

Client Update

Fund Finance Trends in Asia

HONG KONG

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On 19 June, the Fund Finance Association held its first-ever Asia Pacific Fund Finance Symposium in Hong Kong. Below, we set out some of the Asia-specific fund financing highlights discussed during the event:

- **The fund financing market in Asia:**
 - Sentiment for Asia on the fund-raising side generally is strong, with Asia-based funds raising material investment from US LPs.
 - The use of subscription line facilities in Asia, whilst not as prevalent as in the US and Europe, is significantly increasing.
 - The use of NAV/hybrid facilities (i.e. facilities for which the “credit” consists of both uncalled capital commitments and the NAV of investments of the fund) is now common in the US and Europe. Whilst not as common in the Asian market, the expectation is that the market for NAV/hybrid facilities will develop and mature in Asia over the next few years.
- **Asia-specific fund structuring aspects:**
 - Fund structures for Asian funds continue to be primarily Cayman, although some GPs have recently explored organising their funds in OECD jurisdictions.
 - Lenders often expect certain acknowledgements and undertakings from LPs, which we recommend pre-baking into the LPA at an early stage to avoid any issues further down the line when seeking financing.
- **The basics - governing law of facilities:** The governing law for Asian facilities varies, often depending on the identity of the banks, funds and investors. For example, Debevoise has advised on Asian fund financings governed by US, English and Japanese law over the last 12 months.

- **Security structure:** Whilst historically some banks were prepared to lend without an assignment of the right to call capital, most banks now require security for Asian fund financings.
- **Facility terms:** Asian fund financing terms are beginning to converge with terms in US and Europe fund financings as sponsors look to firms like Debevoise with experience of terms and trends across the US, European and Asian jurisdictions.
- **Asia-specific points of interest:**
 - Fund-raising from Chinese investors may raise certain issues for the underlying financing, especially for Chinese investors who do not allow their uncalled capital to be assigned.
 - Currency hedging is important in Asia as often funds are raised in US dollars but investments are made in multiple currencies.
- **Looking forward:** The Asian fund financing market's direction will depend on the appetite of Chinese banks to enter the market. They may take a less conservative approach on structure and lean towards relationship-style loans.

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The Debevoise finance group has extensive experience in fund-level financing transactions across the US, Europe and Asia. Please do not hesitate to contact the team if you wish to discuss any of the above highlights, or any other related topic.