

FUND FINANCE FRIDAY

Fund Finance Market Observations for May

May 7, 2021 | Issue No. 125



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The fund finance markets have remained active and vibrant into May, building on a solid first quarter. Much of what the market forecasted as likely in the beginning of the year has been occurring in fact. While the markets are steady and there is not much by way of breaking news, below are a few of our recent observations.

Transaction Volume and Pipeline. Transaction volume and forward indicators both continue to hum along. Our new deal count is trending mildly higher than the comparable period in 2020, and our hours accrued in March and April 2021 actually exceeded 2020, which surprised to the positive because last year there was such an avalanche of deal work when the pandemic initially took hold in our market. Prospective deal hours and LPA reviews remain elevated, and when combined with the very robust first quarter PE fundraising numbers *PEI* and *PitchBook* have been reporting, our forecasts remain very optimistic.

Bank Utilization. While our January forecasts around spread compression and hold size increases have been trending as predicted, my forecast around utilization coming down a few points has not happened. My assumption was that valuations being frothy and SPACs stealing opportunities would slow PE deal flow and hence, negatively impact utilization. But anecdotal feedback suggests utilization has been hovering on the high end of historical levels. And multiple press reports suggest that sponsors are not seeing extensive competitive impact on deal flow from the SPAC side.

Deal Issues. Several hot topics on the deal side:

- Revlon language is an increasingly frequent negotiation point. More to come on this.
- Rated feeders issuing note-like structures to investors, particularly for insurance companies, are increasingly hitting our plate. Lenders often need to address the debt commitment risk, and so it is important to work with funds counsel early on to get proper language into the feeder LPAs/note agreements so that the underlying investors get full borrowing base credit.

- SMAs and bespoke structures with equity commitments and backstop guarantees are getting banked. What a difference a year makes.

- ESG linkage is up materially.

Europe. The London market continues to be very active. Our team closed a EUR 6 billion subscription facility last week that included both an ESG component as well as 27 participant banks. Quite the deal: possibly the largest consummated in Europe year to date. In addition to a number of very large subscription deals, we also continue to be very busy with NAV-oriented transactions across the European market. Several of them in progress are innovative and of first impression, and we look forward to discussing the structures if post-closing the clients permit.

Family Offices. We continue to see robust deal activity with family offices. In recent years, family offices have increasingly hired internal portfolio managers, invested in compliance and risk management, and become more sophisticated users of financing. Many have large, diversified pools of investments in hedge funds, private equity funds, and public and private companies. All of this makes them attractive borrowers. We have noted a steady increase in the size and sophistication of family office financings.

Mom. Thinking about my mom a lot today. Happy Mother's Day Sunday to all the moms.

Thank You. Cadwalader appreciates our clients, counterparties and friends. If we can do anything to be helpful for you, please ask.