

CADWALDER

Fund Finance August Update

August 21, 2020 | Issue No. 91



By Michael Mascia
FFA Board Member

The fund finance markets have normalized materially over the past six weeks or so; the chaos of April is now long in the rear view. While many lenders are wrestling with challenges, they are individual challenges and not systemic: the market as a whole continues to function with relative efficiency. Our markets are incredibly fortunate compared to so many other product areas. Below are my updates on what we have recently observed and what we think is on the fund finance horizon.

Transaction Volume. Our transaction volume has continued to moderate through July and into August. While continuing to accrue very favorably compared to 2019 year-over-year, the last six weeks are down not immaterially from our Q2 activity levels. While some of this is certainly attributable to normal summer vacation seasonality, we do attribute part of the moderation to deals slowing as investor fundraising drags on a bit. However, while I expect 2H to be down a bit from 1H overall, my outlook remains optimistic. In July and so far in August, our number of new matters opened, hours accrued on prospective matters, and LPAs reviewed all project meaningfully ahead of our rolling 12- and 3-month averages and are yet to forecast any decline in prospective transaction volume. I am also encouraged by both anecdotal feedback and new deals under mandate from the U.S. money center banks: the rumor of a long-term pullback from these lenders seems greatly exaggerated. And, finally, U.S. banks are sitting on a record buildup of deposits. Fund finance provides an efficient means of at scale deployment with a favorable risk-adjusted return profile. The reality of the need for deployment and revenue at banks will ultimately lead to relaxing fund finance product caps and ensure the availability of supply.

Data Dichotomy. There is an interesting dichotomy in the 1H preliminary data that is a little hard to square. In PitchBook's Q2 2020 Private Fund Strategies Report which came out this week (available [here](#)), they reported that the total number of private funds formed in H1 fell to 643, down 26% year-over-year. The decline in capital raised was more moderate at -11% (\$438.8 billion total), despite the 214 fewer funds. This frankly was only mildly surprising: the market has been predicting a COVID-driven flight to quality and that the established sponsors (who tend to raise the biggest funds) would dominate the landscape and successfully raise big money. Yet, Cadwalader's U.S. fund finance data shows a near-complete inverse: in H1, our number of new deals went up to 149 from 127 year-over-year. But our average deal size went down (\$158 million in 2019 to \$132 million in 2020). I suspect part of the discrepancy is our unique client mix and part is simply timing, but it will be interesting to see if this evens out as the year progresses.

Ian Gobin. Intertrust Group this week announced the creation of a new global offshore law firm, Intertrust Law. Long-time fund finance lawyer Ian Gobin will be the new Managing Partner, and fund finance will be a core offering. I find it exciting and validating to see entrepreneurial endeavors like this focused on fund finance. Congrats and best of luck to Ian. The Business Wire article on Intertrust Law's formation is available [here](#).

FFA Diversity Initiative. Thank you to Natasha Puri of Lloyds Bank for all her efforts leading the FFA's Diversity Initiative, highlighted in her article in this week's *FFF*. While we have a lot of work to do, it is great to see the FFA make some contributions to the solution. Additionally, special thanks to Leon Stephenson of Reed Smith for his efforts pushing our Diversity Initiative forward from the EU side.

FFA Market Update Call. Next Wednesday (August 26th) at 10 a.m. New York time, the Fund Finance Association is hosting a market update call open to all participants. The schedule calls for a host of industry leaders to give short updates on their market observations, followed by a data presentation by Preqin. I'm looking forward to seeing how Preqin's 1H fund formation numbers and investor sentiment surveys compare to what has been released to date. If you are interested in listening in, click [here](#).

FFA University. Reminder that FFA University is coming up next month on September 22, starting at 9 a.m. New York time. Please consider supporting both the FFA and the newer people in your organization with training. To register, click [here](#).

Vacation. I was able to get some time off last week and did some fishing with my girls (photos below). I hope you are able to find some down time before the September kick to the finish commences. Have a great weekend!



