Fund & Asset Managers
Subscription Finance
Global

Subscription Finance: A Primer

The subscription finance market has grown substantially in recent years, driven by growth of private capital funds (including private equity, credit and real estate) and the funds' wider adoption of subscription facilities (also sometimes called capital call facilities, or sub lines). Questions and responses in this report address some common queries from market participants on subscription facilities, market developments and historical performance.

What Is Subscription Finance in Private Capital Funds?

Subscription facilities are lines of credit used by private capital funds primarily to manage liquidity and capital calls on the funds' investors (limited partners [LPs]). For example, instead of calling capital from LPs multiple times during a quarter, a fund may draw on its subscription facility multiple times when it makes investments, and then call capital from its LPs at the end of the quarter to pay down the facility. In addition, these facilities are used to expedite deal closings and may serve as a return-enhancing tool by general partners (GPs).

Subscription facilities are typically set up as revolving facilities provided by a bank. They usually have terms of 1-3 years and are most heavily used during the early part of a fund's life, when most of the fund's investments are made.

The chart on the next page illustrates a typical private capital fund and subscription facility structure. A private capital fund is typically set up as a partnership with a GP that manages the fund and LPs that provide capital for investments. LPs make commitments to the fund, which are called by the GP over the life of the fund and funded by the LPs.

A limited partnership agreement (LPA) among the LPs, the GP and the fund governs the operations of the fund and the interactions among the parties, including the use of leverage such as subscription facilities. The LPA sets out the rights and obligations of the LPs and GP, allowed uses of capital commitments and remedies in case of a failure by an LP to meet capital calls.

Related Criteria

Private Equity Collateralized Fund Obligations (PE CFO) Rating Criteria (October 2022)

Related Research

PE CFOs: Securitizing Private Equity Fund Interests (A Primer Based on Questions from Market Participants) (October 2019)

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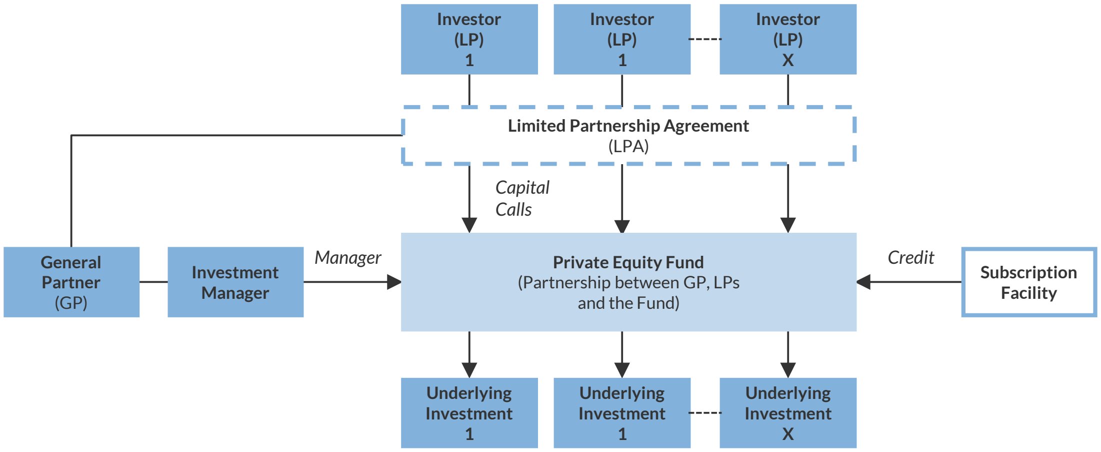
Structure of Typical Private Equity Fund



Source: Fitch Ratings

Why Do Funds Use Subscription Facilities?

The use of subscription facilities can reduce LPs and fund managers' administrative burden, improve LPs' liquidity management, expedite investment deal closings and enhance the fund's performance metrics.

Subscription facilities improve LPs' liquidity management by providing better visibility into upcoming capital calls. Capital calls typically must be funded by LPs within 10 days of the capital call notice, which is a relatively short time frame that requires LPs to maintain some degree of liquidity for future capital calls.

