PRIVATE EQUITY WIRE®

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JULY 2025



INS AND OUTS

THE EVERGREEN APPEAL OF HYBRID FUND STRUCTURES

EXECUTIVE SUMMARY

At the innovative edge of the private markets product offering is the hybrid fund – a solution initially designed for the wealthy suitor, now evolving into an elegant portfolio component for most investor types.

Amid liquidity shocks, few would question the utility of a flexible fund structure that enables investors to dip in and out. As this report illustrates, most investors now demand this optionality, and the critical mass of managers has answered the call.

The biggest questions to address now pertain to the attitudes towards these fund structures, and whether investors are approaching them with the right mindset. Many also need to consider the economics of these funds – specifically the trade-off between fees and flexibility. Every LP will have their own appetite, and while these funds cater for many – they don't cater for all.

In section one of this report, we explore the target markets for hybrid fund structures, and how managers are presenting these funds to a variety of investors. We also address the imperative of education in this space.

The second section relates to the operational burden now placed on fund managers, who are tasked with the inherently complex endeavour of bringing liquidity to an illiquid pool of asset classes. This entails more regulatory scrutiny, careful portfolio construction, strict redemption protocols, robust valuation processes and a more sophisticated operational infrastructure than ever before.

There is a natural gravitation towards external experts and technology providers that have the experience to support fund managers with more complex structures than they've previously had to contend with. A special thank you to our report partner, SS&C Technologies, for providing their insights into the evolution of hybrid fund operations.

AFTAB BOSE
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METHODOLOGY

The data presented in this report is based on a survey of 100+ private markets fund managers. Data was collected during Q3 2025 from senior leadership and C-suite respondents across North America, Europe, APAC and other key geographies.

Survey analysis is complemented with qualitative interviews with senior leadership at top-tier PE firms, alongside knowledge and insight aggregated from a range of media, news and research resources – including Bloomberg, Reuters and the Financial Times.

68% of firms say these funds increase fundraising potential, while more than half say they reduce the pressure on funding cycles

55% of firms have either launched a hybrid fund or plan to do so in the next year

46% of North American firms market these funds to retail investors, while the same share of European funds market these to institutional investors

44% of firms say higher regulatory scrutiny is the biggest challenge with hybrid funds, followed by liquidity management and valuation complexity

44% of firms leverage external/outsourced technology to manage the operational burden of hybrid funds, while well over a third build tools in-house

RISING TIDES

Mapping the target clientele for hybrid funds, their priorities, and the need for education around these structures

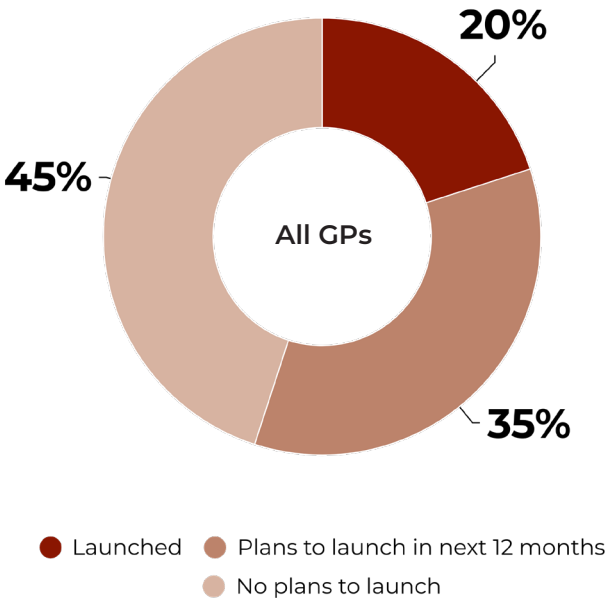
Hybrid funds are proliferating, with more than half of the respondents to Private Equity Wire's Q3 2025 GP Survey saying their firm has either launched such a product, or plans to do so in the next 12 months (see Figure 1.1).

The biggest driving force here is a shift in investor demands. "Having raised drawdown funds in credit for several years, it's over the past two years that I've noticed the question of a hybrid offering becoming a central one. For some it's now a non-negotiable," says Luke Chan, Partner and Head of Private Credit at HighVista Strategies.

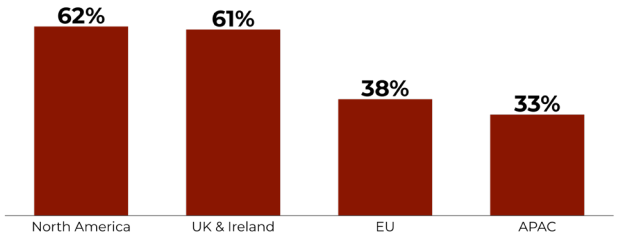
Over two-thirds (68%) of managers say offering hybrid funds increases fundraising potential, while 56% say it eases the pressure that comes with cyclical fundraising (see Figure 1.2.). Other benefits for GPs include the potential for asset diversification (cited by 51%) and higher fund liquidity (42%) – both of which we'll explore over the course of this report.



