

CADWALDER

## Key Themes From the European Fund Finance Symposium

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The Fund Finance Association's 5th Annual European Fund Finance Symposium wrapped up yesterday at the Landmark Hotel in London. Well over 500 people attended, including representatives from 50 different banks. Below is a list of themes and updates heard on various panels and during sidebars.

There are some significant trends on the fund formation side, including:

1. Fund size in Europe has increased significantly, leading to larger Facilities and more frequent syndications;
2. Significant increase in SMAs and other fund of one structures;
3. A noted uptick in transitions from hedge funds and other liquid strategies to closed end strategies;
4. The investment thesis and strategy of funds is getting increasingly specific, which can lead to a decrease in the granularity of the investor pool;
5. "Kicker" funds are being formed. These are funds where the investors commit today, but the call rights do not become effective until a certain event has occurred, such as a meaningful change in interest rates or a set pullback in the equities market. These funds can be challenging to lend to because the fund wants certainty of the availability of credit upon the effective date, but banks are reluctant to make a commitment to a transaction that may never become effective;
6. A very significant percentage of investors are comfortable with subscription facilities and fund level leverage and are not hung up around conformity with the ILPA Guidelines specifics. Investor requests for more information and disclosure around subscription and leverage facilities are up materially, but that's true more generally as well. Investor requests for information around ESG policies and diversity and inclusion, for example, are also up materially.

On the credit facility side, change is a little more muted. Below are some of the key trends that were discussed:

1. According to fund administrators, 90% plus of European funds are looking for a subscription facility;
2. Features of the leveraged finance market continue to creep into fund finance, including a significant growth in the numbers of and market involvement of debt advisors, now estimated at around 10 active in Europe. Lenders are also increasingly seeing term sheet proposals coming directly from borrowers, increasing pressure from funds for innovation and creative transaction structures and collateral, and increased negotiations prior to mandate instead of during deal documentation;
3. The Abraaj matter has led to lenders wanting to do increased due diligence around the fund manager. Standards around this are developing; there is not a clear market position right now. Managers want the information requested to stay consistent with what the investors require from the manager so as not to duplicate work;
4. Lender onboarding continues to be time consuming, especially in syndicated transactions where different lenders require completely different KYC deliverables to comply with different regulatory regimes. Third-party diligence collectors and providers have started entering the market;
5. Uncertainty around what Brexit may look like continues, although the forecasted impact on fund finance is limited.

## FFA European Symposium Closing Remarks

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The FFA European Symposium wrapped up yesterday afternoon with presentations by Chris Elvin, Head of Private Equity at Preqin, and Tim Hames, Director General of the British Private Equity and Venture Capital Association.

The Preqin data presentation, seemingly a fixture of FFA events, showed a slight decline in 2019 year-to-date private equity fundraising compared to 2018 (which was already down from 2017). Despite that, Preqin's long-term forecast still remains extremely bullish on the growth of alternatives generally and private equity specifically. The FFA has made a copy of Preqin's slides available [here](#).

Mr. Hames gave an entertaining presentation, including an alternative view that an economic downturn may not be on the immediate horizon and his thoughts about the implications of the volume of dry powder in private equity. He also expressed his concerns that private equity fundraising is increasingly trending toward the megafunds and small funds with a nichey focus, while leaving behind a bit the broad middle, which is where the great returns of prior years were largely earned.

## Player Profile: Gavin Rees

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### Player Profile

#### FFF: How did you end up in fund finance?

I joined WestLB in New York in 2005 as part of the Financial Institutions group which had been recently taken on by Dee Dee Sklar (you may have heard of her...), who was looking for more imaginative uses of the Bank's capital than lending to other banks. We began to participate in some fund finance deals led by some of the leaders in the market and rather got a taste for it (as did WestLB), so began to originate deals ourselves.

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

2018 was a great year, but 2019 has really turned the dial to 11 (see below). I put this down to SVB's growing profile in the UK and Western Europe and the strong foundation created by the Bank's 30+ year history of working with funds in the U.S. These factors have outweighed Brexit's impact on UK-focused fund raising. We're also working on a greater variety of transactions, not just capital call lines, but GP and manco facilities, NAV lines for VC and buy-out funds, etc. This range of product is a real differentiator for SVB.

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

At some point there will be a correction in the market, and funds' valuations and investors' liquidity will take a short to medium term hit. It will be interesting to see how lenders, in particular those relatively new to the sector, react. One of the reasons SVB (and my alma mater, WestLB) succeeded during the 2008 GFC was that it remained committed to the funds sector, actively working with GPs to de-risk situations, to borrowers' and lenders' mutual benefit, rather than heading straight for the hills. The same level-headedness will be required the next time around also.

