King & Spalding

Evergreen and Other Hybrid Funds:

Bespoke Mechanics for Differentiated Investment Strategies

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Introduction

Hybrid fund refers to a pooled investment vehicle that shares qualities and characteristics of different more "traditional" funds. In the registered fund context, hybrid funds typically refer to funds that invest in multiple asset classes, with one of the most common examples being target date funds. In the private fund[1] context, "hybrid" more appropriately references the terms of the fund, though hybrid funds have historically been used in certain asset classes more prevalently than others. This article focuses on private funds only (those funds not registered under the Investment Company Act and the securities of which are not registered for sale under the Securities Act).[2]

According to the administrator Citco, hybrid funds have grown from representing 20% of new fund launches in the first half of 2021 to almost 40% of new fund launches in the same period of 2023. Blackstone has wholeheartedly embraced evergreen funds, closing on approximately $22 billion of investable capital for its first evergreen institutional U.S. direct lending fund in 2024. We discuss here the attractiveness of evergreen and other funds.[3] Hybrid funds share certain basic qualities of open-end funds (hedge funds) and closed-end funds (private equity funds) and provide bespoke terms for a bespoke investment program. Hybrid funds may or may not be evergreen in nature and typically invest in illiquid assets while having mechanisms that can allow the fund to provide liquidity to investors without necessarily having to dispose of investments to do so.

Funding—Drawdown Mechanics (with Multiple Fundraise Periods)

Hedge funds invest in the liquid capital markets and can relatively quickly deploy cash received from an investor. Private equity funds seek and negotiate private, bespoke transactions, whose timing is unpredictable. Hedge funds therefore receive subscription amounts from investors at signing

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whereas private equity funds hold "dry closings" on capital commitments and then draw down capital from investors on an as-needed basis over time. Similar to private equity funds, hybrid funds invest in illiquid assets that take time to source, research and acquire. As a result, hybrid funds may choose to close on capital commitments that are drawn-down over time. Also, because hybrid funds may have long-term lives, hybrid funds may seek to engage in multiple fundraising rounds over multiple years (and market cycles). Hybrid funds have different ways of managing the complexity that arises from a fund that may simultaneously: (i) have undrawn capital commitments from some investors, (ii) be admitting new investors and (iii) satisfying investor withdrawal requests, all while also monitoring and managing existing investments and sourcing and acquiring new investments.

The first fundraise is relatively easy and looks no different from any other private equity fund closing. With a typical private equity fund, after the capital raised has been substantially deployed or reserved, if the fund sponsor believes there continue to be attractive investment opportunities, the sponsor can raise a successor fund. However, with a hybrid fund, sponsors could perform another fundraise into their existing fund. Similar to a hedge fund, hybrid funds may fundraise over long periods of time and allow subsequent closing investors to participate in all existing investments at their then current values. Such a subsequent "fundraise period" will typically be limited in time, anywhere from 3 to twelve months, with all investors admitted during the same fundraise period treated the same in terms of the length of their investment period, priority with respect to capital deployment, withdrawal limitations and similar items.

In a key distinction from a standard private equity fund, investors participate in investments at their then-current values, as opposed to the more common cost plus an interest factor mechanic in private equity funds. As private equity funds have only one fundraising period, which is typically limited to one-to-two years, the investments are typically newly-acquired and still in the infancy of the sponsor's investment thesis. Therefore, a revaluation of the assets to treat partners differently is less appropriate than a price of cost, plus an interest factor to account for the time-value associated with investors having made capital contributions on different timelines. In a hybrid fund, the assets may have been held for years or even decades when an investor is admitted in a subsequent fundraise. Of course, this means the valuations in hybrid funds are as important and meaningful as they are in hedge funds—the valuations in hybrid funds affect the economics among investors and the sponsor.

Because of the import of valuations in hybrid funds, such valuations are typically provided by independent third-party valuation agents or auditors and may involve appraisals in the context of real estate. As a means of balancing costs and accuracy, a typical valuation policy may provide for an appraisal of a third of the fund's portfolio every year, with valuations updated by the sponsor quarterly (with outside input if appropriate) and audited annually.

