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THE FUND FINANCE TRACKER

Key stats on fund finance provision for the private capital markets

Fund Finance Tracker

Introduction by Alice Murray

Growing pains

The fund finance market has reached a new level of maturity, and now faces a new set of challenges

High levels of uncertainty require flexibility. And in the private capital markets space, flexibility means liquidity. Given the events of the past 18 months, it's no surprise the fund finance market is booming.

And the growth spurt this market is currently experiencing has of course led to new levels of maturity; there are more lenders than ever before, and ticket sizes continue to swell.

But growth comes with growing pains. While the fund finance market has reached new highs when it comes to the number of active lenders - both bank and non-bank - the size of the loans being provided, as well as innovation when it comes to product offerings in the shape of NAV facilities and ESG-linked loans, in order to build on the market's current momentum there are particular challenges that need to be addressed.

One is talent. Across the financial sector, the recruitment market is incredibly buoyant following the lifting of hiring freezes earlier in the year. Says Rory Smith, founder of Brickfield Recruitment, "Law firms are really searching for talent; they are growing their fund finance teams significantly and are looking for people that can slot in and immediately work on deals. Banks are also hiring; their teams have been stretched due to the uptick in work over the last 18 months, and now they're in need of underwriting skills as well as senior level hires with big networks."

Indeed, the demand for fresh blood, particularly from banks has rumours abounding of juniors being offered eye-wateringly high signing bonuses. Whether or not this is true, these sorts of murmerings speak to a red hot market.

A word of advice

A clear indication of any market's maturity is its level of intermediation. In Europe, there is only one advisor dedicated to this space - Avardi Partners - with the majority of advisory services coming out of larger consultants such as Deloitte.

According to Guillaume Leredde, director of Avardi, the relatively small number of intermediaries is down to the complexity of the loans. "This is a really niche market and these loans are very technical, and very different to leveraged loans."

And with that, there are seemingly varying levels of understanding and attitudes when it comes to the types of loans on offer.

Subscription lines dominate the market. Smith refers to them as a, "go-to product. People are confident about them and most funds want them."

According to Leredde, the way in which sub lines are structured is a clear indication of their maturity and commonality. "In terms of facility size, little has changed in the last few years; it's ranging between 20% and 40% of the total commitment for most funds managers, with an average at 30%"

GP facilities - used to cover GP commitments, succession planning and the like - are less widely used, possibly because they're less attractive for banks; they're typically small tickets and complex to arrange. Banks typically offer them to customers they have a strong relationship with or as a way to win new clients alongside a subscription line deal. But it would seem a gap in the market is emerging for a mid-cap player to enter. Says Leredde, "It's difficult for GPs to get these facilities from any other bank than that of their sub line but we start seeing non-bank lenders active in this space."

While there has been lots of talk about NAV facilities - loans that are secured against distributions from realisations, rather than from LP commitments - when it comes to private equity funds, the conversion rate has been low due to the structuring complexity of these facilities. According to Leredde, these facilities are much more common for secondary and private debt funds, where high levels of competition are pushing up valuations, and therefore putting pressure on returns. Introducing debt at the fund level is helping to protect and in some cases boost returns.

Furthermore, private equity funds are far less liquid compared to their debt and secondary counterparts, making NAV lines less attractive for banks. And with this, we are now starting to see the arrival of non-bank lenders to the NAV space. One example of this new wave is Ares, which appears to be offering flexible fund finance thanks to its understanding of the asset class.

Who's playing?

Given the explosive activity of the fund finance market in recent years; who are the key players?

The traditional banks, which have long been in this market remain, but are now moving away from the space. Then there are the banks that entered in recent years and which are increasing their presence. Next are the new entrants; smaller banks mainly here for the relationships. And finally, there's the rise of the non-banks picking up underserved pockets of demand.

Despite hitting a new level of maturity - against a backdrop of high demand and rapid growth the fund finance market is underserved in terms of intermediaries and labour. On top of this, there is a shifting and by no means stable base of providers. Putting all of this together, there is a real need for guidance, transparency and education - welcome to the Fund Finance Tracker!

FUND FINANCE TRACKER

The fund finance market has reached a level of maturity where borrowers have plenty of options when it comes to active lenders, which in turn makes it more difficult to navigate. It is against this backdrop that we have created the Fund Finance Tracker.

The Tracker aims to shine a light on the main three products available to fund managers: subscription lines, NAV facilities and GP finance, to provide insights on how a selection of lenders approach these loans.

To create this first edition, we interviewed a cross section of the lending community to find out their approach to fund financing. Of course, with any kind of loan, the end product will always be subject to the lender's risk appetite coupled with the GP's track record, investor base and portfolio. Therefore, the information provided here is simply an indication of a lenders' core strengths and strategic focuses. It is designed to give managers an idea of who is active in this space and the types of funds they typically look to work with.

