

## Global Market Update – Perspectives from Outside the US<sup>1</sup>

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This panel at the fund finance conference in Miami featured insights on Asian and European markets from a variety of viewpoints, including general partners, bank lenders and attorneys. The panelists shared their thoughts on issues facing the broader global market, including liquidity, the rise of alternative lenders and fundraising.

**Difficulties in Fundraising.** While the general perception of the market is that it is tougher and slower to raise funds, that perspective is not necessarily universal. Currently, limited partners are awaiting returns from general partners and funds with which they already have relationships, before committing to new funds with those same general partners. Accordingly, successor funds are being delayed and current funds are being extended.

While the hesitancy to make new commitments exists, the picture is not as negative as is portrayed. Limited partners can use this opportunity to test their general partners and determine how commitments are utilized. The difficulties in fundraising have also indicated to limited partners the knowledge expertise of their general partners. Additionally, general partners are not defaulting on loans. Private credit has grown substantially, and the accompanying fundraising has been buoyant, so while certain classes of assets have declined, there is still opportunity in the market.

**The Rise of Alternative Financing and Competition among Global Markets.** The panelists also addressed whether banks view the rise of alternative lenders as a threat or a helping hand. Alternative lenders are helpful in the current market, since there is substantial volume and appetite for transactions, but there is also a liquidity squeeze. Due to the supply and demand gap, there is a need for additional capital, which alternative lenders can fulfil. Alternative lenders can drive creativity in the fund financing space, and help develop and mature the industry. But an audience member noted that alternative lenders are both a threat and a helping hand, because while the alternative lenders can address the growth in the market, there will be competition among the banks and alternative lenders in the long term.

In Asia the presence of nonbank lenders is nearly nonexistent, because of the challenges with pricing. Pricing has decreased in Asia and there is a mismatch in the market, however in Australia there is more movement in the NAV financing space. While investor closings in Asia have slowed as compared with 2023, fund financing has been quite busy overall, with an increase of lenders moving into the space. General partners are also increasing their presence in Asia, looking to leverage the lower cost financing.

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<sup>1</sup> Panelists included Nicola Germano, Managing Director at Intesa Sanpaolo IMI, Jeff Leung, Director at Lloyds Banking Group, Danielle Roman, Partner at Mourant, Victoria Stewart, Global Head Fund Financing at Partners Group, and Martin Wurth, Partner at Clifford Chance.

In terms of competition among global markets, a panelist noted that the competition is a natural part of the growth of the industry and that local presence is now seen as mandatory for lenders. General partners are also relying on core banking relationships for certainty of completion of transactions and service needs, particularly after the regional banking crises in Europe and the U.S. Banks have been working with lenders in Asia who would like to take advantage of the pricing in the U.S., with liquidity available in different markets supplementing the gap in supply and demand, so while competitive, there is also coalition building.

**Challenges Facing General Partners.** The panelists were asked to address how capital will be deployed due to the selectivity of limited partners. For certain general partners, the SMA structure is a useful tool, so that investors can determine their own strategies and this determination is not seen as a market change. Successful general partners in the current market usually have a good track record, with commitments going to funds with long term visions. More challenges arise with setting up brand new funds, but that can be assuaged with bespoke products, like healthcare. In Europe, there is a democratization of private equity, which has allowed a new pool of capital to be released, with more investment by retail investors.

**An Overview of Asia.** Existing general partners are still able to raise capital, but for funds that are China focused or new general partners, there has been difficulty. China-only funds are internally restructuring, with the support of limited partners. India has emerged as a new place for capital deployment, however it has not replaced China in the market, as the allocations in India are more to enter the market, rather than make a full- fledged investment. Japan has also emerged as an attractive market, however, the key challenge will be overcoming regulatory issues. Additionally, Vietnam is doing quite well in infrastructure. While the market in Asia will not be as smooth, there is still opportunity for investment. In the Middle East, there has been a rise in investors, with more SMA structures to address their needs. Investing that is compliant with Sharia law has also increased, and regional banks have been providing lending along those lines.

**NAV Financing and Legal Documentation.** While subscription secured facilities are still dominant due to reliability and convenience, in Europe, there has been an increase in NAV financings. This increase is seen for large private equity funds, as opposed to secondaries funds, including for follow-on investments and refinancings. Additionally, nonbank lenders want to provide NAV financings, however there is consternation with sharing information on underlying assets with entities that could be competitors. In Asia, there is general mistrust around the product.

While the rise in NAV has created opportunities, some general partners prefer certain other types of nonbank lenders over private credit, like insurance capital. NAV financings are still seen as great for providing liquidity support. Nonbank capital will help drive scale, however there is an issue with general partners using NAV proceeds to make distributions to limited partners.

With respect to legal documentation, in Asia, standardization is not present, so it is difficult to determine what changes will be reflected to address NAV financing for the market as a whole. Changes will be driven by the culture of the deal. In Europe, the language around NAV financing is evolving and fluctuating. Rather than look for direct language, the inclination is take a reasonable approach to determine possibility, check leverage limits and determine terms for outstanding loans, within governing documents.

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**Challenges for 2024.** Challenges for 2024 will include a flight to quality for both general partners and lenders. General partners will rely more on existing relationships. For Europe, new regulations (including Basel IV) will have an impact on capital returns. European lenders are also entering the U.S. market, driven by new regulations. For Asia, Asia is not China and the market is not homogenous.