

Fund Finance

Glossary of Terms

January 2025



Glossary of terms

In alphabetical order

(Note: Alternative common equivalent terms are included in brackets)

Advance Rate

The metric used to measure the amount of credit a lender is willing to lend to a borrower against an Investor's remaining commitment/ latest investment value, or a particular category of Investor's remaining commitments/ latest investment values.

This is relevant for:

- a) a Subscription Facility which uses a Borrowing Base methodology where it refers to a specific percentage of the Uncalled Capital Commitments of Eligible Investors, or specific percentages for specific categories of Eligible Investors; or
- b) NAV Facilities, GP Financings or Manco Facilities where it refers to a specific percentage of the value of an Investment/ category of Investments; or
- c) ABL facilities where it refers to a specific percentage of credit fund collateral assets based on the asset classification; or
- d) Hybrid Facilities which incorporate a mix of (a) and (b) or (c).

Alternative Investment Vehicle (AIV)

An alternative investment vehicle through which Investors in the Fund in question invest in one or more Investments.

This may be driven by tax, legal or regulatory requirements.

An AIV is usually managed by the same General Partner as, and usually invests alongside, a main Fund.

Asset-Based Lending (ABL)

Fund level financing employed by credit funds in which security is taken by the lender(s) directly over the assets of the Fund.

Used in "levered sleeves" of private credit funds. Although these are NAV Facilities in that they constitute leverage against a portfolio of assets, they are generally described as ABLs rather than NAV Facilities.

Borrowing Base

This is the maximum borrowing capacity under a facility determined by the value of the collateral that the borrower provides.

Often, a Borrowing Base is calculated by applying an Advance Rate to each relevant asset class, or subset of that asset class, (e.g. Uncalled Capital Commitments or net asset value of Investments) and may then be further adjusted for other relevant factors (such as any applicable Concentration Limits, which may be by individual asset or subset of relevant asset class).

Capital Call (*Drawdown*)

A demand made by the Fund (which may act via its General Partner, Manager or other third party) to its Investors requiring that they fund all or a portion of their Uncalled Capital Commitments.

Capital Commitment (*Commitment/ Committed Capital*)

The total amount of capital which an Investor has committed to contribute to a Fund under its Subscription Agreement (subject to the terms of the LPA).

Capital Commitments can be called by the Fund in increments over time in order to fund, for example, its investments, repayment of liabilities and running costs.

Carried Interest

The share of profits of a Fund's Investments paid to the General Partner/ Manager/ certain executives once certain predefined Investor return thresholds are met.



Cascading Security

A security structure used where, for example, security cannot be given directly by a fund entity to the lender(s) of a Subscription Facility and instead security is given by that fund entity (such as a Feeder Fund) to another fund entity (such as the master or main Fund in which that Feeder Fund is an Investor), and the benefit of that security is then on-assigned by the master or main Fund for the benefit of the lender(s) under the Subscription Facility.

The restrictions on direct security may arise from the terms of the LPA of the fund entity (such as a Feeder Fund), regulatory restrictions or tax structuring requirements of Investors.

Clawback

In the context of Carried Interest, a provision in the LPA that allows Investors to reclaim some of the Carried Interest paid if certain conditions are not met.

Closed-End Fund

A fund structure in which the Capital Commitments of each Investor to a Fund are fixed at the end of a prescribed fundraising period and the Investors have limited or no rights to require the Fund to redeem/ cancel their interest or withdraw invested capital until the dissolution of the Fund (other than through a transfer to a new Investor).

Concentration Limits

One or more limits which excludes a portion of the value of an individual asset or subset of the class of assets that comprise the Borrowing Base (e.g. an Investor's Uncalled Capital Commitments or the Fund's Investments) in excess of a certain percentage of the total value of all such assets from the calculation of the Borrowing Base asset class).

Used to ensure sufficient diversification of the pool of assets in accordance with which the lenders size their exposure.

Continuation Fund

A fund established to purchase a specific asset or pool of assets from a sister Fund that is nearing the end of its term.

The Continuation Fund and the sister Fund are usually advised by the same Manager and some of the Investors may roll-over their Capital Commitments from the sister Fund into the Continuation Fund rather than receiving a distribution from the sister Fund in respect of the relevant assets when they are sold into the Continuation Fund.

Defaulting Investor (Defaulting LP)

An Investor which has failed to fund a Capital Call made to it within an agreed period after the due date for that Capital Call.

A Defaulting Investor may cease to be included in the Borrowing Base.

