

## Film financing: Hedge funds say it's a wrap, but should they?

**Helen Avery**

Friday, May 01, 2009

### **Hedge funds and banks are backing out of film financing deals because of liquidity issues.**

Investing in studios' slates of films had become big business for hedge funds and banks over 2005 to 2008 with the two side partnering up to create vehicles. Studios, strapped for cash and keen to offload some risk of flops in return for shares in DVD and TV sales profits, had turned to Wall Street to help them. Deals were put together whereby hedge funds and banks invested alongside the studio in seven to 25 films to be made in the future. About \$15 billion is estimated to have been invested in slates of films over the three-year period ending 2008. Merrill Lynch, Credit Suisse, Deutsche Bank, Goldman Sachs, Citigroup and JPMorgan all arranged co-financing deals with studios raising money from hedge funds and private equity firms. Hedge funds such as Dune Capital and Clark Investments also created co-financing vehicles.

Last year, though, the banks started backing out of film financing, with some, such as Citi, pulling out altogether. Gordon Clark of the Movie Portfolio Fund says he is not surprised. A former CFO of a bank, Clark says he knows all too well that Wall Street and films do not always go well together. "Investing in film is a long-term commitment, and banks are notoriously short-term in their judgments. They only started getting in to slate financing deals in 2005 and already they have pulled out."

Clark's firm looks to invest over at least a five-year period. "It can take two years to begin earning revenue from a movie, and then about five to seven years to collect the bulk of the revenue," he says.

### **Cut!**

Breaking commitments halfway through a slate of films is damaging for the studios, which end up without partners, and can be costly for the hedge funds and banks, which might face lawsuits for breach of contract. Instead, Wall Street is trying to find speciality partners who can take over their side of the contract, often at a discount. It is good news for smaller funds with expertise in film financing.

Indeed, Clark says now is a good time to be in film finance. Films tend to do well in both good and bad economic situations and provide a hedge and diversification to investors. "The returns are uncorrelated with markets – 2009 has been a record year so far for the film industry," he says. "Box office sales in January this year were the highest in any January on record for example."

The hedge funds and banks failed in their investments because of lack of expertise, Clark suggests. "The studios managed to construct the deals on their terms, often including the banks and hedge funds on films that were deemed to have less potential," he says. Sequels to best-selling films such as *Spiderman* were left out of deal contracts, while less attractive films, such as flop *Poseidon Adventure*, were included, for example. "People tend to jump in when there is a boom without truly knowing what they are getting into," says Clark. "There was a lack of real understanding but those who have a long-term interest in investing in movies stand to make good returns."

### [More on film finance](#)

### **Subscribe today**

You can order Euromoney by contacting our subscription hotline:  
Call: +44 (0)20 7779 8999 (UK) or +1 212 224 3570