LATHAM & WATKINS LLP

Private Capital Insights

Foreword

Welcome to Private Capital Insights, a new report that examines market trends and developments impacting private capital investors across a range of asset classes.

In this edition, we analyse the opportunities and challenges facing investors as the world emerges from the macroeconomic crisis wrought by the COVID-19 pandemic. Across distressed, hybrid credit, structured credit, direct lending, infrastructure, real estate, private equity, and other asset classes, fund managers have proved to be nimble, flexible, and creative in the face of significant market disruption and unprecedented fiscal support packages.

Whether private capital investors are focused on growing their exposure to industrial logistics, sharpening their tools in anticipation of a wave of restructurings, or looking to more esoteric asset classes in asset-backed securities, we see strategic opportunities to deploy capital in dislocated markets and companies in the year ahead. As we discuss in this report, however, governments and central banks will continue to play a pivotal role in dictating when and where these opportunities will be realised.

We hope the insights shared in this report will prove useful. Should you have any questions or wish to discuss anything in further detail, please visit our website or get in touch with your usual Latham & Watkins contact.

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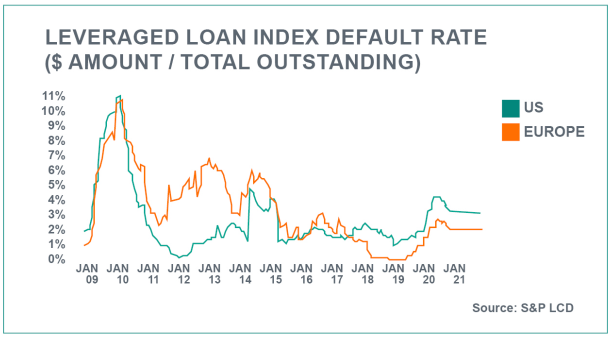
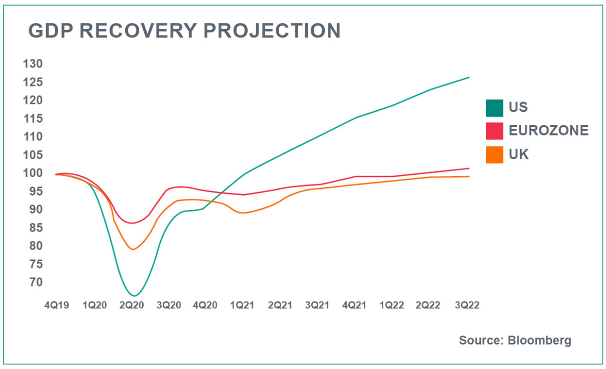


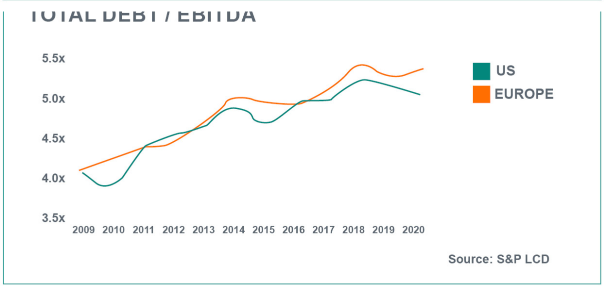
Record amounts of dry powder sit in opportunistic and special situations funds, as well as in private equity funds. All seek to identify and invest in assets in stressed credits, corporates looking for liquidity to bridge through the pandemic recovery cycle, or distressed debt and M&A transactions. Pent-up demand for financing and investment opportunities increased in 2020 as some funds were repurposed in anticipation of a wave of COVID-related defaults, bridging, or rescue capital needs. This year will present significant opportunities for private capital — whether from distressed, hybrid credit, structured credit, direct lending, or private equity funds in dislocated markets and companies — yet governments and central banks will continue to play a pivotal role in when and where these opportunities will be realised.

Global Macro Outlook

While 2020 was the busiest year in a decade for stress/distressed credits, unprecedented and urgent fiscal stimulus programs underpinning the return of capital market activity and bank lending (often backed by government guarantees), together with deployment of dry powder from private capital investors, staved off a wave of expected restructurings after the pandemic first hit. That wave has yet to fully form, delayed by optimism in the markets as a result of political certainty in the US (and the impact of a massive fiscal stimulus recently passed by the US Congress), sustained government intervention (including in the bond markets), and an expectation that COVID-19 restrictions will ease in all major economies by this summer.

However, any rise in interest rates and inflation brought about by stimulus packages could cause further distress in companies that took on leverage and increased their debt burden at the height of the pandemic.





Economists currently predict that interest rates will rise in 2023 and 2024. Until then, the market will likely see a conjunction of low rates to support inflation (with central banks still aiming for circa 2%), imported inflation (due to a weaker dollar in the US and Brexit-related trade frictions in the UK), and up to US$2.6 trillion of unspent cash across the US, the Eurozone and the UK — all of which will ultimately push prices up, requiring rates to rise to avoid overheating.

