Subscription Facilities – No Apology Necessary

Despite many media reports and articles to the contrary, fund sponsors should not be apologizing to their investors for availing themselves of the many advantages of a subscription-backed credit facility. It is true that the origin of these facilities centered around the mere bridging of capital calls but there are numerous other advantages and fund sponsors should consider a more full-throated defense of their strategic value. There are reasons why they have become an essential tool in the CFO's toolbox and those advantages should be brought to light.

Subscription facilities can be used as a balance sheet builder allowing fund sponsors to establish a necessary track record of investment providing prospective investors with a clearer picture of what the investment portfolio will actually look like. Early stage fundraising can prove to be challenging for funds of all types. Borrowing against the uncalled capital of an initial investor or two can allow the fund to purchase foundational assets and give fence-sitting investors the comfort needed to subscribe, thus permitting the fund to reach its optimal size. Quite simply, subscription facilities demonstrate a fund sponsor's ability to deploy capital where they otherwise wouldn't be able to do so.

This portfolio ramp-up ability has other important benefits. The additional assets can help the fund build the portfolio making it more attractive to permanent fund / asset level lenders as well as allowing the fund to receive better terms and pricing thus maximizing returns for its investors.

Further, subscription facilities can provide access to letters of credit as well as alternative currencies at a very low cost. They facilitate the true-up of capital when new investors are admitted to the fund. The inclusion of hedging and swap collateralization mechanics into Subscription Facilities offers a means for Funds to secure "foreign exchange forwards" and "foreign exchange swaps" under the facility, rather than posting cash or other collateral with hedge and swap counterparties.

Subscription Facilities may enhance the ability of Funds to pay distributions to investors and honor redemptions on behalf of Investors. The liquidity provided by Subscription Facilities allows Funds to make distribution payments to investors prior to the liquidation of such Funds' investments. This function can smooth distributions for investors and prove particularly valuable in a scenario where a fund owns appreciating assets that do not generate large cash flows.

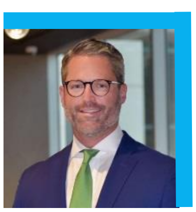
Finally, the more well-known advantages of these facilities should not be swept under the table. Subscription facilities offer funds fast access to capital, allowing them to move quickly with respect to time-sensitive investments. In standard fund governing documents, investors must be given at least 10-15 business days' notice prior to funding a capital call. In contrast, the terms of most subscription facilities permit funds to receive borrowings with as little as one business day notice, avoiding the long lead time required for calling capital from investors. The faster access to capital afforded provides Funds a competitive advantage over rivals, especially with respect to quickly developing opportunities. Additionally, by having a Subscription Facility available, Funds may be able to avoid making anticipatory capital calls for investments that are ultimately not consummated resulting in an administrative burden of returning the capital to the investors.

For these and many other reasons, fund sponsors should be clear, subscription facilities are economically advantageous and absolutely necessary to executing in today's ever-evolving private equity environment.

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.