Proskauer

# Insights on the NAV Lending Market

## Full Year 2023

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In the middle of 2023, we conducted an informal, small-scale survey to gather insights from prominent non-bank lenders on their activity in the net asset value (NAV) lending market for the first half of 2023. We have expanded the survey to cover the full year and to include both lenders (traditional bank lenders as well as non-bank lenders) and borrowers in the US and Europe. Given the size of the NAV lending market, this survey offers broader and more accurate insights into the trends and activity related to NAV lending.

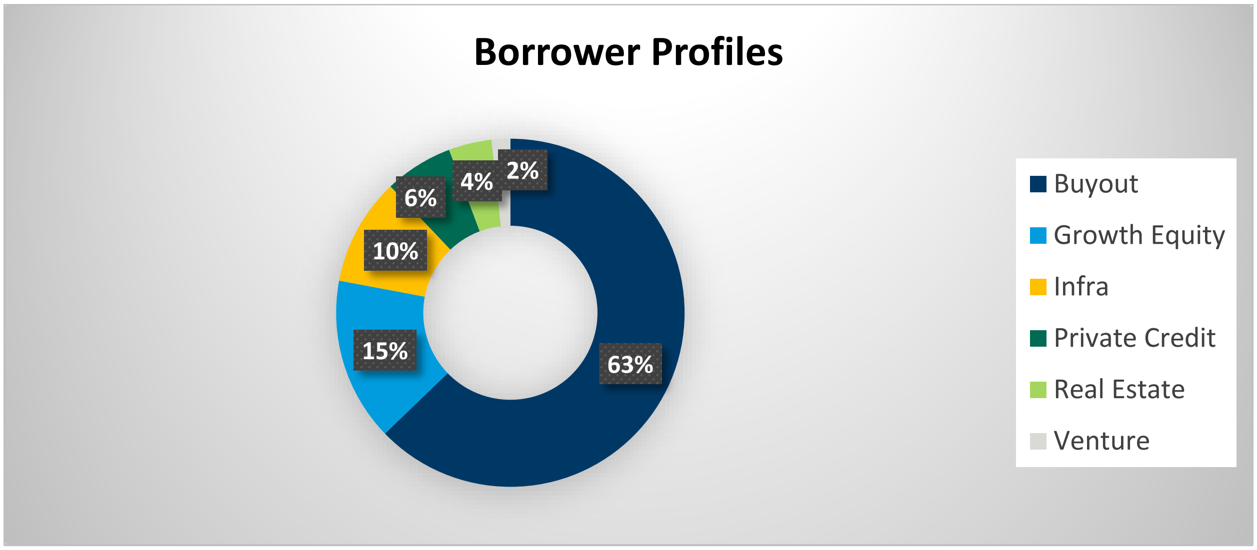
Our survey respondents included secondaries borrowers and lenders. As the secondaries market differs in many respects from the standard NAV lending market, rather than distort the relevant data, the charts included in this report are focused on the data from the standard NAV lending market only and, where appropriate, we have included narrative specific to the secondaries market.

The responses we received in our expanded survey are generally in line with our earlier NAV survey and reaffirm our prior findings, as further shown in this report. The market participants find NAV products to be a useful liquidity solution as they navigate a challenging economic environment.

Please note that although we have broadened the scope of this survey from our previous report and received a significant increase in the number of responses, these findings do not necessarily reflect the entire global market.

