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THE FUND FINANCE TRACKER

Key stats on fund finance provision for the private capital markets

2nd EDITION

Fund Finance Tracker structural innovations

Investec's Helen Griffiths and Oliver Bartholomew, discuss key structural developments for capital call facilities, including cost savings awarded by the master facility agreement, the importance of GP credit ratings, and continuation vehicle solutions.

By *Alice Murray*

With capital call facilities now understood to be at 98 per cent of market coverage, these products have largely harmonised in terms of fees and margins applied. Where traditional banks can offer a level of differentiation is on the ancillary products offered alongside subscription lines, such as fund administration services, custodian or FX offerings.

However, Investec has found a unique point of differentiation in how these loans are structured - through its master facility agreement (MFA). "Where there isn't a lot of differential for subscription lines with regards to the margins on these products, we are providing a differential on the fee scheme. That can make a huge difference for funds; depending on the speed at which they're deploying, it allows GPs to be able to commit facilities within a master framework as and when they need to as opposed to having it all the time," explains Helen Griffiths, head of structuring in Investec's fund solutions team. "We also provide flexibility to have part of the framework as a committed RCF, to provide for the settlement of management fees or bridging of co-investment and/or portfolio leverage."

Investec's MFA is the wider agreement the bank holds with its clients, which allows for the capital call facility to be tailored in terms of both cost and tenor. According to Oliver Bartholomew of Investec's fund solutions team, whereas traditional structures for capital call facilities come with fixed tenors and costs, "Our MFA allows for flexibility over tenors, which can be tailored by the GP. For example, if the tenor is three months, they only pay for three months. Ultimately, it's a cost saving initiative."

Helen Griffiths

Hold me closer

On top of the flexibility offered by the MFA, the loan can also be structured as a holdco, rather than a fund, which hasn't traditionally been available for these facilities.

"There are other ancillary benefits," says Bartholomew. "Derivative products, which don't require cash collateralization, are a major benefit, especially for private debt funds for hedging products. And ultimate flexibility for acquiring multi currency assets, which is another cost saving opportunity."

"It allows you to draw under single currency and do an FX swap behind the scenes, without the need to post additional collateral. Post LIBOR, where the market is in flux as to how currencies will trade, this approach allows for simplification; for funds to borrow in one single currency and then swap if needs be," explains Griffiths.

The potential for cost efficiencies are so great, that according to Bartholomew, one client has not paid for anything because they didn't draw the facility. "The cost saving there was around £1.5m."

Investment grade

With last year's IPO of Bridgepoint and Petershill, investment grade GP solutions have arrived. Griffiths expects to see this trend develop into the mid-market in Europe, which would allow those GPs to use facilities that have typically only been available to larger, bluechip houses.

This is important because: "Credit ratings can lead to a simplification of the recourse structure, providing third party validation of the value of a manager across multiple funds and strategies," explains Griffiths.

"That rating allows for the ability to syndicate into the institutional market, where ratings are key," she adds.

This is a big deal. With GP co-investments typically demanding complex structures, lenders need an understanding of payments and cash flows where they're not able to attribute recourse to LPs as they would with a subscription line. "Creating a verifiable investment grade financing helps connect the dots; it opens up the institutional investor market to the world of GP financing because. All they need is the expertise and economic alignment that a lender like Investec can offer," says Griffiths.

Oliver Bartholomew

Continuation nation

On top of efficiency gains for the way in which capital call facilities are structured via the MFA, as well as the arrival of investment grade GP solutions, another important and recent development in this space is bridge loans for continuation vehicles.

As GP-led restructuring continues to move into the mainstream, the past 12 months especially has seen an uptick in the use of continuation vehicles for those managers wanting to hold on to top performing assets for longer. "From a lending perspective, helping new funds to bridge commitments into a new vehicle is different to a typical sub line because the continuation fund has assets from day one," explains Bartholomew.

Indeed, the total visibility on a continuation vehicle's assets makes it a very different animal to a blind pool fund, which allows for fund finance products to be taken out for longer. Longer tenors are also supported by the removal of the previous fund's LPA and sometimes the arrival of new LPs. "The longer dated facility is repaid via both capital calls and exits," adds Bartholomew.

Investec has already executed bridging loans for continuation vehicles and expects to do more over the coming year as more GPs roll assets into new funds.

Clearly, the pace of innovation is accelerating within the fund finance market. According to Bartholomew, this is a result of the market's exponential growth over the last two or three years, spurred on by new entrants and larger funds raised.

