



Private Markets

CAIS | ØARES

# The Perpetual Balancing Act: Aligning Investment Strategy With Liquidity

The information contained herein is provided solely for informational purposes for investment professional use and does not constitute an offer to sell or the solicitation of an offer to buy any security or investment product. Such an offer or solicitation may only be made to certain qualified investors through the relevant offering documents of such product. None of Capital Integration Systems LLC, CAIS Capital LLC, or any of their respective employees, members, principals, agents, or affiliates (or any affiliate of any of the foregoing persons) (collectively, "CAIS") is a fiduciary or advisory with respect to any financial services or products. CAIS does not provide any investment planning, legal, regulatory, tax, compliance, or other advice, and neither the information nor any prior or subsequent communications from or with CAIS or its representatives should be construed as any such advice.

Do not replicate © 2025 Capital Integration Systems LLC



## CAIS and Ares explore how alternative asset managers navigate liquidity needs while aligning with the long-term strategy of their evergreen private market funds.

Evergreen vehicles have proliferated across private markets as asset managers continue accommodating individual investors' distinct and evolving portfolio needs. On the CAIS platform alone, the number of these evergreen private markets vehicles traded annually surged more than sixfold between 2021 and 2024.<sup>1</sup> Transaction volume for these vehicles on the platform also increased nearly 40% year-over-year in 2024.

More broadly, evergreen capital now makes up a greater share of assets under management at many of the largest publicly traded alternative asset managers, with assets in these vehicles growing 19.2% collectively across the top seven firms (including Ares) in 2024.<sup>2</sup> As of year-end 2024, Ares alone had eight evergreen semi-liquid strategies across major private market asset classes representing \$39 billion in AUM, up 21X from 2021.<sup>3</sup>

While evergreen, fully funded structures tend to be more liquid than their finite-life, drawdown counterparts—which still make up most private markets funds available today<sup>4</sup>—many of their underlying investments are still largely illiquid, with a focus on capital appreciation or income generation over a broader time horizon. As a result, asset managers must carefully balance their funds' liquidity needs with their longer-term investment strategy.

In this paper, we examine how alternative asset managers can manage liquidity in evergreen structures—focusing on the importance of ongoing, dedicated portfolio management in achieving alignment with their investors. We also look at the differences in liquidity management across private markets strategies and suggest some questions advisors can consider when evaluating a manager's approach.

# 6x

Increase in the number of evergreen private markets vehicles traded annually on the CAIS platform between 2021 and 2024

# 21x

Increase in Ares' evergreen fund AUM since 2021, reaching \$39B across eight strategies

