

FUND FINANCE FRIDAY

This Week in Fund Finance

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It hasn't been boring – the first five months of 2019, that is. Financial markets are grappling with some rather unquantifiable risks as it relates to U.S.-China trade negotiations. On the private side, a couple of large public listings showed that public markets are more than willing to be more critical in setting valuations than private investors. Capital formation in the funds space maintained the prior-year pace. From our vantage, the fund finance business continues to thrive. We pause this week to summarize recent reflections on the market from the partners at Cadwalader.

- Despite uncertainty in the UK political environment, our London fund finance team is very active, with growth rates exceeding those in the U.S. (albeit the law of large numbers applies more impactfully in the U.S.). The EU market is extremely active right now.
- Tech unicorns moving into public markets haven't received an entirely warm welcome. More challenging exits may be a positive for utilization of fund finance lines as funds hold portfolio companies longer. In fact, *PitchBook* recently published data showing longer average investment holding periods and fewer exits relative to investments.
- Interest in NAV facilities and hybrids has increased materially in 2019, in both the U.S. and Europe. We are getting a very high volume of inquiries in the space and are engaged in more active matters than ever before. Also in Europe, interest in other financing avenues (e.g., GP/manager lines) continues to grow.
- We continue to see interest in risk transfer solutions to enable lenders to continue to expand their portfolio sizes. The market could definitely use some educated and engaged insurance solution providers offering coverage.
- Several of the U.S. state pensions that are prolific investors in separately managed accounts are including highly curious provisions in the fund documentation that make lending to the SMAs challenging. For example, provisions that authorize a subscription facility and the pledge of enforcement rights to the lender, but the prohibition of the lender issuing a capital call directly itself. It seems hard to square that lender enforcement is acceptable but lender issuance is not.