NAV Lending: The Uses of Liquidity

- The key advantage of fund finance is to keep control of decision-timing
- The concept of NAV Lending now evolving beyond simple loans to funds – GPs need capital to help in a challenging fund-raising environment and LPs are struggling to keep up with capital calls
- New fund launches, follow-on investments, and portfolio company financing needs can all generate needs for cash which do not necessarily match exits
- This type of lending is now a mainstream market, with over $1.2tn outstanding, and 30% of new transactions not tied to subscription lines
- Market has historically favored larger transaction sizes and longer execution periods – now opening for smaller capital needs but from bespoke lenders
- Warana Capital offers expedited and customized solutions for smaller and medium-sized clients, with capital in place

Once considered a niche strategy that was largely confined to subscription lines for only the largest private equity (PE) funds, the Fund Finance market has matured into an asset class of roughly $1.2tn in size, of which subscription lines represent $850bn[1], providing a full range of financing options to a broad array of PE and private credit funds and fund investors (LPs).

In the past, the market was predominantly composed of PE fund borrowing to smooth timing differences between the cash contributions from LPs and the investment needs of the fund during the early stages of the fund's lifespan. This type of lending tends to be short term, "cash against cash" and is often provided by investment banks to their largest financial sponsor relationships and fund managers.

A growing mainstream market

However, over the last five years, fund finance has developed into a highly effective liquidity tool utilized by both funds and LPs throughout the lifecycle of an investment fund. Unlike subscription lines, which are secured against LP commitments, NAV loans are secured against the equity value of the funds' underlying assets, which can enhance a fund's leverage options after the capital call period or when calling capital from LPs is less desirable. With roughly 30% of fund finance transactions not tied to pure subscription lines at the start of 2025[1], these bespoke financing arrangements have continued to grow as their benefits become more evident across funds and LPs.

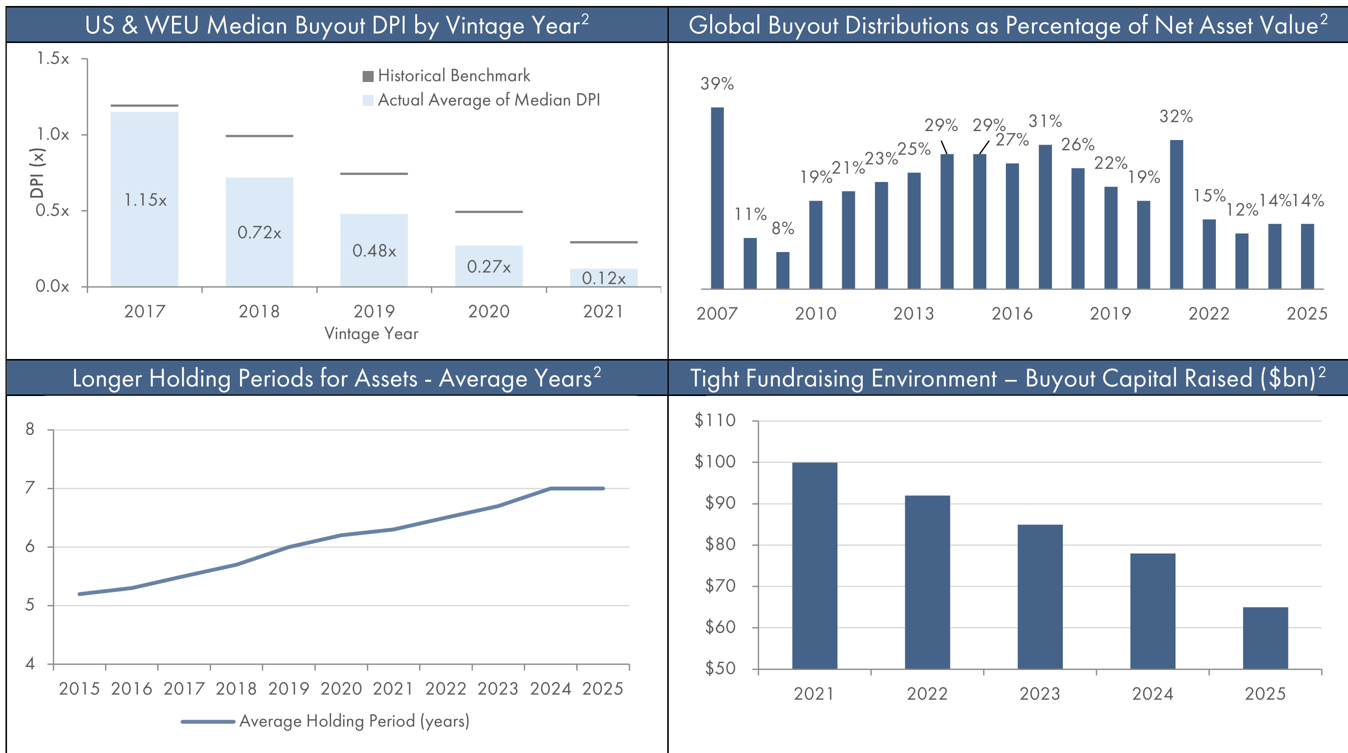
The early portion of this evolution was largely confined to loan asks in excess of $50mm. Whether a loan is $10mm or $100mm, it generally requires the same amount of diligence and documentation, making larger size transactions a preferred starting point for incumbent borrowers. Solutions largely focused on loans to the largest funds and to the senior most principals at major firms. In the last 2 years, Warana has sought to expand that universe with:

