Fund finance advisor spotlight: Hedgewood Capital Partners

OUR first spotlight feature on some of the leading players in the fund finance advisory interviews **Khizer Ahmed**, fund finance industry veteran and founder of **Hedgewood Capital Partners**.

• **Can you explain a little about your own background, that of your partners, and how Hedgewood came into being?**

• I spent nearly 15 years working in fund linked structured products and fund financing businesses at leading investment banks in London and New York. I was fortunate to have gained varied experience during the course of my banking days – due diligence on alternative funds, structuring a range of financing and non-financing transactions and, finally, originating a variety of complex fund financing mandates with clients on both sides of the Atlantic. As will hopefully become evident later, the variety of my professional experience on the lender side has been a major help in my current role as a fund finance advisor to private capital firms.

My partner, Peter Hennessy, has also had a varied background including structuring and underwriting structured products and leveraged finance transactions both in buy and sell side organizations. He was latterly a relationship manager at a US regional bank and responsible for client coverage on behalf of the bank's fund financing franchise.

Hedgewood traces its roots to a predecessor firm where, in 2018, a former partner and I pooled our shared experiences in the banking world and set up what turned out to be one of the first fund finance advisory businesses. My then partner and I recognized that the fund finance industry had been growing along multiple dimensions since the start of the decade – the number and nature of lenders, the variety of solutions, the degree of specialization to name a few. We felt that borrowers would benefit from working with specialist advisors who could help them shape these developments to their advantage.

It was somewhat daunting to have launched a new business on the basis of what felt like our instincts and little else. We were fortunate though when, in relatively short order, we ended up working on a few sizeable refinancing mandates with high-profile clients who felt they could benefit from working with specialist advisors to address needs that were otherwise unmet by lender offerings at that point in time. The value we added in terms of reduction in the overall cost footprint in existing deals and in obtaining material improvements to the covenant structure imparted tremendous confidence about the validity of our formational thesis. Fast forward to the onset of the COVID-19 crisis in early 2020, I saw an opportunity to take the US advisory business independent and, driven in no small measure by the encouragement and support provided by some key partners and clients, was able to follow through. Thus, Hedgewood Capital Partners was born.

• **With fund finance advisors becoming a more inherent part of the dealmaking and administrative process, what specific competences are brought to the table by advisors like Hedgewood?**

• I see the role of fund finance advisors such as Hedgewood as complementing and enhancing a borrower's in-house expertise with respect to meeting its fund finance requirements and, crucially, not replacing them. As such, our starting point in any conversation with a given client is to understand what the client's specific requirements and existing capabilities are and, therefore, how best we can structure our involvement. It then follows that the competencies we place at the disposal of clients can vary significantly between clients and between different mandates for the same client. If asked to generalize, I would point to the following as noteworthy competencies that most clients we have worked with have recognized and acknowledged as being of value:

- A comprehensive search capability that involves engaging with a larger number of lenders across multiple jurisdictions than would be possible for a typical borrower in order to identify providers that are best placed to meet a given client's needs;

- Harnessing the variety of experiences that an advisor has gained in their previous life – for instance, that of a former fund finance lender in the case of Hedgewood – which can be helpful in helping position clients favorably when engaging with the lender community and in better evaluating and negotiating proposals they are presented with by lenders;

- Driving the price discovery process in what is otherwise a fairly opaque market. This is a natural function of running a comprehensive competitive process amongst different lenders so as to identify and extract best (pricing and non-pricing related) terms for a given transaction;

- Enhanced negotiation capability on the part of clients, particularly when

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considering that advisors may, in their past professional lives, have had considerable experience of negotiating similar transactions with various internal constituencies at lenders; and

• Project management of transactions from inception to execution and delivery of post-sales servicing, thereby releasing key client personnel to focus on other responsibilities.

• What in your view sets Hedgewood apart from other fund finance advisors?

• Hedgewood prides itself on its business model which is built around the delivery of a high-touch, personalized service to our clients. Our ideal mandate is one where our client hands over as much responsibility as possible with respect to structuring, negotiation and execution of fund finance transactions. All advisors have lender relationships which they mine in order to identify potential providers of a given solution. We are no different, but where I believe we add real value is in how we use our cumulative expertise as former lenders to run a competitive process and procure superior terms for our clients, how we project manage the execution process where we work hand in glove with a borrower's internal staff and external counsel, and how we continue to service transactions in the post-sales period.

Our multi-jurisdictional footprint is another unique feature. We operate with clients and lenders in multiple leading fund finance jurisdictions, which gives us a unique ability to utilize our experience for the benefit of clients – be this in terms of utilizing best practices in different markets or speaking with lenders across jurisdictions to truly cast a wide net when it comes to identifying the best lending counterparties for our clients.

