

FUNDFINANCE^{COM}

Next Level

SUBSCRIPTION FINANCE

MAYER | BROWN

AGENDA

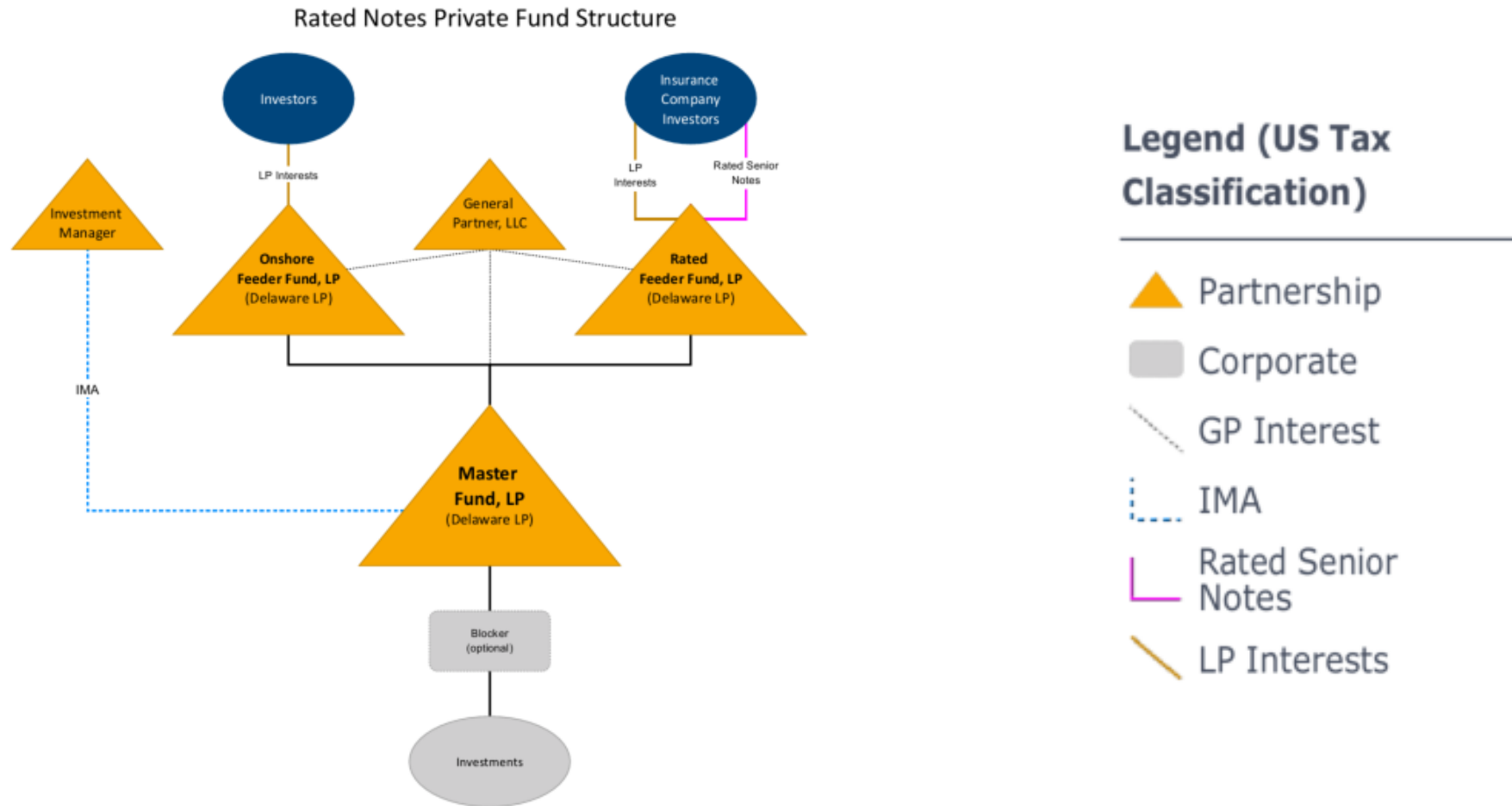
1. Rated Note Feeders and CFOs
2. Borrowing Base Evolution
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4. Hybrids



01

RATED NOTE FEEDERS AND CFOs

TYPICAL RATED NOTE FEEDER STRUCTURE



TRENDS IN RATED FEEDERS



Risk-Based Capital Treatment: Insurance companies need to comply with RBC rules on their investments in private funds and debt receives favorable RBC treatment over equity investments.



