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FUND FINANCE: RECENT TRENDS AND DEVELOPMENTS

Driven by market demand and by market and regulatory developments, private equity sponsors have used diverse creative approaches to meet needs for liquidity. The authors of this article discuss the ins and outs of five such methods, from subscription lines to back-leverage loans. They conclude that, going forward, private equity will have access to plenty of debt-based resources and can look forward to a continued stream of finance innovations.

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The coronavirus wrought considerable economic damage on the global economy. However, as was the case during the 2008 recession, private equity sponsors were nimble in the face of uncertainty and impressively resilient to turbulence in the markets. Creative solutions in fund finance, which helped unlock previously overlooked sources of liquidity, were certainly a substantial factor in this favorable outcome. In particular, developments in subscription-line facilities, general partner-based products, net asset value facilities, collateralized fund obligations, and back-leverage loans illustrate the wide-ranging ways in which fund financing products have evolved not only in response to client demand, but also to market and regulatory developments.

SUBSCRIPTION LINES

In recent years, subscription lines have become an increasingly popular source of financing for investment fund sponsors. This trend has only accelerated in 2020 and 2021 as a result of the global economic and political turbulence caused in large part by the COVID-19 pandemic. Subscription lines offer an alternative source of funds to sponsors by providing financing, often in the form of senior secured revolving credit facilities. These facilities are secured by the unfunded capital commitments of a fund's investors through a pledge by the fund and the general partner of their respective rights to call capital and receive capital contributions from investors. The borrowing base under such facilities is based on a percentage of the fund's remaining capital commitments.

Not only do subscription lines provide sponsors with an additional source of capital, they often do so more quickly than calling capital, as the time between submission of a borrowing request and receipt of funds from the lender is usually shorter than the time between a capital call notice and receipt of capital contributions from investors. This allows sponsors to move quickly on new investments. Additionally, since the fund is not

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