

Evergreen Private Equity for the Long Run

September 24, 2025

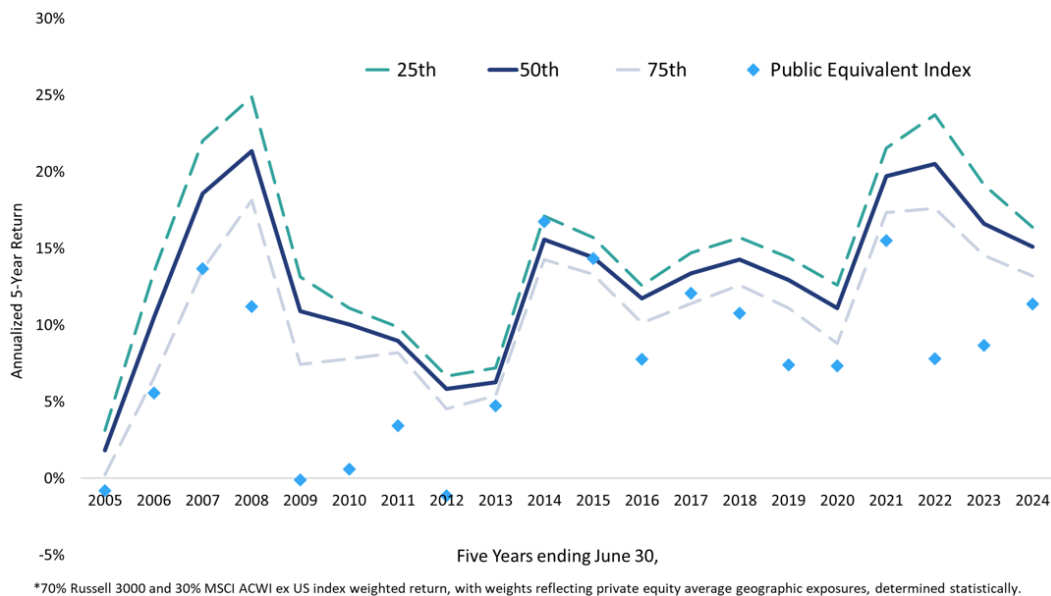
Private equity (“PE”) has long been one of the most consistent sources of long-term wealth creation. Yet for decades, access was largely limited to closed-end, drawdown-style funds designed for institutions, not individuals. Evergreen¹ PE funds are changing that dynamic by pairing institutional-quality portfolios with investor-friendly structures.

This paper reinforces the case for PE, explains why institutions have captured those returns through drawdown fund structures, and shows how evergreen solutions can bridge the gap for individual investors. Along the way, it responds directly to common critiques of evergreen funds — including concerns about fees, reliance on secondaries, valuation integrity, and liquidity management — and highlights how next-generation solutions are improving upon the shortcomings of first-generation structures. We also introduce the Cliffwater Evergreen Private Equity Index and outline best practices, culminating in the “Evergreen Flywheel,” a blueprint for building perpetual motion in private equity.

Introduction

For nearly a quarter century, PE has delivered annualized net returns of 10.7% across U.S. state pension allocations², outpacing a global mix of public equities by more than 400 basis points. On a five-year rolling basis, PE has beaten public equities more than 90% of the time. The persistence of this advantage confirms private equity’s role as one of the most effective long-term asset classes for compounding wealth.

Exhibit 1: Percentile Distribution of Five-Year Rolling Private Equity Net Returns among State Pensions³



¹ Aka “perpetual” or “semiliquid.”

² Cliffwater Research “Long-Term Private Equity Performance: 2000 to 2024”.

³ Cliffwater Research “Expectations for Private Equity Returns” (October 2024). Percentile distribution of state fund private equity returns over the entire 23-year period are: 14.8% (maximum), 11.4% (25th percentile), 11.1% (50th percentile), 10.5% (75th percentile), 8.4% (minimum).

Drawdown vs. Evergreen: Tale of the Tape

We believe drawdown funds remain the institutional archetype. They offer measured pacing of capital deployment, close alignment of interests, and direct access to established managers. Yet they impose real costs: years of cash drag during ramp-up, uncertain and variable cash flows, and a significant administrative burden.

