NAV and GP Financing in a Shifting Private Equity Landscape

2025 Recap | 2026 Outlook | April 2026

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Recovery at the Top, Pressure in the Middle

Private equity entered 2025 carrying the weight of two of its most difficult years in a generation. Deal volumes had collapsed from the 2021–2022 peak, exit markets had slowed to a crawl and correspondingly, distributions had dried up.[1,2] Limited Partners (‘LPs’), facing distribution rates at multi-decade lows, were reassessing their private equity programs with a rigor not seen since the post-GFC period. The questions put forward at annual meetings had changed in character: less about portfolio construction, more about liquidity, and when, specifically, managers intended to deliver it.[3]

In some respects, 2025 provided a partial answer. Deal value rose 44% year-over-year and exit values climbed 47%,[4] but the headline data obscures the reality for a majority of private equity sponsors. The recovery was concentrated at scale, in mega-exits, large cap fundraising and GP-led secondaries, and its benefits were not well-distributed across the private equity ecosystem.[5] For middle and lower-middle market managers, the structural pressures that define the operating environment showed limited signs of abating.

Figure 1: Deal Value ($B)[6]

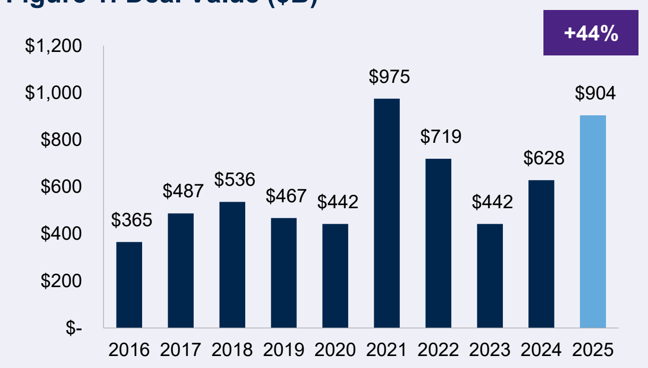
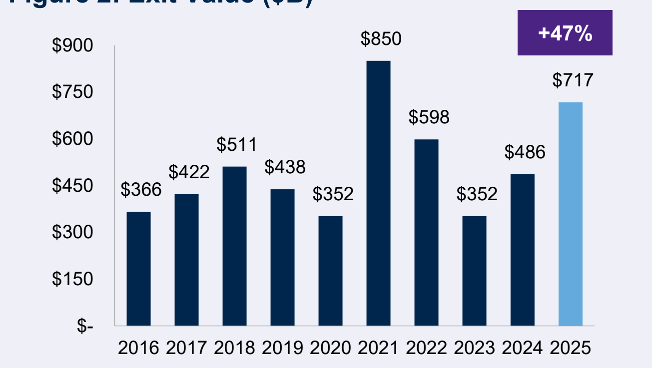


Figure 2: Exit Value ($B)[7]



This paper examines four structural forces that shaped the private equity market in 2025: LP capital consolidating with fewer managers at scale, an exit backlog that has kept distributions materially below historical norms, fee compression reshaping the economics of the PE fund model, and rising GP commitment expectations as LPs demand greater alignment of interests. While these dynamics are broadly felt across the private equity ecosystem, our observations are grounded in the middle and lower-middle market, where we operate and where these pressures have been most acute. For managers in this segment, the forces compound in ways that they cannot absorb as easily as their larger counterparts, and the partial recovery in 2025 did little to relieve them.[8]

Throughout this paper, we explore how each of these dynamics shapes the NAV lending and GP financing landscape in the middle and lower-middle market, and what they may signal for 2026. For managers that understand how these forces interact, a well-calibrated capital strategy can, in our view, be a meaningful source of competitive advantage.