In many jurisdictions, urgent legislative action to stay bankruptcy filing requirements and winding-up actions have tempered the expected deluge of corporate bankruptcies in the most vulnerable sectors. Legislative action has been supported by continuing urgent legal reforms in bankruptcy laws to support corporate rescue, as well as furlough schemes. While these measures have not prevented some bankruptcies, restructurings, or debt relief transactions from occurring in these sectors, the scale and volume of such events have been minimised.

The expansive fiscal stimulus deployed in 2020, and the speed at which it was deployed, dwarfs the governmental response to the 2008 financial crisis. For example, Germany provided support equal to 33% of its GDP in 2020 vs. 3.5% in 2009. France provided support equal to 18.6% in 2020 vs. 1.4% in 2009. And the US provided support equal to 12.1% in 2020 vs. 4.9% in 2009. These statistics highlight the extent of the debt mountain housed in the public and private sectors as a result of the pandemic, which will need to be addressed at some point.

Unemployment has been softened by furlough schemes that were extended well beyond their initial term. In the

US, for example, the sharp spike in unemployment was short-lived. However, unemployment figures are expected to increase with furlough schemes wrapping up as vaccination campaigns progress.

Europe will likely see a bifurcation of recoveries. Countries that have suffered the greatest toll — arguably the UK, Italy, France, and Spain — will likely take longer to bounce back than other countries, such as Germany and the Netherlands.

The speed at which economic activity returns to pre-pandemic levels will be influenced by the pace of the vaccine rollout, as well as public confidence in the vaccine's ability to slow the spread and prevent new strains of the virus. Several factors could cause setbacks, including the current third wave of COVID-19 in Europe, further lockdowns, delays in the rollout of the vaccine, rising rates of infection in countries such as Brazil and India, and new variants of the virus. Delayed recovery in certain sectors – including travel, aviation, leisure and hospitality, and retail – could cause a ripple effect, creating stress on other verticals, such as the real estate, automotive, and steel and commodities industries. Additionally, the pandemic has made carrying on as usual much more difficult for already challenged businesses, such as those with subprime exposures or those that were built on low profit margins and the assumption of continuing healthy working capital from underlying customers. As a result, speciality finance and fintech companies have come unstuck. Some have come under scrutiny from consumer watchdogs for mis-selling or from banking and other regulatory authorities such as the FCA as regards to their business practices.

A number of private capital investors, including distressed investors, are already focusing their attention on dislocated markets in Southern Europe, where economies are most heavily reliant on consumer spending, tourism, and hospitality. Further, the UK's GDP and the speed of recovery will be impacted by any bureaucracy and uncertainties caused by ongoing trade negotiations and regulatory issues brought about by the end of the Brexit transition period, which occurred just as new lockdowns across Europe and the UK were imposed in late December 2020 and January 2021.

In the US, with fiscal support already intensifying under the Biden Administration, opportunities for private capital could remain somewhat constrained in the near-term. Opportunities may be most easily found in corporates that are in the mid-market or upper-mid-market in terms of size, economies, and markets outside of the US, and in sectors that are less appealing or more challenging for banks and capital markets to continue to easily support, such as oil and gas, brick-and-mortar retail, restaurants and hospitality, and travel, including aviation. One focal point continues to be the extraordinary dislocation of energy markets arising from the Texas winter storm in February. This dislocation has resulted in an unprecedented increase in energy costs, derivative obligations, and liquidity shortfalls that is leading to bankruptcy filings among energy market participants (such as electric cooperatives). The situation has also given rise to new funding needs for energy projects, production issues for computer makers and car manufacturers due to semi-conductor plant shutdowns, and litigation.

Over the course of 2021, financial sponsors will likely continue to explore new strategies to realise value. A feature of the US private credit landscape is the growing number and scale of private capital players taking varied positions in restructuring situations, including those with litigation opportunities. An increased level of commercial and insolvency litigation is expected in the next two to three years. For example, the trend of litigation in coercive exchange transactions is likely to continue as companies and investors become incentivised by thinner margins to push the envelope of "lender-on-lender violence" in restructuring transactions.

Looking ahead, governments could turn to austerity programs, cuts to public spending, and increased taxes to manage their public debt and get their finances back on track. These measures in turn could dampen financial sponsors' appetite for investment and layer further stress on already exposed industries. Any accompanying interest rate rise will increase pressure on corporates, either through increased cost-of-debt servicing and/or higher refinance rates. A more hawkish monetary policy will control inflation but also depress consumer appetite, spending levels, and capital expenditure as more restrained lending sets in.

While stemming the tide of deep distress was possible in 2020, and probably will be for significant parts of 2021, the opportunities for relative value investments and the volume of restructuring and stress could pick up towards the back end of 2021 and into 2022. Such opportunities are likely to arise as government stimulus programs and the moratorium on bankruptcy filings decline, and/or as corporates that accessed liquidity lines in H2 2020 use up such liquidity. This is particularly the case for corporates with more leveraged capital structures and upcoming maturities, and in industries and economies that have been most impacted by the pandemic on an underlying basis.