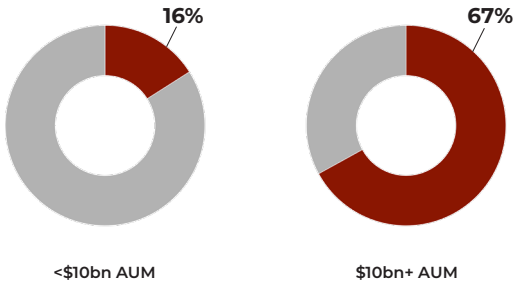
Figure 1.1 Share of firms to launch hybrid funds



Share of firms that has launched/plans to launch hybrid funds by region



Share of firms that has launched hybrid funds by AUM



Source: Private Equity Wire GP Survey Q3 2025

LPs coming into hybrid funds benefit from a more efficient investment lifecycle. Chris Freeze, Senior Managing Director and Co-Head of the Investor Solutions Group at Churchill, says: "Traditional drawdown funds have a ramp up period of several years until all capital is called, followed by another extended period when the fund winds down and distributions are made.

"In an evergreen structure, investors are generally meaningfully called when they come in, and remain so until they decide to redeem. In short, their money is at work for longer."

Jim Walker, Partner and Global Head of Wealth at Adams Street, says a growing number of investors of all types are interested in putting their money to work in private equity. Hybrid funds are a way to "meet LPs where they are" as they offer liquidity and tax reporting features that appeal to a different wealth audience.

There are also operational efficiencies on offer for investors. Chan highlights that traditional drawdowns require re-ups, reviews and investment committee approvals for each fund commitment, usually every two years or so. In an evergreen structure, there are only two decisions to be made – once when allocating and once when redeeming.

There is a price to pay for these benefits. Hybrid fund structures require more involved management – often reflected in fees – and can have cash drag that affects performance. But given recent volatility and ongoing liquidity shocks, this is a price many are willing to pay for flexibility.

“

Individuals may be happy to sacrifice those extra two or three points of IRR for liquidity – institutions wouldn’t.

Haresh Vazirani
Managing Director for Private Equity, Patria Investments

TARGET MARKETS

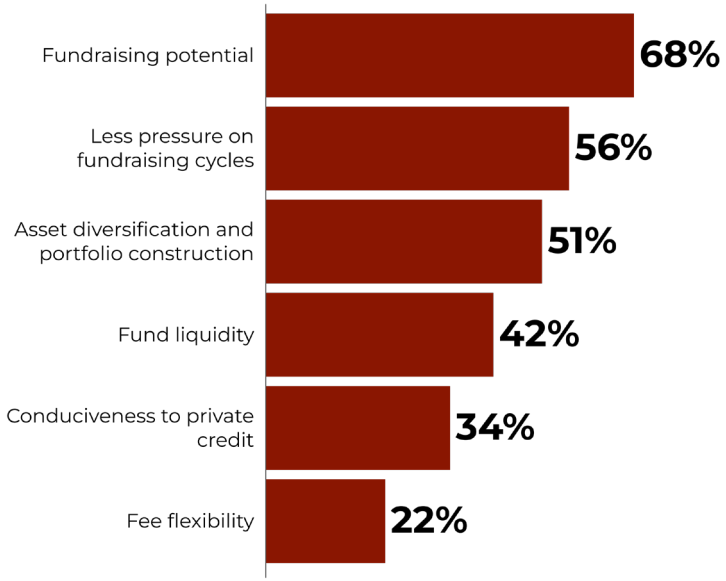
Naturally, this sentiment varies from one investor type to the next. A natural bifurcation is emerging in the private markets investment landscape, between institutional and wealth investors – priorities differing considerably across both segments.

It's safe to say hybrid funds are broadly a solution for wealth investors that may have a greater need for flexibility – with potentially shorter investment horizons and more scope for changes in circumstance. Our data reflects this – with well over half of all managers primarily marketing their hybrid funds to high-net-worth individuals (56%) or family offices (54%), while 39% mainly target institutional investors.

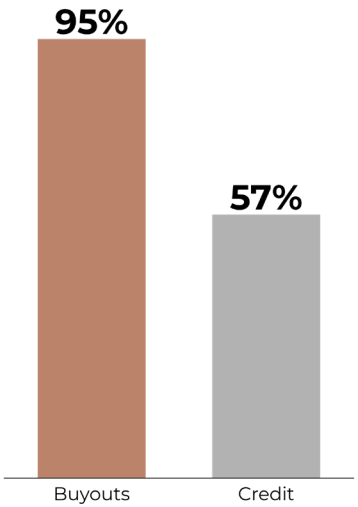
Haresh Vazirani, a Managing Director for Private Equity at Patria Investments, draws a clear dichotomy between investor types: "Individual and wealth investors in traditional drawdown funds often have two pain points – redeeming cash when needed, and having money sitting idle for years before it is fully called.

