NAV 2.0[1]

By Alethea Barretto

The “NAV 2.0” panel discussed a more advanced and sophisticated NAV product deemed to be “NAV 2.0”.

- **What is NAV 2.0?** It’s a more sophisticated version of the NAV product. The distinguishing features are (i) a specificity of terms and approaches for individual asset classes, for example and (ii) multi-disciplinary nature of more sophisticated products. The panel explained this as there being waves of NAVs, with NAV 2.0 being a product with more intermediation, larger fund sizes, larger executions and broadening participation. There seems to be a real convergence of term sheets on NAV facilities and a strange standardization is being observed in the market.

- **Structure –** Typically a NAV facility is a covenant-lite structure. From the sponsor’s perspective, this is the focus of the financing and typically it’s an aggregator with pref. The unsecured/cov-lite nature of NAVs makes it easy and quick to execute as every asset is not checked.

- **Ratings –** The panel mentioned the securitisation rules for private debt. Ratings agencies are now developing ratings for equity NAV financings. Banks are looking at capital usage internally so the ratings would help with tranching and back levering.

- **Valuation –** When underwriting, underwriters look at the underlying covenant package so the V in LTV is crucial. As there are more trades, everyone will become more comfortable so 20 LTV trades could become more attractive. Separately, independent valuations have a role to play in NAV financings.

- **Borrower’s view of the NAV model vs Credit fund ABL model –** NAV is a more flexible type of financing but it is still not directly secured by the underlying assets so borrowers appreciate this position. Reporting on ABL is very time consuming so the lack of a need to do this in NAVs is another benefit. With base rates approaching 4.5%, asset level debt is expensive so NAVs become an attractive option for borrowers looking to take advantage of strategic debt.

- **Trends in syndication –** Sponsors might want to know who the lenders are. This can be tricky and sensitive due to the information transfer that would need to take place for this. On the flip side,

[1] Panelists included Susannah Amini (Kirkland & Ellis); Richard Fletcher (Macfarlanes); Andrew Husdan (Clifford Chance); Fantine Jeannon (LGT Private Debt); Steven Mansy (Macquarie Group); and Simon Thwaites (Barclays).

sponsors also want protection at the asset level and as NAVs are priced more expensively than capital call facilities, there is greater expectation for a more sophisticated product.

- **Future predictions –** The NAV 2.0 product exists and has a foothold in the market but there is a need for education. There is an upwards pressure on the LTV level and more innovation in private financing so one can definitely expect movement in this space. One speaker did express concern that the rush of lenders in a space with no sector specialists might be a risk of sorts, but the advice is to borrow carefully and to get regulators comfortable with this product. With 3 trillion USD in PE assets, it will be interesting to see how much of this is filtered to LPs so that it affects NAVs and the overall outlook for the future is extremely positive.