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The Solution to Private Equity's Liquidity Dilemma?

October 2025

One use case of NAV loans is to generate liquidity for LPs – the so called "DPI trade". This is one of at least four typical uses, and currently according to our data, accounts for just 4% of enquiry volume[1]. The DPI trade has rightly been scrutinised by LPs and ILPA, which have questioned LP / GP dynamics for this structure.

In the meantime, Continuation Vehicles (CVs) have grown to now represent ~16% of sponsor exits[2], becoming an important source of liquidity and growth capital. There is a cost to CVs though, which impacts from a financial, time and LP relationship perspective. Data from Houlihan Lokey shows just 8-15% of LPs are opting to roll their stake though, leaving potential upside on the table.[3]

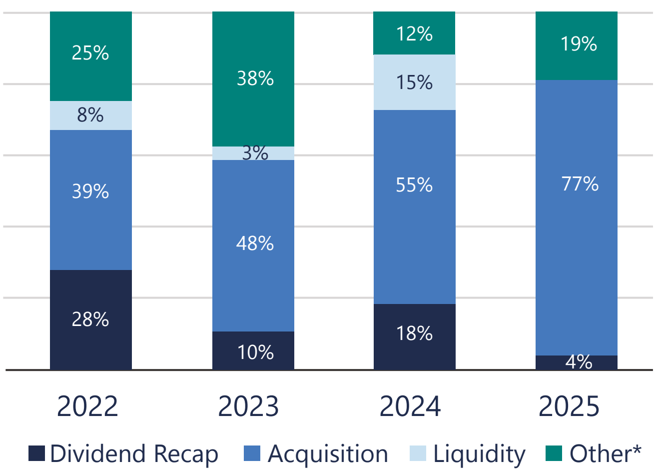
The time has come to re-examine the role of NAV loans for liquidity and introduce a new structure that protects fund metrics, strengthens the LP/GP relationship, optimises certainty, time and cost, and most importantly ensures existing LPs retain 100% of the upside in the assets.

The Search for Liquidity Continues

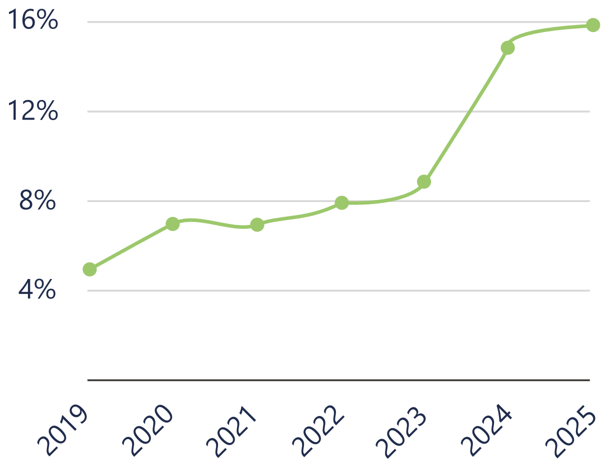
Capital is trapped, fund durations are stretching, and at the same time, LPs are pushing for DPI / liquidity to underpin new commitment pacing. This dynamic has created a fundamental liquidity mismatch, with the growing scale of private equity potentially outpacing its capacity for traditional exits.

- **Average hold periods increasing:** 6.4 years up from 3.8 years in 2000[4]
- **Structural Exit Mismatch:** ~29,000 companies worth >$3 trillion in unrealised value compared with ~$500 billion exit value across ~1,470 deals in FY24[2,5]
- **IPO Markets:** Selective, with ~6% of FY24 exit value executed via an IPO[5]
- **CVs are now mainstream** and constitute ~16% of YTD 2025 sponsor exits, up from an average of ~7% between 2019-2023[2]. But just 8-15% of LPs are choosing to roll their stake into CVs, leaving most investors without exposure to any potential upside in the underlying assets[3]
- **Meanwhile, enquiries for DPI trades** have fallen from 28% in 2022, to 4% this year, despite the broader liquidity backdrop[1]

