Semi-liquid funds: A new frontier for private fund managers

More investors than ever are looking to access private asset funds, both as a response to ongoing market volatility and in the search for yield. One way private asset managers can address these demands is to set up their funds as semi-liquid structures, as ***Dave Griffin*** *and* ***Scott Kraemer*** *now explore.*

A growing and more diverse pool of potential investors is being attracted to the heightened returns that private asset funds can offer. But these 'retail' investors require better liquidity provisions and easier access to the asset class than has previously been available. This has led to a shift in managers setting up semi-liquid fund structures, a trend we've seen large growth in over recent months, to meet the liquidity, tax and transparency needs of a different type of investor.

What are semi-liquid funds?

Semi-liquid funds offer a balance between liquidity and returns. Unlike liquid funds, which can be accessed immediately through daily subscriptions and redemptions, semi-liquid funds such as interval funds and evergreen funds, typically have a short lock-in period or limited redemption options. They are ideal for investors seeking a compromise between the flexibility of liquid funds and the higher returns of longer-term, illiquid investments like private assets. Historically, private market products have been closed-ended funds, so this evolution presents obvious benefits for a growing investor base.

This growing trend of semi-liquid funds presents investors with the opportunity to access the favourable returns that private assets can provide, with the added flexibility and liquidity they require.

Global asset managers are growing their presence in the semi-liquid fund space. Among them are UBS Global, who have expanded their semi-liquid secondaries fund range; Apollo Global Management meanwhile have launched an exchange-traded semi-liquid fund combining both public and private assets. Blackstone have also been actively expanding their semi-liquid range.

In the U.S. the semi-liquid market is already worth $2.3 trillion, while in the EU, following the changes to the EU's European Long Term Investment Fund (ELTIF) legislation in 2024, the semi-liquid market is expected to grow to €50 billion by 2028.

What makes semi-liquids so attractive?

Unlike traditional open-ended mutual funds, semi-liquid funds have predefined redemption intervals, typically occurring quarterly or monthly. This means investors can invest or withdraw their capital during these specific windows, offering more flexibility than closed-end funds. However, these withdrawals are typically capped at 5% to 10% of the fund's net asset value (NAV), and can be gated, meaning withdrawals can be declined if the volume of withdrawal requests is too high.

Semi-liquid funds therefore deliver liquidity, and the opportunity for ongoing re-investment. Funds facilitate this by maintaining a statutory level of investment in public markets, which provides liquidity for redemptions.

Historically, high minimum investment thresholds and long lock-up periods have kept private assets out of reach of all except institutional investors and professional investors. Semi-liquid funds are changing that, opening up private asset funds to retail investors more broadly. This development is complementary to the investment opportunities offered to retail investors by listed investment trusts which have been in the market since the 19th century.

With fundraising cycle averages slowing from 11 months in 2021 to 20 months in 2025, institutional investors too are showing a growing interest in these semi-liquid structures, because their investments will be put to work quicker. Investors who have allocated capital to a semi-liquid fund don't have to wait for it to be fully deployed before their capital is invested, reducing cash drag. The Drawdown recently published an article we contributed to about the market slowdown and how it has accelerated the search for fresh capital, driving an exploration of semi-liquid funds.

Which jurisdictions and structures are most popular?

Retail investors have different requirements around reporting, onboarding and minimum investment for entry, and this influences how and where managers set up and operate semi-liquid funds to cater to their needs.

Luxembourg remains the dominant jurisdiction for fund structuring in Europe due to its flexibility and investor familiarity. Luxembourg's UCI Part II funds have become increasingly popular, offering a structure traditionally used for UCITs but also applicable to AIFs, providing a balance between open-ended and closed-ended structures. Additionally, ELTIFs, particularly post-reform, are gaining interest for unlocking retail access to alternatives. Invest Europe recently reported that the value of ELTIF assets under management reached €20.5 billion as of the end of 2024, with forecasts expecting it to hit €30-35 billion by the end of 2026.

Ireland's ILP (Investment Limited Partnership) regime is gaining traction, albeit slower than expected. It is particularly appealing to U.S. investment managers looking for EU-domiciled, AIFMD-compliant options. ICAVs (Irish Collective Asset-Management Vehicles) have also been used in the context of U.S. direct lending strategies. ELTIFs too are steadily gaining in popularity since the regulations were amended in 2024. You can read more about how U.S. managers can best set up to fundraise in Europe here.

