



MAYER | BROWN

14<sup>TH</sup> ANNUAL

# Investment Management Regulatory University

WEBINAR SERIES

September 16, 2020

Stephanie Monaco  
(202) 263-3379  
[SMonaco@mayerbrown.com](mailto:SMonaco@mayerbrown.com)

Frank Falbo  
(312) 701-7485  
[FFalbo@mayerbrown.com](mailto:FFalbo@mayerbrown.com)

Wendy Gallegos  
(312) 701-8057  
[WGallegos@mayerbrown.com](mailto:WGallegos@mayerbrown.com)

Brian May  
(312) 701-8990  
[BMay@mayerbrown.com](mailto:BMay@mayerbrown.com)

Tram Nguyen  
+1 212-506-2363  
[TNguyen@mayerbrown.com](mailto:TNguyen@mayerbrown.com)

Kristin Rylko  
(312) 701-7613  
[KRylko@mayerbrown.com](mailto:KRylko@mayerbrown.com)

The background of the slide is a photograph of a modern glass skyscraper. The building's facade is composed of many rectangular glass panels, reflecting the sky and surrounding environment. Several American flags are visible on tall poles in front of the building. The overall color palette is dominated by blues and greys, with a bright yellow vertical bar on the left side. The text is overlaid on this background.

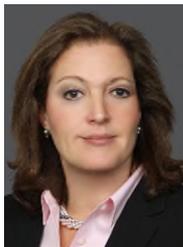
MAYER | BROWN

Introduction

# Fund Developments for 2020

# Speakers

Stephanie Monaco



Wendy Gallegos



Frank Falbo



Kristin Rylko



Tram Nguyen



Brian May

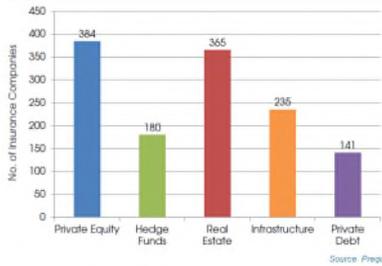




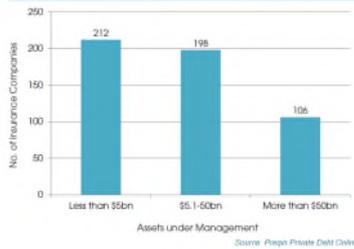
# Fund Developments — Insurance Company Investors

# Insurance Company Investors: Private Funds Assets

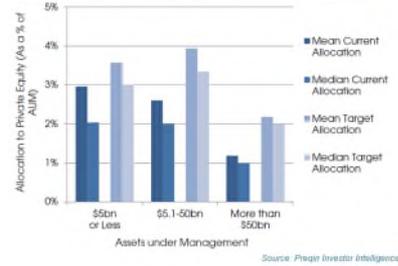
**Fig. 1:** Number of Insurance Companies Investing in Each Asset Class



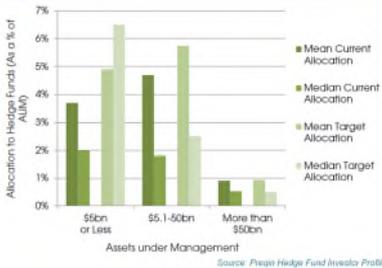
**Fig. 2:** Breakdown of Insurance Companies Investing in Alternative Assets by Assets under Management



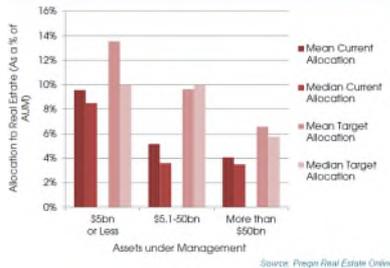
**Fig. 3:** Insurance Companies: Average Current and Target Allocations to Private Equity



**Fig. 4:** Insurance Companies: Average Current and Target Allocations to Hedge Funds



**Fig. 5:** Insurance Companies: Average Current and Target Allocations to Real Estate



**Fig. 6:** Insurance Companies: Average Current and Target Allocations to Infrastructure





# Insurance Company Investors: Investment Drivers

- Low-interest rates/search for yield
- Expertise from non-core fixed income managers
- Manage risks



# Insurance Company Investors: Structuring Considerations

- Risk-based capital requirements
- Potential ERISA requirements
- State law requirements
- Insurance company internal requirements

The background image shows a modern, multi-story building with a large glass facade and stone accents. Several flags are flying on tall poles in front of the building. The entire image is overlaid with a semi-transparent blue gradient. The text 'Fund Developments — Alternative Investment Classes' is centered in white, sans-serif font.

