PEMBERTON

GP Solutions:

A Different Way to Harvest the Illiquidity Premium

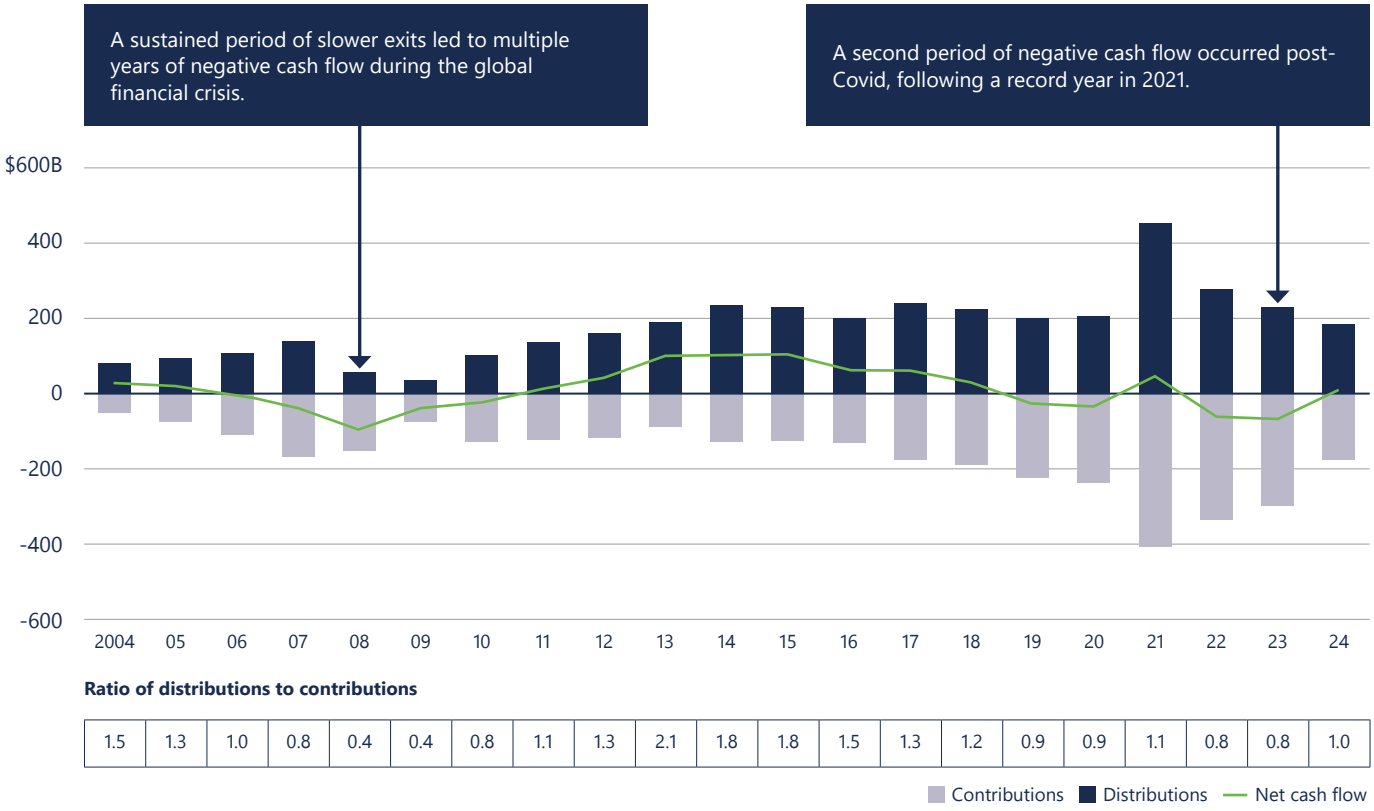
September 2025

Enabling GPs to unlock their own-fund investments [co-investments or balance sheet] offers attractive returns and robust downside protections. Pemberton's credit specialism and GP network puts it in pole position to access this opportunity.

The GP Liquidity Squeeze

Lack of liquidity in the buyout market has been the dominant story in private equity for several years. With the exception of 2021, global buyout distributions as a percentage of net asset value have declined every year since 2017 as the gap widened between buoyant fundraising and exits. In 2024 buyout distributions fell to 11% of net assets, the lowest for more than a decade, according to Bain.[1] The effects on global LPs are by now familiar – overallocation and constraints on making fresh fund commitments. This trend has fuelled the rise in NAV financing from firms including Pemberton as a means for GPs to unlock capital gains within their funds, both to develop portfolio companies to return cash to investors, and re-invest the growth in their firms.

