

Find the Right Fit

Matching Asset and Vehicle Liquidity in Semi-Liquid Alternative Investments

The democratization of alternatives is one of the most important and visible trends in the financial industry. As more individual investors pursue the return premium long associated with private market investing, identifying investment vehicles that meet their liquidity expectations has become increasingly critical. This paper explores the growth of semi-liquid alternative investment vehicles and the imperative of matching the underlying asset’s liquidity with the liquidity features of the investment vehicle itself.

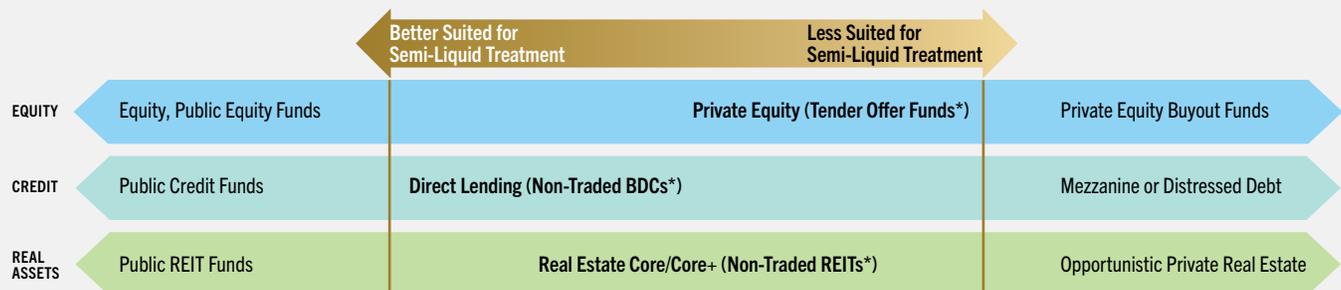
Fit for Purpose?

To address the broad range of investor demands today, alternative investments are now offered in multiple wrappers, from illiquid multi-year drawdown funds to daily-liquid mutual funds and exchange-traded funds. Sitting in the middle are semi-liquid structures such as non-traded business development companies (BDCs), interval funds, tender offer funds and non-traded real estate investment trusts (REITs). These structures provide periodic liquidity, typically allowing redemptions of up to 5% of the vehicles’ net asset value (NAV) per quarter while providing direct exposure to various private market asset classes (see Exhibit 1).

This compromise between long-lockup and daily-liquid structures has proven attractive to individual investors. However, the semi-liquid structure alone does not guarantee a satisfactory investor experience. A critical factor is how well the structure fits with the liquidity of the underlying assets. A mismatch between the liquidity of the assets and the redemption terms of the vehicle can create challenges for investors (whether they seek to exit the fund or remain) and fund managers alike. The reality is that not all private market assets are equally suitable for inclusion in semi-liquid investment structures.

Exhibit 1

Some Assets Are More Semi-Liquid Than Others



Source: Golub Capital. For illustrative purposes only.

*Non-traded BDCs, tender offer funds and non-traded REITs are three examples of “semi-liquid” alternative vehicles; they seek to provide more regular liquidity (5% a quarter, 20% per annum, as a percentage of NAV) than traditional limited partner–drawdown funds

A Real (Estate) Liquidity Mismatch

Real estate offers a case in point. From 2015 to early 2022, investor demand for core real estate soared, with one fund receiving over \$50 billion in net inflows over a three-year period.

However, when interest rates began rising in 2022, real estate valuations declined and a wave of investors sought to redeem. Because non-traded REIT liquidity is limited to 5% of NAV per quarter, redemptions quickly hit a ceiling—known as gating—leaving many investors unable to fully exit their position (see Exhibit 2).

