

FUND FINANCE FRIDAY

Panel Recap: 'Fund Finance Market Update'

February 18, 2022 | Issue No. 163



By Cassandra Best
Special Counsel | Fund Finance

The “Fund Finance Market Update” panel focused on the current state of the market. Moderated by Laurie Lawler, Managing Director at Société Générale, the panel included the following: Roshan Chagan, Partner at Ares; Christopher Galletta, Director at SMBC; Julia Kohen, Partner at Simpson Thacher; Micaela Mastrogiannis, Principal at KKR & Co. Inc.; and Georgina Pullinger, Counsel at Appleby.

The panel covered a broad range of topics, and here are some of my takeaways.

- As many of us saw firsthand, 2021 was an incredible year in fundraising along with a massive increase in AUM for sponsors of all sizes.
- In addition to 2020 being known as the year the pandemic dramatically altered everything about our lives, 2020 will also be remembered for opening up a lot of opportunities in the fund finance market – as a result, 2021 deal volume was enough to fill up two years’ worth of work.
- Although we are only 6 weeks into the new year, there are multiple early indications suggesting that we can expect the same momentum to continue in 2022.
- The Cayman Islands market is seeing much of the same growth and increased year-over-year deal volume as in the U.S. onshore market but at a smaller scale.
- Contrary to what we might have expected and hoped as we closed out 2021, LIBOR amendments aren’t over, especially as we begin transitioning to SOFR for rebookings of existing facilities that are extended or upsized, whether or not committed.
- Both lenders and borrowers are increasingly seeing more non-banks acting as lenders, so the question becomes: will this non-bank involvement result in more diversity of fund structures?
- As deal structures become more and more complex and the number of credit parties in any given facility increases, the attorneys have been tasked with simplifying and streamlining

documentation.

- The panelists noted that we can expect to see more SMA and co-investment vehicles utilized on a go-forward basis and highlighted how each of these fund structures could provide added value.
- Not surprisingly, innovation is driven by competition, and we are seeing such innovation firsthand in this “Fund Finance 2.0” world.
- Driving the industry and the innovation is a simple proposition: borrowers are always looking for solutions to their borrowing needs, which includes exploring the variety of products being offered by lenders.
- ESG continues to be a hot topic and priority for many sponsors because it is something that their investors are interested in, but a word of caution: the structuring of ESG facilities isn’t a one-size-fits-all approach; KPIs should be bespoke and should be linked to economic consequences to ensure sincerity.