Each capital call also creates an administrative burden for LPs, involving recording the capital call notice and wiring funds. With a subscription facility, LPs have better visibility into investments the fund has made during the quarter (or the relevant period) and can be better prepared to meet capital calls. For large LPs with dozens of fund investments, each making multiple investments, capital call facilities used by the funds can offer administrative efficiency.

The GPs' administrative burden may also be reduced by limiting the frequency of calling capital from dozens, or even hundreds, of LPs. These facilities can also enable GPs to efficiently execute deal closings by providing on-demand capital, avoiding potential delays in calling capital from LPs.

Another motivation for fund managers to use subscription facilities is to enhance funds' performance metrics, such as the internal rate of return (IRR), by delaying capital calls. However, due to the widespread adoption of subscription facilities by funds in recent years, investors and industry groups have pushed fund managers to include both the levered and unlevered performance figures of a fund when reporting to LPs.

How Has the Market Evolved?

The subscription finance market has grown significantly in recent years, estimated at approximately $750 billion as of year-end 2022 by market participants, with more than 70 banks participating in the market globally. This is up from $400 billion at year-end 2017.

The first subscription facilities appeared in the 1990s, as banks with strong ties to private equity managers sought to provide bridge liquidity to their clients. As commitments to private capital funds increased over time, the size of the subscription finance market also increased, accelerating in recent years as the use of subscription facilities became more prevalent. While early subscription facilities were primarily used by real estate-focused private capital funds, funds investing across most strategies now utilize these facilities.

As the subscription finance market has grown over time, some banks' lending capacity has become constrained. In response, banks have sought to syndicate subscription facilities to other banks, or insurance companies and pension funds. Fitch expects this trend to continue, and for some portions of the market to become more institutionalized and rely on the capital markets for funding.

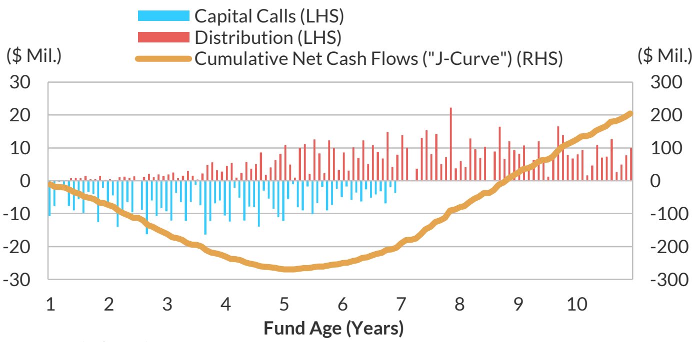
How Do Subscription Facilities Affect Fund Cash Flows?

Subscription facilities delay and reduce the number of capital calls, with the magnitude of the impact dependent on the terms of the facility.

In a standard private capital fund, capital calls relating to a fund's new investments will occur during the investment period, typically the first 4-6 years of a fund's life. Once the investment period closes and the fund enters its realization period, new investments are typically not permitted, and capital calls are used primarily for the servicing of acquired assets (including potentially add-on acquisitions) and expenses. Reliance on LP capital is further reduced by distributions from the underlying assets.

The cash flow profile of a typical private capital fund includes net outflows in the early years of the fund and net inflows later in the fund's life (referred to as the "J-Curve effect"), as seen in the chart below.

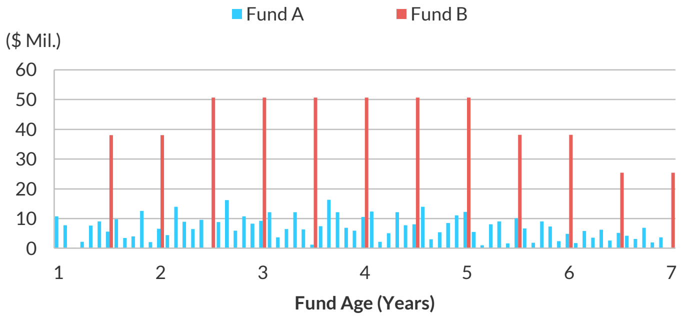
Example of a PE Fund "J-Curve"



Source: Fitch Ratings

Traditionally, fund managers make capital calls on LPs as investment opportunities occur. However, due to the motivations discussed above, funds have increasingly adopted the use of subscription facilities. The chart below shows an example of a fund's capital call frequency without a subscription facility (Fund A) compared to the same fund with a subscription facility (Fund B). From the LPs and GPs' perspectives, the capital calls in Fund B are easier to manage.