- NAV loans as small as $5mm, and with a focus on the assets rather than the scale or brand of the GP

[1] According to Ares Partners' report, "The Evolution of Fund Finance", October 2024

- GP lines to not just the main principals
- Loans to LPs to avoid defaulting on capital calls or just to manage liquidity from a lower private equity exit environment

With private equity exits continuing to be challenged, it is likely that the need for fund finance solutions in the near term is going to continue to grow. Bain & Co released a report in 2026 showing the problem facing LPs and GPs[2]. For GPs, they are being forced to hold assets for longer and sometimes beyond the original financing arrangement established for the acquisition. The need to refinance at the portfolio company level (and challenges often associated with that) will lead them to look for more flexible solutions available at the fund level. They are also finding it more difficult to raise capital, creating sensitivities around calling additional capital from their investors in older vintage funds. For LPs, many have made future private fund commitments expecting reliable liquidity from their older investments. With that liquidity not materializing, they may need to sell other assets or consider fund finance solutions.



NAV lending provides alternatives to bridge liquidity gaps

Use of NAV loans continues to accelerate, with NAV loans now representing $225bn, of which $175bn is attributed to Secondaries NAV and $50bn to Single Fund NAV facilities. The utilization of NAV facilities is expected to increase sixfold by 2030 according to Ares estimates[3]. This is nearly a 10-fold increase in proportion from only five years earlier;

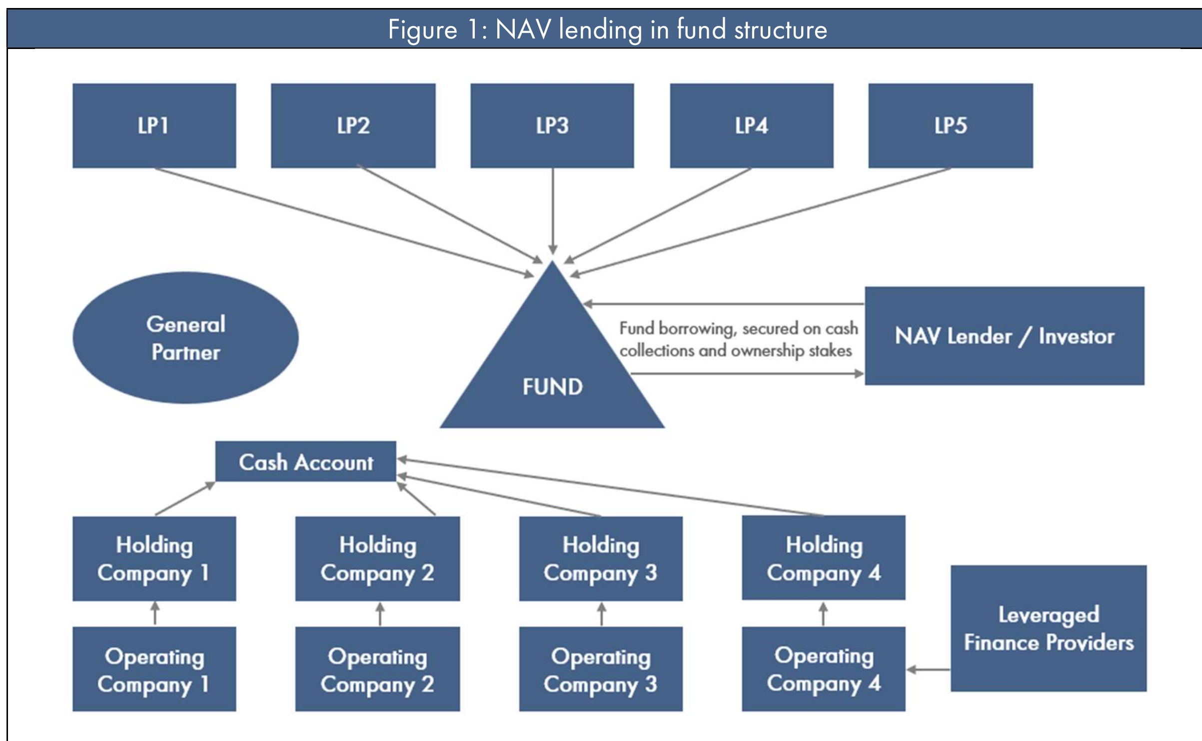
[2] Bain & Company Global Private Equity Report 2026
[3] According to Ares Partners' report, "The Evolution of Fund Finance", October 2024

