

CADWALADER

13 Takeaways from Miami

March 1, 2024



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More than 1,800 industry players attended the 13th annual Global Fund Finance Symposium that wrapped up yesterday afternoon at the Fontainebleau in Miami Beach. There was a lot to talk about in terms of market evolution through surviving 2023 and what 2024 has in store.

Fund Finance massively passed the stress test presented in 2023. Total lender commitments ended slightly below the record volumes of 2021- 2022 despite historic banking sector turmoil during the year. Origination volume tells only one part of the story: 2023 kept fund finance market participants busy with collateral account moves, loan assignments, loan auctions, and more negotiation points at extension. Market breadth narrowed. Fewer lenders extended larger facilities to fewer sponsors. Average deal size continued higher consistent with the trend in fundraising. In honor of lucky number 13, here's a baker's dozen of notable fund finance market data points to take us forward in 2024:

1. 2023 validated the fund finance business model. Troubled bank dynamics had nothing to do with fund finance. In fact, failed institutions would have been better off if they originated more floating-rate loans and passed on more long duration fixed coupon bonds. Every fund finance platform was assumed or the people and loans transitioned in a timely and orderly way that signaled expanding support for the business model.
2. In rough numbers, overall fund finance commitments (dollars) ended roughly in line with last year's total despite deal count dropping by double digits. These results are consistent with the issues at high volume fund finance originators early in the year, but also a fundraising market that continued to become more concentrated.
3. Two key themes emerged in 2023: (A) Rate indifferent collateral value; and (B) Lender optionality. Rate indifferent collateral value refers to the fact that the uncalled capital commitments that make up subscription loan collateral is not impaired by higher rates, unlike virtually all secured lending products it competes with for bank balance sheet. Lender optionality refers to the fact that annual renewals allowed lenders to revise facility size, economic terms, covenants, and deposit account arrangements in response to market conditions while keeping balance sheet deployed. These themes helped to support overall origination volume in 2023.
4. Preqin is reporting global private market fundraising of \$1.3 trillion across 2,886 funds. The 2023 totals take us back to 2018 in terms of dollars, but to 2014 in terms of fund count. Putting those together, we think this tips fund finance origination towards syndicated deals. Building or growing a bilat program, while attractive in terms of owning the institutional relationships, will continue to be more difficult than it has been in some time.
5. LP liquidity is a meta theme for fund finance in 2024. The issue is often framed in terms of the denominator effect, but with public equity valuations near the high end of the 52-week

trading range, and the gains in credit spreads, it should be clear that we're really talking about a cash flow problem. Many LPs find themselves in a negative cash flow position where capital calls exceed distributions. In this context, we expect to see secondaries and continuation funds make significant gains in 2024 along with growing interest in NAV financing.

6. Bank balance sheet availability is a key variable for the 2024 outlook for both origination volume and pricing. The market is now widely anticipating Basel III Endgame revisions. Even if it is revised, the initially proposed rule functions as a vision statement from regulators. In their thinking, risk-based capital will be notched higher, tailoring will flatten and remove many of the benefits of being a small bank, and there will be greater capital costs for operational risks. Specifics may change, but these key pieces are probably the long-term reality for the banking industry and will pose a headwind to credit growth.
7. Regulators are also focusing on bank exposure to private funds. We saw a mention of private equity funds in the proposed revision for the GSIB buffer in the summer, and then we recently saw the call report update to require more granular disclosure of loans to non-depository financial institutions. It's fair to connect the dots and conclude that a closer review of fund and sponsor exposure is a priority for regulators.
8. Private funds AUM has grown at 19% annually over the past four years to now approach \$14.0 trillion. The addressable NAV market is now larger than ever. This looks like subscription 10-12 years ago.
9. We expect some recovery in the new deal ratio (new deal share of total commitments) as successor institutions ramp and new entrants get to work. The new deal ratio, however is unlikely to fully return to the 2020-2021 area. That's because fundraising is gravitating to fewer funds, bank balance sheet growth is more muted, and the volume of debt rolling over has grown.
10. A drastic reduction in small deals in 2023 (credit facilities of \$50 million and below) translated to an increased average deal size. This trend summarized a number of the macro themes of 2023: (A) intensifying fundraising concentration, (B) overall bank balance sheet restraint and prioritization of multi-vertical clients, and (C) bank turmoil disproportionately affecting smaller lenders. Pitchbook reports that 163 funds of \$250 million or less closed in 2023, down 60% from the prior year. Small funds may be underserved, but significantly fewer of them are getting off the ground.
11. Deal pricing drifted wider again in March 2023. Extension amendments during the year were often executed at wider margins. Commitment fees (including extension and increase fees) and unused fees were also often reset higher at amendment. The clear trend for credit spread adjustments was toward baking the spread adjustment into margin.
12. One year deal tenors dominated in 2023 and generally afford lenders significant optionality. The ability to revisit facility size, economic terms, covenants, and deposit account arrangements proved valuable in 2023.
13. Fund finance is maturing. The combination of higher rates and wider margins mean all in finance yields are at levels that should be attractive to a broad range of fixed income institutional investors. The ratings process has advanced significantly in the past year. One by one, the pieces are coming together for a serious capital markets effort.