Capital Calls



Source: Fitch Ratings

How Do Subscription Facilities Affect Fund Performance Metrics?

Subscription facilities can potentially enhance performance metrics, such as the fund's IRR, by delaying capital calls on LPs. Generally, using a subscription facility positively affects IRR by delaying cash outflows from LPs, as the timing of cash flows affects the IRR calculation. However, if the cost of the facility is high relative to the performance of the fund's assets, using a subscription facility can negatively affect the IRR. The IRR is an important measure in fund managers' ability to raise capital, and is also often used as the metric to measure a fund's "hurdle rate" — the rate that, once achieved, allows fund managers to collect performance fees.

The duration which capital call facilities can be outstanding is determined by either the facility or the LPA's terms, including a clean-down interval in some funds, which is a provision that establishes the frequency at which the credit facility is repaid. Clean-down intervals are utilized to shorten the lender's credit exposure, control leverage levels and increase LPs' incentives to fund future capital calls by requiring the fund to call capital from LPs periodically to repay the facility. Lenders may afford longer clean-down intervals or facility maturities to funds and managers considered to be of a higher quality (typically, larger managers with higher-quality investors).

Clean-down interval provisions are more typical in European, rather than in U.S. subscription facilities, usually due to fund regulations in certain countries. Clean-down provisions can differ in their mechanics, in some cases, requiring that each draw on the facility is repaid within a certain time frame, while in other cases may stipulate periodic repayments, for example, quarterly.

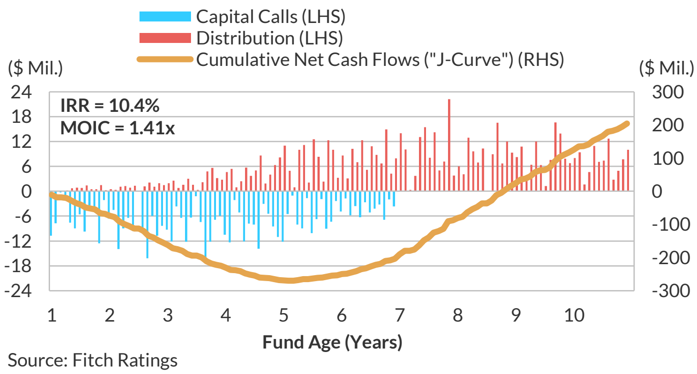
Shorter facility repayments may indicate that the main purpose of the facility is to provide bridge financings, or when LPs want to ensure their capital is invested. The longer the interval, the more the facility can be considered a potential return-enhancing mechanism and less a bridge liquidity facility.

However, drawing on a subscription facility creates outstanding loan balances that accrue interest for as long as the drawn amount remains unpaid. These facilities also typically include a commitment fee to compensate the lender for the contingent liability. While using a subscription facility may enhance a fund's IRR, these costs will reduce the fund's performance multiple (usually the multiple on invested capital [MOIC]), since the MOIC only takes into account total return, without considering timing.

The example below illustrates the impact of a subscription facility on a fund's IRR and MOIC. In this example, Fund A is a typical private capital fund, with a 10-year term and $500 million of capital commitments, making capital calls on LPs as needed to fund investments, and pay fees and expenses. Fund B is the same private capital fund, but it uses a subscription facility and a six-month clean-down interval. We consider a $100 million subscription facility with 4% annualized interest rate paid monthly and a 0.3% annualized commitment fee paid monthly.