Liquidity—Distributions at the Sponsor's Discretion; Investor-Requested Withdrawals, Subject to Time and Amount Limitations

Similar to hedge funds, investors in hybrid funds may submit withdrawal requests that give rise to certain rights to investment proceeds. In a hedge fund, subject to pre-disclosed gates and lock-ups and, in rare circumstances, suspensions and the ability to satisfy withdrawal requests in kind, investor submitted withdrawal requests require the sponsor to pay cash to investors, and sell assets to

generate such cash if necessary. In private equity funds, investors have no rights to request withdrawals, except as may be required by law or regulation—investors' liquidity is uncertain and unpredictable. There are also a number of potential import projects envisaged in Thailand. Additional import capacity has been added with the recent 5 MTPA expansion at the country's only LNG import terminal (Map Ta Phut). The Royal Norwegian Embassy's report notes that all of the capacity at Map Ta Phut is reserved by PTT. It remains unclear, however, how much of the available capacity at the terminal is currently utilised and whether third party access applications have been received by the terminal. An additional 1.5 MTPA expansion at Map Ta Phut is expected to be commissioned in 2019 and is said to be open for bidding "by third party actors."[4]

Hybrid funds strike a balance by typically allowing withdrawal requests to be submitted after the expiration of a three- to six-year investment period (during which the fund can make new investments),[5] without typically requiring the sponsor to generate disposition proceeds for a substantial period of time (*e.g.*, up to 10 years after an investor's admission date to align more closely with the typical timeframe of private equity funds). Instead, the withdrawal request gives rise to certain other rights and access to liquidity:

Slow Pay

One of the earliest examples of a hybrid fund is the "slow pay" structure. The typical asset class for slow-pay is high cashflow generating and self-liquidating (*e.g.*, private credit instruments). The "withdrawal request" noted above serves as a notice to the sponsor to sever the investor's interest from the rest of the fund. A vertical slice of that investor's interest in the fund is moved into a "withdrawal account" and, unlike the rest of the portfolio where cash proceeds may be reinvested, cash proceeds are paid out to the investor as received until the investor's entire withdrawal account is ultimately depleted. The sponsor's compensation (whether in the form of management fee or incentive compensation) could also be calculated differently for the withdrawal account relative to the "main fund." Slow pay therefore works best for illiquid assets that self-realize over time. Because slow pay need not necessarily be combined with a multiple fundraise concept (slow pay works just as well in a one-and-done fundraise where investors may be happy to see proceeds reinvested until they decide otherwise), the importance of accurate valuations for this purposes disappears; however, valuations continue to be just as important if a management fee or incentive compensation is calculated by reference to values. Not surprisingly, slow pay began in the illiquid private credit markets and continues its popularity in that segment.

In operation, care must be taken to ensure that a slow-pay structure does not inadvertently cause a withdrawal account to be deemed to hold "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA generally requires that the withdrawal account be treated as if it were a separate entity for determining whether ERISA-covered plans, and other "benefit plan investors," hold twenty-five percent or more of the value of any class of equity interests. If twenty-five percent or more of the value of a withdrawal account is held by benefit plan investors, the withdrawal account would be deemed to hold ERISA "plan assets," which would cause the manager to be subject to ERISA's fiduciary duties.

Queues

Another early example is investor “queues”. Here, investors submit withdrawal requests and “queue up” to wait for the receipt of proceeds, with those who submitted withdrawal requests on the same timeframe being entitled to their pro rata share of available proceeds, before later investors are entitled to their share. Additionally, the terms of the fund may require the sponsor to divert all (or a large majority) of cashflows towards satisfying investor withdrawal requests before paying dividends or reinvesting. To provide a failsafe, sponsors may be forced to realize investments to satisfy withdrawal requests from a meaningful amount of investors that have been outstanding for a substantial period of time.

However, the ultimate goal of a hybrid fund with investor queues is to satisfy such investor withdrawal requests with the admission of new investors. Such new investors can be admitted at any time accurate valuations are available (e.g., the end of a fiscal quarter or fiscal year) and their capital contributions can be used for new investments or, if a queue exists, to satisfy investor withdrawal requests. The investor queue therefore works best on illiquid assets that are easy to value and generate cashflows. Not surprisingly, the investor queue grew up in the “Core” real estate space, which generally consists of highly-stable, cash-flowing, prime real estate in primary markets where appraisals have significant confidence and investors are comfortable buying in and receiving proceeds based purely on such valuations.

Secondary Process

As an interim step in the evolution of hybrid funds, some sponsors had some success with making available to their investors a platform or process by which investors could seek liquidity on their investments in private equity funds through a secondary sale of their interest to a new (or existing) investor. However, such secondary processes are subject to limitations to avoid causing the fund to be treated as a publicly traded partnership taxable as a corporation for U.S. tax purposes. Though we did not ever see any of these proprietary platforms grow meaningfully popular, we have seen a resurgence in interest with multiple new platforms operated by third parties seeking to establish themselves as markets for secondary interests in private funds.

