

FUND FINANCE FRIDAY

Quarter-End Market Update

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As we usher in spring and hopefully finally say goodbye to the worst of the COVID-19 pandemic, deal volume and overall market activity remain extremely robust. With less than a week to go in an eventful first quarter, we're seeing sustained growth in fund finance despite broader market uncertainties and geopolitical risk. Here are a few updates as we head into Q2:

- **Here's where we are.** Our new fund finance matter count at Cadwalader is up 15% globally year-to-date versus 2021. Time accruals, similarly, are up 16% over the prior year. These early indicators point to another double-digit growth year in the fund finance origination market.
- **Range bound pricing.** Subscription facilities continue to price in a relatively well-defined range as opposed to the wider range and somewhat unpredictable trend that prevailed pre-COVID. Within this range, pricing is holding steady versus 2021 trends rather than tightening.
- **Credit spread adjustments.** SOFR first amendments, facilities and early opt-in elections are continuing in earnest as we wave a final goodbye to LIBOR. This is leading to some differences on market treatment for credit adjustment spreads. The broader loan market may influence where fund finance ends up on credit spread adjustments. At the moment, it looks like a market-wide standard may prove elusive in 2022.
- **Prime rate loans.** The prime rate moved in lock step with the Fed hikes last week, while SOFR continued to trade a few basis points inside the effective Fed Funds rate. Prime indexed loans, which are more common on short-form credit agreements, have priced in a much wider range in the past year than SOFR loans. While pricing has been competitive, all-in interest rates for prime driven transactions typically end up higher than on average SOFR loans.
- **Same base case.** In periods like the past few weeks, the balance sheet lending model of fund finance becomes an advantage as capital markets-oriented businesses have been challenged to recalibrate. There is no question that risk tails are evolving, but we're holding

to the same base case outlook for robust growth in 2022 with a greater diversity in facility types.

- **Russian sanctions.** We have seen a handful of deals impacted in the last week by recently sanctioned investors – typically, a Russian entity or entity that is beneficially controlled by a Russian national. In most cases, the impact on the borrowing base and actual resulting defaults under the loan documents have been minimal. That said, it raises an interesting conversation about potential market-wide exposure to Russian money and grappling with reputational risk issues. Our team is well-versed and working to assist a number of clients who are at the forefront of this issue. Call us if we can be helpful.
- **Return of the bespoke.** We predicted it coming into this year. The steady yield of more and more interesting structures is happening. We have seen a noticeable increase in non-bank lenders, including insurance companies. We are also seeing the early tally of NAV and hybrid deals pacing at a level above last year's record numbers. Banks have a greater risk appetite. More SMA facilities are closing. We saw 54 last year and look to beat that number in 2022. Finally, ESG facilities, something we have written about extensively and noted would blossom this year, are trending (albeit slowly) toward a material increase in volume despite the regulatory headwinds and concerns over greenwashing.
- **Go big or go home.** Our prediction of mega deals (those over \$1 billion in total lender commitments) doubling in volume over 2021 is coming to fruition. We have seen a handful of multibillion dollar sublines to start the year. This makes sense coming off a record fundraising year with more than \$1.4 trillion in capital raised across more than 3,300 funds in the private funds market. Average fund size continues to move up as the capital gravitates to the larger platforms. This is helping drive the current demand for mega facilities.
- **Can fundraising momentum continue?** The early read on fundraising shows that momentum is carrying over into 2022. Given that only a partial quarter of data is available so far, it may be too early to guess at full-year numbers, but private equity and infrastructure strategies appear to have significant traction in fundraising. Preqin data showed a strong rebound in horizon IRRs on an industry-wide basis in 2021. Healthy overall performance combined with greater public market volatility should bode well for private capital allocations.
- **Seventy's our number.** The Cadwalader Fund Finance team in the U.S. and UK now includes 70 attorneys and paralegals. That's up from 44 coming into 2021. A sign of remarkable growth that reflects the momentum of our broader market as a whole.

Thanks to all for a great first quarter, and good luck the rest of the way. We will be tracking it right here with you, and helping navigate the next set of issues, whatever they may be.