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Liquidity alternatives for private funds in a COVID-19 world: A U.S. perspective

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Introduction

Private fund sponsors from time to time rely on a wide range of liquidity alternatives to supplement capital from their existing investor base and receipt of proceeds from their underlying investments. When utilised effectively, liquidity alternatives can allow a sponsor to deploy additional capital more quickly, to ultimately generate higher returns for the underlying fund and its investors. The initial onset of the COVID-19 pandemic brought a significant amount of uncertainty and liquidity challenges to global markets generally, including to private fund sponsors. With sudden drops in asset prices and valuations, many private funds had substantial and pressing needs for additional capital to shore up their existing portfolios, including to meet margin calls on borrowings, support distressed portfolio companies, bridge capital calls from investors in a time when it was uncertain how investors generally would react to capital calls, and to quickly exploit opportunities to purchase assets that had been long subject to increasing valuations and were suddenly available at a discount because of market volatility.

This chapter outlines various types of liquidity alternatives available to private funds in the U.S. marketplace, both existing and new, that have been utilised during the COVID-19 pandemic, as well as recent market trends related to these alternatives. These liquidity alternatives include preferred equity financings, net asset value (“NAV”)-based facilities, subscription facilities, “hybrid” facilities, warehouse financings, amendments to existing fund documents, general partner (“GP”)-led secondaries, dislocation/event-driven funds and annex or top-up funds. We will provide insights into the circumstances where each of these alternatives may be beneficial to certain types of sponsors and their underlying funds.

Preferred equity financings

One liquidity solution that private equity sponsors may utilise is fund-level preferred equity. We have seen a number of preferred equity deals close in the U.S. in 2020 and while we have seen them begin to be discussed in Europe as well, we have seen fewer preferred equity financings close in Europe. In a preferred equity financing, a preferred investor can provide a fund with capital for its liquidity needs in exchange for receiving priority rights to distributions at a negotiated rate. The financing can come from new investors or from existing investors in a fund who may think that an infusion of capital can, in addition to producing attractive returns, help preserve their existing investment (though note that, unless it is ratable, this concept of preserving value introduces a free-rider problem), and who may also negotiate better terms for their existing investment as part of the transaction, such as reduced fees.

There are many benefits of preferred equity financing, including the flexibility that this type of financing can provide. These structures can be customised to meet the bespoke needs of a particular fund, and the proceeds of a preferred equity financing may be used for a variety of purposes. Further, since the preferred investor is investing in the entire portfolio or a large subset of the fund's portfolio (usually through a special purpose vehicle ("SPV") that owns the portfolio) rather than a specific portfolio company, the investor and the sponsor do not need to come to an agreement on a valuation. This has been especially beneficial in the recent environment where valuations may be uncertain and volatile. Moreover, preferred equity financings can often be put in place on an expedited basis, providing sponsors with a quick pipeline to capital, as there are generally fewer restrictions and covenants than debt, and the diligence is primarily focused at the business level. It is important to note, however, that the flexible nature of preferred equity financing often means that it is more expensive than debt. As compared to debt, there may also be more tax structuring involved for the financing provider, particularly if the underlying portfolio includes interests in flow-through entities, holds real estate assets or introduces other tax considerations.

When considering a preferred equity financing, a fund sponsor should also contemplate potential conflicts of interest that may arise due to the creation of distinct classes of interest within a fund (or having different investors participate at different levels in the fund complex capital structure). Conflicts can be heightened in these situations to the extent the sponsor is often on both sides of the transaction. In those cases, disclosure of the transaction and consent from existing investors in the fund may be necessary. Further, conflicts of interest may arise if an investment only provides returns to the preferred investors and proceeds are not sufficient for the other investors in the fund.

It is also likely that preferred equity financing will require consent from the fund's limited partners ("LPs") (or a representative advisory board (an "LPAC")), depending on the terms of the governing documents of the fund and the precise structure of the transaction. The required consent threshold will vary based on the specific terms of the fund's governing agreement. More specifically, in certain cases, amendments to the governing agreement will be required in order to create a new class of interests. It may be possible to avoid some required consents by having preferred equity interests issued below the fund level in one or more SPVs, but a sponsor considering such an issuance should discuss with its funds counsel whether this could still be considered subject to fund-level restrictions (and therefore consents) on the theory that a subsidiary or group of subsidiaries that hold interests in all or some threshold percentage of the fund's overall portfolio could be considered an "alter ego" of the fund. To that end, what disclosure has been made to investors prior to committing to the fund can be a factor in determining whether LPAC or LP consent should be sought.

