

**Sumitomo Mitsui Banking Corporation**

**SUBSCRIPTION FINANCING OVERVIEW**

*haynesboone*

## **I. SUBSCRIPTION FINANCING - GENERAL OVERVIEW**

- Structured to address interim financing needs of PE Funds
- Secured by unfunded Capital Commitments of Investors in a Fund
- Credit Availability – generally based on borrowing base of up to 90% against the unfunded Capital Commitments of “Included Investors”
- “Included Investors” are generally investment-grade institutional investors; and credit is viewed as investment grade corporate loan
- Generally structured as Senior Secured Revolving Facilities
- Market Grown in response to growth of Private Equity Real Estate

## II. SUBSCRIPTION FINANCING - ADVANTAGES

- Quick Access to Capital for Acquisitions and Other Liquidity Needs
- Bridge to other sources of Capital
- Smooth Out Capital Calls and Pay Fund Expenses
- Facilitates “True Up” of Capital
- Enhances Fund Yields
- High Level of Financial Flexibility (i.e., revolver, LC, alternative currencies, bridge finance)
- Minimum Additional Reporting

### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE

#### 1. Advances

- a. Availability based on a set percentage of unfunded commitments (depending on financial strength of Investors)
- b. Typically 90% advance rate is only provided with respect to certain investment grade “Included Investors” such as:
  - Public Pension Plans
  - Corporate Pension Plans
  - Sovereign Wealth Funds
  - University Endowments
  - Foundations
  - Insurance Companies

### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)

- c. Typical weighted-average rating of AA-. If the Investor does not have a rating – then are typically institutional investors with significant financial strength.
- d. Some facilities include “Designated Investors” at a lower percentages and subject to concentration limits.
- e. Non-Included Investors and Non-Designated Investors' Unfunded Capital Commitment - Collateral Cushion

### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)

#### 2. Diversification of Investors

- a. Provides a more diverse base supporting repayment of the credit facility than many corporate credits and is diversified by:
  - The numbers of commitments of Investors
  - Size of commitments of Investors
  - Industry sector of Investors included in the borrowing base

### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)

- b. In facilities where borrowing base credit is provided to Designated Investors such investors are generally subject to concentration requirements as to size and type of investor (rated/unrated/sovereign wealth/high net worth, etc.)
- c. More facilities are made available to Single Investor Deals, particularly for the strongest pension funds and sovereign wealth funds

### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)

#### 3. Term

- a. Typically 2-3 year facility. However, longer terms (i.e. 60 months) and shorter terms (i.e. 12 months with extension options) are also available and not uncommon. Terms of Facilities are generally structured in alignment with the terms of the Borrowers' investment periods as well as consideration on the tenure of the Borrowers
- b. More limited “After Care” facilities may be provided for purposes under the LPA as well



### III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)

4. **Fund and Investor Documentation** – Limited Partnership Agreement Provisions (and Investor Letters, as necessary) typically provide, among other things:
  - a. Fund’s authority to incur debt and make capital calls to repay such debt
  - b. Investors’ funding obligation to repay debt is absolute and unconditional, without defense, counterclaim and offsets of any kind or nature
  - c. Lenders can enforce capital commitment collateral rights against the Investors

### **III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)**

#### **5. Control Over and Direct Access to the Collateral**

- a. Simultaneous Capital Call Notices given to Administrative Agent.
- b. Administrative Agent directs issuance of Capital Call Notices upon facility default.
- c. Administrative Agent controls Collateral Account

### **III. KEY FACILITY STRUCTURAL COMPONENTS - CONSERVATIVE STRUCTURE (continued)**

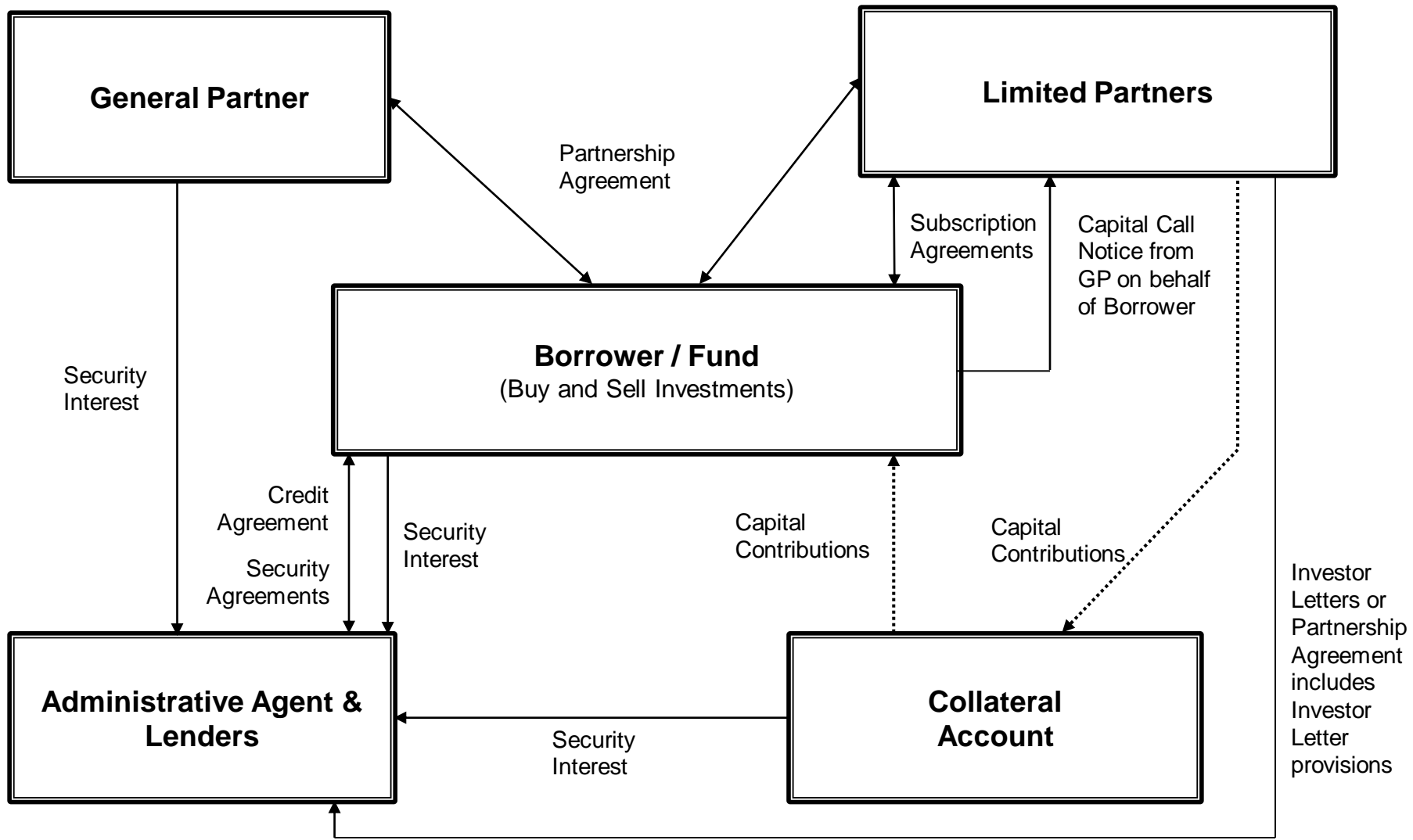
#### **6. Credit Facility Obligation and Collateral**