Regular Cashflows

Hybrid funds typically invest in cash-yielding assets. Because of their flexibility, hybrid funds can retain and reinvest cash yields or distribute them to investors (without any ability for recall by the sponsor), and can treat investors differently. Oftentimes hybrid funds will allow investors to elect, at the time of initial investment (or sometimes annually) whether to receive such distributions or have them reinvested. Where advisable, such reinvestment may be in the form of a deemed distribution that is then used to purchase additional shares or units pursuant to a dividend reinvestment plan or “DRIP.”

Not all hybrid funds are evergreen. Hybrid funds with fixed terms also exist. Instead of providing liquidity through admissions of new investors or through self-effecting realizations, they do have a requirement to sell assets. One approach investors and sponsors have agreed on is to require a meaningful annual distribution rate that must be met after the expiration of an investment period, with the sponsor required to realize investments if necessary to satisfy such rate. The result is a multi-year pacing protocol to wind down the fund.

Committed Equity Backstop Facility

As discussed above, evergreen funds are meant to provide some liquidity, but inherently are designed

to prevent investor redemption requests from necessitating a sell off of fund assets and, therefore, can in reality become just as illiquid as any typical closed-end private equity fund. Investor hesitation that the liquidity a hybrid fund is meant to provide its investors will not materialize may make initial fundraising difficult. If a fund has exhausted available liquidity options as investors continue to wait for proceeds, new investors may also be hesitant to invest, perceiving the fund's net asset value as too high or viewing the fund as distressed in some way.

A "seed capital" investor in a typical hedge fund can assist with reaching critical mass much more quickly by making a large commitment in exchange for reduced fees and, in some instances, a share of increased revenues as the fund grows. In exchange for similar incentives, or perhaps the opportunity to participate in investments at less than their current valuations, a large investor may provide a large commitment to fund additional equity at times when a hybrid fund needs it most.

Hybrid funds customize fund terms to the liquidity and yield profiles of the investments and provide optionality for investors.

Sponsor Economics

Like all funds, sponsors are typically compensated through a combination of an asset-based fee (*i.e.,* an investment management fee) and performance-based compensation that may take the form of an allocation (*e.g.,* an incentive allocation or a carried interest) or a fee (*e.g.,* an incentive fee or performance fee). The investment teams typically consist of some individuals who own equity in the entities receiving such compensation and others who are compensated with bonuses out of such entities' net earnings.

Possibly because of their growth at a time management fees have been trending downwards, hybrid funds have tended to have marginally lower management fees than traditional private equity funds, though not necessarily when compared to private equity funds raised by more recently-established sponsors. Similar to private equity funds, management fees can be charged on capital commitments, capital invested or fair value of investments, with different bases during different periods of time with respect to different investors or different bases with respect to different portions of a portfolio. For example, each investor could be charged a management fee as a percentage of committed capital during that investor's investment period and, thereafter, as a percentage of the fair value of the investments, as determined in accordance with the sponsor's valuation policy. The valuation policy may further provide that certain types of investments are valued at cost for a period of time after acquisition. Certain investments may be valued at cost for a pre-determined or indeterminate period of time (e.g., investments side-pocketed during the course of a protracted activist campaign). The determination of the appropriate base for the appropriate periods of time is dependent on the facts and circumstances and subject to negotiation, considering the sponsor's other revenue streams, the investment team's compensation needs, the anticipated investments, track record, return expectations, investor commitment sizes, timing and a litany of other considerations. As mentioned above, valuations are of particular importance where management fees or incentive allocations are determined by reference to the fair value of the investments.

Performance-Based Compensation

Private equity funds typically bear performance-based compensation through carried interest distributions made to the general partner in

connection with the distribution of proceeds from the realization of an investment to investors. On the other hand, hedge funds typically bear an incentive allocation or fee annually, determined as a percentage of the hedge fund's realized and unrealized appreciation or profits over the year, subject to a high-water mark. Hybrid funds again take a balanced approach. Like hedge funds, hybrid funds calculate an incentive allocation over a set period of time (the "Incentive Allocation Period") based on distributions and realized and unrealized appreciation or profits, not necessarily waiting for the realization of an investment; however, consistent with the longer-term nature of the holding periods for the assets, such time periods can be two, three or even four years. Of course, the satisfaction of a withdrawal request intra-period would also trigger an incentive allocation.

