Market Evolution and Industry Perspectives[1]

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The primary focus of this panel was to discuss market trends in 2022 and predictions for 2023, and the key take-aways from this panel were as follows:

2022 Market Trends

1. Panelists described 2022 as a tug and pull between "*supply versus demand*" and indicated that capital constraints facing many lenders that have historically been active in the fund finance space have effectively created opportunities for new entrants on the lender side. For those lenders facing capital constraints, many focused on deepening relationships with their existing, known-quantity clients rather than chasing new GP relationships.

2. While there wasn't a noticeable decrease in the demand for subscription financings for newly-launched funds in 2022, a good amount of the financing activity in 2022 was upsizing and syndicating existing facilities. Panelists attributed this shift in activity to the fundraising slowdown. With respect to newly launched funds, GPs are seeking to lock in financing earlier than ever in the fundraising process, which has resulted in short-term bridge facilities where one lender fulfilled a fund's needs early on in a fund's lifecycle prior to effectuating a longer-term financing solution or achieving a successful syndication.

3. Interest in subscription lines from LPs was still present in 2022 notwithstanding the rising interest rate environment, with one panelist noting that some LPs will only invest in a fund if the fund will have a subscription financing in place, as such financings help LPs with timing, spacing and consistency of capital calls.

4. Transparency between borrowers and lenders as well as timing has never been more important for all parties than in 2022. With certain lenders' having reduced capabilities, GPs recognized the importance of reaching out to their existing lender relationships early on to determine which lender, if any, could work with the proposed LP roster or whether the GP needed to continue shopping.

5. In 2022, GPs relied on their flagship products for purposes of fundraising, as LPs indicated a higher comfort level with respect to such strategies and were not necessarily interested in experimentation.

[1] Panelists included Hugh Anderson, Partner at Walker; Julia Kohen, Partner at Simpson Thacher; Greg Myers, Partner at Global Infrastructure Partners; Alexa Schult, Director at First Republic Bank; Lauren Gubkin Stein, Managing Director at J.P. Morgan Private Bank; and Ryan Troiano, Executive Director, Fund Financing at MUFG Investor Services.

<u>2023 Predictions</u>

1. The increase in conference attendees from ~ 900 last year to ~1400 this year is evidence of the market growth year over year, although last year's number may be deceptively lower because some market participants chose to or were not permitted to attend last year's conference for COVID-19 considerations.

2. This year may see a rise in refinancing of existing facilities, along with a heightened focus on how to implement such transactions in an efficient and cost-effective manner.

3. 2023 could see a marked rise in demand for certain "fund finance 2.0" products. One example is that panelists reported a rise in demand for general partner financings in 2022 and indicated that they expect such demand to continue into 2023. Additionally, panelists noted that more and more GPs are looking to put NAV facilities in place for the funds they manage and thus, ensuring that such fund's governing agreements contain proper authority language with maximum flexibility. At least one panelist did note, however, that some LPs have been skeptical of changes to a governing agreement for a fund's latest vintage and that negotiating such language has, in certain instances, resulted in delayed fundraising processes. GPs have had to take extra time to educate those investors on the new language and have tasked their in-house attorneys with fielding such calls.

4. A shift toward fund-level borrowing, as opposed to portfolio company-level borrowing may occur in 2023, due to rising interest rates.