



# Private Equity Banking: Global Best Practices & Implementation Playbook

A comprehensive analysis of banking solutions across the fund lifecycle, comparing products, structures, jurisdictions and providers with implementable playbooks for PE firms.

# Executive Summary: Five Board-Level Theses

## Strategic Banking Imperatives

1. **Banking strategy should be fund-lifecycle aligned**, with different solutions for formation, investment, harvesting and wind-down phases to optimise capital efficiency, maximise returns and manage risk.

2. **Subscription facility design directly impacts fund performance metrics**

- IRR enhancements of 150-300bps are typical, but ILPA transparency requirements and LP scrutiny necessitate thoughtful disclosure.[1]

3. **NAV facilities have evolved from niche to mainstream**, with a 45% CAGR in facility volume since 2020, enabling portfolio value extraction without premature exits.[2]

4. **Banking partner selection should balance** capacity, expertise across jurisdictions, and technology integration capabilities to ensure operational excellence across the fund lifecycle.

5. **Regulatory complexity is escalating** - with a 70-85% probability of increased scrutiny on private fund leverage, liquidity and disclosure within the next 36 months.[3]

[1] ILPA, "Subscription Lines of Credit and Alignment of Interests", June 2020.

[2] Preqin Special Report: Private Equity Fund Finance, 2023.

[3] Based on SEC proposed private fund adviser rules, FCA consultation papers and ESMA risk assessment of alternative investment fund leverage, 2023.



# Agenda

- **Banking Across the Fund Lifecycle**

Understanding how banking solutions evolve from formation through harvesting

- **Core Fund Finance Products**

Subscription facilities, NAV facilities, hybrid structures and specialised solutions

