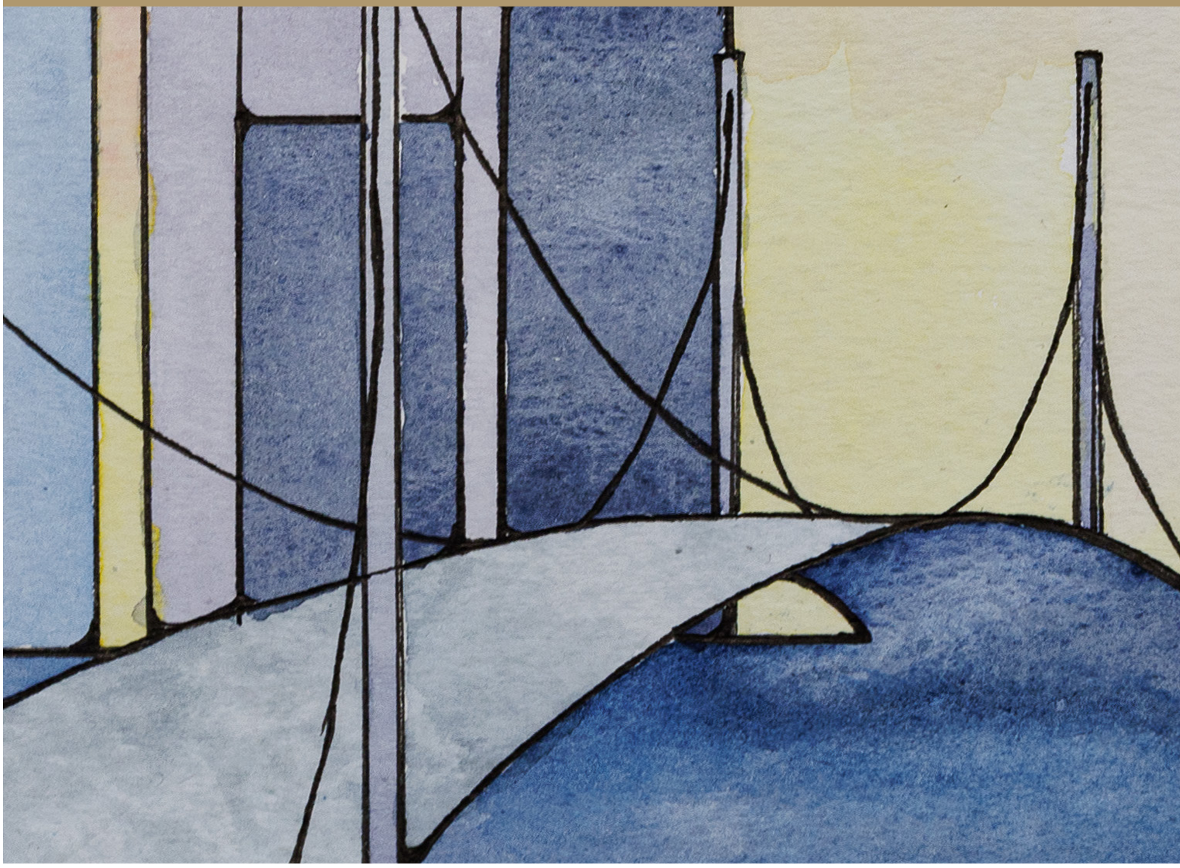
Fund finance advisors: building bridges for fund managers



IN today's tough financial market, where fund managers are constantly seeking new and innovative financing solutions in an environment of reduced liquidity, the role of fund finance advisors has become increasingly important. Advisors provide specialist advice, support, and, perhaps more importantly, multiple access routes to capital for fund managers who are looking to establish, refinance, or renegotiate fund finance facilities. The expertise that advisors bring and the relationships that they have with multiple lenders can help fund managers unlock even more value from financing deals that are heavily tailored to clients' specific needs.

In this feature, the first of a series from Brickfield covering the fund finance advisory market, we speak to the leading lights in the space about their work with clients and various ways in which they can open up a whole new world of options and capabilities to fund managers that may not have been otherwise accessible.

