

The Asia Fund Finance Market Is Evolving — Japan Just Hit the Accelerator

Asia Fund Finance Market Overview

Asia's private capital ecosystem has continued to come into its own, and fund finance is a core part of the playbook for managers and investors across the region. Through 2024 and into 2025, the market has shown that it can adapt, even in a more complex macro environment. Deal flow has held up well, with a noticeable concentration in developed markets. Japan, in particular, is emerging as a standout performer with solid investor confidence and the market is active not only in classic buyout strategies but also in more flexible financing solutions.

Subscription line facilities still sit at the heart of the Asia market, helping managers bridge capital calls and ensure cash flows when investment opportunity arises. Competition among lenders has intensified further in 2025, which has kept pricing pressure in check and broadened access for borrowers. The rise of private credit and new regional entrants in recent years has added more depth to the liquidity pool, translating into more borrower-friendly terms. Against that backdrop, sponsors are looking beyond subscription lines to a wider toolkit. NAV facilities, hybrids, GP and management company lines are seeing more traction as managers look to fine-tune liquidity, manage portfolio dynamics, and support distribution strategies.

Typical Investment Private Equity Fund Structure

For many Asian sponsors and investors, the Cayman Islands continues to be the default structuring hub. Its tax neutrality, flexible fund architecture, and English-based legal framework make it a practical and familiar choice. Most private equity funds in Asia are set up as Cayman Islands exempted limited partnerships, with general partners often operating through Cayman Islands exempted companies with limited liability. This pairing offers operational flexibility while keeping governance and investor expectations aligned.

Key Due Diligence Considerations in Asia Private Equity Fund Financings

Private equity fund documentation in Asia has evolved meaningfully. Historically, partnership agreements in Asia tended to be silent or to contain restrictions or consent requirements on borrowing or granting security over partnership assets. As fund managers are more conscious of potential financing requirements, it is now common in Asia for partnership agreements to contain express permissions to facilitate financing arrangements, which makes execution cleaner and faster. That said, legacy funds can still present constraints, so it is crucial to check early whether the fund documents clearly allow debt, security, and guarantees.

Choice of governing law for security is another early decision point. As Cayman Islands law permits security over Cayman Islands assets to be governed by foreign laws, similar to the market practice in the United States, it is common in the Asia fund finance market to have the governing law of the security package aligned with the governing law of the main finance documents.

However, based on the recent uptick in the use of fund financing deals involving Japanese law governed documents, if a security document is not governed by the law of situs of the assets subject to the security interests created pursuant to the security document, Japanese legal analysis may be less clear on the validity and perfection of the security by the secured creditors. It follows that the Japanese legal position in respect of creating, perfecting and ultimately enforcing security over the assets such as the rights to call capital contribution for Cayman Islands partnership remains unclear. In practical terms, Japanese secured parties often prefer that capital call security agreements of a Cayman Islands exempted limited partnership be governed by Cayman Islands law to maximise certainty around security creation, perfection and enforcement.

Given the variety of structures we see, a couple of early, practical questions often help streamline diligence and execution. First, do the fund documents permit debt at the fund level, including guarantees and security? Second, can the GP draw down investor commitments to repay debt, including interest and associated costs, and is the facility purpose drafted broadly enough to cover working capital and liquidity needs? Getting answers to these questions upfront helps avoid surprises later and usually leads to smoother and faster closings.

Market Outlook

Managers in Asia are increasingly comfortable using leverage to manage liquidity and day-to-day operations, not just as a bridge but as part of a broader management strategy. With the current macro backdrop, many funds are holding assets longer, even beyond the original investment period. That holding pattern has gone hand in hand with a rise in NAV facilities, which can support portfolio management, unlock value from portfolio assets, and ultimately enhance returns for investors. The result is a more diversified, resilient, and dynamic fund finance market across the region—one that gives managers more options to navigate today's environment while staying ready for tomorrow's opportunities.

Further Assistance

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December 2025

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