# Understanding Liquidity Management in Private Markets Strategies

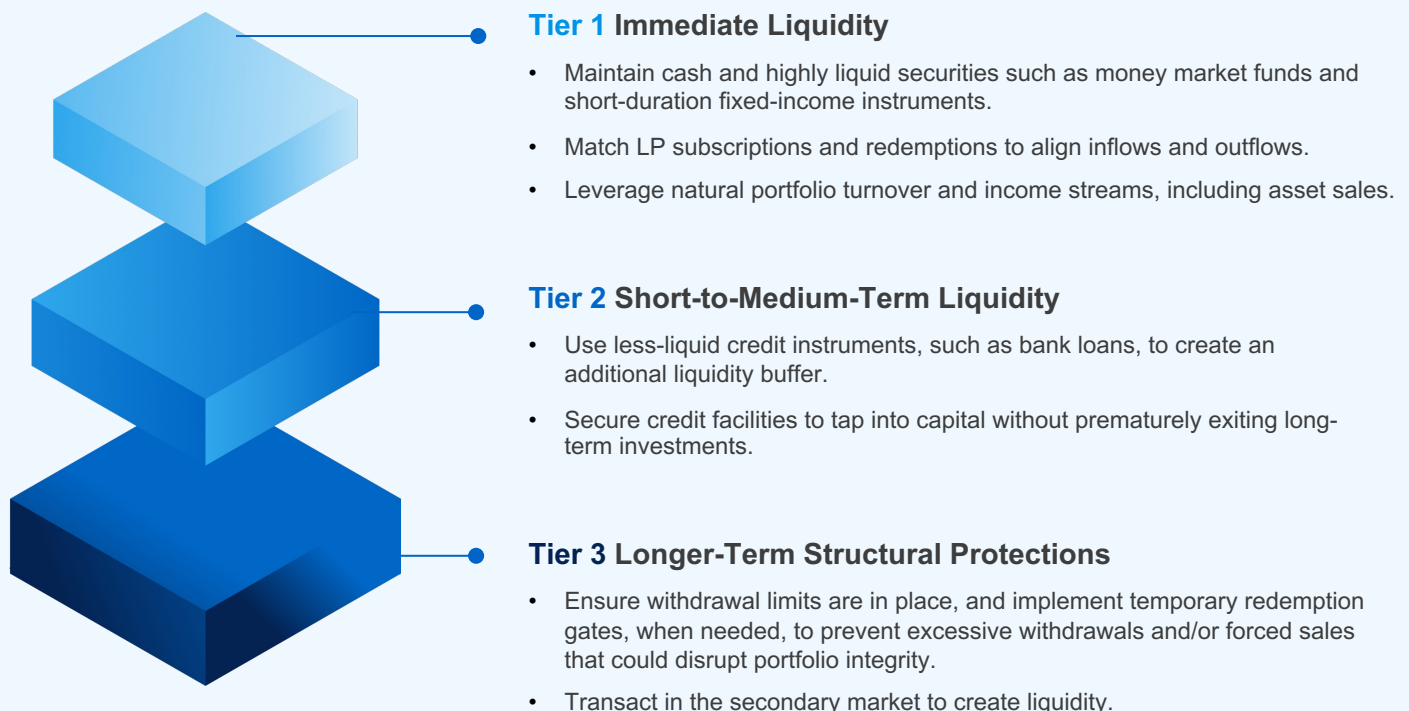
Also known as perpetual, perpetual-life, or semi-liquid vehicles, the evergreen category can include a variety of open-end or closed-end fundraising structures, like interval funds, tender offer funds, business development companies (BDCs), non-traded REITs, and private funds. While the features of each structure may differ, evergreen funds have no fixed term or end date and typically offer limited liquidity to investors while they remain invested. Investments are also primarily fully funded from the start rather than following the drawdown, or capital call, structure that has historically been more common in private markets.

Effective liquidity management is critical for evergreen private market funds, ensuring they can meet investors' redemption requests without disrupting their long-term strategy. By keeping their cash reserves in check, a manager can better maintain their intended exposure, avoid cash drag, and prevent forced sales that could erode their fund's ongoing performance.

Managers of evergreen vehicles can choose to tier their cash reserves, or "liquidity sleeves," similarly to how some advisors manage liquidity within their clients' portfolios. Each tier would include different securities, asset types, or structural protections that best accommodate a manager's liquidity needs across time horizons (Exhibit 1).

## Exhibit 1

### Potential Liquidity Management Tiers



These components may swap tiers depending on the asset class, strategy, fund, or manager. For example, while a credit line may be a second-tier tool for a private equity manager, it may fall within the first tier for a real estate fund seeking immediate liquidity.

A dedicated portfolio manager with experience managing liquidity is often even more crucial in evergreen funds than in finite-life, drawdown vehicles. While the latter may only require skill at deal-making and one-off sizing decisions, a portfolio manager overseeing an evergreen fund must also know how to address a much more dynamic set of factors.

These skills could include cash flow forecasting or evaluating a portfolio's changing exposures and diversification over time. Most of these managers would also need a sound allocation policy and sizing flexibility related to which assets should go into which funds or separate accounts or how different investments should be prorated across accounts by size or cash flows. Portfolio managers also need to know which assets are rolling off their books at certain times and how to stress-test their portfolios in the face of potential redemptions.