2025 in Review: Four Forces Reshaping the Market

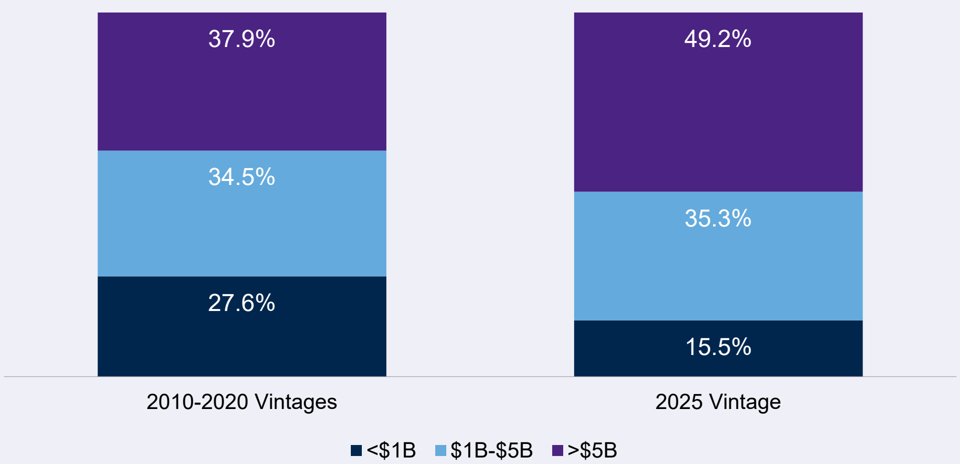
Fundraising: A Market Bifurcating at Scale

The private equity fundraising market in 2025 was, depending on where you sit, either a recovery or a continuation of the worst sustained fundraising environment in a decade. U.S. buyout funds raised $277 billion, down 27% from 2024 in dollar terms and representing a 52% decline in fund count.[9] The market is consolidating around fewer, larger vehicles and the managers who cannot access that tier are raising less, more slowly, and on worse terms than at any point post-GFC.

Nearly half of all capital raised in 2025 flowed into funds of $5 billion or more.[10] With distributions at historic lows, LPs have less capital to recycle into new commitments and on the whole, are consolidating relationships rather than building new ones. Established managers with long track records and demonstrable Distributions to Paid-In Capital (DPI) capture an outsized share of available capital.[11] The rest of the market competes for what remains.[12]

The numbers at the lower end of the market are stark. Funds under $1 billion accounted for just 15.5% of all private equity capital raised in 2025, compared to 27.6% across the decade from 2010 to 2020.[13] It is not underperformance that is displacing sub-$1 billion managers from the capital formation process but the structural reordering of how LP capital is allocated.

Figure 3: Private Equity Capital Raised by Fund Size (%)[14]



Time on the road has compounded the pressure. Median time to close a U.S. buyout fund reached 16.7 months in 2024 before moderating to 12.2 months in 2025[15]; a figure that obscures as much as it reveals given how heavily the aggregate is skewed by mega-fund closes. Stripped of that effect, the picture for smaller managers looks materially worse in our view. 38% of funds still required more than two years to reach a final close as recently as 2024, compared to just 9% in 2019. This is nearly double the pre-pandemic norm of approximately 11 months on the road.[16] For smaller managers, an extended fundraise is not simply an inconvenience. It consumes senior leadership bandwidth, strains working capital between fund cycles, and introduces organizational uncertainty at precisely the moment when investment focus and team stability are under a spotlight. For managers without a recognizable brand, the institutional infrastructure, or the LP relationships to raise capital efficiently, the fundraising process has become an increasingly uphill battle.

