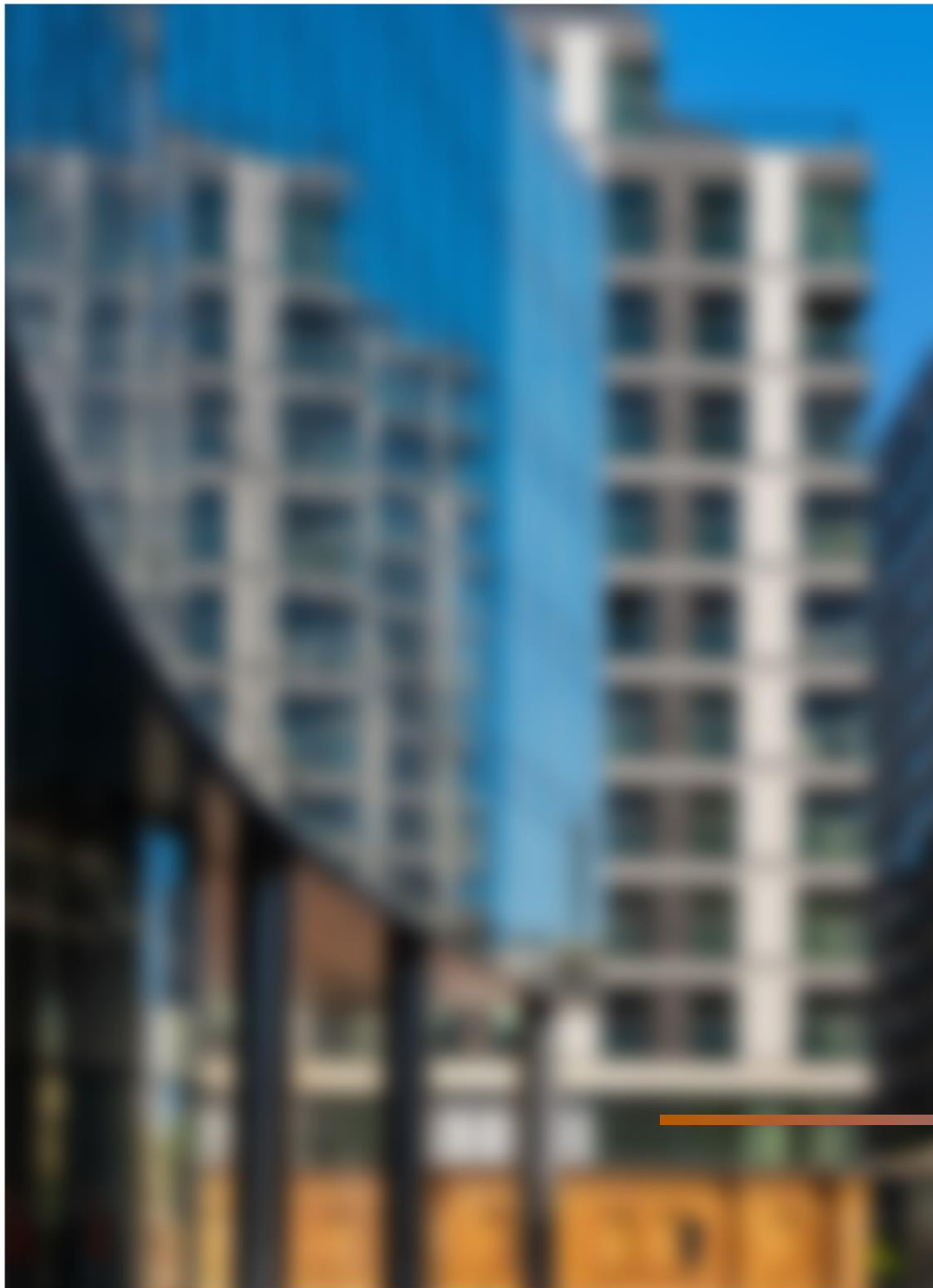


CLIFFORD CHANCE



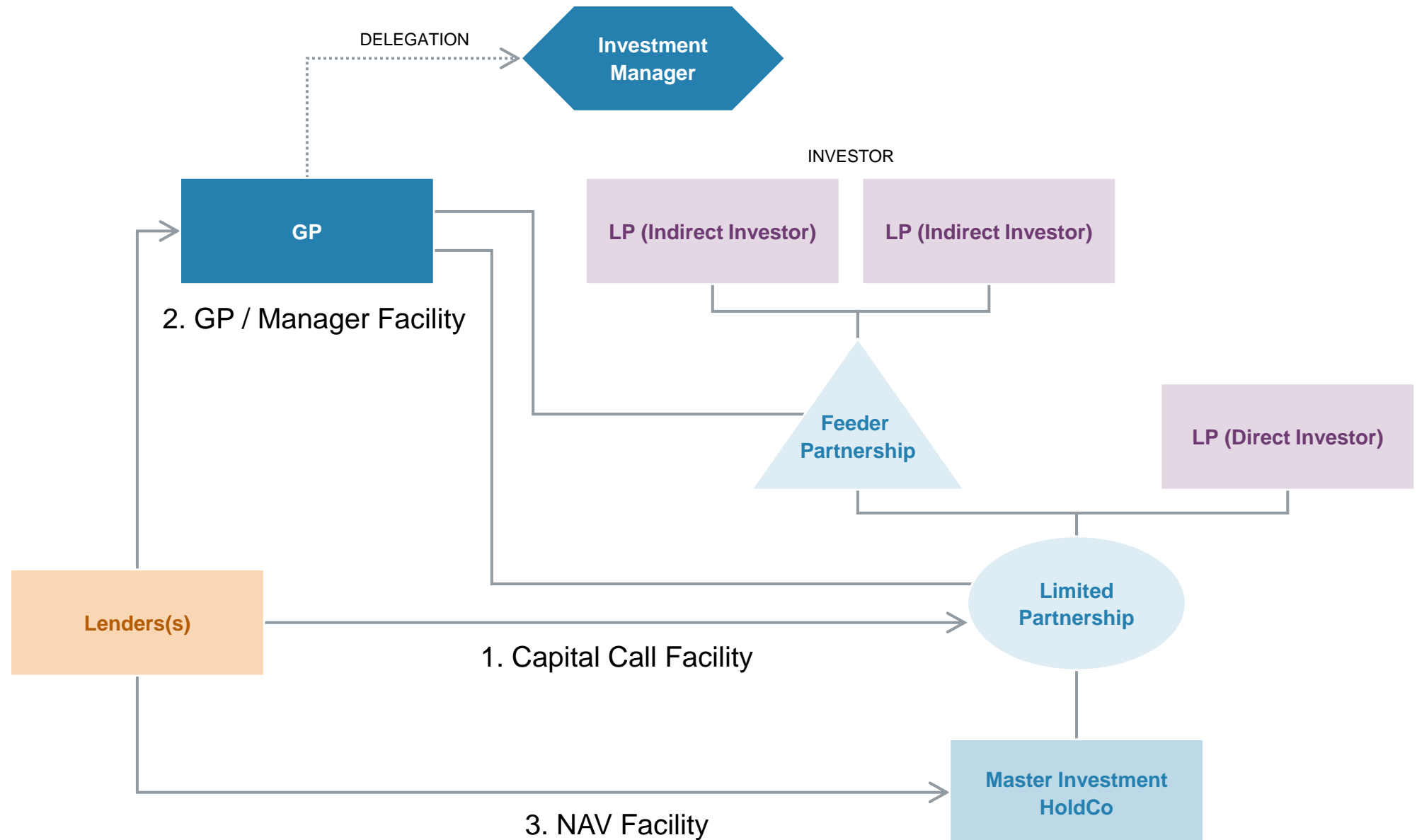
FUND FINANCING

KACPER BARDAN, MATEUSZ CHRUŚCIAK
WARSZAWA, 19 MARCH 2025



