C A D W A L A D E R

Success Suggestions for Young Fund Finance Professionals

February 5, 2021 | Issue No. 112

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Yesterday, I was fortunate to get to provide the closing remarks to the attendees at the inaugural FFA University – Europe program. Like many of us, I'm very grateful for the career opportunities the Fund Finance industry has afforded me, and I am very optimistic the industry will continue to provide great opportunities for the next generation in the years to come. Below is a rough summary of the remarks I gave to the attendees, which focused on my suggestions for things they should consider doing to have a successful career, with specifics aimed at the nuances of the Fund Finance industry.

Introduction. Thank you for the opportunity to speak to you all today, for attending FFA U Europe and for supporting the Fund Finance Association. I've been practicing in Fund Finance now for almost 20 years and have been incredibly fortunate; our industry has afforded me a truly terrific career. I'm still very bullish on the future of Fund Finance and quite optimistic that the industry can provide wonderful professional futures for many of you, full of opportunities for advancement, just as it has done for me. And if you'd humor me for a few final minutes, I thought I'd share with you eight suggestions, based on my experiences, for how you can build a truly successful career in Fund Finance.

Number 1: An "Annuity Business with an Incumbency Advantage." First, and in some ways the key premise that builds the foundation for most all of my other suggestions, is understanding that Fund Finance is an "Annuity Business with an Incumbency Advantage." You need to understand this about our industry and align your decisions to that framework, as different industry structures require different approaches. So what do I mean by an "Annuity Business with an Incumbency Advantage"? Fund Finance borrowers are primarily closed-end private equity funds which, by definition, are finite in duration and (hopefully) repeating. Fund I, Fund II, Fund III, etc. If you are the banker for Fund I, and you do a great job, you are far and away in the pole position for being awarded the mandate for Fund II. There are real switching costs in Fund Finance. It costs the sponsor real money – not to mention time to learn a new set of bank processes and policies – if they switch banks for Fund II. And because our industry is such a unique combination of banking and legal (where the deal collateral is often a legal contract), the same is true if the bank or the fund switches law firms for Fund II. And thus, when you do a Fund Finance transaction, you can quite literally be laying the groundwork at times for a work stream that can be a decade long as it flows through Fund III, Fund IV, and then new Fund I by the same sponsor in a different strategy, etc. An annuity. Understanding that we are an "Annuity Business with an Incumbency Advantage" is key to success in Fund Finance.

Number 2: Relationship, Not a Trade. Number 2, building off Number 1, Fund Finance is a Relationship, Not a Trade. Certain transactions are trades. If you sell your house to someone tomorrow, chances are you will never see them again. You may never even meet them; the broker can do all the work. What your house buyer thinks of you isn't likely to be long-term relevant for your future, so you can focus on getting the best price possible. But that's not Fund Finance. When you do a deal in Fund Finance, it is a virtual certainty that you will see every player in the transaction again (and then again). That's true for the lawyers on the other side, that's true for the Fund Sponsor's CFO, and that's true for the Luxembourg counsel. It's even true for your own colleagues: five of our former associates are now our clients. It's really interesting when you tell an associate on your team on a Monday, "Hey, I'm looking for that credit agreement draft with a two-day turnaround," and the following Monday that same associate, now a banker, turns the tables and says: "Hey Mike, I'm looking for that credit agreement draft with a two-day turnaround." When I was a young lawyer, I often didn't realize the relationship aspect, and I would let my commitment to zealous advocacy lead opposing law firms to frankly just prefer not to work with me. Now, borrower law firms are one of our absolute best referral sources. I'm not saying, don't be a zealous advocate; I'm saying, remember that you are going to see people again and again, so always be professional, treat people with respect and dignity, be courteous in your disagreements, try to be helpful where you can, etc. Simple example: Never send typo or error fix comments where the clients can see them. Many of these things are that easy. I even try to treat my competitors very well. Because you never know – maybe you'll want to hire them one day or maybe you'll need a job. In an industry with a lot of repeat interactions, treating people right is essential not only because you will see them again but also because your reputation will echo through the halls of future FFA conferences, like this one, for years.