Global Buyout Fund Capital Contributions and Distributions



Ratio of distributions to contributions

2004	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1.5	1.3	1.0	0.8	0.4	0.4	0.8	1.1	1.3	2.1	1.8	1.8	1.5	1.3	1.2	0.9	0.9	1.1	0.8	0.8	1.0

Note: Data Through Q3 2024
Source: MSCI, Bain & Company Global Private Equity Report 2025

[1]Global Private Equity Report 2025, Bain & Company

Less well publicised, however, is the effect that this liquidity squeeze has had on GPs, who have been hit over the past few years by a "quintuple whammy":

- Their fundraising cycle has shortened requiring more frequent own-fund investments
- Larger fund generations require bigger GP investments
- They are being pressured to make bigger percentage commitments to successor funds
- Their liquidity requirements are becoming less predictable due to the proliferation of continuation vehicles
- Distributions from fund holdings are slowing, reducing the realisation of carry and liquidity from GPs' prior own-fund investments

So while GPs' need for liquidity has naturally increased as their businesses have scaled, their access to it has steadily diminished, leaving their co-investments in their previous fund generations – typically 2%–5% of the total – locked in, along with their carry.

Moreover, there are reasons to believe that extended holding periods for buyout funds are the new normal. The rise in interest rates in 2022–23, placed pressure on private equity firms' ability to generate beta returns through EV multiple expansion, placing renewed focus on the importance of delivering alpha – operational improvements that drive value creation through margin enhancements and revenue growth, for example.

This is a slower and more arduous process that will require a fund's investors, which include the GP, to wait longer before they can realise their gains.

As a result of these trends, GPs, like LPs, are increasingly cash constrained and struggling to make the fresh commitments needed – which in a competitive environment are increasingly greater than 2% – to raise their next funds or seed new strategies. Similarly, GPs seeking to launch continuation vehicles are typically expected by incoming LPs to roll 100% of their carry into the new vehicle and even make additional commitments. Again, they must overcome the liquidity squeeze.

Constrained liquidity has other effects on GPs too, notably the obstacles it presents to succession planning. In an industry where many of the founders are approaching retirement, options to release the value they have tied up in their firms are limited. Some firms have chosen to raise money by selling equity stakes to outside investors. This will continue, but alongside it another option is growing in popularity: GP solutions.

This strategy offers GPs an alternative, non-dilutive way to release capital, typically via preferred equity solutions underpinned by GPs' mature but unrealised investments in previous generations of their own funds. By raising money against these illiquid assets, GPs can continue to drive their firms forward – demonstrating alignment with LPs in funds and continuation vehicles, investing in their business and advancing their succession plans.

