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Value Transfer in Advisor-Focused Evergreen Funds

Liquidity, Valuation, and Investor Outcomes

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Key Takeaways

- Value transfer is an inherent, zero-sum feature of advisor-focused evergreen structures. Subscriptions and redemptions reallocate ownership internally at assessed NAV rather than market-clearing prices, making any divergence between valuation and economic reality economically binding for different investor cohorts.
- Existing investors are structurally disadvantaged as captive counterparties. They are forced to intermediate between subscribers and redeemers without control over timing or pricing, bearing the residual impact of valuation lag, net flow direction, and liquidity management decisions.
- Manager liquidity decisions materially shape investor outcomes. Choices around redemption limits, timing, and valuation discipline are not neutral operational actions but explicit allocation decisions that determine how risk and value are distributed across investor groups, particularly during periods of negative net flows or market stress.

Preface

The term “Evergreen” is commonly used as a broad and informal descriptor for investment vehicles that are not structured around a fixed life and liquidation date. In the context of private markets, the term is most often associated with semi-liquid products that offer periodic, limited liquidity, but it is also used to describe fully illiquid institutional vehicles that recycle capital over time without committing to a formal wind-down. As such, “Evergreen” is best understood as a structural descriptor rather than a statement about liquidity, investor rights, or asset duration. Similarly, there is no single, universally accepted definition of “semi-liquid”. The term is commonly used to describe investment vehicles that provide investors with relatively rapid exposure to a diversified portfolio of financial assets while offering periodic, limited liquidity subject to predefined constraints. In practice, semi-liquid funds are frequently positioned by GPs to meet the preferences of smaller institutions, family offices, and advisors, whose asset allocation and operational frameworks often favor vehicles offering conditional liquidity.

When semi-liquid funds invest in private markets, the underlying assets are often materially longer-dated than the liquidity terms offered to investors. As a result, managers are effectively managing and allocating liquidity across the investor base to accommodate subscriptions and redemptions. This structural dynamic introduces several frictions that complicate due diligence and, in certain circumstances, may give rise to unequal outcomes across investor cohorts. Notwithstanding the broader and often less institutionally resourced investor base typical of these products, the due diligence considerations are frequently more complex than those associated with traditional institutional fund structures.

The Albourne Group (“Albourne”) refers to private market semi-liquid funds as Advisor-Focused Evergreen (“AFE”) funds and calibrates AFE IDD ratings relative to peers to support comparative evaluation by investors. Albourne does not manage investment products (neither AFE or institutional offerings).

The paper concludes with an Advisor-Focused Evergreen 2.0 framework that outlines pragmatic structural enhancements, particularly to redemption mechanics, designed to better align liquidity with underlying assets and reduce unintended value transfer between investors.

The purpose of this paper is to provide readers with a foundational understanding of value transfer, a concept that is central to many of the frictions inherent in the AFE fund universe.

Introduction

At the point of subscription or redemption, Advisor-Focused Evergreen ("AFE") private markets funds do not directly generate investor liquidity by ratably selling or buying assets via an external market. Instead, they provide liquidity by reallocating economic ownership within the fund among three investor groups: new subscribers, redeeming investors, and existing investors who remain invested.

For this reason, liquidity in semi-liquid funds is best understood as being "manufactured." Managers are not sourcing liquidity externally; they are allocating it internally through the fund's subscription and redemption mechanics. More formally, semi-liquid funds often provide a managed form of liquidity transformation, offering redemption terms that may exceed underlying asset liquidity.

