

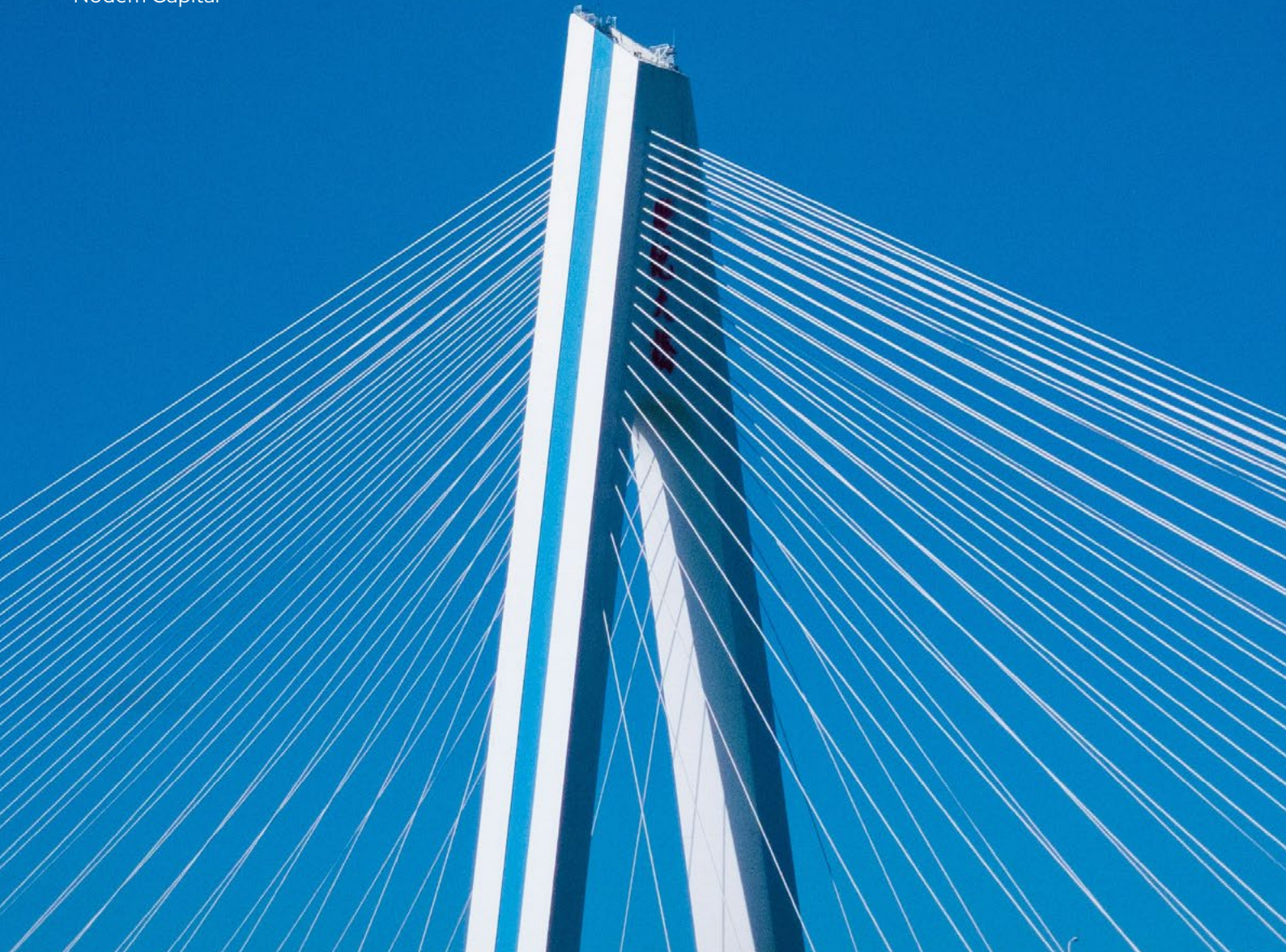
PRESTEL AND PARTNER

Family Offices: The Case for NAV Financing

A practitioner's overview of Net Asset Value (NAV) lending, how Family Offices use it, and the questions that matter before engaging with it.

