Engagement and flexibility: How fund finance advisors deliver the best terms

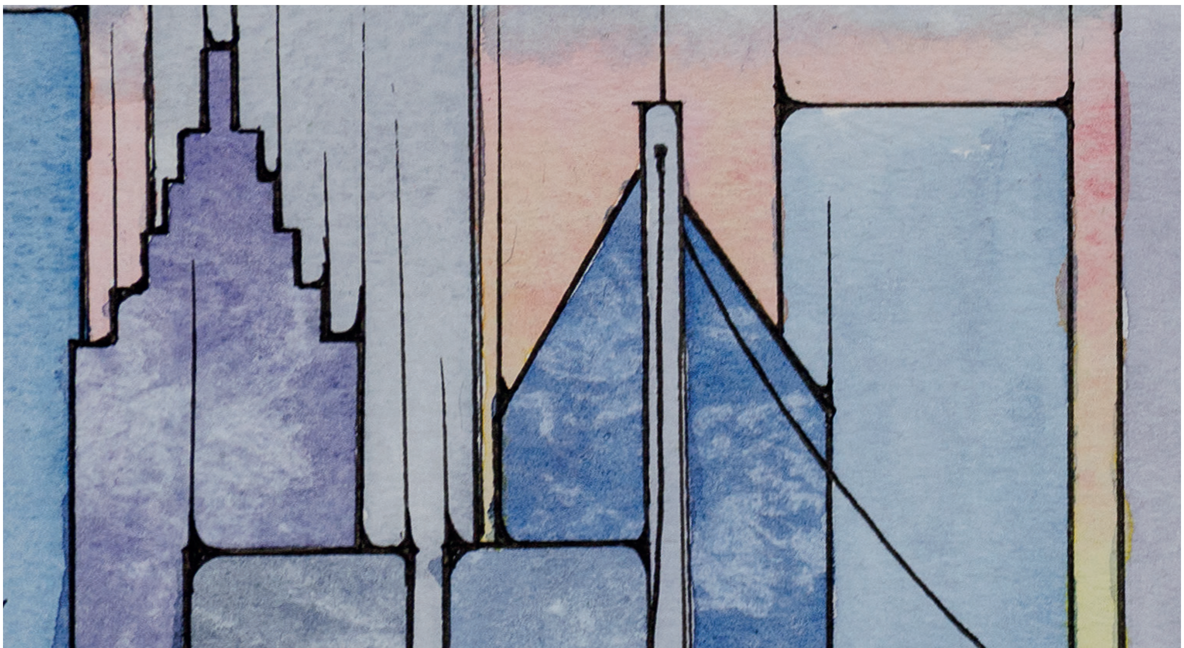
THE previous article in this series introduced the fund finance advisory landscape and examined the basic value proposition that advisors present to fund managers. This time we look at how these advisors navigate the banking sector while ensuring client objectives are met. We also share some insights from leading players in the sector on the strategies they employ to seek and engage with banks, how they build relationships, manage the NDA process and tailor term sheets to meet client needs.

Building relationships with lenders

It is a given for fund managers that establishing strong relationships with banks is essential to secure favourable terms and ensure smooth engagements. **Khizer Ahmed**, Founder and Managing Member at **Hedgewood Capital Partners**, says he and his team connect with lenders on a regular basis in order to keep on top of developments and emerging trends and issues on the lender side. “This helps us identify the most suitable counterparties when a particular transaction comes along. When working on new mandates, we start by creating a shortlist of lenders that we pre-clear with our clients before commencing our outreach. This allows us to ensure that any client objections or sensitivities to names on our list can be addressed at an early stage,” he explains.

Gianluca Lorenzon, Head of Fund Finance at **Validus Risk Management**, emphasises the need to assist clients in asking for terms that banks can actually deliver. “This approach creates a better process for all parties involved and helps build stronger client-bank relationships,” he says, adding that “most bank lenders can offer more favourable terms if they build a stronger relationship with the client, which oftentimes includes having some ancillary business like FX hedging. Our approach is that ‘best terms’ is a complex equation, of which credit margin is only one key component.”

Jamie Mehmood at **Deloitte** explains that his team’s bandwidth and involvement in a large volume of fund finance transactions



means that they have an active daily/weekly dialogue running with the main lenders in the market at any point in time, leveraging the team's personal networks to increase traction and optimise the client outcomes.

Michael Hubbard at **Cadwalader Wickersham & Taft**, who has been syndicating fund finance for over a decade, says that these relationships allow advisors to quickly ascertain which lenders to engage with on any given transaction (depending on the structure and economics), with a targeted strategy for sourcing liquidity. "I have an extensive network of contacts that I am in regular dialogue with and understand each lender's risk and pricing parameters for any given product," he explains.

Resource allocation and managing the NDA process

The allocation of resources in deal teams can vary depending on the complexity and unique characteristics of each transaction. Hubbard highlights the importance of having access to a team of lawyers to manage the NDA process efficiently, which in Cadwalader's case is entirely in-house.

Zac Barnett of **Fund Finance Partners** underscores the advantage of having a highly experienced team when connecting with target banks, which he says ensures a strategic approach to lender engagement overall, while allowing flexibility to accommodate client preferences. To streamline the NDA process, he explains, "we have an FFP master form NDA that has been agreed with all major lenders. There is a simple joinder for new sponsors/transactions".

Tailoring term sheets and geographic focus

Others take a different approach. Lorenzon at Validus says that their approach can vary based on the product and the desired outcome, and while some transactions may benefit from presenting a wish list upfront, others may require lenders to provide high-level terms to showcase their credibility and appetite.

James Rock-Perring at **CSC** (formerly Intertrust) comments that they work case by case when it comes to term sheets. "We sometimes go to market with a Heads of Terms, more detailed term sheet or work with the client to tailor theirs. There have been instances where we have gone out with a detailed brief and asked for the lender to submit their term sheets. It's what works best for the client so as to achieve a successful outcome."

Jamie Mehmood at Deloitte explains that they tailor the approach to term sheets based on the specific situation, sometimes having the client and their legal counsel lead, while in other cases, letting the bank or lead bank draw up the term sheet. "This is particularly the case for NAV transactions where there is a broader range of alternative structures to be considered," he adds.

Regarding geographic focus, Michael Hubbard states that Cadwalader primarily focuses on European sponsors; however, they are willing to engage lenders regardless of their geographical footprint. While some have a more global reach, others, like US-based FFP and Hedgewood, are more focused on their home market.

The advisors we interviewed all agree that ongoing, proactive engagement with banks and a thorough understanding of client preferences are both keys to landing the best outcome for both fund manager and lender

Client resources and decision-making

The level of client involvement in the process can vary depending on their preference. Gianluca Lorenzon highlights the value of having a dedicated person to work closely with the finance team. By sharing the workload, the client's resources are not overwhelmed, ensuring an efficient process.

Khizer Ahmed emphasizes the flexibility in accommodating clients' preferred level of involvement. With experienced professionals leading the process, clients benefit from seasoned guidance at every stage, while their engagement tends to increase during due diligence and final execution, he says.

The advisors we interviewed all agree that ongoing, proactive engagement with banks and a thorough understanding of client preferences are both keys to landing the best outcome for both fund manager and lender. And in a market that is evolving ever more quickly, the need for flexibility and transparency is more important than ever.

- *This is part two of Brickfield's Fund Finance Advisory Focus series. In the final part we will hear the advisors' views on today's fund finance market and how they see its future development. We will also be publishing features on some of the major players in the space, with detailed insights into their services, team members and working practices with their fund manager clients.*