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Investing in private equity: A decision framework for drawdown versus semiliquid funds

- Private equity has long been used by institutional and select high-net-worth investors with the objective of greater capital appreciation and diversification. As product options have expanded, investors face an important choice: how to gain exposure.
- In this paper, we provide a practical framework to help investors who meet regulatory requirements for drawdown funds (typically requiring at least $5 million in investable assets) choose between the two most common structures—drawdown funds and semiliquid (evergreen) funds.[1] Both structures can serve as a long-term core private equity allocation, and neither is inherently better than the other.[2]
- Drawdown funds are well-suited for investors who have a very long time horizon, who are comfortable effectively and efficiently managing the inherent cash flow uncertainty, and who have a high liquidity risk tolerance. Semiliquid funds tend to be a better fit for investors who have less certainty around their time horizon, who view the operational burden of managing a drawdown program as too costly or complex, and who have a lower liquidity risk tolerance. The appropriate choice could be one or both, depending on investor circumstances and preferences.

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1 Investors in drawdown funds must typically meet the qualified purchaser and accredited investor standards under federal law, typically demonstrating that they have at least $5 million in investable assets and that their net worth is over $1 million or their annual income exceeded $200,000 in each of the last two years. Investors who are not both accredited investors and qualified purchasers are generally limited to semiliquid vehicles registered under the Investment Company Act of 1940, such as interval funds.

2 This paper focuses on helping investors make an informed decision between drawdown and semiliquid funds as product vehicles; this is a portfolio implementation decision rather than a choice about investment strategy. Accordingly, we assume the investor has already determined that private equity is appropriate for their portfolio, by considering factors such as portfolio goals and spending needs, as well as tolerance for risks inherent in private equity, including active management and illiquidity. For additional information on suitability criteria and portfolio sizing, see Grim et al. (2026). Investors can also partner with an advisor to assess their suitability for private equity.

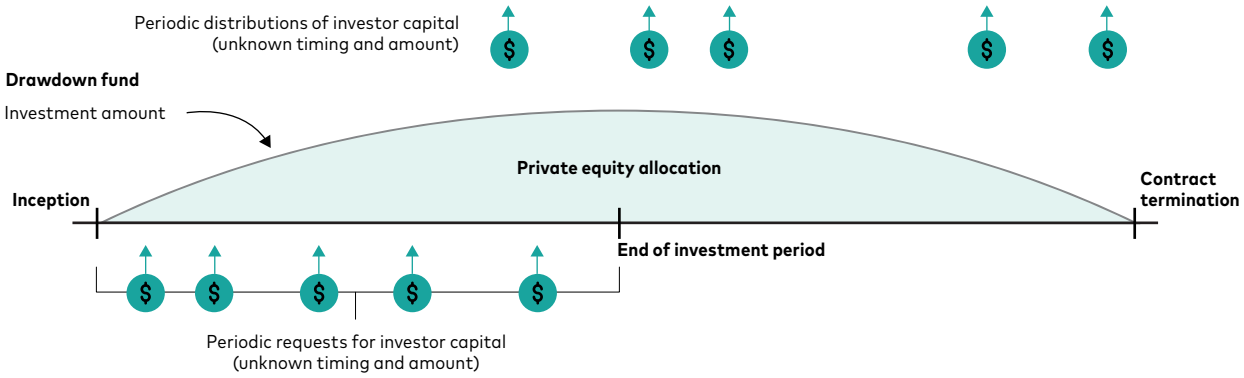
How the fund structures work

Drawdown funds have been the traditional way to access private equity, by investing either in private companies directly or through other funds. They are structured as limited partnerships with finite lifespans. Investors commit capital up front, which is then called over time (**Figure 1**). When assets are sold, net proceeds are immediately distributed to investors. This structure helps align capital deployment and distribution with the illiquid nature of the underlying investments, consistent with the deal-driven nature of private equity, where capital is deployed as opportunities arise. Due to regulatory requirements, drawdown funds are available only to qualified purchasers, typically those who have at least $5 million in investable assets.