Evergreen funds reimagine the experience, reducing line-item fatigue along the way. Investors gain immediate exposure to diversified portfolios, allowing compounding to begin right away rather than waiting years for capital to be drawn and deployed. As highlighted in Exhibit 2, evergreen structures broaden investor eligibility, simplify tax and performance reporting, and offer periodic access to liquidity. These may appear like conveniences, but for many investors, they are critical structural advantages that reduce friction.

Exhibit 2: Innovation in Product Design⁴

		Drawdown Funds	Evergreen Funds
1	Fund Structure	Closed-end limited partnership, exempt from '40 Act	RIC under '40 Act, or exempt under 3(c)(7)
2	Fund Lifespan	10-15 Years	Perpetual
3	Investor Eligibility	Qualified Purchaser	Qualified Client Accredited Investor Sub-Accredited
4	Fundraising	Episodic	Continuous
5	Subscriptions	Capital commitment drawdown over multiyear investment period	Daily or Monthly
6	Liquidity	GP determined (7-12 years)	Typically quarterly/semiannually as set in regulatory filings Subject to limitations
7	Valuation	Quarterly, lagged 1-2 months	Daily or Monthly
8	Investment Minimums	High	Low
9	Performance Fees	Yes	Varies
10	Tax Reporting	K-1	Typically 1099

Skepticism naturally arises whenever investments become more “democratized.” Investors often assume the worst, that with greater convenience comes a tradeoff in quality, cost, or both. But history reveals plentiful examples where innovation has made products easier to use while also improving quality and/or lowering cost. Look no further than Netflix, Uber, and Spotify, to name a few. Similarly, private equity has progressed from cumbersome drawdown funds to purpose-built evergreen solutions.

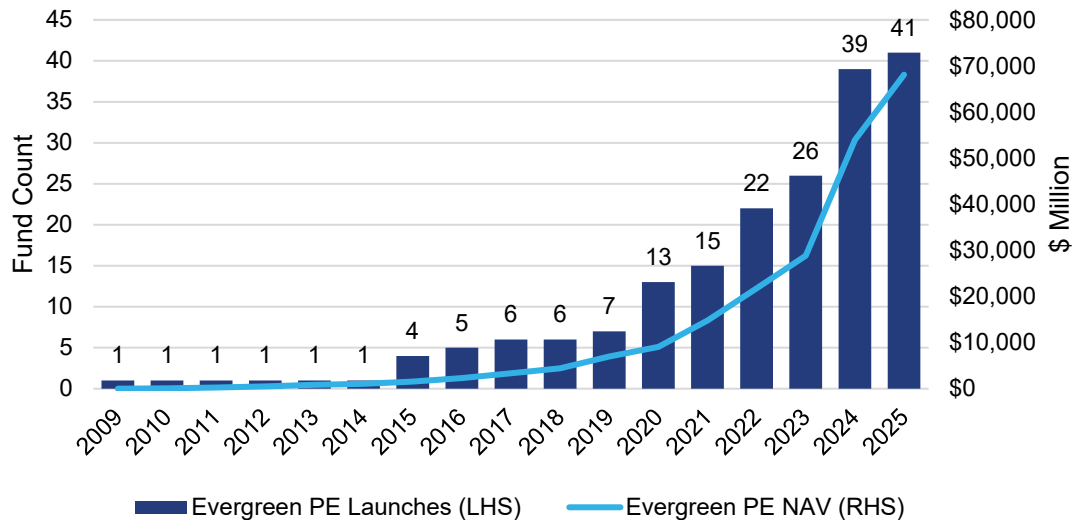
The Evolution of Evergreen PE

The first wave of evergreen private equity funds appeared in the late 2000s, pioneered by managers such as Partners Group. By 2018, only half a dozen funds existed, with minimal assets. These evergreen 1.0 vehicles generally disappointed investors, hampered by high fees, cash drag, suboptimal portfolio construction, and inefficient liquidity management.

