

Creative capital: how sponsors are funding increasingly large GP commitments

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In the evolving private equity landscape, sponsor commitments, also known as GP commitments, have grown significantly. LPs increasingly view a sizable GP commitment as a signal of alignment, discipline and long-term “skin in the game”. However, for many sponsors, especially emerging managers or those scaling rapidly, meeting these growing obligations can be challenging.

As a result, sponsors are exploring a variety of strategies to fund their commitments. These range from traditional capital contributions to innovative financing solutions. The path a sponsor takes often depends on the firm’s stage of development, fundraising track record and balance sheet capacity.

The growing size of GP commitments

Historically, GP commitments hovered around 1–2% of fund size. Today, 2–4% is more typical, though in some cases that range can be even higher.

This upward pressure creates tension: large commitments can be a selling point with LPs, but they also tie up capital, impact cash flow and create personal financial strain, particularly for younger firms or for principals whose net worth is tied up in illiquid carried interest.

Funding strategies by sponsor maturity

1. Emerging managers: bootstrapping and internal capital pooling

Early-stage managers often lack the personal liquidity or track record to borrow against future management fees or carry. As such, emerging managers tend to use creative internal solutions:

- Employee participation. Founders may spread the GP commitment across a broader team, requiring managing directors, principals or even senior associates to contribute. This builds alignment internally while easing the burden on any one individual. Some sponsors may tie an employee’s carry allocation to the size of their contribution to the GP commitment.
- Revenue-based loans or personal guarantees. In some cases, principals borrow personally using commercial loans backed by expected fee income or other collateral, though this comes with risk.

2. Mid-sized sponsors: blended strategies and structured debt

For managers with multiple fund vintages and predictable cash flows, structured financing becomes more accessible. These firms often pursue a mix of the following:

- GP financing facilities. Specialized lenders offer loans secured by future management fees or carried interest streams. These facilities are often non-dilutive and may come with flexible terms tied to the timing of capital calls and distributions.
- Equity recycling. Distributions from prior fund vintages are recycled into new GP commitments, allowing GPs to self-finance their commitments without raising outside capital.
- GP seeding capital. An investor provides capital to a sponsor. The investment in the GP or the manager, which may be used to fund the GP commitment, is often in addition to providing an anchor fund commitment. In exchange for the capital injection and commitments, seeders typically receive a negotiated share of the GP's economics. To learn more about GP seeding, please refer to [our previous bulletin](#).

3. Established sponsors: institutional capital and permanent solutions

Larger sponsors with significant AUM and diversified revenue streams often have more institutional approaches:

- GP staking capital. As discussed in the GP stakes market, some sponsors fund GP commitments through capital raised from minority stake sales. These proceeds are often earmarked for funding new strategies or recycling into future fund commitments. To learn more about GP staking, please refer to [our previous bulletin](#).
- Structured preferred equity. Rather than raising capital by selling the same interests owned by the principals of the fund to an investor who would then earn fees and carry alongside those principals, structured preferred equity involves (1) the investor buying a preferred security; (2) allowing the sponsor to receive capital to (among other things) fund its GP commitment; and (3) entitling the investor to a preferred return in a non-permanent and non-dilutive way, as compared to GP staking. To learn more about structured preferred equity, please refer to [our previous bulletin](#).
- Management company leverage. Top-tier sponsors may borrow at the management company level, backed by a portfolio of funds and future revenue, to finance GP commitments across strategies.
- Employee co-investment programs. Many mature firms have formalized co-invest programs that incentivize employees to contribute to GP capital alongside founders, aligning the broader team while reducing concentration risk.

Considerations and trade-offs

Each funding method carries trade-offs:

- Dilution vs. leverage. Selling a stake in the GP or requiring employee participation avoids leverage but can dilute long-term upside. Conversely, borrowing may preserve equity but increases financial risk. Preferred equity solutions can sometimes bridge these issues by providing non-dilutive capital without a maturity date, financial covenants or customary events of default.
- Alignment vs. flexibility. LPs value alignment, but overly large GP commitments may strain firm liquidity or reduce a manager's ability to innovate or pursue new strategies.
- Transparency and terms. LPs increasingly scrutinize how GP commitments are financed. Structures that obscure economic alignment, such as back-levered, guaranteed loans, can raise red flags in due diligence.

The future: evolving expectations and innovation

As fund sizes continue to grow, and as LPs increasingly expect meaningful GP commitments, the financing toolkit will continue to expand. We're already seeing innovation in this area:

- GP commitment funds. New funds are emerging to provide capital to sponsors specifically for funding commitments, in exchange for a preferred return or piece of carried interest.
- Technology and aggregation platforms. Emerging platforms are helping small and mid-sized managers pool resources and streamline GP capital formation, especially in the lower middle market.

Conclusion

Funding GP commitments is no longer a one-size-fits-all challenge. As private equity has institutionalized, so too has the GP's approach to capital formation. Whether through borrowing, internal capital redistribution or selling minority interests, sponsors are deploying a growing range of tools to meet rising LP expectations.

The key for any manager is to find a solution that not only funds the commitment but also reinforces the alignment, transparency and long-term vision that today's investors expect.

To discuss these issues, please contact the author(s).

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