Management Company Lines: *"Don't Leave Home Without One"*

As fund finance product evolution continues to chase the rapid specialization and growth of the asset management industry, fund sponsors and asset management firms (each a "Sponsor") are taking advantage of management company lines of credit (each a "MC line"). We at FFP view MC lines as an essential tool for Sponsor growth, operational flexibility and principal retention in your increasingly competitive industry. In this article, FFP will introduce the basic structure of an MC line, along with a few of the ways FFP has observed that Sponsors are using their MC lines to grow their platform and efficiently operate their businesses.

Before we jump into MC lines, though, it's important to note that these are ***not*** loans to the general partner to finance its capital commitments to funds ("GP lines"); the two should neither be confused nor conflated. Though FFP has experience in arranging and obtaining each, Sponsors utilize GP lines and MC lines for different purposes. They are entirely separate underwrites with distinct collateral packages.

How are MC lines structured? "*What's in your management company line?*"

MC Lines have been around in some form or fashion for well over 20 years; however, the last 5 years have shown a meaningful specialization and widespread adoption of the product. Prior to this evolution, many were relationship-based accommodations. Contemporary MC lines are now predicated on the Sponsor's fee streams, even though the legal and economic flow of those fee streams can vastly differ from Sponsor to Sponsor. For Sponsors looking to utilize MC lines, or to refinance an existing, perhaps arcane MC line, it is critical that those working on the transaction have experience with the product and do the work to fully understand the intricacies of the Sponsor's asset management platform. Without a knowledgeable adviser, such as FFP, a lender may fail to appreciate the breadth and consistency of the Sponsor's fee streams, leading to a sub-optimal outcome for the Sponsor.

Larger Sponsors can benefit from advisory services like FFP's in obtaining MC lines because their complex platforms typically generate fee income from different types of products, with different fee arrangements, all with distinct formats and terms between the GP and the account investors. Likewise, smaller Sponsors benefit from FFP's capabilities because they have not yet gained the notoriety or market awareness of their expertise and, frankly, lenders need to be "sold" on new relationships. The recent push among investors toward more direct co-invest, joint-ventures and separate account structures (and away from commingled funds) increases the number of channels for management fee income streams to flow, thus making security packages more challenging to nail down. With deliberate planning prior to going to market, and ensuring that lenders clearly understand the Sponsor's platform's fee streams, Sponsors (large and small) can achieve an optimal financing solution. In fact, with the right lender and the right form of MC line, these future, unconventional fee streams can be bolted onto the MC line as they are formed, thus increasing borrowing capacity through the facility term. This trend – Sponsors' creativity and flexibility in meeting institutional and HNW investors' demands, resulting in additional sources of management fee income - has made these facilities more complex than they were even 5 years ago.

MC line collateral packages are tied to the Sponsor's right to receive management fees under the applicable management or advisory agreements that it has entered into with its funds, joint ventures and separate accounts,, together with a pledge of the deposit account into which the those fees are paid (the "Collateral Account"). Additionally, because the Sponsor or a Sponsor affiliate generally has an equity investment in the funds, the Sponsor may also include a pledge by the Sponsor of such Sponsor-affiliated investing entity's right to receive distributions from the fund and, in some instances, its limited partnership interest.

What do Sponsors do with management company lines? "*They're everywhere you want to be*"

The reasons that Sponsors obtain MC lines are as varied as the Sponsors themselves. They range from practical, tactical working capital support to financing strategic, platform-changing initiatives. First, like any operating company, Sponsors have ongoing fixed and variable expenses, which aren't necessarily incurred contemporaneous with management fee receipts. An MC line can allows Sponsors to meet those obligations and smooth cash flows. Second, certain investors expect meaningful commitments from Sponsors to their own funds. MC lines permit Sponsors to finance an increase to their "skin in the game", demonstrating to their investors that their interests are aligned. Third, we at FFP have identified a trend wherein Sponsors are availing themselves of MC lines in order to facilitate long overdue liquidity events for the founders and other senior management team members. In many cases, these facilities become critical in holding the management team together after their years of hard work in building a successful asset management firm. FFP professionals have also assisted Sponsors in obtaining MC Lines in order to secure the retention of other personnel that are integral to the platform's successful operation. Fourth, we've seen MC lines serve – for Sponsor employees – the same purpose that subscription lines serve for limited partners. Some Sponsors access MC lines to initially fund capital calls for employee co-invest vehicles or employee GP investment vehicles, in order to ease the administrative and liquidity burden on the Sponsor's employees from meeting multiple capital calls in a condensed time frame. Finally, another common use of MC lines, which FFP observed during the great recession was to finance a Sponsor's acquisition of other fund managers, or at least key groups of individuals at other fund managers, in connection with manager consolidations. In fact, even in this currently deep expansionary cycle, FFP professionals have worked with Sponsors using MC lines, sometimes in combination with growth equity investments, to finance meaningful acquisitions of asset management firms.