What Actually Happens in Subscriptions and Redemptions

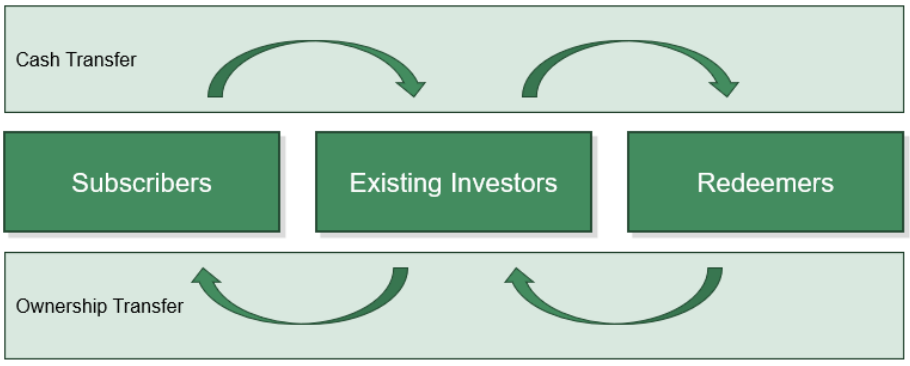
Subscriptions

A subscription represents an exchange of cash into the fund in exchange for proportional ownership of the existing portfolio. No new assets are created, and the portfolio itself remains unchanged other than the potential addition of cash (see Net Flows section for details).

Redemptions

Redemptions reverse this process. The redeeming investor relinquishes their ownership interest and receives cash from the fund. The portfolio (excluding cash balances) itself is unchanged at the moment of redemption, and the external sale of assets is not necessarily required to complete the transaction.

The redeemed ownership interest is absorbed by the investors who remain. In the diagram, ownership flows back from the redeeming investor while cash flows out of the fund. The remaining investor base therefore takes on increased proportional exposure to the same underlying asset pool. Economically, this functions as an internal repurchase of ownership rather than a liquidation of assets.



For illustrative purposes only.

Why Valuation Is the Mechanism That Creates Value Transfer

Net flows can result in asset purchases or sales in any pooled investment vehicle, including public market mutual funds, for example. The distinguishing feature of evergreen private market funds is not the existence of flows, but the liquidity of the underlying assets and the way transaction prices are formed. In public markets, transactions generally occur at continuously observable market prices, with the economic cost of liquidity reflected immediately through bid–ask spreads and price impact. In private markets, assets are characterized by limited liquidity, infrequent and discretionary trading, and valuations that are typically appraisal-based rather than continuously revealed through market prices. As a result, ownership can be reallocated at assessed

values that may not fully reflect the economic cost of liquidity at the time of reallocation, potentially shifting that cost to remaining investors rather than embedding it directly through market price adjustment.

As established above, net subscriptions and net redemptions result in portfolio level ownership transfers that are priced at the fund's weighted average net asset value. Valuation is therefore not a secondary consideration in evergreen structures; it is the mechanism through which value transfer occurs.

In private markets funds, net asset value is not derived from continuously observable, transactable market prices. The underlying assets are generally illiquid and valued using appraisal-based methodologies and are therefore typically classified as Level 3 assets under ASC 820. Their values are determined using models, assumptions, and estimates rather than contemporaneous market clearing prices. As a result, different valuation agents applying reasonable and accepted methodologies may arrive at different fair value estimates for the same loan at a given point in time.

Unlike public markets, where prices are continuously updated and directly transactable, private markets portfolios do not have a single, constantly observable clearing price. Net asset value is therefore an assessed construct rather than a definitive measure of economic value. Importantly, the issue is not whether a portfolio has an objectively observable "true value." Rather, the key point is that any gap between assessed value and underlying economic reality becomes economically binding when ownership is transferred through subscriptions or redemptions.

Ownership transfers occur at the portfolio's weighted average assessed value. When a portfolio is **overvalued**, net subscriptions result in new investors purchasing exposure at prices above economic reality, transferring value to existing investors. Net redemptions in this case benefit redeeming investors, who exit at prices that overstate the value of the underlying assets.

When a portfolio is **undervalued**, the direction of value transfer reverses. Net subscriptions allow new investors to acquire exposure at a discount, transferring value away from existing investors. Net redemptions in an undervalued portfolio benefit remaining investors, who effectively repurchase ownership at prices below economic value.

