

WHAT A FAMILY OFFICE SHOULD ESTABLISH BEFORE BORROWING AGAINST A PRIVATE MARKETS PORTFOLIO

WWW.TFOA.INFO



What a family office should establish before borrowing against a private markets portfolio

By Alex Branton and Marc J. Sharpe, M.A., M.Phil., MBA

Abstract

A family office whose private markets allocation has matured, whose distributions have slowed and whose capital calls have not, faces a liquidity problem of timing rather than solvency. Borrowing against the portfolio (NAV financing) is one of six or seven responses available to it, and the one least often explained properly. This paper compares a portfolio-level NAV facility against the alternatives. It distinguishes fund-level, portfolio-level and concentrated-position facilities, and shows why the governance question survives the choice to lever oneself. It explains why a lender almost never takes security over the underlying companies — because limited partnership agreements restrict transfers and pledges, often including indirect ones — and why that single constraint produces the three structures a family is likely to be offered, together with the covenants, cash traps and sweeps that accompany the most common of them. It then separates reported net asset value from eligible net asset value, the defined term to which an advance rate is actually applied and sets out what a position-level schedule must disclose before borrowing capacity can be assessed. It models what a cash sweep does to family liquidity when it operates from closing on a performing loan, compares a matched-cash partial secondary sale against a facility on the same date, and closes with four tests a requirement must pass before a facility might be considered the right solution.

Nothing in this white paper constitutes tax, legal, or accounting advice. The discussion of NAV credit facilities, security structures and secondary market pricing is a general educational summary only, and individual results depend on specific facts and circumstances. Readers should consult their own qualified counsel before acting on anything described herein and should not rely on this white paper as a substitute for such advice.

Introduction

Most families arrive at this issue the same way. The private markets allocation has matured, the distributions that were supposed to fund this year's calls have not turned up, and the calls have. Nothing has gone wrong exactly. The cash is just in the wrong place at the wrong time.

At that point a family office has six or seven things it can do:

1. Hold more cash.
2. Sell liquid assets.
3. Draw on credit it already has.

4. Sell some LP interests in the secondary market.
5. Borrow against the private portfolio.
6. Slow down future commitments.

In practice most families do two or three of these at once. The fifth is the one nobody explains properly to families, so it is the one we will compare against the others here. What a lender is really securing. How much of a portfolio actually counts toward borrowing capacity. What a cash sweep does to your liquidity. And when the answer ought to be no.

Who is borrowing, and against what?

Several quite different things get called NAV lending, and the distinction that matters is who the borrower is.

A fund-level facility has the private equity fund borrowing against its own portfolio companies. Its limited partners end up carrying leverage the general partner chose.

A portfolio-level facility has the holder of a set of fund interests borrowing against them. That is typically the version available to a family office.

A facility against a handful of positions uses the same legal machinery on a concentrated pool. The credit changes. The law does not.

Choosing your own leverage does not dispose of the governance question, and this is where families sometimes get caught out. The borrower, the entity holding the interests, any guarantor, and the people who actually benefit from the proceeds, are often four different parties. Once trusts hold part of the portfolio it gets even more tangled still. Work out early which entity can borrow, which can pledge, and who would fund a cure. Then look at what leverage already sits inside the funds and their portfolio companies, because whatever you will sign sits on top of all of it.

How the security actually works, and why it drives everything else

Families often assume the lender takes security over the underlying companies. It almost never can, and the reason explains most of what you will see in a term sheet.

Most limited partnership agreements restrict transfers and pledges. Plenty go further and treat an indirect pledge, or an indirect change of control, as a restricted transfer too. That last part is what catches many people. Pledging the equity of a holding vehicle sitting above the interests can trip the restriction just as a direct pledge would.

The law firm, Mayer Brown, looked at this in March 2026 and put the consequence bluntly. A lender that took security without the consent it needed may find it cannot foreclose or sell the interest on a default. It may be left holding the economic proceeds and nothing else.

So, permission to grant a pledge is not permission to enforce one. Out of that gap come the three structures a family office is likely to be offered.