NAV-based facilities

Another liquidity option for fund sponsors, which has seen increased interest following COVID-19, is a NAV-based facility. A NAV-based facility is supported by and looks "downward" to the underlying assets of a fund (rather than its rights to uncalled capital commitments from investors), namely the fund's direct or indirect interests in and/or rights to cash flows from portfolio investments. NAV facilities are often used to provide additional capital for follow-on investments, to meet liquidity needs of portfolio companies, provide working capital for ongoing fund expenses and, in some cases, to make new investments or enable a fund to make distributions to its investors. These facilities can be particularly attractive for funds that are relatively late in their life cycle and have limited or

no remaining unfunded capital commitments from investors, but still have ongoing capital needs (including unanticipated capital needs arising from COVID-19-related dislocation to a particular industry).

One of the primary threshold questions at the outset of a NAV facility is whether the facility will be secured or unsecured. While some facilities may be unsecured, the vast majority are secured. Assuming this is the case, another threshold question is whether the collateral pledged for the benefit of the lenders will include the fund's equity or other interests in some or all of its investments, or whether it will only include a pledge of bank accounts into which all payments to which the fund is entitled in respect of those investments are deposited. The former is viewed by lenders as a better credit profile and may enable a sponsor to obtain better economic and other terms, largely because the lender can, subject to certain conditions to be negotiated, foreclose on and hold or sell these interests to a third party in an event of default scenario. Such a pledge enables a lender to effect a sale of the collateral (typically after the expiration of a standstill period or borrower-controlled sale process), and thus gives the lender another lever to ensure full payment of obligations owing to it in a timely manner, as well as serving as a significant remedy against the fund and a strong incentive for it to remain in compliance with the terms of the NAV facility. A pledge of only the fund's rights to cash flows from investments could leave a lender waiting for distributions to be made from, or the fund to dispose of, one or more investments to be repaid, or otherwise pursuing remedies against the borrower as a general unsecured creditor with respect to its interests in those investments, which can make realisation a longer and more difficult process. Lenders who are granted only a pledge of cash flows from investments and the relevant accounts will likely still push for some rights to control a sale process of investments by a fund borrower in an event of default scenario to alleviate risk and, other than the ability to directly foreclose on assets and conduct a sale itself, these rights may be equally as robust as the remedies a lender receiving a pledge of investment interests would have. Conversely, a borrower pledging its interests in investments may be able to retain some discretion and/or consultation rights in a sale process in a foreclosure scenario given the sponsor is likely to be the best-situated party to determine which investments are in the best position for a monetisation event and interface with prospective purchasers, management and other interested parties during a sale process.

Despite the enhancement to the credit profile offered by a pledge of investment interests, including or even exploring such a pledge can increase the amount of diligence and legal review required to put a NAV facility in place because both a pledge and foreclosure, by constituting a direct or indirect "transfer", may be restricted by or have other consequences under a wide range of underlying agreements, including investment or co-investment agreements, shareholder agreements, employment arrangements at the portfolio company level and operating company debt documents. To the extent a pledge and/or foreclosure have any such consequences, a fund borrower will need to seek consents or waivers from its counterparties under the relevant documents. The diligence needed to determine whether these consents are necessary and the process of getting such consents can also significantly extend the process of documenting a NAV facility and increase the legal costs involved. Thus, a sponsor and lender seeking to put financing in place on an accelerated timeframe should consider working to get comfortable without a pledge of interests in investments – some lenders are typically able to agree to this structure, though others will be more focused on getting a pledge of investment interests.

NAV facilities are typically viewed by lenders as a financing provided to the entire portfolio in which economic interests are pledged and not as a financing at the investment level, and

