MARKET INSIGHTS – 4Q2024

Private Markets Evolution: The Rise of Evergreen Investment Vehicles

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PENDLEBURY HALL ADVISORS, LLC

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ABOUT

Pendlebury Hall Advisors, LLC is a management consulting and capital placement firm partnering with investment managers focused on private market strategies.

Pendlebury Hall Advisors, LLC leverages its deep experience with institutional and private wealth investors to better partner with investment manager clients offering private market strategies for distribution and ongoing client servicing.

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THE RISE OF EVERGREEN INVESTMENT VEHICLES

The growing demand from both private wealth and institutional asset owners is driving a transformation in investment vehicles for private market investments. The emergence of "evergreen" investment vehicles is offering investors more options beyond traditional "finite-life" limited partnerships.

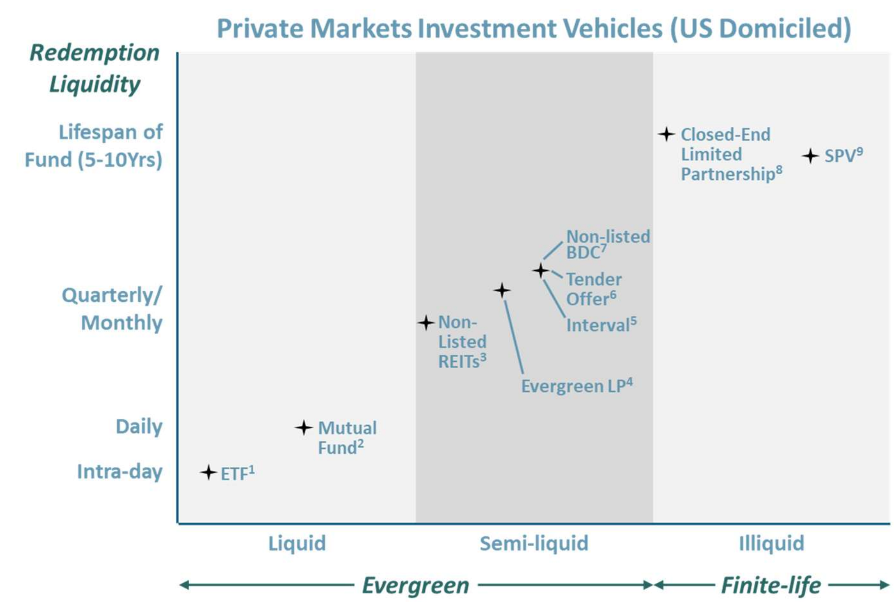
Investment managers of private capital are re-evaluating their strategies in response to evolving distribution channels. Many are rewriting their playbooks as the trend of democratizing private market investment opportunities accelerates.

KEY PRIVATE MARKETS OBSERVATIONS

- ✓ PE and VC exit markets are still difficult, however:
  - There has been steady improvement over the course of 2024
  - 2025 prospects are positive as a decline in interest rates is expected to boost deal activity in private markets
- ✓ Investors are expanding their exposures in private credit
- ✓ Significant momentum in “semi-liquid” private markets investments

NOMENCLATURE /nōmənˌklāCH(ə)r/

Terminology is not uniform across the investment industry as it relates to descriptions of private markets investment vehicles. The table below outlines naming conventions, investment vehicle types and redemption liquidity.



Evergreen vs. Finite-life Funds

- **Evergreen** – Investor ability to buy into an investment vehicle at intermittent intervals with some type of liquidity feature and indefinite lifespan (syn. – liquid or semi-liquid, open-ended, perpetual capital)
- **Finite-life** – Traditional closed-end limited partnership structure with definite lifespan (syn. – drawdown fund)

