

FUND FINANCE FRIDAY

December Fund Finance Market Update

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The active underlying deal environment comingled with the December 31st LIBOR transition deadline combined to make November the busiest month in the history of Cadwalader Fund Finance. We have no doubt that's been the case across the market as a whole, for virtually all institutions and regions. Below are our short-take market observations as we lean into the tape at the finish line.

- The demand environment has not only remained elevated but appears to be accelerating through Q4. Virtually every demand-correlated metric, including new matters opened, hours accrued, and prospective hours, all set records in November.
- YTD average pricing for new origination on US Subscription has dipped below 200 bps to LIBOR. The trend is toward gradually tighter margins. The quarterly low points are falling far faster than the averages, which are down less than 15 bps YTD. We believe the elevated demand environment will keep the pace of tightening gradual for the foreseeable future.
- Market trends are still best measured on a LIBOR basis. SOFR is quickly gaining ground, but it's going to make the future data noisy because of the inconsistencies in approach (at least during this transition period). Some deals price SOFR loans at a wider margin than LIBOR (e.g., 10 bps wider applicable margin applied to SOFR loans). Other deals use the same applicable margin for LIBOR and SOFR along with the standard static spread adjustments applied to SOFR.
- Credit adjustment spreads between LIBOR and the new RFRS (SOFR, SONIA, etc.) are increasingly making the issues list.
- There is a heightened attention on callable capital (including the distinction with callable distributions) during renewal season as funds look to extend fund life and leverage portfolio investments even after investment period expiration.

- We are seeing an uptick in requests for QB jointers (reminiscent of the early days of COVID) to provide liquidity for portfolio companies for acquisitions and PIPES.
- A number of new GP facilities mandated to close by year end to finance GP commitments, as GPs take advantage of low interest rates and hot public equity markets.
- BDC borrower facilities and other more permanent capital type vehicles are increasing as a percentage of the whole.
- Unusual this close to bonus season, we continue to see extensive job changing amongst our client relationships (and at law firms!).

We are extremely appreciative of the continued support of our clients and their sponsors throughout 2021, another great year for our industry. Have a terrific weekend!