



## Gravity Does Not Apply?

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By **Tim Hicks**  
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We received the same question multiple times last week: How was the fund finance market up so materially in 2018 while fund formation data from Preqin was down? While fund formation is, of course, the lifeblood of fund finance and both the number of funds closed in 2018 (1,733, down 28% from 2017) and aggregate capital raised (\$757 billion, down from \$925 billion in 2017) were down last year, there are a host of contributing factors explaining the discrepancy:

- **Time Lag.** There is frequently a gap between the closing of a fund and the consummation of a subscription facility. A good number of 2017 vintage funds entered their credit facility in 2018. Calendar-year comparisons do not perfectly account for this time lag.
- **Market Penetration.** While likely contributing less than in years past, there is still contribution from new fund families entering their first facility and/or increasing the size of their facilities. To illustrate, we estimate the size of the global subscription facility market to be slightly greater than \$500 billion. Various estimates of dry powder peg aggregate uncalled capital between \$1.9 and \$2.3 trillion. While a subscription facility sized at 25% of fund size might be typical, a 25% advance rate is well below normal. If market size to dry powder creates an industry wide advance rate of around 25%, there is still inherent global demand in the macro.
- **Concentration in the Top Tier.** Preqin data shows that investor capital continues to concentrate with top-tier sponsors. The lenders we work with bank these top-tier sponsors; we less frequently see the sub-regional lenders that bank community- and local-focused funds. Thus, the declines in fund formation data are disproportionately borne by lenders outside of our purview.
- **Fund Finance Is Greater than Subscription.** Fund finance is experiencing growth unrelated to dry powder collateral. Hybrid, NAV-based, and GP facilities, etc. all have increased in acceptance. The growth in debt funds and secondary funds — both extensive users of non-subscription fund finance products — has positively contributed.
- **Post-Investment Period Usage.** While facility sizes naturally decrease and eventually pay off during a fund's harvest period, they seem to be decreasing more slowly and paying off later in the fund life cycle than in the past. Thus, for lenders that measure growth based on aggregate loan commitments, reduced runoff rates are also a positive contributor. We would love to see a bank provide some hard data around this, but we are confident in our anecdotal assessment.
- **Preqin Data Is Preliminary.** We suspect there is a slight lag between fund closings and reporting to Preqin, as fund sponsors prioritize year-end investor reporting, etc. Preqin does a terrific job of getting data to the market quickly, but we suspect that final 2018 numbers will move up incrementally from current marks.

## EU Market Update

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By Michael Mascia  
FFA Board Member

We visited London this week in what I was worried might end up feeling like a U.S. government shutdown and trade dispute apology tour. Fortunately, though, it was an interesting week to be in the City, with the Parliament holding votes on both Theresa May's Brexit plan as well as a confidence vote in her government. So the Brits were kind to spare me a political roasting during my visit. We got a chance to spend some time with our new and expanded Cadwalader Fund Finance London team as well as visit with a handful of our London-based clients. Below are some market observations from our trip.

- The fund finance hiring machine is churning in London as well as the U.S. It was fun to visit with clients that were even recently just a handful of origination bankers that are now fully built-out teams mirroring their U.S. counterparts.
- While there are of course syndicated and club deals getting done in Europe, the percentage of bilateral deals is far higher. This has some interesting effects, including a greater percentage of bespoke transaction structures. It also increases the value of experienced advisors, as bankers see fewer of each other's deal structures. It also seems like the bankers don't all know each other as well as they do in the U.S.
- While a lot of uncertainty was expressed around the Brexit outcomes, nobody forecasts a material impact on fund finance. All the lenders we visited were optimistic about 2019 growth potential.
- The craft beer scene in London has really improved in the last two years. While still no Asheville, North Carolina, there are some great local IPAs on tap.
- Creative financing structures like hybrid facilities, NAV-based lending, and equity commitment facilities, etc. seem more prevalent in Europe compared to the U.S. We are going to see if we can find data to support this impression.
- As in the U.S., there are lenders in Europe grappling with exposure limits. Crafting solutions to these challenges will be an active part of 2019.
- The effects of the Abraaj situation are still being worked through, with the primary impact for now being a likely tightening of some terms in the financing documents. The events surrounding Abraaj do not appear, however, to have had any impact on the appetite for fund financing in the European market, which remains strong.
- The market continues to attract new entrants.
- The competitive environment has led to some downward effect on pricing, but financing terms remain relatively uniform.
- A shout-out to Cadwalader's five new fund finance colleagues in London. I was impressed from top to bottom with their legal substance and business acumen. Their commitment to doing a great job for their clients is relentless.

## On the Move—Fund Finance Tidbits

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On the Move

Cayman Islands attorney Catharina von Finckenhagen joined Ogier this week as a Senior Associate on the Banking and Finance team. Catharina will continue to provide Cayman Islands law advice to global lending institutions on subscription finance facilities.

In February 2019, she will begin a secondment in Ogier's Luxembourg office. With the increasing use of entities from both jurisdictions in fund structures involved in subscription finance facilities, Catharina will be able to advise clients on Cayman Islands law, as well as Luxembourg law, as part of her new role.

## Fund Finance Hiring

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Fund Finance Hiring

### East West Bank Seeks Fund Finance Banker

- East West Bank is seeking a Relationship Manager in its Private Equity Banking group to cover the Eastern United States. The job post is available [here](#). Other opportunities are available in the Private Equity Banking group as well.

### Cathay Bank Fund Finance Job Posting

- Cathay Bank has a posting on LinkedIn for a Senior Vice President, Director of Funds Finance, based in El Monte, California. The posting is available [here](#). Cathay Bank is a California state-chartered bank. It was founded in 1962, and is headquartered in Los Angeles, California. The bank operates in nine U.S. states, as well as Hong Kong, and has representative offices in Beijing, Shanghai and Taipei. It has approximately \$17 billion in assets, and trades on NASDAQ as CATY.

# Fund Finance Calendar

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