

FUND FINANCE FRIDAY

2024 European Fund Finance Market Predictions

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By Samantha Hutchinson
Partner | Fund Finance



By Mathan Navaratnam
Partner | Fund Finance



By Nathan Parker
Partner | Fund Finance

The year 2023 presented the fund finance industry with many challenges that it rose to face with an inventiveness and rigour that showed just how mature and multi-faceted the market has become. At Cadwalader in London we saw almost 25% revenue growth, we grew our team and promoted two of our own to Special Counsel and Counsel (congratulations to George and Tom)!

When we finalise our review of Q4 2023, we expect the number of new money sub-lines across the whole of 2023 to be fairly consistent with 2022 and unsurprisingly, renewals to be aligned to the past year's performance.

A theme that will be echoed below is that our team was also kept busy with NAV transactions as well as structures to facilitate capital-relief, off balance-sheet treatment and additional capacity across all fund finance products. Combining with that, we saw increased interest in GP liquidity lines and family office financings – all of which is symptomatic of wider market conditions.

But now, with 2023 firmly (and thankfully) in the rearview mirror, it is time to look to 2024. We hope it will be a year of less upheaval but our prediction from last year that liquidity would be a major industry consideration must remain a prediction for 2024. And with that focus on liquidity we expect to see further product development as the industry looks to find structures that help

to open up new pools of liquidity and ensure existing pools are not materially impacted by regulatory change. But more on predictions below!

Once again, we have had a fantastic response from participants this year and are very grateful to those who are braving the crystal ball again and those that are taking the plunge for the first time! Thank you all for your time and consideration.

Finally, it must be said that the views and opinions of the individuals expressed in this article do not necessarily reflect the views of their institutions.

David Wilson, 17Capital: “Late 2023 has seen more positive momentum for PE exits and we expect that to continue in 2024, albeit not troubling the record levels seen in 2021. The ‘liquidity squeeze’ of 2023 will continue to some degree.

We will continue to see extended hold periods across the industry and, as a result, buy and build activity (well, the build part anyway) will remain strong for managers with access to capital to support those acquisitions. We also expect sponsors to re-evaluate existing capital structures and upcoming debt maturities. Even some strongly performing businesses are unlikely to attract current leverage levels as interest cover ratios deteriorate and economic headwinds persist. This will create a ‘gap’ in the capital structure and we expect NAV financing to be among the solutions sought by sponsors to help address this.

The use cases for NAV finance will continue to develop and broaden which reflects increasing industry awareness, adoption and, frankly, necessity.”

Shelley Morrison, abrdn: “As established lenders adjust to new balance sheet constraints and shifting regulation, access to liquidity will remain *the* hot topic of 2024. Over the past few years, non-bank and alternative lenders have emerged as key players in fund finance- they are no longer the new kids on the block. In 2024 as the funding gap in our industry persists, alternative lenders will drive innovation, create new funding structures and continue to deliver a much-needed source of capital to this asset class.

Managers, lenders and service providers are all talking to abrdn about the disruptive potential for AI and other fintech in fund finance. In 2024 I expect the use of AI across legal DD and credit underwriting will become more commonplace as lenders and GPs adopt new tools to drive efficiencies, stay competitive and reduce costs for investors. This area of fund finance has not received much attention to date but will be an interesting one to watch in 2024.”

Adam Heaysman & Ben James, Alpha Group: “After a somewhat turbulent 2023, we are hopeful that the fund finance market will stabilise through the course of 2024. Managers will continue to utilise a broad range of fund financing solutions over and above subscription lines, with a heightened requirement for end-of-fund-life solutions, such as NAV and continuation vehicle financing, as M&A and realisation of assets continues to be slower moving. This will be exacerbated as some investors seek to crystallise and exit positions in old fund vintages and managers seek to provide additional expansionary or defensive capital for portfolios and/or kick-start fundraising cycles. The latter also driving a requirement for GP financing, albeit with lower levels of lender liquidity available to support. From a lenders’ perspective, increasing scrutiny from regulators will apply pressure on banks to continue to deploy capital selectively and manage balance sheets in a sophisticated manner (SRT, securitisation structures, etc.) to

preserve liquidity for clients, with implications stemming from Basel IV, the recent US federal banking regulator reporting requirements and, more broadly, a continued focus on efficient capital deployment being paramount. Finally, subscription line market liquidity will slowly recover through the course of the year, with new bank lenders and institutional capital (both primary and secondary) providing additional and much needed liquidity. Pricing will likely stabilise at a more consistent and sticky level than what was witnessed in 2023, aided by a more settled macro-outlook and central banks' cutting of interest rates."

Ahlem Ben Gueblia, ANZ: "Following a challenging 2023, private equity exits are expected to experience a moderate uptick with an increase in deal activity with rates rise on pause and inflation stabilizing. However uncertainty remains and with the prospect of higher interest rates to persist together with the constant liquidity constraints we are expecting a continued flight to quality with the largest managers with regards to financing. The relationship approach will remain key with the use of balance sheet requiring ancillary business for most lenders.

Besides, it will be interesting to watch the development of credit ratings for capital call which represent an important modelling tool with the evolving regulatory capital requirements in Europe.

ESG remains a focus for many managers and with the new LMA guidance on the principles, we expect to see more sustainability linked transactions in 2024."

Guillaume Leredde, Avardi Partners: "Despite a challenging environment for GPs, we have seen positive changes in the fund finance market in 2023, which will continue in 2024. Lenders have more appetite for NAV facilities across all asset classes and this market remains highly competitive. An increasing number of banks have adopted ratings on capital call facilities to increase their capacity and benefit from better capital treatment. Pricing on capital call facilities has stabilised over the past few months, although we see a wider range of pricing offered to our clients. 2024 will have its own challenges (difficult fundraising environment, pressure on valuations and high interest rates environment, to name a few), but we are confident that the market will continue to adapt. Advisors have a key role to play in educating GPs about the new market environment and working with lenders to find creative financing solutions for our clients."

