

How can semi-liquids improve PE portfolios

Semi-liquid funds may deliver private equity-like returns but with more flexibility than traditional funds.

Immediate exposure

In semi-liquid funds, money is put to work almost from day one, potentially allowing investors to build their PE exposure more quickly than in a traditional drawdown fund.¹

Limited liquidity

The clue is in the name — semi-liquid funds may give investors a path to redeem some of their capital at pre-agreed regular intervals.*²

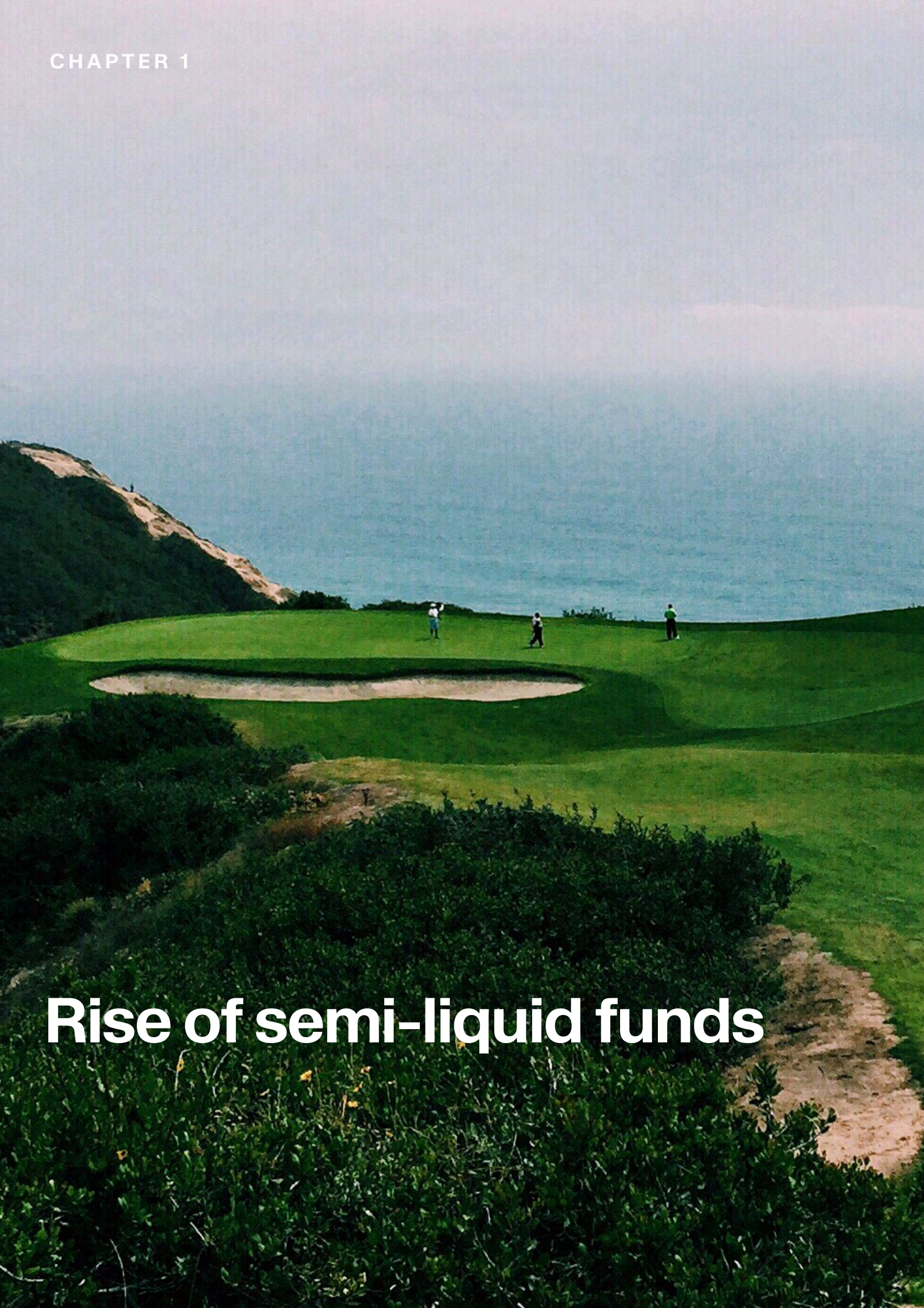
Compounding returns

The open-ended structure allows for potentially continuous reinvestment of returns, which may lead to compounding gains over time.³

Manager selection

Successful managers are able to handle the unique challenges of semi-liquid funds, such as cash drag, while keeping a steady flow of quality deals.

