

Fund Finance Insights

2025: A year of transformation
and liquidity evolution

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Introduction

Fund finance has become a key part of the liquidity toolkit for GPs, but its application continues to evolve.

Whilst subscription facilities remain the cornerstone, and there has been selective use of NAV facilities, these financing tools increasingly sit alongside broader liquidity solutions such as continuation vehicles (**CVs**) and collateralised fund obligations (**CFOs**).

This evolution creates opportunities but also brings complexity. As the market grows in sophistication, this latest Insights paper draws on perspectives from leading market participants to explore the shifting landscape and what lies ahead in 2026.

Liquidity tools: Expanding the toolkit

Diversification of funding sources has become increasingly important in today's environment and liquidity solutions are at the forefront of this shift.

- **CVs** (including single-asset and multi-asset continuation funds) enable GPs to extend ownership of high-performing assets while offering liquidity options to LPs. These structures come with their

own financing needs – a developing area that continues to attract both investment interest and attention.

- **CFOs** provide a strategic pathway to diversify funding and secure long-term institutional capital. Whilst adoption in Europe has been slower than in the U.S., the market is evolving given recent regulatory changes, with participants working to address structural challenges, such as equity allocation. Time will tell whether institutional investors will increasingly look to use them to add to their own liquidity toolkit.
- **Evergreen and semi-liquid funds** are reshaping private markets, bringing in new investors and emerging as significant players in secondary markets, contributing capital that ultimately supports pricing dynamics.

The common thread is that liquidity solutions are no longer niche – they are becoming embedded in fund structures, creating new opportunities for both GPs and LPs.

As these solutions grow in scale, operational readiness will be critical – not only for GPs managing complex structures but also for lenders navigating terms. Building internal capabilities will be key to ensure these tools deliver the intended benefits without introducing inefficiencies.

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The market for CFOs has become very active again with several transactions closing in 2025 and several other large transactions expected to close in the early part of 2026. European sponsors have been using these innovative structures to access sources of capital that would not traditionally invest in private funds such as regulated insurance companies. For now, US insurance companies have provided most of the debt financing for these structures. In 2026 we expect sponsors on both sides of the Atlantic to structure innovative transactions intended to allow European and UK regulated insurance companies to invest in CFOs in a regulatory capital efficient manner.”

Pierre Maugüé,
Partner – Debevoise &
Plimpton

LP sentiment: Navigating complexity

Innovation brings choice, but it also brings complexity for LPs. Determining the right liquidity solution requires careful consideration of risk profiles, alignment of interest and decision timelines.

With the growth in the CV market, ILPAs May 2023 guidance on [Continuation Funds: Considerations for Limited Partners and General Partners](#) is coming into sharpened focus, yet market practice remains uneven. Timing and commercial rationale (including whether they present the best option at that point in a fund life cycle) all matter, and clear, timely communication is essential. Key sensitivities include: cross-collateralisation across assets or vehicles; and multi-asset CVs introducing exposures beyond the original mandate.

With NAV facilities, [ILPA's NAV-Based Facilities Guidance for Limited Partners and General Partners](#) published in July 2024 have been welcomed and whilst NAV facilities may be viewed as operationally cleaner and value additive, there is still a question on transparency around borrowing parameters which are inconsistent across fund documentation. This ties in with



LPs calling for greater visibility on fund-level leverage, including borrowing parameters and aggregate debt exposure. This helps to assess risk and ensure alignment, particularly as financing tools become more complex.

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Liquidity solutions have become cradle-to-grave tools used by managers in fund structures. LPs must adapt their due diligence to keep pace.”

Tara Walsh,
Former Managing
Legal Counsel –
Investments – Pension
Protection Fund

A common theme is that LPAC discussions provide part of the picture in delivering better transparency, but non-LPAC investors often seek greater engagement and parity of information. Ultimately, LPs are asking for more time, earlier engagement, and clearer guardrails. Education and governance will be critical – not only for sophisticated LPs but also as retail participation grows.

ILPA's recent whitepaper published in October 2025 on [Retail Capital Analysis: Primer and Questions to Ask GPs](#) underscores this point, calling for frameworks that safeguard the market and ensuring the right questions are asked to ensure alignment.