Market Themes and Use Cases

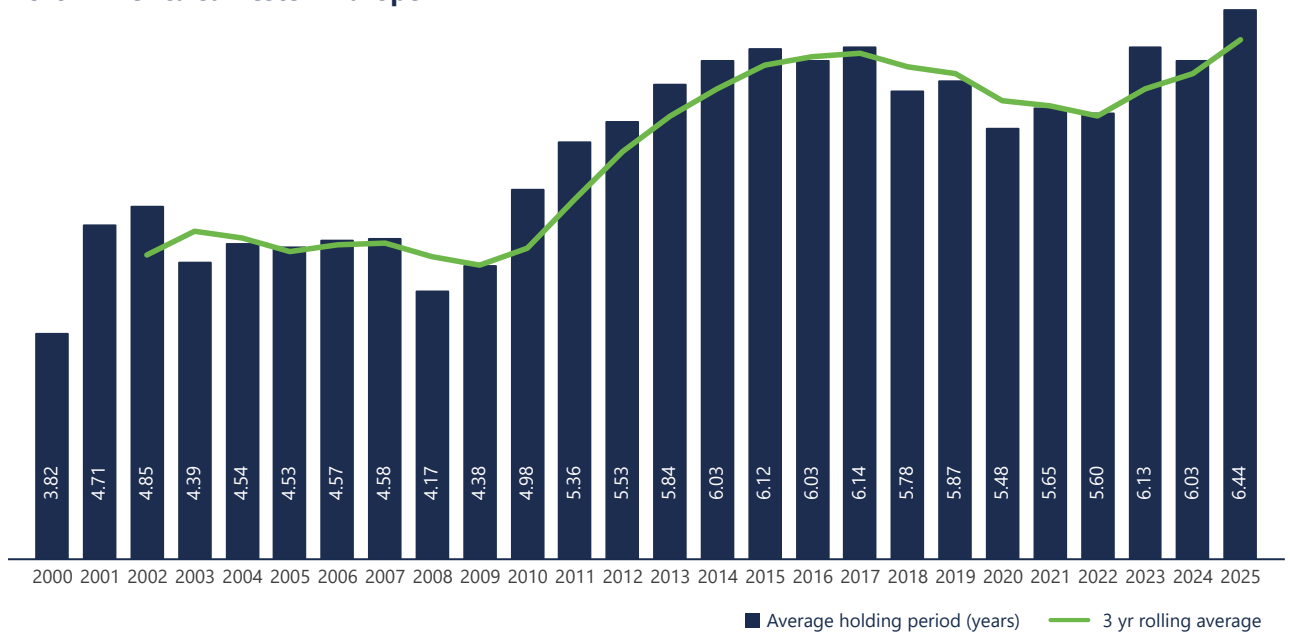
Market Themes

- Challenging fundraising environment
- Slower pace of investment realisations
- Larger GP commitments
- Increase in continuation vehicle usage and expectation to roll
- Consolidation of market participants
- Generational transitions – succession planning
- Drive towards multi-product offerings

Use Cases / Product Offering

- Support fund level objectives (bolt-ons, distributions etc.)
- Financing GP/LP commitments
- Support GP/LP commitment to continuation vehicle (allow for distribution, or to double down on crown jewel)
- Financing M&A at the management company
- GP stake buybacks
- Junior partner financing (GP commit/succession planning)
- Seeding new strategies / geographies

Private Equity Buyout – Average Holding Periods
North America & Western Europe



Source: Preqin Pro. 03/07/2025

It is not surprising, therefore that demand for GP solutions is strong. This is the flipside of the well-known buyout liquidity story that affects LPs globally. It has created an attractive but underappreciated opportunity for investors. Pemberton estimates the current market size for GP solutions to be $150–200bn, with this expected to grow to $700–800bn in 2030.[2]

[2]Based on Pemberton's understanding of the current market (adoption rates, LTVs and growth rates), using industry data sourced from Preqin Pro.