Because an individual drawdown fund has a finite life, building up and maintaining a target allocation to private equity requires a consistent commitment to new funds, typically called a drawdown program. Due to the uncertain timing and size of capital calls and distributions, this program requires investors to manage cash flows effectively and efficiently over time as they seek to achieve and maintain the target allocation. These complexities have proven manageable for some investors but are obstacles for others. In response, demand has increased for semiliquid private equity fund structures.

FIGURE 1

Cash flows and liquidity in drawdown funds



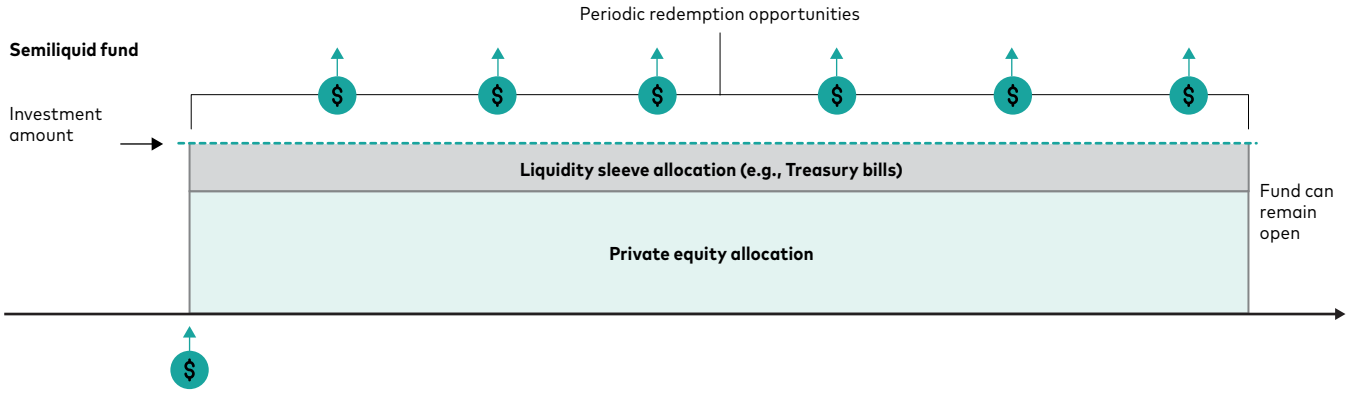
Notes: The figure is hypothetical and for illustrative purposes only.
Source: Vanguard.

Semiliquid funds are vehicles that invest either directly in private companies or through underlying drawdown funds. They are designed to expand access and streamline implementation relative to drawdown funds. Semiliquid funds offer investors greater liquidity and transparency, in addition to streamlined performance evaluation, cash flow management, and tax reporting. They also provide lower fund-level minimum investment requirements (often $50,000 or less, instead of $250,000 or more)—often without the regulatory requirement on wealth level—and immediate exposure (**Figure 2**).[3]

Although the structure tends to be more liquid than that of a drawdown fund, it offers only periodic redemption opportunities (for example, semiannually or quarterly). These redemptions can be limited or suspended in certain circumstances and therefore should not be confused with fully liquid vehicles such as mutual funds and exchange-traded funds (ETFs). Managers typically hold a portion of assets, often 5%–20%, in lower-returning liquid instruments (commonly referred to as a liquidity sleeve) to meet potential redemption requests and serve as dry powder for capital calls and new investment opportunities, which can cause a return drag.

FIGURE 2

Cash flows and liquidity in semiliquid funds



Notes: The figure is hypothetical and for illustrative purposes only. Implementation of limits or suspension of redemption opportunities is possible. Suspension can occur only with certain semiliquid fund structures.

Source: Vanguard.

