GP Solutions
Primary NAV Financing

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Introduction

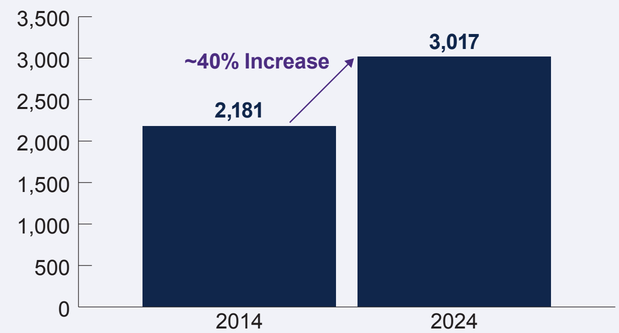
As the private equity market has become increasingly competitive, GPs have adopted new strategic capital solutions to better manage their portfolios, LP relationships, and internal operations. Subscription lines, GP stakes transactions, and continuation vehicles are all strategic capital solutions employed by sophisticated GPs designed to compete more effectively in today's private equity market. NAV loans — capital formed by borrowing against the Net Asset Value of a private equity fund — are another strategic capital solution for GPs we feel poised for significant growth in the coming years.

ORIX USA's GP Solutions team focuses on crafting NAV loans and GP management company financing solutions for private equity sponsors. We offer the following as an introduction to NAV loans — specifically single-fund or 'Primary NAV' transactions — for GPs and LPs exploring this rapidly growing capital solution.

Private Equity Competitive Dynamics

As we noted in a prior market commentary,[1] the private equity market has become exceedingly competitive over the last decade. The number of private equity firms has increased ~40%, private equity dry powder has more than doubled, and the largest firms are consuming an increasing share of LP allocations to private equity funds. To thrive in this increasingly competitive landscape, private equity sponsors will continue to seek alternative capital solutions to win investments, deliver returns, manage LP relationships, raise capital, and drive the enterprise value of their own firms.

Chart 1: Total Number of Active U.S. Private Equity Firms[2]



As shown in Chart 1, there are over 3,000 active private equity firms in the U.S. today, ~40% more than just a decade ago. Notably, we define this universe very narrowly — institutionally funded buyout firms who have raised a fund or closed a new investment in the past three years. This ignores our estimate of an additional 3,000+ independent sponsors and family offices also chasing deals. It also ignores the ~13,000 firms[2] investing in private credit, secondaries, real assets and other strategies. While this universe may not be competing for buyout deals, they are certainly competing with private equity firms for LP commitments.

Since 2014, private equity 'dry powder' — capital raised by GPs for investment in portfolio companies — has grown 137% to $1.7 trillion, according to Pitchbook. On a standalone basis, this reflects the growth of the private equity market over this period. However, this quantum of capital represents six and a half years of annual private equity investment activity — more than double the capital overhang in 2014. Successfully investing —and generating compelling investment returns — is far more challenging today than it has ever been.[3]

[1]ORIX USA's GP Solutions Investment Universe
[2]Pitchbook: "Active US Investors" March 19, 2025
[3]Pitchbook: "2024 Annual Global Private Market Fundraising Report" March 4, 2025

Chart 2: Private Equity Dry Powder ($B)[3]

