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ASSET MANAGEMENT

Investor Duration in Evergreen PE Fund Structures:

Redemption, distribution and hold structures impact on evergreen fund liquidity and duration

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INTRODUCTION:

As evergreen fund structures proliferate across private equity, private credit, and real assets, advisors face a deceptively simple question: which structure gives investors the shortest effective duration? Three structures with largely equivalent annualized returns and very different redemption timing can produce Macaulay durations within a fraction of a year of each other.

This paper applies a Macaulay duration framework to compare three common evergreen PE structures, each starting with $1,000,000 of invested capital and an assumed 13% annualized return – NAV increase or annual distributions.

For most advisory portfolios, the continuous yield structure with straight-line quarterly redemptions offers the strongest combination of attributes. It delivers the highest terminal total return (193%) precisely because its slow, steady redemption cadence preserves the largest earning base for the longest period. It provides predictable quarterly cash flow from Day 1 — enabling liability matching and income planning without requiring the investor to wait through a lockup. And its Macaulay Duration is functionally equivalent to the other structures, meaning the advisor sacrifices nothing on a present-value basis by choosing it. The hold-period and NAV growth structures each serve specific use cases, but neither improves on duration while both impose constraints — illiquidity during the lock or absence of yield — that the continuous yield model avoids entirely.

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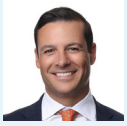

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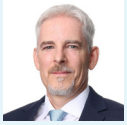

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MEASURING DURATION:

Duration measures how long an investor's capital is effectively committed to a fund — not by the calendar, but by the timing and size of every cash flow received. It is the single most important metric for understanding the true liquidity profile of an evergreen structure because it answers a question that redemption rights alone cannot: in present-value terms, when does the investor get their money back? Two funds can offer identical redemption windows and identical returns yet produce very different durations depending on whether cash flows arrive as yield, capital redemptions, or embedded NAV gains. For advisors constructing portfolios with liability-matching, rebalancing, or liquidity constraints, duration — not the stated lockup period — may be the binding variable.

KEY ADVISOR TAKEAWAYS

- Redemption frequency alone does not determine liquidity risk — funds with very different redemption mechanics can produce nearly identical effective duration.
- Yield-paying structures shorten effective duration by pulling forward investor cash flows, even when principal remains invested longer.
- Faster return of principal reduces total wealth creation — aggressive redemption shrinks the compounding base.
- Evergreen structures produce durations near 4.5 years versus an estimated 6–8 years for traditional closed-end PE.
- Structure selection should align with client cash-flow objectives: income needs, liquidity timing, compounding preference, and planning horizon — not duration alone.

- Macaulay Duration is the present-value-weighted average time until an investor receives cash flows. A dollar received in Year 1 counts more heavily than one received in Year 10 because it is discounted less. Duration captures not just when cash arrives, but how much it is worth when it does.
- Weighted Average Life (WAL) is the average time to receive each dollar of capital back, weighted by the amount returned at each point. Unlike Macaulay Duration, WAL does not discount future payments — it treats a dollar returned in Year 1 and Year 10 equally. WAL is always longer than Macaulay Duration for the same cash flow stream.

Macaulay Duration is the more conservative measure because it reflects the time value of money and is the preferred methodology. Two funds can have identical WAL but very different durations if one front-loads yield while the other compounds returns internally.

THREE EVERGREEN STRUCTURES:

Evergreen funds broadly fall into three structural categories, and most vehicles in market are variations of one of these archetypes. The first is the continuous liquidity model — a yield-distributing fund with periodic redemption rights from

inception, common across open-end private credit, core real estate, and infrastructure strategies. The second is the hold-period model — capital is locked for a defined period while yield is distributed, after which accelerated redemption rights activate, a structure frequently used in private equity, opportunistic real estate, and semi-liquid interval funds. The third is the NAV growth model — a non-distributing vehicle where returns are compounded inside the fund and realized only upon redemption, typical of growth equity, venture-oriented, and certain real asset strategies that reinvest cash flow rather than distribute it. While the specific terms vary — quarterly versus semi-annual redemption, two-year versus five-year locks, varying gate provisions — nearly every evergreen structure maps to one of these three cash flow patterns. The analysis that follows models each archetype with identical underlying returns to isolate the impact of structure on duration. The following are the specific structures modelled in this paper:

