

# Governance Matters in Evergreen Funds: The Role of the Independent Director



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Private markets have seen a notable rise in the popularity of evergreen fund structures in recent years driven by the continuous pressure of exits and difficult fund-raising environment.

However, the unique structure of evergreen funds presents distinct governance challenges that require robust, ongoing oversight. At the heart of this oversight lies the independent director, whose role has never been more essential.

Unlike traditional closed-end funds, evergreen funds have no termination date, allowing for continuous capital raising and redemption, making them attractive to investors seeking liquidity and long-term exposure. The structure reduces exit pressure on managers while providing flexibility and liquidity for investors. However, this fluidity introduces complexities in valuation, liquidity management, and investor alignment.

Given these structural complexities, the independent director's role extends well beyond general oversight. Their involvement becomes critical in maintaining strong governance and ensuring that these vehicles are managed transparently, responsibly, and prioritizes investor interests.

## Key Focus Areas of Independent Fiduciary Duties

Independent directors play a central role in overseeing the following areas that support effective governance of evergreen funds, including:

### 1. Liquidity Management Oversight

The challenge in evergreen structure is balancing the liquidity needs of investors with holding an illiquid portfolio. These funds typically offer periodic (monthly or quarterly) redemption windows. Allowing an investor to fully redeem its entire capital balance could disproportionately expose the remaining investors to illiquid assets. Therefore, a robust liquidity management framework must be in place. This includes clear redemption policies, such as gating mechanisms; and transparent procedures for allocating assets pro rata for withdrawing investors in extreme cases.

An independent director plays a key role in overseeing these processes to ensure equitable treatment for all investors while maintaining the fund's stability.

### 2. Conflict of Interest Monitoring

Without an exit timeline, evergreen funds can potentially foster misaligned incentives. Since management fees are typically calculated based on fund size, there's a risk that fund managers might prioritize fund raising activities over portfolio performance optimization.

An independent director should act as a neutral party and monitor for such potential conflicts by regularly reviewing portfolio performance and growth metrics; challenging the manager to pursue timely exit opportunities; and ensuring that fundraising efforts do not compromise active portfolio management.

### 3. Valuation Integrity

Evergreen funds are structured to admit investors into the fund at subsequent closings. Valuing illiquid private assets becomes vital as new investors must buy in at a price that reflects the current value of the portfolio and existing investors should not be diluted or unfairly advantaged/disadvantaged by the timing or method of valuation. It is crucial that the fund employs a robust and transparent valuation policy. The independent director should ensure fair and consistent valuation methodologies that are well-communicated and properly disclosed to investors on an ongoing basis.

Best practices include:

- Engaging one or more independent valuation agents
- Ensuring methodologies are consistent with market standards
- Providing transparency of valuation policy in fund documents to ensure an informed decision to prospects.

### 4. Operational Oversight and Strategic Continuity

Managing an evergreen fund involves complex operational dynamics. The independent director plays a critical role by providing:

- A long-term perspective and continuity across market cycles and leadership changes
- Facilitating clear, ongoing communication between the board, managers and auditors
- Fund administration to ensure all structural nuances are understood and align with fund offering documents
- Monitoring the fund's risk framework at an operational level while enforcing remediation actions.

## Ensuring Strong Governance and Sustainability in Evergreen Funds

Evergreen funds offer an innovative and flexible solution in today's private markets. They also necessitate a high standard of governance and added administrative burdens for the fund operators. Appointing an experienced independent director helps ensure fiduciary duties are upheld, investor interests are protected, and the fund is well-positioned for long-term sustainability.

As the market continues to evolve, independent governance is integral to maintaining investor trust and unlocking the full potential of the evergreen fund model.

## How Can Waystone Help

Waystone delivers high-quality fund governance through experienced, independent fund directors who provide independent oversight, navigate complex fund requirements, and enhance governance practices.

Our professional fund directors meet rigorous fit and proper standards and work closely with our fund governance team to provide robust oversight. Leveraging industry-leading proprietary technology, our directors ensure a clearly documented audit trail that supports transparent and well-informed decision-making processes.

If you have any questions about the themes raised in this article or to learn more about our independent director services, please contact your usual Waystone representative or reach out to us below.

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