

Top "Take-Aways" from the 2nd Annual Asia-Pacific Fund Finance Symposium 2018

UPDATE

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The 2nd Annual Asia-Pacific Fund Finance Symposium was held at the Four Seasons in Hong Kong on 13 June 2018. There were over 320 registered delegates, bringing together bankers, lawyers, GPs and LPs within the Asia-Pacific fund finance community. We are proud to have been part of the steering committee, contents committee and LP/GP outreach 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 Market Update

- There have been unprecedented levels of fundraising in Asia-Pacific ("APAC") over the last five years, with 2017 being a record year.
- Capital is becoming increasingly concentrated with larger fund sizes.
- There has been a rise in venture capital activity.
- Family offices and sovereign wealth funds are also increasing their participation in private equity.
- There is a record number of private capital funds focused on APAC and strong fundraising is set to continue.

Fund Finance Market in Asia-Pacific

- There has been a growth in Asia-based investors, particularly family offices (many of which are professionally managed), high-net worth individuals, sovereign wealth funds and insurance companies, which are more active and have diversified their investment portfolios.
- There are more Asia based banks offering fund financing products to local fund sponsors.
- There has been an evolution in quality limited partnership agreements (LPAs), which almost all have 'bankable provisions'.
- Transaction documents in Asia are usually English, Hong Kong, New York or Singapore law governed.
- The RMB market is a challenge for international banks, especially when trying to understand the borrowing base. Chinese banks who know the market and the reputation of LPs will be better placed to offer this product.

Legal and Regulatory

- GP facilities: non-traditional lenders are now offering private credit for GP facilities, including, for example, in the China tech sector.
- Regulatory issues: HK regulators are focusing on disclosure of leverage to investors for HK funds. The SFC has made clear that leverage is a key price of data, and HK based fund managers will need to disclose the maximum level of leverage and the calculation must be reasonable and prudent.

Fund Management Tools

- FX risk management: increasingly, there are FX facilities attaching to subscription facilities from inception in the Asia market. GPs still require flexibility to deal with FX risk separately from the subscription line (probably later on in the life of the fund). LPs do show an interest in FX facilities and other cash management tools, and there needs to be communication, education and planning between the GP and LPs.
- NAV and hybrid facilities: these are a challenge for banks as there is no standard structure and security package. As the Asia private equity market evolves, banks need to be able to offer lending solutions for the lifecycle of the fund.
- GP financing: lending by banks in Asia is largely relationship-based; there is no 'one size fits all' approach. The banks who are looking to develop relationships are offering GP facilities with a plan to support that GP as they grow and invest. This may grow in popularity in the Asia market, particularly given generational shift in GPs, and increase in fund sizes.

LP Hot Topics

- LPs are interested in the pace of deployment. Right now, there is a buoyant market for fundraising and capital deployment, funds are over-subscribed. There is a pivot in interest from investing in US and European funds to now investing in Asia funds.
- LP sensitivities:
 - While LPAs are becoming slightly standardised greater attention is being given to side letters and negotiations are extensive.
 - LPs understand how capital call facilities can be helpful, but the extreme use of leverage can affect performance and reporting. LPs may not ask for everything on the list of ILPA guidelines, but the guidelines have led to more discussions on the use of leverage and transparency on disclosure of leveraging.
- Bank perspective: Fund sizes are getting bigger, so capital call facilities are getting bigger. Coupled with this, GP commitments are getting bigger, so there has been an increased demand for GP facilities. There is more clubbing together of banks to fulfil the needs of larger funds.

Industry Panel

- When selecting lenders, funds in Asia have a relationship mind-set. Account opening can often be the determining factor on whether a fund decides to go with a particular bank.
- The industry is keen to see banks offer flexibility in their financing products to fit the fund's needs and its strategy throughout the lifecycle of the fund.
- Hedging will continue to play an important role in Asia, as funds raise in US dollars, but deploy in foreign currency for investments within the Asia-Pacific region.

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

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