Seward & Kissel Presents:

MEET THE FUND BANKER SERIES

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The regional banking crisis last year, which disproportionately impacted the fund finance industry, and the exit of other lenders from the fund finance market has resulted in a liquidity crunch in the fund finance space. Now that the dust has settled from the banking crisis, market participants have been asking: What bank and non-bank lenders will emerge to fill this shortage of supply? To answer this question, Seward & Kissel's Fund Finance Group has created this "Meet the Fund Banker" series.

The goal of this series is to highlight those lenders who are leaning in to the fund finance space and actively looking to serve as financing partners. In order to facilitate connections between funds and potential lenders and provide clarity around the "new normal" of fund finance, this series will introduce the primary people standing behind the new market leaders and provide color on what those lenders look for in potential clients. Each installment of the series will feature a Q&A with the individual banker who is heading up the lender's fund finance business.

We hope that this series is a helpful resource for all participants in the fund finance industry. Readers should feel free to reach out to the bankers who are being featured for more information or to Jeff Berman, Steven Starr and Rob Wood at Seward & Kissel for any assistance with their fund financing needs.

Best,

Jeff, Steve and Rob

Jeff Berman

Steven Starr

Robert Wood

If you have any questions, please contact Jeff Berman (berman@sewkis.com ,212-574-1232), Steven Starr (starr@sewkis.com, 212-574-1405) or Robert Wood (wood@sewkis.com, 212-574-1244).

CHRIS GRIER

DIRECTOR, FUND FINANCE TEAM AT EVERBANK

What is your position/role at your bank?

I am a Director in the newly formed Fund Finance team at EverBank. My long term focus will be on syndications and distribution. For now, given how new our business is, everyone at Everbank is wearing a lot of hats and we are all working on origination, underwriting, loan operations and portfolio management. My time at Everbank has been an incredible learning experience, especially compared to my prior time at larger institutions where roles and responsibilities at each stage of closing, booking, funding, and managing a deal were handled by siloed teams. My initial focus is on participations and bilateral facilities as we build out our portfolio, but I am also working on the back office support for syndication and agenting capabilities.

How did you get involved with fund banking?

I started on the Bank of America ABS Warehouse Lending team as an analyst supporting the full array of ABS asset classes. There were a handful of subscription facilities for Corporate Banking clients that were originated and managed out of the group despite being very different from the ABS warehouse deals. I found the unique nature of each subscription facility and the added complexity of fund investment strategies/asset performance to be far more interesting than the “rinse and repeat” nature of the large, broadly syndicated ABS warehouse transactions. The number of sublines managed by the ABS warehouse team increased dramatically as the fund finance market grew, so they eventually spun out a dedicated subscription line team. I chose to remain with this “Subscription Finance Group” which originated and managed large syndicated facilities for top-tier sponsors. In 2021, I joined a newly formed syndication team at SVB to support the massive portfolio growth of their Global Fund Banking team. I started with EverBank in August when the sale of TIAA Bank to a private equity backed consortium was completed.

What appeals to you most about this industry?

Fund finance is an incredible engine of financial and structural innovation. The flexibility of the private markets (which is the primary funding source for fund finance facilities) allows for nuance and creativity in using complex legal structures to find solutions to financing needs. In addition, being on the syndication side at SVB gave me an added appreciation for the tight-knit nature of the fund finance community.

What developments do you expect to see in the fund finance market over the coming year?

I expect the continuation and deepening of trends that we saw during the past year. This includes financing for open ended fund structures, which have typically experienced difficulty sourcing subscription financing. I expect to see more funds opt for these open ended and evergreen structures as they seek to attract capital in a difficult fundraising environment. I also expect to see more insurance money and sovereign wealth funds as investors, possibly in the form of more direct partnerships with managers than typical co-investment arrangements. I expect to see many more financing requests for highly concentrated funds and SMAs as managers look for options to monetize the large commitments from these anchor LPs without calling capital. I also expect more SMA facilities and bespoke financings as larger investors exert more control and demand more customized investment offerings. In connection with this development, I expect to see funds use rated note feeder structures in order to accommodate the capital requirements of these LPs. I expect this trend to drive more tranched structures and products in an effort to differentiate risk return profiles for facilities backed by the commitments of big ticket LPs.

