

Transcript: BBH Staying Connected Webcast: How are Alternative Funds Reacting?

00;00;05;00	Ainun Ayub	<p>Hello, I'm Ainun, Head of Alternatives Product for Europe and Asia. I'm joined by my colleagues, Holly, whose global team works closely with clients in their investor interactions and Chris, Global Head of Business Development for Alternatives. We've got no crystal ball gazing, sorry. We're actually going to share what we are actually seeing on the ground from our vantage point as a service provider for asset managers and asset owners of alternative funds across private equity, real estate, private debt, and more liquid strategies like loans, hedge funds and liquid alternative funds. Over to you Holly.</p>	<p><i>SLIDE 1: A welcome slide with the topic of today's webcast: How are Alternative Funds reacting?</i></p> <p><i>SLIDE 2: Photos and job titles of our 3 panellists today: Ainun Ayub, Alternatives Product Management, Holly Gardner, Alternatives Transfer Agency and Investor Services and Christopher Adam, Head of Alternatives Business Development</i></p>
00;00;43;00	Holly Gardner	<p>Thanks, Ainun. Yeah, today we wanted to talk about two key areas of any asset managers' business that have become even more important during this current COVID-19 crisis, and that is fund investors and fund operations.</p> <p>Overall, we're seeing a very stable Investor base in Alternatives with most investors just staying put. In fact, we've even seen some Investor appetite for new funds, but managers are having to work a little bit harder than normal to get investors to commit right now. We've had a number of clients close new capital commitments into their funds in March, but they've often had to lower their management fees or their investment minimums in order to secure commitments during these uncertain times. I think the fact that investors are willing to commit additional capital without any control over when that capital could be called speaks to Investor confidence in the liquidity of their own businesses.</p>	<p><i>SLIDE 3: Slide shows the 3 areas where we are seeing COVID-19 impact in the alternative funds space – Investors, Fund Operations and Investment Valuations. Each impacted area is aligned to key word which summarises the reaction we're seeing; Investors = Stable Fund Operations = Resilient Investment Valuations = On watch</i></p>

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00;01;36;00	Ainun Ayub	<p>Yes, Holly and that aligns with what I'm seeing across the broader market. There have been some useful surveys by Private Equity International and ILPA, the Institutional Limited Partners Association that show stability in investor sentiment for 2020 in response to COVID-19. About 50% of investors say they will continue to allocate to new funds at the same pace, about 30% are waiting and seeing - focusing on re-ups with existing managers or looking for more opportunistic strategies like distressed debt - and about 15% are slowing down. 5% sorry, 5% are reducing, mostly due to the Denominator Effect and where they are over-allocated due to a fall in value of market investments.</p> <p>To your point about investors having confidence in their liquidity, there's more of a need for managers to provide transparency of their upcoming plans for calls and distributions so that the investors can then adjust their own liquidity planning.</p> <p>Investor defaults in the illiquid space have been very rare through the last 30 years of crises and recessions and this active planning and close communication will help keep it that way. Institutional investors have been deliberately increasing allocations since the last crisis and our sense is that they're taking the long-term view to stay.</p>	<p><i>SLIDE 3: Slide shows the 3 areas where we are seeing COVID-19 impact in the alternative funds space – Investors, Fund Operations and Investment Valuations. Each impacted area is aligned to key word which summarises the reaction we're seeing; Investors = Stable Fund Operations = Resilient Investment Valuations = On watch</i></p>
00;03;01;00	Holly Gardner	<p>To your point about fund events, we've seen most managers proceed with fund operations on schedule or even delay planned events, and it's easy to see why. But in a minority of cases, we've seen managers pushing to accelerate fund operations that had been planned for later in the year as the current environment makes the strategies of these products more desirable.</p> <p>Acceleration on this scale while everyone is working from home, managers; investors, service providers, is definitely no small feat.</p>	<p><i>SLIDE 3: Slide shows the 3 areas where we are seeing COVID-19 impact in the alternative funds space – Investors, Fund Operations and Investment Valuations. Each impacted area is aligned to key word which summarises the reaction we're seeing; Investors = Stable</i></p>

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			<p><i>Fund Operations = Resilient Investment Valuations = On watch</i></p>
00;03;33;00	Chris Adams	<p>As Holly refers to, the challenge in the new normal now is not business as usual anymore, it's about acceleration but that brings a certain number of challenges with it and it doesn't matter if there is a failure in the execution of a particular transaction, whether it's the lawyers, the tax advisors, the notary, or even the administrator. The old saying that "you're only as strong as your weakest link" has never held truer that it does today. Any challenge in deploying capital is that if there is a failure, it doesn't matter what the cause of that failure was, it will only affect the reputation of the manager. They will bear the burden of that.</p>	<p><i>SLIDE 3: Slide shows the 3 areas where we are seeing COVID-19 impact in the alternative funds space – Investors, Fund Operations and Investment Valuations. Each impacted area is aligned to key word which summarises the reaction we're seeing; Investors = Stable Fund Operations = Resilient Investment Valuations = On watch</i></p>
00;04;11;00	Holly Gardner	<p>Yeah, absolutely.</p> <p>So, what do we think is going to be the main focus of managers going forward? It has to be valuation. Our colleagues servicing traditional funds have been grappling with this for weeks now, but in the Alts space, we're finally starting to see concern around valuation take center stage. The impact of NAV uncertainty does not stop at the valuation of fund assets. It impacts a number of areas of</p>	<p><i>SLIDE 3: Slide shows the 3 areas where we are seeing COVID-19 impact in the alternative funds space – Investors, Fund Operations and Investment Valuations.</i></p>

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00;05;08;00		<p>the fund's operation, not least among them, the rate at which new ownership is assigned when capital is called. While we expect valuation to be a topic of conversation, at least until this COVID-19 crisis is behind us, we are confident in the strong governance structures brought about by regulations such as AIFMD over recent years to help guide managers through these uncharted waters, in an orderly fashion.</p> <p>No one can predict exactly what will happen over the coming weeks and months, but we will continue watching this space closely.</p> <p>Thank you for listening. If you have any questions, we've included our contact details below. Stay safe and healthy.</p>	<p><i>Each impacted area is aligned to key word which summarises the reaction we're seeing;</i> <i>Investors = Stable</i> <i>Fund Operations = Resilient</i> <i>Investment Valuations = On watch</i></p> <p><i>SLIDE 4: Slide shows contact details for panellists and bbhevents@bbh.com and for where to go for more insights - ontheregs.com, mindonthemarkets.com or Brown Brothers Harriman on LinkedIn.</i></p>
00;05;13;00	Ainun Ayub	Thank you all.	<i>SLIDE 5: BBH Disclaimer</i>

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00;05;15;00	Chris Adams	Thank you.	<i>SLIDE 5: BBH Disclaimer</i>
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