Sub-lines

The subscription line market is estimated to be worth more then $1trn globally, with around 50 active lenders in Europe alone. "The size of the market today is a response to growing client demand and the size of the loans being facilitated. When a market develops to that kind of scale it's impossible to understand it simply through conversations. There is a real need to understand the various options available to borrowers, the active lenders, types of facilities and key terms," says Michael Slane, part of Investec's fund solutions team.

A wonderful finding from the research was the range of loan amounts now available; from as little as £3m, right up to €700m from a single lender. "This finding illustrates the maturity of the market, and the challenges borrowers might face in navigating it. It can be difficult to know which lender to approach, especially if a borrower has more esoteric needs," adds Slane.

	Fund strategy	Fund geography	Investor base (Institutional / Non-institutional)	Minimum number of LPs	Single investor mandates
ABERDEEN STANDARD	Agnostic	Agnostic	Both	c.10	No
BANK OF IRELAND	Agnostic	Main focus is UK, Western Europe (*1*)	Predominantely institutional (*2*)	Typically 5	Yes
	1. Have offices in US, but less actively covered. 2. Relationship is important. Will consider FO / HNW on select basis.				
ING	Agnostic	Agnostic	Only advance on institutional	No (*1*)	Yes (*2*)
	1. The more the better, but can work with concentrated bases. 2. More of an exception than the rule.				
INVESTEC	Agnostic	UK, Europe and North America	Predominantely institutional	No	Yes
NORDEA	Agnostic (*1*)	Global, US, Nordics and Europe (*2*)	Predominantely institutional	No	Yes
	1. Preference towards PE and other equity type strategies. 2. Not typically funds outside of our own geographical remit (eg Asia, LatAm).				
OAKNORTH	Agnostic (*1*)	Needs to have a UK nexus (*2*)	Both	No	Yes (*3*)
	1. Quality of investor most important. 2. Either the fund, LPs or investments based in UK. 3. Dependent on quality of LP.				
RAIFFEISEN BANK	Agnostic	Needs a European-angle	Both	No	Yes

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Syndicated or bilateral	Structure (Committed / Uncommitted)	Minumum Loan Amount	Maximum Loan Amount	Maximum % of total commitments	Maximum tenor	Structural flexibility	Will consider first-time funds	ESG linked facilities	Hybrid to NAV
Syndicated	Both	Typically £25m	Typically c.£300m	Guided by LPA	4 years	High	Yes	Yes	Yes
Both	Both	£10m (*3*)	(*4*)	20-30% (*5*)	Up to 4 years	High (*6*)	Yes	Yes (*7*)	No
3. No hard and fast cap. 4. Typically €100m per transaction. 5. No strict rule: guided by LPA, which is typically 20-30%. 6. Familiar to all the quirks of these loans. Have done an umbrella facility which covers all previous vehicles, and did it in 3 weeks. 7. Haven't done one yet, but actively looking.									
Both	Mostly committed	€20m	Typically €200m-300m	Dependent on quality of investors	4 years	High (*3*)	No	Yes	Yes
3. Flexible on advance rate, extensions, making adjustments to the borrowing base, can issue LCs and guarantees, can issue out of different branches across the network.									
Both	Both	€50m	c.€700m (*1*)	Up to 60% subject to LPA	5 years	High	Yes	Yes	Yes (*2*)
1. Beyond that will syndicate to banks. 2. Strong NAV experience enables hybrid facilities.									
Both	Both	No (*3*)	Dependent on fund	Dependent on fund		High (*4*)	Yes (*5*)	Yes	Yes (*6*)
3. Prefer to be top tier lender. 4. Always willing to work with clients to solve their financing needs. 5. Under the right circumstances. 6. On a select basis.									
Both (*4*)	Both	£3m	£50m	Up to 60%	5 years	Medium (*5*)	Yes	No (*6*)	Yes
4. Have historically only done bilateral. 5. LP coverage is most important. We don't do anicillary services like letters of credit. Our USP is speed of delivery (3 weeks), and being reliable (non-cyclical). 6. We are looking at them.									
Both	Both	Typically less than £10m	Typically hold size of £200m	Up to 45%	Up to 4 years	High	Yes	Yes	Yes

NAV lines

Unlike subscription financing, NAV lines are only starting to reach maturity, meaning much less standardisation. Indeed, when it came to pricing, we found huge variances; from 3% up to 12%. According to Matt Hansford of Investec's fund solutions team, this is because of the various levers involved with these sorts of loans. "There are a few balancing factors involved in this. One is concentration versus diversity. The other is the size and scale of underlying assets, and the other is loan to value. Some lenders will specialise at one end of the spectrum, or a specific point based on pricing and risk."

Indeed, NAV financing is a more varied market from a lender perspective, and because of the nature of these loans, it's about finding the right partner. "Experience and a partnership approach are crucially important here. Ultimately, NAV finance is putting in longer term financing at the fund or portfolio level, so you want someone with experience to navigate the structural challenges in setting it up, and who is also prepared to work with you through various economic cycles," adds Hansford.