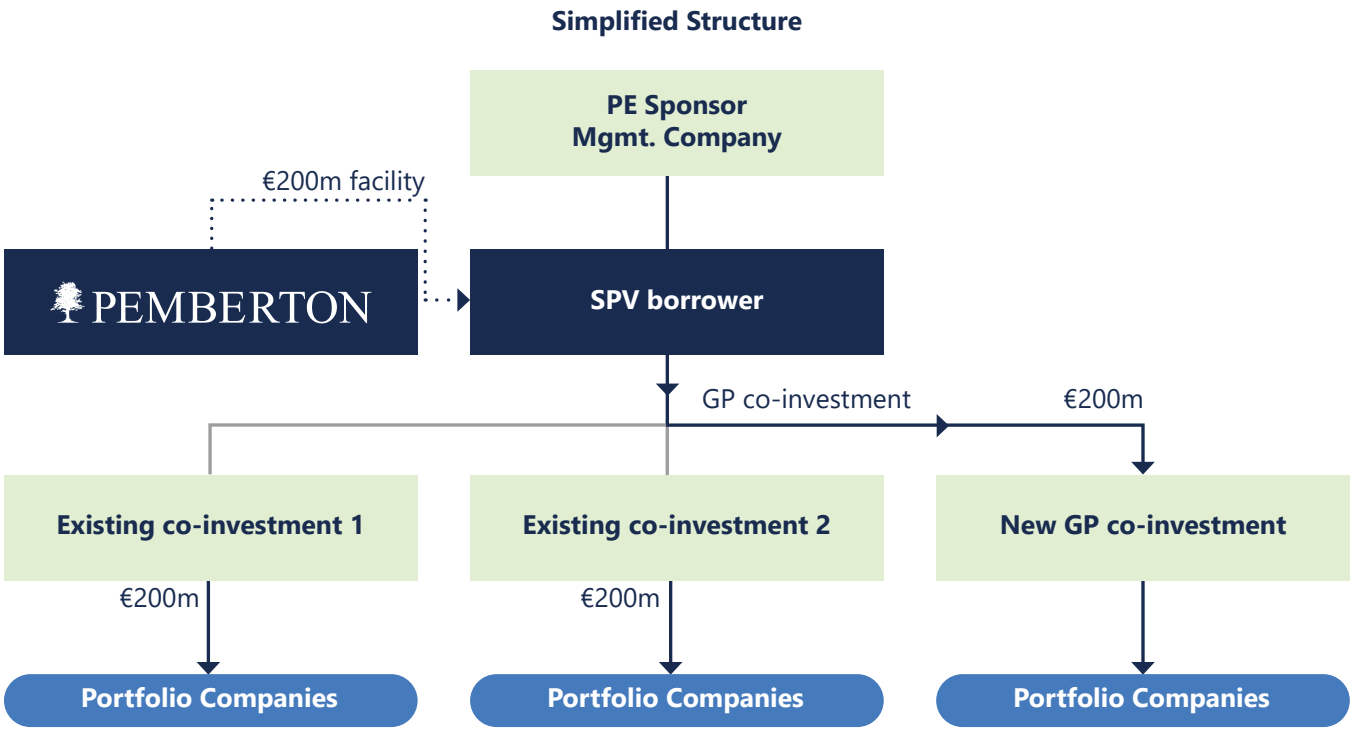
The Attractions for Investors

The opportunity that has emerged to provide non-dilutive liquidity to GPs combines strong returns with a risk profile that features a range of structural protections. Pemberton's GP Solutions strategy is meeting this market opportunity and aims to complete 10–15 transactions in the first generation, with deals sized between €50m and €600m.

We would highlight six key benefits for investors that allocate to Pemberton's GP Solutions strategy:

- **Attractive return potential:** Pemberton's GP Solutions strategy targets compelling returns, positioning it as a highly attractive relative value opportunity when compared to traditional LP investments in buyout funds and higher yielding private credit strategies such as strategic opportunities or subordinated debt, while providing greater diversification and higher quality collateral. GP Solutions transactions benefit from extensive downside protections and, because their returns are governed by contractual agreements, they are not reliant on further growth in net asset values unlike conventional fund investments. In certain cases, investors may also participate in additional upside through profit shares.
- **Short duration:** These investments are collateralised by GP investments in fund generations that are maturing, with assets typically 3–5 years post-acquisition, which combined with a liquidity preference on distributions and economic incentivisations linked to duration, gives an expected repayment profile of 3–5 years for each transaction, allowing timely recycling of capital into fresh opportunities to compound returns.
- **Structural downside protections:** Investor protections built into GP Solutions transactions include a large equity cushion, with a typical loan-to-value range of 20%–65%. Investments are made via structured equity in an SPV with a liquidity preference and enhanced cash sweeps to ensure priority repayment of Pemberton's investment before equity distributions to the GP. Contractual returns remove any exposure to future performance risk.
- **Diversification:** The assets that underpin GP Solutions investments are well diversified across industries, regions and fund vintages. Investments are structured against large pools of seasoned assets, with each investment benefiting from multiple sources of repayment. Once portfolios have ramped up, we expect to have 100–150 seasoned companies with an established performance record across 10–15 individual investments. The combination of modest LTV ratios and cross-collateralisation offers GP Solutions investors a significant benefit: protection from the repayment risk associated with any one underlying portfolio company, allowing for significant loss insulation in a deteriorating credit environment.

