

PART 5:

**Recommended
Disclosures
Related to the
Use of
NAV-Based
Facilities**

Recommended Disclosures Related to the Use of NAV-Based Facilities

ILPA recommends that GPs provide all LPs within the fund with the following standardized disclosures about NAV-based facilities once they have been put in place.

NAV-Based Facilities in Use: Rationale, Key Terms, Conflicts

01	<p>What is the rationale for using a facility, versus alternatives? Will it be used for to repay existing indebtedness, for follow-on investment, supporting the portfolio, for a distribution to LPs, etc.? Why is extra capital needed now?</p> <p><i>Answer here</i></p>
02	<p>What is the overall size of the facility?</p> <p><i>Answer here</i></p>
03	<p>What is the amount borrowed from the facility to date?</p> <p><i>Answer here</i></p>
04	<p>What is the initial Loan to Value (LTV) ratio at the initial date of borrowing?</p> <p><i>Answer here</i></p>
05	<p>Please describe the interest rate of the facility. Is the interest rate fixed or floating? If floating, please provide the base rate (e.g., SOFR, EURIBOR, SONIA) and the spread [=] bps. Is the interest required to be paid in cash or can it be paid-in-kind (PIK interest)?</p> <p><i>Answer here</i></p>
06	<p>What is the tenor/term end date of the facility, including any extensions, if applicable? How is the facility meant to be repaid?</p> <p><i>Answer here</i></p>

NAV-Based Facilities in Use: Rationale, Key Terms, Conflicts

<p>07</p>	<p>Please describe the structure of the facility including the use of special purpose vehicles (SPVs) or subsidiaries.</p> <p><i>Answer here</i></p>
<p>08</p>	<p>Please describe any security interests provided as collateral including interests in the underlying portfolio companies, any SPVs or subsidiaries as well as any pledge of uncalled capital.</p> <p><i>Answer here</i></p>
<p>09</p>	<p>Describe the details of the financial covenants as well as other core items including cash sweeps and mandatory repayments. Include information on interest rate coverage ratio, security coverage ratio, LTV ratio and remaining portfolio company diversification.</p> <p><i>Answer here</i></p>
<p>10</p>	<p>Please describe if a credit rating has been obtained through a Nationally Recognized Statistical Rating Organization ("rating agency"⁸).</p> <p><i>Answer here</i></p>
<p>11</p>	<p>Please describe any potential conflicts of interest associated with the facility lender (e.g., is the lender a related entity?).</p> <p><i>Answer here</i></p>
<p>12</p>	<p>Please describe any consents required and confirm that all required consents or waivers have been obtained.</p> <p><i>Answer here</i></p>

⁸ Note: Regulation may prevent ratings obtained through a Nationally Recognized Statistical Rating Organization from being shared to 3rd parties, such as limited partners

LPs should consider the following questions as a resource to support engagement with their GPs when a NAV-based facility is being proposed or put in place. Additionally, these questions can serve as a supplement to the questions on the use of fund finance within Section 7 of the *ILPA Due Diligence Questionnaire* (2021).⁹

Questions to Guide LP Dialogue with GPs on NAV-Based Facilities

<p>01</p>	<p>Is the amount of leverage resulting from the NAV facility appropriate given the rationale, existing asset-level leverage and other factors such as diversification/concentration in the fund’s portfolio? Has the GP appropriately considered the increased risk when putting the NAV facility in place?</p> <p><i>Answer here</i></p>
<p>02</p>	<p>Will proceeds be used in a way that is consistent with the best interests of the fund and the LPs? Has the GP reasonably demonstrated the impact of the NAV facility on returns to LPs in the fund?</p> <p><i>Answer here</i></p>
<p>03</p>	<p>If the facility is used for a distribution, what is the impact of the NAV facility on the distribution (carried interest) waterfall? Does the facility trigger a payment of carried interest and is there any risk of a GP clawback arising from this distribution?</p> <p><i>Answer here</i></p>
<p>04</p>	<p>If the facility is used to generate a distribution, will the management fee be reduced to reflect the distributed amounts?</p> <p><i>Answer here</i></p>
<p>05</p>	<p>What is the impact of the NAV facility on uncalled commitments? If the facility is used to generate a distribution, will the distribution be recallable? Is there a pledge of uncalled commitments?</p> <p><i>Answer here</i></p>

⁹ ILPA, *Due Diligence Questionnaire* (Nov. 2021)

Questions to Guide LP Dialogue with GPs on NAV-Based Facilities

06	<p>Is the leverage resulting from the NAV facility included as “fund leverage” in the measure of fund-level leverage as defined in the LPA, e.g., within borrowing provisions?</p> <p><i>Answer here</i></p>
07	<p>Do any LPs have side letter or exclusion rights that may lessen their exposure to the facility?</p> <p><i>Answer here</i></p>
08	<p>Will details about the facility be disclosed in the fund’s audited financial statements, even if an SPV or other vehicle that sits below the fund has been used for the facility?</p> <p><i>Answer here</i></p>
09	<p>Who at the GP is responsible for monitoring the usage and performance of the facility, including monitoring LTV ratios and other covenants?</p> <p><i>Answer here</i></p>

LPs should also consider qualitative factors beyond the contractual terms of the NAV facility. ILPA recommends that LPs assess the following to understand the impacts and potential risks associated with a NAV facility:

- The GP’s recent track record and current circumstances, e.g., health of the portfolio, sectoral challenges, status of current fundraise
- Age of the fund and performance relative to fund hurdle, i.e., is the fund near the end of life but the GP is below the hurdle rate?
- The GP’s historical management of debt and leverage at the fund and the portfolio company level
- Appropriate valuation processes and finance function oversight of compliance with facility covenants



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