Capital call loans: an overview of a differentiated private credit investment opportunity

RBC BlueBay Asset Management

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We look at capital call facilities and the loans drawn under them – what they are, why private capital funds use them, and how they may fit within sophisticated investor portfolios.

Key takeaways

- For decades, capital call facilities, and the capital call loans drawn under them, have been a largely bank-held corner of private capital markets
- However, that is beginning to change, and, for sophisticated investors, the door is opening to an exciting opportunity
- Capital call loans offer the potential for attractive income-focused exposure with short duration and floating rate characteristics, providing valuable differentiation from traditional credit markets

Capital call facilities – and the loans drawn under them – are typically secured primarily against committed but uncalled investor capital. Governed by agreements with robust legal protections, these facilities have an extremely rare industry default experience. To take advantage of this established and fast-growing market, however, access alone is not enough. Successful participation also requires specialist expertise, rigorous asset selection, and disciplined portfolio management.

What are capital call loans?

Serving as short-term bridge financing and a revolving credit facility, loans drawn under a capital call facility allow private capital funds to borrow against their investors' committed but uncalled capital, before drawing down those commitments to repay the loans.

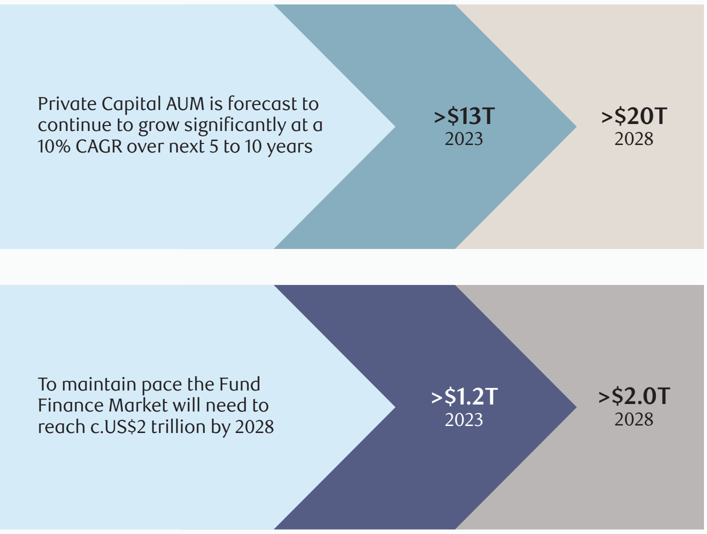
Capital call facilities and the loans drawn under them might initially appear to be a very new, niche, and unfamiliar financial asset class. The reality is that they have been around for decades. As an established, traditionally bank-held asset class, and one favoured by banks for its regulated capital efficiency in particular, capital call loans have clearly defined rules of engagement. At their heart, capital call loans provide a timely and much-needed solution – typically without increasing structural leverage – that can benefit both a fund and its investors.

Why does the capital call facility market exist?

Before we delve deeper into understanding capital call facilities and the loans drawn under them, it would be useful to understand the reason why they were created. So widespread has their use become that capital call facilities are now an integral and valued part of the broader private capital markets ecosystem. Indeed, forecasts suggest the global capital call facility market could reach as much as USD2 trillion in the next few years from roughly half that level currently.

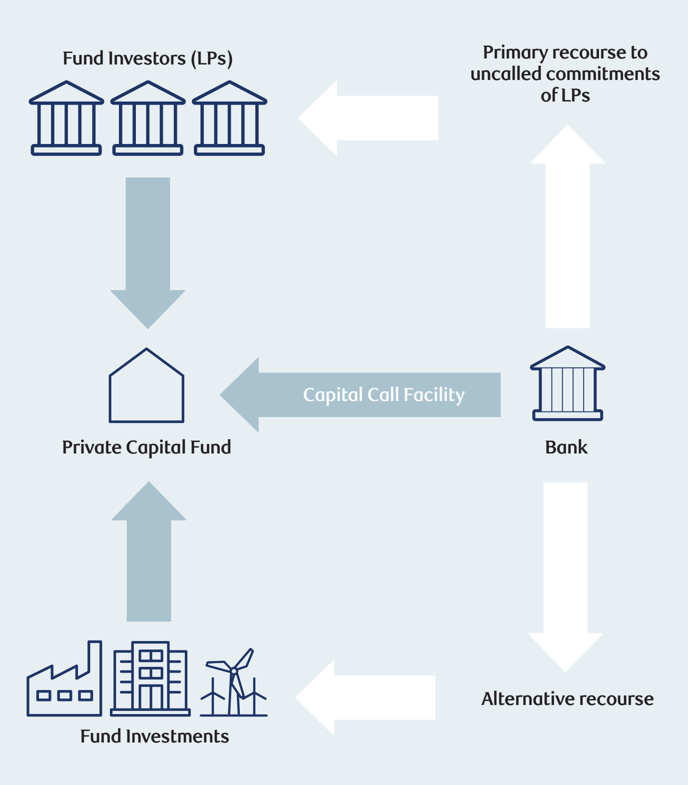
A key driver of this growth is that private capital markets more broadly have witnessed significant expansion in recent decades, across a range of different sub-market categories, including equity, credit, infrastructure and real estate. Growth is expected to continue, with global private capital assets under management forecast to grow from USD13 trillion-plus in 2023 to USD20 trillion by 2028 (Exhibit 1).