* Liquidity is not guaranteed. Liquidity in this context refers to the option of redeeming up to 5% NAV on a quarterly basis. Redemptions are not guaranteed, may not be eligible to all investors and are subject to demand and to general partner approval.



Rise of semi-liquid funds

Semi-liquid funds have been around since the early 2000s, but only recently have they moved firmly into the spotlight.⁴ Their growing appeal lies in the fact that this structure could be well-suited particularly for individual investors seeking exposure to private assets and their risk-return upside.

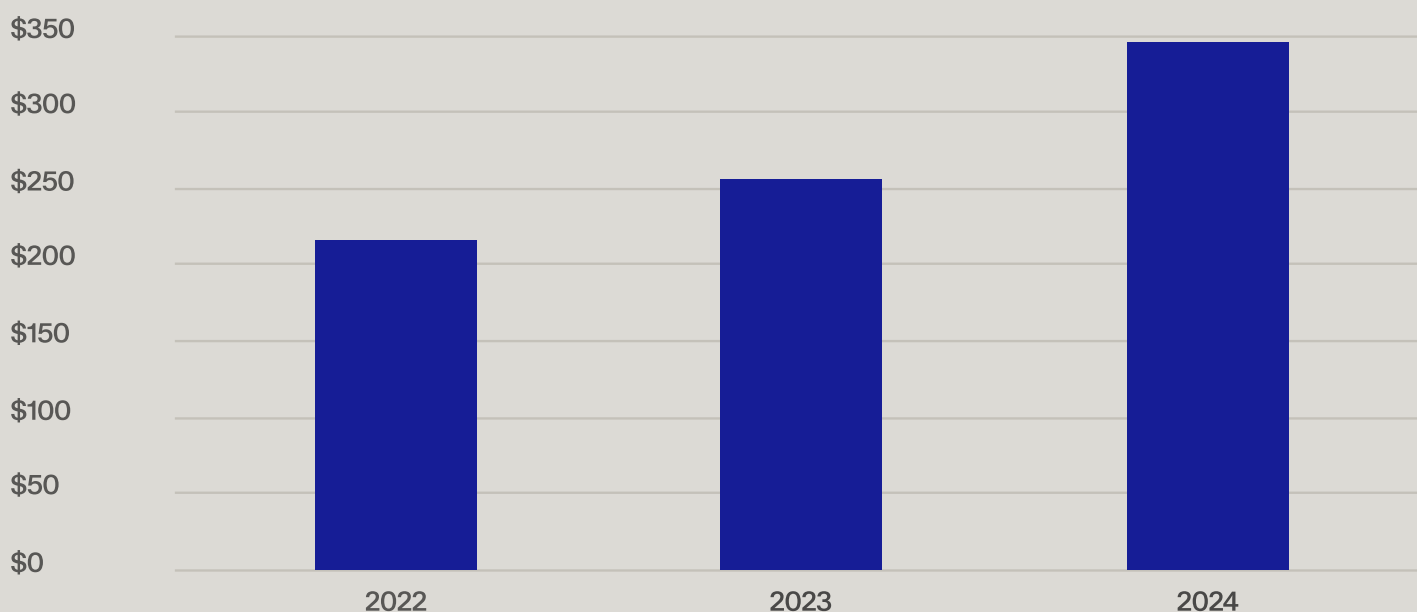
This seemingly unstoppable growth opens important questions. What advantages do semi-liquid funds have over more traditional private markets points of access? And what are the potential limitations that investors need to be aware of?

Analysts have noted a surge in semi-liquid fund launches and assets under management.

Morningstar estimates that these funds reached a record \$350 billion in total net asset value (NAV) at the end of last year across various private market strategies, up 60% from the two years earlier.⁵ This growth is likely to accelerate further, with Pitchbook estimating that the total evergreen universe of which semi-liquids are the largest subset could surpass \$1 trillion in assets within the next five years*.⁶

Semi-liquid funds are gaining momentum

Semi-liquid fund net assets (in \$bn)



Source: [Morningstar 2025](#)

*Financial predictions are not guaranteed.



Unpacking the benefits of semi-liquid funds

Semi-liquid funds are typically open-ended vehicles without a fixed term that may allow investors to allocate or redeem some of their money back at set intervals*.⁷ This can make it easier and faster for investors and small institutions to build exposure to an expanding world of private market assets.