The three structures you are likely to be offered

Permission to grant a pledge is not permission to enforce one.

THE CONSTRAINT

Most limited partnership agreements restrict transfers and pledges, and plenty treat an indirect pledge, or an indirect change of control, as a restricted transfer too. A lender that took security without the consent it needed may find it cannot foreclose or sell the interest on a default.

1. SECURITY LITE	2. CARVE-OUT PLEDGE	3. FULL EQUITY PLEDGE
Collateral limited to cash A pledge of the right to receive distributions, a covenant that distributions go into a pledged account, and security over that account. It sidesteps the transfer restriction problem altogether, and keeps gaining ground. The price: strict loan to value thresholds, cash trap triggers, diversification covenants, and the right to sweep all net proceeds.	Everything not restricted Pledges every equity interest except those carrying a restriction that would block a pledge, carving the restricted ones out automatically. It saves reviewing hundreds of documents on day one, and has become common on larger deals.	The whole interest Takes a full equity pledge of the interests. It needs the consents.

Ask which of the three you are being offered before anybody talks about price.

A security interest in a deposit account can only be perfected by control, so unless the lender is the depositary bank it needs a control agreement with every bank holding a distribution account. Agreeing those across several custodians, on top of any consents and notices, is usually why a deal takes longer than the credit work alone would suggest. Legal structuring points draw on Mayer Brown, Transfer Restrictions in NAV Credit Facilities, March 2026, as cited in this paper.

Figure 1 | The Family Office Association | Original Illustration

Figure 1. The three structures described in this paper, and the trade-off each one carries. Original TFOA illustration.

The first limits the collateral to cash. The lender takes a pledge of the right to receive distributions, a covenant that distributions go into a pledged account, and security over that account. Mayer Brown calls it security lite and notes it keeps gaining ground, because it sidesteps the transfer restriction problem altogether.

There is a price for that, and you should expect to pay it. The lender cannot reach the assets, so it leans instead on strict loan-to-value thresholds, cash trap triggers, diversification covenants, and the right to sweep all net proceeds.

The second structure pledges every equity interest except those carrying a restriction that would block a pledge, carving the restricted ones out automatically. It saves reviewing hundreds of documents on day one, and it has become common on larger deals. The third takes a full equity pledge and needs the consents.

Ask which of the three you are being offered before anybody talks about price. A family that knows it is looking at security lite will understand why the covenants and the sweep are as tight as they are and can negotiate on that footing rather than treating the terms as difficult or contentious.

One more thing sets the US timetable, and it is purely mechanical. A security interest in a deposit account can only be perfected by control. Unless your lender happens to be the depositary bank, it needs a control agreement with every bank holding a distribution account. Getting those agreed across several custodians, on top of any consents and notices, is usually why a deal takes longer than the credit work alone would suggest.

Eligible net asset value, not net asset value

Borrowing capacity is not an advance rate applied to the sum of your general partners' marks. It is applied to eligible net asset value, which is a defined term buried in the facility, and the two numbers can sit a long way apart.

Generic advance rates are close to useless here. Ask instead for a position-level schedule, and read it for:

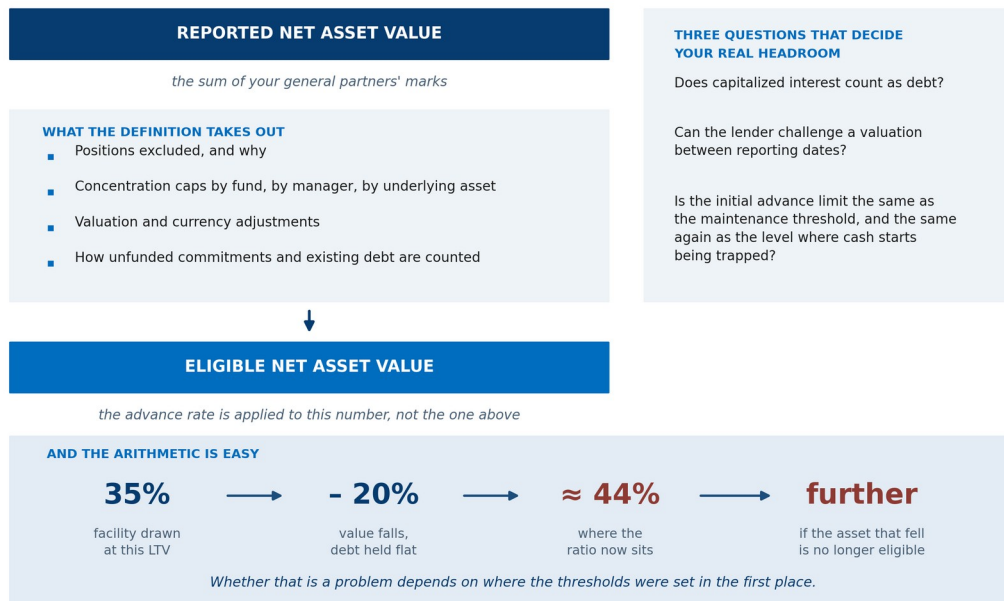
1. Reported value and the date it was struck
2. Which positions are excluded, and why
3. Concentration caps by fund, by manager, and by underlying asset
4. Valuation and currency adjustments
5. How unfunded commitments and existing debt are counted, and whether the marks already reflect them

Three further questions decide how much headroom a family office really has:

1. Does capitalized interest count as debt?
2. Can the lender challenge a valuation between reporting dates?
3. Is the initial advance limit the same as the maintenance threshold, and the same again as the level where cash starts being trapped? Often it is not, and nobody volunteers that.

Reported value is not borrowing capacity

The advance rate is applied to eligible net asset value, a defined term buried in the facility.



Two portfolios with identical reported value can support very different facilities once these definitions bite, and diversification across fifteen funds can hide the same managers, or the same companies, sitting underneath three of them. Generic advance rates are close to useless here; ask instead for a position-level schedule.

Figure 2 | The Family Office Association | Original illustration

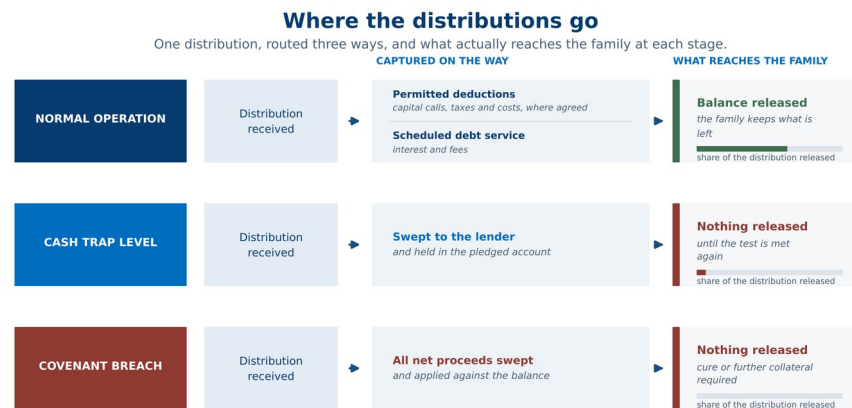
Figure 2. Why reported value overstates borrowing capacity, and the arithmetic of a 20% markdown. Original TFOA illustration.

Two portfolios with identical reported value can support very different facilities once those definitions bite. Diversification across fifteen funds can also hide the same managers, or the same companies, sitting underneath them.

What a cash sweep does to family office liquidity

Borrowers tend to read the sweep as a default remedy and move on. It is usually rather more than that. In many structures it runs from closing, on a perfectly performing loan, routing distributions to the lender before anything reaches the family office.

Accrued interest makes it worse. The balance climbs while the lender is taking the distributions. The calls still arrive. The cash you had earmarked for them has gone.