- Full Recourse Obligation of Borrower/Fund
- Collateral – Unfunded Capital Commitments, right to make and enforce Capital Calls and to receive Capital Contributions, and offset against Collateral Account

#### **7. Source of Repayment**

- Principal Source – Unfunded Capital Commitments of Included Investors
- Secondary Source – Unfunded Capital Commitments of non-Included Investors, Permanent Financing, Asset Cash Flows and Asset Dispositions

## SIMPLIFIED FACILITY DIAGRAM



#### **IV. TYPICAL CREDIT FACILITY DOCUMENTATION**

- Credit Agreement
- Exhibits to the Credit Agreement
- Promissory Notes, if any
- Borrower and General Partner Security Agreement
- Borrower Collateral Account Assignment
- Borrower Authority Documents
- Borrower Legal Opinions
- Investor Letters, if necessary
- Credit Support Document, if necessary
- Investor Evidence of Authority, if necessary

## **V. SUBSCRIPTION FINANCING - CURRENT MARKET STATUS**

- No known Institutional Investor Defaults
- Strong Fund Demand on a Global Basis
- More Complex Fund Structures
- Active Arrangers and Lenders in Market
- Buy-Out, Real Estate, Infrastructure, Energy, Shipping, Mezzanine, Healthcare and other Forms of Private Equity Funds
- Competitive But Disciplined Pricing

# Sumitomo Mitsui Banking Corporation

## SUBSCRIPTION FINANCING ROUNDTABLE

July 7, 2016  
Hong Kong

*haynesboone*

## **AGENDA**

4:30 p.m. – 4:35 p.m.      Opening Address:

Keith Connolly  
Managing Director - Group Manager  
Real Estate Finance  
Sumitomo Mitsui Banking Corporation

4:35 p.m. – 5:30 p.m.      Subscription Financing Roundtable

- Advantages for funds
- Financing features
- “Bankable provisions” for fund documents
- Asia and global market trends

5:30 p.m. – 6:30 p.m.      Cocktail Reception



## **SUBSCRIPTION FINANCING ROUNDTABLE**

Moderator:       **Albert Tan**  
Partner; Co-Head of Global Subscription Financing Group  
Haynes and Boone, LLP

Panelists:       **Eugene Min**  
Chief Financial Officer  
CLSA Capital Partners

**Kenneth Chiu**  
Chief Financial Officer, Asia  
Gaw Capital Advisors Limited

**John Cahill**  
Partner; Head of Real Estate Finance  
Paul Hastings

**Dave Wasserman**  
Managing Director – Head of Global Private Equity Fund Finance  
Sumitomo Mitsui Banking Corporation

## Types of PE Fund for Each Asset Class

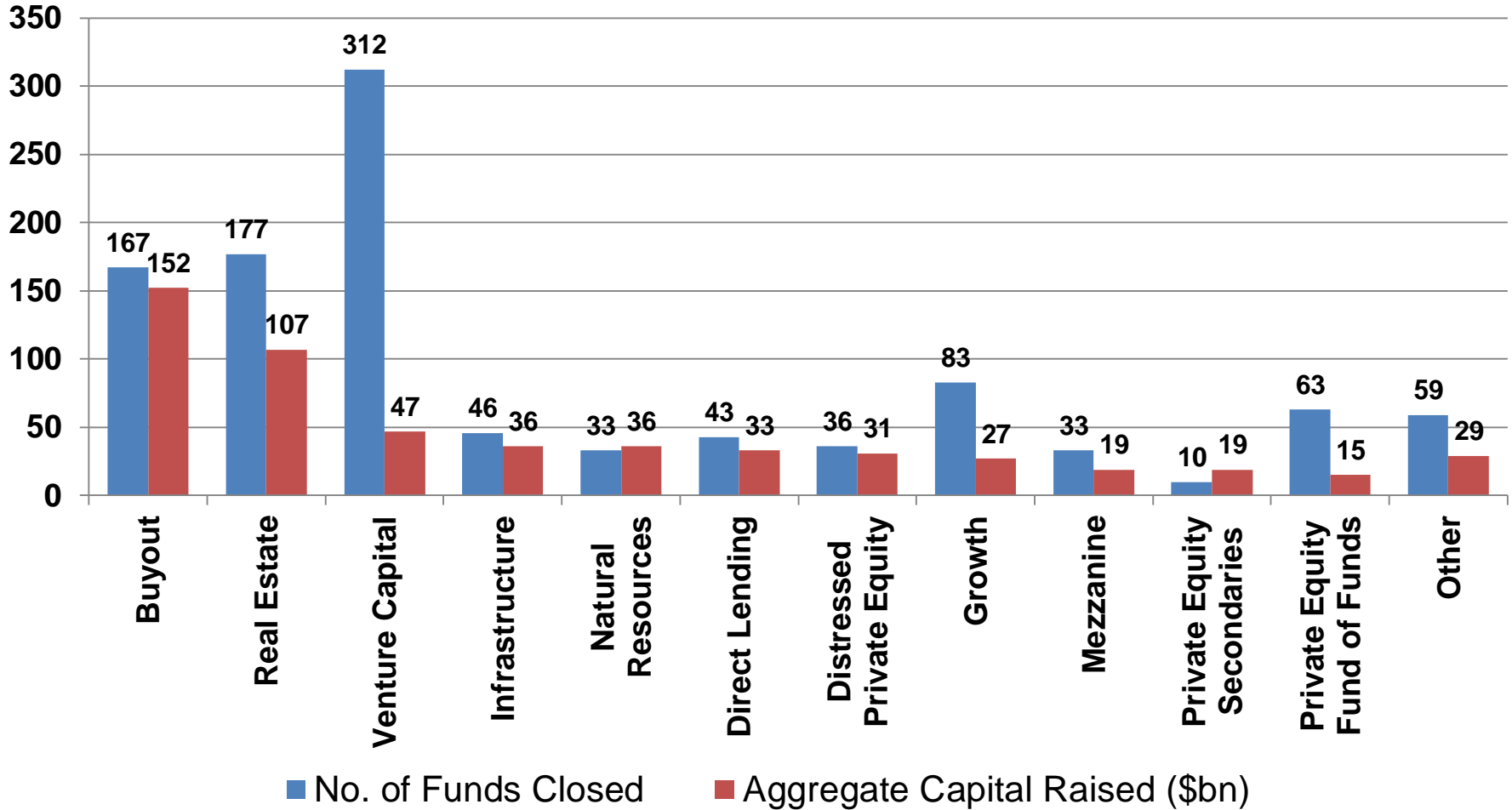
Closed-End Private Capital				
Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Energy
Venture Capital	Distressed Debt			
Growth				Agriculture/Farmland
Turnaround	Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Metals & Mining
Other Private Equity	Special Situations			Timberland
Private Equity Secondaries	Venture Debt			Water
Private Equity Fund of Funds	Private Debt Fund of Funds	Private Equity Real Estate Secondaries	Infrastructure Secondaries	Natural Resources Fund of Funds