the market developed very quickly during the pandemic as investors and managers looked for innovative solutions to the unique market conditions of that period. NAV lending has evolved into a highly effective and readily available tool for funds and fund investors to bridge these liquidity gaps, prevent forced exits or inopportune sales, and enable the implementation of asset allocation plans.

Case study: NAV loan to fund follow-on investment
▪ 2016 vintage private equity well into harvest mode performing well but has several portfolio companies remaining whose exit prospects would be materially improved through the addition of capital ▪ Use of proceeds including cleaning up some maturing debt, small bolt on acquisitions and working capital ▪ Capital need was $25mm putting it below the general target size of the specialist mainstream lenders ▪ GP could have considered a larger facility to place the loan ask more on the radar of the broader market but felt the use of additional proceeds was inefficient ▪ Warana was able to conduct due diligence quickly and secure the loan against the portfolio prior to maturity of an underlying debt instrument

With Borrowers now having more flexibility to throttle down the loan size (and not be forced to take larger size to conform to the market), the adoption is likely to continue to improve; loans are likely at lower loan-to-value ratios ("LTVs") and have less significant interest costs (in dollars) to the Fund. Both improve the optics with fund investors.

Figure 1: NAV lending in fund structure



The current illiquidity in the private fund market is also expected to cause stress for limited partners as they juggle liquidity to meet capital calls. The volume of capital raised by private equity funds from 2020-2024 was >$3.7tn[4] with much of this still within capital call periods and consequently could lead to call defaults if exit conditions don't improve.

Case study: LP loan to cleanse a capital call default
▪ Limited Partner has a long-term relationship with private equity manager investing across 4 vintages ▪ Current fund vintage makes a capital call. The LP does not have sufficient liquidity available due to muted liquidity received across their broader portfolio ▪ Fund documents give the GP immense power to deal with the default, including abilities to zero the investment, sell it on the secondary market or charge the defaulting investor interest ▪ GP found themselves in a difficult position – they did not want to take extreme dilution action against a long-term supporter but didn't want to take action that might negatively impact the fund or its other investors. The issue would have also caused problems with the subscription line provider ▪ Warana moved quickly to provide a loan to the investor within the call default period such that the call was paid, as were some future calls to help reduce pressure on all sides going forward ▪ The GP has no defaulting investors, maintains its investor relationships and didn't have to change anything internally ▪ The LP didn't suffer an extreme dilution event and bought itself time

New providers allow more flexibility

The continued development of the market and growth in product offerings reflects the characteristics of the lenders and capital providers that have entered the market. In a recent survey, bank and non-bank lenders had a roughly equal market share, but 80% of newly issued US NAV facilities were jointly provided by banks and non-bank lenders at the initial closing[5]. Unlike bank lenders which may be limited by conventional credit metrics and traditional bank lending credit risk models, the non-bank lenders of the modern fund finance market are often capable of providing highly flexible and custom solutions tailored for each borrower's unique circumstances. While such borrower-oriented and custom structured loans were less accessible in prior years, the maturation of the fund finance market now enables a much broader range of GPs and LPs to utilize this type of financing as a proactive business tool to drive transactions and achieve outcomes, rather than simply managing cashflows or as a defensive equity mechanism.