FUND FINANCING – OVERVIEW

ELEMENTARY FUND FINANCE STRUCTURE



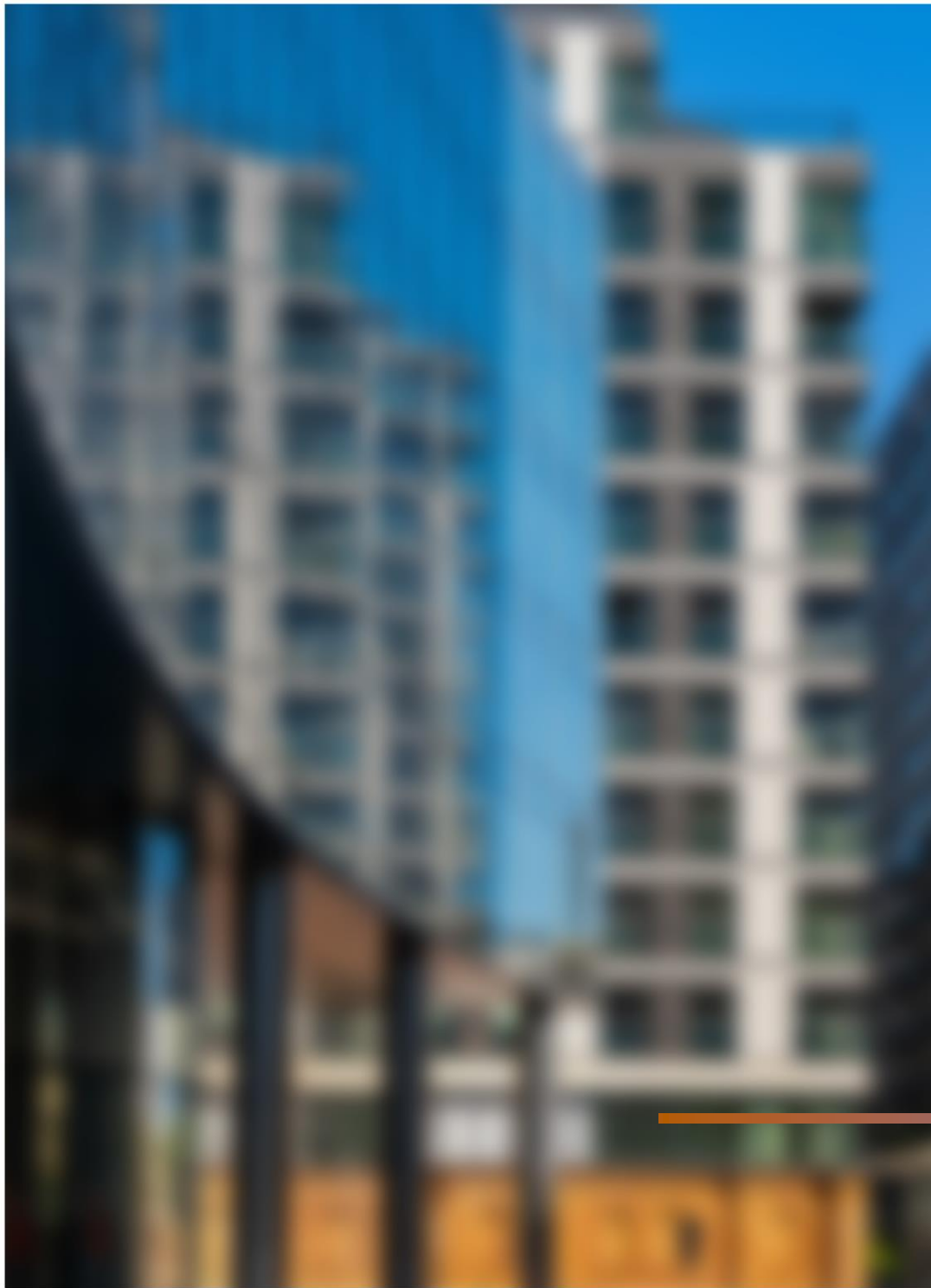
SUBSCRIPTION LINE FACILITIES VS. NAV FACILITIES: THE CLASSIC FUND FINANCE PRODUCTS