To meet both redemption requests and required distributions, some funds depleted their liquidity sleeves (typically invested in more liquid instruments such as commercial mortgage-backed securities) or faced the difficult choice of selling real estate assets in a down market. One manager sought board approval to reduce quarterly liquidity rights from 5% to 1%—an 80% cut—shaking investor confidence.¹

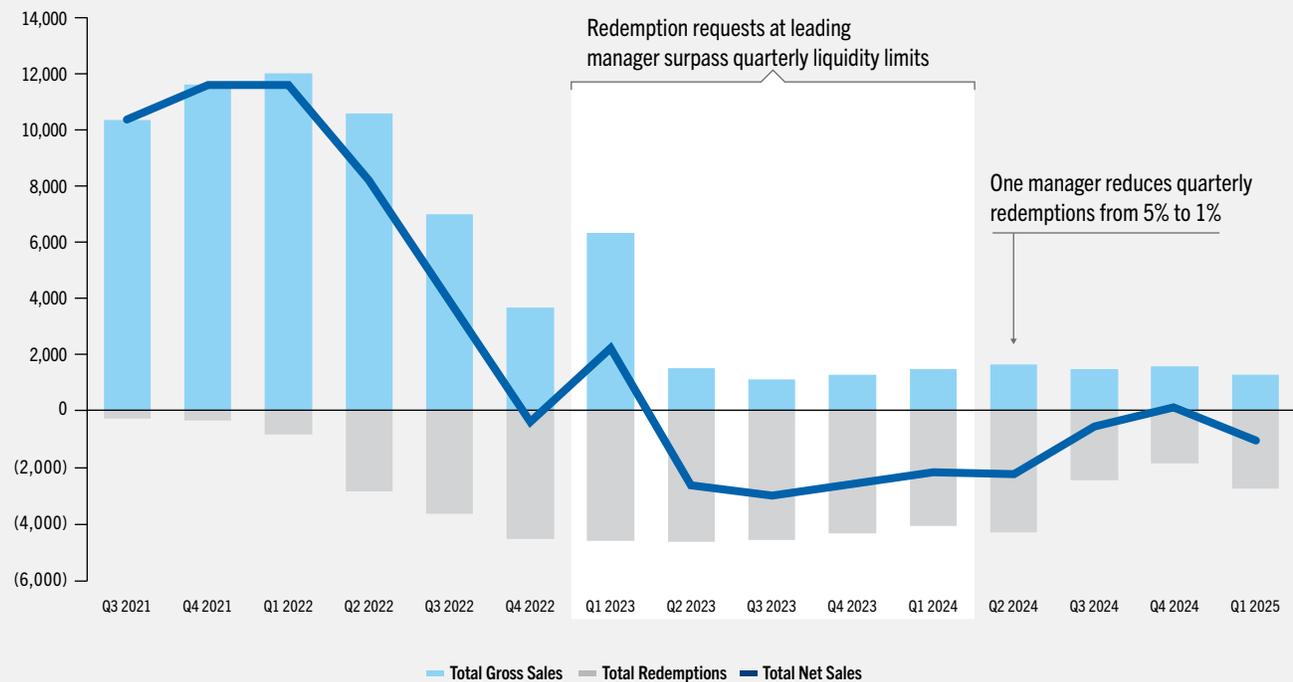
Another fund facing similar redemption pressures sought shareholder approval to convert from an interval fund structure to a publicly traded closed-end fund offering daily liquidity (shareholders voted down the proposal).²

These events raise important questions. Were investor expectations realistic? Did managers grow their investor base responsibly? Were liquidity mechanisms clearly disclosed? Even with prudent management, the structural limitations of core real estate (including its longer holding period) may make it difficult to meet liquidity promises during periods of stress.

Exhibit 2

Investors at the Gate

Non-Traded REIT Universe Quarterly Flows (\$M)



Note: Data as of March 31, 2025.

Source: Stanger Market Pulse, Alternative Investments.

1. As reported in Bloomberg article, May 23, 2024, “Starwood’s \$10 Billion REIT Turns to Survival Mode as Real Estate Pain Lingers.”
 2. As reported in Investment News, September 4, 2025.

Two Assets, One Liquidity Promise

To illustrate the importance of asset-level liquidity, consider real estate and direct lending—two distinct asset classes that are commonly packaged in similar semi-liquid wrappers. While the liquidity of the vehicles is similar, the characteristics of the two asset classes diverge substantially.