Refinancings

As pressure on government finances intensifies, support programs for struggling companies increasingly come with conditionality around the payment of dividends to investors and bonuses to senior management. The State Aid Temporary Framework adopted by the European Commission in March 2020 stated that targeted recapitalisation aid to non-financial companies was subject to a dividend ban and remuneration caps. In the UK, companies that borrowed more than £50 million under the Coronavirus Large Business Interruption Loan Scheme were required to ban dividend payments, restrict senior pay, and share buy-backs during the period of the loan. Businesses will likely turn to other sources, including private capital, in order to repay those loans and regain flexibility.

As corporates face a growing reputational concern over taking government support and then not being able to repay the loans at maturity, financial sponsors and other corporate stakeholders may try to move quickly to refinance any government funds taken by portfolio companies, either with their own capital or external capital. If debt maturities more generally (from existing bonds or loans from other investors) converge with government-backed debt maturities and not a parallel recovery in earnings post-COVID to support such refinancings in the ordinary course, demand for private capital could increase along with the potential for restructurings as part of such recapitalisation processes. Further, we expect to see an increase in frequency of highly leveraged corporates undertaking asset sales (with potential for demand in bridging financing from private capital to fund such corporates leading up to the asset diversifications) in order to raise liquidity to support refinancing efforts.

Evolving Fund Universe

With so much private capital on the sidelines in 2020, sponsors as well as institutional and opportunistic lenders were able to provide additional liquidity for numerous businesses and portfolio companies. This trend has continued in 2021, with unprecedented demand and activity among private credit funds. The growth in the European direct lending market in the past decade has also proved beneficial, with lenders providing resilient and agile debt facilities with longer-term capital rather than hedge fund structures (and often involving smaller lender syndicates or bilateral lender relationships that are able to respond quickly). Such debt facilities continue to provide financing for covenant amendments, temporary bridging requirements, restructurings, and recapitalisations. The structured preferred equity product as well as the holding company payment-in-kind (holdco PIK) instrument have also grown in efficacy and popularity in the past year in European transactions for shareholders and corporates alike.

The assets and investor base in private capital continue to grow. Strategies are expanding, and an ever-more-diverse roster of players are now entering the distressed and special situations space. The sector is also seeing some M&A activity with the undeniable growth of multi-strategy managers. These managers are active across the capital stack and provide a range of capital solutions to issuers. For example, some of the largest institutional credit investors now have active private equity businesses and vice versa, as well as sector-focused funds. Indeed, some institutions do not establish information barriers between their different strategies.

These dynamics are poised to impact restructurings. While institutions will always conduct themselves in a way that seeks to achieve the best outcome for their own investors — including proceeding to litigation, in certain circumstances — institutions may increasingly desire to demonstrate a less contentious approach to negotiations. In restructurings, this could result in more out-of-court restructurings or the use of in-court mechanisms as a means to sit behind a “referee” or “set of rules,” or to drive technically consensual outcomes.

Outlook

This year is shaping up to be one in which newer credit managers are tested by fast-moving situations, heightened competition, and rapidly changing portfolio dynamics.

For the remainder of the first half of 2021, the effects of capital and debt liquidity raisings as well as government stimulus packages will likely continue to cushion many corporates against defaults and cliff-edge liquidity squeezes, especially those whose earnings have been severely impacted by the pandemic. As already demonstrated in early 2021, there will be a slew of new opportunistic lending and capital transactions amid continued support from debt and capital markets, as well as private capital dry powder.

The second half of 2021 will likely continue to see a credit market that supports a buoyant M&A market; however, later in the year, new restructurings may emerge once more, along with asset diversifications and holistic recapitalisations of businesses. Several factors could contribute to such a shift, including:

- The realisation that underlying earnings for many corporates will take longer to recover than previously anticipated
- The withdrawal or tapering-off of government support
- The lingering effects of heightened levels of fiscal stimulus and its funding
- Pressure on clean audits from April 2021 for impacted corporates with significant debt maturities in 2022
- The expiry of temporary relief from bankruptcy filings under the insolvency laws of numerous countries
- Post-Brexit trade negotiations

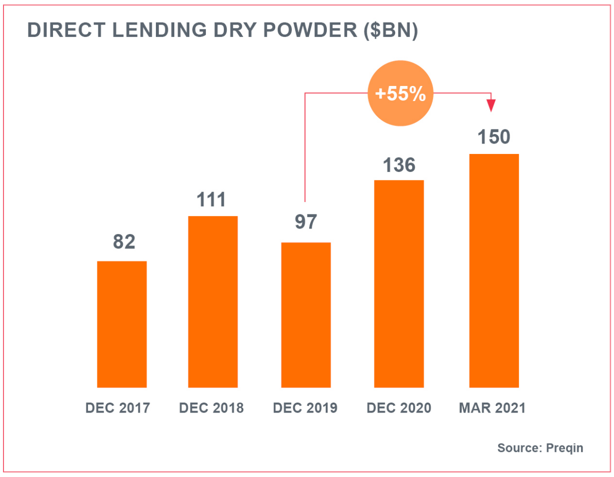
Industries likely to see activity include specialty finance (particularly those with subprime exposure), private hospitals, shipping (especially ferries), real estate, automotive supplier, and aviation, in addition to those sectors heavily impacted by the pandemic.