"Institutions have a team of portfolio managers that can construct the right investment denominations, creating a source of liquidity elsewhere to protect performance in longer-term vehicles. If needed, they are sophisticated enough to run a secondary sale process. Individuals have less capacity here – so a hybrid fund structure is well suited for their needs."

Figure 1.2 Benefits of launching a hybrid fund



Share of firms that say hybrid funds increase fundraising potential/reduce pressure on cycles



Analyst note: Multiple choice question

Source: Private Equity Wire GP Survey Q3 2025

North American hybrid funds are far more retail focused

Share of firms targeting retail investors:



One or the other?

If hybrid funds are more efficient and flexible, are they here to displace the traditional drawdown fund? Conversely, if investors need to approach hybrids with the same patient mindset as drawdowns, why would they compromise on performance and fees?

The bottom line is that investors now have greater optionality in private markets investments. “Some, who do not need the convenience features of evergreens – such as no capital calls, no J-curve, the possibility of redemption – will likely stick to closed-ended funds. Others will complement and partially replace closed-ended funds,” says Raluca Jochmann of Allianz.

Luke Chan of HighVista says: “Investors have both options – drawdowns aren’t going anywhere, but hybrids will become an increasingly central component.”

And the world of hybrids will likely grow in sophistication, too. Chris Freeze of Churchill says: “Some very smart and creative people are speaking with the investor community everyday – trying to understand and solve their specific challenges. This can only lead to innovation.

“For instance, some of these funds will start to combine private and public assets. Investors are mainly concerned with achieving their internal return targets more so than the specific underlying investment strategies, so this may be a strong offering. These funds also lend themselves well to mutual funds, generating meaningful returns over longer term horizons.”

There are other reasons why institutions may not be interested in hybrids. The very fact that nearly all the capital is called at the same time, Vazirani highlights, reduces diversification from a vintage perspective, while the cash drag that comes with liquidity maintenance is a greater consideration given their fiduciary responsibilities.

“Individuals may be happy to sacrifice those extra two or three points of IRR for liquidity – institutions wouldn’t. Still, many hybrid and listed vehicles are anchored by a large institution, often in exchange for favourable terms,” he says.

Many suggest that smaller institutions – often dealing with similar constraints as family offices or wealth advisors – are strong contenders for hybrid fund investors. Tim Boole, Head of Product Management Private Equity at Schroders Capital, says these institutions don’t have the back office support to manage complex products with capital calls and need an all-in-one solution.

“Some are looking to invest less than $5m, which are smaller tickets than what is eligible for a closed-ended fund. It’s easier to come into evergreens, be deployed straight away and have the ability to adjust the allocation easily,” he says.

There are also regional factors at play. Boole says: “Institutions in newer markets around the world that don’t have a long history of private markets investments often use hybrids as a simpler and flexible point of entry.”

He notes demand for hybrids in a number of markets – including Thailand, Japan, South Africa and across Latin America. Our research shows APAC is being targeted by about 15% of GPs, although the conventional financial centres across North America and EMEA remain the focus for most firms (see Figure 1.3.).

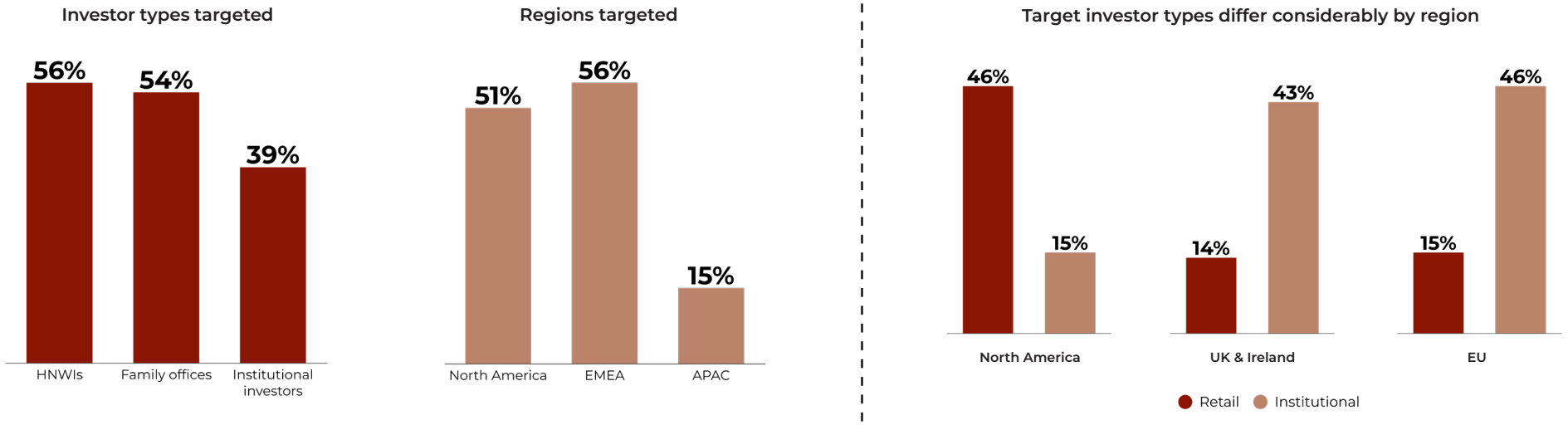
And within these strongholds, developments around 40 Act funds and the potential arrival of 401K money are giving US firms an edge. Per our survey, nearly half of all US firms are going beyond institutional and wealth clients, marketing their hybrid funds to the retail investor.