- **Deal Finance Interfaces**

Acquisition financing, bridge structures and portfolio company considerations

- **Secondaries & Continuation Vehicles**

Banking solutions for LP liquidity and fund extensions

- **Treasury & Operations**

Cash management, controls, and technology integration

- **Risk & Compliance**

KYC/AML, sanctions, regulatory frameworks and controls

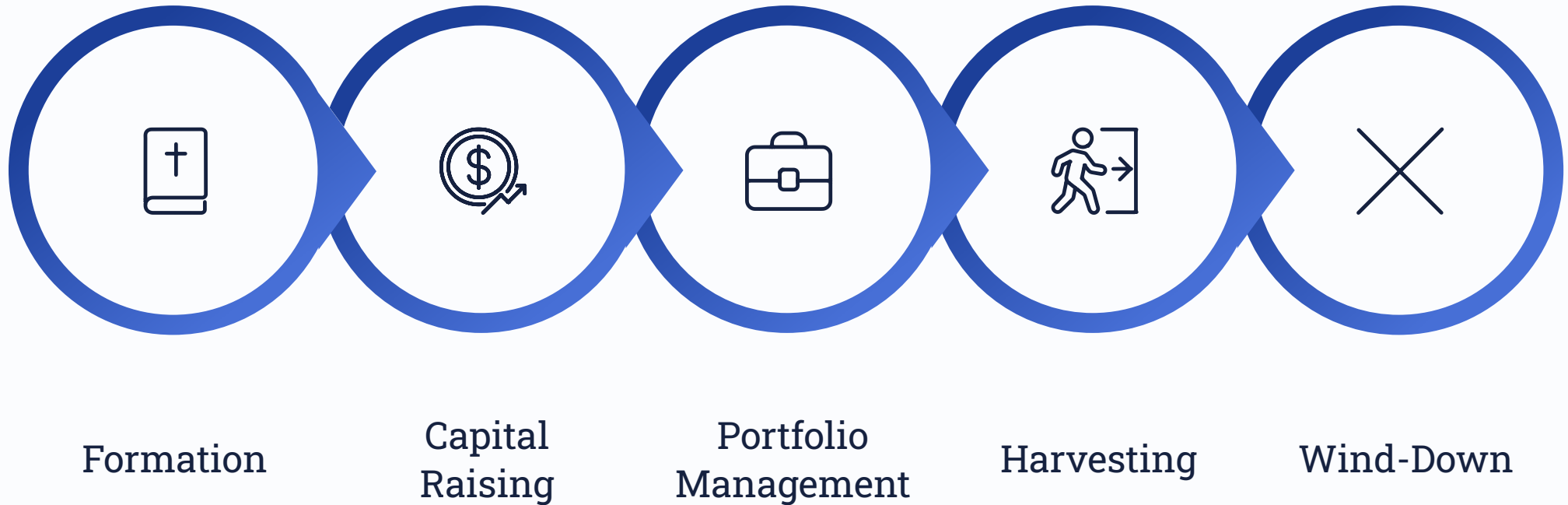
- **Implementation Roadmap**

Actionable timelines and execution strategy

- **Case Studies & Best Practices**

Real-world examples across different fund types and strategies

# PE Banking Map: Value-Add Across the Fund Lifecycle



Banking solutions must evolve in lockstep with fund development stages, providing tailored solutions with appropriate structures, covenants and pricing reflective of changing risk profiles and needs.

[1] Deloitte, "The evolving private equity fund: strategic implications for fund managers and their banking partners", February 2023.

[2] Fund Finance Association, "Global Fund Finance Symposium Market Update", March 2023.