# Fund Developments — Alternative Investment Classes



# Fund Developments — Real Estate Debt Funds



# Real Estate Debt Fund Developments

## Impact of Market Dislocation on Fund Strategies

- Sponsors seeking to capitalize on attractive deals through the expansion of closed-end fund mandates or separate accounts and club deals as a quicker avenue to raise capital
- Target investment types include:
  - Rescue capital
  - Purchase of non-performing real estate debt
  - Subordinate debt interests in illiquid situations (e.g., foreclosure and bankruptcy situations)
  - Recapitalizations of challenged real estate assets (e.g., assets suffering from cash flow interruption or lack of capital investment)



# Real Estate Debt Fund Developments

## CMBS and Other Real Estate Debt Securities

- May be pursued as a sleeve for existing funds or as a separate fund strategy
- Increase in interest driven by market dislocation and resulting decrease in pricing
- Strategy may focus on securities where the sponsor believes it can underwrite the underlying assets (e.g., SASB CMBS)



# Real Estate Debt Fund Developments

## Continued Interest in Open-End Fund Products

- Interest from both sponsors and investors for open-end debt funds as another option for a “core” strategy that targets current yield
- Also attractive as a potential vehicle for defined contribution plan investors as sponsors continue to plan for an increase in the deployment of such capital into private funds
- Important to provide flexibility to alter fund terms and investment structures to admit different pools of capital



# Fund Developments — Asset-Level Structuring and Terms



# Developments in Asset-Level Structuring and Terms

Effects have Varied by Asset Class:

Industrial

Data Centers

Self Storage

Medical Office

Residential Single Family

Residential Multifamily

Office

Senior Living

Retail

Hospitality

A photograph of a modern glass skyscraper with two flags flying in front of it. The image is partially obscured by a teal gradient bar at the top left.

# Developments in Asset-Level Structuring and Terms

## Effects in Venture Transactions:

- Preferred equity structures (absolute or within waterfall distribution levels)
- Increased promote hurdles
- Increased co-investment by operating partners
- Financing contingencies (including considering best assets to finance)

A photograph of a modern glass skyscraper with two flags flying in front of it. The image is partially obscured by a teal header bar on the left and top.

# Developments in Asset-Level Structuring and Terms

## Effects in Development Projects:

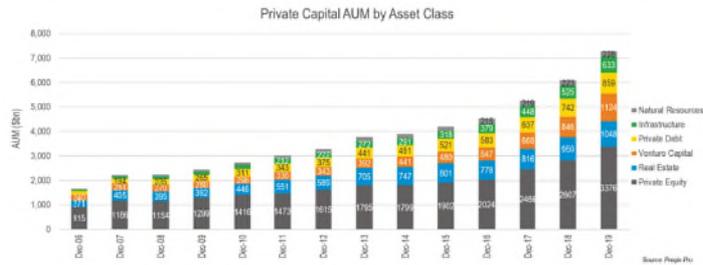
- Reset of construction cost estimates
- Opportunities for investor to revisit development plan
- Cost overrun allocations
- Focus on pandemic and “force majeure” provisions

# Fund Finance Update

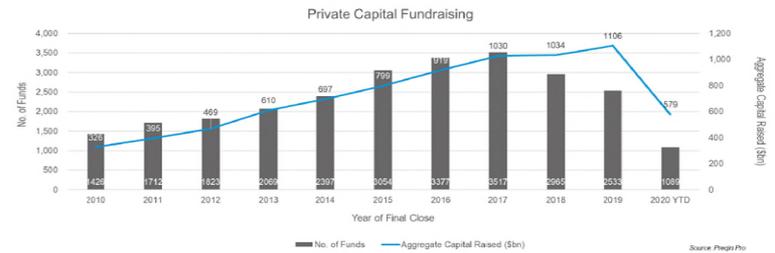


# Fund Finance Update

## Private Capital Passes \$7tn in AUM



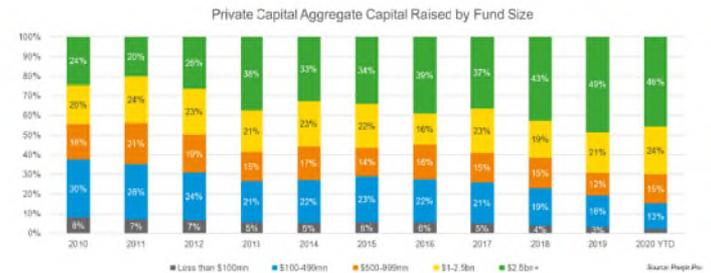
## Three Consecutive \$1tn Fundraising Years



## First Dip in Fundraising Momentum This Decade



## \$1bn+ Funds Account for Nearly 70% of All Capital Raised





# Fund Finance Update

- Subscription Credit Facilities
  - Product performance has remained positive during COVID-19
  - Full drawdowns
  - Pricing and tenor trends
  - Terms / covenants
  - Opportunities for newer entrants



# Fund Finance Update

- Net Asset Value (NAV) Lines
  - Increased interest – reactive and proactive uses
  - Valuation and pricing considerations
  - New providers of capital entering market
- Preferred Equity
  - Alternative fund liquidity solution



# Fund Finance Update

- Partner Loan Programs / GP Support Facilities
- Management Company Lines
- GP-Led Transactions



[Americas](#) | [Asia](#) | [Europe](#) | [Middle East](#)

[mayerbrown.com](https://www.mayerbrown.com)

Mayer Brown is a global services provider comprising associated legal practices that are separate entities, including Mayer Brown LLP (Illinois, USA), Mayer Brown International LLP (England), Mayer Brown (a Hong Kong partnership) and Tauil & Chequer Advogados (a Brazilian law partnership) (collectively the "Mayer Brown Practices") and non-legal service providers, which provide consultancy services (the "Mayer Brown Consultancies"). The Mayer Brown Practices and Mayer Brown Consultancies are established in various jurisdictions and may be a legal person or a partnership. Details of the individual Mayer Brown Practices and Mayer Brown Consultancies can be found in the Legal Notices section of our website. "Mayer Brown" and the Mayer Brown logo are the trademarks of Mayer Brown. © Mayer Brown. All rights reserved.