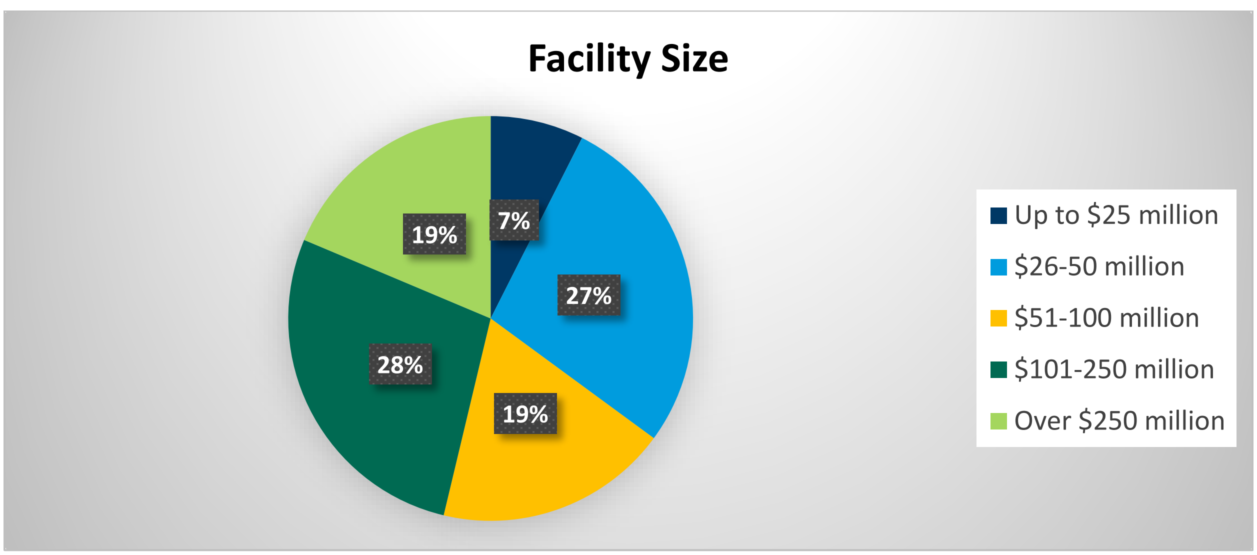
## Fund Strategy

As expected, buyout was the most prevalent borrower strategy. We note, with interest, a larger than expected proportion of growth equity, notwithstanding the higher risk profile of growth equity NAV financings than private credit NAV facilities. This may be explained by the various other types of financings available to private credit borrowers (e.g., CLOs and warehouses) that are not available to growth equity sponsors. Please note, the data below does not include additional strategies such as aviation and sports, in addition to secondaries.



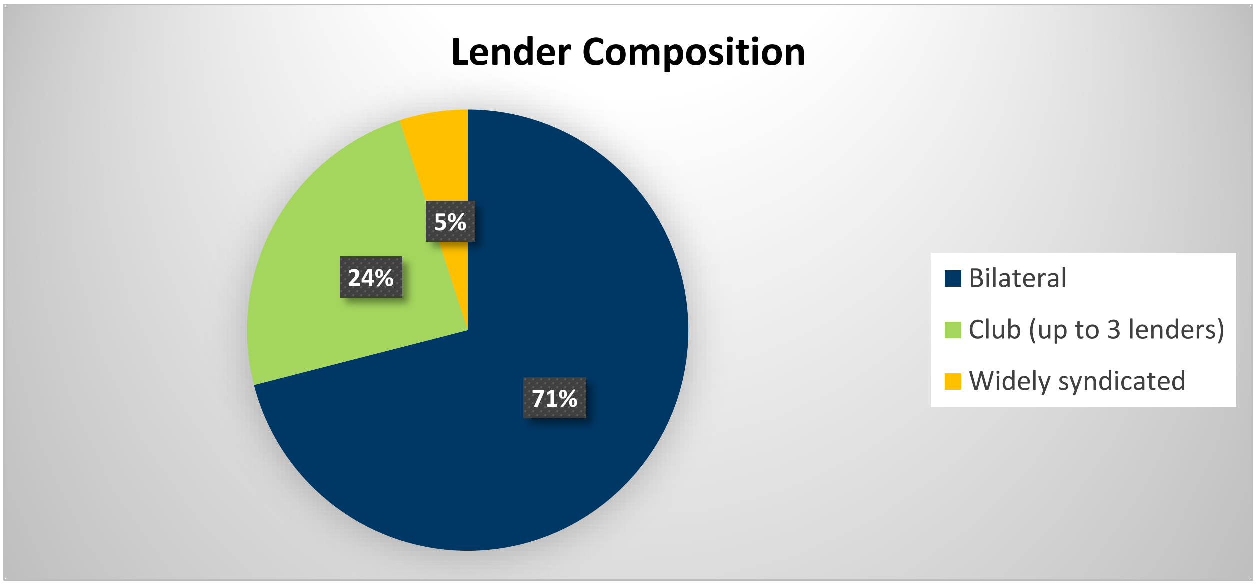

## Facility Size

The most prevalent deal range response was $101-$250 million, with the $51-250 million range making up nearly half of all responses. Smaller commitment sizes in the NAV market may reflect the continued use by many funds later in their lifecycles with relatively few assets (with smaller aggregate NAV profiles) remaining in their portfolios. By contrast, when separately asking a select number of secondaries borrowers and lenders we saw responses in excess of $250 million (with a few exceeding $1 billion), reflecting the growth we have seen in the secondaries market in recent years.