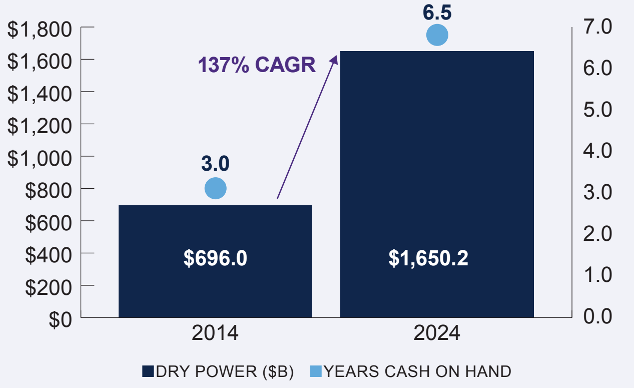
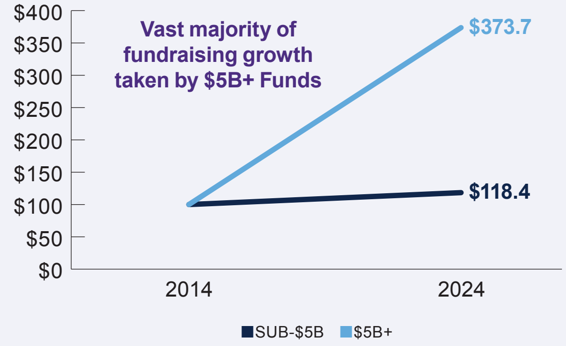
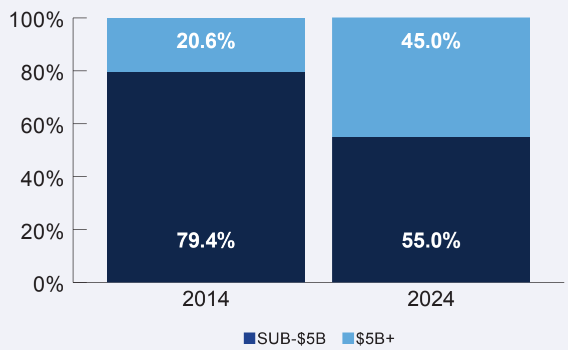


Chart 4: Fundraising Growth by Fund Size (100 = 2014 Fundraising Dollars)[3]



At the same time, LPs are allocating a much higher percentage of their fund commitments to private equity funds of $5 billion or larger. In 2014, middle and lower middle market funds (i.e., sub-$5 billion) garnered ~80% of LP commitments, with the remaining ~20% to funds of $5 billion or more. In 2024, the share of LP commitments to the largest private equity funds more than doubled to 45%. Consider this data in dollar terms. While in 2014 funds greater than $5 billion raised ~$60 billion, by 2024 that more than tripled to $222 billion. By comparison, capital raised by middle and lower middle funds grew less than 20% over the same period. In our opinion, competing for private equity deal flow and returns is no doubt challenging, but competing for LP capital may be even more difficult in today's market.[3]

Chart 3: Fundraising by Fund Size[3]



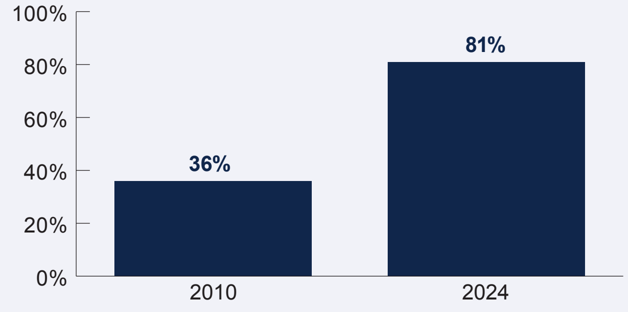
Strategic Capital Solutions

In response to these competitive dynamics, sophisticated GPs have adopted new strategic capital solutions, including subscription lines, GP stakes, continuation vehicles, and, increasingly, NAV loans to better manage their portfolios, their LP relationships, and their firms.

The growth in private market fund adoption of subscription lines demonstrates GPs employing a new strategic capital solution in response to competitive market dynamics. At their introduction, subscription lines were primarily employed as an administrative convenience for GPs and their LPs. However, GPs were also able to employ subscription lines to improve fund IRRs and compete more effectively in fundraising. Per the Institutional Limited Partners Association (ILPA), "the ability to delay calling capital enhances the manager's flexibility to execute deals and shortens the J-curve, enhancing the fund's Internal Rate of Return (IRR), particularly early in a fund's life, and therefore its competitiveness on a quartile basis."[4] In response, GP adoption of subscription lines accelerated significantly, and this strategic capital solution is now employed in 81%[5,6] of private market funds.