In all cases, subscriptions and redemptions are the moment when valuation differences cease to be theoretical and become economically consequential. Value transfer does not arise because valuations are imperfect, it arises because those valuations are used as transaction prices in a structure that reallocates ownership internally rather than clearing through an external market.

Valuation uncertainty is an inherent feature of private markets more broadly. It is effectively impossible for a private market portfolio to be perfectly valued at all times, as investment valuations rely heavily on estimates, judgment, and model inputs. These assessed values are not directly translatable outside the fund other than through transactions between subscribers, redeemers, and existing investors.

As noted previously, different valuation agents applying reasonable and accepted methodologies to private assets may arrive at different valuation outcomes for the same asset. When compared with an unobservable 'true' value, these outcomes can be thought of as belonging to a distribution rather than a precise number. While this paper does not assume that investment valuations follow any specific statistical distribution, the key point is that valuation dispersion exists. The width of that dispersion tends to vary significantly by asset class and strategy.

Why Net Flows Matter More Than Gross Flows

For portfolio composition and investor outcomes, what matters is not gross inflows and outflows in isolation, but whether the fund experiences net subscriptions or net redemptions over a given period.

Gross subscriptions and redemptions may offset one another without materially affecting the fund. For example, if inflows and outflows are closely matched, the fund may not experience meaningful changes in cash balances or portfolio positioning, and remaining investors may be largely unaffected. However, whenever there is net activity, the economic position of remaining investors changes. Net flows determine whether ownership of the portfolio is being transferred to new investors or absorbed by investors who remain.

This mechanism is what makes net flows economically binding for existing investors. Value transfer therefore depends not only on the valuation, but also on the direction and magnitude of net flows through the fund.

How Valuation Lag, Selection Effects, and Flows Amplify Value Transfer

The preceding sections establish value transfer as the core mechanism embedded in evergreen private markets structures. The additional concepts introduced earlier, valuation lag, selection effects, and externalities from flows, are not separate phenomena. They are more specific ways in which value transfer appears and is amplified in practice.

Valuation Lag as a Driver of Value Transfer

Let's use Private Credit as an example (recognizing the notion is applicable to all strategies). Valuation lag is a central channel through which value transfer arises in Evergreen Private Credit funds. Deterioration in borrower fundamentals does not immediately appear in reported information. Sponsor reporting is delayed, portfolio company financials are updated with a lag, valuation reviews occur periodically, and assessed values adjust slowly over time.

This dynamic is particularly important in Private Credit because of the asset class's asymmetric payoff profile. Upside is largely capped around par, while downside can be significant in the event of credit stress or default. Even when valuation policies are sound, the available information set is inherently slower and less complete than in public markets.

As a result, there will often be assets in the portfolio that are likely worth less than their current carrying value, even if that deterioration has not yet been fully reflected in reported marks.

Selection Effects and Worsening Book Quality as Value Transfers Over Time

Selection effects in credit describe how portfolio composition evolves as loans age. Better performing borrowers are more likely to refinance, be sold, or repay early. Stronger credits therefore tend to exit the portfolio sooner, while weaker or slower moving credits remain outstanding for longer periods.

Absent active reinvestment, this dynamic leads to a gradual deterioration in the average quality of the remaining book. Over time, the residual portfolio becomes older, more concentrated, and increasingly exposed to weaker credits.

Flows Affect Forward Performance, Which Feeds Back Into Value Transfer

Investor flows do not only determine how value is redistributed at a point in time. They also shape portfolio composition and forward performance, which in turn feeds back into value transfer over time.

During periods of strong inflows, managers generally need to deploy capital into prevailing market conditions. If inflows are concentrated in periods of aggressive pricing or weaker underwriting standards, the portfolio may become overweight in those investment vintages. Existing investors face the consequences of when new money entered the fund, even though they did not control the timing or scale of those inflows.

