



Fund Finance 2025

Ninth Edition

Contributing Editor:

Wes Misson

Cadwalader, Wickersham & Taft LLP



glg Global Legal Group

TABLE OF CONTENTS

Introduction

Wes Misson

Cadwalader, Wickersham & Taft LLP

Industry Viewpoints

1 **Morganization: origins and evolution of private equity and fund finance**

Dr. Mick Young

JPMorganChase

11 **The end of Fund Finance?**

Mike Mascia

EverBank, N.A.

Expert Analysis Chapters

16 **NAV and hybrid fund finance facilities**

Leon Stephenson

Reed Smith

29 **Collateral damage: what not to overlook in subscription line and management fee line facility diligence**

Anthony Pirraglia, Peter Beardsley & Richard Facundo

Loeb & Loeb LLP

41 **Derivatives at fund level**

Jonathan Gilmour, Joseph Wren, Nicholas Baines & Nick Morgan

Travers Smith LLP

51 **Oh, what a sweet life it is with subscription facilities!**

Kathryn Cecil, Jons Lehmann & Jan Sysel

Fried, Frank, Harris, Shriver & Jacobson LLP

60 **Fund finance in the secondaries context – liquidity breeds financing needs**

Katie McMenamin, Mimi C. Cheng & Edward Ford

Simpson Thacher & Bartlett LLP

68 **NAV facilities – the investor’s perspective**

Patricia Lynch, Patricia Teixeira & Justin Gaudenzi

Ropes & Gray LLP

75 **Enforcement: analysis of lender remedies under U.S. law in subscription-secured credit facilities**

Ellen G. McGinnis, Richard D. Anigian & Emily Fuller

Haynes and Boone, LLP

- 94** **Use of preferred equity in private equity net asset value facilities**
Meyer C. Dworkin, David J. Kennedy & Kwesi Larbi-Siaw
Davis Polk & Wardwell LLP
- 101** **Financing evergreen funds: the growth of individual investors in the private equity secondaries market**
Brian Foster, George Pelling, Michael Newell & John Donnelly
Cadwalader, Wickersham & Taft LLP
- 105** **Umbrella facilities: pros and cons for a sponsor**
Richard Fletcher & Yagmur Yarar
Macfarlanes LLP
- 115** **Side letters: pitfalls and perils for a financing**
Thomas Smith, Margaret O'Neill & John W. Rife III
Debevoise & Plimpton LLP
- 125** **Fund finance lending in Cayman, Luxembourg and Ireland: a practical checklist**
James Heinicke, David Nelson, Jad Nader & Laura Holtham
Ogier
- 138** **Assessing lender risk in fund finance markets**
Robin Smith, Alistair Russell, Nick Ghazi & Holly Brown
Carey Olsen
- 152** **Fund finance meets securitisation**
Richard Day, Blake Jones & Julia Tsybina
Clifford Chance LLP
- 160** **Fund finance facilities: a cradle to grave timeline**
Bronwen Jones, Kevin-Paul Deveau & Brendan Gallen
Reed Smith
- 169** **Rated subscription lines: welcoming a new era of fund finance**
Danny Peel, Charles Bischoff, Laura Smith & Adam Burk
Travers Smith LLP
- 179** **Bespoke ABF and ABS liquidity structures of Cayman Islands funds**
Dr. Agnes Molnar & Richard Mansi
Travers Thorp Alberga
- 189** **NAV and holdco back-levering financings – practicalities of collateral enforcement by asset class**
Sherri Snelson & Juliesa Edwards
White & Case LLP
- 199** **Collateralised fund obligations**
Christopher P. Duerden, Caroline M. Lee, Anthony Lombardi & Lindsay Trapp
Dechert LLP

