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Criteria Essentials – Net Asset Value (NAV) Finance Ratings (1/2)

Scan QR code or visit https://www.fitchratings.com/criteria/fund-asset-managers to view detailed Net Asset Value Finance Rating Criteria and Collateralized Fund Obligations Rating Criteria

Quantitative Rating Indication (QRI)

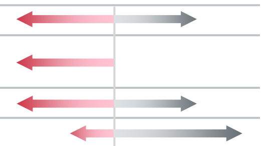
- Review of the portfolio of fund positions backing the NAV loan
- Model and stress cash flows of the portfolio funds, and contractual cash flows of the NAV loan
- Derive residual stressed LTV at NAV loan maturity

QRI: a to ccc

Qualitative Assessment (QA)

- Assessment of factors not included in modelling
- Expressed as notch up or down from QRI

	+2	+1	0	-1	-2	-3
Asset quality						
Additional sources of repayment and liquidity						
Fund and manager						
Structure						



QA notching adjustment
Max notch up capped at +5
No limit to notch down

Subject to **A+ rating cap**

NAV Loan Rating
Relative vulnerability to default

Scope

- Credit ratings assigned to obligations backed by the NAV and cash flows of funds or other entities that primarily invest in limited partnership (LP) interests in alternative investment funds.
- These obligations are often referred to as NAV loans to secondaries funds.
- The NAV Finance Rating Criteria should be read in conjunction with the Collateralized Fund Obligations (CFO) Rating Criteria, which describe the cash flow analysis and modelling.

Portfolio Review informs model input assumptions and diversification considerations

1 Fund strategies

- Common fund strategies: buyout, credit, funds of funds, growth, infrastructure, real estate, venture
- Other strategies analysed case-by-case, subject to model and stress assumptions adjustments

2 Investment types

- Typically drawdown-style funds in the form of LP interests
- Other investment types (co-investments, continuation vehicles, etc) may involve adjustments to assumptions and cash flow projections

3 Concentration and correlation

- **Concentration haircut** to single funds > 10% of total portfolio exposure (NAV + uncalled capital commitments)
  Increases incrementally as fund exposure increases
- **Correlation haircut** to potentially correlated funds > 25% of total portfolio exposure
  Typically applied to funds of the same fund series
- **Single asset concentration** capped at 3%

Modelling and Stressing Cash Flows Using Fitch proprietary model, Portfolio Funds Model (PFM)

- For each fund in portfolio: **cash flows and asset performance** modelled based on historical performance of comparable funds (same fund age and strategy) launched at different historical periods, including at least one material stress period, referred to as multiple 'launch year' scenarios
- Comparable funds historical performance proxied by distributions to paid-in capital (DPI), sourced from MSCI (formerly Burgiss Group), or similar. 3 rating stresses (A, BBB, BB) applied to each fund's DPI
- Stressed portfolio cash flows modelled in line with NAV loan amortization structure, including any contractual guarantees
- Residual LTVs at NAV loan maturity derived under each of the 3 rating stresses

A rating stress
BBB rating stress
BB rating stress

Multiple 'launch year' scenarios simulating different historical market cycles

For each 'launch year' scenario: funds' capital calls, distributions, NAV changes
Aggregated at portfolio level

NAV loan waterfall reflecting LTV triggers, amortization schedules, interests

Residual LTV at NAV loan maturity for each 'launch year' scenario

For each rating stress, max residual LTV selected among 'launch year' outcomes

Max A stress residual LTV
Max BBB stress residual LTV
Max BB stress residual LTV

QRI Derivation

- QRI determined for each of the 3 maximum residual LTVs from mapping table
- The highest QRI of the 3 is selected
- Final QRI informed by analytical judgment and additional modelling scenarios

Maximum residual LTV (%) at loan maturity mapping to QRI

QRI		a	a-	bbb+	bbb	bbb-	bb+	bb	bb-	b+	b	b-	ccc
Max residual LTV	At A stress	0	≤10	≤20	≤30	≤40	≤50	≤60	≤70	≤80	≤90	≤100	>100
	At BBB stress	-	-	-	0	≤10	≤20	≤30	≤40	≤50	≤60	≤70	>70
	At BB stress	-	-	-	-	-	-	0	≤20	≤40	≤50	≤60	>60

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Abbreviations – AUM: Assets Under Management; FX: foreign exchange; LP: Limited Partner; LPA: Limited Partner Agreement; LTV: loan-to-value; NAV: Net Asset Value; QRI: Quantitative Rating Indication

