

Evergreen Capital: The New Force in Private Markets

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Dell|arche

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Abstract

"Democratization" sounds appealing as it relates to almost everything. However, both retail and institutional investors need to be wary as private market funds attempt to push into new channels. Illiquid assets being available to retail investors raises critical questions regarding liquidity management, valuation transparency, and what happens during times of market volatility.

An Evolving Asset Class

Previous DeMarche white papers have focused on various aspects of Private Market investing. Our March 2020 research focused on long dated PE (more on this later), while a paper published in January of 2022 looked at trends comparing publicly traded and privately held companies. In between, our research into continuation funds led to the publication of a white paper in early 2021. All three remain available on our website www.demarche.com.

Back to the Future

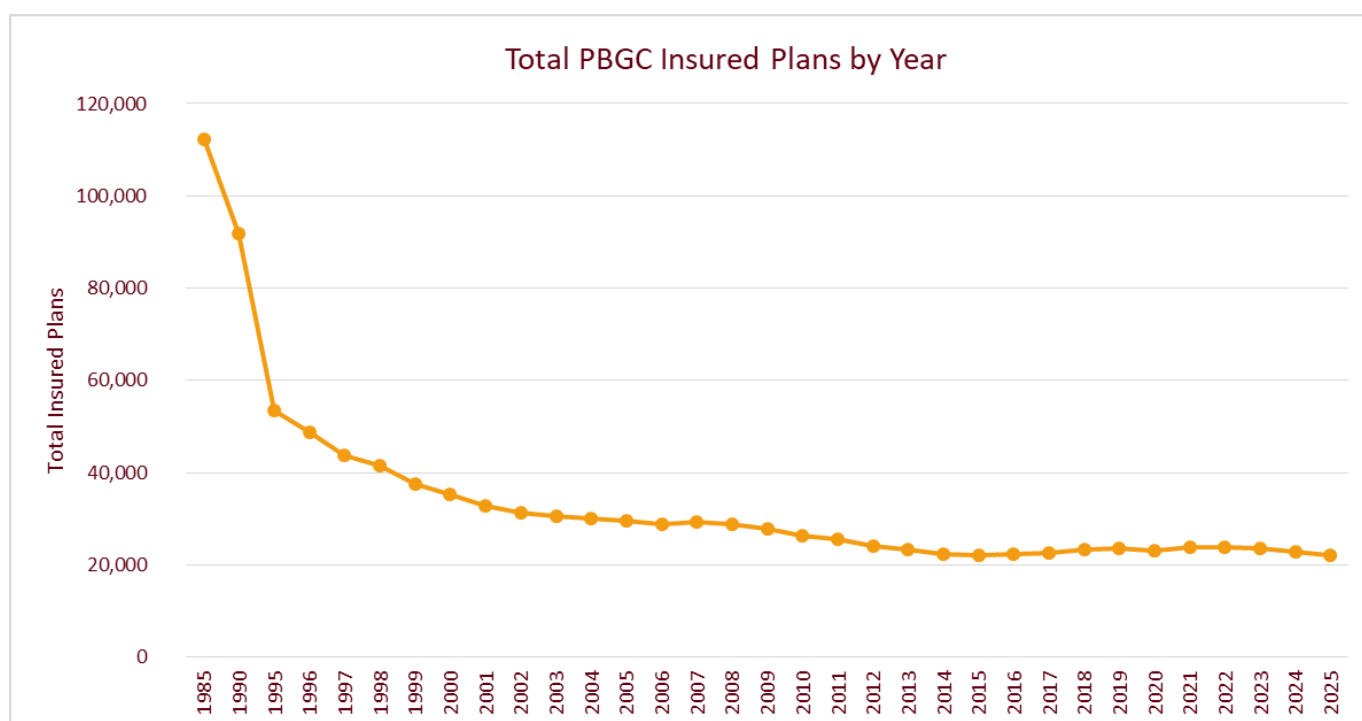
The first paper we will revisit is "Long Dated Private Equity; A Problem Solved" which focused on a recent (at the time anyway) development in private equity investing. Specifically, a number of large established fund managers were starting to promote funds that had atypical holding periods, some as long as 20 years. Ostensibly, this would allow a PE manager more time to harvest a compelling portfolio investment. While initial capital flow into these vehicles looked promising, most of these (planned) funds did not receive significant investor interest, with most LP's tending to prefer more conventional terms i.e. 10 year life with 1-2 one-year extensions.

