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INVESTMENT FUNDS PRACTICE GUIDE

Trends and Developments

Canada 2025



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Introduction

The Canadian private funds landscape has undergone significant transformations over the past few years. Now, in 2025, fund managers and investors are navigating a complex environment shaped by economic uncertainty and ongoing liquidity challenges. This article provides an overview of the current fundraising climate and trends that are influencing the private funds market in Canada, including alternative liquidity sources, fund structuring trends, private credit fund strategies, general partner (GP) stakes transactions, and emerging technologies. By understanding these elements, stakeholders can better position themselves to capitalise on opportunities and mitigate risks in this dynamic sector.



Fundraising Environment

The fundraising landscape faced significant challenges in 2024. Limited partners (LPs) exhibited caution, driven by skepticism regarding portfolio investment valuations, the need for liquidity solutions due to restricted private fund distributions, or over-allocation to private asset classes. This cautious stance led to tighter capital flows, complicating efforts for fund managers to secure new commitments. Since the start of 2025, there have been early signs of recovery, although LPs still prioritise liquidity, increasingly favouring secondary transactions. The market is witnessing a consolidation trend, with larger, established managers attracting most new capital, while emerging managers face significant hurdles in raising funds, as Canadian institutional investors prefer to make larger fund commitments which are often too large for mid-sized funds (CAD200–500 million).

Regarding sector allocations, private credit remains robust, appealing to investors for its potential for steady returns in the current interest rate environment. Conversely, venture capital and real assets are encountering more difficulties due to market uncertainties and valuation challenges. Liquidity remains a critical concern, with traditional exits still proving difficult. Consequently, managers are more focused on demonstrating their ability to achieve liquidity, emphasising distributions to paid-in capital (DPI) metrics alongside internal rate of return (IRR). Environmental, social and governance (ESG) factors continue to influence the market, though there is a noticeable shift in approach. While ESG is not in retreat, fund managers are adopting more pragmatic methods to integrate these principles.



Alternative Sources of Liquidity

Liquidity remains a pressing issue for LPs. As such, the secondary market has seen significant growth, driven by the need for fund managers to provide liquidity to investors. Two key solutions are gaining traction: GP-led secondaries or continuation funds and net asset value (NAV) facilities.

Continuation funds rise in Canada

GP-led secondaries have become a significant component of the private funds landscape in Canada, and their prominence continues to grow. According to recent Preqin data, 2024 saw a global record of USD36 billion in continuation vehicles, with 65 transactions, the majority of which were first-time funds for their managers. This trend has resulted in an increase in the number of GP-led secondaries in Canada. Over the past decade, these transactions have become a well-established mechanism for offering liquidity solutions to general partners and investors. Historically used to provide liquidity at the end of a fund's term, continuation vehicles (CVs) are now also being utilised to raise additional growth capital during a fund's life or to extend the window of time to maximise the underlying value of portfolio assets.

A typical GP-led secondaries transaction generally includes the following features:

- A new CV established by the sponsor and capitalised by new LPs, typically secondary funds or sophisticated institutional investors. One or more investors may lead the investment in the CV and negotiate terms with the sponsor.
- A process led by the GP to actively provide liquidity options to existing LPs, while also securing additional time and/or capital for a specific investment or group of investments.
- An election process whereby LPs can choose between cashing out of the existing fund or rolling their interests over into the new CV. Depending on the structure and terms, current fund LPs may also be offered a "status quo" option, allowing them to roll over to the CV on the same economic terms.

Given that these transactions involve the sale of one or more portfolio assets among affiliated entities, it is essential to adequately consider, disclose and obtain approval for any conflicts of interest. Additionally, the GP must demonstrate that a thorough and impartial pricing process was followed, often involving a financial adviser to manage the secondary process and provide a fairness opinion or valuation report. Tax structuring and aligning incentives through rolled carried interest must also be carefully considered. Representations and warranties insurance may also be necessary given the fund-to-fund nature of these transactions.



NAV facilities gain traction in Canada

Net asset value (NAV) facilities, though more common in the US, are increasingly drawing attention in Canada. These facilities offer leverage based on the value of a fund's assets, presenting an alternative to subscription line facilities which are backed by unfunded commitments and used as a short-term cash management tool to bridge capital calls. NAV facilities are secured by the value of a fund's underlying assets and can be employed for various purposes, including to facilitate early distributions to investors, make follow-on investments or pursue other growth opportunities. While they can enhance liquidity and DPI ratios, NAV facilities are met with some skepticism from LPs due to concerns about the potential artificial inflation of performance metrics. Recent guidance from the Institutional Limited Partners Association (ILPA) underscores best practices for the use of NAV facilities, stressing the importance of transparency and the alignment of interests between GPs and LPs. Existing limited partnership agreements (LPAs) often lack clarity on these matters, so implementing NAV facilities may require approval from limited partner advisory committees or necessitate formal amendments to the LPA. Addressing provisions related to NAV facilities when establishing new funds and clearly communicating their intended use is thus now essential. A proactive approach will ensure that both GPs and LPs are aligned and that the use of NAV facilities is well documented and transparent from the outset.



