & Brand Strategy
CAIA Association

Aaron Filbeck, CFA, CAIA, CFP®, CIPM, FDP
Senior Director of Investments
Waldron Private Wealth

ABOUT CAIA ASSOCIATION

CAIA Association is a global network of forward-thinking investment professionals, redefining the future of capital allocation in a world where traditional and alternatives converge. United by a commitment to improving investment outcomes, we lead with authority, educate to inspire, and connect people who turn insight into action.

To learn more about the CAIA Association and how to become part of the most energized professional network shaping the future of investing, please visit us at <https://caia.org/>.



CAIA
ASSOCIATION

CAIA.org