Real Estate (via Non-Traded REITs)

- Primarily stabilized commercial real estate properties (residential, offices, hotels, malls, industrial)
- Vulnerability to real estate market dynamics and highly sensitive to interest rate cycles
- Returns that derive from rental income and property appreciation
- Typical holding period of seven to eight years for properties³

Direct Lending (via Non-Traded BDCs)

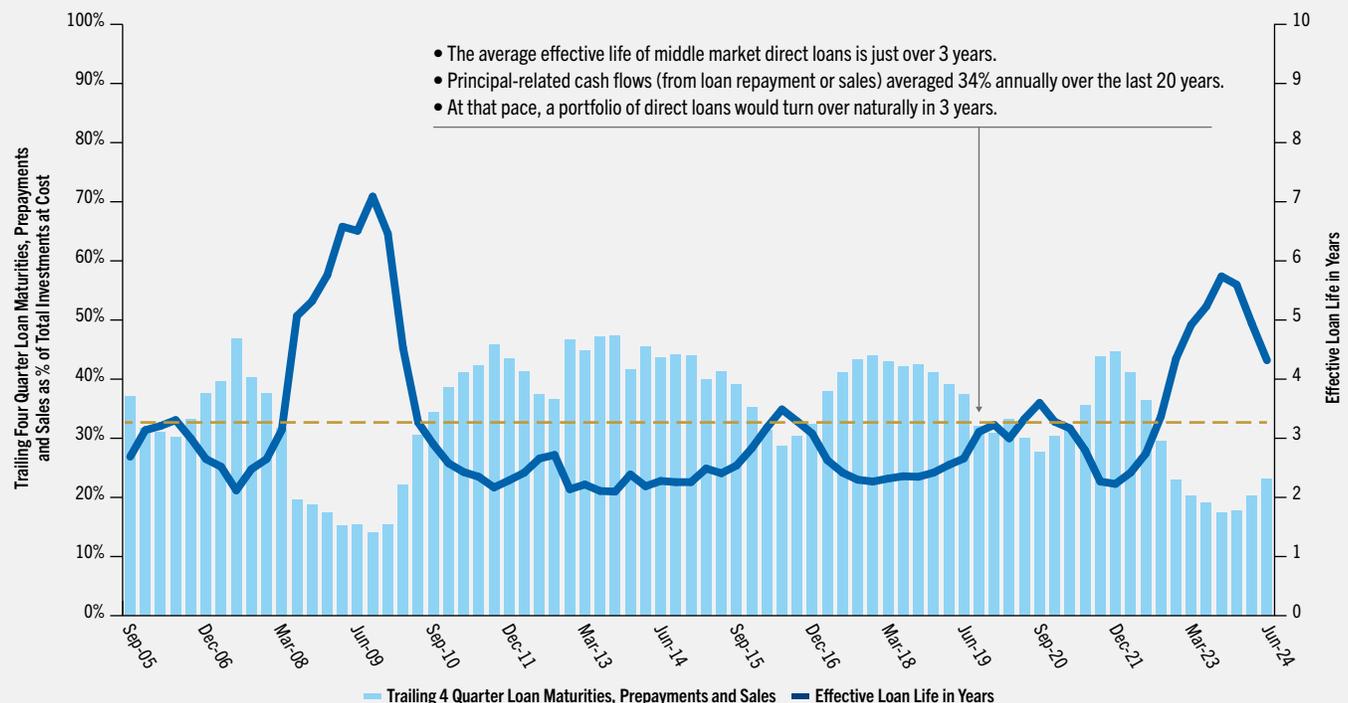
- Primarily senior loans to middle-market companies sponsored by private equity firms
- Typically concentrated in less cyclical industries; less sensitivity to rising rates due to floating rate structure
- Strong, predictable income driven by contractual interest payments and principal repayments
- Generally structured as five-to-six-year instruments, but tend to repay or refinance within three years

The fundamental takeaway is that the loans from direct lending managers tend to amortize and return capital to investors faster. This helps align direct lending portfolios more closely than real estate assets with the semi-liquid vehicle’s liquidity profile (see Exhibit 3).

Exhibit 3

A Short-Lived but High-Income Asset

Liquidity and Cash Flow Characteristics of Direct Lending Portfolios



Note: Data as of June 30, 2024.
Source: Cliffwater Direct Lending Index.

3. Source: NCREIF National Property Index (NPI). The NPI provides historical measurement of the property-level returns of real estate as an institutional investment asset class.

Direct Lending Difference

The contrast with direct lending is important. These debt portfolios have natural turnover with an average loan life of three years, providing a buffer to help meet liquidity demands without forced asset sales.