Money is put to work quickly

Semi-liquid structures may give investors almost immediate exposure by accessing assets already in the fund. Their capital is deployed in full, subject to subscription queues (see chart on page 7).⁸

In closed-end private assets funds, by contrast, investors will make set commitments to a fund at the beginning of its life. This capital will not be put to work immediately, but rather it will typically be called and invested over the three to five-year period. Investors can't deploy uncalled capital elsewhere, as they have to ensure that they can meet all drawdowns by the manager as and when required.

The semi-liquid structure may also give investors additional flexibility as distributions tend to be more regular and evenly spread out over time (although it needs to be noted that regular distributions are not guaranteed). This is unlike closed-ended funds where distributions are at manager discretion and can be back-ended towards the end of a fund's life when managers start to harvest portfolios.

Partial liquidity

This brings us to another key feature of semi-liquid funds — the possibility for periodic redemptions typically on a quarterly basis and capped at 5% of the fund's NAV.* Investors may therefore enjoy a degree of flexibility not found in traditional PE funds, which typically lock up capital for 10 years or more.⁹

But there's a catch. The liquidity component requires funds to set up a so-called liquidity sleeve which is used to repurchase shares from investors when exits don't immediately match redemption calls. Liquidity sleeves are typically composed of cash and cash equivalents, fixed income and public stocks — assets that can be accessed relatively quickly while still generating incremental return.¹⁰

That said, investors should keep in mind that redemption requests can't be guaranteed within a specific time frame or during market stress. Careful liquidity planning is still essential (although it needs to be noted that regular distributions are not guaranteed).

Potential for attractive returns

Private equity's greatest appeal for most investors is its potential for superior returns.* Indeed, median private equity fund has outperformed S&P 500¹¹ and MSCI All Country World Index over the long-term, while top quartile funds have maintained an edge across cycles.^{12 13}

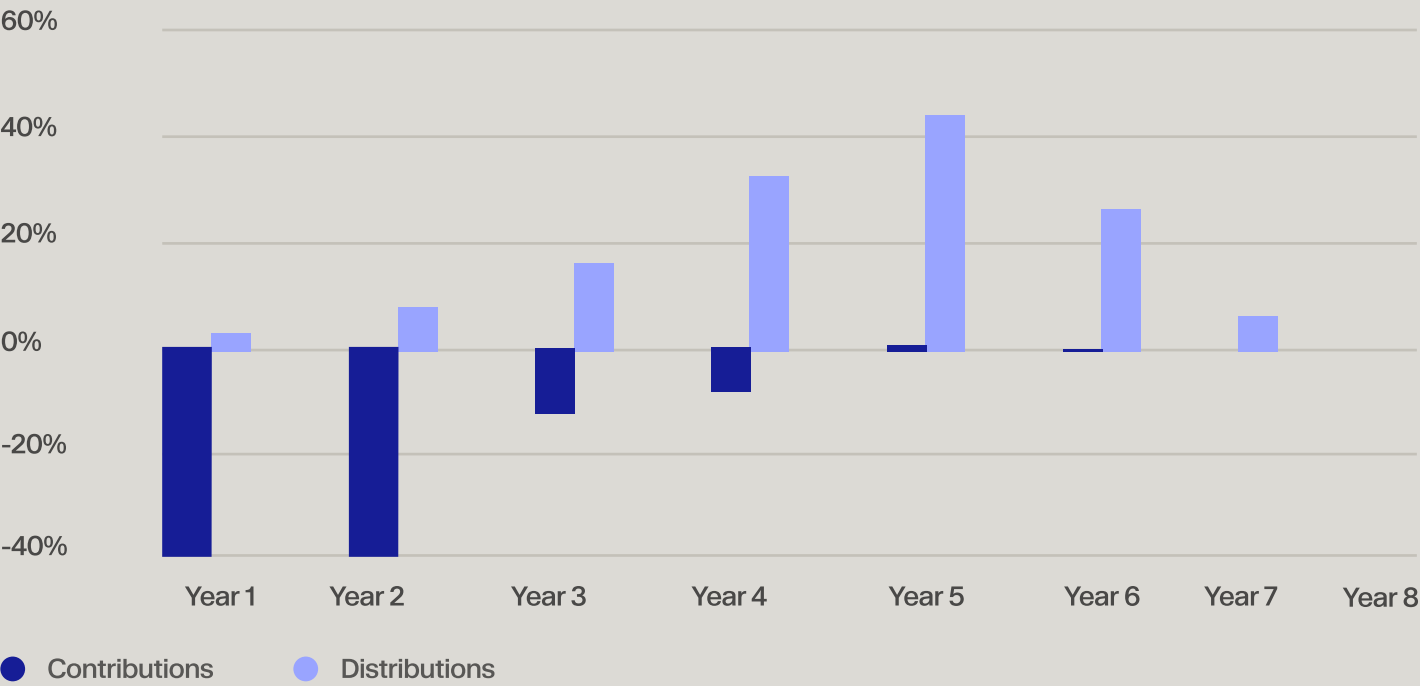
Evergreen or semi-liquid funds too, are designed to capitalize on the same expanding opportunity set as traditional funds¹⁴ while accounting for potential performance drags from having part of the capital allocated to liquid, lower-return assets.