	Continuous Yield	Hold + Redemption	NAV Growth
Quarterly Yield	3.25%	3.25%	None
NAV Growth	Par $1 structure, none	Par $1 structure, none	Quarterly mark
Hold Period	None	5 years	None
Redemption Rights	2.5% of original/qtr	10% of original/qtr post hold	5% of original/qtr
Redemption start	End year 2	End year 5	End year 2

CAPITAL RETURN AND TOTAL RETURN:

Total return captures every dollar of cash received by the investor — yield distributions, capital redemptions, and realized NAV gains — expressed as a cumulative percentage of original capital invested. Where the capital return chart measures speed, this chart measures wealth creation. The two are in tension: structures that return capital quickly reduce the compounding base, while structures that retain capital longer allow returns to build on a larger invested balance. The divergence in terminal total return across these three structures reveals the real economic cost of prioritizing liquidity over compounding.

- Chart 1 models the cumulative total return profiles of the 3 example fund structures - terminal total returns diverge despite nearly identical durations. The continuous yield fund achieves the highest return (193%) because its slow redemption rate keeps capital earning yield the longest. The hold-period fund reaches 183% as yield accrues on a full, undiluted balance during the five-year lock. The NAV growth fund terminates lowest at 160% — its embedded NAV gains accelerate toward the end but cannot overcome the absence of early yield cash flows.
- Chart 2 models the redemption profiles of the 3 example fund structures - the continuous yield fund and NAV growth fund both begin capital redemptions in Year 3 after a 2-year wait. The NAV growth fund redeems at double the rate (5% vs 2.5% quarterly), reaching full return by Year 7 versus Year 12 for the yield fund. The hold-period fund returns nothing for five years, then redeems at 10% of original per quarter, fully returning capital by Year 8. The results highlight the critical need to consider the distribution potential of a fund (Chart 1) when evaluating duration and not to conduct the analysis in isolation.

Chart 1: Cumulative Total Return (Original Capital & Returns)

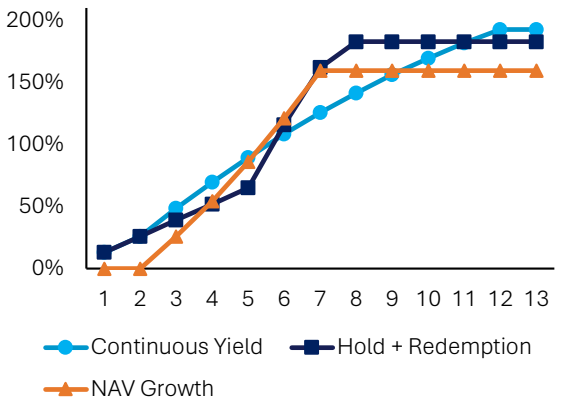
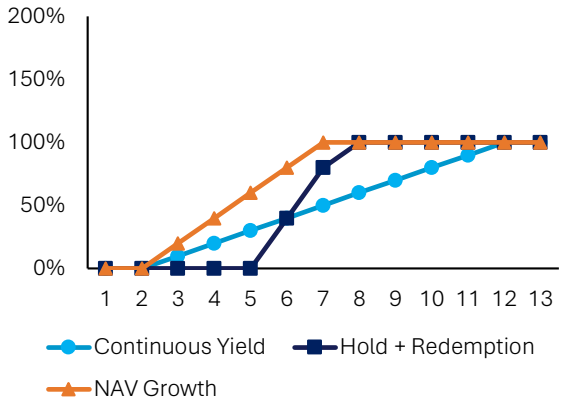


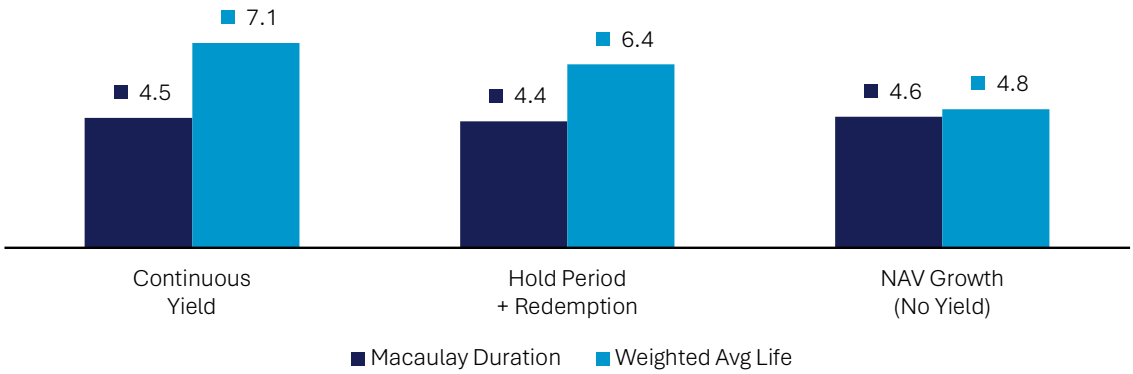
Chart 2: Invested Capital Redemption Profile