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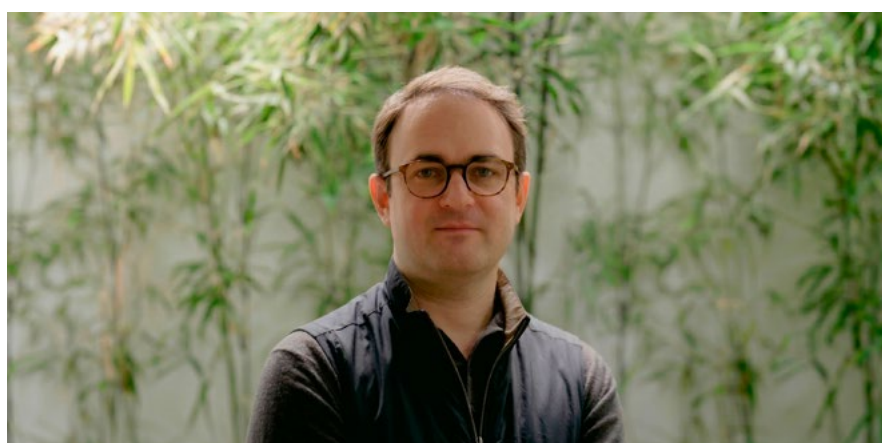


Intro

I started my career at Cambridge Associates, advising Family Offices and endowments on portfolio construction and manager selection. That experience gave me a close view of how the most sophisticated long-term investors actually build and manage their wealth. Since then, working across hedge funds and private equity, the same observation has followed me: families build portfolios designed to compound over decades. Private equity, venture capital, real assets, co-investments: the architecture of a well-constructed Family Office is intentionally illiquid. That illiquidity is what generates the premium. But it also creates a structural tension. Families hold long-duration assets and face short-duration needs. A commitment call arrives. A tax obligation crystallises. A generational transfer requires planning capital. An investment opportunity surfaces with a closing deadline. The conventional response is to sell something, or to hold excess cash. Neither is efficient.

That tension is what eventually drew me to NAV financing. Family Offices manage an estimated \$5–10 trillion globally (Deloitte 2024), and the shift toward alternatives has been pronounced. The Goldman Sachs 2025 Family Office Investment Insights Report, surveying 245 Family Offices, found the average allocation to alternatives was 42%, with 21% in private equity alone. The UBS 2025 Global Family Office Report, covering 317 offices with an average net worth of \$2.7 billion, found US Family Offices allocating 54% to alternatives. The Bank of America 2025 Family Office Study, drawing on 335 respondents, reported that 50% of Family Offices identified “strategic use of credit” as a top challenge. Deutsche Bank’s inaugural 2025 report focused specifically on Family Office use of leverage. These data points converge on a simple observation: families are deeply invested in illiquid assets, yet the infrastructure to generate liquidity against those assets, without selling them, has not kept pace.

A disclosure before going further. I run a firm, Nodem Capital (nodem.com), that provides NAV-backed loans and preferred equity, and readers should weigh that accordingly. My goal in writing this is not to market a product but to dispel some of the myths around NAV financing and provide private market investors with what I believe is a useful framework for thinking about portfolio-level liquidity. Nodem is fully funded, and our focus is on building long-term partnerships with families who hold the strongest portfolios. That said, this article is an attempt to provide a balanced overview. What NAV financing is. How the market is structured. How families are using it. And what risks and governance considerations a Family Office should weigh before engaging with it.



What Is NAV Financing?

NAV financing is a loan or preferred equity investment secured against the net asset value of a portfolio of investments. The collateral is the portfolio itself, not a single asset, and not uncalled capital commitments. That distinction is important. A subscription line, or capital call facility, is secured against LP commitments and is typically drawn during the investment period to bridge capital calls. Asset-level debt sits against an individual property or company. NAV financing operates at the portfolio level, using the aggregate value of the underlying holdings as the basis for a credit facility.

Structuring across the market remains mostly conservative, with moderate leverage levels. The Proskauer 2025 NAV Financing Market Survey, now in its third annual edition, confirmed this pattern. Typical loan-to-value ratios range from 10% to 30% of NAV, and the Penn Law Review (2024) noted that "NAV facilities typically have conservative loan to value ratios, for example, around 20% to 30%." Typical tenors run three to five years.

The global NAV financing market is currently valued at approximately \$100 billion (Hogan Lovells 2025; ILPA; Fund Finance Association). The Fund Finance Association projects growth to \$600 billion by 2030, a significant expansion, though one that still implies relatively low penetration of the broader private markets. The Callan Institute (2025) estimated NAV lending at approximately 1% of the \$5 trillion global private equity market. In other words, this is a market that is maturing but has not yet reached institutional ubiquity, and the standards, terms, and lender quality vary accordingly.