However, it's worth noting that these funds have only recently reached a substantial scale. Benchmarks are therefore still rare and emerging. Pitchbook, for example, released a report that shows private equity evergreen funds generating an 11.1% return over the one-year period ending in April 2025 (the only available timeframe).¹⁵

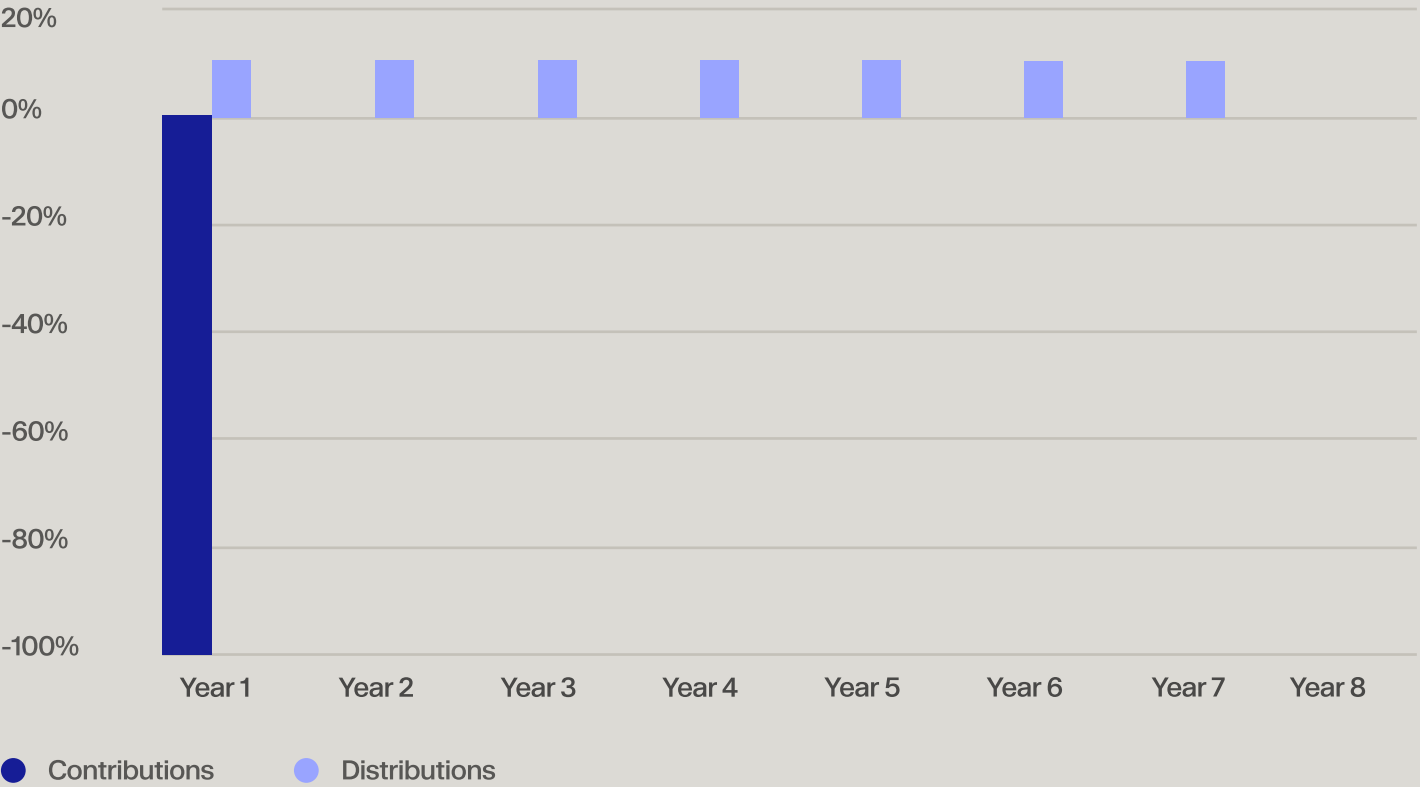
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Traditional drawdown fund

Percentages of original commitments (%)



Semi-liquid fund



Source: [Goldman Sachs asset Management](#)

*Past performance does not guarantee future results.

