

Fund Finance

Principles, Benefits and Trends of Subscription Lines for Borrower Funds and Lending Banks

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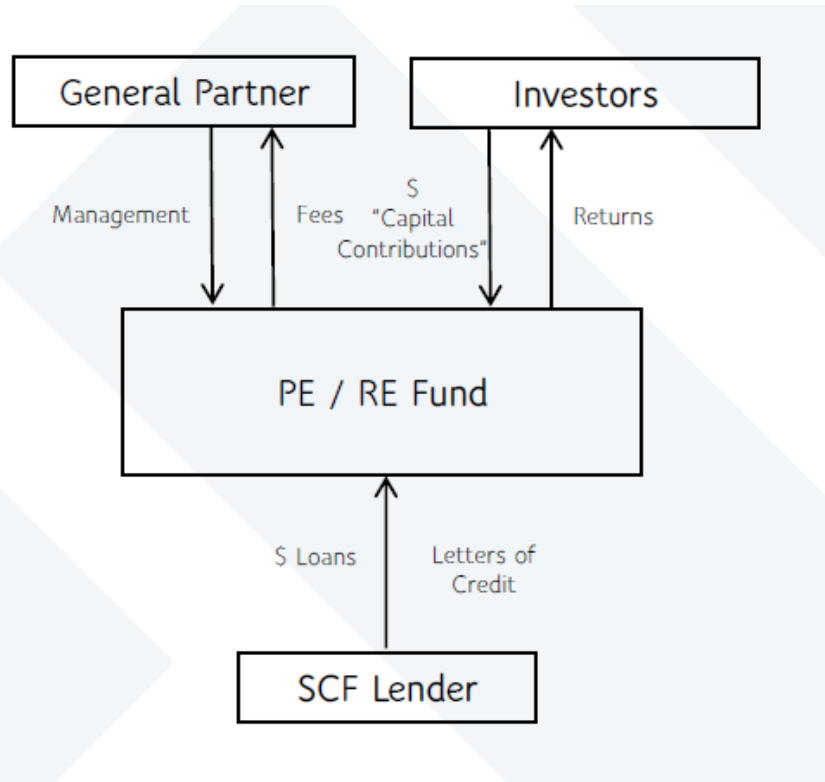
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Subscription Credit Facilities



- **What is it?:** Typically a revolving credit facility to a closed end private equity or real estate fund.
- **The defining feature is the collateral package:** The facility is secured by the capital commitments of the Investors and not by the underlying portfolio assets of the Fund.
- The facility is full recourse to the fund borrower.
- Liquidity product traditionally used by funds to bridge Investor drawdowns but evolving Fund requirements driving wider purposes.

Key Utility for Funds and Investors:

- Rapid availability of cash – certainty and speed of execution
- Avoids frequent capital calls
- Letters of Credit
- Allows timing forecasts for upcoming capital calls and greater predictability for investors
- Less expensive than many other types of liquidity
- Lessens the need for Investor “True Ups” during fundraising period
- Ease of currency exchange
- Incur Indebtedness at various structural levels (e.g., Qualified Borrower)
- Can have a positive impact on a Fund’s IRR

Benefits/Opportunities for a Lender:

- Good historical performance, including during financial crisis
- Lower risk product:
 - Diversity of repayment sources
 - Conservative covenants
 - Customarily structured as a senior secured obligation
 - Over collateralization
 - Ability to take enforcement action over security (cash sweep, step in rights)
- Relationship-building product
- Opportunities for new entrants, market growth has been substantial