Source: Preqin - 2016 Global PE & VC Report

# Global Private Equity Fundraising in 2015 by Primary Geographic Focus

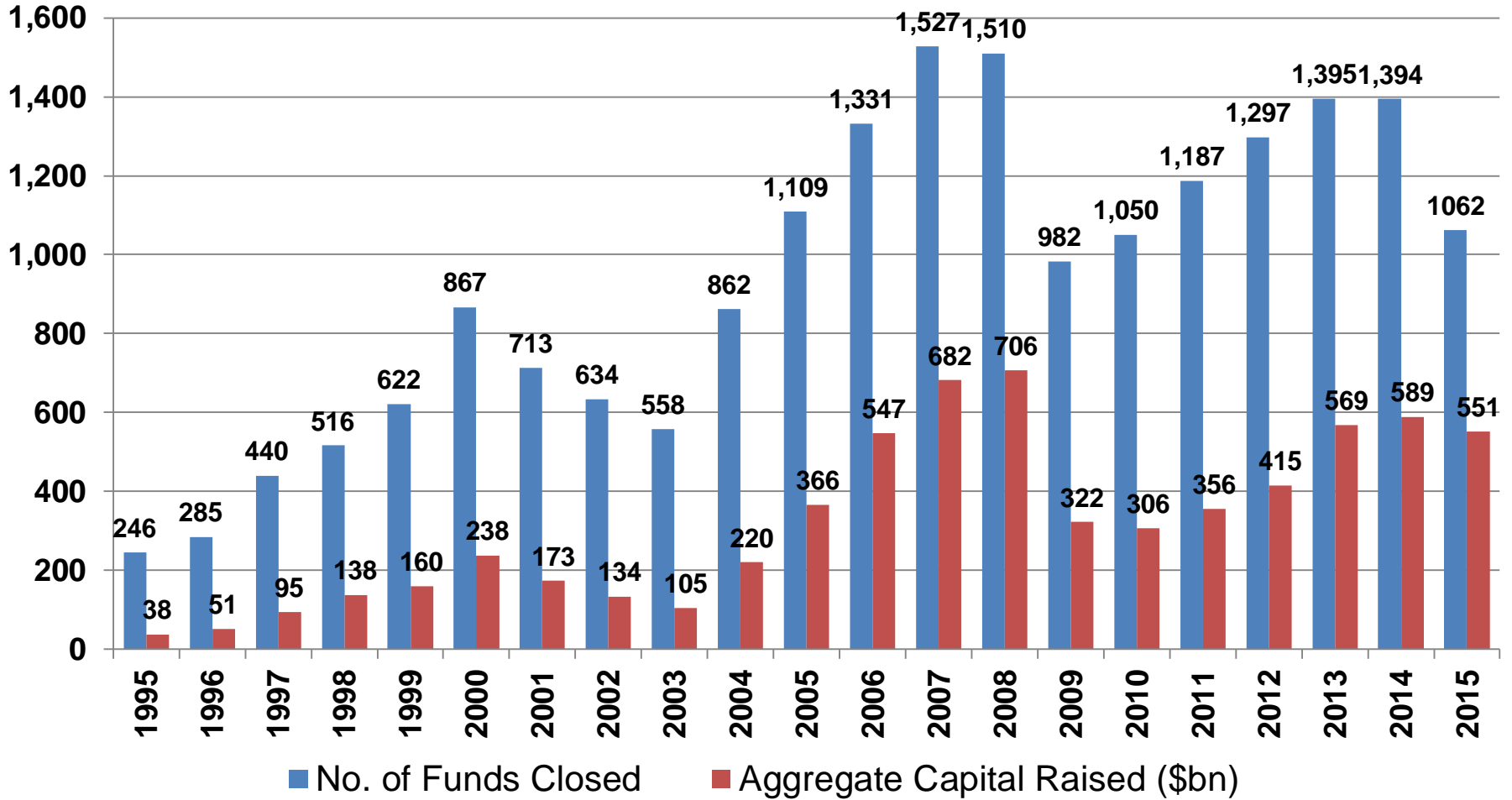


## Global PE Fundraising in 2015 (by Fund Type)



Source: Preqin - 2016 Global PE & VC Report

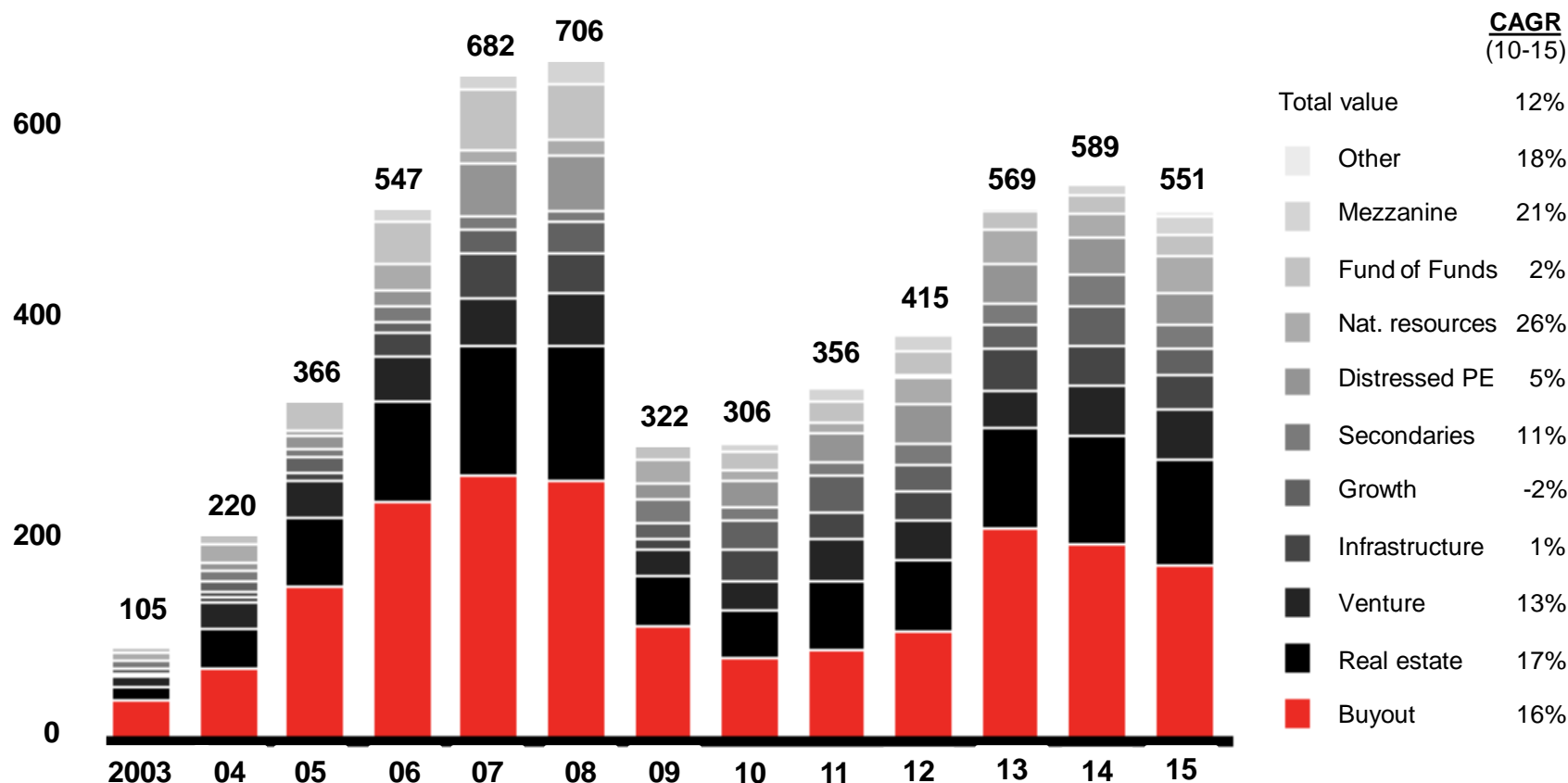
## Global PE Fundraising: 1995 - 2015



Source: Preqin - 2016 Global PE & VC Report