Fund managers that are best able to consolidate positions quickly will dictate outcomes and reap the benefits by seizing a first-mover advantage on new capital opportunities and elements of recapitalisation transactions.

Direct Lending

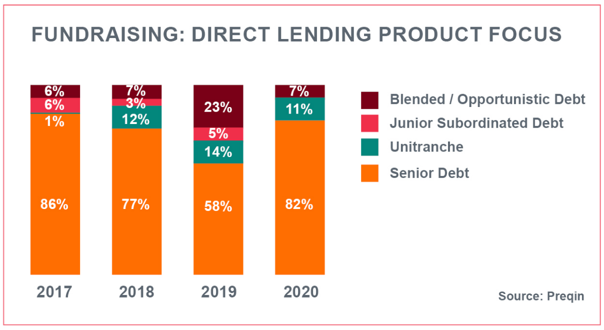
Fierce Competition and Escalating Deal Sizes Return

Direct lending activity was white-hot going into Q2 2020. Despite an unprecedented period of turbulence during Q2 and the early part of Q3 due to the COVID-19 pandemic, the market has largely rebounded to pre-pandemic levels of activity, although some uncertainty remains. Overall, the direct lending market has experienced extreme growth over the past 10 to 15 years, driven by, among other things, pressure on traditional bank lending during the 2008 financial crisis and a global search for yield that has fuelled appetite for private debt. After numerous years of year-on-year growth and a record-breaking 2019 in which more than US$73 billion was raised for direct lending globally, fundraising dipped a bit in 2020, most significantly in the first half of the year, when the pandemic focused attention elsewhere, face-to-face meetings came to a halt, and many market participants went on the defensive.



The pandemic and resulting economic strain have been the first real test faced by the direct lending industry since its period of expansion began. Direct lenders typically underwrite deals they expect to hold until maturity. In 2020, direct lenders worked with the borrowers in their portfolios, in many cases in conjunction with their private equity sponsors, to provide the liquidity and flexibility needed to manage through the challenges. As the year went on and businesses became more stable and gained sufficient liquidity, borrowers and sponsors switched to a more offensive approach, seeking capital for current and future acquisition opportunities in the form of upsized credit facilities and delayed draw commitments. Direct lenders stood at the ready with significant capital to support this increase in activity. Q4 represented a high-water mark for many direct lenders, and with over US$100 billion of dry powder globally and improving market conditions, the scene is set for a busy year in 2021.

Demand for private debt should continue to grow in 2021 and beyond. Fundraising activity has picked up significantly in the sector, and there is little sign of investor appetite cooling as new entrants continue to move into the asset class. BlackRock's latest Global Family Office Survey found that two-thirds of private offices now say they intend to increase their allocation to the sector, as they are attracted by the potential of higher yields (historically, private debt has accounted for less than 10% of portfolios). This demand has been echoed throughout the broader market, and global asset managers are actively seeking to increase their exposure to private credit. The pent-up demand for private debt, taken together with growth in the private equity market and strengthening economic conditions resulting from pandemic reopenings, should fuel growth in 2021 and beyond.



Evolving Competitive Landscape

With more money coming into the market, a number of new funds have emerged, established players have grown significantly larger, and deal sizes have materially increased. In addition to the rise of traditional direct lending funds, global investment funds typically associated with private equity have been aggressively growing their private credit arms, as have banks. Global asset managers have also entered the fray through alternative structures such as joint ventures and contractual relationships with direct lenders, as have sovereign wealth funds, which have become increasingly active in the space. The market has also become more global, with traditional US-focused funds seeking to grow in Europe and European funds looking to expand in the US. Not surprisingly, talent has followed the influx in capital, and competition has increased among direct lenders for new loan originations.

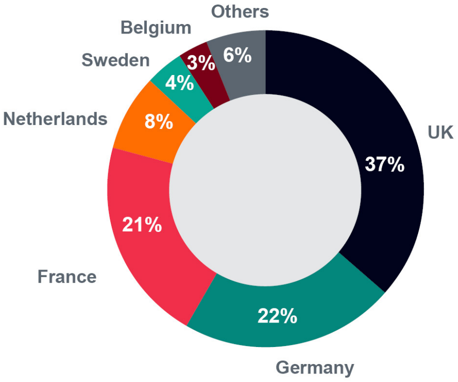
The product offerings in the private credit space have similarly broadened. Debt funds that traditionally focused on first and second lien direct lending have broadened into other offerings, such as preferred equity and mezzanine debt. There has also been a significant increase in unitranche financings, both in terms of prevalence as well as size. Historically, the unitranche product has been targeted at the middle market, with most falling short of US$300 million; however, the growth in private credit and the increase in the number of institutions capable of holding large slugs of debt in a single transaction has driven a material increase in loan sizing. The first unitranche in excess of US$1 billion closed in 2016, and starting in 2019 unitranche deals in excess of

US$500 million became common in the US. Additionally, in 2019 and 2020 the market saw the number of unitranche financings in excess of US$1 billion in the US increase meaningfully, with a few deals in excess of US$2 billion completed for the first time in the second half of 2020. While there are European direct lenders capable of doing deals of this size, they are less common than in the US. As funds shift into private credit and sponsor demand for the one-stop unitranche product continues, the growth of large unitranche financings should continue in both the US and Europe.

