FUND FINANCE FRIDAY

Fund Finance: What's Happened, What Hasn't and What We See Happening Next

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Like every industry, Fund Finance evolved extensively this week, and for the first time since the disruption commenced, included a fair bit of misinformation. Like we will every Friday, below is a comprehensive update of what we observed and what we forecast for the immediate future.

What We Did Not See

- We received multiple inquiries this week asking if lenders had refused to fund borrowing requests in committed subscription facilities. We did not. Nor did we see any lender decline to fund a borrowing request in an uncommitted facility. Every lender we talked with this week reports operating normally as to their lending and treasury operations. Many continue their new deal sourcing efforts, including some being opportunistic trying to get in front of new borrowers needing financing.
- The PEI article *FFF* has cited in a link this week set off a number of questions. The article indicates that funds are calling capital from LPs earlier than planned in case LPs have liquidity challenges in the future. We, on the other hand, did not observe or hear of any funds calling capital this week out of concerns around future LP liquidity. We also circled with the FFA Board, and nobody on the Board reported seeing any fearful "early call"-type activity.

What We Did See

- The week of March 18th was very active. A number of our slow-burn matters ramped up this week and closed and, by closing count, it was likely a record week for us. Many of our existing deals were active, and we closed a fair number of facility upsizes and extensions.
- Banks talked a lot this week about adjusting pricing. With net interest margins compressing, spreads moving wider in virtually all other asset classes, and significant disruption in the commercial paper market, internal cost of funds allocated to subscription desks is likely to

increase. We saw several voluntary upsizes/extensions price wider than the original margin this week. We also saw repeated comments come in requesting LIBOR floors above zero.

- Multiple new deals went under mandate this week, at a pace at least consistent with if not higher than our 2019 average. In several cases, they were on term sheets that had been largely final since before the disruption. Those terms held; they were not adjusted based on recent events.
- Some borrowers did borrow this week, simply to have extra cash on their balance sheet, effectively absorbing negative arb in exchange for the comfort of cash.
- Not everything was perfect. We did see several deals die and our forward indicators trended downward, although not badly (new LPAs to review did come in).

What We Forecast

- The LBO market, especially for public companies, is effectively closed. We expect funds to increasingly use the "Qualified Borrower" mechanics under their subscription facilities to find a liquidity solution for portfolio companies. We expect to see a lot of requests for "QB Joinders" in the near future. We also expect to see fund requests for equity-commitment facilities to kick up; it will be interesting to see if the banks will be open to lending into this structure.
- Jocelyn Hirsch, who leads the sponsor finance practice at Kirkland, forecasted to me this week that a lot of fund borrowers are going to be challenged to meet their deadlines for delivery of financial statements because the accounting firms are going to need extra time to complete the audits. If this becomes widespread, some sort of industry-wide solution might be optimal, as opposed to deal-by-deal waivers. We expect more on this. We also suspect it will be challenging in the NAV-facility market, where lenders are both rightfully nervous of value declines and highly focused on the marks in the borrower financials.
- With quarter end approaching, a lot of capital calls will be going out and be due around the 31st, including many to pay down facilities in accordance with LPA clean down requirements. Based on anecdotal feedback, we are not forecasting delinquencies. But it will be the first more widespread test of liquidity and credit wherewithal since the disruption started.

Giving Back

Like many of you, I’ve been 100+% focused on work this week, but doing so with my daughters running around me and interrupting my calls. I hear many of your kids in the background of conference calls as well. My girls do not seem overly concerned about sovereign pension liquidity. Watching them treat this week like an awesome vacation has been good for context: as challenging as the current environment is, we are still incredibly lucky. I can only imagine what things are like right now for displaced, low-income families. While I am sure the federal government is working hard on relief packages, it is just going to take a long time for federal aid to reach struggling individuals.

With that in mind, Cadwalader’s Charlotte office, led by my partner Joe Beach, started a project this week to fund the Second Harvest Food Bank of Metrolina, aiming to assist families in need of food (especially children displaced from meals at school). I was pleased to contribute and, if

the cause resonates for you, the donation link is **here**. Additionally, on Monday, the United Way of the Central Carolinas, the Foundation for the Carolinas and the City of Charlotte announced the formation of a COVID-19 Response Fund to help individuals most impacted by the pandemic. Shout out to LendingTree and CEO Doug Lebda for donating a $1 million leadership-level gift to seed the fund, which has now raised over $5 million in less than a week. If you are interested in donating, the fund's website is available **here**.

Cadwalader moved to WFH this week, like many other law firms. Our Managing Partner, Pat Quinn, had us stress tested and prepared well in advance; we feel good that our service capacity is fully functional. If we can do anything to be helpful, we are here and happy to try, so please call.