3 This paper focuses on 1940 Act-registered semiliquid fund structures, specifically interval funds and tender offer funds. (See the Appendix on page 12 for more information.) These funds provide greater transparency than is typical for drawdown funds (Ewens and Faber, 2026). While both interval and tender offer funds offer periodic liquidity, interval funds are required to provide investors with the opportunity to redeem their shares on a periodic basis, and they often include features such as tickers and daily valuations. Tender offer funds, by contrast, have flexibility over the size and timing of share repurchases, including the ability to suspend them temporarily. In both fund structures, a fund's liquidity policy should be aligned with its underlying investment strategy and portfolio construction approach. In all cases, investors should have a long investment horizon when investing in private equity and know that it may not provide liquidity when needed. See the Appendix for a comparison of select attributes of drawdown funds and these two types of semiliquid funds.

Key decision factors

When choosing between the two structures or opting for a mix of both, investors should consider four key factors: time horizon, liquidity risk tolerance, expected return over the full horizon (before costs), and total cost of implementation. In **Figure 3** and detailed below, we show how the underlying assumptions for each of the four factors influence the decision on which fund structure might be a better fit when the investor's circumstances align with the conditions shown.

Time horizon. This reflects the length of time the investor seeks exposure to private equity. Given the associated risks, this horizon should be long term regardless of whether exposure is obtained through a drawdown or semiliquid fund structure. For those with legacy objectives, this may extend beyond their lifetime. If the horizon is under 10 years, a drawdown program is generally not suitable because of liquidity constraints and the time needed to build to target exposure (typically five to 10 years) (**Figure 4**).[4]

FIGURE 3

Key factors in deciding between a semiliquid and drawdown private equity fund structure

			What structure is a better fit?	
			Semiliquid	**Drawdown program**
Investor-specific	**Time horizon**		If **long**	If **very long (with high certainty)**
	Liquidity risk tolerance		If **high**	If **very high**
Investment-specific	**Expected return over the full horizon (before costs)**		If **higher in semiliquid** than in drawdown	If **higher in drawdown** than in semiliquid
	Total cost of implementation	**Fund-specific costs**	If **lower in semiliquid** than in drawdown	If **lower in drawdown** than in semiliquid
		Additional operational cost of drawdown program	If **high**	If **low**
		Tax-related costs	If **lower** than in drawdown	If **lower** than in semiliquid

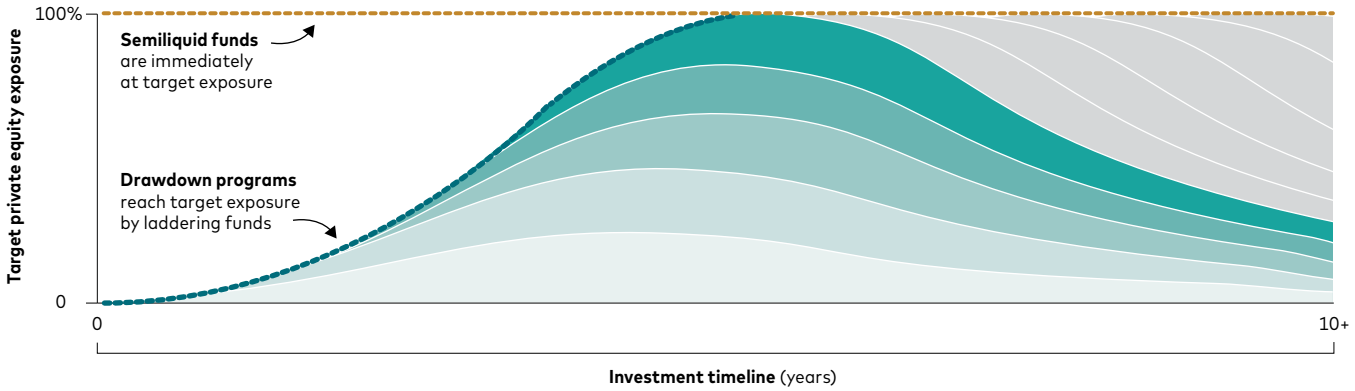
Notes: For investors considering a drawdown program, the time horizon should be at least 10 years. The expected return over the full horizon (before costs) incorporates both the size and the investment allocation of the liquidity sleeve or interim assets, talent level of accessible managers, and ramp-up and wind-down phases.

