

CADWALDER

Market Update

November 22, 2024



By **Wes Misson**
Partner | Fund Finance

As we head into the Thanksgiving holiday in the U.S. and year-end push throughout the entire fund finance market, we are all thinking about key trends that have emerged and how this sets up for execution next year.

A few notable themes of 2024:

- **Origination makes a comeback**

We are well on track to exceed 2023 origination totals, both in terms of number of deals and total lender commitments. The number of lenders involved in fund finance has returned to the 2022 peak level. To give you an idea, we have advised 78 clients YTD in the U.S. alone – the most ever in a year.

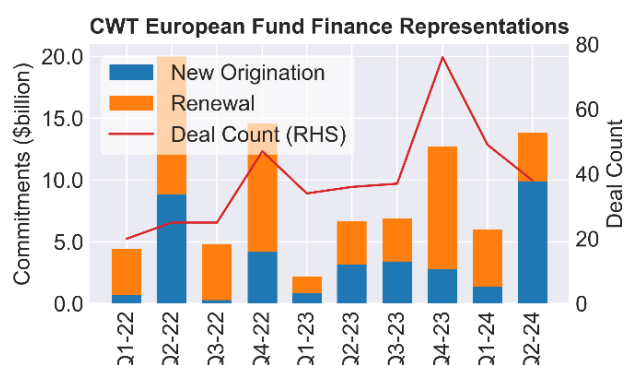
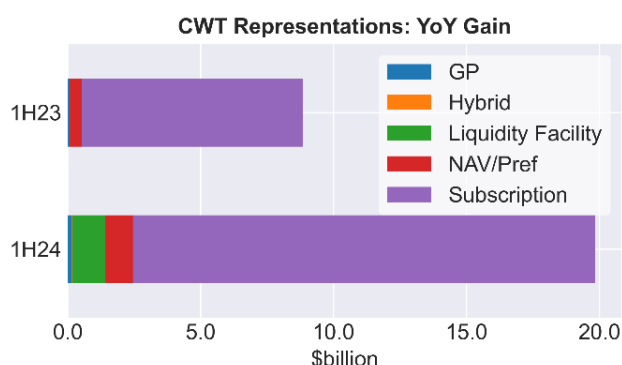
	2020	2021	2022	2023	2024 YTD
Number of Deals	574	898	903	520	506
Aggregate Lender Commitments (\$bn)	115.73	194.61	208.73	138.49	135.99
Total Number of Lenders (Leads and Participants)	65	69	93	74	110
Total Number of Lenders Represented by CWT	40	42	42	58	78
Average Deal Size (including rebooking amendments; \$mm)	201.62	216.72	231.21	266.32	268.76
Number of Sponsors	177	315	421	340	253

Note: 2024YTD values are through August.

Source: Cadwalader, Wickersham & Taft LLP

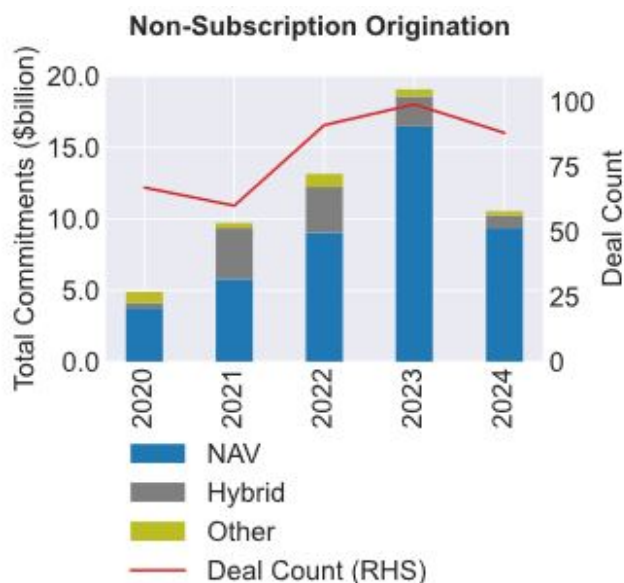
In the U.S., the year began with an uptick in amendments, mostly of the maturity extension and re-pricing variety that become a dominant theme. We closed 158 amendments during the first quarter alone. In Q2 in the U.S., we closed 189 fund finance transactions for \$65.2 billion, which is a meaningful acceleration from the same period in 2023, where sponsors looked to extend facilities to lock in capital amid banking sector turmoil. The amend and extend trend has not been specific to fund finance - deal activity in the broader corporate loan market has been skewed to refinancing over new origination in 2023-2024.