Of course we all know that many of these conventional funds often face significant "end of life" hurdles due to a number of factors, especially in the increasing interest rate environment of the past several years that dramatically slowed IPO and M&A activity. According to Cobalt, there are still 730 "active" 2010 Vintage PE funds with unrealized assets. This development no doubt contributed to the rise of GP-Led secondaries as impatient LP's desiring liquidity, embraced the optionality offered by these continuation vehicles. Our "To Be Continued" white paper in 2021 appears to be fairly prescient, as we discussed these fund structures and the likelihood of increased interest in this sub-sector of private equity investing.

Finally, our "Is There an Imbalance Between Your Portfolio and The Economy?" white paper discussed current arguments for private market investing, including the shift in the number of private vs. public companies, and how much of the economy is tied to private companies. Interestingly, although the paper is now seeing its third anniversary, those trends have held steady. That same "imbalance" argument is now being used as it relates to retail investors. Moreover, should private market offerings be included as investment options in defined contribution line-ups under the auspices of democratization?

A Shrinking Opportunity Set

A clear trend over the past 20 years has been the dramatic decrease in companies that offer a defined benefit plan (DB Plan). This is an often overlooked, but very important phenomenon. Why? Because many of these plan sponsors were significant investors in private real estate, private infrastructure, private credit and private equity funds. According to data from Pension Benefit Guaranty Corporation shown in chart 1, total single-employer insured plans peaked in 1985 at 112,208 plans which has decreased to around 22,200 total single-employer insured plans in 2025. The bottom line is that only a small number of private-sector employers offer a defined benefit plan today. The U.S. Bureau of Labor Statistics estimates that 14% of private industry workers had access to a DB plan as of 2025. This compares to 20% in 2010, a decrease of 30%. This downward trend is expected to continue and has implications for the industry as a whole, as well as both institutional and retail investors. The bottom line is that the pension channel is shrinking and unlikely to ever grow with resulting implications for capital raising. Further, if democratization is such a great idea, why was this idea not advanced when rates were low, multiple expansion was real, exits were flowing and allocators were increasing their commitments to private markets?



Source: PBGC

Chart 1

For years, the private equity industry has been eyeing defined contribution plans as a new source of funding. More specifically, the Wall Street Journal identified in early 2026 that defined contribution retirement plans held over \$14 trillion in assets. If participants in these plans were to allocate 8% of their portfolios to private market offerings they would send more than a trillion dollars into assets that aren't publicly traded, on top of capital that is already surging into these funds from retail investors. By comparison, the alternative assets industry raised only \$549 billion for private equity, venture, and secondary investments from institutional investors in 2025 (PitchBook). So a real question remains as to whether private markets could even absorb all of this additional capital especially given the amount of dry powder already associated with private market funds.

Although a trillion dollars is unlikely to move into private assets overnight, the surge of capital would reshape the markets for alternatives. Some of those changes are unlikely to benefit institutional investors. Specifically, funds that hold alternative assets have traditionally been structured as long-term investments, with strict rules around when capital can be returned to investors. Investors who are willing to put their capital at risk for years—over a decade in most cases—do so for the excess returns private markets can potentially provide, as well as volatility dampening associated with asset classes that are not highly correlated to