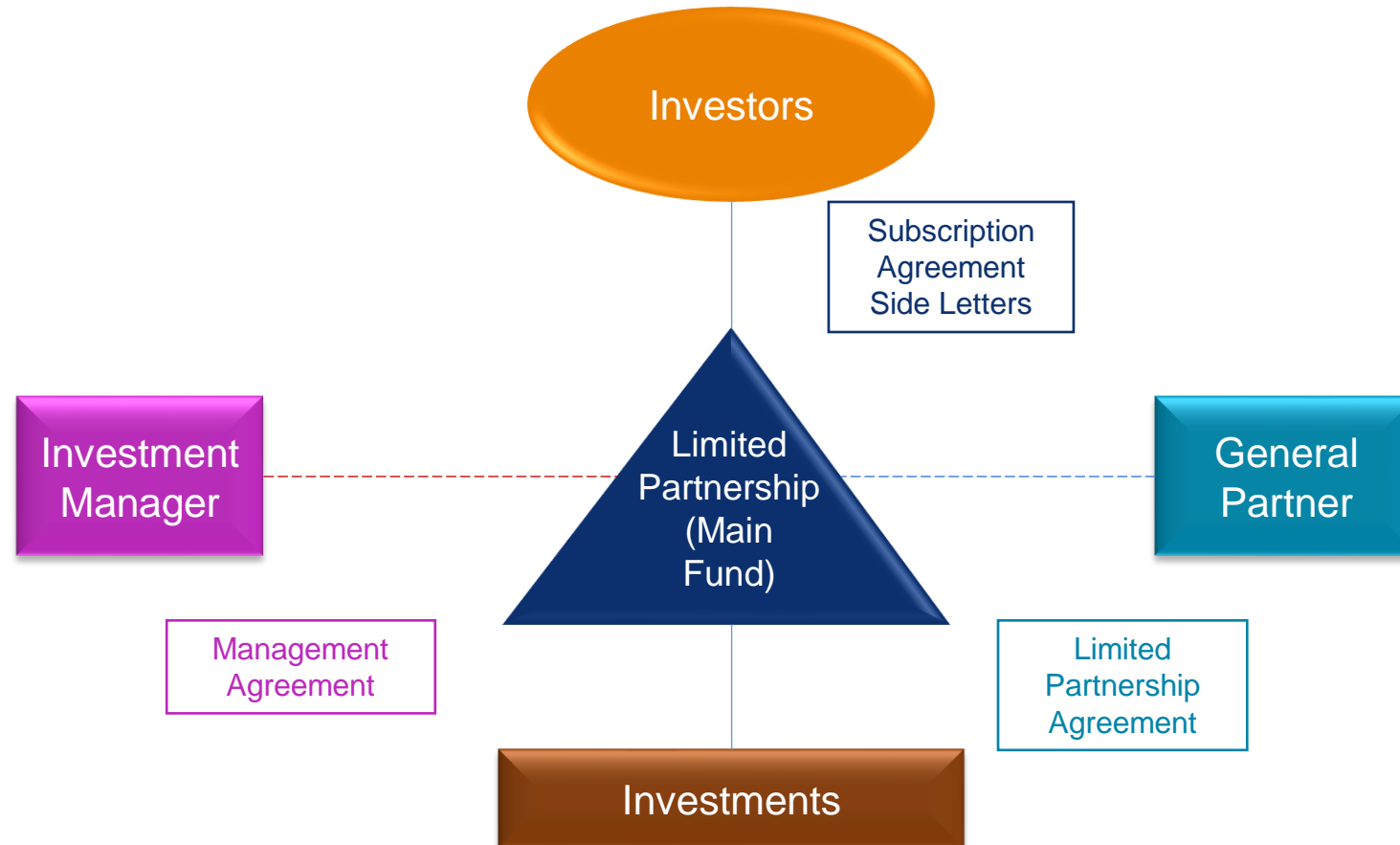


Key Underwriting Assumptions:

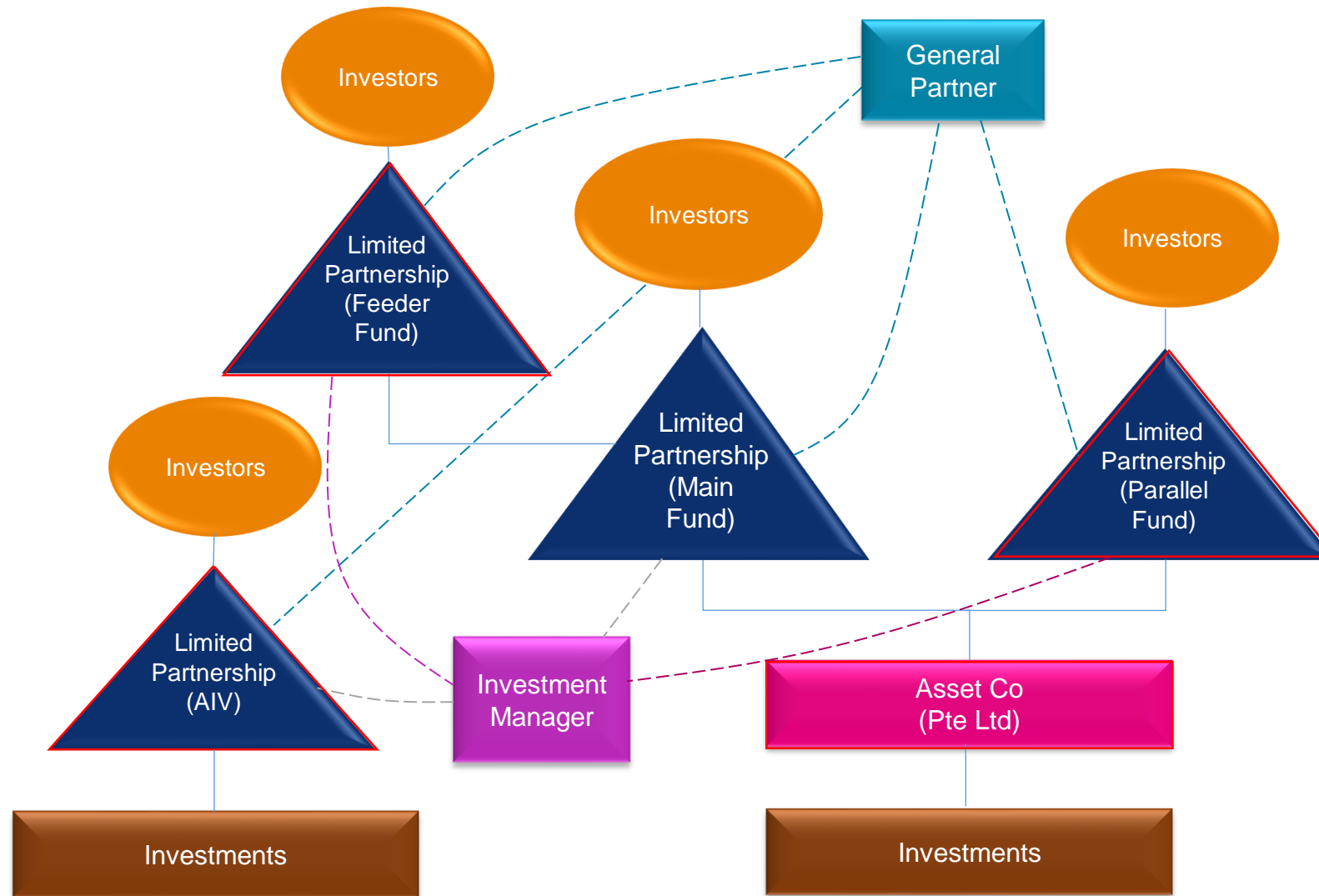
- While the Loans are full recourse to the Fund, the Lender underwrites the Investor Capital Commitments as its primary source of repayment
- Most Lenders are largely agnostic to the type of Investments
- Key emphasis on credit wherewithal of the Investor pool