FUND FINANCE TRACKER

As the complexities of fund management intensifies from all corners - whether it be increased investor demands, a swelling regulatory regime, or heightened uncertainty in the face of macroeconomic headwinds - fund finance is emerging as a valuable tool for GPs and LPs alike.

The second instalment of the Fund Finance Tracker reflects not only the mainstream use of fund finance products, but also how lenders are responding to evolving GP needs and a more competitive market.

Despite launching this project only six months ago, the tracker has already picked up new players entering the space, as well as existing lenders expanding their product offerings in response to client demand.

Subscription lines

Until fairly recently, the use of capital call facilities was sporadic and by no means commonplace. However, as the benefits of the product are better understood by managers, their adoption has accelerated. One of the main purported advantages of using a subscription line is smoothing out capital calls.

Investec recently analysed 10 years' worth of financial statements from 45 GPs to find out the impact of subscription lines on capital call down frequency. Their analysis revealed that yes, adoption of subscription lines has dramatically reduced the number of drawdowns GPs make, from around four to five each year to two or three. "These findings validate the theory behind subscription lines," says Oliver Bartholomew of Investec.

"Reducing the number of call downs each year delivers tangible benefits for GPs, namely from a time saving perspective; it reduces how often managers are working with their fund administrators on capital calls, which for smaller GPs is operationally intensive, and complex for larger GPs with numerous LPs," Bartholomew explains.

"We also know that reducing the frequency of call downs also benefits LPs," he adds. "The majority of institutional investors have multiple fund interests, so if the number of call downs reduces across the board, they can better manage cashflows and mitigate surprise capital calls."

Disclaimer

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	Fund strategy	Fund geography	Investor base (Institutional / Non-institutional)	Investor base (advanced on)	Minimum number of LPs	Single investor mandates
ABRDN	Agnostic	Agnostic	Both	Only advance on institutional	c. 10	No
BANK OF IRELAND	Agnostic	Main focus is UK, Western Europe (1)	Predominantly 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.					
BNP PARIBAS	PE, RE, infra, debt, FoF	Global	Both (1)			Yes (2)
	1. Depending on breakdown and credit worthiness.					
DEUTSCHE BANK	Agnostic	Global	Both	Preference for institutional	One	Yes
ING	Agnostic	Agnostic		Only advance on institutional	No (1)	Yes (2)
	1. The more diversification the better, but can work with concentrated bases. 2. Quality of investor is key.					
INVESTEC	Agnostic	UK, Europe and North America	Predominantly institutional		No	Yes
NO LIMIT CAPITAL	Agnostic	UK, Europe and North America	Predominantly institutional (1)		One (2)	Yes
	1. Can look at both advance rate or coverage lending approach. 2. Can provide financing solutions to SMA and highly concerntrated LP bases.					
NORDEA	Agnostic (1)	Global, US, Nordics and Europe (2)	Predominantly institutional	Both	No	Yes
	1. Preference towards PE + other equity type strategies. 2. Not typically funds outside of our own geographical remit (Asia, LatAm).					
OAKNORTH	Agnostic	Needs to have a UK Nexus (1)		Both	One	Yes
	1. We only fund in £.					
RAIFFEISEN BANK	Agnostic	Needs a Euopean angle		Only advance on institutional (1)	No	Yes
	1. Our regulatory approach ignores non-institutional LPs.					

