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FUND FINANCE FRIDAY

ESG-Linked Subscription Credit Lines May Be Another Tool in a Lender's Toolbelt

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A recent *Private Equity International* podcast featured *PEI* editors in a panel discussion about the development of environmental, social, and corporate governance ("ESG")-linked subscription credit lines where the sustainability performance of the assets in the fund is directly related to the facility's costs.

Currently, there are two categories of ESG-linked subscription credit lines. The first category is a general corporate purpose loan taken out either at the fund or corporate level. Under this category, the facility links the loan's interest rate to either a customized set of key performance indicators or ESG ratings. The second category is the use of proceeds loan, in which the facility requires that the funds drawn from the credit line for investment purposes must meet specific ESG criteria.

The panel's primary question is whether ESG-linked subscription credit lines are the best option for a fund. The benefit of having an ESG-linked subscription credit line is that if the fund meets its ESG targets, the fund will reduce its costs. In the alternative, if the fund fails to meet its ESG targets, the fund will have an increase in costs that will ultimately fall on the limited partners to pay. The panel agreed that it might be too early to fully determine the benefits and costs of ESG-linked subscription credit lines. However, lenders may find ESG-linked subscription credit lines as another tool in their toolbox. As ESG-linked subscription credit lines continue to develop in the fund financing world, Cadwalader's Fund Finance Group has helped clients utilize ESG-linked subscription credit lines to achieve their financial needs.

To listen to the *PEI* podcast, click **here**.