

CADWALDER



By **Wes Misson**
Partner | Fund Finance

Last week I was fishing with my kids on spring break (picture below), and my 8-year old daughter Parker engaged me in a thought-provoking conversation that really stuck with me as I returned to the desk this week. “Daddy, you know Earth Day is next Friday, right?” she asked me. “What are you doing to help the environment?”

This discussion also came on the heels of us watching baby birds hatch in a twig nest precariously placed within an overpriced natural Spring-themed wreath my wife had hung high on our front door in Charlotte. Allison taped a note to the inside of the door that said “Baby Birds!” as a reminder for us all to not open/close the door for fear of disrupting nature for our newly hatched friends. So, of course, I was doing a lot – I was promoting the conservation of a delicate aviary habitat within central Charlotte’s ecosystem. I spent an entire week of walking all the way around the house each time to greet visitors and collect Amazon packages from the front doorstep (my Fitbit watch beaming with activity as it no longer needed to prompt me to move). This sacrifice was made with her in mind.

It hit me – that’s exactly the point of the broader ESG movement and why I dedicate so much time to it in my practice. This is everything to Parker’s generation. They will be the beneficiary of our efforts today. We owe that to them.

Earth Day is an annual event each April 22nd to promote environmental sustainability. This year’s theme is “Invest in Our Planet.” Put in other terms, it’s promoting the “E” in ESG investing.

So, how are we doing?

Investors Are Driving the Bus

ESG mandates are transforming the asset management landscape. Investors are providing the initiative.

- 85% of LPs reported having an ESG policy implemented in private equity, in a survey of 100 LPs conducted by Bain & Co. and ILPA. In the same survey, an overwhelming majority of LPs reported plans to increase allocations to ESG investments over the next three years. (Survey details [here](#)).
- In the public markets, 15% of all fixed income fund flows in 2021 were directed to ESG-labeled funds in the U.S. and Europe, according to Barclays Research estimates. In Europe, nearly a third of the public fixed income fund universe by AUM now consists of ESG funds.
- 72% of investors believe private fund managers are adopting ESG policies because of pressure from investors, according to a recent Preqin survey.
- The vast majority of investors responding to the same survey reported plans to increase or maintain private market allocations.

Put together, these indicators suggest that ESG strategies will continue to gain prominence in private capital allocation and, therefore, in fund finance. Investors are adding to their private market investments and with it advocating for greater ESG integration.

Deal Activity Is Material

The momentum is real, albeit at a somewhat tamer pace this year given regulatory headwinds and potential concerns over greenwashing. That said, we closed 9 ESG subscription lines at Cadwalader last year, totaling more than \$8 billion in lender commitments. In 2022, we have worked on 4 ESG-linked facilities thus far. The vast majority of the recent deals, too, have had a heavy climate-change or “green” focus.

The Rise of ESG in Fund Finance Has Been Well Documented

In honor of this year’s Earth Day theme, we thought it would be helpful to put together a compendium of ESG materials we have published in recent months:

[***A Guide to ESG Preparedness***](#)

Thoughts on integrating ESG preparedness organizationally.

Wes Misson on ESG Fund Finance, [**Part One**](#) and [**Part Two**](#)

A primer published in *Private Equity Law Report* on the practical application of ESG concepts in fund finance deal documents.

ESG Reporting and Disclosures: Making Industry Progress

A recap of the industry's increasing focus on standards for reliable ESG data disclosure.

ESG: Regulatory Reform on the Horizon?

A survey on U.S. and European regulatory initiatives related to ESG investment products.

ESG Loans – The Next Big Wave in Fund Finance

Answering what, why and how questions related to sustainability-linked loans.

Top 10 Items to Consider When Structuring Your ESG Facility

Addressing the credit facility terms that are most relevant in the ESG facility context.

The ABCs of ESG

A summary of the fundamentals of ESG fund finance.

May you catch more deals than we did fish. Cheers, and enjoy the outdoors this weekend!





