

NAV Financing Structure, Suitability and Governance

Demystifying a source of capital that is gaining popularity with private equity advisers and venture capital firms.

Market data, business rationale, and governance & risk for PE NAV facilities

Net Asset Value (NAV)-based financing facilities have been commonly used in secondaries, private credit, and real estate for some time, but their prevalence in private equity strategies is on the rise. Private equity's NAV facility market has moved from a niche liquidity tool to a mainstream fixture of the fund finance toolkit and it's still growing fast. Global NAV facility volume now sits around \$23 billion¹, a fraction of the \$1.5 trillion fund finance market but growing far faster than the mature subscription line segment². Some industry projections put the addressable market above \$700³ billion by 2030, an aggressive figure, not a consensus forecast, but directionally telling, and a product being underwritten with increasing rigor rather than treated as an exotic one-off.

WHAT THE TOOL ACTUALLY IS AND WHERE IT SITS IN A FUND'S LIFE

The confusion around NAV facilities often starts with a basic category error: treating them as a variant of the subscription line rather than a fundamentally different instrument. A subscription line is underwritten against LP uncalled capital commitments, it's a bet on the fund's investors. A NAV facility is underwritten against the value and expected realization proceeds of the fund's existing portfolio, it's a bet on the assets themselves.

The right tool tracks the fund's life cycle almost mechanically. For example, in years zero to roughly 2.5, when the fund may be 90–100% uncalled, the subscription line does the work. From roughly year 2.5 to 5, as the portfolio builds and uncalled capital generally falls to 50–70%, funds typically blend a subscription line with an emerging hybrid structure. By years 5 to 7.5, the end of the investment period, with maybe 10–12 assets left in the fund, NAV or hybrid facilities take over. In the divestment phase, years 7.5 to 10, with the portfolio down to 4–8 concentrated assets, facilities get correspondingly more concentrated. Typically, in extension or continuation vehicle scenarios past year 10, NAV facilities are lending against a small number of remaining, well-understood assets⁴. The organizing question a GP, CFO, CCO or LP should always be able to answer is simple: what is the lender actually lending against, right now, at this stage of the fund?

¹ <https://www.linkedin.com/pulse/nav-loans-evolve-product-goes-mainstream-jdmme>

² <https://fundfinanceassociation.com/industry-news/haynes-boone-fund-finance-annual-report-2026/>

³ <https://thehedgefundjournal.com/a-practitioners-guide-to-nav-financing-nodem-capital/>

⁴ <https://www.oaktreecapital.com/docs/default-source/default-document-library/nav-finance-101.pdf>

HOW THESE DEALS GET BUILT

Structure is where a lot of the real risk and a lot of the real protection actually lives. One common approach is a newly formed special-purpose vehicle sitting below the fund a structure that preserves the existing subscription line⁵. Many of these are also "recourse-light": the lender's collateral is a pledge of economic rights and accounts, not control over the underlying portfolio companies.

On the ground, a typical deal comes with a negotiated defined set of terms, covenants, and mechanics: facility size, initial and maximum loan-to-value, tenor, pricing, an upfront fee, often a minimum return hurdle for the lender and disclosure requirements. Critically, an LTV breach is not typically a cliff, it usually triggers a defined cure-plan regime rather than immediate acceleration, which matters enormously for how a GP should think about downside scenarios⁶.

WHERE REGULATORS⁷ AND LPS FOCUS

Valuation and Conflicts

Lenders typically retain the right to independently challenge portfolio company marks, and the SEC expects GPs to be able to show not just assert that valuations aren't being inflated to preserve or expand borrowing capacity. This isn't hypothetical, for instance, 2026 BDC litigation⁸ alleging misstated NAVs and delayed loss recognition speaks directly at the structural opacity critics associate with private credit vehicles. Scrutiny intensifies further when the lender is GP-affiliated, where the SEC expects thorough documentation showing arm's-length terms, and that any conflict of interest tied to a NAV facility should be escalated to the LPAC, a representation alone isn't usually sufficient, documentation is required.

Use of Proceeds and Leverage

Generally, a regulator would most likely inquire whether distributions funded by a NAV loan are clearly labeled as debt-funded rather than blended into realization-based performance reporting, a distinction that matters enormously for how limited partners review a fund's track record. The rationale for the facility and the alternatives considered should be documented contemporaneously, not reconstructed after the fact, and limited partner obligations, including whether a debt-funded distribution is callable, need explicit disclosure. On leverage, even modest LTV doesn't exempt a fund from scrutiny: "complex products" and leverage vulnerabilities remain an SEC exam focus⁹ regardless of how conservative the facility looks on paper, and for UK and European credit funds, some structures may trigger the regulatory definition of "securitization" entirely.