In the UK, we closed 38 fund finance transactions for \$13.8 billion in Q2 2024, making it the most active quarter since 2022. That meant that first half origination volume posted a 120% gain over the same prior year period for our London practice.



- **NAV market sees material growth**

We are on pace for a double-digit increase in NAV origination this year. In 2023, our NAV deal volume reached \$16.7 billion. We closed \$9.3 billion of NAV transactions through August 2024, and the last four months of the year have been accelerating. As you might expect, PE secondaries NAV has been a dominant asset class, but we have also seen substantial growth in the primary PE NAV space.



Source: Cadwalader, Wickersham & Taft LLP.

- **Closing delays become the norm**

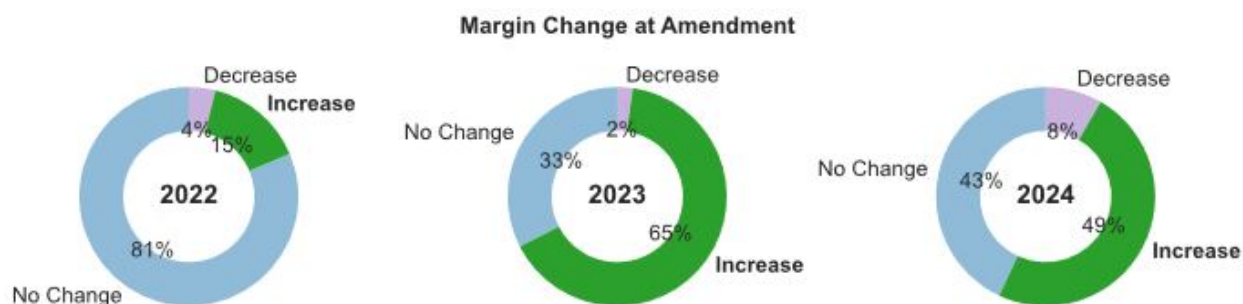
Does it seem like deals are taking longer from inception to close? It's true. On average, we are now seeing a deal take 88 days from mandate to first close—the longest on record in our dataset. This timeline also does not include pre-deal mandate time spent on the file for term sheet negotiations and diligence, and so in many cases we are looking at 4-6 months or longer. The trend is tracking the slowdown in the fundraising market generally, and there have been some outliers at both extremes. Deal timelines are likely to shorten as we head into 2025, as lower rates, less regulation and more accommodative capital markets should assist in fundraising, although the improvement is likely to be gradual.



Source: Cadwalader, Wickersham & Taft LLP.

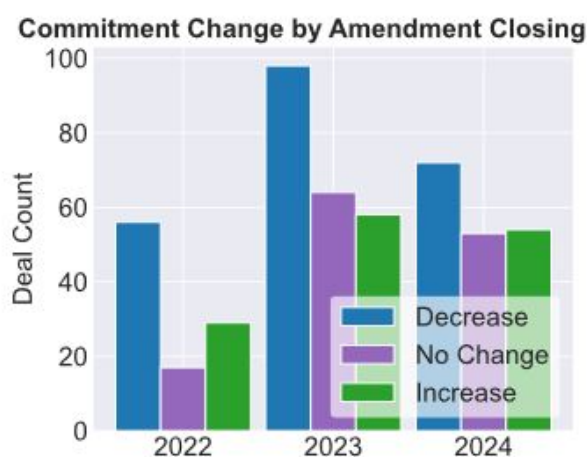
- **Pricing is easing**

Music to borrowers' ears: the margin-hike-at-amendment trend is easing. In 2023, nearly two thirds of amendments included an increase in pricing. Through the first 8 months of 2024, only about half of amendments have been accompanied by a margin increase and the most recent months have included an uptick in margin reductions at amendment.



