NAV 1.0[1]

By Alethea Barretto

The "NAV 1.0" panel dealt with the primary question of "what does NAV mean to you?"

- **What does NAV mean to you?** Everyone has a different view as every lender has a different underwriting policy and there is no 'market standard'. Generally, a NAV facility is a downwards looking financing where lenders have recourse to the value of the underlying assets of the fund. How this type of financing is structured and why it is used depends on the GP/LP conversations and the asset class of the fund, amongst other things.

- **Is there a difference between GP/LP attitudes with respect to leverage at the outset?** It depends on the strategy and what was intended by the LPA at the outset of the fund's life. Funds may not be able to predict their future leverage needs at initial closing, with such needs only becoming apparent as the fund matures. Amendments to the LPA in order to permit the incurrence of additional debt at a later stage in the fund's life is when LPs are likely to start questioning the use of the debt and the benefit to them.

- **How has the NAV product changed over the years**? NAV is not a new product and many lenders have been providing types of portfolio financing, which now would be categorized as NAV, for years. The main change has been in the collateral package. Historically, some bank lenders may have provided unsecured NAV lines in the past (or taken security over bank accounts where distributions are paid into only), but now will want a comprehensive collateral package.

- **What is the collateral package generally like now**? The panel agreed there is no standard NAV collateral package in the market and the nature of collateral offered up will depend on the asset class of the fund. Generally, lenders want to be as close to the asset as possible. Security is generally taken over the SPV that holds the portfolio of assets, along with security over any account into which distributions are paid into. Collateral can be trickier where the fund only holds minority stakes in portfolio assets. Security can be taken over these minority stakes with a view to any creditor being able to sell them on the secondary market in the event of enforcement, but lenders should be aware that there are instances where the secondary market may be closed.

- **Who are the key lenders in the space**? There are two key actors: financial institutions and alternative lenders and which of these lends is largely dependent on the size of the fund. Large

[1] Panelists included Sarah Ambulante (Loyens & Loeff); Zoe Hallam (Walkers); Stanley Likver (Ares Management); and Mohith Sondhi (OakNorth).

funds will have access to traditional lenders but options for mid-tier firms are greatly reduced, with alternative lenders more likely to lend. Insurance companies are also coming into this space. It also depends on the asset class, for example, real estate funds find it difficult to get funding as real estate is an illiquid asset class.

- **Enforcement** – Since the COVID19 pandemic, there has been an increased focus on enforcement and exit strategies with upfront enforcement memos becoming common. Enforcement is particularly crucial to lenders and creditors are looking for multiple exit strategies, how they can exit and the ease with which they can exit. They want to understand how to take control of the vehicles or replace the GP if needed.

- **What does the future of NAV look like**? While NAV is by no means a new product, there is an education piece that needs to take place in the market. The panelists were of the view that NAV financing has increased in the past year and will continue to become more commonplace in the next 12-24 months. Hybrids, mentioned throughout the conference, also came up and the panel and audience are interested to see how these will be deployed/developed in practice. The reality is that it is often more expensive to put a hybrid in place then it is to put a separate subscription-line and NAV line in place. The hope is that education of the use of NAV financing continues at the LP level and becomes a commonplace tool in the fund finance market, much in the same way as subscription lines have evolved following industry education and uptake.