ESG Reporting and Disclosures: Making Industry Progress

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By **Leah Edelboim**
Partner | Fund Finance

Our focus on ESG in honor of Earth Day continues, and here we focus on reliable ESG data disclosure. There are several big projects underway to help lenders to see a greater level of consistency and depth in the ESG reporting information that borrowers produce.

Back in June of 2021, the LSTA produced an updated version of its ESG Due Diligence Questionnaire for Borrowers. The updates were largely in response to demands for better and more comprehensive quantitative data in ESG reporting. To further aid lenders in ESG transactions, last week the LSTA published an Excel version of this document. The LSTA designed this document, which has been widely adopted, to be a general and flexible document that is intended to be useful for a variety of borrowers and for a wide variety of situations. It can be used for initial discussions between a lender and a borrower as well as for reporting in a live deal. In addition, borrowers in various industries and at varying levels of sophistication with respect to ESG practices can utilize this document.

Despite very useful tools like the LSTA's questionnaire, ESG reporting remains in its infancy in many respects. Regulators, investors, and other constituents are demanding better and more and more sophisticated quantitative ESG reporting, and they want that information to be reliable and comparable. To that end, the LSTA, the Alternative Credit Counsel, and PRI have collaborated to launch an ambitious “harmonization project,” which seeks to develop a comprehensive ESG reporting tool for borrowers that will be useful to lenders in a variety of transactions.

This ambitious undertaking is being touted as good for lenders, borrowers, managers and investors. The goal of this new tool is for lenders, managers and investors to receive consistent data from borrowers of all types. This more standardized reporting tool will also benefit borrowers because a standardized questionnaire will allow borrowers to focus on reporting information in a consistent format rather than having to complete similar, but still different, questionnaires in different transactions.

Q1 Bank Earnings Takeaways

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By **Chris van Heerden**
Director | Fund Finance

First quarter bank earnings clarified the new operating environment in 2022 in which loan growth will continue to be a key driver of earnings growth and valuation. Fund finance business lines can continue to be a material contributor in the year.

The quarter illustrated that a “higher-rates-good-for-banks” thesis for the year may be oversimplified. Instead, lower mortgage originations and the slump in capital markets activity drove revenue declines for the largest banks, while mid-cap players with less exposure to the two were able to drive top-line growth. The capital markets weakness had been well telegraphed prior to earnings, with Dealogic having reported a 35% year-over-year decline in publicly disclosed investment banking fees for the quarter and Refinitiv data confirming that 2022 was off to the slowest start in capital markets since 2019.

Management teams affirmed a focus on loan growth to deploy larger balance sheets into a higher rate environment and drive net interest income. While this mandate is shared across the industry, results for the quarter varied. Within the large cap group, loan growth was generally in the positive single-digits and accelerating, while some of the mid-cap banks affirmed targets for a more robust year similar to 2021.

We see the loan growth priority carrying through the year. Elevated capital markets volatility should be the base case and may continue to add a drag to non-interest fee income businesses. Capital deployment into securities in a rising rate environment is also less attractive (no negative convexity in fund finance). A material share of the net new originations will need to come from outside of consumer businesses where loan demand is more interest rate sensitive.

Of course, “higher-rates-good-for-banks” is not wrong, and net interest margins posted material improvements with further expected upside in coming quarters. Where granular detail was available, fund finance utilization was slightly down from the recent highs but continued to hold well above the historic average.

On the whole, the quarter illustrated that bank balance sheet and income objectives continue to align with the expanding demand for credit in the fund finance space. On that note, the recent KKR [Investor Day presentation](#) is another perspective on what we see as the same theme (count the number of times the words “scale” or “scaling” show up). Scaling is the name of the game for private capital platforms and, we think, for fund finance lenders in 2022.