See you next year!

Fund Finance in Miami

March 1, 2024



Cadwalader had a wonderful time this past week attending the Fund Finance Association's 13th Annual Global Fund Finance Symposium in Miami Beach!

For now, enjoy these photos and stay tuned for more in-depth analysis from the symposium in our next issue of *Fund Finance Friday*.

Sabih Hussain of Barings and Sam Hutchinson of Cadwalader Talk Fund Finance Trends

March 1, 2024



Sabih Hussain, Head of Global Fund Finance at Barings, and Sam Hutchinson, Co-Head of Fund Finance at Cadwalader, Wickersham & Taft, talk with Global Legal Insights publisher James Strode about key trends in Fund Finance for 2024.

Watch the video [here](#).

Apply Now - Join APAC Diversity or NextGen Committee

March 1, 2024



The Fund Finance Association is actively recruiting new members to join the Diversity in Fund Finance and NextGen committees in the APAC region!

The Diversity in Fund Finance initiative focuses on education, fostering opportunities, taking action, and building affinity. Join the FFA in driving positive change and creating a more inclusive environment within our industry.

The NextGen initiative serves as a platform tailored to the advancement of junior professionals in the fund finance industry, ranging from entry-level positions to Vice Presidents and Senior Associates. Collaborating with the Executive Committee, the NextGen team organizes educational seminars and networking events aimed at fostering growth and connectivity with our industry's emerging talent.

The Diversity in Fund Finance and NextGen initiatives operate in Singapore, Hong Kong, and Australia, with plans to run events in each location on a quarterly basis.

If you are interested in joining, please carefully assess if you can dedicate the necessary time and energy to contribute to the successful planning and execution of these impactful events.

Committee members are required to:

- Join our monthly committee calls (45 minutes)
- Lead the execution for two events per year in your location (typically, teams will work in pairs)
- Assist with fundraising efforts for the FFA in the Asia region

Please submit your interest by March 4th by filling out the relevant form linked below:

Apply for the Diversity Committee [here](#).

Apply for the NextGen Committee [here](#).

Apply Now - Join EMEA NextGen Committee

March 1, 2024



Join the EMEA NextGen Committee

Apply Now! The Fund Finance Association are actively recruiting new members to join the NextGen committee in the EMEA region.

The NextGen initiative serves as a platform tailored to the advancement of junior professionals in the fund finance industry, ranging from entry-level positions to Vice Presidents and Senior Associates. Collaborating with our Executive Committee, the NextGen organizes educational seminars and networking events aimed at fostering growth and connectivity with our industry's emerging talent.

The NextGen initiative operates in the European region with plans to run events on a quarterly basis.

If you are interested in joining, please carefully assess if you can dedicate the necessary time and energy to contribute to the successful planning and execution of these impactful events.

Committee Members are required to:

- Join our monthly committee call (45 minutes)
- Lead the execution for two events per year in your location (typically, teams will work in pairs)
- Assist with fundraising efforts for the FFA in the European region

Please submit your interest by March 22nd by filling out the form linked [here](#).