Unlocking Flexibility: The Rise of Evergreen Structures in Private Credit

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What are Evergreen Funds?

- Investment vehicles that allow investors to commit capital into a private credit strategy on an ongoing basis, with option to redeem, rather than through a fixed-term, closed-ended fund.

- Investors can enter and exit the fund (subject to gates) at certain intervals which are ongoing perpetually, since the fund raising is constant.

What are Evergreen Funds?

- Mix and matching terms of traditional private fund structures means there is <u>significant variation</u>

Comparison of Open-End and Closed-End Structures

	Open-End Fund	**Closed-End Fund**
Assets	Liquid	Illiquid
Valuation	Practical	Difficult
Fund Raising	Portfolio Buy-in	Called over investment period for investments
New Subscriptions	Participate at NAV	Participate during fundraising at cost plus make-up amounts
Fees	NAV based	Commitment based; then based on invested capital
Performance Compensation	Incentive Allocation on realized and unrealized profits	Realized profits distributed through waterfall
Withdrawals	Permitted	No voluntary withdrawals/return of capital through distribution waterfall
Term	Undefined	Defined

Comparison between Closed-Ended and Evergreen Private Credit Funds?

Feature	**Closed-End Private Credit Funds**	**Evergreen Private Credit Funds**
Fund Term	Fixed (7-10 years + extensions)	Perpetual
Capital Commitment	Capital drawn over time but mostly within investment period	Capital drawn over time
Option to Redeem	Investors locked in for duration of the fund	Option to redeem at certain intervals or after initial lock-up period
Valuation Frequency	Quarterly	Monthly or Quarterly, which supports NAV-based redemptions
Distributions	Income Distributions paid quarterly	Income Distributions paid quarterly
Capital Recycling	During initial investment period	Continuous reinvestment as desired
Deployment Period	3-5 years	Ongoing
Fee Structures	Based on commitment / capital called	Carried-interest or performance fees (High-water marks and hurdle rates)
Allocation Methodology	Based on commitment / capital called	Based on NAV, invested capital or shares held

Growing Interest from LPs & sponsors

- Evergreen versus new fundraise per vintage
  - Cost savings for LPs (due diligence, consultant fees, etc.)
  - Cost savings for GPs (legal and marketing)
- Sponsors stand ready to accept capital at any time
- Nature of credits (maturation, interest payments, etc.)
- Retail product’s companion institutional product

Structuring Example: Open-End Fund with Liquidating Accounts

Offering Period	Buy-in at FMV of all assets including illiquid investments not *attributable to* liquidating accounts.
Redemptions	Voluntary redemptions are permitted. Mandatory use of a liquidating account for pro rata slice of each redeeming investor's **illiquid investments** on a particular redemption date. Liquidating accounts are used for redemptions, not for side-pocketing.
Management Fee	Charged on net asset value of **#1)** capital accounts and **#2)** any liquidating accounts.
Performance Compensation	Incentive Allocation on **#1)** realized and unrealized liquid investments and **#2)** realized only for illiquid investments. Incentive Allocation calculated per illiquid assets in liquidating accounts on realization. No netting performance of multiple illiquid assets in a liquidating account.
Term	Indefinite (i.e., when portfolio investments are liquidated).

Structuring Example: Open-End Fund with Liquidating Accounts

- Can the portfolio be reliably valued?
  - NAV being used for new subscriptions buying-in, management fees, incentive allocation
- Are the liquidating accounts benefitting investors?
  - Liquidation to meet a redemption would impair the value of the investment
  - Variations where the GP can buy-back the redeemed liquidating account interest on behalf of the remaining investors