Raluca Jochmann, Head of Private Markets Solutions at Allianz Global Investors, says: “Industry studies suggest the US seems to currently show the strongest interest, but they are the largest investor in the institutional space, and evergreens have been offered for a longer time to US investors. Recently, Europe and Asia have also shown strong interest despite being earlier in their journey of investing in such products.”

THE EDUCATION IMPERATIVE

As the hybrid fund target market moves its way down the wealth chain to the retail investor, proper education around these funds is critical. Experts interviewed for this report unanimously stated that the liquidity offered in hybrids shouldn’t encourage a short-term investment mindset, as private market performance inherently unfolds in a longer time horizon.

Figure 1.3 Target investor markets for hybrid funds



Analyst note: Multiple choice question

Source: Private Equity Wire GP Survey Q3 2025

"Five years should be the minimum expectation for these diversified portfolios to yield the desired return," says Vazirani.

Boole says: "There are two types of liquidity needs: when you're faced with a life-changing situation, or if the market crashes and everyone is leaving in a panic. These funds cater for the former but not for the latter – such is the nature of the asset class that liquidity can't be created overnight."

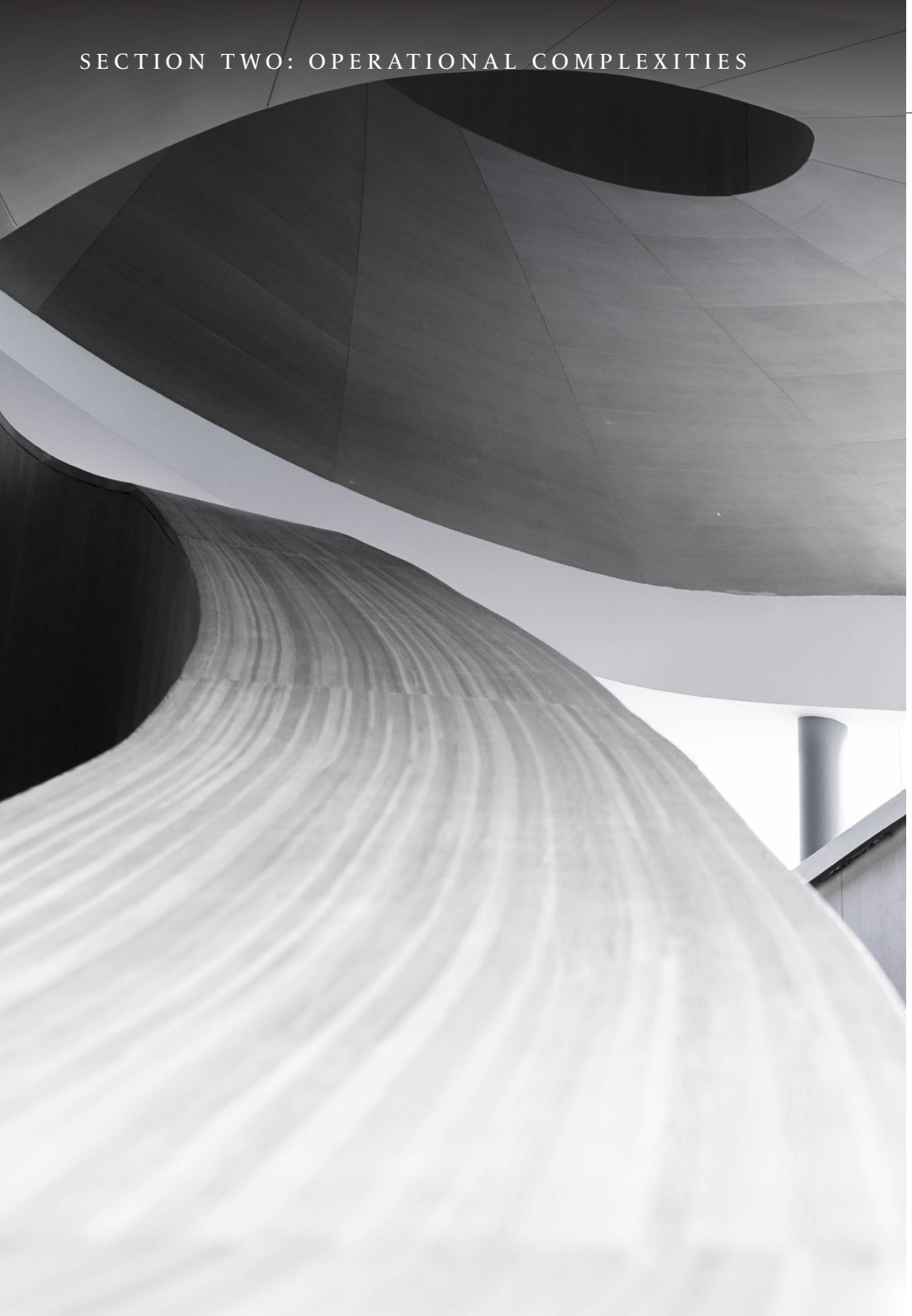
Chan highlights three questions for every investor to keep in mind before investing in hybrids: "First, is the GP promising liquidity that's better than the underlying asset? There is no magic in the financial world – the liquidity of a portfolio is equal to the liquidity of the assets.