Exhibit 1: A large and growing opportunity set. Subscription lines are estimated to be a ~USD 1 trillion market globally and continue to grow due to the boom in private credit markets



Source: Subscription Finance Strategy documentation, as at July 2025.

Exhibit 2: How a capital call facility works



Source: RBC GAM, as at March 2026.

As private capital markets grow, their financing needs are also expected to increase, both in scale and, crucially, in their need for greater flexibility. This demand is not sector-specific either: while early capital call facilities were primarily used by real estate-focused funds, given the benefits capital call facilities can bring, their use has now spread to most private capital fund strategies.

The mechanics of capital call loan financing

The two key parties: LPs and GPs

Before we describe how a capital call facility works, let us introduce two key parties in a Limited Partnership Agreement: private capital fund investors are known as Limited Partners (LPs), while their investments are managed by the fund's General Partner (GP).

When LPs invest in a private capital fund, normally they do not transfer all of their investment into the fund on day one. That is because an LP may have capital gainfully deployed elsewhere, or, equally, the GP might not want all the LP's investment straightaway, preferring to match investment flows with an expected pipeline of deals over time. Instead, the LP will make a contractual commitment to provide capital as and when it is called by the GP.

However, under such an arrangement, the GP would need to call capital from LPs each time the fund acquires an asset. Unfortunately, acquisition timings do not follow a neatly prescribed timetable; in reality, opportunities can, and often do, arise at short notice.

Furthermore, experience shows that capital calls typically need to be funded within 10 days of a capital call notice[1]. This can create liquidity management challenges for LPs, who may need to hold liquidity buffers that could otherwise have been better deployed elsewhere.

How a capital call facility works

As shown in Exhibit 2, a capital call facility allows the lender, traditionally a bank, to provide short-term financing to a private capital fund. The lender's primary recourse is to the committed but uncalled capital from the fund's LPs. Further protection typically also includes alternative recourse to the fund's underlying investments if required, though this is historically extremely rare. The fund's GP can then use this facility to help bridge its shorter-term liquidity needs, including the funding of investment opportunities, before needing to issue capital calls to its investors in order to repay the loan.

The result is that the GP can draw on the capital call facility as frequently as needed, creating a loan on each occasion, before issuing fewer, larger, and more predictable 'rolled-up' capital calls to LPs. This helps LPs to manage their own liquidity arrangements more efficiently, and it can help the GP move quickly when acquisition opportunities arise.

Given the needs they meet, capital call facilities typically have terms of between 1-3 years, and are most heavily used during the early stage of a private capital fund's life when the GP is overseeing a relatively rapid build-out of asset acquisitions. Furthermore, because capital call facilities are generally used before the fund has matured and while undrawn LP commitments remain substantial, such facilities encounter performance issues extremely rarely.

As an aside, an important point to note is that while capital call facilities can improve operational efficiency and may positively affect reported fund performance metrics (particularly Internal Rate of Return, or IRR), by delaying the timing of capital calls, the cost of the facility needs to be considered and weighed against its benefit.

Capital call loans come with protections

Capital call loans are typically supported by a range of protections within a strong legal agreement.

As we have already noted, a lender's primary security is a fund's right to call uncalled capital from LPs. However, there are also other provisions to protect against a potential LP default: these could include self-cure periods, where the LP in question may be given a limited period to pay the overdue amount, usually with a late-payment fee; overcalls, where other LPs make good any shortfall; forfeiture of future distributions from that fund to the LP; and ultimately forced sale of the LP's stake in that fund alongside broader legal remedies.