Source: Cadwalader, Wickersham & Taft LLP.

About 40% of amendments in 2024 YTD have also been accompanied by a commitment downsize. This is a moderation from the 2022-2023 trend when about half of amendments came with a commitment reduction. Smaller commitment amounts reflect a function of several trends: (1) slower deal making activity for funds and a focus on limiting exposure to unused fees, and (2) for lenders, attention turning to undrawn commitments, utilization levels and return on capital.



Source: Cadwalader, Wickersham & Taft LLP.

The trend in 2024 YTD has been toward tightening pricing on newly originated deals after subscription facility margins leaked wider throughout 2023. New subscription facilities in the June - August timeframe this year priced in at about 20 bps on average lower than over the prior 12 months. We continue to see gradual downward pressure on pricing.

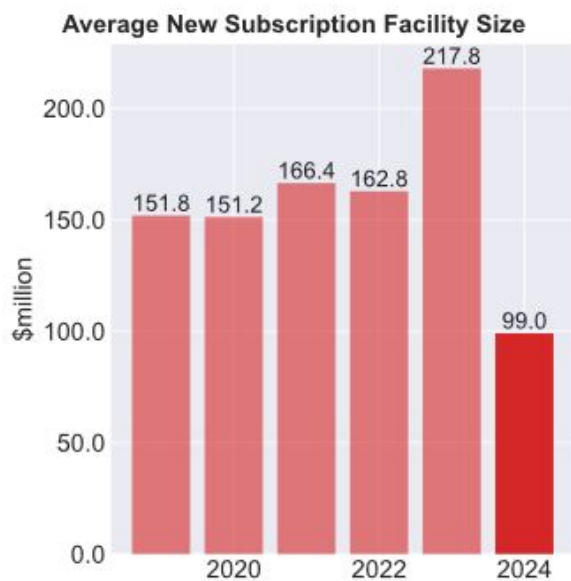
Even with the enhanced frequency of repriced facilities at amendment over the past two years, the extension pricing average lags behind new deal pricing because there are some deals being renewed at existing margins. The average amendment margin has held about 10 bps inside the average new deal margin in 2023-2024.

- **Bilateral deals dominate**

The syndicated deal share rose to 16% of total deal count in 2023, reaching the highest point since 2019 - no surprise in a market where large sponsors are taking a bigger slice of the pie (pumpkin this week). However, we are seeing bilateral deal share make a comeback in 2024 YTD. By commitment size, bilateral deal origination is outpacing syndicated deals in 2024. Lender mix has changed from 2023 with mid-sized banks again becoming more active this year. While bilateral deals are winning out in overall new origination volume, syndicated deals make up 74% of total commitments in 2024 when including amendments.

- **Facility sizes drop**

Newly originated subscription facilities are smaller on average in 2024. Facilities sized at \$50 million or below have made up 12% of total new deal commitments year to date, double the annual share of each of the prior three years. Re-engagement from mid-cap bank lenders has contributed to the trend, but interestingly some larger bank lenders have also originated sub-\$50 million facilities.



Source: Cadwalader, Wickersham & Taft LLP.

Some of the change in facility size in 2024 may simply be a function of timing, as a few larger facilities are approaching closing and likely to impact the full-year average. We estimate aggregate commitments in our U.S. subscription portfolio to total around \$540 billion, with about 55% of total coming from facilities with commitments of \$1.0 billion or more.