Opportunities in 2021

Coming in to 2021, government stimulus packages, a recovering global economy, strong equity markets, positive developments with respect to the vaccine effort, and a return to work and travel provide a healthy backdrop for deal making. In addition, the potential for tax reform is likely to provide an impetus for sellers to restart previously delayed sales processes and rapidly prime for sale additional portfolio companies that were under consideration for an exit. Private equity buyers stand at the ready with significant dry powder after a slower 2020. Borrowers will take advantage of the stabilised economy and strong credit markets to execute opportunistic financings in an effort to lower margins, push out maturities, and re-lever. Direct lenders are well positioned to support this increase in deal activity. In addition, the current low interest rate environment will exacerbate the demand for yield, and funds should continue to flow into private credit.

EUROPEAN UNITRANCHE DEALS 2020



Source: GCA Altium

While direct lenders are expected to continue to be most active in the middle market — traditionally their sweet spot — the trend toward larger deal sizes should continue. Deal activity and, consequently, competition should be the strongest for the businesses that were the most resilient to the fallout from the pandemic, including those in the software, technology, and healthcare spaces. Deals in these sectors should enjoy better leverage, pricing, and deal terms than deals in less-favoured industries.

Overall, direct lending activity is likely to be focused in the US and in Europe, where markets are more mature and provide the legal and returns stability that direct lenders require. In Europe, Germany, France, and the Netherlands are expected to remain prominent, with opportunities still prevalent in the UK, whose market is the most mature of the pan-European markets. In addition, borrowers in Italy, Spain, and the Nordic countries are increasingly turning to direct lenders for their financing needs. Global growth should continue outside of traditional markets as well, as direct lenders become more comfortable with the legal risk in lending to borrowers in non-traditional jurisdictions. As the competitive landscape grows, direct lenders will look for yield across a broader set of sectors and geographies.

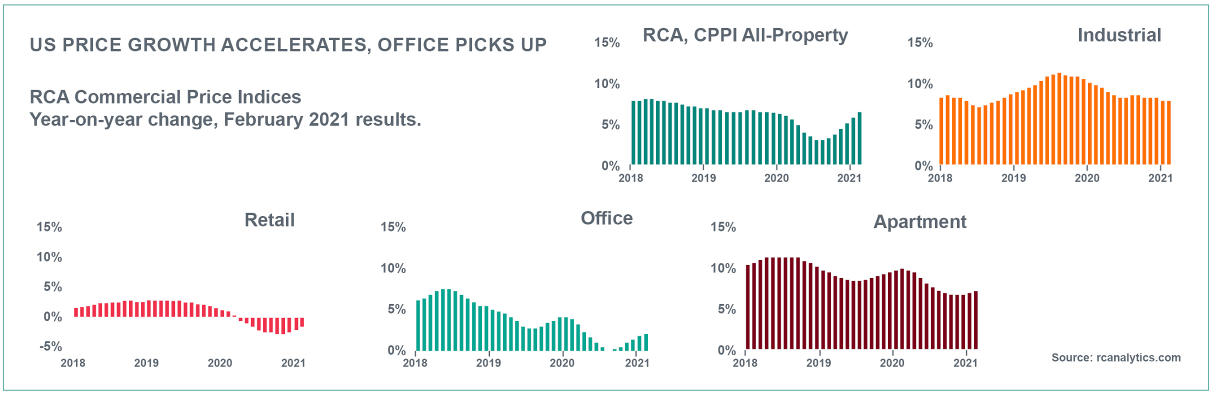
Real Estate

Diverse Portfolios, Quality Assets, and Distressed Opportunities Drive Activity

After a challenging first half of 2020, real estate funds spent the latter part of the year targeting opportunities for both debt and equity deals and they entered 2021 in a bullish mood. Debt funds are now willing, nimble, and flexible lenders for real estate, while equity investors are piling into development and targeting asset classes that proved durable through the COVID-19 pandemic.

Sectors and Geographies

While the real estate sector proved broadly resilient to the impacts of the pandemic in 2020, we expect funds to shift their sector focus this year in the US, Europe, and Asia. Growing portfolio exposure to retail and industrial logistics was a theme pre-pandemic, and demand will continue for both asset classes in the US and Europe. To illustrate, Savills found that investment in distribution warehouses was up 25%, to £4.7 billion, in 2020 in the UK alone. Every extra £1 billion spent online requires almost an additional 900,000 sq ft of logistics space, according to property company CBRE..



We expect to see continuing high demand for data center deals and industrial logistics deals on both sides of the Atlantic. Additionally, demand will remain strong for multi-family and single-family rentals. Opportunistic investments will be available for senior living and urban gateway transactions. As well, continued demand for medical and life science space will likely lead to buoyant activity in the US this year.

