KEYNOTE INTERVIEW

How advisers can add value to fund finance

Accessing fund finance requires specialist support if borrowers want to stay on top of this fast-changing market, says Khizer Ahmed, founder and managing member at Hedgewood Capital Partners

Q Why should fund managers consider working with an adviser to access fund finance, even if they have existing lender relationships?

Most clients we work with have at some stage had a relationship with a fund finance lender and some have more than one such relationship. But there are a few reasons why it might make sense to move away from engaging bilaterally.

First, particularly for those that are relatively infrequent participants in the fund finance market, it is beneficial to work with an adviser who can update them on the latest terms and developments in the lender universe. A large proportion of clients don't get enough or meaningfully frequent interaction with a wide enough range of lenders to stay on top of the latest developments and offerings.

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Another reason is that often the client professionals tasked with putting these facilities in place, the COOs, CFOs or portfolio managers, don't have enough bandwidth to go through a comprehensive enough process of searching the market, identifying and sifting through a variety of lenders and then negotiating terms with them. It is easier and more efficient to work with an adviser to achieve optimal engagement.

Third, a client may have very good lender relationships but only in a particular sphere, say investment banks or regional US banks. A well-connected adviser can help broaden out the range of lenders engaged in the process of procuring a fund finance solution that may come from outside the client's existing network of lenders.

And finally, an adviser who has worked across asset classes and with a variety of borrowers and lenders can make the process of both negotiating terms and execution much smoother, and come up with creative solutions to address potential challenges when structuring and executing transactions.

Q What services can an adviser provide?

Any adviser should be able to offer an effective search function – they will have a network of lenders they can engage with on any given mandate and that is a critical part of the advisory offering.

Beyond that, where they can really add value for a borrower is once a particular lender or subset of lenders has been identified and the conversation moves to the specifics of a given transaction. An adviser can get into the detail of the procurement and evaluation processes around deal terms, helping the lender (hopefully multiple lenders) reach a point where their offer aligns well with the client's requirements.

Once a set of terms has been accepted by the client, the adviser can take ownership of the execution process and see it through to completion. Then there is ongoing deal servicing – occasionally service issues can arise, transactions may require modifications or, in some cases, things can evolve with the lender that mean they are no longer the right fit. An adviser can be proactive in identifying emergent risks and challenges and help clients respond appropriately.

Q What characteristics should managers look for when choosing an adviser?

The most obvious one that applies to any third-party adviser is compatibility. As a client, you have to meet them, lock eyes, have a conversation and make sure you feel comfortable and confident that they have the expertise you need and can be trusted to look after your best interests.

Experience is critical. What has worked for us is not only to share with clients our advisory experience gained since 2018 but also our experience as former lenders. Clients value our experience as former lenders because we can give them insights into how lenders evaluate transactions, key pressure points and how to come up with a desirable outcome.

"Clear communication skills are very important"

Also, the scope of service being provided is key. There are advisers out there that are very good at the search end of the spectrum but perhaps not so much at execution. The entire scope of the service has to align with the client's requirements. The depth and breadth of the adviser's lender network is important, as is the nature of process they run.

Q What are the elements of a successful working partnership between borrower, lender, counsel and adviser?

An important element here is the process. The more experience an adviser has of acting on different types of mandates in different jurisdictions incorporating a wide range of stakeholders, the better they will be at creating a deal template to follow for the next transaction that will increase the likelihood of ensuring a favorable outcome. But the process needs to be flexible and molded to meet the requirements of each client, because no two mandates and no two clients are the same.

Clear communication skills are very important. Understanding how to negotiate and run different elements of the process is vital, as is the ability to articulate issues and make sure all parties are kept appropriately apprised throughout. Good project management skills are needed, and, in our experience, a good relationship with lenders is also important.

Q Finally, how should a borrower think about the value proposition of engaging with an advisory business?

The advisory space has been around five or six years now globally, and continues to grow. But there are large parts of the borrower market that are still learning about how advisers can support the process.

There are several considerations that always emerge when we engage with potential clients. First, we clearly have to explain and convince them how an adviser can add value and articulate what we can deliver in any given situation.

Most advisers should be able to demonstrate their worth through the breadth of their network, the value they add in terms of coming up with creative solutions and the competitive pressure they can create. That should ultimately lead to a lower cost associated with procuring a particular solution, meaning the cost of the adviser should, in most cases, be outweighed by savings in deal pricing.

You cannot quantify the non-cost elements in the same way, but there is a qualitative element where an adviser should be able to get a well-structured creative solution for a client that is fit for purpose. The use of an adviser provides valuable support and also keeps lenders honest: they know the client has engaged comprehensively with a range of lenders and canvassed multiple competitive terms, so they are likely to put their best foot forward. We have even been involved in situations where the client has wanted to stay with an existing lender but asked us to benchmark existing terms against the market so as to keep existing terms competitive.

Finally, a good adviser should work seamlessly with a client's in-house team to make the process of procuring and executing a fund finance transaction much smoother, lifting the burden from their shoulders and giving them more bandwidth to focus on other parts of the value chain that require more of their involvement. ■