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Introducing fundfinancefriday.com

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Today marks the 36th edition of *Fund Finance Friday,* and we are pleased to introduce **fundfinancefriday.com**, a new website designed to allow easy access to all of *FFF*'s substance. All of *FFF'*s previous and future articles will be available on the website, searchable by key words and article type. You will still receive your Friday email distribution, but all of the current week's articles will also be displayed prominently on the website. If you miss the email or want to review articles from a prior edition, they will now always be easily available. We have also included links to the most popular articles over the last year. As always, we welcome feedback on how we can make FFF and **fundfinancefriday.com** more productive for you. Email us at fund-finance-friday@cwt.com.

This Week in Fund Finance

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By Michael Mascia
FFA Board Member

Anecdotal reports that private equity fundraising remains off a good bit so far in 2019 continues to diverge with fund finance. Our preliminary data shows both lender commitments and Cadwalader fund finance lawyer hours accruing at a clip in double-digit excess compared to the same period in 2018. The London market appears particularly robust; our team there is working on a wide variety of interesting matters. We have visibility into a number of large second quarter fundraises so it would not surprise me if the formation side data starts to creep back upwards.

Congratulations to Jennifer Choi and ILPA for publishing their ILPA Principles 3.0. I finished reading them this week and a lot of work clearly went into the production. While the new Principles did not expressly adopt many of the Fund Finance Association's suggestions, I was pleased to see express recognition that the guidance provided is not a "one-size-fits-all" checklist appropriate for all funds, but rather a jumping off point for discussion as applied to any particular fund. I was also pleased to see clear distinctions between subscription facilities and NAV facilities. The actual substance around Subscription Facilities is quite succinct and largely continues to focus on transparency and disclosure. Some of the items the Fund Finance Association recommended be removed from the original guidance (that subscription facilities cause "liquidity risk," no pledge of investments, etc.), was not repeated. There are still some substantive recommendations that I'm certain the FFA will have pointed views on, but I do not see the updated Principles being disruptive to our markets. (If you missed it, the updated Principles are available **here**; *PEI* press coverage about their treatment of subscription facilities is available **here**; *Institutional Investor* coverage is available **here**.)

The Fund Finance Association this week released an updated curriculum for FFA University (available **here**), which takes place September 17 and 18 in New York. A great group of really senior market participants have agreed to volunteer as instructors and session facilitators. Please consider sending a few of your newer team members. To register, click **here**.

Player Profile: Scott Aleali

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Player Profile

FFF: Scott, how did you end up in fund finance?

This was back in 2011 when I was living in the suburbs of Southern California where I grew up. Looking for a personal and professional change of pace, I asked my employer at the time about opportunities in New York City. Coincidentally, they had a plan to launch a fund finance practice in NYC and offered me a position on the team – an opportunity that I remain extremely thankful for.

FFF: Fund finance has become a competitive market. How does your team differentiate itself in a crowded market?

In any market, the most successful service providers are providing the best experience possible for their clients, and that experience is always evolving as your market evolves. Our team's mindset of being an experience provider instead of a service provider is what I believe sets us apart.

Are we continuously improving our platform and processes to give our clients time back in their day and make it easier for them to do business with us? When our clients are in a pinch and circumstances get challenging, can they count on us to roll up our sleeves, find a solution and come through in the clutch? Are we creating the most impactful events that deliver value to our clients professionally and bring joy to their lives personally?

You need a committed team around you and institutional support behind you to execute successfully on this mindset. Without a doubt we have the best of both.

FFF: What trends are you seeing in the first half of 2019 compared to 2018?

We're seeing an increase in requests for credit facilities to separately managed accounts. I expect this trend will continue as investors seem to value the customization of their own investment vehicles and having their own unique set of partnership terms. Fund structure charts and partnership documents are also getting more complex, making it cost more and take longer to close a credit facility. One must question if all this added complexity is really necessary.

FFF: Long-time bankers are always conscious that bad loans are made in good times. Anything of concern in fund finance credit or the market?

Funds advancing on a credit facility as a large percentage of fund size and for a long period of time before calling capital from investors. This obviously works well at the beginning of a fund's life to manage the J-curve and should continue to work well for the right Fund profile. It will be an uncomfortable situation for the GP, LPs, and the lender if a fund has to issue a large first capital call into a portfolio of underperforming assets.

On a more macro level, it's the rise in AUM of private credit and direct lending strategies. You'd think at some point during a downturn in the market that these portfolio companies will struggle to carry their debt.

FFF: How do you anticipate lenders will respond over time to growing scale at the top sponsors?

It's not a secret that our clients are raising capital faster and funds are getting larger. One approach we've taken to continue supporting our clients' growth is building out our syndications infrastructure and forming relationships with the right lenders to partner with.

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

There have been too many to name just one or two, so I'll answer this question in two groups – before and after moving to NYC.

To progress in any career you need to find the right opportunity that fits your strengths and the right people need to give you a shot. When I started my banking career in 2007, I didn't have the most impressive resume and I knew I wasn't the smartest person in the room. I was fortunate to have been supported by incredible people that invested their time, energy, and patience in my development. The list is longer but to Ben Fargo, Jeff Strawn, Robert Anderson, Derek Hoyt, Kevin Wallace, Jim Hori and Adam Tweedy: thank you.