Evergreen and Hybrid Funds: A Sustained Trend Among Institutional LPs

Evergreen and hybrid funds continue to be popular with institutional LPs. These funds offer distinct advantages over the traditional closed-end model commonly used in the private funds sector. They do not have a fixed term or fundraising period and allow investors to commit and redeem capital with greater flexibility. They offer bespoke provisions regarding liquidity, redemption gates, side pockets, NAV reporting, and carry calculation and payment. The specific terms of these provisions vary based on the underlying asset class and type of institutional investor. They are particularly well suited to investments in income-generating assets (eg, real estate, infrastructure and private credit), which provide capital for ongoing redemption requests. Evergreen funds are also emerging in less liquid areas, such as private equity and venture capital. For GPs, evergreen funds provide the benefit of continuous capital without the pressure of frequent fundraising cycles or a set deadline for returning investments, subject to redemption rights.

Despite their many advantages, evergreen funds also come with certain disadvantages that investors and fund managers need to carefully consider. One significant drawback is the complexity of managing continuous capital inflows and outflows, which can complicate liquidity management and valuation processes. The lack of a fixed term can also lead to challenges in aligning the interests of all investors, as some may seek short-term liquidity while others are focused on long-term growth. Additionally, the lack of standard market terms has given rise to bespoke provisions, such as tailored liquidity options, redemption gates, and side pockets, which require sophisticated and robust operational frameworks, increasing administrative burdens and costs. Some early adopter investors (especially institutional investors) have had mixed experiences with regard to the feasibility and timeframe of withdrawals from such funds and this has resulted in increased caution and diligence in investing in these vehicles.

From a GP standpoint, the continuous fundraising aspect means that fund managers must maintain ongoing investor relations and marketing efforts, potentially diverting focus from core investment activities.

These factors can make evergreen funds less appealing for certain investors and managers who prefer the more “standard” terms and defined timelines of traditional closed-end funds.



Enhanced Access to Private Wealth Channels

Private fund managers increasingly target accredited investors (eg, HNW individuals and family offices) and the growing private wealth market. Evergreen funds, known for their flexibility and improved liquidity options, are proving particularly attractive to HNW individuals and family offices. While these funds often appeal to the same institutional investors as traditional drawdown funds, their adaptability makes them well suited to the private wealth segment.

Blurring lines between fund structures

In the HNW (non-institutional) channels, the distinction between hedge funds and private market funds is becoming increasingly blurred. Fund managers are designing hybrid structures that cater to private wealth advisers, utilising open-end formats which do not require capital commitments and which manage liquidity through various mechanisms such as liquidity sleeves, subscription and redemption gates, and leverage. These hybrid funds necessitate bespoke terms and specific regulatory and operational arrangements. Fund sponsors have been exploring ways to provide retail access to private funds while addressing the issue of long-term capital lock-up. This has led to a shift towards “evergreen” or “open-end” fund structures. Unlike traditional closed-end funds, evergreen funds do not have a finite life, allowing for continuous capital investment without the pressure of frequent fundraising cycles. Investors can buy into the fund at the current NAV, and the fund operates similarly to a mutual fund, albeit with more limited redemption opportunities.



Key considerations for private fund managers establishing such vehicles include:

- Distribution networks – partnering with intermediaries with strong distribution networks is essential to reach potential investors.
- Back office impact – enhancing fund administration capabilities and liquidity management systems to handle the complexities of open-end structures.
- Funding redemptions – utilising mechanisms such as gates or promissory notes, with careful tax planning, to manage liquidity effectively.

The convergence of these trends – blurring lines between fund structures and the proliferation of open-end funds – represents a significant shift in the private funds landscape. By adopting innovative hybrid and evergreen fund structures, fund managers can offer more flexible and attractive investment options to both institutional and private wealth investors, positioning themselves for future growth and success. However, by providing greater retail access to private funds, managers are increasingly subject to scrutiny by the securities regulators who are now seeking to better understand the private fund landscape.