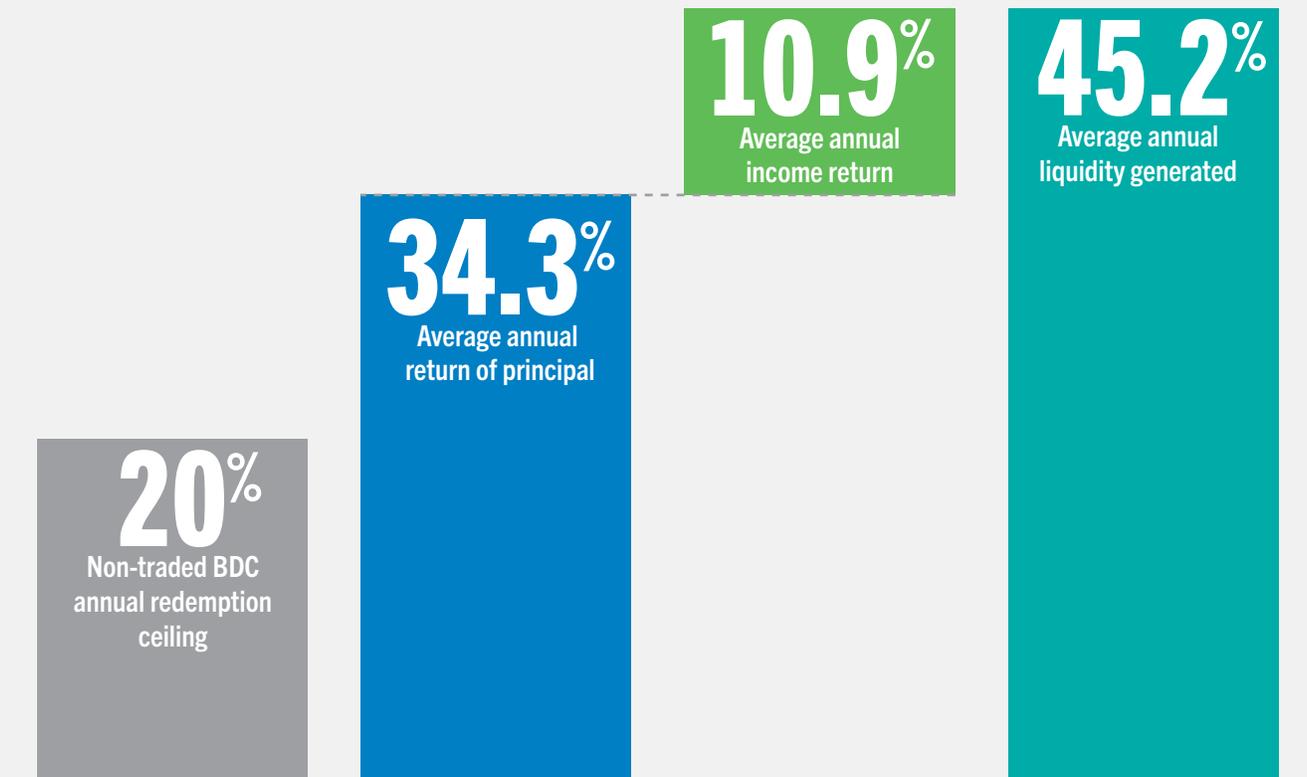
With annual principal repayments averaging 34% and annual income returns exceeding 10%, direct lending portfolios tend to be better equipped to meet the 20% annual liquidity (5% of NAV per quarter) promised by non-traded BDCs (see Exhibit 4).

Supported by the relatively high and consistent cash flows of the underlying loans, a typical portfolio could organically generate meaningful liquidity over three years without relying on new inflows or selling assets at unfavorable prices. This balance of both asset- and vehicle-level liquidity should help managers meet redemption requests and maintain income distributions across market cycles.

Exhibit 4

An Income Bridge to Enable Investor Redemptions

Direct Lending Asset-Level Liquidity Exceeds Non-Traded BDC Vehicle Redemption Threshold



Note: Data represents average trailing four quarter returns from September 30, 2005 to June 30, 2024.
Source: Cliffwater Direct Lending Index.