This slightly lags behind the S&P 500 index but the short horizon doesn't allow for a meaningful comparison just yet. Other strategies inside an evergreen wrapper have longer track records. Private credit, for example, has done very well and has outperformed public market equivalents across most horizons, same as secondaries funds which posted double-digit returns over the last five years.¹⁶

Still, investors should remember that returns can vary widely between top-performing managers and others. As with any private market investment, we believe that choosing the right managers remains key to success.

Compounding effect

Staying on the topic of returns, another advantage of semi-liquid open-ended vehicles is the potential for compounding returns as distributions from asset sales are typically reinvested into new opportunities.

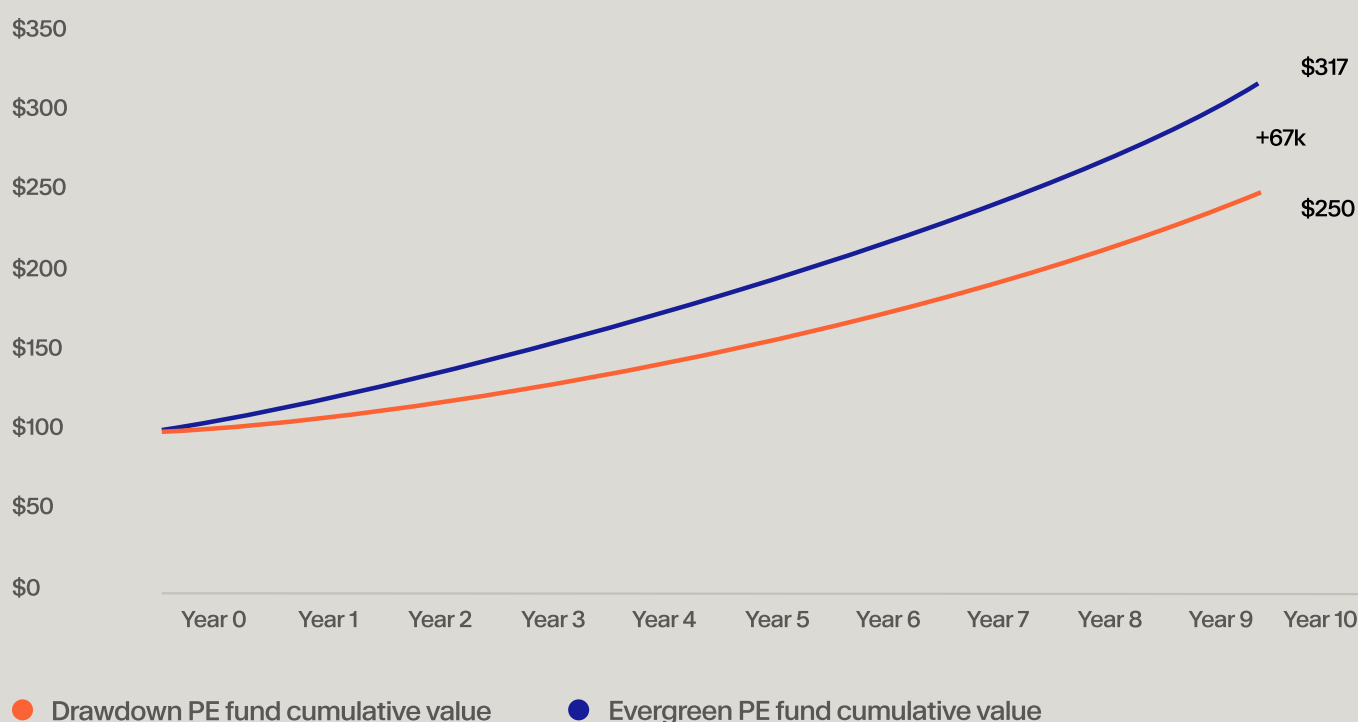
This contrasts a closed end structure where investors receive distributions directly and may lose time in the market deciding how best to allocate realised returns.