- 211** **Innovative rated note structures spur insurance investments in private equity**
Pierre Maugüé, Ramya Tiller & Christine Gilleland
Debevoise & Plimpton LLP
- 220** **Financing secondary fund acquisitions**
Ron D. Franklin, Jinyoung Joo & Allison F. Saltstein
Proskauer
- 228** **Any preference? Preferred equity as part of the financing toolkit**
Ravi Chopra, Robert Emerson & Ed Saunders
Goodwin
- 237** **Fund manager M&A: finance considerations and trends**
Matthew Bivona, Corinne Musa & Trevor Vega
Akin
- 244** **Understanding true leverage at the fund level: a European market and sector approach**
Michel Jimenez Lunz & Antoine Fortier Grethen
SJL Jimenez Lunz
- 252** **Institutional investors: the final frontier of net asset value-based finance**
Charlotte Lewis-Williams, Ryan Moreno, Soumitro Mukerji & Mei Mei Wong
DLA Piper
- 257** **The fund finance market in Asia**
James Webb Travers Thorp Alberga
Ian Roebuck Baker McKenzie
Benjamin Masson Natixis Corporate & Investment Banking
- 267** **Securing success: key considerations for account security in fund finance transactions**
Benjamin Berman, Jeremiah Wagner, Donald Cooley & Dan Marcus
Latham & Watkins
- 274** **Private credit trends impacting fund finance**
Sarah Kessler, Daniel Durschlag, Mark Proctor & Allison Tam
Willkie Farr & Gallagher LLP
- 282** **Financing for continuation funds: a practical guide to market trends, opportunities and issue spotting**
Fiona Cumming & Parisa Clovis
A&O Shearman

Jurisdiction Chapters

- 289 Australia**
Tom Highnam, Rita Pang, Jialu Xu & Nick Swart
Allens
- 300 Bermuda**
Matthew Ebbs-Brewer & Arielle DeSilva
Appleby
- 308 British Virgin Islands**
Andrew Jowett & Johanna Murphy
Appleby
- 317 Canada**
Michael Henriques, John J. Oberdorf III, Kenneth D. Kraft & Tim T. Bezeredi
Dentons Canada LLP
- 324 Cayman Islands**
Simon Raftopoulos & Georgina Pullinger
Appleby
- 333 England & Wales**
Michael Hubbard, Samantha Hutchinson, Nathan Parker & Sukhvir Basran
King & Spalding International LLP
- 340 France**
Philippe Max & Meryll Aloro
Dentons
- 347 Guernsey**
Jeremy Berchem & Leona Maharaj
Appleby
- 356 Hong Kong**
James Ford, Patrick Wong & Natalie Ashford
A&O Shearman
- 368 Ireland**
Kevin Lynch, Ian Dillon, David O'Shea & Ben Rayner
Arthur Cox LLP
- 384 Italy**
Alessandro Fosco Fagotto, Edoardo Galeotti, Valerio Lemma & Giorgio Peli
Dentons
- 393 Jersey**
James Gaudin, Paul Worsnop, Simon Felton & Daniel Healy
Appleby

398 Luxembourg

Vassiliyan Zanev, Marc Meyers & Maude Royer

Loyens & Loeff Luxembourg SARL

409 Mauritius

Malcolm Moller

Appleby

416 Netherlands

Gianluca Kreuze, Michaël Maters & Ruben den Hollander

Loyens & Loeff N.V.

425 Scotland

Andrew Christie, Dawn Reoch & Ruaridh Cole

Burness Paull LLP

432 Singapore

Jean Woo, Danny Tan, Tao Koon Chiam & Hanyin Huang

Ashurst LLP

440 Spain

Jabier Badiola Bergara & Adelaida Torres Rovi

Dentons

448 USA

Jan Sysel, Duncan McKay & Yvonne Ho

Fried, Frank, Harris, Shriver & Jacobson LLP

Netherlands

Gianluca Kreuze

Michaël Maters

Ruben den Hollander

Loyens & Loeff N.V.

Overview

The Netherlands is widely recognised as a leading international financial centre and has a mature investment funds industry with an attractive investment environment due to, amongst others, flexible corporate legislation, various tax structuring options, and an extensive network of bilateral investment treaties and tax treaties.

