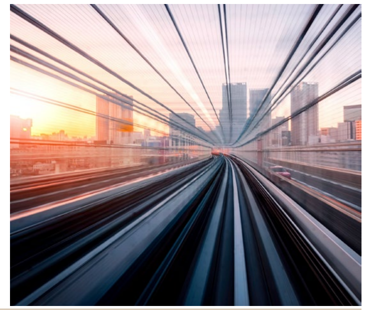
WELLS FARGO
Investment Institute

Special Report



March 10, 2025

Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

Alternative Strategy overview — Accessing private capital through perpetual structures

Takeaways for investors

- We believe qualified investors can enhance a portfolio's long-term return and diversification potential by investing a portion of their investments in the private capital markets, based on their individual liquidity needs and risk tolerance.
- Perpetual private capital funds are registered vehicles that invest continuously with no set maturity and allow subscriptions and limited redemptions periodically.
- In addition to the traditional limited partnership options, these perpetual structures are increasingly available to provide access to certain private capital strategies.

What are perpetual private capital funds?

Perpetual private capital funds are registered investment vehicles that continuously invest with no set maturity and allow investors to enter and exit the fund on a periodic basis. In the private capital markets across private equity, private debt and private real assets, these perpetual options are also commonly referred to as "evergreen," "open-end," or "semi-liquid" structures. Relative to traditional limited partnership drawdown structures, perpetual funds offer fast capital deployment, periodic windows to add or redeem funds, simplified tax reporting, as well as unique risks. In recent years, perpetual funds have been transforming private capital investing by providing qualified investors with additional options to access the unique return and diversification potential of private markets.

Perpetual private capital funds are generally available through the following structures:

- **Tender offer funds**: Registered Investment Companies (RICs) under The Investment Company Act of 1940 ('40 Act) that make periodic tender offers on a discretionary basis. Many perpetual private equity funds are structured as tender offer funds.

- **Interval funds**: RICs under '40 Act, following Rule 23c-3 that requires scheduled repurchase offers at regular intervals. Some perpetual private debt funds and perpetual private real estate funds are structured as interval funds.

© 2025 Wells Fargo Investment Institute. All rights reserved.

- **Non-traded Business Development Companies (BDCs)**: RICs under '40 Act. The funds are required to invest at least 70% of assets in qualifying assets, which includes debt of private companies. Most perpetual private debt funds are structured as non-traded BDCs.

- **Non-traded Real Estate Investment Trusts (REITs)**: REITs generally operate under an exemption from registration under '40 Act but may choose to publicly-offer securities requiring certain periodic SEC filings. At least 75% of the fund assets must be in real estate and cash, at least 75% of gross income must come from real estate activity, and at least 90% of its taxable annual income must be distributed as dividends. Most perpetual private real estate funds are structured as non-traded REITs.

Additional information about these fund types can be found in "A Guide to Investing in Private Capital and Private Real Estate Funds", "A Guide to Investing in Business Development Companies (BDCs)", and "A guide to investing in non-traded Real Estate Investment Trusts (NREITs)/non-traded Business Development Companies (NBDCs)". These documents can be found at Guides to Investing | Wells Fargo Advisors.

Federal regulations define three types of qualified investors to codify eligibility requirements for unregistered funds. Qualified purchaser is the highest tier, generally requiring a minimum of $5 million in investments (see Table 1). Traditionally, only qualified purchasers have been permitted to invest in private capital through limited partnership drawdown funds, which typically also come with other barriers such as high investment minimums, multi-year capital lockups, and the need to re-invest in new fund vintages.

For perpetual funds that are registered investment companies and are publicly offered, they are likely to be subject to various state laws that will determine investor eligibility. While often similar to federal requirements for unregistered funds, advisors and clients should verify these suitability requirements in each specific product's offering documents. In general, qualified clients and accredited investors with a minimum net worth of $2.2 and $1 million net worth, respectively, or meeting certain annual income requirements (see Table 1) may be eligible to invest in perpetual private capital funds.