Semi-liquid funds also typically have a far longer horizon since most of these vehicles are evergreen which means they don't have predetermined end date or fundraising cycles. It's this perpetual nature that potentially provides an indefinite runway for compounding to take effect.

Research highlights these potential benefits of staying invested. For example, a study from KKR, a global asset manager, found that semi-liquid evergreen funds can achieve a 3x total return (MOIC) from an net internal rate of return (IRR) of 11.6% over a 10 year horizon.¹⁷ As the graph below demonstrates, a closed-ended fund would need to generate an IRR of 18.4% to achieve the same 3x multiple.*

The potential compounding benefit of reinvesting capital

The cumulative value of investing \$100k in an evergreen fund vs. a closed-ended fund over 10 years



Source: [KKR 2024](#)

* Past performance does not guarantee future results. Compounding returns are not guaranteed.

The true power of compounding may unfold over time. J.P. Morgan's modelling projects that, over a 30-year period, there is a dramatic and ever-widening gap in wealth creation between an open-ended fund that continually reinvests proceeds and a traditional PE fund that distributes them*.¹⁸ For long-term investors, this demonstrates how the compounding engine within evergreen funds can become a significant driver of portfolio outperformance if they remain allocated and the underlying portfolio companies perform well.

Easier to manage

Finally, semi-liquids are designed to simplify the allocation process for investors. Commitments are paid upfront, and investors don't have to keep track of multiple capital calls and distribution notices.¹⁹ This is in addition to historically more predictable redemption periods and streamlined communication between investors and fund managers, which may further reduce administrative burdens.

* Financial projections are not guaranteed.

Comparing PE funds

Semi-liquid open-ended fund

Closed-ended fund

Liquidity

Investors may be able to make at set intervals – usually either monthly or quarterly – at a capped percentage of net asset value (NAV).*

Investor capital is locked up in the fund until the end of its life and all assets are realised.

Capital calls

Entire capital is called up front with exposure to underlying assets at the first subscription window.

Commitments are made upfront, but capital is only put to work when managers make capital calls at various points through the investment period of the fund.

Distributions

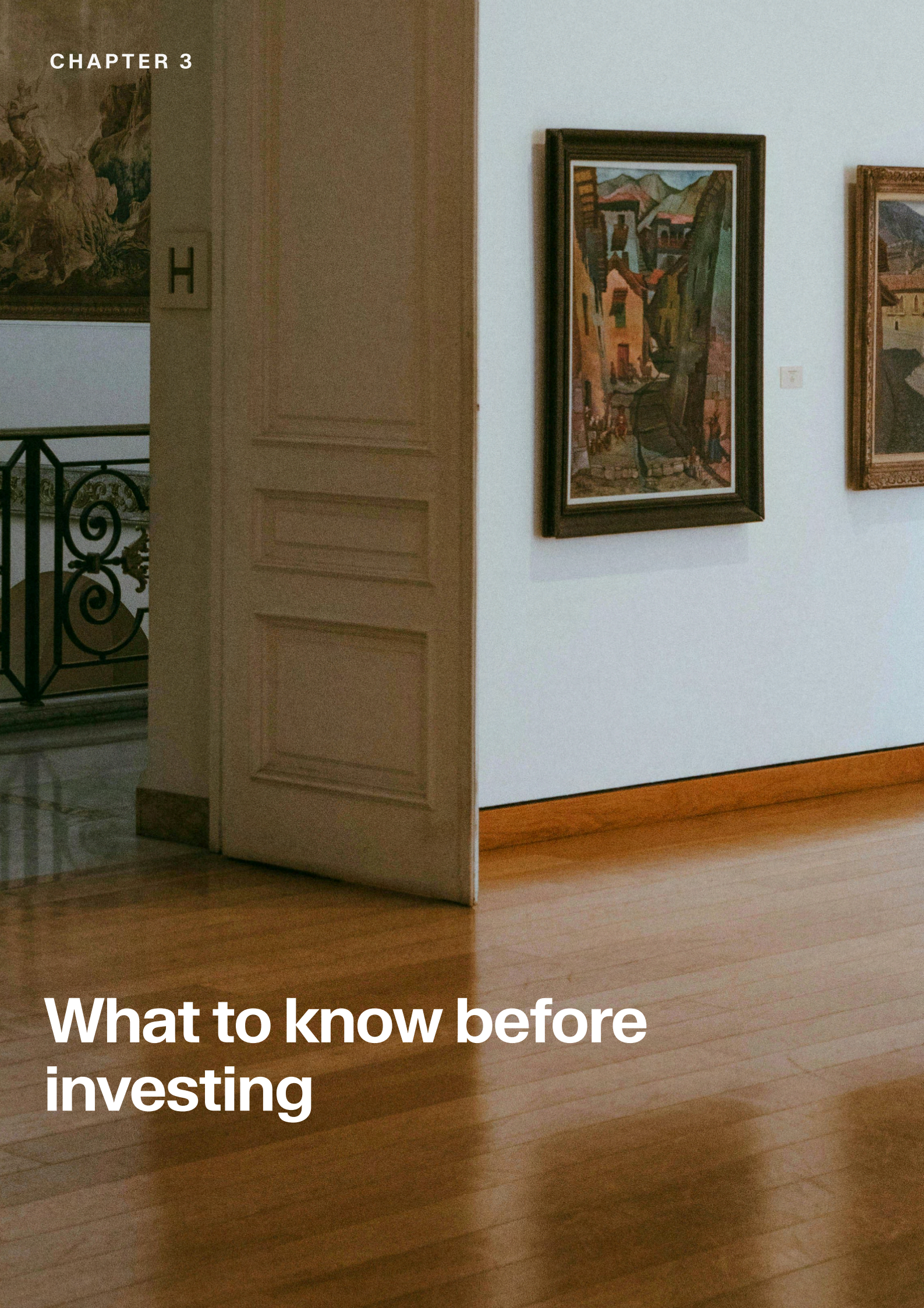
Distributions are typically made made at regular intervals or reinvested, which may result in compounding returns.