Wakash Bhagwanbali, Bank of Ireland: "We expect M&A activity to pick up in 2024, creating liquidity events for GPs. If M&A activity remains muted, we expect increased usage of NAV financings including earlier in a PE fund's lifecycle (e.g. while still in their investment period). Fund raising is likely to continue to take longer, but for established managers we still expect them to reach their targets.

Continued pressures on banks' capital requirements will keep capital call margins at higher levels compared to previous years. Linked to this, it will be very interesting to see how the external ratings offering will develop in 2024, now that more ratings agencies have published their rating methodologies for subscription lines, as well as GPs' stance towards external ratings."

Simon Thwaites, Barclays: "In 2024 we expect sponsors will continue to look for flexible solutions particularly to finance further acquisitions secured against their existing portfolios. Trusted banks can play a key role in this given their ability to provide delayed draw facilities.

As IPO markets pick up again we expect interest in cost effective financing secured against hybrid private and public equity portfolios to gain traction.”

Sabih Hussain, Barings: “With a number of funds completing their first close in H2 2023, we will continue to see these deals syndicated to lenders into Q1 of 2024. We will see the launch of more of levered perpetual products in 2024. The much talked about European middle market CLOs may make an appearance in 2024. We are predicting a much busier fund finance market H1 in 2024 than H2, which is in contrast to 2023.”

Ian Wiese and Matt Hansford, Barings Portfolio Finance: “We believe 2024 will be a year of a bifurcation in funds’ performance as well as increased sophistication in the fund finance industry. Whether on the capital call front or NAV financing, with the smaller pool of sub-lines providers and pressure on liquidity – we expect the use of financing solutions will continue to unlock opportunities for GPs and LPs alike. We also anticipate an acceleration of the merging of “fund finance” and “fund raising”. With a difficult capital raising environment, GPs will likely continue to broaden their horizons and create more structured solutions for investors, many of which will look much like fund financings. We expect LPs will also look to portfolio finance to help optimize their own private market books and generate liquidity, and that LP-led NAV, pref and CFO’s will gain traction and start to form a clearer part of the fund finance market.”

Tom Glover, BC Partners: “US interest rates have peaked and are heading for significant declines in 2024, which will start the thawing of frozen asset markets. The crushing liquidity pressures that both asset managers and their investors have contended with will begin to ease, but painfully slowly for many. Investment returns in private equity will be sluggish over the next twelve months except for those sponsors that can drive accretive bolt-ons and more strategic acquisitions within their portfolios. DPI remains deeply depressed across the PE industry and will require time to recover to vintage-appropriate levels. Fundraising success will continue more narrowly dispersed than in the past and closely linked to DPI and IRR strength within existing funds.

Within this selectively improving but still challenging market backdrop, our view is that those GPs that can find creative ways in 2024 to drive growth and return of capital will be among those best positioned to raise and increase the size of their next funds. Of all the capital sources available to sponsors for existing funds, NAV-based liquidity is increasingly being seen by both GPs and LPs as bringing real advantages vs. continuation vehicles and asset sales, including speed, cost, no bid/ask spread, preservation of upside, and prepayability. As evidenced by its inclusion within many new fund LPAs, NAV financing’s time has come as an important tool for value creation.”

Rory Smith, Brickfield: “In 2023, demand for talent has been for a wider variety of roles than in previous years. There has been more interest in legal talent focusing on NAV rather than traditional sub-lines and we have also had some interesting discussions about private practice lawyers bringing their skills and experience over to the business side rather than pure in-house legal roles. In addition to this, we have also experienced a shift in the reasons for hiring this year in a more strategic direction – there is now more of a tendency to hire with not only business growth in mind, but also creating a competitive edge with the right talent.

As for 2024, we anticipate that the regional US market will come back to life now that the dust has settled on the events of early 2023. The regional banks now have the job of reassuring the

talent that the market is safe, and we expect that they will need more help next year in order to continue in the market.

We expect law firms to stay active, and we expect them to continue growing in the space, especially around NAV lending rather than traditional subline lending.

On the funds side, we anticipate consistent hiring around the associate and VP level in order to support treasury in optimising and overseeing fund finance facilities, taking that responsibility back from treasury.

We anticipate NAV lenders will remain in growth mode, however, at the moment they run very lean teams. The amount of NAV talent out there is minimal, so if the market rushes at the same time, there will be huge demand, especially at the junior levels.”

Michael Hubbard, GP Solutions, Cadwalader: “In the UK, 2024 will bring a general election as well as little to no forecast growth. As for the interest rate environment, there are differing opinions between central banks and the financial markets in the UK, eurozone and US as to what direction rates will take, with the monetary authorities guiding towards flat rates / cautious reductions and the markets anticipating more aggressive cuts. These factors are likely to continue to weigh on both LP appetite and loan market liquidity to support subscription finance. With regards to the latter, the picture is not expected to change from that seen in 2023, with lenders unlikely to suddenly unearth large pots of capital, particularly as we start to phase in Basel IV and banks come to terms with the impact of the new regulatory regime. As a result, a greater focus on capital market solutions is expected to prevail, whether it be unfunded credit solutions / CRT’s or securitisation structures.

For primary buyout NAV, the market in 2023 witnessed a mixed response/approach, as the relatively embryonic product came under plenty of scrutiny from the broadsheets and subsequently the LP community. Low GDP in 2024 is expected to continue to stifle exit routes, and with S&P anticipating default rates for European junk debt to rise to 3.8% by September, primary buyout NAV is likely to become more of a necessity than a choice for Managers in order to create liquidity for LP’s and/or struggling portfolio companies.