generally have relatively limited governance or restrictions on the fund's management of individual investments. Similarly, NAV facilities are unlikely to include restrictions at the operating company level. These features, in addition to uncertainties around valuations compared to many publicly traded investments, introduce some risk for lenders as compared to operating company or other financings where they retain more control over the operations of the ultimate drivers of the value of their collateral. A tradeoff for this incremental risk is that NAV facilities typically come with relatively high pricing and low loan-to-value ("LTV") thresholds compared to other financing alternatives. Many lenders also place value on diversification of investments to minimise their risk, and fund borrowers with a diverse portfolio of investments may be able to obtain more attractive and less restrictive terms as long as a certain number of different investments are held in the portfolio and satisfy specified performance criteria. Some lenders may consider lending against a subset of investments rather than the entire fund portfolio, or excluding a small handful of investments from their collateral where equity pledges of those investments are subject to transfer restrictions or circumstances otherwise make a pledge undesirable, but the goal of many NAV facility lenders is to include as many investments in the portfolio as practicable and have 100% of the cash flows from the portfolio available to satisfy outstanding obligations. While many NAV facility lenders are traditional bank lenders, strategic investors, including credit or distressed-focused private funds, may also offer this type of financing. Some NAV facilities with strategic investors may also include some equity upside in the fund borrower for the lender after all facility obligations are paid off.

In addition to obtaining consents related to specific investments, a fund may also need to amend its governing documents or obtain LPAC approval to enable it to engage in a NAV facility, particularly if the governing documents or certain side letters restrict the incurrence of indebtedness in excess of the unfunded capital commitments to the fund or cross-collateralising the fund's interests in multiple investments. Some funds have sought and been successful in obtaining the necessary consents during COVID-19. A NAV facility may be incurred at the fund level (i.e., with the main fund and any "alternative investment vehicles", or "AIVs", as borrowers or guarantors), or at one or more holding companies below the fund level. Similar to the discussion above on preferred equity financings, in some cases, structuring a NAV facility in an SPV below the fund level may allow the sponsor to avoid certain fund-level restrictions, but similar "alter ego" issues as discussed above may apply. Structuring NAV facilities may also be more complicated if the fund borrower holds investments through multiple AIVs or blocker entities, as a lender would seek recourse (possibly on a joint and several basis) from each fund entity that holds any interest in an investment.

Both pricing and LTV ratios, as well as other terms such as operating covenants and mandatory prepayment events, are also typically less borrower-favourable than the corresponding terms under subscription facilities. We have observed NAV facilities in the U.S. generally being more expensive than similar facilities available in Europe. Some NAV facilities are also structured as term loans or have limited availability periods (and the vast majority of NAV facilities we have seen in Europe have been term loans as opposed to revolving facilities). Subscription facilities can also generally be put in place more quickly than a NAV facility (see discussion below). NAV and hybrid facility lenders may, however, offer longer initial tenors than most subscription facility lenders are currently willing to agree to (and provide greater flexibility for funds that are later in life and have limited remaining commitments). Regardless of the collateral, NAV facilities are also more bespoke and individualised than some other sources of fund financings such as subscription facilities, so

can involve more extensive and complex negotiations in addition to any required consents and diligence. For these reasons, to the extent a sponsor can meet its financing needs with a subscription or hybrid facility, each discussed in further detail below, this may be a more attractive and efficient option.

Subscription facilities

Subscription or capital call facilities are typically not secured by a fund borrower's interests in any investments and instead are, in addition to the fund's general obligation to pay, exclusively secured by the fund's rights to call capital from its investors, capital contributions received and the bank account(s) into which such capital contributions are deposited. Many fund sponsors have historically used subscription facilities and relied on these before COVID-19 because of the multitude of benefits they offer, including being relatively cheap and flexible for fund borrowers. Particularly in the early days of COVID-19 when uncertainty was at its highest, some fund sponsors increasingly relied on their subscription facilities as "capital call bridge facilities" and left indebtedness outstanding longer than originally planned to allow additional time to take the temperatures of investors and/or allow them additional time to get funds ready for a capital call that otherwise may have been issued sooner. Throughout 2020, many fund sponsors looked to subscription facilities to address liquidity needs presented by COVID-19, both in new and familiar ways.

In addition to contemplating fund-level borrowers, many subscription facilities also permit a fund to join "qualified borrowers", which are joined as unsecured borrowers and subject to relatively few operating covenants, but have the right to incur borrowings and other credit extensions to the same extent as "primary", fund-level borrowers. This is possible because qualified borrowers' obligations are guaranteed by one or more fund-level borrowers, with such guarantee obligations secured by the collateral to the same extent fund-level indebtedness is. Most subscription facilities permit qualified borrowers to be joined as long as their obligations can be guaranteed under the applicable primary borrowers' governing documents and the qualified borrowers meet lender know-your-customer ("KYC") and sanctions requirements, and the joinder process can typically be effectuated quickly once a subscription facility is in place. Some sponsors have joined holding or operating companies, whether wholly owned or jointly owned with management and other co-investors, as qualified borrowers to meet near-term liquidity needs when more traditional portfolio-level financings are not available on equally attractive terms or may take longer to obtain. Borrowing at the qualified borrower level, particularly for some longer-term borrowings, may also be more efficient from a tax perspective. Qualified borrowers can also be withdrawn as borrowers from a subscription facility at a later date if longer-term financing becomes available. As one note, certain basic indemnity obligations survive such withdrawal, so sponsors should keep this in mind if it is desirable to incur future financings at the same entity, which some financing providers may find unattractive. In some cases, subscription facility lenders may be willing to agree to have the primary borrower guarantors assume any surviving obligations and permit the qualified borrower to make a "clean" withdrawal with no surviving obligations.