Distributions are at manager discretions and can cluster at the end of a fund's life when portfolios are harvested.

Returns

To facilitate liquidity, a portion of assets are held in liquidity sleeves of liquid assets, so returns may be slightly lower than closed-ended private markets funds.

Structures are illiquid, but returns can be higher as managers don't have to hold liquidity sleeves to cover redemption windows.



What to know before investing

Limited liquidity

It is usually not possible for investors to exit entire positions in one transaction, as they would be able to do with a stock portfolio.

Investors have to manage liquidity expectations accordingly. But even partial redemptions can potentially offer significantly higher levels of liquidity than a closed-ended fund.

Cash drag

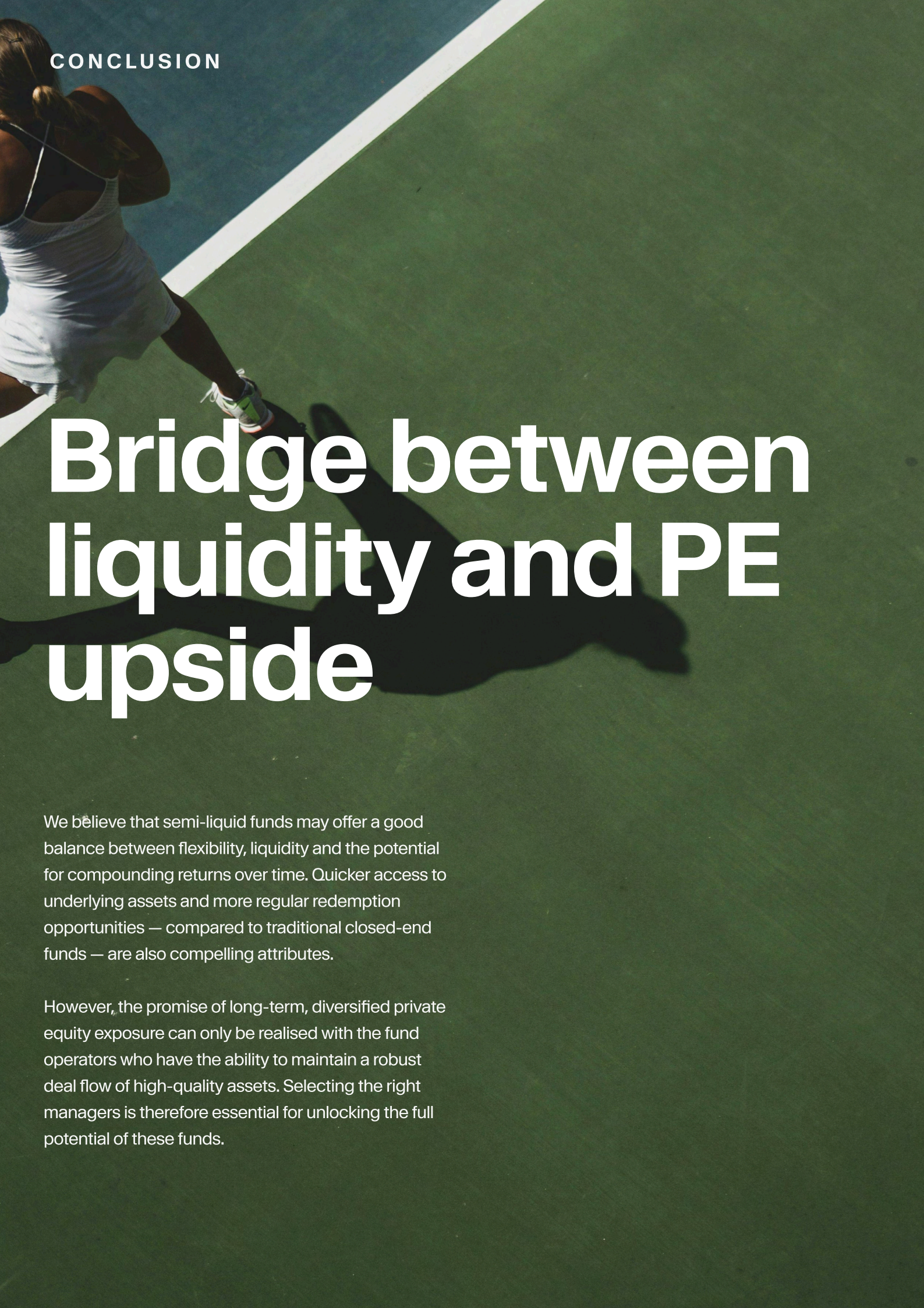
The portion of the funds kept in liquidity sleeves will not fully participate in the fund's growth opportunities and will not return at the same levels as private markets assets.

However, semi-liquid fund managers can reduce cash drag by maintaining optimal cash reserves and investing in liquid, low-yielding assets for quick access. Credit facilities can also be used to mitigate cash drag by providing short-term liquidity for investor redemptions while keeping the fund fully invested in higher-return assets.

Deal flow

Evergreen funds receive capital on a continuous or recurring basis. This means that to efficiently deploy the incoming capital, evergreen funds need a consistent stream of high-quality deals to invest in.

Not all PE operators are made the same. We believe investors should focus on managers with strong sourcing capabilities and are well-heeled in their respective ecosystems. A skilled manager can diversify by fund vintage, sector weight, geography and across investment types. For example, co-investments and GP stakes tend to be more concentrated assets that often generate alpha, while LP-led secondaries can help minimize cash drag.²⁰

