CADWALADER

Player Profile — Alex Bolton

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This week we connect with Alex Bolton for a sweeping discussion that covers competing in a crowded lending market and the outlook for fund-level asset-backed lending, as well as his observations on deal pricing. Alex is a senior banker in the New York fund finance team of National Australia Bank. NAB's practice spans private equity funds, listed funds and real money managers. NAB has been especially active in supporting private equity infrastructure funds, with subscription finance, NAV facilities and hedging solutions. This includes regular lead arranger roles for some of the largest infrastructure managers in the world.

FFF: **Alex, tell us a bit about how you became involved in fund finance**.

Like so many of our industry colleagues, I was fortunate enough to be given an opportunity to join a growing fund finance practice. The first 10 years of my career were in corporate restructuring, both in a consulting and banking capacity in Australia and the U.S. This experience gave me deep structuring experience across a wide range of products and industries and provided a great platform to start my fund finance career. It has been incredibly busy and rewarding so far, and I am excited for what the future holds as our business goes from strength to strength and the industry continues to evolve.

FFF: **Give us the background on NAB's involvement in fund finance and the major milestones along the way.**

NAB has had a fund finance business for over 20 years and globally has over 50 people dedicated to the segment. I would say the build-out of our global business was a key milestone. Since around 2011, we have gradually built teams in each of our key geographies – Australia, U.S., Europe and Asia. We have fantastic teams in each jurisdiction, and we work well together, whether it is the sharing of knowledge or mobilizing for transactions. Some of our greatest successes in recent years have been when more than one office has collaborated to solve a problem for a customer. Another key milestone was the establishment of our infrastructure business in New York in 2015. NAB has a very strong global franchise in this asset class, and the business is highly complementary to our funds business. As a testament to this, some of our most prominent lead arranger roles in recent years have been for a number of the largest infrastructure managers in the world, both here in the U.S. and globally.

FFF: **By our count, the number of active lenders (leads and participants) stands just shy of 60 to date in 2019. How important is it for a lender to carve out a clearly defined target market or a niche, if you will?**

For a sustainable business in the long term, I think it is of upmost importance that lenders build a clearly defined strategy that corresponds with the bank's core capabilities. This is not to say there is not a great deal of business available for a bank to take participations in transactions across a broad cross-section of the market, but from a business perspective, it can just make it a challenge to present a coherent value proposition and build long-term customer relationships.

Following the 2008 financial crisis, NAB made a conscious decision to narrow the set of financial sponsors we bank with and focus on those where we can be a meaningful part of the entire value chain, whether it is supporting fundraising through our capital markets business, fund finance, hedging, or asset-level finance. It would be unusual for us to join a fund facility where we did not have anything else to offer either the fund or the sponsor's broader platform.

***FFF*: We have a thesis that funds over time will need to consider fund-level asset leverage to support returns and that lenders may need to broaden their product offerings to include NAV and hybrid products if they're interested in maintaining loan growth. This hasn't really started playing out in the origination data yet. What's your take?**

I think there are plenty of sponsors who would consider this right now if the structures were available, permitted by LPAs, and not cost-prohibitive. In most cases, at this stage, better pricing is obtained with separate fund and asset-level facilities. As to whether this will be a necessity in the long term, I think we are just as likely to see a downturn in the cycle, which could create buying opportunities and/or normalize the yield environment.

Rather than for leverage and with the exception of a few asset classes, my view is that we are more likely to see hybrid and NAV facilities to provide access to bridging and temporary credit later in a fund's life when uncalled capital balances have been reduced. At NAB, we approach these solutions through the lens of a broad fund finance business versus a product-led business (*e.g.*, subscription finance), which has allowed our global business to structure a range of NAV and hybrid facilities. As to the proliferation of these facilities for leverage, there are comparable "HoldCo" transactions in other industries, so I think it is only a matter of time before more banks crack the code on this form of lending. The difficulties most banks seem to encounter is that fund-level indebtedness tends to be subordinated, equity/asset pledges can be difficult to obtain, and the fund finance teams underwriting the transaction are not always sufficiently well-versed to take a view on providing leverage over the given asset pool. For that reason, I can see a time in the not-too-distant future where we are looking to embed sector specialists, such as infrastructure or real estate professionals, into our fund finance teams.