# Global PE Fundraising (by Fund Type): 2003 - 2015

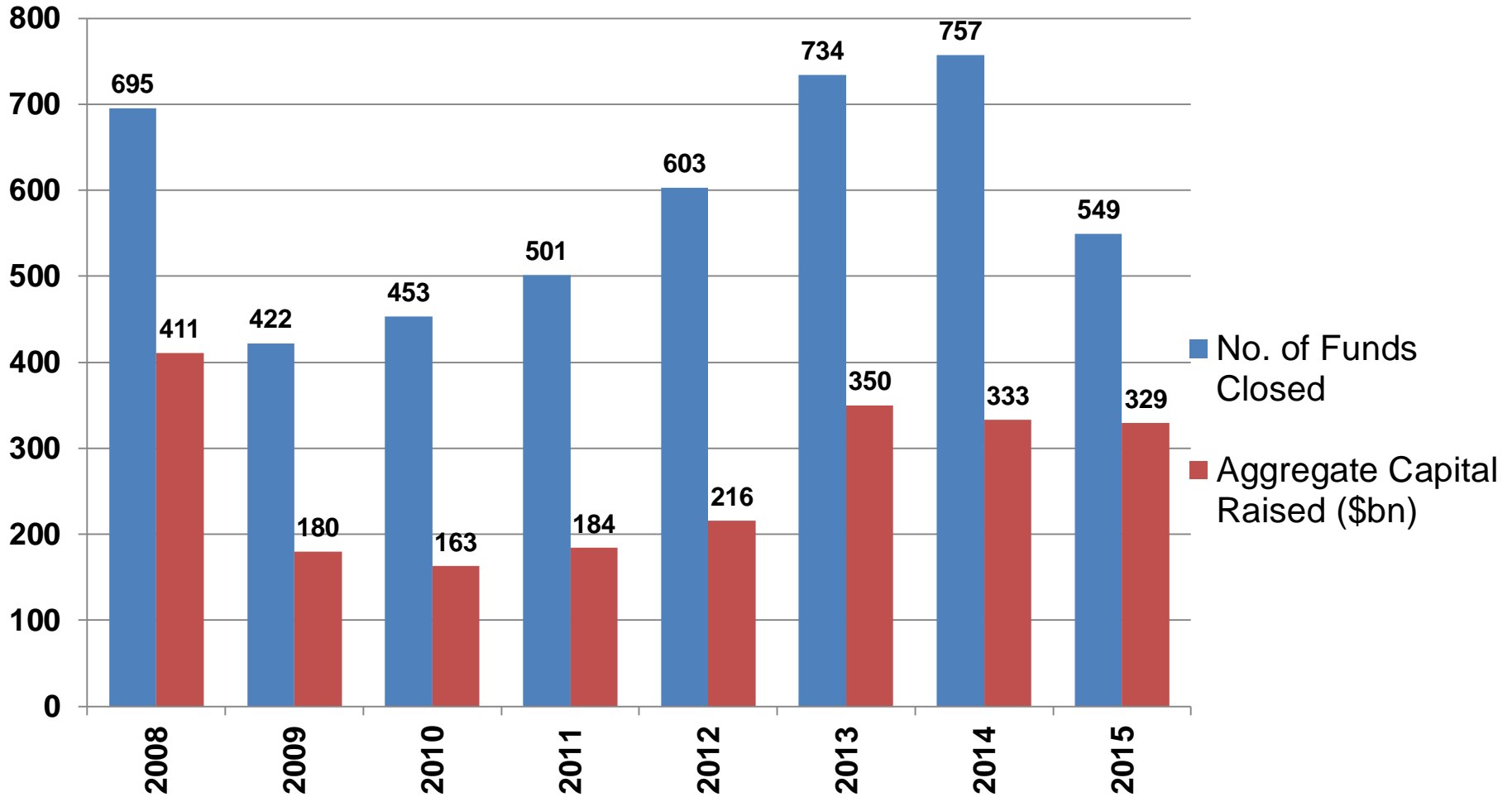
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Notes: Includes funds with final close and represents year funds held their final close; distressed PE includes distressed debt, special situation and turnaround funds; other includes PIPE and hybrid funds