Rule Changes: Recent rule changes have proposed a new principles based bond definition to ensure that debt investments have debt qualities.



Enforcement: Starting on January 1, 2026, NAIC's Securities Valuation Office will have the authority to challenge and potentially override NAIC designations derived from ratings on a security-by-security basis.

VERTICAL

VS.

HORIZONTAL

Vertical Issuances

- Investors (or affiliated entities) are expected to commit to purchase a vertical slice of debt and equity of the structure
- Stapling interests is usually avoided (but still possible)
 - Debt tranches will be reported as debt
 - Equity tranches will be reported on equity
- Documentation of debt includes both note documents (ex. NPA) and equity documents (ex. LPA).
- Day-1 equity language can appear in either LPA or an ECL side letter.

Horizontal Issuances

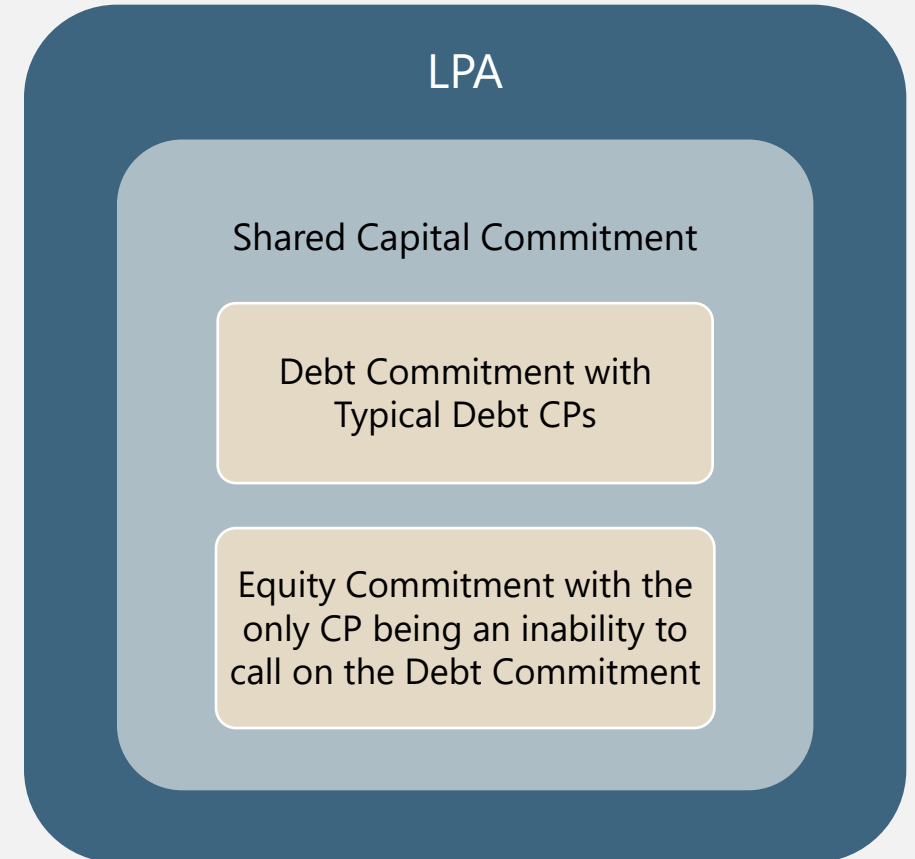
- Debt holders may be unaffiliated with equity holders of the feeder; interests marketed separately
- Placement Agent and/or Structuring Agent role is common
- Documentation is usually styled as an Indenture.
- Day-1 equity language will generally need to appear in NPA and an ECL side letter as debtholders are not party to the LPA.

STRUCTURAL PROTECTIONS: DAY-1 EQUITY

Establishes an **obligation** of an investor to contribute 100% of its capital commitment in equity on “**day-one**”

Following an event of default under the subscription facility, the investor’s debt commitment can be called in the form of equity.

In addition to a “day-one” equity commitments, subscription facility lenders will need to ensure that no other structural impediments exist to funding an equity commitment to be included in the borrowing base.



COLLATERALIZED FUND OBLIGATIONS



CLO/CDO Technology

CFOs utilize CLO and CDO technology to securitize interests in private equity, credit, infrastructure and other funds.



