Canadian private equity update: positive trends, liquidity options and key issues for GPs and LPs

January 14, 2026

An uptick in performance in recent fundraising

In this bulletin we provide our view on positive trends in the Canadian private equity market, discuss liquidity options being used in the current environment, and share three critical points that clients should keep in mind when negotiating private equity deals in 2026.

The start of 2025 saw a positive development in a subdued Canadian private equity environment. During the first five months of the year, Canadian-based private capital fundraising reached $5.2 billion, just shy of the $5.7 billion that was raised across all of 2024.[1] Notably, we are also seeing a shift towards LPs committing greater capital to smaller funds, specifically those below the top 35 per cent by fund size.[2]

The inflation and interest rate dynamics of 2022 and 2023 instilled uncertainty in buyers and sellers across the private equity landscape due to the increase in the costs of credit and the uncertainty and dampening of portfolio valuations. As a result, private equity funds reaching the end of their lifecycles faced major hurdles in carrying through with scheduled divestitures of their portfolio assets, leading to a growing exit overhang.

Across North America, there have been precipitous drops in both the total number and aggregate value of divestitures.[3] This, in turn, has meant that many funds have been unable to make distributions to their LPs.[4] This pause on distributions has diminished LP commitments of capital to new funds.[5]

During 2023 and 2024, Canada saw notable lows in both the number of private capital funds[6] closed and the total capital raised.[7]Additionally, there was a decline in the average share of fundraising targets reached at closing, alongside an increase in the average time required to close.[8]

Encouraging news: recent market data suggests things could be starting to move in a positive direction.

Fund exits have seen a modest rebound. With recent interest rate cuts in both Canada and the United States, along with a number of other supportive factors, North American data shows that in the first half of 2025, the aggregate value of fund divestitures hit $216 billion - a jump of 78 per cent over the same period the previous year.[9]

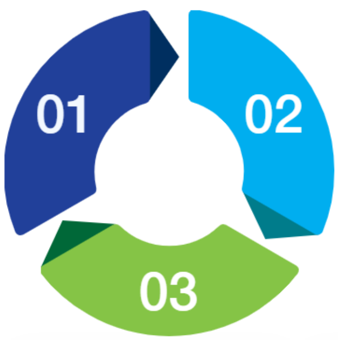
While encouraging, this is not sufficient to establish a compelling trend. Private equity funds are still holding large numbers of aging portfolio companies and these divestitures will not happen overnight.[10]

Liquidity options in the current exit overhang

Secondaries

The landscape of alternative liquidity options for LPs continues to expand, with the secondaries market playing a central role. Between 2023 and 2024, global LP-led secondaries, which allow LPs to sell their fund interests to third parties prior to fund maturity, grew by 45 per cent.[11] Global GP-led secondaries, including continuation funds, grew by 44 per cent over the same period.[12] Continuation funds allow the GP to retain control of specific high-conviction portfolio assets by selling them to a newly formed fund managed by the GP, giving existing LPs the option to either cash out or roll over their interests.

Private Equity Liquidity Cycle



01

Liquidity for LPs

- Secondaries
  - LP Led
  - GP Led (incl. Continuation Funds)
- NAV Financing
- Subscription Line Financing
- Collateralized Fund Financing

02

Fundraising

LPs commit to capital to fund

03

Investment

GP invests fund capital in portfolio assets

NAV lending

Another important liquidity option is Net Asset Value (NAV) lending, a fund-level financing facility that allows GPs to borrow against the value of the fund's assets. This funding arrangement can be used to generate liquidity for LPs without requiring an asset sale. This arrangement also enables GPs to borrow later in a fund's cycle when outstanding capital commitments do not necessarily provide a meaningful source of collateral to borrow against. It should not be a surprise then that the global NAV financing market, which has grown rapidly over the past five years, is projected to double in size over the next two years.[13]

Subscription line financing

Alongside NAV financing, funds also use subscription line financing, a facility which enables the GP to borrow against the LP's unfunded capital commitments. The use of this type of facility remains prevalent in order to efficiently generate capital for operational and investment purposes.

