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FUND FINANCE FRIDAY

Key Themes From the European Fund Finance Symposium

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The Fund Finance Association's 5th Annual European Fund Finance Symposium wrapped up yesterday at the Landmark Hotel in London. Well over 500 people attended, including representatives from 50 different banks. Below is a list of themes and updates heard on various panels and during sidebars.

There are some significant trends on the fund formation side, including:

1. Fund size in Europe has increased significantly, leading to larger Facilities and more frequent syndications;
2. Significant increase in SMAs and other fund of one structures;
3. A noted uptick in transitions from hedge funds and other liquid strategies to closed end strategies;
4. The investment thesis and strategy of funds is getting increasingly specific, which can lead to a decrease in the granularity of the investor pool;
5. "Kicker" funds are being formed. These are funds where the investors commit today, but the call rights do not become effective until a certain event has occurred, such as a meaningful change in interest rates or a set pullback in the equities market. These funds can be challenging to lend to because the fund wants certainty of the availability of credit upon the effective date, but banks are reluctant to make a commitment to a transaction that may never become effective;
6. A very significant percentage of investors are comfortable with subscription facilities and fund level leverage and are not hung up around conformity with the ILPA Guidelines specifics. Investor requests for more information and disclosure around subscription and leverage facilities are up materially, but that's true more generally as well. Investor requests for information around ESG policies and diversity and inclusion, for example, are also up materially.

On the credit facility side, change is a little more muted. Below are some of the key trends that were discussed:

1. According to fund administrators, 90% plus of European funds are looking for a subscription facility;
2. Features of the leveraged finance market continue to creep into fund finance, including a significant growth in the numbers of and market involvement of debt advisors, now

estimated at around 10 active in Europe. Lenders are also increasingly seeing term sheet proposals coming directly from borrowers, increasing pressure from funds for innovation and creative transaction structures and collateral, and increased negotiations prior to mandate instead of during deal documentation;

3. The Abraaj matter has led to lenders wanting to do increased due diligence around the fund manager. Standards around this are developing; there is not a clear market position right now. Managers want the information requested to stay consistent with what the investors require from the manager so as not to duplicate work;
4. Lender onboarding continues to be time consuming, especially in syndicated transactions where different lenders require completely different KYC deliverables to comply with different regulatory regimes. Third-party diligence collectors and providers have started entering the market;
5. Uncertainty around what Brexit may look like continues, although the forecasted impact on fund finance is limited.