DURATION ANALYSIS:

All three structures produce nearly identical Macaulay Durations: 4.5 years for the continuous yield fund, 4.4 years for the hold-period fund, and 4.6 years for the NAV growth fund. Despite radically different structures — continuous redemption, hard lockups, and no-yield NAV compounding — the present-value-weighted timing of cash flows converges within a 0.2-year band. Where the structures diverge is terminal total return (160% to 193%).

Chart 3: Macaulay Duration vs. Weighted Average Life



COMPARATIVE METRICS:

The following table consolidates the key duration, liquidity, and return metrics across all three structures. Macaulay Duration and Weighted Average Life measure the time dimension of cash flows — one discounted, one nominal. Average outstanding capital captures how much of the investor's money remains at work through the life of the fund. The milestone metrics — first dollar back, and cash returned by Year 5 — translate duration into practical planning benchmarks that advisors can map against client liquidity needs. Terminal total return quantifies what each structure ultimately delivers. Read together, these metrics make the core trade-off visible: the structures are nearly indistinguishable on duration but diverge on total wealth creation.

Metric	Continuous Yield	Hold + Redemption	NAV Growth
Macaulay Duration (Years)	4.5	4.4	4.6
Weighted Average Life (Years)	7.1	6.4	4.8
Avg. Outstanding Capital	$594,000	$850,000	$870,000
First Dollar Back (Quarter)	Q1	Q1	Q9
Total Cash by Year 5	$896,375	$650,000	$861,438
Terminal Total Return	192.6%	182.9%	159.5%

The analysis above assumes a 13% annualized return across all three structures. A natural question follows: does the duration convergence hold at different return levels? The following table stress-tests Macaulay duration across a range of annualized returns — from 5% through 15% — holding all structural terms constant. The results reveal a clear pattern: the NAV growth fund's duration is completely insensitive to the return assumption, remaining fixed at 4.6 years across all scenarios because its cash flows are driven purely by redemption timing. The two yield-paying structures, by contrast, shorten in duration as returns increase — higher yields mean more present-value weight in early periods. The implication for advisors: the duration convergence finding is most robust in higher-returning strategies. In lower-return environments — core real estate, senior lending, infrastructure debt — structural selection has a more material impact on effective investor duration.

Macaulay Duration Sensitivity (Years) With varying annual return assumptions	Continuous Yield	Hold + Redemption	NAV Growth
5.0%	5.89	5.49	4.63
7.5%	5.40	5.11	4.63
10.0%	4.97	4.78	4.63
13.0%	4.53	4.41	4.63
15.0%	4.27	4.20	4.63

CONTEXT - TRADITIONAL PE DURATION:

The three evergreen structures analyzed in this paper exist as alternatives to traditional closed-end private equity, which remains the default allocation vehicle for most RIA portfolios seeking private market exposure. A typical closed-end PE fund has a 10-year stated life (often extended to 12–13 years in practice), a 3–5 year investment period during which capital is called in tranches, and a distribution profile that follows the well-documented J-curve — minimal or no cash back in years 1–4, with the bulk of distributions concentrated in years 5–10. DPI of 1.0x is typically not reached until years 7–9.

Under a Macaulay Duration framework, this cash flow profile produces estimated durations of 6–8 years depending on fund performance and pacing — materially longer than any of the three evergreen structures modeled here, all of which converge near 4.5 years. The duration gap between traditional PE and evergreen structures is therefore on the order of 2–4 years, a meaningful difference for advisors managing portfolio liquidity, client time horizons, or liability matching.