Note that this definition may be different to similar terms, such as "Defaulting Partner", which are defined in the LPA, which may be discretionary and/or may allow a different period of time after the due date for a Capital Call for an Investor to fund its obligation in full, following which various remedies under the terms of the LPA may be applied against that Defaulting Partner. The time period used in a Subscription Facility definition may or may not be the same as the equivalent definition in the LPA.

Distributions to Paid-In Capital (DPI)

The ratio of: (a) total distributions made to Investors by a Fund; to (b) the total amount of Capital Commitments contributed to the Fund by the Investors.

Drawdown Notices

A notice, often in a pre-agreed form set out in the LPA, by which a Fund (or its General Partner, Manager or other appointed third party on its behalf) issues a Capital Call.



Eligible Investor (*Approved Investor/ Eligible LP/ Included Investor/ Included LP/ Qualifying Investor/ Qualifying LP*)

An Investor which has been approved by the lender(s) of a Subscription Facility and/or which meets pre-approved Investor criteria (such as credit ratings), which may be subject to know your customer (KYC) checks and which is not subject to an Exclusion Event.

Eligible Investment

Used in the context of a NAV Facility or ABL facility. An Investment which has been approved by the lender(s) of a NAV Facility or ABL facility and/or which meets pre-approved eligibility criteria and which (often) is not subject to an Exclusion Event.

Equity Commitment Letter (ECL)

A type of credit support for the lender(s). It is a letter that often provides for a commitment by a parent Fund/ Investor to contribute capital or other financial support to a subsidiary holding or operating vehicle which is an obligor under the relevant financing. The parent Fund/ Investor's obligation is to provide capital to that obligor, and not directly to the lender(s), although the lender(s) may be designated as a third party beneficiary or benefit from an assignment of rights of the obligor under that ECL.

ECLs may be used in the context of Subscription Facilities for a SMA or for a Fund with a concentrated Borrowing Base or a NAV Facility where there is a concentrated portfolio of investments. They may be used where a parent Fund/ Investor is not able to assume a primary obligation or grant a guarantee in respect of the relevant financing (for example, due to tax reasons, legal restrictions, borrowing/guarantee limits).

¹The LMA is in the process of producing a drafting rider for Exclusion Events in the context of Subscription Facilities. This will be made available to LMA members on the LMA website.

Evergreen Fund

Evergreen Funds are similar to Open-Ended Funds but have more limited liquidity (in that redemptions are periodic and may be subject to a lock-up period).

Exclusion Event(s)

Events defined under a financing agreement or by reference to an LPA in relation to an Investor or an Investment, the occurrence of which will cause the Investor or Investment (as the case may be) to cease to be an Eligible Investor or Eligible Investment (and, if applicable, cease to be included in the Borrowing Base).¹

Excused Investor (*Excuse Rights*)

An Investor that has a pre-agreed right, usually set out in its Side Letter, not to participate in certain types of Investment (or beyond a certain threshold of commitments in relation to an Investment) and/or has not waived its right to be excused.

Feeder Fund(s)

An entity (which may be a partnership or special purpose vehicle) which structurally sits between an Investor and a master (or main) Fund to facilitate investment in the master Fund by one or more Investors. As such, the Investors in a Feeder Fund invest in the master Fund indirectly through the Feeder Fund.

There can be stacked Feeder Funds (e.g. an Investor invests in the top Feeder Fund which in turn invests in another Feeder Fund which in turn invests in the master or main Fund).

This structure may be used to address tax concerns (in which case the tax status of the Feeder Fund may differ from that of the master Fund), or legal or regulatory concerns.



Fund

A private collective investment vehicle or public investment fund formed to make equity, debt and/or other investments in accordance with the criteria and investment objectives set out in the Fund's constitutional documents.

A Fund may have a single asset investment strategy (e.g. private equity) or have a more diversified investment mandate across multiple asset classes.

Fund Finance

An umbrella term used to describe various types of financing that can be put in place at the Fund level or within the Fund structure or for one of its related parties (including the Investors, the General Partner or the Manager), rather than at the investment level of the Fund.

General Partner (GP)

The partner (or equivalent entity) in a Fund which is responsible for the day to day running and investment decisions of that Fund as designated under the LPA.

It may delegate part of its services or integrate the Manager function in one form or another based on the type and jurisdiction of the Fund structure and may also appoint a third party entity to carry out certain of its functions.

The General Partner will often be legally required to carry full liability for all of the debts of the Fund and will often be a special purpose vehicle (SPV).

GP Commitment

The Capital Commitment of a General Partner to the Fund of which it is the General Partner.

GP Financing

Financing based on assets of the General Partner (for example, management fees, profit share, balance sheet investments, carried interest, co-investment interests, partnership interests or other assets of such entities).