Overall the environment is likely to remain challenged, but not beyond the capabilities of the fund finance community to overcome.”

Shiraz Allidina and Michael Peterson, Citco Capital Solutions: “After the turbulence of 2023 we reflected back to a panel at the European FFA Symposium in June 2022, where we forecast a key challenge for capital markets: mean reversion of the long term real interest rate. From generational lows, the 10 year TIPS yield increased over 300 basis points at its peak, from -1.00% to 2.45%. Real estate cap rates, EV/EBITDA multiples and fixed income yields have moved, as a result, negatively affecting the stabilized value of assets and adversely impacting some financial institutions. These difficulties offer opportunities for platforms with stable funding and dry powder. Looking to the future, we continue to see growing demand for NAV financing, as the product gains acceptance in the market. For subscription financing, some institutions are focused on obtaining client deposits in order to stay in business. Clients have become more discerning about counterparty risk from their lending partners. Taking all of this into account, the good news is that our industry has weathered the storm, and we look forward to healthy market activity in 2024.”

Richard Braham and Lynette Underwood, Commonwealth Bank of Australia: “2023 has seen slower PE divestments and valuations being a hot topic (especially as to how assets are being valued in the inflationary and high interest rate environment). We do expect some of these themes to continue into 2024, albeit the expectation is that M&A will pick up. We expect investment opportunities to see continued Private Credit growth and within Infra, we can expect additional focus on energy transition funds as we transition to a low carbon economy.

Fund raising was also slower in 2023, however tier 1 sponsors still ultimately reached target sizes and we expect to see new vintages to take advantage of market dislocation.

From a bank perspective we expect to see continued Capital Call facility requirements and that these will be right sized to ensure appropriate utilisation. Generally, you will also likely see higher requirements and finite supply, so potential for alternative lending structures or innovative funding solutions could be expected. This leads onto the continued theme of the ‘Relationship bank’, i.e. funds finance is not transactional but is based on building strong, multi product relationships and a continued flight to quality, where borrowers will want to know the ability for their lender to be there for the long term.”

Bryan Fischer, Crestline Investors: “2024 sets up for an active year in the NAV financing market and we predict the knock-on effects of the 2023 environment and increased market acceptance of NAV financings will lead to another record year in transactions. The consequences of higher interest rates, depressed M&A and a more challenging fundraising environment the last two years have led to more captive equity in private funds. Should the current economic environment persist or decline, we expect GPs to engage in more strategic refinancings at the fund level to manage the higher cost of capital and LPs to continue searching for creative ways to generate liquidity from long-held positions. If interest rates abate as predicted, we expect to see increased M&A activity with GPs utilizing NAV financings to facilitate new platforms and additional add on acquisitions for the existing portfolio.”

James Rock-Perring, CSC: “Whilst fund raising may have slowed it is still at record levels and there is consequently still a high demand for subscription line facilities. Private market AUM is now c. \$14trn vs c. \$8trn in 2017 and traditional bank lender supply has not been able to keep pace with demand – the result is a material liquidity gap which will need to be filled by bank lenders, non-bank lenders and product innovation. For NAV financing the current environment is further fuelling this market together with continued adoption by sponsors and an increase in the number of lenders entering the space. From an advisory standpoint as we move into 2024 there appears to be an increased need for the role of an advisor to source liquidity and navigate the larger lender universe.”

Nick Armstrong, Deloitte: “Our three themes for 2024 are: liquidity, liquidity, liquidity. We expect the knotty fund-raising environment to continue as all participants work through the impact of higher interest rates, meaning the slow pace of distributions will likely continue, higher potential for stress at the portfolio company level and continuing liquidity needs at the fund, GP and LP level.

Consequently, in fund finance: conditions in the sub line market will continue to remain in favour of the lenders, but with strong appetite for correctly matched counterparties. We have seen encouraging signs in recent weeks but the focus in 2024 will remain on liquidity over pricing. NAV will continue its upwards trajectory, as LPs and borrowers work through issues around

cost and use, as they did for subscription lines, with media attention reducing as the technology becomes an accepted part of the toolkit. We see LPs looking going beyond the established methods for creating liquidity, such as continuation vehicles and LP-led secondaries trades. The demand for GP financing will continue to grow given the challenges around distributions noted above. We expect to see the sector innovate terms and structures further, with new entrants (including more institutional liquidity) seeking their own market niches sectorally and / or in ticket size.

As the year progresses, we expect more developments around capital treatment of sub lines as more lenders engage with the implications of the final stage Basel 3 reforms. Thus, we expect to start to see a little more cohesion around lenders' approach to ratings, with more sponsor-led ratings processes, especially at the larger end of the market. Alongside this, we expect banks to continue to innovate in how they hold their sub line portfolios, looking at the whole gamut of capital relief options available."

James Newns, James Nash, Marco Unti and Amrita Maini, Deutsche Bank: "The global macro environment outlook continues to be volatile and challenging as we look towards 2024. This means the private capital cycle of fundraising, deployment and distribution will continue to be under pressure in the year ahead. Fundraising is difficult and exits are scarce. On top of this the traditional debt financing markets often used by sponsors are also seeing signs of softening. In short, the broader private equity ecosystem is being tested in ways that we have not seen in the last ten year period of ultra-low interest rates.

There are opportunities and threats in this environment for fund finance teams. Most obviously we forecast new fund formation to be subdued in 2024 impacting Subscription Line volumes. On the other hand, we anticipate the lack of liquidity in the European and US Subscription Line markets to continue and therefore industry pricing to remain in line with where transactions have cleared in 2023. We note also that whilst a number of lenders are considering innovative solutions to right-size the capital foot print supporting this business (e.g. rating, synthetic securitisation), these are costly and/or yet to be tested at scale. Late entrants to the market are likely to be best-placed to capitalize from current market conditions.

