

The Price of Perpetuity: Understanding Fees in Evergreen Private Equity

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Evergreen private equity (PE) funds, specifically tender offer funds and interval funds, have gained popularity among investors seeking continuous capital deployment, periodic liquidity, and enhanced asset allocation precision. Understanding the fee structures of these funds is crucial for evaluating their attractiveness and expected returns. This paper breaks down the various components that contribute to the expense ratios of evergreen PE funds, providing clarity on each element's role and impact on overall costs.

We also surveyed the existing product landscape to examine the current fee dynamics, finding an average “all-in” expense of 2.91%. While this may present sticker shock to some, averages don’t paint the full picture. The devil is in the details and our analysis highlights the nuance and variability across a sample set of 19 evergreen PE funds collectively overseeing \$35 billion in AUM. Total expenses range from as high as 5.49% to as low as 0.96%. In many cases, evergreen PE fund fees compare favorably to the standard “2 and 20” model that most PE limited partnerships charge.

Evergreen PE funds are increasingly finding an audience with wealth managers and other institutional allocators as an alternative to traditional drawdown PE funds, providing immediate capital deployment and periodic liquidity options. The two most common structures in this category are tender offer funds and interval funds. Unlike traditional PE funds, these perpetual structures are required to accommodate regular investment and redemption activities, necessitating a distinct fee and expense framework.

As investors evaluate these products, fees and expenses charged by these funds are one of many important considerations to weigh.

Expense Ratio Components in Evergreen Private Equity Funds

The expense ratios of evergreen PE funds consist of several key components, each contributing to the overall fund cost.

Management fees form the cornerstone of the expense structure. These fees are charged by the fund manager to cover the costs associated with managing the fund's investment activities and operations. This steady income stream ensures that the operational costs and investment management activities are consistently funded, providing stability and continuous oversight of the fund's portfolio. Investors should also pay attention to whether management fees assessed on net assets or total assets. Charging fees on leveraged assets may lead to misaligned interests between a fund manager and their investors and an incentive to take excess risks.

Acquired fund fees & expenses (AFFE) are another significant (and common) component of evergreen PE fund fees, as most are multi-manager by design. This line item represents the annual estimate of management fees and expenses incurred by any underlying funds in which the evergreen fund invests.

The magnitude of these fees can vary widely depending on the structure and strategies of the underlying fund(s). Pure-play secondaries funds will naturally incur higher AFFE relative to co-investment¹ heavy

¹ Co-investment opportunities can be offered on a no-fee and no-carry basis.

portfolios. Instead of either/or, secondaries and co-investments are both valuable levers for evergreen PE funds to pull in generating returns.

Investors shouldn't ignore AFFE, but a high AFFE shouldn't be a disqualifier either. The dispersion between top-quartile and bottom-quartile managers in private equity is meaningfully wider than that of private debt, and allocators should be somewhat less fee sensitive in the pursuit of alpha. Access to top-tier managers – if you can find them – is worth a premium price.

Interest on borrowed funds is another notable expense. This category includes the interest expenses incurred from borrowing activities used for liquidity/liability management or, to a lesser extent, for return enhancement purposes. The cost associated with borrowing depends largely on the amount of leverage used, the types of assets in the fund, and the prevailing interest rate environment. While leverage can enhance returns by amplifying gains, it cuts both ways and can amplify losses as well.

Incentive fees, also known as carried interest, are designed to align the interests of the fund manager with those of the investors. These fees are typically structured as a share of the profits earned by the fund, usually around 20% of the profits above a specified hurdle rate.

Beyond these major components, **other expenses** also contribute to the expense ratio. This category includes various administrative, custodial, and operational costs such as accounting, legal, compliance services, and transfer agent costs. These expenses ensure the fund operates smoothly and adheres to regulatory requirements. While individually minor, these costs collectively add to the overall expense ratio.

Finally, **expense waivers** can temporarily reduce or eliminate fees, providing short-term relief from high expenses and making the fund more attractive to investors. These waivers vary depending on the fund Board's policies and agreements. While beneficial in the short term, waivers are typically temporary and may not reflect the long-term cost structure of the fund.

Analysis of Evergreen PE Fund Fees & Expenses

Cliffwater research identified more than twenty unique PE-focused tender offer funds and interval funds that we conservatively² estimate to collectively oversee more than \$35 billion of AUM through June 30, 2024. Some of these funds are relatively new, having only been incepted in 2024.