Although the incentive allocation is calculated over a multi-year Incentive Allocation Period, for tax purposes realized and unrealized appreciation or profits of the fund must be allocated to its partners in the year such amounts arise. Therefore, many hybrid funds provisionally allocate realized and unrealized appreciation or profits related to any accrued incentive allocation each year to a special account of the incentive allocation recipient (typically the general partner or a "special" limited partner) in an amount equal to any accrued incentive allocation for such year. Such special account is then adjusted in subsequent years of the Incentive Allocation Period to ensure that the incentive allocation recipient has received appropriate allocations in respect of the incentive allocation that has accrued over the entire Incentive Allocation Period. Appreciation on such special account is often allocated to the capital account of the investor bearing such incentive allocation to limit the economic effect of such provisional allocation on the investor. If appreciation or profits are not allocated to the incentive allocation recipient throughout the Incentive Allocation Period, there may not be sufficient profits at the end of the Incentive Allocation Period to allocate to the incentive allocation recipient. If the incentive allocation is made without corresponding allocations of appreciation or profits, there is a risk that the incentive allocation could be treated as a fee for U.S. tax purposes, which could be subject to limitations on deductibility for certain noncorporate U.S. investors. As a result of these provisional allocations, the incentive allocation recipient may be subject to tax at the time of such allocations. Therefore, similar to private equity funds, many hybrid funds provide for tax distributions to the incentive allocation recipient to pay such taxes.

The incentive allocation can also take multiple forms, again depending on the facts and circumstances of the investment strategy, the holding periods investors may want to incentivize, tax considerations and other factors. For example, the incentive allocation could always be calculated based on admission/inception to date performance. Alternatively, the incentive allocation could be calculated on a period-by-period basis, subject to a high-water mark or without any reference to a high-water mark. The incentive allocation can incorporate "side pocket" mechanics – where an incentive allocation is not paid on any "side pocketed" investments until they are realized or otherwise no longer "side-pocketed." The incentive allocation can be after a hard hurdle or a preferred return with a catch-up. Dividends and other distributions can be taken into account.

Similar to the sponsor's inability to recall distributions to investors (whether for reinvestment, expenses or otherwise), hybrid funds typically lack a clawback mechanism for the sponsor's incentive allocation. Where a clawback does exist, such clawback, consistent with private equity funds, is on an after-tax basis. Hybrid funds may still

incorporate an audit holdback mechanism (similar to a hedge fund) in the context of a full withdrawal by an investor.

The nature of the types of awards reflecting performance-based compensation also typically differs between private equity funds and hybrid funds. A private equity sponsor may grant partnership interests to certain key investment professionals to reflect the right to carried interest distributions. As an actual partnership interest, distributions to an investment professional in respect of the carried interest may be taxed at long term capital gains rates. In contrast, incentive allocation paid indirectly to a hybrid fund's investment professionals through the fund's general partner or a special limited generally will be taxed at ordinary income rates and must be structured to comply with Sections 409A and 457A of the Internal Revenue Code. Those tax sections impose strict requirements on the payment of deferred compensation – generally, compensation that a taxpayer earns and becomes vested in during a year but that is paid to the taxpayer in a subsequent year. Due to the adverse tax consequences of noncompliance, the design of an incentive allocation arrangement is typically dictated by the requirements of Sections 409A and 457A of the Internal Revenue Code.

Hybrid funds customize sponsor economics to appropriate holding periods and align incentives.

Asset Classes

As mentioned above, the slow-pay fund may have been one of the first hybrid fund structures; however, components of hybrid funds have been used in hedge funds even before the first slow pay funds. Side pockets allow for a hedge fund to make illiquid investments (often subject to a cap) with the incentive allocation not being calculated until the side-pocketed investment is realized (or otherwise removed from the side pocket to the main fund). Where those side-pocketed investments are self-realizing in nature, the slow pay withdrawal account is not ultimately much different

Real Estate

"Core" and "Core+" Real Estate has made use of the hybrid fund model for long-term institutional investors since the 1980s, with the model constantly growing, evolving and expanding as non-traded REITs have become more complex with broader investor bases, investment strategies and holding periods.