Flexible service options for a range of client needs

Fund finance advisors have been increasing in number as well as service options, giving fund managers a good variety of choice over how much of the job they want to be done externally. While some offer a wider range and depth of services than others, all the advisors we spoke to stressed flexibility as a cornerstone of their business model. **Avardi Partners**, one of the first dedicated advisory firms to appear on the market, led by **Sarah Lobbardi** since 2018. The company offers a range of services to fund managers. Avardi assists clients in sourcing the best offer available, advising on the optimal structure, and then executing to the highest standards. “We guide clients through all different lifecycles by exploring the right financing solution to suit their specific financing needs,” Lobbardi explains.

Deloitte has been active in fund finance advisory since 2018. “The team assists managers across a range of sectors to put in place tailored financing solutions, helping to originate liquidity, drive competitive tension and negotiate the best terms, structure and pricing.” says **Deloitte’s** Head of Fund Finance **Jamie Mehmood**. They work alongside the borrower’s legal counsel, ensuring a seamless interaction on both the commercial and legal aspects of the deal, he adds.

CSC (formerly Intertrust) have been active for the last four years and work with private market clients in Europe and the US. “We typically conduct three workstreams: (a) define the financing requirement and source liquidity, (b) run a competitive process with a proportionate number of lenders and (c) execution where we perform a project management role and negotiate on key commercial terms to ensure a smooth closing of the transactions,” CSC’s Head of Fund Finance Advisory **James Rock-Perring** explains.

Saving time and money for fund managers

Hedgewood Capital Partners, an independent, US-based fund finance advisory firm, aims to reduce the time, expense, and effort that borrowers expend when sourcing, implementing, and managing fund finance solutions. **Khizer Ahmed**, the firm’s Founder and Managing Member, offers a full range of service to clients, including refining the scope of their fund finance requirements, finding suitable partners from their network of lenders, running competitive processes to source the best terms, and driving the negotiation process on their behalf. “We have one of the largest networks of traditional and alternative lenders of any fund finance advisory firm, and at any given point in time we most likely have conversations with multiple members of this network on different financing mandates,” Ahmed says.

Validus Risk Management, which provides market risk and capital markets solutions to

“We always sit down with the client first to discuss the areas we can add most value. Some clients have experienced resources in-house and might only need a helping hand or ad hoc advice and insights. Others may want the full outsourced solution.”

institutional investors and fund managers with a focus on alternative, private and illiquid assets, takes a modular approach to their engagements and tailors its services to each client's specific needs. The company's Head of Fund Finance Advisory **Gianluca Lorenzon** explains: "We always sit down with the client first to discuss the areas we can add most value. Some clients have experienced resources in-house and might only need a helping hand or ad hoc advice and insights. Others may want the full outsourced solution."

Legal know-how

Fund finance advisors also play a role in facilitating the legal aspects of a financing transaction. Leading fund finance law specialists **Cadwalader, Wickersham & Taft** (CWT) has a European GP Solutions team led by **Michael Hubbard**, who says that his business unit partners with the firm's legal practice on every deal, allowing for seamless interaction on negotiating both the commercial and legal aspects of a financing transaction. "CWT is in a unique position to be able to offer advice to GPs on every aspect of raising finance, from ensuring constitutional documents permit the proposed financing, to structuring and sourcing liquidity, through to execution and ongoing maintenance," he explains.

Combining talent and technology

Fund Finance Partners (FFP), which was established in 2019 and focuses on leveraging the talents of its people as well as the latest digital technologies, provides preferred placement agent service, fund administration, and insurance provider lists to their clients, as well as a range of services. These include crafting tailored term sheets specific to the product and trade, preparing loan document abstracts, and negotiating deals to closing. "We often craft tailored term sheets specific for the product and particular trade," says **Zac Barnett**, FFP's co-founder. "We have various quantitative and qualitative comparison tools and models to aid in the decision."

Bespoke pricing

Fund finance advisors take into account factors such as the complexity of the product and the level of involvement required when setting prices. Gianluca Lorenzon from Validus Risk Management notes that pricing can vary significantly between different mandates and clients, and Khizer Ahmed from Hedgewood Capital Partners says that pricing is bespoke to each transaction and depends on the product, the complexity of the structure, and the level of liquidity required.

