Alternatives by FRANKLIN TEMPLETON®

Comparing evergreen and drawdown funds

Three considerations for private equity investors

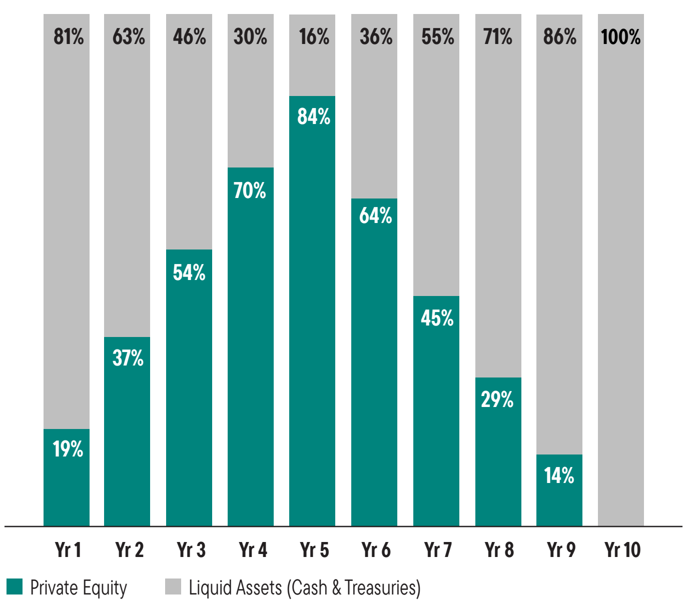
Private equity has long been a core allocation for institutional investors seeking growth opportunities in their traditional portfolios. As the landscape continues to evolve, evergreen funds have emerged as an alternative and compliment to traditional drawdown private equity funds. As these vehicles become more broadly available, we see increased opportunities for wealth managers to allocate to private equity. With increased access of the evergreen structure private equity investors now have an opportunity to consider how structure potentially affects portfolio outcomes. Let's look at three key considerations.

1 An evergreen vehicle historically achieves private equity allocation faster.

- Evergreen funds on average are historically 80–90% deployed into existing private equity portfolio companies with the remainder in a liquidity sleeve.[1]
- The structure allows for continuous investment and reinvestment, which can capitalize on market opportunities as they arise. This may be beneficial in the long term compared to drawdown funds, which have fixed investment periods.

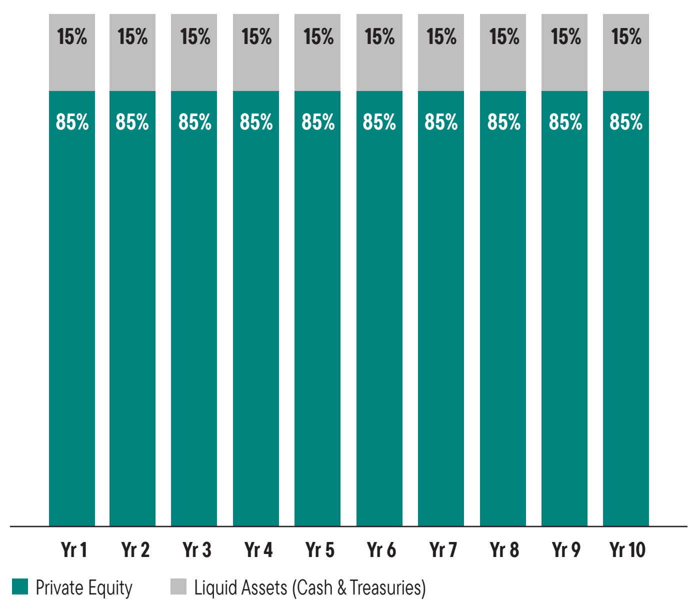
Drawdown Funds: Can Take Many Years to Reach The Desired Allocation

Traditional PE Structure



Evergreen Funds: Capital is Invested on Day One With a Current Net Asset Value (NAV)

Evergreen PE Structure



Hypothetical mathematical examples for illustrative purposes only. Diversification does not guarantee returns or capital preservation. The evergreen PE structure is fully deployed and is representative of evergreen vehicles that exist in the market today.

1. Evergreen vehicle is fully deployed and is representative of evergreen vehicles that exist in the market today.

2 An evergreen vehicle has the potential to outperform drawdown funds.

- Private equity is typically measured by MOIC (multiple on invested capital), meaning a 3.0x turns a $1 investment to $3 over a stated time period.
- To illustrate this, an investor would need to generate a 24.9% net internal rate of return while an evergreen vehicle could achieve the same MOIC from a net internal rate of return of just 11.6% over a 10-year period.