While qualified borrower financings can be useful alternative sources of financing under subscription facilities, they count directly against the availability under traditional subscription facilities and thus reduce a fund sponsor's capacity to borrow against the unfunded capital commitments of investors at the fund level. To that end, as sponsors have sought increased liquidity in a COVID-19 world, some have sought to increase the

“borrowing base” against which they can incur subscription facility obligations in a few different ways, including pledges of additional “downward-looking” collateral, negotiated increased or alternative advance rate structures, or increases or holidays on concentration limits applicable to certain types of investors.

To maximise available capital during COVID-19, some sponsors have also asked lenders to temporarily grant increases on advance rates or agree to alternative borrowing base structures that result in a higher effective advance rate. While many subscription facilities have a multi-tiered advance rate structure where investors’ unfunded capital commitments will be given varying advance rates depending on their creditworthiness (often 90%, 65% or 0% for categories of investors), some funds have negotiated alternative structures (either permanently or for a temporary period) where all investors are assigned the same advance rate or certain categories of investors or specified investors have been granted increased advance rates. This can result in benefits to lenders by providing them with increased interest income, but in some cases, lenders may require additional compensation or credit support, including via increased pricing or by requiring additional collateral to be pledged. Similarly, some funds in the early fundraising stages and with a growing investor base can consider negotiating temporary holidays (e.g., until the borrowing base exceeds a negotiated threshold or until the fund’s final closing date) from concentration limits applied to investors’ capital commitments.

Subscription facilities historically are negotiated for a shorter initial term than a fund’s expected life cycle or with lower closing date lender commitments than a fund may need at the height of its investment activity, with the understanding that many lenders are willing to step up to extend maturities and provide additional commitments if and when needed. While this mostly held true during COVID-19, some borrowers saw this come at higher pricing, including different pricing for a specific temporary increase tranche or for the entire facility, including existing commitments, functionally retroactively incorporating “most-favoured nations” pricing for the facility as most lenders increased pricing during COVID-19. In addition to increased pricing, fund sponsors saw subscription facility lenders offering only shorter tenors and fewer committed extensions exercisable at the fund borrower’s option in 2020 than prior to COVID-19. As a general note, lenders’ willingness to provide large commitments has in some cases been slightly down during COVID-19, with many syndication efforts extending to broader lender bases with smaller individual commitments than in pre-COVID-19 times.

Some sponsors also found their existing subscription facilities an effective tool to shore up other financings in response to volatility caused by COVID-19, including by using them to meet or prevent margin calls or mandatory prepayment events by posting additional cash or letters of credit (which are available in many U.S.-based subscription facilities but less prevalent in European subscription facilities) in support of those financings.

Hybrid facilities

“Hybrid” facilities, which entail a pledge of some combination of traditional subscription facility and NAV facility collateral, are also available as liquidity alternatives for fund sponsors and have continued to be utilised during COVID-19. We have seen hybrid facilities considered increasingly in both the U.S. and Europe, but have seen more hybrid facilities close in the U.S. than Europe. The advantages and potential drawbacks applicable to NAV and subscription facilities individually also generally apply to the relevant components of hybrid facilities, and the pricing for hybrid facilities is typically in between that of NAV and

subscription facilities (i.e., lower than pure NAV facilities but higher than pure subscription facilities). These facilities can also be valuable in allowing a fund to smoothly transition from the period in which a subscription facility is the most attractive financing option and when a NAV facility is, and can also bridge the gap when having collateral support from both components is beneficial. While a pure subscription facility may make sense for most funds at least in the early stages in the life of the fund, the supplemental benefits of pledging “downward” collateral is becoming increasingly attractive to some sponsors earlier in the life of their funds. As credit enhancement in addition to the unfunded capital commitments from investors, some sponsors have also considered pledging accounts into which they covenant to deposit all distributions and other cash flows from investments under their existing subscription facilities during COVID-19, turning such subscription facilities functionally into hybrid facilities.