Traditional Fund Structure

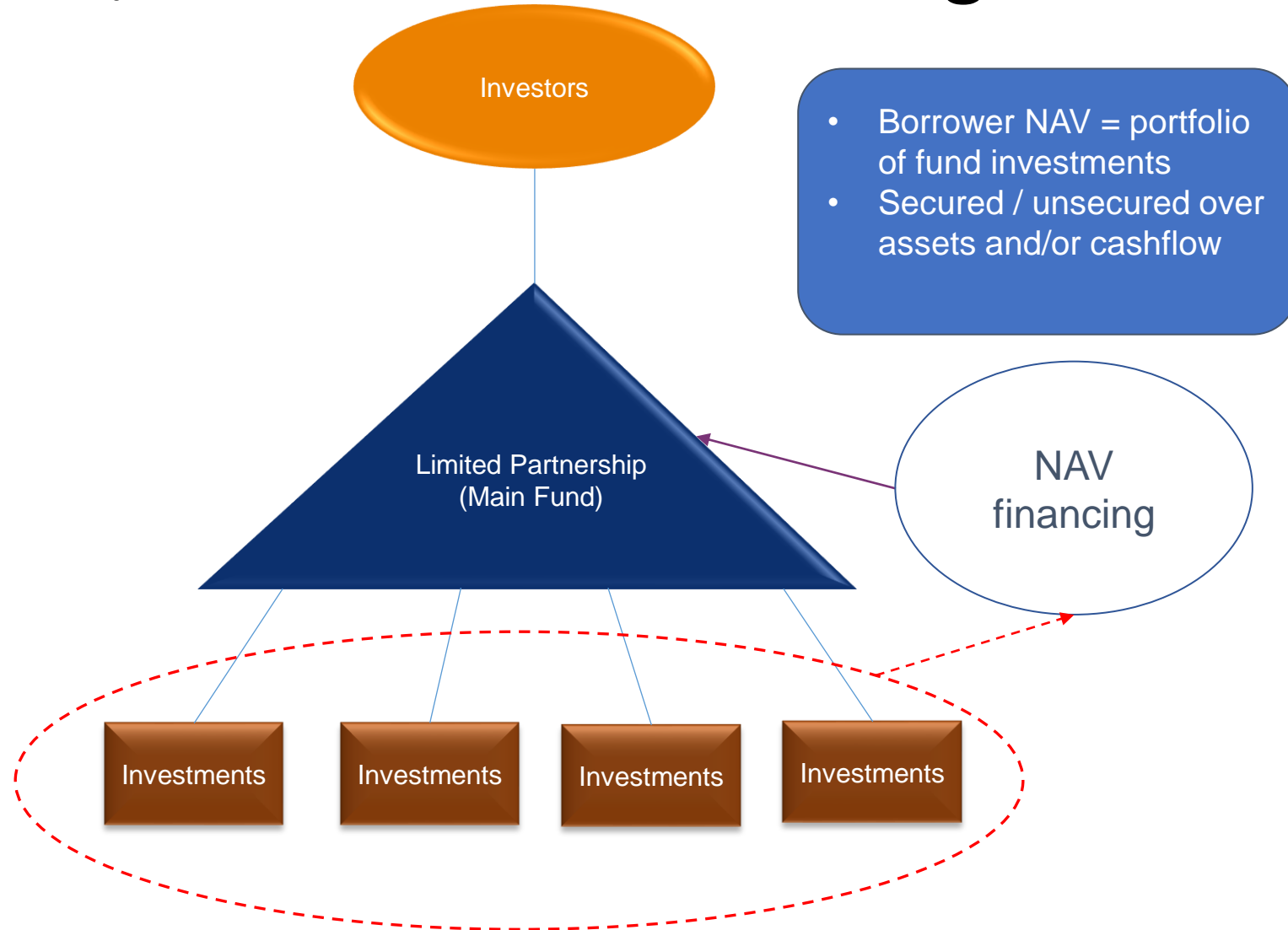


Fund Structure(Additional Vehicles)

