

## Innovation in Fund Finance 2022

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**PRACTICES** Finance, Fund Finance

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*\*Co-authored by Sarah Lobbardi, Avardi Partners and Slade Spalding, No Limit Capital*

The fund finance market has grown rapidly in recent years with more and more funds looking to generate higher returns for their investors using subscription line financing and other types of fund finance products. This, coupled with demand competing with supply, means 2022 is likely to be a year of further growth and strategic innovation.

### Market Update

In the height of the COVID-19 pandemic, some banks (temporarily) pressed pause on new transactions and instead focused on supporting existing relationships with a view to reducing balance sheet risk and addressing liquidity concerns. The capital adequacy requirements which were put in place after the 2008 great financial crisis were posing an unwanted restriction in the face of keeping otherwise viable industries afloat during unprecedented times of lockdown. On the fund side, larger fund groups indicated that they were encouraging their portfolio companies to fully draw their revolving credit lines, in anticipation of a 'liquidity gap'. Whilst the temporary suspension of bank lending subsided, the appetite for debt didn't. This appetite has been spurred on since by the investment opportunities that the pandemic created, and also by the continued steady pace of fundraising as investors didn't cease looking for returns. The last couple of years have therefore highlighted an inevitable part of the debt cycle; increased demand for debt with limited supply. In turn this has produced a very fertile opportunity for alternative lenders and service providers, as well as alternative products and innovative solutions.

With the rising demand for financing arrangements for new fund clients and the pressure on banks to fulfil existing financing obligations, the European market has seen (i) new non-European bank entrants into the market, (ii) an increase in syndicated and club deals in order to meet the large amounts of debt required, (iii) an increase in non-bank lenders (including institutional investors) participating in deals as well as direct lending, (iv) an increase in the use of innovative financings tailored to funds, and (v) new and more experienced funds employing the use of debt advisors to either make introductions or delegate the some of the administrative burden of a financing.

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