Hillary Rodham Clinton and Magic Johnson Announced as FFA Miami Keynote Speakers

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By Jeff Johnston
FFA Chair

By Michael Mascia
FFA Board Member

When the Fund Finance Association hosts our Global Fund Finance Symposium in Miami on February 12-14, 2020, it will be the 10th consecutive year for the event. To celebrate this milestone anniversary as well as our industry's collective growth and successes, the FFA Board wanted to "go big" in Miami. With that in mind, we are so excited to have announced this week that our keynote speakers will include both Hillary Rodham Clinton and Earvin "Magic" Johnson! To have Secretary Clinton speaking in February during the massive run-up to the Democratic party primary elections throughout the spring is just going to be sensational. And Magic will be joining us the week of the NBA All-Star game in Chicago. It is so exciting for our industry and a great reflection on how far we have come to be able to attract speakers of this magnitude.

With these headline speakers, our expectation is that attendance at the Symposium will increase materially this year. In fact, we hope our keynote speakers can help attract leaders at the banks, law firms and funds, so that our collective leadership can see how dynamic of an industry we have all built. With that in mind, we have secured more space at the Fontainebleau Hotel, extended the time frame for the outdoor welcome reception and added additional breakout panels. To help cover the increased expenses, we have increased the cost of individual tickets and created a variety of additional sponsorship opportunities. But, we are very conscious that our event sponsors are incredibly generous supporting us, and we have tried to hold our actual sponsorship levels as close as possible to last year's. Please secure your sponsorships as early as possible – while we have secured substantial additional space, tickets are likely to again sell out. Sponsorship information is available on the FFA's website **here**.

In addition to prolific opening and closing speakers, the FFA is working hard to evolve the Symposium's content in other ways to keep the programming fresh and interesting. We are including other panels this year that are a little outside of the four corners of fund finance, with academic authorities covering areas like Modern Monetary Theory and private equity's influence on the IPO market. At the same time, we are greatly appreciative of the support of our sponsors and intend to ensure that there are plenty of traditional panels where our sponsors will be well represented.

We hope you share our enthusiasm about the changes for our 10th anniversary Symposium.

As always, we welcome feedback on how we can make FFA events more productive for your business.

Diversity in Fund Finance Events

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By Natasha Puri
Vice President, Financial Institutions North America | Lloyds Bank

Supporters of the Diversity in Fund Finance initiative gathered in New York to present to Baruch College's Financial Leadership Program (FLP) for the second year in a row.

The FLP is dedicated to the professional development and advancement of high-potential juniors interested in careers in finance. The program's mission is to increase recruiting for Baruch's diverse and talented students into top financial analyst programs across industries. After the FFA received phenomenal feedback last year that we were the "greatest presentation of the semester,"' we were invited to present to the newest class of students.

FFA members presented to 25 students in the program, providing a high-level overview of the Fund Finance market with a networking session afterwards. Students who are interested in learning more about analyst programs were encouraged to submit their resumes, which we will collate to distribute to member banks.

Diversity in Fund Finance is hosting a second presentation on October 23 from 5:30-7:30 p.m. at Lloyds Bank. Fund Finance Diversified, as it is called, is being marketed to several NYC-area schools with diverse student populations, with a goal to educate students about the Fund Finance market, possible career paths, and advice for success in summer programs. FFA members will provide a presentation on the nuts and bolts of fund finance, followed by an open networking session with light refreshments. From this event, students will be able to be considered for a shadowing opportunity with bankers or lawyers who are able to participate.

If you are interested in learning more about Diversity in Fund Finance or would be willing to provide a shadowing opportunity for students, please reach out to **Natasha Puri** at Lloyds Bank.