The most recent research conducted by the *Nederlandse Vereniging van Participatiemaatschappijen* (the Dutch Association of Private Equity Firms)¹ shows that in 2023, Dutch private equity firms raised around €9.1 billion in new funds. A total of 204 Dutch private equity and venture capital firms managed approximately €48.3 billion (committed capital) in 509 funds, and over €6.8 billion was invested by national and international private equity and venture capital firms in Dutch companies.

In the last year we have seen a slight increase in the number of fundraisings, investor appetite and fund financings in the Netherlands as compared to the previous year. We believe that this is, amongst others, due to global, macroeconomic drivers and the stabilising interest rate environment, which are not specific to the Dutch market.

On the fund financing side, an increase in fundraisings also led to an increase in the demand for capital call and hybrid facilities. Additionally, there has been an increased demand from Dutch fund managers for alternative financing products, such as GP (or co-investment) facilities and net asset value (**NAV**) facilities, as an additional source of capital during the fund's lifecycle.

The evolving fund finance market has proven to be of increasing interest to both Dutch and foreign lenders over the past couple of years, and market participants are more actively exploring other (including more structural) fund finance solutions on top of the traditional capital call facilities.

Consequently, we are looking forward to an exciting 2025, which will provide new opportunities and challenges for fund managers and fund finance lenders.

This chapter seeks to provide further background on the following aspects: (a) fund formation and the commonly used Dutch fund vehicles; (b) regulation of fundraising and fund managers; (c) fund finance in the Netherlands; (d) structuring the security package; and (e) the year ahead.

Fund formation and the most commonly used Dutch fund vehicles

A Dutch alternative investment fund (an **AIF**)² may be structured in various ways, both as corporate and contractual entities. Corporate entities have legal personality (*rechtspersoonlijkheid*), enabling them to hold legal title to assets, and are governed by mandatory corporate law, whereas contractual entities lack such legal personality and are unable to hold legal title, but enjoy the benefit of more contractual freedom. Frequently used corporate investment vehicles are the private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) and the cooperative with excluded liability (*coöperatie met uitgesloten aansprakelijkheid*). Contractual investment vehicles are commonly established in the form of a limited partnership (*commanditaire vennootschap*) or a mutual fund (*fonds voor gemene rekening*). The ultimate selection strongly depends on the outcome of relevant tax and legal structuring analyses, but the majority of Dutch AIFs are structured either as cooperatives with excluded liability or limited partnerships.

Regardless of whether a contractual or legal entity is selected, an AIF established in the Netherlands should consider that the European Alternative Investment Fund Managers Directive 2011/61/EU (the **AIFMD**) is applicable and has been implemented into the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*, or the **AFS**). Consequently, the AIFMD and all rules and regulations promulgated thereunder (including Delegated Regulation (EU) 231/2013, the **Delegated Regulation**) must be complied with in the Netherlands by any alternative investment fund manager (an **AIFM**), unless an AIFM can benefit from exemptions (such as AIFMs managing AIFs below the Threshold (as defined below)).

If a Dutch licensed AIFM establishes an AIF as a contractual investment vehicle (lacking legal personality), it is – in principle – required under the AFS to also establish a single-purpose corporate entity to hold the assets of one or more of such AIFs set up by the licensed AIFM.

Regulation of fundraising and fund managers

The management or marketing of AIFs in the Netherlands by ‘large’ AIFMs triggers the obligation to obtain a licence in the Netherlands, subject to certain exemptions. AIFMs are considered ‘large’ if they, directly or indirectly, manage portfolios of AIFs whose assets under management (in the aggregate) amount to €500 million or more, or – when open-ended or leveraged – €100 million or more (together, the **Threshold**). An AIFM is deemed to manage an AIF in the Netherlands if such AIFM is established in the Netherlands, or if the AIF managed by it is established in the Netherlands.

