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Fund facilities: To cap duration or not?

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TPG's time cap on fund facilities highlights the heated debate on their use.

TPG Capital has set a nine-month cap on capital call facilities for one of its private equity funds, chief investment officer Jonathan Coslet said at the Pension Bridge conference in Chicago last week.

This nine-month cap does not apply to all TPG equity or debt funds, a source familiar with the matter told *Private Debt Investor*. The firm works alongside its limited partners to set limits or guidelines for each fund.

Coslet cautioned at the event that this limit on capital call facilities would not have a significant effect on fund returns, according to Buyouts, which first reported the story. TPG declined to comment, or to specify which private equity fund had the nine-month time limit.

The asset manager's limit on facilities comes amid a heated debate among both general partners and LPs in private debt and private equity about the cost and benefits of their use.

Some GPs – and even LPs – prefer the use of a subscription facility because it allows fund managers to fund deals in a quicker manner than continually calling capital, which can be a lengthy process. Another upside for LPs is that the lines can allow them to manage the fund's cashflow more efficiently.

However, sources have told *PDI* that some LPs say the subscription facilities allow the GPs to delay calling commitments, therefore making it difficult for them to invest their allocation to a given vehicle. The use of a facility in lieu of LP capital is also a way for a GP to manipulate its net internal rate of return.

The New Mexico State Investment Council (SIC) also does not have a cap or restriction on the practice by its managers, though the board has raised some concerns.

"The issue is one which has gained additional attention from our Council in recent meetings, but we have not yet implemented any specific policy in this regard," Charles Wollmann, director of communications at

SIC, said in an email.

“That said, more aggressive practices in this area are of a concern to us as limited partners. We will continue our ongoing assessment of the practice, which certainly could result in the Council taking a formal position on the practice relative to its future commitments.”

Aoifinn Devitt, chief investment officer at the Policemen's Annuity and Benefit Fund of Chicago, told *PDI* that she has no problem with a fund manager using subscription credit facilities, and that the pension plan doesn't set time limits.

"We have cashflow needs," she noted. "If a manager is making us money by borrowing against our commitment and juicing their IRR in the process, then we don't have a problem with that."

TPG’s facility cap aligns with the standard duration limit across private debt strategies, typically between three to 12 months, according to a source at one US public-sector pension plan.

“Also, many private direct lending strategies use explicit leverage,” the source added, “and right now commitment lines are less expensive than the asset-backed leverage lines so they can help to blend down the overall cost of leverage. Just another tool in the toolbox while interest rates are low.”

In June, the Institutional Limited Partnership Association published nine-point guidelines on subscription facility practices, in part a response to their increasing popularity.

The body, which represents LPs and their concerns, recommended that managers and investors should agree to limits on the use of credit lines, such as maximum percentages of all uncalled capital, the number of days it should remain outstanding and the longest period of time for which such lines can be used.