

FUND FINANCE FRIDAY

Fund Finance April Market Recap

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Our team was supposed to have an offsite on Wednesday of this week. I was looking forward to going to the Wells Fargo PGA Championship Thursday with friends. My wife had concert tickets for tonight. And I had plans to take my dad and dad-in-law fishing today. Despite none of that happening, the last week of April was incredibly active for most all of us. Below is a short update on my recent observations from our markets along with some other gratuitous commentary as we enter May 2020.

FFA Working Group Update Call. Nick Mitra has done an excellent job forming a group of the largest FFA sponsors and leading bi-weekly market update calls. He hosted another call with terrific turnout on Wednesday of this week. The credit performance in our market remains very positive. No institutional investor delinquencies were reported by any of the lenders that participated on the call. The sentiment on the call to me seemed very favorable. Things are steady; there was not a lot of new information that participants had to contribute. Our market has adapted to the new normal, is performing well and largely as expected. People are very optimistic that our transaction structures are going to prove sustainable through the disruption. Compared to so many businesses, we have been very fortunate.

Deal Flow and Activity Levels. There has been a lot of talk in the market (and I expect more to be forthcoming in the press) about banks pulling back from new subscription facility originations. It is certainly true that some banks are more focused on their existing clients and portfolios right now. Credit terms have tightened for some banks, making certain transactions outside of their revised credit box. And, not surprisingly, internal reporting requests to keep risk, credit and senior management informed about the business are also occupying origination team time. But some of the “closed for new business” chatter feels a bit overblown to us. We have new transactions going with a broad cross-section of banks. There still feels to us like there is plenty of supply in the market for experienced managers seeking subscription financing. In fact, our April data analysis proved surprisingly robust. Our April new matters opened and our overall hours accrued substantially exceeded our rolling 12-month average. Interestingly, the positive data was not front-loaded in the month either. The last week of April

was the month's high-water mark in all categories, accelerating as we enter May. Our forward indicators look promising as well: We reviewed more LPAs and accrued more prospective hours in April than our rolling 12-month average, with the last week again being the busiest week of the month. Thus, while we do expect things to slow as we get further into the summer, we are cautiously optimistic around prospective deal volumes as we enter May.

The Macro. There has been a lot to keep up with. Bank earnings and analyst calls, Jerome Powell's remarks after the FOMC meeting on Wednesday, another 3.8 million filed unemployment claims yesterday (bringing the total during the disruption to nearly 30 million Americans), and a public equities market that seems wholly disconnected from any data-driven decision-making whatsoever. I mean, really, corporate earnings growth outlook is exactly the same as it was last summer??? Crazy. But on the positive, the massive April gains have toned down a bit of the denominator effect conversation. While I have disagreed with Jerome Powell in the past, I think he is doing a terrific job under the circumstances, and I'm glad his steady hands are on the monetary policy wheel. I do wonder, however, how much money printing can go on without inflationary impact. On the fiscal side, many bankers are working around the clock to disburse PPP loans. While not the same as healthcare front-line workers, these bankers are working extremely hard to help small businesses maintain payroll and certainly deserve more recognition and appreciation than the mainstream media has provided.

United Way. The United Way of the Central Carolinas hosted a COVID-19 needs update webinar last night. They are doing a great job. They have raised \$17+ million for their virus relief fund and have gotten a ton of grants out to various community non-profits. Laura Clark is an impressive leader, and we are lucky to have her during this difficult stretch. I hope to twist her arm to visit with us for a podcast later in the summer.

My Puppy Chase. My wife Maria and my puppy Chase have continued their epic quarantine feud into week eight. Chase got into the mud this week, leading to a long stretch in timeout. He did feel bad about it.

