



Thought leadership series:

The increasing intersection of NAV lending and strategic equity financing techniques within sponsor financing structures.

Over the past 2 to 3 years, the financing of larger sponsor buy-out funds has seen increasing convergence between structured equity financing and NAV financing.

Historically, the former has focused on collateralised lending against listed equity, while the latter has focused on lending against portfolios of unlisted equity and/or other sponsor assets.

This convergence is also increasingly evident, although to a lesser extent, across other classes of private equity funds, including venture capital funds.

This trend has been driven by the desire to find ever more capital efficient solutions that minimise the time (and amount) of LP equity that is deployed in the investment cycle while accelerating the return of capital to LPs.

On the lender side, the more sophisticated institutions have

begun to reflect this trend by organising their activities into single product agnostic sponsor financing verticals or (at the very least) by increasing collaboration between product desks with the requisite fund and equity finance knowledge.

Historical background: standard uses cases for equity and NAV finance by sponsors?

Financial sponsors primarily became interested in strategic equity financing techniques in the context of larger IPOs around 15 years ago, with early examples of

secured lending against retained post IPO stakes in the US going back to 2009 (13D filings from the time for instance suggest that KKR first used a secured equity financing in the context of its Dollar General IPO). Meanwhile, the large, syndicated Blackstone/Hilton margin loan transaction of 2013 became one of the first IPO margin loans to be publicly disclosed in a prospectus in the US. In Europe, transactions appeared later, with canonical examples including the Bain/Worldpay IPO margin loan of 2015 and the Advent and Bain Nets IPO margin loan of 2016.

The rationale for a sponsor to enter into such a loan is simple: by raising non-recourse finance against the sponsor's residual IPO stake (often in excess of 30 per cent. of the company post IPO) at 30 to 40 per cent. LTV, the sponsor is able to return additional proceeds from the financing to their LPs along with those from the IPO. This enables the sponsor to bridge

"Sponsor margin loans have generally been used to enhance IRR for specific assets, whereas NAV loans have usually been used as a broad financing tool at fund level"

Sponsor(s)	Company	Region	IPO Year	Co. Market Cap	Instrument
Blackstone	Hilton Worldwide	US	2013	\$20bn	Margin loan
Bain Capital	Worldpay	UK	2015	£5-6bn	Margin loan
Advent / Bain	Nexi	Italy	2019	€5-6bn	Margin loan
Cinven	Synlab	Germany	2021	€4-5bn	Margin loan
Advent / Bain	Nexi + Nets / merger complex	Italy	2019-2021	€10bn	Margin loan
CVC	Douglas	Germany	2024	€3-4bn	Margin loan
Hellman & Friedman	Verisure	Italy	2025	€15bn	PIK toggle note



their subsequent sell down process at an efficient cost, thus enhancing IRR.

By contrast, NAV finance is typically used by sponsors for their much broader (later stage) fund level financing requirements across their whole fund/ portfolio and after LP commitments have been fully drawn (or when any sub-line financing has come to or is nearing its end). As a result, the proceeds of these loans are also used more broadly, for example to provide a source of late-stage financing for bolt-on acquisitions, rather than as a way to accelerate the payment of disposal proceeds (although that is a use case in certain circumstances, albeit one that has already become an area of increased governance focus for LPs).

Single Asset back-leverage and the rise of “Structured NAV finance”

Against this historical backdrop, recent years have seen increasing interest in (and use by) large sponsors of structures which provide financing against individual unlisted

common or preferred equity, rather than financing on an overall portfolio basis and which, as a result, draw from some of the structural features of both strategic equity and NAV financing approaches.

These transactions will often create credit support through a combination of asset level security and some degree of fund-level recourse and hence simultaneously look both “down” to the asset and “up” to the fund for credit support.

“Pressure to return capital to LPs continues to drive novelty and innovation in sponsor financing...and the use of fund recourse for single asset back-leverage is a classic example”

In the “exit” context, a good example is the “pre-IPO margin loan” where financing is collateralised by the unlisted equity of a large portfolio asset 12 to 18 months out from a listing. Like a conventional margin loan over listed equity, such a transaction will contain an LTV (or cash flow, e.g. LTNL) covenant, which is tested quarterly using the sponsor’s own marks or EBITDA figures, subject to certain lender valuation challenge rights (as seen in portfolio NAV loans). Just as in the case of an “at IPO” margin loan, the goal of the transaction is to accelerate the distribution of disposal proceeds to LPs, but in this case, even further in advance of the exit and hence with an even more marked impact on IRR.

Although there are a handful of examples of fully non-recourse pre-IPO margin loan transactions in the market, these have typically only been executed in the context of very large assets (\$20bn+) with other relevant significant risk mitigants. For example a previously

listed well understood business in a developed/ conservative sector and which is also publicly rated). Even then, such transactions are usually only underwritten by lenders with a strong expectation of receiving a related enhanced IPO and sell down mandate from the transaction.