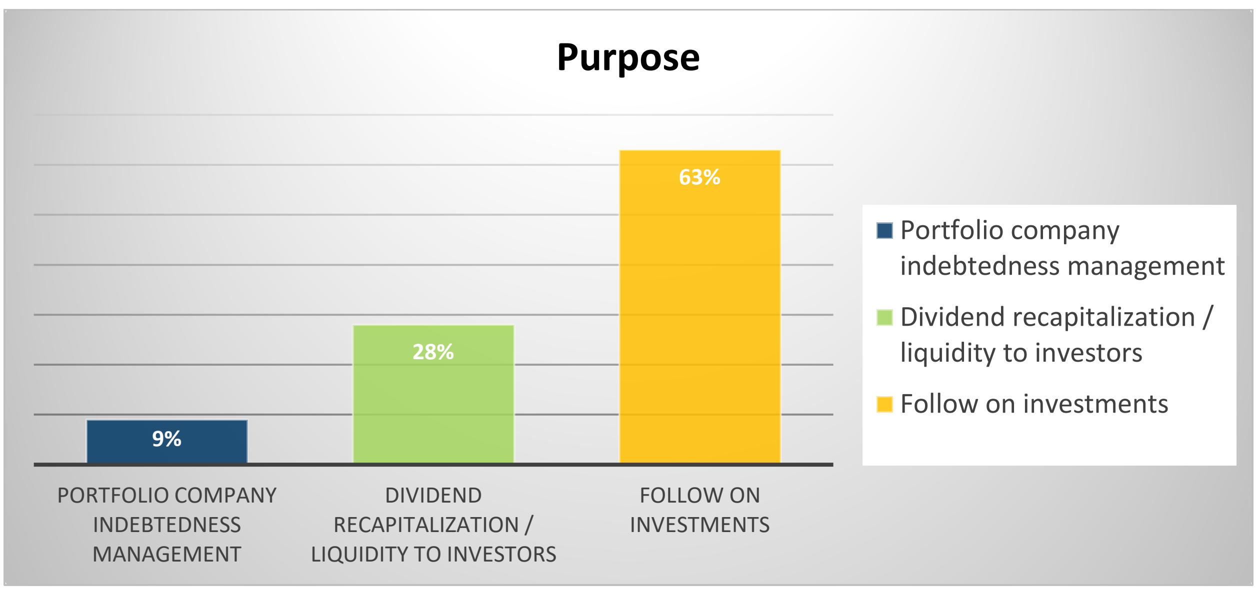
## Lender Composition

Both lenders and borrowers were consistent in confirming that bilateral NAV transactions and club deals (which are often initially structured as bilateral facilities) were the most prevalent structures. This response may be explained by the smaller commitment sizes commonly seen in the NAV market.