Table 1. Qualified investor types

Qualification Status	Accredited Investor	Qualified Client	Qualified Purchaser
Definition	Individuals with $200,000 Annual Income ($300,000 if Joint) for past 2 years or net worth greater than $1 million, or Entities with total assets of $5 million or greater	Individuals or Entities with a net worth of more than $2.2 million (excluding residence, jointly with spouse)	Individuals with investments of $5 million or Entities with investments of $25 million

Source: Wells Fargo Investment Institute, U.S. Securities and Exchange Commission (SEC).

Perpetual funds offer specific features that investors should consider

The ability to access the private markets through a fund structure with certain features similar to more liquid funds (for example, mutual funds and exchange-traded funds) can appeal to many qualified investors. The perpetual fund structure generally delivers instant exposure to a seasoned portfolio, compared to traditional drawdown funds in

© 2025 Wells Fargo Investment Institute. All rights reserved.

which the committed capital is drawn down and invested over several years. This immediate exposure may limit the flexibility of the manager in contrast to drawdown funds but may allow an investor to more effectively diversify their portfolio. By gaining full allocation from the subscription date to redemption, qualified investors can potentially achieve their targeted allocations more quickly and maintain adherence to their strategic asset allocation over time in a more transparent fashion than drawdown funds.

Perpetual private capital funds typically offer the features summarized below and in Chart 1:

- Accessibility: Many perpetual funds allow lower investment minimums ranging from thousands to tens of thousands of dollars.
- Capital deployment and compounding returns: An investor buys in at the perpetual fund's net asset value (NAV) and gains a point-in-time exposure to an existing portfolio of diversified assets, compared to traditional drawdown funds in which the committed capital is deployed over several years. For perpetual funds, the capital stays invested and compounds through the investment period until redeemed. Therefore, investors can quickly achieve a targeted private capital allocation when using perpetual funds.
- Periodic subscriptions and redemptions allowed: Perpetual funds typically permit investors to subscribe at monthly or quarterly intervals and allow for periodic redemptions. However, perpetual funds are still intended to be long-term investments. For example, early redemption fees often apply if the holding period is less than one year. And gated redemptions, typically quarterly at 5% of fund's NAV, are conducted at the fund's discretion and may be suspended to avoid a fire sale of private assets.
- Tax reporting[1]: Like mutual funds and exchange-traded funds (ETFs), many perpetual funds issue Form 1099 instead of the Schedule K-1 document typically generated by limited partnership drawdown funds. Schedule K-1s often arrive long after the Internal Revenue Service (IRS)'s tax reporting deadline and require more complex tax returns than Form 1099s.

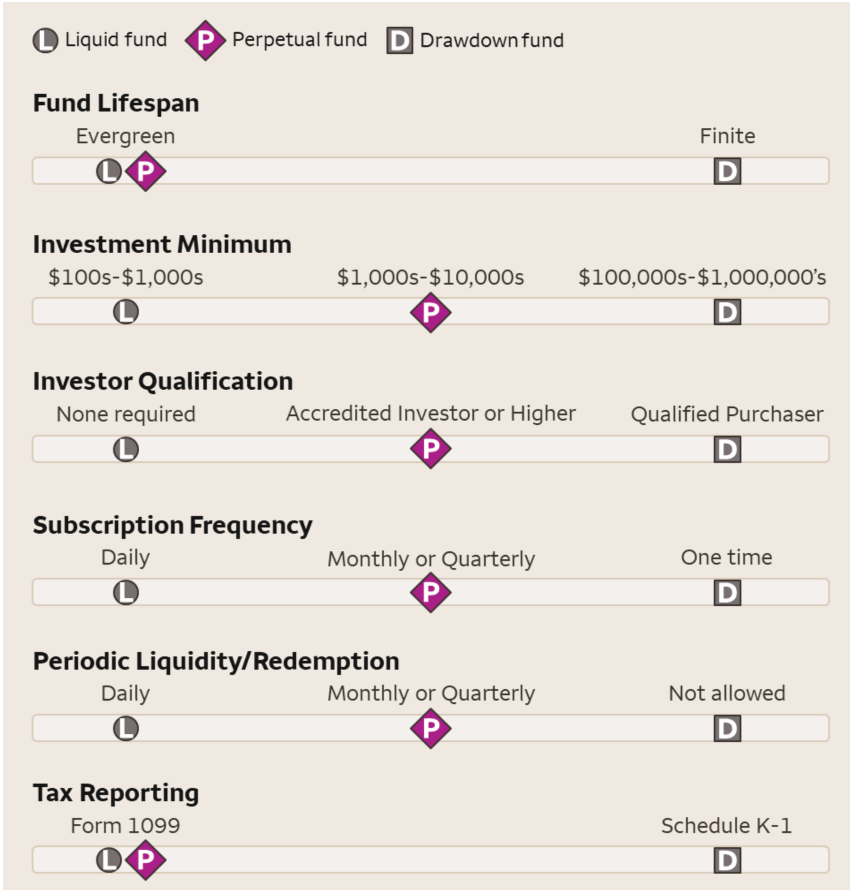
Investors should also consider the potential risks when investing in perpetual private capital funds, including, but not limited to, the following:

- "Semi-liquid": Unlike liquid funds, perpetual private capital funds are considered "semi-liquid", as the funds are not traded on an exchange, their underlying holdings are illiquid, and the structure does not generate daily liquidity.
- Public holdings: Perpetual funds may be required to hold public securities to satisfy repurchase offers or redemptions.
- Limited transparency: Although perpetual funds are registered and generate periodic regulatory filings that may include information about their holdings and valuations, the transparency is limited especially relative to liquid funds.
- Leverage: Further, the funds can apply leverage, which may result in amplified losses in the event of market drawdowns.

1. Form 1099 and Schedule K-1 are tax forms generated under the requirements of the IRS. Wells Fargo doesn't provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

© 2025 Wells Fargo Investment Institute. All rights reserved.

Chart 1. Perpetual funds offer improved liquidity and accessibility features compared to drawdown funds.



Source: Wells Fargo Investment Institute. Liquid funds include mutual funds and exchange-traded funds that invest in the public stock and bond markets and offer daily liquidity. Perpetual funds and drawdown funds primarily invest in the private capital markets. Note for perpetual fund redemptions, early redemption fees often apply if the holding period is less than one year. And gated redemptions, typically quarterly at 5% of fund's NAV, are conducted at the fund's discretion and may be suspended to avoid a fire sale of private assets.

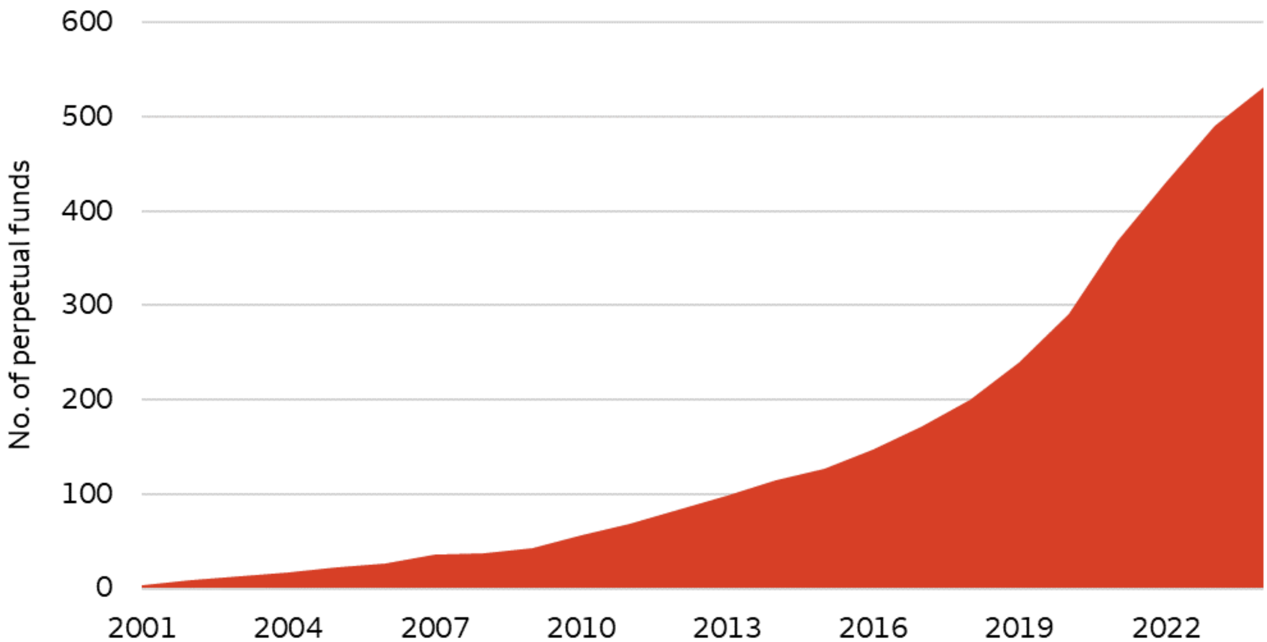
Perpetual funds' assets under management quadrupled in the past decade