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
Syndicated	Both	Typically £25m	Typically c. £300m	Guided by LPA	4 years	High	Yes	Yes	Yes
CHANGE: NO CHANGE									
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 EU100m per transaction. 5. No strict rule: guided by LPA, which is typically 20-30%. 6. Familiar to all the quirks of these loans. Cascading call pledge. 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. CHANGE: NO CHANGE									
Both	Both	Dependent on fund	Dependent on fund	TBD before final close, 40% otherwise	3 years + extension options	High	No	Yes	Yes
2. Where there is strong relationship with manager and the investor. CHANGE: NEW THIS EDITION									
Both	Both	€50m	€600m	Dependent on fund (1)	3-5 years	Medium (2)	No	Yes	Yes
1. Depends upon LP list & fund assets + leverage; no hard cap. 2. Umbrella Structures, Uncommitted Facilities, Letters of Credit. CHANGE: NEW THIS EDITION									
Both	Mostly committed	Generally €25m	€300m (3)	Dependent on quality of investors	4 years	High (4)	No	Yes	Yes
3. Factors considered include diversification of LPs and track record of sponsor. 4. Flexible on advance rates, extensions, making adjustments to the borrowing base, can issue LCs and guarantees, can issue out of different branches across the network. CHANGE: minumum loan amount (from €20m)									
Both	Both	€50m	~€700m (1)	Up to 60% subject to LPA	5 years	High	Yes	Yes	Yes (2)
1. Can look at both advance rate or coverage lending approach. 2. Can provide financing solutions to SMA and highly concerntrated LP bases. 3. Can club with our partner banks to deliver larger facilities. 4. If managed by experienced team with strong track record. 5. Including GP led transaction with single asset and concentrated investor base. CHANGE: NO CHANGE									
Both		$/€/£ 100m	$/€/£ 600m (3)	Guided by LPA	Guided by LPA	High	Yes (4)	Yes	Yes (5)
3. Can club with our partner banks to deliver larger facilities. 4. If managed by experienced team with strong track record. 5. Including GP led transaction with single asset and concentrated investor base. CHANGE: NEW THIS EDITION									
Both	Both	No (3)	Dependent on fund (3)	Dependent on fund	Dependent on fund	High (4)	Yes (5)	Yes	Yes (6)
3. Prefer to be top tier lender, capacity for large tickets 4. Always willing to work with clients to solve their financing needs. 5. Under the right circumstances. 6. On a select basis. CHANGE: NO CHANGE									
Both	Both	£3m	£50m	66%	7 Years	High	Yes	Yes	Yes
CHANGE: Maximum % of total commitments (was 60%); Maximum tenor (was 5 years); Structural flexibility (was Medium); ESG linked facilities (previously no)									
Both	Both	Typically not less than €10m	Up to €200m	Up to 45%	Maximum 4 years	High (2)	Yes	Yes	Yes
2 Yes: guarentees, letters of credit. No uncollateralised hedging. CHANGE: NO CHANGE									

NAV Lines

The most notable development in the NAV line space is the increased number of lenders providing this product. "Institutions are more open to these facilities so it's not surprising to see more lenders entering the space," says Bartholomew.

However, the tracker also points to a degree of tightening when it comes to loan sizes. Three of the lenders we tracked have decreased their maximum loan amount. Bartholomew suspects that an increasingly challenging macroeconomic environment could be driving a more cautious approach to these loans. "Given where we are with things like inflation, supply chain issues and wider macroeconomic uncertainty, lenders will likely be more conservative when it comes to NAV lines."

Another reason for tightening the size of these facilities could be managing exposure. "Banks are limited as to how much they can lend to each manager, so there could be a rebalancing of limits if they have been pushing on sub lines," explains Bartholomew.

	Fund strategy	Purpose	Min Deal Size	Max Deal Size	Max LTV	Maximum tenor	Minimum number of assets
17 CAPITAL	Private Equity	(i) To raise additional capital for portfolio growth (e.g. buy & build) and/or (ii) generate liquidity for investors without selling	~€/$50m	Up to ~€/$1bn +	LTV advance rates of up to 65% (1)	Pref: no maturity date; Debt: ~5-7 years	Three
	1. Depending on counterparty objectives, diversification and structuring requirements. CHANGE: Max Deal Size (was ~€/$500m +)						
BNP PARIBAS	FoF, PE, Infra, debt, RE	Additional capital for portfolio companies/add-ons and provide liqudity to LPs	Dependent on fund (1)	Dependent on fund (2)	Dependant on fund (3)	Dependent on fund (4)	Dependent on fund (5)
	(1) (2) (3) (4) (5) relationship and tailor made approach. CHANGE: NEW THIS EDITION						
CRESTLINE	Agnostic (VC, Growth, PE, Real Estate, Real Assets, Infrastructure)	Loans to Funds, Loans to Portfolio Companies with fund guarantee, preferred equity and hybrid offerings	$10m +	$250m +	Depends on collateral	5 years +	One (1)
	CHANGE: Min Deal Size (previously $25m +); Max Deal Size (previously $500m +)						
DEUTSCHE BANK	PE, RE and Secondaries	Follow-on investments, cover for expenses, Investor distributions or additional liquidity support to portfolio investment	€50m	€800m	Dependent on asset class (1)	up to 5 years	One (2)
	1. PE (10-25%), Private credit/RE Debt (60-70%), RE Equity (20-35%), Primary/Secondary LP interests in funds (35-50%). 2. In the case of a continuation vehicle. CHANGE: NEW THIS EDITION						
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	No
	1. WIth institutional investor partners. 2. Typically up to 30% for concentrated, and up to 50% on diluted.						
NORDEA	Equity	(i) To raise additional capital for portfolio growth and/or (ii) to provide liquidity to LPs	No set minimum	No set maximum	Not set, but indicatively up to 25%	TBD	Dependent on assets, indicatively 5 for pure NAV
	CHANGE: NEW THIS EDITION						
OAKNORTH	Agnostic	Agnostic	£3m	£50m	30%	5 Years	Three
	CHANGE: Max LTV (previously up to 25%); Minimum number of assets (previously none); Approach to valuation (previously own valuation); Ability to borrow at different levels (previously no);						
RAIFFEISEN BANK	Agnostic	All, depending on situation	Typically not less than €10m	~€100m	25%	4 years	Preference for diversity
	CHANGE: Min Deal Size (previously €50m); Max Deal Size (previously €200m); Minimum number of assets (previously 5 for pure NAV)						

