



Early Fund-Life NAV Financing

Closing the Capital Deployment Gap Before It Opens

Summary

Early fund-life NAV financing addresses a structural inefficiency at the heart of the private equity fund model. The average buyout fund deploys only approximately 75% of committed capital into return-generating portfolio companies, with the remainder consumed by management fees and uncalled dry powder.^{1,2,3} This creates a Capital Deployment Gap of approximately \$250MM for a \$1 billion fund. By introducing a NAV facility at fund inception, sponsors can borrow against growing portfolio NAV throughout the investment period, compounding borrowing capacity as each new investment appreciates and eliminating the Capital Deployment Gap. Employing early fund-life NAV financing can enhance a fund's capital efficiency in a manner similar to using a subscription line and can increase returns to investors without requiring any change to investment strategy or portfolio construction.

Introduction

NAV financing has traditionally been associated with the later stages of the private equity fund lifecycle. Sponsors have historically employed NAV facilities once portfolios have matured, most commonly to support add-on acquisitions or growth initiatives for individual portfolio companies.

That paradigm is changing.

Forward-thinking sponsors are increasingly evaluating NAV facilities at the outset of a fund's life as a proactive component of fund-level capital strategy. This paper explores the structural rationale for introducing NAV financing facilities early in the fund life, implementation mechanics, and the meaningful impact it can have on fund-level returns.

Proactive Capital Efficiency: The Subscription Line Corollary

Capital call lines of credit, commonly known as subscription lines, have seen their use broaden significantly over the last 15 years, with prevalence and size increasing rapidly over that time.⁴ Their original purpose was purely administrative: to streamline the cadence of capital calls a fund made to its limited partners and improve execution flexibility.

Over time, however, GPs recognized that by delaying capital calls, subscription lines also improved a fund's reported IRR, particularly early in a fund's life when the effect is most pronounced. Research shows the net IRR boost from subscription line deployment can reach 200–470 basis points.^{5,6}

The competitive implications were immediate. GPs who were not using subscription lines found themselves at a fundraising disadvantage because their reported returns were materially lower than peers who were.⁷ This dynamic drove rapid and broad adoption: from less than 10% of funds in pre-2010 vintages to nearly 80% of funds by 2024.^{8,9} Capital call lines of credit now represent a \$900 billion market.¹⁰

The subscription line story is a compelling case study for a fundamental market principle: when a financing tool can meaningfully improve the capital efficiency of a private equity fund, the market will adopt it broadly and rapidly. We believe early fund-life NAV financing represents the next progression of this dynamic.

The Structural Challenge: Committed vs. Invested Capital

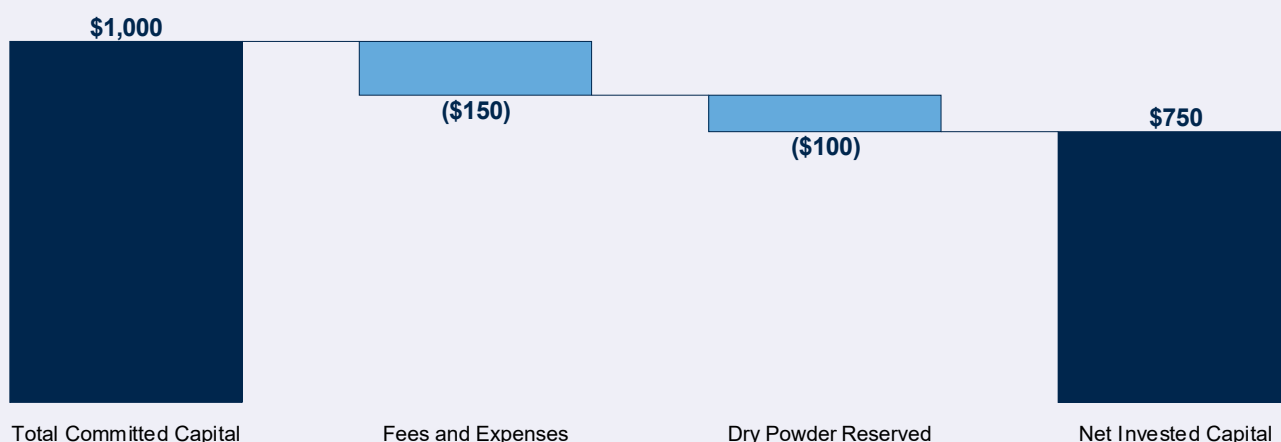
Under the traditional private equity fund model, the average buyout fund deploys only about 75% of capital commitments into portfolio companies—the investments that actually generate returns for investors. Consequently, approximately 25% of committed capital is idle and does not contribute to generating returns.