Composition of Pemberton Pipeline Enquiries[1]



CV Adoption as % of Exit Volumes[2]



For illustrative purposes only. Source: [1]Pemberton internal data. "Liquidity" and "Other" use cases include refinancing of sub-lines, bridges, capex, optimising PortCo leverage; [2]PJT Park Hill Q3 2025 Secondary Market Insight; [3]Financial Times using data from Houlihan Lokey; [4]Preqin Pro, as of Jul-25; [5]Bain Global Private Equity Report 2025

NAV Facilities vs. Continuation Vehicles

NAV loans for DPI purposes and CVs have emerged as potential "release valves" amid this liquidity backdrop, but their purposes can differ.

- **Continuation vehicles** are tools that allow sponsors to retain, grow and extend the life of high-performing assets under a new ownership structure. They offer the ability for a GP to onboard new strategic investors, reset governance, and are a liquidity option for exiting LPs.
- **NAV facilities** are fund-level loans secured against the NAV of a diversified investment portfolio. There are a multitude of use of proceeds, but recently, their utilisation has shifted toward various forms of 'money-in' growth capital. Pemberton believes that NAV loans can be structured in a way to preserve the core objectives of a CVs, while maintaining GP/LP alignment and LP exposure to upside in the underlying assets.

	Fund-Level NAV Loans	Continuation Vehicles
Use Cases	New platforms & maximising deployment Follow-on or growth capital in existing portfolio Distributions Right-sizing PortCo capital structures Refinancing sub-lines	Significantly extend asset holds and growth runway Onboard fresh long-term capital and strategic investors Liquidity option for existing investors
Capital for Further Growth	Yes – via committed DDTL & accordions	Yes – via new LP commitments with capacity typically reserved for add-ons
LP Base	All fund LPs directly / indirectly exposed	Entails cash out / roll decisions for all LPs
Cost	Low – primarily legal fees	Comparatively higher given banker, legal and fairness opinion fees
Time	6-8 weeks	3+ months typically
Execution Certainty	High – single financing counterparty	Multiple counter-parties can complicate execution
Security	Secured, or Unsecured	n.a.

Notwithstanding their benefits and tangible uses, NAV loans and CVs have faced LP scepticism for a variety of reasons.

Why do LPs dislike NAV Loans?

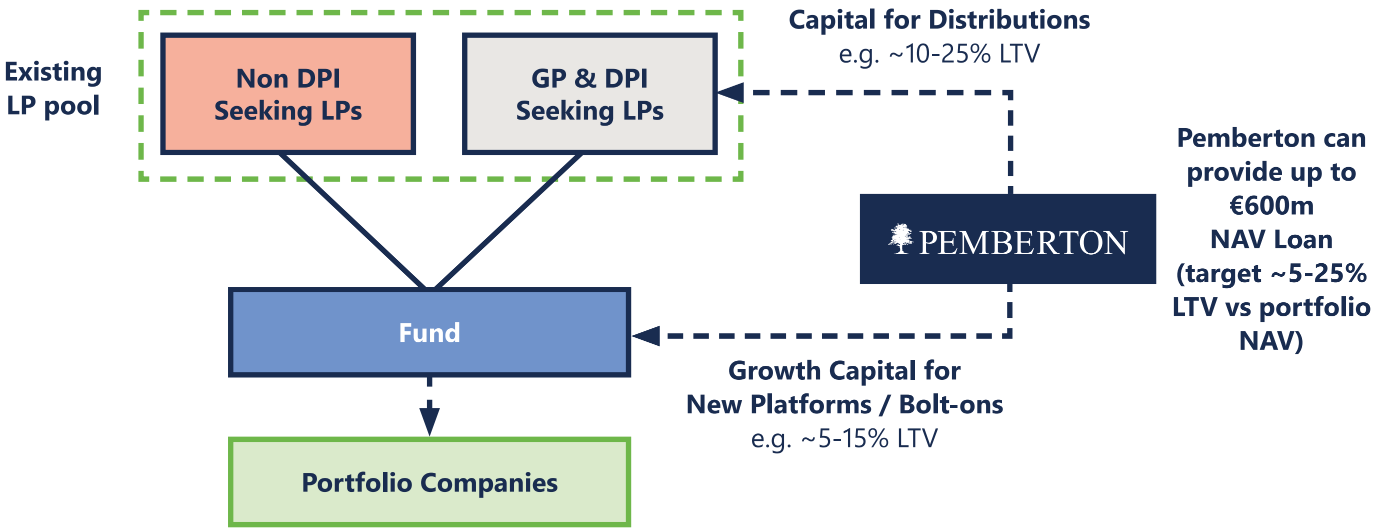
1. Previously no LP say in use of proceeds
2. Creates the impression of permanent leverage
3. Adds complexity through potentially layering of LP cash flows
4. Potentially distorts IRR and other fund performance metrics
5. Limited transparency on structure, risks, and ultimate impact
6. Inadequate communication from GPs
7. Introduces potential enforcement and collateral recovery risk

