A Guide To Permanent Capital Vehicles As Access Widens

By **Anna Pinedo, Brian Hirshberg and Hema Gharia** (June 25, 2025)


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Permanent capital vehicles are growing increasingly popular as a means of providing long-term exposure to illiquid assets such as private equity and private credit assets.

Recent and anticipated regulatory reforms and evolving market trends have the potential to expand access to private markets and alternative assets, particularly for retail investors who previously were foreclosed from accessing these sectors.

As policymakers initiate reforms — discussed below — that promote private market opportunities, fund sponsors are responding with innovative fund structures.

As the permanent capital vehicles sector evolves and new structures proliferate, a well-formed understanding of the various investment vehicles is important.

Closed-End Funds

Closed-end funds are permanent capital vehicles that raise a fixed amount of capital through an initial public offering and then list their shares on a national exchange. Investors buy and sell shares in the secondary market, but the number of outstanding shares remains constant.

These funds are not required to redeem shares at net asset value, or NAV, allowing managers greater flexibility to invest in illiquid assets. Closed-end funds may use leverage more extensively than other fund types, and their shares often trade at a discount or premium to NAV.

Traditionally, closed-end fund investors redeem their shares differently than open-end, i.e., mutual, fund investors. Unlike mutual fund shares, closed-end fund shares are not typically redeemable by the closed-end fund at NAV or otherwise.

Most resales of closed-end fund shares are made through secondary markets, either on national securities exchanges for listed shares or over the counter. Closed-end shares can often be purchased at a significant discount from a closed-end fund's NAV due to market volatility.

Because closed-end funds are not required to buy back shares from shareholders, closed-end fund managers do not have the same concerns about constant redemptions as mutual fund managers, and they do not have to manage their funds to account for possible redemptions.

The U.S. Securities and Exchange Commission staff has historically required closed-end funds that proposed to invest more than 15% of their net assets in private funds to limit the sale of their shares to accredited investors whose initial investment was at least $25,000.

This policy has not been codified in any formal rule or statute but was enforced through the registration statement review process. As a result, retail investors have been excluded from meaningful exposure to private market opportunities through registered closed-end funds.

In May, SEC Chair Paul S. Atkins spoke about expected changes to this long-standing policy. Atkins addressed the need to revise the two-decade-old policy, noting that it prevented retail investors from accessing the private markets through registered funds.

Atkins emphasized that much has changed since the implementation of the policy, including the substantial growth of private markets and enhanced oversight and reporting requirements for private fund advisers and registered funds.

SEC Division of Investment Management Director Natasha Vij Greiner in May affirmed these ideas, indicating that the SEC staff would no longer provide comments when retail closed-end funds did not adhere to the 15% limit on private fund investments, and that the SEC staff will work with filers to address disclosure issues as these products become more widely available to retail investors.

Additionally, the U.S. House of Representatives Financial Services Committee is considering legislation that would address the same issue in H.R. 3383, the Increasing Investor Opportunities Act.

After this regulatory barrier is lifted, fund sponsors are expected to launch a variety of closed-end funds targeting private market strategies.

This will result in new products, including interval funds and tender offer funds, blending private and public assets and offering varying liquidity features.

There already has been significant, rapid growth in interval and tender offer funds, particularly those focused on private credit and asset-backed lending, and this trend is only expected to accelerate.

Interval Funds

An interval fund is a hybrid form of closed-end fund that continuously offers shares at NAV and provides periodic liquidity through scheduled repurchase offers — typically every three, six or 12 months.

It is required to offer to repurchase a set percentage — 5% to 25% — of outstanding shares at each interval, but investors are not obligated to participate. Shareholders are free to hold out for a better price, but they may not exit a fund until the next designated interval described in the fund's prospectus.

An interval fund also provides an opportunity for investors to access private credit assets by offering structures that allow for exposure to illiquid investments even while maintaining some liquidity through periodic share repurchases.

Interval funds are often better positioned to anticipate investors' liquidity needs than open-end funds, because they do not need to accommodate daily liquidity requests.

Instead, they have the flexibility to limit the size and timing of repurchase offers, and shareholders are required to give the fund advance notice of their redemptions.

Moreover, exposure to private credit, among other asset classes, offers diversification, and periodic repurchases effectively reduce the spread between the market trading price of a fund's shares and the fund's NAV, which helps facilitate additional capital raising following the initial fundraising round.

Tender Offer Funds

A tender offer fund is another type of continuously offered closed-end fund registered under the Investment Company Act of 1940. A tender offer fund conducts periodic tender offers, most often quarterly, at the discretion of a fund's board pursuant to Rule 13e-4 under the Securities Exchange Act of 1934.

Unlike interval funds, the timing and amount of repurchase offers are flexible, and there are no prescribed liquidity requirements. Shares are typically repurchased at or near NAV, and the process allows managers to control liquidity and manage the fund's asset base more effectively.

Business Development Companies

BDCs are closed-end investment companies regulated under the 1940 Act, designed to provide capital to small- and mid-sized U.S. companies.

BDCs benefit from pass-through tax treatment and may be publicly traded or privately held. They play a significant role in private credit markets, offering retail and institutional investors access to private debt and equity investments that are otherwise difficult to reach.