Structure only; the share bar is indicative of direction, not a measured proportion. Whether a sweep operates from closing, which deductions are permitted, where the cash trap and breach thresholds sit, and what cure rights are available are all negotiated and transaction specific. Based on the collateral and cash control structures described in this paper and in Mayer Brown, Transfer Restrictions in NAV Credit Facilities, March 2026.

Figure 3 | The Family Office Association | Original illustration

Figure 3. Where the distributions go: one distribution routed under normal operation, at cash trap level, and in covenant breach, showing what is captured on the way and what reaches the family at each stage. Original TFOA illustration.

So, model the sweep on its own, before you model any breach.

1. How much of each distribution gets captured?
2. Are there carve-outs for capital calls, taxes and running costs?
3. At what point does it switch off?

Then push the case. Delay the realizations, mark the portfolio down, and look at what is left. If the answer is nothing, somebody has to find it, and the family office should know who that is well before it signs.

The arithmetic itself is easy. Hold the debt flat, drop the value 20%, and a facility drawn at 35% LTV sits at roughly 44%. Whether that is a problem depends on where the thresholds were set in the first place. It also depends on something less obvious. If the asset that fell is no longer eligible, an exclusion can push the effective ratio a good deal further than the markdown alone would.

Comparing cost, and comparing options

Headline margin is not a comparison. Nor is total cost divided by expected usage, because the offers will differ in fee base, draw timing, and repayment assumptions.

Put every proposal on the same dated schedule of drawings and repayments. Then look hard at what each fee is charged on. An origination fee on the full commitment is a different animal from one charged on amounts drawn, and on a partly used facility that gap gets wide.

Build in the benchmark convention and any floor, the split between cash and capitalized interest, the sweep, and anything payable on prepayment or extension. Produce a dollar total and an effective annual rate off the

dated flows. Then run it again on lower utilization. Then once more on a delayed exit, because that is the case that typically happens.

Borrowing against the portfolio, or selling part of it

Both routes have to raise the same cash on the same date or the comparison is theatre.

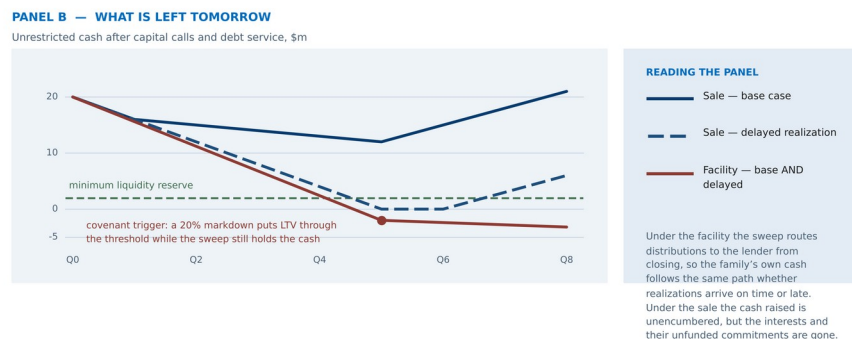
Say a family office needs \$20m. At a bid of 91% of reported value, raising it means selling ~\$22m of reported value, so the discount is ~\$2m before transaction costs and taxes. The alternative is a \$20m drawing, which leaves \$20m to repay plus interest, fees and covenant exposure.

Same cash today, what is left tomorrow

A matched-cash partial secondary sale against a proposed facility, on the figures in this paper.

	PARTIAL SECONDARY SALE	PORTFOLIO-LEVEL FACILITY
NET CASH RAISED	\$20.00m	\$20.00m
REPORTED VALUE SOLD	\$21.98m <i>at a 91% bid</i>	None <i>nothing leaves the portfolio</i>
VALUE RETAINED	Reduced <i>by \$21.98m of reported value</i>	Unchanged <i>subject to market moves</i>
UNFUNDED COMMITMENTS	Transferred <i>with the interests sold</i>	Retained in full <i>and still to be funded</i>
LEFT TO REPAY	Nothing	\$20.00m <i>plus interest and fees</i>

The discount of \$1.98m is paid once. The \$20.00m is owed until it is repaid.