⁴ For illustrative purposes only. Represents general characteristics of Drawdown Funds and Evergreen Funds observed by Cliffwater.

As the timeline in Exhibit 3 illustrates, momentum has shifted in recent years. Since 2019, the number of evergreen funds has more than quintupled and net asset value (NAV) has grown sharply. As of June 30, 2025, there are over 40 evergreen PE funds with aggregate NAV greater than \$68 billion.

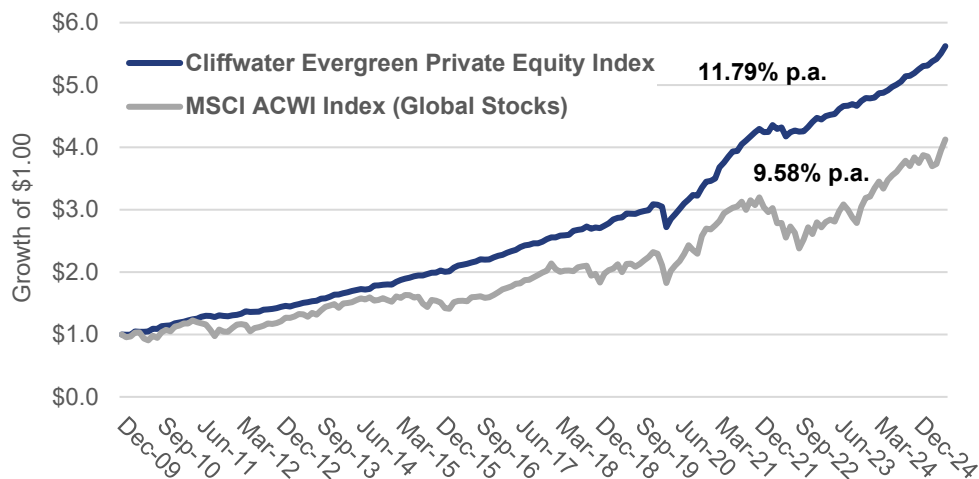
Exhibit 3: A Timeline of Evergreen PE Fund Launches



What changed? Fees became more competitive. Liability management matured into a dedicated discipline on par with asset management. Portfolios diversified into co-investments and GP-led continuation vehicles, alongside traditional LP-led secondaries and primary fund commitments. Valuations began to incorporate public market beta adjustments. The result is a category that looks less like an experiment and more like an attractive pool of high-quality solutions for private wealth investors.

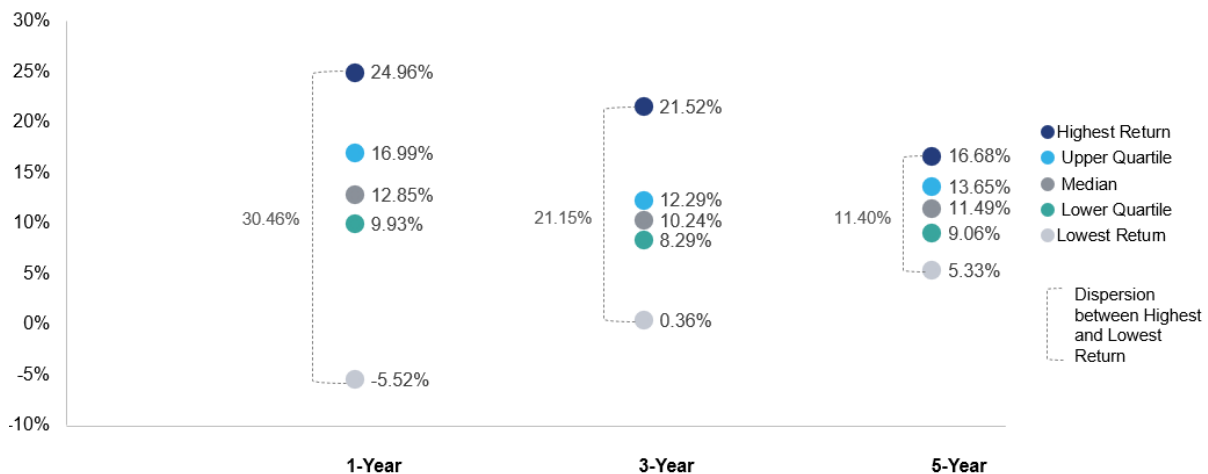
The **Cliffwater Evergreen Private Equity Index (“CEPEI” or the “Index”)**, introduced in 2025, provides the first comprehensive benchmark for this growing universe. CEPEI currently tracks 29 funds with \$65 billion in net assets (as of August 31, 2025), offering a representative picture of the category’s rapid expansion. Since its inception at the end of 2009, the Index has delivered a 2.2% annual return premium over global public equities (MSCI ACWI), while also exhibiting lower standard deviation (5.1% vs. 14.6%) and moderate correlation (0.60) — reinforcing the complementary role evergreen PE can play in diversified portfolios.