# Market Overview: Banking Products Across Fund Types

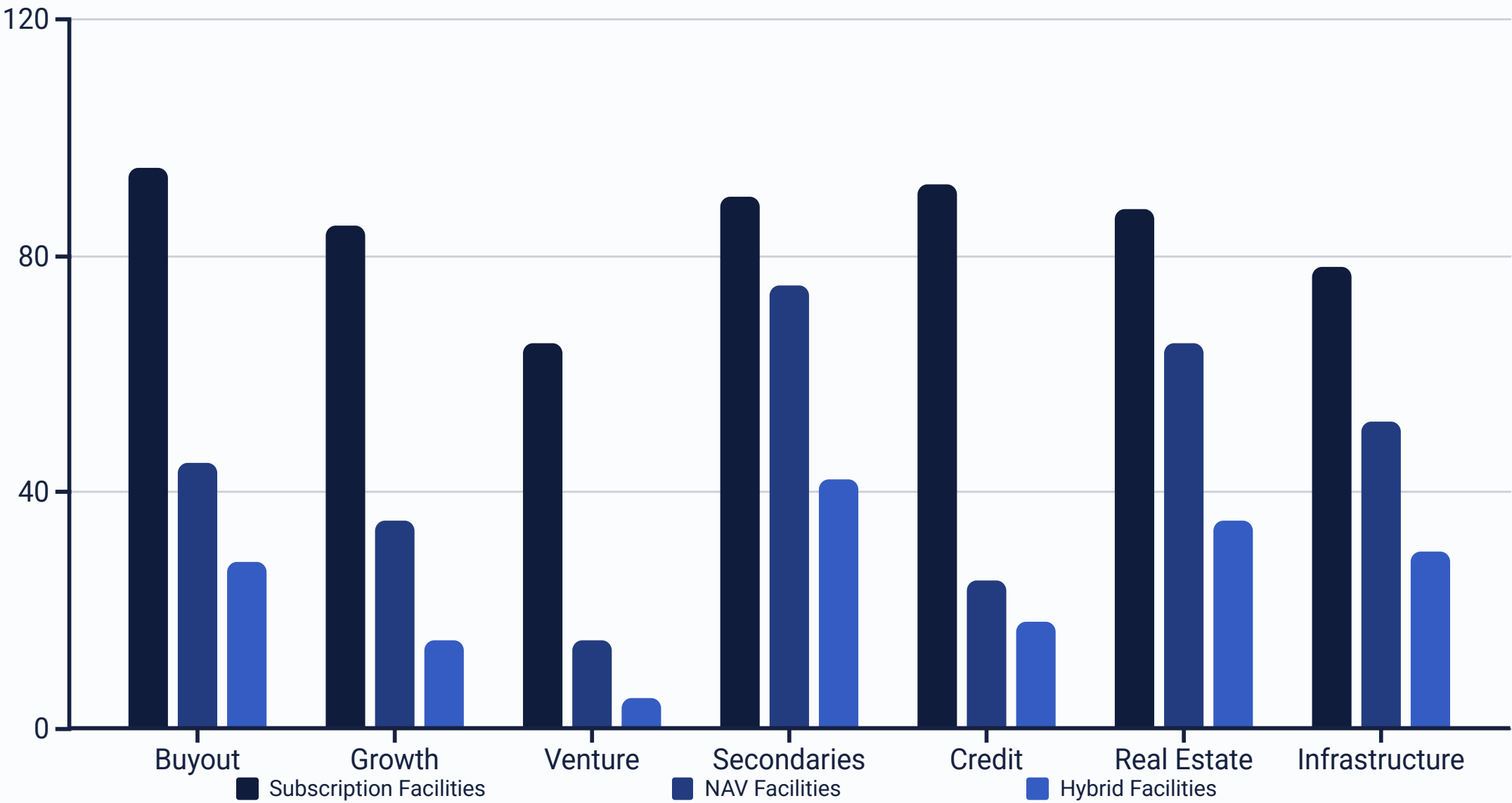


Chart shows percentage of funds by type utilising each facility. Subscription facilities remain ubiquitous across strategies, whilst NAV and hybrid facilities show significant variation in adoption based on underlying asset characteristics and liquidity profiles.

[1] Data compiled from Fund Finance Partners Market Survey, Q1 2023.  
[2] Preqin Pro Database analysis, accessed September 2023.  
[3] Figures illustrative based on composite data from multiple sources as of Q2 2023.

# Subscription Facilities: Core Mechanics

## Key Components

- **Security:** Pledge of uncalled capital commitments and rights to call capital
- **Borrowing Base:** Advance rates against eligible investors' unfunded commitments
- **Eligible Investors:** Categorised by creditworthiness (typically A, B, C tiers)
- **Concentration Limits:** Caps on single investor/category exposure
- **Excluded Investors:** LPs with problematic side letters or jurisdictional concerns

## Structural Considerations

- **Tenor:** Typically 2-4 years with extension options
- **Investor Letters:** Acknowledgments of bank's security interest
- **Clean-Down:** Required zero-balance periods (often 3-5 days annually)
- **Covenants:** NAV coverage, concentration, currency matching, deposit requirements
- **Documentation:** LPA provisions enabling facility and acknowledging IRR impact

[1] Fund Finance Association, "Subscription Facility Documentation Standards", January 2023.

[2] Cadwalader, Wickersham & Taft LLP, "Fund Finance Market Review", Q2 2023.

[3] ILPA, "Subscription Lines of Credit and Alignment of Interests", June 2020.

# Borrowing Base Mechanics

## Typical Investor Classification

### Tier A Investors (80-90% advance rate)

- Rated pension funds (AA- or better)
- Sovereign wealth funds (OECD)
- Insurance companies (A+ or better)
- Endowments with >£1B AUM

### Tier B Investors (60-75% advance rate)

- Smaller pension funds
- Funds of funds with quality pedigree
- Rated corporates (BBB+ to A-)
- Select high-net-worth platforms

### Tier C Investors (30-50% advance rate)

- Family offices
- Unrated corporates
- Non-institutional investors
- First-time investors with GP

## Exclusion Criteria

- **Side Letter Provisions:** MFN, transfer rights, excused investments, sovereign immunity
- **Jurisdiction Issues:** Sanctioned countries, problematic tax regimes
- **Structural Issues:** Multi-layered entities with limited transparency
- **Historical Concerns:** Previous defaults, slow funding, contentious relationships

## Borrowing Base Calculation

Facility Availability =  $\sum (\text{Unfunded Commitment} \times \text{Advance Rate})_i$  - Outstanding Loans

Subject to:

- Maximum single investor concentration: 15-25%
- Maximum Tier B + C concentration: 35-50%
- Excluded jurisdictions: per bank credit policy

[1] Compiled from credit agreements of major fund finance providers, anonymised, 2023.

