Subscription Finance Hot Topics[1]

By Todd Cubbage, Maria Parker and Mei Zhang

The Subscription Finance Hot Topics panel addressed three main topics: industry demand, bank capacity and how different fund credit profiles may affect bank capacity.

Here are some of the key takeaways from the panelists:

- Despite rising prices and current economic conditions, there continues to be a healthy demand for subscription credit facilities and the alternative fund finance products market continues to grow. Some of the panelists predicted that NAV facility growth will outpace that of subscription facilities.

- When asked whether rising interest rates has had an impact on subscription facility usage, most panelists noted that usage had not been affected and remained quite high. Some predicted that utilization will eventually be impacted but that no trends had been noted to date. It was also noted that higher interest rates could have a bigger impact on NAV facilities, given the pricing disparity between such facilities and subscription lines.

    - What could affect bank lending capacity generally? Regulatory capital considerations, market growth, individual lender industry portfolio capacity and individual sponsor limits. However, panelists noted that currently, they had not perceived any visible market-wide capacity issues.

- If there are capacity issues in the future with respect to fund finance lending (due to regulatory considerations, internal lending limits or otherwise), panelists felt confident that smaller banks, foreign banks and non-bank lenders (*e.g*., private debt funds, direct lenders and insurance companies) will continue to enter the market to satisfy demand. This has certainly been the case for NAV facilities where non-bank lenders are interested in higher yield investments. It was also noted that obtaining ratings for subscription facilities can positively impact capital treatment and help unlock additional capacity.

- In determining whether to extend existing facilities, refinance existing facilities that were previously with other lenders or enter into new facilities, banks will consider prior credit facility usage (it was noted that above 60% utilization is ideal) and the depth and scope of the relationship with the fund manager.

- The broader relationships that banks have with fund managers are currently, and will continue to be, the primary driver with respect to the decision of whether to extend credit (*i.e.*, are there multiple economic touch points and revenue streams?).

- Fund managers are trying to tap into the retail investor base as a source of capital growth. It will be interesting to see how this plays out in the next couple of years and the potential for growth.

[1] The panel consisted of Tom D'Orsi, Senior Vice President & Head of Treasury at Bain Capital, Alex Lambiotte, Global Head of Fund Finance – Solutions Engineering at Allvue Systems, Taylor Trotter, Director at Citizens Bank, Michelle Khalili Yuhas, Managing Director at PNC Capital Markets and Charles Inkeles, Head of U.S. Fund Finance at ICBC and was moderated by Peter Nealon, Executive Director at ANZ.

- In determining whether to include high net worth individuals, retail investors and fund-of-funds investors in borrowing bases, banks look for, among other things, transparency with respect to the underlying investors, investor pool characteristics (*i.e.*, the more diversification, the better), overcall ability, discretion of fund manager to take action to permit the investor to fund (*i.e.*, to sell public equity), liquidity from secondaries market and prefunding requirements. There was an expressed preference for “accredited investors” compared to “qualified purchasers”, which are regulatory designations related to certain income, net worth or licensure criteria. Such designations allow investors to access certain private market investment opportunities that are not available to many retail investors.