Exhibit 4: Cliffwater Evergreen Private Equity Index (CEPEI) Performance, Dec 31, 2009, to June 30, 2025



The variability of individual fund returns across index constituents is worth digging into, which Exhibit 5 depicts. We limit our window to the last five years given the limited sample size going back any further. What becomes obvious is that much like traditional PE, dispersion is quite high in evergreen PE funds, underscoring the importance of manager selection and the deep level of diligence allocators must undertake when evaluating the opportunity set.

Exhibit 5: Evergreen Private Equity Fund Performance Dispersion (annualized time-weighted returns as of June 30, 2025)



The sections that follow emphasize the focus areas of due diligence that may separate the wheat from the chaff in identifying evergreen PE funds built for long-run success.

Best Practices for Long-Run Success

Evergreen PE succeeds not through shortcuts, but through deliberate design. Several best practices stand out:

1. **Liquidity and Liability Management.** Align redemption terms with portfolio duration, maintain diversified financing lines, and stress-test for draconian redemption scenarios.
2. **Valuation Integrity.** Pragmatic, conservative pricing methodologies build investor trust and mitigate NAV distortion risk.
3. **Fee Efficiency.** Co-investments can reduce acquired fund fees and expenses, helping to offset the cost drag of secondary-heavy portfolios.
4. **Platform Focus.** Evergreen is its own sport. Running perpetual funds requires infrastructure distinct from drawdown funds.
5. **Balanced Portfolio Construction.** Durable evergreen funds balance across managers and strategies, diversifying by asset type and transaction type to smooth the shape of returns.

Liquidity and Liability Management

Liability management is the foundation of any credible evergreen structure. Promising more liquidity than the portfolio can deliver is a recipe for stress and potential failure⁵. The best managers carefully match redemption features with the underlying duration of portfolio assets. They maintain diversified financing facilities and stress-test cash flow scenarios to prepare for adverse market conditions. In practice, this

⁵ Cliffwater Research, "Liability Management: What Good, Bad, and Ugly Look Like" (July 8, 2025).

discipline can mean the difference between orderly redemptions and forced asset sales at unfavorable prices. Robust liability management imparts confidence that liquidity terms are durable, not fragile.

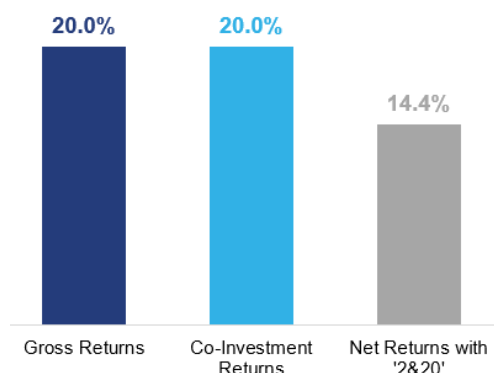
Valuation Integrity

Valuations in PE are inherently subjective, but the way they are managed separates high-quality funds from the rest. Conservative pricing methodologies instill confidence that reported NAVs reflect economic reality rather than optimism. For evergreen structures, where investors enter and exit at NAV, valuation discipline is essential. Overstated marks can attract flows in the short run but erode credibility over time. Funds that incorporate private asset sensitivity to public market volatility, while prioritizing transparency and external validation, create a stronger foundation of investor trust.