Dutch AIFMs that fall below the Threshold may manage and market their AIFs without an AIFMD licence in the Netherlands, provided that either:

- a) the AIF’s units or shares are exclusively offered to professional investors within the meaning of the AFS (e.g. banks, insurers, pension funds, brokers, AIFMs, AIFs, or qualifying large corporates); or
- b) the AIF’s units or shares are offered to fewer than 150 persons, or have a nominal value of, or are offered for a consideration payable per investor of, at least €100,000, provided that a banner or selling legend as to the AIFM’s unregulated status (in a predefined size and layout) is printed on the AIF’s offering documents,

and in each case, the relevant AIFM is registered with the Dutch authority for the financial markets to monitor compliance with the sub-Threshold regime, and to effectively monitor any build-up of systemic risks. Dutch AIFMs are furthermore required to disclose to the Dutch Central Bank (*De Nederlandsche Bank*), amongst others, information on the main instruments in which the AIFs are trading, the principal exposures, and the most important concentration of the AIFs managed.

Dutch AIFMs that do not require a licence for managing and marketing their AIFs in the Netherlands may voluntarily apply for such licence, provided such AIFM complies with all applicable AIFMD requirements (as implemented into Dutch law). Not many Dutch AIFMs have chosen to apply for an AIFMD licence voluntarily.

Additionally, considering that AIFs making private equity investments are in scope of the venture capital regulation (Regulation 345/2013/EC, or **EuVECA**), EU-based managers of (EU) AIFs that comply with the conditions of EuVECA may benefit from an EU marketing passport as introduced therein. In the Netherlands, a lot of AIFMs use such passport as it allows for the marketing of units or shares to potential investors investing at least €100,000 or to investors that are treated as professional clients (within the meaning of Directive 2014/65/EU), in each case provided that they have confirmed their awareness of the risks associated with their investment. An EuVECA labelled AIF cannot use any method by which the exposure of the AIF will be increased beyond the level of its undrawn capital commitments, whether through borrowings (such as NAV financings) or securities, derivative positions or by any other means.

Finally, the amendments to the Alternative Investment Fund Managers Directive (**AIFMD2**) were published in the Official Journal of the European Union on 13 March 2024. AIFMD2 should therefore be implemented into Dutch legislation prior to 16 April 2026. AIFMD2 includes, *inter alia*, a number of provisions that apply to AIFs engaging in loan origination. An AIF will be subject to a 300% leverage cap (where the AIF is closed-ended) and a 175% leverage cap (where the AIF is open-ended), if its strategy is mainly loan origination or where the nominal value of the loans originated represents at least 50% of the NAV. Member States may impose stricter leverage limits. Sublines secured on capital commitments will not count towards exposure. Exceptions apply for AIFs if they solely originate shareholder loans, the notional value of which is not exceeding, in aggregate, 150% of the AIF's capital.

Fund finance in the Netherlands

The demand for alternative financing solutions by Dutch AIFMs and AIFs is expected to continue its upturn. Depending on the type of AIF, the need for financing can vary, but is typically focused on (i) traditional capital call facilities, and (ii) credit facilities to provide structural leverage or liquidity for the AIF (net asset value of investments).

There is limited data publicly available on the use of the various types of fund financing in the Netherlands, which makes it difficult to assess the size of the Dutch fund finance market. In our experience, secured capital call facilities continue to be the main type of financing selected by AIFMs. It has become customary to explicitly refer in the relevant fund documentation to the possibility to take out this type of financing and the creation of security by the AIF on its assets (including receivables that investors owe to the fund). The purpose and use of traditional capital call financings are expected to further expand. In addition to bridging capital calls, capital call facilities are also being used to 'bridge' the third-party financing to be arranged for at the level of the portfolio company (*i.e.* at bidco level) and thus speed up acquisition processes. Utilising a capital call facility during the period between first and final closing of a fundraising has also allowed AIFMs to invest prior to final closing without having to process and charge incoming investors equalisation fees.

Over the years, there has been an increasing interest in the ability to obtain NAV or hybrid facilities at (or just below) fund level. For existing funds, the ability to incur structural leverage is not yet always catered for in fund documents. Dutch fund managers are using NAV facilities particularly when the undrawn investors' commitments are low or the fund investment period has ended and the fund seeks liquidity for investor distributions or add-on investments, or to provide additional liquidity for their distressed portfolio companies. For continuation funds, NAV facilities are used to finance the exit of limited partners not rolling over.

