MEKETA CAPITAL

Combining Private Equity Drawdown Vehicles with Evergreen Funds

Private equity has emerged as a defining feature of sophisticated portfolio construction. Its appeal extends well beyond return potential, encompassing differentiated risk profiles, structural benefits unavailable in public markets, and exposure to a far broader corporate landscape than publicly traded securities alone can offer.

As public companies continue to represent a shrinking share of the global corporate landscape and value creation increasingly occurs prior to IPO, in our opinion, investors can only gain exposure to the full market by adding private equity to complement traditional stock and bond allocations. While private equity investments involve risks — including illiquidity and valuation uncertainty — the asset class's historical outperformance and diversification benefits have made it a meaningful tool for investors with sufficiently long time horizons.

U.S. institutional investors, including public pensions, Taft Hartley DB plans, endowments, and family offices, have long allocated to private equity to capture these characteristics. Indeed, the average allocation to private equity for these plans has historically been roughly 15% to 20% of the portfolio and has historically been implemented primarily through traditional drawdown vehicles.

Challenges of Investing in Private Equity Drawdown Vehicles

Allocating to private equity can be operationally intensive, comes with significant liquidity considerations, involves a lot of paperwork and legal review, and requires extensive modelling for allocation pacing, given the timing mismatch between committed capital (upfront) and the multi-year period of calling and investing that commitment, along with the uncertainty of when capital will ultimately be returned.

The most challenging tasks to building a successful private equity allocation include sourcing high-quality general partners (many of which already have an established investor base), tapping into private equity alpha (not just beta), and creating an adequately diversified portfolio.

Investing in private equity also involves returns that are represented by what's called the J curve. The J curve in private equity describes the typical pattern of negative cash flows during the early years of a fund's life due as commitments are called for investment and distributions later in the fund's life once the underlying investments start to mature and are exited over its lifecycle. It gets its name from the shape of how these net flows trace on a graph — dipping below zero in the early years before climbing upward into positive territory.

Although primarily a description of the cash flow pattern, it also pertains to the return pattern given the lag between when the initial investment takes place and the initial markups in valuation against a backdrop of fees on committed capital.

Addressing These Challenges with Portfolio Construction

Fortunately, a portfolio can be explicitly designed to alleviate the traditional challenges of private equity investing and provide investors with an attractive alternative for implementing their private equity allocation relative to investing in multiple drawdown funds.

Combining a traditional drawdown structure (closed end) with an evergreen (perpetual) structure may create a more modernized investment approach that seeks to reduce "cash drag," accelerate investment, and optimize portfolio diversification.

The optimal combination of an evergreen investment and primary drawdown funds will vary by client, but for the sake of simplicity and consistency in this paper we will use an example of a 70% allocation to a traditional drawdown fund structure and a 30% allocation to an evergreen interval fund structure.

This strategy allows investors to maintain a continuously invested private equity portfolio with improved liquidity compared to traditional, long-term lock-up structures alone. In addition, we believe the investor is in a more optimal liquidity position by retaining the ability to create their own periodic liquidity (frequency and amount depend on the fund, but is usually up to 5% quarterly) for rebalancing or cash flow needs.*

This approach enables the fund to shorten the J-curve. The 30% evergreen fund allocation allows investors to deploy a meaningful portion of capital into an existing private equity portfolio and start potentially compounding immediately. This approach should also mitigate the uncertainty around investment pacing by providing an instant allocation to the asset class. For example, if an investor is targeting a 10% allocation to private equity, on day one they will have a 3% allocation and then can model out the commitment needs for the remaining 7% of the target, versus the entire 10%.

Understanding the Different Structures

PE Drawdown Strategy:

- Traditional private equity funds operate on a drawdown model, where investors commit capital upfront, and the fund manager calls (or "draws down") the capital over time as investment opportunities arise.
- These funds typically have an extended life cycle (e.g., 10–12+ years), including an investment period (5+ years) and a harvest period (where investments are exited and returns distributed).
- Liquidity is limited, as investors cannot redeem their capital until the fund exits its investments.

Evergreen Funds:

- Evergreen funds are open-ended investment vehicles with no fixed termination date. They allow for continuous capital inflows and outflows, providing greater conditional liquidity to investors.*
- These funds reinvest proceeds from exits into new investments, creating a perpetual investment structure.
- Evergreen funds are often used for long-term strategies and can accommodate a mix of private and public assets.

*Liquidity may be limited in periods when funds experience a high demand for redemptions.

Key Benefits of a Blended Structure

Blending a private equity drawdown strategy with an evergreen fund structure may create an effective structure for building a diversified private equity portfolio that balances faster exposure to compounding assets, liquidity, and operational flexibility. The vehicle structure is just one of the advantages. Some other key advantages include:

- **Immediate diversified exposure to general partners.** Traditionally, investors have had three primary paths to constructing a diversified private equity portfolio:
  - They can create their own diversification by investing in multiple single sponsor funds. The challenge with this approach is identifying and gaining access to top-tier GPs, not simply GPs with available capacity. This also requires large commitments of capital to meet the minimum requirements of each fund and establishing a pacing program to ensure vintage year diversification while ramping up to an allocation target.
  - They can invest in a fund of funds (FoF) drawdown vehicle which invests in a pool of underlying drawdown funds. This may help mitigate the complexities around investment pacing and deal sourcing but comes with a much higher fee structure and runs the risk of overdiversification. In addition, the investor still requires the expertise to assess the FoF provider and their ability to access top-tier GPs.
  - They can invest in evergreen fund vehicles which are perpetual funds that tend to hold many underlying investments and have lower minimums. Similar to the issues with the FoF structure, these funds may have

*Subject to certain limitations. There is no assurance that you will be able to tender your shares when or in the amount that you desire.

higher fee structures, may carry incentive fees on the fund NAV that is not aligned with the underlying assets, and tend to offer private equity beta rather than alpha. For example, many current evergreen funds hold well over 1,000 underlying portfolio companies, increasing the likelihood of beta-like long term returns from the portfolio.