The Financing Spectrum

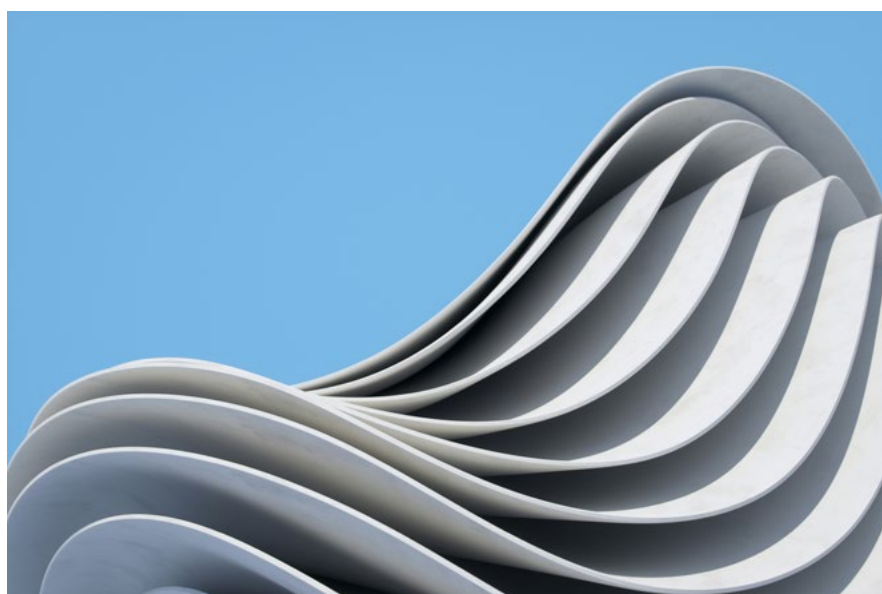
Family Offices evaluating portfolio-level liquidity have a range of instruments available, and understanding where each sits on the cost-flexibility spectrum matters. The market is not monolithic.

At one end sit senior bank facilities. These typically operate at 5–15% LTV, priced at SOFR plus 200–350 basis points. Banks require diversified, “bankable” collateral: listed securities, real estate, large-cap private equity. Execution timelines of three to six months are common. Regulatory capital constraints limit what banks can underwrite, and concentrated positions, venture holdings, co-investments, and smaller fund interests often fall outside their credit frameworks. For large, diversified portfolios with an existing banking relationship, a senior bank line remains the cheapest form of portfolio leverage.

In the middle of the spectrum sits non-bank NAV lending, the segment in which Nodem operates. Typical LTVs run 15–30%, priced at SOFR plus 400–700 basis points. The Rede Partners 2025 NAV Financing Market Report noted spreads converging around 4%–7%. Non-bank lenders can underwrite what banks typically cannot, including sub-portfolios, concentrated positions, venture and growth equity, co-investments, and smaller or less liquid fund interests. Execution runs four to eight weeks, and structuring tends to be bespoke. For smaller families with \$50 million to \$500 million in assets, the non-bank segment may be the only practical access point, since banks typically require much larger relationships or will not underwrite illiquid holdings at all.

At the most flexible end sits preferred equity. Preferred equity is structured as equity, not debt. It receives distributions ahead of common equity up to an agreed return, with advance rates of 20–40%. There are no debt covenants in the traditional sense. It carries the highest cost of capital but offers maximum flexibility, suited to situations where debt covenants are impractical or where higher advance rates are needed.

Notably, NAV facilities increasingly coexist within the same family’s capital structure. A family might maintain a senior bank line against its liquid portfolio while using a non-bank NAV facility against its private equity and venture sleeve. The median PE holding period is approaching 7 years – VC is over 12 years – which partly explains why demand for portfolio-level liquidity tools continues to grow.



How Family Offices Use NAV Financing

The Proskauer 2025 survey found that follow-on investments are the most cited use of NAV financing proceeds globally. In late 2023, the use of NAV loans specifically to fund LP distributions fell 90%, a sharp correction that signalled the market's decisive shift toward accretive uses of the instrument. The use cases that dominate today reflect that shift, and broadly fall into two categories: reactive applications, where the family is responding to an immediate need, and proactive ones, where the facility is used to optimise the portfolio's capital structure over time. The governance bar should be different for each. A reactive draw against a known short-term obligation is a simpler decision than proactively restructuring the balance sheet, and families should treat them accordingly.