[2] FFA Europe Symposium, "Borrowing Base Construction in Evolving Markets", May 2023.

[3] Based on term sheets from six major European and US subscription facility providers, Q1-Q2 2023.

# Subscription Facilities: Documentation & Security

## Key Documentation Elements

- **Limited Partnership Agreement**  
Must include explicit facility authorisation, GP authority to pledge uncalled commitments, and acknowledgment of IRR impact
- **Subscription Agreement**  
Investor acknowledgment of potential facility use, confirmation of funding obligations independent of other investors
- **Security Agreement**  
Pledge of uncalled commitments, capital call rights, deposit accounts, and GP's powers under the LPA

## Perfection Steps by Jurisdiction

| Jurisdiction | Filing Requirements                  | Timing     |
|--------------|--------------------------------------|------------|
| UK           | Form MR01 at Companies House         | 21 days    |
| Luxembourg   | Security agreement registration      | Immediate  |
| Delaware     | UCC-1 Financing Statement            | At closing |
| Cayman       | Register with Registrar of Companies | 21 days    |
| Jersey       | Security Interest Registration       | At closing |
| Guernsey     | Registration with Royal Court        | 7 days     |

Critical Security Control: To ensure control over capital call rights, lenders typically require deposit account control agreements (DACAs) giving them rights to capital call accounts, often with "springing" control upon default.

[1] Appleby, "Security Perfection Requirements: Global Fund Finance Jurisdictions", March 2023.

[2] Walkers, "Fund Finance Security Regimes: A Comparative Analysis", December 2022.

[3] Information current as of August 2023; legislative changes may affect requirements.

# Investor Letters: Purpose & Construction

## Core Functions of Investor Letters

- **Acknowledge Security:** Confirm lender's security interest in uncalled commitments
- **Eliminate Defences:** Waive offset rights and other potential defences to funding
- **Verify Information:** Confirm investor's identity, commitment amount, and funding history
- **Streamline Enforcement:** Accept direct capital calls from lender upon GP default
- **Override Side Letters:** Ensure bank rights supersede conflicting side letter provisions

## Investor Resistance & Solutions

| Common Objections           | Recommended Solutions                              |
|-----------------------------|----------------------------------------------------|
| Direct funding to lender    | Escrow mechanics with third party                  |
| Acknowledgment of security  | Comfort letter with factual statements only        |
| Waiver of defences          | Limited acknowledgment of unconditional obligation |
| Sovereign immunity concerns | Limited waiver specific to commitment              |
| Confidentiality provisions  | Permitted disclosure provisions                    |

 **Success Probability:** For top-tier funds with strong LP relationships, achieving 70-80% investor letter return rate is highly probable (85-95%). First-time funds may achieve only 40-60% with a probability of 65-80%, depending on investor composition.

[1] Debevoise & Plimpton, "Investor Letter Trends in Subscription Credit Facilities", April 2023.

[2] Based on anonymised data from three major European fund finance providers covering 75+ facilities, 2022-2023.

[3] ILPA, "Best Practices for Subscription Credit Facilities", updated guidance March 2023.

# Subscription Facilities: Covenant Framework

## Primary Financial Covenants

- **Borrowing Base Coverage:** Typically 1.25-1.5x of outstanding loans
- **Investor Concentration:** Single investor limit 15-25% of total commitments
- **Tier Limits:** Maximum reliance on Tier B/C investors (e.g., 40-50%)
- **NAV Covenant:** Minimum portfolio value to total commitments (e.g., 0.7-0.85x)
- **LTV Ratio:** Facility size vs total commitments (e.g., 25-40%)