"Second, do the decisions of other LPs impact me? In some cases, if there are redemptions requests, the GP might have to sell a perfectly good asset to generate liquidity, which will affect the overall value of the fund and ultimately other investors. And finally, is the fee profile worth it? Many will charge a higher performance and management fee for these funds compared to traditional drawdowns."

According to Walker, the vast majority private wealth flowing into hybrids at his firm is channelled through advisors. "Given that advisors are handling client communication it's important that firms like ours provide educational materials and frequent portfolio updates. Additionally, the advisor provides a layer of communication that can guide investors in periods of market drawdowns."

KEY TAKEAWAY

Hybrid funds are an elegant and efficient solution for both individual and institutional investors that value flexibility and want their money at work faster, but they're not for everyone – a long-term mindset is key.



LIQUID MEETS ILLIQUID

A closer look at how some of the world's largest fund managers are navigating the operational complexity of hybrid funds

The evolution of hybrid funds has coincided with a big push on private credit worldwide. The two developments are closely intertwined – 59% of our survey respondents are targeting private credit as the primary illiquid asset class for their hybrid fund structures.

Luke Chan of HighVista says: "Credits are shorter dated, so money can be extracted more quickly for a redemption. It may take up to three years for a loan book to run out, which is much shorter than the private equity or venture capital lifecycle."

According to Haresh Vazirani of Patria Investments, there are trade-offs across asset classes. "A credit manager would say interest payments can be used for redemptions, which means money is always at work. But credit also has lower returns than private equity. In the end, it boils down to the portfolio construction and risk appetite of each investor."

One point of consensus is the inherent complexity of managing hybrids. For one, the fact that these structures appeal to a broader base of investors means they come with a higher level of regulatory oversight – cited as the top challenge by 44% of our respondents.

This varies across jurisdictions. Tim Boole of Schroders says: "We use Luxembourg fund structures for many of our open-ended funds, and we also have a 40 Act vehicle which is a tender offer fund for US wealth investors. Luxembourg structures offer more flexibility when it comes to share classes – there can be different ones for various investor types, whereas 40 Act funds are stricter in terms of differences between share classes.

"Some investors perceive the onboarding experience to be more challenging in Luxembourg structures, specifically from a KYC and AML perspective – but on the whole the differences are not too material," he adds.

Jim Walker of Adams Street has a similar assessment. "European structures can have a master-feeder type structure, where the underlying funds can be customised to individual market needs such as specific currency sleeves and hedging. Luxembourg fund structures have broad global appeal. Registered vehicles in the US, meanwhile, are required to have the same terms for all investors.

Other complexities cited by GPs include liquidity management (37% of managers), matching valuations with the underlying assets (29%) and the operational burden that comes with all of the above (27%) (see Figure 2.2.). Interestingly, these vary considerably between buyout and credit strategies.