Source: Vanguard.

4 Hadley (2025) finds that the average fund fully liquidated after approximately 12 years for buyout and approximately 15 years for venture capital.

FIGURE 4

Comparing fund structures: The path to target private equity exposure



Notes: The figure is hypothetical and for illustrative purposes only. Each wave represents a drawdown fund moving through its finite life cycle. Because capital is invested and distributed over time, investors must commit to new funds to build and maintain a target private equity allocation. Because semiliquid funds maintain a liquidity sleeve, investors may need to allocate slightly above the target private equity weight to achieve target exposure.
Source: Vanguard.

Liquidity risk tolerance. Public equity mutual funds and ETFs provide continuously available exit options. Exiting private equity funds, however, is fundamentally different. Drawdown funds require investors to wait for manager distributions or to try to sell in the secondary market, often with a long delay and material discount. Semiliquid funds have periodic and conditional redemption opportunities, as well as an option for ad hoc purchases; this makes semiliquid funds easier to maintain a target portfolio allocation compared with a drawdown fund. Therefore, for investors with less tolerance for liquidity risk, semiliquid funds tend to be the better fit.[5]

Expected return over the full horizon (before costs). A drawdown program evolves through three phases over an investor's time horizon: an initial ramp-up period to reach the target allocation, a fully invested period, and a wind-down period, during which the investor stops committing to new funds so that all assets can be distributed by the end of the horizon. This structure's effect on return depends in part on whether an investor prefers immediate or gradual investment and exit:

- *Investor who prefers immediate investment and a more flexible exit*. During the ramp-up and wind-down phases, a drawdown program investor with this preference must decide how to allocate assets they would prefer to hold in private equity but cannot due to the structure of drawdown funds. Because the expected return of those assets will likely be lower than what private equity may generate, there will be some expected drag relative to a semiliquid fund investment during these phases. If the assets are invested in fully liquid public equities, the expected return drag is typically smaller; if held in cash, the expected drag is typically more significant. Because drawdown fund investors differ in how they invest this interim capital, we show a range of return paths in

5 Although semiliquid funds are generally considered more liquid than drawdown funds, they are far from fully liquid. Redemption caps can be low and suspensions are possible with certain funds, so in extreme circumstances, these funds may result in longer exit timelines, as there is generally no secondary market for shares subject to redemption restrictions ("gates"). Therefore, it is important for investors to fully understand the redemption rules and recognize that liquidity may not be available when needed.

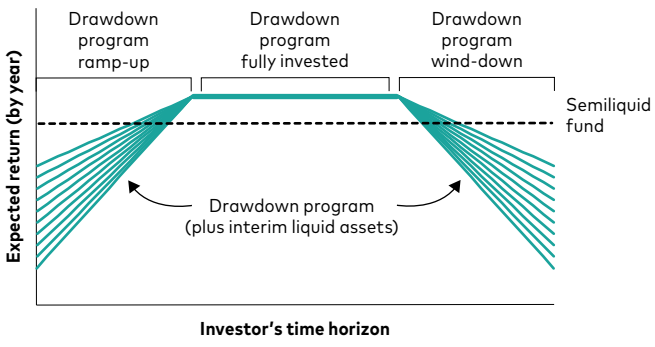
Figure 5a to represent the resulting lower expected return outcomes during these phases, when a portion of the investor's preferred private equity exposure must temporarily be held in other assets (interim liquid assets).[6] By contrast, during the fully invested phase, a drawdown program tends to have an expected return advantage over semiliquid funds because semiliquid funds must maintain a liquidity sleeve. Therefore, all else being equal, a longer investment horizon increases the likelihood of a full-horizon performance advantage for a drawdown program relative to a semiliquid fund.

