Fund Finance November Update

November 13, 2020 | Issue No. 103

By Michael Mascia
FFA Board Member

A couple of short updates as we head into the Fund Finance Association's "Virtual Week."

Cadwalader Finance Forum. Over 1,300 people attended our fifth annual Finance Forum yesterday. We really appreciate those of you who were able to make time to attend; it is always fun for me to see these events grow and flourish. Thanks to all of the speakers for participating and especially to Bill Ackman for his opening remarks. Video replays of Sam Hutchinson and Brian Foster's panel on NAV facilities and of Wes Misson, Tim Hicks and Holly Loftis' presentation on the U.S. fund finance market will be available in the coming days.

Deal Flow and Forward Indicators. One of the key themes in our data analysis is the growing disconnect between 2020 fund formation (meaningfully down) and 2020 fund finance transaction volumes (meaningfully up). Wes, Holly and Tim spent some time on this in their session yesterday, and I'll come back later in the month with some detailed thoughts and theories around it. But, as of this time, all our current evidence suggests there is no 4th quarter reversal of that trend in the works. Our deal activity levels have remained largely steady since May/June, and we continue to see LPA reviews and prospective transaction hours meaningfully above their rolling 12-month averages. Additionally, many of the larger U.S. banks have been extremely active with prospective deals and new mandates as the 4th quarter has progressed, suggesting activity levels may actually increase in the go forward.

Congrats to Holly Loftis! I'm so pleased to announce that Cadwalader Fund Finance Counsel Holly Loftis was promoted to Special Counsel this week. Holly has been representing lenders in fund finance transactions with us for over a decade, and her commitment to her clients is well known market-wide. She is also a terrific mentor and teacher to our newer lawyers and a great all-around contributor to our practice. Congratulations, Holly!

FFA Updates. As Michelle Bolingbroke penned in her note today, the FFA's Virtual Week kicks off Monday. I plan to be dialed in for as much as possible and hope to connect with many of you during breaks and in the evenings. The FFA has also dropped the paywall for the Diversity and Inclusion panel and the Women in Fund Finance panel next Friday, so I hope many of you will log on and check out these important sessions. Also, the deadline for Rising Stars nominations is next Friday, so let's make sure our great young people get recognized.

Hope everyone has a great weekend, and please call on me if we can do anything to be helpful.

Alternative Lenders in Fund Finance

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By **Trent Lindsay**
Partner | Fund Finance

By **Richard Wheelahan**
Co-Founder and Managing Director | Fund Finance Partners

Although commercial banks have long taken the lead in fund finance lending, alternative lenders have gradually taken on a larger role in the market. This trend appears to have accelerated over the last year, partly driven by a reduction in new lending by banks and the resulting search by borrowers for new sources of capital.

Increased demand from sponsors has been accompanied by changes on the supply side, including the extraordinary growth in the amount of capital committed to private credit and BDCs over the past decade. Prequin estimated that private debt funds had more than $800 billion in assets under management at the beginning of the year, and fundraising has continued at a rapid pace. With more capital to deploy, increasing yields have made fund finance a more attractive risk-return proposition for specialty finance firms, which may have a higher cost of capital but typically do not require returns as high as those of mezzanine funds. Recently, Fund Finance Partners has seen margins of LIBOR plus 600 to 750 basis points on NAV-based financings, real estate, private equity and control-buyout funds. These facilities typically come with one financial (LTV) covenant and have received investment grade credit ratings.

Alternative lenders participate in subscription facilities but are most active providing NAV and hybrid loans, preferred equity, and general partner lines of credit. Such transactions require the lender to underwrite the assets or equity of a fund or to estimate future cash flows from carried interest and management fees. A debt fund that has a close relationship with a private equity sponsor may be in a good position to estimate the value of its interests, GP commitment (to the extent invested) and carried interested payable (based upon the fund waterfall). Although some of these transactions may exceed the risk tolerance of depository institutions, alternative lenders funded by equity and creative back-leverage solutions may be able to shoulder the risk in exchange for higher yields and long-term relationships.