## How Liquidity Management Differs Across Asset Classes

Each private market asset class has unique levers for liquidity management, so when evaluating a strategy, an advisor should recognize how these differ. What works in private debt may not work in private equity, and so on. Here, we review some common strategies within each major asset class.



### Private Debt

Private debt may be considered the easiest private market asset class to manage within an evergreen structure. Healthy loan portfolios mature at par and tend to have more turnover, which makes it easier to meet redemption requests or reinvest into subsequent deals for compounding. In many cases, loans within a direct or asset-based lending portfolio can be refinanced after three to four years. In the meantime, the fund aims to receive recurring interest payments from borrowers.

An evergreen private debt fund may aim to build a portfolio with a majority of higher-quality, first-lien, secured loans with more predictable payouts than riskier debt.



## Private Equity

Secondary markets may offer managers the best avenue to gain exposure to private equity within an evergreen structure. Secondaries collectively have shorter durations than primary fund stakes and, therefore, faster turnover, which helps create liquidity. Secondaries can also bring some natural diversification and generally face limited to no J-curve, which also helps those managing evergreen structures to deploy capital quickly.

Secondaries may be used to seed a portfolio of direct deals or primaries (or in conjunction with those longer-duration deals) to reduce investment time horizons. Similarly, co-investments may reduce total costs in an evergreen private equity fund.



## Real Estate

Private real estate can be more challenging to manage within an evergreen structure because of the longer duration of underlying properties that typically trade less often. Nevertheless, real estate has some of the longest evergreen fund track records through the nontraded or NAV REIT structure.<sup>5</sup>

Evergreen funds in real estate tend to favor core and core-plus strategies where the assets tend to return more stable cash flows (as opposed to opportunistic or value-added real estate, for example). Real estate debt—often used as a complement to real estate equity—can also be a way to add more cash flow and shorten the duration of a fund's holdings.



## Infrastructure

Private infrastructure, which tends to have even longer investment durations than real estate, may be the most difficult to manage in an evergreen format because of how infrequently these infrastructure assets typically trade. However, given infrastructure is one of the more underallocated asset classes in private markets, a supply and demand imbalance is driving efforts to overcome these challenges.

One potential approach is longer-term cash flow planning, which is possible given infrastructure's long-term contracted cash flows. Infrastructure debt and secondaries may also be complementary exposures to shorten the duration and increase the portfolio's liquidity.

For some asset classes, like real estate and infrastructure or other strategies with lower liquidity profiles, a manager might pursue more structural solutions to stay ahead of redemptions. One way is to offer lower quarterly tenders—for example, making 3% of fund net asset value (NAV) available for redemption quarterly instead of the typical 5% per quarter. Another is to add early redemption deductions (“soft locks”) to incentivize long-term investment behavior. A manager might also build queues to enter their funds or create side pockets to exit, which can sometimes spread across multiple years.

# Benefits and Tradeoffs of Evergreen Vehicles

A manager might weigh the characteristics of evergreen or finite-life structures that best align with their experience, competitive strengths, strategy, and planned investor base. Below, we include why a manager might select each structure.



## Why Managers May Prefer Finite-Life, Drawdown Structures

- ▶ Intend to market exclusively to institutional investors, who tend to:
  - Have an existing team and process to calculate expected cashflows and how much to commit when building to their target allocations
  - Look for natural opportunities to fully re-underwrite the strategy and value proposition of the allocation
  - Negotiate fee breaks or side letters for extra data and reporting (whereas registered evergreen funds must treat all investors the same)
- ▶ May leverage uncalled commitments like a credit line to fund obligations within the fund
- ▶ Can create more opportunities for co-investment, which can be a meaningful differentiator for certain institutional or high-net-worth investors
- ▶ Prefer that only the dollars needed are put to work in the fund, while the rest is left to the investor to determine how best to use. This may come from the belief that the strategy (e.g., opportunistic credit, venture capital, opportunistic infrastructure) better lends itself to a drawdown fund due to the importance of timing (whereas an evergreen fund manager has to figure out how to put those dollars back to work without diluting returns)
- ▶ Want to avoid liquidity sleeves (including cash, credit, and other non-focus assets that can potentially create a cash drag and dilute returns) that many evergreen funds employ to handle potential redemptions