Among reactive uses, the most intuitive is preserving compounding positions. Rather than selling on the secondary market at a discount, a family borrows a conservative percentage of portfolio NAV, meeting its liquidity need while maintaining exposure to assets with remaining upside. The discount question deserves a realistic treatment. Jefferies data shows the very largest, most liquid buyout funds trading at discounts as narrow as 6%, but that figure is misleading as a market-wide benchmark. The 13% average discount to NAV often cited (UBS) is closer to the reality for most high-quality PE portfolios. From our own activity, we regularly see private equity interests pricing below 80 cents on the dollar, and venture positions at 50 cents or without any secondary market at all. In that context, borrowing at a conservative LTV rather than selling can make sense, but only if the underlying positions actually deliver. The spread between a portfolio's expected return and the borrowing cost only works if the NAV marks are realistic and the assets continue to perform. That is a meaningful if, and families should stress-test it honestly.

Bridge financing during continuation vehicles or GP-led secondaries is another reactive application. Families electing to roll into a continuation vehicle may need interim capital during a transition that can take several quarters. NAV financing provides capital without forcing a premature exit decision.

On the proactive side, follow-on investments and co-investments represent the most commonly cited use case (Proskauer 2025). Capital for new commitments arrives without liquidating existing positions, and the timing flexibility this provides is material. Co-investment windows are often short, and families without pre-arranged liquidity can miss them entirely.

Tax-efficient liquidity is a further proactive consideration. Selling triggers capital gains; borrowing does not. It is worth noting, however, that interest on a NAV facility may or may not be tax-deductible depending on the jurisdiction, the borrower's structure, and how the proceeds are deployed. For families navigating intergenerational transfers, estate planning, or jurisdictional tax events, the distinction between sale and borrowing can be significant, but the full picture requires specialist tax advice, not rules of thumb.

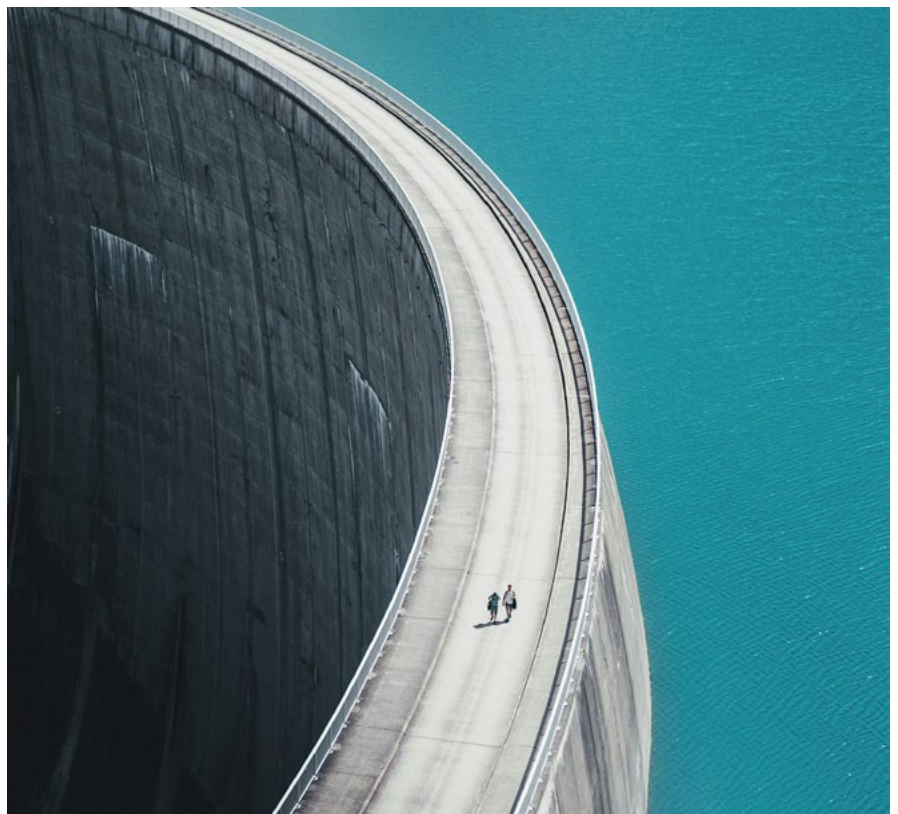
Reducing cash drag is a subtler application. The Goldman Sachs 2025 report found that Family Offices hold an average of 12% in cash. A standby NAV facility can substitute for some of that cash buffer, allowing capital to remain deployed while preserving access to liquidity. NAV facilities are also increasingly layered alongside bank facilities in multi-asset portfolios. The bank underwrites what it can; a non-bank lender covers the remainder. This maximises access to capital without exceeding prudent aggregate leverage. Proactive uses like these require a higher degree of judgment and should be subject to a correspondingly higher governance standard: board-level approval, a documented rationale, and periodic review of whether the facility still serves the portfolio's objectives.

