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NON-BANK LENDER PERSPECTIVES IN FUND FINANCE: MARKET EVOLUTION, STRUCTURING STRATEGIES, AND COMPETITIVE POSITIONING

In this article, the authors discuss the increased prevalence of non-bank lenders in the fund finance industry. Topics of discussion include market dynamics yielding this trend, structuring strategies for borrowers in this landscape, and considerations for non-bank lenders to maintain a competitive edge vis-à-vis other capital providers.

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Non-bank lenders are playing an increasingly vital role in the fund finance industry. As bank lenders face a heightened regulatory environment, non-bank lenders have stepped in as alternative capital sources offering viable alternatives to fund sponsors. The participation of non-bank lenders in the fund finance market now extends beyond securitized transactions to subscription lines, net asset value ("NAV") facilities, and other fund financing structures, such as preferred equity transactions. This market evolution has been embraced by bank lenders that are looking to offload their balance sheets through syndications and the sale of participations of the credit facilities they originate. As the demand for fund finance products continues to increase, the complementary roles of bank lenders and non-bank lenders contribute to the rapid growth of the overall fund finance industry, allowing the space to continually expand with new injections of capital. This article

explores the market dynamics enabling the increased participation of non-bank lenders, the structuring strategies for borrowers to consider in this landscape, and the competitive positioning of non-bank lenders in this climate.

I. MARKET EVOLUTION

Following the global financial crisis of 2008 ("GFC"), the market saw a rise in the lending activities of non-bank financial institutions, which were able to gain market share in light of newly imposed, stringent regulatory requirements facing bank lenders. In particular, capital adequacy ratio requirements curtailed operational flexibility of bank lenders, thereby resulting in a demand for alternative financing solutions in both the broader finance space and within the fund finance industry. In recent years, non-bank lenders'

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