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FUND FINANCE TRACKER 4

Key stats on fund finance provision for the private capital markets

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Objects of interest

"May you live in interesting times" – so says the apocryphal 'Chinese curse'

According to philologist Garson O'Toole, the well known phrase is more likely to have originated from Joseph Chamberlain, who's 1989 speech proclaimed: "I think that you will all agree that we are living in most interesting times. I never remember myself a time in which our history was so full, in which day by day brought us new objects of interest, and, let me say also, new objects for anxiety."

For anyone with any interaction with the fund finance space over the past six months, Chamberlain's words will ring true. It seems as though on an almost daily basis, new events and "objects of interest" are hitting headlines and inboxes alike.

The rapid collapse of SVB Financial Group in the US sent shockwaves across the industry. However, over in Europe, thanks to the separation of SVB's US and UK's subsidiary bank, despite one stressful weekend, it was business as usual by Monday for SVB UK following HSBC's swift acquisition of the UK entity. That quick resolution has meant not only continued service for existing clients, but also continued lending to new funds.

However, it's not all rosy. During the past year, the fund finance market has been experiencing capacity and cost constraints. With several key lenders, including larger banks, retrenching from the market, securing fund finance is a much harder and more expensive task today.

The latest edition of the *Fund Finance Tracker* evidences the more challenging conditions. The major changes to come through include increased minimum ticket sizes and reduced LTVs. This tells us that lenders are moving into more defensive positions; lending to a smaller group of funds and managers (typically larger, well known names), and tightening their risk controls.

Perhaps surprisingly, this edition has once again welcomed new lenders to its ranks. Of course, the tracker doesn't (yet) include every active lender in the space, but the increased willingness of lenders to showcase themselves in this report speaks to their desire and willingness to support fund managers.

This emerging shift from private to public also backs up recent conversations with market participants that the fund finance space has become more collaborative in recent months. It is encouraging to hear that in response to the increasing challenges and threats, lenders are working more harmoniously with each other to find solutions.

This should be of great comfort to managers. While sourcing liquidity is the name of the game right now, it is wholly encouraging to find lenders rolling up their sleeves in a united manner to keep markets moving.

Let's hope that over the coming months, the daily changes throw up more objects of interest than those of anxiety. ●

FUND FINANCE TRACKER

The fund finance landscape has experienced dramatic shifts in the past six months. The collapse of SVB in the UK sent tremors throughout the market. While the situation was resolved swiftly thanks to HSBC's purchase of the failed bank's UK unit, challenges around capacity and cost that had already been bubbling up in recent months surfaced in recent weeks.

"Six months ago, there was already a sense in the market around capacity constraints and running big tickets," observes Michael Slane of Investec's fund solutions team. "That was accelerated in Q4 with Trusseonmics and more recently with SVB."

However, while pricing is up a little, structures remain largely the same. What has changed is lenders' focus. "In the past year or so, lenders were looking at a much broader range of sponsors and funds. Now, they are more strategic in what they have appetite for," says Slane.

Subscription Finance

	Fund strategy	Fund geography	Investor base (Institutional / Non-institutional)	Investor base (advanced on)	Minimum number of LPs	Single investor mandates	Syndicated or bilateral
ABRDN	Agnostic	Agnostic	Both	Only advance on institutional	c. 10	No	Syndicated
BANK OF IRELAND	Agnostic **(1)**	Main focus is UK, Western Europe	Predominantly institutional **(2)**		Typically 5	No	Both
	1) Typically don't lend to VC funds. 2) Will consider FO / HNW on select basis.						
DEUTSCHE BANK	Agnostic	Global	Both	Preference for institutional	One	Yes	Both
ING	Agnostic	Agnostic		Only advance on institutional	No (1)	Yes (2)	Both
	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	Both
	1) Beyond that will syndicate to banks.						
NO LIMIT CAPITAL	Agnostic	UK, Europe and North America	Both **(1)**		One **(2)**	Yes	Both
	1) Mainly Institutional and 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	Both
	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	Both
	1) We only fund in £. No change						
SUMITOMO MITSUI TRUST BANK (LONDON BRANCH)	Agnostic	EMEA **(1)**	Institutional **(2)**		One **(3)**	Yes	Both
	1) Provide facilities to funds Domiciled in EMEA (with the exception of France). Also have offices in the US, Singapore, Hong Kong and Tokyo to cater for their respective jurisdictions. 2) Facilities are secured against the commitments of externally rated institutional investors (minimum rating of BBB/Baa2). 3) We specialise in providing sub line facilities to SMAs and concentrated funds.						

