

FUND FINANCE FRIDAY

Fund Finance August Update

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The fund finance markets have normalized materially over the past six weeks or so; the chaos of April is now long in the rear view. While many lenders are wrestling with challenges, they are individual challenges and not systemic: the market as a whole continues to function with relative efficiency. Our markets are incredibly fortunate compared to so many other product areas. Below are my updates on what we have recently observed and what we think is on the fund finance horizon.

Transaction Volume. Our transaction volume has continued to moderate through July and into August. While continuing to accrue very favorably compared to 2019 year-over-year, the last six weeks are down not immaterially from our Q2 activity levels. While some of this is certainly attributable to normal summer vacation seasonality, we do attribute part of the moderation to deals slowing as investor fundraising drags on a bit. However, while I expect 2H to be down a bit from 1H overall, my outlook remains optimistic. In July and so far in August, our number of new matters opened, hours accrued on prospective matters, and LPAs reviewed all project meaningfully ahead of our rolling 12- and 3-month averages and are yet to forecast any decline in prospective transaction volume. I am also encouraged by both anecdotal feedback and new deals under mandate from the U.S. money center banks: the rumor of a long-term pullback from these lenders seems greatly exaggerated. And, finally, U.S. banks are sitting on a record buildup of deposits. Fund finance provides an efficient means of at scale deployment with a favorable risk-adjusted return profile. The reality of the need for deployment and revenue at banks will ultimately lead to relaxing fund finance product caps and ensure the availability of supply.

Data Dichotomy. There is an interesting dichotomy in the 1H preliminary data that is a little hard to square. In PitchBook's Q2 2020 Private Fund Strategies Report which came out this week (available [here](#)), they reported that the total number of private funds formed in H1 fell to 643, down 26% year-over-year. The decline in capital raised was more moderate at -11% (\$438.8 billion total), despite the 214 fewer funds. This frankly was only mildly surprising: the market has been predicting a COVID-driven flight to quality and that the established sponsors (who tend to raise the biggest funds) would dominate the landscape and successfully raise big money. Yet, Cadwalader's U.S. fund finance data shows a near-complete inverse: in H1, our number of new deals went up to 149 from 127 year-over-year. But our average deal size went down (\$158 million in 2019 to \$132 million in 2020). I suspect part of the discrepancy is our unique client mix and part is simply timing, but it will be interesting to see if this evens out as the year progresses.

Ian Gobin. Intertrust Group this week announced the creation of a new global offshore law firm, Intertrust Law. Long-time fund finance lawyer Ian Gobin will be the new Managing Partner, and fund finance will be a core offering. I find it exciting and validating to see entrepreneurial endeavors like this focused on fund finance. Congrats and best of luck to Ian. The Business Wire article on Intertrust Law's formation is available [here](#).

FFA Diversity Initiative. Thank you to Natasha Puri of Lloyds Bank for all her efforts leading the FFA's Diversity Initiative, highlighted in her article in this week's *FFF*. While we have a lot of work to do, it is great to see the FFA make some contributions to the solution. Additionally, special thanks to Leon Stephenson of Reed Smith for his efforts pushing our Diversity Initiative forward from the EU side.

FFA Market Update Call. Next Wednesday (August 26th) at 10 a.m. New York time, the Fund Finance Association is hosting a market update call open to all participants. The schedule calls for a host of industry leaders to give short updates on their market observations, followed by a data presentation by Preqin. I'm looking forward to seeing how Preqin's 1H fund formation numbers and investor sentiment surveys compare to what has been released to date. If you are interested in listening in, click [here](#).

FFA University. Reminder that FFA University is coming up next month on September 22, starting at 9 a.m. New York time. Please consider supporting both the FFA and the newer people in your organization with training. To register, click [here](#).

Vacation. I was able to get some time off last week and did some fishing with my girls (photos below). I hope you are able to find some down time before the September kick to the finish commences. Have a great weekend!