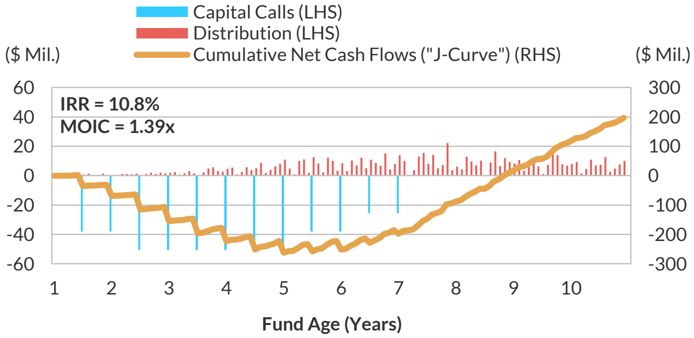
Typically, subscription facilities are structured to charge a spread over a floating reference rate such as SOFR, but for the purpose of this illustration, we assume a constant interest rate. For both funds in the example, capital calls are made during the first few years and distributions are paid mostly in the middle and later years of the fund's life. For Fund B, the subscription facility expires at the end of the sixth year. This case shows a 0.4% increase in the final IRR between Fund A and Fund B, from 10.4% to 10.8%, respectively, while the MOIC declines by 0.02x, from 1.41x to 1.39x, respectively. The magnitude of the impact on the fund's performance will be driven by the structural features of the facility, including the length of the clean-down interval, size of the facility and the interest rate.

Fund A — Cash Flows



Source: Fitch Ratings

Fund B — Cash Flows

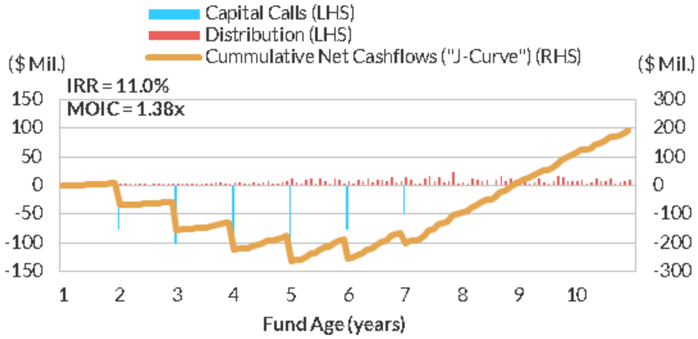


Source: Fitch Ratings

Using the same cash flows as for Funds A and B, we can illustrate the magnitude of the impact to IRR by considering Fund C, a fund with the same characteristics as Fund B, but with a clean-down period of 12 months instead of six months. The final IRR for Fund C increases by 0.6% compared to Fund A when using a subscription facility with a one-year clean-down interval, while the MOIC decreases by 0.03x.

The impact of subscription facilities on fund performance indicators is viewed by some market participants as obscuring the performance of a fund's underlying investments, particularly when compared to funds that do not use subscription facilities. Some market participants also view the facilities as artificially improving measures that increase the fund manager's performance fees. In this context, the U.S. Securities and Exchange Commission (SEC) recently proposed new rules requiring funds to report unleveraged performance figures.

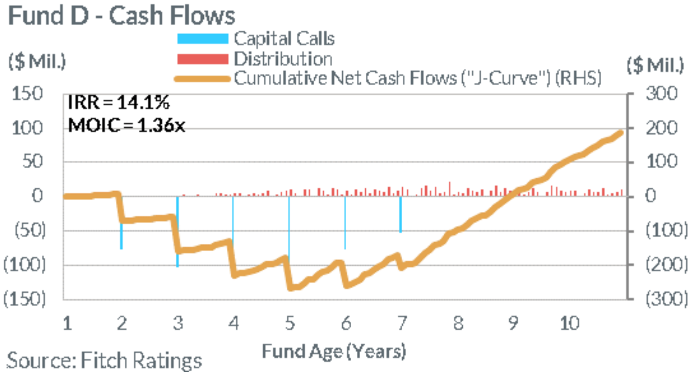
Fund C — Cashflows



Source: Fitch Ratings

Additionally, the Institutional Limited Partners Association (ILPA), an industry group for LPs, proposed guidelines for fund managers regarding reporting of both levered and unlevered performance metrics in a 2020 report, *"Enhancing Transparency Around Subscription Lines of Credit"*.