What is the biggest challenge facing the fund finance market right now? Are there any solutions that will help address that change?

Our industry's biggest challenge is the significant decrease in the supply of credit as regional banks exit the space and many lenders move away from a loan growth position. On the positive side, these supply constraints have helped to impose much needed discipline on borrowers. Facilities are being right-sized as fund borrowers adjust to the slowdown in deal activity and balance the cost of higher fees against the desire to have an "ideal" facility size. As a result of increases in commitment fees (especially tiered fees based on line usage), it is no longer typical for borrowers to sign up a facility that maxes out the debt limitation in their LPA. Today fund borrowers generally look for a facility size that aligns with a realistic assessment of their borrowing needs.

While other lenders see these developments as a challenge, at Everbank our view is that these changes are creating new opportunities. I believe that the difference in outlook between lenders is related to how fund finance divisions are positioned within various institutions. For example, banks that grew their fund finance portfolios as an entry point to cross sell other services are experiencing increased competition for this ancillary business, which reduces the appeal of their fund finance portfolio (particularly given the focus of many lenders on reducing their hold sizes).

Where do you see your bank positioned in the fund finance market? What does your bank offer that sets it apart from other banks?

The entire thesis of our business is a focused fund finance product offering that solves the complex financing problems that other banks are unable or unwilling to solve. Even though our age (~5 months) puts us at the fund finance "kids' table", our private equity backing and laser focus on the fund finance industry uniquely positions us to capture high yielding, low risk deals that do not fit in a box for the big banks. We have a unique credit process that enables us to offer bespoke solutions for clients that more traditional banks cannot offer at a price that is more reasonable than that offered by private money lenders. We do not intend to be the lowest priced option in the market, and instead intend to be the final stop when sponsors are shopping a financing need.

We think we will be very relevant as a supplemental financing provider specializing in bespoke financings for large top tier sponsors. We also anticipate being relevant to the underbanked, new fund manager market and lower middle market firms because these borrowers often have difficulties connecting with the larger bank lenders. From a fund strategy standpoint, traditional buyout private equity will always be a focus, however we see increasing opportunities for tangential connectivity and innovation with managers of private credit and secondary/liquidity strategies.

What potential clients is your bank most interested in?

Personally, I always like the nice ones – life is short and I want to spend my time working with decent folks (who, thankfully, are plentiful in our industry). At the firm level, we target any alternative investment manager that is struggling to find viable solutions with their current relationship lenders or who feels that their credit provider does not understand their financing needs. From a product perspective, we are evaluating everything, but are currently underwriting and originating subscription facilities, hybrid facilities and NAV facilities.

We do not have the same product breadth as big banks which makes cross-sell less of a focus; as a result, we view every transaction on a standalone basis. For that reason, we are not looking for borrowers or funds that want a single financing partner who can provide a broad spectrum of financing products. We are also generally not focused on plain vanilla, middle of the fairway subscription finance deals, as there are plenty of relationship lenders that offer that product at competitive terms.

What is your bank's strategy to grow its market share of the fund finance market?

Our strategy is to use our high yielding, low loss fund finance portfolio to provide competitive deposit rates, thereby driving more deposits and increasing the size of our portfolio.

Most banks with fund finance departments rely on diversification across products and industries outside of fund finance to keep losses low; however this approach pulls down returns and the rates that they can offer depositors. At EverBank, in line with traditional portfolio theory, we believe our portfolio of fund finance loans maximizes returns while limiting risk, and we are actively seeking deposits to enable us to use leverage to double down on this portfolio.

What is your favorite thing to do when you're not working on fund finance?

Spending time with my family. Now that I have transitioned from a fully remote arrangement with SVB to fully in the office with EverBank, I have even more appreciation for the quality time that I spend with family. My wife Caroline and I have two kids that are super cool, Isla (almost 5 years old) and Hayes (2.5 years old). We enjoy painting and making art as a family and recently held a successful art show at a gallery in Charlotte where we sold 25 of 27 large art pieces! I also spend a lot of my free time playing music, specifically jazz guitar.