Hamilton Lane

Knowledge Center
The Basics

Introduction to Evergreen Funds

What are evergreen funds?

Evergreen funds are a type of investment vehicle that allows investors to make long-term investments in private companies. Unlike traditional private funds, which typically have a fixed lifespan of approximately 10 years, evergreen funds do not have a fixed end date. Instead, they continue indefinitely, allowing investors to enter and exit the fund on a periodic basis.

The structure of an evergreen fund is similar to that of a closed-end or traditional private equity fund in that it pools capital from multiple investors to invest in a diversified portfolio of private companies. The key difference is that evergreen funds are open-ended. This structure makes it easier for investors to access private market investments with a lower minimum investment, a more liquid structure and immediate exposure to the asset class, compared to illiquid closed-end structures.

WHAT YOU SHOULD KNOW:

- Evergreen funds (also known as "open-ended funds") are flexible investment vehicles with no fixed end date.
- Evergreen funds provide more flexibility than closed-end funds because there is no lock-up, allowing investors to periodically redeem units.
- Evergreen funds generally have lower investment minimums, making it easier to access the private markets.

A side-by-side comparison: How do evergreen funds differ from traditional funds

	Traditional Fund	Evergreen Fund
Fund Structure	Closed-end, limited partnerships	Open-end
Investment Strategy	More focused approach: acquire and grow companies over a set period of time	More patient approach: hold companies for longer periods of time
Lifespan	Approximately 10 years, with option to extend one to two years: Fixed end date	Perpetual basis: No fixed end date
Capital Deployment	Multi-year commitment period	Immediate (fully deployed upon investment)
Liquidity	None: Typically 10 year lock-up	Periodic: Generally monthly or quarterly
Individual Investor Requirements	Qualified Purchaser: Minimum $5M net worth	Accredited Investor
Investor Capital Contributions (approximate)	Single, large capital commitment at the start of the fund's life Minimums can start at $5 million	Periodic contributions or withdrawals Minimums can start at $25,000

One of the advantages of evergreen funds is that they provide flexibility for investors. Access to evergreen funds has become easier through lower investment minimums, which are in the $25,000 range as compared to $5 million for traditional closed end funds. Investors can also choose to stay invested in the fund for however long they wish, without having to worry about a fixed deadline for exiting the investment. This can be particularly attractive for investors who are looking for a long-term, stable source of returns. The fund manager can use the capital to invest in private companies, also referred to as portfolio companies. The profits generated from portfolio companies are typically reinvested back into the fund, which allows the fund to continue making new investments and growing its assets over time.

One important distinction between evergreen funds and closed-end funds is their lifespan. Closed-end funds hold or 'lock-up' investors' capital for 10 to 12 years until the underlying assets are sold. In an evergreen fund structure, the fund is continually accepting additional capital and making new investments. Because evergreen funds are continually accepting new inflows, investors can redeem their shares for liquidity or rebalance their portfolios more frequently.

How can evergreen funds fit in investors' portfolios?

For some investors, having more liquid investments and/or more flexibility are important considerations – especially when the markets are volatile. Previously, private market investments had much longer time horizons and higher capital commitments—which were dealbreakers for many investors. However, the growth of evergreen funds is helping to make private market investments more accessible for investors wanting exposure to the asset class.

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