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Key Takeaways from the Fund Finance Association's 6th Annual Asia-Pacific Fund Finance Symposium

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Haynes Boone attendees from several of our global offices enjoyed the Fund Finance Association's 6th Annual Asia-Pacific Fund Finance Symposium, held at Marina Bay Sands in Singapore on Nov. 14, 2024. The ever-growing APAC symposium offered an opportunity for fund finance professionals from all over the globe to network in Singapore, and it was even attended by Sophia the humanoid robot, showcasing the APAC region as a market leader in technology and innovation.

1. The State of Subscription Line Financing in APAC:

- **Pricing:** Global fund sponsors are starting to question the higher pricing differential in the North America market compared to pricing in APAC. Global fund sponsors are leveraging their global fund finance market relationships and experience, which includes rethinking pricing arbitrage dynamics among the fund finance regions and requesting standardized facility terms across the North America, EMEA and APAC markets.
- **Borrowing Bases:** The move towards underwriting the uncalled commitments of high-net-worth individuals (“HNWs”) in the North America market has not yet made its way into the APAC market, but players in the APAC market expect this to become a topic in the future. APAC lenders are better placed to facilitate this if their private banking arm already has a relationship with the HNWs in question.
- **Ratings:** The regional APAC market welcomes the requirement for ratings (which is being driven by the regulatory landscape in EMEA) in fund finance transactions. Many APAC bank lenders utilize internal ratings models, but external ratings are helpful from a risk perspective and will also help with building more robust syndications and potential future securitizations. APAC lenders have received enquiries from non-banks (primarily insurance companies and private credit) to participate, and many of these lenders will require ratings.
- **Separately Managed Accounts (“SMAs”):** SMAs have been on the rise over the last 18 months in the APAC market, with banks being conscious of concentration risk (particularly to sovereigns). Institutional investors are more likely to want to continue with strategies they have a proven track record with but with more control via an SMA, rather than committing to a new strategy.
- **Hedging:** The need for hedging is client driven, with there being more need among real estate and credit funds. Private equity funds are using hedging on an ad hoc basis depending on currency, but as multi-currency subscription lines grow in popularity, some of the need for hedging falls away.

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- **Committed vs. Uncommitted:** Lenders will consider uncommitted facilities on a deal-by-deal basis. If it's unlikely that the line will be heavily utilized, then there's more likelihood that the deal will be uncommitted.
- **AI:** The view of the market is that AI can help due diligence, manage data and track trends. APAC lenders are seeing funds with a growing number of individual investors, and AI could be utilized to also track and manage exposure.
- **Due Diligence:** The APAC market has seen a growing demand from investors for enhanced confidentiality. Investors have raised concerns about disclosing the fund's governing agreements and investor documents, particularly side letters, and they requested limited disclosure. However, lenders generally do not accept redacted copies of the fund's governing agreement or side letters. They are, however, open to strengthening confidentiality provisions in loan documents to address investors' concerns.
- **Security Documents:** Subscription line credit facilities in the APAC market follow a standard set of security documents and protection measures. Lenders tend to take a more conservative approach to pledge structures and terms than those in North American and European markets. In recent years, however, lenders and funds have become more receptive to introducing bespoke pledge structures in security documentation, such as a cascading pledge collateral structure that is commonly accepted in North America.
- **Fund Finance Utilization:** Subscription line facilities have become more widely used in the APAC market, particularly in more challenging fundraising environments, by offering immediate bridging liquidity for investments and supporting enhanced returns.

2. The Fund Formation Market in APAC:

- **Fundraising:** There was a slowdown in fundraising in 2024, but the market perception is that this is picking up.
- **Geographical Investment:** Funds are being raised which are more country specific in terms of their investment mandate. Investment allocation is driven by the particular country's economy and regulatory landscape. Japan is now overtaking China as the leading destination in APAC for private equity investment (in terms of both deal volume and dollars raised).
- **China vs. India:** China continues to face challenges due to geopolitical tensions and investment restrictions, though promising companies continue to emerge, particularly in AI and other technology sectors. Additionally, the onshore RMB fundraising market in China remains strong. Meanwhile, India has become an attractive destination for capital due to stable governance, investor confidence, growth in financial services and digital infrastructure, and a more developed IPO market, which provides efficient exit options.
- **Domicile:** APAC is attracting more home-grown managers, and there is a variety of fund vehicles available to them. Japanese domestic fund structures were constructed by the Japanese government, and there are some restrictions in terms of fund finance. Variable capital companies ("VCCs") are

increasing in popularity in both Singapore and GIFT City¹, with the VCC structure allowing managers to set up umbrella funds with individual ringfenced sub-funds. To date, GIFT City VCCs have attracted mainly domestic Indian managers, whereas Singapore's VCCs are utilized by international managers. There is often a political consideration for choosing a fund jurisdiction, and the court process and enforcement in Singapore are more familiar to most managers than India. The Cayman Islands remain a popular domicile for both Asian-based managers and investors and are seen as politically neutral.

- **Poll Responses:** When asked whether they think the current trend towards more country-specific jurisdictional choices (and away from a single-fund domicile with a Pan-Asian focus) will continue, 70 percent of the audience responded "Yes" and 30 percent responded "No." When asked which jurisdiction the audience thought would be the long-term "winner" for PE domicile in Asia, 49 percent thought the Cayman Islands, 22 percent Singapore, 12 percent Japan, 10 percent India, 2 percent Australia and the remaining 5 percent opted for "other" (e.g., BVI and Luxembourg).

3. Non-Subscription Line Fund Finance Products:

- **GP Financing:** The slowdown in fundraising has led to a rise in the need for GP financing as managers search for liquidity to commit to new funds before being able to exit vintage funds. In general, product innovation is being driven by an unfavorable exit environment, illiquidity and uncertain valuations.
- **Hybrids:** Due to the current exit environment, bank lenders have also seen an increased interest in being able to structure a "hybrid" facility, with collateral and borrowing base components from both a subscription line and a NAV line.
- **NAV:** There is a greater interest in NAV lines as the investment market improves, but APAC lenders tend to favor more conservative structures and would require fully secured lines (as opposed to the "security light" or unsecured deals that are more prevalent in the EMEA market). ILPA's guidance on transparency for NAV deals was welcomed in the APAC market.

4. The Future of Fund Finance in APAC:

- **Fund Finance Options:** When asked to vote in a poll about attendees' outlook for the year ahead, 90 percent said it's time to explore alternative fund financing options in addition to the traditional subscription financing.
- **Preqin Data:** Preqin predicted that APAC AUM will pick up as fundraising recovers, with a predicted compound annual growth rate of 9.5 percent from 2023 to 2029 (with the dominant asset classes being private equity and venture capital).
- **Securitizations:** APAC lenders are keenly watching the progress of securitizations in the North America and EMEA markets and recognize the benefits they bring of freeing up balance sheets. However, there

¹ "Gujarat International Finance Tec-City" (aka GIFT City) is a business district in the Ahmedabad Metropolitan Region in Gujarat, India. It has been established to specifically attract international investment with its own beneficial tax regime. As it sits outside of the Indian exchange control restrictions, domestic investors are also able to open foreign currency accounts in GIFT City. The project is part of the "Manage in India" campaign, and so far, it has proved popular with domestic Indian fund managers.

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are characteristics of APAC deals (e.g., multi-currency facilities and concentrated investor pools) that could make securitizations more difficult. As the youngest of the mature fund finance markets, the depth of the APAC market could also be an issue for securitizations.

For more information on fund finance market trends in APAC, please reach out to any of the authors or any member of the Haynes Boone [Fund Finance Practice Group](#).