CADWALADER

FUND FINANCE FRIDAY

2018 Fundraising and 2019 Fund Finance Crystal Ball Gazing

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Preqin reported that fund managers raised $757bn in 2018, which is an almost 20% decrease from the amount raised in 2017 (when a record $925bn was raised). Whilst the extent in the downturn was unexpected, a decrease was generally anticipated by many commentators in the market due to a number of factors, including the fewer number of funds being raised, geopolitical uncertainty and a general cool-down of the economy and the levels of dry powder prevalent in the market.

According to *Preqin,* 1,733 funds achieved a final close in 2018, compared to 2,410 in 2017 (a decrease of almost 30%). There are two prominent reasons for this. First, we are seeing the funds market becoming more consolidated as investors look to invest with managers they have dealt with previously, rather than committing money to first-time managers (largely as a result of geopolitical uncertainty and economy cool-down). Second, we are seeing that funds generally take longer to reach final close from first close (usually as a result of greater due diligence on the fund manager (with Abraaj-style concerns featuring at the forefront of their thinking) and larger fund sizes being sought – indeed, in 2018 there were around 17 fund managers each seeking to raise funds in excess of $10bn, whilst funds of $1bn or more accounted for over 60% of total fundraising.

Concerns regarding trade wars, Brexit and a cool-down of the economy have had a contagious and volatile adverse effect on traditional asset classes globally. We believe that this has also given some fund managers and investors pause for concern about their strategies and commitment levels. The World Bank's recent annual assessment of the economy considers that the global economy is slowing down (albeit at a relatively "orderly" pace which should provide some comfort against the "cliff-edge" slowdown or "bubble bursting" some commentators have suggested is likely to occur), and the uncertainty of the geopolitical world and the economy has also forced investors and fund managers to consider whether attractive returns are still obtainable and sustainable over the mid-term, and/or whether new strategies need to be explored. It is worth noting that this does not necessarily mean that the current

climate should dampen activity. In fact, a rise in UK M&A activity has been attributed to the fall in the value of GBP following the Brexit referendum.

2019 Fund Finance market

We believe that the fund finance market will continue to grow in 2019 notwithstanding an expectation that fundraising levels will be the same or slightly lower than those recorded in 2018. This is due to the fact that a greater number of institutions are offering fund finance products and lenders generally are willing to allocate a greater portion of their balance sheet to the market, and the quantum of financing being sought by fund managers will increase (in line with the larger sizes of funds being raised as referred to above). Additionally, as fund finance can be considered to be mainstream, a greater number of fund managers who have not previously used fund finance products are now actively seeking to.

We anticipate the demand for hybrid facilities, NAV facilities and GP support facilities to continue to increase, with deals across the fund finance spectrum becoming increasingly bespoke, as fund managers become more creative in their strategies and use of these products. However, we do not expect a significant number of new lenders to start providing these products in 2019, leaving some shortfall between demand and supply.

Conversely, in the pure subscription finance market, we have seen an increase in the number of non-bank lenders providing finance to fund managers (usually as part of a syndicate with bank lenders), and we expect this trend to continue in the foreseeable future in order to satisfy demand for this traditional product and help free capital and balance sheet exposure for existing bank lenders.