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The Future of Fund Finance in Europe: Innovation, Collaboration and Education

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Although the fund finance market has been around a long time, it has undergone significant transformation. On 28 January 2025, the LMA held its first fund finance focused conference (in partnership with DealCatalyst) and explored the future of this dynamic market. Read on to learn more about the key innovations and outlook discussed.

The search for liquidity fuels innovation and collaboration

A key theme of the day was the increasing supply/demand imbalance, driven by growth in financing needs at a time of impacted bank capacity. This has fuelled innovation in the market to unlock liquidity, which has also led to changing dynamics.

GPs are increasingly seeking creative solutions to their financing needs as they adapt to the liquidity pressures in the market. With increased demand, it is crucial for GPs to build the right relationships. The market today is about navigating a complex landscape, with a focus on easing bank balance sheets and innovating to create new pathways to liquidity.

Innovation has come in various forms. From the increased use of ratings to ease bank balance sheets, but also to draw in institutional capital, the securitisation of subscription lines, varying tranche structures to increase institutional investment, the use of feeder funds particularly by newer LPs, hybrid facilities and significant risk transfers (SRTs) to name but a few. What is key in the face of this innovation is the importance of structuring deals to ensure they work with operational and regulatory requirements. This is where working with the right counterparties is key. This leads on to collaboration and partnerships. No firm can operate in a vacuum with the current dynamics playing out in the market and the size of the market demand. Whilst previously, the focus may have been on offloading assets to the private market, it’s now all about growing business and working together with private markets to unlock liquidity. This change is transforming the way businesses grow by aligning the interests of investors and GPs around long-term business expansion.

The sublines still have it

If you thought subscription facilities were no longer in the limelight and that it was all about NAV, you would be mistaken – this is where it’s about to get exciting. As well as the increasing innovation in structuring subscription facilities (with securitisation, term loan tranches and more), the focus is not just on attracting institutional capital – it goes much broader than that. Creating products that attract retail investors, an increase in evergreen structures and use of ETFs and tokenisation were just some of the expected developments discussed. After all, the subscription facility market has clear benefits – it is a robust market with low default rates. However, these benefits are not really known beyond the confines of those working in the asset class. So, there is still work to be done to educate the wider market – if more people understood it, more people would want to invest in it.

NAVigating the waters

If fund finance needs to work on its PR and further education is required, then NAV financing certainly requires further attention. This is a part of the market where perception is not meeting reality. The Institutional Limited Partners Association (ILPA) **Guidance for GPs and LPs on NAV-Based Facilities** are to be welcomed and have had a positive impact on the market in terms of driving increasing transparency. There is still more work to do and the LMA looks forward to continued collaboration with ILPA in ensuring continued transparency and education in this area. Stay tuned to **LMA Talks Loan Markets** for a podcast diving into more detail on this hot topic of NAV financing!

Regulation – fit for purpose?

The impact of regulation has been one of the factors driving innovation in the market, but there are push and pull factors at play here. Bank capital rules are driving a need for innovative structures to increase liquidity, but it's clear that risk weightings are not reflective of the reality of the market. And when it comes to bringing in institutional capital, the relevant pensions and insurance regulations are not reflective of fund finance as an asst class which results in a need to map fund finance into existing categories, which is never a great solution where certainty is key. There needs to be a way to navigate these challenges without it negatively impacting liquidity in the market.

If that was not enough to contend with, the market also faces the spectre of knock-on consequences from broader regulatory considerations, such as the Financial Stability Board's ongoing **consultation on leverage in NBFIs**. What is clear is that this is an area which needs close consideration and a collaborative response from the industry to ensure that the market is understood and liquidity is not hampered in an already narrow market.

It all comes down to education and collaboration

The key theme from the panels was the need to increase understanding and for the industry to work together. There are many aspects at play here. One is that as more players enter the market, it is important to ensure that those players have a deep understanding of the asset class and the innovative structures being deployed – otherwise there is a risk of misapplication which has the potential to create challenges for all involved. This is where working with the right counterparties and a focus on relationships is key.

Another aspect to this is that terminology matters in terms of ensuring we are all on the same page (which goes to documenting and structuring what has been agreed). It was then good timing for the **LMA Fund Finance Glossary** to be released the day before the conference!

On tackling misconceptions in the market, transparency is key – having open conversations and bringing all voices to the table to align interests. Of key importance for the LMA in its first event was to ensure that the voice of the LPs was represented, and we would like to thank ILPA for the collaboration. Without understanding the concerns of LPs, and indeed regulators, education would just be provided in a vacuum. Indeed, a question that arose on the day was whether LPs are paying for the cost of innovation. There should be alignment of benefit here, but those are exactly the sorts of questions that need to be asked and answered.

The other side to transparency is the availability of aggregated and anonymised market data which is vital to support discussions on the size and make-up of the market and how these assets perform in practice. We would encourage the industry to take part in the ongoing **LMA survey** in partnership with The Drawdown – work together with us to inform the wider market of the facts.

What's the future for fund finance?

Looking ahead, the future of fund finance is set to be dynamic and full of new opportunities with strong demand for innovative solutions. The supply/demand imbalance means stakeholders must work together to unlock liquidity. The focus on innovation should come alongside a focus on key relationships, the effective use of new tools, and the ability to adapt to regulatory changes in order to unlock the full potential of the market.

We would like to thank all of the speakers, sponsors and attendees at the event for making it a success. We look forward to continuing to support the market to increase efficiency, liquidity and transparency. Stay tuned for more updates as the market continues to evolve and get involved to shape the future of fund finance!

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