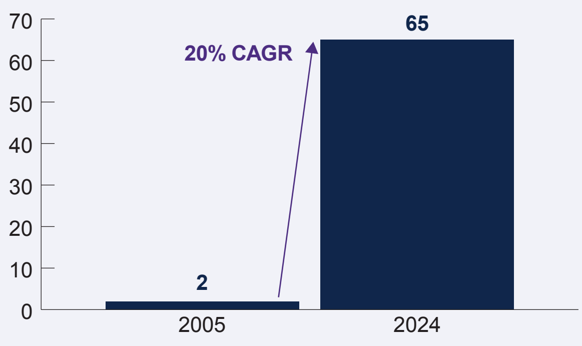
[4] Institutional Limited Partners Association: "Subscription Lines of Credit and Alignment of Interests" June 2017
[5] Haynes and Boone: "Fund Finance Insights: Subscription Line Pricing Stabilizes in First Half of 2024" July 31, 2024
[6] Preqin: "Special Report: Subscription Credit Facilities" June 2019

Chart 5: Percentage of Private Market Funds Utilizing Sub-Lines[5,6]



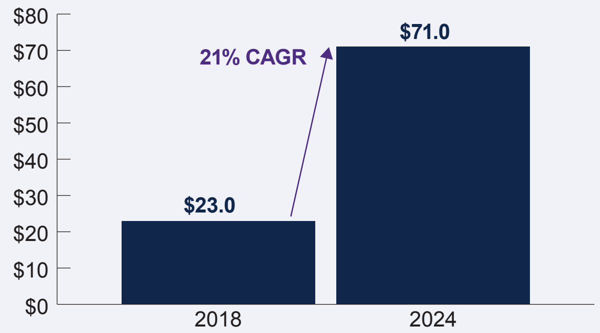
GP stakes transactions are another strategic capital solution that has seen accelerated GP adoption in response to competitive market dynamics. In 2024, 65 private equity firms sold minority stakes versus just two at the inception of this market. While partner liquidity and succession planning are the initial factors most GPs consider when contemplating a GP stake sale, EY points out the strategic value GPs gain from these transactions noting, "a GP stakes investor, despite being a minority shareholder, adds strategic value to an asset management firm in multiple ways. Their operational expertise and specialized knowledge support back-office operations such as marketing, business strategy, and regulatory compliance. Furthermore, they can assist with fundraising by leveraging their reputation, market knowledge, and network to attract new capital and open distribution channels."[7]

Chart 6: GP Stakes Deals[8]



The rapid growth of continuation vehicles (CVs) is yet another example of a new strategic capital solution employed by private equity GPs to compete more effectively in today's market. The earliest CVs were established to facilitate the repositioning or wind-down of distressed GPs and Funds. Today, CVs are employed by GPs to provide LPs liquidity and crystallize returns while also retaining ownership of high-quality assets. Moreover, by retaining AUM, extending management fees, and growing carry dollars at work, GPs use CVs to create enterprise value in their firms and build bigger, better platforms with resources to compete more effectively in the private equity market.

Chart 7: Continuation Vehicle Volume ($B)[9]