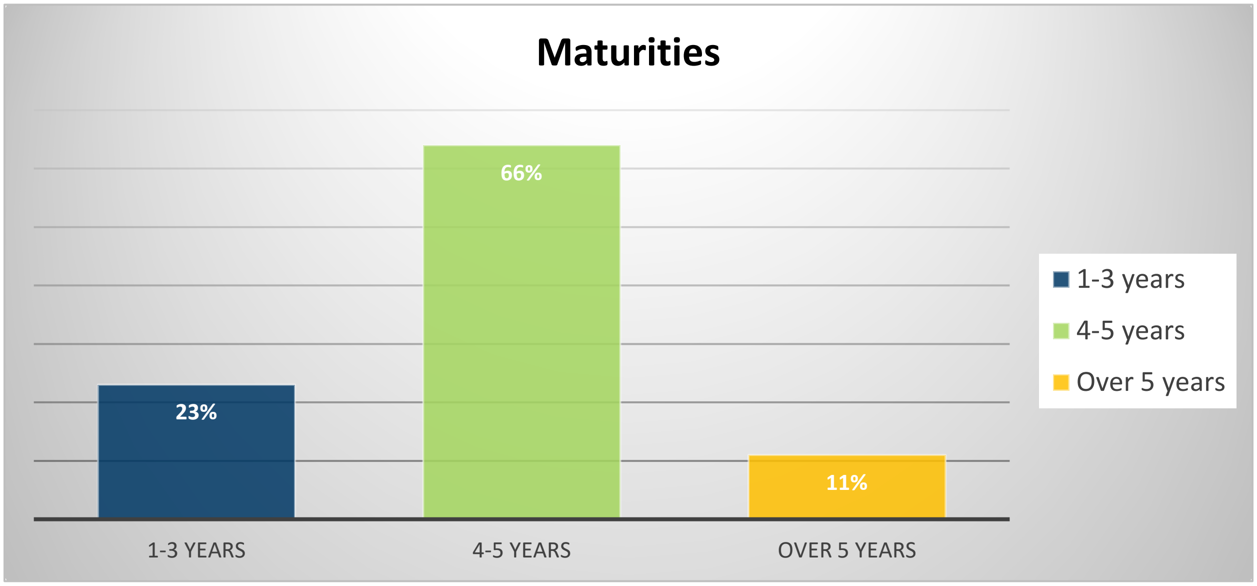

## Purpose

NAV facilities were predominantly used for acquiring additional portfolio investments and follow on investments. The responses align with the view that NAV financing has been a partial replacement for more traditional LBO debt financing. In relation to secondaries facilities, the most common use of proceeds was to fund the initial portfolio acquisition.



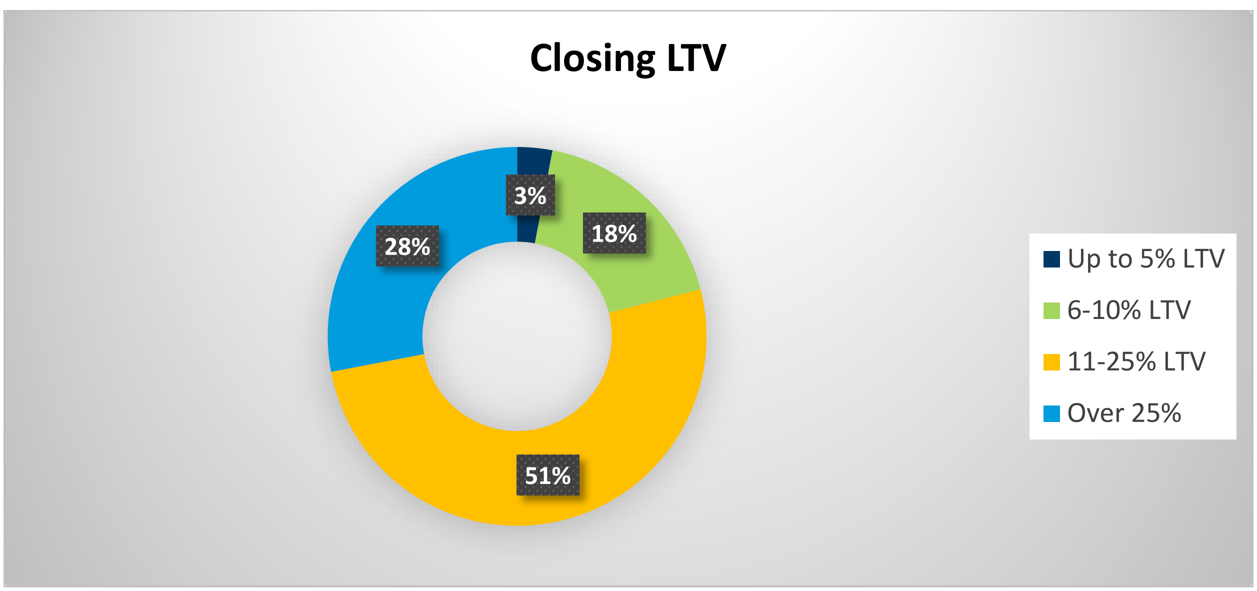
## Maturities

Maturities of four to five years are the clear favored term length for NAV facilities. We note, however, that the weighted average life of most NAV facilities, which typically require mandatory cash sweeps, is likely well short of the four to five year range. Several secondaries facilities had maturities of longer than five years.