In recent months, there have been a number of regulatory and legislative developments affecting BDCs.

In March, the Financial Industry Regulatory Authority filed a proposed rule change with the SEC to amend Rules 5130 and 5131, exempting nontraded BDCs from IPO purchase restriction rules.

Currently, nontraded BDCs are considered restricted persons under Rule 5130, and, as a result, they cannot purchase shares in an IPO due to their frequent affiliations with broker-dealers and investment managers.

The Rule 5130 changes would treat nontraded BDCs similarly to publicly traded BDCs and registered investment companies. The changes to Rule 5131 would allow for certain circumstances in which nontraded BDCs could participate in an IPO allocation even if they have relationships with the investment bank involved in the IPO.

Also in March, the SEC issued exemptive relief allowing a private BDC — Ares Core Infrastructure Fund — to offer multiple share classes with varying sales loads and distribution fees even if the shares are not publicly offered.[1]

Exemptive relief is generally required for permanent capital vehicles, including interval funds and tender offer funds, to offer multiple share classes. This exemptive relief allows private BDCs to attract a broader range of investors with varying and customized fee structures, and it increases their capital raising opportunities.

In May, the House Financial Services Committee passed the Access to Small Business Investor Capital Act, and companion legislation has been introduced in the U.S. Senate to allow registered investment companies to exclude fees and expenses incurred indirectly from investment in a BDC from their calculation of acquired fund fees and expenses.

These fees and expenses can instead be disclosed in a footnote.

If signed into law, this change would correct a disclosure requirement that overstates the cost of a BDC's operating expenses, as they are currently double reported in financials, both under the acquired fund fees and expenses rule and in BDCs' quarterly NAV reporting.

This legislation has the potential to drive increased institutional investment into BDCs.

Closed-End Fund Co-Investment Relief

Closed-end funds, BDCs and their affiliated investment vehicles have been subject to restrictive and administratively burdensome co-investment rules.

Requirements include frequent, in-depth board approvals, restrictions on the types of entities that could participate in co-investment transactions, prohibitions on participation in co-investment transactions based on preexisting affiliate investments, and extensive reporting requirements.

Historically, these requirements resulted in delaying transactions and made transactions burdensome, costly and often impossible to complete.

In April, the SEC granted exemptive relief to FS Credit Opportunities Corp. that creates a more streamlined, modern co-investment framework for certain closed-end funds, including BDCs.[2]

These changes ease compliance and governance burdens. This relief also allows affiliated joint ventures of BDCs and insurance company separate accounts to participate in co-investment transactions with other affiliated investment vehicles.

Additionally, the new process reduces board approval requirements for co-investment transactions, clarifies the roles and responsibilities of advisers and boards of directors in these investments, expands the types of investment opportunities in which closed-end funds can engage, and streamlines investment allocation decisions.

Given many BDCs and other permanent capital vehicles are sponsored by private equity or private credit platforms, with multiple public and private vehicles, the ability to engage in co-investment and joint exit transactions is an important priority.

Open-End Funds

Open-end funds continuously issue and redeem shares at NAV. They involve a flexible share redemption process in which investors buy or sell shares directly from the fund at any time, and the fund's size fluctuates with investor activity.

Open-end funds are subject to liquidity requirements, limiting their exposure to illiquid assets — historically capped at 15% of assets — which ensures daily liquidity for investors but restricts access to certain alternative investments.

However, open-end funds carry the risk that high demand for redemptions will cause a fund to sell assets to cover that demand, hindering fund performance. These are drawbacks that controlled liquidity funds, such as tender offer funds, do not encounter.

Target Date Funds

A target date fund is a type of open-end fund that automatically adjusts its asset allocation over time, typically shifting from higher-risk assets (like equities) to more conservative investments (like bonds) as the target date (often retirement) approaches.

These funds offer a so-called set-it-and-forget-it approach for investors with a specific time horizon.

Conclusion

Industry groups, such as the Investment Company Institute, have made expanding retail access to private markets a strategic priority. Stakeholders advocate for regulatory reforms that allow greater flexibility for individual investors, including through retirement platforms and regulated funds.

The goal is to democratize access to private equity, private credit and other alternative investments, which have historically been the domain of institutional investors.

The investment fund industry is undergoing a period of significant transformation. Closed-end funds, interval funds, tender offer funds, BDCs and open-end funds each offer distinct features and advantages, and recent SEC actions are making it easier for retail investors to participate in private markets.

As the landscape continues to evolve, those representing investors and fund sponsors need to stay informed about regulatory developments.

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[1] See Ares Core Infrastructure Fund, et al., Investment Company Act Rel. No. 35523 (April 8, 2025), https://www.sec.gov/Archives/edgar/data/2031750/999999999725001786/filename1.pdf. (The final order was issued April 8, 2025 and initial notice was issued March 12, 2025).

[2] See FS Credit Opportunities Corp., et al., Investment Company Act Rel. No. 35561 (April 29, 2025), https://www.sec.gov/files/rules/ic/2025/ic-35561.pdf. (This relief can be obtained by other closed-end funds on a similar basis).