

Deal Catalyst Fund Finance West: Six Key Trends Shaping the Market

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A contingent of Haynes Boone fund finance partners attended Deal Catalyst's Fund Finance West conference in Las Vegas on Oct. 15-16. As an original market participant, the recent pace of change and evolution of the market continues to stand out to our team, particularly in the breadth of lender types, the collateral being financed, the sources of capital and the innovative structures being employed. Below are some key takeaways from the conference.

1. Timeline of Fund Finance

During the "Back to the Future: Fund Finance 3.0 and the Institutionalization of Leverage" panel, Haynes Boone Global Head of Fund Finance Albert Tan set the stage with a brief history of the fund finance industry, dating back to the first subscription line (subline), which was documented by Haynes Boone nearly 40 years ago. His slides on the "Evolution of Fund Finance – Timeline" and "Historical Data on Fundraising and Borrowing Costs" are available [here](#).

2. Banks and Non-Banks: More Partners Than Rivals

Non-bank lenders, such as private credit funds and insurance companies, are increasing their presence in a market that was once almost entirely bank-driven. Banks still dominate sublines secured by investors' unfunded capital commitments to a fund, while non-banks are highly competitive in NAV lending secured by the value of a fund's investment portfolio. Increasingly, banks and non-banks are working together in tranching structures, with each lender taking the portion of the deal that best fits its capital needs and risk appetite. As deal sizes grow and sponsor demand exceeds what bilateral or bank-only syndicated facilities can handle, we may see more of these arrangements, but we may also see banks becoming more adaptive to fill the gaps.

3. NAV Lending Leads Growth, and Lenders Want the Whole Fund Life

NAV lending is the product most likely to lead growth in the near term. NAV facilities are evolving and becoming broader in scope, and some now support rated note and collateralized fund obligation (CFO) structures. Banks are expected to continue growing their NAV allocations over time, and insurance-backed lenders with long-term capital may have an advantage when attracting potential borrowers because short-dated bank balance sheets do not always match funds with 8 to 10-year investment horizons.

Funds are increasingly focused on financing solutions for the entire life of the fund, starting with a subline, transitioning to a hybrid facility (secured by both investor commitments and portfolio assets) and ultimately moving to a NAV financing. Some asset managers are building dedicated fund finance teams to manage this financing progression.

4. Capital Rules and Insurance Money Are Reshaping Supply

Lender finance (lending to lenders, rather than directly against underlying assets) is becoming one of banks' biggest growth areas and a growing share of bank Tier 1 capital. If the proposed changes to the Basel III bank capital framework are adopted, more favorable capital treatment could accelerate this trend.

At the same time, post-financial crisis bank regulation and strong annuity sales in a higher interest rate environment have left insurers with significant capital to invest in private credit. Regulators are also pushing for more transparency in private capital transactions, and lenders should expect that to be reflected in reporting and diligence requirements.

5. A More Multipolar Market

The U.S. is expected to remain the center of global fund finance, but regional sovereign wealth fund investors are expected to have greater influence over terms in their own markets. Foreign currency needs are not being fully met by local lending markets, and some non-U.S. borrowers appear to be looking to regional banks outside the U.S. for financing. As regional lenders adopt more of the fund finance technologies being used in more established markets, there is significant room for growth for regional players.

6. Other Topics

- **Downturn Risk:** Banks are increasingly structuring deals around the risk of mark-to-market events (where falling asset values trigger covenant or collateral consequences), although subline collateral continues to perform very well.
- **AI:** Lenders are using AI not only for efficiency, but also, in a meaningful way, to help make credit decisions. Sponsors are certainly working on ways to exploit similar possibilities in their businesses.
- **Structured Products:** CFOs and rated note feeders, which package fund interests into rated securities, are expanding into new asset classes like real estate and consumer credit, but limited rating methodologies are slowing their growth.

Looking Ahead

Overall, the lines between banks and non-banks, and between sublines, NAV facilities and the capital markets, continue to blur. Lenders that can offer financing across a fund's life and work alongside other capital providers should be well-positioned. Please reach out to any member of the [Haynes Boone Fund Finance Practice Group](#) with any questions or to discuss any of the topics covered in this alert.