Risks and Considerations

Any balanced assessment of NAV financing must address the risks directly. The instrument has clear applications, but it is not without cost, complexity, or controversy.

The fundamental risk is valuation. The collateral underlying a NAV facility is a portfolio of private, often illiquid assets whose values are inherently subjective. As the Penn Law Review (2024) observed, “the valuation of private and illiquid assets is as much art as science.” Best practice involves independent third-party valuations, stress testing at inception, and clear dispute resolution mechanisms. A lender that does not insist on these safeguards is not one a family should work with.

Covenant complexity deserves attention. NAV facilities include LTV covenants, diversification requirements, and cash sweep provisions. The Proskauer 2025 survey confirmed that cash sweep mechanisms are prevalent across the market. Borrowers must understand the operational burden of ongoing compliance, which includes quarterly reporting, portfolio monitoring, and distribution waterfalls. This is not passive debt. It requires active management and reporting infrastructure. The natural question families ask is: what happens if the portfolio drops in value and we breach a covenant? In practice, well-structured NAV facilities include extended cure periods, and a quality lender will be aligned with the family’s long-term interests. Nobody benefits from a forced liquidation. Across the market, forced deleveraging events on conservatively structured NAV facilities have been vanishingly rare, precisely because the combination of low LTVs, diversified collateral, and aligned lender-borrower relationships provides a wide margin of safety. That said, families should understand the lender’s remedies at the outset: whether distributions can be redirected, whether asset sales can be compelled, and over what timeframe. These protections should be negotiated up front, not discovered during a downturn.



Cost of capital is the most straightforward trade-off. Non-bank NAV lending, at SOFR plus 400–700 basis points, carries a headline all-in cost of roughly 9–12%. But families should also scrutinise the fee structure beyond the spread. Arrangement fees of 1–2%, unused commitment fees, and, in some cases, exit fees can all affect the true cost, particularly for a family that draws only part of a committed facility. The effective cost in that scenario can be meaningfully higher than the headline rate suggests. Families should model the fully loaded cost, including fees, against both the expected return on the capital being preserved and the cost of the alternative (a forced sale at a secondary discount or a taxable event). Both scenarios deserve rigorous analysis before committing.

Interest rate and refinancing risk should also factor into the analysis. While some NAV facilities are available on a fixed-rate basis, many are floating-rate and priced off SOFR. A family entering a three-to-five-year facility in the current rate environment should consider what happens if rates stay elevated or move higher. There is also refinancing risk at maturity: if the portfolio remains illiquid and the lender does not extend, the family may face a constrained set of options. The takeaway here is not to avoid these facilities but to use them conservatively. Modest, well-structured leverage against a strong portfolio is an extremely powerful tool. Overextension is not.

LP and governance scrutiny also warrants attention. The Institutional Limited Partners Association (ILPA) issued formal NAV Financing Guidelines in July 2024, establishing a five-part framework covering governance, disclosure, and LP consent. The Rede Partners 2025 survey found 43% of respondents had already seen these guidelines applied in transactions. Family Offices, even when they serve simultaneously as LP and GP, should apply similar governance discipline. That means board-level approval, documented use of proceeds, and independent valuation oversight.

Finally, market maturity. NAV financing has grown significantly, but the market remains relatively early-stage. Standards and documentation are converging but not yet uniform. Lender quality varies.



A Closing Thought for Wealth Holders

NAV financing is not about adding leverage for its own sake. It is a structural instrument that, used conservatively, gives families the ability to act without being forced to sell. The data suggests it is becoming a standard component of institutional portfolio management, but that transition is still underway, and not every facility or lender will serve a family's interests equally.

The families that use this well share common characteristics. They are disciplined about LTV limits, transparent in their governance, and clear-eyed about the cost of capital. They borrow not because they need to, but because the alternative would be more expensive: selling a compounding asset, triggering a tax event, or missing an investment opportunity.

For families reading this publication, the question is not whether NAV financing is relevant. Given the scale of illiquid allocations across the Family Office landscape, it almost certainly is. The question is whether it is being used thoughtfully, with the right structure, the right counterparty, and the right governance. That is the standard every participant in this market, lenders included, should be held to.

