

Fund Finance Insights: High-Net-Worth Investors

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PRACTICES Fund Finance

Given recent fundraising headwinds, private capital funds (“**Funds**”) have increasingly turned to a new source of capital -- high-net-worth individuals (“**HNW Investors**”) ¹. Bain & Company reported that “Blackstone sees potential to expand retail capital from \$200 billion to \$500 billion, KKR expects between 30% and 50% of new capital raised over the next few years to come from the private wealth channel, and Apollo seeks to raise \$50 billion in retail capital cumulatively from 2022 through 2026.” ² The evolution of the private wealth channel in fundraising has been mirrored by the expanding ability of subscription line lenders to include HNW Investors in facility borrowing bases provided, of course, that appropriate mitigants are incorporated.

As some industry veterans may recall, during the first few decades of subscription lending, borrowing bases generally only included the most highly rated institutional investors (often referred to as “Included Investors”). As lenders gained familiarity with the subscription line product, the standard expanded to include non-rated but otherwise financially strong “Included Investors”. The market has now further evolved such that many borrowing bases now include “Designated Investors” (*i.e.*, investors with less financial information or strength than their included counterparts) or to have flat advance rates against most of the investor pool. ³ Where HNW Investors would have been excluded based on previous market practice, there is now a place for such investors in many credit facilities.

To get a sense of the relatively recent changes in market practice, we pulled data from 50 recent facilities ranging between \$3.5 million and \$4 billion at initial closing and led by 24 different lenders. Here are some of our key findings:

- Advance rates for HNW Investors covered a wide range. In our sample, they ranged from 25-75 percent, with an average a little over 55 percent and the vast majority falling between 50-65 percent
- Where HNW Investors were included in a “tiered” borrowing base structure (*i.e.*, not a flat advance rate), they generally had tight concentration limits. Some of the most common limits were one percent per individual HNW Investor, five percent for HNW Investor aggregator vehicles and a 10 percent aggregate for the entire category.
- Well over a majority of the transactions that included HNW Investors in the borrowing base were flat advance rate facilities (*i.e.*, most investors are in the borrowing base at a single advance rate that is lower than traditional tiered borrowing bases) or coverage ratio facilities.

Investor Advance Rates

For a more detailed analysis of the treatment and considerations regarding inclusion of HNW Investors and feeder vehicles with HNW Investors in the borrowing base, see our *Bloomberg Law* article, "[Treatment of HNW Feeders in Subscription Secured Credit Facilities](#)" and a related checklist, "[Documenting Subscription Secured Credit Facilities With HNW Feeders.](#)"

HNW Investors are a target of significant interest for Funds looking to expand their sources of capital while fundraising. This aligns well with the more creative approaches that lenders are taking in the market today to make HNW Investors a less risky proposition than they appear at face value. Each of the aforementioned items limits the amount of capital provided against HNW Investors (both individually and categorically) but still offers Funds the benefit of extra borrowing base capacity. We anticipate this trend will continue as HNW Investors become more prominent pieces of Fund strategies.

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

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¹ As used herein, HNW Investors generally refers to high-net-worth individuals but in some cases also includes other non-institutional investors such as employees and family trusts.

² Bain & Company, Global Private Equity Report: [Why Private Equity Is Targeting Individual Investors](#), Feb. 27, 2023.

³ For a more detailed discussion on the state of borrowing bases in subscription line credit facilities, see our previous Fund Finance Insight [here](#).