## Why Managers May Prefer Evergreen, Fully Funded Structures



Can create more flexibility and additional features for their investors, including:

- Ability to become fully invested immediately
- Ability to increase allocations in the future, as needed
- Remain continually invested for compounding
- Ability to gain immediate diversification
- Limited “blind pool” risk (i.e., you know what you’re investing in)
- Ability to avoid J-curve effect
- Investors pay fees on invested capital rather than committed capital (and some funds only charge on subscription amount, not including levered amounts)
- More standard performance reporting, with monthly posted NAV, can allow for return comparison with the rest of the portfolio through standard platforms
- Simplified tax reporting (1099 most often, or simplified K-1)
- Availability for rebalancing, add-ons, and some liquidity
- Some structures may be tax-advantaged (categorized as “return of capital”)
- Typically, lower investor minimums and accreditation standards



Reduced administrative burden (no capital calls, shorter subscription docs)



May prefer continuous fundraising for one evergreen strategy rather than repeated and often escalating fundraising cycles over multiple vintages

# Potential Questions To Ask Asset Managers About Liquidity

In this section, we include some potential questions that advisors might ask managers when evaluating their evergreen strategies—along with some considerations to keep in mind when reviewing their answers.

## ▶ How do redemptions work in your strategy?

- How much of the portfolio is available for redemptions, and with what frequency?
- Are there soft locks (i.e., early redemption penalties)?

While more opportunity for liquidity could provide an advisor with a sense of comfort that their clients can redeem whenever they like, this added flexibility can be costly. If that greater liquidity could lead to forced sales, or a larger liquidity bucket could be a drag on potential returns, it may not be worthwhile. Additionally, while a one- or two-year soft lock may be a problem for an investor with an unforeseen liquidity need, it can work to keep out fast money and compensate longer-term investors.

## ▶ What is the fund structure?

For instance, interval funds price daily and trade with a ticker vs. tender offer funds which do not. However, compared with most other evergreen structures for which liquidity tends to be determined by a board, interval funds are more limited in the holdings and leverage they can take on—which may affect returns and counterbalance their perceived ease of use.

## ▶ How do you balance liquidity needs with maintaining long-term investment strategy integrity?

- How do you handle situations where cash inflows exceed available investment opportunities?
- How do you structure your capital deployment strategy to avoid excess idle cash?

Advisors should look for a well-defined plan here and recognize that the larger the liquidity bucket, the more return drag is possible. By contrast, the smaller the liquidity bucket, the greater the chance of needing to reduce redemption availability in bad times.

Sitting in cash can harm potential returns; however, forcing investments at inopportune valuations can increase risk and lower future returns.



## ▶ How do you stress-test the portfolio under various liquidity scenarios?

Managers should have a process for evaluating the likelihood of potential scenarios and their course of action in each. For example, if a manager were to receive their maximum redemption requests for a given quarter, they would want to know how quickly they would burn through their first-tier cash reserves or how quickly they could turn on their credit facility. They might also need to understand changes in the value of their short-to-medium-term securities and the time it would take to sell them. If deal flows or the natural turnover rate of the portfolio shifts, how long could they meet redemptions before running into issues?

## ▶ What is your track record in managing liquidity?

As mentioned earlier in this paper, in addition to the credentials typical in private markets investing—such as sourcing, due diligence, and deal negotiation—experience in liquidity management may be even more critical for evergreen vehicles than for finite-life, drawdown funds, which do not face turnover.

