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Mourant Ozannes - Top "Take-Aways" from the 1st Annual Asia-Pacific Fund Finance Symposium 2017

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The 1st Asia-Pacific Fund Finance Symposium was held at the Four Seasons in Hong Kong on 19 June 2017. There were over 360 registered delegates, bringing together bankers, lawyers and sponsors within the Asia-Pacific fund finance community for the first time. We are proud to have been part of the organising and contents committee for this event and wanted to share some of our top take-away points from the high quality panel discussions.

Preqin presentation – Private Capital in Asia-Pacific

- The fund size of Asia-Pacific focused private capital funds are trending to a larger fund raise, averaging around US$425 million in committed capital. With fewer funds being raised.
- Strong start in Asia-Pacific fundraising in 2017, with 95% of LPs looking to maintain or increase their PE allocation in Asia, and 86% of GPs looking to invest the same or more capital in Asia in 2017 than in 2016.

Overview of Fund Finance in Asia

- While most capital call facilities in Asia-Pacific are bilateral, the market is growing in sophistication, with a rise in syndicated and bespoke capital call facilities in the last 12-18 months.
- In choosing a lender, sponsors want competitive fees and flexibility, particularly in balancing the bank's requirement for transparency and the investor's needs for confidentiality.

Welcome to the Jungle – A Practical User's Guide to the Legal and Regulatory Issues Impacting Funds and Fund Finance in Asia-Pacific

- Most PE funds in Asia are structured through Cayman Islands exempted limited partnerships. Private equity funds in Australia tend to use unit trust structures (and for example Cayman, Delaware, Guernsey or Jersey LPs for international fund raising).
- PE funds in Asia have nowhere near the same uptake of capital call facilities as the US market.
- Limited partnership agreements (**LPAs**) are evolving in sophistication in Asia, and will usually now include the option of a capital call facility. Historic LPAs may not.
- Virtually all capital call facilities in Asia are secured and committed.
- Side letters and enforcement can often be an issue with sovereign wealth investors in the region not wanting to provide financial information or disclose their participation. It is difficult to get waivers on sovereign immunity.
- China is an interesting opportunity with its "one-belt one-road" initiative, which is likely to lead to more RMB financing.
- Funds in Asia may be measured against those in the US and European markets, and if they are not utilising capital call facilities, they are not necessarily giving themselves the best competitive edge.

- Notwithstanding good quality advice and documentation, enforcement of a debt may prove challenging in certain jurisdictions.

Hybrids, NAVs, FX Lines and Alternative Products

- In a hybrid, funding may be based on uncalled capital commitments left in the fund, plus the asset value of the fund.
- Certain types of asset classes lend themselves to hybrids, such as infrastructure and credit funds.
- These products are not regularly used in Asia, and therefore LPAs often do not expressly provide for such facilities.
- Currency fluctuation more of an issue in Asia than in the US or Europe (save for UK), as funds are raised in USD and invested in many currencies.
- Many banks in Asia do not understand these products well enough yet to be able to assess the risk. This will change as the market grows in sophistication.

Industry Panel

- Fundraising is back to pre-GFC levels, though strategies are different with a growing number of infrastructure and debt funds.
- The Asia LP profile is changing as private wealth increases.
- So far, recent press on fund financing has not impacted lending, rather it has led to discussions and interest from GPs and LPs in understanding the product.
- Looking to the future, based on recent historic performance, the panel felt the size of the aggregate total commitments of the market is likely to double over the next 5 years.

For more information visit the Fund Finance Association website: http://www.fundfinanceassociation.com/

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