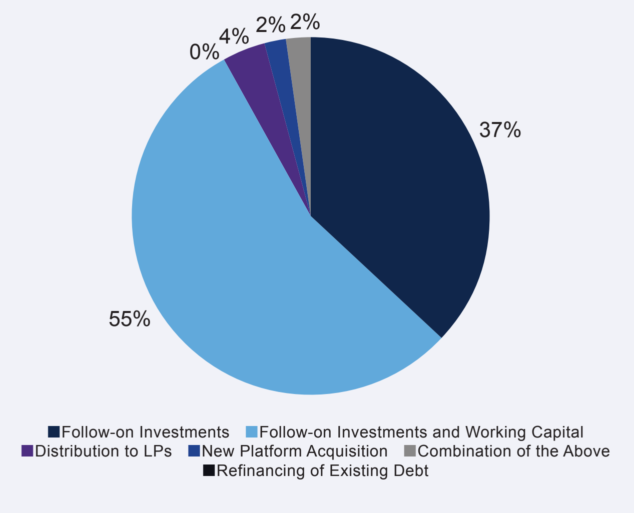


Primary NAV Lending

We believe NAV loans — capital formed by borrowing against the net asset value (NAV) of a GP's funds — are another strategic capital solution for GPs poised for significant growth in the coming years. NAV loans enable GPs to form capital for multiple applications, making them a particularly powerful tool among a sponsor's financing options. Most Primary NAV transactions are used to fund add-on acquisitions at existing portfolio companies and compare favorably to other alternatives such as co-invest equity or Holdco PIK notes in terms of cost of capital. In addition, NAV loans can be used to finance new platform investments and portfolio company recapitalizations, in CV transactions, to buy out minority investors in portfolio companies, or to provide liquidity to fund LPs. The high utility of primary NAV financing has driven this market to approximately $45 billion[10] of annual transaction volume in recent years.

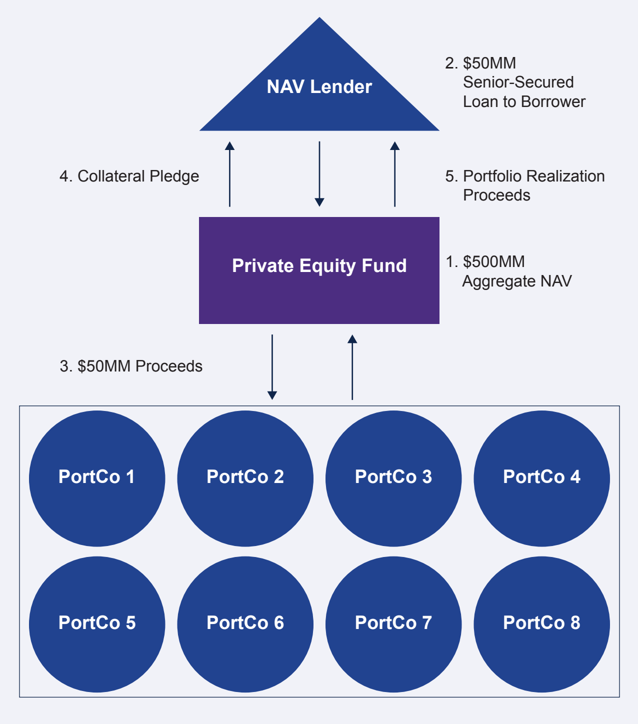
[7] Ernst & Young: "The rise of GP stakes investing" June 2023
[8] Pitchbook: "Firm consolidation prices out GP stakes PE Investors" February 26, 2025
[9] Evercore: "FY 2024 Secondary Market Review – Highlights" January 2025
[10] Fund Finance Partners: "FFP NAV Lending Index" Q4-2024

Chart 8: Primary NAV Use of Proceeds



Structure and Terms

Primary NAV transactions are structured as loans or preferred equity investments on private equity funds. This may be effectuated at the fund level, at a special purpose vehicle (SPV) or Holdco sitting below the fund holding the fund's portfolio companies, or via an SPV holding a subset of the fund's assets. Transactions may be structured on a term, delayed-draw, or revolving basis.



NAV loans are structurally subordinate to debt at individual portfolio companies but are cross collateralized across the investments held by the underlying fund or SPV. Transactions are governed by limitations on loan to value (LTV) and portfolio diversification — which includes both number of assets and concentration of NAV within individual assets. As our friends at Fund Finance Partners recently reported, 67% of Primary NAV transactions in 2024 included 6–15 underlying portfolio companies and 64% of transactions were executed at 10–20% LTV at close (Initial LTV).[10]

Chart 9: Private NAV Underlying Assets[10]