James Rock-Perring at CSC says their team works across all private market asset classes in Europe and the US, from smaller managers with six-figure AUM, to some of the larger managers globally who may have capacity constraints within their capital markets teams.

Open for business

Fund finance advisors work with a wide range of fund managers across different asset classes. Jamie Mehmood at Deloitte explains that they work with fund managers of all sizes and sectors, including private equity, credit, infrastructure, and real estate. Sarah Lobbardi at Avardi Partners says her team also works

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with fund managers globally and across all asset classes. Khizer Ahmed at Hedgewood Capital Partners also emphasises flexibility in working with clients of all sizes and tailoring their services to meet their unique needs.

Securing better solutions

Fund finance advisors provide invaluable support to fund managers in navigating the complexities of fund finance. Their expertise and guidance helps fund managers secure the best financing solutions, structure them appropriately, and ensure that the legal aspects are properly addressed. By accessing advisors' services, expertise and market contacts, fund managers can streamline financing operations and focus on what they do best – managing funds.

• *This is the first part in a series of features from Brickfield covering the fund finance advisory sector. Look out for part two, coming soon, which will focus on advisors' relationships with banks and their handling of specific facility types including NAV. We will also be publishing features on some of the major players in the space, with detailed insights into their services, team members and working practices with their fund manager clients.*

Engagement and flexibility: How fund finance advisors deliver the best terms

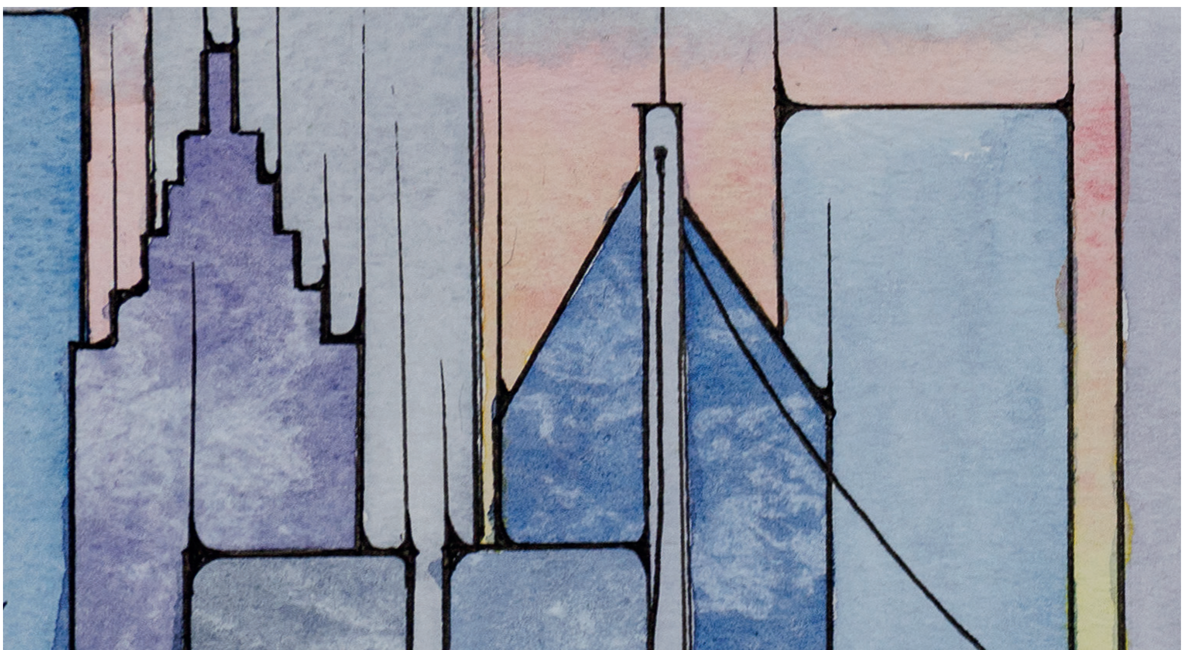
THE previous article in this series introduced the fund finance advisory landscape and examined the basic value proposition that advisors present to fund managers. This time we look at how these advisors navigate the banking sector while ensuring client objectives are met. We also share some insights from leading players in the sector on the strategies they employ to seek and engage with banks, how they build relationships, manage the NDA process and tailor term sheets to meet client needs.