Insurance companies have also become more interested in fund finance and can be attractive to fund borrowers given their relatively low cost of capital. Insurers generally prefer to be participant lenders and to avoid serving as administrative agent, with the related operational and funding obligations. Solvency requirements and other laws applicable to insurance companies also considerably vary by jurisdiction and can affect the form that their investments take. For example, British and European insurance companies generally prefer that their investments be in the form of a security rather than a loan.

A subscription facility may also be useful for insurance companies and other institutional debt investors that find it difficult to lend on a revolving basis. If the investor is a limited partner of a credit fund, the fund may itself borrow under a subscription line to reduce the frequency and unpredictability in demands for funds.

For more information on alternative lenders in fund finance, plan to attend the related panel chaired by Cadwalader partner Nathan Parker at the **Fund Finance Association Symposium** on November 16.

‘Fund Finance Friday: Industry Conversations’ – Fund Structures, Facilities and More, with Ganryu Capital Partners’ Josh Bourone (30 Minutes)

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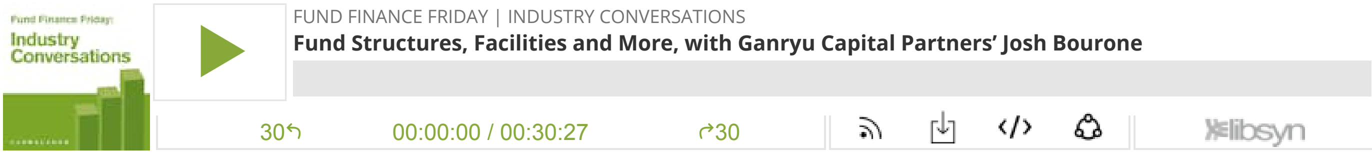
In this episode of *Fund Finance Friday: Industry Conversations*, Ganryu Capital Partners’ Josh Bourone joins Samantha Hutchinson to provide his take on evolving fund structures, LP sentiment to fund financings and the lender landscape.

If you cannot access the episode below, please **click here** to listen.



Subscribe on **Apple Podcasts**, **Google Podcasts** or **Spotify** to never miss an episode.

‘Fund Finance Friday: Industry Conversations’ – Catching Up with ICBC’s Charles Inkeles (7 Minutes)

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Charles Inkeles, Head of U.S. Fund Finance at Industrial and Commercial Bank of China, joins Mike Mascia and discusses his new role and mandate at the bank, along with his recent market observations.

If you cannot access the video below, please **click here** to watch.

Big Happenings in the FFA

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By Michelle Bolingbroke

The Fund Finance Association continues to be very active as we gallop towards the end of the year. A few highlights:

Last week our EMEA NextGen team hosted its second virtual event, titled "Switching Careers: Moving from Sell-Side to Buy-Side." The event featured a lot of interesting insights from our panelists – Charlotte Lewis-Williams, VP and Corporate Counsel, PGIM Private Capital (PPC); Bilal Tahir, Associate, ICG; and Marc Charles, Associate, Real Estate Venture Capital Management – on their experience moving to the buy-side and what it takes to transition. A special thank you to Billal Malik, Director, Citi Private Bank, for moderating the panel.

Virtual Week – hopefully, this does not need an introduction! We are excited to "see" all those attending our first FFA virtual symposium next week. Our lineup includes excellent keynote speakers and a wide range of panels for all to enjoy. We are particularly excited to host our first virtual Diversity and Inclusion Panel. If you haven't had the chance to check out our promotional video, watch it now **here**. A special thank you to Leon Stephenson at Reed Smith for all of his help organizing this important panel for us.

Our Women in Fund Finance Panel will feature our experienced U.S., Europe and Asia Committee co-heads. You will get to hear their opinions on how women can continue to capture opportunities and achieve personal and professional goals. Watch our promotional video **here**.

Both of these panel sessions will be streamed live on our YouTube **channel** if you or any of your team members aren't registered for the conference and would like to view them.

With our Rising Stars Awards, we worked closely with the NextGen committees to create this program to recognize upcoming Fund Finance industry stars. We have a selection committee formed, and recipients will be selected based on their outstanding overall contribution to the Fund Finance industry, their firms and their clients. The deadline to submit nominations is next Friday, November 20. For more information, you can visit our **website**.