Fee Efficiency

Fees are often cited as a drawback of private equity, and evergreen funds are no exception. Average all-in expense ratios remain meaningful⁶, but thoughtful portfolio construction can help. Co-investments are especially powerful: they allow direct participation alongside sponsors with little or no incremental management fees or carried interest. By offsetting acquired fund fees and expenses, co-investments can improve net performance while giving investors targeted exposure.

Exhibit 6: Impact of '2&20' on Asset with Gross Returns of 20%⁷



Investors should also carefully evaluate how incentive fees, if levied, are structured. A critique of certain evergreen PE funds is the practice of charging carry on unrealized gains, which can misalign interests and reward managers before value has been fully realized. The best evergreen managers strike a balance that maximizes net-of-fee outcomes while aligning incentives with long-term realized performance.

Platform Focus

Operating an evergreen fund is not simply a matter of repackaging a PE fund-of-funds. It requires its own platform, infrastructure, and mindset. Continuous inflows and outflows must be managed alongside portfolio pacing. Sourcing must be tailored to accommodate consistent deployment rather than episodic vintages. Liability management must be institutionalized. Firms that treat evergreen as an ancillary product often face challenges in deal allocation or suboptimal position sizing. By contrast, platforms designed specifically for perpetual structures can streamline deployment, obtain desired allocations, secure better terms, and deliver a more consistent investor experience. In evergreen PE, the platform really does matter.

Balanced Portfolio Construction

We have found that evergreen portfolios are best constructed as multi-manager, multi-strategy vehicles. Relying on a single GP increases idiosyncratic risk and introduces concentration around one style or cycle.

⁶ Cliffwater Research, "The Price of Perpetuity: Understanding Fees in Evergreen Private Equity" (August 1, 2024).

⁷ For illustrative purposes only. Returns shown are hypothetical. "Co-Investment Returns" does not include management fees and other expenses.

As noted in prior Cliffwater research⁸, the wide gap between top-quartile and bottom-quartile private equity performance makes manager diversification and rigorous selection vital to long-term success.

It is also crucial to take advantage of the full spectrum of private equity asset classes. Blending managers across buyouts, growth equity, and venture capital broadens exposure to different levers of value creation. This may also result in a smoother path of returns, as Exhibit 7 demonstrates, as performance leadership can vary dramatically by vintage year.

Exhibit 7: Vintage Year Performance (2010-2020) by PE Strategy Type⁹

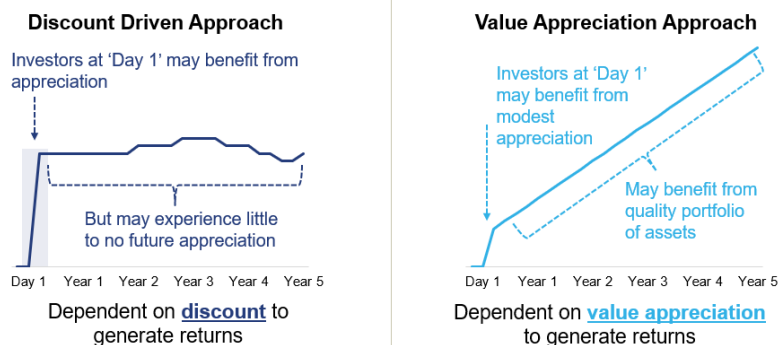
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Venture Capital 24.0%	Venture Capital 22.8%	Venture Capital 20.7%	Middle Market Buyout 19.5%	Small Buyout 21.2%	All Buyout 19.9%	Growth Equity 25.8%	Small Buyout 29.7%	Middle Market Buyout 20.4%	Middle Market Buyout 16.7%	Small Buyout 18.4%
2	Growth Equity 22.8%	Growth Equity 20.1%	Small Buyout 18.7%	Small Buyout 19.1%	Venture Capital 20.0%	Growth Equity 19.4%	Middle Market Buyout 21.3%	Growth Equity 23.9%	Small Buyout 19.3%	Small Buyout 16.1%	Middle Market Buyout 16.2%
3	Small Buyout 19.1%	Middle Market Buyout 18.3%	Middle Market Buyout 17.2%	Venture Capital 18.9%	Growth Equity 18.0%	Small Buyout 16.5%	Small Buyout 19.1%	All Buyout 21.3%	Growth Equity 17.9%	All Buyout 15.6%	All Buyout 14.0%
4	Middle Market Buyout 18.1%	All Buyout 17.9%	All Buyout 17.2%	Growth Equity 16.4%	All Buyout 17.1%	Venture Capital 15.3%	Venture Capital 16.8%	Middle Market Buyout 20.6%	All Buyout 17.5%	Growth Equity 14.9%	Growth Equity 11.1%
5	All Buyout 16.0%	Small Buyout 16.5%	Growth Equity 14.4%	All Buyout 15.4%	Middle Market Buyout 12.7%	Middle Market Buyout 14.4%	All Buyout 15.9%	Venture Capital 19.0%	Venture Capital 17.0%	Venture Capital 10.9%	Venture Capital 9.9%