Finding the Right Fit

The lesson for advisors and investors is clear: Vehicle structure matters, but underlying asset liquidity matters as well.

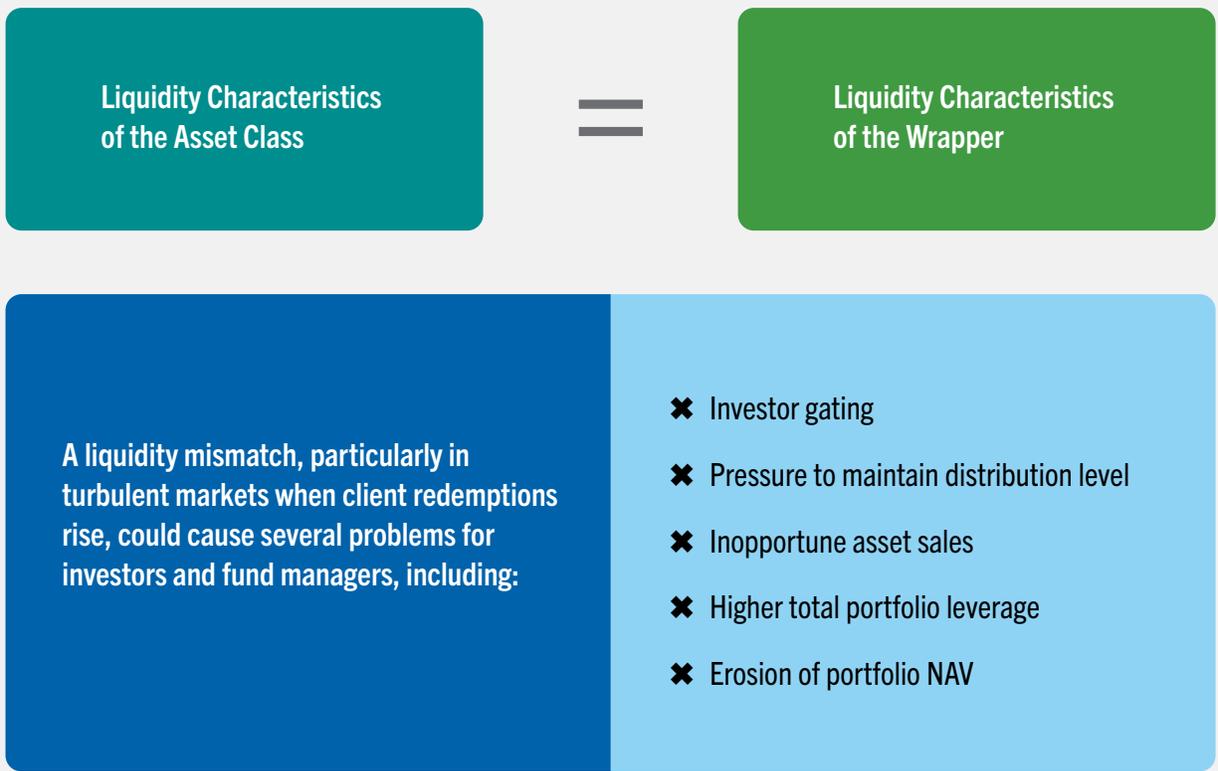
The challenges faced by non-traded REITs weren't due to market conditions alone. They reflected a deeper design flaw: promising liquidity to investors in a structure misaligned with its underlying asset-level characteristics. Real estate assets, with long holding periods and high sensitivity to rate cycles, may cause managers to periodically struggle to address short-term redemption pressures.

For many real estate investors, the experience was challenging. Promised liquidity did not always materialize; funds struggled to maintain income distributions, total return declined and NAV eroded—sometimes due to fire-sale liquidations of sizable property holdings or increasing portfolio leverage (see Exhibit 5).

Direct lending, by contrast, is generally better suited to semi-liquid structures. Its high natural turnover of capital and steady interest income provide managers with the flexibility to meet redemptions while maintaining fund stability. However, it is important to acknowledge that direct lending portfolios are not immune to stress during market dislocations, and investors should maintain realistic expectations for liquidity in times of volatility.

Exhibit 5

Compromised Liquidity: When Asset and Vehicle Don't Match



Source: Golub Capital internal analysis.

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