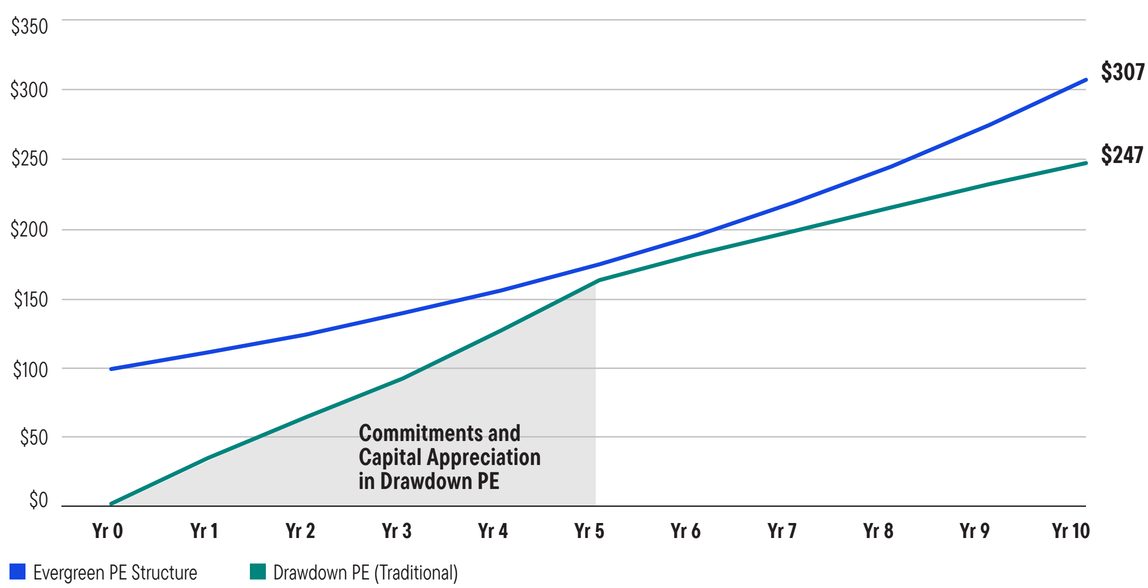
Evergreen Structure Can Potentially Achieve a Higher Net MOIC for the Same Net IRR

	2.4x	2.8x	3.0x
Evergreen Fund Net IRR	9.1%	10.8%	11.6%
Traditional/Drawdown Fund Net IRR	17.7%	22.7%	24.9%

- Furthermore, an evergreen vehicle is fully funded from day one to provide immediate exposure to a diversified portfolio. When capital is invested from day one, it begins compounding returns faster than a drawdown fund.
- Looking at returns on a dollar basis shows an evergreen structure can potentially deliver a larger total dollar return over a 10-year period compared to a traditional drawdown fund.

Immediate Exposure and Compounding Give the Performance Edge to the Evergreen Structure

