

Talking Trends: Fund Finance

July 14, 2026

In *Women in Private Credit: Talking Trends*, we dive into the world of private credit through the lens of eminent women in the field — from professionals at the forefront of industry leadership to our own lawyers. Together, we navigate the trends and topics influencing private credit against the backdrop of today's ever-evolving geopolitical landscape.

In our latest edition, Proskauer fund finance partner Mei Mei Wong engages with Pemberton's Co-Head of GP Solutions Origination, Europe and Head of Asset-Based Financing Origination, Europe, Cassandra Fahy, unpacking net asset value-based fund financing (NAV financing), including exploring market evolution, sentiment and developments.

At a high level, what do we mean when we talk about NAV financing, and where does it sit within the broader fund finance toolkit?

Cassandra Fahy, Pemberton: NAV financing relates to debt financing against the value of a fund's portfolio of assets. This type of financing has existed for quite some time (with varying uptake in different jurisdictions) across a range of asset classes including hedge funds, fund of hedge funds, infrastructure funds, secondary private equity and private credit funds. Increasingly, they are now being used by the private equity buy out space as another tool to optimise financing and provide much needed liquidity and capital for underlying portfolio companies and fund investors. These financings tend to be largely drawn, and more often than not, are not revolving facilities. They also broadly rely on underlying portfolio investments as collateral (and cashflows flowing therefrom) rather than having further recourse to uncalled capital in the funds as you might see in sublines or hybrid lines. NAV financings are complementary to these rather than a substitute and are tools that provide solutions for different issues in the lifecycle of a fund.

NAV financings may have a number of purposes, and the use cases are constantly evolving. We tend to see them most often deployed after the end of the investment period of a given fund to help unlock value for limited partners (**LPs**), e.g. through providing follow on capital in a portfolio for the purposes of M&A and bolt-ons, refinancing or repaying expensive debt; in other words, investing in the portfolio growth creating accretive dynamics for underlying LPs. We also see this tool used for further platform investment as a way to maximise fund deployment at 100%+ of the available capital and to provide liquidity to LPs or as an alternative to a continuation vehicle (**CV**). We also see NAV financing technology extend into the realm of general partner (**GP**) financing, typically looking through to historic GP commitments on balance sheet as collateral for these financings. Use cases range from financing GP commitments into new vintages, seeding new strategies, buying back stakes, M&A, partner succession and LP liquidity tools.

Mei Mei Wong, *Proskauer*: More broadly, NAV financing has evolved from a niche product into an established component of the fund finance landscape. As private markets have matured and financing needs have become more sophisticated, NAV financing has emerged alongside subscription facilities, hybrid facilities, continuation vehicle financings and GP financing solutions, amongst others, as part of a broader suite of liquidity and capital management tools. Its growing prevalence reflects its versatility in supporting sponsors and investors at different stages of a fund's lifecycle.

NAV finance has grown rapidly over the past few years - how much of that growth do you see as structural versus cyclical given current exit market conditions?

Cassandra Fahy, *Pemberton*: NAV financing has seen strong growth in recent years particularly in respect to private equity portfolios. Some of this growth has been driven by the prevailing market conditions post COVID and other recent macroeconomic shocks. These might be considered "cyclical" at first glance, but our view is that given the prolonged period of uncertainty we are witnessing, this is becoming more structural.

Post the initial pandemic shock, we entered a period of rising rates, high inflation, continued geopolitical instability, supply chain disruptions, commodity / energy price inflation and economic protectionism between US, China and Europe, to name a few of the underlying features of the market. All of this has meant that creating growth in businesses has become far harder than it was pre-pandemic where we had a good degree of economic and political stability, low rates, low inflation and therefore also access to cheap debt to optimise capital structures as a key part of private equity theses.

In the current environment, simple multiple expansion has become far less possible as management teams navigate complex macroeconomic dynamics and are often burdened with considerable interest cost outflows from their debt stacks. This more challenging backdrop has resulted in a slower exit market with perceived valuations and expectations from sellers struggling to find a middle ground. Therefore, private equity exits have been significantly delayed, and now average holds stand at 6.44 years according to Preqin (2025), an all-time high. This context has also impacted the fundraising market which is far more complex than 5-10 years ago. Therefore, propelling the need to embrace a broader toolkit to unlock portfolio value and NAV financings serve that purpose well. We are seeing many GPs use these financings to provide follow on capital to companies for acquisitions and bolt-ons, to refinance legacy (expensive) debt or inject liquidity if required. We have also seen managers use this source of capital to maximise deployment of their latest vintages i.e. deploying 100%+ of committed capital whereas historically there would typically be a portion of any given fund (~10%) which was left “in reserve” creating an implicit drag on fund performance.

