



FUND FINANCE FRIDAY

Fund Finance Happenings This Week

June 14, 2019 | Issue No. 33

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Preqin Special Report on Subscription Facilities and Other Fund Finance Happenings This Week

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By Michael Mascia
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After several relatively quiet weeks in fund finance, this week was anything but. Perhaps in anticipation of next week's European Symposium, press reports addressing aspects of fund finance seemed to pop up daily. And the markets were very active—a number of deals that had been on a slow burn moved to mandate this week. The headline press came from private equity data provider Preqin, which published a rather extensive report titled "Preqin Special Report: Subscription Credit Facilities." The report includes a foreword by Mark O'Hare, Preqin's CEO, and includes data Preqin has collected on subscription line usage (a simple "do you use a facility, yes or no?" data analysis). The report, like several prior press reports, includes quotes from Ludovic Phalippou, Professor of Financial Economics at Saïd Business School, including an assertion that "many LPs could already not pay capital calls arriving at a normal and expected pace" during the financial crisis. (Really? Cadwalader did not witness limited partners failing to fund capital calls at all during the financial crisis and the Fund Finance Association has no knowledge of any lender taking a writedown or loss on a subscription facility during the downturn. So I am not sure what data set Professor Phalippou is relying on to support his assertion. We believe the vast majority of limited partners in private equity are fully prepared to manage their liquidity and capital commitment obligations. But I stray...) The report also includes short articles from Jennifer Choi, Managing Director, Industry Affairs, for ILPA; Meghan Neenan, Managing Director, Fitch Ratings; and Mark Kromkowski, Partner, McGuireWoods. The report is available [here](#).

The Fund Finance Association this week announced its inaugural FFA University, which will take place September 17 and 18 in New York. This is a project I have been working on that I hope can serve as a valuable training function for the industry. We have a solid working draft of the curriculum which is available on the FFA's website [here](#). A lot of very seasoned fund finance professionals have agreed to present and I'm grateful for their willingness to contribute. The registration link is available [here](#).

I leave for London on Monday. Look forward to seeing many of you at the NexGen speed mentoring event Tuesday, the WFF event Wednesday and the European Symposium on Thursday. Next week's *FFF* will include an in-depth review of the Symposium for those unable to attend.

Conyers Article on Cayman Regulatory Issues for Lenders

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The Cayman Islands office of Conyers Dill & Pearman this week published a Fund Finance thought leadership piece titled “The New Cayman Regulatory Landscape – What Questions Should a Lender Ask?” The article addresses considerations for lenders to Cayman Islands funds with respect to the Cayman AML Regime and the Economic Substance Law. A copy of the article is available [here](#).

Matheson on Irish Fund Guaranty Considerations

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Irish funds are prohibited, under the Central Bank of Ireland's AIF Rulebook, from providing guarantees or security on behalf of third parties. It's not uncommon, however, for an Irish fund group to contain entities, such as a special purpose vehicle, that may not be a wholly owned subsidiary. The application of a cascading structure in this and other similar situations for fund financing arrangements is the subject of a recent note published by Matheson. The full text is available [here](#).

FFA Releases London Conference Agenda

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The 5th Annual European Fund Finance Symposium takes place next week in London and the FFA this week released the Agenda. The FFA has been placing a lot of emphasis on content evolution at its events, and that is evident in this year's Agenda. The Agenda is available [here](#).

Fund Finance in the News

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- On May 19, 2019, *The Economist* published an article on the Abraaj matter titled "The Biggest Collapse in Private-Equity History Will Have a Lasting Impact." The article restates purported facts around the asset manager's liquidation and judicial proceedings and mentions the subscription lines to its funds. The article is available [here](#).
- *Private Equity International's Thursday Side Letter* newsletter made mention of the impact of the Abraaj matter on fund finance, noting that lenders are focused on negotiating acceleration events tied to potential investor allegations of wrongdoing. The article is available by subscription [here](#).
- *Secondaries Investor* this week published an article titled *UBS Fund Financing Unit Takes Secondaries Market Share*. The subscription-required article can be accessed [here](#).

Player Profile: Matthias Jahnke

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Player Profile



FFF: How did you end up in fund finance?

Pretty much like everyone that has been in this industry since its early days—by accident. Back in 2007, we were looking to develop new products inside a broader FIG platform, and fund financing for PEGs seemed to be the underdeveloped market with a decent growth potential.

FFF: How has the first half of 2019 shaped up compared to 2018?

According to Bloomberg, PE funds raised a combined \$26.4 billion of commitments in the first five-and-a-half months of the year. That's only 18 percent of the fundraising activity for the same timeframe of 2018. While the subscription market usually sustains commitment levels via extension and upsizes for existing facilities, growth has definitely come down to more moderate levels with fundraising being the key driver of growth in years past.