We have a demonstrable track record of having worked on a cross-asset basis incorporating private equity, private debt, real assets and hedge funds. Quite apart from the broad connectivity this gives us in the lender community, it also presents real benefits of cross-pollination of transactions with best practices and insights gained elsewhere to the ultimate benefit of our clients.

• **What do you look for when matching clients to lenders? How much do existing relationships matter?**

• Developing and maintaining lender relationships is a critical part of our DNA. As former lenders, we are acutely aware of the constraints within which most lenders operate and we bring this knowledge to bear when working with them on individual mandates. We recognize that not all lenders can deliver all solutions, nor can they always tailor their offerings to meet every single client requirement in a given mandate. Therefore, a vital component of our role as advisors is to recognize the “art of the possible” and to creatively bridge gaps between what borrowers want and what lenders are able to deliver. This is a critical dynamic that we are always aware of when dealing with lenders of all stripes.

We have experience of working with existing lenders to our clients as well as introducing new relationships. In both types of cases, we are aware of our responsibility as representatives of our clients and the need to ensure that existing relationships are enhanced, and new ones solidified, when working on transactions. This calls for developing a deep understanding of the needs of our clients and matching them with the capabilities of lenders, while all the time respecting larger relationship dynamics that may be at play.

In the final analysis, sponsors have fiduciary responsibilities to their investors. The process that sponsors operate when working on meeting a fund finance need, be it from an existing lender or a new one, is a key determinant of whether they can honestly represent to themselves, and other stakeholders, that they have taken all necessary and appropriate steps in seeking and implementing the best solution available to them. Our job as advisors is to help them do so with confidence and in an efficient and cost-effective manner.

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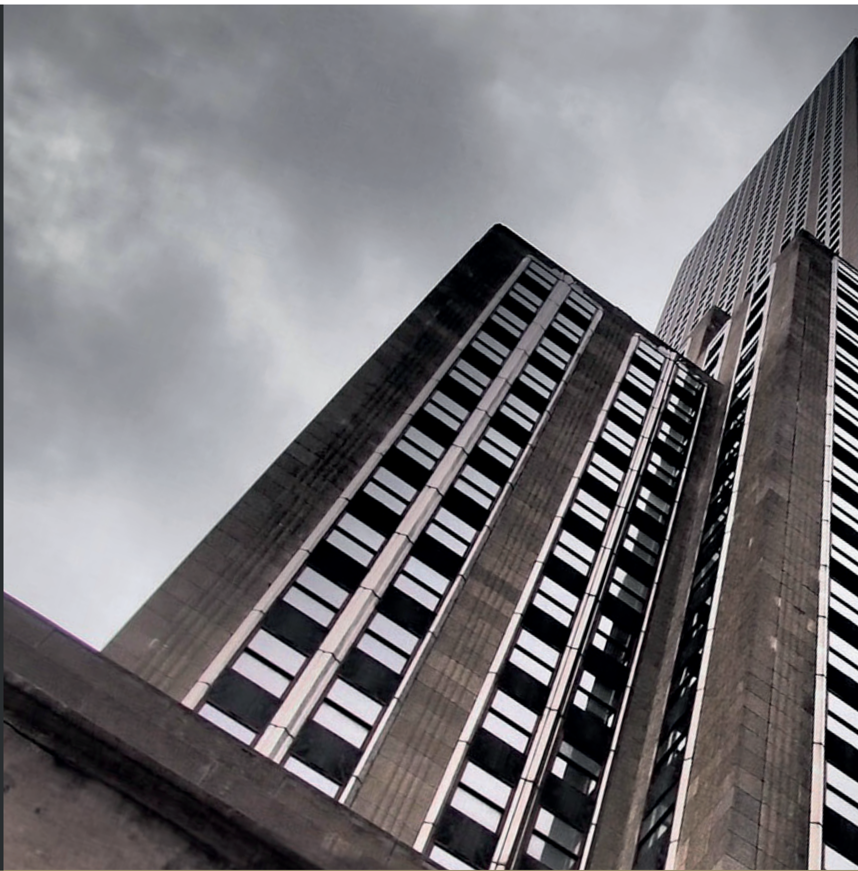
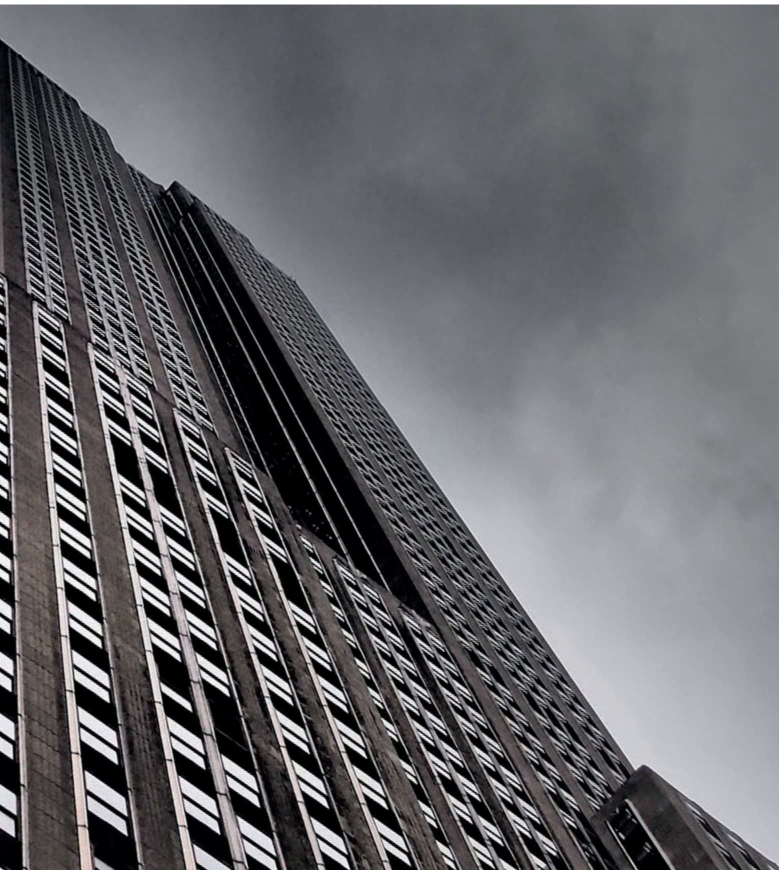