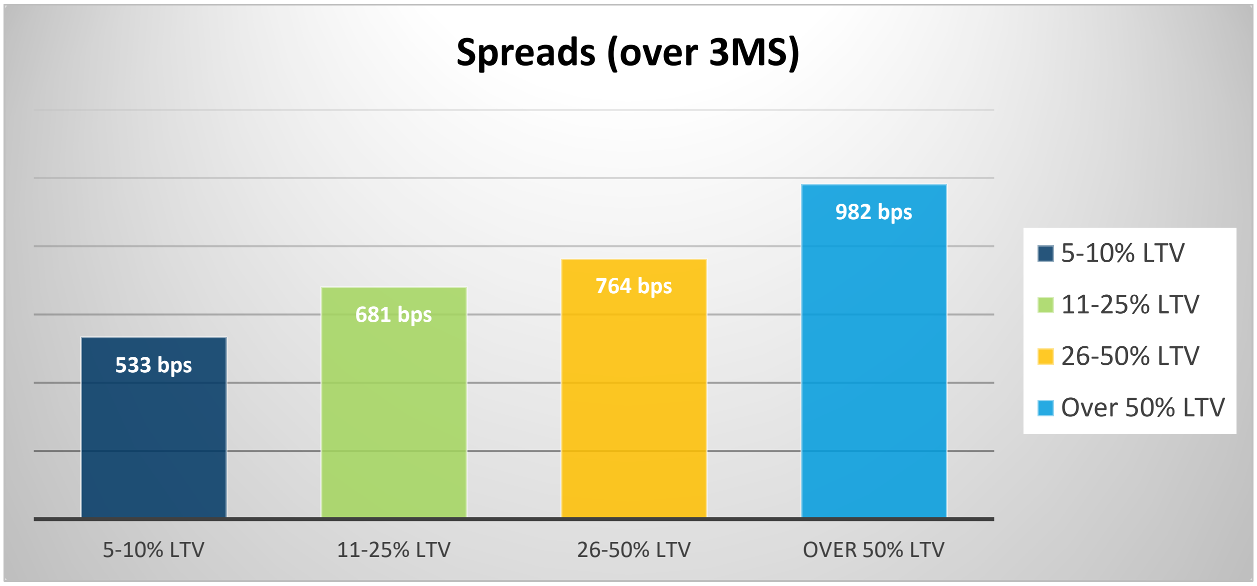

## Closing LTV

Closing LTVs of 11-25% was the most common response, which is consistent with our previous survey. In addition, when asking a select group of secondaries borrowers and lenders in the context of secondaries financings, closing LTVs of 25-50% was overwhelmingly the most common response, with a few in excess of 50%.



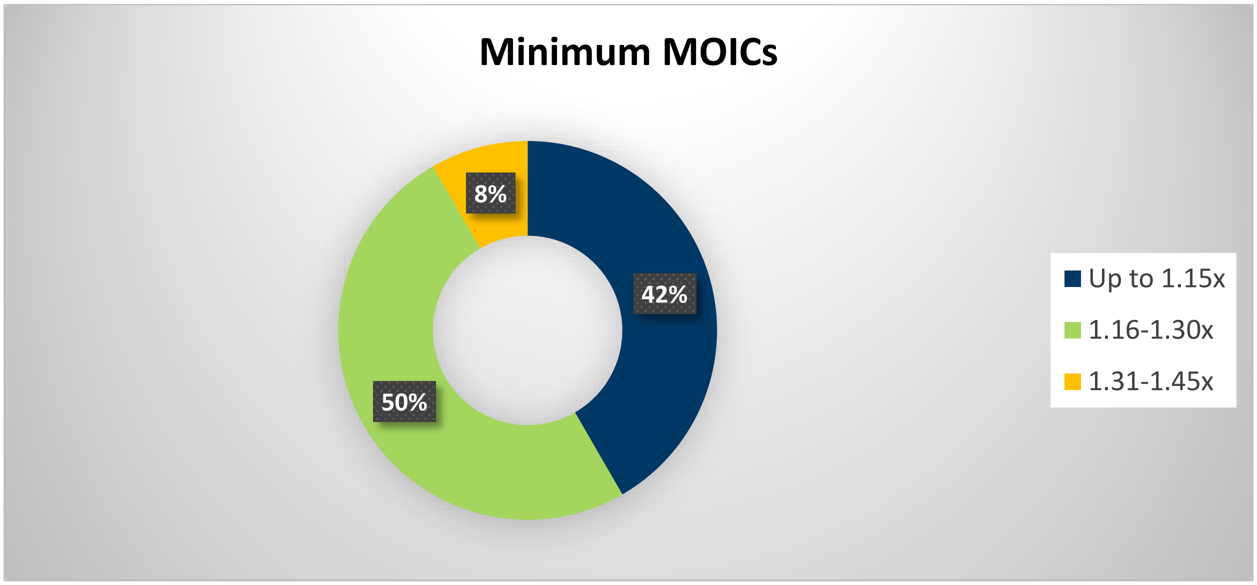
## Margin-Spread over three-month Term SOFR