Why do LPs dislike CVs?

1. Divides LPs into roll / cash-out groups
2. Single asset underwrites not a core LP competency
3. Limited pricing transparency
4. Inherent GP conflicts *(control buy / sell valuation point)*
5. Adverse selection can potentially cap LP returns *(cherry picking fund winners for CV, disadvantaging non-rolling LPs still in fund)*
6. Cost and execution uncertainty
7. Lengthy and complex execution process

A New Innovative NAV Facility – Combining the Best of Both Worlds?

We believe a practical evolution is a GP-led, LP-elective NAV loan – a solution designed to replicate the benefits of NAV loans and CVs in one structure, while addressing valid LPs concerns under the status quo.



How It Works:

- The GP consults with LPs to identify those seeking liquidity
- Those LPs and the GP recapitalise their fund commitments via a NAV loan raised at an SPV 'above' the fund
- Pemberton provides a further NAV loan at the fund-level for growth capital, if required

Key Benefits for LPs:

- All upside retained by existing investors with fresh capital provided for growth, if required
- LP elected liquidity which is not divisive and preserves alignment
- Fund liquidity waterfall unfettered for non-participating LPs
- IRR / DPI / fees unaffected at fund-level *(unless otherwise agreed with GP)*
- Additional facility can co-exist at fund-level to finance growth of key assets *(akin to new capital raised in a CV)*
- No additional single asset underwriting required
- Support ongoing investment programmes
- Lower cost and faster execution

Key Benefits for GPs:

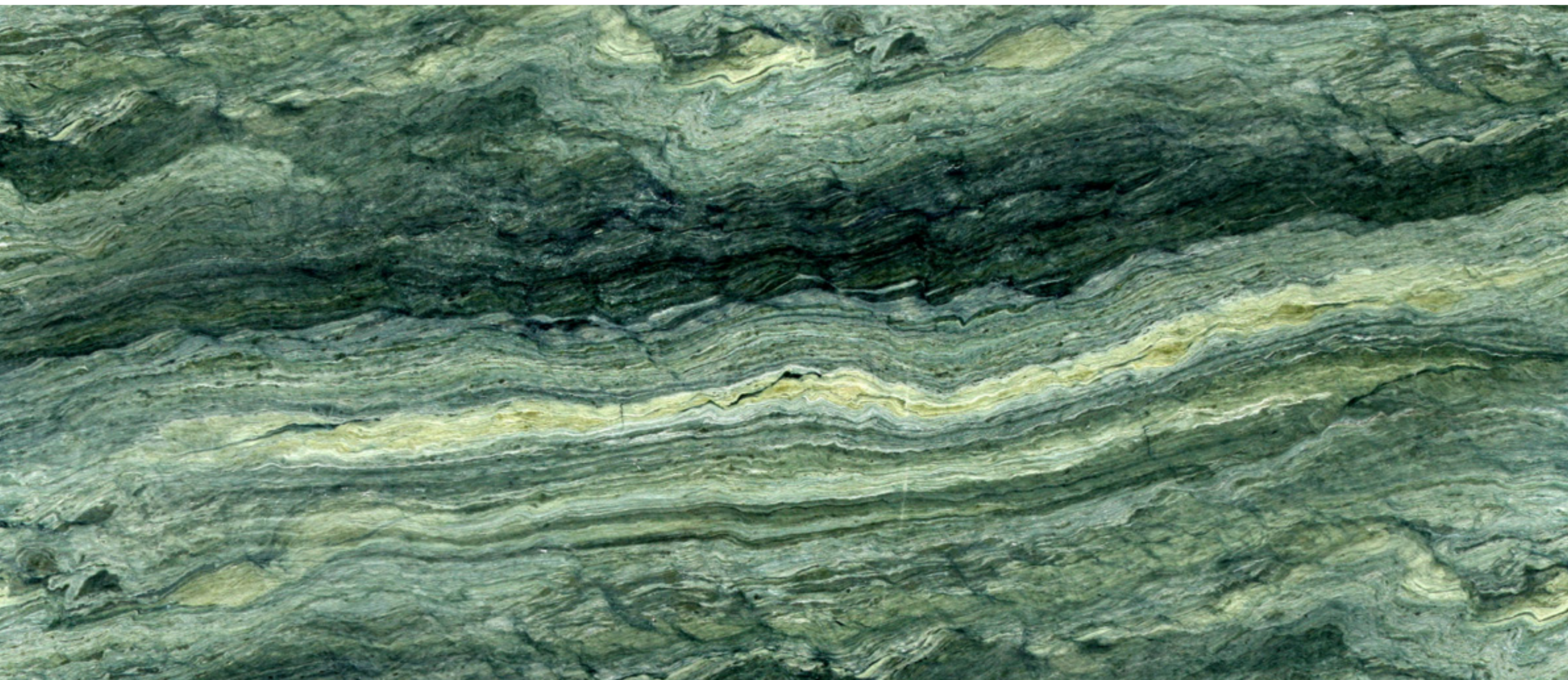
- High certainty and ease of execution through a single counterparty and existing LPs *(no new LPs required)*
- Access to significant capital for efficient portfolio management and long-term value creation
- Removes pressure for immediate DPI, enabling a confident long-term investment strategy and compounding of equity returns
- Preserves management fee streams
- Structure rewards GPs with much needed liquidity for their GP commitments as opposed to rolling commitments & carry into a CV
- Attractive standalone investment for the GP

At Pemberton, we see this structure as a new era for NAV loans, marking a significant evolution in their application and relevance within the market; one which we believe can provide substantial amounts of growth capital and much needed liquidity into the private equity ecosystem, while crucially maintaining GP / LP alignment.

For illustrative purposes only.

Glossary of Key Terms

Key Term	Definition
NAV Loan/NAV Facility	Fund-level loans collateralised by the Net Asset Value (NAV) of a diversified portfolio of investments.
DPI Trade	A use case of NAV loans to generate liquidity for Limited Partners (LPs).
Continuation Vehicle (CV)	Vehicles that allow General Partners (GPs) to retain and grow assets under a new ownership structure, onboard new investors, reset governance, and provide liquidity for exiting LPs.
LP (Limited Partner)	Investors in a private equity fund, typically institutions or individuals who provide capital but do not manage investments.
GP (General Partner)	The manager of a private equity fund, responsible for investment decisions and fund operations.
ILPA	Institutional Limited Partners Association, an organisation representing the interests of LPs.
Distributions	Payments made to LPs from the fund, often as a result of asset sales or refinancing.
Sub-lines	Short for subscription lines, a type of credit facility secured by the fund's uncalled capital commitments.
Asset Holds	The period during which a fund retains ownership of portfolio companies or assets.
Strategic CV Investors	New investors brought into a continuation vehicle, often with a long-term or value-add perspective.