Number 3: Build Your Favor Bank But Don't Keep Score. Over the last two decades, I've done thousands of favors without sending a bill. Little things, every day: I've helped funds find banks, I help bankers looking for jobs almost every week, I've helped bankers find divorce attorneys, and I've even been the first call when someone got arrested. Every favor I've ever given I'm convinced has returned to me 3x. I'm convinced that I have benefited more from the people I've helped than anything close to the value of my favors. I'm a net debtor, and I try every day to put out more favors to keep the score close. I try to take every call. If you don't believe me, call me. Building your favor bank is essential. But a couple things to note: One, the favors don't come back to you from the same people you gave them to. Maybe it's a word-of-mouth thing; maybe it's just Karma. So don't keep individual score; keep aggregate score. It's a good formula, and it will work. In our industry, we are lucky: There are only a few true takers out there. We are not like some industries where you have to be on guard with half the population. You will figure out the takers quickly and distance yourself from them. It's a very small issue in Fund Finance. Additionally, don't measure your favor return only in new business generated. Two weeks ago, my cousin sadly passed away and I had to drive to Stony Brook, N.Y. at a moment's notice. I texted Morgan Stanley's Head of Fund Finance Dave Wasserman, who lives in the area, saying I might get to NY late that night and need help. His response was something to the effect of "Anything you need." Mike Robin, the leader of Citi's Fund Finance business, texted offering to come to Stony Brook where I was and to help in any way he could. Four years from now, I won't remember much of the details of the deals those guys gave us to work on. But I will remember that they dropped everything on their plate to offer to help me. Build your favor bank.

Number 4: Remember, This Is Wall Street. Number 4, Remember, in the United States, I say, "This is Wall Street." Since we are at FFA U Europe, I'll say "Remember, We are in the City." Look, the end users of fund finance products are some of the smartest, most-driven, most-demanding business people in the entire world. They work on many of the highest pressure, "public view" transactions in all of the capital markets. Their wins and losses make the *Financial Times*; they make CNBC. That's who we serve. And with that comes great responsibility and a wave of expectations. But many times, their top tier of intensity does not drip into the day-to-day of our Fund Finance transactions. And you can get lulled to sleep. But, when they really need the money, that intensity can come on like a light switch. And you always have to be ready for it. You have to accept that being successful on Wall Street demands a Wall Street work ethic. That's part of your price of admission to our industry. So as we all think about and try to incorporate work/life balance, our volunteer work, etc., don't get lulled to sleep by a couple of low-intensity deals. A bolt of high intensity is always right around the corner. To be ready for it, that may mean <u>you</u> need to have double-up staffing or have back-up capacity for you or your team – <u>you</u> need to take responsibility and build it into your service delivery. Don't expect the fund borrowers themselves to offer you work/life balance or a measured schedule; this market does not deliver that inherently. Remember, this is Wall Street.

Number 5: Lean into the People You Like. Remember Number 4? To serve Wall Street, you are going to work incredibly hard in this industry if you want to be successful, and it doesn't stop as you get more senior. When I was recruiting Sam Hutchinson, I remember promising her that if she joined us, despite being in my late 40s, I would still be the hardest-working person in Fund Finance. I believed the promise when I made it. I think she broke it for me by out-working me. I know Tim Hicks did. Anyway, it is incredibly hard to work as tirelessly as we do for people that you simply do not like. And even harder to do so and be happy. But in reverse, if you truly care about your client, you can't possibly call it a night until you know you have done all you can to serve them well. Life is a million times better when you are working with clients you actually want to get a beer with. And what's true for clients is true for bosses and true for juniors. We will all have times when we have to work with someone we'd rather not. But I'm talking about leaning in. Call on the clients you like. Raise your hand for the deals that involve people you like. Recruit the juniors you enjoy working with. When I look at my top 10 friends today, 8 of them came out of my work relationships, including my wife. Right now, I work all the time with my best of friends. I've gotten far more out of my friendships with so many of the people in our industry than the economic value of their business. I really hope you can all develop these crossover work/friend relationships too. It's a big part of what has kept me motivated and happy the last two decades. So Lean into the People You Like.

