

## FUND FINANCE FRIDAY

### Home Thoughts from Abroad...Some Reflections on the 3rd Annual Asia-Pacific Fund Finance Symposium

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**By Annabella Kwei**  
Wells Fargo

Writing as the dawn breaks and looking out from Hong Kong Island over the harbour, Kowloon and the mountains beyond (without a doubt, one of the most spectacular city views anywhere in the world), it is great to have had the opportunity to come back to this beautiful, vibrant city and to now offer some comments on the just completed Fund Finance symposium and to reflect on what was said about the market in Asia Pacific and the opportunities and challenges that lie ahead. In spite of the recent media coverage, overseas participants were more than happy to find the city as charming and efficient as ever.

The Symposium was well attended (with over 300 attendees, an increase from the previous two years) and kicked off when representatives from 30 local and international sponsors gathered at the China Club the night before the conference to enjoy a traditional Cantonese dinner.

The conference itself kicked off with an excellent fireside chat with Goodwin Gaw, Chariman of Gaw Capital Partners, who set a positive tone with confidence about future growth in China and, specifically, in the Greater Bay Area, with a focus on healthcare, technology, manufacturing and logistics. This was followed by the usual fascinating contributions and statistical analysis from Preqin and a number of excellent panels. There were great opportunities for networking, and it was an extremely well-organised conference (with due credit and thanks to the organisers). Overall, what struck us above all was that Fund Finance in Asia Pacific (and, as with all generalisations, with some significant exceptions) is at a place in its evolution which is in many ways similar to where the European Fund Finance market was 10 or more years ago. So, as we reflect on the spectacular growth in the European and U.S. markets in Fund Finance in that period, this would predict a very exciting future ahead for the market in Asia Pacific, with massive potential for significant and exponential development.

It is perhaps worth pausing to elaborate on why this reminds us so much of the European market in an earlier stage of its development. There is a very significant (and almost exclusive) emphasis on Capital Call/Subscription Finance as the main lending product, with other parts of

the industry which are now familiar in Europe and the U.S. being almost entirely absent. So there is very little asset based/hybrid financing and a fairly nascent GP/Manager financing market. The latter was something that was frequently requested in the Asia-Pacific region, but there had been little evidence of transactions being concluded in this area to date. The comment was made on various panels that the core credit or facility documentation is not that settled and also that (although the core structure of the facilities in terms of security documentation are the same as those in U.S. and Europe) there is sometimes only limited due diligence carried out on Fund constitutional documents and side letters, with a greater emphasis on a Fund's general track record and relationship with the Lender. There was also a view that, given the size and growth of the market, significant and specific Fund Finance experience was thinly spread. Finally (and, in this, Asia Pacific appeared to mirror both U.S. and Europe), there had been notable growth in SMA and other fund of one structures and some growth in the provision of hedging products as a risk management strategy rather than (although this was increasingly requested) as an optimisation strategy.

But while there may be differences in the approach (and while the expertise is perhaps less universal), the awareness and sophistication of those involved in the market (and the deals that are being done) are at least on the same level as (and informed by) the U.S. and European experience.

Perhaps the most significant challenge in the Asia-Pacific market, which was touched on a number of times, was how the product was relevant to the region's most significant economy – China – and it was interesting to hear the challenges (and potential solutions) that were identified here. For “offshore” (*i.e.*, non-Chinese) Lenders, there are issues among others with RMB-denominated loans and with determining the precise structure and make-up of a Fund's Chinese “limited partner” base. For Chinese Lenders (banks), the situation is more challenging still as there is effectively a prohibition under Chinese law on Chinese banks lending to Funds to make investments (so where Chinese banks are involved this has to be and is generally structured around by lending at a different level of the structure). And finally, for all, there was an issue of a Chinese Fund's appetite (or need) for Capital Call/Subscription Facilities. In a number of cases, it appears that Chinese “LPs” will often fund “up front” so the traditional use of these Facilities to bridge or smooth over calls from Investors does not necessarily apply. However, it was clear that all participants felt that these were problems to which solutions could be found and where the potential demand for Fund Finance facilities in general could potentially be extremely high.

All that said, there was considerable optimism at the potential for growth in the market generally in the region, and the comment was rightly made that it is no more valid to treat “Asia Pacific” as one homogeneous region for these Fund Finance Facilities as it is to refer to “Africa” as if it is a single country. It was clear that significant growth has occurred in the Asia-Pacific market even over the last year or two and there was a consensus that this growth would continue. While there are fewer Lenders specialising in the area than currently in Europe, or possibly the U.S., the numbers are growing as are the number of industry experts and advisers who are looking to service that growing market. An interesting aside here is that one member of a panel commented that there may currently be more specialists looking to enter the space than the Asia-Pacific market currently justified, but we suspect that with the huge potential for growth in this market, both in terms of number of deals and product areas which are currently not really touched in the region, this is a very temporary problem. Rapid growth in the Asia fund finance

market is and will continue to be driven by a combination of i) local fund sponsors becoming more well-informed about capital call facilities, ii) accelerated growth in fund-raising and fund size due to increasing investor interest in the region in the alternatives asset class, and iii) robust macroeconomic development of the region.

To sum up, this was a great conference, with a real sense that the Fund Finance market here is poised, even with the challenges ahead, for significant growth. To paraphrase the very well-known Chinese saying, we certainly are living in “interesting times” for Fund Finance in Asia Pacific.