Portfolio exposure to traditional office and retail assets will likely diminish globally, with some investors finding opportunities in the challenged hotel sector, by acquiring assets directly, entering joint ventures, or putting up preferred equity or debt to support strong owners through the remainder of the pandemic.

Geographically, we expect Germany and the UK to emerge as safe havens for conservative, long-term European money, with the Netherlands a hot market for logistics, data centers, and office deals. Southern Europe, whose economies have been hit hardest by the pandemic, will present opportunities for those looking to acquire portfolios of non-performing loans and other distressed assets.

In the US, the trend of residents leaving urban centers such as New York and Chicago will continue. Bordering suburbs and more distant states with lower tax rates such as Florida and Connecticut will likely be the beneficiaries.

Debt Funds Favor Mezzanine, A/B Structures

Debt funds will continue to provide opportunistic capital to borrowers who are struggling as a result of the pandemic but who have good long-term prospects. In Europe, there is a lot of interest in mezzanine finance, with funds willing to finance entire deals and then split the mezzanine and senior debt and sell down the senior piece. As traditional lenders return to the market, the ability to sell on senior debt will only increase, allowing funds to offer borrowers a one-stop solution while retaining only the more lucrative mezzanine debt.

We also anticipate further interest in A/B deals, which re-emerged in the market in early 2021 after a years-long absence.

Globally, the year ahead looks set to offer tremendous opportunities to debt providers attracted to distressed assets.

Private Equity Targets Development

The pace at which private equity real estate funds are moving into development and renovation will accelerate in 2021, as investors move to support the adaptation of commercial property to new requirements.

Private equity is no longer focused solely at the sharp end of the real estate market. Investors are building increasingly large funds and targeting more diverse portfolios of mainstream assets.

We expect a flight to quality as funds focus on certain core sectors, such as prime office space in major economic centers like London. At the same time, opportunities to acquire stressed or distressed assets as government support programs come to an end this year will drive further transactional activity.

Structured Credit

CLOs and Securitisations Set for Busy 2021

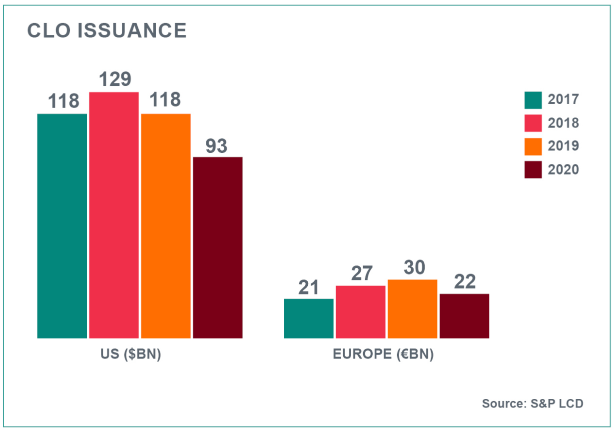
The structured finance sectors held up well in 2020 as private credit investors sought to capitalise on yield opportunities in structured credit, collateralised loan obligations (CLOs), and distressed credit amid the weakening economic climate. Now in early 2021, structured finance continues to see potential growth opportunities.

Structured credit markets proved resilient last year, but were not insusceptible to the fallout from the pandemic — be it through significant government intervention measures, such as payment holiday schemes, or deal structures. Moreover, the pandemic's influence manifested in contractual modifications in private deals, as well as via existing reserves, structural enhancements, and rating methodologies in public deals, with a knock-on effect on credit ratings.

CLO Market

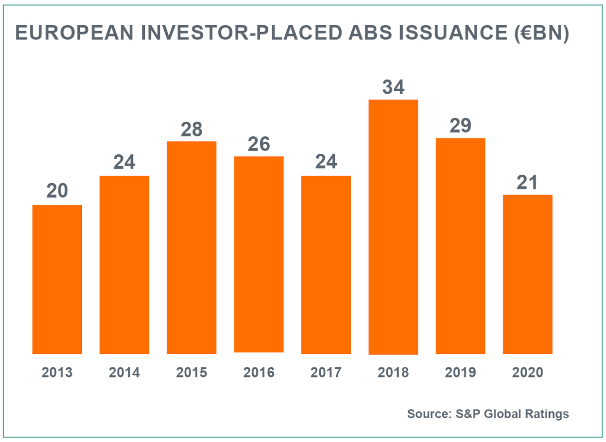
Although the securitisation market came under stress during the pandemic, the CLO space showed some resilience.