LIQUIDITY MANAGEMENT

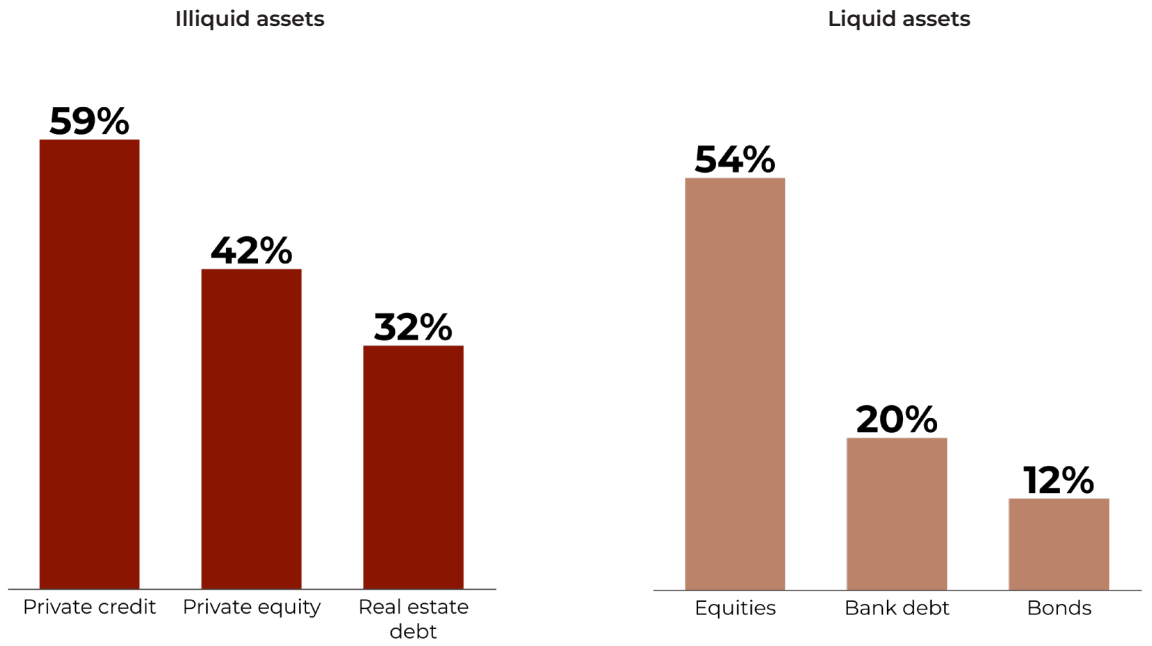
As much as education is crucial for investors to approach hybrids with a long-term mindset, it's incumbent on managers to account for the possibility of mass redemptions.

According to Boole, there are two approaches to liquidity management. The ideal case is to construct the portfolio in a way that ensures good diversification, and holds sufficient cash balance to account for one or two of the next redemption windows.

Alongside that a range of liquidity mechanics are implemented. He says: "We have a at least a three-month notice period according to calendar quarters for investors to exit the fund, and they will be trading at the price at that point in time. For example, if an investor in one of our semi-liquid funds wanted to exit today, they've just missed the 30 June cutoff, which means they'll actually be trading out on 31 December."

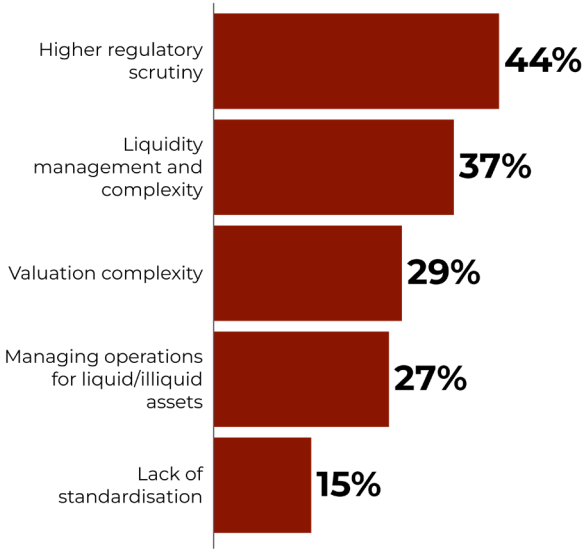
This gives Schroders time to adjust the pace of investment based on the level of subscription or redemption activity. It also ensures investors don't "treat the fund as an ATM if, for instance, there is a market panic".

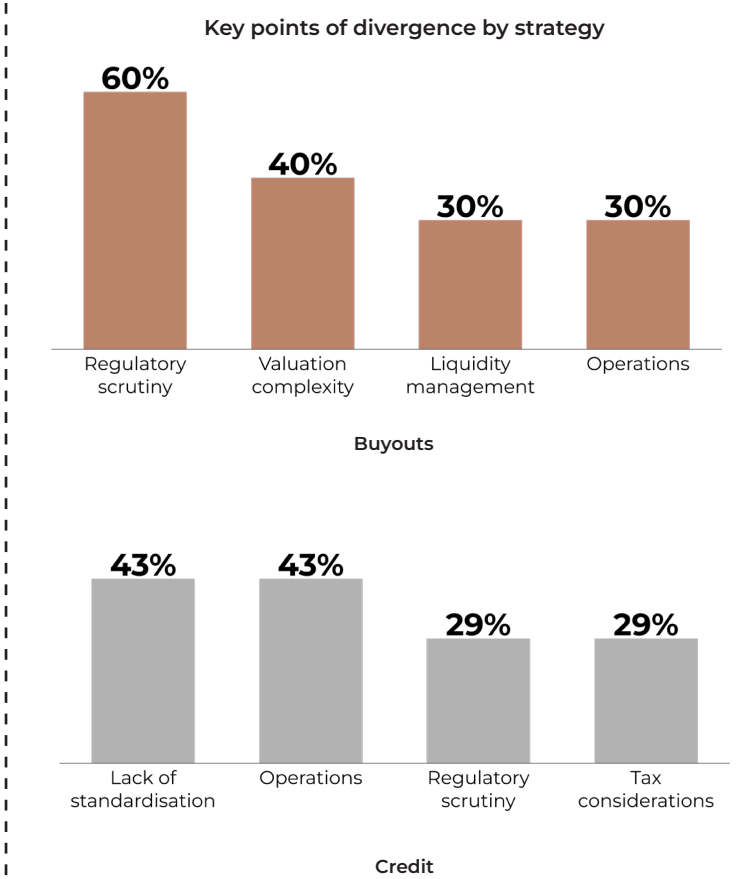
Figure 2.1 Target asset classes for hybrid funds



