LMA Loan Market Association

Fund Finance Insights

Nav Financing: Behind the Headlines

March 2025

Introduction

The use of NAV financing by buy-out managers is not a new phenomenon in the fund finance market, but has attracted increasing attention among market commentators and participants. In this latest Insights we look into the role of PE NAV Financing (i.e., NAV financing used by buy-out managers rather than managers of other asset classes) and answer some of the key questions around the product.

The history of NAV

For background on NAV facilities generally and their role in a Fund's lifecycle in the private markets, see our earlier Insight on A Brief History and Evolution of Fund Finance – Europe.

NAV backed finance across all asset classes (including buy-out) has been used by private markets managers for several decades. Indeed, particularly for the private credit, secondaries, real estate and infrastructure asset classes, fund level financing has been a staple part of liquidity management for these managers for decades with little attention. Advisers, lenders and managers have seen these products perform robustly through a number of challenging cycles, including the Global Financial Crisis **(GFC)** and more recently the pandemic.

During the pandemic, the market faced an unprecedented set of circumstances. This led to wider consideration and adoption of NAV facilities, particularly from large-cap buy-out managers, which resulted in a narrative that NAV products are a new type of fund finance product and which drew particular attention to the down-side risk for investors and managers. It is important however, to form a balanced view, to look at the broader context around the genesis and evolution of these products, their track record, actual usage, terms (including the protections for managers, investors and their portfolio's) and the ongoing dialogue happening between many established managers and investors in respect of these products.

This increased focus on PE NAV Financing and resulting questions from investors globally led to the Institutional Limited Partners Association **(ILPA)** producing its NAV-Based Facilities: Guidance for Limited Partners and General Partners, published in July 2024. This provides a helpful framework outlining investor's concerns and has served as a catalyst for the further development of best practices around the use of PE NAV Financing.

Where is the disconnect?

Questions have been raised around the use and structure of PE NAV Financing and the degree of transparency and dialogue between buy-out managers and investors. Where investors in PE funds are raising concerns, these do need to be acknowledged and considered. As an independent association acting in the best interests of the EMEA loan markets, the LMA has engaged in comprehensive dialogue with leading players in the fund finance market across the lender, manager, adviser and investor communities (including industry bodies such as ILPA) to understand both the questions being raised and the practices that are adopted by the key players in the industry.

Well-established players in the fund finance market are no strangers to the best practices suggested by ILPA in their Guidance, and many had practices consistent with these guidelines before their publication, but the ILPA Guidance has had a very positive impact on the overall market in terms of increasing the focus on transparency around the use of PE NAV Financing. Despite existing good practices and the positive impact of the ILPA Guidance, there remains a disconnect between the questions being raised and what is actually happening in practice. So where do these disconnects lie?

Usage and drivers

One of the early concerns around the increase in volume of PE NAV Financing was the use of these facilities to accelerate distributions for investors against the back-drop of a challenging exit and fund-raising environment. For some investors, this raised capital challenges particularly where that distribution constituted a recallable distribution. Based on surveys across the market, this type of usage, which once constituted around twenty per cent. of the PE NAV Financing market (according to the ILPA Guidance), is now very limited – we understand to be under ten per cent. of total PE NAV Financing in Europe. The remainder is being used for buy and build strategies to accrete value to investors, or for protective purposes, including, to refinance asset-level debt cost-effectively, bring a distressed investment back to value or provide additional liquidity. What is also clear is that, whilst NAV facilities are a liquidity option for managers, they are not the only option and not simply used as an alternative to an exit or a continuation vehicle or refinancing asset-level debt where these avenues can achieve a more

optimum result for investors. They can be cost-effective, flexible and value-accretive solutions that can be used to solve complex portfolio situations to achieve an optimum outcome in a way that, taking into account all the circumstances, other products may not be able to achieve.

