Evergreen private equity:

A quiet revolution

July 2026

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HSBC Asset Management

Background

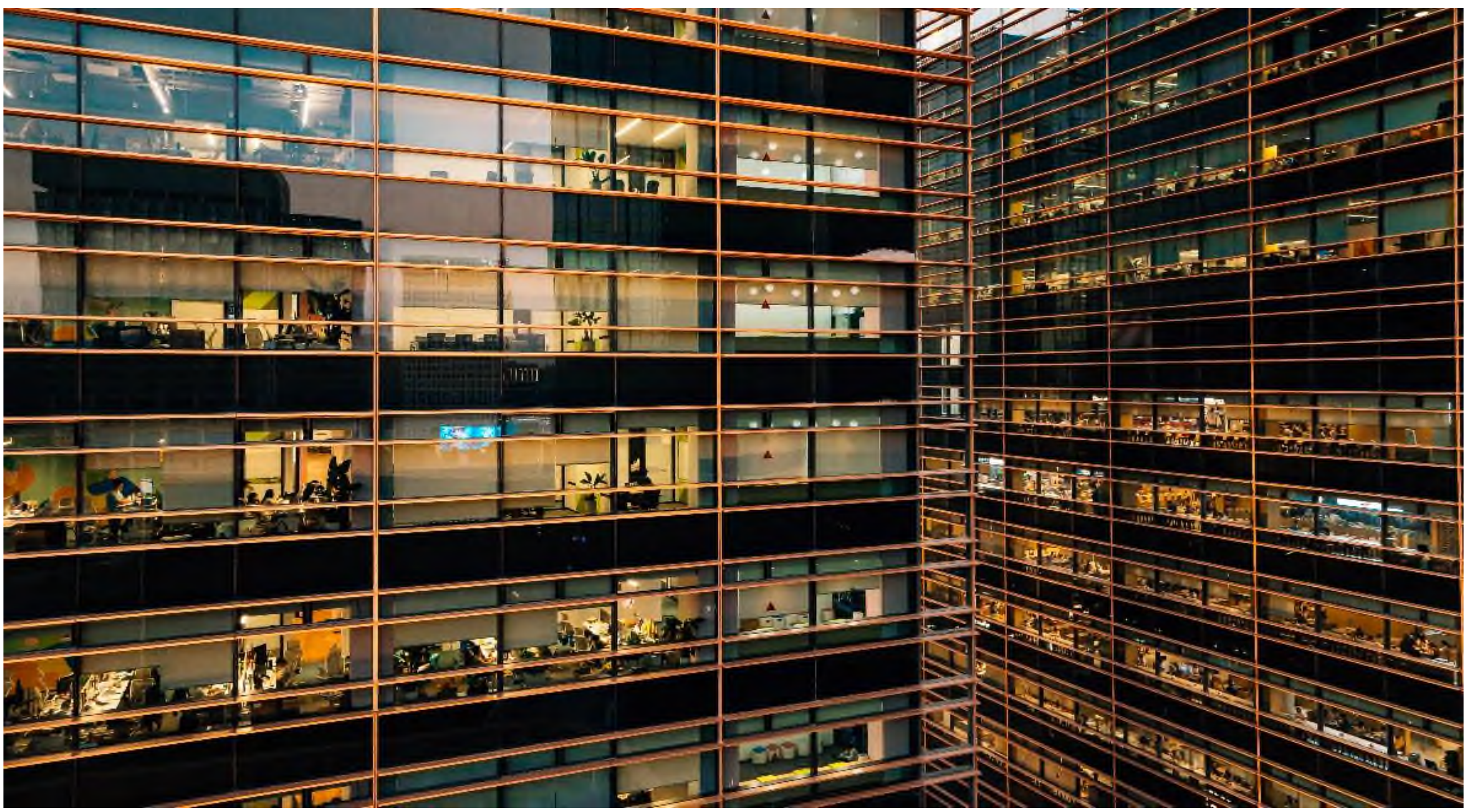
For much of the last forty years, allocating to private equity was like buying an exclusive off-plan property. You commit your capital before the structure exists and wait for funds to be drawn down while the portfolio manager (general partner, or GP) constructs the portfolio. You wait patiently for the project to be completed and produce revenues, which takes several years.

