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Navigating the impact of portfolio company distress events under NAV facilities

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Net Asset Value (NAV) facilities are a key liquidity tool for private investment funds, allowing borrowing against portfolio company valuations through loan-to-value covenants. This article examines how financial distress events are managed under such facilities via Material Investment Events – provisions that trigger the exclusion or downward adjustment of an investment's value from the NAV calculation. It discusses various distress triggers, including insolvency events, adverse auditor opinions, accelerated indebtedness, defaults, and adverse judgments, and highlights the critical negotiation of these definitions. The article also explores valuation challenge rights, which allow lenders to contest fund valuations, and outlines the operational consequences for NAV facilities where portfolio company distress events trigger increases in LTV.

Related Professionals

- **Paul Tannenbaum**
  Partner