

C A D W A L A D E R

## May 15th Fund Finance Market Update

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By Michael Mascia  
FFA Board Member

Fund finance clearly survived the opening flurry of COVID-19 punches. Our transaction structures held solid; deal volume for many market participants actually accelerated through March and April and into May. And we are still busy on new deals. But I think this is going to be a long game. And while I have a ton of conviction around future credit performance remaining highly positive for our industry, I think fund formation outside of the top 50 or so sponsors is going to really drag during the summer and into the early fall. Correspondingly, I think subscription facility origination volume is going to temper, somewhat offset by expansion of NAV-based lending. So we should all probably be a little humble forecasting our 2nd half numbers. Below are my updates on what we have seen in the market the last two weeks and what I'm forecasting going forward.

FFA Update Call. The Fund Finance Association held another update call for Platinum-level sponsors this week. Credit performance remains the same: excellent. To date, a single (that's right, only one) institutional investor default has been reported to the group. And that investor is a corporate entity in a completely disrupted industry. High net worth investor funding continues to have 99%+ funding performance. Utilization has ticked downward a bit, as drawings for new investments have, not surprisingly, slowed. And the secondaries market remains on the sidelines; very few trades are hitting borrowing bases.

NAV Lending. We are seeing a lot of interest in NAV facilities, especially in the fund of funds space. Particularly for our London team, which has been inundated with inquiries. The prospective matters are primarily liquidity-driven, although opportunistic interest exists as well. While we think the new origination in the subscription market will slow as we get deeper into the summer, we forecast the NAV-oriented portion of the market will continue to expand meaningfully through 2020.

Supply, Demand and Credit Boxes. With a fair number of lenders focused internally and on their existing clients, the number of lenders chasing new clients and deals is down. The not surprising result being that banks open for new business have a very robust pipeline, multiples of their normal deal flow. With both bandwidth limitations and credit and risk teams becoming more scrutinizing as a result of the downturn, credit boxes are narrowing. The result is a reversal of the "structural drift" of the past few years, albeit incrementally, as banks want to keep their key relationships supported during difficult times.

Cayman Private Funds Law. This new Cayman regulatory development continues to evolve and often be a hotly contested issue on new facilities. The market is generally landing on a covenant requiring registration by any Cayman fund sufficiently prior to the Aug. 7 registration deadline to permit enough cushion for repayment capital calls (after giving effect to any standstill periods and taking into account the fund's specific timing for issuing calls and overcalls) in the event of a breach. We think this makes sense. It is, after all, an administrative action that is within the control of the fund and its Cayman advisers. Lenders have no control and should not bear the risk for non-compliance with the new law. But you know what side of the fence I sit on.

QB Joinders. Qualified Borrower joinder activity remains at elevated levels. Hopefully, that will both help funds support their portfolio companies while helping banks keep utilization levels sufficiently north of 50%.

LIBOR Floors. Meaningful LIBOR floors are now commonplace in new deals and extensions.

Tax Numbers. Some borrowers continue to be stuck in KYC limbo, as the IRS is not granting EINs in many cases. One approach we have seen is lenders accepting SS-4s (application for EIN) plus the W-8/W-9 (the applicable tax document necessary for KYC) with the EIN marked "Applied For."

Thank You. Shout-out to the Cadwalader Fund Finance associates. You guys have been incredibly hard-working and committed to our clients during these difficult circumstances. I'm lucky to get to work with you. Thank you.

## ‘Fund Finance Friday: Industry Conversations’ — Podcast with Jesse Hurley (30 Minutes)

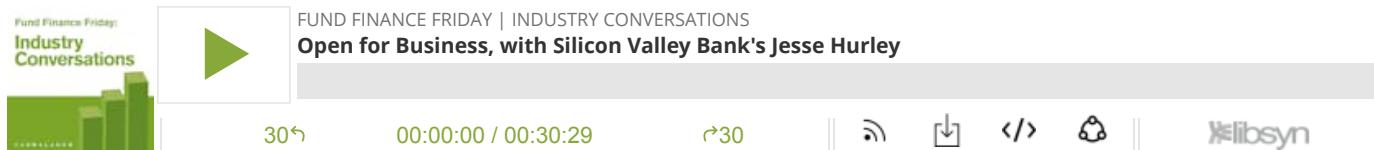
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Industry Conversations



Jesse Hurley, Head of Global Fund Banking at Silicon Valley Bank, connected with Cadwalader's Mike Mascia in this week's podcast edition of *Fund Finance Friday: Industry Conversations*. In the podcast, Jesse covers what Silicon Valley Bank is seeing in their fund finance portfolio, including investor capital call funding performance, facility utilization and pipeline opportunities. He also discusses the growth of the SVB Fund Banking team and their many new hires, predictions for the venture capital and angel investment space for the remainder of 2020 and the corresponding impact on the innovation economy.

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## April Market Rally Eased Pension Fund Strain

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The funded status improved meaningfully for pension funds in April. The Milliman 100 Public Pension Funding Index, which tracks the 100 largest government-sponsored defined benefit pension plans, showed an investment return of 5.92% for the month, reducing the group's estimated deficit by \$200 billion to end the month at \$1.619 trillion. The funding ratio for index constituents improved to 69.8% from 66.0% at the end of March. The group controlled total assets of \$3.750 trillion at the end of April. The recovery comes on the heels of a brutal Q1. Wilshire Consulting reported that the quarter-end funding ratio for state pension plans was the lowest in its three decades of data. The Milliman report is available [here](#).

## **Wilshire Updates on Private Market**

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The true slowdown in fundraising is likely to become more evident in Q2, and reduced capital from LPs is expected to lead to a competition for new commitments and deal terms that shift to favor LPs, according to observations in the recently published Wilshire Private Markets Update available [here](#).

## NAV Loans Take Time, Private Funds CFO Reports

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Uncertainty around asset values and settling on a valuation process are key challenges for lenders looking to provide NAV loans in the current environment, according to comments from Debevoise & Plimpton LLP partner Ramya Tiller **summarized** in *Private Funds CFO*. While demand for asset-based financing is running high, patience is the watchword for getting a loan in place.

## Dee Dee Sklar Joins 17Capital

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Dee Dee Sklar, former vice-chair of subscription finance at Wells Fargo, is now a senior advisor for the London-based firm 17Capital. According to *Secondaries Investor*, 17Capital has already raised at least €1.2 billion of the €1.8 billion target for its fifth fund. In a statement, the firm noted that Dee Dee, who is based in New York, has a network that will increase the firm's "ability to source transactions with private equity investors in North America." Read more on the appointment [here](#).

## Private Equity Wire Article on Intertrust Fund Finance Survey

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*Private Equity Wire* published an article this week titled “New research highlights how fund finance will help GPs combat impact of Covid-19.” The article focuses on a survey completed by Intertrust, discussed at a recent webinar for industry professionals, that looked at how GPs will make use of the tools and options provided by the fund finance market to address liquidity management. The results of the survey reflect how GPs are using fund finance products to address current challenges while also preparing for opportunities as they arise. The article is available [here](#).

## Kudos to Our Financial Services Group

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A tip of the cap to our colleagues in the firm's Financial Services Group, which was named the 2020 *International Financial Law Review (IFLR)* Americas Financial Services Regulatory Team of the Year. This marks the second time in six years that Cadwalader has been named the *IFLR* Financial Services Regulatory Team of the Year. Earlier this year, the group received a *Law360* Practice Group of the Year award in the Banking category.

We work with our FS Group lawyers regularly and agree wholeheartedly with *IFLR*: this team really is best-in-class. Congratulations!