



Circe Invest's Fiona Frick: Investor expectations of evergreen funds need resetting

Liquidity mismatch by design

07 October 2026 • 5min read

SHARE



Fiona Frick is founding partner at Circe Invest

Do evergreen funds currently have a liquidity problem? No. They have a liquidity mismatch by design.

Evergreen funds are transforming access to private markets. They offer periodic liquidity around assets that may take years to sell. As these structures move deeper into private wealth portfolios, investors need to understand what that promise means.

Lawyers Fiona Henderson and Jason Blick: Evergreen funds demand deeper interrogation

The mismatch itself is not the problem. The problem begins when conditional liquidity is mistaken for guaranteed liquidity.

Whether that happens depends on how the product is structured, sized, sold and understood.

Liquidity is paced, not provided

Evergreen managers engineer liquidity through several layers. No single layer carries the burden. The structure works because they are expected to operate together.

First comes the liquidity sleeve. Funds hold liquid securities as an immediate buffer. According to Morningstar, semi-liquid private equity funds hold around 15% in liquid assets on average, while private credit funds hold roughly half that level.

But liquidity has a cost. Cash protects redemptions while diluting private-market returns. This is why managers keep it thin.

Second comes portfolio cash generation. This layer varies enormously by asset class. Private credit naturally generates coupons and repayments. Private equity is different. It needs a mature portfolio and functioning exit markets before distributions become meaningful.

Semi-liquid funds boosting private markets for wealth managers and IFAs

Fifth is liability control. Notice periods, dealing windows, minimum holding periods and redemption caps, often around 5% of NAV per quarter, regulate the speed of withdrawals. ELTIF 2.0 formalises much of this liquidity calibration.

Finally, anti-dilution mechanisms, including swing pricing and redemption fees, aim to make exiting investors bear the cost of liquidity they consume. Under AIFMD II, managers of open-ended AIFs must select at least two liquidity management tools from the harmonised regulatory list.

The conclusion is simple. Evergreen funds do not provide liquidity on demand. They provide a mechanism for pacing liquidity over time.

Third is subscription netting. In normal markets, new subscriptions can finance redemptions. This exposes a fundamental vulnerability. The structure is most dependent on inflows precisely when those inflows may disappear.

ADVERTISEMENT

Fourth is borrowing. Credit facilities can bridge temporary funding gaps. But borrowing buys time, not liquidity. It meets today's redemption request while adding leverage to tomorrow's balance sheet.

Semi-liquid funds boosting private markets for wealth managers and IFAs

Fifth is liability control. Notice periods, dealing windows, minimum holding periods and redemption caps, often around 5% of NAV per quarter, regulate the speed of withdrawals. ELTIF 2.0 formalises much of this liquidity calibration.

Finally, anti-dilution mechanisms, including swing pricing and redemption fees, aim to make exiting investors bear the cost of liquidity they consume. Under AIFMD II, managers of open-ended AIFs must select at least two liquidity management tools from the harmonised regulatory list.

The conclusion is simple. Evergreen funds do not provide liquidity on demand. They provide a mechanism for pacing liquidity over time.

Toolkit weakens when needed most

In normal markets, inflows fund outflows and the mismatch stays dormant. Under stress, the mechanism reverses.

Subscriptions slow just as redemption requests rise. Cash buffers fall. Rebuilding them may require selling private assets into weak markets. Portfolio cash generation, which is pro-cyclical, also deteriorates. Exits are postponed, refinancings stall, distributions dry up.

Eventually, the gate becomes the defence.

The 2025–26 experience demonstrated this dynamic. Several large US retail private-credit vehicles received redemption requests above their quarterly limits, resulting in requests being prorated or deferred.

FE fundinfo's Maryam Longrus: In defence of redemption gates

One major retail credit fund from Blue Owl froze redemptions in early 2026 and sold roughly a third of its portfolio at a discount to meet withdrawals. In June 2026, the stress reached private equity, when leading European manager Partners Group limited redemptions from its flagship evergreen fund.

Gating, however, is not fund failure. It protects remaining investors from forced sales and the costs created by exiting investors. But it creates an uncomfortable behavioural dynamic. If investors expect future restrictions, each has an incentive to redeem before everyone else.

A gate prevents a run, but the possibility of a gate can encourage investors to run early.

When the mismatch becomes the investor's problem

The Better Finance report of late 2025 argues the EU's retailisation push has outrun investor protection. That critique deserves engagement, not dismissal. But the right conclusion is conditional suitability, not prohibition. The mismatch becomes problematic in three circumstances.

First, when periodic liquidity is marketed as if it were assured liquidity. Marketing materials may emphasise quarterly redemptions, while legal documents refer to caps, board discretion and no guarantee that requests will be fulfilled. Investors accustomed to daily-dealing funds can easily apply the wrong mental model.

Second, when position sizing ignores gating risk. An investor who may need the capital cannot treat a quarterly dealing window as equivalent to cash. The risk becomes greater when the investment is used as collateral. Leverage against a gateable asset is a structural fault line.

Semi-liquid funds 'not magic diversifiers' as investors seek higher returns

Third, when valuation creates an illusion of stability. Private assets are generally valued less frequently than listed securities. Appraisal-based NAVs can therefore smooth reported volatility without reducing underlying economic risk. During periods of market stress, stale valuations can also create transfers of value between subscribing, redeeming and remaining investors

What investors must take away

Evergreen funds solve an important problem, broadening access to private markets and removing some of the operational constraints of traditional closed-end structures. But they do not repeal the illiquidity of the underlying assets.

For investors with long horizons, appropriately sized positions, limited liquidity needs and no reliance on leverage, conditional liquidity can be a reasonable price for continuous private-market exposure.

The real risk is therefore not the existence of the liquidity mismatch. It is pretending that the mismatch does not exist.

Manufacturers and distributors must explain the structure clearly. Advisers must incorporate gating into portfolio construction. Investors must distinguish between a redemption window and a redemption guarantee.

Evergreen does not mean ever-liquid. The time to understand the gate is before you need to use it.