Driving Efficiency in Fund Finance: The Future is Now

The Fund Finance market has been on an incredible run. We at FFP, like many of you reading this, want to see that success continue. We believe that the only way the market can maintain its staggering growth rate is to evolve, innovate and modernize its transaction processes.

As many of you know, the core subscription facility product has exploded over the last 10-15 years thanks to the hard work of so many, particularly industry's leaders. Bankers have appropriately identified the fund sponsors' need and have expertly refined their product offering to meet those needs. The attorneys have worked long and hard at erecting sound legal structures to ensure the reliability of the unfunded capital commitments and access to them via a proper capital call. This has resulted in profitability for so many deserved market players. However, now is not the time to pat each other on the back; we must re-invest and continue to innovate or else product and market stagnation will begin its eventual creep.

Despite the introduction of many new developments in technology, legal staffing, document review and the like, many if not most of these advancements have yet to penetrate the Fund Finance space. We believe that must and will change. Here at Fund Finance Partners, we have taken steps to help drive efficiency of lender selection, negotiation and legal document review.

By way of example, we'll use the core Fund Finance product, a subscription financing, as the reference point for some of the streamlining methods we've been working on at Fund Finance Partners. Let's take a quick peek at what we call Fund Finance 2.0 and how we hope to help us get there.

COORDINATION-THE LEFT AND RIGHT HAND

We've all seen deals significantly delayed or even crater due to improper coordination and planning on behalf of the fund sponsor. The attorneys and business folks forming the fund (right hand) don't always keep the finance counsel and universe of lenders (left hand) appraised of various fund structure, Side Letter and LPA provision changes. We've seen the irreparable damage that can be caused by not properly identifying troublesome comments from tax, ERISA counsel, investor counsel, etc. during the fund formation process. If not addressed, these comments can, among other things, eviscerate the fund's borrowing base or prevent access to creditworthy investor uncalled capital. The good news is that 9 times out of 10, these issues can be positively resolved with proper explanation to the party commenting. We at Fund Finance Partners have the experience to spot the potential problems and the blueprint for ensuring that the left hand is always aware of what the right hand is doing.

LEGAL DOCUMENTATION-THIS IS NOT ROCKET SCIENCE

A critical step toward achieving transaction time and cost efficiency is having the legal work accomplished at the appropriate level. Let's take the document that the investor executes establishing its commitment to the fund ("the Subscription Agreement") as an example. Traditionally, review of subscription agreements and related fund documentation would be executed by junior, mid-level or even more senior associates. This may have been appropriate 10-15 years ago when the product was less mature due to the differentiation of subscription agreement forms as well as the relative (as compared to present day) inexperience of each the lender and borrower-side counsel. There is no doubt that these documents need to be reviewed to confirm investor name, GP countersignature, LP commitment amounts, ERISA and other investor representation designations, etc. but an attorney certainly needn't review every line of these documents. That said, we do recommend a senior attorney, perhaps even a partner review the fund's form of subscription agreement to insure there is nothing out of the ordinary with respect to the proper representations / representations requested, compliance with law, etc.

COMMUNICATION-THERE IS PLENTY OF PIE

As mentioned above, a huge reason of the market's success can be traced back to industry leaders particularly on the lender-side of the aisle. The most successful market participants have worked collegially with other lenders to make sure that their fund sponsor clients (and potential clients) needs are being met; whether or not they are taking part in the transaction. However, there remain all too many instances where short-term self-preservation instincts can play a role in client service and fund sponsors suffer as result. We've all seen or heard of fund sponsor's being coerced into a product that is not right for them or left on the sidelines instead of being directed to a capital source that can fulfill its specific needs. FFP has the non-partisan platform, lender comparison checklists and product knowledge to ensure fund sponsors are connected with the proper lending source leaving them with a positive experience, increased faith in our markets and a willingness to enter into more fund finance transactions, thus growing the pie.

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.