



# AB NAVigator

Your Guide to Market Trends in NAV Financing  
Published by AB NAV Lending



**Sponsors' interest in NAV financing has grown significantly over the past 12 months. In our interactions with over 250 sponsors, we observed that sponsors who were initially hesitant about NAV loans have progressed through educational discussions on use cases and structures, eventually leading to requests for term sheets."**

Dupe Adeyemo, Managing Director, Head—NAV Lending

# NAV Market Update

## Notable Market Observations and Trends

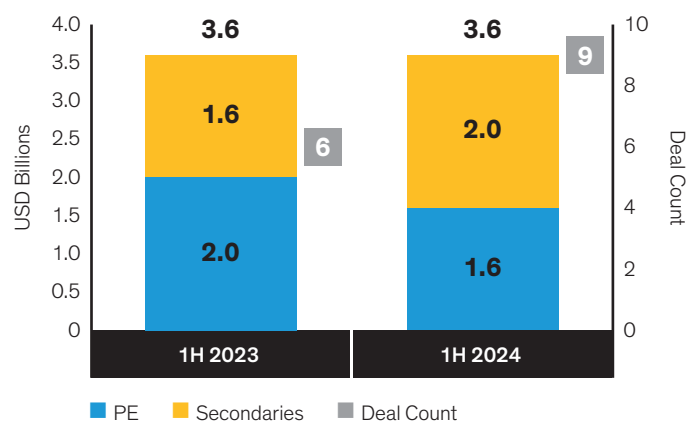
- **Market Size:** NAV lending has seen significant growth in recent years due to increasing market adoption. In 2023, the annual deal volume of NAV loans to US middle market funds was \$45 billion,<sup>1</sup> and AB estimates the annual deal volume will exceed \$125 billion in 2027.
- **Increasing Sponsor Adoption:** NAV loans have gained acceptance among both general partners (GPs) and lenders, with the number of GPs utilizing NAV loans increasing year over year. A specific data point that highlights increasing sponsor adoption is the 45%<sup>2</sup> increase in the number of unique GPs utilizing NAV loans rated by KBRA in the last two years, with nearly half of those GPs utilizing NAV loans more than once.
- **Money-In Uses:** NAV loan proceeds are predominantly used for accretive purposes and not for limited partner (LP) distributions. The Fund Finance Partners NAV Lending Index showed that only 4% of NAV loans have been used for LP distributions.<sup>1</sup> AB concurs that NAV loans are primarily used for follow-on investments, refinancing portfolio debt and capital optimization.
- **Increasing Transparency:** AB NAV Lending emphasizes transparency with LPs regarding the utilization of NAV loans, and we have seen an increasing focus on the dialogue with LPs. Prior to executing NAV loans, GPs are increasingly articulating the NAV loan thesis, structure and benefits to LPs. Additionally, the Institutional Limited Partners Association (ILPA) released NAV guidance in July 2024, which recommends that GPs engage more proactively with LPs around the use of NAV-based facilities.
- **Credit Ratings for PE NAV Loans:** There has been a significant increase in nonbank lenders with the introduction of credit ratings. KBRA's rated NAV loan portfolio has grown to \$51 billion, with 86 NAV loans between 2018 and 1H 2024.<sup>2</sup> Furthermore, S&P expects the NAV lending market to double within the next two years to \$300 billion.<sup>3</sup>

## Rated NAV Loans Market

The majority of private equity (PE) NAV loans are unrated; however, rating agencies have developed appropriate methodologies and this, along with other factors, has led to a significant increase in the rated NAV loan market. Here are some notable observations:<sup>2</sup>

- An influx of nonbank institutional capital to NAV lending
- The number of rated NAV loan issuances increased by 50% in 1H 2024 compared with 1H 2023
- The average loan size of rated NAV loans fell by 58% in 1H 2024 from 2022, reflecting PE funds', including middle market funds', increasing comfort with going through the ratings process and achieving lower pricing

### RATED NAV LOANS<sup>2</sup>



As of October 31, 2024 | Source: KBRA

## NAV Loan Characteristics at a Glance<sup>1</sup>

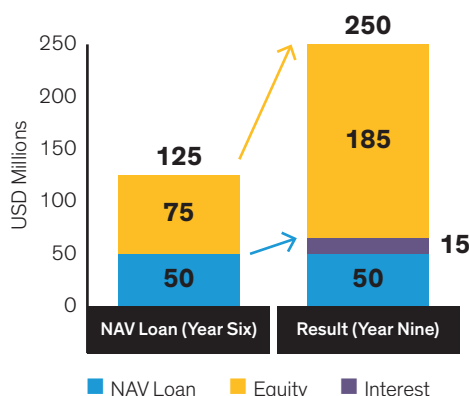
~13.7%	~\$120 Mil.	~10	~S+592 bps	~S+500 bps <sup>2</sup>
Average LTV	Average Deal Size	Average # of Assets	Average Spread for NAV Loans	Median Spread Rated PE NAV Loans

# NAV Loans 101

## Unlocking Opportunities with NAV Loans

NAV loans allow GPs to unlock the value that accrues to LPs—creating value through pursuing strategic initiatives that are aligned with their long-term investment strategy. They're flexible, tailored and beneficial to the growth-oriented goals of PE funds.

