



fund  
finance  
partners



In the News

October 4, 2019

## Fund Finance Friday From Cadwalader

*FFF* this week got hold of Zac Barnett and Richard Wheelahan, who last week announced the founding of Fund Finance Partners. Here is our conversation.

**FFF: Congrats on launching Fund Finance Partners! Tell us about the business and the services it will be providing.**

Zac Barnett: Thanks for reaching out and great to speak with you. As far as we know, Fund Finance Partners (FFP) is the first debt advisor here in the U.S. that is dedicated to optimizing fund sponsors' fund and management company-level debt arrangements. We intend to focus on the placement of subscription-backed, hybrid, NAV, secondaries, management company and general partner financings, but we have experience with many other capital markets solutions as well.

Our model is fairly simple, but our knowledge and capability are unique. We start by guiding sponsors as they formulate the fund or company-level capital structure. We then go to market on their behalf, and obtain the best possible range of potential debt capital solutions to choose from. After a lender is chosen, we oversee the execution process. I think what sets us apart is our ability to drive the transaction from inception through closing, making sure all parties remain attentive, on time and on budget. There's not much Richard and I haven't seen, so we're certainly able to spot all of the commercial, legal and operational issues with a particular credit arrangement. We make sure our sponsor clients are aware of problematic fund and loan structures, non-starters and off-market terms.

**FFF: We saw your website, [fundfinancepartners.com](http://fundfinancepartners.com), is up and running. How far along in the start-up process are you? Are you open for business?**

Zac: We closed our first deal last week, so we are officially open. Frankly, it has taken us a little longer than we would have hoped, but developing our identity, our message and our processes (down to forms, communications and templates) was time-consuming but certainly needed to be crisp. The rollout was actually delayed due to our time and attention being focused on advising fund sponsors while executing our first two deals. Finally, we did not want to open our doors until we had the proper personnel in place to flawlessly execute these transactions. The team we've put together is a solid one,

FFP



and the “insider” perspective that Richard brings has proved invaluable, giving us the ability to immediately relate to our sponsor clients. We’ve all put in a lot of work to get here and are excited for the future.

**FFF: What type of clients are you ideally situated to assist? Is there a particular segment of the market you intend to focus on?**

Zac: I’d say we’re ideally situated to assist any fund sponsor that uses debt capital, whatsoever, in the financing of its and its funds’ business, and is committed to obtaining optimal terms and the best pricing for its investors. Much like our colleagues in the broader fund finance markets, we are sector-agnostic, having worked on hundreds of fund financings for sponsors with just about every asset strategy you can imagine. I will say that our team, particularly Richard, has a great deal of familiarity with private credit. I’ve been representing private equity real estate and buyout funds for nearly 20 years, so we’re strong there as well.

As far as size of manager, we initially thought our target market would be small to mid-size sponsors, but our first couple of engagements have come from larger firms, so I suppose time will tell. If I had to guess, the larger firms will be using us for the more esoteric transactions and market checks whereas the smaller sponsors may benefit from our relationships, market knowledge and execution capability.

**FFF: Richard, you are the General Counsel and Chief Compliance Officer of Capitala. What’s your role in FFP and how do you plan to split your time?**

Richard Wheelahan: That’s a great question. I’m as plugged-in as ever at Capitala. It’s been a remarkable 18 months, and I’m proudly working on strategic initiatives that will make the firm more responsive to our constituents’ needs than ever. One thing that Joe Alala, our founder, has always emphasized to the team is Capitala’s place in the asset management ecosystem. Capitala has always emphasized relationships over transactions. For years, I’ve white-boarded or brainstormed debt capital markets, structured finance and other credit solutions with dozens of our fund sponsor brethren, whether in their offices, at conferences or on the backs of napkins at happy hour.

When I approached Joe about FFP, he agreed that my and Zac’s expertise and dedication is needed, and he has been supportive of not just my co-founding role but also FFP’s mission. They say that if you’re doing what you love, it never feels like work. I’m certainly working harder, and more, but I’m thrilled to be able to build a new firm with Zac, my long-time friend and colleague. It is a privilege to build a culture at FFP that reminds me of some of Capitala’s best attributes: intellectual freedom, uncompromising dedication to our clients and making a positive impact on the industry as a whole, whether big or small, competitor or colleague.

