

A horizontal banner with a green-to-blue gradient background. The text "FUND FINANCE FRIDAY" is centered in a white, sans-serif font. The banner is framed by a white grid pattern that curves inward from the sides.

FUND FINANCE FRIDAY

Catching the NAV Wave

March 13, 2020 | Issue No. 68

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NAV Deals Hit the Big Time

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By Samantha Hutchinson
Partner | Corporate Finance, Fund Finance

NAV – or net asset value backed – facilities have been prevalent in the fund finance market for some time now, but we’ve generally seen them used either by secondary fund managers leveraging mature positions or assets which are near-term cash generative (in recent times, on an increasingly more concentrated basis) or by credit fund managers where the underlying assets included in the borrowing base are strictly categorised and pre-set advance rates are agreed depending on the nature of the underlying asset.

Pure NAV deals in the context of primary private equity have been far fewer given the more concentrated nature of the portfolios and the absence of near-term regular distributions. However, in recent times, we have seen a significant increase in the number of large primary PE managers using and/or considering using these facilities to generate liquidity across their portfolios and increase their borrowing capacity, whether that be for accelerating liquidity to investors, to finance growth and value creation with follow-ons or to refinance asset-level debt. The continuing high entry valuations mean that GPs are having to work their assets harder to deliver the returns expected by their investors, with the result that the hold periods for investments is lengthening, leaving the GP without access to fund level liquidity for longer periods of time as capacity under a subscription line reduces or disappears.

The number of institutions that have the appetite and capability to provide these types of facilities is limited – and we have typically seen these trades executed predominantly where the lenders are already familiar with the underlying assets, making the credit assessment and credit underwrite for the trade much easier. However, we are now seeing a number of these types of deals done with large managers where there is no pre-existing relationship between the underlying asset(s) and the proposed lender and the product is being sought and provided on a standalone basis.

What is driving this trend?

On the lender side:

- Lenders are seeking higher returns as pricing pressure on other types of fund finance products provided to large managers – particularly subscription lines – continues.
- Lenders see the product as a tool to build deeper relationships with large fund managers where they may not be able to, or the return profile means that participating in the subscription line isn’t viable for the lender. Having the capability to offer both subscription and asset lines can be a unique differentiating factor.

- As lenders become more familiar with fund finance products generally and have seen the strong performance of asset-backed lines across other sizes/types of managers and asset classes, the credit appetite for more complex structured facilities, particularly for the larger managers, becomes greater. Whilst the lender pool for these types of trades is still small, those lenders that are active have the infrastructure to carry out the asset-level due diligence necessary for the execution and portfolio management of these trades.

On the GP side:

- Where markets become difficult from an exit perspective, coupled with a continuing pressure on GPs to generate liquidity for investors, these facilities can provide that much-needed liquidity. Provided the LTV is set at an appropriate level, investors see the value in these facilities.

- There is a realisation that fund-level financing can solve for liquidity needs in respect of particular assets – whether that is because a particular asset is in distress or requires further investment where capital from the investors is either unavailable or the GP wants to reserve that capital – without a heavy price ticket, via the credit support given by other assets in the portfolio.

The tide is definitely turning for NAV lines, with the high capital inflows we've experienced for many years now in the larger funds and high valuations suggesting that large PE managers may experience greater challenges deploying that capital and creating liquidity for investors with the necessary knock-on effect on IRRs. The NAV lines that have been used across other asset classes and sizes of funds now seem increasingly more attractive to larger managers to solve for these challenges. Watch this space!

Market Update

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By Michael Mascia
Partner | Fund Finance

For the first time, “Limit Down” and “Limit Up” this week became part of my daily lexicon. And while it would have been harder to have a more eventful week in the macro, we do not have a ton of new developments since last Friday to report for the industry. Our activity levels remained constant this week, somewhat less than the activity burst I have been forecasting the past month as clients press to close deals in progress immediately. We continued to see new prospective deals and mandates flow in at a generally familiar clip, but at neither a heightened or reduced rate. The banks continued to function largely business as usual in fund finance, even with disruptions in other public credit markets. We have not heard of any deals being pulled prior to closing or capital calls not being funded. Draw and funding activity on existing facilities, we are told, is relatively robust. A lot of time was invested this week by the banks on preparedness. We did a number of calls stress testing the physical logistics of work-from-home treasury operations and functions. Many banks have already moved to work-from-home and many are running A and B teams, alternating work-from-home. Banks have been receiving requests for funding comfort on future draws from funds, although I do think the market drew some comfort on ultimate bank liquidity from Treasury Secretary Mnuchin indicating on CNBC this morning that they will provide liquidity to affected industries. The FFA did unfortunately cancel its NextGen and WFF events for March in an abundance of caution. We appreciate the organizers’ efforts planning the events and look forward to seeing them held when the event window reopens. *FFF* will continue to provide market color when we think we have non-confidential information that could be of interest. Call us if we can be helpful.