This comparison reframes the evergreen decision. The relevant question for most RIAs is not which evergreen structure has the shortest duration — as this analysis shows, they can be nearly equivalent across very different structures. The relevant question is whether to use an evergreen structure at all versus a traditional closed-end vehicle. On a duration basis, the answer is unambiguous: evergreen structures, regardless of wrapper, deliver substantially shorter effective duration than their closed-end equivalents while accessing similar underlying return streams.

IMPLICATIONS FOR ADVISORS:

The convergence of Macaulay duration across three fundamentally different structures is the central finding of this analysis — and it challenges several common assumptions in the advisory community about how fund structure maps to investor risk. The practical implications extend beyond duration itself into how advisors evaluate liquidity terms, set client expectations, and construct portfolios using evergreen allocations. The following observations are drawn directly from the model outputs and are intended to inform the structural selection process, not to advocate for any single approach.

- Duration can converge across very different structures: The most striking finding is that three fundamentally different evergreen structures — continuous redemption with yield, a hard lockup with yield, and NAV compounding without yield — converge to Macaulay Durations within 0.2 years of each other (4.4–4.6 years). When return assumptions are held constant, duration differences across the structures become surprisingly small. Advisors selecting between these structures cannot meaningfully differentiate them on duration alone.
- Yield reliably compresses duration: The two yield-paying funds have shorter durations than the NAV growth fund because quarterly yield distributions carry high present-value weight. But those same funds have longer WAL because their slower capital redemption rates (2.5% and 10% versus 5% quarterly) keep capital invested longer in nominal terms. Yield front-loads the time-value of cash flows while simultaneously extending the physical holding period, creating greater capital stability for the fund.
- Yield reliably drives returns: Terminal total returns range from 160% to 193% — a 33 percentage point spread. The continuous yield fund earns the most (193%) because its slow 2.5% quarterly redemption keeps the largest capital base earning yield for the longest period. The hold-period fund earns 183% because the five-year lock preserves a full, undiluted balance earning 3.25% quarterly yield. The NAV growth fund earns the least (160%) because capital exits before embedded gains fully compound. Shorter WAL means less compounding. Advisors must decide whether the investor's priority is duration (nearly equivalent), speed of capital return (NAV growth wins), or total return (continuous yield wins).

The analysis above is deliberately structural — it isolates duration, WAL, and total return in a controlled model. But advisors don't allocate in a vacuum. The following framework translates the model's findings into the three questions that matter most when sitting across the table from a client evaluating an evergreen allocation.

Client Profile	Recommended Structure	Rationale
Income-dependent, long horizon	Continuous Yield	Highest total return, predictable quarterly cash flow, no lockup
No income need, defined exit in 5–7 years	NAV Growth	Fastest capital return, no yield tax drag, accepts lower terminal value
Uncertain timeline, values optionality	Continuous Yield	Redemption rights from Day 1, predictable yield throughout, investor controls when capital return begins — maximum optionality with no structural constraints

CONCLUSIONS:

This analysis demonstrates that the choice between evergreen fund structures is not primarily a duration decision. When three structures with the same underlying return are modeled side by side, Macaulay Duration converges to a narrow band regardless of whether the fund offers continuous yield, imposes a hard lockup, or compounds NAV without distributions. The real differences lie elsewhere:

- Speed of invested capital return varies dramatically. The NAV growth fund returns original capital in 5 years; the continuous yield fund takes 10. Investors approaching a liquidity event, managing rebalancing, or with short planning horizons may want to weight WAL over Macaulay duration.
- Total return is inversely related to capital velocity. The fund that returns capital fastest (NAV Growth) earns the lowest terminal return (160%). The fund that holds capital longest (Continuous Yield) earns the highest (193%). This 33 percentage point gap reflects the compounding cost of accelerated capital return.
- Yield during a lockup neutralizes duration impact. The hold-period fund's 5-year hard lock does not extend its Macaulay duration beyond the other structures because yield payments on an undiluted $1M balance carry significant present-value weight. Advisors should not assume that lockups automatically mean longer duration if yield is distributed throughout.
- Structure selection should be driven by the investor's cash flow needs, not a generic preference for "liquidity." Macaulay duration is nearly equivalent across all three structures. The meaningful choice is between predictable income (continuous yield), maximum total return with a defined exit (hold period), and fastest return of invested principal at the cost of total return (NAV growth).

The practical takeaway for allocators: evergreen fund duration is more a function of the underlying return profile. The wrapper determines how and when cash flows back — and that is a portfolio construction decision, not a risk decision.

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