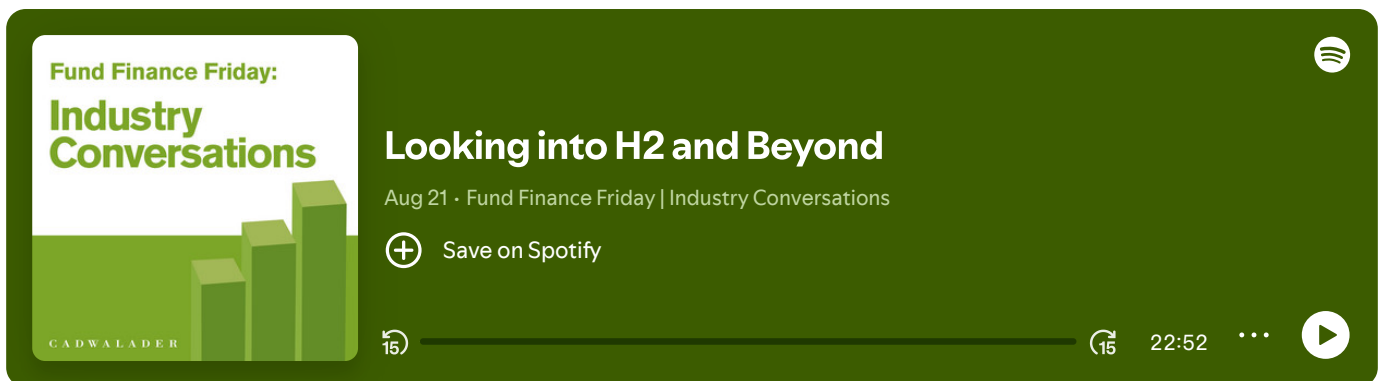
Looking into H2 and Beyond

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In today's *Fund Finance Friday: Industry Conversations*, Cadwalader's Samantha Hutchinson hosts Marlborough Partners' Kieran Welsh to discuss the impact of COVID-19 on fund finance products, appetite for asset-backed facilities and the market outlook for H2.

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Diversity in Fund Finance – Career Panel and Update

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

This week, as part of the Diversity in Fund Finance Group, we connected with **PENCIL**, the NYC-based non-profit whose mission is to provide New York public school students with access to relationships and opportunities with business professionals. They've successfully moved their programs virtual, continuing to support hundreds of students this summer through various programs, including a paid summer internship. Yomi Akinyemi, Director at Wells Fargo, Richard Young, Senior Vice President at Citi, and Natasha Puri, Vice President at Lloyds Bank, joined a Career Panel moderated by Gregg Bethel, President of PENCIL.

Yomi was previously a Director at Lloyds Bank for 9 years moving from London to New York across various roles before joining Wells Fargo as a Senior Originator; Richard started his career in investment banking at Citi in 2008, transitioned to law school and practiced at Cadwalader in the Fund Finance group before returning back to Citi in the Office of the CFO; and Natasha began her career in accounting at PwC in 2012 before making a career shift into banking, joining the Lloyds Sponsors Coverage team. The unique background of each panelist was well received by the 100+ high school and college-level students who were able to learn and ask questions about finance and career navigation, and obtain general advice as they think about their future. Gregg noted that many of the students come from low-income and diverse backgrounds, and have been positively impacted by being able to hear the perspectives on these panels over the summer. The students appreciated the honest thoughts on career challenges as well as the lesson that not everyone's career path is the same.

PENCIL will continue adjusting their programming into the Fall, and we hope to engage in further volunteer opportunities. Additionally, we will be continuing our partnership with Baruch College's **Financial Leadership Program**, which provides intensive professional development training to high-performing diverse students in their sophomore and junior year. Over the past two years, the students have provided consistent feedback that the presentation by the Diversity in Fund Finance Group is one of the best. This year, we will be having a virtual session on October 1 from 6-8 p.m., consisting of a presentation followed by virtual networking. If you would like to volunteer for the networking session or are interested in reviewing the class's resume book, please email Natasha.puri@lbusa.com.