The more typical structure would therefore see a degree of fund recourse supporting such a loan. Where sponsors (and/ or LP committees) are reticent to provide a simple fund guarantee, alternatives include contingent guarantees (which are only activated at a certain minimum asset coverage or cash flow level) or an equity commitment letter issued in favour of the borrower entity by the parent fund in one form or another. Examples here include a “makewhole” ECL which only covers any difference arising between enforcement proceeds and the loan balance after an enforcement event.

For a large portfolio asset on an IPO or dual track, as well as improved IRR, such a transaction also offers several enhancements over a classical margin loan from the sponsor (and lender) perspective compared to standard “at-IPO” loan. The inclusion of a degree of fund recourse creates the option for the loan to remain in place (albeit with ongoing fund level support) through the IPO itself and into or through the following lock-up period.

This allows the leverage to stay in place during the most volatile period of post IPO trading, where the risk of a stock sell-off and margin call might otherwise require the sponsor to effectively return some of the proceeds received. It also allows the transaction to be refinanced later (when the stock has seasoned) by a much more stable and less costly structure because the stock’s liquidity, volatility and other trading parameters are then known.

In this situation, the proceeds of the loan are not returned to LPs but are instead reinvested by the sponsor

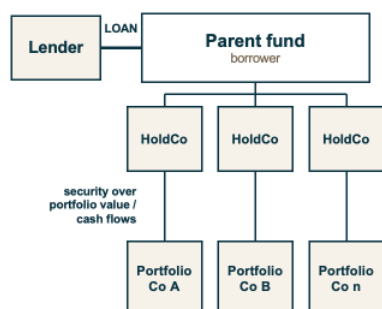
Comparing the three sponsor financing approaches

<i>NAV Financing</i>	<i>Margin loan</i>	<i>HoldCo financing</i>
BORROWER AND COLLATERAL Parent fund / fund obligor; diversified portfolio NAV, distributions and related cash account and/ or equity security.	BORROWER AND COLLATERAL HoldCo borrower; pledge over liquid, publicly traded portfolio-company shares; typically no parent-fund recourse.	BORROWER AND COLLATERAL HoldCo borrower; pledge over unlisted common or preferred shares, usually with some fund support through a guarantee or ECL.
TYPICAL USE Follow-on or bolt-on funding; late-stage liquidity; accelerated distributions after commitments are drawn. security.	TYPICAL USE Post-IPO monetisation/ LP distributions, IRR enhancement, (less commonly) funding equity at Holdco level reducing opco leverage at IPO.	TYPICAL USE Pre-IPO / dual-track liquidity, LBO financing of pref equity, distributions, pre-IPO deleveraging.
MONITORING Periodic NAV / LTV tests, eligibility and concentration limits, portfolio reporting and valuations, lender challenge rights security.	MONITORING Daily market pricing, maintenance LTV and margin-call mechanics; liquidity and volatility are central.	MONITORING Quarterly sponsor marks or EBITDA-based tests, lender valuation challenge rights and often a fund NAV covenant.
PRINCIPAL BENEFIT Broad, flexible liquidity supported by multiple assets rather than one company.	PRINCIPAL BENEFIT Transparent collateral value and efficient access to liquidity without broad fund recourse.	PRINCIPAL BENEFIT Unlocks liquidity before exit and can remain through IPO / lock-up where fund support is available. Can reduce equity cheque on entry.
PRINCIPAL CONSIDERATIONS Leverages the wider portfolio; LP transparency, transfer restrictions and enforcement complexity.	PRINCIPAL CONSIDERATIONS Share-price falls can trigger margin calls or enforcement; lock-ups and concentrated exposure constrain flexibility.	PRINCIPAL CONSIDERATIONS Illiquid collateral, valuation and enforcement uncertainty, single-asset concentration and parent-fund exposure.

Example sponsor financing structures at a glance

01 NAV FINANCING

Fund level · portfolio backed

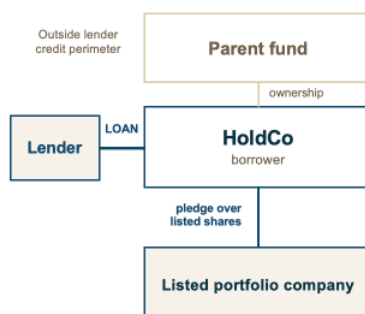


CREDIT SUPPORT Diversified NAV + fund cash flows

RECOURSE Directly to the parent fund

02 MARGIN LOAN

HoldCo level · listed shares

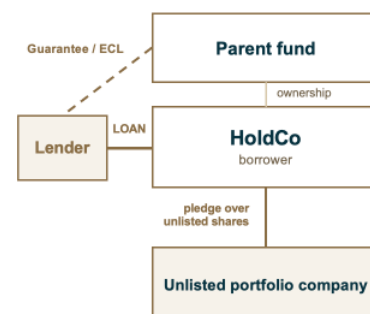


CREDIT SUPPORT Listed shares + LTV / margining

RECOURSE Typically none to the parent fund

03 HOLDCO FINANCING

HoldCo level · unlisted shares



CREDIT SUPPORT Unlisted shares/ prefs + fund support

RECOURSE Typically yes — guarantee or commitment

Illustrative structures; exact security and recourse packages vary by transaction.

as equity and used to pay down debt at the portfolio company to achieve the typical 2.5–3x opening leverage expected in listed markets.