An important consequence of incurring such leverage at the level of a Dutch AIF is that, depending on the details of the financing, the relevant AIFM managing such AIF may be required to obtain an AIFMD licence in the Netherlands, as further discussed below.

Whether or not an AIF incurs leverage may affect the relevant AIFM's regulatory status, *i.e.* it may lead to a lower Threshold being applied for purposes of determining whether an AIFMD licence is required in the Netherlands. Also, incurring leverage is not allowed for EuVECA labelled funds if such borrowings exceed the undrawn capital commitments. Additionally, if AIFs deploy leverage, the AIFMD (and rules and regulations promulgated thereunder) imposes additional obligations on an AIFM managing such AIF.

The term 'leverage' is defined by the AIFMD as any method by which an AIFM increases the exposure of an AIF it manages, whether through borrowing of cash or securities, or leverage embedded in derivative positions, or by any other means.

While determining whether an AIF deploys leverage within the meaning of the AIFMD and when calculating exposure, the Delegated Regulation dictates that AIFs should 'look through' corporate structures. Therefore, exposure that is included in any financial and/or legal structures involving third parties controlled by the relevant AIF, where those structures are specifically set up to increase, directly or indirectly, the exposure at the level of the AIF, should be included in the calculation. However, for AIFs whose core investment policy is to acquire control of non-listed companies or issuers, AIFMs should not include in the calculation any leverage that exists at the level of those non-listed companies and issuers, provided that the relevant AIF does not have to bear potential losses beyond its capital share in the respective company or issuer.

On the other hand, borrowing arrangements entered into by the AIF are excluded under any of the abovementioned methods if these are:

- a) temporary in nature; and
- b) fully covered by 'capital commitments' from investors (*i.e.* the contractual commitment of an investor to provide the AIF with an agreed amount of investment on demand by the AIFM).

Even though the Delegated Regulation considers in its recitals that revolving credit facilities (**RCFs**) should *not* be considered as being temporary in nature, it is the prevailing view that capital call facilities (by way of an RCF or otherwise) can be structured as being temporary in nature if certain requirements otherwise applicable to non-RCFs are similarly complied with. In order to structure these facilities as temporary in nature, certain features can be implemented, such as: (i) a mandatory clean down to occur once every 12 months (followed by a period during which the facility is not used); and/or (ii) an obligation to repay each loan, with the proceeds of capital contributions, within 12 months of drawing such loan.

Structuring these capital call facilities as temporary in nature fits their purpose, as these facilities are typically utilised to bridge the liquidity gap at the level of the AIF to be funded ultimately out of the proceeds of capital contributions. Such a time gap between inflowing money from investors and outflowing money for investments can be caused by: (a) the period, often 10 business days, it takes before requested capital is actually contributed to the AIF; (b) the desire of the AIFM to bundle capital calls (so not to burden the investors with drawdowns of smaller amounts); (c) a defaulting investor not contributing; and (d) the AIFM delaying certain capital calls, as this may boost the internal rate of return for investments in and by the AIF.

Structuring the security package

Credit facilities to be granted to AIFs can be secured in a variety of ways depending on the purpose of the facility. The below provides an overview of the typical security structure per type of facility followed by a description of general topics relevant to the majority of the facilities, such as in relation to a pledge over bank accounts, which comes into play in a wide variety of fund finance facilities.

Capital call facilities – investor receivables

Where the fund borrows against the investor receivables, *i.e.* enters into capital call facilities, security is typically granted over (i) the bank account (which is considered a receivable on the account bank under