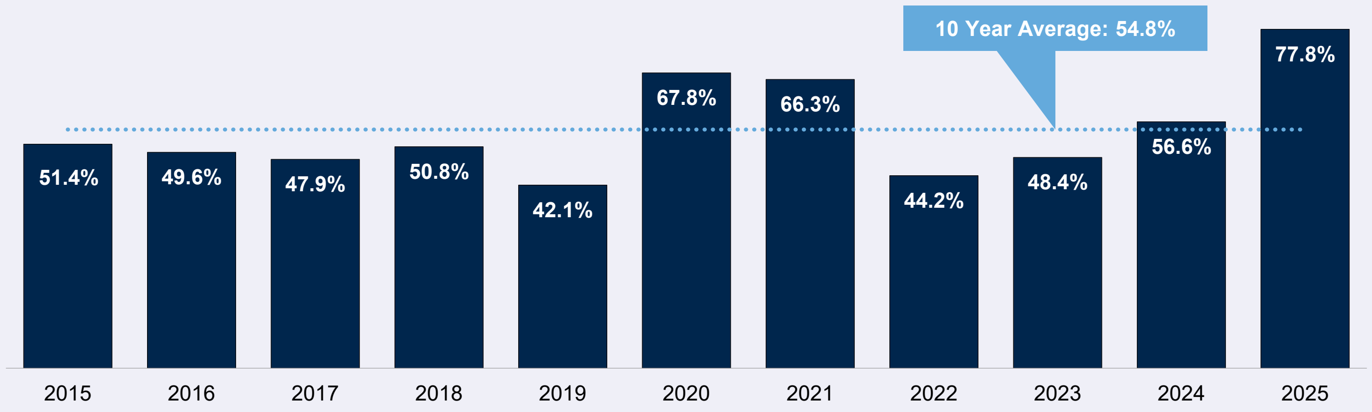
Takeaway

The fundraising environment for managers operating in the middle and lower-middle market is more challenging than at any point post-GFC. Managers that raise below their fund target are disadvantaged in deployment. A subscale fund can constrain check size, limit the number of platform investments, reduce add-on capacity, and narrow the buffer reserved to support companies through the value creation cycle. As fundraising conditions remain difficult, demand for fund-level financing solutions that allow managers to bridge the gap between capital raised and the strategy they intended to execute is likely to grow.

Exits: A Recovery That Did Not Reach the Middle and Lower-Middle Market

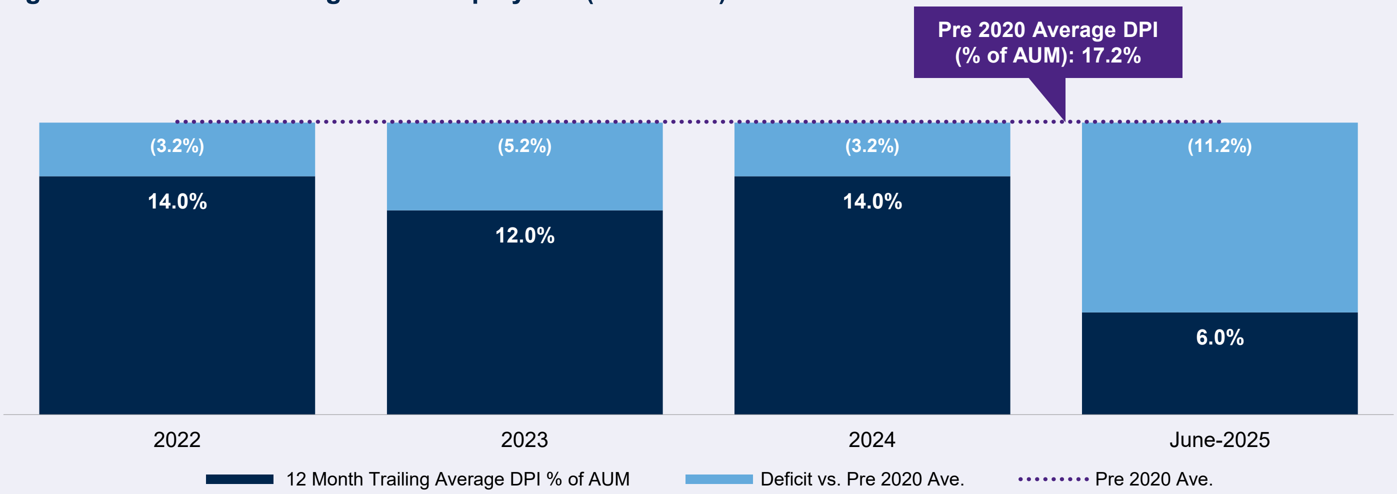
The exit recovery of 2025 was real, but it was also narrow. Mega-exits, or those over $1 billion, accounted for approximately 78% of total exit value.[17] While large-cap platforms with marquee assets were the beneficiaries of more supportive public markets and renewed appetite from strategic acquirers, managers operating downstream experienced 2025 very differently.[18] For middle and lower-middle market managers, portfolio company inventory was effectively stagnant.[19]