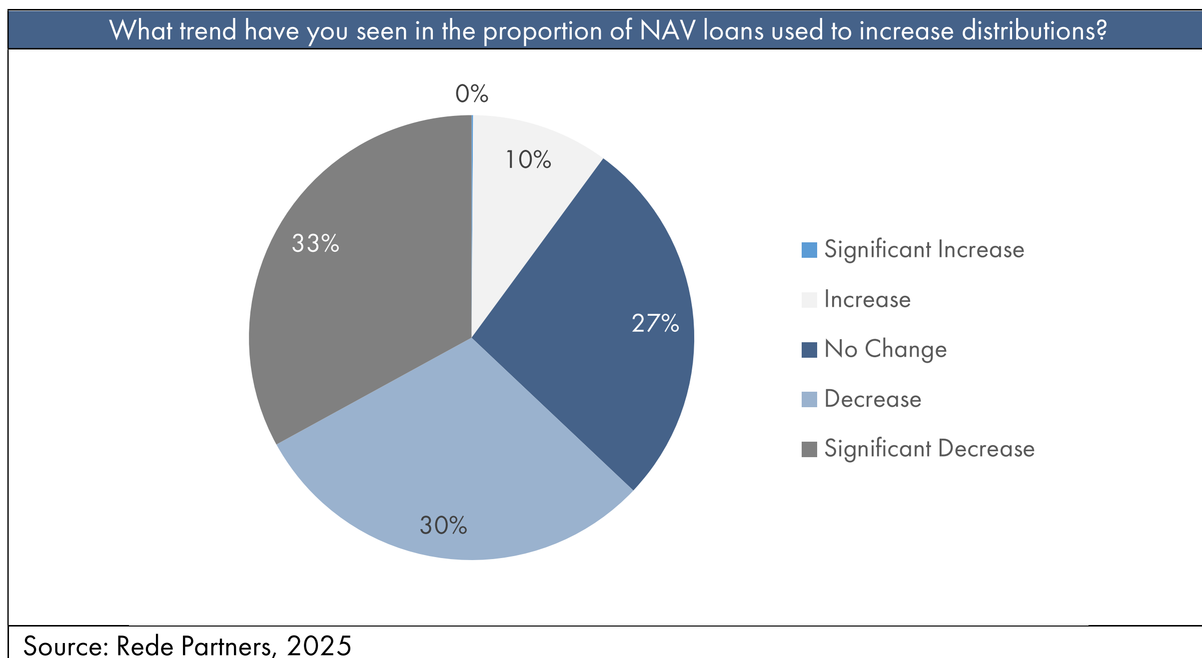
The liquidity needs of a mature portfolio that is outside of the capital call period or at the end of its stated lifespan have historically been overlooked due to the small size of such loans and the sub-scale nature relative to the minimum size requirements of a conventional lender. Late-stage and end-of-life funds have historically had very few financing options when a portfolio is down to only a few remaining assets, given the formulaic collateral requirements of many conventional lenders. Even as capital flows into the fund finance space, lenders continue to prioritize borrowers with larger fund sizes. As fund sizes have rapidly increased from prior vintages, so has the proportionate borrowing need of

[4] Data from S&P Global Market Intelligence, 2025
[5] According to Maples Group report, "Fund Finance Focus 2024 Data Insights"

larger funds. However, our experience is that older vintage, middle-market funds that hold fundamentally sound underlying companies can unlock and create significant value through the judicious use of NAV loans.

Using financing to keep control of timing and decisions

Much of the time, as the saying goes, "money is not really about money; it is about control". The real use of NAV lending in many cases is as a tool of management, to keep control of the timing of investments and realisations, and to maintain valuable optionality. The use of NAV loans to facilitate distributions to investors is far less common than one would think. In many ways, this is a much less impactful use of leverage relative to other value creating use cases, and the sole use of loan proceeds being utilized for distribution funding is surprisingly uncommon. Recent data suggests that the trend away from using NAV loans to fund DPI has accelerated in recent years, with 63% of lenders seeing a decrease in the number of loans used to boost liquidity in 2024[6].



Source: Rede Partners, 2025

Instead, having access to loan finance at the fund level expands the set of options and allows a manager or investor to maintain control over sale(s) and exit event timing of its investments. The flexibility provided by NAV lending can facilitate new opportunities and prevent the forced of sale of investments at a sub-optimal time.