Est. Outstanding Balance by Commitment Bracket (Subscription)

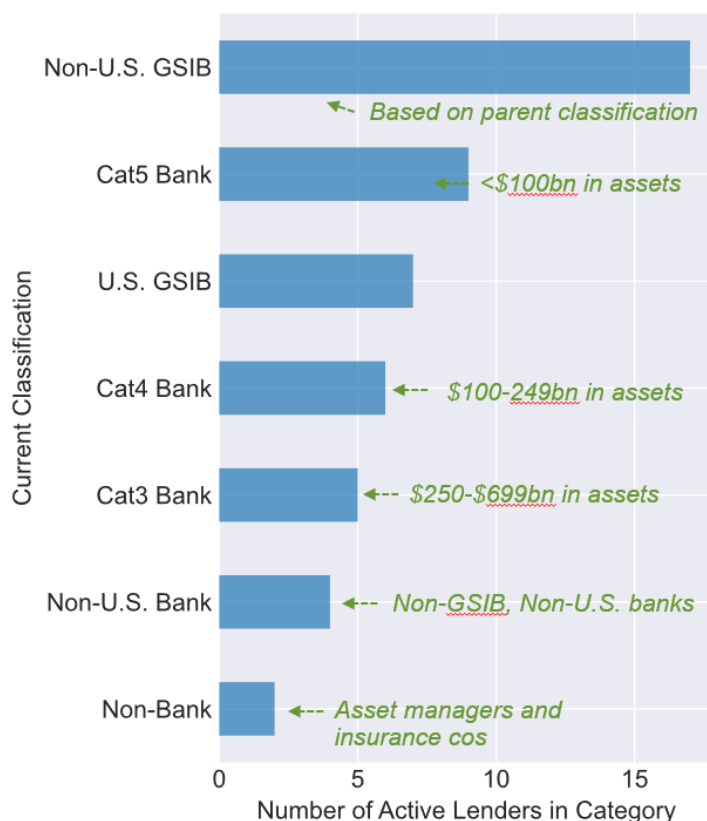


Source: Cadwalader, Wickersham & Taft LLP.

- **Lender diversity hits an all-time high**

Scoping in the subscription finance market by new originations from 2022-2024, we count 50 lenders in the U.S. across our representations. Number of active lenders this year has ranked in accordance with the following sub-classifications: Non-U.S. GSIBs, Cat5 Banks (technically not a supervisory category, but we use it to describe banks with less than \$100 billion in assets), U.S. GSIBs, Cat4 Banks (\$100-\$249 billion in assets), Cat3 Banks (\$250-\$399 billion in total assets), Non-U.S. Banks (neither a GSIB or U.S. Bank) and Non-banks (asset managers and insurance companies) - last in terms of number of lenders we have seen active this year but a steadily growing category.

New Subline Origination by Lender Type (2022-2024)



Note: Based on Cadwalader U.S. representations only; YTD 2024 data lags by three months due to the deal data collection process.

Source: Cadwalader, Wickersham & Taft LLP.

Six of the eight U.S. GSIBs have actively originated new subscription facilities after one largely exited the market in 2023. The number of deals that each lender on average originates based on our insight into the market has declined the last two years. This is not surprising as Lender breadth collapsed in 2023 with some banks retreating and fundraising pumping the brakes. Between 2022-2024, we have seen 16 different lenders serve as administrative agent on deals that were syndicated at closing.

• Sponsors are evolving

Top sponsors are diversifying away from classic drawdown funds. Growth projections are increasingly framed around other capital sources. Multi-strategy sponsors are more than ever positioned to let the investor drive the structure rather than having the strategy constrain the vehicle. Going forward, subscription will grow with a return in fundraising but will likely capture a more limited share of overall private market growth. Lenders that can (1) attach at the asset level (e.g., repo, warehouse, ABL, and NAV), and (2) connect lending to fee income will be ideally positioned to capture maximum upside.

Sponsor Capital Sources in 2024

Subscription Finance

Traditional

Closed-end, SMA, co-invest, and fund-of-fund vehicles.

Insurance

Captive permanent capital with full sponsor equity upside.

Retirement

Retail annuities, reinsurance, funding agreements.