Illustrative. The paper supplies the \$20m requirement, the 91% bid and the resulting \$21.98m of reported value sold, the 35% LTV and the 20% markdown. The quarterly capital-call and distribution path, the cost of carry, the minimum liquidity reserve and the covenant threshold are assumptions made to draw the exhibit; they are not figures from the paper and are not a forecast. Put your own schedule through the same two panels.

Figure 4 | The Family Office Association | Original illustration

Figure 4. Same cash today, what is left tomorrow: a matched-cash partial secondary sale against a proposed facility, and the unrestricted cash each leaves after capital calls and debt service, in a base case and a delayed realization case. Original TFOA illustration.

Setting a discount on the whole portfolio against interest on a partial drawing is not a comparison at all. It flatters borrowing, and it is how decisions get made badly.

Three warnings belong with that arithmetic:

1. Buyers select. A strong bid on your two best funds does not price the rest, and a published average is market color rather than an offer for your interests.
2. Headline price is not cash. A good share of LP sales now carry deferrals or other structured terms, so what settles at closing can be well below the number quoted.
3. A sale takes the unfunded commitments with it, and borrowing does not. Where the real difficulty is the pace of future calls, borrowing to meet them finances commitments whose value dips through the early years, shrinking borrowing capacity at exactly the moment the balance is growing.

Some context, though not a forecast. In the first half of 2026, Jefferies, the investment bank, put average LP portfolio pricing near 87% of net asset value. Buyout was around 91%. Real estate was around 68%. Those are dated observations of dispersion. None of them is a bid for your interests, so family offices will need to go and get real ones when considering options.

When another route is better

A few situations argue against a facility:

1. A recurring shortfall is the clearest of them. Borrowing turns an allocation problem into a leveraged allocation problem, and the problem is still sitting there next year.
2. Concentration is the next. If one or two positions carry the portfolio, the terms on offer will tell you so.
3. Repayment is where families most often fool themselves. Portfolio distributions are the normal repayment source and there is nothing wrong with that at all. What does not work is a plan resting on values recovering, or on a refinancing nobody has committed to.
4. Then governance. If the committee has not settled who authorizes a cure, and whose assets fund it, have that conversation before signature rather than in the middle of a bad quarter.
5. And if the family would exit the assets anyway, a discount to a stale mark may simply be what they are worth.

A decision rule

Thin distributions do not automatically call for a facility. Four things have to line up:

1. The requirement should be temporary and defined.
2. The portfolio should be diversified, and one you actually mean to keep.
3. The sweep and covenants should still leave enough cash for known calls in a downside case.
4. And repayment should not rest on an assumption your committee would throw out in any other context.

The decision rule: four things have to line up

Thin distributions do not automatically call for a facility.

THE REQUIREMENT	THE PORTFOLIO	THE DOWNSIDE	THE REPAYMENT
1 Temporary and defined.	2 Diversified, and one you actually mean to keep.	3 The sweep and covenants still leave enough cash for known calls.	4 Not resting on an assumption your committee would throw out in any other context.

Miss any of the four, and the alternatives deserve the same arithmetic, done properly, before anyone signs anything.

The alternatives set against a facility in this paper: hold more cash, sell liquid assets, draw on credit already in place, sell LP interests in the secondary market, or slow down future commitments. In practice most families do two or three of these at once.

Figure 5 | The Family Office Association | Original illustration

Figure 5. The four tests set out in this paper. Original TFOA illustration.

Miss any of the four and other alternatives deserve the same arithmetic, done properly, before anyone signs anything.

Bibliography

- Jefferies. (2026, July). Global secondary market review. Jefferies Financial Group. Cited in this paper for first-half 2026 average LP portfolio pricing of approximately 87% of net asset value, buyout at approximately 91%, and real estate at approximately 68%.
- Mayer Brown. (2026, March). Transfer restrictions in NAV credit facilities. Mayer Brown LLP. Cited in this paper for the treatment of direct and indirect pledges under limited partnership agreements, the consequences for a lender's ability to foreclose, and the "security lite" collateral structure.
- Figures 1 to 5 are original illustrations prepared by The Family Office Association from the content of this paper. They reproduce no third-party artwork.