We also expect NAV based lending across the industry to continue to become more prevalent in 2024 driven in the short term by a need for GPs to provide LPs with distributions despite a difficult exit market (although longer term product growth will be driven by portfolio investment activity instead of distributions). NAV loans are an obvious solution to this liquidity issue in 2024 and as more sponsors see their peers successfully access this technology the concern around investor perception should abate. However, we believe NAV Loans represent only a fraction of the NAV based lending toolkit we expect GPs (and increasingly LPs) to access in the coming 12-24 months, using portfolio NAV as collateral for an ever growing range of financing solutions. The key here is that PE portfolio NAV is no longer just a store of value, it's a resource to be utilised.

To conclude a year of perhaps overall lower volumes but better risk adjusted returns for Subscription Line businesses in conjunction with continued growth and product maturation in the NAV based lending segment. Fund financing remains a very exciting part of the market to be."

Greg Fayvilevich, Fitch Ratings: “From our perspective of the market we are continuing to see growth in the demand for ratings on subscription facilities. The ratings help some existing market participants better manage their capital and also attract institutional investors into the market. While there was some initial hesitation on the part of GPs with regards to ratings, particularly public ratings, GPs are getting more comfortable once they understand the process and the limited information that is being disclosed. We expect that Fitch’s ratings on sub lines will become more of a standard in 2024, and more public ratings will be published.”

Khizer Ahmed, Hedgewood Capital Partners: “2023 threw up its fair share of challenges for the fund finance industry. Balance sheet availability issues in subscription finance that originally appeared in the second half of 2022 were exacerbated through the first half of 2023 as lenders by and large persisted with reserving capacity for existing clients and demonstrated greater risk averseness with respect to writing new business. 2024 is likely to see a continuation of this cautious approach. As such, borrowers are likely to have to work harder to secure balance sheet for new transactions. Growing concerns about tightening of bank capital standards are likely to weigh on lenders as they look to focus on clients and transactions that generate non-lending based revenues. Efforts to engage non-bank lenders to address the demand-supply gap in the capital call line space are likely to continue and we expect to see ratings agencies take a more pronounced role in evaluating capital call line transactions.

The use of NAV facilities by funds and sponsors is a topic that has continued to attract the market’s attention and some well-known and respected commentators have come on either side of the ‘desirability and appropriateness’ debate. These discussions are likely to continue in to 2024. On the supply side a greater number of non-bank lenders continue to enter this space, thereby enhancing borrower choice and, as a result, driving competition across the board. Alongside the NAV product, discussions around GP financing are likely to continue given realization of portfolio assets and crystallization of carried interest remain at subdued levels.

The fund finance market in general has held up well in the face of a number of headwinds in 2023. Even as some of these challenges remain as we enter 2024, we remain optimistic around the growth of the market over the next 12 months.”

Aleksandra Cison, HSBC Innovation Bank: “The expectation is that 2024 will continue to be a challenging time in terms of deal making due to the high interest rate environment and uncertain market conditions. With the existing backlog of unrealised investment value, alternative asset managers will need to double their efforts on providing capital back to investors to unlock fundraising and allow for the industry to grow into the future. Liquidity solutions will be the key focus, with managers keen to explore all traditional exit channels as well as new financing technologies in the secondary markets space, in particular in relation to NAV financing. Fund managers will need to work with lenders with strong balance sheets, the appetite to grow the relationship in sync with the growth ambitions of the manager as well as the ability to support borrowers as they deal with challenging market conditions.”

Steve Burton, ICG: “In my view we will see the Fund Finance market continuing to mature in 2024. Recent challenges have led to market participants reassessing how they approach the market, and we are likely to see further challenges next year, not least in response to the new Basel iteration.

Other developments we foresee in 2024:

- Banks are more focused on non-lending returns and are re-assessing lending relationships on this broader basis, with a need for more ancillary. Credit will become tighter, banks will focus on fewer clients, and will look to lay risk off. Non-bank participants will continue to grow.
- Sublines will remain the core product. NAV lending will grow, but perhaps slower than people think.
- GPs will have more influence in the dynamic between lenders, lawyers, and GPs – we are already seeing more balance in this three-way dynamic.

Overall, we expect further positive evolution in the Fund Finance market in 2024 as the market matures.”

Ian Taylor and Matt Glen, ING Bank: “We are cautiously optimistic that the 2024 landscape will present Fund Finance lenders with continued opportunities to selectively grow their loan books and product offerings. The macroeconomic environment persists to challenge our clients across fundraising, deployment and exits. However, sponsors have so far responded creatively and we expect this same trend in 2024, with the best-in-class GPs finding ways to bring their funds to market. Innovation in the fund finance space will continue, particularly as lenders adapt to the regulatory environment and start to give greater focus to loan distribution options, alongside other portfolio tools. Non-bank lenders will grow their market share but we expect this to be mainly evident in the NAV market, and for capital call facilities to remain predominantly a committed RCF product with trusted lenders and a focus on building relationships.”

Nicola Germano, Intesa Sanpaolo: “During 2023 we have probably experienced the most interesting year ever in the Fund Finance market with a combination of exogenous factors such as the unexpected rise of interest rate in a short period of time, the fall of key market liquidity providers, the continuous slowdown of the fund raising process and the fast market rebalancing and adaptation to the new regulatory landscape.

We believe that the evolution of the market that has kicked off in 2023 is just at its first stage and will keep evolving during the course of 2024.

The new regulatory environment will most likely have different effect in different jurisdictions and will lead to 3 different ways of approach to the FF market in US, EU and Asia with the NAV, GP-led, and LP solutions to increase their % quota on the overall Fund Financing products.