Infrastructure and Other Real Assets

Similar to core and core plus real estate, infrastructure investments are illiquid, easy to value, cash-flowing and suitable for extended hold periods. The hybrid fund model allows the fund to hold the investments for extended periods of time, while allowing investors the possibility of achieving full liquidity on a much more manageable timeline.

Credit; Special Opportunities; Distressed Credit

Due to their unique, self-liquidating nature, credit strategies have also long taken advantage of hybrid fund structures. As mentioned above, slow pay is a particularly useful means of providing liquidity where assets will naturally liquidate on a timeline palatable to the investor. However, slow pay mechanisms can be combined with other qualities of hybrid funds to provide even faster liquidity. For instance, a fundraise period may be authorized so that cash from new investors can be used to redeem investors from their slow pay withdrawal accounts and/or to provide additional capital into the fund and restart the fund's authority to reinvest proceeds.

Activist Funds

Activist funds' investments in publicly-traded securities also have unique qualities. These investments are clearly valued in the public markets and generally are highly liquid; however, an activist fund's strategy may call for the fund's investment to be completely illiquid for an indeterminate period of time, particularly if a fund has determined to engage in a full-blown proxy contest. These qualities mean investors are easily comfortable with the valuations used for admission and withdrawal determinations, and, when not in the middle of a campaign, withdrawal requests can easily be satisfied on the same timeframe as a typical hedge fund. Activist funds therefore may include a "side pocket" component to allow such investments not to be liquidated to satisfy a withdrawal request. Though the topic warrants much further discussion beyond this article, activist funds may also benefit from overflow or sidecar capacity or a systematic co-investment program, which may allow a fund to quickly access additional capital to take advantage of extreme price movements, to be able to credibly commit additional capital to a hostile campaign or to tap for liquidity to investors who may begin to lose their patience with a particularly slow-moving campaign.

Late Stage Venture or "Crossover Funds"

With recent increased popularity, crossover funds take advantage of hybrid fund structures to invest in private investments that the sponsors expect to achieve a public offering or other liquidity event within the foreseeable future, and unlike most venture capital funds, growth equity funds or private equity funds, continue to hold such investments through their liquidity events, with the sponsor making a separate disposition determination, similar to a hedge fund's disposition determinations. Such hybrid funds can also incorporate other mechanisms described. Real Estate above, such as occasional fundraises to restart the private investment program as the initial portfolio achieves liquidity.

Ancillary Bucket

The examples above all reference assets that are easy to value and either inherently liquid (though perhaps subject to temporary liquidity constraints or high transaction costs) or cash-flowing. Though these are the prime types of investments for an evergreen hybrid fund, investors can appreciate and get comfortable with a small (perhaps no greater than 10% or 20%) bucket for the sponsor to acquire investments ancillary to the core investment strategy that may lack certain of the main portfolio's attributes. For example, a generally performing credit fund may allow for up to 10% being invested in loans that are not performing at the time of investment therein or that are otherwise in distress or a core real estate fund may allow for a small bucket for opportunistic/value-add investments. Though these investments may be more illiquid, not cash-flowing and/or harder to value, investors may, with appropriately pre-determined valuation, admission and withdrawal mechanisms, be comfortable with granting the sponsor some flexibility to opportunistically consummate these investments given the potential for enhanced returns.

Common Qualities and Benefits of Hybrid Funds

Through the use of drawdown structures, limited investor withdrawal rights and appropriate investment strategies and guidelines, hybrid funds allow a sponsor to structure a customized fund that can meet the liquidity demands of investors while providing the sponsor with sufficiently sticky capital to pursue its investment objectives. The flexibility of these structures also gives rise to certain additional

benefits: Investors can change their exposure to a fund or asset without the sponsor ceding control before it has effectuated on its investment thesis; a single evergreen fund may be easier to administer than multiple closed-end funds; investor negotiations in connection with fundraising may proceed more smoothly; an evergreen hybrid fund may be attractive to investors who will not consider a private equity fund and its unpredictable liquidity; and an opportunistic bucket within an existing evergreen fund may serve to prove the efficacy of a new investment strategy.

Potential Hurdles

Ramp Up

Though hybrid funds appear to have the best of all worlds, they do have some trade-offs that come with the additional complexity. Though an established evergreen hybrid fund with a queue mechanism may eventually reach a healthy point where investments provide sufficient cashflow to satisfy moderate investor withdrawal requests, the first investors will always require a little more faith than those seeking to invest in a more mature fund. Early investors may also not have any metric by which to judge how much (or little) liquidity may actually be available within the manager's broad discretion. Of course, the liquidity will never be less than a typical private equity fund structure.