Fund D - Cash Flows



Source: Fitch Ratings

Given the recent increases in interest rates globally, Fitch expects that fund managers will adjust their utilization of subscription facilities to reduce the impact of higher rates. Managers may seek smaller facilities or pay them down more quickly. As an illustration of the impact of higher rates, if Fund C from the example paid 6% on the subscription facility instead of 4%, its IRR would fall from 11.0% to 10.6%.

Hypothetical Example of Subscription Facility Impacts on IRR and MOIC

	Fund A	Fund B	Fund C	Fund D
Fund Size ($ Mil.)	500	500	500	500
Fund Term (Years)	10	10	10	10
Use of Subscription Facility?	No	Yes	Yes	Yes
Subscription Facility Size ($ Mil.)	N.A.	100	100	100
Subscription Facility Clean-Down Interval (Mos.)	N.A.	6	12	12
Subscription Facility Fee (Drawn) (%)[a]	N.A.	4	4	6
Subscription Facility Fee (Commitment) (%)	N.A.	0.30	0.30	0.30
Capital Call Timing	Years 1–7	Years 1–7	Years 1–7	Years 1–7
Distribution Payment Timing	Largely After Year 3	Largely After Year 3	Largely After Year 3	Largely After Year 3
IRR (%)	10.4	10.8	11.0	10.6
MOIC (x)	1.41	1.39	1.38	1.36

[a]Although subscription facilities typically charge a spread over a floating reference rate such as SOFR, a constant interest rate is presented for the sake of simplicity.
N.A. – Not applicable.
Source: Fitch Ratings

Who Are the Parties Involved in Subscription Facilities?

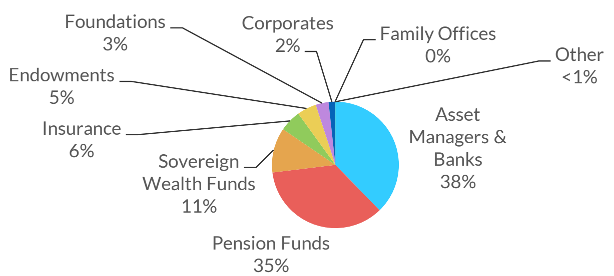
Subscription facilities have three main parties: the LPs, which provide capital to the fund; the GP, which manages the fund and its investments; and the lender, which extends credit to the fund, secured by the undrawn committed capital of the LPs.

The LPs enter into the private offering via subscription agreements under the terms of the LPA, committing to invest a certain amount of money in exchange for interests in the fund, called limited partnership interests. These interests are created when capital is called by the manager to purchase new investments, and entitle the investor to future income related to the fund's investments.

GPs rely on the LPs of the funds to honor capital calls so the fund can make investments. For this reason, GPs often prefer large institutional investors with strong track records of meeting capital calls and other LPs with whom the GP has a long-standing relationship. However, many high net-worth individuals also invest in private capital funds, with some investing through wealth management platforms of financial institutions.

The chart below illustrates the types of institutional LPs that invest in private capital funds as of January 2023, according to Preqin data.

Institutional Investors in Private Capital Funds
(Composition of Institutional Private Equity Allocation)



Source: Preqin Pro

GPs and lenders review the credit quality of LPs before accepting them into a fund or a subscription facility borrowing base, to reduce their own financial and reputational risks if LPs do not meet capital calls. GPs and lenders are also generally required to conduct "know-your-client" compliance checks on LPs. GPs and lenders take into consideration LPs' jurisdictions, preferring those domiciled in jurisdictions with more favorable business environments and well-established jurisprudence, where contract enforcement is more easily achieved. Some LPs invest in private capital funds through special-purpose vehicles for tax, accounting or other reasons, which can introduce challenges for GPs and lenders in their due diligence on LPs.

The managers of private capital funds range from large, well-established, publicly traded firms to those specializing in niche markets, or newly established managers with a handful of employees. Managers require expertise to identify investment opportunities, raise capital from LPs and manage the often-complex financial structures involved in private capital funds.

Subscription facility lenders are typically financial institutions such as banks and, more recently, insurance companies and investment firms. In many instances, lenders are able to leverage broader in-house credit underwriting capabilities to support subscription finance activities.