The Practical Also Forecasts Growth in NAV-Based Lending

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By Michael Mascia
FFA Board Member

Last week, my colleague Chris van Heerden wrote a compelling note forecasting the increased use of fund-level leverage in the United States. He based his conclusion on two primary demand side principles. First, Chris points out that the low yield environment will negatively impact fund returns and, to help counteract this, funds will increase their use of leverage. As evidence, he notes that Europe has been the forerunner of the low yield paradigm the past several years and that this year, a full 60% of the fund finance transactions Cadwalader has worked on in Europe consist of NAV or hybrid borrowing bases. Second, Chris notes that dry powder is at an all-time high, creating significant competition for assets and high purchase valuations. Pointing to the recent down round IPOs and the material post-IPO price declines of multiple PE-backed listings, he offers evidence of elevated entry points for private equity – which again suggests increased leverage may be employed to offset the downward pressure on returns. This is exactly the kind of next-level depth I find missing in most legal writing but that I hope for from our team. A copy of the note, if you missed it, is available **here**.

While I think Chris's macro analysis is well founded, there are also some practical considerations supporting his growth conclusions. First, on the supply side, the two primary factors that have driven the growth of the subscription market (the growth in fund formation and the expansion of subscription finance from real estate funds into all asset classes) are both slowing. Fund formation for 2019 projects another down year (although the game is not over). And increasing market penetration is nearly complete – subscription finance is basically ubiquitous across the fund market. At the same time, bank leadership has become accustomed to their subscription desks delivering the growth. While drifting down the risk continuum into the assets is easy to resist when the subscription book is growing 30%+ per year, views may change in 2020 if growth slows to mid-single digits. The banks have built huge portfolios of subscription facilities that are all a capital call away from getting cleaned down. Banks are unlikely to watch loans to later stage funds simply roll off the books when they already have familiarity and history with such funds and there is a built-in need for ongoing financing based on the funds' assets.

Secondly, fund finance is now widely deployed in the buyout space. The CFOs and Treasurers at buyout funds are some of the most sophisticated financial engineers on the Street, many now with decades of experience creating value for the equity via financing at the portfolio company level. Transitioning some of that playbook to the fund level would seem a natural progression. Funds have separate, non-consolidated balance sheets from their portfolio companies; it seems unlikely that both balance sheets will not ultimately be optimized from a capital stack perspective. We think this makes it almost inevitable that preferred equity-like and true leverage solutions at the fund level are going to increase.

We do think growth in the area will be somewhat incremental, not explosive. Many existing funds are bound by partnership agreements that did not fully contemplate financing innovations such as preferred equity when they were originally formed. Additionally, the negative press around subscription facilities has created some consternation in the investor community around fund-level borrowings. And, depending on factors including the strategy of the fund, the concentration of assets and the size of the loan, it can be hard at times to find a lender willing to do a deal. But these issues are going to get worked out. A very high percentage of investors are now involved in the private debt asset class and the vast majority of them understand and consent to the levered sleeve of debt funds. Some are even in talks about levering their own portfolios. This understanding is going to ultimately lead to investor comfort around and support for modest levels of leverage in other asset classes. We are already seeing this manifest in partnership agreements for new funds as well as the increasing use of debt by continuation vehicles in connection with GP-led restructurings. Banks, in turn, are also at work on white papers and are pressing for internal approvals for NAV-lending authority. And we see new entrants on the banking side in search of a niche of the market to enter. With their blank slate credit boxes, they are going to ultimately craft initial credit policies that focus on, or at least permit, some limited exposure to the assets. And where the banks cannot get it done, debt funds are emerging to both fill the gap and provide higher attachment points. The funds and banks that are able to figure these things out in the near future are poised to extend their runways.

With this in mind, we intend to do what we can this fall to be helpful. At the Finance Forum in Charlotte next week, our session on fund finance statistics will include structural guidance on hybrid and NAV facilities. In addition, we will include some upcoming writings in *FFF* on the key items that bankers need to know but seem to get left out of the legal writing to date: typical attachment points, concentration limits, eligible investment definitions, valuation challenges and third-party appraisal rights, etc. As always, if we can be helpful in this regard, please let us know.