As expected, spreads increased with increased LTVs, but we note that the lower end of the LTV range has shown some pricing of less than 600 basis points over three-month Term SOFR. These responses are consistent with the responses regarding transaction MOICs, as noted below. Secondaries facilities tend to have lower spreads compared to standard NAV facilities, with the majority of respondents reporting a spread range of 300-400 bps.



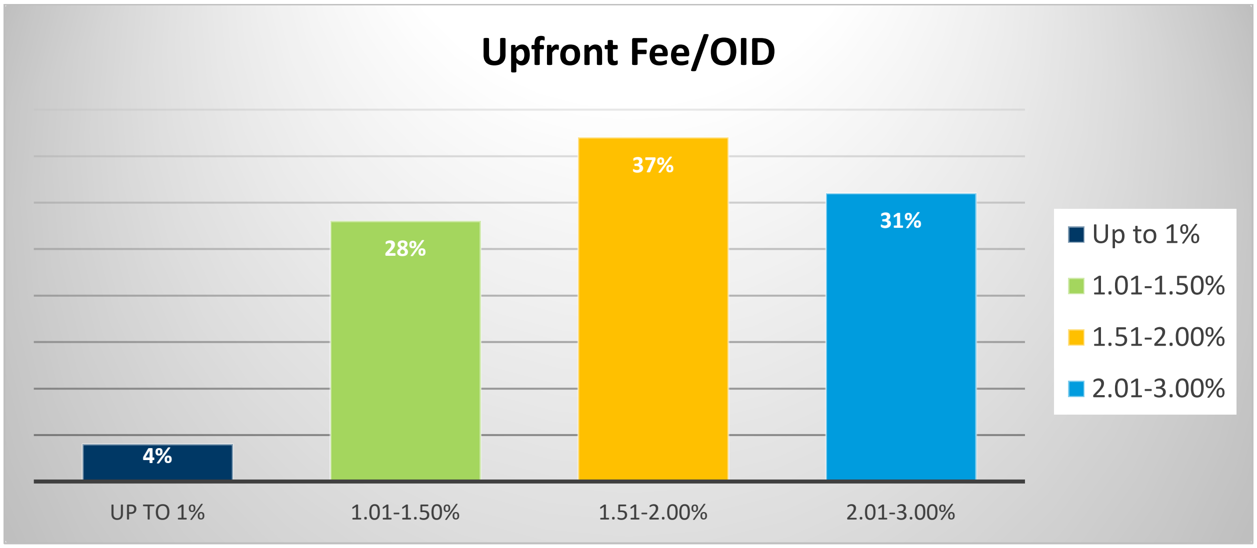

## Lender Minimum MOICs

Transactions with MOICs of less than 1.30x seemed to be more prevalent according to our responses. This pricing may be driven by the large number of recent entrants and additional supply of capital into the market.