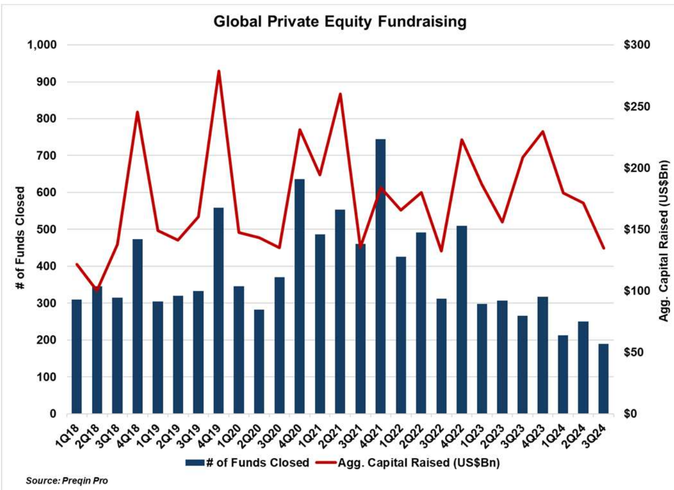
Footnotes – See **Private Markets Investment Vehicle Definitions (U.S. Domiciled)** beginning on page 4 for more definitions.

PRIVATE EQUITY & VENTURE CAPITAL EXIT MARKET ENVIRONMENT

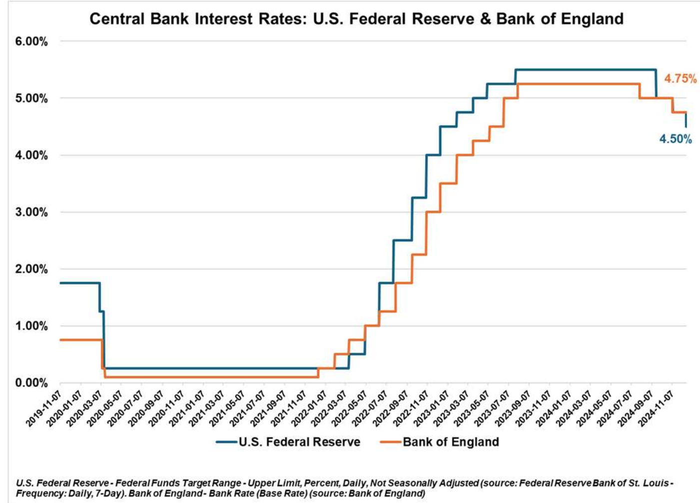
The steady upward movement and elevated interest rates through mid-2024 by central banks to combat inflation continued to contribute to muted exit markets for private equity and venture capital. With lower levels of transactions and distributions and, therefore with lower levels of capital re-investment, pacing plans and liquidity management and fundraising have been challenging.

Private Equity

Despite the growing popularity of secondaries and continuation funds, overall private equity fundraising is set to experience its slowest year since 2017.



With recent cuts from central banks, the global exit market started to show improvements with a pick-up in private equity-backed M&A activity in terms of size and volume.



Following the interest rate cuts that began in Q3 2024 and the anticipation of additional cuts, along with growing investor confidence in economic activity, the private equity exit market is expected to see further improvements heading into 2025.

Venture Capital

Venture capital markets experienced greater challenges with YTD deal activity through Q3 2024 suggesting 2024 will lag 2023 in terms of deal volume. While valuations in the seed- and early-stage segments were stable, late- and growth- stage valuations have been under pressure resulting in VC down- and flat-round financing at historical highs. Data and forecasts suggest tempered expectations for VC asset growth in 2025 with the strongest growth coming from early-stage according to Preqin's Global Report - Venture Capital 2025.

EXPANSION OF OPPORTUNITY SET IN PRIVATE CREDIT

Demand for debt has never been stronger as non-traditional lenders continue to displace banks. Direct lending dominates investor placements aided in recent periods by private wealth new entrants exploiting new and emerging opportunities created through evergreen investment vehicles.

Despite a lower interest rate environment, institutional and private wealth investors are expanding their investments beyond direct lending with significant uptick in interest in Distressed Debt and Special Situations as well as Specialty Finance opportunities.

