

FUND FINANCE FRIDAY

Women in Fund Finance: Fund Liquidity Solutions

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Women in Fund Finance this week hosted “Fund Liquidity Solutions,” a virtual event that looked at some of the most innovative liquidity structuring and solutions being employed across the private markets. The panel brought together industry experts who are at the forefront of structuring these solutions and discussed the latest trends in capital raising and how structured liquidity solutions are being used by private markets managers to manage their portfolios.

Francois Aguerre, a partner and Head of Origination at Collier Capital, shared his insights as one of the most successful secondary managers in the market using some of these technologies. Richard Golaszewski, CFA, a Managing Director at 17Capital, provided perspective from the lender side on how GPs are creatively thinking about how to use debt and pref liquidity. Matt Kerfoot, Americas Head of Fund Financing and Investments at UBS Securities LLC, gave great insight from his current post as well as sharing examples from his extensive experience as a deal lawyer working on complex financial transactions and structured products as a partner at Dechert LLP. Matt Ruggiero, a Managing Director in the Strategic Advisory Group at PJT Partners, rounded out the panel with perspective from his investment banking background, which included a focus on structured financing. The panel was moderated by our very own Samantha Hutchinson, a partner in Cadwalader’s fund finance group.

The session focused on two key themes: how managers are using structured finance solutions as part of their capital-raising programs to raise liquidity and where are the drivers coming from; and how NAV and pref products are being used by GPs to unlock value in portfolios. Some observations coming out of the panel:

- Some of the most interesting developments in capital raising and value realization involve the use of securitization structures and techniques to harness capital from insurance companies as well as providing structures to allow managers and investors to realize value from their portfolios.
- These structures are rapidly evolving and are part of an exciting evolution in the fund finance market. Those who have been in the market long enough will recall when sublines were an “edgy” thing to use. That is precisely where these deals are now, and the market is growing.
- Some sponsors are asking for these transactions because they have limited partners who have expressed interest in investing in a rated securitized vehicle. Sometimes these deals are driven by reverse inquiry from LPs to GPs. There is also an element of momentum; as more GPs do these transactions and LPs have a good experience, the more of these deals are happening. There is also an element of GPs exploring these structures to get distributions to their LPs more quickly.
- From the investor side, the appetite for this paper is growing. The buyer base was nascent just three or four years ago. Now investors that buy paper in securitizations in traditional markets are interested in investing in the notes in these deals. Investors include insurance companies, large institutional fixed income and structured credit papers. All of this presents an opportunity for GPs to increase their assets under management. IR groups at sponsors are doing a lot of education on these structures and using it as a tool to raise capital. Rather than having just an equity offering, they can also offer potential investors with an additional option in the form of a structured note. This paper is an exciting investment opportunity for yield-hungry investors. Investors are viewing NAV finance and other structured solutions as some of the most compelling opportunities for risk-adjusted returns. NAV finance is the next sub-asset class and investors are seeing this as a great place to invest their capital.

The panel wrapped up with predictions for the future. Each panelist was excited about the creative thinking and evolving structures they are seeing in the market. It seems that with more liquidity opportunities, funds can consider what fits their needs best based on the particularities of their investor base and their investments. The panel gave the following predictions:

- More new ideas coming into the system with more liquidity as the market continues to grow. An opportunity for “positive chaos” as new structures come to the market.
- The potential for opportunity in the market as funds leverage a combination of NAV lending, pref equity, and fund finance to best serve the broader fund strategy. As investors see this as a successful strategy, they will look for managers who are nimble and opportunistic when it comes to using different credit strategies.
- The ability to rate PE portfolios will open up lots of new opportunities that we will be talking about in a few years. These products are relatively simple, but creative sponsors and investors can utilize these products in different and unexpected ways.
- As more sponsors, investors, and lenders think creatively around liquidity structuring and solutions, it continues to be an exciting time to be part of the the fund finance market.