Player Profile — Gail Boyle

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Player Profile

We kicked off the Player Profile series earlier this year to connect our readers with leaders in the fund finance industry. This week we catch up with Gail Boyle on the current state of the market, career advice and the fund finance outlook. Gail is a senior banker in the Fund Finance space for MUFG Union Bank. Her clients and her practice are primarily centered in the Western U.S., and focuses on banking of Private Equity GPs via their specific fund borrowers – a highly successful, growing practice for the bank.

***FFF*: Tell us a bit about how you ended up in Fund Finance.**
In 2007 I was solicited to lead our client expansion for subscription and capital call lending. The bank wanted to grow the niche business established with direct relationships and ancillary non-credit business. We had a growing presence with both local PE firms in Los Angeles and with larger firms with a national presence. It was a successful move for me, as well as the group, which established itself for future growth. I have had the chance to grow our business, market presence and be a part of this now well-established business.

***FFF*: The fund lending market has become rather competitive. How does your team differentiate itself in this market?**
We have strong relationships with our clients and a nimble credit culture, and we understand the product very well. Our focus is to originate and distribute for clients that are meaningful to the MUFG franchise. We are also a market leader in HNW facilities, with expertise and proprietary experience to execute on transactions that fit our strategy. We are organizationally very client-focused, and we have a culture and strategies to assist clients in maximizing their relationship across MUFG Union Bank for all products and services.

***FFF*: What market trends are you seeing in 2019 compared to 2018?**
We are seeing larger fund managers be successful with their fundraising, especially within their flagship strategies, but it seems that mid-size or independent fund managers are taking longer to raise capital and perhaps needing to amend/adjust their respective strategies. We are also seeing more participation from sovereign entities across the sector, which requires specific knowledge to underwrite effectively to clear market. Additionally, we are finding more borrower interest in assuring expansive borrowing bases throughout the stages of a fund's lifecycle.

***FFF*: Who has had the most influence on your career?**
There have been a lot of folks along the way; it certainly takes a large village. My MUFG colleagues throughout the years have been a guiding presence. We are an organization that fosters teamwork and collaboration, and I have been the beneficiary of many solid leaders and managers with strong skill sets. At the top of the list would be Terence Hatton, who is the Group Head in charge of Fund Finance. He has continued to provide solid, grounded leadership via example and guidance. He has a wealth of experience in the space pre-dating my 12 years, which continues to provide dividends. My time in Fund Finance has been the most gratifying time of my career, and so I am very grateful for the opportunity to move from corporate banking, which at the time I also certainly did enjoy. I would also say that many of my friends – in particular, my former running buddies (neither of whom were bankers) – were very influential. They were brutally honest and experienced sounding boards in the pre-light a.m. to talk about client situations and managing one’s career, not to mention gender- and mother-related aspects of working one’s entire life. Their influence kept me on track and focused.

***FFF*: What advice do you have for the young fund finance banker just getting underway in the sector?**
My recommendation is to gain as much experience in the actual nuts and bolts of the space. This business calls for attention to detail and getting things right the first time. This means things like understanding who the LPs really are,

knowing the importance of side letter reviews, and really understanding what is (and what is not) in a LPA or a credit agreement. Our clients are becoming much more sophisticated, and they are also relying upon teams of counsel to assist them in their objectives, so we need to pay attention to the details on the lenders' side. I would also say that specific hands-on knowledge of ancillary services and products is also helpful, not to mention a client-oriented attitude.

***FFF*: Any suggestions for the Fund Finance Association?**
West Coast "Women in Fund Finance" events and outreach. I have had discussions and hope that the West Coast can gain from having events to bring those active in the space together for networking and the sharing of knowledge. I have found the outside speakers at the recent conferences to be getting better and more relevant, so thank you to the Association.