GP Facilities

A major development for GP facilities is the number of lenders providing this product. According to Bartholemew, this finding responds to a major uptick in demand. "Increased provision in this space is completely client driven. We are seeing huge demand for GP facilities," he says.

What the findings do not tell us is the drivers behind that demand. The growing need for GP facilities could be driven by a slow down in distributions or more managers embarking on succession plans. Whatever the reasons, rising levels of demand and the ways in which lenders respond is likely to be a stand out feature of the fund finance market for 2022.

	Purpose of loan
17CAPITAL	GP commitments, co-investments, strategic management company financing, working capital, new strategies, succession planning
BNP PARIBAS	Co-invest, carried interest
CRESTLINE	Variable (Working capital, Commitments, Buyouts etc.)
DEUTSCHE BANK	GP co-invest, strategic financing, working capital, new strategies, succession planning
INVESTEC	Working capital support, new strategies, geo expansion, succession planning, liquidity release
NO LIMIT CAPITAL	GP co-invest, strategic financing, working capital, new strategies, succession planning
NORDEA	No preference (1)
	1. Would need to look at circumstances for each item: but can do all.
OAKNORTH	Agnostic
	CHANGE: NEW THIS EDITION
RAIFFEISEN BANK	Agnostic

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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
Case by case basis	Yes	Yes	Yes	LTV and diverisification based	Case by case basis	Case by case basis	Case by case basis	Dependant on fund
Depends on collateral	Yes	Yes	Yes (2)	LTV and diversification based	Yes	Yes	Yes	High
Fund's valuation + 3rd party valuation	Yes	Yes	Yes		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. CHANGE: NO CHANGE								
Fund's valuation, right to call for external valuation under certain circumstances	Yes	Yes	Yes	Not set; indicatively LTV, diversity	Yes	Yes	Yes	High
Mix of all Fund's valuation / Own valuation / 3rd party valuation	Yes	Yes	Yes	Min NAV, % of NAV and ICR	Yes	Yes	Yes	High
Covenant package (previously deal dependent)								
Funds' valuation	Yes	Yes	Yes	LTV, diversity, and cash flow	Yes	Yes	Yes	High

Structure (Debt, Pref Eq, Both)	Maximum Deal Size	Minimum Deal Size	Maximum Tenor	Structural flexibility	Will consider first-time funds
Both (1)	~€/$500m +	~€/$50m	Pref: n/a; Debt: ~5-7 years	High	Yes (2)
1. Repayment sources include management fees and/or GP commitments and/or GP carried interest. 2. On a case-by-case basis. CHANGE: NO CHANGE					
Debt	Dependent on fund (1)	Dependent on fund (2)	7 years	Medium	No
(1) (2) Relationship approach. CHANGE: NEW THIS EDITION					
Both	$100m	$10m +	5 years + (1)	High	Yes
1. Depends on size and Crestline Funding Vehicle. CHANGE: NO CHANGE					
Debt	Dependent on fund (1)	€10m	5 years	Low	No
1. Assessed on a case-by-case basis, no hard cap. CHANGE: NEW THIS EDITION					
Both	€200m	€5m(1)	7 years	High (3)	Yes
1. Smaller deals require broader business case. 2. For strategic it varies and we go up to 9%. 3. Advance rates, tenor, collateral package and legal structure. We have been creating bespoke GP facilities since 2008. CHANGE: NO CHANGE					
Debt	$/€/£ 100m	$/€/£ 50m	8 years (1)	High	No
1. Can go longer for the right fund and manager. CHANGE: NEW THIS EDITION					
Debt	No	No	No (2)	High	Unlikely for GP lines
2. Prefer to limit Tenor and extend instead. Typically facilities are 3-5 years + extensions. CHANGE: NO CHANGE					
Debt	£50m	£3m	7 years	High	Yes
Debt	Depends on situation	Depends on situation	5 years	High (1)	Yes
1. Can be bespoke, making sure we provide something that works. CHANGE: NO CHANGE					