### ILLUSTRATIVE EXAMPLE OF VALUE CREATION UNDER GROWTH USE CASE

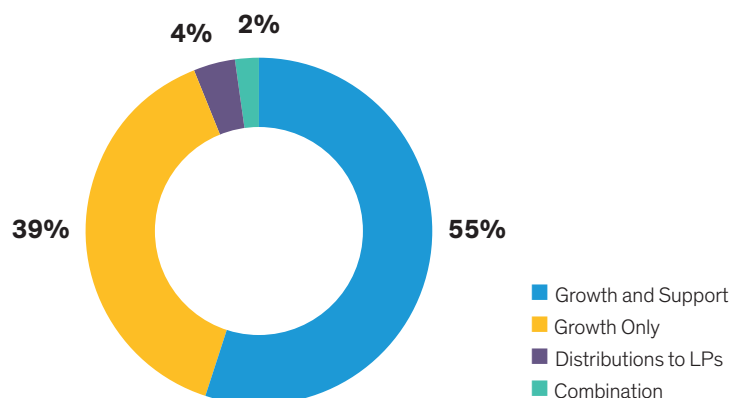


The proceeds of a \$50 million NAV loan are used to support an acquisition, and the combined company realizes synergies, resulting in a 2X increase

Equity value increases by \$110 million; significant value accrues to LPs given the nondilutive nature of NAV loans

## Use of Proceeds

Most NAV facilities today are used for funding new follow-on investments or injecting capital into portfolio companies. Only 4% of NAV loans are solely used to facilitate investor distributions.



As of January 2025 | Source: [NAV Index—Fund Finance Partners](#)

## Use Cases

### 01

#### Offensive/Growth

When a fund lacks available capital, NAV loans can be used as flexible nondilutive capital to fund attractive additional investments, add-on acquisitions, capex or R&D in existing investments.

### 02

#### Defensive/Support

Sound portfolio companies may require additional support to achieve value-creation objectives. The necessary support may include capital injections to reduce leverage (e.g., to repay operating company debt or expensive subordinated debt), add short-term liquidity and/or cure operating company debt breaches. NAV loans offer an efficient way to provide this capital to protect the value of the sponsor's investment and provide liquidity for the management team to enhance value.

### 03

#### Capital Optimization

GPs may forgo investment opportunities to ensure that they maintain sufficient uncalled capital to pay fees and to support growth for existing investments; this may result in a fund only investing 60%–90% of commitment if the GP overestimates capital needs.

To ensure a fund optimizes the commitments provided by LPs, GPs look to utilize a NAV facility to cover reserve capital that is typically held to fund fees or incremental capital needs; this enables a fund to optimize the fund's reserve capital strategy and can facilitate the opportunity to make an additional platform investment.

## AB NAV Lending Team

AB NAV Lending enables AB-PCI to provide fund-level financing to private equity sponsors in addition to direct lending to portfolio companies and equity co-investment solutions.

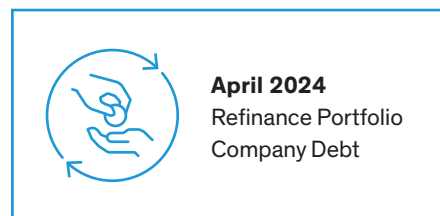
### AB NAV Lending Platform

- Highly experienced team executing NAV loans: ~\$5.5 billion across ~60 deals
- Synergy with corporate credit originations and underwriting teams at AB-PCI
- ~\$300 million executed since 2Q 2024
- Multiple pools of capital including dedicated insurance capital base

### AB NAV Lending Product Offerings

- Investment Grade NAV Loan: 5+ portfolio investments
- Specialty NAV Loan: 2–4 portfolio investments
- Management company loans
- GP stake financing

### Selected Transactions



### Upcoming Conferences and Events



**Fund Finance Symposium**  
Miami | February 24–27



**Women's Private Equity Summit**  
Arizona Biltmore | March 2–5



**NEXUS 2025**  
Orlando | March 10–12

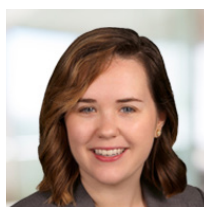
### Meet the Team



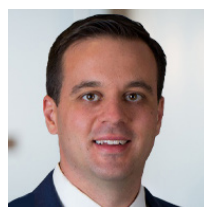
**DUPE ADEYEMO**  
Managing Director,  
Head—NAV Lending



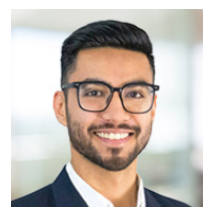
**PATRICK FEAR**  
Chair—NAV Lending



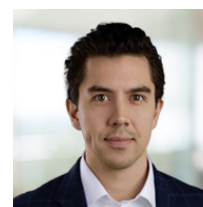
**SARA CASEY**  
Director



**PATRICK GIMLETT**  
Managing Director,  
Originations



**MANISH KUNDNANI**  
Assistant Vice President



**NICK SANTOS**  
Associate

Discover more at [alliancebernstein.com](https://alliancebernstein.com). For more information, please contact the AB NAV Lending team at [NAVlending@alliancebernstein.com](mailto:NAVlending@alliancebernstein.com)

# Resources

alliancebernstein.com

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- 1 Source: [NAV Lending Index - Fund Finance Partners](#)  
2 Source: [NAVigating the PE Landscape—NAV Loans Still Perform](#)  
3 Source: [CreditWeek: How Are Funds Using Net Asset Value Loans?](#)

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