SUBSCRIPTION LINE FACILITY (CAPITAL CALL FACILITY):

- Availability based on the amount of uncalled capital commitments
- Secured by the investors' uncalled capital commitments
- Structuring/provisions more standardized

NET ASSET VALUE (NAV) FACILITY:

- Availability based on value of investments
- Secured by the fund's investments (or proceeds/distributions)
- Structuring/provisions vary widely (often in connection with differences in fund strategy)



CAPITAL CALL FACILITY

WHY OPT FOR A CAPITAL CALL FACILITY?



BENEFITS FOR FUND MANAGERS AND BORROWERS:

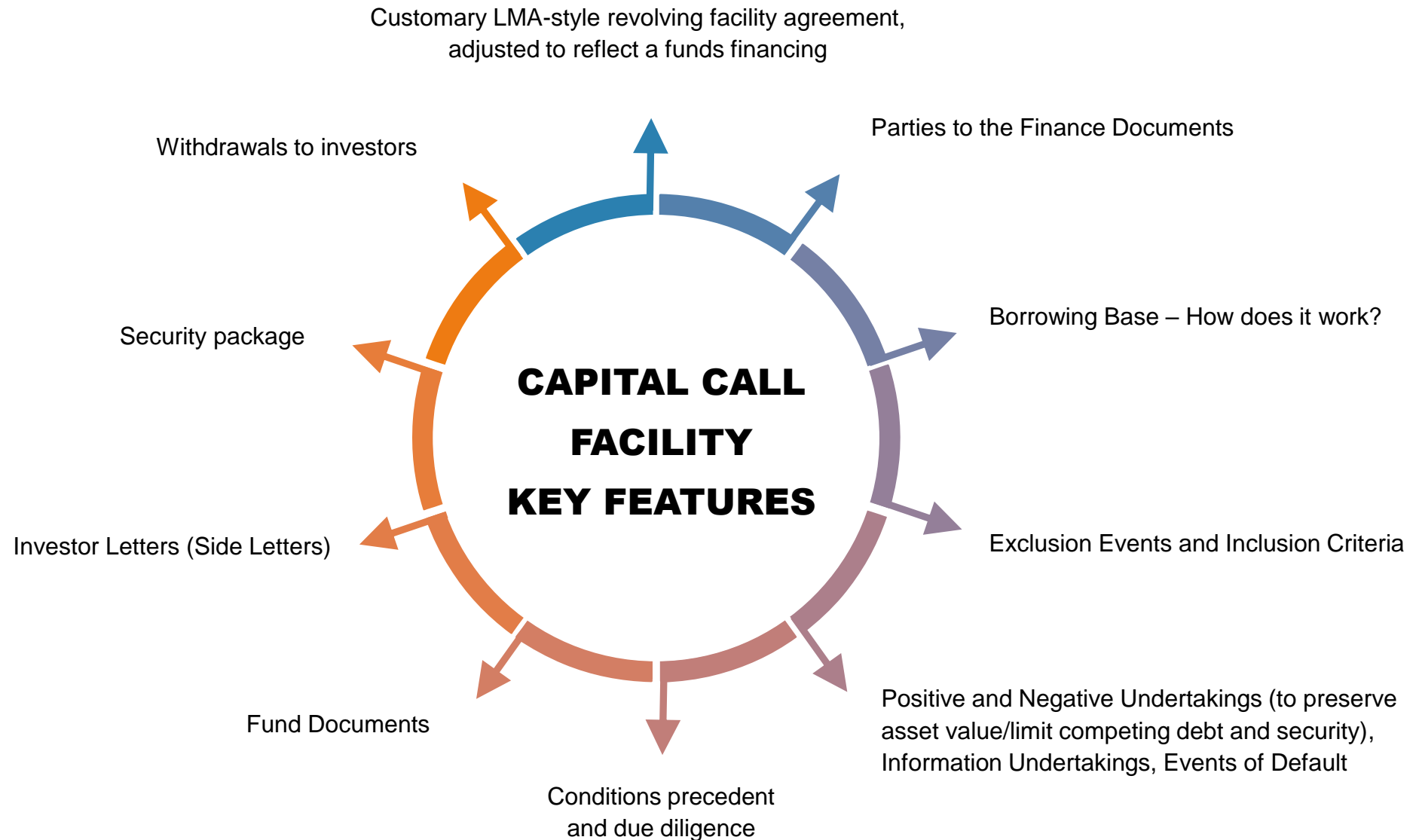
- Originally developed to bridge drawdown period under Limited Partnership Agreement to allow certainty and speed of funding for acquisitions and avoid idle cash at the fund level.
- Now typically also used as a cash management tool to avoid frequent drawdowns from investors (which also helps IRR).
- Particularly useful in the fundraising stage to avoid calling on first close investors and subsequently having to rebalance when subsequent investors join.
- Also important operationally to allow the Fund to obtain letters of credit and bank guarantees to support investments.
- Generally affordable.



