Are you ready to launch a private equity-focused evergreen fund?

Evergreen funds have recently exploded in popularity as private fund managers seek retail investor capital. Private real estate and private credit platforms led the way, but now private equity institutions are beginning to venture into this emerging space. Trillions within retirement accounts of retail investors will be up for grabs, but a difference-maker in success will be overcoming the operational and valuation challenges that could stand in the way. Private equity managers must overcome these obstacles before retail capital can begin freely flowing to their newest private equity investments. And for those that are unprepared and unable to adapt, they will miss out on this generational opportunity.

The Past and Present

Private equity sponsors have traditionally raised capital from pension funds, endowments and other institutional investors. According to Preqin, in 2023, private equity accounted for $5.3 trillion of the total alternative asset market. Their success has attracted increasing allocations from these sources, leaving little need to seek growth capital elsewhere. However, as these institutions approach their contractual allocation limits to private equity and with how attractive private credit has become to this investor base, private equity funds are now turning to retail investors as a new channel in the race to increase assets under management (AUM).

The Next Generation of Private Equity Fundraising – the Retail Investor

Private equity will continue to make inroads with retail investors through evergreen fund vehicles; however, evergreen fund structures demand an overhaul of manager processes and organizational frameworks that will impact not only the new interval vehicle but also existing closed end vehicles. Managers will face numerous challenges as they navigate this transition, including:

Redemption and buy-in frequency

Evergreen funds offer periodic liquidity for investors at the fund's NAV, presenting unique challenges. Funds must ensure there is sufficient liquidity to meet redemptions without overly diluting returns. Careful consideration must be made as to the most efficient ways to provide liquidity when the underlying investments are inherently illiquid. Additionally, more frequent buy-ins can cause sudden surges of dry powder requiring rapid deployment. Without a steady pipeline of ready-to-close deals, funds must find alternative ways to utilize new capital such as the establishment of warehouse or subscription lines. To deal with unexpected redemption requests, managers are choosing to seed their evergreen funds with more liquid products such as broadly syndicated loans or secondaries and retain a portion of such product perpetually.

Regulatory oversight

Managers tapping retail investor capital face strict regulatory scrutiny. In fact, the SEC and FCA have recently highlighted valuation and retail investor protections as key priorities for 2025. The SEC's Division of Examinations recently noted in its 2025 Examination Priorities publication that reviews may have a heightened focus on valuation if invested in illiquid or difficult-to-value assets. Examinations of investment companies working with retail investors, particularly those saving for retirement, will continue to be a priority. Similarly, the FCA's supervision priorities, published in February 2025, highlight valuations as well as its focus on retail product development. The FCA acknowledges the growing popularity of retail offers of private market products and expects valuation processes of illiquid assets to be robust, with a strong governance framework, noting that investors need fair valuations to make informed decisions and understand how their investments are performing.

Valuation considerations

With periodic liquidity events and tighter regulatory oversight, it's time to rethink your valuation processes. Do you have sufficient resources including the right team, technology and expertise to adapt?

Here are the critical questions every manager should be asking:

? Will my process timing need to change?

Closed-end vehicles's filing requirements typically allow 60 to 90 days. The evergreen fund space moves materially faster. In fact, rather than valuations being periodic and occurring four times a year, valuation committees will be meeting at least monthly, and the process will be continuous, demanding an entirely new level of speed, resources and efficiency.

? Do I have the right personnel in place to monitor the portfolio and report NAV at fair value more frequently?

Performing quarterly valuations is already an arduous task for managers and even more so if deal teams are heavily involved in the process. To this end, asking investment professionals to roll up their sleeves eight additional times during the calendar year will become exceptionally time consuming, diverting attention from portfolio company value creation activities. As a result, Lincoln is observing that portfolio monitoring teams are taking on more valuation responsibilities and "in many cases" leveraging an outsourced solution to ensure both market and fundamental updates are incorporated at each NAV date.

? Am I relying upon the most appropriate valuation approaches?

Evergreen funds face heightened scrutiny, so it is critical to ensure best practices are in place. For instance, funds that have traditionally relied solely on a market approach may want to incorporate a discounted cash flow method to provide a more robust and defensible fair value assessment. Additionally, managers will need to adopt policies for when and how new information, including monthly financial flash reporting, will be factored into the valuations and whether materiality or thresholds should influence this process. For example, while portfolio companies may provide financial updates monthly, managers will now need to determine how certain adjustments to earnings (EBITDA), which are historically evaluated quarterly by most managers and tend to take significant thought and time to determine, will be factored into and assessed during a monthly reporting cadence.

? Does a period of market volatility impact the fair value of my fund's holdings?

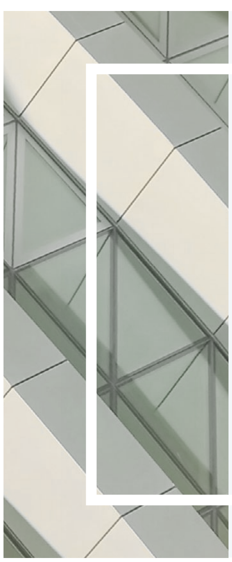
As affirmed through the Lincoln Private Market Index, while private market valuations are less volatile than public markets, they are not immune to shifts and often converge at points during economic cycles. Private equity managers must rely on their expertise and judgment to determine whether market movements warrant adjustments to an investment's value. Lincoln has observed a divergence in the mechanism that private equity managers use to consider the market impact on valuations with some managers revaluing all assets at each NAV date and others utilizing trigger thresholds to ascertain if an adjustment to fair value is warranted as a result of movements in public markets.

? Are my current software tools suitable for the new requirements?

Finance professionals of all kinds are looking for ways to automate their repetitive processes. As valuations become more frequent and portfolios scale, the need for time-saving tools becomes more important than ever. Lincoln has built its own proprietary software that specifically serves the private markets to meet more frequent valuation requirements.

Marketing efforts

Evergreen fund marketing hinges on earning the trust of wealth managers and distributing banks. Since the private investments within these funds do not trade on public markets, these stakeholders demand additional assurance that their clients are transacting at fair prices. Historically, many private equity advisors have handled valuations in-house, but retail gatekeepers are now requiring third-party opinions in many instances. For advisors with internal processes in place, choosing a valuation provider that integrates seamlessly and minimizes disruption is critical.



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Partnering with Lincoln International's Valuations & Opinions Group

Process Design & Development:

Launching a retail investor-focused evergreen fund is a complex endeavor. Having a trusted partner to guide you through the process is important. Lincoln's valuation practice has been at the forefront of private credit's evergreen fund expansion since its infancy. Today, Lincoln is bringing that same forward-thinking valuation and process expertise to its private equity clients.

Portfolio Valuations:

Lincoln's Portfolio Valuations team performs over 6,000 valuations every quarter for more than 175 managers. Our clients include 20+ evergreen fund managers, and we have established an evergreen committee to maintain common standards and best practices across projects. Clients benefit from Lincoln's long-established experience and shared insights.

Transaction Opinions:

Lincoln's Transaction Opinions practice is a global leader for fairness opinions to the alternative investment community. We provide buy-side opinions when retail funds purchase assets from a GP's balance sheet, managed funds or other parties, which supports the purchase of initial seed investments. Lincoln also provides two-sided opinions to both the selling affiliate as well as the purchasing retail fund.

By partnering with Lincoln, clients gain not only the firm's market-wide insights but, most importantly, the knowledge of how to build an organization capable of successfully managing a retail fund.

> Ready to discuss the opportunities ahead for you?
> Connect with a senior professional at connect@lincolninternational.com