***FFF*: Fund finance pricing has arguably been somewhat inefficient historically. Margin so often shakes out at a generic level without any discernible regard to the fund, the investors, or the leverage in a particular deal. More recently, however, we've seen six deals close below the conventional floor level in Q1-Q3 2019. Do you think this is a sign that margins are heading tighter?**

Pricing has definitely tightened for some sponsors and specific transactions, although you cannot look at margins in a vacuum. I would argue that, for most banks, the shift in recent years to committed extension options on three-year deals – meaning they need to be treated for regulatory capital and funding purposes as a four-year deal – has been more consequential. I think the decoupling from the typical peg is more a reflection of pricing starting to more closely align with banks' capital, risk and pricing models, in addition to lenders differentiating for the given risks in transactions. Sponsors are also becoming savvy with regard to the way they can get better price execution, such as maintaining higher facility utilization or exercising temporary increase tranches. I expect we will continue to see some tightening, although there are a lot of funds in the market and some really big tickets to fill, which gives me confidence that the margin compression will be moderate.

***FFF*: The fund finance market is a bit of a paradox considering the high growth rate in recent years and, at the same time, the reliance on a traditional bank loan template. Where is the fund lending market most ripe for innovation?**

I think anything that involves permanently drawn debt, most likely leverage facilities, is going to attract the attention of capital markets participants. On a relative value basis, fund finance spreads are going to be attractive to these investors. We have seen a number of private transactions where institutional investors have participated in leverage tranches, and there is momentum behind middle-market CLOs. However, in most cases, traditional subscription finance facilities are likely to stay in the bank market because banks tend to be better equipped to offer revolving lines, administrative agent services, and letters of credit backed by high credit ratings.

***FFF*: The IMF just downgraded its forecast for global growth in 2019 to 3% and characterized global growth as in a state of "synchronized slowdown." We don't hold ourselves out as economists, so no predictions here. But thinking through the cycle, how would an eventual economic slowdown affect fund lending generally and NAB's approach particularly?**

As a former restructuring banker, building a sustainable business that can support customers through the cycle is near and dear to my heart. At NAB, our strategy is deeply relationship-focused, and I expect this will allow us to continue to support our customers when it matters most. With respect to the broader market, it is much bigger in terms of both AUM, accepted asset classes, and the pool of lenders than it was in the last downturn. As a result, you will see more opportunities for funds running counter-cyclical strategies, and even those managers running traditional strategies will likely see multiples as welcome relief.

***FFF*: What do you see as the ingredients for success as a fund banker that differ from other general lending and capital markets disciplines?**

Our sponsor customers can have incredibly diverse businesses, and they are always looking for ways to improve from both a capital structure and operational perspective. Similarly, fund structures are increasingly becoming complex and multi-jurisdictional. To be successful as a funds banker, you really need to immerse yourself in both the sponsor's broader business and the strategy and structures of each fund. This means a high capacity to solve problems, be willing to delve deep into the detail, and, in the current market, work really hard to keep up.

***FFF*: What do you like to do when you're not closing credit facilities?**

I have a young son, so I try to spend as much of my weekends with him and my wife. I recently returned from 12 weeks of parental leave – a policy our New York office adopted from our home office in Australia. This was a life-changing experience for a range of reasons, and during this time, I realized how little time we had been spending as a family while trying to juggle busy work and social schedules. So it has definitely been a focus since returning to work.

I am also an avid golfer, and if there's any time left over, I really enjoy cooking and would say I am very much a convert to American BBQ.

***FFF*: Any bold fund finance predictions for 2020?**

I am not sure how bold it is, but I think we will see some real momentum behind NAV and hybrid facilities. It will be some time before these structures become truly commonplace or rival subscription finance in terms of market share, but based on the conversations we are having with customers, there is clearly interest and appetite. For many closed-end fund managers, this will require amendments to the indebtedness provisions in their LPA, so it could take a while to work through the system. There are just too many smart people in the industry for this demand not to be met.