In all, these protections offer capital call loan investors a high degree of confidence that the lender's rights under the facility are legally

[1] Fitch: Subscription Finance Primer, as at February 2023.

robust and enforceable. In practice, however, the reputational consequences and economic costs for an LP of defaulting on a capital call – including the potential loss of both its existing investment and future participation rights – are so severe that such protections are extremely rarely called upon.

What governs the returns that a capital call facility can generate?

For providers of capital call facilities, returns typically come from a combination of: (1) the interest paid on loans drawn under the facility and (2) a lower percentage commitment fee on any remaining undrawn facility capacity. The utilization between these two parts, therefore, can have a material impact on the variability of returns for the capital call facility as a whole.

For capital call loans specifically, the interest rate charged is commonly linked to a floating rate plus a spread. That rate structure may be attractive to investors seeking lower interest rate sensitivity and shorter-duration exposure.

Why is a traditionally bank-held asset class opening up to sophisticated investors?

What has traditionally been a bank-held asset class is increasingly opening up to a wider investor base, including insurance companies, pension funds, and family offices. For the lending banks, broadening investor participation allows them to lend in greater volumes to an established but fast-growing market, while helping to meet the financing needs of their arguably underserved private capital fund platform clients ("Sponsors").

To encourage investors, banks typically offer focused exposure to a subset of the capital call facility market, namely loans drawn under the facility. This helps investors reduce reliance on facility utilization assumptions, which may support a more predictable return profile.

How can capital call loans be used in a portfolio?

While capital call loans sit within the private credit markets universe, they have different characteristics from near comparators, such as direct lending, corporate credit, or NAV-based fund finance.

Notably, those latter credit assets typically leave an investor open to a range of credit drivers to have to consider. Direct lending and corporate credit are typically exposed to a borrowing fund company's cashflows and balance sheet strength, while NAV-based fund finance is much more directly connected to the value of a fund's underlying portfolio of assets.

By contrast, for a capital call loan investor, security is instead tied primarily to committed but uncalled LP investor capital. For capital call loan investors, this can arguably represent a much more observable, predictable, and less volatile credit exposure.

This highlights an important diversification role that capital call loans can play in portfolios, offering the potential for attractive income generation with short duration and floating rate characteristics – and delivering useful differentiation relative to more traditional credit markets.

What are the key risks?

For the holder of a capital call loan, the most obvious risk is that an LP might fail to meet capital calls. Historically, LP defaults have been extremely rare, not least because LPs have strong economic and reputational incentives to honour their commitments. According to estimates from the credit rating agency Fitch, institutional LP defaults have historically been close to 0%, based on the number of LPs and as a percentage of committed capital, and up to 1% on average for high-net-worth individuals in a stress environment like 2008[2].

However, LP risks cannot be ignored, and for the lender, expertise, oversight, and due diligence are necessary capabilities to support credit quality, portfolio management, and legal safeguards.

A related issue is the quality and diversification of a fund's LP base: a capital call facility backed by a broad pool of high-quality LPs is likely to have a relatively better risk profile than another facility reliant on fewer LPs and/or those with weaker credit characteristics.

Away from LP-specific risks, another key risk is the quality of the GP and the broader Sponsor platform. Here, a strong, experienced Sponsor and GP with a long track record and established LP relationships will present a different risk profile from that of a newer, less proven alternative.

What does successful investor participation require?

Capital call loans can be an attractive asset class, but successful investor participation depends on more than access alone. It requires, first and foremost, disciplined Sponsor approval and rigorous loan selection. It also calls for a detailed credit review, robust documentation, and careful portfolio construction, diversification, and ongoing monitoring.

For sophisticated clients looking to access this asset class, RBC BlueBay brings the deep and extensive capabilities of a global fixed income specialist. We have over USD155 billion in assets under management invested across 51 specialist strategies, and we are supported by 138 investment professionals[3].

For capital call loans in particular, RBC BlueBay's investment expertise is complemented by close collaboration with RBC Fund Finance – a team within RBC Capital Markets – and a strong alignment of interest with the broader RBC Capital Markets franchise.

Together, these collective capabilities can offer significant support in accessing and assessing high-quality capital call facility opportunities associated with leading private capital managers, while providing the underwriting, portfolio construction, diversification, and monitoring required in this specialist market.

[2] Fitch: Subscription Finance Primer, as at February 2023.
[3] RBC GAM, as at 30 June 2026.

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