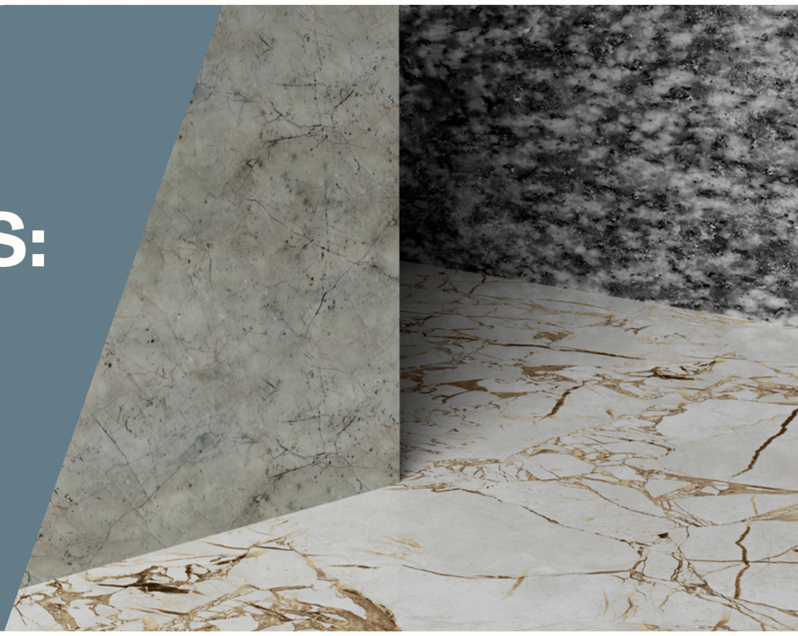
VANTAGE ASSET MANAGEMENT

SEPT 2025

CAPITAL CALL VS. EVERGREEN FUNDS:

STRUCTURING PRIVATE MARKETS EXPOSURE FOR THE SOPHISTICATED INVESTOR



For sophisticated investors, private markets have long been an essential inclusion in portfolio construction. Whether it be private equity, real estate, or private credit, these asset classes offer diversification benefits, potential for outsized returns, and exposure to opportunities often inaccessible via listed markets.

As private markets mature, the structures through which investors can access them are also evolving. The rise of evergreen (open-ended, semi-liquid) funds alongside traditional capital call (drawdown) structures has ignited debate around the optimal approach. Both have merits, but the choice is far from binary and the implications for liquidity, performance, and portfolio management are significant.

CAPITAL CALL FUNDS: THE INSTITUTIONAL FOUNDATION

The capital call model has underpinned institutional private markets investing for decades. Investors commit capital, which is then deployed at the discretion of the fund manager as suitable opportunities arise. This staged deployment aligns capital with market cycles and reduces idle cash drag, a key consideration for maximising long-term returns. While illiquidity and a longer investment time horizon are clear characteristics of this structure they are also its strength.

Investors accept these constraints in exchange for exposure to a curated, professionally managed portfolio built with patience and rigour.

EVERGREEN FUNDS: EXPANDING ACCESS TO PRIVATE MARKETS

Private equity semi-liquid evergreen funds have grown rapidly, more than doubling their assets in just two years. Net assets in equity-focused semi-liquid vehicles climbed from USD 24 billion in 2022 to roughly USD 50 billion at the end of 2024.

This expansion highlights how demand for private equity exposure in semi-liquid form is accelerating, as investors seek institutional-quality access with a balance of return potential and periodic liquidity.

Offering continuous subscriptions, periodic liquidity windows, and immediate exposure to diversified portfolios, these funds address some of the barriers.