The increasing levels of adoption of NAV financing in private equity are here to stay, in our opinion. What started as a cyclical shift has allowed for an education process to take place and further familiarity across GPs and LPs should allow for this type of financing to become a permanent part of the private equity toolkit.

Mei Mei Wong, *Proskauer*: Beyond the current market environment, another factor supporting the structural growth thesis is the continued institutionalisation of the NAV financing market itself. Over the last several years, the lender universe has expanded significantly, documentation and market standards have become more sophisticated, and both GPs and LPs have become increasingly comfortable with the product when used appropriately. As a result, NAV financing is no longer viewed solely as a solution for stressed or delayed exits, but rather as a strategic capital management tool.

Even if exit activity and distributions recover, we expect managers to continue using NAV facilities selectively to accelerate value creation opportunities, optimise portfolio capital structures and manage fund-level liquidity more efficiently. In that sense, the market has evolved beyond being merely a response to cyclical pressures; it is increasingly becoming embedded within the broader private equity financing ecosystem.

How are LPs reacting - and where are their sentiments?

Cassandra Fahy, *Pemberton*: There is a disparity of views and perceptions amongst LPs when it comes to NAV financings. During 2022/23 we saw a surge of transactions used for dividend recaps which were at times not well received by LPs. There was also a lack of discipline on LP communications and therefore there was quite a bit of pushback at this time. Now, the market has continued to rapidly evolve, and large institutional investors are far more familiar with the structures, use cases and intent behind these facilities, and so we are seeing increasing rates of adoption and penetration with reasonable LP buy-in. What is key is investor engagement, transparency and a clear and accountable strategy for the capital.

There is still great disparity in perception with some more traditional sources of capital being averse to these facilities with the more sophisticated investors who have larger teams and bandwidth to consider these sorts of transactions able to do the required analysis and gain comfort to allow the GP to proceed. There is also a range when it comes to the legal requirements of what a GP needs to do to put such a facility in place and it could range from purely a notification requirement through to a full amendment of the LPA. Understanding the legal requirements and then overlaying how to best manage and collaborate with LP clients requires careful consideration and at Pemberton we always emphasize the importance of open and transparent conversations at early stages, and in most cases, going beyond the minimum requirements.

Mei Mei Wong, Proskauer: A further development has been the increasing level of industry engagement around fund finance generally, and NAV financing specifically. Organisations such as the Institutional Limited Partners Association and the Loan Market Association have played an important role in fostering greater understanding of these facilities through educational initiatives, market guidance and the development of best practices. This has helped move the conversation beyond simplistic characterisations of NAV financing as either "good" or "bad" and instead focus attention on the intended use of proceeds, alignment of interests, governance and transparency.

As LPs have become more familiar with the structures, the discussion has become increasingly nuanced. Many investors now recognise that NAV facilities can be a valuable tool when used to support portfolio value creation, bridge timing mismatches in liquidity, or provide flexibility in a challenging market environment. At the same time, LPs continue to expect robust governance, clear reporting and thoughtful consultation, particularly where facilities may have a material impact on fund economics or risk profiles.

The result is that LP sentiment is increasingly less about whether a NAV financing is being used and more about how it is being used. Managers that can articulate a clear investment rationale, demonstrate alignment with investor interests and engage proactively with LPs throughout the process are generally finding a more informed and constructive dialogue than was often the case several years ago.

What are the key risk considerations for lenders and sponsors in NAV structures, particularly around valuation and leverage?

Cassandra Fahy, Pemberton: Like most financial products, if correctly structured, the risks can be well mitigated and minimised. When it comes to NAV facilities and in particular for typical transactions with LTVs ranging between 5-20%, the risk can be minimised through structural and legal protections such as cash sweeps which will govern the amount of leakage permissible in the structure, alongside minimum diversification thresholds which may at times include named assets or minimum NAVs per asset, thus ensuring that a certain pool of assets will overcollateralise the loan and support repayment.

From a sponsor perspective, the perceived risk of implementing such a financing is low. Even at 20% LTV there would need to be such a vast deterioration in the portfolio in order to wipe out the 80% of equity value behind the debt and it would need to happen on a systematic basis across an entire portfolio. It is also worth keeping in mind these financings tend to be well diversified with, on average, 10 or more portfolio companies.

Mei Mei Wong, *Proskauer*: Valuation is naturally a key consideration in NAV financing, but the focus is often less on any single valuation point and more on the robustness of the valuation framework, including methodology, governance and independent oversight. Lenders also pay close attention to portfolio concentration, assessing exposure to individual assets, sectors and geographies and typically incorporating diversification and eligibility tests into the structure.

From a sponsor perspective, alignment and use of proceeds remain important considerations. Facilities that support portfolio value creation, such as acquisitions, growth investments or refinancing existing debt, are generally viewed more favourably than those used primarily to accelerate distributions. As the market has matured, strong governance, transparent investor communication and a clearly articulated strategic rationale have become increasingly important factors in the successful execution of NAV financings.