While historically rewarding, private equity was typically available only to institutional investors with a large amount of initial capital and a long-term horizon.

The emergence of open-ended funds (also called evergreen or perpetual funds) in recent years changed all that. Investors no longer require substantial minimum investments, and there is more optionality for liquidity beyond the typical 10-year fund term. Furthermore, on subscription, investors could gain exposure to a portfolio of existing invested assets.

To continue the real estate analogy, this is akin to purchasing an already constructed apartment.

Evergreen funds offer several features, explaining why these funds are now considered a core channel through which private markets can be accessed for certain types of investors, particularly those who are newer to the asset class.



The big picture

Pitchbook estimates that global evergreen assets under management (AUM) currently sits at around USD3.2 trillion and projects this to grow at a CAGR of 10.2% to USD5.2 trillion by 2030[1].

Private equity evergreen AUM is expected to grow from the current USD250 billion to USD610 billion by 2030. Institutional and wealth-focussed evergreen funds are expected to constitute almost 7% of private equity AUM by 2030[2].

What is driving these capital flows from private wealth and institutional investors?

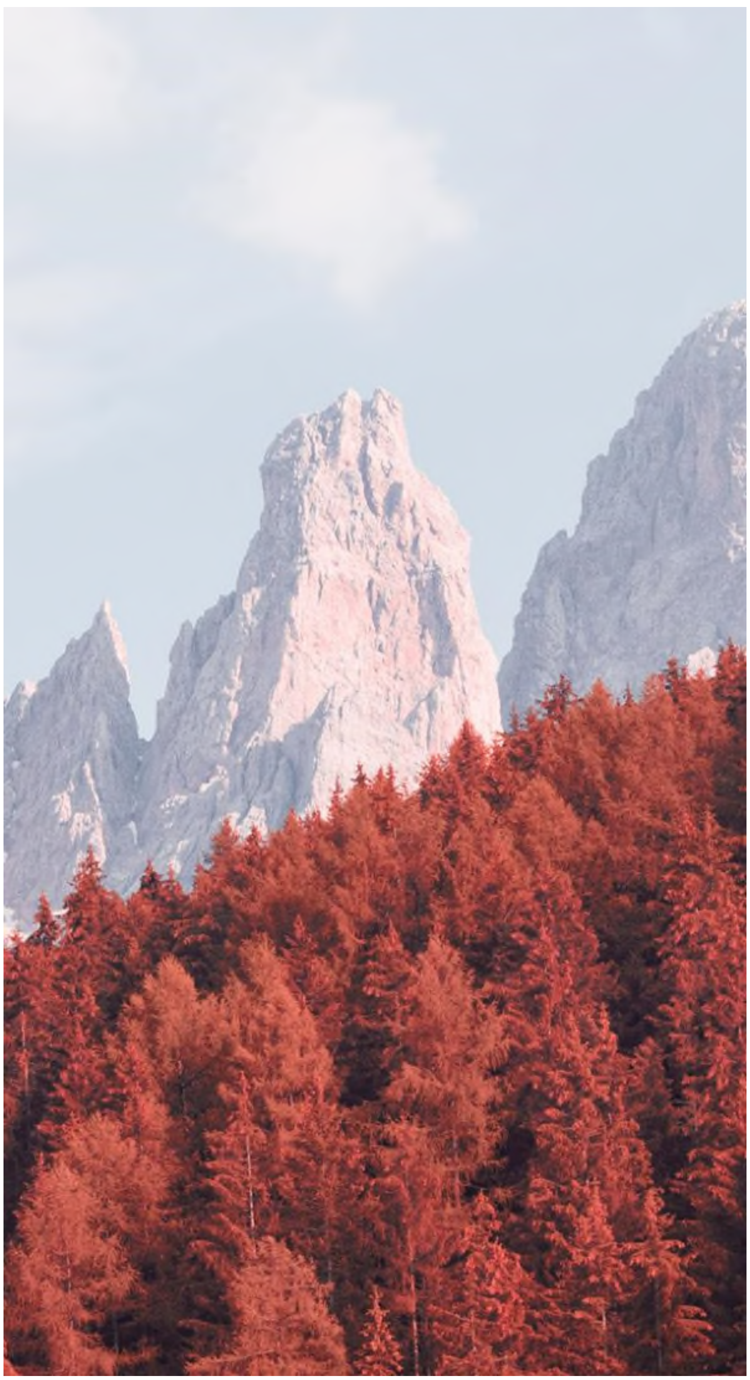
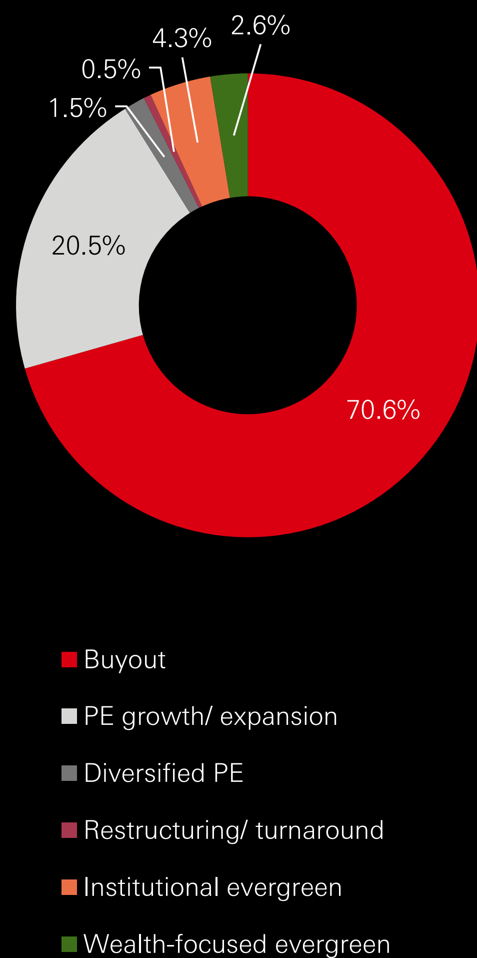