	Fund strategy	Purpose	Min Deal Size	Max Deal Size	Max LTV	Maximum tenor	Minimum number of assets
17 CAPITAL	Private equity focused strategies	(i) To raise additional capital for portfolio growth and/or (ii) to provide liquidity to LPs	~€/$50m	~€/$500m +	LTV advance rates of up to 65% (*1*)	Pref: n/a. Debt: ~5-7 years	Three
	1. Depending on counterparty objectives, diversification and structuring requirements. 2. Dependent on specific transaction.						
CRESTLINE	Agnostic	Loans to funds, loans to portfolio companies with fund guarantee, preferred equity and hybrid offerings	$10m +	$250m +	Depends on collateral	5 years +	One (*1*)
	1. Prefer portfolios with more than three assets, but have limited single asset risk. 2. Flexible: based on borrower objectives.						
INVESTEC	Preference towards PE, infrastructure and real estate	To accelerate liquidty to LPs, to build or defend value in the portoflio or for a GP based on its commitment or carry assets	€10m	€500m + (*1*)	30-50% (*2*)	5 years	Three
	1. WIth institutional investor partners. 2. Typically up to 30% for concentrated, and up to 50% on diversified.						
OAKNORTH	Preference towards real estate and PE				Up to 25%	5 years	No
	1. Would need to understand why. 2. Depends on several factors: leverage, cash, repayments etc. 3. Flexiblity is key: we want to work with the manager.						
RAIFFEISEN BANK	Agnostic	(i) To raise additional capital for portfolio growth and/or (ii) to provide liquidity to LPs	~€/$50m	~€/$200m	Up to 25%	TBD	Five for pure NAV
	1. Right to call for external valuation under certain circumstances.						

GP financing

Perhaps the least developed facet of the fund financing space is GP financing. A major reason for that is it has largely been relationship based, with banks offering it to GPs on a reactive basis.

"Structure and terms vary significantly when it comes to GP financing, as it is a rarer product. Because of this, experience and partnership are also really important here," says Hansford.

"Both NAV lines and GP financing are important solutions for the continued growth of private equity. Both products provide important liquidity to help with key industry trends, namely, more investment into more longer term holds of assets," concludes Hansford.

	Purpose of loan
17CAPITAL	GP commitments, co-investments, strategic management company financing, working capital, new strategies, succession planning
	1. Repayment sources include management fees and/or GP commitments and/or GP carried interest. 2. On a case-by-case basis.
CRESTLINE	Variable (working capital, commitments, buyouts etc)
	1. Depends on size and Crestline Funding Vehicle.
INVESTEC	Working capital support, new strategies, geographical expansion, succession planning, liquidity release
NORDEA	No preference (*1*)
	1. Would need to look at circumstances for each item, but can do all.
RAIFFEISEN BANK	All / any

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Approach to valuation	Ability to carve out assets from borrowing base	Ability to borrow at different levels	Cash sweep mechanism	Covenant package	Ability to include an accordion	Ability to include a revolving element	Hybrid	Structural flexibility
Fund's valuation	Yes	Yes	Yes	Pref: none. Debt: predominantly focused on prevailing LTV and underlying portfolio diversification	Yes	Yes	Yes	High
Depends on collateral	Yes	Yes	Yes (*2*)	LTV and diversification based	Yes	Yes	Yes	High
Fund's valuation	Yes	Yes	Yes	LTV (*3*)	Yes	Yes	Yes	High

3. Flexible, but designed around primarily LTV covenant that focuses on the value of the portfolio and the retention of some element of diversity.

Own valuation	Yes (*1*)	No	Yes	Deal dependent (*2*)	Yes	Yes	Yes	High (*3*)
Fund's valuation (*1*)	Yes	Yes	Yes	LTV, diversity	Yes	Yes	Yes	High

Structure (Debt, Pref Eq, Both)	Minimum Deal Size	Maximum Deal Size	Maximum Tenor	Structural flexibility	Will consider first-time funds
Both (*1*)	~€/$50m	~€/$500m +	Pref: n/a. Debt: ~5-7 years	High	Yes (*2*)
Both	$10m +	$100m	5 years + (*1*)	High	Yes
Both	€5m (*1*)	€200m	7 years	High (*2*)	Yes

1. Smaller deals require broader business case. 2. Can provide advance rates, tenor, collateral package and legal structure. We have been creating bespoke GP facilities since 2008.

Debt	No	No	No (*2*)	High	No

2. Prefer to limit tenor and extend instead. Typically facilities are 3-5 years + extensions.

Debt	Dependent on fund	Dependent on fund	5 years	High (*1*)	Yes

1. Can be bespoke; making sure we provide something that works. We can be more flexible when providing lines to GPs with cash flows from multiple funds.