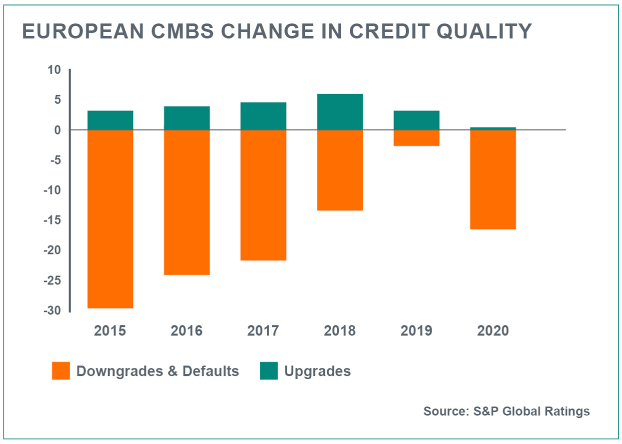
Issuance has been driven in part by warehoused loans that had been originated prior to the pandemic, and in part by refinancings and resets. A number of warehouses returned to the market in early 2021, with many now in active origination mode. A minimal number of loan originations occurred in the mid-market through 2020, as direct lenders were primarily focused on managing their portfolios. However, loan origination is now showing more signs of activity, principally in industries that have not experienced a significant negative impact from the pandemic. The bank syndicated loan market has also driven original issuance in the US.



Building on the momentum from the second half of 2020, the volume of sponsor-driven M&A activity is likely to maintain an upward trajectory and fuel the supply of CLO deals. There has also been recent innovation in CLO structures which, among other things, allow more flexibility to deal with distressed credits and loss mitigation.

In addition to continuing to expand their US business base, certain US asset managers are expected to continue focusing on Europe for building out their direct lending and mid-market CLO capabilities.





ABS Market

Clear causalities of the pandemic emerged in the asset-backed securities (ABS) market — most notably in the hospitality sector, for instance in Europe where several pub chain commercial mortgage-backed securities (CMBS) deals struggled. We expect those and other CMBS deals to be interesting to private capital investors seeking distressed credit opportunities. Whole business securitisation (WBS) is also providing prospects in Europe.

The market has already seen a number of parties enter into amendments so that deals can continue. As 2021 progresses, we anticipate more of those discussions. However, it is not yet clear when limits will be imposed and further action will be required.

A hot topic now is the extent to which private credit funds will be willing to entertain contract amendments and variations to support operating borrowers, particularly as government support schemes dwindle.

We expect to see the continuing emergence and popularity of more esoteric asset classes in the ABS space, such as billboard financings, speciality equipment leasing,collateralised fund obligations,energy receivables, and media revenue receivables in relation to music, film, and sports. Trade receivables securitisations have been and will likely remain popular for raising working capital — including among portfolio companies of private capital providers.

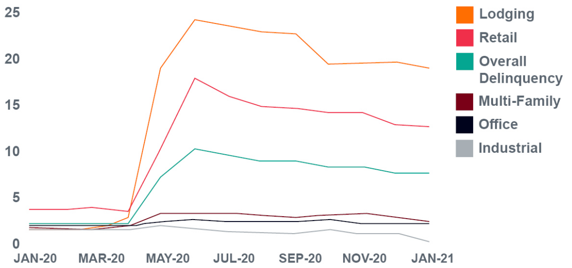
Many market observers take a strong view that small business lending will rebound quickly in the UK, as seen in the US. Currently, the vast majority of small business lending is happening through government guarantee schemes that are continuing to be expanded and extended.

Although the synthetics world has long been regarded as niche, regulators are now encouraging greater utilisation of synthetic securitisations as a way for banks to mitigate risks in their portfolios. In the second half of 2020, the market benefited from a push for legitimacy as part of the European Union's growth plan, buoyed by a new regime to create a specific framework for simple, transparent, and standardised securitisation. This area will likely be active throughout the coming year — particularly as capital rules continue to tighten, causing banks to seek capital relief and divest non-core portfolios. Activity has already spread to banks in France, among other European jurisdictions. Investor bases have also broadened amid the hunt for yield.

Other key trends to watch in 2021 include:

- The emergence of environmental, social, and governance (ESG) as an important feature in the marketing of structured credit products
- Increased interest from private capital providers in speciality finance, with such providers acting as the lenders on asset-backed consumer and other loan warehouses and facilities

MONTH-OVER-MONTH DELINQUENCY RATES BY MAJOR PROPERTY TYPE, US



Source: Trepp

Loan Portfolios

The pandemic significantly slowed down non-performing loan (NPL) portfolio sales in Europe in 2020. Such sales are anticipated to increase in 2021, especially as activity began to rebound in Q4 2020. However, the uptick in NPL sales is unlikely to be sizable before the second half of 2021, when state aid programs draw to a close. As noted previously, EU regulators are keen to see non-performing exposures taken off bank balance sheets to allow new lending. A clear path for NPL securitisations will help the market to sell NPLs.

Brexit and the LIBOR Transition

Participants have long treated the UK market and the continental European markets as a single unified European space. In light of Brexit, whether European and UK structured deals will include an element of fragmentation remains to be seen. For now, the market is monitoring the performance of both existing UK-based and European deals, as well as the possible regulatory divergence between the parallel EU and UK securitisation regulation regimes.

The impact of London Interbank Offered Rate (LIBOR) transition and cessation on existing and future structures remains an important focus— particularly in the structured credit markets given basis risk between the asset and liability sides of structured credit products.