Wealth

HNW, defined contribution, private bank, tax-advantaged.

Institutional

Insurance co., bank, asset manager, pension partnerships.

Source: Cadwalader, Wickersham & Taft LLP.

• Macro outlook is optimistic but not without challenges

Easing financial conditions have translated to improved PE deal activity. Announced deal value for Q2 2024 was the highest in two years. Distributions remain depressed, however, and the fundraising market is still highly concentrated in favor of top sponsors.

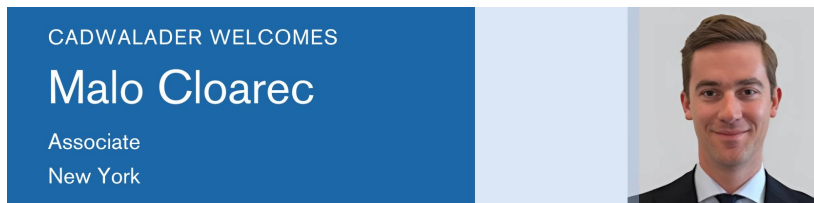
Global central banks have pivoted to easing. Lower rate and accommodative financial conditions should support further acceleration in deal activity. Also the recent and decisive U.S. election outcome is positive for the overall business outlook—many are predicting accelerated growth with the primary support coming from deregulation and lower energy costs. This could be a further positive for PE transaction volume, especially for exits and distributions. The introduction of further tariffs by the U.S. could also, from a PE perspective, present interesting reshoring investment opportunities. Over the next few months, the arm wrestle between growth and inflation/rates will be interesting to watch and may not clearly break one way or the other. However, it does seem likely that portfolio company investments and exits will accelerate, because, at a minimum, it no longer makes sense for sellers to hold on to hope for 2022 level of lower rates.

Fund finance has been living in a paradox: Bank RWA rationing has led to a sustained margin premium for subscription facilities into 2024. Utilization has taken on greater influence in lender commitment sizing. At the same time, the narrow sponsor concentration in the fundraising market has left lenders frustrated with limited origination opportunities. Regulators in the U.S. and UK have signaled a growing interest in bank lending to non-depository financial institutions. The extent to which rate cuts help bank profitability will depend, in part, on how credit (provisioning, NPL, and charge-offs) unfolds. We expect these factors to play out into a multi-speed market with differences in lending appetite between banks.

Special thanks to our director of research, Chris van Heerden and our entire fund finance team for their contributions. We will follow-up after year-end with updated insights based on how the year finishes. We hope all in the U.S. have a Happy Thanksgiving next week. We are very thankful for our clients, colleagues and friends in fund finance.

Welcome Malo Cloarec to Cadwalader

November 22, 2024



Please join us in welcoming Malo Cloarec to Cadwalader.

Malo Cloarec joins the Fund Finance team as an associate in New York. His experience includes practicing at a U.S. based global law firm as well as a boutique firm based in Paris. Malo received his LL.M. from Harvard Law School and his Master's in Law from Sciences Po Law School.

Learn more about Malo [here](#).

APAC Fund Finance Symposium 2024 - Top Takeaways

November 22, 2024

The Fund Finance Association hosted its **6th Annual Asia-Pacific Fund Finance Symposium** on 14 November 2024 and Mourant recently published the top takeaways from the panel discussions.

The theme of this year's symposium was 'Innovation and Our Future'. The theme reflected the fund finance community's commitment to driving change and creating innovative solutions for its clients and our businesses, ahead of challenges in the industry.

Read the takeaways [here](#).

Nominate Someone for the 2025 Fund Finance Industry Awards!

November 22, 2024



INDUSTRY AWARDS

Nominations for the annual Fund Finance Industry Awards are now open!

Do you know someone who has made remarkable contributions to the fund finance industry? A leader who exemplifies strength and commitment? Someone advancing diversity, equity, and inclusion in our field? Or a rising star in your team demonstrating a passion for shaping the future of fund finance?

