



# FUND FINANCE FRIDAY

## **Fund Finance Friday on Monday? Special Edition from the FFA Symposium in Miami**

**March 25, 2019 | Issue No. 20**

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## Opening Night

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The Fund Finance Association's 9th Annual Global Fund Finance Symposium formally kicked off last night with an oceanfront Welcome Reception at the Fontainebleau Hotel. Clearly listening to market participant complaints from the prior two years, the FFA arranged for borderline perfect weather and a gorgeous sunset. Nearly 600 market participants enjoyed the sun and cocktails outside at a terrific event kindly sponsored by Harneys. Cadwalader's reception started at 8pm at Scarpetta and filled up when the bar closed at the Welcome Reception. The crowd overwhelmed the private room a fair bit but a good time was had. The evening ended on the early side as market participants prepared for an early start this morning.

## Preqin Presentation Kicks Off Symposium Content

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Sola Akinola, Director of Research for Preqin, kicked off the Symposium with a very rosy Private Capital Market update this morning. The data presentation added to the market participants' clear optimism about the continued growth opportunity for fund finance. Highlights of the presentation included:

- Global private assets under management sits at \$5.8 trillion.
- Private capital fundraising in 2018 totaled \$824 billion.
- There is a steady trend of capital consolidating with top sponsors (\$1 billion-plus funds accounted for over 50% of all capital raised in 2018).
- Dry powder now exceeds \$2 trillion, a 100% increase since 2007.
- Asset valuations are a key concern for sponsors.
- Distributions to investors continue to exceed called capital.
- There are over 11,000 institutional investors active in alternative investments.
- More investors intend to increase rather than decrease their exposure to alternatives in 2019.
- Preqin forecasts alternative assets to grow to \$14 trillion by 2023, driven by strong investor appetite for private equity over the next five years.
- Family wealth will be a key contributor to growth in assets under management.
- Private debt AUM has doubled since 2010, and Preqin forecasts it doubling to \$1.4 trillion by 2023.
- There are a record 4,967 funds in the market seeking \$1.5 billion in capital (both numbers up materially from a year ago).
- 84% of institutional investors report planning to increase their allocation to alternatives in the next five years.
- Diversity is an increasingly important focus of the private equity community.

# A Few More Reasons to be Bullish on Fund Finance Growth

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**By Chris van Heerden**  
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Recent financial data have sown seeds of uncertainty about the broader economic outlook. From our vantage, the current environment still favors an outlook for significant growth in 2019 in fund finance. Here's why.

- **Public-to-private capital flows remain strong.** Over the past 12 months, public equity funds (mutual funds and ETFs) have registered outflows of nearly \$260 billion, according to ICI data. A small portion of this money rotated into fixed income funds (about \$20 billion). We suspect a major share of these flows are explained by a migration out of public markets into the private investment vehicles.
- **The macro backdrop supports further private capital inflows.** Mixed domestic economic data suggest the potential for near-term volatility that would favor longer-term investment vehicles. All coming in March, we've seen a disappointing U.S. non-farm payroll report, a downgraded growth forecast from the ECB for the euro zone and a scaled-back OECD global growth forecast. Rising uncertainty may be a positive for private funds vis-à-vis the daily mark-to-market dynamic of public investment vehicles.
- **The flat curve.** The ten-year Treasury now yields less than one-month LIBOR. In this environment, bank lending should be concentrated on the front end of the curve.
- **Fund finance is not a lot of things.** Perhaps one of the most helpful factors favoring fund finance in the competition for bank capital may be the things it's not. Specifically, fund finance is not consumer, corporate or real estate debt. U.S. household debt is higher now than at the height of the prior peak, and finances look particularly stretched in auto and student loan categories. In the same vein, non-financial corporate debt to GDP is hovering near an all-time high. Not surprisingly, the trend has been toward tightening bank lending standards in consumer, commercial and industrial, and commercial real estate. Fund finance presents an alternative to these traditional bank assets.

Putting these factors together, we see a market that supports continued growth in fundraising, while we expect banks to be eager to extend credit in the sector.

## Women in Fund Finance Miami Networking Boat Trip

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The Women in Fund Finance and supporters thereof, aboard the Biscayne Lady, departed at noon on Sunday from the Eden Roc Marina across from the Fontainebleau Miami Beach. The group cruised around for about two-and-a-half hours, enjoying engaging conversation and refreshing cocktails followed by a tasty and filling lunch, all while taking in the gorgeous Miami weather and scenic views of the gleaming high-rise homes. This was a great start to kick off the Symposium.





## **Investec releases GP Trends 2019**

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Just in time for the Symposium, Investec released its 2019 GP Trends report. The bank's 9<sup>th</sup> annual survey of the private equity industry, the report includes feedback from 300 private equity professionals globally on current market conditions. A copy of the report is available [here](#).

## **Abraaj Reporting in The Wall Street Journal**

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*The Wall Street Journal* reported Friday that Deloitte, a court-appointed liquidator in the Abraaj insolvency proceedings in the Cayman Islands, is asking investors for additional indemnifications and cost coverage. The article also gives updates on the sale and liquidation process, but there is no discussion of fund finance issues. The article is available [here](#).