Indeed, lenders are now laser focused on the managers they can work with, seeking strong brand names, healthy track records, as well as a decent ancillary play.

This sharpened focus in appetite is being driven by capacity constraints, with many lenders hitting exposure levels for fund finance products. This has also impacted typical ticket sizes, with lenders preferring to minimise the size of the loans they are facilitating.

Olivia Marsters of Investec's fund solutions team also notes the shift in the supply and demand dynamics, and given the turbulence over the past month or so, says: "It will be interesting to see how recent events play out in the following months."

SUBSCRIPTION LINES

"This is the moment of truth for subscription lines," states Slane. With rising interest rates diminishing the economic benefits of capital call facilities, many in the industry have been questioning what the future of these facilities will be.

"People are using them regardless," responds Slane. "There is still some benefit on IRRs. And of course the major benefit from an operational point of view remains. LPs like the simplicity of more predictable drawdowns. The product is not going away, but it is right to think about utilisation."

Marsters provides more detail: "There is a lot more focus on how GPs are using subscription lines as the all-in cost moves towards the 8% hurdle rate. They will continue to be relevant but there will be a shift in how GPs use them. That could be moving away from 12 month long drawings and potentially reverting back to core bridging / administrative type loans."

Marsters also points out that the way in which sub lines are used will depend on a fund's LPs and how they manage liquidity. "They will need to think about how often they want to be called for capital. A lot will depend on the relationships between GPs and their LPs."

A clear bright spot to have emerged in this space is the increasingly collaborative nature of placing sub lines. "These are big facilities that are efficiently priced so the best thing is to work together to identify the lenders best placed to fund these loans," points out Slane. "We're enjoying how much more collegiate this market has become. It means we can all get there quicker and more efficiently by being more collaborative and sharing that insight and intelligence. The information flow has improved, which is benefitting processes."

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
Both	typically £25m	typically c. £300m	Guided by LPA	4 years	High	Yes	Yes	Yes
Committed	€10m	€100m	20-30% **(3)**	Up to 4 years **(4)**	Medium **(5)**	Yes	Yes	No
3) *No strict rule: guided by LPA, which is typically 20-30%.* **4)** *Majortiy of deals 1-3 years.* **5)** *Familiar with umbrella facilities, LOC etc - all the quirks of these loans.* ***Change:*** *Previously would consider single investor mandates; previoulsy would consider both committed and uncommitted structures; structural flexibility changed from High to Medium.*								
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.* ***No change.***								
Mostly committed	Generally €25m	€200m dependent on fund (3)	Dependent on quality of investors	3 years + extension options	High **(4)**	No	Yes	Yes **(5)**
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.* **5)** *Limited and under the right circumstances. Change: Maximum loan amount has reduced from €300m to €200m; Maximum tenor has decreased from 4 years to 3 years.* ***No change.***								
Both	€50m	~€500m **(1)**	Up to 60% subject to LPA	5 years	High	Yes	Yes	Yes **(2)**
2) *Strong NAV experiencee enables hybrid facilities.* ***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.* ***No change.***								
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.* ***No change.***								
Both	£3m	£50m	66%	7 Years	High	Yes	Yes	Yes
Both	$40m **(4)**	$150m	As per Fund leverage restrictions	5 years (including extension options)	High	No	Yes	No **(5)**
4) *We have considered smaller facility amounts to support clients and enhance longer term relationships.* **5)** *We are looking to introduce this in the medium term.* ***Change:*** *Minumim loan amount increased from $30m to $40m. Maximum tenor increased from 4 to 5 years.*								

information provided can only be used with prior approval from the included lenders.

NAV FACILITIES

"The reasons to use NAV facilities have all come into play at once, which is driving lots of demand across all asset classes," says Slane.

Indeed, with lengthening exit horizons coupled with a depressed fundraising market, managers are seeking liquidity solutions to support existing assets. "There's a perfect storm of reasons to use NAV; exit processes are tough, while certain types of asset level debt are locked up or refinancings aren't possible. We're also in a really attractive investment environment but it's hard to raise equity," explains Slane.

Given the unprecedented levels of demand for NAV facilities, interestingly, discussions around hurdle arbitrage are fading away. "I would be surprised if a NAV deal is less than the hurdle rate. But despite that, there are more NAV deals taking place than ever before. This tells us that managers are thinking about NAV differently; it has become another part of the capital stack within a fund," points out Slane.

It appears that now managers are comparing NAV facilities to their fund return rather than the hurdle, marking an important shift. "It allows other forms of capital to come into the space at a price and risk level that's better suited to investors who can't do a typical equity investment," says Slane.