Variety across transaction types — co-investments, LP-led/GP-led secondaries, primary fund commitments, and programmatic manager partnerships — may further balance the sequence of returns. Co-investments often have the highest upside potential but may require a bit more patience. By contrast, secondaries may deliver quicker distributions and a tighter range of outcomes. Flexible mandates may offer a more consistent "shape of returns," smoothing volatility across holding periods and market cycles.

Some evergreen PE funds are dedicated solely to secondaries, while many others rely on them heavily for portfolio construction. Used properly, secondaries can be a key feature, not a flaw, of evergreen PE portfolios. Secondaries accelerate portfolio seasoning, mitigate the J-curve, broaden diversification, and allow investors to underwrite assets with greater visibility. They also introduce flexibility at fund launch — managers can quickly build diversified portfolios with limited cash drag.

But there are different approaches to secondary investing, as shown in Exhibit 8. Strategies that lean heavily on lower-quality or tail-end assets at deep discounts can feel like a party at first but often end in a hangover, delivering short-term gains that prove hard to sustain.

Exhibit 8: Different Approaches to Secondary Investing¹⁰



⁸ Cliffwater Research, "Growth Equity: Private Capital's Overlooked Sweet Spot" (June 25, 2025).

⁹ Source: Cambridge. Pooled Net IRR, as of March 31, 2025.

¹⁰ For illustrative purposes only; there is no assurance that similar investments will be made or that similar results will be achieved. There is no guarantee that assets will appreciate in value.

The lesson is not to avoid secondaries, but to emphasize quality assets, sponsor alignment, and return generation that focuses on long-term value appreciation over optical discount write-ups.

Balanced portfolio construction is where all the elements of evergreen design come together. It is the deepest expression of evergreen discipline: blending breadth with selectivity, liquidity with duration, and cost efficiency with access.

The Evergreen Flywheel: Perpetual Motion in Action

To an observer, the motion of a duck gliding calmly across the water seems effortless. Beneath the surface, however, the duck is paddling furiously to maintain direction and momentum. We think evergreen funds operate in much the same way: accessible on the surface for investors but requiring constant work behind the scenes to deliver that experience consistently.

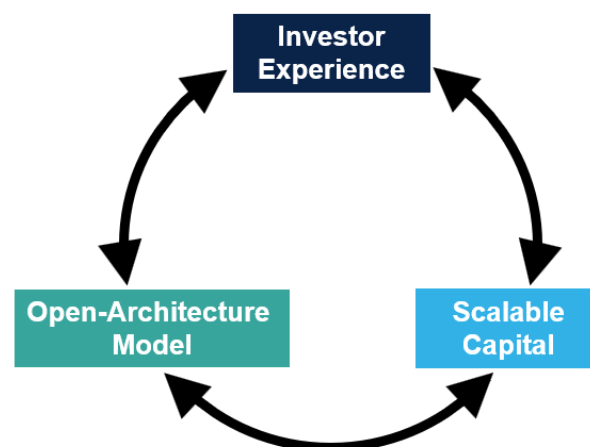
The ideal blueprint for evergreen PE involves three elements that can feed off one another, creating a flywheel effect:

Open-Architecture Model. Compared with single-GP vehicles, a flexible multi-manager approach may provide more shots-on-goal and greater optionality. A wider funnel of opportunities may lead to more consistent deployment and balanced outcomes. Consultant-style networks and relationships further enhance sourcing breadth.