Relationship with the clients will still be a key factor in 2024 as it has been in a very delicate year during 2023 and relationships between lenders and syndication teams will be more important with the need of even faster books turnaround.

Global Banks with strong and stable balance sheet will still be the market drivers and the rapidity in adapting to the new external landscape will determinate their level of success.

Alternative lenders approach could have a much larger impact that what it has had so far but it is still very unpredictable in our view.

Finally, we believe that 2024 will be a key year for market participants to position themselves on the long term.”

Oliver Bartholomew and Sharon Thandi, Investec: “As inflation continues to ease across US and Europe, we expect a reduction in interest rates during the first half of the year at a steady pace, encouraging the M&A cycle, leading to an increased exit environment and the beginning of positive distributions. At the same time, we would expect most LPs impacted by the denominator to experience a rebalancing from the use of secondary sale of PE portfolios or by lower interest rates increasing the attractiveness of public equity. In terms of fund finance relevance, this will lead to an uplift in fundraising and capital available for deployment in new PE funds, leading to a more buoyant Subscription Facility market as 2024 ends.

We would expect that NAV facilities, now relatively normalized during the last few years, and with the influx of players in the market, will continue to grow in popularity and execution. Thus, we would envisage that LPA borrowing provisions will be more considered and clearer on the ability for funds to use NAV financing going forward, particularly given the current investor concerns. In terms of Secondaries financing, the strong nature of both the GP-Led and LP-Led market will continue into 2024 as liquidity constraints remain, with Managers using deal level financing more as rates decline, in conjunction with fund level facilities.”

Yvonne Coughlan, Marie-Alix Schindler, Eleonore Dedeyan and Fraser Maclean, J.P. Morgan EMEA Funds Finance: “In 2023, there has been a noticeable slowdown in both fundraising and merger and acquisition (M&A) activities. Despite this, the demand for funds finance has remained robust throughout the year, persisting even in a rising interest rate environment. Pricing trends have inclined upwards, a phenomenon accentuated by the Federal Reserve’s desire to augmenting capital reserves. However, amid these dynamics, the need for liquidity solutions has proven unwavering. Discussions with our clients have provided insights that lead us to anticipate heightened deal activity in the coming year. As we look ahead to 2024, we are looking forward to continuing supporting our clients in these evolving financial landscapes.”

Luigi Griffo, KBRA: “In 2023 we finally witnessed a wider adoption of external ratings for capital call facilities. GPs are slowly realizing how important ratings are for banks to maintain their lending capacity and for institutional investors to fill the ever-growing gap between supply and demand created by some lenders exiting the business and some others retrenching from new lending. This trend is expected to further accelerate in 2024 as Basel IV implementation looms closer and lenders scramble to address capital consumption for this product type by informing their borrowers that GP-solicited ratings for capital calls are expected to be the norm going forward.

The challenging conditions for exits and fundraising over the past year fuelled a never seen before level of conversation around buyout NAVs. These benefit from strong institutional capital appetite in light of their structural features, risk profile and despite some of the unfair press appeared online as of recent. The launch of NAV funds by few European insurers is testimony that these cohort of investors will play a key role as providers of liquidity in this market since they have existing LP relationships with GPs and undoubtedly can be familiar with the risk they will be underwriting. Will 2024 be the year that NAV loans become mainstream? Regardless, the expectation is that ratings will continue to play an important role in the development and expansion of this market.”

Fantine Jeannon, LGT: “What we see for 2024 . . . ? Busy for sure, building up on products and experience certainly! Alongside the very documented explosion of the private credit world, we operate under, we do expect (or hope!) the lenders’ market to keep developing on products such as NAV line. We also expect to see more flexible offering coming up, notably with lenders getting more comfortable and savvier on semi liquid/semi open-ended types of funds; alongside increased efficiency on existing, well-established capital call and asset backed facility. ESG and ESG linked financing and derivatives will carry on developing and become mainstream across the product range, maybe also driving the way to increased scrutiny on delivery of those KPIs. Numerologically a year 8 calling on success, power, abundance but also balance . . . what’s not to like!”

Jill Wilson and Scott Turner, Lloyds Bank: “From a macro perspective we expect the challenging fund-raising environment to continue in private markets, driven by arrange of factors including the denominator effect and relative lack of liquidity from existing investments. This will remain more pronounced for all but the upper echelons of the GP universe. Hold periods for assets are also likely to protract, exacerbated by weaker underlying M&A with GPs focused on growing earnings to support valuations in the context of softer exit markets. This is once again expected to drive the need for liquidity solutions with lenders benefiting in terms of opportunity to selectively deploy more structured fund finance including hybrids and NAV. Again, we expect to see more established vanilla lenders dipping their toes into the structured market and specialist providers growing their platforms. Demand for capital call products will remain strong and we envisage this may outstrip supply as lenders focus on their core relationships in a holistic way allowing them to maximise the benefit of deploying their finite capital resources in a highly focused manner. We expect the drive to access and embed institutional capital in the mainstream fund finance market will continue.”

Pratap Dasgupta, Macquarie Group: “Fundraising will remain challenging in the first half of 2024 due to slower distributions and the uncertain economic outlook. A pickup in market activity and the resulting distributions to LPs may improve the investor sentiment in the second half. Investors will increase their allocations to real estate/ infrastructure as the tightening cycle gives way to rate cuts in 2024.

Given the run-up in asset prices since November 2023, we expect robust activity on the secondary side in 1H as LPs exit current exposures to rebalance their portfolios. The demand for liquidity will create good opportunities for secondary buyers across both GP-led and LP portfolios, with a bias towards high quality assets.