- *Investor who prefers gradual investment and exit*. This preference may reflect tax management considerations (for example, avoiding the realization of large capital gains from selling appreciated public assets in a single year) or a dollar-cost-averaging approach to risk management. If this glide path into and out of private equity aligns with the natural ramp-up and wind-down process of a drawdown program, the drawdown program may maintain a performance edge compared with a semiliquid fund investment throughout the investor's time horizon. That edge is not automatic, however: If the investor wants to move faster than the program can call it, interim capital must sit in lower-returning public assets until called, which may weigh on returns relative to the semiliquid fund during the ramp-up period. A similar challenge can arise on the way out: If the investor wants to exit private equity faster than the program can wind down, they would have to begin winding down earlier than desired, leaving part of the portfolio below the investor's desired private equity exposure and potentially reducing the drawdown program's expected return advantage relative to the semiliquid fund. In both cases, the investor spends part of the horizon underinvested in private equity relative to their target. In **Figure 5b**, the range of return paths during the ramp-up and wind-down phases reflect that either structure could hold the return advantage in those periods depending on the pace at which the investor prefers to enter and exit private equity.

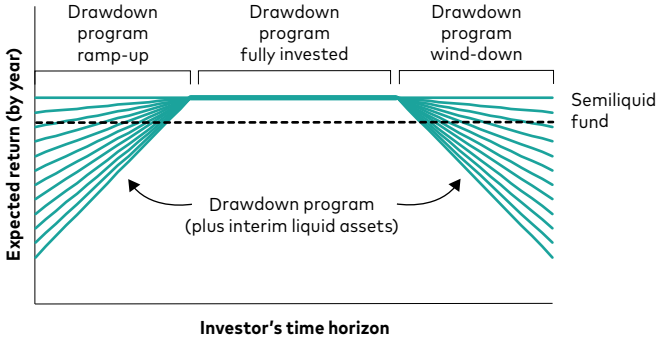
FIGURE 5

Return advantage depends on investor preference for immediate investment and flexible exit

a. Investors who prefer immediate investment and a flexible exit



b. Investors who prefer gradual investment and exit



Notes: The stylized charts are for illustrative purposes only, assume the same level of manager talent can be identified and accessed by the investor in each structure, and do not take implementation costs into consideration. The vertical axis starts at 4.5% to reduce white space. The level of return advantage for semiliquid funds during the program's ramp-up and wind-down phases depends on factors such as how assets that cannot be allocated to private equity due to structural limitations (interim assets) are invested. As a result, we display that dependence by showing a range of returns for the drawdown program plus interim assets during those phases. To keep the visual simple, the yearly asset returns that make up these stylized examples are assumed to reflect equilibrium-level forecasts rather than current market conditions or cyclical or secular expectations over the time horizon. These assumptions are hypothetical and are not intended to represent a Vanguard forecast. In practice, investors with the appropriate expertise could adjust these forecasts to reflect such views.

Source: Vanguard.

6 See, for example, Schneider et al. (2022) for a discussion of the trade-offs associated with using different public assets during the ramp-up phase. Some investors consider using semiliquid funds as a temporary ("bridge") allocation while building a drawdown program to further reduce return drag during the drawdown ramp-up period. However, this approach can be constrained by the potential inability to redeem on demand to fund capital calls. As a result, the merits of this approach depend on individual circumstances and implementation considerations.

For simplicity, the discussion above assumes the same level of manager talent across structures, which may not reflect an investor's actual situation. Therefore, investors should also assess the quality of manager talent they can identify and access through each structure, as this has a direct impact on expected returns.[7] Grim et al. (2026) show that private equity outcomes are highly sensitive to manager selection, making this an especially important consideration. Because managers of semiliquid funds take on the additional operational task of managing uncertain cash flows, successful execution also requires expertise in liquidity management, portfolio construction, and operational infrastructure, as well as a steady pipeline of high-quality investments in which to deploy ongoing client capital.

Even if the underlying manager were the same, performance in similar strategies can differ across structures for a reason beyond the liquidity sleeve, because drawdown fund cash flows are fully controlled by the manager, but semiliquid fund cash flows are affected by investor purchase and redemption activity. This dynamic can sometimes hinder investment decision-making because investor-driven capital flows may not always align with the timing or attractiveness of available private investment opportunities (Hadas, 2025). Lastly, because a larger and more diverse set of drawdown fund options is available, investors may be able to enhance return through greater portfolio customization (for example, style or region) if they have sufficient skill and capital.