A high-angle, low-key photograph of a tennis player in a white dress running on a green tennis court. The player is in the upper left corner, moving towards the right. The court's green surface and a white boundary line are visible. The lighting creates a strong shadow of the player on the court.

CONCLUSION

Bridge between liquidity and PE upside

We believe that semi-liquid funds may offer a good balance between flexibility, liquidity and the potential for compounding returns over time. Quicker access to underlying assets and more regular redemption opportunities — compared to traditional closed-end funds — are also compelling attributes.

However, the promise of long-term, diversified private equity exposure can only be realised with the fund operators who have the ability to maintain a robust deal flow of high-quality assets. Selecting the right managers is therefore essential for unlocking the full potential of these funds.

ENDNOTES

1. <https://am.gs.com/en-us/advisors/insights/article/2023/semi-liquid-funds-key-features>
2. https://www.morganstanley.com/im/publication/insights/articles/article_evergreenprivateequityfunds.pdf
3. <https://www.kkr.com/insights/evergreen-vehicle-private-equity>
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6. <https://pitchbook.com/news/reports/q2-2025-pitchbook-analyst-note-the-return-of-evergreen-funds>
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18. <https://am.jpmorgan.com/us/en/asset-management/institutional/insights/portfolio-insights/alternatives/assessing-the-benefits-of-open-end-alternative-investments/>
19. <https://www.privateequityinternational.com/why-semi-liquids-are-not-just-for-wealthy-individuals>
20. https://www.morganstanley.com/im/publication/insights/articles/article_evergreenprivateequityfunds.pdf

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