

Fund Finance Friday



A Spring in Our Step

March 25, 2022 | Issue No. 168

Table of Contents:

- [Quarter-End Market Update](#)
- [Fund Finance European University Registration Opens](#)
- [WFF US Fireside Chat Recap: Managing Teams Remotely](#)
- [Walkers on Global Fund Finance Trends](#)
- [Wildgen Webinar: NAV Facilities Structuring and Negotiation](#)
- [Strafford Fund Finance CLE](#)
- [FUNDfire Article on NAV Lending](#)
- [Fund Finance Hiring](#)

Quarter-End Market Update

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By **Wes Misson**
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As we usher in spring and hopefully finally say goodbye to the worst of the COVID-19 pandemic, deal volume and overall market activity remain extremely robust. With less than a week to go in an eventful first quarter, we're seeing sustained growth in fund finance despite broader market uncertainties and geopolitical risk. Here are a few updates as we head into Q2:

- **Here's where we are.** Our new fund finance matter count at Cadwalader is up 15% globally year-to-date versus 2021. Time accruals, similarly, are up 16% over the prior year. These early indicators point to another double-digit growth year in the fund finance origination market.
- **Range bound pricing.** Subscription facilities continue to price in a relatively well-defined range as opposed to the wider range and somewhat unpredictable trend that prevailed pre-COVID. Within this range, pricing is holding steady versus 2021 trends rather than tightening.
- **Credit spread adjustments.** SOFR first amendments, facilities and early opt-in elections are continuing in earnest as we wave a final goodbye to LIBOR. This is leading to some differences on market treatment for credit adjustment spreads. The broader loan market may influence where fund finance ends up on credit spread adjustments. At the moment, it looks like a market-wide standard may prove elusive in 2022.
- **Prime rate loans.** The prime rate moved in lock step with the Fed hikes last week, while SOFR continued to trade a few basis points inside the effective Fed Funds rate. Prime indexed loans, which are more common on short-form credit agreements, have priced in a much wider range in the past year than SOFR loans. While pricing has been competitive, all-in interest rates for prime driven transactions typically end up higher than on average SOFR loans.
- **Same base case.** In periods like the past few weeks, the balance sheet lending model of fund finance becomes an advantage as capital markets-oriented businesses have been challenged to recalibrate. There is no question that risk tails are evolving, but we're holding to the same base case outlook for robust growth in 2022 with a greater diversity in facility types.
- **Russian sanctions.** We have seen a handful of deals impacted in the last week by recently sanctioned investors – typically, a Russian entity or entity that is beneficially controlled by a Russian national. In most cases, the impact on the borrowing base and actual resulting defaults under the loan documents have been minimal. That said, it raises an interesting conversation about potential market-wide exposure to Russian money and grappling with reputational risk issues. Our team is well-versed and working to assist a number of clients who are at the forefront of this issue. Call us if we can be helpful.
- **Return of the bespoke.** We predicted it coming into this year. The steady yield of more and more interesting structures is happening. We have seen a noticeable increase in non-bank lenders, including insurance companies. We are also seeing the early tally of NAV and hybrid deals pacing at a level above last year's record numbers. Banks have a greater risk appetite. More SMA facilities are closing. We saw 54 last year and look to beat that number in 2022. Finally, ESG facilities, something we have written about extensively and noted would blossom this year, are trending (albeit slowly) toward a material increase in volume despite the regulatory headwinds and concerns over greenwashing.
- **Go big or go home.** Our prediction of mega deals (those over \$1 billion in total lender commitments) doubling in volume over 2021 is coming to fruition. We have seen a handful of multibillion dollar sublines to start the year. This makes sense coming off a record fundraising year with more than \$1.4 trillion in capital raised across more than 3,300 funds in the private funds market. Average fund size continues to move up as the capital gravitates to the larger platforms. This is helping drive the current demand for mega facilities.
- **Can fundraising momentum continue?** The early read on fundraising shows that momentum is carrying over into 2022. Given that only a partial quarter of data is available so far, it may be too early to guess at full-year numbers, but private equity and infrastructure strategies appear to have significant traction in fundraising. Prequin data showed a strong rebound in horizon IRRs on an industry-wide basis in 2021. Healthy overall performance combined with greater public market volatility should bode well for private capital allocations.

- **Seventy's our number.** The Cadwalader Fund Finance team in the U.S. and UK now includes 70 attorneys and paralegals. That's up from 44 coming into 2021. A sign of remarkable growth that reflects the momentum of our broader market as a whole.