Dutch law) on which capital contributions are made by the AIF's investors, and (ii) all receivables or contractual obligations that the investors owe to the AIF, such as the right to make drawdowns from the capital commitments. Pursuant to Dutch law, security over receivables can be established by way of a disclosed right of pledge, or by way of an undisclosed right of pledge. A disclosed right of pledge is created by way of a security agreement (or notarial deed) and notification of the right of pledge to the relevant debtors of the receivables that are being pledged. An undisclosed right of pledge is created either by way of a notarial deed or by way of a security agreement that is registered with the Dutch tax authorities for date-stamping purposes. A disclosed right of pledge can be created over present and future receivables, whilst an undisclosed right of pledge can only be created over present receivables and future receivables directly arising from legal relationships existing at the time of creation of such undisclosed right of pledge. Therefore, for an undisclosed right of pledge, it is common practice to file supplemental security agreements with the Dutch tax authorities periodically and at any time a new investor accedes to the fund to also secure present and future receivables resulting from legal relationships that have been entered into after the date of the initial security agreement (or notarial deed).

Both the disclosed and undisclosed right of pledge over receivables of the AIF on its investors are used in practice; choosing one form of pledge over the other depends, to some extent, on whether it is commercially desirable to disclose the right of pledge to the relevant investors and whether an undisclosed right of pledge is acceptable to the lender. With pledge notices customary to be sent to investors in key jurisdictions such as Luxembourg, the United Kingdom and the United States, it has become common over the last few years to notify investors of a right of pledge over the investor receivables in the Netherlands as well. Dutch law allows for sufficient flexibility as to the form of such notification to be made; consequently, such notification can be made by uploading the notice to the AIF's investor portal or referencing the right of pledge in any investor reporting document, making the process of serving notice a fairly effortless procedure. Therefore, in the majority of transactions, there will be a disclosed right of pledge over investor receivables notifying the investors not by separate pledge notice, but via the investor portal of periodic investor reports.

The qualification of the receivable owed by the investor to the AIF as either an existing claim that is conditionally payable or a future claim whose existence is conditional and is important for determining whether the receivable can be made subject to a bankruptcy proof right of pledge. If the claim is considered a future claim, any right of pledge that is created in advance will only take effect if such claim comes into existence prior to the pledgor being bankrupt; any claim that comes into existence after bankruptcy will fall within the bankruptcy estate of the pledgor.

In Dutch literature and case law, the prevailing view is that the receivable owed by the investor to the AIF qualifies as a future receivable arising from an existing legal relationship, which receivable comes into existence once the AIFM sends the relevant capital call notice to the relevant investor and therefore can also be made subject to an undisclosed right of pledge as of the date of the capital call notice (without periodical supplemental security being required, unless the investor base changes as that will be considered a new legal relationship between the fund and the new investor – in case of a disclosed right of pledge, a change to the investor base will typically require notification to be served on the new investor). However, if the AIFM sends the capital call notice after the pledgor's (the AIF's) bankruptcy, then the receivable comes into existence after such pledgor's bankruptcy and therefore forms part of the pledgor's bankruptcy estate unencumbered by any right of pledge. It is, however, the prevailing view in Dutch legal literature that the parties to the fund agreement may agree on the qualification of a receivable as either an existing claim payable under condition of a capital call being made or a future claim coming into existence under the condition of a capital call being made – as such, fund documentation will typically contain a clause that explicitly states that any receivable owed by the investor to the AIF is considered an existing but conditional claim, conditional upon the capital call being made. A right of pledge created over an existing but conditional receivable is also valid if the condition (the capital call) is met after the pledgor's bankruptcy.

However, there is limited case law confirming that such a provision would work to avoid any of the aforementioned issues. There is also some debate in the literature on whether a pledgee may issue capital call notices solely based on its right of pledge. To mitigate those risks, the pledgee may request to be granted a direct, independent right to issue capital call notices in default situations. Often, a direct agreement to be entered into between the pledgee and the investors is not (commercially) feasible. Nowadays, we do see that fund documentation caters for the possibility for the pledgee (as an independent right) to make capital calls by submitting capital call notices (to avoid the need to arrange this at a later stage via direct agreements). Alternatively, the AIFM may grant a power of attorney or mandate to the pledgee to issue, in certain default situations, a capital call notice in the AIFM's name to the investors (again, this right is often acknowledged in the fund documentation). However, as a power of attorney or mandate is terminated, by operation of law, in the event of bankruptcy of the entity that has granted the power of attorney, the latter option is less favourable to the pledgee.