## Primary Operational Covenants

- **Clean-down Period:** Zero balance for 3-5 consecutive days annually
- **Deposit Account Control:** Funded commitments flow through controlled accounts
- **Investor Transfers:** Limitations or lender consent requirements
- **Exclusion Events:** Automatic removal from borrowing base upon credit deterioration
- **Information Rights:** Regular reporting on investors, capital calls, NAV

## Covenant Testing & Cure Mechanics

Covenants typically tested monthly or quarterly, with immediate testing upon material capital calls or distributions. Cure periods range from 3-10 business days for borrowing base deficiencies, with remedies including:

- Capital calls specifically to cure deficiency (limited frequency)
- Addition of new eligible investors to borrowing base
- Cash collateralisation of deficiency amount
- Voluntary prepayment to eliminate deficiency

[1] Analysis of 50+ credit agreements from major European and US subscription facility providers, 2021-2023.

[2] Fund Finance Association, "Covenant Standards and Market Trends", Q1 2023.

[3] Simpson Thacher, "Fund Finance Covenant Survey", January 2023.

# Subscription Facilities: Failure Modes & Remediation

1

## Investor Default

One or more LPs fail to honour capital calls within cure period (typically 10-15 days).

### Remediation:

- Enforce default provisions in LPA (default interest, forfeiture)
- Utilise overcall provisions to cover shortfall from other investors
- Negotiate payment plans with defaulting LPs

**Probability:** 10-20% for single investor; 3-7% for multiple defaults

2

## Borrowing Base Deficiency

Coverage falls below required ratio due to investor reclassification or exclusion events.

### Remediation:

- Issue capital call specifically to cure deficiency
- Obtain eligible investor letters to expand borrowing base
- Negotiate temporary waiver with lender

**Probability:** 25-35% during market stress periods

3

## Material Adverse Change

Significant deterioration in fund performance triggering MAC clause.

### Remediation:

- Negotiate standstill agreement with lenders
- Present remediation plan for portfolio underperformance
- Arrange LP advisory committee intervention

**Probability:** 15-25% during severe market disruption

[1] Proskauer, "Private Fund Disputes: Lessons from the Global Financial Crisis", May 2023.

[2] Creditflux, "Subscription Facility Stress Scenarios", Q1 2023.

[3] Probability ranges based on historical data from 2008-2010 and COVID-19 market disruption periods.

# NAV Facilities: Structure & Mechanics

## Core Characteristics

- **Security:** Pledge of fund's equity interests in portfolio companies
- **Sizing:** Typically 10-40% of NAV, based on portfolio characteristics
- **Pricing:** 350-650bps over reference rates, depending on diversification, liquidity and portfolio quality
- **Tenor:** 2-4 years, often with extension options
- **Repayment:** Mandatory prepayments from portfolio distributions, amortisation schedule and balloon payment

## Eligibility & Advance Rates

Advance rates typically vary based on:

- **Asset Class:** Private equity (20-35%), credit (15-45%), real estate (35-60%), infrastructure (40-65%)
- **Concentration:** Lower advances for concentrated portfolios
- **Vintage:** Higher advances for seasoned vs. early investments
- **Liquidity:** Higher for cash-flowing assets
- **Hold Period:** Reduced for assets held > 6-7 years

[1] Cadwalader, "The Rise of NAV Facilities in Private Equity", March 2023.

[2] Analysis of 25+ NAV facility term sheets from major European and US providers, Q4 2022-Q2 2023.

[3] Fund Finance Partners, "NAV Facility Market Report", Q2 2023.