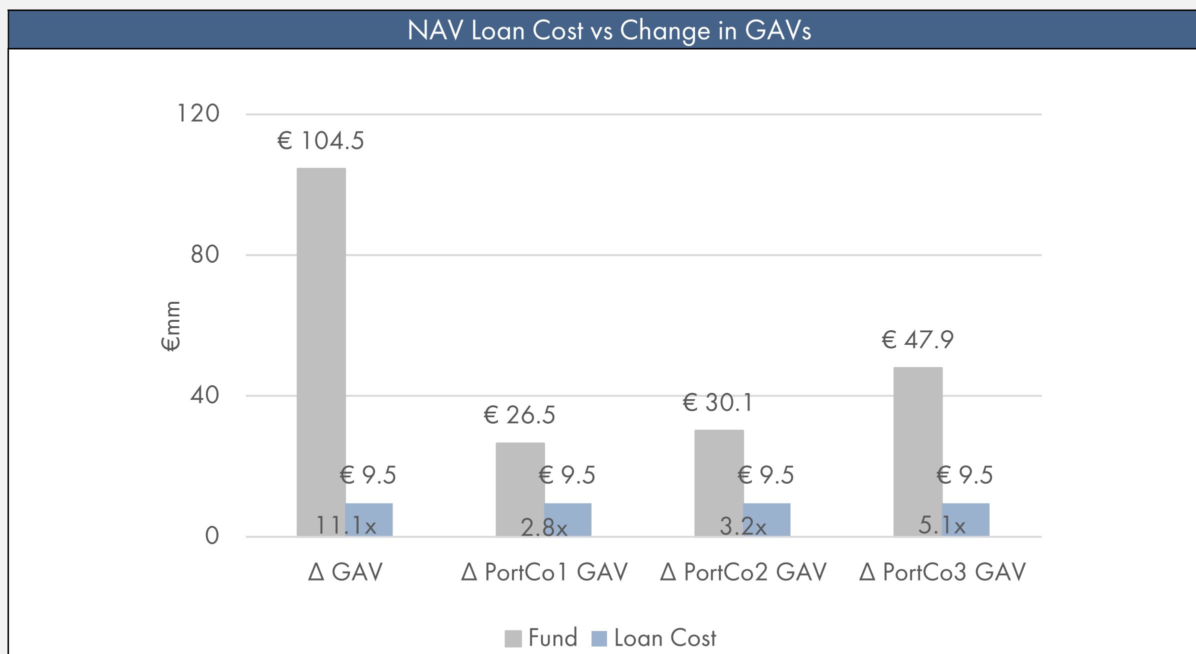
[6] According to Rede Partners' report, "NAV Financing Market Report", June 2025

NAV lending to preserve optionality and control

Warana recently worked with a mature PE fund that had three remaining assets, totalling approximately €500mm. In order to finance working capital at the portfolio company level and refinance existing debt as it matured, there was a short-term cash flow requirement of around €30mm. Raising this liquidity might have required a call on LPs. Given the age of the fund, it was seen as both inefficient and time-consuming to go to the LPs to request additional capital. The other option was the accelerated marketing of one or more of the assets ahead of the manager's preferred schedule and potentially deteriorating prospect of maximising value for LPs.

Instead, the €30mm was raised via a NAV loan, extending the exit runway from under a month to two years. Because of the low LTV ratio, the loan required a few covenants, allowing the GP to maintain flexibility. Although the interest rate was more expensive than that of a bank lender, the total cost of arranging the NAV loan was less than 2% of NAV. The cost of capital was reflective of the fund's immediate need, resulting in a shortened period for due diligence, the lack of portfolio diversification and short duration of the facility. By using a creative financing solution, the fund was able to exit its investments at 2.2x tangible value, rather than the indicative prices of less than 2.0x which had been quoted for a forced sale. The overall effect on portfolio returns was as much as +22%, highlighting that the benefits of maintaining optionality and control over exit-timing can be considerable.