⁵ <https://www.macfarlanes.com/insights/102lofm/nav-facilities-to-private-equity-and-private-credit-borrowers/>

⁶ <https://www.mayerbrown.com/en/insights/publications/2024/07/nav-credit-facilities-the-spectrum-of-collateral-structures>

⁷ <https://www.sec.gov/files/2026-exam-priorities.pdf>

⁸ Case No. 2:26-cv-01102 (C.D. Cal. Feb. 2, 2026).

⁹ <https://www.sec.gov/files/2026-exam-priorities.pdf>

BUILDING THE GOVERNANCE WORKFLOW ¹⁰

A well-run compliance program around NAV financing generally follows a defined LPAC disclosure workflow. Any NAV facility gets disclosed to the LPAC regardless of use of proceeds. Where a facility is used for distributions, separate LPAC approval is typically sought even if the LPA broadly authorizes NAV financing in general. Once a facility itself has been approved, draws that support the existing portfolio generally don't require re-approval but disclosure of use is recommended. And any conflict of interest tied to the facility a GP-affiliated lender, for example — gets escalated to the LPAC separately from the routine disclosure track. For funds whose LPAs are silent on NAV financing (which is most legacy LPAs), the same default disclosure process applies rather than waiting for documents to be amended.

Disclosure itself splits into two instances. At LPAC consent, GPs should be prepared to lay out material terms rationale, size, amounts borrowed, and LTV at the initial borrowing date along with structure and controls, key economic terms, and LP obligations including recallability. Ongoing reporting shouldn't stop at inception: standardized, recurring post-close disclosure, interest rate and term refreshed each period, and a clear flag whenever distributions are debt-funded rather than realization-funded is what LPs and examiners increasingly expect to see as a matter of course, not just at signing.

THE QUESTIONS CFOS AND CCOS SHOULD ALREADY BE ABLE TO ANSWER

Before a facility closes and continuously after a handful of questions tend to separate a well-governed program from one that's exposed. Why are we borrowing, and what's the expected benefit to LPs? What do our fund documents actually permit in terms of borrowing authority, collateral restrictions, and consent rights? How much leverage is really in play, once portfolio-company debt is looked through alongside fund-level leverage? What happens if NAV falls and what are the LTV triggers, cash sweep mechanics, and valuation rights and remedies, and how do they change under stress? What structure is being used and does it disturb the existing subscription line? What's the realization-based repayment path, and does it actually support paying the facility off by maturity? And, not least: could the rationale and economics of this facility be explained clearly to the LPAC or to an SEC examiner, on demand, with documentation to back it up?

DOCUMENTATION THAT HOLDS UP

Most existing LPAs are silent on NAV financing, which means the default posture, applying the LPAC consent process regardless of use of proceeds until documents are amended should be the working assumption for legacy funds. New fund formations have the opportunity to explicitly define what qualifies as a "NAV-based facility," setting leverage limits over the life of the fund, and laying out reporting expectations up front, rather than relying on general

¹⁰ <https://ilpa.org/industry-guidance/principles-best-practices/nav-based-facilities-guidance-roadmap/>

financing language written before NAV facilities were common. Valuation controls matter an independent valuation process, tested where possible against lender-side marks, with documented committee review. And none of this works without testing: a policy sitting in a compliance manual isn't evidence of anything to an examiner. Consent, disclosure, and valuation steps need to be periodically tested and the results documented, so there's verifiable proof the policy was actually followed.

THE BOTTOM LINE

NAV financing is not inherently good or bad it's a financing tool, and its risk profile is entirely a function of what's being borrowed against, why, how conservatively the deal is structured, and whether the economics and governance line up with LP expectations. The practical discipline is threefold: match the instrument to the fund's actual life stage rather than defaulting to whatever facility is fashionable; build the compliance program around a consent and disclosure framework and treat documentation as a living, tested process rather than a static policy on file. That combination is what actually withstands an SEC exam or an LP diligence request and it's the difference between NAV financing as a well-governed tool and NAV financing as the next headline risk.

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For questions or to discuss this article, please reach out to your Optima relationship contact or info@optima-partners.com.

Join us on October 6, 2026, at 12:00 p.m. ET for our upcoming webinar, "NAV Funding: Navigating Structure, Suitability and Scrutiny." [Register Here](#).