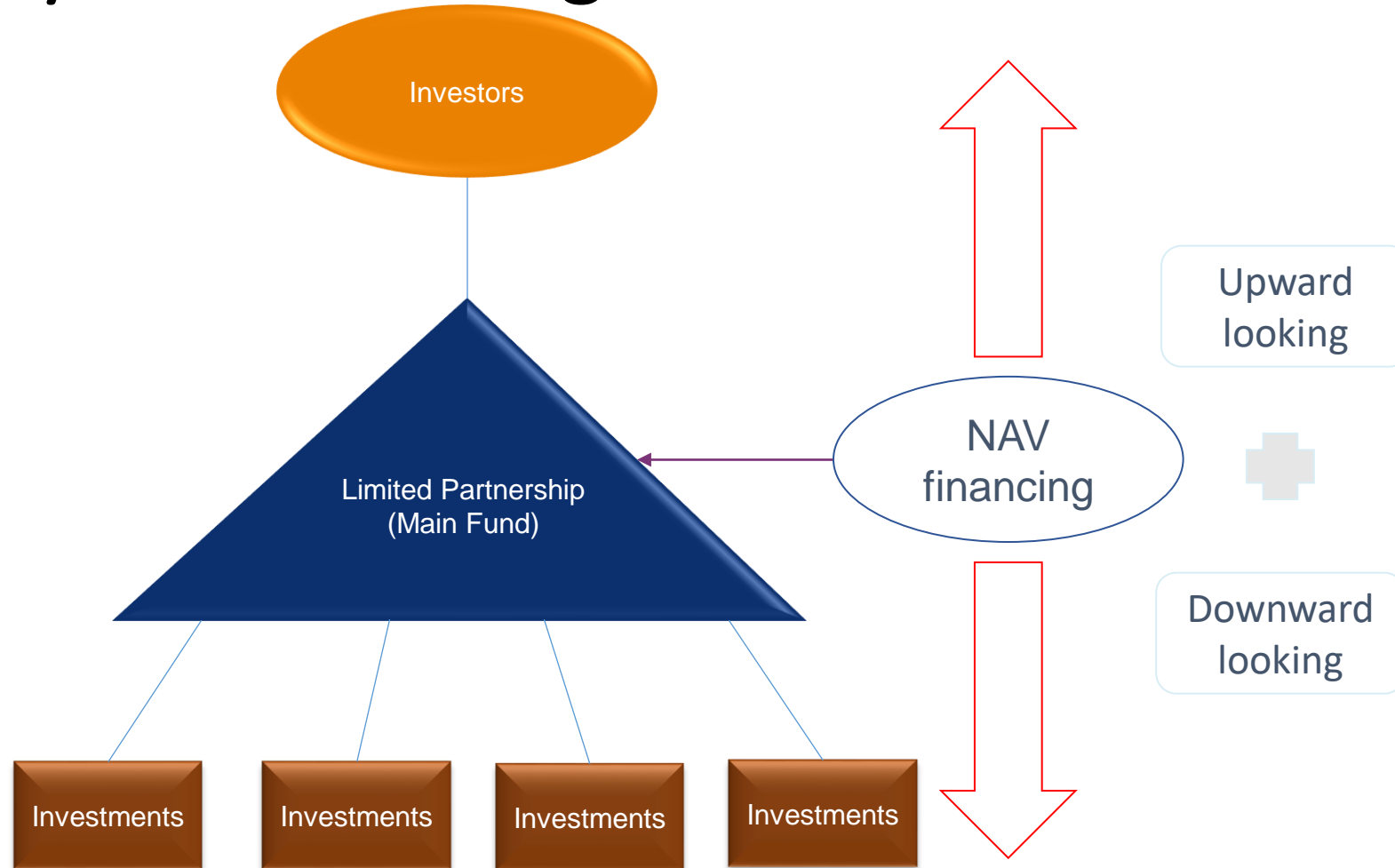


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