Building relationships with lenders

It is a given for fund managers that establishing strong relationships with banks is essential to secure favourable terms and ensure smooth engagements. **Khizer Ahmed**, Founder and Managing Member at **Hedgewood Capital Partners**, says he and his team connect with lenders on a regular basis in order to keep on top of developments and emerging trends and issues on the lender side. “This helps us identify the most suitable counterparties when a particular transaction comes along. When working on new mandates, we start by creating a shortlist of lenders that we pre-clear with our clients before commencing our outreach. This allows us to ensure that any client objections or sensitivities to names on our list can be addressed at an early stage,” he explains.

Gianluca Lorenzon, Head of Fund Finance at **Validus Risk Management**, emphasises the need to assist clients in asking for terms that banks can actually deliver. “This approach creates a better process for all parties involved and helps build stronger client-bank relationships,” he says, adding that “most bank lenders can offer more favourable terms if they build a stronger relationship with the client, which oftentimes includes having some ancillary business like FX hedging. Our approach is that ‘best terms’ is a complex equation, of which credit margin is only one key component.”

Jamie Mehmood at **Deloitte** explains that his team’s bandwidth and involvement in a large volume of fund finance transactions



means that they have an active daily/weekly dialogue running with the main lenders in the market at any point in time, leveraging the team's personal networks to increase traction and optimise the client outcomes.

Michael Hubbard at **Cadwalader Wickersham & Taft**, who has been syndicating fund finance for over a decade, says that these relationships allow advisors to quickly ascertain which lenders to engage with on any given transaction (depending on the structure and economics), with a targeted strategy for sourcing liquidity. "I have an extensive network of contacts that I am in regular dialogue with and understand each lender's risk and pricing parameters for any given product," he explains.

Resource allocation and managing the NDA process

The allocation of resources in deal teams can vary depending on the complexity and unique characteristics of each transaction. Hubbard highlights the importance of having access to a team of lawyers to manage the NDA process efficiently, which in Cadwalader's case is entirely in-house.

Zac Barnett of **Fund Finance Partners** underscores the advantage of having a highly experienced team when connecting with target banks, which he says ensures a strategic approach to lender engagement overall, while allowing flexibility to accommodate client preferences. To streamline the NDA process, he explains, "we have an FFP master form NDA that has been agreed with all major lenders. There is a simple joinder for new sponsors/transactions".

Tailoring term sheets and geographic focus

Others take a different approach. Lorenzon at Validus says that their approach can vary based on the product and the desired outcome, and while some transactions may benefit from presenting a wish list upfront, others may require lenders to provide high-level terms to showcase their credibility and appetite.

James Rock-Perring at **CSC** (formerly Intertrust) comments that they work case by case when it comes to term sheets. "We sometimes go to market with a Heads of Terms, more detailed term sheet or work with the client to tailor theirs. There have been instances where we have gone out with a detailed brief and asked for the lender to submit their term sheets. It's what works best for the client so as to achieve a successful outcome."

Jamie Mehmood at Deloitte explains that they tailor the approach to term sheets based on the specific situation, sometimes having the client and their legal counsel lead, while in other cases, letting the bank or lead bank draw up the term sheet. "This is particularly the case for NAV transactions where there is a broader range of alternative structures to be considered," he adds.

Regarding geographic focus, Michael Hubbard states that Cadwalader primarily focuses on European sponsors; however, they are willing to engage lenders regardless of their geographical footprint. While some have a more global reach, others, like US-based FFP and Hedgewood, are more focused on their home market.

