

Fund Finance Friday



Four Bold Predictions for 2022

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First off, thank you to all of our clients for a phenomenal 2021 and for all the well-wishes I received from so many in our industry after taking on Head of U.S. Fund Finance duties earlier this month. I'm very excited about this expanded role and just as excited for Sam Hutchinson, who takes on Head of UK Fund Finance duties.

Hitting the year-end deadlines was hard. Your kind words eased that pain like a week's vacation on a remote island with no wifi. I have saved every single one of those emails, texts and LinkedIn messages and filed them away for a rainy day. We all need a pick me up now and again. The truth is that none of us would be here and have success without each other. I owe a great deal of gratitude to the 40+ clients that I had the pleasure of advising over the years and the many incredibly hard-working and talented colleagues that I have suited up with each and every week for the last 15 years. Thank you all.

And then there is my mentor – Mike Mascia. I am going to go out a limb and say that he has perhaps had the greatest impact of any individual in the history of our industry, but that might be understating it. All told, he has had an even greater impact on my life and my career. He has touched in some way every single person that has ever been a part of the fabric of our team. He is Michael Jordan and makes everyone around him better. I have accomplished feats that I didn't know were possible because of him. Thank you, Mike.

We all need a great mentor and to be great mentors like Mike. In honor of National Mentoring Month, I'm inspired. I've challenged our team to be great mentors. 2022 needs to be the year of the mentor. Let's get back to giving back and bringing along the next generation. We owe it to them.

Now three weeks into the year, 2022 is off to a fast start. I'm sure we have all been busy doing some planning and thinking about what could possibly happen after the last two years. While nothing would surprise me anymore, here are my top 4 bold predictions for the fund finance market this year:

1. LIBOR work will dwarf 2021.

Say it ain't so. This sounds downright daunting. I think most practitioners still have PTSD from year-end multicurrency remediation amendments. The December 31st deadline led to the greatest demand environment for legal services we have ever seen. Virtually every demand-correlated metric we have, including new matters opened, hours accrued, and prospective hours, all set records in the Fourth Quarter. We were in an all-out sprint to the finish to finalize hundreds of multicurrency amendments before year-end or else panic and global economic uncertainty would ensue. In fact, the LSTA compared this process to Y2K. We avoided the end of the world once again. The numbers to get there, however, were staggering. Just to give you a flavor, we closed 42 amendments in the final week of the year. "Hey, honey, want some eggnog while you finish up those last 30 LIBOR amendments?" This, sadly, is not an exaggeration. I cannot stress enough how hard everyone – lawyers and clients alike – worked and how much sacrifice went into closing all of these. Babies will be named SONIA. And, oh yeah, all this on top of the most robust year of deal flow we have seen since 2019, which set the previous record for our market.

So if all of these amendments closed, what is driving this activity for 2022? Where to start...

(A) A few of these multicurrency facilities may have slipped (regulators, put on your ear-muffs, please) or been punted into the new year via short-term business arrangements such as suspension of rights letters or the like. These facilities, if the borrower is planning to borrow in non-USD currencies formerly quoted under LIBOR, will need to be transitioned to the new non-LIBOR rates;

(B) Every new facility and every single existing USD facility based on LIBOR will need to be day-one SOFR or transitioned to SOFR via amendment or early-opt-in clauses, as applicable. Fortunately, a lot of legwork was done to build in some helpful plumbing on existing facilities, but there are something like \$5 trillion worth of legacy loans in the syndicated market that need to be transitioned. For fund finance, it's slightly less but still materially more than what we did in 2021; and

(C) Conforming Changes ... yikes. Call me when you get there.

SOFR will break into the top 100 baby names for 2022.

2. The bespoke non-subscription deals will have a breakout year in the U.S. market.

In general, risk appetite and the willingness to do the bespoke deal are back. More and more banks and non-bank lenders are looking for action, too. My colleagues Brian Foster and Patrick Calves detailed nicely the state of the NAV lending market in their [article](#) earlier this month. They also noted the high volume seen in 2021 and rollover of a full slate of deal activity into 2022. This market is ripe for an explosion. It has been talked about for years, but will finally mature into a market that looks and smells a lot like subscription lending a decade ago (and we all know how that turned out).

3. ESG-linked facilities will blossom.

To many, this will be no surprise. But to those who still think ESG is a fad, it's time to wake up. The potential for robust ESG-linked facility volume is staggering. More than \$75 billion in Investor money has been poured into impact and sustainability-focused funds since the start of the pandemic. This will naturally drive borrower demand for ESG-linked facilities. It will also be interesting to see this growth opportunity collide with a potentially higher interest rate environment. At Cadwalader, we closed 9 facilities with an ESG-focus in 2021. I expect this number to materially increase for 2022 and beyond.

4. Mega deals will double in volume.

Yes, 2021 was nothing short of a spectacular year for private market fundraising. Current Preqin data shows a record \$1.24 trillion raised across just over 3,000 funds. The fund count is meaningfully lower than when the prior record was set in 2019, which means we'll continue to see average fund size move up and capital continue to gravitate to larger platforms.

Part of what makes me optimistic about 2022 is the velocity of capital in private markets. Deal value and exits for buyout funds, for example, are each up nearly 60% over last year (according to Preqin data). This velocity means capital is being deployed and returned to LPs, which, in turn, paves the way for subsequent fundraises. Altogether very constructive to the fundraising outlook for mega funds.

More mega funds means more demand for mega deals (syndicated facilities of \$1 billion plus in terms of lender commitments). I thought this was going to happen in 2020, but then COVID spoiled the party and led to short-term disruption. But now, here we are in January 2022 on the verge of ideal conditions for the greatest year of mega deals ever seen. We have a pipeline of closings in the First Quarter alone that rival nearly a year's worth of mega deal closings in prior periods. This is the year.

Good luck and good health to all this year. I hope to see many of you in Miami next month!