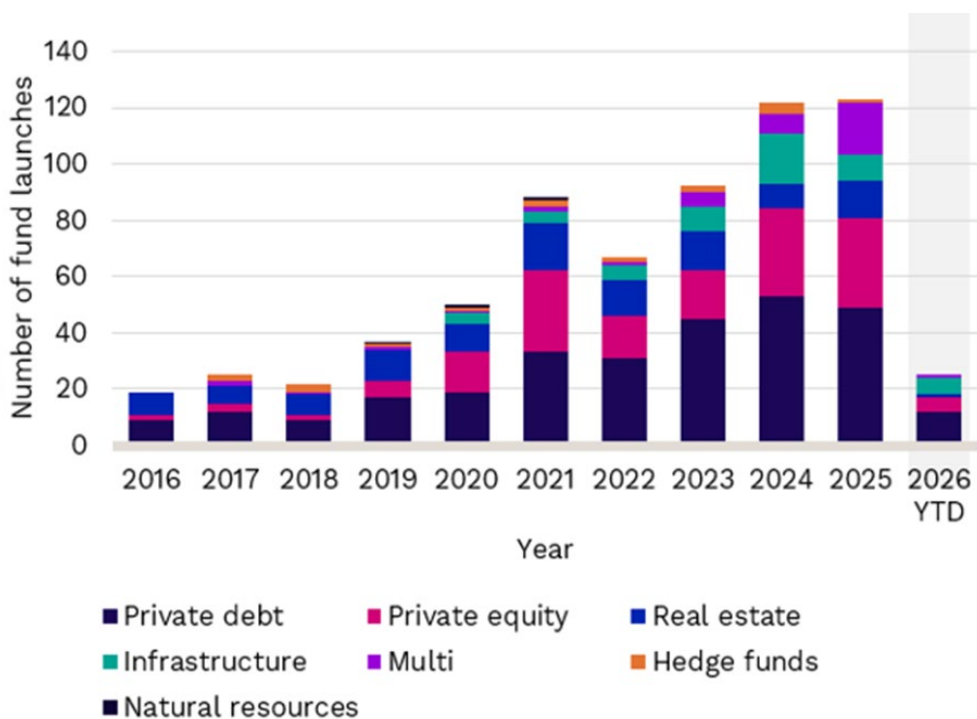
public markets. It is highly unlikely that the typical retail investor has the same perspective. That is evidenced by recent “runs” on various private real estate and private credit funds that were marketed to retail investors as many retail investors sought liquidity from structures that were not accustomed to providing it.

Rise of Evergreen Structures

For decades, investors seeking the return and risk profile associated with alternatives were required to be “qualified” or “accredited” investors. This included income and net worth requirements, or in some cases current professional certifications or licenses (like a Series 7). These safeguards were put in place based on the assumption that this investor profile could understand (and navigate) the often opaque world of investing in private assets.

That could change as the U.S. Department of Labor is preparing rules for adding private market assets to 401(k) retirement plans, which is expected to create more demand for evergreen fund structures that include alternatives. These rules are in response to an August 2025 executive order by President Trump. However, a major sticking point remains, considering potential litigation associated with evergreen funds focused on alternatives and that is the question of fees. Lawsuits concerning investment fees in defined contribution plans remain elevated. DeMarche has been tracking defined contribution plan litigation for close to a decade and notes that our data reflects that 59% of plan participant-initiated litigation is fee related. The fact that the net fee on retail evergreen funds was more than 3% in the fourth quarter of 2025 (PitchBook) would seem to suggest that more litigation in this space is likely, not less.

While we are on the topic of fees, as currently written certain fees associated with warehousing and broken deal fees can only be charged to an institutional fund. However, certain compliance costs and related fees associated with retail vehicles may be shared across all funds. Neither scenario is going to be very compelling for investors on either side of the transaction. Wall Street clearly sees where the proverbial puck is going though (thank you Wayne Gretzky). According to a survey conducted by AlphaSights and EY, 90% of private equity firms surveyed said they are at least “somewhat interested” in developing products for the 401(k) market. As one would expect, the number of public funds that have been structured for individuals to invest in alternative asset classes



has surged over the past few years. These evergreen structures, as they are generally grouped, grew to at least 505 funds with \$500 billion in assets as of the fourth quarter last year from about 278 funds with \$245 billion in 2022, according to a December report from PitchBook and Morningstar. The question of whether a manager will be equally incentivized to support both retail and institutional funds is real and has not been tested in a real world environment-yet. However, early skepticism abounds. A January 2026 report from Collier Capital indicated that

Source: Preqin

Figure 1

61% of institutional investors were not comfortable with partnerships that were forming to better reach wealth and retail clients.

So whether the political and regulatory stars align remains to be seen. Regardless, what we do know is that a number of thorny details still need to be worked out. Retail evergreen funds—which include interval and tender offer funds in addition to real estate investment trusts and business development companies (BDCs)—must strike NAV’s, while providing opportunities for investors to redeem shares. Cash flows alone cannot be expected to meet regular monthly or quarterly redemptions. A workaround would be holding cash (which would likely be a drag on anticipated returns), utilization of a credit facility or holding a sleeve of more liquid investments to meet redemption requests. If none of these are available (think the Great Financial Crisis), then the managers would likely “gate” withdrawal requests which is something a typical defined contribution plan participant has never experienced.