Figure 4: % of Private Equity Transaction Value Represented by >$1B Transactions[20]



The holding period data tells the more complete story. Average holding periods reached 6.4 years in 2025, well above the pre-2020 norm of under 5 years.[21] Five-year rolling DPI as a share of PE AUM hit its lowest recorded level as of mid-2025, and distributions as a percentage of AUM declined to approximately 6% in the twelve-month period ending June 2025, eight percentage points below the ten-year average of 14% and nearly twelve points below the 17% average in the 2015 and 2020 period.[22] In our view, the gap between those two figures is the single most important data point in understanding LP sentiment today.

Figure 5: 12 Month Trailing Private Equity DPI (% of AUM)[23]



At a 6% annualized distribution rate, the estimated $3.6 trillion of unrealized value across more than 29,000 unsold buyout-backed companies would take over 16 years to distribute in full.[24] The same exercise at the pre-2020 distribution rate of 17.2% produces a figure of under six years. That ten-year differential is the structural overhang reshaping every conversation between GPs and their LPs today.[25]

Figure 6: Unrealized Value Held in Buyout-backed Companies[26]

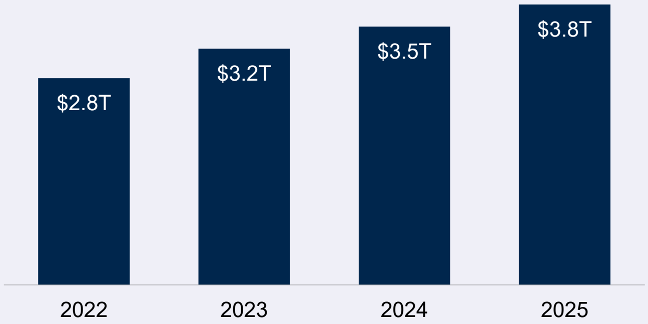


Figure 7: Years Required to Clear Private Equity Inventory Backlog[27]

LP priorities have shifted accordingly. The proportion of LPs ranking DPI as their most critical performance metric has grown 2.5 times over the past three years.[28] Adaptation has been structural: continuation vehicles ('CVs') grew 62% year-over-year in transaction value and are understood and accepted as a mainstream exit management tool rather than a niche structure.[29] We observed this dynamic directly in our own originations with a strong uptick in fund finance deals where the underlying vehicle had a CV structure, relative to 2024.

Takeaway

For the majority of middle and lower-middle market managers, holding periods are extending, distributions remain below historical norms, and the backlog of unrealized value continues to grow. For LPs, the gap between expectation and reality widens with every year that exits fail to materialize at scale. Private equity managers, who have proven repeatedly to be adept at navigating changing market conditions have responded to the low liquidity, longer hold environment accordingly. CVs have emerged as a mainstream tool to extend hold periods, manage exit timing, and in some cases bring in incremental capital through the secondary process. As CV adoption continues to grow in the middle-market, the capital needs that accompany them—supporting portfolio companies through an extended hold, funding add-on activity, and maintaining strategic optionality—are creating a natural and growing role for fund-level financing solutions that operate alongside, rather than instead of, the CV structure.