Warehouse financings

Private funds in the process of fundraising but without sufficient capital commitments to support a subscription facility or to call capital from LPs directly (or for which calling capital may be unattractive because it would cause a rebalancing with subsequent closers into the fund) may also consider warehouse financings to temporarily finance their early-stage investments. During COVID-19, some sponsors considered warehouse financings before their funds held closings in order to move rapidly to close investments when prices were volatile and there was a desire to make a purchase when the opportunity was ripe. Some financing providers, whether a traditional bank lender or an investor (including an investor or group of investors in the relevant fund), may be willing to advance capital to enable a fund to acquire an investment that will be financed in the long term using a subscription facility or investor capital contributions. Because proceeds from a warehouse facility, together with any other sources of capital, are predominantly used for the purchase price of the investment, the effective LTV ratio of a warehouse facility is generally much higher than that of a NAV or subscription facility and there is less diversification to mitigate risk to a warehouse lender. As a result, pricing for third-party warehouse financings may be significantly higher than other liquidity alternatives. These are also likely to be shorter-term facilities required to be replaced with other financings once sufficient capital commitments are available to the fund. Larger sponsors can also consider having the “house” or “balance sheet” provide bridge financing for some or all of the purchase price of a warehoused investment if there are sufficient funds on hand and the persons ultimately exposed to that financing are comfortable doing so. A fund sponsor with multiple actively investing funds can also consider having a fund with existing unfunded capital commitments initially acquire the entire interest and later syndicate portions of the investment out to other funds, subject to conflicts and allocation policy considerations and any requisite consents associated with such affiliated party transactions.

Amendments to enhance flexibility in fund documents

Fund sponsors may also consider amending the governing documents of a fund to provide the fund with additional flexibility to increase available capital. Fund amendments can be an efficient and quick way to access an additional source of financing at a low cost, and this solution generally avoids the conflict concerns that may be raised with some financing sources such as preferred equity. Therefore, in the event that amending the fund documents is an available option and attractive to the investor base, it often provides a straightforward and effective liquidity solution for sponsors. It is likely that investor negotiations and consents

will be necessary in order to pass fund amendments, so it is important to keep in mind that the process will often put an increased focus on relationships between sponsors and investors.

One example of a fund amendment that can provide sponsors with additional liquidity is amending the recycling terms of a fund. “Recycling” refers to the reinvestment of proceeds rather than distributing the proceeds back to investors, or making proceeds that are distributed to investors subject to recall by the fund. Generally, the ability to recycle proceeds is subject to timing restrictions and other limitations under the governing documents of a fund. In order to increase available capital, sponsors may consider seeking amendments to provide a greater ability to recycle proceeds over a longer timeline. This technique is subject to the recycled proceeds being available on a timely basis. Some sponsors have sought and obtained consent to “retroactive” amendments, essentially recycling capital that was distributed prior to the amendment. Fund agreements need to be examined carefully to determine the precise level of consent required in this instance.

A sponsor may also consider amending fund documents to provide increased flexibility to make follow-on investments. “Follow-on investments” generally refers to the ability of a GP to make additional investments in existing portfolio companies. A fund’s governing agreements often restrict the timeframe in which follow-on investments are permitted, and generally limit the amounts that may be drawn down from investors for the purpose of making follow-ons after the fund’s investment period. Sponsors may seek to extend the timeframes where they are permitted to make follow-ons and increase the caps in the governing documents so they can further tap into this source of capital.

Sponsors may also seek amendments to extend key fund periods. For example, a sponsor may extend the fundraising period of a fund, which provides a greater length of time for investors to make commitments and can help boost fundraising efforts that may have been disrupted or slowed down by COVID-19. Sponsors may also consider extending the investment period of a fund, which will provide them with additional time to deploy all of their capital. Lastly, sponsors can extend the term of a fund in order to delay exiting investments until the market stabilises.