BENEFITS FOR LENDERS:

- Reliable credit.
- Over-collateralisation.
- Opportunity to build relationship with fund manager and win ancillary business.

CAPITAL CALL FACILITY – KEY FEATURES



CASE STUDY – BORROWING BASE LIMIT („BBL”)

1/2

Borrowing Base Limit means the lower of:

- a) Total Commitments (“TC”)¹; and
- b) Uncalled Capital Commitments (“UCC”)

¹generally, an amount substantially less than 100% of the total capital commitments

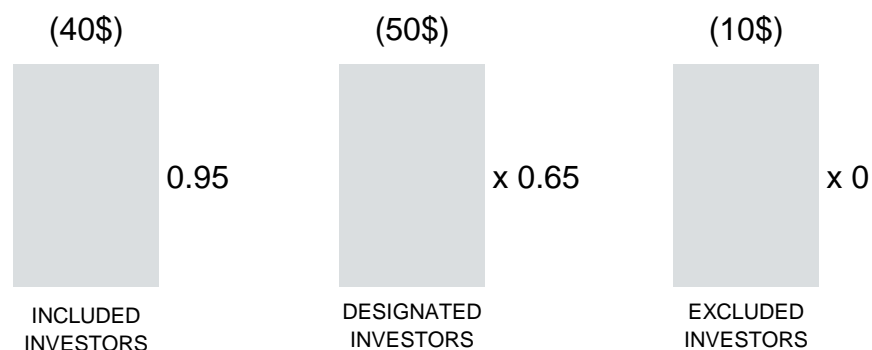
STEP 1

Base Case Scenario

$$\left. \begin{array}{l} TC = 40\$ \\ UCC = 100\$ \end{array} \right\} BBL = 40\$$$

STEP 2

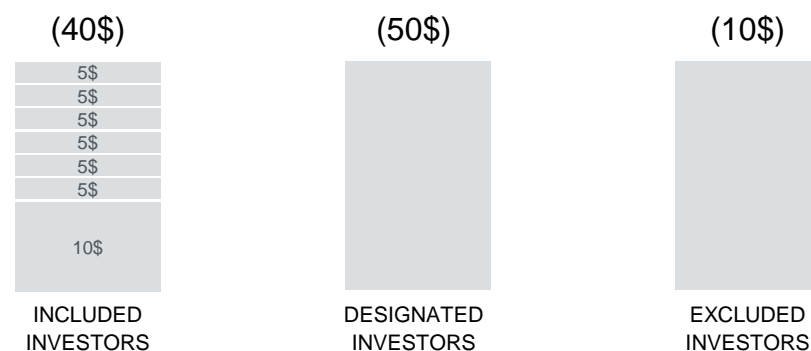
Advance Rate



$$\left. \begin{array}{l} TC \Rightarrow 40\$ \\ UCC \Rightarrow 38\$ + 32.5\$ + 0 = 70.5\$ \end{array} \right\} BBL = 40\$$$

STEP 3

Concentration Limits



Concentration limit:

with respect to any Included Investor	15%
with respect to any Designated Investor	5%

$$\left. \begin{array}{l} TC \Rightarrow 40\$ \\ UCC \Rightarrow 34\$(36\$ \times 0.95) + 32.5\$ + 0 = 66.5\$ \end{array} \right\} BBL = 40\$$$

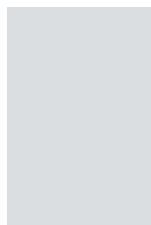
CASE STUDY – BORROWING BASE LIMIT („BBL”)

2/2

STEP 4

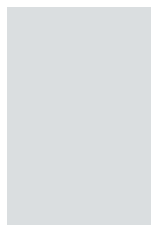
Capital Call

~~(40)~~ (35\$)



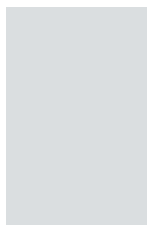
INCLUDED
INVESTORS

~~(50)~~ (45\$)



DESIGNATED
INVESTORS

~~(10)~~ (5\$)