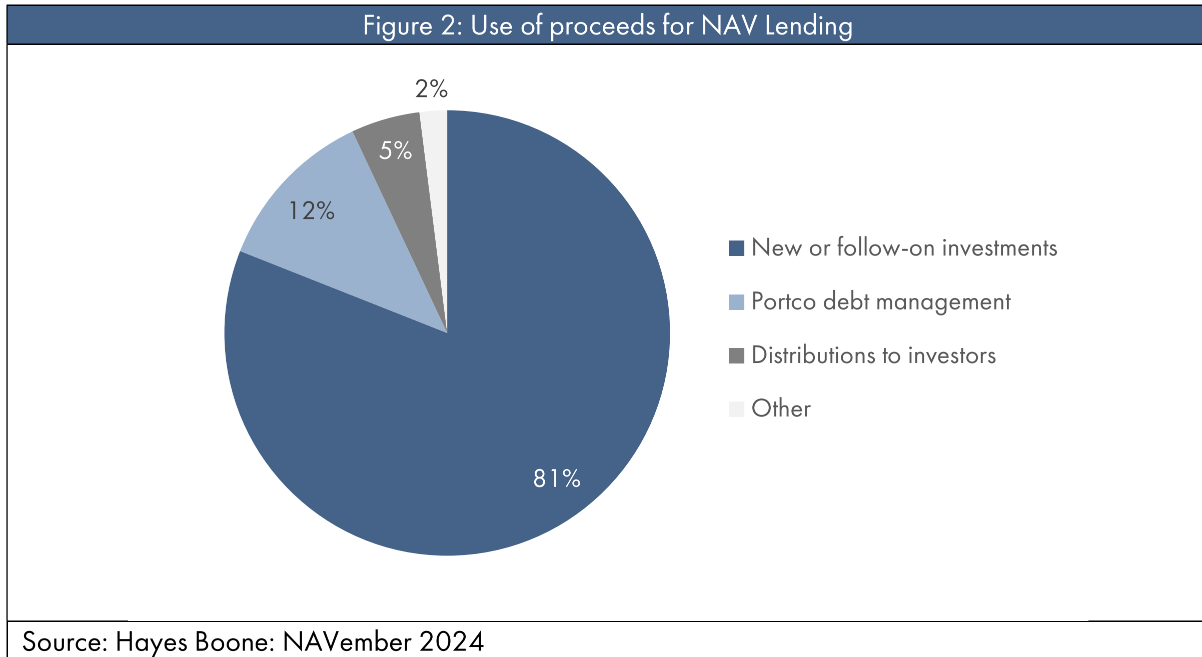
NAV Loan Cost vs Change in GAVs



The majority of NAV loans are used to finance new or follow-on investments, with the next most common use being the refinancing of portfolio company debt or management company leverage. Evidence points to the fact that NAV loans are typically used as a tool to maximize investment options, rather than simple financial engineering. The evidence also appears to show that borrowing is conservative by most standards – more than half of the loans in the Fund Finance

Partners NAV Loan Index were agreed at LTV ratios of less than 15%, with an average of ten individual underlying assets in the collateral pool.

Figure 2: Use of proceeds for NAV Lending



Source: Hayes Boone: NAVember 2024

Bridging the gap for smaller funds

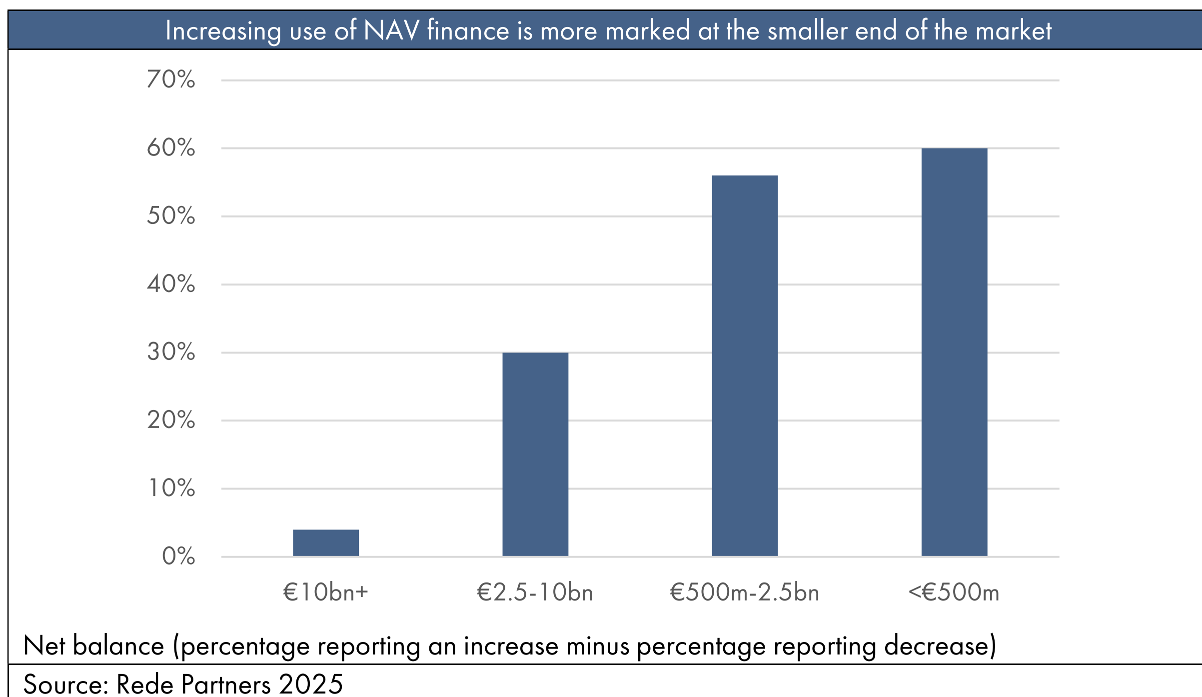
This might suggest that the option to use debt financing could be particularly valuable for smaller funds, as the ability to take advantage of short-term opportunities would make more of a difference to their aggregate performance. As discussed earlier, this has been difficult to achieve, as the NAV financing market began with banks, in which the fixed costs associated with overhead and administration affected the economic viability of smaller facilities. Even as NAV lending has grown from a reactive liquidity tool to a proactive strategy and has developed as an investment strategy favored by secondary and private credit funds, it has predominantly been larger GPs who have entered the market as a lender and capital provider. The size of fund launches since 2020 have reflected this scale with fund sizes ranging between $500mm to $2.5bn.