Figure 1: Share of base-case 2030 private equity AUM forecast by sub-strategy[1]



Source: '2030 Private Market Horizons', Pitchbook (May 2026)

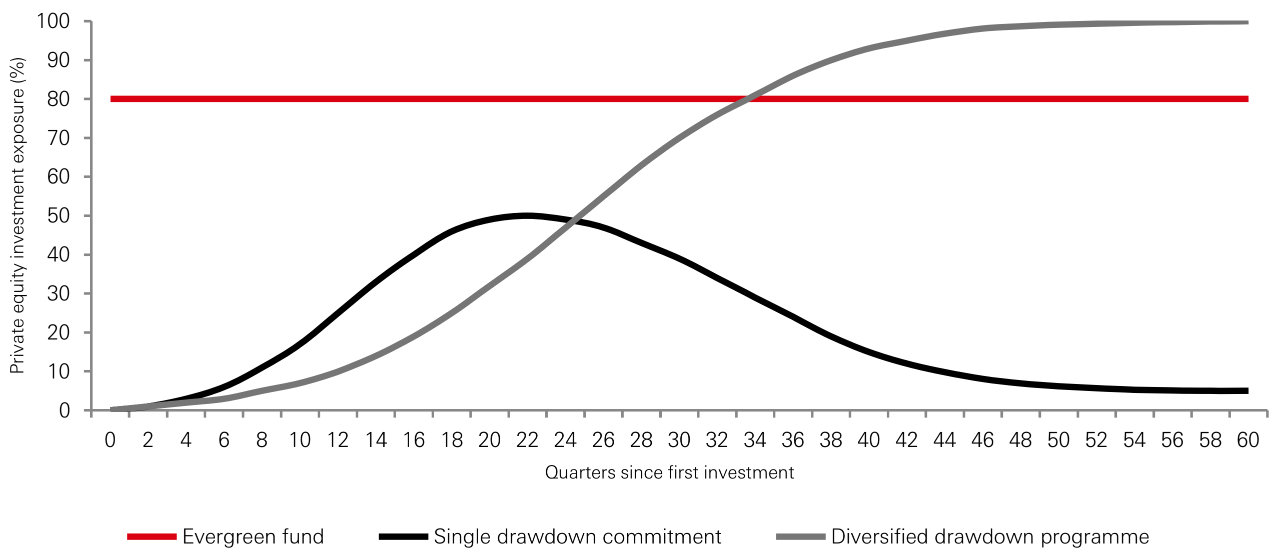
1. The Compound Annual Growth Rate (CAGR) measures the mean annual growth rate of an investment or business metric over a specified period longer than one year, assuming the investment compounded over that time.
2. '2030 Private Market Horizons', Pitchbook (May 2026)

