

# FUND FINANCE FRIDAY

## Then and Now

August 13, 2021 | Issue No. 139



**By Wesley Misson**  
Partner | Fund Finance

With all the headlines about Delta controlling the news cycle and recent announcements of more quasi-shutdowns, delayed office returns and mask mandates, it seems as if the start to August feels eerily familiar to last year's summer concerns. But dig a little deeper and you will see that this is not a case of *deja vu* – there is a ton of room for optimism in our market generally and, when compared to YTD numbers last year, the contrast is striking.

So let's take a look at what's behind our optimism and what's driving this growth and momentum as we get set to say goodbye to summer and head into what appears to be an extremely robust remainder of the year ahead, regardless of what continues to happen in the macro.

- Could a 2021 private equity trifecta be in the making? The global private equity market set a pace to reach or exceed \$1 trillion full-year totals in fundraising, deal value and in exit values, assuming of course that the first half momentum continues. In fact, fundraising totaled \$631 billion in the first half, pointing to a 2021 total that may end up closer to \$1.3 trillion, based on Preqin data. At mid-year, dry powder totaled a record \$3.3 trillion.
- Scale continues to be a theme. Nine funds with commitments north of \$5 billion accounted for more than half of the capital raised in buyout funds in the first half. These mega-funds handily exceeded fundraising targets. It's not a capital-raising theme only. Average buy-out deal size moved sharply higher to \$1.1 billion in the first half, more than double prior-year average, based on Dealogic data.
- The larger fund sizes are naturally creating higher demand for large facilities. We have already seen a healthy dose of billion-dollar-plus subscription lines close this year, and we expect that trend to accelerate and the need for large syndicated deals to possibly reach an all-time high.
- SPACs continue to grease the skids for portfolio company exits. Despite the slump in SPAC IPO activity since April, Bain & Co. reports that more than 400 SPACs controlled \$133 billion

at mid-year, with ultimate spending power available for mergers well above the pre-funded capital.

- A favorable exit environment and distributions being returned to investors at record pace free up investor capital to support fundraising. Preqin's mid-year Investor Outlook reported that 90% of LPs plan to make equal or greater commitments to private equity over the next 12 months. Adding fuel to the already hot fundraising fire presents further opportunity to lend as the new vintages come online (many larger in commitment size than their predecessors as noted above).
- Bespoke structures are once again very much in vogue. While practically non-existent in the summer of 2020, we are currently seeing a larger-than-usual demand for non-traditional facilities – SMAs, umbrellas, NAV/hybrids, equity commitment facilities, etc. While still making up a significant minority of our market in the U.S., we anticipate this share to grow.
- LIBOR successor is king. Well, in terms of lawyer hours that is certainly becoming the case. We expect hundreds of amendments to be completed before end of year as banks transition out of LIBOR.
- ESG is all the rage. This time last year, we were discussing our very first ESG subscription line in the U.S. Fast forward and we have now closed three more in July, bringing us into the double digits for facilities with an ESG component. It is great to see such momentum and buy-in to use our market to help propel change for the greater good. At Cadwalader, we are proud to be a part of leading the ESG facility market and now have a deep bench of lawyers that have worked on multiple such facilities.

We should all feel fortunate to be part of an incredibly resilient and active market. Look at where we have been, and now where we are heading. So much opportunity for our industry, and lots of job creation. Enjoy the remainder of the summer, and good luck as we head into the busy home stretch. I look forward to gathering with many of you in Miami next year (hopefully sooner) and toasting to our incredible accomplishments and all you do for our industry.