Now is the time to recognize them! We are currently accepting nominations for our prestigious Industry Awards, with submissions open until December 30, 2024.

Winners will be announced at our 14th Annual Global Fund Finance Symposium, which is scheduled for February 24-27, 2025.

Nominate someone [here](#).

Praxio Fund Finance Expert Talk with Scott McMunn

November 22, 2024



The most recent episode of the Fund Finance Expert Talk by Michael Mbayi is live. In this episode, the Head of Banking & Finance of the Luxembourg law firm Praxio Law & Tax, speaks with Scott McMunn, CEO of the Loan Market Association.

Tune into this episode if you want to learn about:

- Scott's career path
- Scott's views on the industry
- Why Fund Finance is an important topic for the LMA
- What is on the pipeline for the LMA

Listen [here](#).

Fund Fanatics Features Saaima Khaliq

November 22, 2024



Join Scott Aleali, Head of Private Equity Finance at Citizens Bank, and Jeff Maier, Senior Managing Director - Private Equity Finance at Citizens Bank, with special guest Saaima Khaliq, the Managing Director, Private Equity CFO at New Mountain Capital for the latest episode of Fund Fanatics!

They focus on covering topics front of mind for growing private equity firms and more.

You can watch it [here](#).

Fund Finance Hiring

November 22, 2024

Fund Finance Hiring

Here is who's hiring in Fund Finance:

Goldman Sachs is seeking a Vice President for an origination role. This individual will play a key role in sourcing and managing new business opportunities, fostering client relationships, and driving strategic initiatives within the team. Learn more [here](#).

Goldman Sachs is hiring Analysts and Associates for underwriting roles. These individuals will focus on evaluating, structuring, and managing credit transactions, collaborating with cross-functional teams to deliver tailored financing solutions. Learn more [here](#).

East West Bank is currently seeking a SVP - Relationship Manager for our Private Equity business in the Eastern U.S. This individual will work with the Managing Director and other relationship team members in sourcing new business, structuring and underwriting loans, and managing relationships with a variety of private capital firms. Learn more [here](#).

Cadwalader, Wickersham & Taft LLP is seeking a Private Fund/Debt Financing Associate Attorney with at least three years of experience working on transactions that provide debt financing solutions for fund sponsors and fund investors, including collateralized fund obligations, rated note feeders and NAV facilities. This position will work across all three of Cadwalader's US offices, and candidates can sit in Charlotte, NC, New York, NY, or Washington, DC. Learn more [here](#).

Cadwalader, Wickersham & Taft LLP is seeking a Securitization/Structured Finance Associate with a minimum of three years of substantial experience in securitization, structured finance, structured products, corporate and/or real estate. CLO, CMBS, Repo and other ABL finance experience is also a plus, but not required. Candidates must have excellent academic credentials and solid law firm work experience. Learn more [here](#).

MUTB-NY is seeking an Account Officer - Fund Finance, Manager or AVP in its New York office. This role will support the team in structuring and managing fund finance transactions, which includes the enhancement of various processes and tools, e.g. validation models, policies and procedures, internal and external processes, and other items necessary for fund financing operation. Learn more [here](#).

MUFG Bank is seeking an Vice President to join its EMEA Fund Financing Credit team in London, United Kingdom. The VP will play a crucial role in managing credit risk across a diverse portfolio of fund finance transactions, including Subscription Finance, NAV Finance, Hybrid facilities, and Fund FX. Learn more [here](#).

East West Bank is seeking an SVP - Relationship Manager. This individual will work with the Managing Director and other relationship team members in sourcing new business, structuring and underwriting loans, and managing relationships with a variety of private capital firms. Learn more and apply [here](#).

We'll Be Back!

November 22, 2024

Fund Finance Friday readers, as the Thanksgiving holiday approaches, we want to take a moment to express our gratitude for your continuous support throughout the year.

In celebration of the festivities and to recharge, we'll be taking a short break and will be back with the next issue on December 6th.