We launched our U.S. pilot Mentor Program in October and currently have 15 mentor/mentee pairs. We will be launching our EMEA and Asia-Pacific Mentor Program in Q1 of 2021. If you are interested in participating as either a mentor or mentee, please visit our **website**.

Another exciting initiative for Q1 will be the launch of our European FFA University. We have been working closely with Aimee Sharman and Paul Tannenbaum at Mayer Brown, who have taken the lead on content, and we are really excited to branch out this training arm of FFA. Save the date, and additional details will be coming soon.

Finally, we recently revamped our mailing lists. If you want to be involved in any of our initiatives or want to be notified about any of our upcoming events, please join our mailing list by visiting our **website**.

Brickfield Article on Diversity in Fund Finance

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Brickfield Recruitment has posted an article on its website examining diversity in the fund finance sector and how recruitment practices are a key part of attracting more female talent. The article was produced from research Brickfield has been conducting into several key policy aspects of hiring in fund finance teams at banks and law firms, and discusses how mentoring by female leaders, recruitment initiatives and cultural change all have roles to play. **Visit Brickfield via LinkedIn** to read the article, and also to download Brickfield's *Fund Finance Bankers Compensation Report*, originally published in 2019.

‘Fund-Level Credit Takes Off as European Portfolios Refinance,’ Private Debt Investor Reports

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In this article, *Private Debt Investor* looks at the increased demand for portfolio-level financing from European and U.S. funds. Early in lockdown, GPs were looking at liquidity options to defend their portfolio, but as the economic environment has evolved, they are now looking to portfolio-backed credit to address liquidity needs and further their strategies. NAV facilities are on the rise as a solution to liquidity concerns. In this article, financing providers and others discuss the use of these highly negotiated facilities and how lenders and LPs are getting comfortable with them. Read the article **here**.

On the Move – Fund Finance Tidbits

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On the Move

Bree Mitchell has recently been promoted to Director within National Australia Bank (NAB)'s fund finance business in the Client Management and Execution team. NAB's fund finance business operates a relationship-led model servicing funds clients globally across Australia, London, New York and Asia. NAB's fund finance offering includes subscription finance, NAV facilities, FX hedging and other banking solutions for global financial sponsors. Bree has eight years' experience working in the funds finance industry across New York and Melbourne, with a focus on providing subscription facilities, NAV facilities and FX hedging products to top-tier sponsors.

Audrey (Fuying) Yu recently joined National Australia Bank as an Associate Director, focusing on fund finance. Audrey joins NAB from Bank of China NY where she spent the previous three years originating and executing transactions within the Fund Finance/Leveraged Finance group, directly helping to establish and expand BOC's fund finance strategy and advising top-tier financial sponsor clients. Prior to this role, Audrey spent five years working within the Financial Sponsors group at Banco Santander originating and executing private equity transactions as well as overseeing relationships for top-tier North American financial sponsors.

Tej Sahi recently joined CIBC as Managing Director in its Innovation Banking division. Based in New York, Tej will lead the expansion of CIBC's Innovation Banking by originating and structuring capital call lines of credit and other debt products to Private Equity and Venture Capital Funds. In addition, the team will provide strategic advice, cash management and funding to North American innovation companies at each stage of their business cycle, from startup to IPO and beyond.

Tej brings to the role over a decade of experience in the financial services industry, most recently working at Silicon Valley Bank (SVB) in its Global Fund Banking division. Prior to SVB, Tej was with Standard Chartered Bank, where he managed the bank's largest Private Equity Funds relationships.

"We are delighted to have Tej join our growing ranks," said Mark McQueen, President & Executive Managing Director of CIBC Innovation Banking. "Venture Capital and Private Equity funds have told us they are looking for new sources of liquidity for both their funds and general partnerships. With Tej's experience and CIBC's capital base, our clients and prospects will be exceedingly well-served in the months and years to come. As our team grows, CIBC Innovation Banking is quickly becoming an important ally to tech and life science entrepreneurs and their equity partners."