Fund Finance Market Updates, ESG & Macro Developments[1]

By Ellen McGinnis and Brandon Spleen

The "Fund Finance Market Updates, ESG and Macro Developments" panel covered questions relating to the evolution of the fund finance market including market updates on deal economics, the resiliency of the product, the competitive landscape and ESG market developments.

The panel discussed the following questions:

- **What is the market's perspective on the continuing evolution of the fund finance market?** The market is experiencing growth in various financial products; however, net asset value and asset-backed facilities have had the most significant growth in more recent years. Furthermore, due to the large focus on new technologies and products being rated when they were traditionally not rated, the market has seen an influx in new participants and capital into the financial markets.

- **What macro developments are driving non-bank lenders, insurance companies and pension funds into the fund finance marketplace?** The most significant macro development is the current rate environment, which caused a large influx of capital to enter the marketplace from insurance companies. Additionally, recent developments in new technology created new opportunities for non-bank lenders, insurance companies and pension funds to enter the marketplace by utilizing new types of vehicles including evergreen open-ended funds, which includes a mix of both private and liquid assets.

- **What is the market seeing after the regional banking crisis in terms of market spreads, the resiliency of the products and the competitive landscape regarding deal economics?** During the regional banking crisis, the market saw around 25% of the global subscription line business disappear overnight; however, the market has regained about 50% to 95% of this business back. Furthermore, the market saw wider spreads across the industry that continue to stay wide even today with no sign of tightening. With only a few banks seeing increased deposits, banks are exercising more discipline on how they want to deploy their capital. Despite the regional banking crisis, the market saw the financial product demonstrate significant resilience, banks finding ways to reduce their portfolio risk, the liquidity of these portfolios and the entry of new participants.

- **What are key trends in ESG in 2023 and what can we expect in 2024?** The market has seen less conversation on ESG in the United States due to recent backlash; however, it is moving forward in the European Union. Despite this backlash, the focus on sustainability continues to grow even with

[1] The panelists were Pallo Blum-Tucker, Managing Director at State Street Bank; Steven Colombo, Managing Director at Goldman Sachs; Jose Liz-Moncion, Managing Director at Bank of America; Georgina Pullinger, Partner at Appleby; and Samina Sajanlal, Managing Director at CIBC. The panel was moderated by Gabby Buckner, Director at EverBank.

> the ever-changing regulatory landscape in the United States. From a lender's perspective, the main challenge in structuring ESG deals is to create key performance indicators that challenge the borrowers to do more than what they are already doing, but are not too challenging they cannot meet the key performance indicators.[2]

Not surprisingly, the fund finance market updates have launched off of the lessons we have all learned in the past year. There is so much growth and creativity in the products we are all seeing. And the continued growth is a "symptom" and great benefit of the ever developing collective collaboration of our industry.

[2] For additional guidance, please see "A Guide to the Application of the Sustainability Linked Loan Principles in Fund Finance", published by the LSTA, LMA, and other industry organizations, with Haynes Boone partner Deborah Low serving as project counsel.