Case Study: Funding GP Commitment

- A successful specialist PE manager wished to pre-seed the launch of its third vintage, to attract commitments from both existing and new LPs. The GP had significant assets in the form of stakes in previous vintages and excess management fees and carry, but these proved difficult for conventional bank lenders to underwrite, while the size of the transaction was unattractive to large specialist lenders
- Warana was able to use its expertise and flexibility to put together a borrowing structure that fit the needs of the GP, lending an amount between $15-20mm for less than 2 years to allow the GP adequate time to raise the next fund

One consequence of increasingly larger funds providing NAV loans is that fewer capital providers have been interested in transactions where the loan amount is less than $30-$40mm. Loans of this size, particularly when they turn over and refinance after a relatively short period of time, are not material to the returns of a large fund, yet require a comparable amount of legal and diligence work to that of a larger loan. Consequently, the main players in private NAV lending have concentrated toward the larger end of the market, where they are able to put meaningful sums of capital to work annually via a small number of transactions. While this has begun to change as the market continues to evolve, for the time being, only a few loan providers are operationally organized and dedicated to providing the quick turnaround, flexible covenants, and adaptable structures for loan sizes that best suit smaller GPs or those with a smaller borrowing need.

Increasing use of NAV finance is more marked at the smaller end of the market



Net balance (percentage reporting an increase minus percentage reporting decrease)

Source: Rede Partners 2025

Use cases for NAV loans below $40 million

The use of proceeds for fund finance has become significantly more diverse in recent years and can be tailored to the individual borrower circumstances. Some of the more common uses include:

<table>
<tr><th colspan="3">Fund Finance Use of Proceeds</th></tr>
<tr><td rowspan="2">By the Fund</td><td>Strategic and opportunistic investments in portfolio companies</td><td>Later stage portfolio companies may need additional funding to improve their prospects for a successful exit. This is particularly relevant in the current market where IPO and M&A opportunities are scarce. This investment might come in a variety of forms but has included:
▪ Improving working capital to fast-track earnings growth
▪ Bolt-on acquisitions to improve scale and improve relevance to the buyer universe
▪ Investment in new business lines to diversify customers and earnings to reduce perceived business risk
In many cases, the capital needs to come quickly and may only be needed for a short term. The NAV lending market can often be more opportunistic than the workflow required to add leverage to individual portfolio companies.</td></tr>
<tr><td>Addressed downstream debt issues</td><td>Portfolio company capital stacks are usually set at purchase and ideally profile sufficient term to limit refinance risk for the owner. As highlighted above, with average hold periods extending from 5 to 7 years, funds are increasing relying on the ability to refinance their capital base. This might involve having to roll arrangements for many years, when the fund might only need a bridge amounting to months. NAV funding can be a more efficient short-term bridge, particularly if replacing smaller, subordinated facilities at the portfolio company level.</td></tr>
<tr><td rowspan="2">By the General Partner and its Staff</td><td>Funding GP calls</td><td>In a tough fund-raising environment, there is growing pressure on GPs to increase the size of their personal investment in their next fund to show alignment and create momentum in the capital raise. While a GP subscription facility can be straight forward to execute, the relative size will often be capped, requiring the GP to seek capital by posting other assets. A GP's stakes in prior vintages, management fees, carry, and other investments can all form valuable pieces of collateral to meet this liquidity gap. With the GP investment crucial to a successful investment, the return on investment for the GP in increasing their stake is large, which makes financing very attractive. These types of facilities are now available beyond just the most senior principals in the fund.</td></tr>
<tr><td>Growing the Platform</td><td>As GPs seek to expand their business via headcount and potentially new business lines, they are often faced with a timing difference between the cost outlays and the earned revenue. GP lines using the collateral mentioned above can be an effective tool to bring in the capital to fast-track growth plans. While the prevalence of the GP stakes business (where the GP sells a share of their business) is on the rise, a loan might be considered more efficient and cost-effective versus giving away upside, autonomy and control.</td></tr>
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By Investors and LPs	Managing personal liquidity	Differing in legal form, but similar in economic substance, lending secured against fund stakes is also a useful tool for LPs and investors to manage their liquidity. In a liquidity crunch, investors are usually left with no good choices – they can sell other liquid assets or may need to sell private funds in the secondary market which may crystallize a loss or leave upside on the table for the buyer. NAV secured lending allows investors to preserve upside optionality.