• **What is your approach towards new lenders? How is the emergence of alternative lenders affecting the market?**

• Our network comprises lenders of different ilk. We have had the opportunity to work with a variety of lenders ranging from small players or new entrants into the space to the large, multi-national brands among traditional and alternative lenders. Our guiding principle as an advisor is to find the most appropriate lending partner for our client, so we cast our net as far and wide as the specifics of a given situation demands. In principle, we are very open to working with newer or less experienced lenders. However, as can probably be expected, with newer lenders it becomes that much more important to get comfortable about the nature of their fund finance mandate, the experience and skill-set of their fund finance professionals (including members of risk control functions and senior management), their understanding of the specifics of a transaction presented to them, key features of their proposed solutions, their operational capability and the quality of their service providers (e.g. external counsel). This means that we end up engaging with newer lenders in a deeper and closer manner than perhaps would be the case with established players. It is important to note, however, that longevity alone is no guarantee of superior service. We have come across long-established lenders whose service levels have fluctuated widely across time and clients. As such, we are sensitive to the emergence of any indication that an otherwise erstwhile lender may potentially fall short of what we would consider minimum client service standards, and make every attempt to steer clients away from such situations.

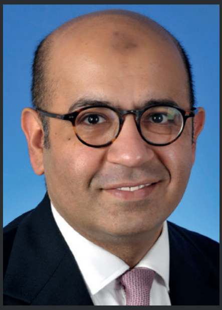


From a borrower's perspective, the emergence of alternative lenders is a welcome trend, though it does come with its own challenges. An increase in choice amongst lenders is a positive development, and the resultant price competition and possible product innovation are certainly to be welcomed. However, a straight comparison between traditional and alternative lenders is not so simple. Alternative lenders can be more expensive given their higher cost of capital, their operational set up may not be as extensive or well-oiled as those deployed by more traditional lenders like banks, and (some, though not all) might still have the mindset of seeing fund finance transactions as a zero-sum game where they must extract the last ounce of benefit, rather than a genuine partnership with clients. Borrowers would do well to continue to utilize all means at their disposal to sift through the ever-expanding universe of lenders, both traditional and alternative, to ensure that they enter into partnership with lenders who share their vision on multiple levels and who are well positioned to provide the desired level of service.

• **Considering that last decade or so of development in fund finance, what is your view of the future for advisory in the context of market development and innovation?**

• Growth in the size of the fund finance market and an increase in innovation on the lender side are key developments which, in our opinion, will only enhance the role of advisory services in this market. To these two, I would add a growth in the expectations of clients who increasingly seem to want a higher degree of product customization from lenders in order to meet their specific requirements.

An increase in the size of the market, be it through a greater allocation of resources by existing players and/or through the emergence of new players, will only increase the need for borrowers to work with a well-connected advisor who is able to find the right lender in a given situation and engage it in a constructive manner in order to help meet client requirements. An increase in innovation will likely lead to an increase in the value that advisors can add through unpacking various components of such solutions, comparing and contrasting in an effective manner competing lender offers and ensuring that the design of final deliverables is to the satisfaction of their client. And the continued evolution of demand on the part of borrowers will enhance the role of advisors as a bridge to the lender community to ensure that the gap between lender offerings and borrower wants is minimized and, hopefully, eliminated.



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