Total cost of implementation. When allocating to any asset, investors should assess the total cost of implementation. This is particularly important in private equity, which can involve costs that some investors may not be used to considering and may therefore overlook. Three key categories of costs should be considered:

- *Fund-specific costs*. Both structures can have management and incentive fees, as well as other fund-level operational and sales-related expenses, and can be complex, so investors should evaluate them carefully and focus on the all-in cost. Because fund-specific fees vary greatly, one structure is not inherently lower cost; the investor must evaluate this on a case-by-case basis.
- *Operational cost of the drawdown program*. Semiliquid funds manage cash flows for investors, so any operational costs are embedded in fund-specific costs. For drawdown programs, there is a separate cost because investors are responsible for periodically sourcing and committing to new funds, estimating the timing and size of capital calls and distributions, and maintaining contingency plans given the inherent uncertainty of drawdown fund cash flows.[8] Scenario analysis is therefore a common practice. Because of the complexity, institutional investors often have staff dedicated to this work. Individuals can attempt to manage the drawdown program themselves or seek the service of an advisor. Investors considering handling it themselves should be

7 Access includes the ability to meet multiple fund minimums when building a drawdown program. Using a fund of funds for the program can reduce the number of underlying funds needed.

8 Meads, Morandi, and Carnelli (2016) provide an overview of the process.

aware that while there is not an explicit cost associated with the drawdown, there is an implicit cost.[9] If this separate operational cost for the drawdown program is high, the semiliquid fund becomes a more attractive option.

- *Tax-related costs (for taxable accounts).* If private equity is held in a taxable account, drawdown funds often require more involved tax reporting (for example, Schedule K-1s and Passive Foreign Investment Company statements) and the need to file for extensions, potentially resulting in higher tax preparation costs or the need for specialized support from a certified public accountant. Semiliquid funds typically offer Form 1099 reporting similar to what investors use for mutual funds and ETFs. However, this simplicity comes with a trade-off, as the semiliquid fund's liquidity sleeve, often invested in cashlike instruments or short-term investment-grade bonds, generates most of its long-term returns from income taxed at higher ordinary income rates. Because these costs vary by situation, the relative cost advantage of each structure depends on the specific circumstances.

Additional considerations

Performance monitoring. Benchmarking the performance of private equity drawdown funds can be difficult given that managers of such funds have discretion over the timing and size of cash flows; however, a few reasonable methods exist.[10] Semiliquid funds allow for more familiar performance measurement using time-weighted returns, aligning with how advisors and clients evaluate public market investments.

Valuation. Drawdown funds typically provide fund valuations on a quarterly basis and with a significant lag of up to 150 days. Semiliquid funds provide valuations more frequently, typically monthly or even daily. Accurate and repeatable valuation processes are especially critical in semiliquid funds relative to drawdown structures, as net asset value (NAV) directly affects purchases and redemptions.

9 For general information on the time and emotional value of outsourcing financial duties, see, for example, Costa, Martino, and de la Fuente (2025). There are also financial risks with attempting to self-provision; for example, failure to fund capital calls in a timely manner can result in significant penalties, including dilution or loss of existing interests in the fund and reduced access to future investment opportunities with the manager (Ljungqvist, 2024).