**FFF: Starting your own firm must be exciting. Why do you feel the timing is right?**

Zac: My wife and I just welcomed a new baby, so why not add another challenge? In all seriousness, we’ve been discussing the idea with numerous industry leaders over the last two to three years. Witnessing the success that some of the fund finance advisory shops have had over in Europe probably pushed us a little closer. We still can’t believe we’re first to market here in the U.S. Finally, we unofficially polled over 50 sponsors, the vast majority of which were positive, noting their desire to focus on their core businesses rather than devoting valuable internal resources to the loan process.



That, more than anything, pushed us over the edge. Every other lending market of equal or greater size has utilized advisors to inject much-needed efficiency and transparency to the loan process. Fund finance should be no different. Given the immense growth that fund finance has experienced, coupled with the proliferation of products, we certainly think such a resource is overdue.

**FFF: What about FFP's process or approach might stand out to the fund sponsor that mandates you for a financing process?**

Richard: In a normal, full-scope engagement, the first thing that happens is Zac and I pore over the fund's marketing materials, governing documents and model. We then invite the sponsor's principals tasked with the financing to discuss the range of debt capital structures we would suggest. For example, we might identify nuances about the collateral or strategy that might be optimally financed with a combination of products or alternatives to what the sponsor anticipates. Next, the sponsor will review and approve the material that FFP would go to market with, on their behalf (rather than spending time and utilizing investment professionals to create these materials internally). Sponsors would then receive a matrix comparing and contrasting the financing options that we obtained for them, and after discussing, we would negotiate the chosen term sheet, either with sponsor's counsel or autonomously. Another aspect that we think sponsors will appreciate is that in addition to Zac and I knowing how to execute and how to effect optimal outcomes, we're no stranger to working with (or as) outside counsel. We are confident that sponsors will appreciate our ability to hone in on issues that would previously have gotten jammed between law firms, and resolve them directly with the lender, saving time and money. Finally, as a fund sponsor, I always appreciate working with advisors who make me look good! Sponsors will appreciate the post-closing materials and guidance we provide to make the operation of the credit facility streamlined and less burdensome.

**FFF: We are forecasting significant growth in NAV-oriented lending over the next five years. Does that play into your strategy?**

Zac: Definitely. The proliferation of the number and type of fund financing products is of great interest to our sponsor clients. Unfortunately, many of them are skeptical of a lender's ability to execute on these structures, and that's where FFP comes in. We've worked with various lender credit committees for years helping them get these products approved. As you at CWT well know, hybrid and particularly NAV transactions are the future. From our research, the market has increased by 50% year over year each of the last 3 years.

The relative inability of sponsors to find solutions to post-commitment period financing for their funds has consistently resulted in lower returns for their investors. This is changing, and we will show sponsors and lenders that these facilities can and are being executed in a manner that preserves creditworthiness for the lender while setting the record straight on the perceived (and misguided) cross-default risk to the borrower.

**FFF: Do you promise not to drive all of our lender clients crazy???**

Zac: Only those that don't take us to lunch. Look, these are our friends and folks Richard and I have worked with for a combined 35+ years. I have represented more than half of the major lenders in the space and value those relationships as much as any. We're here to grow the market and increase transaction volume. I can't tell you how many times over the years that we've seen deals die because

the sponsor's docs weren't in order, they hadn't left enough time for lender selection and document negotiation or they went too far down the road with the wrong lender. FFP solves those issues before they crater the deal. I would think that over the years Richard and I have gained the respect of those in the market through our work ethic, intellectual honesty and sense of fairness. We certainly plan on bringing those attributes to the table when working with lenders. In the end, we think lenders will see the value in negotiating with folks that have lived in the space for years and understand precisely what is market rather than someone who jumps in once or twice a year and references market terms they overheard at a cocktail party.

**FFF: Thanks for taking time out to visit with us. Best of luck on your new venture.**

Zac: We appreciate your time.

Richard: I always appreciate the effort that your team puts into *FFF*. I'm looking forward to working with you and your clients, and it's really cool to be a part of this issue of *FFF*.

<https://www.cadwalader.com/fund-finance-friday/index.php?eid=391&nid=55>



### 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.*