Private Credit Taxonomy

Direct Lending	Real Estate Credit	Real Asset Credit	Distressed & Special Situations	Specialty Finance	Mezzanine
United States • Senior Debt • Opportunistic • Lower Middle Mkt. (sponsored & non-sponsored) • Private BDCs • Industry Specific • Revolving Credit Facility **Europe** • Senior Debt • Opportunistic • Lower Middle Mkt. • Country-centric **Emerging Markets** • Diversified • Asia • Africa • Central Eastern Europe • Middle East • Latin America **Global**	**U.S. Core Commercial Real Estate (CRE)** **U.S. CRE Transitional** • Large, Middle & Small Markets • Opportunistic **U.S. CRE Bridge** • Large, Middle & Small Markets **U.S. CRE Structured Credit** • Agency & Non-agency **Europe CRE** • Diversified, Bridge & Transitional **Emerging Mkts. CRE** **U.S. Residential** • Origination • Single Family Rental • Mtg. Service Rights • Non-performing Loans (NPLs)	**Infrastructure** • Senior, Subordinate & Mezzanine **Energy** • Core & Mezzanine • Opportunistic **Transportation (Lending & Leasing)** • Aviation, Maritime, Rail, Road & Trailer • Diversified **Mining & Metals** **Agriculture** **Trade & Commodity Finance**	**Corporate Distressed** • Tactical Trading • Distressed for Control • Debtor-in-possession • Diversified **Structured Opportunistic** • CLO Equity (3rd Party & Captive) • CLO Debt • CLO Multi-asset • ABS (Consumer & Esoteric) • CMBS/CRE • Europe Structured • RMBS • Diversified **Distressed RE** **Nonperforming Loans** **Distressed RE** **Capital Solutions** **Special Situations** **Secondaries**	**Consumer & SME** • Marketplace & Platform Finance **Factoring & Receivables** **Royalties** • Music/Film/Media • Oil & Gas • Metals & Minerals **Healthcare** • Lending & Royalties **Venture Lending** **Technology Lending** **Financial Services Lending** **Insurance-linked** • Life & Non-life • Diversified **Litigation** • Litigation Finance • Merger Appraisal Rights **Portfolio Finance** **Asset-based Lending** **Diversified**	**United States** • Upper Middle, Middle & Lower Middle Markets **Europe** **Structured Equity**

GROWTH OF EVERGREEN INVESTMENT VEHICLES

The democratization of private markets is a significant trend reshaping the investment landscape. This shift is primarily driven by the increasing accessibility of private market investment opportunities to private wealth investors, who traditionally had limited access to these markets. A rise in institutional investor utilization of evergreen funds is also underway to better manage asset allocation commitments, pacing plans and liquidity.

For some time, the largest private market investment managers have been developing the foundation to broaden distribution opportunities and enhance liquidity for a wider range of investors. This strategic move has given them a first-mover advantage, allowing them to capitalize on the growth of the private wealth channel while also meeting the demands of institutional investors seeking private markets options with greater liquidity.

First-mover advantage has benefited the largest managers of private markets strategies

As the marketplace evolves and exit markets remain difficult, a broader range of private market investment managers are now re-evaluating their distribution strategies and, in many cases, rewriting their playbooks.

While some investors are fully embracing evergreen vehicles in private market investments, others are skeptical whether semi-liquid structures can truly capture illiquidity premiums traditionally associated with private markets investments in finite-life limited partnerships. The perpetual nature of these evergreen vehicles may also be understating risks, as continuous capital inflow and outflow can undermine long-term investment strategies.