Two structural factors account for this gap:

- Management fees and fund-level expenses consume about 15% of committed capital over a fund's life, leaving roughly 85% of committed capital available to invest into portfolio companies.¹¹
- Sponsors typically begin raising a successor fund once the current vehicle is approximately 75% invested and reserved.¹² The remaining uncalled capital, which is held as a dry powder cushion for follow-on investments and contingencies, is effectively frozen at that point. Recent research suggests only 90% of commitments are ever called.¹³

The net effect, after accounting for a 15% fee drag and an additional 10% of committed capital that is never called, is that only 75% of committed capital is actually invested into portfolio companies. For a \$1 billion fund, this combination produces a “Capital Deployment Gap” of approximately \$250MM, or 25% of total fund size, that is never put to work generating returns for investors.

Figure 1: Capital Deployment: Hypothetical \$1 Billion Fund (\$MM)



The NAV Financing Solution

NAV financing is a powerful tool to close the Capital Deployment Gap. By borrowing against the fund's growing portfolio NAV during the investment period, sponsors can generate incremental capital to deploy into portfolio companies and convert what would otherwise be idle LP commitments into return-generating investments.

Early Fund-Life NAV Financing as a Deployment Tool

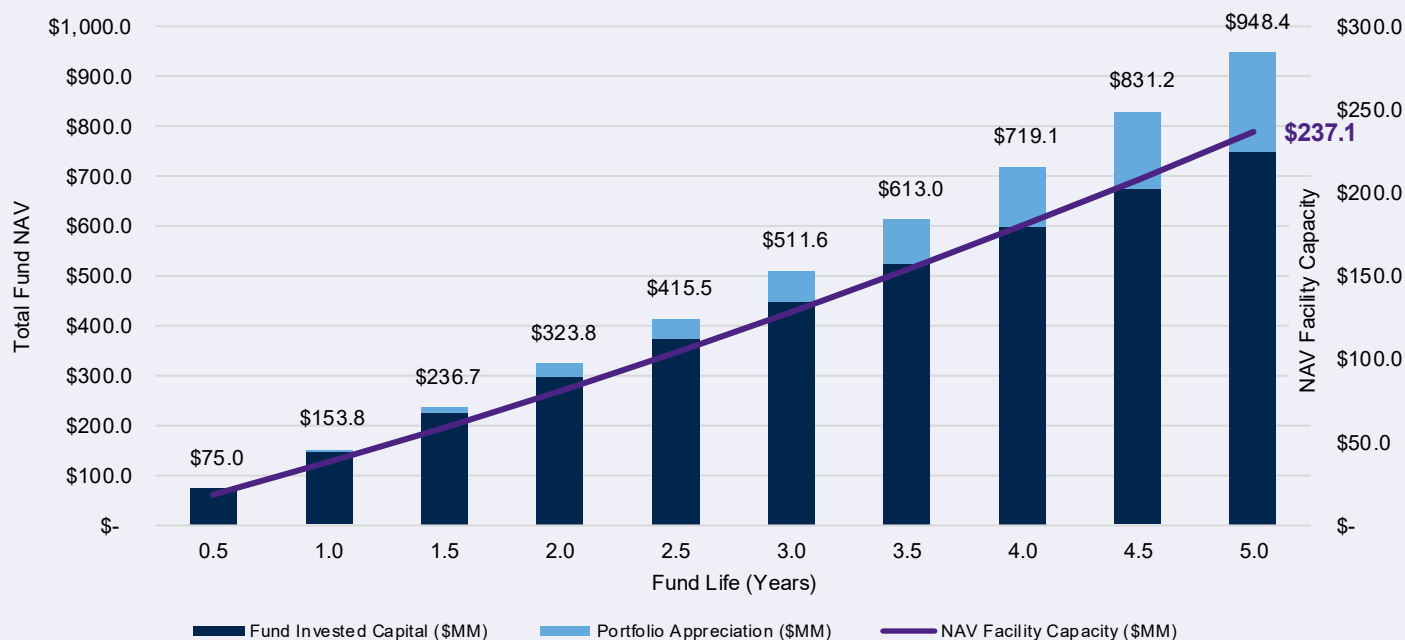
Consider a hypothetical \$1 billion buyout fund targeting a portfolio of ten platform investments. As outlined above, approximately \$150MM (15%) is reserved for fees and expenses and \$100MM (10%) will never be called, creating a Capital Deployment Gap of \$250MM. The remaining \$750MM is invested into portfolio companies at ~\$75MM per deal.