NAV facilities

Where the fund borrows against the net asset value of its investments, security may be granted over: (i) the bank account in which (dividend) distributions by portfolio companies are received; and (ii) the interest in the underlying portfolio companies and/or any unpaid dividend claims. A pledge over equity interests (shares or otherwise) in portfolio companies is regularly not pursued given the complexities it may trigger on the vesting and enforcement of the pledge and the limited risk of bankruptcy at fund or fund holding level. Where the borrowing entity is a special purpose vehicle wholly owned by the fund, and not the fund itself, a lender might require the fund to grant a pledge over the equity interests in that fund holding, a guarantee, or an equity commitment letter to be issued by the fund. The latter can be either in favour of the fund holding or a lender, depending on regulatory and tax considerations. In certain structures and transactions, such intermediate holding is set up specifically for the purpose of structuring the NAV facility, often to address certain regulatory and (foreign) tax items. If such holding entity is used as an aggregator, the equity interests that the fund holds in the underlying portfolio companies are required to be transferred, on an asset-by-asset basis, from the fund to the aggregator. This may be a costly and time-consuming exercise.

In case of NAV financings, fund and constitutional documents of the fund entities should be reviewed with particular focus on (i) the possibility to use leverage and grant security interests, (ii) limitations on borrowing or incurrence of indebtedness, (iii) the permitted duration for borrowings and other indebtedness, and (iv) the permitted use of loan proceeds. If equity interests issued by one or more holding entities are part of the collateral securing the NAV financings, the constitutional documents, the shareholders' arrangements and the financial arrangements at the level of the holding and underlying entities have to be considered in order to assess whether there are any relevant change of control provisions or restrictions on pledging these equity interests.

GP facilities

In the recent past there has been an increase in activity around GP (co-investment) facilities. Consistent with other jurisdictions, Dutch AIFMs are looking for facilities to finance the GP co-investment in the AIF. The typical structure for the team co-investment is for the AIFM to set up and control either a Dutch limited partnership or limited liability company (which will invest in the main fund, the **Team Co-Investment Vehicle**) in which only members of the investment team of the AIFM can participate.

These facilities may be secured by a combination of (i) a pledge over the Team Co-Investment Vehicle's bank account, (ii) a pledge over the direct or indirect co-investment interest, and/or (iii) a pledge over management fee receivables. Depending on the borrowing entity of the GP facility, often being either the AIFM, the general partner (if applicable in that structure) or the Team Co-Investment Vehicle, there may be regulatory, tax and corporate benefit constraints to be taken into account when structuring the

security package. Given that there has been limited activity in the field of GP facilities, there is no set structure or market standard on this yet and each facility is tailor-made to the structure of the fund and commercial agreement between the lender and the borrower.

Bank accounts (for capital call, NAV and GP facilities)

Dutch fund structures are often set up with one single Dutch bank account per fund entity. With respect to creating a right of pledge over Dutch bank accounts, the applicable general terms and conditions are of relevance. The general terms and conditions used by most Dutch account banks create a first-ranking right of pledge over such bank account for the benefit of the account bank, and state that the bank account cannot be (further) pledged. Consequently, the cooperation of such account bank is required to create a (first-ranking) right of pledge over a Dutch bank account. It is becoming increasingly difficult to convince Dutch account banks to cooperate and consent to the creation of a right of pledge over bank accounts for the benefit of third-party lenders (*i.e.* if the account bank is not participating as a lender in the relevant facility).

Pledge restrictions

Another element to take into consideration when structuring the security over the AIF's assets is that receivables (including investor receivables and management fee receivables) and contractual rights may, through a clause in the contract from which such receivables or contractual rights arise (or in the general conditions thereto), be made non-assignable/transferable or 'non-pledgeable'. Depending on the wording of the relevant provision of the contract, such non-assignability clause could have an effect *in rem*, in which case creating a right of pledge over such receivable or right will simply not be possible. The relevant fund documentation should be carefully checked on this.

