

FINANCE

Fund Finance Market Update

13 May 2020

This Market Update summarises what we, and our contacts, are seeing across the fund finance industry at the moment, at a time when we cannot visit each other to share our experiences and market intelligence. We hope that everyone is safe and well, and we hope that you find this Market Update helpful.

The fund finance industry is truly global. The issues and trends that we are each seeing are not isolated, but are very much a shared experience whether we are in Europe, the Americas or Asia. These issues and trends are summarised below.

Completing Deals

Social distancing initially posed some challenges for executing and closing deals. Our expertise in managing virtual closings, and remote executions (including by use of electronic signatures) helped us, and our clients, overcome those issues and allowed us to continue to complete deals.

Market Remains Active

While some deals in the pipeline have paused, the market has remained very active, both in spite of, and as a result of, the pandemic.

In particular, there is increased activity in upsizing facilities, extending terms, converting uncommitted facilities and adding new borrowers to existing facilities.

Pricing

With an increased cost of capital for many lenders, pricing on new deals is very likely to increase compared to what was achievable before the pandemic. As a result, funds are trying to lock down pricing, where they can.

Uncommitted Facilities

To date, we are not aware of any lender in Ireland refusing to fund under an uncommitted facility in light of the impact of the pandemic. We are anecdotally aware of a material adverse change provision being invoked in light of the pandemic on a US facility.

Calls

We have received an increasing number of queries from sponsors relating to both the redemption provisions applicable to their funds, and the applicable default provisions where an investor fails to fund a call. To date, we are only aware of one case in the last six weeks where an investor has not funded a call.

Waiver Requests

We have seen a marked increase in waiver requests. This has been particularly prevalent for funds invested in aviation, retail, hospitality and real estate assets. To date, lenders have largely been receptive to discussing such requests.

Defaults

We have seen only one default by a fund in the last six weeks, and it was not related to the pandemic.

Opportunities

While the pandemic has had a negative impact on many sectors, it will also give rise to new opportunities. We are aware of a number of sponsors launching or

planning new funds and/or strategies to position themselves for distressed or opportunistic deals that may arise.

Regulators

Regulators have been engaging with sponsors on matters such as liquidity management and increasingly frequent reporting with a view to helping keep those regulators informed of potential issues in the wider funds market.

Regulators have also been receptive to extending reporting deadlines and to accommodating other issues arising as a result of the disruption to businesses caused by the pandemic.

Sponsors are acutely aware of valuation-related issues that may arise, and regulators are also looking for reports on those issues. For both sponsors and lenders, monitoring valuations closely will become even more important as issues concerning loan-to-value ratios, and mandatory prepayment clauses, come into increasing focus.

We hope that you find this Market Update useful. Our industry has consistently shown, both in good times and in bad times, how adaptable it is. Its ability to find opportunities gives us cause for optimism in these uncertain times.

If you have any questions or opportunities you are considering, please feel free to reach out to us.

KEY CONTACTS



Kevin Lynch
Partner, Finance
+353 1 920 1199
kevin.lynch@arthurcox.com



Ian Dillon
Partner, Asset Management and
Investment Funds
+353 1 920 1788
ian.dillon@arthurcox.com



Kathleen Garrett
Partner, Finance
+353 1 920 1174
kathleen.garrett@arthurcox.com



Sarah Cunniff
Partner, Asset Management and
Investment Funds
+353 1 920 1171
sarah.cunniff@arthurcox.com



Siobhán McBean
Partner, Asset Management and
Investment Funds
+353 1 920 1051
siobhan.mcbean@arthurcox.com