Semi-Liquid Funds: *Structures, Potential Benefits, Risks & Market Trends*

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The alternative investment universe has evolved rapidly, offering fiduciary investment firms, advisors and investors a spectrum of liquidity profiles and access points. Among these, semi-liquid funds; including interval funds, tender-offer funds, non-traded business development companies (BDCs) and non-traded real estate investment trusts (REITs), have emerged as a bridge between traditional liquid alternatives and illiquid private funds. These vehicles are increasingly utilized by investment advisors for their ability to democratize access to private markets, provide periodic liquidity and integrate with wealth advisory platforms.

Structural Overview

Semi-liquid funds are not defined by a single regulatory wrapper but by their structural features: perpetual or open-ended lifespans, continuous capital raising, and scheduled liquidity windows. They exist alongside evergreen funds, traditional limited partnership drawdown funds, ETFs, mutual funds, and closed-end funds, each offering varying degrees of liquidity, investor qualifications, and minimum investment requirements.

- **Interval Funds:** Registered under the Investment Company Act of 1940 ('40 Act), these funds must offer to repurchase 5% – 25% of outstanding shares at set intervals, typically quarterly. Subscriptions are usually daily, and minimum investments usually range from $1,000 to $10,000.
- **Tender-Offer Funds, Non-Traded BDCs, Non-Traded REITs:** These vehicles offer periodic liquidity at the discretion of the governing board, with less stringent legal requirements for redemptions. Minimum investments are typically higher ($25,000–$50,000), and investor eligibility is often restricted to accredited or qualified purchasers.[1]
- **Drawdown Funds:** Traditional private equity, credit, and real estate funds with finite lifespans and illiquid structures, requiring large minimum commitments and offering little to no interim liquidity.

[1] *Morningstar: The State of Semi Liquid Funds, June 2025.*

Potential Benefits & Risks

Semi-liquid funds have emerged as a bridge between traditional private investments and the growing demand for flexibility among wealth management clients. While these vehicles offer unique opportunities to access private markets with lower minimums and periodic liquidity, they also introduce structural and operational risks that require careful evaluation.

Below, we outline the key benefits and risks to help wealth advisors and investors weigh the trade-offs before incorporating these strategies into a portfolio.

Benefits

- **Access to Private Markets:** Semi-liquid funds, previously limited to institutional investors, open private equity, credit, and real estate to retail and mass-affluent markets.
- **Lower Minimums:** Compared to traditional private funds, semi-liquid vehicles require smaller investments, broadening participation.
- **Periodic Liquidity:** Investors can redeem a portion of their holdings quarterly or monthly, providing more flexibility than traditional private funds.
- **Platform Availability:** Many semi-liquid funds are available on major custodial platforms (Schwab, Fidelity, Pershing), with ticker-based trading and simplified paperwork requirements.
- **Diversification:** Exposure to non-correlated assets can reduce overall portfolio volatility.
- **Regulatory Oversight:** Most are registered under the '40 Act, offering transparency and investor protections.

Risks

- **Asset-Liability Mismatch:** Redemption requests may exceed available liquid assets, forcing managers to sell illiquid holdings at a discount ("fire sale" risk).
- **Gating Risk:** Funds may impose gates or suspend redemptions during periods of high demand, potentially freezing investor capital.
- **UBTI Exposure:** Use of leverage may generate Unrelated Business Taxable Income (UBTI) which is problematic for tax-exempt investors and non-taxable portfolios.
- **Valuation Complexity:** Net asset values (NAVs) are often based on appraisals or models, which may lag real-time market prices.
- **Fee Structure:** Semi-liquid funds typically charge higher fees (management, performance, fund expenses) than mutual funds or ETFs.
- **Immature Market:** Many funds are newly launched with limited track records, increasing due diligence requirements.