Typically used to support the General Partner's own commitment to invest in the Fund of which it is a General Partner.

See also "Manco Facility" for the position in relation to Managers and executives.

Hybrid Facility

Fund level financing which combines features of two types of facility (for example, Subscription Facilities and NAV Facilities/ ABL facilities).

Such facilities are typically collateralised by (or otherwise have recourse to) Uncalled Capital Commitments and Investments.

Internal Rate of Return (IRR)

Alongside MOIC, this is a metric used to measure the performance of a Fund as a factor of income and time. More specifically, it is the (discount) rate at which the net present value of the cash flows received in relation to a Fund are equal to the original investment in that Fund.

Investment

In the context of a NAV Facility (or an ABL facility), an interest in an asset held (directly or indirectly) by a Fund in accordance with the relevant investment strategy of that Fund.

In the context of a GP Financing or Manco Facility, all or part of the interests held by the General Partner/ Manager/ executives in a Fund (or several related Funds), including any receivables relating to those interests (e.g. management fees, carry/ co-invest proceeds).



Investor(s)

The investors in a Fund, which would usually be limited partners in the case of a Fund which is established as a partnership.

These are the persons who have made Capital Commitments to the Fund. The Investors' liability to the Fund is limited to their Uncalled Capital Commitments and, in some cases, distributions that they have received from the Fund. Investors are rarely permitted to be involved in the day to day running, or investment decisions, of a Fund.

Investor Letter

Contains an agreement or acknowledgement made by an Investor (or by the parent of such Investor) in favour of Subscription Facility lender(s) whereby the Investor (or its parent) makes representations, acknowledgements and covenants in favour of the lender(s) as a condition to the Investor being included in the Borrowing Base.

Investor Letters are often only used where a Fund has a concentrated Borrowing Base (for example, in the case of a Subscription Facility provided to a SMA) or where the lender(s) need some additional comfort around the creditworthiness of an Investor to include it in the Borrowing Base due, for example, to that Investor representing a significant proportion of total Capital Commitments.

Limited Partners Advisory Committee (LPAC) (Advisory Committee)

An advisory committee comprised of individuals nominated by the Investors at the request of the General Partner or Manager, with larger Investors often having the right to nominate a committee member included in their Side Letter. The LPAC typically advises the Fund during its lifetime on various issues, including conflicts of interest, the possible waiver of restrictions in the LPA and amendments to the LPA, but does not take part in the day to day operation or management of the Fund. The details of the LPAC composition, authority and responsibilities will be set out in the LPA. The General Partner or Manager usually has the right to attend and speak at most meetings of the LPAC, but not to vote.

Limited Partnership Agreement (LPA) (Partnership Agreement)

For a Fund that is established as a partnership, this is the main constitutional document which forms the partnership and governs the relationship between the Investors and the General Partner of the Fund. It may be supplemented with Side Letters. Investors become party to the LPA through a Subscription Agreement.

Loan to Value (LTV) Ratio

In the context of NAV Facilities (or ABL facilities), this is the ratio of: (a) the agreed financial indebtedness of a Fund; to (b) the aggregate value of the Investments/Eligible Investments (as applicable) of that Fund (after the application of Advance Rates, Concentration Limits or other restrictions).

Manager (Fund Manager/ Investment Manager)

The entity which is responsible for the day to day running of the Fund and for decisions relating to the Investments of the Fund.

Manco Facility (Management Line)

Financing based on assets of the Manager or executive individuals behind it (for example, management fees, balance sheet investments, carried interest, co-investment interests, partnership interests or other assets of such entities). The assets concerned could relate to several related Funds.

Typically used to support liquidity of the Manager/executives into investments, succession planning or to leverage Investments.

See also "GP Financing" for the position in relation to General Partners.



Multiple on Invested Capital (MOIC)

Alongside IRR, a metric used to measure the performance of a Fund as a factor of income over invested capital.

NAV (Net Asset Value)

In relation to an Investment or portfolio of Investments, the value of each Investment net of any asset level financing of that Investment (and certain other adjustments). Particularly applicable to private equity, infrastructure and real estate asset classes. In the context of a credit fund it means the total value of Investments held by such fund and may be subject to certain adjustments.

NAV Facility

Fund (or Fund aggregator/ holdco) level financing under which the lender(s) look to the value of a portfolio of Investments of a Fund.

A NAV Facility may be unsecured or, more commonly, secured. If secured, the security package for a NAV Facility may vary from deal to deal and may involve limited security taken indirectly over the portfolio of Investments of the Fund (through an intermediary or aggregator vehicle, for example), bank account security and/or security over cash distributions and other receivables from the portfolio.