We assume the following for the hypothetical buyout fund:

- \$1 billion total commitments
- Five-year investment period
- Even investment pacing (one deal every six months)
- Median buyout returns of ~1.68x net MOIC and 13.5% net IRR¹⁴
- Consistent investment value growth over the investment period

As the fund deploys capital and portfolio companies grow in value, the fund reaches ~\$948MM of total NAV at the end of the investment period. A NAV financing facility with a 25% advance rate introduced at this point would create ~\$237MM of borrowing capacity.

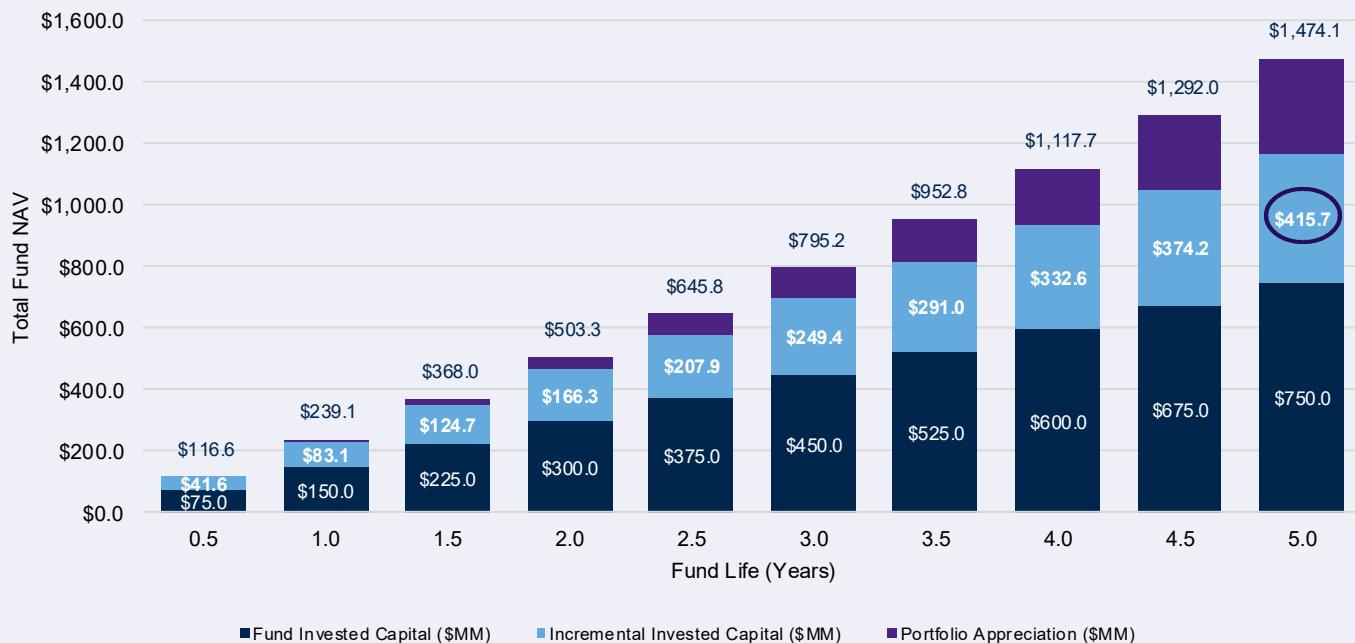
Figure 2: Fund NAV and Borrowing Capacity Over Investment Period (\$MM)



However, by introducing the NAV facility at the outset of the investment period, the impact on the fund is much more dramatic. To demonstrate the impact of an early fund-life NAV financing facility, we assume the following:

- 25.0% LTV on fund NAV
- 10.0% cost of capital
- 100.0% PIK (payment-in-kind)

Figure 3: Capital Invested and Total NAV with NAV Facility (\$MM)



Under these assumptions, incremental capital provided by the facility increases to ~\$416MM as additional investment value compounds over time. This eliminates the \$250MM Capital Deployment Gap and enables the fund to invest \$1.2 billion into portfolio companies over the investment period.