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Criteria Essentials – Net Asset Value (NAV) Finance Ratings (2/2)

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Asset Quality of the portfolio backing the NAV loan – Qualitative Assessment

Attributes of the portfolio and of its underlying funds that may affect performance, ability to sell assets and to refinance

Underlying Funds Attributes – Generally drive the overall asset quality factor

	+2 notches	+1 notch	0 notch	-1 notch	-2 notches
Manager AUM ($bn)	≥ 50	20 ≤ x < 50	10 ≤ x < 20	3 ≤ x < 10	< 3
Manager experience in alternative assets (yrs)	≥ 20	15 ≤ x < 20	10 ≤ x < 15	5 ≤ x <10	< 5
Fund Size ($bn)	≥ 5	2 ≤ x < 5	1 ≤ x < 2	0.5 ≤ x < 1	< 0.5

Portfolio Attributes – Typically more marginal drivers

	+1 to +2 notches	0 notch	-1 to -2 notches
Portfolio diversification	High	Medium	Low
Geographic diversification	Diversified globally or within large developed markets; limited exposure to developing markets	Concentrated in smaller developed markets; moderate exposure to developing markets	High concentration to funds focused on developing markets
FX exposure	Immaterial; no material impact on QRI	Limited unhedged exposure (≤10%), or limited impact on QRI	Moderate to material (>10%), material impact on QRI
Strategy stability	Focus on lower-volatility segments of broad fund strategies	Funds with typical or mixed segments or insufficient data	Portfolio concentrated in high volatility fund segments (e.g. opportunistic real estate or infrastructure, distressed debt)

Fund and Manager – Qualitative Assessment

Manager relates to the highest-level parent entity where investment, risk and operational staff operates, unless stated otherwise

	+2 notches	+1 notch	0 notch	-1 notch	-2 notches
Manager AUM (USDbn)	≥ 50	20 ≤ x < 50	10 ≤ x < 20	3 ≤ x < 10	< 3
Manager staff (#)	≥ 200	150 ≤ x < 200	100 ≤ x < 150	50 ≤ x < 100	< 50
Manager experience in alternative assets (yrs)	≥ 20	15 ≤ x < 20	10 ≤ x < 15	5 ≤ x < 10	< 5
Manager experience in relevant or related strategy (yrs)	≥ 20	15 ≤ x < 20	10 ≤ x < 15	5 ≤ x < 10	< 5
Latest flagship fund size in the strategy (USDbn)	≥ 5	2 ≤ x < 5	1 ≤ x < 2	0.5 ≤ x < 1	< 0.5
Fund size (USDbn)	≥ 5	2 ≤ x < 5	1 ≤ x < 2	0.5 ≤ x < 1	< 0.5
Manager experience with NAV loans	≥ 3 NAV loans	1 to 2 NAV loans	No experience or insufficient information		
Manager historical performance in relevant strategy	Consistently positive, generally in line with market		Inconsistent	Consistent underperformance	

Additional Sources of Repayment and Liquidity – Qualitative Assessment

Available to repay the NAV loan and meet capital calls from funds in the portfolio

Typical attributes assessed, not all needed:

- Additional cash flows from collateral
- Uncalled capital commitments
- Assets outside the collateral pool
- Liquidity facilities

	+2 notches	+1 notch	0 notch
Availability of additional sources of repayment and liquidity	Significant	Some	None or immaterial

Structure – Qualitative Assessment

Structural features and terms of the NAV loan credit agreement and LPA are typically neutral to the qualitative assessment, except when terms are exceptionally strong or weak.

	+1 notch	0 notch	-1 notch	-2 to -3 notches
LPA terms	N.A.	Standard, allowing debt incurrence, remedies to LP defaults, etc.	Modest deficiencies	Material deficiencies
NAV loan credit agreement terms	Standard, with additional guarantees or covenants that could benefit the NAV loan, and have not had an impact on QRI	Standard, incl. security over assets and distribution accounts or limited security but borrower is a large or flagship fund	Mostly standard, with limited security over assets or accounts, or higher risk of acceleration and payment default due to trigger breaches	Material deficiencies, or no security over assets or accounts

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This document is a summary of, and complementary material to, our current Net Asset Value Finance Rating Criteria report available on Fitch Ratings' public website. It does not replace our criteria and should be used in conjunction with it.