NAV Facilities may be used at different points in time during the lifecycle of the Fund structure, depending on the asset class or classes. It may be part of a Hybrid Facility. ABL facilities are a type of NAV Facility.

Such facilities are often structured as term credit facilities and can be borrowed by way of loans, letters of credit or bank guarantees, although some facilities may also have a revolving portion and/or a redrawable term loan portion.

Open-Ended Fund

A Fund structure in which interests continue to be issued for the duration of the Fund life (not just for an initial fundraising period) and where Investors are periodically permitted to redeem their interests subject to certain conditions. The Fund often has no defined maturity or termination date.

Overcall

The ability of a Fund to call capital from its Investors in an amount greater than their proportionate share of a Capital Call to make up for shortfalls created by other Investors not funding an original Capital Call as a result of a default or exercise of an excuse right.

There may be limitations placed on this ability. Notwithstanding the ability of a Fund to make such overcalls, these cannot exceed an Investor's Uncalled Capital Commitment.

Parallel Fund

An investment vehicle that invests alongside the main Fund in one or more Investments (on a pro rata basis) and on the same terms as the main Fund, and will often share proportionately in assets and liabilities.

Preferred Equity

Sits between traditional debt and common equity providing an Investor with a priority return on cashflows (often calculated by reference to an enhanced rate of return).

In a Fund Finance context, Preferred Equity may be issued by an existing Fund, an aggregator or a special purpose vehicle to provide additional liquidity to a Fund.



Recallable Capital ***(Recallable Commitments/ Recallable Distributions)***

Distributions (or returns of capital) made to the Investors by a Fund which amounts are eligible to be drawn down again or recalled by the Fund as Uncalled Capital Commitments under the express terms of the LPA.

Such recallable distributions can originate from a variety of circumstances, such as Capital Commitments called for a particular Investment which was not made (sometimes called returned capital), or from an Investment which was made but which was realised quickly or within a specified period.

Depending on the underlying circumstances behind the distribution, the ability of such distributions to be recalled may be limited in amount, time limited or subject to other conditions.

Recyclable Capital ***(Recyclable Commitments/ Recyclable Distributions)***

Amounts received by a Fund from the liquidation or disposal of underlying Investments, which amounts are permitted by the terms of the LPA to be (and are) retained by the Fund (and not distributed to Investors) in order to fund subsequent Investments or meet other Fund liabilities.

Separately Managed Account ***(SMA) (Fund of One)***

A portfolio of Investments managed by an investment manager on behalf of a single Investor.

Side Letter

A letter entered into between an Investor and the General Partner of a Fund setting out the terms on which that specific Investor will invest in the Fund, with such terms amending or supplementing the terms generally applicable to all Investors set out in the LPA.

Subscription Agreement

A supplemental legal agreement executed by each Investor under which that Investor becomes an investor in the relevant Fund and which sets out the total Capital Commitments of that Investor and certain other details relating to that Investor and its administration.

Subscription Facility *(Capital Call Facility/ Subline/ Subscription Line Facility)*

A facility often provided at Fund level under which the lender(s) look to the value of the Uncalled Capital Commitments of the Investors in that Fund.

Such facilities may be provided on a secured or (less commonly) an unsecured basis. If secured, security often includes the Uncalled Capital Call Security.

Typically used for liquidity management/ working capital purposes.

Such facilities are often structured as revolving credit facilities and can be borrowed by way of loans, letters of credit or bank guarantees, although some facilities may also be structured as a term loan facility.

Umbrella Facility

A credit facilities agreement with multiple Borrowing Bases, Funds/ General Partners managed by the same sponsor (or executives behind such sponsor), none of which facilities cross-collateralise each other.



Uncalled Capital Call Security

Security which is taken over the rights of a Fund (and its relevant related entities, such as any Feeder Fund and their respective General Partner(s) or Manager(s)) to draw down the Uncalled Capital Commitment of the Investors (and exercise all rights relating thereto under the relevant LPA) and the bank accounts into which the Uncalled Capital Commitments are to be paid.

Uncalled Capital Cover Ratio (UCC Ratio/ UCC Test)

The ratio of: (a) the aggregate amount of Uncalled Capital Commitments of Eligible Investors in that Fund (after certain adjustments such as the application of Concentration Limits, Advance Rates or other restrictions); to (b) the agreed financial indebtedness of that Fund.

Uncalled Capital Commitments

The Capital Commitments that have not yet been called by the Fund and are freely available to be called and deployed as per the terms of the Fund's LPA, and which may include Recallable Capital.

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