Fund Finance will continue to grow, providing GPs with necessary capital and liquidity. We expect to see NAV financing being adopted more broadly, as sponsors look to make new investments, refinance debt, or alternatively, capital for attractive bolt-on acquisitions. Longer fundraising timelines will support the demand for capital call lines. We expect the overall demand for fund financing to remain elevated despite the higher cost.”

Steve Berry, Macquarie Asset Management: “2023 has been both a challenging year for private market fund-raising but also a thorough endorsement of the role that fund finance can play in helping a GP achieve their aims. Looking to 2024, fund finance is likely to remain a key tool for GPs to successfully navigate a difficult landscape. Institutional capital will continue to be increasingly impactful in the NAV lending space, drawn by the proposition of an investment-

grade-equivalent exposure to non-investment-grade markets. Whilst it won't play out in the course of a year, we expect institutional capital to become a major force in fund financing: similar to what was witnessed in the leveraged loan markets in the immediate aftermath of the global financial crisis of the late noughties, the depth of capital and the flexibility with which it can be brought to market should prove irrepressible.”

Leigh O'Brien, Mizuho Bank, Ltd: “Reflecting on the last year we have seen some unprecedented change. Writing the predictions for 2023, this time last year, nobody could have foretold the US regional banking crisis, which removed further liquidity from the market and impacted so many peers, colleagues and friends. In 2024 I think the only constant will be change. The sector will continue to experience attention from market commentators and regulators under the broad NBF1 sector banner, as markets remain challenging given increased geopolitical tensions and uncertainties over growth, inflation and interest rates. Regulators around the globe will move out of consultation phase for Basel ‘Endgame’, ‘3.1’ or ‘IV’ depending on your preference, and into implementation. We are likely to see further liquidity reduction from banks as the full impact of these changes become clear. However, demand for fund finance in various forms will still remain high. Capital solutions will become more prominent, be that public ratings, securitisation, CRI, Institutional partners etc. What is for sure is that Sponsors, more than ever, will rely on their key banking partners as the product becomes more relationship led.”

Ben Griffiths, MUFG: “Looking back, crystal balls used for this year’s predictions correctly calibrated market themes however, unsurprisingly they proved poor at predicting the turmoil of Q1 and we expect a number of those themes from 2023 to continue in to 2024.

Clearly, fund raising, launches and investment opportunities in 2023 were down compared to prior years, and although we saw positive signs in late 2023, we expect the stresses to continue as any interest rate changes will take time to feed through. That being said, subscription lines are as useful as ever for borrowers, perhaps more so given the extended fund raises, who require them to manage their operational complexities and deal level opportunities.

There will still be capacity issues for a number of lenders as balance sheets are constrained, so it will be increasingly important for borrowers to continue the shift the market has seen to relationship lending and work with stable counterparties with multiple services – wallet share being a key phrase in rewarding staying power. New bank participants and non-bank lenders are a growth area and are important pockets of liquidity without being able to pick up the sheer amount of money that has been taken out of the market thus far.

Looking at the global book we have continued to see marked differences between our major lending jurisdictions from a pricing and indeed structural perspective...

In terms of new products, we see activity around NAV facilities and continuations funds, and given the people moves in the market and the growth in general in the Fund of Fund world, there will inevitably be an increased number of lenders providing fund level financing against LP interests.”

Russell Evans, National Australia Bank: “We’re expecting some reduced liquidity as lenders deal with the latest regulatory capital changes which we’d also expect to drive continued

divergence of terms available from different lenders. We're also anticipating increased demand for solutions that can provide liquidity and working capital to continuation vehicles and late life funds via asset recourse and hybrid facilities. The combined effect will lead to GP's increasing their scrutiny on costs and actively manage required facility sizing to limit the impact on target returns. We are still confident that infrastructure and renewables-focused funds will continue to attract new capital but we're also expecting record growth in Secondaries market activity as LP's seek liquidity to make new commitments."

Hamid Aguerbal, Natixis: "Between macro and political uncertainty, lender capital constraints, higher funding costs, and slower fund raising, it is an understatement to say that 2023 was a challenging year. Notwithstanding these concerns, the fund financing market continued to support clients and further demonstrated its robustness and resiliency. We now turn to 2024 and get ready to navigate a new and hopefully calmer year.

As customary, each year end brings it consensus over economic outlook and presents itself as a balanced mix between minimal growth and a possible recessionary environment leading the path to slower private capital fundraising and capital deployment.

We expect customized early-stage financings will be utilized by newer funds to help finance initial investments through hybrid capital call facilities. On the other side of the spectrum, if seasoned funds experience delays in asset dispositions, we expect an increased volume of NAV financings. The well-established capital call financing will continue to bridge the former to the latter.

Additionally, regulatory uncertainties and the addition of non-bank lenders to the market will drive higher demand for rated capital call facilities, eventually leading to more standardization in structures, and executions. Other bespoke financings should remain quite heterogenous by essence."

James York, NatWest Commercial & Institutional: "As we continue to face a somewhat benign fundraising environment when compared to years of old, in a market that has been bereft of optimal divestment opportunity (specifically in the case of PE), one would anticipate an emphasis on looking to realise assets in outstanding vintages throughout 2024. With this in mind, coupled with an increasingly active and growing secondaries market, continuation fund financings should serve to be an attractive solution for those GPs looking to maintain their investments in trophy assets. 2023 has seen growth in various Managers and Private Banks looking to facilitate HNWI investment into private capital and that trend is looking to continue next year, which may well pose challenges in terms of the available leverage in subscription lines when compared to more institutionally weighted investor pools; coupled with this also comes new dynamics with respect to the due diligence to be undertaken in respect of these investors. With more rating agencies entering the market with newly published criteria, it offers a potential enabler in terms of helping to further facilitate institutional access, in addition to possible solutions for Lenders from a capital standpoint in the face of looming regulatory changes. Given the rate at which the Funds Financing market is growing, it seems only a matter of time until the product coverage from rating agencies further expands. Meanwhile NAV will no doubt remain a growing focus, in addition to hybrid solutions as more innovative means of freeing up liquidity and providing leverage throughout a fund lifecycle."