EXCLUDED
INVESTORS

$$TC = 40\$$$

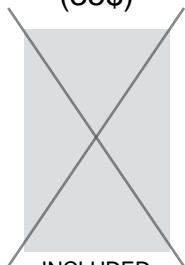
$$UCC = 30\$(31\$ \times 0.95) + 30 + 0 = 60\$$$

$$BBL = 40\$$$

STEP 5

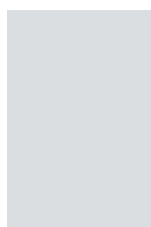
Exclusion Events

(35\$)



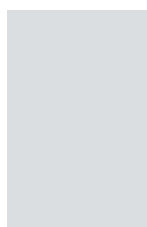
INCLUDED
INVESTORS

(45\$)



DESIGNATED
INVESTORS

(5\$)



EXCLUDED
INVESTORS

$$TC = 40\$$$

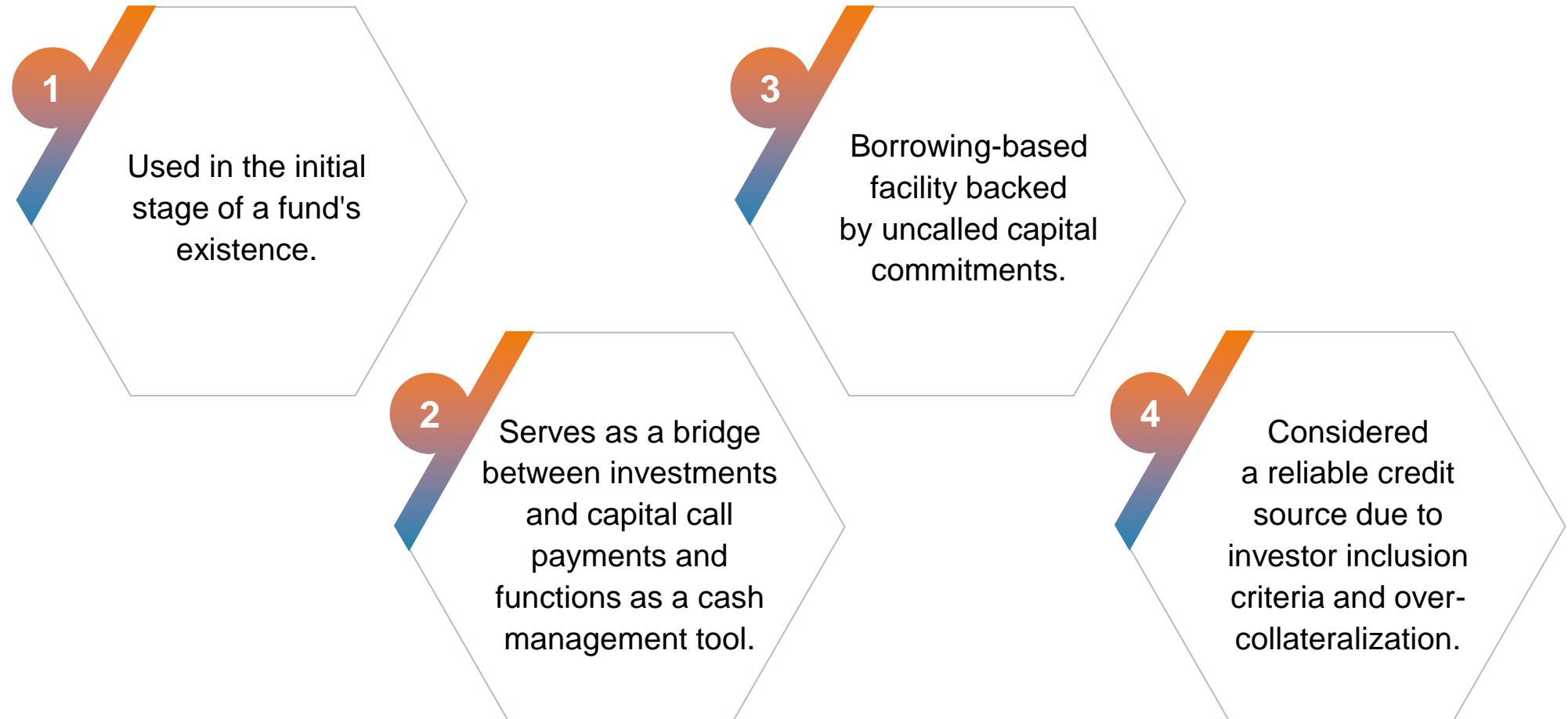
$$UCC = 0 + 30\$ + 0 = 30\$$$

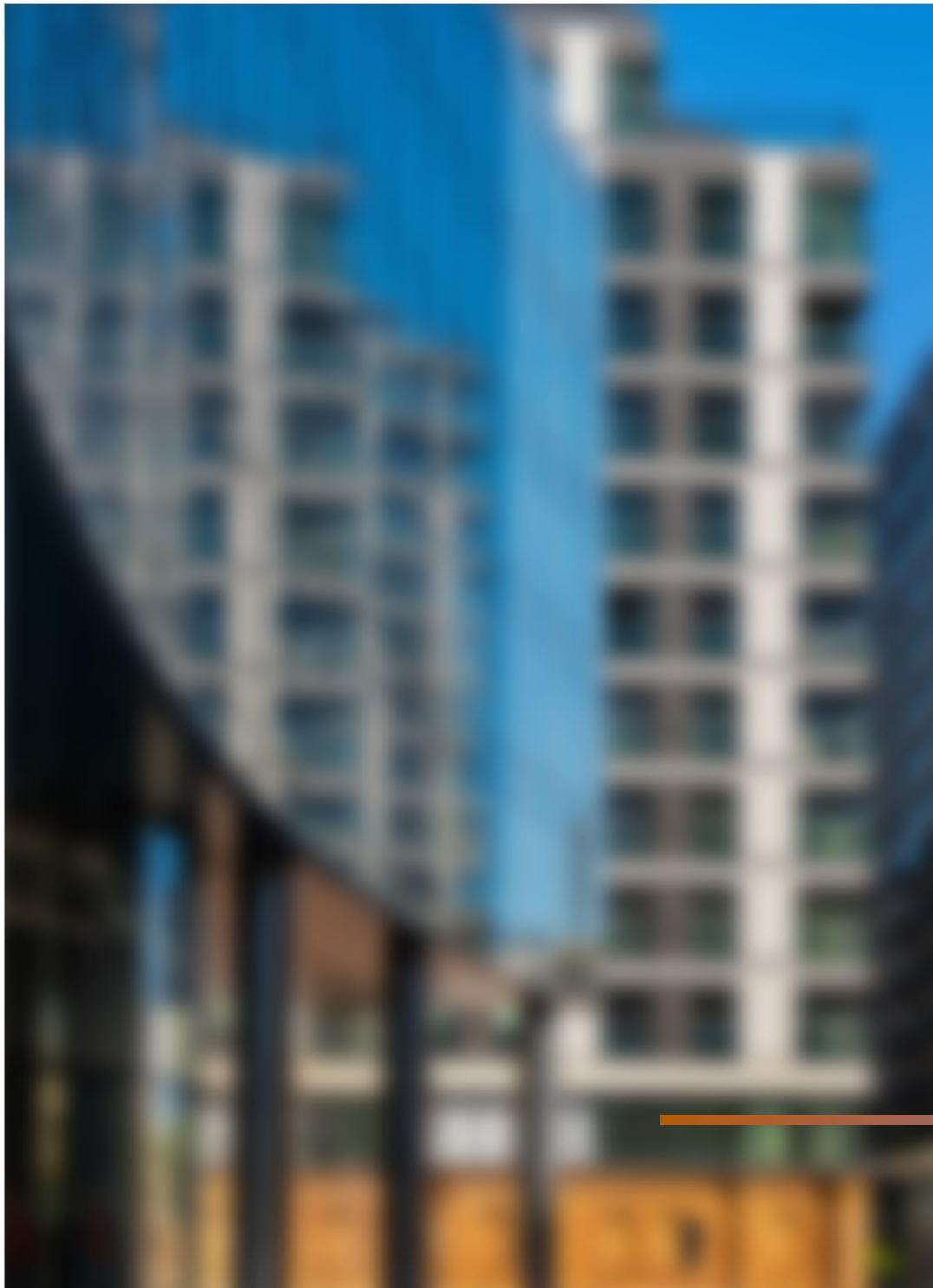
$$BBL = 30\$$$

STEP 6