10 See the discussion of performance benchmarking methodologies for drawdown funds in Grim et al. (2026).

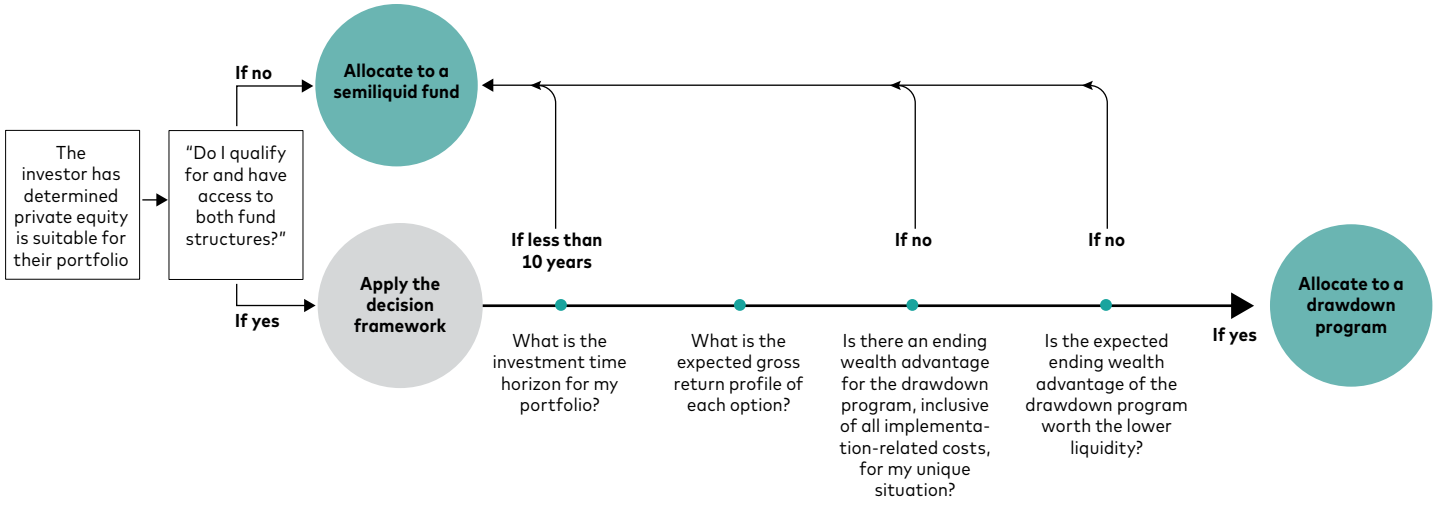
Putting it all together: Choosing the right structure

There is no one-size-fits-all answer. The appropriate structure might be one or both, and it depends on investor eligibility, circumstances, and preferences.

Figure 6 applies the framework through a step-by-step process for identifying the best-fit fund structure. Importantly, the framework extends beyond the qualitative comparisons that often characterize discussions of drawdown and semiliquid funds by helping investors quantify the potential outcome implications of each choice under their own assumptions and circumstances. If the drawdown program is expected to produce higher ending wealth over the investor's time horizon, the investor can decide whether the potential wealth advantage is worth the lower liquidity and additional operational complexity associated with managing the program if those responsibilities are not outsourced. Because actual outcomes may be higher or lower than expected, the wealth difference should be evaluated across a range of plausible assumptions.

FIGURE 6

The private equity fund structure decision flow chart



Notes: This chart does not purport to promise better returns but rather offers a clear decision-making process for use in fund structure selection. Because realized outcomes may be higher or lower than expected, investors should assess the results under a range of plausible assumptions. For additional information on suitability criteria and portfolio sizing, see Grim et al. (2026) and Aliaga-Díaz et al. (2022).

Source: Vanguard.

Blending fund structures

An appropriate solution for some investors may be a blended approach across vehicle types. For example, an investor could pair a core allocation to a highly diversified semiliquid fund with a smaller drawdown program that modestly tilts the private equity allocation toward specific areas of conviction (for example, by style or region).[11] Alternatively, investors may consider a drawdown program as the core, complemented by a semiliquid allocation used to help maintain target exposures over time.

Although these blended approaches can offer greater flexibility, they are more complex to implement. Both require that investors navigate multiple sources of uncertainty, including the cash flow variability of drawdown funds and the periodic and conditional liquidity of semiliquid structures. Managing these dynamics can make rebalancing complex, as investors must coordinate capital calls, distributions, and redemption constraints across vehicles.[12]

Conclusion

Private equity is a powerful tool for pursuing potential enhanced returns and diversification. As product options grow across structures, investors have a meaningful choice in how to implement that exposure. Our practical framework includes critical considerations to guide the decision between drawdown and semiliquid fund structures and emphasizes that the appropriate choice depends on a combination of key investor-specific and investment-specific factors: time horizon, liquidity risk tolerance, expected return over the full horizon (before costs), and total cost of implementation.