Fee Compression: The Economics of Running a Fund Have Changed

Average management fees across buyout funds fell to 1.6% by mid-2025, the lowest level ever recorded, and a 20% compression from the 2.0% standard that defined industry economics for decades.[30] According to Preqin, this is a structural shift driven by growing fund sizes, LP consolidation of manager relationships, and a fundraising environment in which GPs have had little choice but to offer concessions to secure commitments.[31] More than half of LPs surveyed by ILPA in 2025-26 reported believing they have more negotiating leverage with GPs than they did twelve months prior. The balance of power in the GP/LP dynamic has shifted and there is little in the current environment to suggest that reverses near-term.[32]

The decline in headline rates only tells part of the story. The more significant pressure comes from co-investment. LP demand for no-fee, no-carry co-investment has become a baseline expectation for institutional capital. Respondents to the 2026 StepStone/Bain GP Survey reported offering a median of 33 cents of co-investment capital per dollar of fee-bearing fund capital.[33] This ratio translates directly into a 25% reduction in effective fee revenue relative to deployed capital.[34] For a middle or lower-middle market manager, the difference between a 2.0% and a 1.6% management fee is meaningful as we demonstrate below. It can be the equivalent of two to three senior investment professionals, a material technology upgrade, or the working capital buffer that funds a firm through the gap between fund cycles. The combination of fee compression and demand for no-fee, no-carry co-investment can create significant operational constraint.

The cost side of the equation has moved in the opposite direction. A decade ago, and at the risk of oversimplifying, buying well and employing modest financial engineering, was sufficient to generate competitive returns. Bain's 2026 PE report finds that in the current environment a sponsor has to generate 10-12% annual EBITDA growth over a five-year hold period to generate a 2.5x return, compared with a mere 5% in the 2010s, due to elevated purchase multiples and the higher cost of leverage.[35] Today, generating strong returns requires operational intervention, something LPs are acutely aware of.

Dedicated value creation capability, once a differentiator among large-cap platforms, has become a baseline expectation across the institutional LP community. The 2026 StepStone/Bain GP Survey found value creation capability ranking among the top three LP evaluation criteria for the first time.[36] Building that capability is expensive: operating partners are among the highest-cost hires in a middle and lower-middle management company, and they are increasingly non-negotiable in LP due diligence.[37] The industry is being asked to deliver more, with a more expensive team, on a revenue base that is under structural pressure.

Takeaway

Management fee income is the operating budget of a GP. It funds investment teams, technology, and the infrastructure required to compete for capital and generate returns. As that revenue base compresses, from both the headline rate and the growing volume of fee-exempt co-investment capital deployed alongside the fund, the gap between what GPs earn and what they need to spend to remain competitive widens. At the same time, LP expectations around operational capabilities have risen, adding cost while, for managers, revenue may be declining. For a growing number of middle and lower-middle managers, the traditional sources of management company capital, fee income and carry, are no longer sufficient to bridge that gap. Demand for non-dilutive financing solutions at the management company level is a direct and predictable consequence.

ILLUSTRATIVE CASE STUDY

Fee Compression and the Management Company Squeeze

The Situation

A middle-market GP had closed Fund IV at $400 million. The firm ran lean, twelve professionals, a fixed cost structure, and management fee economics calibrated to the traditional 2.0% rate. Fund V marketing began with the same assumptions.

The Challenge

Anchor LPs conditioned participation on no-fee, no-carry co-investment. Three institutions sought $132 million alongside the fund, approximately 33 cents of co-investment per dollar of fee-paying capital, in-line with the StepStone/Bain GP Survey 2026. To illustrate the impact: under a traditional structure (Scenario 1), a $400 million fund that syndicates $40 million of LP co-investment and charges a 2.0% management fee, generates $7.2 million in annual fees. Fund V's actual terms, $132 million in LP co-investment and a negotiated fee rate of 1.61%, compressed that figure to $4.3 million (Scenario 2). The combined effect was a material reduction in the operating budget of the firm, with no corresponding reduction in fixed costs, and an LP base now explicitly evaluating dedicated value creation capability as a prerequisite to re-up into Fund VI.