Mitigating the J-curve effect

The first three or so years of some closed-ended private equity funds have a familiar profile. As capital is committed, fees are accrued, and deals are made generating returns. Reported performance traces a descent before rising into positive territory after four or so years – the familiar J-curve pattern.

Open-ended funds can avoid the J-curve almost entirely by investing in a mature, diversified portfolio of companies, many of which are deep into their value-creation phase. Investors don't have to wait for a manager to source deals; they can gain day-one exposure to a fully invested, diversified portfolio, with no multi-year drawdown period or pacing risk.

Figure 2: Avoiding the J-curve



Source: HarbourVest Partners (2025)

The power of compounding

Einstein called compounding the eighth wonder of the world for good reason. Generating earnings on an asset's reinvested earnings, or 'interest on interest', can allow for exponential growth over time.

Evergreen funds are designed to harness this effect more continuously. As distributions are realised, proceeds can be recycled into new opportunities, helping to reduce cash drag and potentially smoothing the J-curve by keeping capital working rather than sitting idle.

By contrast, closed-ended funds typically return distributions to investors, which can create reinvestment timing decisions and requires more active cashflow planning to maintain target exposure.

That said, we retain our conviction in closed-ended structures. In many private market strategies, they can offer the clearest, most 'undiluted' exposure to a defined vintage and portfolio construction and have historically been a robust route to potentially attractive long-term outcomes. Ultimately, the right vehicle depends on the client's objectives, governance, liquidity preferences, and experience with the asset class.

For clients newer to private markets, or those who value a more automatic reinvestment mechanism, open-ended structures can be a practical way to stay consistently invested and benefit from compounding with less ongoing reinvestment administration.

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Liquidity: A nuanced topic

The first open-ended funds invested in private credit. This is logical – the periodic cashflows associated with private credit are a natural fit for the open-ended nature of funds.

However, recent events have sparked concerns over the open-ended model for private assets, with some managers gating their funds following significant redemption requests in the wake of negative news flow around private credit.

These events have shined a spotlight on the structural mismatch between illiquid assets and the promise of periodic liquidity. Private credit portfolios consist of illiquid loan portfolios and private equity portfolios are collections of illiquid companies held for years. On the surface, these are not ideal assets for liquidity.

The optionality for liquidity across open-ended structures is made possible through the inclusion of a liquidity sleeve. The investment objective and target return of these funds are fundamentally driven by the illiquidity premium associated with the underlying assets. In some instances, the investment type (e.g. secondaries or co-investments) may also be better aligned to increased optionality for liquidity.

Investors typically have quarterly or semi-annual windows to redeem, with redemptions usually capped at 5% of NAV per quarter, supported by a10-20% liquidity sleeve held by the manager.

For private wealth investors and institutions managing long-dated objectives, this liquidity may be used to facilitate rebalancing, tactical allocation, and intergenerational planning without the need of a forced sale or the delay of arranging a sale.

