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FUND FINANCE FRIDAY

It's a Wrap! 10th Annual Global Fund Finance Symposium

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The Fund Finance Association organized an exciting lineup of content for the 10th Annual Global Fund Finance Symposium at Miami's Fontainebleau Hotel from February 12-14. Here are our key takeaways from this fantastic event:

- Hillary Rodham Clinton kicked things off in a big way. She showed a level of personality beyond that seen during her campaign days as she engaged with Nick Mitra in a nearly hour-long fireside chat about her life's work. From her childhood in Chicago to her days meeting Bill at the Yale library to talks of international policy, impeachment and the pending presidential campaign, she kept everyone engaged and provided some very candid views. Kudos to Nick, too, for a job well done.
- We could all take a page out of Magic Johnson's playbook. At 60 years old, the sports legend-turned-entrepreneur faces the business world with the same energy and passion that he exhibited as an all-time great player. When people said it couldn't be done, he put a Starbucks in Harlem and movie theaters in inner-city areas. He's devoted his post-playing career to championing investment in urban and minority areas of need and remaining a fixture in the sports world as a successful owner. He was gracious with his time – going 10 minutes over during his talk – and was like a shot of espresso to the crowd as he interacted with all of us via high fives, chest bumps, pep talks and photo ops. Thank you, Magic.
- David Rubenstein may have stolen the show, as he addressed an early-morning Friday crowd. A quick-witted billionaire and pillar of the private equity world, David reflected on life as a pioneer in the space, a philanthropist, a D.C. insider and a dad. His sage advice: read more, do what you love, put family first, earn your way and appreciate history. He also

touched on some challenges facing our industry and gave his informed opinion on the state of play in Washington. It was a perfect mix of wisdom and dry humor.

- Economist Stephanie Kelton educated us all on “Modern Monetary Theory.” Agree or disagree, it was an eye-opening experience as she broke down complex macroeconomic concepts with ease. Forgive all student loans and credit it back to the debtors? Trillion-dollar government deficits may not be that bad after all, according to Stephanie, who sees this in the inverse as a trillion-dollar surplus for the private sector. But she did point out that there are limits, because too much could lead to inflation concerns.
- Despite their apparent differences, the fund finance markets in North America, Europe and Asia are actually quite alike. Deal structures on the whole are shifting more to the center, with variation being seen in certain regional pockets of the market and being tested by new entrants doing mostly bilateral deals on a relationship basis.
- There is still room for plenty of growth in subscription finance. Based on a crowd poll, a majority think the global market is sized at $500-600 billion. If you assume dry powder of $2.2 trillion, it would yield only a 23-27% effective advance rate.
- Most experienced commentators think an even more significant growth rate (note rate and not volume) will be seen over the next 5 years in the alternative fund finance products – NAV, hybrid and other forms of financing.
- Pricing pressure is real as competition in our market grows. Last year alone, we noted 73 active lenders in the United States and 46 active in Europe in this space (including an increase in non-bank lenders in Europe).
- There are some new trends emerging on the borrower side that are driving more aggressive terms, loosening of certain covenants or structural elements, and even leverage finance-style approaches to documentation. These are generally in the minority, however, and are being met with varying degrees of success, especially where the borrower requires a syndicate of lenders to round out requested facility size.
- One noticeable trend in syndications is that participants are digging into the diligence more, rather than just relying on the agent bank to do so. As syndicate lenders have developed their knowledge and capabilities, they have found it important to confirm for themselves that the partnership documents are viable within the market. Participants are also more frequently performing their own review of the investor documents to ensure they do not contain provisions that would be too limiting to the intended borrowing base. In analyzing the borrowing base, participant lenders often focus on sovereign immunity issues, the inclusion or non-inclusion of high-net-worth individuals and the creditworthiness of each investor as driving factors for whether they can underwrite the credit facility.
- From the funds’ perspective on syndications, sponsors are looking to select agent banks that can handle a large and potentially complex facility. Agents and participants can add value to the syndication process by proactively identifying issues before they arise and then facilitating solutions.
- Due diligence and KYC/beneficial ownership requirements have in many ways burdened the industry and become the new norm. This does from time to time create friction with fund sponsors where the needs of lenders on a particular deal are materially different. Where a deal is being syndicated, it is critical for the fund to have an administrative agent that can

effectively administer and manage the syndicate group. Thus, it is beneficial for the agent and the fund to work together to make due diligence, KYC and other processes as transparent, streamlined and efficient as possible.

- ILPA and the ILPA guidelines, now three versions in, are having a mixed impact on the market. Fund managers are being responsive, increasing reporting and negotiating certain side letter items with a view toward accommodating the investors where possible as the education process on both sides continues. Facility structures and terms, however, are seeing little direct impact in respect of how deals are being done. It's still very much business as usual.
- Market participants are actively engaging with the National Association of Insurance Commissioners (NAIC) on the issue of statutory accounting treatment of investments backed by or referencing portfolios of private investment fund interests, including collateralized fund obligations and similar structured products. Expected guidance could impact demand for such products from U.S. insurance companies.
- ESG is becoming a real topic of discussion and something we think we'll see as a panel theme next year.

It was wonderful to engage with so many friends and colleagues in a beautiful offsite setting. The FFA conference seems to grow by a significant margin of attendees each year and add incredible speakers and new content. Thanks to all for their support, the hours of planning and those who participated. Now 10 years in, the conference is something the industry can be extremely proud of, and it fulfills the vision of its founders. We very much look forward to the next 10 years.