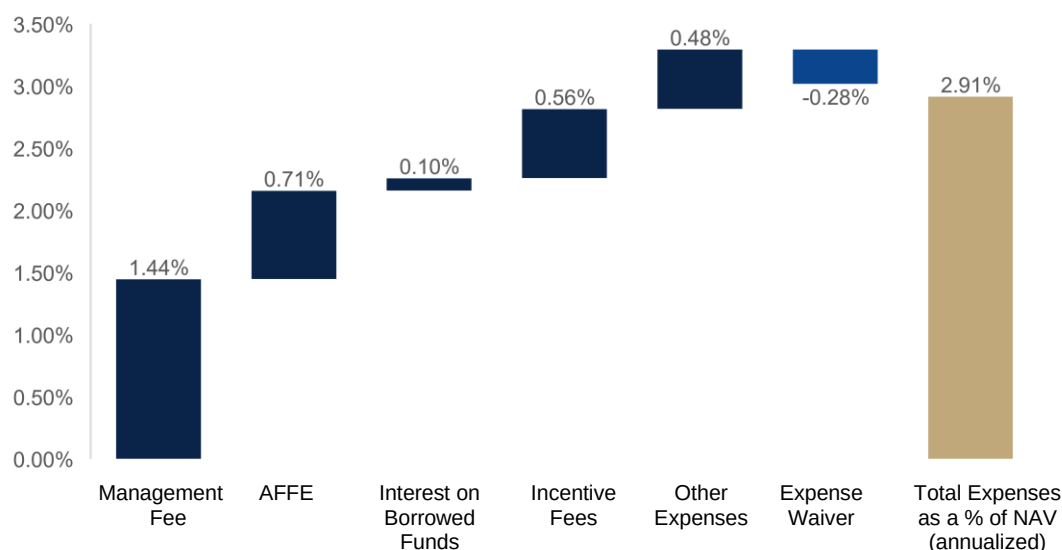
For this study, we limited the cohort to 19 funds that were operational as of the end of 2023, subject to minimum AUM thresholds. For consistency, we used the lowest-cost institutional share class³ for each fund. This sample represents the majority of AUM across PE interval funds and tender offer funds that are registered with the SEC under the Investment Company Act of 1940 ('40 Act), with significant diversity in terms of size, age, and investment strategy.

The data for this analysis was found in publicly available SEC filings, with reference to each fund's most recent prospectus. At a high level, we found that the average total expense as a percentage of net asset value (NAV) is 2.91%. The bridge in Exhibit 1 illustrates each component's contribution to the overall cost.

² Fund AUM data availability is inconsistent. For some funds, the most recent data was prior to June 30, 2024.

³ For funds with multiple share classes, additional fees may apply to certain share classes such as sales loads/placement fees and distribution/shareholder servicing fees that can materially increase the total annual expenses for an investor.

Exhibit 1: Average Evergreen PE Fund Fees and Expenses



But averages are just that – averages. The statistician with his head in an oven and his feet in ice will say that on the average he feels fine.

Closer inspection is warranted, which is highlighted below with the average, median, minimum, and maximum for each expense component in addition to the total.

Exhibit 2: Evergreen PE Fund Fee & Expense Breakdown

	Management Fee	AFPE	Interest on Borrowed Funds	Other Expenses	Incentive Fee	Expense Waiver	Total Expenses as % of NAV
Sample Average	1.44%	0.71%	0.10%	0.56%	0.48%	-0.28%	2.91%
Sample Median	1.50%	0.63%	0.00%	0.46%	0.00%	0.00%	2.91%
Sample Min	0.90%	0.03%	0.00%	0.21%	0.00%	-1.90%	0.96%
Sample Max	1.90%	1.55%	0.76%	1.52%	2.56%	0.00%	5.49%

Our analysis produced some interesting observations:

- While the average and median total expense as a percentage of NAV is 2.91%, there is meaningful variance above and below that number. The least and most expensive funds have total expenses of 0.96% and 5.49%, respectively.
- The largest fund in the sample has AUM north of \$15 billion, while the smallest fund manages roughly \$200 million of assets. The median fund size is ~\$800 million.
- The oldest fund has a nearly 15-year track record, yet the average fund age is only ~5 years as many of these funds were launched in the past 3-4 years.
- Of all the expense components, management fees and interest on borrowed funds have the least amount of relative variance among the constituents.
- The data shows no relationship between fund size and the level of “other expenses” for evergreen PE funds. In theory, larger funds should correlate with lower operational/administrative costs as

they benefit from economies of scale. But to quote Albert Einstein, “In theory, theory and practice are the same. In practice, they are not.”

- For the 19 funds in our sample:
 - eight (42% of the sample) have a temporary expense waiver in place,
 - nine (47% of the sample) charge an incentive fee at the fund level,
 - only four (21% of the sample) have interest on borrowed funds greater than 0.10%, which makes intuitive sense as the risk/return profile of PE is high enough as is and leverage for return enhancement purposes is less common in this asset class than in private debt or private real estate, and
 - all funds have some amount of AFFE being levied.

While the expenses for these funds are high relative to those of traditional asset classes like public stocks and bonds, compared to the typical “2 and 20” structure that most traditional PE funds charge, the all-in fees for evergreen funds are in some cases meaningfully lower. In addition to offering convenience, diversification, and administrative benefits⁴, evergreen funds often allocate heavily to direct co-investments in their portfolios which can keep a lid on costs.

Closing Thoughts

The fee structures and expense ratios of evergreen PE funds contain more layers than your average mutual fund or ETF. By understanding these components—management fees, acquired fund fees and expenses, interest on borrowed funds, incentive fees, other expenses, and expense waivers—investors can gain a clearer picture of the true cost of investing in this increasingly popular category of funds.

Unfortunately, this type of granular fee data for interval funds and tender offer funds is not readily available from the common investment research providers that wealth managers and other capital allocators use for their analysis. Instead, getting “under the hood” requires the manual compilation of publicly available SEC filings. This information gap has now been rectified, providing investors a baseline to compare individual funds to the broad ’40 Act evergreen PE universe.

Cliffwater will periodically update this analysis as new funds enter the market and competition intensifies. While costs are not the only consideration in evaluating evergreen PE funds, they are an important one. As these products become more widely adopted, access to this data should foster more informed allocation decisions.

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⁴ See Cliffwater research paper, “Perpetuals Gaining Traction Again, Despite Real Estate Headwinds (December 2023).”

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