The catch: "*Membership has its … limitations*"

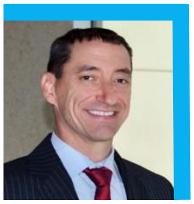
By now, you can already imagine what an optimized MC line can do for your asset management platform, but what are some obstacles that may limit your firm's appeal to potential lenders? Sometimes, there may be restrictions in the governing documents or management contracts with the funds that restrict or prohibit the Sponsor's ability to pledge the standard collateral usually required for MC lines. For example, FFP has noted LPAs or management agreements that prevent the pledging of the "economic interests" associated with any partnership interest (potentially also including dividend payment streams). In these situations, we have successfully lobbied investors and obtained necessary consents, clearing the path for the Sponsor to optimize its MC line. Another area that is ardently diligenced by lenders is the contractual reliability and timing of the payments of management fees. It is not uncommon for management fee payment obligations to decrease following termination of the fund's commitment period. Some fund documents also prescribe management fee offsets whereby the Sponsor's receipt of funds from certain investment activities may reduce the amount of management fees payable to the Sponsor. These are just a few of the potential underwriting challenges that lender and borrowers should be aware of, and in which the services of an experienced, creative adviser can help, when considering entering into these arrangements.

Each of the foregoing potential stumbling blocks may impact and even fatally effect a potential MC Line, but the most common culprit of MC lines failing to consummate rests with personal guaranties. Many MC line lenders still require one or more principals at the Sponsor to personally guaranty the loan. Depending on the circumstances and ownership structure of the Sponsor, this may be a reasonable form of credit support, but nevertheless, Sponsors should be prepared for this possibility, and inquire early in the process whether such a guaranty is required.

Although these considerations may give Sponsors pause, FFP is prepared to contrast what a Sponsor might receive from traditional lenders with products on offer from new, alternative lenders. Some alternative MC line providers are offering MC lines with non-amortizing 10-year terms, along with additional services and expertise meant to boost the viability of the Sponsor's strategic vision. Fund Sponsors now have access to the most diverse spectrum of MC Line offerings that FFP has ever seen.

Conclusion: "*There are some things Sponsors can't buy … for everything else, there are management company lines*"

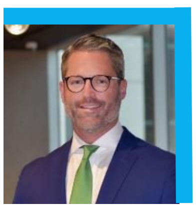
As the asset management industry matures, so do the available financing alternatives. MC lines have become an essential tool for financing a Sponsor's growth, and we at FFP anticipate that nearly every Sponsor will seek a modern MC line, for varying purposes, if they haven't already. The plethora of potential uses affords Sponsors the ability to do everything from pay operating expenses to acquire a competitor. As you now know, the expanding methods of base management fee compensation, coupled with potential stumbling blocks in a fund's constituent documents, require careful business and legal considerations. A Sponsor would behoove itself to be cognizant of these issues and properly plan, when building out its platform. Having led the successful execution of over 50 MC lines, the principals at FFP certainly have the experience to help Sponsors obtain the best MC line for its situation, organization and strategy.



Zac Barnett

Co-founder of Fund Finance Partners

Zac has nearly 20 years of direct experience as an attorney in the fund finance space and considered a pioneer of the industry. He has represented investment banks and fund sponsors on some of the largest, most complex fund financings, earning him annual recognition on Chambers. His broad range of experience in connection with loans to various real estate, private equity, secondaries, private credit, energy, infrastructure and hedge funds provide FFP with the knowledge necessary to guide fund sponsors through the process of securing various fund financings.



Richard Wheelahan, III

Co-founder of Fund Finance Partners

Since 2007, Richard has been advising fund sponsors and lenders, in both an advisory and principal capacity. In addition to co-founding FFP, Richard is the general counsel, chief compliance officer and a director of Capitala Group, a $3 billion manager of debt and equity funds targeting lower middle market companies. Since joining Capitala Group in 2010, Richard has executed numerous capital markets initiatives on behalf of its investment vehicles and has overseen fund formation activity for nearly 10 years, developing comingled funds, SMA concepts, a Nasdaq listed BDC and joint ventures.