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

Within the context of funds finance, it's got to be Dee Dee (c'mon, you must know her). Her ambition, tenacity and the way she looks after her team and her clients is really impressive. I remember an episode fairly early in the development of the WestLB practice when we were pitching hard to a very substantial real estate fund manager, up against a much more established, incumbent lender. The GP called us to let us know they were willing to admit WestLB into the deal as a co-lead with the larger bank. I was over the moon, but Dee Dee was less impressed. She put the phone on mute and went silent for a time. After 30 seconds or so (which seemed a lot longer), she got back on the line and told the GP "thanks, but we want it all." The GP was gob-smacked at the tenacity of this upstart (WestLB, not Dee Dee) and the call ended. He called back within 10 minutes and said they would go with WestLB as sole lead. I thought that was pretty cool.

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

My career high was becoming the Head of SVB's London Funds Finance team in 2016. The Funds Banking team in London (and across the U.S. and in Asia), and the overall culture of the Bank, is so refreshing. And I think our clients pick up on that positive, can-do vibe from us.

Inevitably over the 15 or so years I've worked in this space there have been setbacks, but I'd be more comfortable speaking about them discreetly over a Guinness...

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

At the risk of sounding hackneyed, it would be integrity and consistency. I really like the funds banking sector because the majority of GPs, lenders, lawyers, administrators and other service providers are in it for the long haul, and reputation and reliability matters. Doing the right thing is important as an individual and as an organisation, including supporting GPs through many, many fund cycles. I like working for SVB because that is the collective ethos.

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

Before offering my piece of advice, I'd like to tip my hat to the people who have built the FFA from its modest beginnings only a few years ago to the impressive organisation it is today. In particular because most/all of those involved do it in addition to their day jobs. My tuppence-worth would be to prioritise innovative content and thought-provoking speakers ahead of panels comprising sponsors of the organisation. For me there are diminishing returns to

panels made up of lawyers and bankers, too often with analogous views. I think the Women in Funds Finance Association has done a great job of hosting events with stimulating topics and guests, and not always related to fund finance.

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

It's family (including our new pup, Jet – see below), football (my son and I are Charlton Athletic season ticket holders) as well as skydiving/pet rescue/ultra-marathons.

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

I refer you to my previous response.

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

I'm now genuinely concerned about a No-Deal Brexit and the impact that will have on all sectors, including fund raising and by extension funds finance. Also, I'm setting up an advisory business to advise GPs on which debt advisor to use for their fund financing needs.



## **Next Gen Speed Mentoring Kicks Off European Symposium**

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The Fund Finance Association's Next Generation initiative held a fun speed mentoring event in London earlier this week to kick off the European Symposium slate of events. Organized by Billal Malik of Citibank, Roisin Marsh of Ashurst and Rob McClean of Cadwalader, the event introduced approximately 50 younger fund finance professionals to more seasoned market participants. Mentees rotated tables every few minutes to ensure they met everyone. Jeff Johnston of Wells Fargo and the Chairman of the FFA gave the opening remarks. Ashurst was kind enough to sponsor and host the event in their terrific new office space.

## **Abraaj Press Tracker**

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Abraaj was in the press extensively this week. See these articles:

*Financial Times:* [\*\*US Prosecutors Widen Probe Into Collapse of Abraaj\*\*](#)

*The Wall Street Journal:* [\*\*Abraaj Founder Arif Naqvi Accused of Misappropriating More Than \\$250 Million in New Indictment\*\*](#)

*Private Equity International:* [\*\*Updated Indictment Sheds New Light on Abraaj Case\*\*](#)

*Secondaries Investor:* [\*\*Abraaj 'Boosted Valuations' to Entice Secondaries Buyers – Prosecutors\*\*](#)

*Bloomberg:* [\*\*Boutique Firm Led by Ex-UBS Banker to Bid for Abraaj Funds\*\*](#)

## Fund Finance Hiring

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### Fund Finance Hiring

- National Australia Bank is looking to hire an Associate Director or Senior Associate with at least six years of experience into its Funds Group. The person will join the credit team to provide structuring, oversight and approvals primarily for Subscription Finance and Markets transactions as well as support for project and asset finance. Please send your CV to George Catallo at [george.catallo@NABNY.com](mailto:george.catallo@NABNY.com)
- 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](mailto:brad.neithardt-ext@sgcib.com).

If you have an opportunity you would like posted on *Fund Finance Friday*, email us at [fund-finance-friday@cwt.com](mailto:fund-finance-friday@cwt.com).