In June 2024, the Dutch parliament (*Tweede Kamer*) approved the legislative proposal that aims to *disable* non-pledgeability clauses included in certain agreements. The legislative proposal is currently under review by the Dutch senate (*Eerste Kamer*). It is anticipated that the new law will come into force over the course of 2025. Once effective, the new law will ensure that non-pledgeability clauses applicable to investor receivables (however unlikely in fund documentation), management fee and dividend or other investee receivables are no longer effective. The non-pledgeability clauses applicable to bank account receivables will remain effective based on an explicit carve-out for those in the legislative proposal.

Outlook

As emphasised, 2023 and 2024 were interesting years for Dutch fund formation and fund finance markets. Despite the current national and international geopolitical developments, the Netherlands' position as a mature and well-equipped jurisdiction for funds and investments remains unaffected. We expect that 2025 will bring a further increase in fundraising activity, including in sectors other than the impact and life sciences sectors. With the Dutch fund finance markets maturing, we expect to see an increase in the diversity and volume of the fund finance products offered in the Netherlands; for example, by an increase in the number of NAV facilities, hybrid facilities, GP solutions and co-investment facilities offered. We are seeing an increasing number of fund managers exploring and utilising NAV facilities as well and expect that trend to continue in 2025. We are also seeing an increasing number of non-Dutch lenders showing interest in the Dutch market. In view of, amongst other things, the evolving legislation (such as Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the **SFDR**)), a key development will likely be the further integration of ESG factors in fund facilities, whereby measurable ESG performance indicators can directly impact the applicable interest margin.

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Endnotes

- 1 An interactive graphic providing an overview of the NVP's findings can be found on its website: <https://nvp.nl/feiten-cijfers/marktcijfers> (this reference is accurate on the date of this publication).
- 2 We note that this chapter does not focus on collective investment undertakings that require a licence pursuant to Article 5 of Directive 2009/65/EC (UCITS).

**Gianluca Kreuze**

Tel: +31 20 578 55 12 / Email: Gianluca.Kreuze@loyensloeff.com

Gianluca Kreuze, attorney at law, is a partner of the Finance practice group and co-head of the Private Equity team. Gianluca advises lenders, borrowers and “originators” with structuring and documenting finance transactions. Gianluca is specialised in domestic and international private equity matters and his particular expertise concentrates on debt finance transactions with an emphasis on acquisition finance and follow-on recapitalisations and other corporate finance transactions. Gianluca formerly worked at the Loyens & Loeff office in London, where he mainly dealt with structured finance transactions.

**Michaël Maters**

Tel: +31 20 578 58 64 / Email: Michael.Maters@loyensloeff.com

Michaël Maters, attorney at law, is a senior associate of the Investment Management practice group and member of the Private Equity team. Michaël focuses on investment management, Dutch partnerships, corporate fund structures and AIFMD-related matters, specialising, in particular, in the civil, corporate and regulatory aspects of (international) fund formation. He acts both on behalf of managers in the formation of their alternative investment funds as well as on behalf of (institutional) investors, assisting them with their investments in such alternative investment funds. Additionally, Michaël also publishes on the various civil, corporate and regulatory aspects of fund formation. Michaël was seconded to the Loyens & Loeff office in Zürich in 2017.

**Ruben den Hollander**

Tel: +31 6 10 90 14 82 / Email: Ruben.den.Hollander@loyensloeff.com

Ruben den Hollander, attorney at law, is an associate of the Finance practice group and member of the Private Equity team. Ruben specialises in secured lending, advising both financial institutions and private investors on structuring and documentation. He focuses on leveraged finance and fund finance.

Ruben worked in the firm’s Investment Management practice group in 2016 and 2017 where he assisted managers with the formation of their funds and institutional investors in respect of their investments in funds. Ruben worked in the firm’s New York office from 2020 to 2021 and was seconded to Mayer Brown (Banking & Finance) in New York in 2020.

Loyens & Loeff N.V.

Parnassusweg 300, 1081 LC Amsterdam, Netherlands

Tel: +31 20 578 57 85 / URL: www.loyensloeff.com



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