During periods of outflows, managers must raise liquidity to meet redemptions. This can involve increasing leverage, selling more liquid assets, relying on principal repayments, or reshaping the portfolio to manage

liquidity rather than investment conviction. These actions are driven by flow requirements rather than forward looking portfolio optimization. Importantly, outflows can also cause investors to miss attractive deployment windows. When principal repayments and available liquidity are diverted to meet redemptions, managers may be unable to deploy meaningfully into improving vintages, effectively forcing continuing investors to "skip" periods when investment opportunities are most attractive. Periods of market dislocation are often among the most attractive times to deploy in private markets, but they are also when redemption pressure may intensify, diverting liquidity away from reinvestment precisely when opportunities may be most compelling.

Conclusion

Semi-liquid private market funds offer investors a familiar and accessible format for allocating to private markets. However, the structure introduces economic mechanics that differ fundamentally from both public market vehicles and traditional drawdown funds.

In semi-liquid funds, investor liquidity is delivered mainly through subscriptions and redemptions processed at assessed NAV, effectively reallocating ownership at an administratively set price. When that assessed price differs from underlying economic value, the resulting ownership transfers generate value transfer between investor cohorts. Because assessed valuations for illiquid assets are inherently estimation-based, some divergence from contemporaneous economic value is effectively unavoidable.

Valuation lag, selection effects, and net flow dynamics are best viewed as linked manifestations of the same value transfer mechanism, determining when and how it materializes over time. Manager liquidity decisions, especially under stress, shape how the associated costs and benefits are allocated across investor cohorts.

For investors, the central question is not whether semi-liquid funds can deliver attractive returns. It is how the structure allocates risk and value among subscribers, redeemers, and those who remain invested. Understanding value transfer clarifies why outcomes can diverge sharply depending on net flow conditions, valuation timing, and liquidity management choices.

Viewed through this lens, Advisor-focused evergreen private markets structures are not neutral containers. They embed economic tradeoffs that require explicit monitoring and governance. Value transfer is not a tail risk. It is a structural feature of the fund format. Clients can access a full paper on this topic which includes further detail on the implications of manager decisions and further investor implications.

Advisor-Focused Evergreen 2.0

While acknowledging the structural challenges inherent in AFE funds, there are identifiable areas where the current framework could be improved. The prevailing design of many AFE structures appears to reflect an equilibrium established by early GP adopters. Given the fragmented investor base typical of these products, Albourne views meaningful structural change as unlikely absent regulatory intervention. Moreover, we believe that a manager who adopted our proposed improvements would likely face reduced marketability and a competitive disadvantage relative to peers, increasing the risk that such a product would ultimately be displaced over time.

The primary structural alterations should have two main goals: reduce capital flows to preserve liquidity for remaining investors and reduce unintended value transfer between investors.

In an idealized construct, a fund that queues investor subscriptions for deployment and subsequently provides redeeming investors with a ratable share of the portfolio, returning capital only as underlying investments are realized, often referred to as a "slow-pay" structure, would substantially mitigate asset-liability mismatch and unintended value transfer. However, such a structure functions economically as a drawdown vehicle, rendering it largely inaccessible to investors with operational or timing constraints who require greater certainty around

capital deployment and liquidity. While a complete run-off mechanism (e.g., liquidating share class) is preferred, the overall duration of the redemption itself poses operational and practical challenges.

A partial solution may include fund-level redemption limits (e.g., 5%) with redeeming investors receiving capital over several quarters, effectively 'averaging' NAV and reducing the liquidity demand on the fund. Such a solution would combine common fund-level portfolio liquidity controls with investor-level restrictions that slow redemption velocity, reducing the likelihood of value transfer from remaining investors to redeemers and better matching redemption terms to the duration and liquidity of the underlying investments. Investor-level redemption frictions reduce the attractiveness of semi-liquid funds as tactical liquidity vehicles during market stress, which is beneficial for long-term investors and can moderate gross redemption requests while leaving formal repurchase limits, such as quarterly caps, unchanged. This solution is both less burdensome to implement and provides a meaningful improvement to the structure.

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