Valuations

As mentioned above, valuations are extremely important for hybrid fund mechanics. Valuations may be the basis on which the sponsor is provided its performance-based compensation (typically in the form of an allocation), oftentimes determine the amount of the management fee and will always determine the proceeds to withdrawing investors and the percentage participation in the existing fund by a new investor. The sponsor is inherently conflicted in all valuation determinations and therefore investors must be comfortable with the pre-disclosed valuation policies and third-party service providers contributing to the process, such as auditors, valuation agents and appraisers. Sponsors must also ensure compliance with their own policies and procedures.

Investment Professional Compensation

The added complexity with respect to the sponsor's compensation from the fund also adds complexity to the sponsor's compensation of its team. Though sponsors of all funds must align the incentives of team members with the incentives of the sponsor, which should also be aligned with the interests of the investors, the unique arrangements of hybrid funds may give rise to unique compensation designs, award mechanics, vesting schedules (or alternatively, no vesting schedule with a team member is only entitled to receive incentive compensation payments while remaining employed by the sponsor) and tail periods (*i.e.,* the post-termination period during which an investment professional will remain eligible for incentive compensation). For example, a sponsor must ensure that it retains the ability to make awards of incentive compensation throughout the entire lifespan of a fund, which could be perpetual, to continue to recruit, incentivize and retain talent. In addition, where a sponsor receives incentive compensation on a multi-year basis, or on a cumulative basis from admission, certain team members that join the sponsor later in the fund's life may have contributed to a fund's positive performance and accrual of incentive compensation, only to see no incentive compensation distributed because of poor performance in prior years. Alternatively, initial team members may be compensated from performance distributed in an early performance

period that is not ultimately retained by the sponsor due to losses in later years.

"Complicated"; "Different"

The most common hurdle for both investors and sponsors with hybrid funds is that they are more complicated than the most basic hedge fund or private equity fund and have terms that are different from the terms investors are accustomed to seeing in a hedge fund or a private equity fund. Though it is hard to disagree with the veracity of those statements, sponsors often succeed in explaining to investors the benefits of these different terms. Investors have become increasingly comfortable with different features of hybrid funds in appropriate contexts. In fact, some larger institutional investors have sought out hybrid funds for certain asset classes, helping sponsors structure them appropriately, because of the benefits noted above. Sponsors have also found that with effective training and systems in place, a complicated hybrid fund can be administered as well and efficiently as the most simple private equity fund and, overall, at a lower cost than a multi-fund complex.

Future Evolution

Over the years, hybrid funds have gained in prevalence. They've expanded into retail through Investment Company Act-registered funds, such as interval funds. They have become popular in the context of private credit and growth equity. The growth in continuation funds for individual assets or groups of assets shows a willingness by investors to participate in a fund with a small pool of investments for longer than previously thought.

Instead of turning to raising a new continuation fund, an appropriately documented hybrid fund could give sponsors the flexibility to continue to hold the investment in the original fund, while reaching the same result that would have come from selling investments to a continuation fund. To take the example to its extremes, a single fund could be raised to develop real estate ground up and hold it all the way to the investment's eventual "final" maturity as a core real estate asset, with the investors in such fund evolving over time as the investment (and its incremental return profile) evolves as well. If the best types of assets for an evergreen hybrid fund are easily valued, illiquid and cash-flowing, perhaps we will see mature operating businesses held in a "Core Private Equity" hybrid fund. Large established evergreen senior loan hybrid funds could supplement (or perhaps someday replace) the broadly syndicated loan market. The flexibility and customization provided by hybrid funds, and the reduced costs and increased efficiency they can provide in the long term means hybrid funds will only continue to grow, evolve, get more complicated and become more commonplace.

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[1] "Private fund" refers to a collective investment vehicle that would be an investment company but for the exemption afforded under Section 3(c)(1) or 3(c)(7) under the Investment Company Act of 1940, as amended.
[2] Hybrid fund structures described herein share certain characteristics with some categories of funds that are registered under the Investment Company Act of 1940, as amended, such as tender offer funds and interval funds.
[3] "Demystifying Hybrids: The Rise of 'Illiquid-Asset' and 'Liquid Asset' Hybrid Funds in Private Markets," Citco Hybrid Funds Report, September 2023.

[5] As noted above, such investment period may apply separately to each fundraise period.

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