Why NAV’s Matter

Identifying when a manager strikes their Net Asset Value (NAV) and how it is determined, along with the redemption process can be crucial when investing in an evergreen fund. How a manager identifies the NAV of an investment or the fund can determine what the fund is worth. Many managers will have an external facility to compare their price to, as this can help address any biases that a manager may have on an investment. The manager (often in conjunction with an external audit or valuation firm) ultimately has final decision on the NAV that they believe the fund is worth at any given point in time.

Understanding the NAV of a private fund is crucial when committing capital or requesting a redemption from an open-end or “evergreen” strategy oriented to private assets. Realization events for illiquid private market assets are infrequent, which can make pricing them inherently imprecise or out of date. Specifically, the timing Fund’s NAV strike (valuation date) could potentially result in a premium or discount to the “real” valuation of the fund’s underlying assets. Presently, some firms strike NAVs quarterly, while others update NAVs monthly for their evergreen funds. Closed-end funds may or may not strike NAV’s on a regular cadence since they are not actively traded. During large market movements this can create a significant change in valuation before the investor receives a redemption. This problem alone should give retail investors pause.

Evergreen funds have a required notice period, which can be anywhere from a quarter to one year before the redemption is paid out. Evergreen funds will also often employ “liquidity sleeves” consisting of cash or credit facilities to assist with redemptions to avoid a forced selling scenario. If a fund receives too many redemption requests, they may also gate redemptions or otherwise limit the redemptions that are paid. These challenges will require retail investors to plan ahead to manage liquidity challenges, a meaningful deviation from their experience with more commonplace investments in mutual funds, ETFs and stocks.

A Role for Private Assets

Having identified many of issues associated with adding private funds to 401(k) plans, DeMarche does see a potential role for private markets in the DC space as it relates to Target Date Funds (TDFs). Specifically, using DeMarche capital market assumptions and borrowing the glidepath from a leading TDF provider illustrates how private markets can improve plan participant returns.

Hypothetical Benefit from Alts in DC Plans		
	Without Alts	With Alts
25y Annualized Return (%)	5.82	6.42
25y Standard Deviation (%)	12.38	11.38
25y Sharpe Ratio	0.32	0.56

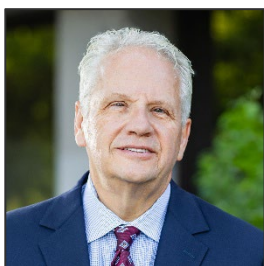
Sources: Glidepath from Fidelity, Capital Market Expectations from DeMarche

In this instance, given the long hold periods associated with TDF's, the promise of private markets (better returns with less volatility) has a higher probability of being realized.¹

As we have outlined, the movement of private evergreen funds to the retail or defined contribution channel creates a number of potential issues for both institutional and retail investors. In a recent speech, Joe Bae, co-CEO of KKR noted that there are more private funds than McDonald's. From a retail investor perspective, private market options could be made available in a plan's brokerage window, although this would obviously not preclude uniformed plan participants from potentially making a significant mistake. DeMarche believes that an opportunity set this large affords institutional investors with a myriad of options outside of those General Partners that are seemingly most focused on asset gathering.

Put Research To Work

with the DeMarche Team



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Sources Utilized:

- *Partners Group*
- *Cobalt (Hamilton Lane)*
- *U.S. Bureau of Labor Statistics*
- *Wall Street Journal*
- *PitchBook*
- *AlphaSights*
- *EY*
- *Morningstar*
- *Coller Capital*
- *Fidelity*
- *Joe Bae, co-CEO of KKR*
- *PBGC*
- *Advisorpedia*
- *GEX Ventures*

¹ Returns are modeled using DeMarche Capital Market Assumptions. Glide path allocations incorporate dynamic exposures, with private equity set at 30% of domestic public equity and private debt set at 30% of domestic fixed income, each gradually reduced over the five years preceding retirement. This example is for illustrative purposes only.