

FUND FINANCE FRIDAY

Fund Finance Symposium Panel Recap: New Suppliers of Capital in Fund Finance

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Against the backdrop of a changing landscape of fund finance providers and products, this session made for an insightful discussion of the challenges and opportunities our market faces. On the panel were Ana Arsov (Managing Director at Moody's Investor Services), Mike Durnin (Principal at Ares Management), Greg Fayvilevich (Head of Global, Funds Group at Fitch Ratings), Ron Franklin (Partner at Proskauer), Marc Silva (Global Head of Private Equity Subscription & Partner Finance at UBS) and Sherri Snelson (Partner at White & Case).

Changes in bank appetite

The panel discussed how the last few months have seen a number of banks pulling back due to a variety of factors, including increased regulatory costs and the shrinking of low cost deposits. Subscription finance in particular has been an easy target for the chopping block, given its relatively low interest rate returns. Among banks the focus is now more heavily on the growing NAV space, owing to the higher returns and sponsor demand as a result of the slow exit environment.

From a sponsor's perspective, the privacy of the market has made it difficult to ascertain the source of supply in a macro sense; however, the anecdotal evidence clearly points towards insurance companies, pension funds and asset managers picking up some of the slack.

Need for ratings

Ratings are becoming more and more important for capital efficiency and distributions, in both the subscription and NAV markets. The NAIC's crackdown on CFOs announced at the beginning of the year underlines the need for ratings in the insurance space, where they are required by regulation in the U.S. and Asia, while other geographies like Europe need them as a matter of insurers' own internal policies.

The rating experts on the panel described the increased demand they have seen in recent times, and provided insights into the methodologies they apply to subscription and NAV transactions. The robustness of the data now available, in part via the growth of the secondaries market, has been key to the development of these offerings.

Opportunities

The demand for subscription finance is outstripping supply, creating opportunities for those lenders with balance sheet available to deploy. The panel also considered how pricing pressure could be alleviated by creating tranches within facilities, which could be a way for banks to shore up their core relationships while making sure a deal still makes sense economically.

Meanwhile, the number of new entrants in the NAV space (such as insurers with more favorable capital treatment) is creating a more competitive environment for sponsors to exploit. Variety is also key from a sponsor's perspective, with the number of structures available offering a buffet of choice, albeit with a wide diversity of pricing.

Outlook for 2023

The panel were unanimous in the view that the market would remain challenging in the short term but shared optimism for the latter half of the year. Compared to the early days of the pandemic, the headwinds of rising rates and capital constraints appear more systemic now, such that the slow-down in activity and reduction in fund (and therefore facility) sizes is likely to be more prolonged than in 2020. But, all in all, a broader investor base in the fund finance market, and the variety of thought that goes with that, should be a cause for confidence in the longer term.