Private Markets Investment Vehicle Definitions (U.S. Domiciled)

Liquid Investment Vehicles

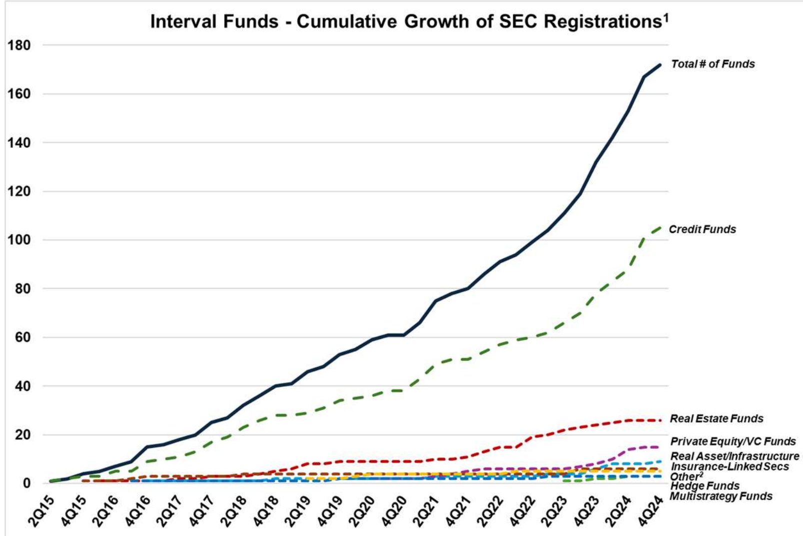
1. **Exchange Traded Funds (ETFs)** – Private market strategies available in an ETF vehicle? Rubbish you say? While in their infancy, there are ETF options available depending on your definition. Collateralized loan obligations (CLOs) ETFs have seen rapid growth over the last two years with now over 10 CLO ETFs in place with over US$17 billion in AUM as of September 30, 2024 and more to come with notable registrations on the rise. Additionally, on September 10, 2024, SPDR SSgA Apollo IG Public & Private Credit ETF was filed with the U.S. Securities and Exchange Commission featuring "a portfolio of investment grade debt securities, including a combination of (i) public credit related investments and (ii) private credit investments sourced by Apollo Global Securities, LLC." It remains to be seen whether U.S. regulators will approve the public and private ETF offering.
2. **Mutual Funds** – A limited number of private equity and venture capital "replication" mutual funds have been launched in the U.S. and Canada seeking replication of private equity and venture capital indices through exposures in holding publicly listed assets. While the Investment Company Act of 1940 specifically mandates U.S. mutual funds can hold a maximum of 15% of their net assets in illiquid securities there has been growing exposure of "privates" held in these vehicles. Strategies such as global allocation funds, managed futures, etc. would not be considered pure-play vehicles for private markets exposures, but have played a role as alternative investments in portfolio absolute return allocations.

Semi-liquid Investment Vehicles

3. **Non-listed & Private Real Estate Investment Trusts (REITs)** – Evergreen vehicles include: 1) public non-listed REITs (PNLRs) which are called NAV PNLRs with typically monthly liquidity provisions and are registered investment companies (RICs) under the Investment Company Act of 1940; and 2) Private REITS not registered under the Securities Act of 1933 and raise capital through Regulation D private placement transactions. "Life Cycle" PNLRs are also available which are RICs but are typically limited duration entities only offering liquidity at the end of the REITs life cycle. Types of REITs typically include Equity, Mortgage and Hybrids. Most strategies are concentrated in Core and Core Plus mandates, but Value-Add and Opportunistic also available. REITs are subject to restrictions including: 1) 75% Asset Test (at least 75% of total assets must be invested in real estate assets, cash, and/or government securities); and 2) 75% Income Test (at least 75% of gross income must come from real estate-related sources, such as rents from real property, interest on mortgages, and gains from the sale of real estate). Many NAV PNLRs offer monthly or quarterly share repurchases, however, other Life Cycle PNLRs and private REITs may have longer lock-up periods ranging from 5-10 years. REITs have faced recent challenges including higher interest rate environment, debt refinancing issues and investor sentiment, but a lower rate environment and uptick in cyclical economic conditions may provide trough opportunities.
4. **Evergreen Limited Partnerships (LPs)** – Evergreen funds are exempt as a RIC under the Investment Company Act of 1940. Notable evergreen strategies can be found in infrastructure and real estate strategies. These funds can operate indefinitely through monthly or quarterly investor subscriptions and recycling capital into new investments. Funds can typically be accessed by qualified purchasers and accredited investors as well as institutional investors. Distributions are typically monthly or quarterly, but some provide periodic windows during which investors can redeem their shares, subject to certain conditions and limitations. They often use a queue system for redemptions, operating on a "first-in, first-out" basis.

