

# FUND FINANCE FRIDAY

## Women in Fund Finance (WFF): Fund Liquidity Solutions – Part II

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Women in Fund Finance (WFF) this week hosted a second installment of its “Fund Liquidity Solutions” virtual event, which was a follow-up to the first liquidity solutions panel that took place in July. This second panel brought together industry experts who have been at the forefront of structuring alternative liquidity solutions for private market managers. The panel continued a conversation about how funds, their lenders, and investors are thinking outside the box to unlock value for their constituents.

The panel consisted of industry experts who are leading the charge in this rapidly growing and evolving segment of the fund finance market. The panelists included: Andie Goh, a Principal in the Alternative Credit Group at Ares; Helen Griffiths, Head of Structuring and Strategic Solutions at Investec; James Lumby, an Executive Director in the Alternative Capital Solutions Group at Goldman Sachs; Donna Yip, a Managing Director at Antares Capital LP; and Patricia Teixeira, counsel at Ropes & Gray, whose practice focuses on fund finance and largely borrower-side representations. The panel was moderated by Cadwalader fund finance partner Samantha Hutchinson.

It is an exciting time to be in the fund finance market, as investors search for yield and market participants are thinking creatively and innovating from a liquidity-raising perspective. The panelists agreed that one of the most exciting aspects of the market right now is appetite from all players to explore creative thinking in structuring transactions. There is a real increase in the products available in the market, some of which include variations of existing products.

The discussion kicked off with the panelists discussing what they are seeing as the most prominent of these innovations. The first item that the panelists discussed was the use of securitization technology in the fund finance market, and how it allows companies to participate in a capital-efficient manner. Some market players are finding comfort in the increasing guidance on what structures are acceptable.

Rated note structures are a key innovation in the market, and they play an important role from a number of angles. In the first instance, insurers are coming into those transactions as the

structure allows better treatment from a regulatory and capital requirement perspective. These innovations around rated feeder structures are attracting long-duration insurance capital, bringing new and increased sources of liquidity into the market. Alternative managers are also considering other roles for insurers, and some are looking at ways to bring insurers into deals at the management company level.

NAV facilities are hot and getting hotter. Demand is growing on a number of levels. In our own practice, we are seeing new players coming into the product and getting excited about that line of business. The panelists discussed how NAV facilities give funds new sources of liquidity and make a lot of sense as funds hold assets longer and seek to leverage those investments in seeking additional liquidity. There is also room in the market for new players to participate in the syndicate, such as insurers, which can make additional pockets of capital available to borrowers. Having insurers as members of the syndicate allows some arrangers to provide borrowers with an increased facility size without having to sit shoulder-to-shoulder with their competitors in the syndicate.

There are also developments and variations within the NAV product itself. These include hybrid structures and deals that have concentrated investment portfolios. Lenders are also branching out and offering these facilities to funds other than strictly private equity funds – for example, private credit funds. Credit providers are digging in on their diligence process and considering other categories of funds and thinking creatively about different assets and how these assets can be used as collateral to secure different loan structures. These lenders are not afraid to get technical and carefully examine the details of the potential collateral. They are also taking the time to understand the business, the fund structure, how each asset is held, and how they would realize on the collateral in the event of a meltdown.

The panelists wrapped up by discussing what they are expecting to see in the year ahead. Continued innovation in structures was chief among the predictions. ESG also featured prominently. The panelists discussed how regulators, investors, and debt holders are each looking to ascertain the veracity of any ESG-focused metrics. These parties want accountability for KPIs and want to understand the details of how they are being measured. The panelists noted that diligence is really digging into how these items are measured and quantified on both quarterly and annual bases. There is a real focus on legitimacy in reporting and an expectation that parties use third-party auditors in the process. There is also a critical eye towards how an entity matches up against its competitors.

The discussion made clear that innovation and growth will be key themes in the fund finance market for 2022. From creativity in structures, new sources of capital, larger facilities, new and different players on both the lender and the borrower sides, and a willingness to finance different types of funds and other types of collateral, the fund finance market is expected to get even more interesting and exciting as we start to look into a new year ahead.