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UPDATE

Top 'Take-Aways' from the 11th Annual Global Fund Finance Symposium

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The 11th Annual Global Fund Finance Symposium was held at the Fontainebleau in Miami between 16 -18 February 2022. There were over 900 delegates, bringing together bankers, lawyers and sponsors within the fund finance community. We are proud to have been a Gold sponsor of this event and wanted to share some of our top take-away points from the high quality panel discussions.

1 Fund Finance Market Update

- The global pandemic proved the resilience and flexibility of the fund finance industry. By the end of 2021 the fund finance market exceeded its pre-pandemic level as it continues to grow with new entrants and more complex financing structures.
- The subscription facility market continues to expand with new entrants – more competition in the space has brought fresh innovation. Quirkier structures including series partnerships (creatures of contract rather than statute) have been employed. It is anticipated there is more innovation to come.
- Early 2022 continues the strong theme of LIBOR amendment activity.
- Environmental, social and governance (**ESG**) metrics are becoming more attractive. Currently it is 'batting practice' on the ESG market and there is not a one size fits all financing. Investment KPIs or use of proceeds restrictions have been put to good use.

2 Hot Topics in Fund Finance

- The use of rate note feeders has grown significantly – this is a tool used to permit investors such as insurance companies to participate in funds. Rather than providing an equity commitment, the investor is issued debt by purchasing notes from a feeder fund.
- There has been a marked increase in ESG subscription lines as investors put pressure on sponsors to implement meaningful ESG in their investments. Generally, banks are keen to participate in ESG deals to ensure profits are still made whilst also doing right by the world.
- Competition for talent has been fierce as organisations strive to align flexibility and mobility with recruitment and retention across the fund finance industry. It was agreed greater emphasis needs to be placed on the education and coaching of new recruits given reduced face-time and relationship-building/mentorship in recent years.

3 'Fund Finance 2.0' and recurring themes

- As the number of non-traditional lenders in the space has increased, lenders are being forced to distinguish themselves with hybrid structures rather than straight subline facilities. There is a greater desire for flexibility and new products with plenty of crossover between traditional sublines and asset based lines. Competition leads to innovation in the growing world of 'Fund Finance 2.0'.

- Following the *Abraaj* and *JES Global* cases, lenders are conducting more intensive diligence on new fund sponsors than they had previously. While fraud will always remain a risk, actual instances have been rare and the risk remains remote for established sponsors.
- Private credit funds and insurance companies have become increasingly interested in acting as lenders in fund financing transactions, bringing new opportunities and risks. Sponsors should be mindful of sharing confidential information with alternative lenders and ensure loan documents provide sufficient notice and consent rights.
- Sustainability and 'green' use of proceeds facilities have been quickly adopted in Europe. Although these products are less common in the U.S., investors are becoming increasingly interested in ESG considerations.
- The market has evolved from simple bridge subscription facilities to a variety of dynamic products, brought about by the financial challenges of the pandemic, an increasing familiarity with fund financing across the industry and the greater complexity of investment structures. Some of these products include:
  - Rated note feeders
  - Hybrid facilities
  - NAV facilities
  - Preferred equity
  - GP financing

4 Preqin Presentation

- ESG is helping to grow the infrastructure sector (particularly renewables).
- Real estate investors were hesitant to allocate capital during COVID, although opportunistic investment has added value in emerging markets.
- Preqin's subscription facility survey indicated:
  - Unofficial estimate of it being a $600-700 billion market
  - Typical facility size is $100m
  - 100% of those surveyed said the market would increase
  - 60% of those surveyed offer ESG elements

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