Flexibility

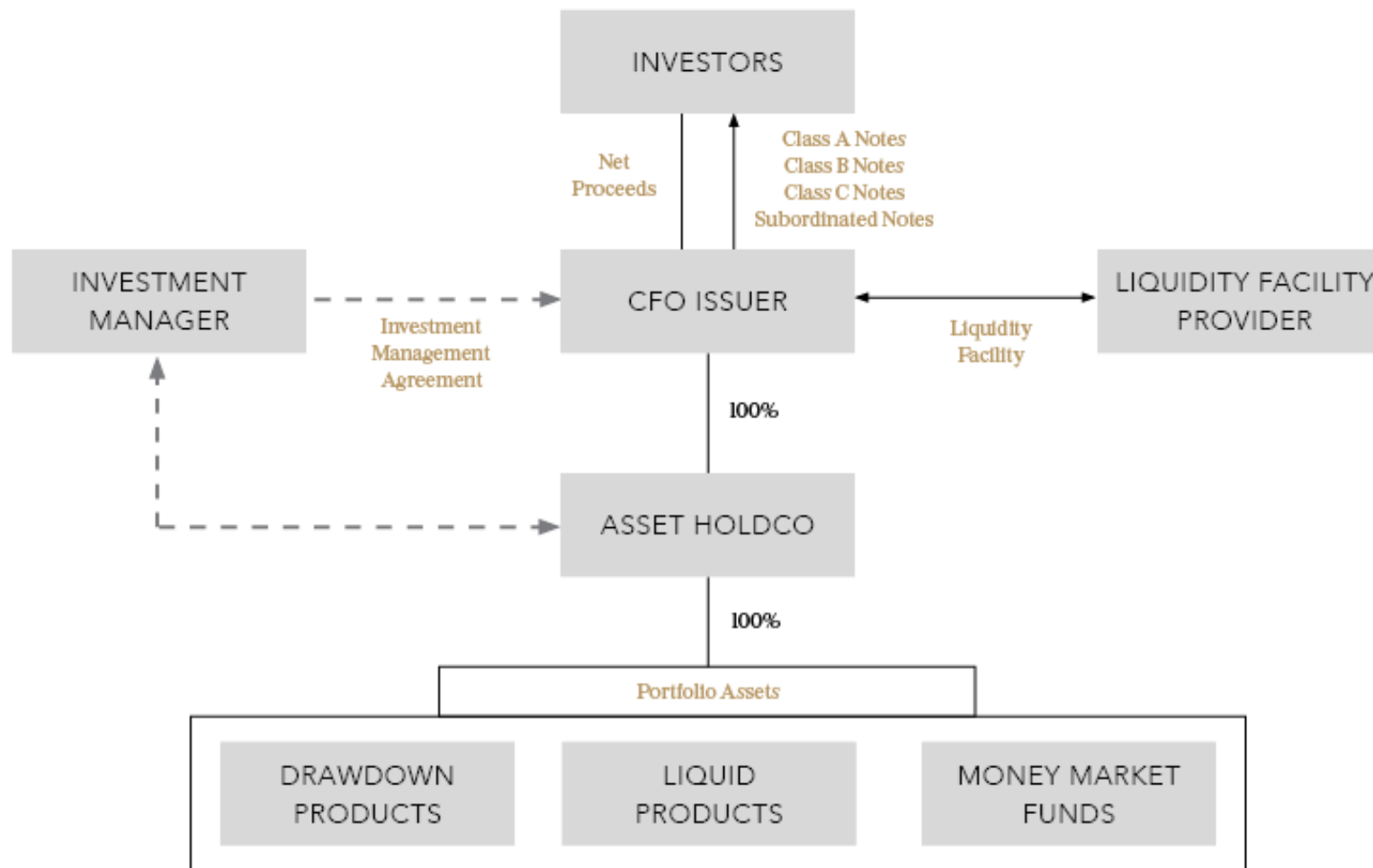
There is flexibility on underlying assets with LP interests in any fund, equity stakes or other asset-backed securitization investments.



NAV Facilities

CFOs also have similarities with NAV facilities, incorporating concepts such as LTV metrics.

COLLATERALIZED FUND OBLIGATIONS: STRUCTURE



CFOs – FLEXIBILITY TO ADDRESS STRUCTURAL CHALLENGES

Predictability of cashflows: Underlying Fund Interests don't have specified or consistent periodic payments.

Therefore, CFO structures must include the ability to defer or capitalize significant current interest or other payment obligations otherwise owing. Or otherwise utilize a liquidity facility.

Capital Calls: The capital structure of the CFO must include available capital with sufficient flexibility to allow the CFO Issuer to make its required capital contributions.

This flexibility can also be obtained through a revolving liquidity facility, issuing delayed draw notes, or by establishing a cash reserve account.