Impact on Investor Returns

By closing the Capital Deployment Gap, the NAV financing facility enables the fund to deploy \$1.2 billion into portfolio companies rather than \$750MM, a 55% increase in capital invested in return-generating positions. The \$150MM retained for fees and expenses is now spread across a larger base of invested capital, reducing the fee drag ratio from 20.0% of invested capital to 12.9%.

Importantly, the facility's cost of capital is highly accretive relative to the hypothetical fund's expected gross IRR. The spread between the cost of leverage and the expected return on invested capital drives a meaningful uplift on both an IRR and MOIC basis for LPs.

Figure 4: Fund Performance Comparison¹⁵

Return Metric	Without NAV Facility	With NAV Facility
Net Invested Capital	\$750MM	\$1,166MM
Fee Drag (% of Net Invested Capital)	20.0%	12.9%
Net IRR	13.5%	15.9%
Net MOIC	1.68x	1.98x

Return Sensitivity at Different Fund Performance Levels

Note that the return uplift from the NAV facility is only accretive when the fund's gross return on invested capital exceeds the facility's cost of capital. The table below illustrates net IRR and net MOIC outcomes at three fund performance levels, both with and without the facility, using the same \$1 billion fund and 25% LTV assumptions presented above.

Figure 5: Fund Performance Comparison Sensitivity¹⁶

	Benchmark		With NAV Facility	
	Net IRR	Net MOIC	Net IRR	Net MOIC
Bottom Quartile	7.1%	1.32x	9.0%	1.60x
Median	13.5%	1.68x	15.9%	1.98x
Top Quartile	21.0%	2.09x	25.5%	2.76x

The return improvement illustrated above also creates meaningful incremental economics for the GP. A larger base of invested capital generating returns translates into additional carried interest and, depending on fee basis terms in the LPA, potentially additional management fees. These benefits are not incidental; they reflect the same dynamic that has driven adoption of prior capital efficiency innovations in private equity. Crucially, early fund-life dynamic NAV financing is most effective and durable when implemented transparently and with the active support of the fund's limited partners. Sponsors who approach early fund-life NAV financing as a collaborative LP-GP initiative rather than a unilateral GP decision are better positioned to realize the full benefits of the strategy, minimize governance friction, and strengthen long-term LP relationships.

Conclusion: A Strategic Lever from Day One

The private equity industry has a long track record of adopting financing innovations that improve capital efficiency. Subscription lines transformed from a back-office convenience into a commonplace tool because the return enhancement was systematic, the mechanics were easily understood, and the competitive pressure to adopt was intense. Early fund-life NAV financing follows the same logic.

The Capital Deployment Gap is not a new phenomenon; it is a structural feature of the private equity fund model. What is new is the recognition that NAV financing can address this gap proactively, at fund inception, rather than reactively, at the end of a fund's life. The result is a larger base of return-generating invested capital, a lower fee drag, and improved economics for both LPs and GPs. These benefits are all achieved without requiring any change to investment strategy, portfolio construction, or underwriting standards.

As the competitive intensity of the private markets continues to grow and LPs increasingly scrutinize net return efficiency, sponsors who integrate NAV financing as a strategic capital tool from day one can generate differentiated outcomes. We believe GPs who act on that recognition earliest will be best positioned to deliver the net return efficiency that LPs now expect.

Endnotes

1. Metrick and Yasuda, “The Economics of Private Equity Funds” (July 2009).
2. Goodwin Procter LLP, “How Much Must Managers ‘Deploy’ From an Existing Fund Before Starting a Successor?” (September 2023).
3. Ljungqvist, Richardson, and Wolfenzon, “The Investment Behavior of Buyout Funds: Theory and Evidence.” Financial Management, Vol. 49, No. 1 (2020).
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6. ILPA, “Guidance on Subscription Lines of Credit and Alignment of Interests” (June 2017).
7. ILPA, “Enhancing Transparency Around Subscription Lines of Credit” (June 2020).
8. MSCI, “The Rise (and Rise) of Sub Lines in Private Capital” (July 2023).
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11. Metrick and Yasuda, *supra* note 1.
12. Goodwin Procter LLP, *supra* note 2.
13. Ljungqvist, Richardson, and Wolfenzon, *supra* note 3.
14. PitchBook, “Q2 2025 Benchmarks with preliminary Q3 2025 data” (January 2026).
15. *Id.*
16. *Id.*

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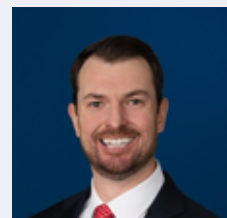
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