

Fund Finance Friday



Four Lessons Learned in the Face of Constant Change

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“By the time you finish your career, you will have worked at three different firms and will have practiced in three different areas of the law,” I heard from one of my mentors when I was a first-year associate at my first law firm, Michael Best & Friedrich (MBF). Looking back, that prediction proved spot-on.

I was very lucky to have two mentors, Charlie and Paul, in the bankruptcy group. They were both seasoned lawyers, with not only a high level of legal experience, but also a willingness to provide tons of “off the court” guidance to me as well – taking me with them to court, client meetings, Saturday touch football games, an occasional round of golf, showing me around my new town and even helping me navigate the proper way to fold a French cuff sleeve (I didn’t think anyone’s arms could be that long!).

Maybe it was because of my connection with him, that his comment made such an impression on me? I loved MBF. It was the oldest firm in the state (representing Charles Comiskey in the “1919 Black Sox Scandal”), it gave me a shot as a 2L clerk during a very tough legal market, it had fun nice people and I even had an office with an unobstructed view of Lake Michigan only four blocks away. I certainly wasn’t planning on leaving MBF any time soon – or ever.

As spring comes each year and after bonuses are paid, along with daffodils also comes “moving season” in our profession. It happens every year, but for some reason this year it caused me to reflect on Charlie’s three firms and three practice areas prediction from decades ago, the lessons learned along the way as well as the great mentoring advice, fantastic coworkers and lawyers all of whom took time out of their lives to provide friendship, knowledge and professional guidance that not only made my “changes” less difficult, but also successful (or at least non-regrettable). In this article, I’ll pass along four of the lessons I learned along the way

The Only Constant is Change

I have always enjoyed using aphorisms: short, memorable statements that express a general truth or insight about life. They are slightly different than idioms and more formal than a colloquialism – each of which have cultural roots and lack the philosophical, wisdom component which aphorisms express.

“The only constant is change” is one such aphorism. While appreciating the general truth it conveys, as someone who likes things to stay the same, it’s also an aphorism which I wish wasn’t true. However, as people (not just lawyers, bankers, consultants) put more miles in their “rearview mirror” it’s impossible to argue that “The only constant is change” is a well-established aphorism for a reason – like it or not, it’s true.

Change ultimately occurred at MBF. The hot bankruptcy market of the early 1990s that greeted me as an associate started to slow down as the mid-to-late 1990s arrived. Charlie (who was the first to explain to me that while being a lawyer is a profession, it is also a business) decided to make his third practice area shift and moved to the West to open his own law firm. Paul’s creditor-side Chapter 11 bankruptcy cases slowed down, so he pivoted to more of a workout practice.

For me, MBF had provided me with great experience – fourth-year work as a second year, fifth-year work as a third year, etc. However, in my fifth year, concerns about being a seventh year with fifth-year experience started to gain traction in my head. As a result, when a recruiter called and said Atlanta and Charlotte were looking for young lending lawyers, I returned it.

1: Engage with Recruiters When You Are Seriously Considering A Move

First "point to ponder" - everyone has a job to do, and recruiters provide a valuable service but I would advise engaging with them only when you are ready to make a move. There's something intoxicating about talking to a recruiter – everyone likes compliments and every position seems beyond exciting - and before you know it, the process has taken on a life of its own and you are leaving a great spot at your current firm because you feel you "have to" or its "just too late to turn the ship around." Not that you aren't great, but remember they are paid on commission and some are more honest than others.

After the standard recruiter back and forth, compliments, etc., I sat down with Paul and told him what I was thinking. We discussed the positive aspects of being able to switch back and forth between bankruptcy and lending depending on the market conditions, the current lending opportunities at MBF as compared to some of the places I was talking to, for example. Most importantly, he helped me with my homework, including finding a young partner at MBF who worked at one of the Charlotte firms I was most interested in, Moore & Van Allen.

That partner was honest with me and told me I'd have a heavy workload. However, with the high quality of work (and workload) from the national banks located in Charlotte ((NationsBank (Bank of America)) and First Union (Wachovia and Wells Fargo), he also said that I would gain a tremendous amount of lending side experience in a short time. And that was definitely the case.

2: Get Career Advice From Someone Who Has Your Best Interests in Mind

It was a difficult decision, but I decided to leave my "home" at MBF (and still favorite city) to head to Charlotte to join the leverage finance practice at MVA. Second "point to ponder" - if thinking about a move, continually ask yourself if the persons providing the advice (pro or con) are self-interested, and if so, is that coloring their advice and, if so, how much? For Paul, I never doubted that his advice focused on what was in my best interests – not his. As a result of the honest and respectful way the situation was handled, he and I are friends to this day, and he is still one of my favorite people.

As for MBF, while my time there ended a couple of decades ago, I will always appreciate MBF for giving me my shot and have nothing but appreciation for the firm and everyone who took the time to train me and help me during that stage of my career.