On the Move – Fund Finance Tidbits

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On the Move



Pretika Randhawa has recently joined JPMorgan Chase Bank, N.A. as Executive Director of its Subscription Lending Platform in the Commercial Real Estate group, based in its New York office.

Prior to joining JPMorgan, Pretika was a Director with Sumitomo Mitsui Banking Corporation in its Subscription Secured Finance Department. Pretika is active in the Fund Finance Association and sits on the planning committee of the Next Gen initiative.



Storey Whalen has recently joined the growing Private Equity Finance team at First Republic as a Director based in New York. Storey joins Scott Aleali, Jeff Maier, and Alexa Schult to grow the First Republic Private Equity Finance portfolio, with a particular focus on capital call facilities, management company lending, and GP financing, as well as being a holistic retail banking partner for private equity principals.

Storey came from the New York office of National Australia Bank, where she had been a contributing member of its Fund Financing team since 2016, focusing on subscription finance, hybrid and NAV facilities.

Appleby Revisits Highlights and Identifies Key Takeaways from Global Fund Finance Symposium

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Appleby has published an article revisiting highlights and identifying key takeaways from last month's Global Fund Finance Symposium. It surveys prominent discussions from the Symposium, ranging from the structural challenges of hybrid facilities to the lender market's geographic concentration in North America to the perspective Modern Monetary Theory (MMT) brings to bear on fiscal and monetary policy. The article, written by Anna-Lise Wisdom (who was a speaker on the "Legal Updates" panel at the event) also touches on the context and importance of the Cayman Islands Private Funds Law 2020 enacted days before the Symposium. To read the full article, click [here](#).

To read our earlier "Player Profile" with Anna-Lise, please click [here](#).

Steve Bleiberg Joins Cadwalader's Fund Finance Practice in New York

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Steve Bleiberg has joined Cadwalader's Fund Finance practice as an associate in our New York office. Steve joins from Morrison & Foerster, where he represented lenders and borrowers in a wide range of financial transactions, including subscription credit facilities, syndicated bank financings, middle market private credit transactions and structured commodity financing transactions.

Steve is a 2008 Columbia JD/MBA graduate.

Recommended Reading

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- Private credit fundraising faces challenges as investors update asset allocations to offset price declines in public securities. Investors may also be less likely to add new managers to the portfolio amid an uncertain outlook, according to a [recent report](#) by *Reuters*.
- The corporate debt market entered the recent selloff from a vulnerable position due to both the sheer growth in outstanding debt and the decline in credit quality in recent years, according to Peter S. Goodman of *The New York Times* in "[Coronavirus May Light Fuse on 'Unexploded Bomb' of Corporate Debt.](#)"
- Increased use of leverage may be one of the ways fund operations may adjust to respond to the coronavirus outbreak, according to an [article](#) by Paul Weiss attorneys published by *PEI*. In addition to subscription lines, funds may look to total return swaps, margin loans and other forms of leverage as the market dislocation presents a broad set of potential investment opportunities.
- [The Ride of a Lifetime: Lessons Learned from 15 Years as CEO of the Walt Disney Company](#), by Robert Iger, who announced his retirement as Disney's CEO in late February. The book opens with Iger telling the story of how, on the very day he was presiding over the opening ceremonies of Shanghai Disney Resort, he gets word of the tragic death of 2-year-old Lane Graves, who was pulled underwater by an alligator in a lagoon at Disney's Grand Floridian Resort and Spa. He goes from an incredibly emotional call with the child's father to a tour of the new park with top Chinese governmental officials, same day. The rest of the book follows with a host of interesting and dramatic twists, starting with Iger's joining Disney and his early ascension at ABC Sports, his experience being grilled and then ultimately selected by the Board to replace Michael Eisner as CEO, the acquisition of Pixar from Steve Jobs, the acquisition of Marvel and the release of the Black Panther movie, and the acquisition of Lucasfilm and becoming the steward of the Star Wars legacy. He drops several dozen solid business maxims along the way while telling his story, most of which focus on the required soft skills for managing brilliant and creative people. An easy and top-notch read.