Excluding ELTIFs, the European market for evergreen private asset funds is growing rapidly, with an 18% rise in AUM from Q3 to Q4 2024, increasing from €53 billion to €63 billion, with the split across asset classes even between private equity, infrastructure and private credit.

Guernsey and Jersey are strongholds for real asset strategies, especially when speed and substance are priorities. These jurisdictions are picking up steam among small to medium sized venture capital funds. Guernsey recently announced changes to its Private Investment Fund regime to increase its attractiveness as a fund domicile. Read about the changes here.

UK LTAFs (Long-Term Asset Funds) and QAHCs (Qualifying Asset Holding Companies) are being used more selectively for onshore access, especially where the GP or portfolio company presence is UK-based. QAHCs are attractive for UK-focused strategies due to their tax neutrality and holding company flexibility. You can read a comprehensive guide to QAHCs here.

What benefits do semi-liquids offer?

Semi-liquid funds have several attributes which make them appealing to investors, including:

Diversification – semi-liquid funds offer exposure to a broader range of alternative assets. As these assets are less correlated to public markets, they help investors diversify their portfolios and manage overall risk. Individual investors often seek a 10% to 15% allocation to private markets. However, they are typically only able to manage 1% to 3% due to the difficulties of accessing these assets. Semi-liquid funds help to solve this asset allocation challenge.

Accessibility – historically, private assets were limited to institutional investors because of their illiquid nature, higher associated risk profiles, and initial investment thresholds. Semi-liquid funds have changed that, advancing the 'democratization' of private markets trend.

Higher returns – one of the main attractions of private assets for investors is that they offer the potential for higher returns than publicly listed assets. Semi-liquid funds provide exposure to these assets for investors, while still retaining some of the liquidity benefits of public funds.

Income generating – semi-liquid funds often invest in real estate or different types of debt which provides a stable source of income, allowing these funds to make regular distributions. This can be particularly appealing to investors seeking consistent returns while maintaining some level of liquidity.

Flexibility – semi-liquid funds allow fund managers more flexibility in how they allocate capital efficiently and rebalance portfolios as needed, which is particularly attractive in volatile markets. This can lead to more dynamic and responsive investment strategies.

What are the operational challenges for fund managers?

Perhaps the biggest challenge fund managers face is finding the listed assets needed to fulfil the liquidity requirements of a semi-liquid fund. In the U.S. today, less than 15% of companies with revenue exceeding $100 million are listed on the stock market, according to Schroders. This means it's harder to find quality listed assets to provide that liquidity coverage.

Another challenge for private fund managers is the additional administrative burden semi-liquid funds can bring. Firstly, there's an increase to deal volumes. With semi-liquid funds having regular trading windows, managers will need to process more subscription and redemption transactions on a frequent basis – either quarterly or, in some cases, monthly. Then there's the additional work required to onboard a larger number of new investors on a more frequent basis, as well as offboarding exiting ones.

There are many administrative, reporting and governance factors to consider, including:

1. **Frequency of redemptions** – the periodic redemption opportunities require careful management to ensure sufficient liquidity provision exists in the fund, without compromising the fund's investment strategy.
2. **Valuation of assets** – semi-liquid funds often invest in alternative assets which lack transparent market prices. Regular and accurate valuations of these assets are necessary to facilitate more frequent trading on the fund, but can be resource-intensive and complex.
3. **Reporting complexity** – the need for frequent valuations and managing redemption cycles can strain resources and increase the complexity of fund management. This requires sophisticated systems and processes to ensure accuracy and efficiency in reporting.
4. **Regulatory compliance** – adhering to regulatory frameworks across fund structures and jurisdictions adds a layer of complexity. Different structures have specific requirements for asset composition, valuation frequency, and investor protections. Similarly, U.S. registered funds require an additional level of regulatory reporting, beyond that of non-registered funds.
5. **Investor communication** – providing clear and timely information to investors about fund performance, liquidity, and valuations is a primary service to maintain investor trust. Welcoming new investor types is also likely to introduce different investor expectations.

For fund managers offering semi-liquid funds to investors, having a third-party provider with the technology and specialist teams to either entirely outsource these functions to, or to support your in-house team, can help manage all these tasks.

What help do you need?

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 compliance 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 for a selection of our clients already. If you would like to discuss how we can help you with semi-liquid funds, or other more traditional private fund structures, please contact **Dave Griffin** or **Scott Kraemer**.