The advisors we interviewed all agree that ongoing, proactive engagement with banks and a thorough understanding of client preferences are both keys to landing the best outcome for both fund manager and lender

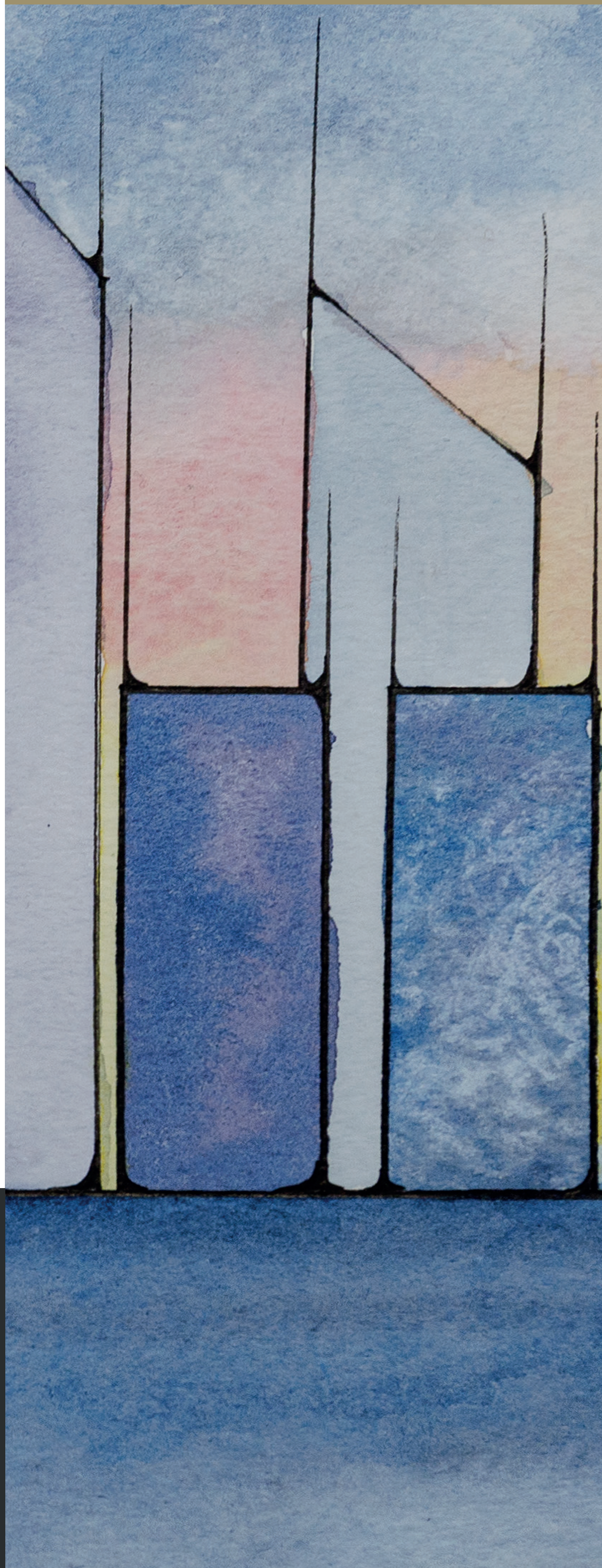
Client resources and decision-making

The level of client involvement in the process can vary depending on their preference. Gianluca Lorenzon highlights the value of having a dedicated person to work closely with the finance team. By sharing the workload, the client's resources are not overwhelmed, ensuring an efficient process.