Excess Amount Mandatory Pre-payment

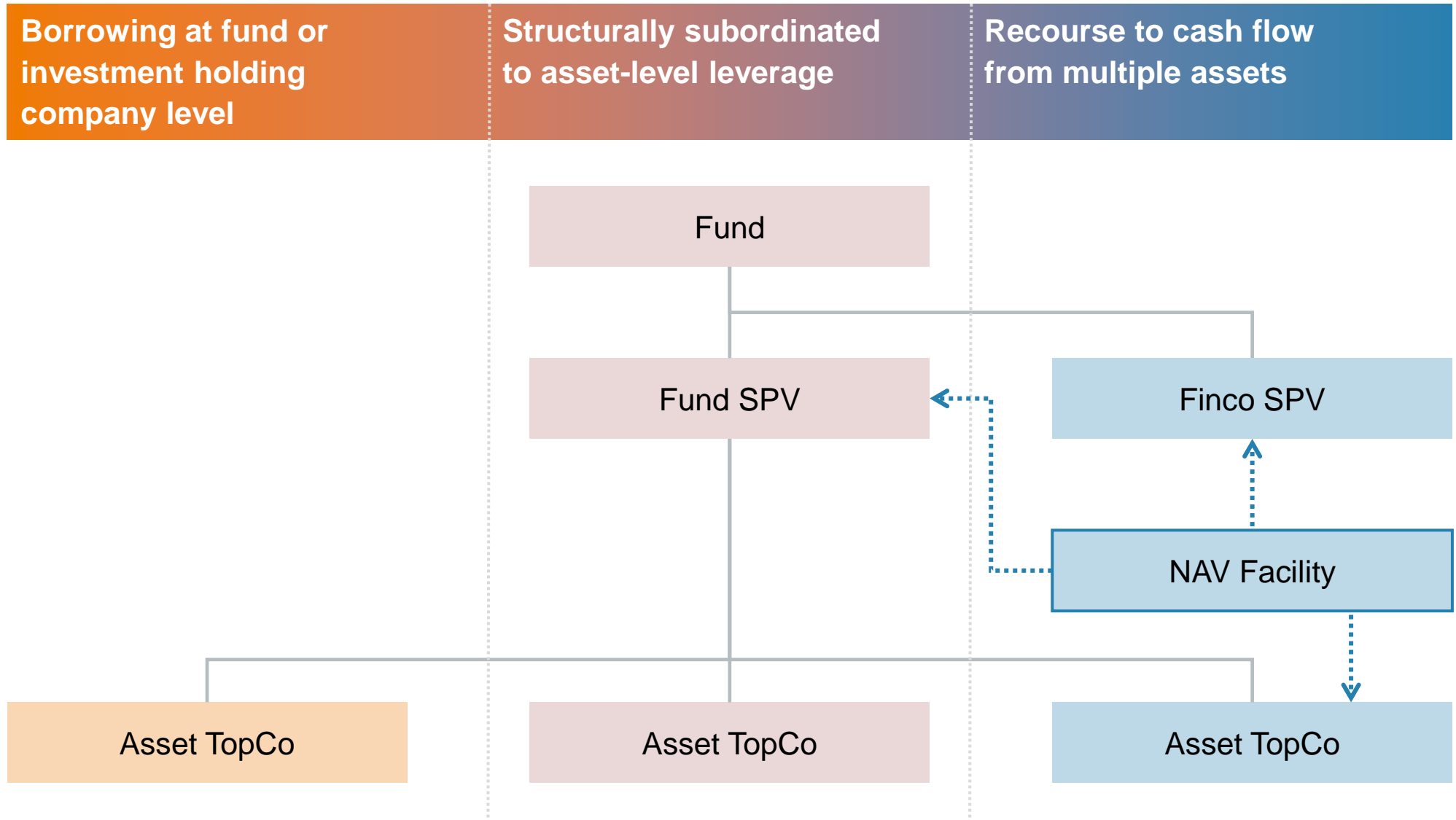
CAPITAL CALL FACILITY – KEY TAKEAWAYS





NAV FACILITY

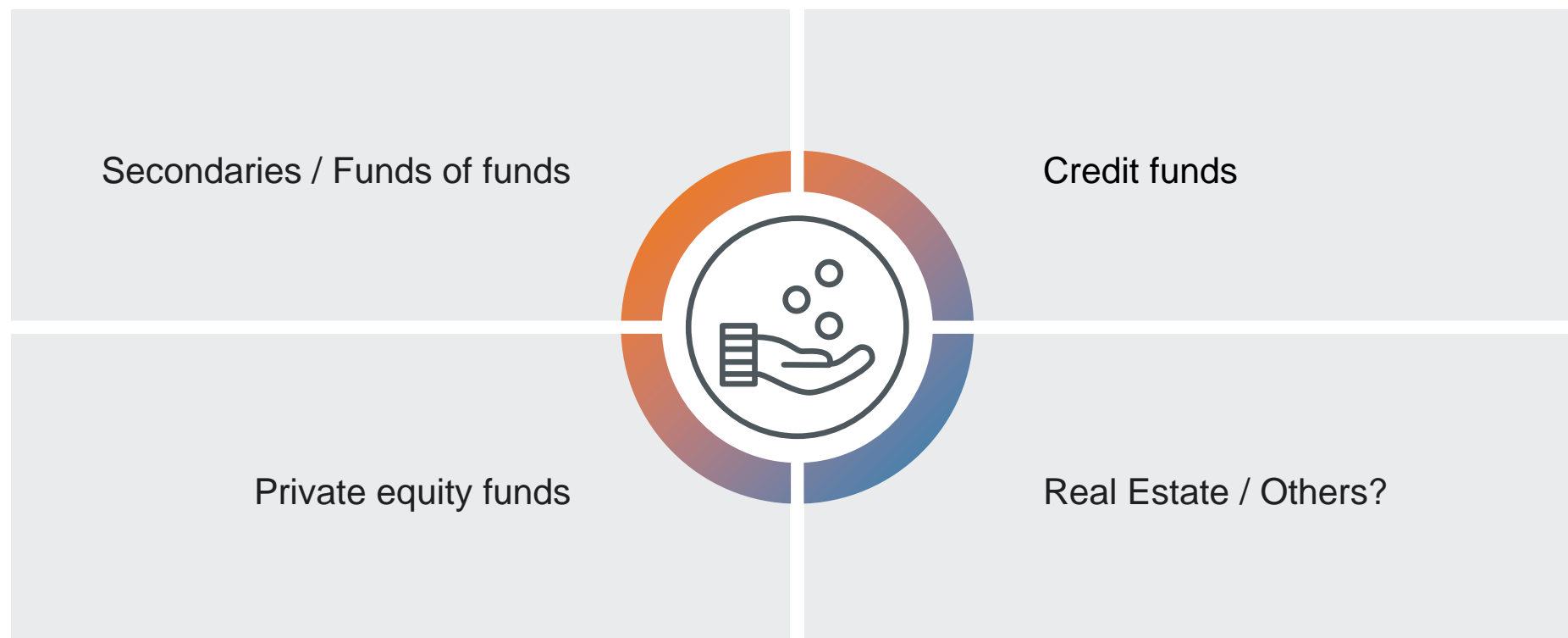
WHAT IS A NAV FACILITY?



WHO MIGHT BENEFIT FROM A NAV FACILITY?