Pricing, structure, and lender appetite: what's changing in the horizon

Cassandra Fahy, *Pemberton*: The biggest change we are witnessing is the level of interest and adoption by GPs, together with the realisation that NAV financing has a place in PE's permanent toolkit contributing to optimise how a portfolio is managed, how value is created for LPs and ultimately how a GP is managed and financed.

The key trends we are seeing this year are firstly, the return of the distributed to paid-in capital (**DPI**) trade – with various transactions in pipeline where use of proceeds is for DPI acceleration as CVs – which are largely used to create liquidity for LPs – perhaps start to lose their appeal, with a significant portion of LPs not participating in these vehicles thus missing out on future upside. This is a shift from 2024/25 where these transactions were few and far between. In addition, we have seen a big push in structured fundraising and LP liquidity tools. Fundraising, once a 3–6-month affair, has now become far more challenging and takes anywhere between 12–36 months in some cases. Slower realisations across the board have left LPs with constrained balance sheets at times. Historically, LP secondaries have been the answer but with these types of financings coming at a discount for the best part, the proposition is less appealing. Structured fundraising where a NAV loan is put in place against an LP portfolio can be an elegant solution to obtain liquidity at par and retain the ongoing upside within the portfolio. Increasingly, we see GPs lead on these sorts of structures as it can be instrumental to unlocking liquidity for their next fundraise.

If we think about pricing, structures and lender landscape, the market is still in its infancy and so the key drivers in these types of financings will often be relationships, deliverability, and ease of execution.

Mei Mei Wong, *Proskauer*: At the same time, we are seeing the lender universe continue to broaden and become more sophisticated. As more dedicated NAV providers enter the market and existing participants expand their capabilities, sponsors are benefiting from a wider range of structuring solutions and greater certainty of execution. While pricing remains an important consideration, it is often not the primary differentiator. Given the bespoke nature of these transactions, sponsors are increasingly focused on a lender's ability to understand complex portfolios, provide flexible capital and act as a long-term strategic partner. As the market continues to mature, we expect product innovation and structuring flexibility to become as important as pricing in driving lender selection.

What do you see as the key areas of growth or evolution in the NAV financing market over the next few years?

Cassandra Fahy, Pemberton: The biggest shift we expect to see over the coming 5 years is a dramatic increase in adoption, much like what the market saw for sublines over the past decade with 80-90%+ adoption across the PE community. We think NAV financing adoption is estimated to be in the 10-20% range at present when it comes to private equity GPs and funds, but we anticipate penetration to continue to increase over the coming years, which in turn will drive market growth, and no doubt, new entrants in what is a large and attractive market.

We also see a big opportunity in the GP financing space, which applies the same principles and technology as NAV financing. Within this area, succession planning is the number one topic on the minds of most European GPs and their founding partners, particularly in the €2.5bn-25bn AUM manager space. Specifically in this area, discussions around options available to prepare for leadership transition, the representation and contribution of founding partners to the GP commitment (co-invest in the funds) and what options are available as an alternative to a GP stake sale, are currently very topical and continue to drive the dialogue in this arena.

In conclusion, we are excited for the changes to come over the next 5 years with increasing adoption and use of these financings, together with innovation of structures and a widening of the use cases they are applied to.

Mei Mei Wong, Proskauer: Perhaps the most significant evolution will be the continued institutionalisation of the market. As adoption increases, market standards, governance frameworks and investor understanding will continue to develop, helping NAV financing become a more established and widely accepted component of the private markets ecosystem. Much as subscription facilities evolved from a niche product into a core fund finance tool, we expect NAV financing to follow a similar trajectory.

Ultimately, the next phase of growth is likely to be driven not only by greater volumes, but also by a broader recognition that these structures can play a strategic role in supporting liquidity, value creation and long-term portfolio management. The market's evolution over the past few years suggests that NAV financing is no longer simply responding to a particular cycle, but is becoming a permanent feature of the private equity landscape.

[Cassandra Fahy](#) is a Managing Director and Co-Head of GP Solutions origination at Pemberton. She is responsible for originating investments, assessing risk, conducting diligence, and negotiating transaction terms. In addition, she is also Head of ABF Origination, coordinating the origination efforts across the firm's ABF strategy.

[Mei Mei Wong](#) is a Fund Finance Partner in Proskauer's Private Capital industry group in London. Mei Mei advises fund sponsors, alternative credit providers and financial institutions on the full spectrum of fund financing transactions, including NAV facilities, subscription line facilities, hybrid facilities, GP facilities, co-invest facilities, rated note feeder structures and preferred equity structures, across all asset classes.

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