Investor Experience. Evergreen strategies, particularly interval funds, could reduce frictions and pain points for investors. Immediately stepping into a diversified portfolio allows an investor to reach their target PE allocation and begin compounding their capital sooner. The experience is further enhanced through operational ease, simplified performance and tax reporting, periodic access to liquidity, and unique access to private assets they are unable to source or evaluate on their own.

Scalable Capital. Success on the first two fronts naturally attracts scale. All else equal, consistent performance and a frictionless investor experience should draw new allocations. Scale itself begets additional benefits: greater deal flow, negotiating leverage with sponsors, flexible balance-sheet financing, better terms with investment partners, and resources to attract and retain top-tier talent.

Exhibit 9: The Evergreen PE Flywheel



We believe these elements form a true flywheel together: elegant investment design and a pleasant investor experience attract more capital; greater scale enhances sourcing, access, and economics; and those improvements reinforce the experience once again. The more it delivers, the stronger it becomes.

Conclusion

Evergreen private equity is quickly evolving from novelty to the new status quo, and this fast-maturing category has the potential to become a reliable cornerstone of diversified portfolios. While our recently published Cliffwater Evergreen Private Equity Index has shown that fund investors on average have been rewarded, fund selection and portfolio construction are critical to success. The opportunity is not simply to replicate drawdown-style PE in a new wrapper, but to deliver long-term results in a format that is more aligned with how investors live and allocate.

Phil Huber, CFA, CFP®
Head of Portfolio Solutions

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The MSCI All Country World Index (MSCI ACWI) captures large and mid cap representation across 23 developed markets and 23 emerging markets countries. With over 2,400 constituents, the index covers approximately 85% of the global investable equity opportunity set.

Interval funds and tender-offer funds are closed-end funds registered under the 1940 Act that provide limited liquidity through periodic share repurchases. Interval funds must repurchase on a fixed schedule (Rule 23c-3), while tender-offer funds repurchase at the board's discretion (Rule 13e-4). Conglomerate funds and other perpetual-life fund structures are permanent capital vehicles sponsored by large managers that operate through subsidiaries to avoid registration under the 1940 Act and instead register their shares under the 1934 Act.

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The CEPEI will be reconstituted typically within 75 calendar days following the calendar quarter-end.

The eligibility criteria for inclusion in the CEPEI is all assets held by interval funds, tender offer funds, and other perpetual-life fund structures that meet the following criteria: (1) Regulated by the SEC as an interval fund/tender offer fund under the Investment Company Act of 1940, or structured as corporate/partnership holding companies that are SEC-reporting issuers under the Securities Exchange Act of 1934, (2) At least 65% of total assets represented by private equity investments as of the calendar quarter-end, (3) Have minimum total net assets of \$100 million USD, (4) Have an inception date or commencement of operations of at least three months prior to base date or rebalancing date, and (5) Performance data readily available on at least a monthly basis.

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Prospective application of the methodology used to construct the CEPEI may not result in performance commensurate with any back-tested returns shown. The back-test period does not necessarily correspond to the entire available history of the CEPEI. Another limitation of back-tested hypothetical information is that generally the back-tested calculation is prepared with the benefit of hindsight. Back-tested data reflects the application of the index methodology and selection of the constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the financial markets in general which cannot be, and have not been, accounted for in the preparation of the information set forth, all of which can affect actual performance.

When Cliffwater was unable to determine the nature of a fund's investments because of limited information included in historical SEC filings, Cliffwater did not apply the portfolio composition criteria (at least 65% of total assets represented by private equity investments as of the calendar quarter-end) to the fund. All other eligibility criteria were applied to determine whether to include the fund in the historical composition and return of the CEPEI.

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