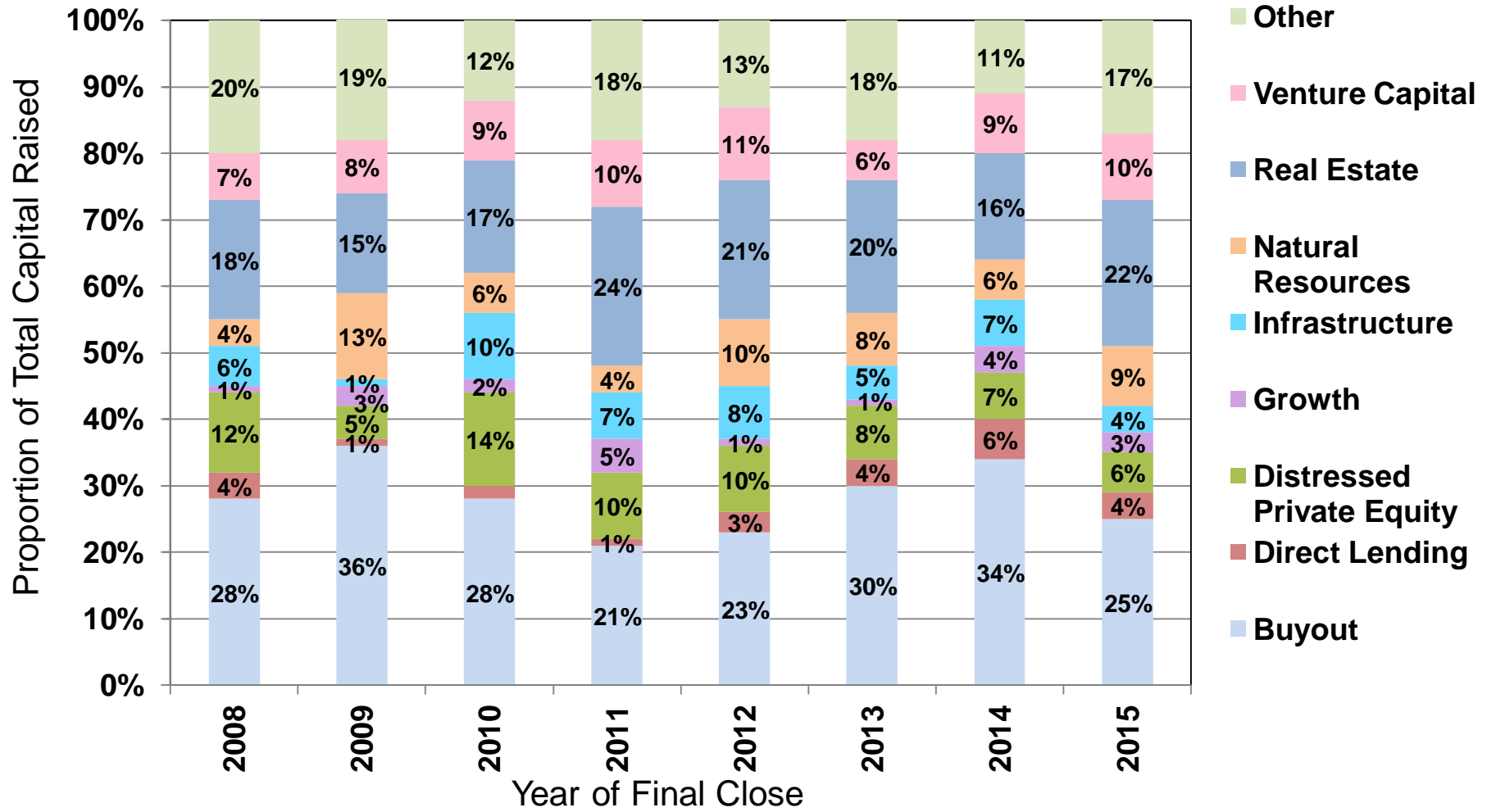
Source: Preqin - 2016 Global PE & VC Report; and Bain Company Global PE Report 2016

## North America PE Fundraising: 2008 - 2015



Source: Preqin - 2016 Global PE & VC Report

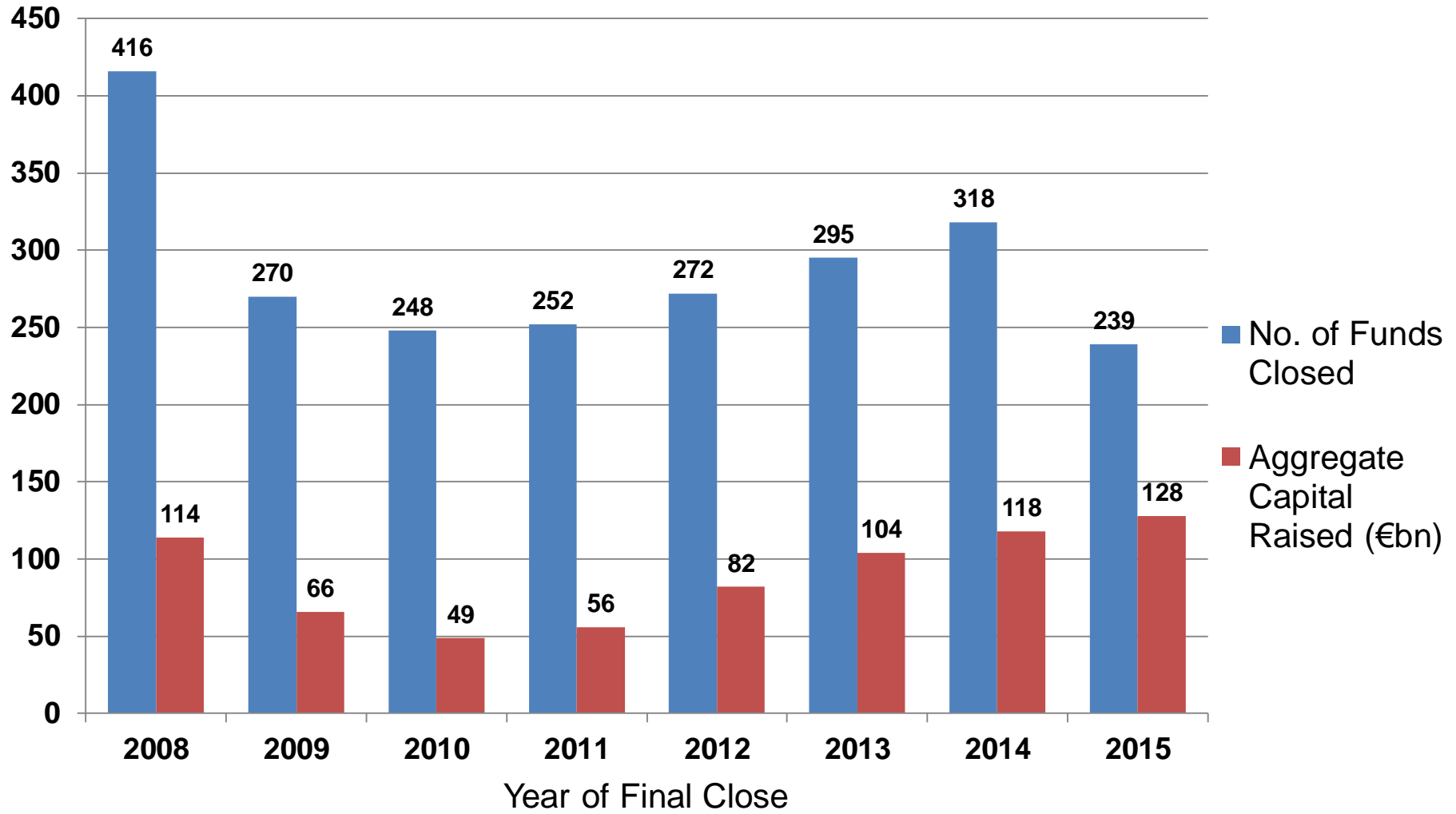
## North America PE Fundraising (by Fund Type): 2008 – 2015