Lastly, let me provide a general update. It's been a highly turbulent and emotional time for all of us during the pandemic, and in the context of the continuing unrest in the country and beyond due to persistent racial injustice that permeates every facet of our society. Like some of you, I have become more involved in conversations happening within the workplace. I can see that the fire for change has been lit and is shining a light on structural racism, with a stronger call for change and action. Many have reached out to become involved with the Diversity in Fund Finance group; I thank you for your interest and patience.

By way of background, I started this initiative based on my dissatisfaction with the lack of diverse representation in our corner of the finance industry. I believe that the notion that "hiring the best" often absolved leaders from a responsibility to drive change – itself an illustration of systemic oppression. Our events and involvement have focused on the belief that educating and connecting with students earlier in their careers is necessary to help increase the diversity of students entering the broader talent pool, and we will continue these efforts.

We have heard you and agree that we can do more as an organization to engage our members. We know that change starts from within – by recognizing the privilege of being able to make a difference and impact others. Often times, this begins with honest conversations acknowledging that Black people and other people of color face different realities than their white peers, and are not afforded the same opportunities. We are looking to explore this dialogue further at the upcoming FFA Virtual Week, and if you are open to sharing your experiences or being part of this important conversation, please contact me at Natasha.puri@lbusa.com.

\$439 Billion in Private Capital Raised in 1H 2020: PitchBook

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Private capital raised in 1H 2020 totaled \$438.8 billion, roughly 11% below the 2019 pace on an annualized basis, according to data summarized in PitchBook's *Private Fund Strategies Report Q2 2020*. As can be expected in a volatile market, established names fared much better than emerging sponsors at attracting investors, although it's worth noting that the trend towards greater concentration of capital at top sponsors predates COVID by a couple of years. The number of funds raised totaled 643, well below the 2019 rate of 1,754 for the full year. North American private equity fundraising in 1H 2020 totaled \$115.3 billion, lagging the prior year pace when full-year capital raised totaled \$322.2 billion.

While the 1H 2020 totals underperformed the prior year pace, the bottom line, by our read, is that fundraising handily exceeded mid-March expectations. Volume has certainly been more than sufficient to support a brisk fund finance market. Longer term, the trend towards capital concentration will bear watching. Easing travel constraints or greater adaptation to the COVID-era business environment may facilitate more capital allocation to emerging managers. On the other hand, the clock may just have moved forward a couple of years in the dominance of large multi-strategy platforms.

Fund Finance Partners Article on ‘Subscription Facilities: Variance Rules’

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In “Subscription Facilities: Variance Rules,” Fund Finance Partners examines the shift in the subscription facility market as a result of COVID-19, emerging trends (including the prevalence of NAV covenants), pricing disparity, and the benefits of umbrella facilities. You can read the article [here](#).

PEI Reports on OakNorth Bank's First Subscription Line Facility to Bluegem Capital Partners

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This week *Private Equity International* reported on a recent deal completed by a relatively new challenger bank* in the fund finance space, OakNorth Bank: its sub-line facility to customer-focused PE fund, Bluegem Capital Partners. Have a [read](#) to find out more about how OakNorth is participating in the often untapped space of smaller sub-line lenders (£5 - £25M), offering bespoke facilities in a matter of weeks (even amid these unprecedented times!).

**A challenger bank is a term often used in the UK and Europe to describe a small, recently created retail bank that competes directly with longer established banks often by specialising in areas which the bigger banks have had a monopoly over.*

IRS Proposes Carried Interest Regulations

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Cadwalader's Tax Group takes a look at the newly proposed IRS carried interest regulations and their implications. Read the *BrassTax Alert* [here](#).

PEI: 'Carry Crunch a Bonus for GP Interest Firms'

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Private Equity International reports on the impact of COVID-19 on carry expectations as a result of plunging asset values and delayed exits, and how GPs could look to external financing to plug the gap between delayed carry and commitments to future funds. You can read the article [here](#).