Number 6: Join, But Also Create. Fund Finance is a new industry. I think the NAV lending and fund level leverage markets are going to be a huge growth engine over the next decade. Imagine if we were stock brokers. Or realtors.

Those industries have existed for hundreds of years, and the norms, organizations, forums, event calendars, etc. are all built out and there's little room to create that doesn't bump into the status quo. In Fund Finance, there is still so much blank canvas. In 2009, when we realized there wasn't a conference, we made one. When we realized there wasn't an industry association, we founded one. When we couldn't get a media company to start a fund finance weekly newsletter, we created *Fund Finance Friday*. The list goes on. And from those things I've met hundreds of people that have been incredibly relevant not only to my career, but to my friend circle. Be an entrepreneur in our industry, even within your larger organization. Billal Malik came to me at one point with the idea for the NexGen network. He now leads the NexGen network. Aimee Sharman and Paul Tannenbaum raised their hands to lead FFA U Europe – here we are today. Look for opportunities to put your fingerprints on our industry. Don't just Join; Create, Invent, Found. I have about 20 ideas if you need one.

Number 7: Don't Churn. Aggregate revenue in our industry is increasing like 20+% year-over-year, and with that, many banks and firms are hiring to keep up with that growth and you're likely getting calls about opportunities. Be extremely thoughtful in making your moves. Not churning is important in all aspects of life because of, broadly defined, transaction costs. Imagine how your personal balance sheet will look if you get married and divorced five times over the next ten years. That's bankruptcy. Changing jobs in fund finance also has transaction costs. I have moved once; many of the senior folks in Fund Finance have. But remember back to our industry structure: an "Annuity Business with an Incumbency Advantage." When you move, you lose many of the annuities. You lose your seat as an incumbent. Not every one. But a good number. We have a sensational associate on our Fund Finance team named Danyeale Chung. Danyeale has worked with us for, like, 7 years. Over the past two years, I can only remember one deal I have actually assigned her. All of her annuities keep her completely busy – she is effectively managing her own business. Think about how a move would disrupt that. So make sure if you are considering making a move, you consider the churn costs, and make sure the benefits of the move outweigh the lost annuities and incumbencies.

Number 8: Be Resilient. And finally, Number 8, Be Resilient. Michael Jordan famously said, "Nobody has ever been called to take more game-winning shots, and missed, than me." I feel the same. By any objective measure, I have had a great run as a fund finance lawyer. But I've been fired by a banker client. I've been passed over one year for Partner. I've been portrayed negatively in a *New Republic* magazine article. I've been badmouthed by competitors, more senior Partners and former employees. I've felt under-comp'd at times. I've had my best client come to my office and say the bank is closed for new business. And I've made more mistakes than likely the rest of this room combined. So have many, many of the most senior people in our industry. In Fund Finance, business has been linear: 10 straight years of up and to the right. But that doesn't mean my career was linear; and yours won't be either. There were years some of my best banker friends had outsized revenue and net income growth year-over-year and got literally goose-egged on their annual bonus. There will be awful deals. There will be Partners hired above you that get paid more but produce less. There will be absolutely impossible counterparties. There will be clients that refuse to work with you. But Fund Finance is not soccer, where the game ends 1-0. Fund Finance is basketball; you win 86-61. Don't let the bad days knock you off. Don't let one 3-pointer by the other team make you think the game is over. Because it is not. Keep showing up, keep a positive attitude, don't quit. If you want to be successful in Fund Finance, be resilient, own your losses, blow off the bad days, and show up again on Monday ready to get after it.

Closing. So, those are my eight suggestions. I really appreciate you all humoring me and listening. If I can do anything to help you, I hope you'll call on me. Thanks for your time.