

FINANCING LIQUIDITY WITHOUT LIQUIDATION

HOW UHNW FAMILIES
THINK ABOUT CAPITAL,
CONTROL, AND
OPTIONALITY

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Introduction

Following a review of several smaller legacy assets for clients seeking liquidity, it became evident that certain situations warranted divestment. These included potentially overhyped single-asset limited partnerships, minority interests in private companies trading at premiums on secondary markets, and circumstances in which families were exposed to excessive concentration risk. In contrast, other cases reflected short-term liquidity constraints that could likely have been addressed through alternative financing solutions. This paper outlines the most common liquidity approaches, with a particular focus on comparing longer-duration strategic solutions with shorter-term, tactical options.

Executive Perspective

For ultra-high-net-worth (UHNW) families, liquidity is rarely solved through asset sales. Selling appreciated or strategic assets often triggers immediate tax, forfeits long-term upside, and compromises control. Instead, sophisticated families approach liquidity as a balance-sheet design problem by using secured borrowing, bespoke credit structures, and tax-aware planning to unlock capital while preserving optionality.

1. Securities-Based Lending (SBL)

Securities-based lending remains the most common and fastest source of liquidity for UHNW families. These revolving credit facilities are secured against public market portfolios and typically offered by US and Canadian banks and private banking platforms.

While SBL provides rapid, tax-efficient liquidity, it introduces market-linked risk. Margin calls during drawdowns can force asset sales at precisely the wrong time, making conservative loan-to-value buffers and strict internal usage policies essential.

Example: A family office caps SBL usage at approximately 35% LTV and reserves the facility strictly for short-term timing mismatches, ensuring that market volatility cannot trigger forced liquidation.

2. Liquidity Against Private and Alternative Assets

As private markets increasingly dominate UHNW balance sheets, lenders have expanded credit solutions secured against illiquid assets such as private equity, private credit, hedge funds, infrastructure, and concentrated stock positions. Both financing options below are beneficial when Limited Partnerships (LP) sales result in a large discount.

2A. Liquidity Against Private and Alternative Assets

NAV lending allows UHNW individuals and family offices to borrow against the net asset value of their LP interests without selling fund positions. Facilities are conservatively structured, with advance rates typically ranging from 20% to 50% of NAV.

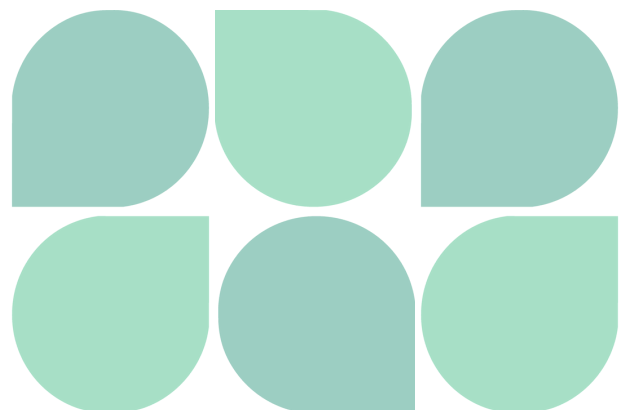
Example: A family office uses a 30% NAV facility to meet clustered private equity capital calls during market downturns, avoiding secondary sales at steep discounts.

2B. Preferred Equity Structures

Preferred equity provides flexible capital in situations where traditional NAV lending is constrained. While it may dilute upside and is typically more expensive, it offers structural solutions where timing, governance, or control considerations dominate.

3. Real Estate Secured Credit

Real estate leverage for UHNW families is implemented at the portfolio or holding company level, not through retail mortgages. Cross-collateralized, interest-only structures provide low-cost, long-duration capital aligned with income-producing assets.



4. Founder and Concentrated Stock Liquidity

Founders and executives often require liquidity without triggering tax, signalling sales, or losing control. Single-stock lending, monetization loans, and collar-backed structures are commonly used to address these constraints.

5. Insurance-Based Liquidity

Insurance-based lending is a foundational liquidity tool for UHNW families. By borrowing against the cash surrender value of permanent life insurance, families access long-duration, non-market-linked capital without triggering taxable dispositions.

Unlike portfolio-based facilities, insurance-backed liquidity is insulated from market volatility and integrates seamlessly with estate planning. Where policies are corporately owned, death benefits may generate Capital Dividend Account credits, enhancing post-mortem efficiency.

Example: A family uses an insurance-backed facility to fund baseline lifestyle and philanthropic needs, allowing market-linked credit to be deployed opportunistically rather than defensively.

6. Synthetic and Structured Liquidity

Sophisticated families may selectively use equity collars, total return swaps, or structured notes to manage risk, generate income, or maintain exposure while freeing capital.

How UHNW Families Think About Liquidity

Across strategies, priorities remain consistent: tax deferral, control, optionality, reversibility, and risk containment. When designed holistically, a layered liquidity framework allows families to separate liquidity management from investment decision-making and maintain strategic flexibility through market cycles.

Liquidity Strategy Matrix

Strategy	Primary Collateral	Typical Advance / LTV	Liquidity Certainty	Market Volatility Risk	Planning Horizon	Primary Use Case	Key Risks / Constraints
Insurance-Based Liquidity	Cash surrender value of permanent life insurance	75–90% of CSV	Very High	Low	Long-term / multi-decade	Estate-aligned, foundational liquidity	Interest rate sensitivity; policy design and exempt status
NAV Lending (LP Interests)	PE, private credit, real asset LP interests	20–50% of NAV	Moderate	Indirect	Medium to long-term	Funding capital calls; monetizing illiquid assets	Covenant complexity; over-leverage risk
Private & Alternative Asset Lending	Concentrated private assets, hedge funds, pre-IPO equity	20–50%	Moderate	Moderate	Medium-term	Bridge financing; diversification funding	Asset-specific risk; bespoke structures
Preferred Equity Financing	Economic interest in funds or continuation vehicles	N/A	Moderate	Moderate	Medium to long-term	Liquidity without outright sales	Upside dilution; structural complexity
Real Estate–Secured Credit	Income-producing real estate portfolios	50–70%	High	Low to Moderate	Long-term	Core balance-sheet leverage	Refinancing risk; rate exposure
Securities-Based / Portfolio Lending	Public equities, ETFs, fixed income	50–70% (often run at 30–40%)	Low in stress	High	Short-term	Tactical liquidity; bridge financing	Margin calls; forced liquidation risk
Concentrated Stock / Founder Lending	Single-stock or founder equity positions	30–60%	Moderate	High	Medium-term	Liquidity without loss of control	Concentration risk; market signaling
Synthetic & Structured Strategies	Derivative-linked exposure	Structure-dependent	Variable	Variable	Short to medium-term	Income generation; downside protection	Complexity; counterparty risk

If you are interested in learning more about Legacy Asset Solutions or completing a Legacy Asset Diagnostic, please contact John Durfy, Senior Consultant and Head of Legacy Asset Solutions at jdurfy@primequadrant.com.

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