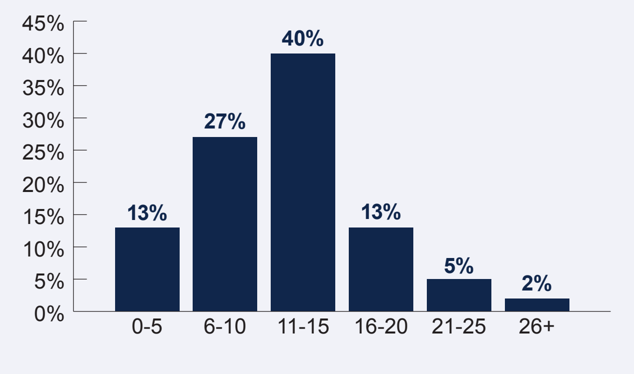
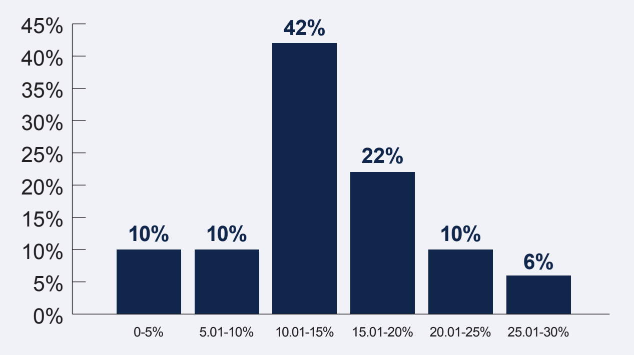


Chart 10: Primary NAV LTV[10]

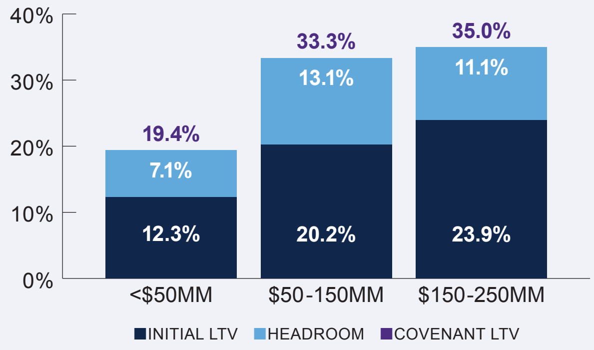


Primary NAV transactions are secured by the cash flows from the underlying portfolio companies to the fund or SPV in which the transaction resides. Primary NAV transactions may also include an all-assets pledge of the fund/SPV and/or full or partial recourse to the fund itself.

Portfolio Company Realizations

NAV loans are repaid primarily as the result of portfolio company realizations. Consequently, a NAV loan is customarily repaid with 100% of portfolio company distributions prior to the fund's LPs. However, primary NAV loan providers may offer GPs flexibility to distribute some or all portfolio company realization proceeds to LPs subject to LTV and portfolio concentration tests. Alpha Group recently reported primary NAV LTV covenants are typically set with significant 'headroom' relative to initial LTV.[11] This provides the GP with room to manage any portfolio valuation volatility over the term of the NAV loan.

Chart 11: LTV by Facility Size[11]



Terms

Primary NAV transactions are priced based on multiple factors including:

- Initial and Covenant LTV
- Portfolio diversification
- NAV diversification within the portfolio
- Implied NAV loan 'attachment' and 'detachment' relative to aggregate portfolio company debt/EBITDA
- Portfolio company quality and performance
- Sponsor quality and performance

NAV loans may feature cash pay or PIK interest or a combination thereof. Transactions customarily include an upfront fee and a modest charge on undrawn portions of a NAV facility structured on a delayed draw or revolving basis.

Conclusion

In an increasingly competitive private equity market, Primary NAV has emerged as another strategic source of capital for GPs to manage their portfolios. While the data provided above is representative of the Primary NAV market on a broad basis, each GP's specific objectives and portfolio dynamics are unique. As a result, NAV transactions are always customized to the specific circumstances driving the transaction. ORIX USA's GP Solutions team focuses on providing $10–50MM strategic capital solutions in bespoke structures to meet the needs of GPs looking to compete and grow in today's private equity market.

[11]Alpha Group: "The Lender Book Report" Q1-2025

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