

FUND FINANCE FRIDAY

Random Fund Finance Observations

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We hope many of you got some much-needed rest and downtime over the Thanksgiving holiday. Our email traffic last Friday was almost exclusively European, so we are optimistic the U.S. fund finance markets did indeed spend a little time with family. The market has been very active the past few weeks. Below are some random observations:

- A fair number of our October and November transactions stalled awaiting the closing of investor fundraising rounds; we suspect the dislocations in the public markets have generated some caution with investors.
- One of our clients last week caught an error in a borrowing base certificate delivered in connection with a borrowing request that resulted in an overadvance. It was a good reminder: An error in an investor classification or even a formula bust in a spreadsheet cell can easily put a lender out of balance. The personnel reviewing borrowing base certificates need to be well trained.
- Banks are hiring. Almost everyone continues to add staffing. Further announcements are coming...
- We visited Texas this week. It is really a burgeoning submarket with a lot of vibrant activity. We forecast it increasing in relevance to the fund finance market in the future.
- Fund of one transactions and facilities for BDCs are up materially. We are seeing significantly more this fall than before. We predict this trend will continue into 2019.
- Umbrella facilities are challenging. A lot of judgment is required to determine how much structural optionality you build in at the outset to accommodate the needs of future funds' potential structures, while maintaining speed and cost efficiency for the initial fund.
- We have seen an increase in technical amendments as funds and banks are completing their year-end reviews.
- The number of new entrants into the lender market continues to increase, particularly in the middle market space and with the regional banks.

- KYC and beneficial ownership certification needs are real. Borrowers and their counsel continue to begroan the increasing level of deliverables.
- “Dupe” deals are increasingly becoming a fiction. Structural changes to accommodate investor and tax needs coupled with regulatory updates are keeping lawyers busy.
- Luxembourg continues to be the go-to European fund jurisdiction, with the number of deal touchpoints significantly up from last year.
- End-of-year closing requests and mandates also appear to be up from last year. Will make for a busy holiday season for everyone and hopefully have a spillover effect into next year.