Market Trends & Data

- **Growth**: Net assets in semi-liquid funds have surged, with credit-focused funds reaching $188 billion by the end of 2024—more than doubling since 2022. Private equity semi-liquid funds reached $50 billion in assets during the same time period.[2]
- **Fee Comparison**: Average expense ratios for semi-liquid funds are 3.16%, roughly three times higher than active mutual funds (0.97%). Incentive fees, leverage costs, and acquired fund fees contribute to the complex cost structure.[3]
- **Leverage**: 70% of semi-liquid credit funds employ fund-level leverage, averaging 20.8%—nearly five times that of private equity funds use of leverage at 4.3%. Non-traded BDCs can use up to 66.7% leverage, far outpacing interval funds.[3]
- **Performance**: The largest semi-liquid private credit funds have delivered higher excess returns than leveraged loan indexes, though this is partly driven by leverage and may mask downside risks. Semi-liquid private equity funds have generally lagged broad market equity indices outside of a couple exceptions.[3]
- **Investor Eligibility**: Access is typically limited to accredited investors, qualified clients, or qualified purchasers, depending on the fund structure.
- **Fund Launches**: Interval funds have seen record launches, with 20 new funds through May 2025, on pace to surpass 2024's record of 27.[3]

Tax Considerations

Most semi-liquid funds elect to be treated as Regulated Investment Companies (RICs) or REITs, distributing at least 90% of taxable income to shareholders and avoiding double taxation. However, funds that do not fall within one of these categories, and which utilize leverage in their investment strategies, may generate UBTI or Unrelated Debt-Financed Income (UDFI) for tax-exempt accounts. As a result, careful examination of fund structure and tax impacts is required by financial advisors and tax professionals prior to investing.

Wealth Channel Dynamics

The private wealth channel has been—and is expected to remain—a key growth area for alternative fund managers. Since 2019, over 230 private market funds have been launched, including interval funds, tender offer funds, non-listed BDCs, and REITs. Large managers such as Blackstone, Blue Owl, and KKR have built out dedicated wealth platforms, with some reporting that more than 40% of their total AUM comes from this channel.[4] With nearly $400 billion in AUM across semi-liquid fund wrappers today, growing demand for diversification and access to alternative investments, and technology platforms like CAIS, iCapital, and Moonfare streamlining access and due diligence for wealth advisors, the space is poised for continued growth.

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[2] *Pitchbook: The Return of Evergreen Funds, June, 2025.*
[3] *Morningstar: The State of Semi Liquid Funds, June 2025.*
[4] *Company reports, Geography: Global, As of June 20, 2024.*

Conclusion

Semi-liquid funds represent a significant alternative investment landscape balancing access, liquidity and diversification with higher fees and unique risks. Their rapid growth and adoption reflect investor demand for private market exposure and periodic liquidity, but careful due diligence and ongoing education are essential to navigate their complexities. Advisors must weigh liquidity constraints, fee structures, tax implications and fund transparency when including semi-liquid structures in client portfolios. To explore how semi-liquid funds can support your portfolio goals, contact the professionals at Fiducient Advisors.

About the Authors

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Joe joined Fiducient Advisors in 2008. He provides investment consulting services to other financial advisory firms as Director of Fiducient Advisors' Financial Institutions practice. Joe also provides consulting services to family offices, high net worth individuals and nonprofit organizations. He gives advice and expertise on all facets of effective investment program design including establishing investment objectives, asset allocation and portfolio design, investment research and due diligence and overall practice management.

Prior to joining the firm, Joe worked for Morgan Stanley's Private Wealth Management Office and as a Managing Director for an investment management firm implementing a value-focused, long/short equity strategy based on University of Chicago Booth research. Joe earned his MBA with concentrations in Analytic Finance and Accounting from the University of Chicago Booth School of Business and a BBA with a Certification in Entrepreneurial Management from the University of Iowa. Joe is a former member of UNICEF's NextGen Junior Board and the University of Iowa's J.P.E.C. Alumni Board, as well as Co-Founder of the Hawkeye Business Development Group of Chicago. Joe is currently serving as President of the University of Chicago Booth School of Business Alumni Club of Chicago and as an elected member and Vice President of River Forest School District 90 Board of Education.