Figure 8: Illustrative Case Study: Fund V Fee Comparison

Dollars ($ in MMs)

Scenario	1	2	Notes
Fund Size	$ 400.0	$ 400.0	Gross capital commitments, held constant across scenarios
LP Co-Investment	(40.0)	(132.0)	No-fee co-investment, 33¢ per dollar of fee-paying capital
Fee Paying Capital	**$ 360.0**	**$ 268.0**	**Effective AUM on which management fees are assessed**
Fee %	2.00%	1.61%	Scenario 2 reflects negotiated anchor rate; 39bps compression
Annual Fees	**$ 7.2**	**$ 4.3**	**$2.9MM reduction with no corresponding decrease in fixed costs**

The Solution

ORIX GP Solutions worked alongside the GP to customize a management company financing facility structured against contracted fee revenue and unrealized carry in Funds III and IV. The structure was non-dilutive, meaning no equity upside was forfeited and no stake sold.

The Outcome

The firm maintained its full investment team through Fund V deployment and completed two senior hires, including its first dedicated operating partner, a capability that LPs had flagged as a prerequisite for Fund VI re-up conversations, and one that the compressed fee base could not have supported organically. Carry distributions from Fund III repaid a substantial portion of the facility within 18 months. The GP was able to launch Fund VI from a position of operational stability.

Takeaway

The economics of running a private equity firm have deteriorated but fee compression does not exist in isolation. It is the third force that follows the fundraising drought and the exit backlog. Each dynamic makes the others worse: a weak exit environment suppresses distributions, depressed distributions impair fundraising, and competitive fundraising drives fee concessions that reduce the capital available to invest in the operational capabilities LPs now require. Taken together, these dynamics have created structural pressures on the management company that merit serious consideration from every sponsor operating below the largest scale.

GP Commitments: More Skin in the Game, Less Capital to Fund It

LP expectations around GP commitments have risen materially over the past several years, and the shift is no longer simply a negotiating dynamic but a structural feature of the fundraising environment. Historically, GP commitments hovered around 1-2% of fund size.[38] Today, 2-4% is more typical, and one in five GPs surveyed by Investec in 2025 expect to commit 4-5% of their next fundraise, with one in ten planning commitments of 6-10%.[39] When a GP's fund commitment and side-by-side co-investment expectations are aggregated, a GP's effective contribution can rise above 10%.[40] The median PE fund manager GP commitment currently stands at 2.55%, with the 75th percentile reaching 5.23%, per Carta.[41]

For a manager raising a $400 million fund at the median commitment level, the associated GP commitment totals $10.2 million. The dollar amount scales with every successive fund and every step-up in fund size. However, the sources of capital to fund it do not necessarily scale at the same rate, particularly when carried interest from prior vintages remains largely unrealized and management fee income from existing funds is declining.

Continuation vehicles have added a new and largely unanticipated layer of commitment pressure. As the CV market has expanded–GP-led secondaries accounted for approximately 14% of all sponsor-backed exits in 2025, with GP-led volume reaching $115 billion[42]–LPs and secondary buyers are increasingly requiring GPs to roll existing positions, crystallized carry, and in some cases make meaningful, incremental commitments. The explosion in CV activity has introduced a commitment obligation that sits outside the traditional fund cycle and is not anticipated in most managers' capital planning. Most GPs entering a CV will have already funded a commitment in the predecessor fund. By rolling their proceeds rather than receiving a distribution, as they ordinarily would in a traditional sale, they forgo the liquidity event that would allow them to recycle or reduce exposure.

While LPs prioritize increased alignment in new vintages, carried interest from prior vintages remains largely unrealized. Five-year rolling DPI is at its lowest recorded level and distributions as a percentage of AUM have fallen to approximately 6%.[43] Management fee income is also under pressure as we highlighted earlier. According to an Investec GP survey, one-third of industry respondents admitted they did not know where the capital to fund their next GP commitment was coming from.[44] ORIX GP Solutions has observed this dynamic directly: GP and management company financing originations more than doubled year-over-year in 2025 as managers sought non-dilutive capital solutions to bridge the gap between what LPs require and what the current economics of the business generate.