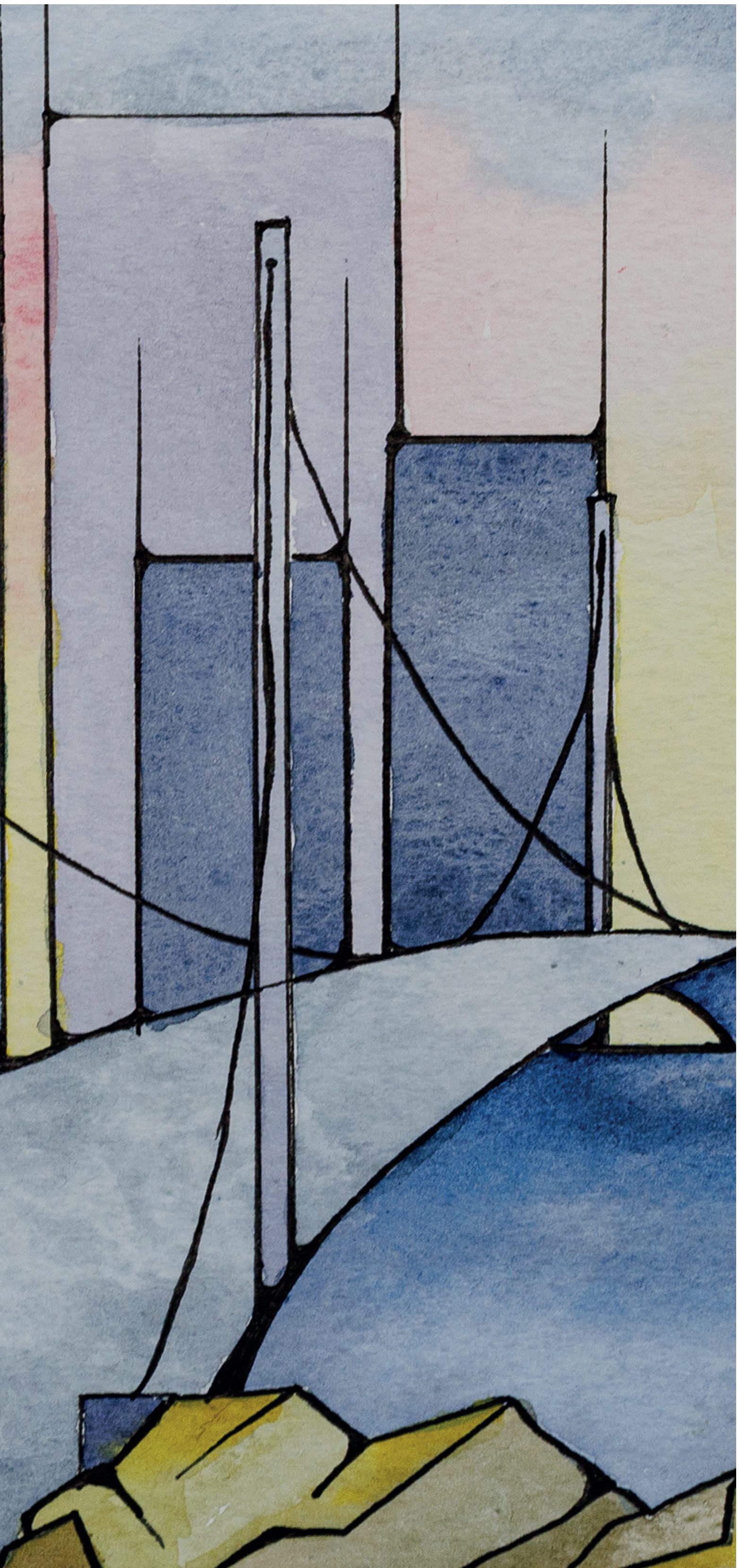
Khizer Ahmed emphasizes the flexibility in accommodating clients' preferred level of involvement. With experienced professionals leading the process, clients benefit from seasoned guidance at every stage, while their engagement tends to increase during due diligence and final execution, he says.

The advisors we interviewed all agree that ongoing, proactive engagement with banks and a thorough understanding of client preferences are both keys to landing the best outcome for both fund manager and lender. And in a market that is evolving ever more quickly, the need for flexibility and transparency is more important than ever.

- *This is part two of Brickfield's Fund Finance Advisory Focus series. In the final part we will hear the advisors' views on today's fund finance market and how they see its future development. We will also be publishing features on some of the major players in the space, with detailed insights into their services, team members and working practices with their fund manager clients.*



Fund finance advisors assess the market



FOR this final article in Brickfield's Fund Finance Advisory Focus series, we asked leading advisors for their thoughts on what has undoubtedly been a tough market in 2023. They were universally positive about the immediate and medium term despite continuing financial headwinds. Continued innovation is significantly helping many funds continue to access capital, while advisors are now focusing on delivering maximum value by unlocking new sources of liquidity for under-pressure fund managers and streamlining services to offset rising costs.

As market conditions continue to prove challenging, sponsors and lenders are increasingly exploring alternative financing options, such as relationship-based lending, more flexible facilities, and NAV facilities to navigate the uncertain market environment.