Structuring Example: Closed-End Fund with Tranches

Offering Period	Investors in a tranche participate in all investments made by that tranche. Fundraising periods per tranche vs. single close per tranche. Re-opening on a recurring schedule based on a *quasi-successor* fund provision. "Rolling" distributed proceeds to future fundraise periods. Re-opening opportunistically, to replace released commitments or with LPAC approval. If there is fundraising period how does the rebalancing work?
Redemptions	Tranche funds may not permit redemptions until contributions are returned through a distribution waterfall upon realization of the underlying investments. Alternatively, the fund could permit elections to stop investing assets at a recurring interval (*e.g.*, every 12 months); and move redeemed interests to a redemption tranche, so an investor that has redeemed is not participating in future investments.
Management Fee	Lesser of cost and NAV (assumes a full funding at closing) Alternatively, on commitments and then invested capital in a drawdown fund.
Performance Compensation	Distribution waterfall
Term	Indefinite, but each tranche may have a term

Segregated Liability

- An evergreen fund may be a single legal entity formed with or without segregated liability.
- Certain jurisdictions, including Delaware, permit limited partnerships and limited liability companies to be formed as a series vehicles with segregated liability between each series.
- In a series vehicle with segregated liability between each series, the debts, liabilities, obligations and expenses incurred by one series will only be enforceable against the assets of the same series and not against the other series.
- More recently, Delaware introduced registered series to facilitate their use in secured financing transactions (*e.g.*, where the assets of the series are pledged as security).
- If a series vehicle with segregated liability at law is not used, the fund's governing document (*i.e.*, limited partnership agreement or limited liability agreement) can still create "contractual series" to keep assets, strategies, expenses and performance siloed in each series.
- In the absence of a series vehicle with segregated liability, all assets of the fund are available to meet all liabilities of the fund, even if the liability relates to a particular liquidating account or tranche.
- As a result, for example, if the assets attributable to an investor participating in a particular investment were completely depleted by losses or liabilities, a creditor could enforce a claim against the assets of the fund that would be borne by the other investors in the fund that did not participate (or did not participate to the same extent) in the relevant investment (such as in the case of an investor that holds a liquidating account or a tranche that does not hold the relevant investment).

Liquidity Management Tools

Key Liquidity Enhancements

- Redemption Gating – Protect against excessive outflows

- Cash/Liquid Sleeves – Maintain buffer for redemptions

- Leverage Lines – Short-term liquidity access

- Side Pockets & Lock-up periods – Align liquidity with asset duration

- Secondary Transfers – Optional investor exit route

Best Practices for Managers

- Align redemption policies with asset liquidity

- Maintain transparent NAV calculation methodology

- Match inflows/outflows to reduce net liquidity stress

- Communicate clearly with investors about liquidity risks

- Diversify portfolio by loan duration and sector

Best Practices for Managers

- How does the evergreen product fit into the sponsor’s existing products?
  - Fiduciary Duty
  - Adequacy of Policies and Procedures for Addressing Conflicts of Interest and Complying with Existing Arrangements
  - Adequacy of Disclosures
    - Allocation
    - Impact of an evergreen product alongside other clients on portfolio investments

Operational Considerations

- Evergreen Private Credit Funds have capital processes that overlap closed-ended private equity funds, with open-ended hedge funds.
- Commitment based funds, that can also have unitized, multi-currency share classes
- Performance fees at investor/share class level, rather than carried –interest calculations.
- Shares classes can be a mixture of income distributing and reinvestment options.
- Run-off share classes may be required for redeeming investors, which can grow in number over time, post the lock-up period.
- Portfolio may require segregation and reporting for the following:
  - Multiple vintages, where investors participate in assets within a certain time-period
  - Excluding assets for run-off (redeeming) share classes
  - Opt-outs or side letters

Conclusion

- Evergreen funds offer a flexible, income-focused structure for private credit—if liquidity is carefully engineered.
- By blending tools like gates, buffers, and investor education, managers can deliver yield beyond the typical 7–10-year period for a single structure.
- There are unique operational challenges in delivering a service for this fund type and choosing the right partner with the appropriate knowledge and technology platform integration, is key to success.