CADWALADER

FUND FINANCE FRIDAY

Subscription Finance in The Wall Street Journal

May 10, 2019 | Issue No. 28

On May 5, 2019, *The Wall Street Journal* published an article titled “Pensions Don’t Always Track How Much is Borrowed Against Their Names.” The article, like much of the press coverage before it, seems to lack a complete understanding of how the subscription facility product functions. It suggests that investors do not track their exposure to subscription facilities, insinuating that the investors do not know how much they have to fund. For example, the article states, “But if investors don’t track their exposure to this debt, they could find themselves short of cash when they have to pay the bill.”

Reading that, you can almost hear a collective sigh from the Fund Finance market. This is sort of like saying a 5k runner might not be able to finish the race if they don't know where along the course their spouse is standing to cheer for them. Where the spouse is standing, of course, has no bearing on the length of the race. Just like the balance on the subscription facility has no bearing on the maximum amount an investor is obligated to fund. Investors track their uncalled capital commitments to their funds. They always know exactly how much they owe. Subscription line lenders never loan more than the uncalled capital commitments of the investors. The insinuation in the article that investors may not know their funding obligation is unfortunate. (We are, however, super sympathetic to the fact that it is very hard to fully understand the nuances of a niche market when one does not actively practice in the space.) The article is available here.