I barely knew anyone in NYC when I moved here in 2011. I teamed up out of the gate with Jeff Maier, who I remain business partners with today and hopefully will throughout my career in fund finance. Jeff introduced me to a lot of people and was a huge help toward building my professional network in NYC. I also consider myself lucky to now have amazing friends that were made through client relationships. There are a few industry friends that taught me about this market and what the private equity community really cares about. Thank you for your continued support and mentorship.

FFF: What advice do you have for the young fund finance banker just getting underway in the sector?

Don't underestimate the value of mentorship. Surround yourself with people of high integrity, principles and values that you consider successful and that genuinely care about your success. Instead of focusing on what they're doing now that makes them successful, learn about what they had to do to get there. Your foundation and reputation are everything.

FFF: While you're dispensing advice, any suggestions for the Fund Finance Association?

There's a wealth of knowledge across the attendees of the Annual Global Symposium. Carving out a portion of the agenda for smaller breakout sessions would be a fantastic way for attendees to learn more from one another and build closer relationships while they're there. Excellent call moving the event to Miami, by the way.

FFF: If you could choose one profession to be in outside of fund finance, what would that be?

I'm a bit of an obsessive Miami Dolphins fan and part of the DolfansNyc fan club that meets every week during the season for the games. The team is executing on a rebuild that's going to result in sustained success and winning the 2021 Super Bowl (yes, you heard it here first). It would be such a cool experience to work for the General Manager of the Miami Dolphins and contribute to what they're building down in South Florida.

FFF: Tell us one fun fact about yourself?

I'm the commissioner of a fantasy football league that's been going strong for 23 consecutive years. Our league's most important rule is all managers have to be physically present for draft weekend. That last weekend every August has become one of my favorite weekends of the year.

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

There's been a lot of personnel change across lenders, with some new entrants coming into the market. The game of musical chairs is over and we're done seeing more senior people or fund finance teams leave to go from one place to another.

Dyal Unveils Sponsor Loan Strategy

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The opportunity set for non-bank lenders in fund finance is an occasional conversation piece around here, with a loose consensus that margins in the vast majority of the market just don't pencil out for anyone other than maybe so-far untapped insurance or money manager sources of capital that comp to triple-A structured products. Dyal Capital Partners is breaking ground with a strategy that targets high single-digit returns by lending to sponsors on terms of 10 years or longer, according to a *Wall Street Journal* report. The Neuberger Berman Group LLC division has already raised roughly $1 billion for the strategy. Read more about it **here.**

Law360 on Subscription Finance

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Law360 recently featured an article on subscription finance, drawing insight from the team at Ropes & Gray LLP and Y. Shukie Grossman at Gibson Dunn & Crutcher LLP. *FFF* regulars will be familiar with the concepts covered in the write-up: (1) The use of subscription facilities has expanded beyond the initial administrative purpose of intermediating capital calls; (2) It's far more efficient to structure in a facility at the inception of the fund; (3) By allowing a fund to borrow for investments and expenses, subscription facilities can help mitigate the J-curve effect – the tendency towards lower returns early in the fund lifecycle; and (4) Given its cost-of-capital advantage, facility borrowing can be accretive to IRR. This advantage is at its greatest when short-term interest rates are low. The full article is available by subscription **here**.

Ogier Publishes 'Fund Finance Lending: A Practical Checklist'

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Ogier recently published “Fund Finance Lending: A Practical Checklist.” The article details practical considerations involved in structuring a subscription facility and is available **here**.

Buyouts Article on Court Square’s Subscription Line Optionality

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Buyouts earlier this week published an article titled “Court Square offers LPs option to commit to fund with subscription line," reporting that for Court Square’s Fund IV, investors will have an option to commit to a structure with – or without – subscription financing. The article is available **here**.

PEI on 'Unlevered' IRRs

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PEI recently published “Credit Lines: An ‘Unlevered’ Version Of IRR Could Be Less Useful Than Hoped.” The *PEI* write-up is available by subscription **here**.

Fund Finance Hiring

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Fund Finance Hiring

Morgan Stanley is seeking to hire a high-potential Lending Transactor (LT) to help grow its Tailored Lending team serving ultra-high net worth clients. The LT will be located in the New York area and will support and collaborate with the various Senior Lending Transactors (SLTs) throughout the U.S. For more information, reach out to Corey Kozak at **Corey.Kozak@morganstanley.com**.

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

Women in Fund Finance Announces 'Wit & Wisdom Series'

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Women in Fund Finance is pleased to hold the first "Wit & Wisdom Series" meeting in London, connecting senior women in the fund finance industry with junior members for intimate breakfast discussions. This first meeting will take place on July 25 and will focus on networking in male-dominated fields and building relationships with male colleagues and clients, as well as how to deal with potential awkwardness or discomfort in setting up one-on-one meetings. For more information and to register, click **here**.