FFF: Fund finance is still relatively small in the context of global private market AUM. In round numbers, call it \$500 billion of lending to a nearly \$6 trillion market. Where are the most exciting growth opportunities?

Assume that the \$500 billion you mention comes mostly from traditional subscription lines, and to use a more appropriate measure, compare that to \$2 trillion in uncalled capital across the private fund universe at the end of 2018. Combine that with an average subscription facility at 25 percent of fund size and you can come to the conclusion that you are not far off from saturation levels in the traditional part of the market (*i.e.*, facilities covered by uncalled capital provided to buyout, growth, and real asset strategies). Consider now that \$6 trillion in AUM includes approximately \$800 billion of venture capital AUM as well as asset leverage, and the answer seems obvious: subscription lines to “non-traditional” asset classes as well as hybrid and NAV lending. I'll leave it up to each capital provider to determine how exciting these are.

FFF: Elsewhere, credit spreads are moving wider. Why doesn't broader credit market pricing have more of an impact on fund finance?

It's an interesting question and somewhat of a multi-headed beast, but something that is mainly driven by the track record of the product along with the high liquidity in the market. With almost no reported defaults, a lot of banks have—and are continuing—to turn to the space for many reasons, but mainly to avoid other parts of the credit markets in what is an increasingly uncertain macro environment. With supply up and a large portion of demand down (see question #2), credit spreads have been able to stay relatively flat as a result.

FFF: Who has had the most influence on your career?

Really the two key people in this industry. I started in the space with WestLB, with Wells Fargo buying the franchise in 2012. Do I need to say more?

FFF: What was your career high . . . and career low?

The high? Moving to New York 12 years ago. The multi-faceted life this city has to offer as well as the broad set of cultural exposure one can get are unmatched anywhere else in the world.

The low is really a high in hindsight. Having worked for one of the highly successful businesses at an institution that was being torn apart for broader political reasons outside of your control, was a frustrating experience. It taught me a lot of valuable lessons that still prove to be useful today.

FFF: What do you think it takes to be successful as a banker in the fund finance industry?

While all of these apply interchangeably at different points in time, having the ability to build and foster strong relationships and deliver a trustworthy and consistent work product was key in the years coming out of the financial crisis. More recently, and probably for the foreseeable future, it is the ability to stay disciplined with a long-term plan in mind.

FFF: If you could give the Fund Finance Association one piece of advice, what would it be?

I know it's difficult, but build additional content that's relevant for sponsors.

FFF: What do you like to do outside of the office?

Like most other people, spending time with family and friends. I am also a passionate runner, still (unsuccessfully) chasing those Mike Mascia marathon times.

FFF: Tell us two truths and one lie about yourself?

My last name is not pronounced junk-ie.

I was born and grew up in the former German Democratic Republic.

I am a strong believer that the U.S. football (American friends, I am talking about soccer) team will win a World Cup in my lifetime.

FFF: Family?

Soon to be 3. Very exciting, but who knew buying a stroller would be a project on its own...

FFF: Any fund finance predictions for the rest of the year?

Modest single-digit growth in the capital call market and increased Hybrid/NAV lending activity.

Player Profile: Ian Shanks

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Player Profile



FFF: How did you end up in fund finance?

I basically fell into this back in the late 90s when I was at Bank of Scotland – now part of Lloyds Banking Group. I worked in leveraged finance and also spent some time with a PE firm in Edinburgh called Dunedin Capital Partners, which was a great experience seeing the other side of PE transactions. When I came back into the Bank, I inherited its private equity portfolio of LP commitments which was around £100m and, like many banks at that time, this was done to support its leveraged finance business. Being honest, nobody really understood the LP positions and it was seen as an expensive “marketing spend” with a potential return. We put a strategy together to build the business supporting both the PE managers as well as our leveraged finance colleagues. Our approach was to pick a handful of PE managers and surround them with our capability and build a true long-term partnership with them. As we built this out over the next five years, we ended up with a multibillion LP book across many key GPs. As part of this, we provided LP-backed credit lines as well as supporting GPs in all manner of banking requirements including their GP commit. As we built the debt book we expanded out into secondary funds and fund of funds and then gradually moved into NAV lending structures where we did many “firsts” in transaction types. We continued to focus on GPs of quality, who could provide repeat business where there was a strong relationship play, something I strongly believe in still; and by the mid-2000s, we had a global business with over £10bn in debt – all before this was a “fashionable” sector, with only a handful of banks and lawyers involved at this time.

FFF: How has the first half of 2019 shaped up compared to 2018?