While I'm not sure if when I joined was the "early days of syndicated finance," but it was at least the early part of that period as for the next decade, MVA was regularly at the top of the league tables for highest number of bank-side, leveraged representations. That work continued at a feverish pace until the 2008 financial crisis slammed on the brakes for most of us in that world.

Some level of normalcy returned a couple of years later, but as someone who mostly represented Bank of America, from a practice standpoint, the world had changed. Bank of America's epicenter moved from Charlotte to New York. While middle-market leveraged finance stayed in Charlotte, the larger sponsor work (that was most of my practice) migrated to mostly New York-based firms and the Bank of America and Merrill Lynch combination caused many of my contacts to move to other institutions.

That change in the banking landscape required a change or, at least, an evolution in my practice. The large, syndicated leverage deals mostly went away and since Bank of America's middle market leverage work in Charlotte was already covered by others at MVA, I focused on some new and other "underserved" middle market clients as well as servicing the changing needs of the client relationships I had established over the years.

While the originators of my old leverage deals were now New York-based, the portfolio people who managed those deals, both from a credit and operational perspective, remained in Charlotte. Over the years, several people in that group became great friends and, in addition to helping source new deals for me, they would send me "outside-of-the-box" transactions involving sponsor firms needing solutions for certain portfolio financings.

While they were all different, the usual fact pattern was a sponsor with a portfolio company that was underperforming and thus the company was having issues with its portfolio level financing. Since cash flow was usually the core problem, a typical solution on the table from the bank group was asking for the sponsor to make an additional equity infusion. For any number of reasons, that was the least appealing option to a sponsor. As a result, sometimes, instead of making an additional equity infusion, a new tranche of debt would be provided by one or more lenders in the existing lender group – so long as the new tranche was guaranteed by the sponsor.

Furthermore, sometimes, the guaranty would be on an unsecured basis and sometimes the lenders would require the guaranty to be secured by certain assets of the sponsor – such as uncalled capital, equity interests in the holding company of the portfolio company, for example. While this “fund finance looking work” was a logical extension of my leveraged finance practice (and bankruptcy to some extent), at that point, fund finance was in its early stages and thus, in many ways, it was a new practice area for most everyone.

3. Evolving Client Needs Will Dictate How Your Practice Evolves

Third “point to ponder” – the needs of clients (and client’s clients) will evolve over time, even products that you may think will be around forever will change and evolve and those changes will ultimately dictate the evolution of your practice.

It was the evolution of that “special situations” work that ultimately led me to make the move to my third firm – and arguably my third practice area as predicted by Charlie many, many years ago. Similar to my move from MBF to MVA, almost 20 years prior, this move was also knowledge-driven, but, unlike my first move when I didn’t have clients, this last move was also client driven. For me to continue to serve the evolving needs of my clients, I needed more knowledge and experience in the areas of finance that my clients were moving toward and Cadwalader provided that to me.

4. Go Beyond Your Comfort Zone

If the only constant is change, is there a way to put oneself in a position to best handle the inevitable change? To dust off another aphorism, “How do you get to Carnegie Hall?” Practice, practice, practice.

The best preparation for dealing with the evolution of any job is increasing your knowledge (growing your toolbox of experience). Specialization has been around forever – and will continue to be. However, specialization (at least in the legal world) used to be a little less narrow or at least something that occurred slowly over time as opposed to day one of an associate’s career.

Even in an industry as specialized as fund finance, a practice (and skill set) that consists of pretty much straight down the middle of the fairway will not age well. Our clients’ clients are looking to our clients for solutions to their financing needs and our clients are looking to us for ideas to solve those problems - not simply fitting their needs into a box that we are familiar with and comfortable providing.

As new fundraising has slowed in the last few years, “vanilla” deals are few and far between and the prediction of NAV being “on the horizon” has finally occurred, we are seeing evolution today - even when compared to only a few years ago. Change is constant and we cannot expect the industry to stand still. Instead, the industry will continue to evolve into areas that are the logical extensions of what we currently do and areas that we don’t currently do and perhaps, haven’t even thought of. The best preparation for that eventuality is to keep learning beyond your comfort zone.

Final Thoughts

If nothing else is taken from this article from a “senior lawyer,” please take this: Never make a move if it’s simply about the money – especially if you are young. Professions and trades deal in a somewhat unique currency. Those jobs pay salaries (cash), but they also pay compensation in the form of experience. That experience might not pay off a current student loan or make a mortgage payment, but that knowledge will monetize eventually.

Professions and trades are cumulative jobs. The more you see, the more you know, the more you know, the more you are worth. I decided to leave MBF for MVA almost solely because I didn’t want to be a seventh-year associate with a fifth-year level of experience. I left MVA for CWT because my clients’ needs necessitated a move that would allow me to provide them with the knowledge and experience they needed.

While clearly there is a tipping point, for someone looking to excel in their profession long-term, gaining experience, which is usually via deal/transaction volume, should always be the first (and perhaps also the second) consideration.