Transparency and dialogue with investors

Based on our observations, there is (and has been for some time) a significant degree of dialogue between established managers and investors around the use of NAV products generally (including PE NAV Financing), often before lenders are even approached on these facilities, to determine what liquidity options are available to a manager depending on the specific circumstances of that manager and its liquidity needs. Of the market participants we have spoken to, lenders are aligned with managers and investors in ensuring that there is transparency with the investors on the terms and structure of the PE NAV Financing – indeed, lenders place material value in the alignment of their interests with those of the investors when considering making a PE NAV Financing available. We understand, however, that there are still pockets of concerns being raised where this dialogue is not taking place and so agree with ILPA that it is important to set out and encourage wider adoption of the good practices already being adopted by established managers. One of our main findings in our conversations with market participants is that PE NAV Financings are a key focus for investors and they consider there to be some inconsistency in their use by managers globally in view of the fact that limited partnership agreements (or equivalent constituting document for the relevant fund) often approach the ability for managers to use PE NAV Financing differently or do not legislate for it at all. Managers have a fiduciary obligation to act in the best interests of their investors and many are regulated in multiple jurisdictions/listed in exchanges bringing even more scrutiny, and any liquidity solution should be in the best interests of the investors, not the manager. Given the focus for investors around this product, the managers we have spoken to have stressed that transparency is key to ensure investors are kept fully appraised of the use of PE NAV Financing. Any step taken to implement a PE NAV Financing without consideration and transparency could play into future fund-raising success. The ILPA Guidance has helped the market tremendously in terms of articulating the questions that are key for investors and what is clear is that interrogation of these products, discussion and education is paramount and is a positive for the wider private markets and fund finance communities.

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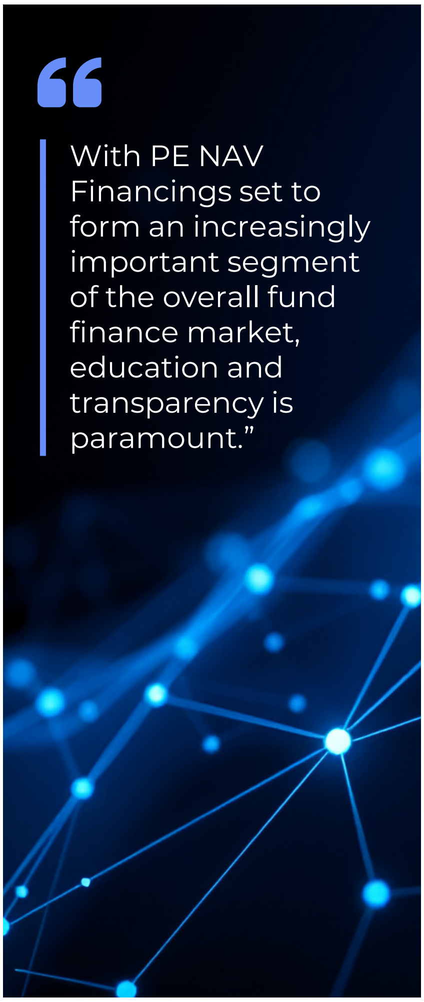
Risk factors

Questions have been raised as to the real risk attached to PE NAV Financings and what might happen in an enforcement scenario, given they are structured to provide some form of recourse to a managers' investment portfolio. Speaking to market participants, many of whom have been structuring these types of products for over 25 years, the terms of these facilities, the form of the recourse (which may be secured, unsecured or reliant simply on cashflow distributions) and their practical application/framework is typically very conservative with low LTV's (but with built in buffers to mitigate the risk of a movement in LTV), lent against diversified portfolios and a contractual framework such that, should there reach a point where the facility is in default, the lenders and the manager are aligned in working out the situation in an orderly, consensual way, often with significant cure periods and cure plans agreed between the lender and the fund. Anecdotally, market participants note that even during the GFC the impact on valuations on an average basis would not have resulted in deals structured today being in a position where they would tip into a default given the headroom built into these facilities in a way that should ensure value for investors. Taking all of these factors together and looking at the actual track record performance around these facilities going back over 25 years, the likelihood of a lender being in a position to accelerate the facility is remote. Clearly this highlights the importance of careful consideration of the structuring of a PE NAV Financing and the appropriateness of the terms relative to interests of the investors and the underlying portfolio.

Where do we go from here?

PE NAV Financings, when used appropriately taking into account all relevant circumstances, can be beneficial to PE managers and their investors as another liquidity option. With PE NAV Financings set to form an increasingly important segment of the overall fund finance market, education and transparency is paramount. At the LMA, our core values are to increase efficiency, transparency, liquidity and sustainability across the loan markets. The LMA and its working parties agree that there needs to be more education and transparency around NAV products so that private markets participants can make decisions as to what solution is best for them in any given set of circumstances and understand the right questions to ask. The LMA fully supports communication on this between lenders, managers and investors in respect of the need for transparency and communication. As an organisation the LMA looks forward to continued work with market participants to bring greater transparency and education around the use of these products.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For further discussion of PE NAV Financing, check out our LMA Talks Loan Markets podcast available on Spotify covering The evolving outlook for NAV financing. There will also be more to come from us on this topic.

As the use and consideration of PE NAV Financing continues to grow, we invite you to engage with the LMA and ILPA to help drive efficiency and transparency across the market.

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