Source: Private Equity Wire GP Survey Q3 2025

Figure 2.2 Top challenges when launching and operating hybrid funds





Source: Private Equity Wire GP Survey Q3 2025

Another mechanism is to have a 5% cap on redemptions per quarter, which means the fund only has to hold enough liquidity to provide 5% of the fund's NAV at each of the next few redemption windows. And finally, accounting for a critical state, the firm reserves the option to suspend or reduce redemptions. "The Luxembourg regulator stipulates we can only suspend the fund for up to one year, after which we have to provide a means for investors to exit the fund."

Most firms will have similar liquidity provisions in place. Indeed, Walker says: "A certain portion of the fund will be in liquid assets. As an additional measure, most evergreen funds will have credit facilities to support redemptions in excess of the cash on hand, if needed. Credit facilities can also be used to make fund investment commitments in advance of cash."

VALUATIONS

"Our valuations process was one of the hardest things to set up when we first launched our hybrid fund," says Boole.

"Valuations need to happen monthly because subscriptions come in monthly. Our diversified PE portfolio is made up of hundreds of companies, and we take into account any trading comparables, equity market valuations and recent transactions for each of these underlying companies to ensure valuations are fair. It's also important to consider how a company would perform in a normal market and not the current volatile conditions."

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Because investors can exercise their right to redeem, sponsors have to up their game to ensure LPs are consistently satisfied.

Chris Freeze,
Senior Managing Director
and Co-Head of the Investor Solutions Group, Churchill

Walker adds: “There are always public market equivalents to compare with, and private companies will typically trade at a discount to these valuations. While private market valuations will adapt to big movements in the public markets, they don’t move as much as public securities – up or down. When pricing evergreen funds you need a quote that reflects a consistent process in the evaluation of the underlying assets.”

Having a clear and transparent process around valuations is critical, says Boole, adding that Schroders established an in-house valuations team – independent of the investment team – to manage the operational burden.

OPERATIONS SPOTLIGHT

The operational burden of managing hybrid funds is leagues above that of traditional drawdowns. Regulations, liquidity management and valuations aside, firms are also faced with a sizeable investor relations burden.

“Because investors can exercise their right to redeem, sponsors have to up their game to ensure LPs are consistently satisfied, and provide more data and information than ever before,” says Chris Freeze of Churchill.

Managers have had to rethink their entire operational setup, as well as their partner ecosystem (see Boxout p16). Raluca Jochmann of Allianz Global Investors says: “On the investment side, managing private markets evergreen funds requires a whole set of new portfolio management tools to manage liquidity risk and deliver an attractive return at the same time. On the operations side, there are new ways for clients to access these products compared to closed-ended funds, working with a new set of providers and different reporting standards.

According to Walker, for firms offering these types of funds a significant amount of up-front operational work is required to ensure their smooth running. “Firms must adapt to a new valuation cadence. A dedicated treasury function is essential to forecast capital inflows effectively. Unlike traditional closed-ended vehicles, fund administrators and transfer agents are required. Additionally, new reporting frameworks must be implemented to comply with evolving regulatory requirements.

“All of this requires interactions with different vendors and technology applications, which creates the need to develop and staff new operational capabilities. The selection process for a new vendor takes several months, after which clear interaction protocols need to be established for each fund. Since this requires the exchange of data it’s important to get this right.”

Technology and outsourcing are front and centre when it comes to managing operational complexity – 49% of our respondents saying they are hiring experts to support with hybrid fund management, 44% are investing in outsourced technology and 39% are investing in in-house tech.

Chan says: “Technology can be used in many ways, including to model a fund’s liquidity needs. This might not be fully precise, but it provides a useful framework for planning. In addition, hybrid funds are constantly accepting

> “Our valuations process was one of the hardest things to set up when we first launched our hybrid fund
>
> Tim Boole,
> Schroders Capital



IAN KELLY
Managing Director, Head of Private Markets International

JASON COSTA
Head of Hedge Fund Services, North America



WORKING THE MACHINE

Hybrid funds are redefining the operational requirements of private markets firms.

Based on interviews with Jason Costa, Head of Hedge Fund Services, North America, and Ian Kelly, Head of Private Markets, International.

The fundamental shift from a long-term investment cycle to more regular or periodic liquidity brings inherent complexity. “Matching liquid and illiquid valuations, addressing the frequency and subjectivity of these valuations, mapping terms and fee structures, executing a variety of transactions and providing investor transparency through this process all add up to a sizeable burden for firms to take on,” says Costa.