On the other hand, a blended structure can combine the best features of these approaches by avoiding single sponsor risk in assembling a diversified group of top-tier GPs while avoiding the overdiversification and higher fee structures of a typical FoF or evergreen fund.

- **Instant market exposure.** Traditional drawdown fund investing involves blind pool risk in which the investor commits capital at the front end, but perhaps only a few investments have been made, if any. In essence, the investor is backing the GP and its ability to source good deal flow over the next five to six years of the investment period.

  In contrast, investors in a blended strategy can get immediate exposure to a pool of diversified investments via a meaningful or core allocation to an evergreen vehicle. Instead of potentially years of "cash drag" and opportunity cost while waiting for capital calls, evergreen funds keep capital fully invested from day one, allowing for faster compounding assuming the underlying assets perform well. This significantly mitigates blind pool risk as the evergreen fund will typically have a portfolio of existing investments. Investors should think of it in the same manner as a mutual fund or ETF holding public equity. The investors get a proportional ownership of the underlying securities already in the fund, based on the most recent NAV.

  Evergreen funds typically offer exposure to a diverse portfolio of companies or primary funds across different vintages, mitigating the risk of relying on a few, concentrated, or poorly timed vintage-year investments.
- **Mitigate the J-curve.** The day one 30% allocation to an evergreen structure helps mitigate the J-curve and also decreases the amount of time that the investors' capital is sitting on the sidelines waiting to be put to work versus a 100% commitment to a typical primary, drawdown fund.
- **Higher multiple of invested capital (MOIC).** Blended portfolios can result in a higher MOIC versus allocating only to a traditional buyout fund with a typical call down structure and a five-year investment period. What drives the advantage? The 30% allocation to the evergreen fund structure is expected to start compounding on day one of the investment. Figure 1 below quantifies this benefit.

Figure 1

Higher Multiple Due to Compounding	At Year 3	At Year 5	At Year 10
Net Multiple – Blended Allocation	1.19x	1.55x	2.54x
Net Multiple – Traditional Drawdown Fund	1.12x	1.43x	1.93x

Source: Meketa Investment Group 2026. The above table is for illustrative purposes only and is not representative of any actual investment. The model assumes a 20% gross IRR and 2 and 20 fee structure for the drawdown fund investments and a 20% gross return for an interval fund with a 90% allocation to co-investments and a 10% allocation to liquid assets (cash), and 2% of total fund level fees. A bow multiple of 1.5 and a yield of 0% is used to govern the pace of distributions.

The Value of Evergreen Funds with Underlying Co-Investments

To maximize the benefits of the evergreen fund component of the strategy, using evergreen funds that invest solely in co-investments can be effective.

Co-investments allow limited partners (LPs) to invest alongside general partners (GPs) directly into specific portfolio companies. Unlike traditional private market fund investments, co-investments do not involve "blind pool" risk, as LPs can choose whether to participate in each opportunity.

By accessing investment vehicles that include co-investments, investors gain access to potentially attractive deals and can benefit from the private equity firms' expertise and deal-sourcing capabilities. Additionally, co-investing may enable investors to acquire exposure to high-quality assets at lower fees, enhancing the potential for superior returns.

Co-investments offer several potential advantages to investors, generally including lower fees, more targeted portfolio exposures, and mitigating the J-curve effect. Participating in co-investments may also provide LPs with greater portfolio customization and flexibility.

Co-investments enable a highly curated portfolio that is diversified by sector, company size, vintage year, and general partner. The result is a relatively concentrated, transparent portfolio of direct investments, similar to a single sponsor drawdown fund, but with a diversified source of underlying GPs.

Challenges and Considerations

As with any investment strategy, there are risks associated with private equity drawdown vehicles and evergreen funds. Before investing, investors should always consider:

Source: Meketa Investment Group, Capital Markets Outlook and Risk Metrics, 12/31/25

- **Liquidity mismatch.** PE drawdown funds are inherently illiquid, while evergreen funds offer periodic liquidity. The investor's liquidity needs should always be considered before investing.
- **Portfolio construction.** Careful planning is required to ensure the allocation between the two strategies aligns with the investor's risk tolerance, return objectives, and liquidity needs.
- **Fee structures.** PE drawdown funds typically charge management fees on committed capital and performance fees on realized gains. Evergreen funds may have different fee structures, such as fees on net asset value (NAV). Understanding and managing these costs is important.
- **Operational complexity.** Blending these strategies requires sophisticated operational and reporting systems to track commitments, drawdowns, distributions, and evergreen fund liquidity.
- **Regulatory and tax implications.** Evergreen funds and PE drawdown funds may have different regulatory and tax treatments. Investors should consult legal and tax advisors to ensure compliance and optimize tax efficiency.

Unlocking Private Equity's Full Potential

A strategic private equity allocation can enhance long-term portfolio outcomes through return enhancement, diversification, and access to value creation mechanisms unavailable in public markets. For private wealth investors with sufficient liquidity and a long-term horizon, private equity offers a compelling complement to traditional public asset classes. However, establishing a meaningful allocation may be accompanied by operational challenges, higher fee structures, and beta investments disguised as alpha.

Blending a private equity drawdown strategy with evergreen funds can create a well-rounded portfolio that balances liquidity, growth, and flexibility. However, it requires careful planning, robust operational systems, and clear communication with investors to manage expectations and optimize outcomes. By leveraging the strengths of both structures, investors can achieve their long-term financial goals while maintaining access to liquidity.

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