

UPDATE

Top 'Take-Aways' from the Fund Finance (Virtual) Symposium

The Fund Finance Association's virtual symposium brought together bankers, lawyers, sponsors and investors in an online platform to discuss trends across European, Asian and Global markets, in an extraordinary year. Mourant was a proud Gold sponsor of the event.

We share our top take-away points from the panel discussions across the globe.

1 Environmental, Social and Governance (ESG)

- ESG is no longer something to watch for in future; it has arrived and the COVID-19 pandemic has pushed it right to the top of the agenda. ESG now forms part of the conversation between sponsors and asset allocators. Similarly, bankers must be prepared to demonstrate their ESG credentials when seeking mandates.
- Building on earlier modest achievements, there is a hope that impact investing will continue to scale and trigger a "race to the top" as more players become involved.
- Europe continues to lead the way, but expect the United States to catch up rapidly especially given the stated priorities of the new Biden administration, with Asia to follow. The European Union is developing a standardised taxonomy and it will be interesting to see if this sets the precedent for regimes in other markets.
- To date, the focus in ESG has been primarily on the "E". A key challenge will be to develop credible metrics covering all aspects of ESG, which reduce the risk of (actual or perceived) "greenwashing".
- The sentiment shift will bring new opportunities for banks as well as sponsors. For example, a nascent but growing industry has sprung up around ESG advisory services.

2 Diversity and Inclusion

- Diverse and inclusive management boards bring a higher propensity to out-perform.
- Within organisations, there is a need to focus on diversity and inclusion beyond recruiting. Organisations should be encouraged to retain and develop members of their team in order to have a clear career path within the organisation.
- Data shows that the industry is slowly becoming more diverse but that there is much work to do.

3 2020 – The year in review

- The outset of the pandemic saw an initial sharp decline in market values and activity which quickly recovered. The industry responded well to the impact, and has since been functioning (more or less) as it normally would.
- Many fund portfolios utilised much of the liquidity in their existing facilities. NAV and other fund level facilities became important, for both opportunistic and "defensive" financing.
- Pricing generally increased across all markets as lenders tightened lending criteria and focused on existing relationships.
- Despite a challenging year, global AUM continued to rise. Asia Pacific AUM surpassed Europe early this year.
- Continuing a theme from past conferences, traditional banks are being complemented by insurance funds, pension schemes, private credit and direct lending funds. 2020 has accelerated this shift.

- Panellists reported a blurring of lines between financing products, such as NAV facilities provided by non-bank lenders and preferred equity solutions, in each case offering greater flexibility to sponsors.

4 Looking ahead to 2021

- Relationships have been tested during the pandemic. Lenders who have stood by their customers have been able to build stronger relationships, and we may see even more 'relationship-based lending' going forward. Similarly, investors and managers have had more open and transparent discussions, solidifying closer relationships.
- There is likely to be continued growth from large global managers, though expect to see more diversification in the investor base with local or smaller managers, who will be more nimble and able to access many deals, across an extremely competitive market.
- If travel restrictions continue, investors and sponsors alike need to be increasingly comfortable with electronic due diligence, even if investors maintain a preference for face-to-face meetings.
- There will be a greater focus on opportunistic strategies, particularly in the real estate and distressed debt space.
- On the immediate horizon, key challenges include the ongoing COVID-19 fallout, the upcoming Brexit deadline, US-China trade relations and potential risks to fund portfolio cashflow.
- Nonetheless, there is cautious optimism that private markets generally will move into 2021 in a strong position, and this should flow on to positive results for fund financing as a product.

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