In short, securing capital call facilities is not the game it was a year ago, says **Sarah Lobbardi**, Founder of **Avardi Partners**. "We have experienced a challenging fundraising environment in recent months, which seems to be a continuing trend," she says, adding that traditional bank lenders are facing capital constraints and selective appetite, with the market withdrawals of Citi and Credit Suisse exacerbating the situation.

Relationship-based lending

This has resulted in a growing trend of relationship-based lending and increased pricing for capital call facilities, Lobbardi explains. "There is now a greater demand for non-bank lenders, and traditional bank lenders are reassessing their balance sheet management to boost velocity. As a result, sponsors are exploring new ways to finance their funds, including more flexible capital call facilities, hybrids, and NAV facilities."

It is much more difficult now to secure capital call facilities than it was three years ago, says **James Rock-Perring** at **CSC**. "Banks are more precious about using their capital and cost of funds and margins are up. They are more focused on existing relationships and in the US, for example, there are only a handful of perhaps seven to 10 lenders who may be open to new relationships. Europe is also difficult and first-time funds may not achieve sourcing a line whilst mid-market funds will find it more difficult. Large managers will still secure facilities but will need more banks as ticket sizes have reduced."

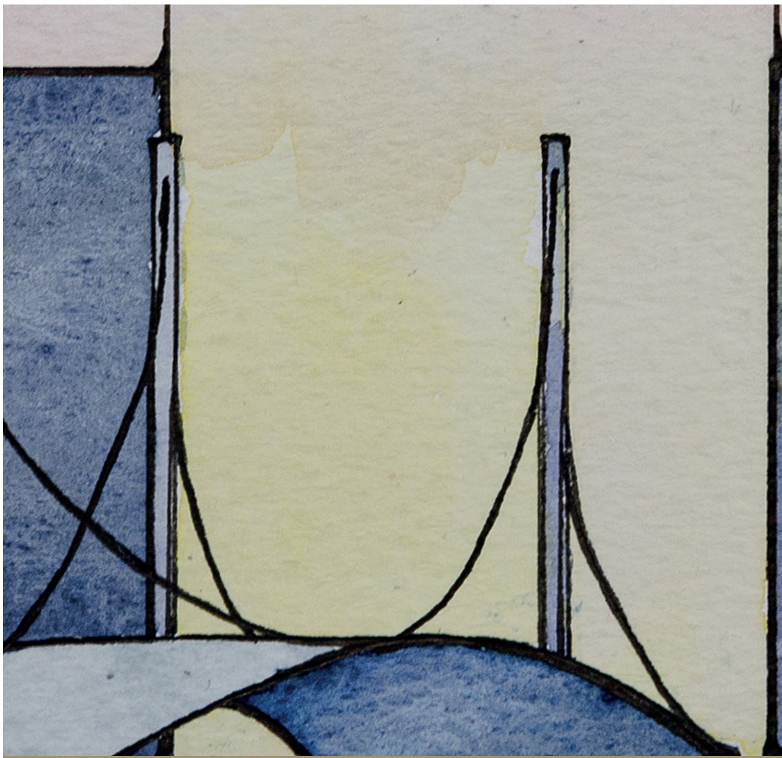
In the NAV space, Rock-Perring adds: "There is a strong supply of capital (most definitely from non-bank lenders) and demand is strong."

While some believe that liquidity will improve with the entrance of non-bank lenders and reduced demand due to slower fundraising, the industry is nevertheless braced for an overall volatile market ahead. **Jamie Mehmood** of **Deloitte** highlights the challenging market conditions, with a more selective supply of liquidity for sub lines, especially in the US. "Slower fundraising and slower exits are undoubtedly also major challenges for managers in the current market, which lenders are increasingly trying to solve," he says.