In addition to these many questions around liquidity, we would remind advisors that they should still consider private market funds illiquid or semi-liquid. Thus, the advisor should stress the longer-term nature of the private investment in conversations with clients and their financial planning. Investing in private markets, accessed via any structure, involves other unique risks or tradeoffs besides illiquidity, including but not limited to potential loss of capital, J-curves, market risk, asset-specific risk, or interest rate risk.

# Maintaining Investment Integrity: A Strategic Approach

Aligning investor liquidity with long-term investment goals requires a thoughtful, disciplined approach. By structuring capital flows to match asset characteristics, managers can mitigate the risk of liquidity mismatches and maintain the integrity of their investment strategy. Evergreen private market funds must balance short-term redemption needs with sustained portfolio performance—leveraging tiered liquidity management, stress testing, and structural protections to safeguard against forced sales. As advisors evaluate these strategies, access to learning resources is key.

## Continue Your Learning With CAIS and Ares

For deeper insights into liquidity management and investment alignment, explore resources available from CAIS and Ares through the CAIS platform.

### About CAIS

CAIS is the leading alternative investment platform for independent financial advisors. The CAIS platform powers the pre-trade, trade, and post-trade lifecycle of alternative investments providing financial advisors and alternative asset managers a single operating system for scale and efficiency.

CAIS serves over 2,000 wealth management firms that support more than 50,000 financial advisors who oversee approximately \$6 trillion in end-client assets. Founded in 2009, CAIS is headquartered in New York City with offices in Austin and London.

CAIS continues to be recognized for its innovation and leadership including awards for Alternative Investment Firm of the Year by Wealth Solutions Report, WealthTech100 List by Fintech Global, Great Places to Work by Fortune, Best RIA Platform by SPi, Best Alternative Investments Solution by Finovate, and many others. For more information about CAIS, please visit [www.caisgroup.com](http://www.caisgroup.com).

*Securities offered through CAIS Capital LLC, member FINRA, SIPC.*

### About Ares Management

Ares Management Corporation (NYSE: ARES) is a leading global alternative investment manager offering clients complementary primary and secondary investment solutions across the credit, real estate, private equity, and infrastructure asset classes. They seek to provide flexible capital to support businesses and create value for our stakeholders and within our communities. By collaborating across our investment groups, they aim to generate consistent and attractive investment returns throughout market cycles. As of December 31, 2024, including the acquisition of GCP International which closed on March 1, 2025, Ares Management Corporation's global platform had over \$525 billion of assets under management, with operations across North America, Europe, Asia Pacific, and the Middle East.

### Authors

**Brendan McCurdy**, Managing Director, Head of Marketing and Research, Ares Wealth Management Solutions

**Jessica Hedden**, Senior Vice President, Head of Content Marketing, CAIS

## References

1. CAIS, as of April 2025
2. Pitchbook, "US Public PE and GP Deal Roundup," Q4 2024
3. Ares, as of Q4 2024
4. Pitchbook, "The Evergreen Evolution," September 27, 2024
5. SS&C, "Know Your REITs: The Evolution of Non-Traded REITs," May 18, 2023

## Disclosures

Not for retail distribution. For investment professional use only. This communication is for discussion purposes only and does not constitute an offer to sell, or the solicitation of an offer to buy, any security or investment product. It does not purport to completely describe any security, investment product or service. CAIS does not provide any investment planning, legal, regulatory, tax, compliance or other advice and neither the Information, nor any prior or subsequent communications from or with CAIS or its representatives, should be construed as any such advice. Investment advisors and all investors should ensure that they have independently obtained sufficient information to ascertain the legal, financial, tax and regulatory consequences of any investments they consider. CAIS Capital, LLC and its affiliates (together "CAIS") are not fiduciaries or advisors with respect to any financial services or products mentioned herein. CAIS does not make any representations or warranties with respect to the information contained herein, and such information should not be relied upon in connection with an investment decision, or for any other purpose whatsoever. The Information is subject to change, may be revised without notice and does not purport to be a complete description of any security, investment product or service.

© Capital Integration Systems LLC 2025. All Rights Reserved.