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Fund Finance Symposium Panel Recap: Market Evolution & Industry Perspectives

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The 2023 edition of the Fund Finance Association's annual conference was again filled with interesting insights from a wide range of industry participants and leaders. The panel titled "Market Evolution & Industry Perspectives" was no exception, bringing together a panel which included bankers, attorneys and fund managers.

Each panelist shared their unique perspectives and thoughts on a variety of trends and changes in the fund finance space, including with respect to market dislocation, fund raising and evolving deal terms. The second half of 2022 saw a lot of changes in the subscription credit facility market; looking ahead to 2023, the panel was unified in the belief that the industry is likely to see many of those trends continue, and in some cases, intensify.

Dislocation in the Market

It's no secret that the market for subscription finance has changed in the last year. Panelists noted that some lenders are facing capacity issues and capital crunches. And in some cases, we have even witnessed lenders exits and reductions in exposure to the product. Many lenders are reevaluating their approach to deploying capital, in many cases leaning into existing relationships to the exclusion of potential new ones. On the fund side, managers are facing headwinds not previously experienced and are finding it necessary to work with new lenders and agents in order to put a facility in place. As one lawyer noted, this can lead to new headaches and growing pains as the parties learn to navigate new business partnerships.

Demand Remains Strong

Demand for subscription credit facilities remains strong. Despite an environment that is more challenging in terms of securing financing, the panel members unanimously agreed that a lack of interest in subscription finance facilities is not a constraint on the market. The strong demand, when viewed against the evolving landscape on the supply side, may well create opportunity for lenders who are active or even looking to expand their footprint. One panel member suggested there is a need for creativity and non-traditional solutions to solve some of the issues currently facing the market. The opportunity to solve these very real problems creates an interesting opportunity for enterprising bankers and creative, solution-seeking law firms.

Fundraising and Borrowing Base Issues

Panelists discussed the changing fund raising landscape and the impact on facilities. From a lender perspective it was noted that delays in fundraising or changes in anticipated investor bases – both of which have seen an uptick recently – can present challenges. Later-than-expected need for a facility can lead to pricing issues given the rapid rise in interest rates; and changing investor makeups can create issues with underwriting, particularly if the borrowing base looks meaningfully different than what was originally anticipated. Several panel members stressed the importance of constant communication and transparency when discussing potential changes to investor groups.

Changing Deal Terms

Funds still want long tenors, competitive pricing, facilities in place as soon as investor closings occur, same day funding options and committed facilities. But in an environment of higher interest rates and the previously-discussed dislocations in the market, many leaders are re-evaluating deal terms. In addition, one panelist noted that GPs often desire bigger commitments, but usage of facilities has not always supported such requests. Further, it was noted that this development threatens to cause further issues with supply and demand imbalances.

NAV and Environmental, Social and Governance (ESG) Facilities

Two hot topics in fund finance lending (NAV & ESG) were raised in the Q&A session that wrapped up in this panel.

NAV lending discussions are everywhere in the space. And some panelists expressed a belief that this may be the time such facilities finally explode in popularity. On the contrary, other panelists anticipate the opposite – that lenders will stick with the status quo and the products with which they are most familiar. Panelists expressed the concern that fluctuating and uncertain valuations present real hurdles to NAV lending in the current environment.

An audience member polled the panel on the question of whether ESG is dying, or at a minimum, not advancing as rapidly in the current environment? The responses were mixed. Funds continue to see value in ESG and are committed to pursuing it. From a lender perspective, it is also important to find impactful KPIs (key performance indicators), which is not without challenge. Finally, other panelists noted that banks gain no capital relief from ESG at this point, but are supportive to the extent it is important to their clients and investors.


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