Private Credit Fund Strategies

Private credit strategies experienced substantial growth in 2024, a trend that is expected to continue into 2025, though with heightened competition. This has been true with regard to all segments of the industry, from high-yield debt funds to senior secured debt funds. It has also covered all private credit strategies including infrastructure and project lending, bridge lending, mortgage lending and corporate lending. The significant expansion observed in the private credit sector in 2024 was driven by several factors, including an increasing interest rate environment and the increasing demand for alternative financing solutions by borrowers. This momentum is expected to carry forward at least into the first half of 2025, notwithstanding the Bank of Canada lowering interest rates during the last half of 2024.

Open-end fund structures are gaining popularity within the private credit space, primarily due to credit portfolios being relatively easy to value (especially in comparison to private equity or venture capital assets) and due to the fact that private credit strategies provide for income streams which can alleviate some liquidity and withdrawal concerns.



GP Stakes Transactions

GP stakes transactions are becoming increasingly common as fund managers seek to raise capital for GP commitments, launch new strategies, or facilitate senior partner retirements, although they are still relatively rare in Canada due to the smaller size of the GP market. While GPs have traditionally relied on retained earnings generated through management fees or carry to finance their operations and growth, this approach has inherent limitations on the manager's ability to grow the business, facilitate succession planning, and achieve other strategic objectives. The introduction of GP stakes has helped overcome these challenges by allowing GPs to sell minority stakes to third-party investors, thus providing the necessary liquidity. GP stake transactions involve a third party investing in a GP or fund manager, usually in the form of minority equity investments. These transactions inject capital into the business without requiring repayment, offering GPs the financial flexibility to fund commitments, launch new offerings, and enter new markets.

GP stakes come with both advantages and disadvantages. While they provide immediate liquidity and can bring strategic support and operational insights from the new investor, they also require the GP to sell a permanent stake in the business. This can be a one-time option due to limitations imposed by fund documentation, and it may raise concerns among existing LPs regarding fees and carry paid to a passive investor. Conversely, structured preferred equity solutions offer a non-dilutive alternative to GP stakes. These solutions involve creating a new preferred security that provides the investor with a preferred return, which is repaid from the fund's cash flows. Unlike GP stakes, preferred equity does not require the sale of a permanent stake in the sponsor, making it an attractive option for fund managers seeking liquidity without diluting ownership.

As the size of the Canadian GP market continues to grow, we can expect private-fund sponsors to increasingly turn to GP stakes and structured preferred equity investments to finance their growth.



Tech Trends for GPs

Online subscription agreements

The transition to online subscription agreements for private funds promises a more seamless and efficient process for both GPs and LPs. However, the implementation of these digital agreements presents significant challenges. Some LPs are resistant to adopting online platforms, preferring traditional paper-based processes. This resistance can necessitate dual processes, where both digital and paper-based agreements are maintained, thereby complicating operations and potentially diminishing the efficiency gains that online systems are designed to provide. Overcoming these challenges requires addressing LPs' concerns, providing adequate training and support, and demonstrating the security and reliability of online systems.

Cybersecurity

As cyber-threats continue to evolve, fund managers must remain ever vigilant. The nature of these threats is becoming increasingly sophisticated, driven by advancements in AI and malware technologies. Cybersecurity measures must be continually updated to protect sensitive information and maintain the integrity of fund operations. This includes implementing robust security protocols, conducting regular security audits, and staying informed about the latest threat vectors and defence strategies.

By staying ahead of these tech trends, GPs can enhance their operational efficiency, safeguard their assets, and better serve their investors.



Closing Thoughts

The trends and developments outlined in this article, from the growing importance of liquidity solutions and evergreen funds to the rise of private credit strategies and GP stakes transactions, highlight the dynamic nature of the Canadian private funds sector. As it continues to evolve in 2025, fund managers and investors who remain informed and adaptable will be better positioned to navigate these changes and capitalise on emerging opportunities.



Authors

Fasken was founded in the mid-19th century and merged with another leading firm in 2000 to form what is now one of the largest firms in Canada with an international reach. A premier law firm with over 950 lawyers worldwide, Fasken's investment products and wealth management group is composed of legal professionals who have in-depth knowledge of all the different types of investment vehicles used in Canada to regroup the assets of retail, HNW or institutional investors, and deploy various investment strategies.



Jonathan Halwagi provides counsel in the areas of asset management and investment funds. His practice at Fasken focuses on the establishment of fund structures with an emphasis on alternative asset management (including private equity, venture capital, infrastructure and lending). He also regularly acts for Canadian and international asset managers, assisting them with compliance with applicable Canadian securities laws and regulations. Jonathan assists asset managers in their dealings with Canadian regulators and counsels them on acquisitions, joint ventures and mergers. Before joining Fasken, Jonathan practised with a leading UK law firm in its investment funds group.



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