Kelly expands: “The data requirements are considerably higher. Private markets historically haven’t engaged too much in complex hedging, for instance. A Euro fund would acquire a Euro asset, hold it over several years, and eventually exit in the same currency. Now, as a liquidity component is introduced, funds need to mark to market volatility and swings in terms of assets, currencies and a range of other factors.”

With hybrid funds increasingly being marketed to wealth and retail investors around the world, these imperatives will only grow stronger. “Firms need an entirely new type of data platform, which can map growth, liquidity and opportunity across their strategies. They’re moving from seeing themselves as PE or real estate funds towards embodying multi-asset managers.”

New partnerships

This mindset shift has brought with it a change in the type of service providers and administrators firms need to deliver. As evident from our survey, technology is taking centre stage from an operational standpoint.

Costa says: “Managing this level of complexity requires best-of-breed technology across a range of asset classes, with normalised, integrated systems and a data warehouse. With these building blocks in place, firms can use predictive analytics to understand where liquidity needs are most pressing and communicate better with their investors.”

Where firms struggle, Costa adds, is in the decision between building internal technology capabilities and buying systems and services from third parties. Every firm will structure these funds based on the nuances of their strategy, which makes this decision even more challenging.

According to Kelly, most firms starting out on their hybrid funds journey lack a clear idea of what good looks like in this space. “Firms understand how they are going to generate returns, but not necessarily how to make these machines work. Where will this whole new strategy fit within their overall business? Our role is to ensure we feed them the right data to make this decision, so they’re not making a bet in the dark.

“This often starts out with a low-impact, turnkey solution to running these strategies. In time, as the business grows, these needs will evolve considerably – what works for the first fund won’t necessarily work at Fund III. This is where a more sophisticated data strategy and technology stack becomes critical – a strong bench of systems with multiple ingestion points to be tailored for each part of a diversifying outfit.”

Changing vendors is not a frequent practice in private markets, but the rising tide of hybrid funds – and the breadth of expertise required therein – are prompting a rethink of the partnership ecosystem.

SPOTLIGHT

Technology is critical to hybrid fund management

Share of firms investing in tech to manage complexity:

Build



In-house tech

39%

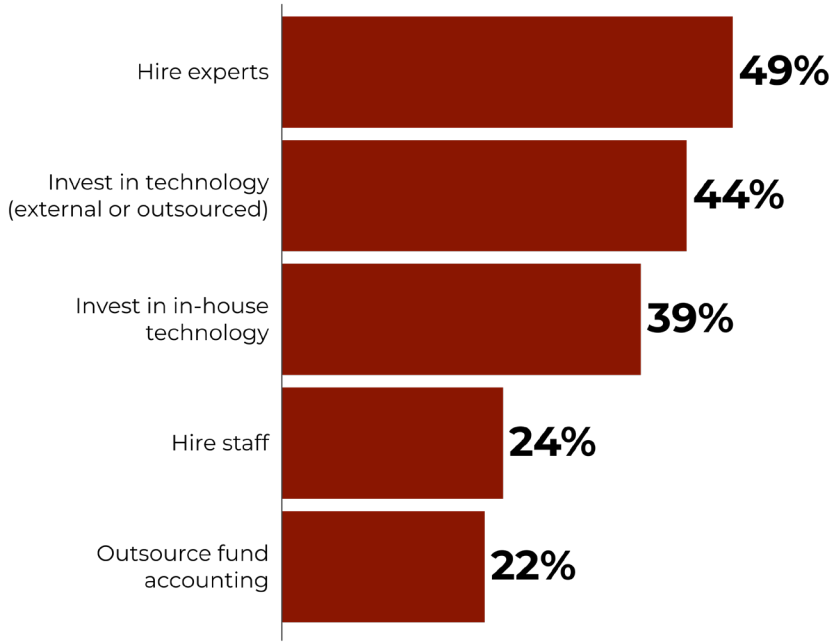
Buy



Outsourced tech

44%

Figure 2.3 Top strategies for managing operational complexity



Source: Private Equity Wire GP Survey Q3 2025

subscriptions – as opposed to the once-a-year average for drawdowns. Technology can help facilitate these daily investment processes."

According to Boole, allocating investments across a diversified set of funds and mandates needs a sound process that is supported by robust back-office systems, overlaid with AI to generate deeper insight. He, too, points to investor relations: "investors being able to access these funds through a platform is a big factor to consider."

Jochmann concludes: "Technology can help mostly in making the act of advising, buying, holding and selling these funds easier. Many distributors are used to selling just mutual funds, while private markets funds entail much more complexity.

"Platforms and providers have emerged that use technology to make the distribution and management of these funds easier. We expect much more to happen in this space as the market continues growing."

KEY TAKEAWAY

Careful portfolio construction, clear gating mechanisms, robust valuation processes and advanced technology are all critical building blocks for a successful hybrid fund structure.

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