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FUND FINANCE FRIDAY

Finance Forum Panel Recap – ‘Behind the Numbers: The 2022 Fund Finance Market’

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At last week’s Finance Forum, panelists Bryan Kearns, Managing Director at Bank of America, and Michele Simons, Managing Director at Wells Fargo, discussed the 2022 Fund Finance Market in a panel hosted by Cadwalader’s Tim Hicks and Leah Edelboim. The aim of the panel was to dive into an analysis of Cadwalader’s raw data from its 2022 transactions, with these leading industry experts weighing in on trends and providing their insights and outlooks for 2023.

The discussion kicked off with the panelists discussing the 2022 fund finance market, and the theme of the panel quickly came to light: *the fund finance market remains active and record-setting*, even in a year of uncertainty in the economy. Early 2022 brought the emergence of the

“Mega-Fund Movement,” with seven mega-funds raising over $100 billion in commitments in the first half of 2022 alone. In fact, estimated fundraising is expected to surpass $1.3 trillion for 2022. With the average syndicated facility in 2022 amassing over $1 billion in lender commitments, the conversation shifted to the growing demand for capital, which the panelists all believe has helped additional players enter the space. Although the large-caps still represent over 81% of the source of capital, the emergence of the “Mighty Mid-Caps” became a theme in 2022 as mid-cap lenders excelled at generating loan growth, with subscription lending playing a large role. The panelists noted that middle-market players were very useful in meeting growing capital demand this year, especially as many lender balance sheets reached their limits.

The panelists also marveled at the growth of creativity in their respective fund finance transactions. Between NAV and hybrid facilities, SMAs, rated note feeders, and the use of insurance lenders and private credit funds – the panelists saw a spike in every possible innovative fund structure and practice, bringing sponsors additional sources of liquidity and securitization.

As for pricing (a hot topic which certainly drew the interest of the standing-room only crowd), while deal pricing drifted tighter in late 2021, pricing was relatively stable throughout Q1-Q3 of 2022. Spread adjustments that veered off of the ARRC (most notably, 10-15-25 bps for 1-, 3- and 6-month SOFR respectively) gained traction in 2022, and the panelists all agreed that it is a trend to bake SOFR spread adjustments into the applicable margin. The panelists also noted a recent rise in commitment and unused fees, and recognized the widening in margins for in-process transactions as available capital shrinks. Further, the Cadwalader data (and recollection of the panelists) highlighted the decreasing frequency of deals with three- and six-month tenors; in fact, they couldn’t recall many at all as of late, as sponsors and lenders are unwilling to take on the risk of gambling on interest rates.

Lastly, the panelists wrapped up their discussion with their predictions for 2023, which could be characterized, consistent with our lender survey (**here**), as cautiously optimistic with growth still expected next year. While strong forecasts for 2023 fundraising appear to offset current trends of decelerating deal volume and exit values, the panelists still expect bank balance sheet availability in 2023 to cause lenders to be more selective, which may affect credit availability, facility sizes and pricing (cue the Mighty Mid-Caps). Banks have demonstrated that they can grow loans even as deposits decline and total balance sheet assets shrink, and the panelists expect to see an increase in banks repositioning their balance sheets by substituting deposit funding with other sources in 2023.

The panel discussion evidenced the strength of the fund finance product and the room for growth in the years to come. The panelists were optimistic in the creativity of liquidity-driving innovations and the emergence of new lenders and sources of capital to meet growing demand. Even with an opaque outlook into the future, steady demand remains. Many left the room excited for what may come in 2023.