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FUND FINANCE FRIDAY

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Fund finance clearly survived the opening flurry of COVID-19 punches. Our transaction structures held solid; deal volume for many market participants actually accelerated through March and April and into May. And we are still busy on new deals. But I think this is going to be a long game. And while I have a ton of conviction around future credit performance remaining highly positive for our industry, I think fund formation outside of the top 50 or so sponsors is going to really drag during the summer and into the early fall. Correspondingly, I think subscription facility origination volume is going to temper, somewhat offset by expansion of NAV-based lending. So we should all probably be a little humble forecasting our 2nd half numbers. Below are my updates on what we have seen in the market the last two weeks and what I'm forecasting going forward.

<u>FFA Update Call</u>. The Fund Finance Association held another update call for Platinum-level sponsors this week. Credit performance remains the same: excellent. To date, a single (that's right, only one) institutional investor default has been reported to the group. And that investor is a corporate entity in a completely disrupted industry. High net worth investor funding continues to have 99%+ funding performance. Utilization has ticked downward a bit, as drawings for new investments have, not surprisingly, slowed. And the secondaries market remains on the sidelines; very few trades are hitting borrowing bases.

<u>NAV Lending</u>. We are seeing a lot of interest in NAV facilities, especially in the fund of funds space. Particularly for our London team, which has been inundated with inquiries. The prospective matters are primarily liquidity-driven, although opportunistic interest exists as well. While we think the new origination in the subscription market will slow as we get deeper into the summer, we forecast the NAV-oriented portion of the market will continue to expand meaningfully through 2020.

<u>Supply, Demand and Credit Boxes</u>. With a fair number of lenders focused internally and on their existing clients, the number of lenders chasing new clients and deals is down. The not surprising result being that banks open for new business have a very robust pipeline, multiples

of their normal deal flow. With both bandwidth limitations and credit and risk teams becoming more scrutinizing as a result of the downturn, credit boxes are narrowing. The result is a reversal of the "structural drift" of the past few years, albeit incrementally, as banks want to keep their key relationships supported during difficult times.

Cayman Private Funds Law. This new Cayman regulatory development continues to evolve and often be a hotly contested issue on new facilities. The market is generally landing on a covenant requiring registration by any Cayman fund sufficiently prior to the Aug. 7 registration deadline to permit enough cushion for repayment capital calls (after giving effect to any standstill periods and taking into account the fund's specific timing for issuing calls and overcalls) in the event of a breach. We think this makes sense. It is, after all, an administrative action that is within the control of the fund and its Cayman advisers. Lenders have no control and should not bear the risk for non-compliance with the new law. But you know what side of the fence I sit on.

QB Joinders. Qualified Borrower joinder activity remains at elevated levels. Hopefully, that will both help funds support their portfolio companies while helping banks keep utilization levels sufficiently north of 50%.

LIBOR Floors. Meaningful LIBOR floors are now commonplace in new deals and extensions.

Tax Numbers. Some borrowers continue to be stuck in KYC limbo, as the IRS is not granting EINs in many cases. One approach we have seen is lenders accepting SS-4s (application for EIN) plus the W-8/W-9 (the applicable tax document necessary for KYC) with the EIN marked "Applied For."

Thank You. Shout-out to the Cadwalader Fund Finance associates. You guys have been incredibly hard-working and committed to our clients during these difficult circumstances. I'm lucky to get to work with you. Thank you.