***FFF*: What do you like to do outside of the office?**
I like to be active. I hike, work out and swim. I also am very family-oriented and enjoy spending time with family members whenever possible. I have been on a number of boards, including the Girl Scouts of Greater Los Angeles, but I am taking a bit of a break from outside charitable boards at the moment. My husband and I have a list of travel objectives for the next few years to supplement prior travels.

***FFF*: Any bold fund finance predictions for the rest of the year?**
I expect that the recent "trade war," Brexit and decreased interest rates will contribute to opportunities for those active in the distressed area. However, I also think that those opportunities will be more likely to present themselves in 2020 rather than later this year. I would say to expect the unexpected as the world has a way of presenting itself differently than expected. There will be continued pressure on lenders to manage exposure adroitly and carefully across all sectors, including our space.

LTSA Concept Credit Agreement Adds LIBOR Transition Guidance

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Cadwalader continues to take a leading role in the development of fallbacks and replacement benchmark rates for LIBOR.

As part of this process, Cadwalader recently worked closely with the Loan Syndications and Trading Association (LSTA) to develop a concept credit agreement, available to certain members of the LSTA's working groups, that references a compounded average of SOFRs calculated in arrears. The calculation of "Compounded SOFR" in the concept credit agreement provides for a lookback with observational shift. The observational shift applies the correct weighting to the SOFR rates, allows for the use of a published compounded SOFR index and is easier to align with hedges that have established the same observation period.

The concept document does not include cost-plus funding provisions to reflect that SOFR is not designed to be reflective of lenders' cost of funds. It does include a modified version of the Federal Reserve's Alternative Reference Rates Committee's (ARRC) "amendment approach" fallback language recommendation, which addresses a transition from SOFR in the first instance and is designed to address potential future transitions. The concept document was not designed to reflect standard market practices but rather to allow market participants to further familiarize themselves with replacement benchmark alternatives that can assist with LIBOR transition planning.

Cadwalader is pleased to present a full panel on the LIBOR transition at our annual Finance Forum this Thursday (October 17) in Charlotte. We hope to see you there.

Private Funds CFO Article on Hybrid Facilities

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Michael Peterson, Managing Director of Citco's Capital Solutions team, guest authored an article in *Private Funds CFO* titled "The Rise of Hybrid Facilities in Fund Finance." The subscription-only article is available **here**.

WFF London 'Wit & Wisdom Series': Working Through Female Stigmas & Stereotypes

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Women in Fund Finance is pleased to hold another "Wit & Wisdom Series" meeting in London, connecting senior women in the fund finance industry with junior members for intimate breakfast discussions. This meeting will take place on Wednesday, October 23, and discussions will focus on how to be effective and assertive in a male-dominated working environment while avoiding stigmas and stereotypes. For more information and to register, click **here**.

See You at the Finance Forum

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Cadwalader's fourth annual Finance Forum is this Thursday in Charlotte, North Carolina. The program begins at 12:30 p.m. There are still a few spots left – click **here** for more information or to register.

Fund Finance Hiring

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Fund Finance Hiring

Standard Chartered is seeking a Director of Fund Finance for its Financial & Strategic Investors Group in New York. For more information or to apply, please click **here**.

The Charlotte office of Cadwalader is seeking an associate for its Fund Finance practice. Qualified candidates will have 3-7 years of experience in syndicated lending, commercial lending, leverage finance, fund formation, CLOs or other relevant experience. Candidates must possess excellent academic credentials and solid law firm or in-house legal experience as well. For more information, reach out to **Wes Misson**.

Recommended Reading

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Orlando Bravo's success in software has led to a terrific run at private equity shop Thoma Bravo. [**Forbes**]

Visionary lawyer and law firm leader A. William "Bill" Urquhart of Quinn Emanuel passed away this week. His legacy will continue. [**American Lawyer**]

While under the radar, there is some positive economic news for American wage growth in low-wage industries. [**The Atlantic**]

Luke Kuechly of the Carolina Panthers lists the top 5 toughest players in the NFL. [**The Players Tribune**]