FFA MONTHLY UPDATE CALL

August 2020

FUND FINANCE association

KEY THEMES

- Currently experiencing 'middle innings' of the crisis, we have overcome the initial concern of what deals would get to home base and the flurry of facility extensions. Overall things have 'calmed down' and we have not seen any disruptions for LP funding.
- Banks continue to act on the side of caution and are being selective with lending.
- Large syndicated deals continue to get more scrutiny.
- Our product area continues to be fortunate compared to other asset classes.
- Transactions that closed pre/early COVID and now need upsizes are having trouble syndicating into post COVID pricing and structures.
- Bank credit functions are tightening which is leading to protracted negotiations.
- Some investors are pushing back on this new credit environment which is proving to be especially challenging for SMAs.
- We are seeing a trend of non-bank lenders looking to set up product programs on the NAV and leveraged side, we expect to see a fair amount on innovation and growth from that direction going forward.
- Overall, the resilience of the fund finance market is something that is worth noting, generally, lenders are still actively structuring their subscription financing products, and there is no known material distress among existing facilities.
- There are not any known material institutional investor defaults in connection with any capital calls that have been made over the course of the last couple quarters.
- There is a recalibration of commercial terms among lenders and fund sponsors, these can include the length of the tenure, the economics of the terms of the facility, and covenants.
- In Q2, the fundraising market was buoyed by managers raising capital for distressed debt and opportunistic strategies, most looking to put subscription facilities in place quickly to take advantage of the market opportunity.
- Activity levels have remained robust through the summer and Q4 is looking to have a steady flow of transactions.
- We are seeing a trend of clients wanting to raise special opportunities funds to capture on the market dislocation both defensively and offensively.
- Hiring Market is starting to open back up!

CAYMAN ISLANDS

- Had several regulatory updates to ensure global compliance with regulatory oversite and AML, there has been positive support of these changes from funds as well as investors and it has been a welcome oversite.
- Volumes of new funds being launched are similar to 2019, nearly all closed-end private funds continue to look for credit options in the market and the trend continues to move towards funds focused on NAV and bespoke style facilities compared to 2019.
- A few managers are venturing into the securitization and CLO space to take advantage of the low-cost assets.

EUROPE

- Seen the supply of subscription finance return and existing players in the market have been able to provide balance sheet to their preferred sponsors.
- Increased activity on the fund-raising side which has caused a compression on pricing.
- In Europe for Q4 – the withdrawal of government support schemes will probably have an impact on deal flow and demand on NAV financing.
- Europe has seen an increase on sustainability-linked loans, investor demand continues to be focused on ESG and this trend will likely continue into 2021.

ASIA

- Pre-COVID, Asia was becoming competitive, post-COVID a few banks have fallen away.
- The pipeline thinned but should increase in Q1 2021, deals that are moving forward are seeing standard deal terms and underwriting, however, they are completed with more caution and diligence.

- The top managers are still able to raise capital on schedule with no delays and increase fund size, however this tends to be US global firms with an Asia strategy.
- Mid-tier managers may delay fund-raising for a few quarters.
- Tensions still exist between US and China and we are not yet sure how this will impact the market.
- The caution that the first half of the year experienced has eased, funds are looking for financing and are seeking other liquidity options.
- Banks are lending and are looking to be more innovative and flexible than they would have previously been.
- We expect to see more equity deals/NAVs/Hybrids.
- Chinese banks are lending more.
- ESG-linked Fund Financing continues to be on the rise.

SECONDARY MARKET UPDATE

- Q1&2 saw a significant drop in volume for the market, down 45% for H1.
- Lender caution and valuation uncertainty provided a pause to the market.
- March valuations were positive, and the market seems to be coming back.
- Market participants continue to wait for Q2 valuations, and this will lead to stronger volume of transactions in Q4 2020 and Q1 2021, we expect pricing will also become more stabilized.
- Buyers continue to be well capitalized but not yet spending money and are staying on the cautious side.
- Sell side, saw fewer distressed sellers, more strategic investors coming to market and starting to reshape their portfolio considering what a post COVID world will look like.
- GP led second raises has historically been a third of the secondaries market, we think this could increase to half the market later this year or early 2021.
- Several GPs need additional time and capital to manage their portfolio, GPs will need more of the secondaries market to manage overall liquidity of their funds.

- We have not seen any covenant breaches, although there have been requests for extensions, in some cases there has been pricing tick-ups and requests to lenders for additional distribution sweeps in this space.
- Much stronger activity expected for Q4.

ANY OTHER BUSINES

- FFA announced the virtual Fund Finance Symposium will be held 16-20 November 2020, if you are interested in sponsoring please reach out to: info@fundfinanceassociation.com