Slade Spalding, NLC Capital: “2023 ended with a distinct bifurcation in USD pricing with European managers benefiting from noticeable tighter terms than that of their US counterparts and we expect this trend to continue through 2024 as the demand/supply imbalance continues in the US. Another prominent trend was the increased demand for credit ratings of sublines driven by new entrants in the market and increased pressure to manage capital requirements. We see these bank capital pressures continuing into 2024 with the Finalization of Basel III (“Basel IV”) requiring a step up in the floor used to calculate a bank’s Risk Weighted Assets (RWAs). As a result, 3rd party ratings will continue to play a prominent role in the subline market with an increase in public ratings, which is further evidenced through both Moody’s taking feedback on their methodology and S&P’s methodology in the wings. This increased rating activity will generate a wider range of rating outcomes which we expect will start to feed into pricing differentials given small rating variations have an outsized impact on capital requirements. To add to this, we see securitization as a key market development within the subline space however this is more challenging with the current RCF structures, which is where we see term loan or a combination of RCF and term loans accelerating securitization in this market. Supporting this, we have seen a wider adoption of term loans across sublines with the increase of institutional capital in this space which we see as a key contributor to the growth of this market continuing through 2024. Turning to the private capital market we see the market continuing on a similar trajectory with some green shoots in fund raising, resulting in NAV and Hybrid facilities continuing to play important roles as GPs look to unlock value in current market conditions.”

Mohith Sondhi, OakNorth:

“We see:

- an increase in funds looking for NAV & Hybrid Facilities especially as PortCo’s require further cash for either covenant breaches, capex or acquisitions
- debt spreads to increase as banks no longer rely on ancillary income to subsidise for example Sub lines (as we are seeing in the US)
- banks in particular to be much more focused with their capital and therefore will be difficult for new funds/funds who do not have a track record of borrowing to find capital more difficult to access.
- GP lines being harder to access especially as limited providers of these facilities which will cause issues as GP’s require these funds to close their investors.
- secondaries to be extremely active and taking advantage of the market dislocation which will take place next year.

2024 on the whole will be challenging but also full of opportunity for those funds who have the right GP, strategy and funding partner’s.”

Borja Lahore, OLB Bank: “2024 will continue to be an interesting year in terms of liquidity access for the private equity segment. On the back of a busy 2023 where managers have been able to attract different sources of extra liquidity through GP-leds, NAV financings and to a lower extent subscription lines, we expect the new year will bring an opportunity to keep developing bespoke financing solutions. Both current micro and macro environments are

creating challenges for managers whilst the appearance of new entrants and institutional lenders will help broaden up liquidity and meet managers' demands. We see the fund finance mid-market segment developing further which will create opportunities for both managers and lenders."

Matthew Kirsch, Pemberton Asset Management: "NAV Financing is an all-weather asset class that is establishing itself as an integral fund finance tool for the private equity buyout industry.

Throughout 2023, we have witnessed a significant increase in awareness and adoption across the private equity industry of the range of value accretive applications that NAV Financing solutions address. We believe this trend will persist throughout 2024, with adoption rates continuing to rise, underpinned by growing LP awareness and acceptance of the asset class, as Sponsors proactively engage with their investor base and set-out the investment case of NAV transactions under consideration.

From an investor perspective, 2023 saw LPs assess the impact of the changed economic environment on their investment strategies and portfolios, leading to a slowdown in allocations. However, the outlook for 2024 from a fundraising perspective is positive, as indicated by numerous LP surveys and judging by the pickup in activity from Q3 this year.

Given the growth in the underlying NAV Financing market and its strong investment characteristics (benefits of cross-collateralisation, strong relative value), we expect LPs to further increase their allocations to this burgeoning asset class, which complements more traditional strategies such as direct lending."

Diana van Lieshout, Rabobank: "In 2023 we have seen the global security order crumbling (Ukraine, Gaza), labour markets tightening (even in a near-recessionary Europe) and climate change to be even more rapid than thought. Interest rates have been hiked and without acceptance of a new equilibrium (elevated interest costs and lower EV multiples), PE activity will continue to be depressed. Fundraising has slowed and funds that are in the market take much longer to raise the money, except for the large / blue chip, infra and private credit funds. Infra deal activity is at an all-time high, driven mainly by the energy transition. 2024 will be the biggest election year in history with a collective population of some 4bn taking to the polls in 2024. We expect uncertainty and borrowing costs to remain high for quite some time, even if monetary policy starts to loosen as the year progresses. On the other hand, we don't think investors will accept another slow distribution year so GPs will continue to seek alternative routes to liquidity (NAV, continuation vehicles, other structured solutions or ultimately accepting lower multiples). On the technical lending side we expect external ratings will become a standard element of a syndicated subscription finance facility, with the only uncertainty being who will pick up the bill, and for sustainability-linked provisions to take something of a backward step given concerns over greenwashing."

Kozeta Paluka and George Phillips, Raiffeisen Bank: "Repeating recurring themes since Covid - RBI anticipate a consolidation in fund-raising affecting both small and mid-tier managers as institutional capital floods to top-tier GPs. We anticipate that rating agencies will continue to evolve the subscription line market offering capital relief and reduced cost of debt – creating avenues for investors in this asset class – particularly in light of the market's adaptation through 2023. We expect significant growth in the NAV sector as LPs are more

comfortable with the product and increased availability to mid-market funds. As with the rest of the market RBI welcome less interest rate volatility allowing IPO markets to open, the delta in valuation between buyer and seller to reduce and business-as-usual to be restored.”