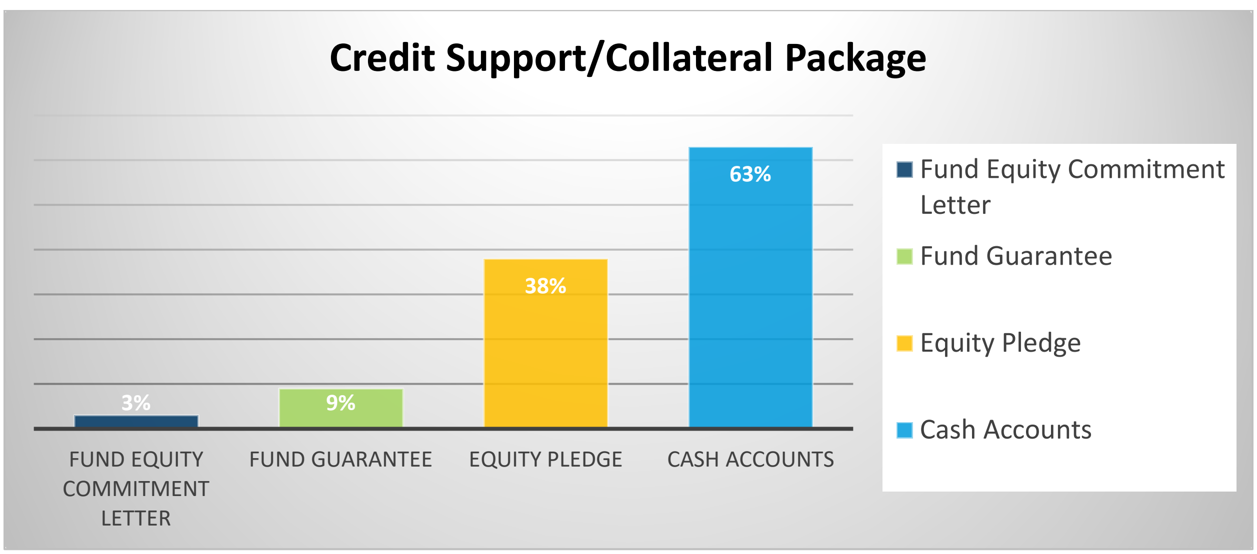
## Upfront Fee/OID

Reponses showed a significant portion of the market priced at between 1% and 2.50%. We noted that there were no responses over 3%. OID on secondaries facilities trends lower than standard NAV facilities, with the majority pricing in the 1.51-2% range, with some evidence of below 1% in the market.



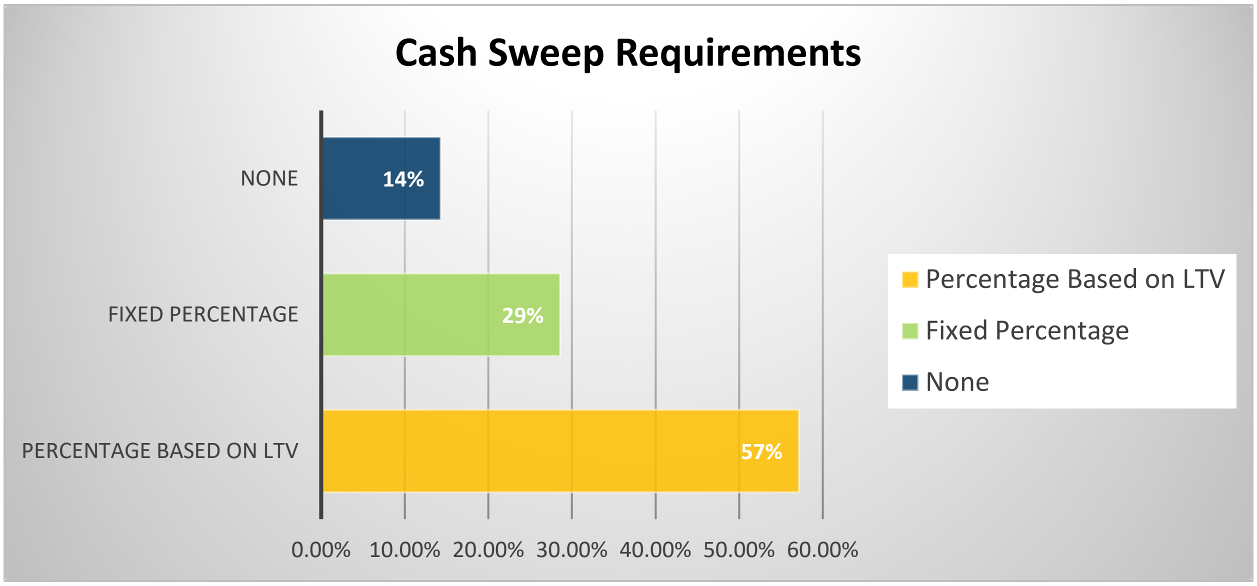

## Credit Support/Collateral Package

Pledges over cash accounts comprised the majority of responses. Equity pledges, in whole or part, constituted 38% of NAV financings among respondents, which may be reflective of the increased use of NAV facilities with continuation funds. Facilities for these funds, which may hold a single asset, will often require a pledge of one or more portfolio assets. It was not unsurprising to see nearly all responses from secondaries lenders and borrowers evidencing, in the context of a secondaries financing, the requirement for an equity pledge over an SPV.



