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Three key developments in fund finance

Fund Finance Partners looks at the current priorities of a market that has experienced rapid growth through the good times, writes Andy Thomson

The fund finance market has grown rapidly in recent years as alternative asset managers have found themselves able to access a useful source of liquidity at low cost. But how has covid-19 changed the game?

You can find all Private Debt Investor's coverage of coronavirus and its impact at here.

In a conversation with *Private Debt Investor*, Richard Wheelahan and Zachary Barnett of Chicago-based fund finance specialist, Fund Finance Partners, identified three key dynamics in the market today. They are as follows:

1. Fund sponsors are drawing down and/or extending their fund level credit lines

This would include subscription facilities, net asset value and hybrid lines of credit, as applicable. Proceeds of which are being used to either shore up portfolio investments or position for offensive capital deployment. We anticipate these requests will only increase in the coming weeks.

2. Credit fund balance sheets are being tested for the first time in a decade

Deterioration of borrower earnings leads to requests (or demands in the case of unfunded commitments) for supportive follow-on investments by the fund. At the same time, as earnings decline, valuation adjustments at the end of Q1 and Q2 will stress fund liquidity when NAV-linked covenants are breached.

3. Attention bandwidth among fund finance providers (both banks and speciality finance companies) is being stretched.

Though everyone is getting accustomed to new work routines, lenders are still plugged-in, and deals are getting done.

In a client note, FFP said it had been in discussions with several debt fund managers over the past week with a view to developing finance-based or stop-gap liquidity solutions to either temporarily or indefinitely refinance credit facilities in danger of being pulled.

Also being looked into are partial refinancings in which performing loans are left in place, securing the existing credit facility, and fallen angels being used to collateralise new, rescue or curative financing.

The note concluded that funds needed to act sooner rather than later. "Debt funds that act now, before the inevitable margin calls … will receive better terms than those that 'wait and see' or hope for a v-shaped recovery." ■