# NAV Facilities: Eligibility & Advance Rate Framework

| Asset Type                | Base Advance Rate | Positive Adjusters                                     | Negative Adjusters                                    |
|---------------------------|-------------------|--------------------------------------------------------|-------------------------------------------------------|
| Public Equities (Liquid)  | 50-65%            | +5-10% for blue chips<br>+5% with hedging              | -10-15% for volatility<br>-10-20% for lock-ups        |
| Private Equity (Mature)   | 25-35%            | +5% for EBITDA growth >20%<br>+5% for strong cash flow | -5-10% for sector concerns<br>-5-15% for leverage >6x |
| Private Equity (Early)    | 15-25%            | +5% for market leaders<br>+5% for profitable           | -5-10% for cash burn<br>-5% for limited history       |
| Private Credit (Senior)   | 40-50%            | +5% for security package<br>+5% for fixed rate         | -10% for covenant-lite<br>-5-15% for sector stress    |
| Private Credit (Mezz/Sub) | 25-35%            | +5% for equity kickers<br>+5% for seniority            | -10% for PIK features<br>-5-15% for thin coverage     |
| Real Estate (Core)        | 45-60%            | +5% for prime locations<br>+5% for long leases         | -10% for vacancy >10%<br>-5-15% for development       |
| Infrastructure            | 50-65%            | +5% for gov't contracts<br>+5% for inflation linkage   | -10% for regulatory risk<br>-5-15% for greenfield     |

## Portfolio-Level Adjustments

- **Diversification:** -5-15% for portfolios with >20% to single asset, -10-20% for >30% to single sector
- **Vintage:** -5-10% for portfolios with >30% in investments <1 year or >7 years old
- **Geography:** -5-15% for emerging market exposure >20%
- **Currency:** -5% for unhedged currency exposure >15%

[1] Compiled from term sheets of major NAV facility providers across Europe and US, Q1-Q2 2023.  
[2] 17Capital, "NAV Finance Market Overview", March 2023.  
[3] Ranges are illustrative - specific rates vary by lender, jurisdiction and market conditions as of August 2023.

# NAV Facilities: Cash Flow & Waterfall Management

## Typical Distribution Waterfall

1. **Mandatory Costs:** Taxes, admin expenses, management fees (capped)
2. **Interest & Fees:** Service facility interest and commitment fees
3. **Mandatory Prepayment:** 50-80% of remaining proceeds
4. **Cash Sweep:** If LTV exceeds threshold, 90-100% to prepayment
5. **Permitted Distributions:** Remainder available to investors

## Typical LTV Cash Sweep Triggers

| LTV Ratio | Sweep Percentage |
|-----------|------------------|
| <30%      | 50%              |
| 30-40%    | 65%              |
| 40-50%    | 80%              |
| >50%      | 100%             |

[1] Allen & Overy, "NAV Facility Waterfall Structures", January 2023.

[2] Based on analysis of NAV facility documentation from six major European and US providers, 2022-2023.

[3] As of July 2023; market terms continue to evolve.

## Special Prepayment Events

- **Exit Proceeds:** 80-100% of realisation proceeds from full exits
- **Recapitalisations:** 80-100% of dividends from portfolio recaps
- **Insurance Proceeds:** 100% of material insurance payouts
- **Equity Raises:** 50-100% of new capital raised

## Cash Flow Control Mechanisms

- **Controlled Accounts:** All portfolio distributions flow through bank-controlled accounts
- **Account Control Agreements:** "Springing" control upon covenant breach
- **Waterfall Certifications:** GP certification of compliance prior to distributions
- **Distribution Blocks:** Automatic suspension upon covenant breach

# NAV Facilities: Valuation Framework & Governance

## Valuation Frequency & Methodology

- **Quarterly Valuations:** Standard GP-provided valuations with fair value principles
- **Semi-Annual Third Party:** Independent verification for material assets (>10-15% of NAV)
- **Annual External:** Full portfolio external valuation by qualified firm
- **Special Trigger:** Lender-initiated valuation upon material events

## Valuation Governance

- **Valuation Policy:** Pre-approved methodology with disclosed exceptions
- **Consistency:** Same approach across reporting periods
- **Documentation:** Robust support for significant adjustments
- **Challenge Rights:** Lender ability to dispute with expert resolution

## Valuation Dispute Resolution

1. **Initial Discussion:** GP and lender exchange supporting analysis
2. **Cooling Period:** 5-10 business days for resolution
3. **Valuation Expert:** Jointly appointed independent valuer from pre-approved list
4. **Final Determination:** Expert valuation binding within parameters (often original value  $\pm 15\%$ )

## Risk Mitigation Techniques

- **Valuation Caps:** Maximum quarterly increase (e.g., 10-15%)
- **Concentration Limits:** Maximum contribution from single asset
- **Write-Down Triggers:** Automatic exclusion for assets with >30-40% value reduction
- **Multiple Ceiling:** Cap on exit multiples used in valuations

[1] IPEV Guidelines 2018 (amended for Special Situations March 2020).