According to Preqin, the assets under management (AUM) of perpetual private capital funds have more than quadrupled to over $400 billion in the past 10 years, with over 500 perpetual funds available globally as of the end of 2024 (see Chart 2).

Currently, perpetual funds are available across several private capital strategies. Private real assets and private debt have been two major asset classes driving the AUM growth of perpetual funds, as the evergreen structure is more aligned with buy-and-hold income-producing strategies such as core private real estate and private debt direct lending. More recently, an increasing number of private equity registered funds have been launched to offer diversified exposure to private equity buyouts and venture capital. However, limited partnership drawdown funds are still the more prevalent structure where many strategies are offered.

© 2025 Wells Fargo Investment Institute. All rights reserved.

Chart 2. The number of perpetual funds has grown to over 500 globally.



Sources: Wells Fargo Investment Institute and Preqin. Data as of February 3, 2025. The perpetual private capital funds here include tender offer funds, interval funds, non-traded BDCs and non-traded REITs that primarily invest in private equity, private debt or private real assets.

Using perpetual funds to construct a diversified private capital allocation

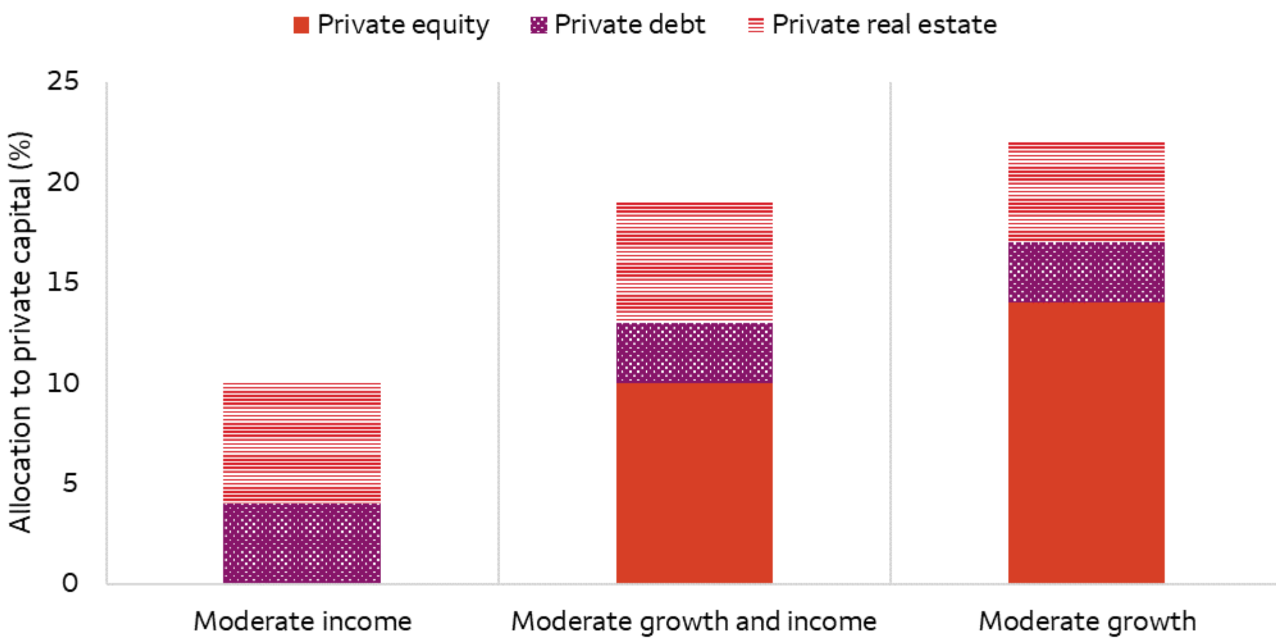
Private markets provide investors with a broad universe of investment opportunities. According to Pitchbook, today there are more than 19,000 U.S.-based private companies with annual revenues over $100 million, compared to just 2,800 public companies of this size. This is partly driven by the growing trend of companies staying private longer, as companies no longer need to transition to the public markets to gain access to capital. For many companies, the ability to think and act with a long-term perspective without the need to meet short-term analyst expectations is an advantage of staying private.