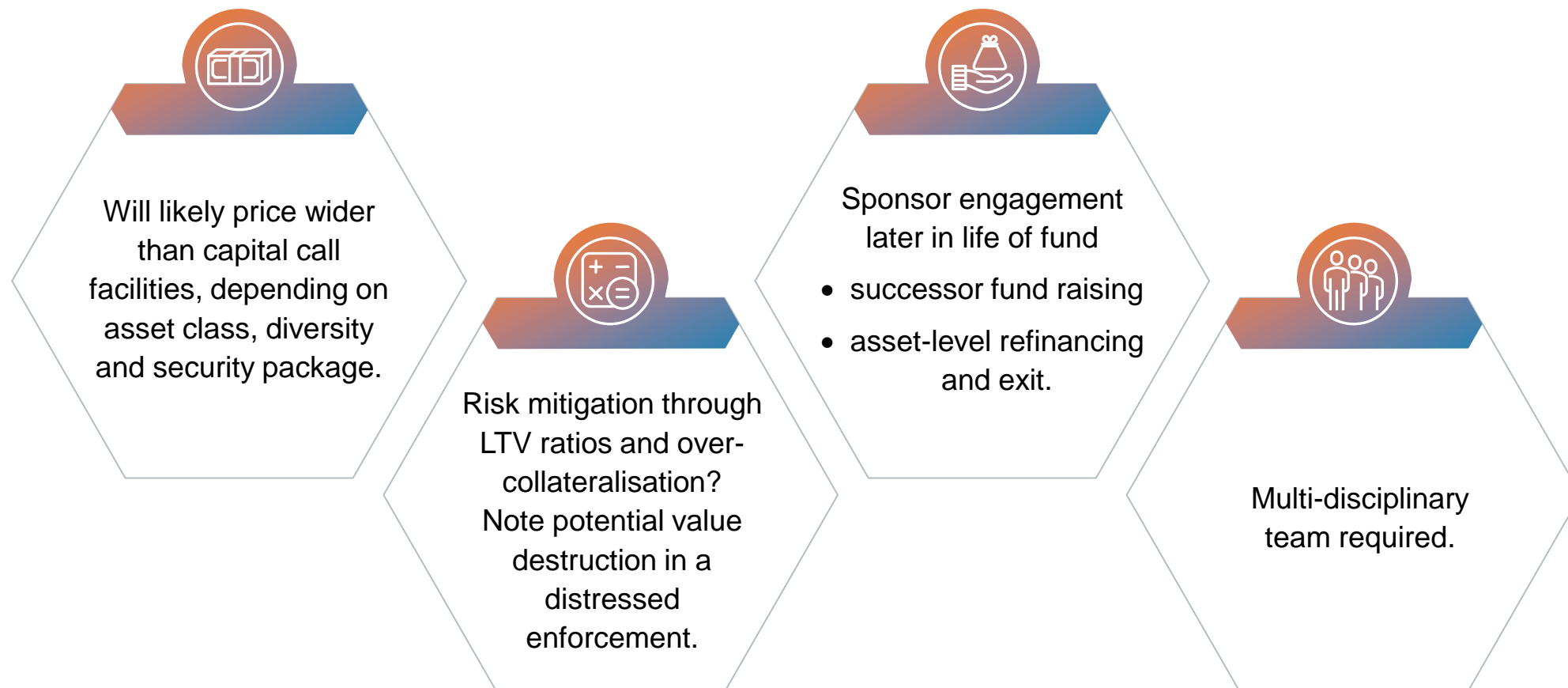
FUNDS:

- with limited remaining uncalled capital commitments
- looking for dividend recapitalisation without disposal of assets
- seeking upfront leverage or end-of-life facilities?



CONSIDERATIONS FOR A NAV FACILITY PROVIDER

PROS & CONS



KEY CONSIDERATION

SECURITY



ASSET-LEVEL DILIGENCE

Required for **grant of security** and **enforcement** analysis

- **IN A PE CONTEXT**
co-invest/shareholder agreements, acquisition financing documents and structurally senior debt
- **IN A CREDIT FUND CONTEXT**
underlying loan agreements
- **IN A SECONDARY CONTEXT**
GP consent to the (direct/indirect) transfer of the LP interests.



WHAT SECURITY TO TAKE?

- Holdco share pledge and account security
- “All assets” security (e.g. an English ‘floating charge’ or a Polish asset pledge).
- Additional jurisdiction-specific and asset-specific security?
- Local law requirements
- Notification / perfection?

KEY CONSIDERATION

ASSET VALUE AND CASH FLOW



VALUATION OF SECURED ASSETS

- Fund's own valuation as reported to its LPs?
- Lender's own valuation (triggers, costs and consequences)?
- Third party valuation agency?
- Intra-period revaluations?



DEBT SERVICE

- Restrictions on upstream payments from assets to be diligenced.
- PIK optionality?
- Asset disposals / reinvestment rights

INFORMATION AND FINANCIAL COVENANTS

ASSET VALUE AND CASH FLOW



COVENANTS AND TRIGGER EVENTS



UNDERTAKINGS

- Fund
- Asset TopCos
- Asset HoldCos/OpCos



TRIGGER EVENTS

Can be used to:

- ratchet pricing
- require prepayment
- require additional collateral
- block accounts
- enforce security



QUESTIONS

CONTACT DETAILS



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