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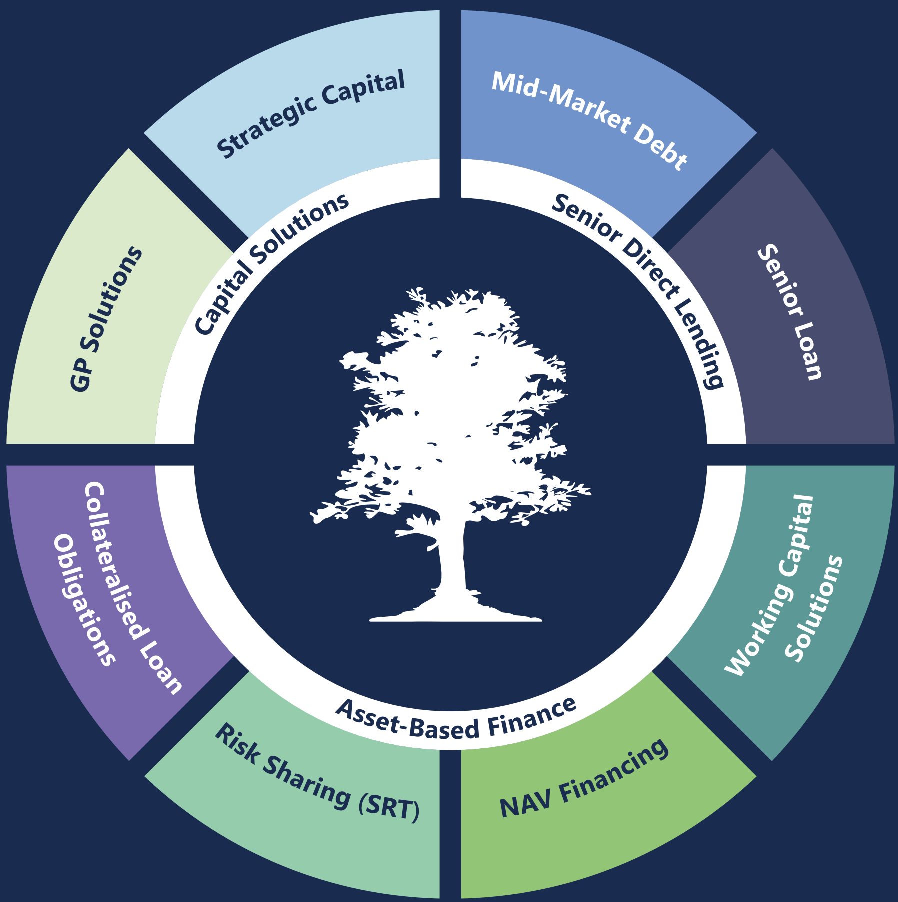

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London | New York | Paris | Munich | Frankfurt | Madrid | Amsterdam | Milan | Copenhagen | Luxembourg | Manchester | Dubai

Contact Us

Thomas Doyle

Partner
Head of NAV Financing and
GP Solutions
thomas.doyle@pembertonam.com
T: +44 (0)20 3994 7954
M: +44 (0)770 6338 295

Jürgen Breuer

Partner
Head of NAV Origination, Europe
juergen.breuer@pembertonam.com
T: +49 (0)69 9760 998-10
M: +49 (0)172 2579 023

Pavol Popp

Managing Director
NAV Financing and GP Solutions
pavol.popp@pembertonam.com
T: +44 (0)20 8057 9236
M: +44 (0)759 6865 068

Matthew Kirsch

Managing Director
NAV Financing and GP Solutions
matthew.kirsch@pembertonam.com
T: +44 (0)20 3841 8359
M: +44 (0)770 6338 300

Philip Edwards

GP Solutions, North America
philip.edwards@pembertonam.com
T: +1 929 226 0623
M: +1 917 520 0870

Daniel Oudiz

Managing Director
NAV Financing and GP Solutions
daniel.oudiz@pembertonam.com
T: +1 929 243 5975
M: +1 917 767 6848

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www.pembertonam.com

Pemberton Asset Management

5 Howick Place

London

SW1P 1WG

United Kingdom

General Enquiries
info@pembertonam.com