

FUND FINANCE FRIDAY

Closing Remarks

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2018 has been another terrific and all-consuming year for the fund finance industry. A lot of hard work went into our industry's success this year, and I hope everyone is able to get some meaningful downtime over the holidays. As we wrap up the year, we provide some reflections on 2018, some observations from the year-end closing scramble and some forecasts on items we are working on for 2019. I am extremely appreciative of the support and trust our clients and friends have put in Cadwalader this year. A sincere thank you. I hope you have a restful holiday and a fun New Year's Eve.

- Virtually all of our lender clients are reporting great years with loan commitments up well into double digits year over year. When we update our size-of-the-market analysis in early 2019, we expect a number nearing the \$500 billion mark. All of the business metrics we track around our fund finance practice (number of discrete engagements, volume of hours worked, revenue, etc.) were up in 2018 over 2017. We plan to publish a comprehensive 2018 year-in-review update for our clients in the first quarter.
- The market continues to adjust to funds bringing their leveraged finance playbook to transactions and the resulting clash with lenders' relationship-based product orientation in fund finance. Among many impacts, this trend puts pressure on the number of transactions any one banker or lawyer can cover simultaneously.
- Sanctions was by far the most contested item in 2018, as banks dug in their heels at the behest of their compliance departments' efforts not to run afoul of legal and regulatory obligations. Interestingly, of all the waivers we worked on in 2018 (and we papered enough foot faults that we are thinking about forming a waiver practice group), not one had to do with an affiliated fund or portfolio company potentially being sideways with sanctions.
- As the market grows, so does the regulators' interest in fund finance. We consulted on multiple engagements this week revolving around responding to information requests from various regulators across the globe.

- We tried to draw a graphic showing the directional movement of personnel changes between banks and law firms in 2018. There were so many arrows that the slide looked awful and was trashed.
- Time to Make the Donuts. This week was heads down, all hands on deck, get the deals done week. On both sides of the pond. Multiple large, broadly syndicated deals closed. The volume of AIV and QB joinders timed to align with year-end investment closings was pronounced. Numerous mandates were awarded.
- Do you think God personally invented the Keurig coffee machine? How did we get through the 4th quarter prior to its invention?
- For lenders that use a securitization-style borrowing base with investor classifications and varying advance rates and concentration limits, it can prove helpful if the borrowing base spreadsheet at closing details the specifics of the investors' classifications. For example, is an "Included Investor" included based on its own rating, based on credit linkage to a rated affiliate (and if so, which one) or based on lender approval as an unrated Included Investor? If there is a subsequent shift in or elimination of a rating, having that detail reduces potential ambiguity around the implications.
- A lot of goodwill is created when a lead bank gives syndicate members reasonable timelines and thoughtfully reviews their comments. While the reality of meeting fund demands is a critical obligation for a lead, syndicate members greatly appreciate and remember bankers that help them get deals through their credit and KYC processes.
- Two events this week reminded me how lucky we all are to be in the fund finance industry. I attended a holiday party hosted by a prominent fund finance industry participant last weekend. As we were leaving, I told my wife that we will probably never attend another party so nice, with so many people we know, all of whom we are excited to see and (at least as far as they let on) are happy to see us. Just a great time. I suspect a good number of you attended a party last Thursday in New York as well that I had to miss that I am sure was a great time... Secondly, I had a long overdue dinner with Todd Cabbage to welcome him to Charlotte. You know you are in a great industry when you genuinely enjoy spending time with your competitors.
- Despite the pullback in the equity markets and this week's interest rate increase, I am very bullish on fund finance for the first quarter and reasonably optimistic for 2019. Our inventory (for lawyers, that means hours worked not yet billed and accounts receivable) is higher today than it was a year ago. And despite how many closings we had in December, we have put on more than we have taken off this month. A ton of term sheets were turned this week. The pipeline feels solid and the market feels very fluid, despite the noise on the macro level.
- *Fund Finance Friday* is nearing 1,000 subscribers. We are beta testing some significant improvements that we hope to roll out in the first quarter to make this newsletter a more valuable resource for market participants, including a corresponding website, a search function, industry participant profiles and more. Stay tuned. We would welcome direct industry submissions to add to the quality and diversity of the content.
- Absent something that moves the market, *Fund Finance Friday* will be taking off next week and will return in early January after the holidays.

