

## NAV, Hybrids and Preferred Equity<sup>1</sup>

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The “NAV, Hybrids and Preferred Equity” panel discussed alternative non-subscription line financing options for funds, with a focus on NAV facilities. The following are a few key takeaways discussed by the panelists:

- The panelists agree that alternatives to a pure subscription line will provide more options and flexibility in structuring financing for funds;
- Such alternatives include NAV facilities secured by the underlying portfolio assets of the fund, hybrid facilities where lenders focus on uncalled capital in addition the portfolio assets and debt-like preferred equity, with NAV facilities currently being the most utilized alternative;
- Although there has been an increase in utilization of NAV facilities, the framework and market for this product are still developing in the fund finance space when compared to subscription line facilities. As an example, NAV facilities tend to be attractive to funds later in their life cycle, when unfunded capital commitments are lower and portfolio investments are generating significant value. While the subscription line market has standardized the inclusion of specific provisions in a fund’s partnership agreement relating to usage of a subscription line, many funds are not building in language to allow for structuring of a NAV facility (which provisions could include providing for debt to be incurred following the end of the commitment period or permitting security to be taken over portfolio assets without significant restriction). As a result, implementing a NAV facility may require amendments to the partnership agreement and/or creative drafting in order to structure the facility properly;
- The popularity for NAV facilities is growing, as evidenced by such products being the focus of several panels at the conference, and mentioned to some extent in many others; and
- The panelists expect there to be increased conversations regarding NAV facilities, hybrid facilities and preferred equity products and hope that increased usage of these products in the coming year will help standardize and validate the market.

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<sup>1</sup> The panel was moderated by Todd Bundrant, Partner at Mayer Brown and the panelists were Annie Wallis, Partner at Sidley Austin LLP, Jasen Yang, Managing Director of Apollo Global Management, Michael Hacker, Partner and Co-Head of Secondary and Portfolio Finance at Alpinvest Partners, Pierre Drolet, Portfolio Manager of Private Assets at The Canadian Medical Protective Association and Sarah Elliot, Executive Director of Client Coverage at National Australia Bank Limited.