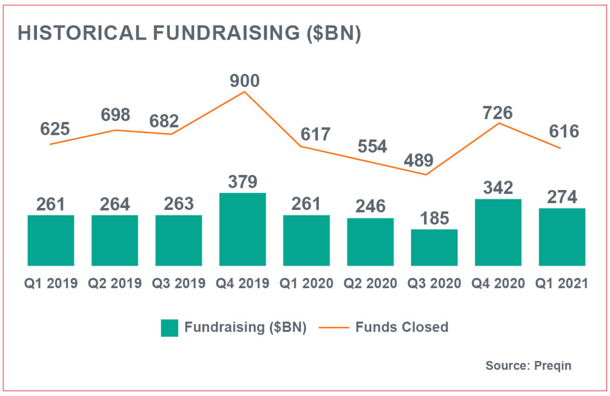
Investment Funds

Buoyant Fundraising Market Presents Challenges and Opportunities for Managers

Fundraising in the alternatives space slowed in Q2 2020 due to market-wide uncertainty, but rebounded solidly as it became clear that investor appetite remained resolute. Both sponsors and limited partners (LPs) quickly adapted to a virtual fundraising model. One year later, the fundraising climate remains very robust across most asset classes.

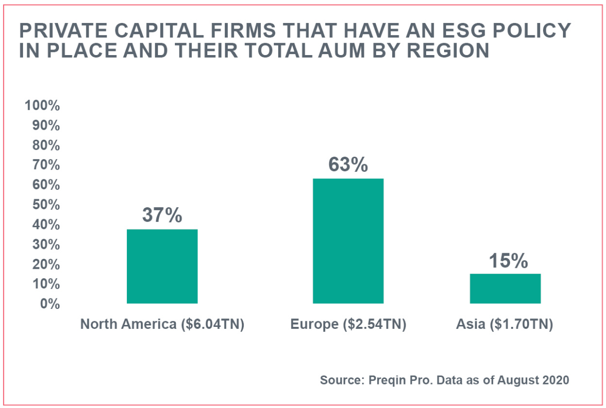
Fundraising Opportunities in 2021

Investor allocations to private funds — already a trend among some LPs pre-pandemic — remain active. In a significant shift, LPs have begun limiting the number of relationships in their portfolios. Accordingly, capital commitments in the past 12 months have tended to favor the largest firms and highest performers.



New managers, many of whom are under pressure to deliver compelling track records and differentiated strategies, will need to adapt to a new form of fundraising in 2021. Virtual due diligence is replacing the traditional face-to-face roadshows, and the challenges of establishing new relationships has become more acute. In addition, a growing number of established managers are seeding new teams or bringing in new groups to help bridge the gap at a time when LPs are focused on track record. The trend of consolidation among asset managers in order to achieve scale is one that will likely continue.

Sponsors have had a unique opportunity to demonstrate their credentials in the past year amid macroeconomic uncertainty and other significant challenges. Those that thrived during the 2008 financial crisis have been able to leverage their experience, and newer managers have been able to show investors their resilience and agility in a way that has not been tested in the past decade. Portfolio management skills — particularly in relation to liquidity, restructuring, and cost management — have been in the spotlight. LPs will likely continue to focus on those credentials throughout 2021.



ESG and Impact Investing

Latham's investment funds team continues to participate in an ever-increasing number of discussions with sponsors about the environmental, social, and governance (ESG) aspects of their investment strategies. Such discussions reflect heightened demand for information and transparency concerning ESG policies and the implementation of those policies. In particular, managers are increasingly working to articulate clear ESG strategies that are backed up by relevant data and metrics to investors and regulators.

The introduction of the Sustainable Finance Disclosure Regulation (SFDR) in Europe signals a push towards more proactive ESG approaches among asset managers — including the incorporation of ESG messaging in a fund's investment thesis. Both LPs and management teams are increasingly interested to hear policy positions on issues like renewables, energy transition, and diversity and inclusion from sponsors during due diligence, creating an additional point of differentiation in a crowded marketplace.

Transparency and Disclosure

Heightened transparency and reporting continues to remain an area of focus for investors across all aspects of fund operations, mirroring the regulatory focus on fees, expenses, and conflicts of interest. Undoubtedly, the pandemic has accelerated this trend by increasing scrutiny of sponsors and their portfolios. In response, many sponsors are quickly adapting to virtual meetings and more frequent communications with investors.

Legislative Considerations

In the US, the arrival of a new presidential administration brings with it the prospect of reforms and new legislative measures, all of which may impact the industry. While materially transformative policies are less likely to be implemented in the near term given the current political landscape, certain tax reforms and other financial policy changes are expected to be in play in Congress in the first half of 2021. Meanwhile, the Biden Administration has named infrastructure as one of its top priorities, and proposed infrastructure legislation is in progress. In particular, President Biden's Build Back Better plan calls for significant investment in rebuilding and improving US infrastructure, including roads, bridges, tunnels, transportation hubs, and electric grids. The plan also calls for improving and digital infrastructure by expanding broadband and high-speed internet access, while also focusing on sustainability and climate change. The costs associated with this ambitious plan are necessarily high, and accordingly, there could be significant opportunities for private capital participation.

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