"Despite the increase in rates, there is clearly a strong rationale on both sides to do these deals," he concludes.

NAV Lines

	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.*						
CRESTLINE	Agnostic (VC, Growth, PE, Real Estate, Real Assets, Infrastructure)	Support, grow and protect underlying portfolio companies, acquire new assets and support strategic initiatives	$25m	$250m+	Depends on collateral	5 years +	One **(1)**
	1) *Prefer portfolios with 3+ assets, but have limited single asset risk.*						
DEUTSCHE BANK	PE, RE and Secondaries	Follow-on investments, cover for expenses, Investor distributions or additional liquidity support to portfolio investment	€50m	€800m	Dependent on asset class **(1)**	up to 5 years	One **(2)**
	1) *PE (10-25%), Private credit/RE Debt (60-70%), RE Equity (20-35%), Primary/Secondary LP interests in funds (35-50%).* **2)** *In the case of a continuation vehicle*						
INVESTEC	Preference towards PE, Infrastructure and Real Estate	To accelerate liquidty to LPs, to build or defend value in the portoflio or for a GP based on its commitment or carry assets	€10m	€500m + **(1)**	30-50% **(2)**	5 years	No
	1) *WIth institutional investor partners.* **2)** *Typically up to 30% for concentrated, and up to 50% on diluted.*						
NO LIMIT CAPITAL	Agnostic	Acquisition of diversified portfolio of assets / provide liquidity to LPs	~€/$/£50m	~€/$/£100m	.**(1)**	. **(2)**	. **(3)**
	1) *Can be flexible and dependent on diversity of portfolio.* **2)** *Depending on fund life we can be flexible on term.* **3)** *Can be flexible and depends on asset class.* **4)** *Combination based on transaction*						
NORDEA	Equity	(i) To raise additional capital for portfolio growth and/or (ii) to provide liquidity to LPs	No set minimum	No set maximum	15%	TBD	Dependent on assets, indicatively 5 for pure NAV
	Change: *LTV reduced from 25% to 15%*						
OAKNORTH	Agnostic	Agnostic	£3m	£50m	30%	7 years	Three
	Change: *Maximum tenor increased from 5 to 7 years*						

GP LINES

At the surface level, one might assume there would be little activity in the GP financing space, given the quieter fundraising market. However, dig a little deeper and there is plenty going on.

According to Slane, most of the facilities are coming in from GP-led secondary activity. "GP-leds have been a big theme recently and we've been doing a lot of work in this space. Because of the current market conditions (longer holds on assets), we tend to see that the LPs in those vehicles want to see a very strong GP commitment, and these can be material tickets. However, GPs don't necessarily have enough liquidity to support that; they're less likely to have carry from a previous fund."

Marsters also points to another driver for GP facilities: succession planning. "GPs are looking for solutions, especially around succession planning. And when raising a new fund, with exits being delayed and carry not coming in as quickly, GP facilities can support the GP's commit."

GP Finance

	Purpose of loan
17CAPITAL	GP commitments, co-investments, strategic management company financing, working capital, new strategies, succession planning
CRESTLINE	Working capital, commitments, seeding new strategies, management company financing, other strategic initatives
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)**
OAKNORTH	Agnostic

Disclaimer: The information provided here is an indication of a lenders' core strengths and strategic focuses, and not an offer of finance or credit terms. Reference or publication of the

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 **(2)**
2) *Not constrained by bank regulatory capital rules / models.*								
Depends on collateral	Yes	Yes	Yes **(2)**	LTV and diversification based	Yes	Yes	Yes	High
2) *Flexible based on borrower objectives.* ***Change:*** *Purpose of loan. Minumum deal size increased from $10m to $25m.*								
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 primarly LTV covenant that focuses on the value of the portfolio and the retention of some element of diversity.*								
Combination based on transaction	Yes	Yes	Yes	LTV focused	Yes	. **(4)**	Yes	High
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 fund's valuation / own valuation / 3rd party valuation	Yes	Yes	Yes	Min NAV, % of NAV and ICR	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)**	~€/$1bn +	~€/$50m	Pref: no maturity date; Debt: ~5-7 years	High **(2)**	Yes **(3)**
1) *Repayment sources include management fees and/or GP commitments and/or GP carried interest.* **2)** *Not constrained by bank regulatory capital rules / models.* **3)** *On a case-by-case basis* ***Change:*** *Maximum deal size increased from 500m to 1bn*					
Both	$100m	$25m+	5 years + **(1)**	High	Yes
1) *Depends on size and Crestline Funding Vehicle.* ***Change:*** *Purpose of loan. Minumum deal size increased from $10m to $25m.*					
Debt	Dependent on fund **(1)**	€10m	5 years	Low	No
1) *Assessed on a case-by-case basis, no hard cap.* ***No change.***					
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.* ***No change.***					
Debt	$/€/£ 100m	$/€/£ 50m	8 years **(1)**	High	No
1) *Can go longer for the right fund and manager.* ***No change.***					
Debt	No	No	No **(2)**	High	Unlikely for GP lines
1) *Would need to look at circumstances for each item: but can do all.* **2)** *Prefer to limit Tenor and extend instead. Typically facilities are 3-5 years + extensions.* ***No change.***					
Debt	£30m	£3m	7 years	High	Yes
No change.					