Source: Preqin - 2016 Global PE & VC Report

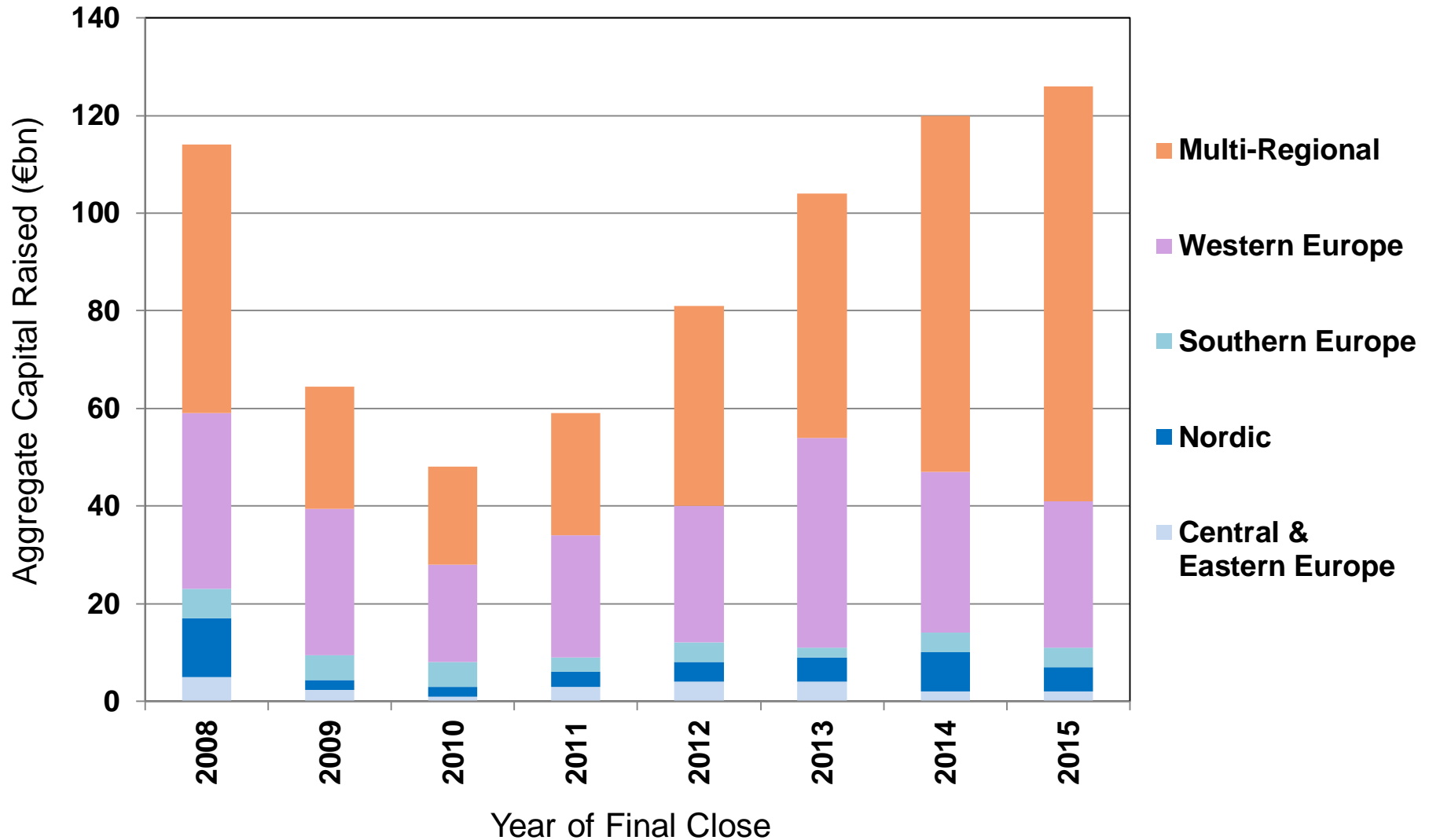


## Europe PE Fundraising: 2008 - 2015



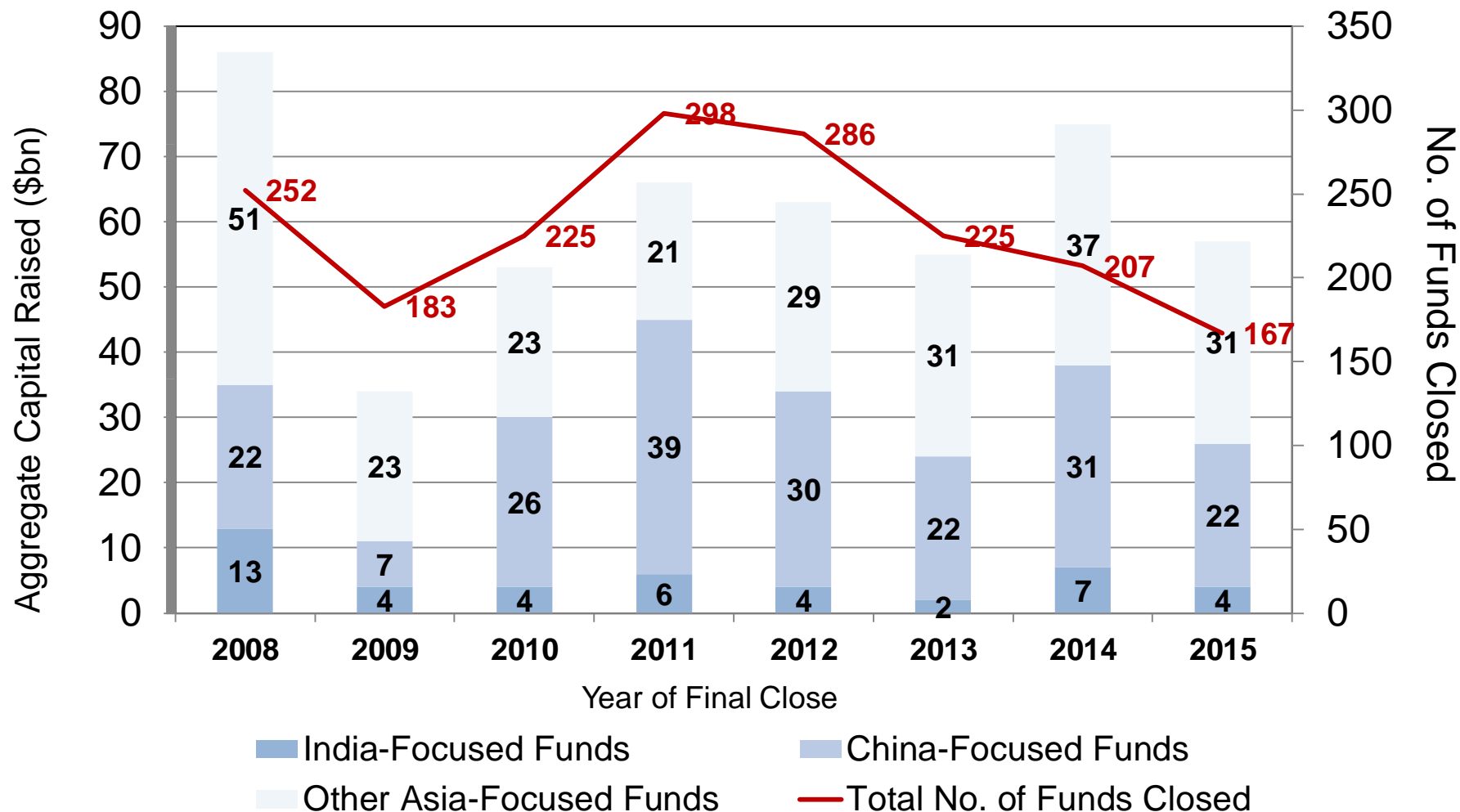
Source: Preqin Funds in Market

## Europe PE Fundraising (by Geographic Focus): 2008 – 2015



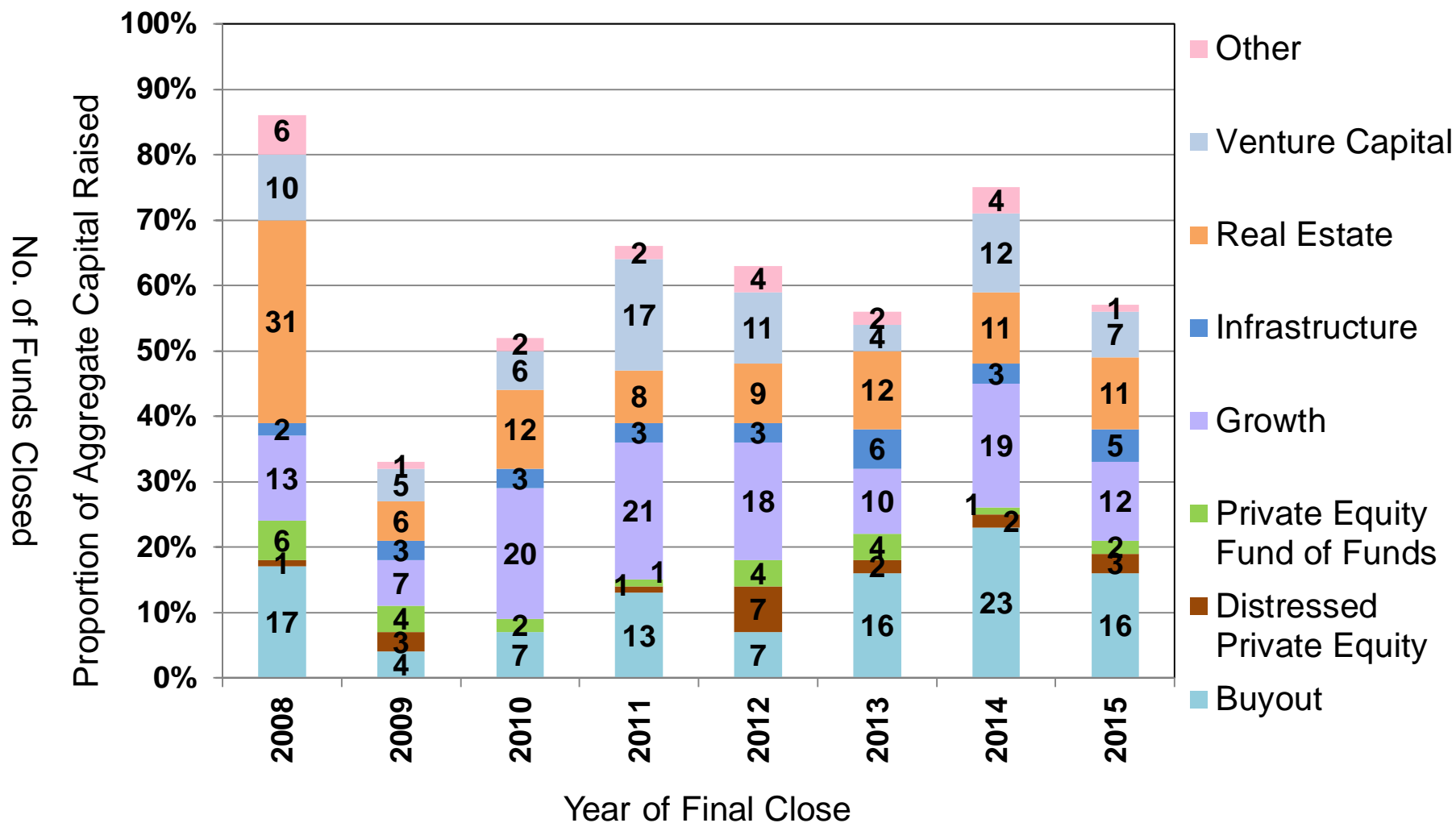
