

Manente and Choe in IFLR: Investor Transfer Covenants Come to the Fore as Secondaries Increase

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Haynes Boone Partner [Kinne Manente](#) and Associate Julie Choe authored an article for *IFLR* discussing how a number of variations have emerged as lenders and sponsors increasingly focus on investor transfer provisions in subscription line credit facilities.

Read an excerpt below.

With the PE landscape continuing to evolve and investor-led secondary transactions becoming more common, fund sponsors and lenders are increasingly focused on investor transfer provisions in subscription line credit facilities. As numerous factors impact the standard applied in any given facility, several variations have emerged in the market. This article explores these variations and the underlying considerations that go into the investor transfer covenant.

Competing interests with respect to transfer restrictions

Historically, when subscription facilities advanced only against the commitments of large institutional investors, investor transfers required lender consent. Over time, however, as borrowing bases evolved to include other types of, and thus more, limited partners (investors), funds have pushed for more lenient standards. All subscription facility credit agreements should specifically address parameters for transfers, but the three impacted parties (investors, funds and lenders) have competing interests.

Investors: Investors want the greatest possible flexibility to transfer their interests in order to improve liquidity, meet regulatory needs, or manage their portfolio limits. This was particularly evident in 2024 with record setting growth in the secondary market. Fund partnership agreements generally restrict transfers without und consent, except in specific, narrowly defined instances. That said, many investors negotiate broader transfer rights in side letters.

Lenders: Lenders seek to retain as much control over the investor pool and borrowing base as possible given that the borrowing base is built on the creditworthiness of investors and the facility pricing is dependent, in many cases, on the diversity and composition of the investor pool.

Funds: Funds are caught in the crosshairs of the competing interests of investors and lenders. While the fund is largely aligned with the lender in its desire for creditworthy investors, it wants enough flexibility under its credit facility to permit transfers in order to satisfy its investors and to reduce administrative burdens. The fund's interest may diverge from its lender in favour of allowing a transfer in order to maintain or build long-term relationships with investors that could be hindered by inflexible transfer restrictions.

Each of these perspectives plays out in the und partnership agreement, side letters and the credit facility documents. Counsel must ensure that the provisions all work in tandem and understand how each document relates to, or impacts, the other.

To read the full article from *IFLR*, click [here](#).