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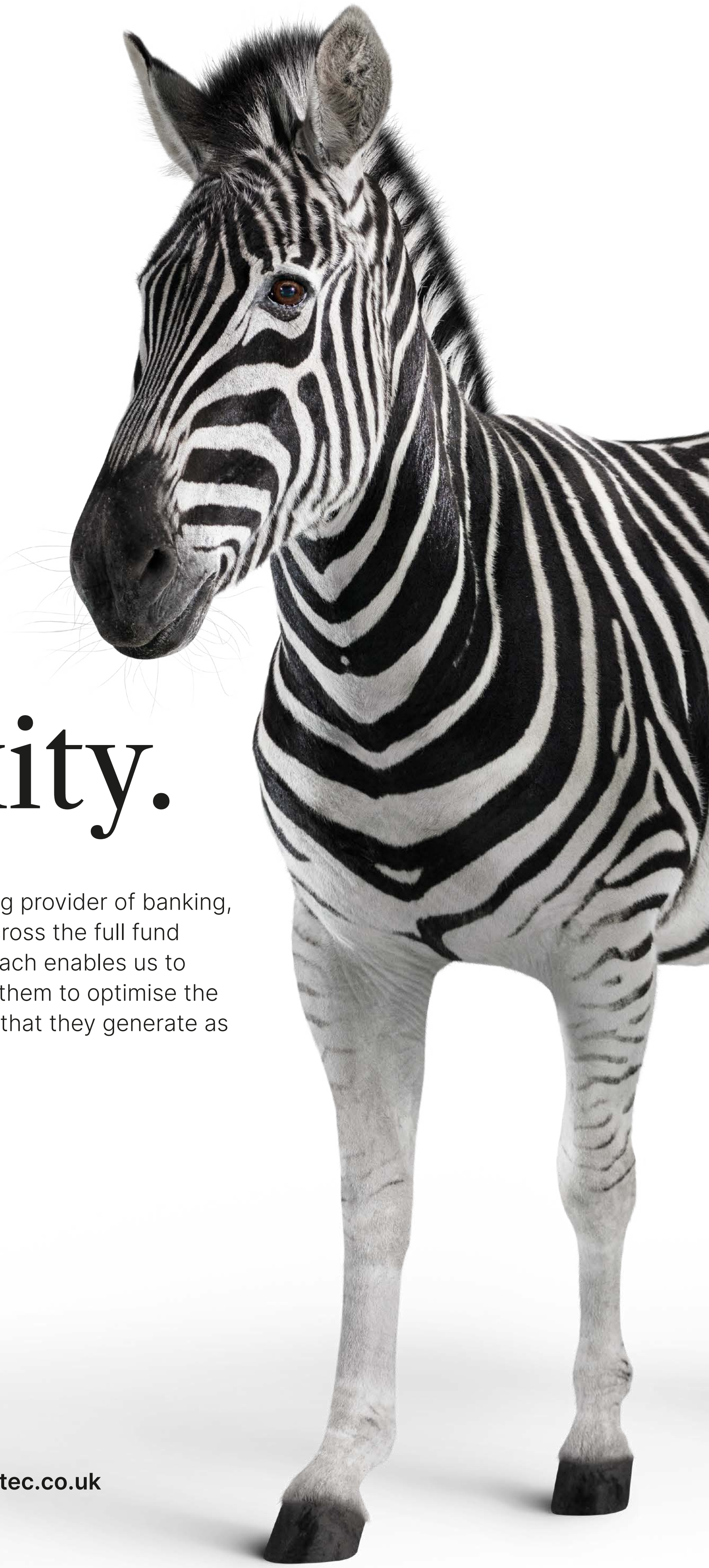

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