Source: Preqin Funds in Market

## Asia PE Fundraising (by Geographic Focus): 2008 – 2015



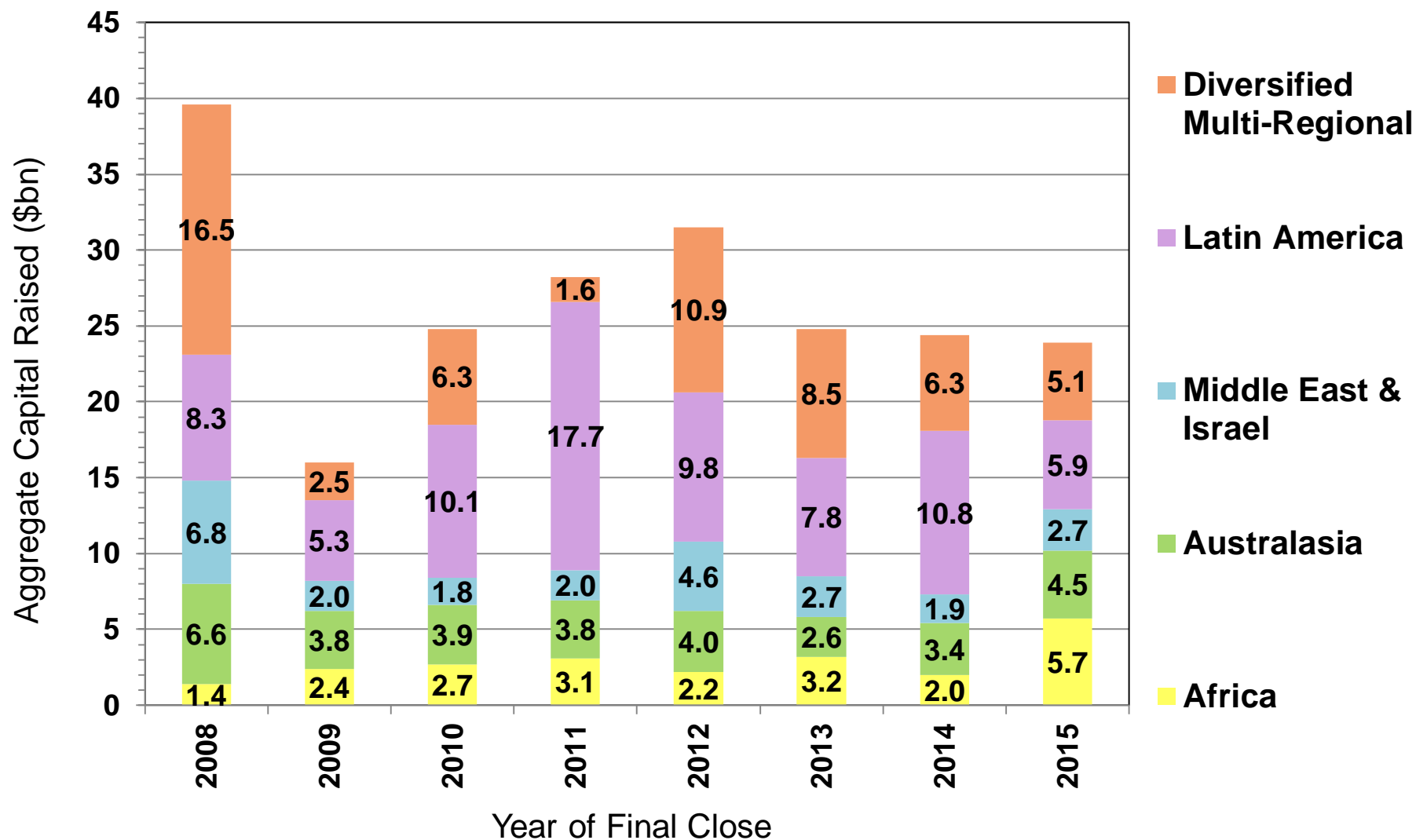
Source: Preqin - 2016 Global PE & VC Report

## Asia PE Fundraising (by Fund Type): 2008 – 2015\*



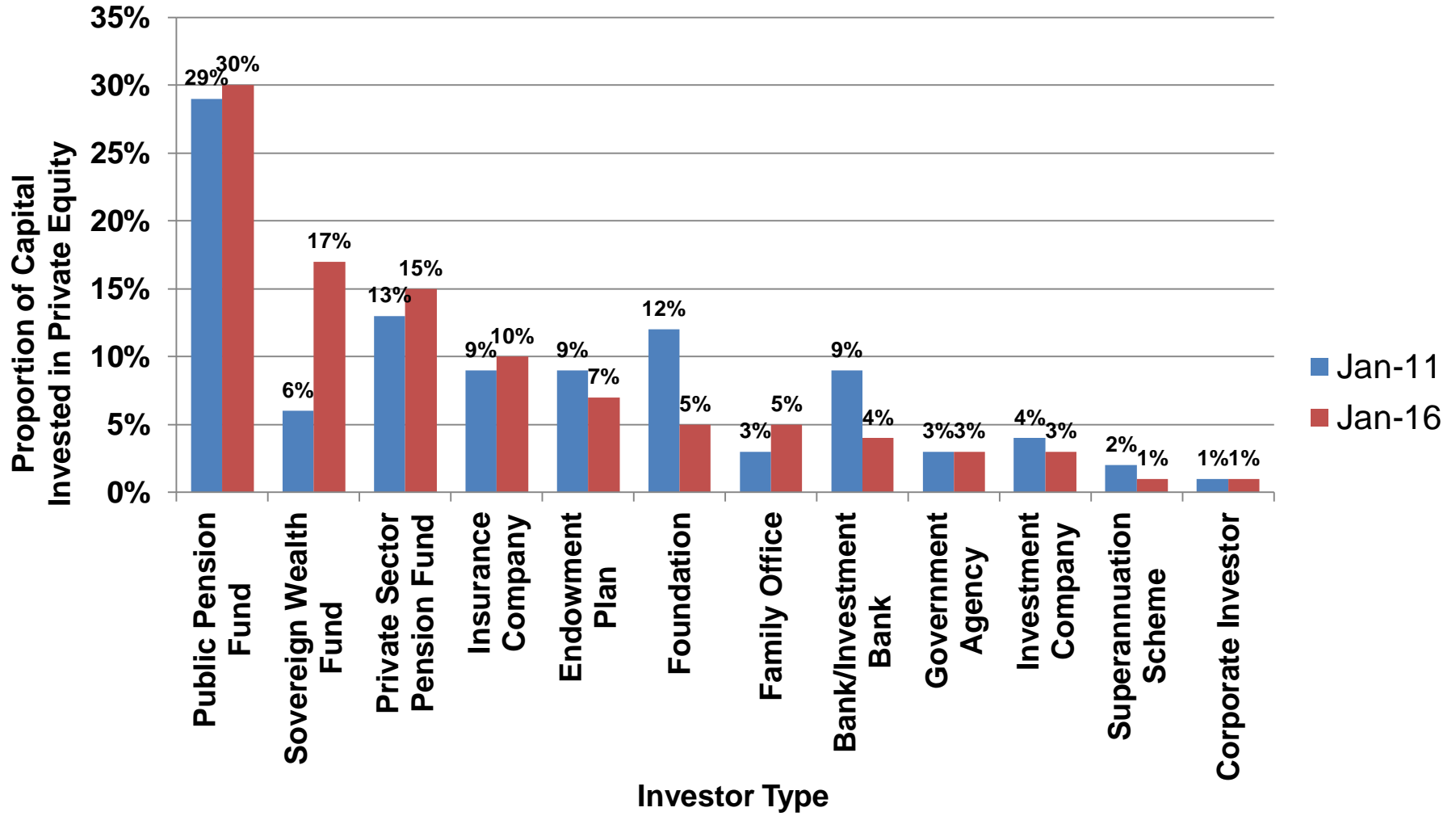
Source: Preqin - 2016 Global PE & VC Report

## Rest of World PE Fundraising: 2008 – 2015



Source: Preqin - 2016 Global PE & VC Report

## Capital Currently Invested in PE by Investor Type: 2011 vs. 2016



Source: Preqin - 2016 Global PE & VC Report

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