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Andrew provides investment consulting services to financial advisory firms. Andrew services clients by providing advice and expertise in asset allocation, portfolio design and manager selection. Previously, Andrew was a Senior Research Analyst on our Marketable Alternatives team. Prior to joining the firm in 2018, Andrew was a Senior Portfolio Accountant at Parametric Portfolio Associates where he was accountable for leading audits, monitoring trading risks and preparing daily analyses. Before his career in finance, Andrew was an NFL kicker for the New York Jets. He received a Bachelor of Arts, double majoring in Finance and Marketing, from Washington State University. Andrew is a Chartered Alternative Investment Analyst (CAIA®) and is a CFA® charterholder and member of the CFA Society of Chicago and CFA Institute. With his free time, Andrew enjoys world travel, reading, hiking and is a Washington State Cougars superfan.

Disclosures and Definitions:

Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses. It is not possible to invest directly in a financial index. Exposure represented by an index is available through instruments based on that index.

Evergreen Funds – structural feature that gives funds a perpetual, open-ended life with continuous capital raising and periodic liquidity. These structures can take the form of interval funds, tender-offer funds, non-traded BDCs, or non-traded REITs

Interval Funds – a fund that allows investors to purchase shares at any time but only redeem at specific intervals, such as quarterly or annually

Non-traded REITs (NT REITs) – fund that invests in income-producing real estate but is not listed on public stock exchanges

Non-listed BDCs (Business Development Company) - fund that provides financing to small and mid-sized companies, but it is not listed on public stock exchanges

Tender Offer Fund – fund that allows investors to buy shares continuously but offers to repurchase shares only at specific times through tender offers, which are discretionary and typically occur quarterly or semi-annually

Unrelated Business Taxable Income (UBTI) – income earned by a tax-exempt entity from business activities that are not substantially related to its exempt purpose

Unrelated Debt-Financed Income (UDFI) – income generated by a tax-exempt identity from property acquired using borrowed funds, when that property is not directly related to the entity's exempt purpose

Undertaking for Collective Investment in Transferable Securities (UCITS) – European Union Framework that allows mutual funds to be sold across EU member states under a unified set of rules, ensuring high levels of investor protection, transparency and liquidity

'40 Act 3(c)(7) – The Investment Company Act of 1940 rule provides an exemption that allows certain private investment funds – such as hedge funds, private equity funds, and venture capital funds – to avoid registering as investment companies with the SEC, provided they meet the criteria

Dry Powder - cash reserves or highly liquid assets that investors, companies, or funds hold in order to quickly deploy capital when attractive investment opportunities arise or to cover unexpected financial obligations

Exchange Act of 1934 – regulates the secondary trading of securities – such as stocks and bonds – after they have been issued, and established the Securities and Exchange Commission (SEC) to enforce federal securities laws

'40 Act – The Investment Company Act of 1940 regulates the organization and activities of investment companies, such as mutual funds, closed-end funds, and unit investment trusts, to protect investors through transparency and oversight

Leverage – refers to the use of borrowed capital (debt) to increase the potential return of an investment. It can also describe the ratio of a company's debt to its equity or assets

Paid In Capital (PIC) – The amount of committed capital that has been transferred from the limited partner to the general partner

Total Value to Paid in Capital (TVPI) – Money returned to limited partners plus the fund's unrealized investments, divided by money paid-in to the partnership. The TVPI should equal RVPI plus DPI.

Distribution to Paid in Capital (DPI) – Money returned (distributions) to limited partners divided by money paid in to the partnership. Also called cash-on-cash multiple.

Limited Partner (LP) - Institutions or high-net-worth individuals/sophisticated investors that contribute capital to a private equity fund.

Material Risks Disclosures:

Cash may be subject to the loss of principal and over longer period of time may lose purchasing power due to inflation. (Includes Short Term Liquidity)

Real Assets can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.

Private Equity involves higher risk and is suitable only for sophisticated investors. Along with traditional equity market risks, private equity investments are also subject to higher fees, lower liquidity and the potential for leverage that may amplify volatility and/or the potential loss of capital.

Private Credit involves higher risk and is suitable only for sophisticated investors. These assets are subject to interest rate risks, the risk of default and limited liquidity. U.S. investors exposed to non-U.S. private credit may also be subject to currency risk and fluctuations.

Private Real Estate involves higher risk and is suitable only for sophisticated investors. Real estate assets can be volatile and may include unique risks to the asset class like leverage and/or industry, sector or geographical concentration. Declines in real estate value may take place for a number of reasons including, but are not limited to economic conditions, change in condition of the underlying property or defaults by the borrow.