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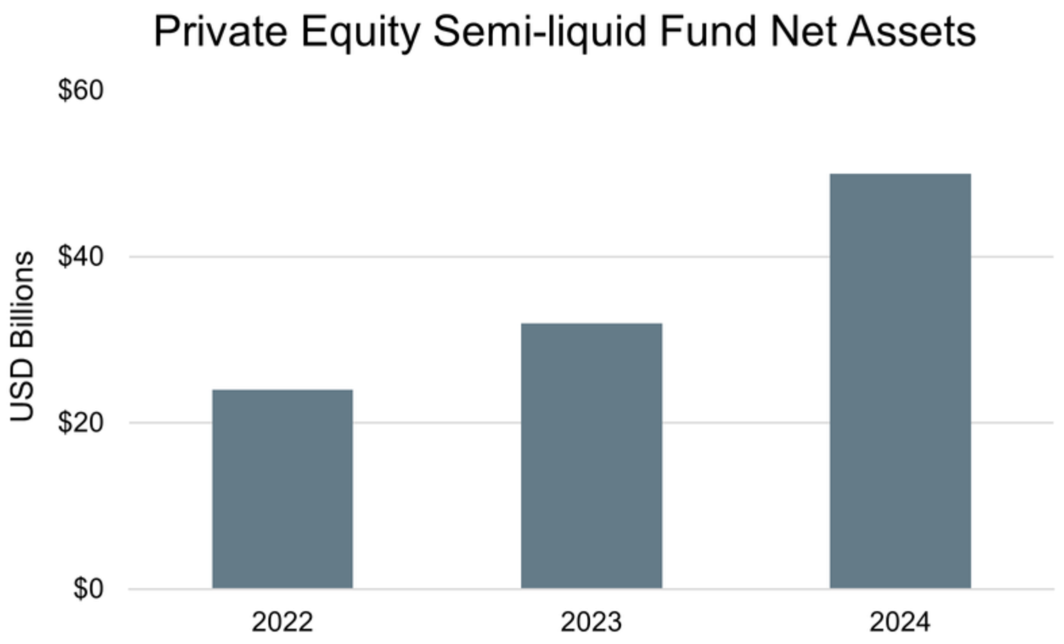

Source: The State of Global Semi-liquid Funds Morningstar June 2025

One other defining characteristic is the use of debt to speed up deployment and facilitate redemptions. Debt can be a powerful tool in the right circumstances but also impacts performance particularly when interest rates are higher.

PERFORMANCE CONSIDERATIONS

Comparing performance between these structures requires nuance. Capital call funds report IRRs, reflecting the time-weighted deployment of capital. Evergreen funds, by contrast, report annualised returns, simplifying comparisons to listed markets, but complicating direct performance evaluation against drawdown funds.

Studies, including those by Neuberger Berman[1] and PitchBook[2], highlight that while evergreen funds can deliver attractive returns, the requirement to maintain cash as a liquidity buffer and pressure to constantly deploy capital raised in all market conditions may result in underperformance compared to traditional private equity structures over longer time horizons.

Although evergreen private equity funds have shown attractive short-term performance, it is important for investors to view these results in context.

As highlighted in PitchBook's Return of Evergreen Funds note, many vehicles in this space have less than three to five years of track record, so their outcomes have not yet been tested across full market cycles. Some of the early performance has been supported by secondary purchases at discounts, which can front-load returns for initial investors. Later entrants may experience different outcomes if inflows moderate or outflows occur. In addition, valuations are based on periodic appraisals, which can introduce lags and may not always reflect market conditions in real time. Evergreen funds clearly offer accessibility and flexibility, but given their shorter history and structural nuances, investors should take care when projecting early returns into long-term expectations.

LIQUIDITY VS. ALIGNMENT: THE CORE TRADE-OFF

The essential trade-off remains liquidity versus alignment. Evergreen funds offer flexibility and lower administrative burden, appealing to newer entrants or those seeking interim exposure. Capital call funds demand patience and capital planning but reward that discipline with alignment to market opportunities and the potential for superior risk-adjusted returns.

CONCLUSION

For sophisticated investors, the choice between capital call and evergreen structures should be viewed through the lens of broader portfolio construction, investment horizon, and liquidity appetite. Both structures have their place, but understanding the mechanics, implications, and long-term performance potential is paramount.

At Vantage Asset Management, we have long advocated for the disciplined approach of capital call structures within the Australian private equity market. We believe this model remains the gold standard for maximising risk-adjusted returns and ensuring true alignment with the investment cycle. That said, we acknowledge the growing relevance of evergreen funds for certain investor profiles and continue to monitor market developments in this space.

Ultimately, sophisticated investors should demand structures that align with their objectives, not just their appetite for convenience.

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Full references:

1. Comparing Evergreen and Traditional Fund Returns in Private Equity September 2024
2. The Return of Evergreen Funds June 2025