Private Debt Investor

NAV lending

NAV loans are an increasingly popular tool for accessing liquidity

At a time when private equity firms are struggling to exit assets and return capital to investors, NAV loans have increased in popularity as a tool for accessing liquidity, financing distributions or investing back into the portfolio. A form of fund-level debt financing where one or more lenders provide senior secured debt capital against the net asset value of a portfolio, NAV lending is capturing the attention of mid-market lenders looking for new opportunities to support sponsors.

Philippe Mojon, head of NAV financing at AXA IM Prime, says: "When we started doing NAV loans, we were lending to funds of funds, where the typical transaction was to fund the acquisition of large, well-diversified portfolios of LP interests that delivered cashflow from day one. We are still very much doing that business, but the market has evolved. Over the years you have seen large-scale buyout sponsors coming to NAV lending, so we now service funds of funds and buyout funds."

Multiple segments

Mojon says that today there are multiple segments in the NAV lending space that service the varying needs of borrowers. "If you are a sponsor, you can turn to a true preferred equity solution for dealing with an end-of-life fund where you want to give back cash to LPs and bring in an alternative capital solution. Or if you are just past the investment period, you can borrow against the fund as an alternative to borrowing at portfolio company level to make a distribution to LPs or to make follow-on investments."

He says as the market gets more mature, there are more players coming in offering new solutions.

At 17Capital, one of the few lenders focused exclusively on NAV lending, co-head of credit David Wilson says managers are typically looking for top-up capital at the fund level: "Those are usually modest amounts, on average 10-15 percent of the fund's value, and they have primarily been used for follow-on investments."

But borrowers are getting more creative in how they access NAV loansl, says Wilson. "Right now, we are hearing more from managers looking at, and getting their LPs comfortable with, the idea of using a NAV loan to maximise fund deployment. If they just run their funds as usual then they may only invest around 85 percent of the fund size. That is because they may look to keep 15 percent back in case any market stress creates a need for additional capital to support businesses, and to cover management fees. If they do a 15 percent NAV loan then they can get LP capital 100 percent invested and still have that backup, so that is another rationale for these facilities."

Wilson says the vast majority of the deals 17Capital has done in the past 18 months involve high-performing sponsors tapping NAV loans for the first time, suggesting adoption is broadening. "Supply is still a constraint for further growth in the market. There is $3 trillion of assets in buyout funds globally, so with just 10 percent loan-to-value against that there is the potential for $300 billion of NAV loans and there is definitely not that capacity right now. We are growing and our peers are growing but there is still a massive supply-demand imbalance."

Getting LP support can also be a challenge, says Mojon: "What we have seen over the last 18 months is sponsors being very cautious about making sure their LP base is fully supportive of a NAV loan. They are taking their questions very seriously and spending time with them, regardless of whether there is a legal requirement for them to get LPAC approval." ■

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