The NAV market

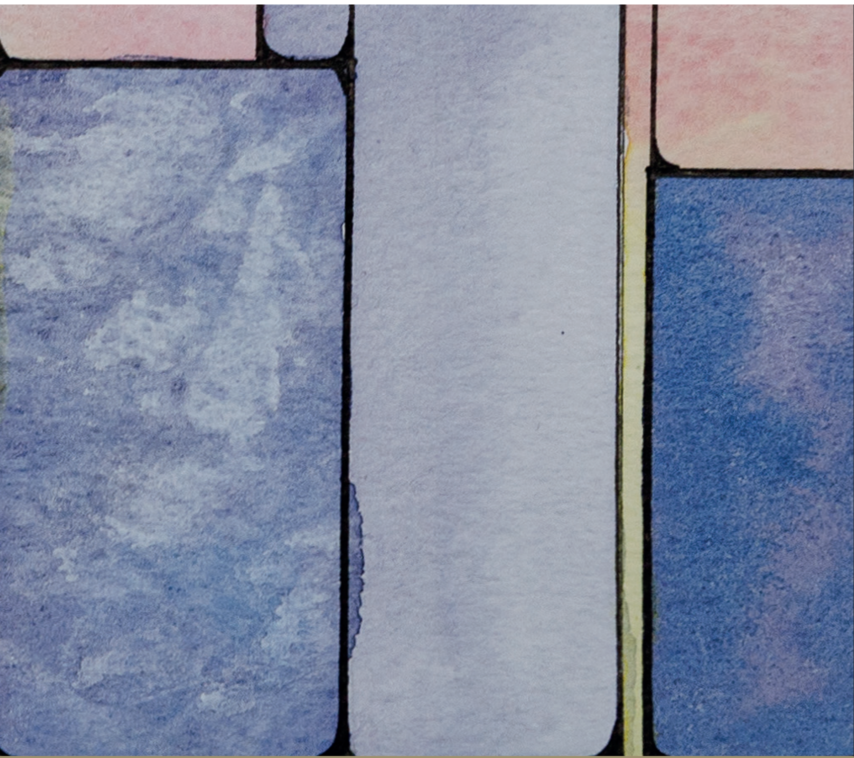
NAV facilities have become increasingly popular across all asset classes, particularly in the private equity space. **Gianluca Lorenzon**, from **Validus Risk Management**, states: "We are at an inflection point. Less liquidity in the market is the main issue affecting clients, but pricing is also causing trouble." The widening credit spreads and higher base rates have significantly increased the all-in cost compared to just a year ago, Lorenzon adds.

According to **Khizer Ahmed** of **Hedgewood Capital Partners**, market conditions have been challenging, primarily due to the limited supply of balance sheet from traditional lenders who are focusing on conserving their balance sheets and meeting the requirements of existing clients. "Deals are taking longer to close, and pricing has shifted in favour of lenders," he says.



Institutional capital has been considered as an alternative source of liquidity for borrowers, but even they face constraints. **Michael Hubbard** at **Cadwalader, Wickersham & Taft** explains that the subscription finance market remains challenging with a dearth of liquidity, while the NAV market is fairly liquid but faces underwriting risk in portfolio-level assets and an uncertain economic backdrop.

Despite these challenges, there is still optimism in the market, and the fund finance community's sense of collegiality that we know so well is shining through, as fund managers, lawyers and advisors all work together with lenders to get the deals across the line. **Zac Barnett** from **Fund Finance Partners** describes the current fund finance market as "the most lender-friendly in 20 years," highlighting



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continued interest rate hikes, scarcity of bank balance sheet, and protracted financing timelines as its key characteristics.

Rise in hybrid facilities

Higher interest rates and slower fund raising is curtailing demand in the capital call space, so if interest rates abate and fund-raising picks up, the liquidity gap will widen, says James Rock-Perring at CSC. "Fitch, for example, has started to rate capital call lines and this may help alleviate the pressure on banks who need to hold more capital against these loans in the US. We will definitely see the increase in the amount of hybrid facilities (recourse to uncalled capital and NAV/assets) as lenders become more creative in trying to provide liquidity throughout the life of a fund."

As we saw with the COVID pandemic (the aftermath of which is still influencing market conditions to a degree) fund finance is proving the strength of its foundations, and it clearly has not gone unnoticed.

While traditional lenders might be pressing the pause button for the moment, plenty of alternative lenders have entered the market in the last 18 months, and others are closely looking at the possibility.

Advisors are playing a key role in encouraging both lenders and funds to accommodate one another in today's less buoyant market, which can only bode well for fund finance when more positive conditions inevitably return.