DISCLOSURES

Educational only. Not investment, legal, tax or accounting advice. Not a recommendation. Not an offer of financing.

What is described here are general market structures. Terms vary by transaction and turn on the relevant fund and facility documents. Readers should take their own professional advice and get their own proposals and bids.

Market data is a dated illustration drawn from the Jefferies Global Secondary Market Review, July 2026. It reflects aggregate transaction observations, not executable prices. Legal structuring points draw on Mayer Brown, Transfer Restrictions in NAV Credit Facilities, March 2026.

The figures in this paper are original illustrations prepared by The Family Office Association from the content of this paper. They reproduce no third-party artwork.

AUTHORS

Alex Branton is Chief Investment Officer of Nodem Capital, an investment firm working with family offices and private markets investors on NAV financing and GP financing. Nodem Limited is authorized and regulated by the Financial Conduct Authority in the United Kingdom, firm reference number 1017481. Authorization by the FCA concerns Nodem's regulated activities in the United Kingdom and does not itself constitute authorization to lend in any other jurisdiction. Contact: abranton@nodem.com

Marc J. Sharpe is a global investment executive and board member with a career spanning family office management, private equity, venture capital, and investment banking. Known for his strategic insight, deep expertise in family office governance, and ability to foster innovation and value creation, Mr. Sharpe has built and led investment platforms that deliver sustainable growth while navigating complex financial and operational challenges. His leadership style emphasizes integrity, continuous improvement, and long-term partnerships that generate significant stakeholder value. Mr. Sharpe is the Founder and Chairman of The Family Office Association, a premier global peer network of single-family offices. Since 2007, he has cultivated a community of senior family office executives and principals representing some of the world's wealthiest families, promoting education, shared-best practices, and co-investment opportunities. Under his leadership, TFOA has become a trusted forum for collaboration, market insight, and proprietary investment deal flow on a global scale. He also teaches an MBA class on "The Entrepreneurial Family Office" as an Adjunct Professor at Rice University and Southern Methodist University. Mr. Sharpe holds an M.A. from Cambridge University, an M.Phil. from Oxford University, and an MBA from Harvard Business School. Contact: marc@tfoa.me

About TFOA

The Family Office Association ("TFOA") is a global peer network that serves as the world's leading single family office community. Our group is for education, networking, selective co-investment, and a resource for single family offices to share ideas, deal flow and best practices. Members are not actively marketing products or services to other members, and no contact information or email lists will ever be shared. Since our founding in 2007, TFOA has led the global single family office community by delivering world-class educational content, unique networking opportunities, and exceptional thought leadership to our highly curated network of the world's largest and wealthiest families: www.tfoa.info

Disclaimer

All the information provided by The Family Office Association ("TFOA") are for informational and educational purposes only and neither purports nor intends to be, specific trading or investment advice or a recommendation to buy or sell any security, fund, or financial instrument. Information should not be considered as an offer or enticement to buy, sell or trade. You should seek appropriate advice from your broker, or licensed investment advisor, before taking any action. Past performance does not guarantee future results. By subscribing as a member to TFOA, you acknowledge and accept that all trading decisions are your own sole responsibility, and TFOA or anybody associated with TFOA cannot be held responsible for any losses that are incurred as a result. The information contained in this electronic mail message, including attachments, if any, is confidential information. It is intended only for the use of the person(s) named above. Internet emails are not necessarily secure. Each recipient is responsible for carrying out such virus and other checks as it considers appropriate to ensure that the receipt, opening, use or onward transmission of this message and any attachments will not adversely affect its systems or data.

Nothing in this white paper constitutes tax, legal, or accounting advice. The discussion of NAV credit facilities, security structures and secondary market pricing is a general educational summary only, and individual results depend on specific facts and circumstances. Readers should consult their own qualified counsel before acting on anything described herein and should not rely on this white paper as a substitute for such advice.