Illustrative Value of $100 Investment After 10 Years



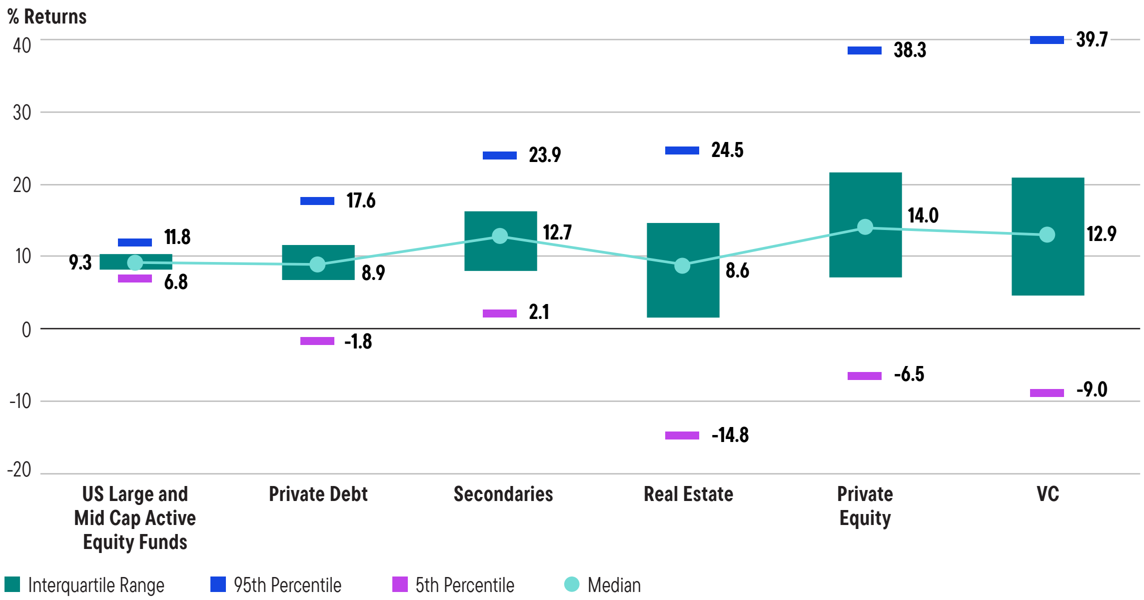
Note: For illustrative purposes only. Evergreen Fund: The time-weighted annualized return required for an initial fully funded investment to achieve the MOIC assuming continuous reinvestment. Drawdown Fund: Assumes a one-time commitment of $100,000 to one drawdown fund in year 0 with no follow-on commitments. Fund life is assumed to be 10 years and investment period is 4 years. Capital calls follow a pre-defined schedule, and distributions follow the Takahashi-Alexander Model with a bow parameter of 2. IRR is the required net return to achieve the target MOIC. Uninvested capital is assumed to earn 5% per year.

3 Choosing a best-in-class manager could be more important than structure.

- Large dispersion in returns between the best and worst performing managers means manager selection is critical. The difference between the 95th and 5th percentile of traditional equity managers has been approximately 500 bps, while the difference between the 95th and 5th percentile private equity funds has been over 4,500 bps. Therefore, there has been a premium for selecting the best funds and avoiding the worst ones. Fund selection is much more important in the less efficient illiquid markets.
- When choosing the best approach for achieving the portfolio's private equity exposure, structure may be the tie breaker but certainly should not be the rationale for the manager selection.

Private and Public Market Dispersion of Returns

As of September 30, 2024



Source: MSCI Private Capital Solutions, Morningstar.

The returns for US Large and Mid Cap Active Equity Funds reflect the annualized returns for the period January 1, 2005 to September 30, 2024. The returns for Real Estate, Secondaries, Private Equity, Venture Capital (VC) and Private Debt are the Internal Rate of Return (IRR) of the funds with vintage years from 2005 to 2018, as of September 30, 2024. **Past performance is not an indicator or a guarantee of future results.** Important data provider notices and terms available at 222.franklintempletondatasources.com.

Conclusion:

- Private equity returns can be an attractive growth solution when evaluated over a 10-year time horizon.
- An investor considering an allocation to private equity may choose to leverage an evergreen fund to enable both immediate and constant deployment into private equity, which allows for compounding of returns.
- Evergreen vehicles offer access to investors who may not have access to a wide range of managers and the scale of capital needed to pursue diversified allocations.
- Manager selection is critical in less efficient illiquid markets.
- For more information about the benefits of owning private equity as a portion of your portfolio, please visit **www.alternativesbyft.com** and contact your financial advisor.

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All investments involve risk, including possible loss of principal. There is no guarantee that a strategy will meet its objective.

All investments involve risks, including possible loss of principal.

Investments in many alternative investment strategies are complex and speculative, entail significant risk and should not be considered a complete investment program. Depending on the product invested in, an investment in alternative strategies may provide only limited liquidity and is suitable only for persons who can afford to lose the entire amount of their investment. An investment strategy focused primarily on privately held companies presents certain challenges and involves incremental risks as opposed to investments in public companies, such as dealing with the lack of available information about these companies as well as their general lack of liquidity. Diversification does not guarantee a profit or protect against a loss.

Private market investment risks: The fund may be able to invest in private securities that are illiquid and thinly traded, which may limit the manager's ability to sell such securities at their fair market value or when necessary to meet the portfolio's liquidity needs. To the extent the fund invests in privately held companies they present certain challenges and involve incremental risks as opposed to investments in public companies, such as dealing with the lack of available information about these companies as well as their general lack of liquidity. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor's ability to dispose of them at a favorable time or price.

An investment in private securities (such as private equity) or vehicles which invest in them, should be viewed as illiquid and may require a long-term commitment with no certainty of return. The value of and return on such investments will vary due to, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of the investments. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor's ability to dispose of them at a favorable time or price. **Past performance does not guarantee future results.**

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