What Are the Key Features Governing Subscription Facilities?

Subscription facilities are governed by terms set in the LPA as well as the subscription facility agreement between the fund and the lender. Some LPs may also have a "side letter" agreement with the fund that modifies some of the provisions of the LPA for the LP. The terms in these agreements set out the operations, limits and covenants for subscription facilities, as described in the table below.

Key Fund and Subscription Facility Structural Features

Structural Feature	Considerations
Facility Size	Limited to the lesser of a percentage of total commitments or predetermined borrowing base.
Borrowing Base	Defines eligible LPs by excluding some and usually (although not always) setting effective advance rates lower than 100% to provide overcollateralization for the lender. This limits lenders' exposure to LPs deemed of lower credit quality.
Lender's Ability to Assume Call Capital Rights	Under certain conditions, such as a facility default, the lender has the right to call capital on behalf of the GP, and seek to enforce the LPs' obligation to fund capital calls. This allows the lender to take over if the GP is not performing its obligations.
Concentration Limits	Rules limiting the concentration of LPs or types of LPs in the calculation of the borrowing base.
Subscription Facility Covenants	Restrictions on fund's indebtedness, limitations on distributions to LPs and prepayment triggers.
Clean-Down Interval	The interval between a draw on the facility and its subsequent repayment. Shorter clean-down intervals reduce the lender's exposure to LP credit risk. Clean-down intervals are more prevalent in European facilities than in the U.S.
Recourse to Underlying Assets	Lenders may have recourse to the fund's underlying assets, providing for extra collateral.
Call-In Provisions	Lenders can require full repayment of subscription facilities in case of GP mismanagement or removal.
Capital Call Default Remediation	Provisions setting out the fund's options for handling LPs that default on capital calls.

Note: These provisions may be specified in the subscription facility agreement or LPA. Features described are illustrative and are not exhaustive.
Source: Fitch Ratings

The terms of subscription facility agreements are adjusted for the circumstances of each specific transaction, often based on the perceived quality of the fund manager and LP base.

How Are Subscription Facility Borrowing Bases Defined?

Lenders typically limit the size of subscription facility borrowings relative to the LP pool's uncalled capital commitments. The methods to define the borrowing base or set limits vary by lenders and regions, but may include categorizing LPs into tiers and applying advance rates to each, only including in the borrowing base LPs that meet certain requirements while giving no credit to others, or setting a loan coverage requirement based on the LP pool. Lenders may sometimes increase the advance rate provided against unfunded commitments over time for certain or all LPs, as net asset value (NAV) builds up in the fund. The fund's NAV increases LPs' economic incentive to meet capital calls, as they have more "skin in the game", and improves recovery prospects if an LP defaults, as explained in the following sections.

When evaluating LPs, lenders will consider the enforceability of capital commitments in LPs' domiciles, as well as LPs' credit quality or potential support from the LPs' parents. Lenders sometimes impose concentration limits within the borrowing base, capping the amount of large LPs' uncalled capital commitments that are included in the calculation. Under any borrowing base method an advance rate can be derived based on the maximum potential borrowing relative to the total unfunded commitments. It is important to note that the uncalled capital commitments of LPs excluded from the borrowing base calculation nevertheless serve as collateral for the subscription facility, providing further (albeit considered of lower quality) overcollateralization for the lender.

What Happens If an LP Defaults on Commitment?

The LPA outlines the remedies available to the GP in the event of an LP default and will vary from fund to fund. If an LP defaults on a capital call, the first action a GP may take is to notify the LP and provide a "cure" period, allowing the LP to rectify its position before further action, sometimes subject to fees for the late payment. If the LP fails to meet the call after the cure period, there are prescribed remedies that a GP may apply. A few of the most common default remediation provisions are listed in the table above. The GP may elect to apply one or more, or none, of these provisions at its discretion, and may treat different LPs differently.

The remedy or remedies the GP chooses to enforce will determine whether the amount of committed capital remains the same or is reduced, which will have an impact on the borrowing base of a subscription facility. If a defaulting LP is removed from the borrowing base or replaced by another LP, this could have a positive or negative impact on the average quality and diversification of the borrowing base, depending on the quality and size of the defaulting LP and the replacing LP(s).

