

Corporate Sponsorship of Private Funds as an Integrated Asset Finance Platform

Contributing Partners

John M. Caccia / New York

Anna Rips / New York

Counsel

Greg P. Norman / London

Associate

Andrew Nichol / New York

In recent years, investment managers sponsored by established corporate enterprises (Corporate Sponsors) and corporate sponsored funds (CSFs) have been established with increasing frequency across a range of sectors, markets and geographies, buoyed by the drive of leading institutional fund investors (Investors) to partner with market leaders and deploy significant amounts of capital into select opportunities that traditional channels may not offer.

CSFs present a range of advantages for Corporate Sponsors and Investors, including their ability to support a Corporate Sponsor's key strategic objectives and secure high-upstream investment opportunities for Investors.

Corporate Sponsored Funds

CSFs are private funds sponsored by an investment manager that is affiliated with Corporate Sponsors carrying on a core business other than investment management. At one level, CSFs reflect established capital markets norms, because many of the world's leading investment managers have, at one time or another in their development, been affiliated with diversified enterprises. What is novel about CSFs is their ability to address Investors' capital deployment and deal flow needs in harder-to-access strategies, including capital-intensive strategies such as infrastructure, credit, pharmaceuticals, energy, telecommunications and real assets through asset-level expertise and focus derived from the institutional capabilities of a Corporate Sponsor. As a result, CSFs have a unique ability to provide proprietary deal flow to private capital Investors.

CSFs benefit from the unique advantages of private capital structures in supporting and accelerating the growth and evolution of a Corporate Sponsor's business. They also harness the positives of the platforms provided by Corporate Sponsors, which are typically mature, prominent enterprises of scale with core businesses naturally suited to large-scale capital deployment. CSFs are typically managed by a dedicated

subsidiary of the Corporate Sponsor (a Corporate Affiliated Manager) with the expertise to steer CSF capital surgically into favored growth strategies, business lines or divisions of a Corporate Sponsor in a manner supportive of a long-term, programmatic relationship with Investors. This opportunity for strategy segmentation through a CSF can represent a significant pathway for a Corporate Sponsor to execute particularly important elements of its overall strategy, while managing balance sheet exposure through control over the size of its capital contribution to the CSF.

Benefits for Corporate Affiliated Managers and Their Corporate Sponsors

Like other private funds, CSFs can generate attractive revenues for the Corporate Sponsor, primarily through a share of management fees and carried interest paid to the Corporate Affiliated Manager by the CSF. Additionally, with the Corporate Sponsor's participation in a portion of these management fees and carried interest, CSFs can help to monetize for the Corporate Sponsor the acumen of in-house investment teams.

CSFs also provide the Corporate Sponsor with certainty of capital for its key strategic goals on terms that compare favorably with conventional sources of equity and debt financing. CSFs avoid the unwelcome effects (and costs) of over-dependence on debt issuance and equity issuance, while retaining control of strategy and high-value strategy expansion.

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One Manhattan West
New York, NY 10001
212.735.3000

CSFs also enable Corporate Sponsors to overcome balance sheet and capital constraints that may make it more difficult to achieve strategic and commercial objectives. CSFs can provide relatively stable, long-term capital that compares favorably to other capital sources, and aids in the conservation of balance sheet capital. In addition, CSFs may be structured so as to be consolidated or deconsolidated for corporate finance, debt covenant, accounting and balance sheet purposes, which helps preserve flexibility for the Corporate Sponsor to pursue key objectives.

Benefits for CSF Investors

CSFs can facilitate Investor expansion of direct investment programs over time, including through portfolio company exits by CSFs to Investors, while mitigating Investor perceptions of new sponsor risk by brand backing, performance information, technical expertise and well-developed support functions. To this end, leading enterprises

are often well positioned to offer significant, prespecified portfolios of closing assets, attractive co-investment opportunities and ongoing, large-scale deal flow to Investors through CSFs.

CSFs also offer Investors governance structures that are familiar and reflective of Investors' existing relationships with other private funds, including those run by established, multistrategy managers not affiliated with Corporate Sponsors. Governance and alignment mechanisms for CSFs typically rest on best practices and negotiated terms common to many private funds, such as independent investment committee bodies, carefully defined investment guidelines and a role for the CSF's Investor advisory committee, as well as transaction-specific governance provisions and mechanisms. In this way, CSFs offer leading Investors privileged access to preferred deal flow within a Corporate Sponsor's investment,

development or acquisition pipeline. Utilizing best practices in conflict management to unlock access to investment opportunities available through the Corporate Sponsor, CSFs, like other private capital structures, can serve to create and strengthen long-term relationships between Corporate Sponsors and Investors that are protected by the fund governance norms familiar to Investors.

Conclusion

As leading corporate entities seek to monetize in-house investment acumen and focus on key business lines to drive growth and market share, preservation of balance sheet capital and targeted partnering with Investors will remain critical. CSFs provide Corporate Sponsors with a unique opportunity to combine the inherent flexibility of private capital transactions with the advantages of sponsor-favorable market norms to define the future of their key business lines.