Thanks to all for a great first quarter, and good luck the rest of the way. We will be tracking it right here with you, and helping navigate the next set of issues, whatever they may be.

Fund Finance European University Registration Opens

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The Fund Finance Association this week opened registration for Fund Finance European University 2022, which this year will be held virtually on May 4-5, with an in-person networking event in London on the 5th. The intensive training sessions are designed for sponsors, bankers and lawyers and will now include dual tracks for beginners and those with several years of experience. Please consider supporting both your new people and the FFA by sending participants to FFA U. For more information, click [here](#).

WFF US Fireside Chat Recap: Managing Teams Remotely

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Women in Fund Finance hosted a virtual fireside chat this week on “Navigation and the Redesign of the Future Workplace & Managing Teams Remotely.” The event featured Macquarie Senior Managing Director Erin Ledger-Beaupre, who gave the audience an insider’s look at how she has successfully led Macquarie Asset Management’s Real Estate Investments team on a remote basis. Her team has been successfully functioning in a remote/hybrid environment for over 10 years. The event was moderated by Jeannie Kim, Vice President at Macquarie.

The conversation started with a discussion on communication challenges. Erin’s view is that over-communication is key, so that everyone is on the same page regarding what is getting done and when. She noted that not everyone is remote, and Macquarie has made a point to keep junior members on the team in the office as much as possible so they can learn from one another and help to maintain and shape the culture. Erin emphasized that it is important to be more intentional about communication, because when everyone is in an office together, it’s easy to turn around and ask a question or run things past one another. On the other hand, when that is not the environment, it is important to carve out a little piece of time every day to check in as a team. This can be as easy as having a group chat via messaging software or a phone call to connect on what was accomplished that day and to address any questions that may have come up. Erin and Jeannie discussed that it can be challenging to find a system of communicating that works for everyone on the team and to stick to it, holding team members accountable. Erin said that rather than sending multiple emails throughout the day, she will keep an email draft which she updates during the course of the day with notes for her team, and then will send one consolidated email summarizing everything.

The next topic was making sure everyone on the team can see the bigger picture and ensuring that no one gets tunnel vision in their role. One way their team has had success with this is by mixing groups of people who do not normally work together. Macquarie also pairs mentors and mentees from different roles on the team, and this gives everyone on the team the opportunity to learn from someone they wouldn’t typically get to know.

The conversation then turned to attracting and retaining diverse talent. Providing flexibility to your team members and allowing for maximum productivity with work-life balance is key, they said. Erin does this with her team by building and exemplifying a culture of trust. She knows that work for everyone doesn’t always fit in a 9-5 time frame, so understanding that and being open about flexibility is essential. As long as the work is being done correctly and on time, there is no reason to expect everyone to work all at the same time.

The session ended with a speed round of “This or That,” where Erin shared that she still uses a paper calendar and balances her checkbook by hand. She also talked about having not only a standing desk but also an under-the-desk treadmill for it. She also said that she prefers Charlotte over New York and fully enjoys both being a mom (she has three kids) and her career and is grateful to have found a way to achieve success in both roles!

To summarize, the key takeaways are:

- Over-communicate intentionally;
- Use mentorship to maintain visibility; and
- Build and exemplify a culture of trust.

Walkers on Global Fund Finance Trends

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Following a record-breaking year of deals in 2021, including larger funds, new entrants into the market and the evolution of products to meet the wide variety of investor demands, this Walkers [article](#) provides jurisdiction-specific insight on how the macro trends seen last year will likely continue throughout 2022.

Wildgen Webinar: NAV Facilities Structuring and Negotiation

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Wildgen will be hosting a March 31 webinar during which Michael Mbayi and other industry guests will be discussing the negotiation and structuring of NAV facilities. Click [here](#) for more information and to register for the event.

Strafford Fund Finance CLE

March 25, 2022 | Issue No. 168

Strafford is hosting a 90-minute CLE session on April 14 titled “Private Equity GP and Employee Co-Investment Credit Facilities, Management Lines of Credit: Due Diligence, Structuring and Documentation; Role of Sponsor, Administrative Issues.” For more information, click [here](#).

FUNDfire Article on NAV Lending

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FUNDfire published an article on the growth of NAV lending, highlighted by coverage of Oaktree's acquisition of 17Capital earlier this month. The subscription-required article is accessible [here](#).

Fund Finance Hiring

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Fund Finance Hiring

Goldman Sachs is looking to hire a fund financing associate in New York for its Alternatives Capital Markets & Strategy (ACMS) group. For more info, please visit [here](#).