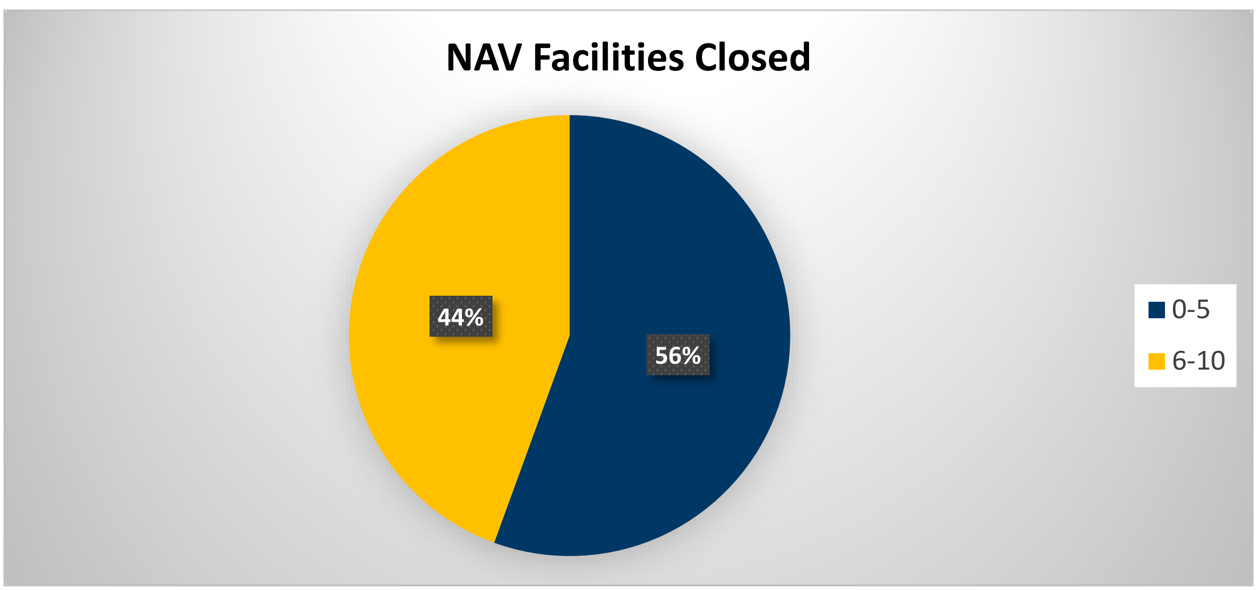
## Cash Sweep Requirements

Quarterly cash sweep of net distributions received is a common feature of a NAV facility. The percentage of net distributions swept to the lender is typically based on the LTV ratio at the time of prepayment.




## NAV Facilities Closed

A slight majority of lenders surveyed closed fewer than six NAV facilities during the year, with no responses over ten. The responses show, more broadly, that the market may indeed be smaller than some reports suggest.



## Fund Finance at Proskauer

Proskauer's fund finance team represents clients on the full spectrum of fund financing matters, including acquisition financings, subscription facilities, NAV facilities, GP, management and co-investment facilities, secondaries facilities, preferred equity financings, CFOs and rated notes. Our practice supports our clients with the full range of investment strategies, including private equity, credit, venture, real assets, infrastructure and fund-of-funds.

We are one of a handful of firms with the experience to innovate and have helped clients structure complex transactions. Over the last three years, we have advised on 400+ deals with over $50 billion in combined deal value.

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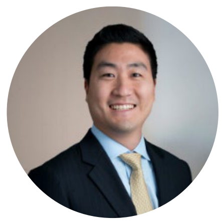

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