Illustration of a Typical GP Solutions Structure



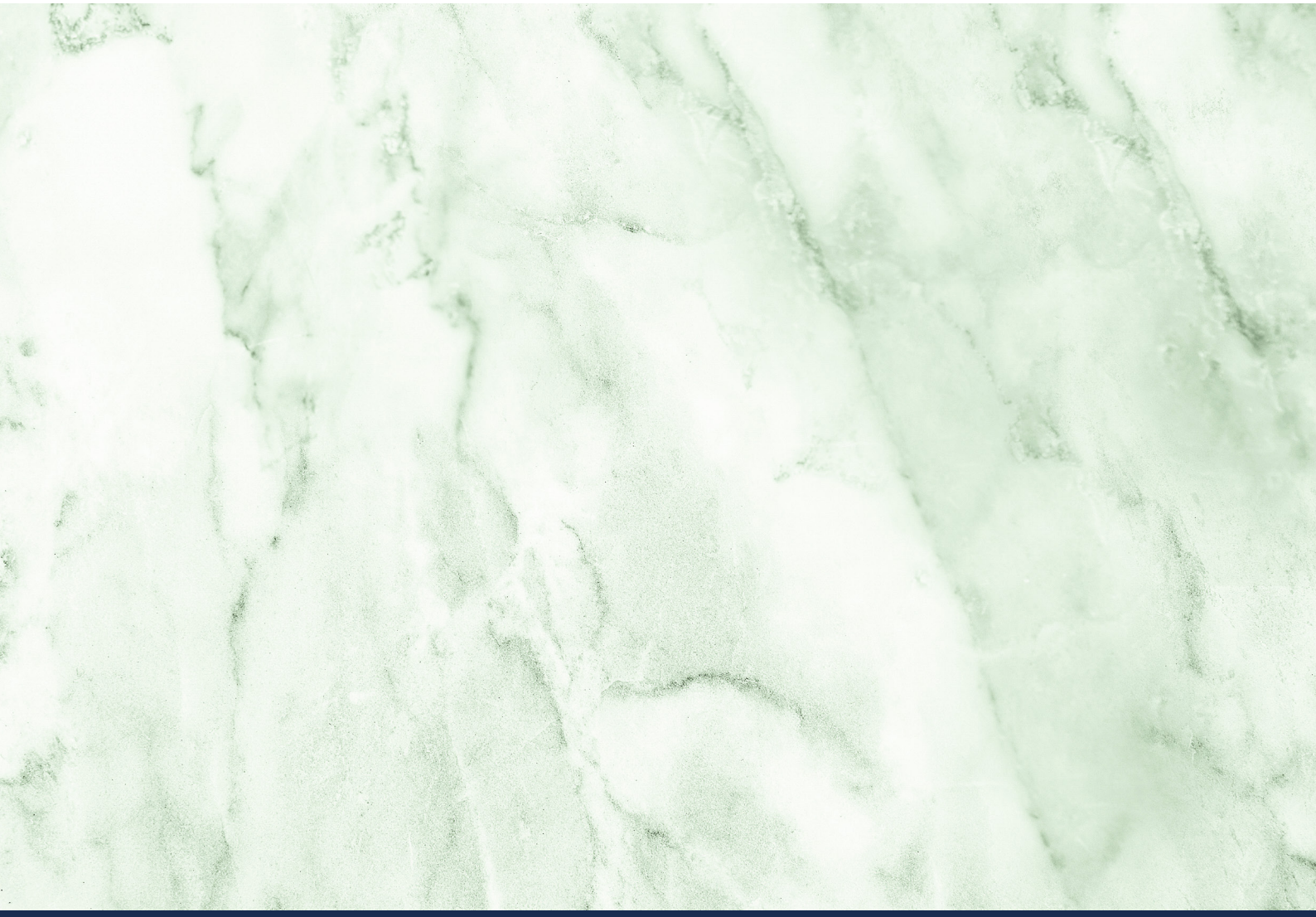
For illustrative purposes only.

- **High quality counterparties:** The target market for the GP Solutions strategy is the top tier private equity managers that benefit from extensive track records, infrastructure and both the largest and the most diverse pools of AuM. It is the fundraising success of these managers that contributes to their appetite for GP solutions, since in recent times the ability to raise significantly larger fund generations has been concentrated in the top performing managers. Bain notes that "in 2024, top-quartile fund managers increased the size of a subsequent fund by 53% while fourth-quartile managers struggled to increase fund size at all." Historically, this gap has averaged 10ppts. This trend helps to boost demand among the leading industry names.
- **Double underwriting:** Alongside the sponsor's underwriting of the assets at the time of investment, Pemberton re-underwrites each asset, using a credit approach as opposed to the sponsor's private equity focus. This facilitates independent decision-making on the size and structure of the investment.

Why Pemberton?

Pemberton's status as an independent, management-owned specialist private credit manager focused on buyout sponsors gives us a natural advantage in providing GP solutions to these firms, we believe. We have no conflicting interests with our counterparties, such as a direct or indirect private equity business or distressed/loan-to-own activity, making us an ideal financing partner in the GP Solutions and NAV Financing market.

We have relationships with around 300 PE sponsors across Europe and North America and have provided capital solutions to more than 90 across our range of strategies. We prioritise building deep relationships with these sponsors, which gives us the data and insights to underwrite both the sponsor and the underlying assets in granular detail during due diligence.



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