Spencer Goss, RBS International: “My initial prediction is that this prediction article will be one of FFF’s most read of 2024. And definitely for the insight shared by the respondents and not because the contributors like to check and see their names in print... Fund financing wise, I’d suggest that there will continue to be a disproportionate amount of debate about the merits or otherwise of NAV financing, with certain sections of the media continuing to over emphasise the risks whilst market originators counter, talking to the flexible benefits of this financing tool. Borrowers, meanwhile, will likely continue quietly sourcing financing from their preferred providers, engaging key investors throughout the process, whilst increasing efforts to not have specifics publicised more widely.

On the subline side of things, larger, established GPs will continue to absorb a significant amount of market liquidity – but as banks continue to adapt for a changing capital landscape in the medium/long term, they might have to be prepared to pay more for it. It’ll be interesting to see if 2024 is the year that borrower behaviour reverts (i.e. draw periods significantly shorten) and how that, in turn, impacts lender appetite – will banks want the same volume of costlier undrawn facilities on their books and will non-bank lenders still have the same enthusiasm for the space? Smaller / newer managers will still be able to get support but may have to rely on a seemingly ever deeper pool of debt advisors to navigate a way to finding it. The challenging fund raising environment of 2023 constrained the volume of new financings such that we never really saw ESG metrics moving to become a standard inclusion, with a consistency of approach being established. Maybe that’ll happen this year...with more use of external ratings...

Finally, France to win the Euro’s, England the 6 nations and Dominic Raab to follow Farage into the Celebrity jungle...”

Stephen Keenan, Royal Bank of Canada: “We expect 2024 to see an acceleration of corporate activity (M&A, IPOs, Capital Issuance) at GPs as the market continues to see consolidation between firms in part to i) diversify their Fee Related Earnings (FRE) across more than one strategy; and ii) increase scale & distribution capabilities to drive fundraising. It is also possible that LPs become more selective by focusing on GPs with upper quartile DPI performance – LPs may even prefer to increase commitments to those sponsors who have delivered distributions without need of NAV loans.”

Gloria Chan and Stuart Moffat, Shanghai Pudong Development Bank: “Following a period of high interest rates, and with assets taking longer to divest, there has been an uptick in interest in NAV facilities and the trend is expected to continue in 2024. As tighter capital rules come into effect for some bigger players, together with the exit of several significant market participants during 2023, it has offered new opportunities for newer players in the market looking to expand their fund financing activities.”

Stuart McIntosh & Thayan Sivanathan, SMBC (Subscription Finance): “The Subscription Finance market has held up exceptionally well given the softer fundraising and M&A markets, coupled with the increased interest rate environment. From our vantage point, demand remains high across the board and the challenge for lenders remains solving for client’s capacity requirements, which we expect to be a more intense focus going into 2024 should interest rates

start to come down and trigger a release of pent up M&A activity. We expect to see facility utilisation levels and upside activity trend higher as a result. Additionally we expect non-bank lender involvement in SubFin to increase as the roll out of facility ratings picks up pace, with this also likely to help stabilise bank capacity. Pricing also appears to have stabilised for well-established Sponsors, albeit with capacity still typically reserved for existing Sponsor relationships, noting that Sponsors have been working hard to expand and strengthen their banking panels.”

Stephanie Messac & Paul Duffy, SMBC (NAV Finance): “Despite some noise around NAV financing we expect a continued growth of the market in 2024 across all asset classes, including Private Equity for large Sponsors. As the gridlock around exits eases, repayments are likely to resume and we will see more rotation in the books. Still the pressure on capital for Banks and the general economic environment will likely keep pricing up.”

Johan Serneels and Adrian Luput, Société Générale: “Despite a slowdown in terms of fundraising over the past year or so, 2023 was a busy year and the last quarter showed a large number of deals for large sponsors coming to the market. For 2024, we expect demand to continue across the main fund finance products (incl. capital call facilities, asset-backed lending facilities, NAV facilities, etc.), although some challenges will need to be addressed. In particular, the arrival of Basel IV in a now near future will likely have a significant impact on the market participants and the structures of the transactions (e.g. we have all noted the larger number of new capital call transactions being publicly rated this year), with banks having to anticipate and adapt to this new set of regulations and the resulting impacts in terms of capital charge, which ultimately could have an impact on pricing, liquidity and structures.

On the liquidity side, and following a trend already started, this could further push for structures to create more liquidity in the market and to accommodate non-banks to enter in the space, alongside the usual financial institutions that have been the main providers of liquidity in the European market in recent years.

Looking at the asset side of things we expect the NAV product to continue to grow in particular on Secondaries, Buy Out and Infra funds and with the M&A activity still at a fairly slow level (but picking up), both in the US and in Europe, we expect the trend of continuation funds to keep up, which would continue to accelerate the development of the NAV product in Europe. In addition, we view this trend likely continue to benefit the secondaries fund strategies, as it has already been the case this year.”

Kevin Andrews, State Street: “2023 was certainly eventful and I don’t believe we will witness the same upheaval across the banking sector or Fund Finance market in 2024. Despite the slower fundraising environment for PE funds, I’m still expecting robust demand for Fund Finance next year, particularly so in the sub-line space. I expect to see the continued trends from 2023 of much shorter facility tenors (mainly 364 day tenors), flexible borrowing bases to accommodate more concentrated LP pools as funds take longer to sign up LP commitments and generally slightly lower hold levels for Lenders resulting in more club deals. Lenders’ focus on existing clients and those clients with deep and meaningful relationships will continue to be the key factors for decisions around balance sheet deployment. With reference to specific asset classes, expecting to see continued growth in the secondaries space which will be a strong driver of demand for Fund Finance credit facilities.”