Indeed, there is a question from some LPs as to whether similar capital could be raised through traditional co-investment routes, reinforcing the need for clear commercial rationale behind liquidity solutions.

Transparency and alignment: The cornerstone of trust

Across all conversations, one theme stands out: transparency and alignment are key. LPs want clarity on financing terms, conflicts, and decision-making processes. GPs, in turn, seek frameworks that enable flexibility without compromising trust.

Best practices are emerging in terms of early engagement with LPs on liquidity options, clear disclosure of NAV facilities and appropriate guardrails in LPAs and side letters.

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With liquidity pressures rising and fund-finance complexity increasing, transparency is more important than ever. Complexity is manageable; opacity isn't. As investors entrusted with capital, we rely on transparency to maintain alignment and confidence with our GP partners as we navigate ever-changing market dynamics.”

Kathryn Robinson,
Family Office Investor –
Genera Capital

Voices from the market: Wish list and predictions for 2026

The market is set for further innovation but what do market participants think will shape the future? The LMA surveyed key players in the market as to what their predictions and wish lists are for the year ahead:



The fund finance market has really matured in the last couple of years and we have seen innovation, solutions to fund level liquidity needs and resulting market growth. We expect more innovation, with a focus on solving for particular use cases; and, as the NAV and CFO markets grow, we will see more lenders step in to provide that liquidity."

Thomas Smith,
Partner – Debevoise & Plimpton



"In the year ahead, it would be great to see the green shoots of recovery in fundraising blossom. As a bridge to that eventuality, we see GPs starting to embrace innovations in financing at the fund-level through increased tenor and scale of borrowing with diversification of capital sources and we expect this trend to continue throughout 2026."

Shailen Patel,
Head of Strategy and Product – NLC Capital Partners



The issuance volumes of fund finance products are likely to keep growing across multiple credit markets, from private debt to bank debt to asset-backed bonds. A higher level of standardisation shall be expected as issuers and credit investors will have to deal with higher volumes."

Philippe Mojon,
Head of NAV Financing – AXA IM



With expected M&A activity uptick and lowering of interest rates in 2026, sponsor demand for liquidity solutions will continue to increase. We anticipate greater use of hybrid/unitranche/securitisation structures to tap diverse capital pools. CV financings, which have grown significantly over the past 12 months, should hold momentum as GPs monetise mature holdings and LPs seek liquidity, albeit at a slower pace as macro conditions improve. Strong institutional appetite for tailored mandates will sustain SMA financing growth and make it more bespoke. We expect larger growth in Europe of structured issuances tied to private markets (including NAV/GP-backed paper). AI will also play a significantly greater role in fund finance. All in all, 2026 is set to be another year of innovation and evolution, with transparency even more key."

Sam Hutchinson,
Partner – King & Spalding



As the fund finance industry continues to grow in scale and complexity, the LMA's independent voice will be more valuable than ever. With its ability to draw on expertise across the industry, the LMA is uniquely placed to develop best practice and support the growth of a market that is resilient and sustainable."

Alan Macdonald,
Head of Legal, Fund Solutions – Investec



Final thoughts

As liquidity strategies continue to evolve, LPs face steep learning curves whilst GPs navigate heightened expectations for transparency and governance. Against this backdrop, education and best practices remain paramount.

The LMA's mission – to promote efficiency, liquidity and transparency – has never been more relevant. But progress requires partnership. We invite market participants to engage with us to facilitate dialogue across the ecosystem, drive consistency and address regulatory and operational challenges collaboratively. Together we can ensure innovation is matched with resilience and drive the next chapter of fund finance.

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The fund finance market continues to evolve. As traditional lenders have largely retreated, private capital providers are finding a larger role to play, especially for those having scale, flexibility and a trusted reputation. All of this underscores the importance of the LMA's thought leadership and its role in guiding the fund finance market through this evolution and beyond.”

Richard Sehayek,
Co-Head of European Alternative Credit – Ares Management

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To learn more about the LMA's work to support efficiency, liquidity and transparency in the fund finance market, please visit the LMA's Fund Finance Microsite:

<https://www.lma.eu.com/fund-finance>

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