Watch Partner Albert Tan Lead Expert Panel Discussion on Current Issues and Future Trends in Fund Finance in Asia

By Albert C. Tan | October 20, 2023

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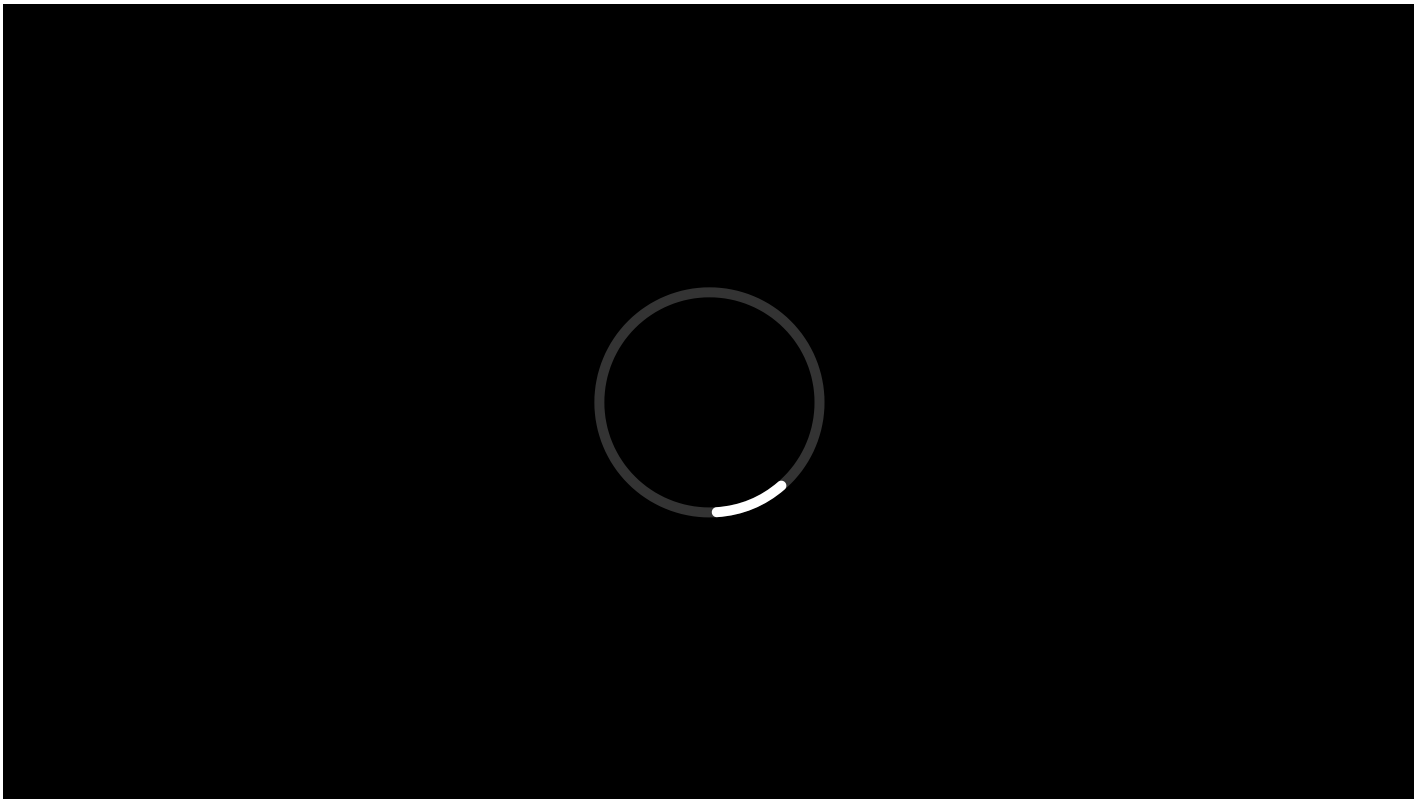