Doing this ahead of an IPO can allow for a much quicker exit path than might otherwise be achieved through either natural de-leveraging at company level or with a large primary at IPO, with the resulting loan then refinanced with a conventional margin loan (or other instrument such as a Holdco PIK Note) at IPO.

Such a transaction also allows a sponsor to be more nimble in accessing the short IPO windows seen in the turbulent IPO markets of Europe and the US over recent years and, as a private pre IPO transaction, offers a much more elegant

method than using a conventional margin loan for the same purpose at IPO (with all the related disclosure and potential negative messaging that may send to IPO investors).

Entry Applications

These sorts of single-asset back leverage transactions with a degree of fund recourse (or “structured NAV finance transactions”) are also being used by large sponsors in the asset “entry” context as well.

Notable examples include the use of such financing structures during leveraged buy-out transactions where the financing is secured against preferred equity which forms part of the M&A consideration. Deployed at high LTV (advance rates can be up to 80 per cent.) these transactions again offer a degree of fund recourse, usually backed by a fund level NAV covenant as well as asset security over the underlying preferred equity, and come at a spread somewhere between portfolio level financing costs and

fund level NAV lending for similar tenors. The high advance rate reflects both the presence of fund recourse and the more credit-like profile of the underlying equity instrument pledged (although importantly, the typical covenant package offered will not be as granular as a conventional NAV loan, with a simple coverage test that does not offer specific further protections around risks like asset concentration over time).

This style of instrument can be particularly relevant for a sponsor looking to significantly improve modelled returns from an LBO in a context where conventional leveraged debt market capacity is constrained and/or costly or the equity cheque required would otherwise be prohibitive.

What does this mean for the market going forward?

As capital markets teams working within the sponsor community become ever more experienced in the use of strategic equity

financing techniques and continue to seek innovative ways to improve investor returns, both on the way into and out of portfolio assets, by using structured forms of leverage at the fund, holdco and portfolio company level, we can expect to see:

1. increasing cross-fertilisation and hybridisation of financial structures across the strategic equity, fund finance and leveraged finance worlds;
2. earlier preparation of the pre-conditions required to use innovative structures (e.g. earlier LP engagement, changes to fund constitutional documents and the incorporation of novel features into fund level facilities earlier in time or at the re-financing stage (e.g. pre-stapled “exit bridge facilities”));
3. the adoption and expansion of these by more mid-cap and smaller market players across an increasing variety of funds from the wider universe sitting outside of the largest equity focussed buy-out funds.

The most sophisticated lending institutions already understand these trends and appreciate that this client base wants to deal with counterparties, or their advisers, who are able to knowledgeably work with them in providing financing solutions at all levels of their capital structure and at all stages of the fund lifecycle rather than offering a disjointed approach across siloed desks and product areas.

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How can Ganymede help with your financing needs

We:

- > Are independent and solely represent the interests of our clients in seeking and negotiating innovative financing structures to meet requirements;
- > Utilize the breadth of our network to seek the most cost effective and streamlined solutions for our clients;
- > Promote competition amongst providers to ensure that our clients can duly claim to have fulfilled their fiduciary responsibilities of seeking the most appropriate terms with respect to a given financing and hedging situation; and
- > Work with our clients at all stages of the process – seeking appropriate counterparties, negotiating terms, running competitive bid processes, executing a structured transaction and helping clients navigate the post execution landscape.

Gareth James



- Former Global Head of Fund Derivatives and Finance at Deutsche Bank.
- Former Global Head of Alternative Asset Solutions at UBS Investment Bank.
- Founder and CEO of Trium Capital, a multi-strategy private markets asset manager.
- Qualified Solicitor, practiced securitisation and structured finance with Lovells.
- MA in Mathematics from the University of Cambridge.

Ken Goldsbrough



- Former Head of European Debt Advisory at Duff & Phelps, Houlihan Lokey and Greenhill.
- Former head of UK Corporate Banking at BNP Paribas, and senior lending positions including head of TMT and Head of Media and Comms at Barclays and GE Capital.
- Former Chairman of the Trustees of the Paribas Limited Pension Fund.
- MA in Modern History from the University of Oxford.

Andrew Glynn



- Former UK Head of Strategic Equity & Financing at HSBC Bank plc.
- Founder of HSBC's priority sponsor NAV lending platform, targeting the bank's largest international sponsor clients.
- 25+ years' of investment banking and capital markets experience across structured and alternative asset finance as well as fund, equity, credit and interest rate derivatives.
- Qualified Solicitor, practiced structured finance, project finance, securitisation and derivatives at Linklaters and Milbank.
- MA in Geography from the University of Cambridge.

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