In 2018, at Aberdeen Standard Investments, we set up a new capability with our strategic partner, Phoenix Insurance Group, to become involved in fund financing with the aim to raise additional capital from other insurance clients as they see the benefit of participating in fund financing loans. Our deal sourcing comes from banks who wish to syndicate or via our PE activity, with the GPs bringing us in directly as part of a deal (we have invested in over 500 GPs). Importantly, our aim is not to compete for mandates with the banks, but rather to be a solution provider to them as the deals get bigger. From a standing start, 2019 has been very active and successful as our capability and approach have been well received by the banks and GPs.

FFF: Are there any emerging issues that might prove relevant for the fund finance markets?

As PE funds increase and LP credit lines get bigger, banks have limit constraints, whether on single loans, manager concentration or sector exposure. Despite many new bank entrants, capacity constraints will prove challenging. We see and hear of many banks seeking alternative sources of funding, and hopefully in some small way we are able to help this. Coming back into the market after a few absent years, the length and complexity of loan documents is interesting. I remember seeing simple documentation of around 30 pages, whereas our latest deal has 300+ pages. I think, like a lot of things in life, the market has tilted too far into complexities and we may be losing sight of the key lending fundamentals of these transactions.

FFF: Who has had the most influence on your career?

I would say Graham McDonald, who currently runs our ASI Private Equity business and who I have worked with for the last 15 years. We started the PE business basically from nothing but he gave us the room, autonomy and support to build the fund finance business, the confidence to keep pushing boundaries (it took us 2 years to do our 1st NAV deal) and reminded us to always trust, respect and look after your people, as we are nothing without them. Importantly, enjoy what you do – we are all here only for a short time.

FFF: What was your career high . . . and career low?

Surviving in the PE market for 20+ years. We had a great fund financing business at Bank of Scotland with the right people and attitude, and this was halted in its stride with the financial crisis, and stopped us building and supporting GPs as we wanted and needed to. Helping sell a famous Scottish football club albeit ending up in court over the deal. I will let you decide which are the highs and lows.

FFF: What do you think it takes to be successful in the fund finance industry?

Creativity and keep backing people you know. Trust and integrity are vitally important—deliver on what you say and do the right thing in times of difficulty. And finally, enjoy what you do.

FFF: If you could give the Fund Finance Association one piece of advice, what would it be?

Be more proactive to combat the negative press, focussing on the benefits of fund financing to the whole industry; and second, move conferences around. Seychelles, Mauritius and the Caribbean all sound like worthy spots for next time.

FFF: What do you like to do outside of the office?

I try and play a bit of golf. Based in Scotland, we are spoilt for choice and I have been incredibly lucky to play a huge variety of golf courses both here and abroad. My wife and I both love the Disney parks in Florida and have ventured over 15 times, which might be something to do with the fact that she gets all the Christmas shopping done in September while there, and which allows me time to play golf while she shops.

FFF: Tell us two truths and one lie about yourself?

I have played golf with a world number one, a U.S. and British Open Champion, as well as with a Ryder Cup Captain.

I played football for Scotland.

I have a pilot's licence and take cadets up gliding.

FFF: Any fund finance predictions for the rest of the year?

The market will get bigger; expect more negative press; and many more trees destroyed from the paperwork involved in deals.

Fund Finance Hiring

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Fund Finance Hiring

- Société Générale is seeking to hire a junior-level employee to join its Asset Backed Products group, focusing on supporting the bank's existing subscription finance practice. For more information, reach out to Brad Neithardt at brad.neithardt-ext@sgcib.com.
- Stifel Bank is hiring an associate to join its new Fund Banking group. For more information, visit the following [link](#) or reach out to Mike Breaux at mbreaux@stifelbank.com.
- If you have an opportunity you would like posted on *Fund Finance Friday*, email us at fund-finance-friday@cwt.com.

On the Move — Fund Finance Tidbits

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On the Move

Alexandra Woodcock joins the fast-growing Maurant team in the Cayman Islands on June 18. Alex is a banking and finance specialist with significant expertise advising on all types of secured lending transactions. She is widely regarded as one of the leading fund finance specialists in the Cayman market, with over a decade of experience in that area. Alex is closely involved with the Fund Finance Association and is an integral part of the Women in Fund Finance initiative.

If you have an update for inclusion in Fund Finance Tidbits, email us at fund-finance-friday@cwt.com.

Fund Finance Calendar

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Fund Finance Calendar

Upcoming Events in Fund Finance

July 25, 2019	Women in Fund Finance Wit & Wisdom Breakfast Meeting, Allen & Overy, London
September 24, 2019	3 rd Annual Asia-Pacific Fund Finance Symposium, Four Seasons Hotel, Hong Kong
October 17, 2019	Cadwalader Finance Forum, The Ritz-Carlton, Charlotte, North Carolina

If you have an event that you would like listed on the *Fund Finance Friday* calendar, please email us at fund-finance-friday@cwt.com.