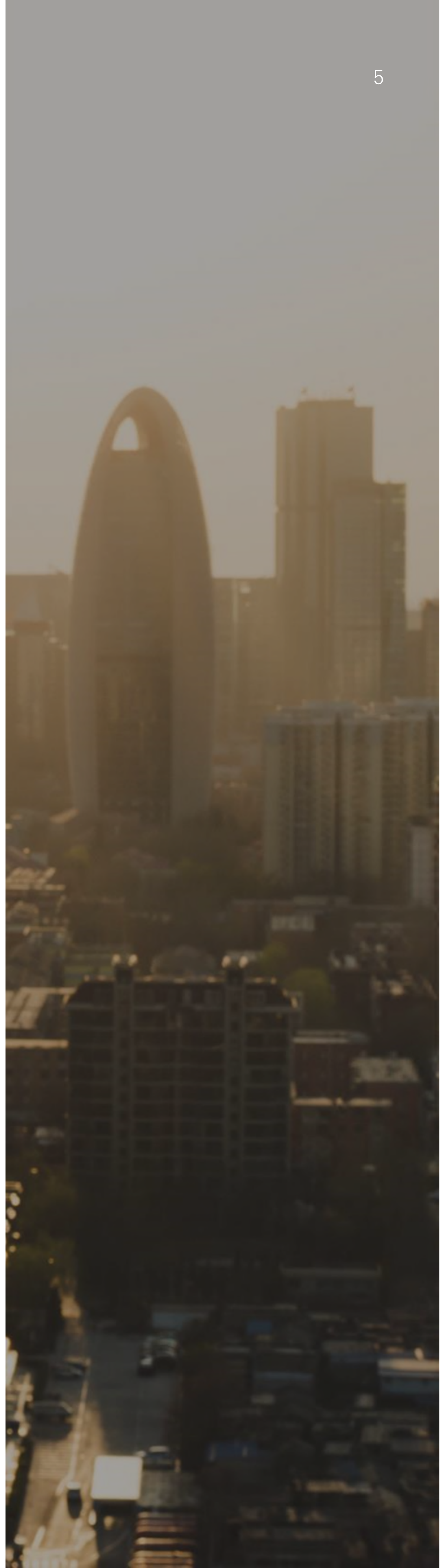
Investors must carefully assess all liquidity terms prior to investment. This includes redemption gates, lockups, and liquidity sleeves to ensure they are calibrated to the underlying asset profile, and the investor's liquidity aims and goals. The upside to capped, quarterly liquidity is the potential to achieve attractive compounded long-term performance.

Finally, a word about redemption restrictions during times of market stress. Although the 'gating'[3] of open-ended funds has garnered headlines, this should be viewed as a safety mechanism. Such features protect the value of assets for remaining investors, avoid the need for GPs to become forced sellers, and ensure functioning market operations during times of high volatility.

Restricting mass withdrawals during periods of market stress is a necessary component of a well-functioning evergreen fund.

3. Gating is the temporary restriction or suspension of investor withdrawals.

Evaluating the features of evergreen funds



Operational simplicity

Evergreen funds are generally more straightforward to manage operationally with a single subscription as capital is committed and deployed at once. The manager is responsible for management of cashflows.

Room for significant growth

Despite these multiple benefits, evergreen private equity remains somewhat underpenetrated, with allocations to evergreen private equity remaining lower than in credit and real estate.

Private equity accounts for roughly half of global private capital AUM[4]. Yet, in the US, it only makes up c11% of the evergreen fund universe (USD57 billion of USD535 billion)[5].

The structural opportunity for evergreen private equity is that it is underrepresented relative to the broader private markets ecosystem. As investor awareness grows and confidence builds, evergreen private equity is well positioned to capture flows and opportunities.

Key investor considerations

While the evergreen model can be an attractive route to access private equity, there are key considerations that should be factored in prior to investment:

- Investors should understand the liquidity profile of the fund and accept that private equity is not inherently designed for liquidity. This transparency can help investors appreciate the long-duration nature of the asset class and the associated benefits.
- In all private markets, manager selection and portfolio construction are critical. Recent credit stress has been impacting disproportionately on lower-quality and less-diversified portfolios. Focussing on the best managers means investors can gain exposure to attractive companies that can perform in even challenging market environments.
- Investors should objectively analyse the manager's valuation processes, as this impacts directly on pricing and returns.