FFA Announces European University Speakers

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The Fund Finance Association has announced finalized agenda topics and speakers for the upcoming FFA European University on May 4-5. This year, FFA is offering delegates two tracks, one for those with 0-2 years experience and a more advanced training for those with 3+ years of experience. All registered attendees will have access to the recordings for all sessions. Find out more [here](#).

PitchBook Flags Potential Bottleneck in 2022 Fundraising

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Fundraising may be more challenging in the second half of the year than in the first, according to PitchBook's comprehensive *U.S. PE Breakdown* of the U.S. market published on April 11. "The current fundraising demand from GPs is simply overwhelming LPs' ability to supply capital," write the authors. Several factors are at play: (1) megafunds are closing at meaningful step ups, (2) fund drawdowns have shortened and fundraising frequency accelerated, and (3) the number of funds in the market is at an all-time high.

To illustrate the first of these points, PitchBook reports that nine funds seeking \$20 billion or more are raising or have already closed in 2022. Prior to this year, only seven funds of this size had ever been raised.

Solutions to the strain on LP capital budgets are on the horizon, including greater insurance company allocations and more serious retail expansion initiatives. Those, however, are multi-year campaigns and unlikely to solve demand in 2022-2023.

From our vantage, this setup is likely to fuel trends that we've previously covered, including (1) a robust secondaries market as LPs look to unlock liquidity and recycle capital sooner, along with (2) growth in LP interest in portfolio financing solutions to permit capital deployment ahead of distributions, and (3) accelerating GP interest in asset-based financing to bridge any potential hold-ups in exits due to market volatility or in fundraising due to the capital raising bottleneck.

The full PitchBook report is available [here](#) subject to registration.

WFF Event: Crypto 101

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On Friday, May 13, Women in Fund Finance will host a virtual event, “Crypto 101: Demystifying Cryptocurrency & Blockchain,” featuring speaker Bob Griffin of WhiteTower Capital Management, LLC and moderated by Fazillah Durante of Scotiabank. This will be the first installment in WFF’s “Crypto 101” series. Please visit [here](#) to register.

WFF Career Development Event

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Women in Fund Finance's Asia and UK chapters this week announced a May 18 event titled "Finding Purpose: How to Get More Out of Your Career." For more information, click [here](#).

Private Funds CFO Article on 17Capital

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Private Funds CFO this week reported on 17Capital's recent NAV fundraising and 2022 deployment. The article is available [here](#).

New Fund Fanatics Episode with Sameer Shamsi

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Scott Aleali and Jeff Maier released a new edition of Fund Fanatics that covers the latest trends in the secondaries market and features Sameer Shamsi, Head of Secondaries at Houlihan Lokey. You can watch [here](#).

Fund Finance Hiring

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Fund Finance Hiring

First Republic is hiring for a Sr. Credit Analyst in San Francisco. The Sr. Credit Analyst qualifications include strong private equity credit and underwriting skills. The Analyst works closely with business bankers, outside counsel, and clients to manage risk, monitor reporting, and document and close loans. Please visit [here](#) for the full job description.

Wells Fargo continues to grow its European Fund Finance team and is hiring one Analyst and one Associate to support the bank's fund-level financing activities to private equity funds and other asset managers through structured credit facilities. The role will be based in London and calls for a Bachelor's or Master's degree and prior experience (3+ years for the Associate position) at an investment bank, asset manager or another reputable financial services firm. The incoming Analyst and Associate will have an opportunity to join a fast-paced environment, structured around lean deal teams, and gain exposure to significant credit volumes and a wide range of asset managers. For further details, please visit here: [Analyst](#), [Associate](#).

Cadwalader Shortlisted for The Drawdown Awards 2022

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Cadwalader's Fund Finance Team has been [shortlisted](#) in the "Fund Financing: Advisory Services" category as part of *The Drawdown Awards 2022* program. The awards celebrate excellence and innovation within private capital fund operations, as recognized across 34 categories for both GPs and service providers. The winners will be announced at an awards ceremony on June 9 in London.