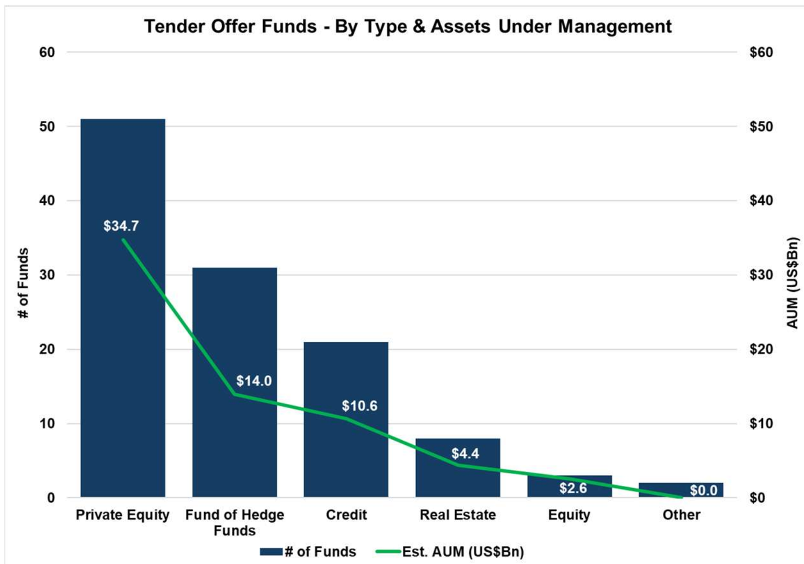
Private Markets Investment Vehicle Definitions (U.S. Domiciled), Cont'd

5. **Registered & Private Interval Funds** – Most interval funds are evergreen RICs under the Investment Company Act of 1940. Some are private evergreen interval funds not registered under the Securities Act of 1933 and raise capital through Regulation D private placement transactions. Interval funds can continuously offer shares at net asset value (NAV) to an unlimited number of investors. Funds typically feature daily subscriptions and can typically be accessed by qualified purchasers, accredited investors and institutional investors. Subject to Rule 23c-3, RIC interval funds provide limited liquidity to investors by periodically offering to repurchase a portion of their shares at NAV at predetermined intervals - typically quarterly repurchase offer of 5%-25% of outstanding shares. Interval funds have experienced strong growth, particularly over the last five years with over 110+ funds with almost US$90 billion in AUM as of September 30, 2024. While the majority of 110+ interval funds are income-producing strategies, namely credit followed by real estate, there are a handful of funds with track records investing in private equity and venture capital. Recently, there has been a surge in new interval fund registrations dominated by credit strategies, but also notable number of private equity and venture capital strategies (seven 2024 year-to-date through the end of November).



[1] Source: US Securities & Exchange Commission. Includes interval funds publicly filing initial registration forms with SEC since 2015, but have not yet been declared effective by the SEC. Excludes funds with withdrawn registrations. 4Q24 reflects quarter-to-date data through end of November.
[2] Digital Assets + Life Settlements, Structured Settlements, Royalties and Legal Finance + Artwork

6. **Registered & Private Tender Offer Funds** – Most tender offer funds are evergreen RICs under the Investment Company Act of 1940. However, private evergreen interval funds exist that are not registered under the Securities Act of 1933 and raise capital through Regulation D private placement transactions. Tender offer funds typically feature monthly subscriptions and can be accessed by accredited investors and institutional investors. Differing from interval funds, tender offer funds repurchase shares at the fund board's discretion governed by Rule 13e-4 under the Securities Exchange Act of 1934. Rule 13e-4 does not require predetermined repurchase offers nor limit the repurchase offer amount. As with interval funds, there has been significant growth in tender offer funds since mid-2020 which are dominated by private equity offerings (comprise 44% of all tender offer funds and represent more than 50% of AUM with the largest tender fund representing almost US$15 billion in assets).