Partner Albert Tan, co-head of Haynes Boone's Fund Finance Practice, moderated a panel discussion at the 5th Annual Asia-Pacific Fund Finance Symposium in Hong Kong on Oct. 12, 2023 entitled Financial Stability: The Recent Turmoil and Lessons for APAC, which featured an esteemed group of panelists, including Tommy Constantinou, senior director and co-head of fund finance at Sumitomo Mitsui Trust Bank, Vicky Du, managing director and global head of fund finance at Standard Chartered Bank, Danny Lee, managing partner at VCA Capital Limited, Soumitro Mukerji, partner at Mayer Brown and Eric Tan, partner at Ashurst.

The backdrop for this discussion was the confluence of the macroeconomic uncertainties affecting the U.S. bank credit market in 2023, stemming from a combination of factors, such as soaring inflation, rapidly rising interest rates, heightened regulatory capital requirements, global geopolitical tensions and concerns about a potential recession. The challenges were compounded by the unexpected "March Madness," the banking turmoil sparked by the collapse of Silicon Valley Bank, Signature Bank and First Republic Bank.

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On top of the banking turmoil, global fundraising experienced a decline of 35% compared to the first half of 2022, with dealmaking and exits reaching historically low levels not seen since the Global Financial Crises. However, uncalled capital raised over the last three years remained at a steady $3.7 trillion across all asset levels in private capital, which provided fund managers with ample dry powder for deployment.

Albert led the panel discussions centered around three main themes: (i) immediate impact of banking turmoil, (ii) current status of fund finance market and (iii) outlook of balance of 2023 and 2024. Here are the key insights shared by the panelists:

Immediate Impact of Banking Turmoil

The U.S. banking turmoil in March 2023 caught the Asia market by surprise. Sponsors and private equity funds voiced serious concerns about the fund accessibility and liquidity when the crisis erupted.

The Asia market reacted differently. The regulators on the ground have diligently monitored the situation from the outset and the diversification of the funds in Asia and also the relationships with diverse banks ensured that the Asia market's exposure to the U.S. banking turmoil remained limited.

Ultimately, both in the U.S. market and Asia market, the financial systems in place largely worked. The banking crisis was contained within the few banks.

Current Status of the Fund Finance Market

The fundraising cycles now take longer and the number of new facilities for large-diversified funds has decreased. However, the terms of existing facilities have been extended and the draws on credit lines have become longer.

Lenders have become more disciplined and selective, strategically focusing on certain types of sponsors, managers, and high-quality institutional borrowers.

Despite high prices and current economic conditions, subscription-line financing remains very active. The liquidity situation has improved a lot since March of this year for two reasons: (i) A number of new entrants have entered into the U.S. market, and (ii) in Asia, more Asian banks have started providing subscription-line credit facilities.

Outlook for Balance of 2023 and looking ahead to 2024

When asked about the demand for subscription-line financing and NAV financing, most panelists predicted that subscription-line financing would be in higher demand. The utilization of continuation vehicles has increased by 10%. Additionally, more lenders have entered subscription-line financing market, adding liquidity to meet the market's demand. Some panelists also noted that for many sponsors and private equity funds in Asia market, NAV facilities were still considered as a last resort.

As for the choice between Hong Kong and Singapore as the base for Asia's fund finance market, some panelist mentioned the growing number of collaborations between banks in the two markets make deals more fluid. However, it has been observed that lenders relocated facility offices to Singapore from Hong Kong due to better returns.

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The next 12-24 months hold promise for deploying investments, and the complexity of deals will continue to evolve.

Audience polls revealed that over 85% anticipated applicable margin pricing would increase by 0-40 bps for subscription-line deals in the next six months. Additionally, 72% of the audience noted a slight increase or constant demand for subscription-line facilities over the past nine months since the banking turmoil.

The panelists' responses aligned with the poll results, underscoring the industry's dynamics and resilience in the face of challenges.

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