Drawdown funds may better suit investors with very long horizons, high liquidity risk tolerance, the resources to effectively and efficiently manage cash flow uncertainty, and an expectation of a meaningful full-horizon return advantage. Semiliquid funds may be preferable for those with shorter or less certain horizons, lower tolerance for illiquidity, and more limited capacity to manage a drawdown program. In practice, many investors may benefit from one or both approaches, but the most effective outcomes are likely to come from aligning the structure with individual circumstances, access to high-quality managers, and ensuring that all-in implementation costs are reasonable.

11 This requires a sizable portfolio, because investors must meet fund minimums for investments that are only a small portion of their portfolio.

12 There is a growing secondary market for drawdown funds, but it remains relatively small, and transactions can take significant time, often require manager approval, and typically occur at a material discount to fund NAV.

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Appendix

FIGURE 7

Key attributes of private equity drawdown funds versus semiliquid funds

	Traditional	Semiliquid	
Attribute	**Drawdown fund**	**Interval fund**	**Tender offer fund**
Term	Typically 10–12 years	No set term	No set term
Minimum investment amount	Often $1 million or more	Can be less than $25,000	Can be less than $25,000
Eligibility requirements	Yes	Depends	Depends
Purchasing shares	The investor commits to a specific total purchase amount for the life of fund at inception. The investor sends portions of the committed amount to the fund when the manager asks ("calls") for it, with the timing and magnitude of the purchase not known in advance.	Can be done monthly or more frequently	Can be done monthly or more frequently
Redeeming shares	Investors cannot sell shares back to the fund. Rather, the investor must find a counterparty in the secondary market, which is limited and may result in a sale price that is at a significant discount to NAV.	Fund providers are required to let investors sell shares back at NAV during redemption windows offered at fixed intervals (for example, quarterly or semiannually).	Timing of redemption opportunities is determined by a fund's board and may change.
Redemption limits	Not applicable	Redemptions are capped at a percentage of fund assets and must be between 5% and 25% of outstanding shares, with 5% common.	The redemption limit is determined by a fund's board and may change.
Distributions	Distributions are paid to investors if any holdings pay dividends and as holdings are sold by the manager, with timing and magnitude not known in advance.	Varies	Varies
Initial private equity exposure	Low	High, unless the fund is newly launched and has not yet built a fully invested portfolio.	High, unless the fund is newly launched and has not yet built a fully invested portfolio
Liquid assets in fund	No	A portion of liquid assets is held in publicly traded securities as the manager searches for opportunities and budgets for possible redemption requests.	A portion of liquid assets is held in publicly traded securities as the manager searches for opportunities and budgets for possible redemption requests.
Leverage limit	Varies	A maximum of 33% of the total fund assets can come from leverage.	A maximum of 33% of the total fund assets can come from leverage.
NAV calculation	Quarterly	Daily or weekly	Monthly, quarterly, or less frequently

(Continued on page 13)

FIGURE 7 (CONTINUED)

Key attributes of private equity drawdown funds versus semiliquid funds

	Traditional	Semiliquid	
Attribute	**Drawdown fund**	**Interval fund**	**Tender offer fund**
Investor protections	Protections are negotiated with the manager and typically include conflict oversight, reporting, and limited voting rights.	Protections are per the Investment Company Act of 1940.	Protections are per the Investment Company Act of 1940.
Breadth of fund options	High	Extremely low	Very low
Transparency	Low	Moderate	Moderate
Fees	High	High	High
Tax filing (for U.S. individual investors)	Schedule K-1 form, which may require tax deadline extension, since drawdown funds are structured as limited partnerships; may require filings in multiple states	Standard 1099 form	Standard 1099 form

Notes: The chart shows representative attributes of fund structures. Exceptions may apply.

Source: Vanguard.

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