Source: Data from most recent fund filings.

7. **Private Business Development Companies (BDCs)** – There are three main BDCs structures: Publicly Traded, Non-Traded and Private. All BDCs invest the majority of their assets in private operating companies focused on small and middle market entities. BDCs must invest at least 70% of their total assets in qualifying assets, which are generally defined as private U.S. companies or public U.S. companies with a class of securities listed on a national securities exchange but have an aggregate market value of outstanding voting and non-voting common equity of less than $250 million as defined under Rule 2a-46 under the Investment Company Act of 1940. Publicly Traded (listed on exchanges) and Non-Traded (not listed on exchanges) are RICs while Private BDCs are not registered under the Securities Act of 1933 and raise capital through Regulation D private placement transactions. We believe traded BDCs available to both retail and institutional investors offer the greatest level of liquidity. Non-Traded and Private BDCs historically only had finite terms with limited liquidity (via discretionary share repurchases) prior to conducting a liquidity event, such as an IPO. However, there has been significant growth of "perpetual life" Non-Traded and Private BDCs offering indefinite durations and greater liquidity (monthly or quarterly) for investors. Of the total Non-Traded and Private BDCs universe estimated to be over US$136 billion in net assets, perpetual life BDCs now comprised over 70% of the market with the top 5 BDC perpetual life funds representing US$70.3 billion in net assets based on most recently regulatory filings.

Private Markets Investment Vehicle Definitions (U.S. Domiciled), Cont'd

Illiquid Investment Vehicles

8. **Closed-end Limited Partnership** – Also called drawdown funds or finite-life funds, limited partnership vehicles have been the traditional investment vehicles for private market investors. Investment firms (GPs) form a limited partnership vehicle which is not registered under the Securities Act of 1933 and raise capital from limited partners (LPs) through Regulation D private placement transactions. At the investment stage, GPs typically call a portion of committed LP capital (capital calls) at the time they are ready to make individual investments in the fund. These periodic capital calls continue until all LP committed capital is called. Distributions are paid in a harvesting stage when fund managers realize their investments in underlying companies or assets. The model for distributions is called the waterfall and typically has three main steps: 1) fund distributes capital to LPs until these investors have received back the full amount they initially invested; 2) fund then distributes capital to investors up to a pre-agreed preferred return or hurdle rate (i.e., the return investors receive before the GP can start receiving any carried interest, typically around 8%); and 3) further distributions are typically split 80%/20% between LPs and the GP which is called carried interest, often first with special "catch-up" provisions for the GP. The order of the distribution waterfall varies according to whether the fund has a US-style waterfall (i.e., split on deal-by-deal basis) or European-style waterfall (i.e., split on a whole fund basis). There are further detailed nuances associated with limited partnership funds and terms vary depending on the fund's provisions. Given restrictions, LPs are typically large institutional investors including retirement plan sponsors, endowments, foundations, financial intermediaries, sovereign wealth funds and large qualified investors.
9. **Special Purpose Vehicles (SPVs)** – Distinct legal entity set up to meet a special business purpose. It enables multiple investors to pool their capital to make an investment for a specific financial purpose. Specific to private markets, SPVs are used to hold investments, manage risks or facilitate corporate actions (e.g., acquisitions and deals). Administrators of SPVs are noting an increased uptick in creation activity as demand for structured finance, infrastructure and project financing and venture capital activity are driving growth for this investment vehicle.

About

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Troy has nearly 30 years of experience in the asset management and investment advisory industry in senior executive and sales management roles. Working with large institutional investors and financial service firms, his expertise spans all aspects of traditional and alternative investing. Troy Saharic is Registered Representative of Finalis Securities LLC Member FINRA Finalis Securities LLC is a registered broker-dealer Member FINRA / SIPC.

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