Takeaway

LP pressure for larger commitments is intensifying at a point in time when the two primary sources a GP has used to fund them, carried interest and management fee income, are simultaneously constrained. The growth of the CV market adds a further layer of complexity and additional capital planning considerations. For a growing cohort of managers, GP financing has moved from a nice-to-have to a need-to-have.

The private equity market in 2025 was characterized by an uneven distribution of recovery. Headline deal and exit metrics improved materially, but the underlying structural forces impacting middle and lower-middle market managers showed limited signs of softening. The four dynamics examined in this paper, capital consolidation in fundraising, a persistent exit backlog, structural fee compression, and rising GP commitment expectations, are interconnected and self-reinforcing. At ORIX GP Solutions, we sit at the intersection of these dynamics every day, structuring NAV and GP financing solutions for managers navigating these conditions. The observations in this paper are grounded in that experience. Our conviction, informed by direct market participation, is that the structural forces reshaping the middle and lower-middle market are durable, and that the managers who adapt their capital strategies to reflect that reality will have a meaningful advantage over those who do not.

2026 Outlook: Five Predictions

To close, we offer a few predictions for the remainder of 2026, reflecting the structural dynamics outlined above and our direct observations from within the middle and lower-middle market.

Fundraising in the <$1 billion fund size segment will lag 2025:

LP capital will continue to consolidate with larger, more established managers who can demonstrate DPI, first-time fund closes will remain near decade lows and fundraising for <$1 billion funds will remain protracted and take at least 18 months to close on average.

The median PE manager GP commitment will approach 3.0%:

LP negotiating leverage remains elevated, with some managers pushed to make larger GP commitments and others choosing to do so, as a point of differentiation. CV activity is layering incremental commitment obligations on top of flagship fund requirements. Each of these forces is pushing commitment expectations higher and with carry largely unrealized and fee income under pressure, the capital to meet those expectations will increasingly need to come from somewhere other than the management company's existing resources.

The middle market exit overhang will grow for a fifth consecutive year:
Middle-market exit value has traded in a narrow $120-140 billion band for four consecutive years while new deal activity has run at $330-410 billion annually.[45] The lower middle market exit recovery will continue to lag large-cap, and the inventory of unrealized PE-backed companies will grow as new investments enter portfolios faster than older ones exit.

Add-on activity will remain structurally elevated, driving demand for fund-level capital solutions:
With add-ons representing 55-60% of US PE deal activity, and closer to 70% in the middle market, managers running active buy-and-build programs will continue to encounter acquisition opportunities after fund capital is largely deployed, creating a recurring and predictable need for fund-level capital solutions to support continued platform construction.[46,47]

Operational value creation investment will increase, compounding management company cost pressure:
The large-cap model of dedicated, in-house value creation capabilities has migrated down-market, driven by LP underwriting criteria that no longer distinguishes meaningfully by fund size. The cost of building and maintaining a competitive investment platform will continue to rise, at a time when fee income per dollar of AUM has hit its lowest recorded level, widening the gap between what the fee stream funds and what the LP base requires.

ORIX USA at a Glance

ORIX USA's GP Solutions team provides strategic capital to middle and lower middle-market private equity sponsors through NAV and GP management company finance solutions. Our capital helps sponsors increase investable capital to fund new or follow-on investments and optimize portfolio construction. Sponsors can also use our solutions to pursue strategic growth initiatives, increase GP commitments, and facilitate investor liquidity. We are active across the full spectrum of GP Solutions transactions, including single fund NAV loans, diversified NAV loans, preferred equity fund financing, fund securitizations, and continuation vehicles. Backed by ORIX USA's balance sheet, we deliver flexible, customized solutions across a broad range of transaction types.

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