Because of this unique opportunity set, Wells Fargo Investment Institute's Strategic Asset Allocation designed for qualified investors allocates between 10% and 25% to private capital (see Chart 3). In a diversified portfolio, private debt and private real assets may offer investors favorable yield potential, whereas private equity may provide attractive long-term return prospects relative to public markets.

When used to replace a portion of a public stock-and-bond portfolio, perpetual funds can provide long-term investors with efficient access to the broad opportunities in private markets. Accredited investors can use perpetual funds exclusively to establish and maintain a diversified private capital allocation. For qualified purchasers who are also interested in the value of drawdown funds, they may consider combining perpetual funds with traditional drawdown funds based on their long-term investment goals and other specific considerations.

© 2025 Wells Fargo Investment Institute. All rights reserved.

Chart 3. WFII's strategic asset allocation allocates between 10% and 25% to private capital.



Source: Wells Fargo Investment Institute. Private capital allocations (as of February 6, 2025) of 2024 Illiquid Strategic Asset Allocation for qualified investors that include alternative investments for moderate income, moderate growth and income and moderate growth investment objectives are shown in the chart

Summary

Perpetual private capital funds offer an additional point of entry to the private markets, through their specific features and risks relative to traditional drawdown options.

With more investors seeking uncorrelated sources of return to add value to their public stock-and-bond portfolios, we believe the ongoing evolution of perpetual private market funds is a welcome innovation that brings more options to qualified investors.

© 2025 Wells Fargo Investment Institute. All rights reserved.

Risk considerations

Private capital funds are complex, speculative investment vehicles and are not appropriate for all investors. They are generally open to qualified investors only and carry high costs, substantial risks, and may be highly volatile. There is often limited (or even non-existent) liquidity and a lack of transparency regarding the underlying assets. They do not represent a complete investment program. The investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Private capital funds are not required to provide investors with periodic pricing or valuation and are not subject to the same regulatory requirements as mutual funds. Investing in private capital funds may also involve tax consequences. Speak to your tax advisor before investing. An investment in a private capital fund involves the risks inherent in an investment in securities, as well as specific risks associated with limited liquidity, the use of leverage and illiquid investments. There can be no assurances that a manager's strategy will be successful or that a manager will use these strategies with respect to all or any portion of a portfolio. Please carefully review the Confidential Private Placement Memorandum or other offering documents for complete information regarding terms, including all applicable fees, as well as other factors you should consider before investing.

Alternative investments, such as private equity/private debt, and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, and less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt, and private real estate fund investing involve other material risks, including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

General disclosures

Investment Professional Use Only: Use for WFA Regulated Users, First Clearing Correspondent Firms, Registered Investment Advisers with client accounts introduced to WFCS through TradePMR Inc., Wells Fargo Wealth & Investment Management (WIM) employees, WIM independent contractors, and WFA Regulated Wells Fargo Bank depository employees only. This report is not approved for the recruitment of sales personnel affiliated with other broker-dealers, tax professionals, legal professionals, other investment professionals, or with the general public.

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-09052026-7708383.1.1

Audience Distribution

Investment Professional Use Only: Use for WFA Regulated Users, First Clearing Correspondent Firms, Registered Investment Advisers with client accounts introduced to WFCS through TradePMR Inc., Wells Fargo Wealth & Investment Management (WIM) employees, WIM independent contractors, and WFA Regulated Wells Fargo Bank depository employees only. This report is not approved for the recruitment of sales personnel affiliated with other broker-dealers tax professionals, legal professionals, other investment professionals, or with the general public.

© 2025 Wells Fargo Investment Institute. All rights reserved.