Forfeiture of LP Interest: The GP can force a partial or total forfeiture of the defaulting LP's existing interest in the fund. This remedy can also afford the GP the right to determine whether to transfer the uncalled capital commitments to another LP or reduce the total uncalled capital commitments and, therefore, the borrowing base of the subscription facility.

Forced Sales of LP Interest — The GP can require the defaulting LP to sell all or part of its interest to other LPs of the fund or to third parties. LPAs can also include a predetermined discount rate on the LP interest and charge fees to the defaulting LP. A sale of the entire LP interest removes the defaulting LP from the fund and requires the new LP to fund the remaining uncalled capital. In this scenario, total uncalled capital commitments will remain unchanged, but the borrowing base might be affected based on the updated LP composition.

Over-Call: The GP can decide to reallocate the capital call from the defaulting LP to existing LPs, increasing their interest in the related investment, known as an "over-call" provision. This option is limited by predefined caps to LPs' uncalled capital commitment and can result in a decrease in the total committed capital of the fund. This may have a negative or positive impact on the borrowing base, depending on its construction and the type of defaulting LP.

Forfeiture of Future Distributions: The defaulting LP retains its interest in the fund, but the GP can determine the partial or total forfeiture of future distributions from the investments tied to the defaulted call.

What Is the Incidence of LP Defaults on Capital Calls?

Publicly available data on capital call default rates and loss given default for funds are limited, as each fund manager and lender maintains its own default incidence data privately, with some going back a few decades. Nevertheless, fund managers and lenders have indicated to Fitch that defaults on capital calls are extremely rare events for institutional LPs, with a slightly higher rate for non-institutional LPs such as high net-worth individuals.

The low historical default rates are due to the strong economic and reputational incentives for LPs to meet capital calls. Reputationally, LPs are concerned about maintaining access to private equity funds in the future, which may be compromised if fund managers and lenders learn that an LP defaulted on a capital call, even on a poorly performing fund. Economically, LPs may suffer a material loss on their existing stake in a fund if they fail to meet a capital call, as described in the previous section. In addition, ultimately, fund managers and lenders usually can enforce capital call obligations through legal action, further enhancing LPs' incentives to honor these obligations if able.

As an example of the economic incentives of LPs to honor capital calls, assume an LP has a $10 million stake in a fund and then receives a $1 million capital call. If the LP defaults on the $1 million capital call, it may then lose a material portion of the $10 million stake, perhaps $5 million if the fund's LPA allows the GP to discount the stake 50%. Therefore, the LP would lose more by not meeting the capital call, even if the LP would prefer to default on the call in isolation. However, this incentive becomes materially weaker if the fund has performed poorly and the LP's existing stake is written down significantly, although the value still needs to be compared to the size of the capital call.

This economic incentive remains relevant for LPs that enter insolvency or bankruptcy proceedings, as the bankruptcy estate may conclude that it is better to meet a capital call to preserve the existing fund stake's value for the estate's creditors. As an example, Fitch understands that Lehman Brothers met its capital call obligations after declaring bankruptcy for this reason.

A second mitigant to potential LP defaults is the secondary market for LP stakes, which was estimated at $108 billion as of 2022, according to Jefferies. LPs under liquidity pressure with insufficient cash to meet a capital call, or that would prefer to preserve cash for other liquidity needs, can seek to sell their LP stake, rather than default on a capital call. Selling an LP stake may involve a discount to the stake's NAV, which can be large in a stress scenario like 2008–2009, when private capital fund interests exchanged hands at discounts of 40% to 70%, according to data from Cogent. However, selling a stake spares the LP the reputational damage of defaulting on a capital call. In addition, if the LP does default, its stake is likely to be haircut and sold anyway, and the LP's loss may be greater than if the LP conducted a sale. A number of institutional LPs sold their fund stakes at discounts in 2008 and 2009 to avoid meeting or defaulting on capital calls, and to preserve cash given the liquidity stress.