Structural Limitations: With the CFO as the fund's named investor, subscription facility lenders will need to ensure that no other structural impediments exist to funding a commitment to be included in the borrowing base.





02

BORROWING BASE EVOLUTION

THE SHIFT FROM THE HISTORICAL BASELINE



Legacy Model: Historically, the market relied on a uniform model: 90% advance rates on Included Investors and 65% on Designated Investors.

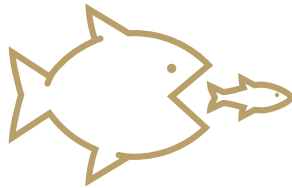


Why It Worked: This approach was simple, conservative, and scalable, allowing for a repeatable credit model across jurisdictions.



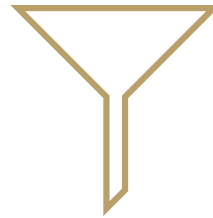
Current State: We have reached an inflection point where borrowing bases are diverging meaningfully from this legacy model.

RETHINKING THE NORM



Market Forces

Changes are being driven by increased competition for top-tier sponsors and a push for structures that align financing capacity with actual risk



Data

Lenders have greater comfort with LP diligence and historical performance, enabling bespoke architectures



Result

The market is moving away from a single "market" borrowing base toward solutions tailored to specific fund and investor mixes

HURDLES: FROM DEFENSE TO OFFENSE



Historical Use: Hurdles were primarily defensive tools used to address sovereign immunity, credit quality, or jurisdictional risks.



New Strategy: Hurdles are now deployed offensively to justify higher advance rates and allow for flexible concentration limits.



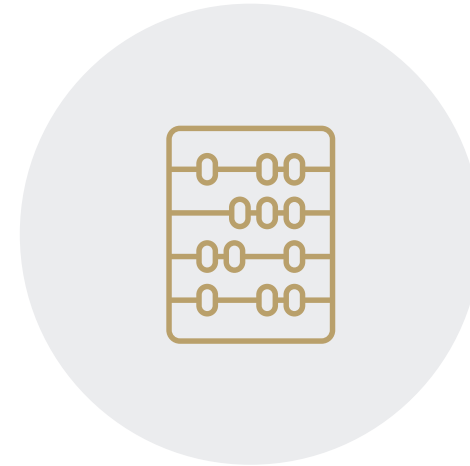
Impact: They function as a credit lever rather than just a risk filter, expanding borrowing capacity while maintaining underwriting discipline.

EXPANDING LENDER FLEXIBILITY



New Structures

Lenders are open to tiered advance rates, dynamic concentration caps and hybrid eligibility frameworks



Precision

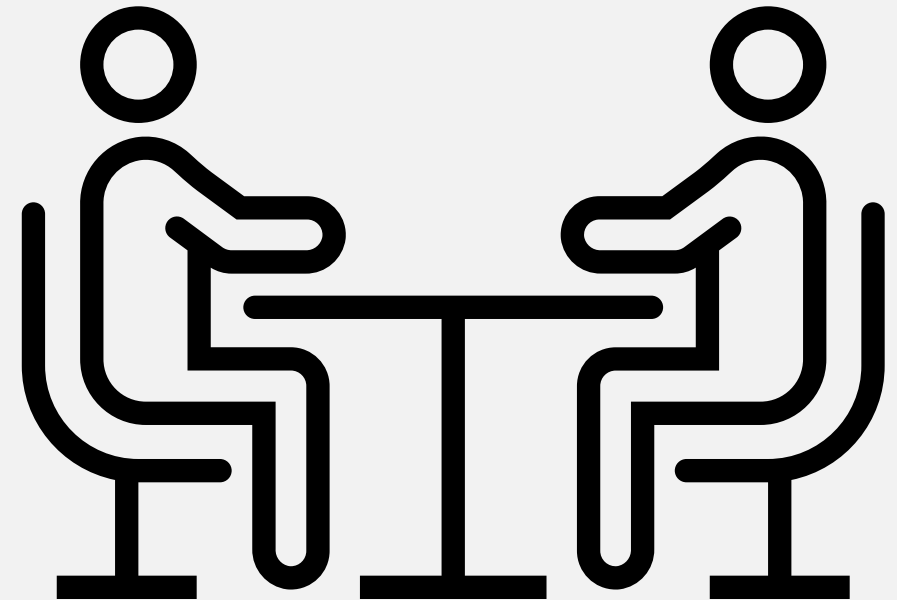
This shift represents lenders becoming more precise with calibrated underwriting tools, rather than simply becoming looser on credit

TRANCHE B CONNECTION

Role: Tranche B structures naturally pair with these innovations by underwriting the excess capacity or novel investor treatments.