The fund finance market is evolving quickly, which is allowing for a wider use of proceeds and new structuring initiatives to navigate challenges, such as preferred equity solutions, where a loan might be challenging or not permitted by fund documents.

Case study: Helping an investor
▪ An individual investor in a PE fund wanted to make an unrelated real estate investment, using their fund investment as collateral ▪ Taking advantage of diversified assets in the fund, along with a personal guarantee and other sources of repayment, it was possible to lend a seven-figure sum with a flexible two-year term, allowing the investor to take advantage of that investment opportunity

Where to from here?

With the total size of the Fund Finance market projected to more than double to >$2.5tn by 2030[7], NAV loan utilisation will continue to grow with the broader market, providing enhanced control over timing decisions and the flexibility to maximize investment outcomes. With the rapid adoption by the market, it is no longer a tool used as a last resort but is now an efficient form of capital for all stakeholders in private market funds. NAV loans sourced from non-bank lenders can often provide paths to rapid and simpler execution with terms that meet the needs of the borrower, rather than trying to conform to a bank's "credit box". The market is going to continue to grow and evolve, likely leading to even more flexibility for borrowers.

In recent weeks, the private credit fund market has come under increasing pressure, amid growing concerns about liquidity, underlying default rates, and collateral quality. This has triggered a wave of redemptions that natural fund liquidity has been unable to meet. While it's difficult to forecast whether this is short-term noise or a longer-term systemic issue, it is likely that private credit funds will turn to the use of NAV loans going forward. Warana has started to see the first of these managers reach out looking for solutions.

Warana's expertise over the last 15 years has been in providing liquidity into the private fund market. Through its day-to-day involvement in late-stage fund dynamics, it understands the challenges and is flexible and nimble to find a borrower-led solution. As an active secondary market participant, it can take a bottom-up approach to underwriting rather than a top-down credit box approach. This allows for acceptance of more concentrated situations and potentially

[7] According to Ares Partners' report, "The Evolution of Fund Finance", October 2024

more bespoke and complex collateral. Its small team and centralized investment committee process allow it to move and close loans quickly – and it seeks to actively use this competitive advantage.

About Warana Capital

Warana Capital operates two fund strategies that both focus on providing liquidity in the global illiquid private fund market, particularly to the smaller end of each respective market.

- For the last 15 years, the team at Warana have been one of the most active global buyers of LP positions in funds. The firm prides itself on being a simple, reliable and creative counterparty and aims to fill a gap in the secondary market for small transaction sizes. While equipped to handle large transactions, its average transaction size has been $1mm, which has proven to be a valuable exit tool for LPs and GPs looking to manage smaller positions.
- Warana is also a NAV lender and provider of financing options in the sub $50mm market. Through its investment in over 300 funds via its secondary business, Warana began hearing about the liquidity challenges faced by GPs seeking smaller loans and moved to fill the gap in the market. Warana Structured Solutions (WSS) is the firm's dedicated private capital and loan origination fund focused on fund financing. Since its launch in 2023, WSS has originated and funded more than 22 transactions across all the scenarios outlined above.