Subscription Credit Facility Usage Is on the Rise

Majority of recent vintage private capital funds use subscription credit, twice the proportion of pre-2010 vintage funds

Private capital funds have been increasingly turning to subscription credit facilities (SCFs) to offer funding for deals. These arrangements, whereby a fund manager secures short-term financing from a credit provider in lieu of making capital calls to investors, have only been used by 35% of funds of vintages 2000 and onwards*. But this is weighted toward more recent vintages: just 26% of 2010 vintage funds used SCFs, compared to 53% of 2016 vintage vehicles. The bulk of this growth has come from private equity funds, where usage has more than tripled from 13% among pre-2010 vintages to 47% among 2010 and later vintages. Private debt and venture capital funds have also seen usage rise substantially, while real estate funds, historically the most active users of SCFs, have seen usage remain stable.

For more information and analysis, see the full *Preqin Special Report: Subscription Credit Facilities* here:
https://docs.preqin.com/reports/Preqin-Special-Report-Subscription-Credit-Facilities-June-2019.pdf

Justin Hall, Product Manager:

"*Subscription credit facilities are something of a hot button issue, and there is a wide range of opinions between and among both fund managers and investors. While they can offer more liquidity and easier cash flow management to investors, they can also make it more difficult to evaluate portfolio performance and do due diligence on prospective managers' previous funds. As investors become more sophisticated and active in alternative assets, these drawbacks may fade as reliance on IRR figures diminishes, but that is unlikely to dispel investors' unease completely. Bodies like ILPA have published reporting guidelines in an effort to bring more transparency to subscription credit usage, but given that these standards are voluntary it remains to be seen if they will be widely adopted.*"

Key Subscription Credit Facility Facts:

- Subscription credit facilities (SCFs) are short-term loans provided to private capital fund managers to cover transactional costs, rather than making capital calls to investors.
- Overall usage among private capital funds is low: **35% of disclosing funds have used SCFs**, while 3% might in the future and 62% have not and have no plans to do so.
- **However, usage has been increasing** – just 26% of 2010 vintage funds have used SCFs, compared to 52% of 2015 vintage funds and 53% of 2016 vintage vehicles.
- Private equity funds have powered that growth, with **usage rising from 13% in pre-2010 vintages to 47% among 2010 and later vintage** funds. Among private debt funds it rose from 25% to 44% in the same period.
- By contrast, 51% of real estate funds prior to 2010 used SCFs, and this level has remained stable. **Real assets funds have much lower usage of SCFs**, with only 27% of funds from 2010 onwards using SCFs.

Based on a sample of more than 8,500 private capital funds with net-to-LP performance data taken from Preqin's database, of which 29% have disclosed their usage of credit subscription facilities.

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