Lead Left Interview – Dee Dee Sklar

THE LEAD | March 5, 2018

This week we chat with Dee Dee Sklar, Vice Chair of Subscription Finance, Asset-Backed Finance, Wells Fargo Securities. ABF provides direct structured lending as well as the underwriting and distribution of asset-backed securities for over 550 clients and a risk portfolio of approximately $122BN across consumer, commercial, residential, corporate debt finance and subscription finance.

The Lead Left: *Dee Dee, tell us about what a subscription finance lending business is all about? What is the origin of subscription lending? What were the key events that led to the evolution of subscription finance as we know it today?*

Dee Dee Sklar: Subscription financings (sometimes referred to as capital call lines) are revolving debt facilities secured by the uncalled capital commitments of the investors in a fund. The uses are governed by the fund's Limited Partnership Agreement ("LPA"), and are typically utilized to acquire investments, bridge capital calls, pay fund expenses and for working capital purposes. The LPA also defines the size of line, which is typically between 25-35% of total capital raised and could be slightly larger depending upon the fund strategy (i.e. for project development funds). Initially, subscription financings were utilized by pensions/insurance companies committing to real estate sponsors/developers in a joint-venture or single investor fund structures in the late 70's. It is not until the very early 90's with investor activity purchasing assets from the RTC that I recall larger subscription financings supporting multi-investor funds.

Some may recall there were large sponsors raising buy-out and other strategy funds in the US and Europe that were able based on fund size and diversification to access Asset Backed Commercial Paper ("ABCP") conduits for their subscription financing. However, the vast majority of funds were only able to access bank balance sheet financings due to size and limited diversification notwithstanding LPAs did not clearly allow for the pledge of uncalled capital. The bank market was fragmented and lacking market consistency. Between ABCP conduit regulatory capital treatment changes along with other aspects of the financial crisis, the total ABCP market became almost nonexistent. Causing the vast majority of subscription financing to be provided primarily by bank balance sheets.

The "sea change" impacting the size of the subscription finance market today is two-fold: 1) the YOY growth of the closed end fund market and other committed capital structures and 2) the level of consistency between enough banks to partner and provide sizeable lines to larger funds.

TLL: *How did you bring this team to Wells Fargo?*

DDS: I always refer to my joining Wells Fargo as one of life's blessings.

During 2010, Mary Katherine Dubose ("MK") managed Corporate Debt Finance at Wells Fargo Securities. I was at WestLB, and our teams had the opportunity to support financing for a few mutual clients. I think it is important to note that I had known MK for many years from my prior years in securitization. We were acquired by Wells Fargo in 2012 due in much part to MK and Jeff Johnston, a lead banker on our team, who obtained senior management support to buy the loans and hire the team. They appreciated our strong market position in the US and Europe and the discipline we brought to the market in line with Wells Fargo's philosophy to centralize the intellectual capital around its businesses. Since the acquisition, we have continued to invest in talent and operations with offices now in New York, Charlotte, San Francisco and London.

The excitement of creating a legacy for the business and continuing to be part of this legacy is very motivating. Our team is a partnership, we count on everyone to be accountable and protect the bank, our clients and partner banks participating in our transactions.

TLL: *How big is the market when you started? How large is it now?*

DDS: Imagine this – private equity market data started to be aggregated in 1999 through institutional investor public filings with reported AUM at $534 billion (recall funds were formed two decades prior). For me, after 13 years in securitization, I established a dedicated subscription finance business in 2004 when total AUM was stated to be ~$952 billion. Fast forward, just since 2012, the market AUM for closed end funds has increased to over $5 trillion and if you add all other committed capital structures not captured clearly or at all in public filings, this in my view brings total AUM to ~$6.5 trillion or more. The Subscription Financing market is estimated to be ~$450 billion.

TLL: *Who are your clients? What industries? Sponsors? Types of credit managers?*

DDS: Our clients are private equity sponsors and other alternative investment managers creating committed capital structures which are typically closed-end funds however, some are open-end, perpetual trusts, funds of one, separate accounts, JVs, Private BDCs raising institutional investor commitments, and hedge funds desiring to execute same strategies without being faced with redemptions (in a committed capital structure). Our clients are focused on a variety of strategies. Separately, we have seen several new strategies since the financial crisis. Private equity strategies include buyout, growth, turnaround, private equity secondaries, fund of funds, and others. Both real estate and infrastructure strategies include equity, secondaries, and fund of funds. Natural resources strategies include energy, agriculture, timber, fund of funds and other.

Credit and private debt funds could touch any of the strategies above and be focused on direct lending, distressed debt, mezzanine, special situations, fund of funds and others crossing all industry classes.

TLL: *What needs are you fulfilling?*

DDS: We are fulfilling the same banking needs today as we did beginning early 2000's. The difference is the size of the funds — many are 2x-3x larger than prior funds with increased complexity of structures around tax and marketing. When sponsors are raising funds 2x-3x+ the size of prior funds, needs for working capital, interim leverage between acquisitions and financings, modest leverage needed to reach expectations for investors in funds where assets cannot secure bank financing or optimum financing in the current banking environment means they need more time to keep the house in order between capital calls.

The pace at which capital has been committed to this industry is significant and the level of dynamic activity day to day for each specific fund is such that no group of investors could manage the banking services needed. There is no one size fits all Subscription Finance structure, as needs vary depending on investment strategies.

To be continued the week of March 12

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