As noted above, fund managers conduct due diligence on their LPs, in part as the manager is incentivized to ensure that the LPs can meet capital calls and not disrupt the fund's operations. In discussions with Fitch, some managers have indicated that in decades of operations they have never experienced an LP default on a capital call, while other managers noted a handful of examples when defaults occurred. These examples included a subsidiary of a defaulted entity in 2008 whose operations were disrupted, and it could not effectuate a sale of the LP interest; a family office whose patriarch passed away, with heirs unable to act decisively; small LPs in China that were precluded from taking cash out of the country for a few months due to capital controls; and high-net-worth individuals that were away and not aware of capital calls made by funds.

Fitch estimates that institutional LP defaults have historically been close to 0% based on the number of LPs and as a percentage of committed capital; and up to 1% on average for high net-worth individuals in a stress environment like 2008, although this can vary by manager and lender. However, even in instances when LPs defaulted, funds' recoveries tended to be at or near 100%, as stakes can be sold at a discount, with any loss accruing to the defaulting LP. The fund manager's reputation, performance of the specific fund in question and offered discount to NAV are the key drivers of market demand to replace a defaulted LP. In some situations, the GP itself will replace the defaulted LP.

How Have Subscription Facilities Performed Historically?

Defaults and losses on subscription facilities are very rare due to the low default rates and the high recovery rates on capital calls. These rare defaults are typically associated with fraud, including the two cases described below.

Abraaj

The Abraaj Group was established in 2002 and managed about $14 billion in AUM as of 2018, with private equity funds focused on buyout, emerging markets and healthcare. According to media reports and litigation filings, beginning in 2017, LPs in some of Abraaj's funds noticed that cash from recent capital calls was not invested promptly, an uncommon practice for private capital funds. Ultimately, LPs and authorities' investigations uncovered misappropriation of some of the private equity funds' moneys for the benefit of other funds, the Abraaj management company and certain of its executives.

To resolve its dispute with fund LPs, Abraaj paid back some of the money and released LPs from their capital call obligations. However, Abraaj's funds had outstanding balances on two subscription facilities, although LPs were not made aware that funds had incurred the indebtedness. When lenders called capital to repay the outstanding balances on the facilities, some LPs argued that they were no longer bound by their capital commitments, including due to the lack of notification of the indebtedness.

Due to this case, lenders of subscription facilities now require security notifications to be issued to LPs when the facility is arranged. Abraaj was wound down, multiple third-party fund managers took over the management of Abraaj's various funds and there were further reports of capital call defaults on these funds. Recoveries on the affected subscription facilities were not made public, although market participants have indicated that lenders recovered 100% on one of the two facilities and 70%–100% on the second facility in a settlement. Abraaj and a number of its executives have faced fines and criminal charges by various authorities globally.

JES Global Capital

JES Global Capital (JES) was established in 2013, and managed private equity funds focused on buyout and venture strategies. According to media reports and litigation filings, in 2020 and earlier, JES' CEO forged subscription agreements, bank account statements and audit letters to obtain subscription facilities from a number of banks, and used the money for personal expenditures. When new lenders refinanced a previous subscription facility provided by another lender, they directly contacted some of the supposed LPs of the fund, who indicated that they were not, in fact, LPs in the fund.

In the aftermath of this fraud case, some lenders strengthened their due diligence process by asking for LP information that could be independently verified, contacting some LPs directly, and conducting third-party reference checks on the fund manager. JES' CEO was sentenced to prison.

What Are the Risks to Lenders?

The risks for a lender in a subscription facility, outside of fraud, arise primarily from the LPs of the fund, as well as from the manager of the fund and the fund's performance.

A lender may incur a loss on a facility if enough LPs default and recoveries are insufficient. Alternatively, if a fund underperforms significantly or fraud is uncovered at the fund or manager level, some or all of the LPs in a given fund may decide to stop funding capital calls, regardless of their obligations.

To mitigate the risk from LPs, lenders assess the credit quality of the LPs, set LP concentration limits, build in overcollateralization covenants into facilities, and assess the prospects of a recovery on defaulted LPs. Lenders also assess the capabilities, track record and risk controls of the manager, as well as the provisions governing the fund.

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