

Semi-liquid funds: The key operational differences to closed-ended funds

Semi-liquid funds are flexible, bridging the gap between liquid public and illiquid private markets investments. They provide private markets access to a wider investor group while also increasing the pool of capital for GPs. This surge of interest in semi-liquid funds is good news for the industry, however, it comes with operational considerations, especially in private credit, which [Kevin Hogan](#) and [Andrew Tully](#) unpack

The rapid rise of semi-liquid fund vehicles has been one of the biggest stories in the European private credit market in the last 12 to 18 months. A recent report from [Morningstar](#) notes that, globally, private credit has overtaken real estate and infrastructure as the largest semi-liquid asset class with \$188 billion in net assets at the end of 2024, up from \$75 billion in 2022.

Large asset managers, including BCRED (Blackstone), APMF (Ares) and CVC CRED (CVC), have all launched [semi-liquid funds](#) to deliver private markets investment access to a broader range of investors and to diversify their pools of capital. The advantages of such vehicles are compelling for both managers and investors.

High net worth individuals and family offices, for example, can directly access the stable, higher yield returns and capital preservation offered by these leading managers, particularly attractive at a time when public markets are volatile and interest rates are falling. Simultaneously, fund managers now have direct access to a large pool of alternative capital from these investors at a time when the institutional fundraising market has become more challenging.

However, semi-liquid funds are also attractive to a selection of institutional investors who like the flexibility of partial liquidity, or a lower minimum investment threshold compared to a traditional closed-ended institutional fund as well as the ability to rapidly deploy capital.

Typically, these vehicles will be investing alongside the manager's current vintage

of institutional closed-ended funds, except for a modest portion of liquid investments to cover potential redemptions.

However, to access this potential pot of gold there are additional operational challenges and key differences to closed-ended fund operations. Fund managers need to ask these four questions:

1. What are the differences in setup of a semi-liquid fund?

- Legal costs tend to be higher and commissions payable to third-party introducers are likely to impact profitability for the manager, at least in the first year
- Like all retail markets, branding is important which clearly favours the big-name managers with large brand equity
- With the introduction of retail investors the regulators in each jurisdiction are more acutely focussed on investor protection requirements and risk disclosures
- Redemption opportunities are to be offered on a periodic basis and met using fund liquidity, if not balanced in inflows. The necessity of the fund manager to meet such requests will depend on the fund structure.

2. How do the launch mechanics work differently?

- Since fund commitments are often fully funded at inception, it is likely that the manager will need to warehouse a launch portfolio in advance of breaking escrow, requiring use of its own balance sheet or bank finance which incurs cost and creates market risk for the manager
- The impact on investors in existing funds must be carefully considered where a launch portfolio is generated by cross trades from other vehicles and vintages as the trade must benefit both buying *and* selling funds
- A steady stream of new investors can create a higher volume of AML checks and is likely given a more diverse and dynamic retail customer base, rather than a smaller (by volume) and largely fixed base of institutions. AML checks on individuals may also be higher risk than for institutional investors.

3. How are the ongoing operations of a semi-liquid fund different?

- The frequency of valuations is a consideration and can be monthly rather than quarterly which creates additional cost and requires agile operational capability
- Managing liquidity to maximise fund returns means not sitting on uninvested cash, but managers also need to maintain liquidity to fund redemptions without compromising the investment strategy. This likely means a juggling act between a warehouse, a pool of liquid investments, and any warehouse or NAV facilities
- These funds often maintain a mix of liquid and illiquid assets to meet the redemption needs. Creating a portfolio with publicly traded assets means additional operational requirements than is usual in a private asset only portfolio
- [Liquidity management](#) is central to the operation of a semi-liquid fund, using tools like redemption gates, notice periods and liquidity buffers. [ELTIFs](#), for example, have varying liquidity requirements based on given liquidity periods
- Since the portfolio NAV is transactional rather than a “dry” valuation the level of scrutiny it attracts will be significantly higher. Consequently, audit tolerances will be up to 50% lower than they would be for an illiquid or notional portfolio NAV
- There are several ways to construct a semi-liquid or open-ended portfolio. Fully paid-up commitment at launch; unitisation of the portfolio at each valuation point with all assets co-mingled, which operates like a typical UCITs fund; or a series or shares mechanism ring-fencing ownership percentages of assets and the creation of slow pay side pockets on exit. Each of these requires robust administration and operational know-how to execute effectively
- Each of these mechanisms have different challenges around fees and the treatment of performance fees or waterfall calculations.

4. How are regulators treating semi-liquid funds?

- Incremental regulation is currently focussed on the maintenance of liquidity to satisfy potential redemption requests. In the EU, the

Alternative Investment Fund Management Directive ([AIFMD](#)) 2.0 imposes the requirement to have at least one liquidity management tool; in the UK, a risk-based profile to determine if you need one; and in the U.S. additional transparency around liquidity, for example, Form PF

- Regulation tends to be tighter for investments involving individuals rather than institutions and as the growth in the semi-liquid market is recent in the EU, it is likely that regulation has not yet fully caught up
- [ELTIF 2.0](#) and LTAF are the most common structures used to set up semi-liquid funds because they have flexibility around redemption, liquidity management and retail access.

Though this trend offers opportunities for fund managers, there are many factors to be considered when moving from a closed-ended operating environment to a semi-liquid one and these operational differences require appropriate attention to ensure that fund operations remain smooth.

Semi-liquid funds require agile and scalable operations so that they can run at pace. This often means outsourcing critical support services to a fund administrator who specializes in private markets, has specialized private credit experience, and is able to adapt to accommodate new investors and products.

How can Aztec support you?

At Aztec, our role goes beyond traditional fund administration. We're involved at the design stage, helping GPs develop their operating, compliance and reporting models and frameworks across their fund structures. We offer support in navigating regulation and onboarding challenges specific to non-institutional capital, including adapting documentation and processes to suit a broader investor base.

We are servicing semi-liquid funds, including ELTIFs and LTAFs, for a selection of our clients already. If you'd like to discuss any of the operational considerations raised here or have other questions around successfully administering a semi-liquid fund, please contact us directly.



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