Fund document amendments can also be sought to enable a sponsor to pursue other liquidity alternatives such as a preferred equity financing, NAV facility, subscription facility or hybrid facility. In addition to the types of amendments noted above, others can include increasing or removing debt limitations (including providing that certain types of limited recourse or more remote indebtedness, such as “bad boy” guarantees, do not count toward certain debt caps) or providing that unfunded capital commitments will not be reduced by the incurrence of certain types of indebtedness unless and until capital contributions are made to repay that indebtedness. As a practical note, most NAV, subscription or hybrid facilities incurred at the fund level will include extensive lender consent rights to amendments to fund governing documents, so a sponsor may need to consider how existing financing providers will react to certain amendments.

GP-led secondaries

Another meaningful liquidity tool is GP-led secondaries, which allow sponsors to provide investors with a liquidity option and at the same time obtain additional time and capital to pursue an optimal realisation of an investment. GP-led secondaries refer to a process organised by a GP in which an existing investment or group of investments that a sponsor wishes to hold onto is contributed into a new continuation vehicle. The GP will solicit bids from secondary buyers to commit capital to the new fund, which will be managed by the

same sponsor. Secondary buyers will often include additional “primary” capital to be used to fund follow-on investments in the portfolio companies. This process enables investors that wish to hold onto their interests in those investments on a long-term basis the ability to do so, while contemporaneously providing the option of liquidity to other investors.

GP-led secondaries are increasing in popularity, and represent an ever-growing part of the secondaries market. The nature of this type of transaction is also shifting. Historically, GP-led secondaries were often pursued by sponsors at the end of a fund’s life when the fund still held portfolio companies that it did not want to sell; however, today it is becoming more common for sponsors to pursue these transactions as a mechanism to manage their portfolio in somewhat younger funds. These transactions now often involve trophy assets rather than poorly performing investments, and can act as an instrument for sponsors to seed a new business and fundraise around a well-performing asset.

It is important to note that GP-led secondaries are often rife with conflict issues, given that the sponsor is effectively acting on both sides of the transaction by managing the existing fund that holds the investment and simultaneously organising a pool of capital to acquire all or a portion of such investment. Therefore, the use of conflict mitigation tools should be a primary consideration in these transactions, and the sponsor should seek to have the fundamental nature of the transaction blessed. Consent from the fund’s LPAC and/or LP approval and waiver of conflicts is generally required and best practice. It is also recommended that existing investors are afforded the ability to decide whether or not to participate in the new continuation fund, and are also provided with a meaningful *status quo* option. In addition, due to the structuring of these transactions, they may require an amendment to the fund’s governing documents just to achieve the mechanical steps required to complete a transaction (i.e., a non-*pro rata* distribution of secondary proceeds to non-participating investors). Further, because GP-led secondaries often relate to particular investments, it is also important from a valuation perspective to engage in processes that seek an adequate level of price discovery. In this regard, it is common for sponsors to retain an investment bank to pursue alternatives to the GP-led transaction.

Annex/top-up funds

Annex and top-up funds represent a class of funds that a sponsor will form to invest additional capital in a fund’s investments. Typically, the fund will have reduced or no fees and will be offered to the existing investors in the fund. Often the instrument the annex/top-up fund will hold is a preferred instrument or otherwise pre-agreed with respect to each portfolio company. These funds can raise conflicts of interest for the sponsor as well.

Dislocation/event-driven funds

In addition to pursuing liquidity strategies for existing products, the market dislocation caused by COVID-19 has caused many sponsors to consider taking advantage of new investment opportunities. As demand increases for investment strategies targeting volatility and focused on distressed assets, sponsors are forming new funds with strategies that can broadly be categorised as “market dislocation”. As sponsors are creating new funds to explore these opportunities, they are also simultaneously reallocating existing capital from funds with sufficiently flexible investment strategies and shifting this capital towards distressed assets. Sponsors that are nimble, have a breadth of experience and have the ability to redirect resources appropriately will be well positioned going forward to take advantage of the opportunities arising out of the current market.

Conclusion

While COVID-19 has brought many challenges to fund sponsors, it has also pushed both sponsors and financing providers to enhance existing, and explore and develop new, solutions to address ongoing fund liquidity needs. We expect fund sponsors to continue to utilise both new and old technologies to meet their liquidity needs and to continue to expand the ways in which they may achieve these goals. It will also be important for sponsors to engage in proactive and collaborative discussions with lenders, other financing providers, LPs and other potential investors, as many of the available alternatives will require the participation and/or approval of one or more of these stakeholders. Ultimately, the optimal liquidity alternative(s) for a given fund sponsor will depend on the stage of the relevant fund's life, the existing agreements to which the fund and its investments are subject, and the goals and risk tolerance of all interested parties.

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