

Fund Finance Friday



Key Takeaways from FFA Quarterly Update

April 9, 2021 | Issue No. 121

The Fund Finance Association hosted a virtual quarterly update mini-conference attended by over 380 people on Tuesday, headlined by a presentation from Rahmin Maali, the Associate Vice President of Private Capital at Preqin. The agenda also included two market update panels. Below are our key takeaways.

Preqin Presentation

Rahm Maali's great presentation gave us a sense of where things stand with private funds. He touched on how much dry powder is waiting to be deployed and shared with us how some fund managers successfully raised capital despite the obstacles they faced during COVID. He gave us a sense of how private capital funds performed relative to public markets and the prospects for private capital over the longer term. Here are the highlights:

- Assets under management in alternatives have tripled over the last decade. Preqin forecasts the rate of AUM growth to accelerate over the next 5 years, rising to \$17.1 trillion by 2025.
- The greater "private equity" asset class accounts for about 2/3 of all private capital AUM.
- Despite COVID, there was still over \$1 trillion raised in 2020.
- The "flight to quality" is real, in that over 42% of 2020 capital was raised by very large sponsors, who are raising larger and larger funds. Note, however, this trend is not new and was clearly evident prior to COVID as well.
- Both 2019 and 2020 were challenging for first-time fund managers, although there were a number of notable success stories.
- From a capital deployment perspective, 2020 deal flow in terms of both number of transactions as well as aggregate value was on par with 2019, despite the virtual shutdown of deal activity in the 2nd quarter occasioned by COVID.
- Fund sponsors are reporting that Investors are emphasizing ESG extensively.

Market Update Panels

Next up were two update panels on the current state of the fund finance market across the U.S., Europe and Asia. Focus was on the strong close to 2020 and a robust open to 2021, which is expected to continue, innovations in fund finance, how ESG and SPACs are here to stay and due diligence.

Here were our takeaways:

- The 4th Quarter was very active in all segments: investor fundraising, fund finance deal flow and investment acquisition. Professionals all went very hard at year-end to keep up with demand.
- COVID accelerated fund finance innovation. The product was seen as essential, and at times in 2020 there was even relative price insensitivity in the subscription credit facility space. COVID allowed sponsors to think harder about how they could expand the use of fund finance products to improve their overall investor product offering.
- Into 2021, all aspects of the market continue to function with effect. Many funds that had their initial close last year are successfully closing subsequent rounds. This is leading to significant upside requests in the subscription credit facility market, many of which need to be syndicated.
- Extensive investment deal flow is driving higher than historical median utilization. Banks are also focused on balance sheet efficiency, and are guiding funds to more properly size commitment amounts (in turn, furthering

utilization). It will be interesting to see if the increase in SPAC activity will negatively impact PE deal volumes in 2021.

- ESG-related requests are now commonplace. While the fund finance market is still learning and honing its fund finance product offerings, there is strong general support in the market that is driving a solution-oriented reception to ESG requests from syndication participants.
- The panelists forecasted a continued strong business environment for fund finance for the rest of the year, with double-digit growth contemplated.
- GP-led secondaries transactions are forecasted to grow extensively, driving another large source of fund finance volume.
- A lot of top-tier fund sponsors are listing SPACs and creating SPAC programs, suggesting this phenomena may have legs.