Collateralized fund obligations

On the LP side, there has also been a growing use of collateralized fund obligations, which are effectuated by the LP and enable them to access liquidity by securitizing their LP interests and the associated income streams.

Three critical points for consideration

1. Management fees

As LPs continue to return to the market, three key terms are expected to be front of mind in negotiations with GPs.

The first is GP fees. The "two and twenty" model, in which GP compensation consists of a 2 per cent management fee and 20 per cent carried interest on fund returns (subject to a hurdle rate), remains the dominant fee structure. However, in some cases, GPs are willing to offer management fee discounts to LPs that commit early, make sizable commitments, or have a history of investing with the GP. A related critical issue is whether management fees are paid at the fund level or the individual LP level. If calculated at the fund level, discounts granted to one LP can result in a commensurate increase in the fee or expense burden for other LPs. LPs may therefore try to negotiate for provisions requiring that discounts offered to early bird, anchor, or frequent flyer LPs not come at the expense of other LPs, but rather, be absorbed by the GP.

2. Transparency

The second is transparency. Earlier this year, the Institutional Limited Partners Association (ILPA) released an updated version of its GP reporting standards - slated to come into use at the start of 2026. The new standards aim to enhance standardization, transparency, and comparability in GP reporting. Among other things, they provide greater clarity regarding fund expenses, particularly those paid to the GP or related entities. LPs are likely to push for adoption of the new ILPA standards or similar frameworks. We also anticipate LPs will scrutinize how fund expenses are defined in limited partnership agreements (LPAs), given the often blurry line between fund expenses and those that may be more appropriately characterized as GP expenses.

3. Key person risk

Finally, we expect continued attention to key person provisions in LPAs. These provisions protect LPs against the risk that one or more individuals integral to the fund's performance becomes unavailable to continue their work at the fund or sponsor organization. These provisions operate by either pausing new investments or providing LPs with an exit opportunity in such cases. The question of who constitutes a "key person" – an undefined term -, both at the fund and sponsor levels, will be an important consideration.

Another question we anticipate will generate discussion is what constitutes a "key person event". In recent years, the concept of a key person event has expanded beyond death and disability to include retirement, employment suspensions, legal or ethical misconduct, or even lack of time and attention devoted to the fund.

Developing curative provisions that strike a balance between permitting continuity of the fund and protecting LPs from key person risk can also present challenges. These definitional and drafting issues are integral to how parties will define and structure Key Person provisions and their operation going forward.

Looking ahead

Overall, we are cautiously optimistic about a possible rebound in private equity fundraising markets in 2026. To be sure, any rebound will be gradual given the perception that the current exit overhang is more structural than cyclical. We also expect the secondaries market to continue its growth as a significant component of the private capital market.

For more information on private equity fund formation, management, or investment, or to discuss any of the topics referenced in this article, please reach out to any of our authors below or your usual BLG contact.

Footnotes

[1] Preqin, "Private Capital Fundraising in Canada 2025", Figure 1.

[2] Ibid, Figure 3.
[3] Bain & Company, "Global Private Equity Report 2025", Figure 15.
[4] Ibid, Figure 18,
[5] Ibid, Figure 28.
[6] Private capital includes all asset classes: private equity, infrastructure, real estate and private credit.
[7] Preqin, "Private Capital Fundraising in Canada 2025", Figure 1.
[8] Ibid, Figure 4.
[9] Moonfare, "Mid-year review: Strong signals in a selective PE market."
[10] Bain Global Private Equity Report, "Private Equity Outlook 2025: Is a Recovery Starting to Take Shape?"
[11] McKinsey & Company, "Global Private Markets Report 2025", pg. 81.
[12] Ibid.
[13] Supra note 1, pg. 22.

Prepared with the assistance of Deva Middleton, articling student

By

Manoj Pundit, Ben Keen, Deva Middleton

Expertise

Investment Management, Private Equity & Venture Capital

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749