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4. 'Private Markets in 2030', Preqin (2025)
5. 'Q1 2026 US Evergreen Fund Landscape', Pitchbook (May 2026)

At HSBC Asset Management (AM) Alternatives, we offer comprehensive and diversified private markets investment solutions, drawing on 35 years of private markets expertise and 30 years of experience managing open-ended funds.

Our access, deal flow, and experience powers our sourcing engine. Our private markets investment expertise spans Europe, US, and Asia markets, and we have a proven track record across primaries, secondaries, and co-investments.

HSBC AM Alternatives’ market network, platform scale, and brand power creates privileged access to an existing portfolio and pipeline of private equity opportunities with market-leading GPs.

Our diversified, high conviction approach ensures the selection of opportunities with elite third-party managers, executed through a rigorous selection process. The fund’s institutional-style portfolio aims to provide a diversified mix of secondaries and co-investments delivering potentially compelling returns combined with lower fees[6].

We invest in managers that focus on genuine operational value creation, rather than focussing on taking leverage where there is far more sensitivity to rising interest rates. Aside from diversified LP-led deals, our preference in GP-led secondaries and co-investment deals is for shorter tenors, which is beneficial in terms of portfolio construction and for generating distributions.

Our focus on the mid-market allows us to invest in attractive companies with domestic operations and customers that are less exposed to global macroeconomic and geopolitical headwinds, which have frequently weighed on investor sentiment in recent years.

Case study

Co-leading on a secondaries deal

Enterprises are increasingly prioritising real-time data infrastructure to support more data-intensive and AI-driven architecture.

Solace Systems, a mission-critical real-time data distribution and event-streaming infrastructure platform, is at the cutting edge of this trend. Solace is well-positioned for accelerated expansion as it helps enterprises capitalise on the transformative use of real-time data as a foundation to realise the potential of AI.

HSBC AM Alternatives recently co-led a single asset continuation vehicle[7] alongside a GP in Solace. The deal demonstrates HSBC AM Alternatives’ ability to underwrite complex opportunities at pace and scale, whilst navigating multi-faceted secondary structuring.

While this deal highlights our ability to lead on secondary transactions, we are free to consider other deals where we do not lead, which translates into more deal flow opportunities than some other specialist secondary managers.

6. Lower fees in comparison to a portfolio of primary funds.

7. Continuation vehicles (CVs) are private equity structures used by GPs to transfer high-performing assets from an aging fund to a new vehicle, extending the holding period and providing liquidity options to existing investors.

Conclusion: Taking a holistic approach

Open-ended evergreen private equity can offer distinct benefits for certain types of investors, including immediate capital deployment, automatic compounding of returns, calibrated liquidity, and a single subscription structure for operational simplicity.

However, the traditional closed-ended drawdown model should not be overlooked. In our view, closed-ended funds remain the best way for an investor to gain undiluted exposure to the asset class. Open-ended and closed-ended funds can complement each other by balancing liquidity, risk and return potential within a portfolio.

Whilst open-ended evergreen funds can provide more flexibility allowing investors periodic access to their capital, closed-ended structures can allow access to top-performing managers across vintages.

By utilising both, investors can achieve a well-rounded portfolio that maintains liquidity, efficiency, and simplicity, whilst also capturing long-term growth potential.

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- **Interest rate risk:** As interest rates rise debt securities will fall in value. The value of debt is inversely proportional to interest rate movements.
- **Counterparty risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Derivatives risk:** Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.
- **Emerging markets risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
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- **Operational risk:** Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.
- **Style risk:** Different investment styles typically go in and out of favour depending on market conditions and investor sentiment.
- **Model risk:** Model risk occurs when a financial model used in the portfolio management or valuation processes does not perform the tasks or capture the risks it was designed to. It is considered a subset of operational risk, as model risk mostly affects the portfolio that uses the model.

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