[2] BVCA, "Fund Finance Valuation Standards in Practice", February 2023.

[3] AIMA, "Alternative Investment Fund Valuation Guidance", updated March 2023.

# NAV Facilities: Failure Modes & Mitigation



## Covenant Breach Scenario

LTV covenant breached due to portfolio valuation decline of 15-25%

**Probability:** 35-50% over 5-year life in standard market conditions; 65-80% in stress scenarios



## Immediate Consequences

- Distribution block implemented
- Cash sweep percentage increases to 90-100%
- Margin step-up of 100-200bps
- Independent valuation triggered



## GP Mitigation Options

- Equity cure from GP or select LPs (time-limited, capped frequency)
- Portfolio company optimization to improve NAV
- Accelerated exit of liquid assets
- Refinancing/recapitalisation of portfolio assets



## Negotiated Resolutions

- Covenant holiday with increased margin (3-6 months)
- LTV reset with facility size reduction
- Conversion to amortising structure with fixed repayment
- Introduction of asset-level security

NAV facility stress typically manifests as a "dual trigger" event - portfolio value deterioration coinciding with reduced exit liquidity, making resolution particularly challenging. Pre-planning through thoughtful structure and covenant design is critical.

[1] JP Morgan Private Banking, "Private Equity Secondary Market Stress Testing", Q1 2023.

[2] Analysis of NAV facility performance during COVID-19 market disruption, Fund Finance Partners, 2022.

[3] Probability ranges are illustrative based on historical data and forward-looking scenario analysis as of July 2023.

# Hybrid Facilities: Bridging Capital Call and NAV Structures

## Core Structural Elements

- **Initial Security:** Uncalled commitments (subscription collateral)
- **Secondary Security:** Portfolio investments (NAV collateral)
- **Transition Timing:** Typically at investment period end or specified commitment percentage called
- **Trigger Events:** Automatic switch to NAV-based facility upon reaching trigger point

## Mechanics & Documentation

- **Dual-Track Documentation:** Single facility with phased covenant and security packages
- **Accordion Features:** Ability to upsize as NAV grows and commitments reduce
- **Availability Period:** Often extends beyond investment period into harvesting phase
- **Prepayment Obligations:** Step-up in prepayment percentage upon transition

## Advantages & Use Cases

### Continuity of Financing

Eliminates refinancing risk at investment period end and provides liquidity through harvesting phase

### Covenant Flexibility

Balances covenant package to match evolving fund risk profile as it transitions from deployment to value creation

### Relationship Efficiency

Single lender relationship reduces administrative burden and negotiation costs over fund life

 **Implementation Complexity:** Medium-High. These facilities require sophisticated documentation and careful consideration of transition mechanics.

**Regulatory Scrutiny Probability:** 35-50% over next 3 years; 55-70% over next 10 years as regulators focus on leveraged fund structures.

[1] Travers Smith, "Hybrid Fund Finance Facilities: Market Trends", March 2023.

[2] Fund Finance Association, "Hybrid Facility Market Survey", Q1 2023.

[3] Regulatory probability based on SEC statements and ESMA risk monitoring publications through July 2023.

# GP & Management Company Facilities: Structure & Risks

## Common GP Facility Types

### GP Co-Investment Line

Finances GP commitment to own fund. Secured by GP's interest in carried interest and management fees.

Typical Size: 80-90% of GP commitment

### Management Company Working Capital

Smooths