

# UNLOCKING VALUE WITH NAV FINANCE

A Strategic Guide for Today's Private Credit Leaders

## What is NAV Finance?

NAV Finance enables private equity funds to amplify their investment capacity and manage portfolios more effectively by securing loans against the net asset value (NAV) of their holdings. This non-dilutive financing — primarily in the form of debt or senior equity — provides enhanced liquidity, value creation, and effective portfolio management.

With the private equity market's assets under management growing to approximately \$10 trillion, NAV Finance's role is becoming increasingly pivotal.

## Advantages for Lenders and Borrowers

For lenders, NAV Finance presents an attractive risk-return profile with strong downside protections. Borrowers benefit from liquidity without forfeiting equity upside, providing a strategic edge in opportunistic and defensive maneuvers.



## Components of NAV Finance Loans

**Senior-ranking instruments** are positioned at the top of the capital structure, offering security through diversified private equity investments.

These instruments have **long-dated maturities** and floating-rate coupons that showcase their flexibility in effectively adjusting to varying market conditions.

Maintaining **low loan-to-value ratios** is a strategic measure to mitigate risk, providing a solid foundation backed by the predictability of portfolio cash flows.

We've broken down [Oak Tree Capital's overview](#) of the advantages for both lenders and borrowers :

Advantages for Lenders	Advantages for Borrowers
Potential returns comparable to direct lending with stronger downside protections.	Provides liquidity while maintaining equity upside.
Low volatility, correlated with the growth of the private equity industry.	Offers greater flexibility for offensive and defensive strategies.
Benefits from portfolio diversification and strong covenants.	Enables add-on investments without sacrificing upside potential.
Alignment of interest with sponsors, facing losses only if the portfolio declines substantially.	May increase long-term risk-adjusted returns.
Bespoke yet straightforward execution.	

## What This Means For The Market

According to Oaktree-backed [17Capital's](#) deal flow data as of December 2023,

**"NAV finance deal flow has more than doubled since 2020, rising to approximately \$44 billion in 2023."** — *Armen Panossian, Oaktree Co-CEO and Head of Performing Credit.*

It has become a necessary tool for increasing portfolio flexibility and value creation. Because of its risk-adjusted returns and unlocking trapped value in portfolios, NAV Finance offers an efficient solution for lenders and borrowers. Oak Tree expects continued growth that will be tightly correlated with further expansion of the global private equity markets, upwards of 5.5 Trillion by 2030 (a 60% increase from 2020).

## What it Means for Leadership

The strategic deployment of NAV Finance can signify a leadership team with an eye for innovation and growth. Firms that embrace forward-thinking financial strategies like these can gain a competitive advantage, ensuring resilience and adaptability in volatile (and rapidly growing) private equity markets. Dynamic leaders capable of navigating complex investment environments, building teams strategically, and diversifying portfolio strategies will drive long-term success.



## How You Can Take Advantage

01. Partner with a reputable NAV Finance provider to access flexible capital and preserve ownership.
02. Deepen your understanding of NAV Finance through research and discussions with industry leaders.
03. Keep an eye on the evolving market to identify opportunities for strategic deployment.

## Key Takeaway

There's an opportunity for firms to leverage NAV Finance to unlock value and fuel growth. By staying open to innovative capital solutions like NAV Finance, leaders can position their firms for long-term success with new and potentially highly profitable private credit opportunities.

*As with any investment strategy, it's crucial to thoroughly research and evaluate all options before making decisions. And with the potential for significant market growth in the coming years, now is the time to explore NAV Finance as a potential tool in your portfolio.*



## About Bristol Ebinger

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