

# Fund Finance Friday



## Key Takeaways From Miami 2025

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By **Wes Misson**  
Partner | Fund Finance

A record more than 2,500 industry players attended the 14th annual Global Fund Finance Symposium that wrapped up at the Fontainebleau in Miami Beach. As has been the trend in recent years, there was a lot to discuss (beyond Tom Brady and Ryan Reynolds!) – continued market evolution, lender expansion, pricing trends, LP liquidity needs, growth of NAV and hybrids, and predictions for 2025 in light of a new political and regulatory environment. Here are 13 notable data points as we move past Miami and into the final month of Q1:

1. Fundraising slowed in 2024, but ultimately ended at a respectable \$1.1 trillion (global private funds). **Larger sponsors drew a greater share of capital and average fund size moved up.** A narrowing market has historically been a late-cycle trend. Fundraising should improve over time, although higher base rates mean serious competition from public fixed income for institutional allocations.
2. **Capital calls in excess of distributions weighed on fundraising in 2024 and led investors to solve for alternative liquidity sources.** The gap between capital calls and distributions remains historically high. Public markets are wide open to deal activity. We expect to see a further acceleration in deals and exits. Expect longer term bounce back in fundraising.
3. **Fund finance originations proved resilient in 2024 while subscription facility pricing retained a premium to comparable products,** although the market tilted further towards refinancing over new deal activity. As fundraising slowed over the past two years, transaction volume has shifted towards refinancing activity over new origination.
4. **Deal timelines appeared to shorten in 2024, and should continue to run more efficiently in 1H 2025** as LP liquidity strains ease further. Smaller commitment amounts have become the norm and are a function of several trends: (1) slower deal activity for funds and a focus on limiting unused fees and interest cost, and (2) for lenders, attention to undrawn commitments, portfolio utilization levels, and return on capital.
5. Aggregate lender commitments for the 4th quarter of 2024 improved 36% on a sequential-quarter basis and doubled from Q4 2023, based on CWT data. We see this continuing into Q1 data. **There are a number of catalysts that support higher fund finance origination in 2025:**
  - An accommodating PE deal-making environment and the accumulated mass of aging dry powder;
  - Onshoring/re-shoring investment opportunities in the U.S. for manufacturing and infrastructure;
  - A 180 degree turnaround in the bank regulatory climate freeing lending capacity;
  - Potentially further declines in bank deposit costs;
  - Weak demand in other bank lending categories leaving limited opportunities for loan growth, and;
  - An acceleration in fund finance product evolution.
6. Despite the healthy fundamentals in fund finance, **broader markets are vulnerable to higher volatility** from a number of sources in both the U.S. and UK. These include potential scenarios such as funding budget shortfalls in the Treasury and Gilt market amid a potential trade war.
7. In the U.S., the outlook for overall bank loan growth has improved due to a revised regulatory backdrop, easing deposit costs, and improved operating income in Q4. **Expect lenders to retain similar key priorities.** Specifically, (1) Lenders will pursue prudent loan growth and look to fund finance to help; (2) RWA budgeting will

continue to be important because of the opportunity cost of allocated capital; and (3) Fee income will continue to play a role in balance sheet allocation. We expect these factors to play out into a multi-speed market with differences in lending appetite between banks. Despite lower deposit costs and a less onerous risk-based capital outlook in the U.S., generating loan growth will still be a challenge for banks in 2025, especially on the consumer side. This plays well for fund finance, and we expect lenders to look to it to help propel growth. Reinvigorated loan growth in fund finance can also potentially offset deteriorating credit trends across lending markets, but fiscal austerity, tariff-driven price increases, and sovereign bond yields could have a negative impact.

8. While subscription origination volume could improve meaningfully in 2025, **the broadening of private sponsor fundraising models will continue to push lenders into cross-product fund solutions offerings.** Subscription-only lenders will operate at a disadvantage in sponsor relevance. A constructive, commercial approach to individual investors and sponsor relationships will serve as an advantage.
9. AUM has grown at 14% annually over the past four years to now total \$14.3 trillion. **The addressable NAV market is larger than ever.** In this context, we expect to see more secondaries and continuation funds make significant gains along with growing interest in NAV financing. NAV continues to look like subscription 10-12 years ago. There are also more and more lenders looking to offer hybrid facilities.
10. **Rates continue to be complicated. In sum, interest rates could prove more volatile than in 2024 given the significant uncertainties around growth, fiscal policy, trade and inflation.** Even so, it's a borrower's market. Pricing is moving down and will likely contract further this year. Amendment pricing lagged on the way up and now it's lagging again on the way down. Average new deal margin is being set about 11 bps lower than amendment pricing.
11. Multi-strategy sponsors are more positioned to structure around the investor (e.g., SMA, co-invest, JV) these days than the traditional closed-end fund. **Look for more retail to enter the fold.** From the sponsor perspective, fundraising from institutional LPs has been challenging after record allocations in 2021-2023. As a result, top sponsors are investing in infrastructure and marketing to grow retail capital sourcing. And while expanded retail participation is not a new theme in fund finance, **we are seeing many lenders actively seek approvals or revise their approach to high net worth (HNW) investors in 2025.**
12. **The number of lenders involved in fund finance reached a new high in 2024.** However, the dedicated lead fund finance lender landscape is thinner than it appears. Going forward, fund finance lending will best fit institutions that can maximize relationship revenue with sponsors. Also, the incumbent-lender advantages in fund finance are significant.
13. **Fund finance is mature.** The recent combination of higher all in yields, credit quality and a need for more liquidity has made fund finance very attractive to a broad range of institutional investors and non-bank lenders. The ratings process has advanced to the point where every known rating agency has a criteria, is located in Miami and actively engages in the discussion. CRT, SRT, portfolio guarantees and cash securitizations have one by one come together to drive forward what is now a trillion dollar plus industry.

I would be remiss if I did not take a moment to thank Mary Touchstone for all she has meant to the industry, our team and my career personally. Mary, this year's Julian Black Lifetime Achievement Award winner and an FFA board member, recently retired from her role as the head of fund finance at Simpson Thacher. I'll never forget my first deal with Mary, some 15 years ago, and I'll never forget my last. Working across from her and with her teams gave you no choice but to become the best lawyer you could be and the best advocate for your client. Every detail, every precedent - it all mattered. And at the end of the day, the relationship mattered most. The industry is way better off because of Mary. She will be missed.

See you next year!

