NAVember 2022 Summary

By Craig Unterberg, LeAnn L. Chen, Deborah P. Low | December 22, 2022

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On December 1, 2022, Haynes Boone hosted the inaugural ***NAVember*** event in our New York Office, a half-day event featuring panel discussions on NAV and Hybrid facilities followed by networking with leading market participants from both the buy side and the sell side in the NAV space.

There were two panel discussions: "*Trends in the NAV/Hybrid Financing Market*"[1] and "*Structuring NAV/Hybrid Facilities*"[2]. Our panelists, who are veterans in the NAV space and represent diverse market players, shared their thoughts and insights with a packed audience. Below are a few key takeaways from the panel discussions:

- Growth – The panelists and audience anticipate that interest in NAV will continue to grow in the coming years, with over 70 percent of attendees expecting increased activity in the near future. As more and more funds explore NAV facilities, new lenders may enter the market. Several participants drew a parallel between the current growth of the NAV market and the rapid and long term growth of the subscription line financing market during its early stages.

- Resilience – The current economic climate is providing the NAV market with a robust test early on in its lifecycle. The panelists shared that they have not seen a lot of margin calls in NAV facilities and expressed the view that NAV facilities have thus far proved resilient. Participants noted the following challenges for the NAV market heading into 2023: (1) inability of lenders to underwrite portfolio assets, (2) rising interest rates and cost of capital, and (3) potential write-downs of NAV on portfolio investments.

- Versatility – While some types of funds or strategies are more obvious choices for NAV facilities, the market is still developing and has the flexibility to meet different sponsor needs. NAV facilities can be set up as pure NAV at inception or be structured to be hybrid and gradually transitioning more towards the NAV assets and away from the capital commitments over the life of the facility. In addition, a NAV facility can be put in place as the subscription line facility rolls off.

- Collateral – The panelists discussed a wide variety of collateral structures for NAV facilities. Lenders typically want to get as close as possible to the collateral. With that said, the panelists discussed the potential constraints and difficulties on obtaining direct pledges in NAV facilities and discussed their ability to utilize alternative collateral structures. The panelists also discussed the importance of properly addressing any competing creditors of the funds. To accommodate the needs of the funds, lenders can design flexible collateral structures, such as indirect pledges paired with one or more of the following: strong negative pledges, "bad boy" letters, control over cash accounts, and complex cashflow sweeps.

Thank you to everyone that attended and participated in ***NAVember***. We look forward to seeing everyone again for our second ***NAVember*** in 2023. If you have any questions about NAV or Hybrid

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facilities, or would like to schedule a presentation on such products for your organization, please reach out to one of the Haynes Boone lawyers listed below.

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[1] Panelists included Dan Berglund (Goldman Sachs), Colin Doherty (JPMorgan), Deborah Low (Haynes Boone), Micaela Mastrogiannis (KKR) and Michael Timms (17Capital), with Craig Unterberg (Haynes Boone) as moderator.

[2] Panelists included LeAnn Chen (Haynes Boone), Derek Dillon (Apollo), Bryan Fischer (Crestline), Patrick Frisch (ING) and Richard Wheelahan (Fund Finance Partners), with Benjamin Woolf (Appleby Global) as moderator.

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