Benefit: This preserves lender comfort in the core facility while delivering additional capacity where sponsors need it most.

Fit: It serves as a "release valve" that permits borrowing base creativity without destabilizing the traditional facility.





03

EVOLVING LENDER LANDSCAPE

The Shift: The market has evolved from a bank-dominated landscape to a diverse ecosystem.

Insurers: Now acting as direct lenders and core syndicate participants.

Private Credit: Moving decisively into fund-level lending.

Regional Banks: Winning mandates through speed and certainty of execution.

New Complexity: This diversity introduces competitive and confidentiality sensitivities previously absent in homogenous lender groups.

THE CHALLENGE: COMPETITOR CONFIDENTIALITY



Defining Issue: A key focus is addressing private credit and insurance platforms that are affiliated with competing sponsors.



Old vs. New: The historical "blunt" approach of banning competitors is now impractical because sponsor-affiliated capital is too large and embedded to exclude.



The Solution: The market is moving from outright prohibition to "precision drafting" to preserve flexibility while protecting confidentiality.

MANAGING COMPETITORS: INFORMATION & VOTING



Information Rights: Competitors may participate but with tailored limits, receiving pool-level data or high-level summaries rather than full investor rosters or asset details.



Voting Restrictions: To prevent strategic advantage, competitor voting is limited via exclusion from sensitive amendments, deemed voting, or disenfranchisement.

SPONSOR AFFILIATE PROTECTIONS



Affiliates

Distinct protections are required when the sponsor finances its own platform through affiliated private credit or insurance vehicles.



Safeguards

Lenders are focusing on voting restrictions, caps on aggregate holdings, and non-voting status for key decisions to prevent undue influence.



04

HYBRIDS

GENERAL OVERVIEW

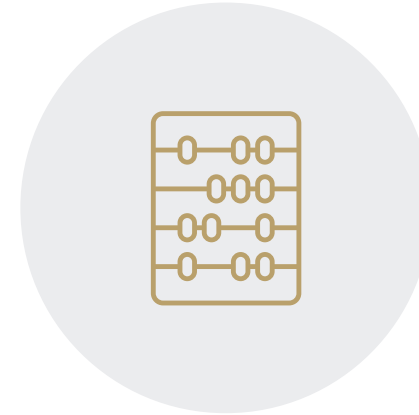


Hybrid Borrowing Bases

SCF borrowing base (advancing against uncalled capital commitments of certain eligible investors)

PLUS

NAV borrowing base (advancing against net asset value of certain eligible investments)



Hybrid Collateral

Pledge of customary SCF collateral (capital commitments, call rights and capital contribution account collateral)

PLUS

Pledge of agreed upon NAV collateral (i.e., distribution accounts only or full equity pledge etc.)

USE CASES FOR HYBRID FACILITIES



“Aftercare” Approach: Used for Funds that are post-commitment period but still need access to leverage to support seasoned investment portfolio.



“SCF Plus” Approach: Used for Funds that are still fundraising and may have concentrated LP pools.

HYBRID STRUCTURES

TWO-TRANCHE HYBRID

SCF Tranche

Availability under Facility
tied to SCF Borrowing Base

NAV Tranche

Availability under Facility
tied to NAV Borrowing Base

Borrower maintains
flexibility to allocate
borrowings across tranches

FLIP-THE-BOX HYBRID

SCF Tranche

Availability under Facility
tied to SCF Borrowing Base

NAV Tranche

Availability under Facility
tied to NAV Borrowing Base

Borrower utilizes SCF
Tranche early-stage and
then Facility is converted to
NAV Facility once uncalled
capital is depleted

SUBSCRIPTION+ / NAV+ HYBRID

Single Tranche

Availability under Facility
tied to either SCF
Borrowing Base or NAV
Borrowing Base

Borrower utilizes one
borrowing base but may
receive higher advance
rates than otherwise
available

BLENDED HYBRID

Single Tranche

Availability tied to both SCF
Collateral and NAV
Collateral

Grid-based pricing
depending on portion of
borrowing base attributable
to SCF Collateral and NAV
Collateral

The logo consists of the words "MAYER" and "BROWN" in a white, uppercase, sans-serif font, separated by a vertical bar. The background is a dark, abstract pattern of overlapping, tilted rectangular shapes in shades of blue and brown, creating a grid-like effect.

MAYER | BROWN

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