
# The MassMutual Transition to Barings: A Conversation with Phillip Titolo and Dadong Yan

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As we reported last week in *Fund Finance Friday*, Massachusetts Mutual Life Insurance Company ("MassMutual") and Barings, one of the world's leading investment managers and subsidiary of MassMutual, announced plans to transition MassMutual's Direct Private Investments ("DPI"), a leading fund finance provider, to Barings.

The announcement noted that the transition, which will occur in the second quarter of 2023, will enable the team to scale their investment strategies with access to additional third-party institutional investors through Barings' global platform, while enabling Barings to provide a broadened set of complementary investment solutions to its clients.

In light of this important announcement, Cadwalader fund finance partner Leah Edelboim reached out to Phil Titolo, Head of Direct Private Investments at MassMutual, and Dadong Yan, Head of Alternative Investment Solutions and Portfolio Manager, DPI at MassMutual, about what this transition means for their business and the opportunities they are seeing in the fund finance market. Phil and Dadong offered us a fresh perspective on the fund finance market more broadly and how they are seeing great business opportunity in providing financing solutions to clients that they believe have been historically underserved.

***FFF: Congratulations on the move to Barings. Can you tell us about the transition and what that means for your business?***

**Phil:** Sure, happy to. MassMutual is transitioning DPI in its entirety to Barings. In addition, MassMutual Asset Finance, an equipment finance company, will move to Barings as well. In the move, DPI will still manage its current portfolio and mandate from MassMutual's General Investment Account ("GIA") at Barings. Having our team move to our wholly owned asset manager makes sense and will enable us to continue what we have been doing on the investment grade side of fund finance and also enable us to scale our offerings with access to third-party institutional investors through the Barings global platform.

**Dadong:** A transition such as this one needs to make sense for all involved. The "why" here is that, on the one hand, this transition allows the DPI team to serve a broader group of investors, including MassMutual's GIA, while allowing us to continue to deliver tailored financing structures to our asset manager partners. We are effectively creating a one-stop solution: our team is going to connect investors who need high-spread investment grade private debt access with asset managers who have historically been underserved in their financing needs for their various private fund offerings.

***FFF: How have these parties been underserved by the fund finance market?***

**Dadong:** In my view, many of the historical products in the fund finance market are somewhat inflexible. Our asset managers want solutions, rather than products, and they want someone who will create a bilateral customized solution. Which is not unlike what their clients in turn are asking of them these days.

**Phil:** We have clients who refer to the financing solutions we offer as a "luxury good." What they used to get before they had a relationship with us was more rigid and shorter tenor traditional lending products. We take the time to understand the capital needs, and design a more tailored financing solution that is a "win-win" for both parties. We bridge the gap between institutional investor capital that needs a relatively attractive investment grade spread profile and asset managers/borrowers that want customized financing solutions for their fund .

**Dadong:** Everyone wants to be innovative, but what people forget is that in order to have innovation you need to invest the time to create a team culture that incentivizes innovation. You need to invest in the time with asset manager partners and you need to actually listen to what is needed, rather than pushing a predetermined product. In our view, this is what the industry has been lacking.

***FFF: What are you the most proud of in terms of what you have built so far, and where you are going?***

**Phil:** There are three things that I am most proud of. First, we have originated $36 billion of debt and there has been $12 billion that has returned back home safely, showing a great loss-adjusted return for our policyowners. Second is our culture – we have not in the 6 years since our team was formed had any turnover of the folks we directly hired in DPI, which is made up of a group of talented individuals with diverse backgrounds. And, third, we built this business with a single source of capital and the market relationships we have – this is remarkable to me because we don't have a sales team or a marketing deck; it has all been relationship driven. At its core, lending is a relationship business.

On the relationship point, that also extends to our counsel and the importance of having a trusted advisor. Being able to have an open dialogue with our counsel builds that trust and translates well into the longevity of each lending relationship. That's built with continuity and working arm-in-arm to accomplish a win-win outcome. A perfect case in point is our team's longstanding relationship with your great colleague, **Angie Batterson**. Angie knows our organization, knows what we are trying to deliver, and has been absolutely critical to our success since we started back in 2017.

***FFF: You have a bit of a different view of the fund finance market and what you call a "horizontal view." Can you explain what that means?***

**Phil:** Fund finance has become a generic term that actually means a number of things: capital call lines (subscription lines), warehousing facilities, NAV lending, and portfolio lending – these all get roped into fund finance. Similar to how private debt is also a generic term but can encompass many different underlying strategies.

At the higher end of the risk/return continuum, you have preferred equity within a private asset portfolio. This encompasses preferred equity deals done through dedicated funds or as a subset within secondaries PE funds. These have a distinctly different risk-return posture than something that is more debt-like. They are typically more concentrated and they offer a higher LTV. The return is typically comprised of cash coupon and some upside in the form of payment-in-kind ("PIK") or warrants.

Moving up the capital structure, there is the high yield side of the fund finance market, which is based around more concentrated collateral pools, sometimes single PE or strategy funds with 10-20 individual investments, where some are doing well and some may not be. These deals have more structural protections than the last category, with some form of covenants, a stated maturity date, etc. These high yield loans will probably have a rating from an NRSRO, but the key for us is that we independently assign our own probability of default and resulting loss given default for any given loan, regardless of any external rating. Just because another lender or a rating agency may consider a debt facility is investment grade doesn't mean that we will agree, and we will reflect that in the way we allocate capital to that facility.

The last category is where DPI was born. This is what we call investment grade fund financings, which is historically what most banks would provide to asset managers on balance sheet. We do not do sublines or capital call lines or warehousing facilities; rather, we look to the underlying private assets and provide senior secured leverage on top of that. Being an insurance company, we are fortunate to be able to do a longer tenor than what a bank would typically be able to provide. If you have a direct lending fund with a 3-year revolving period and a 7-year wind down period, you need up to a 10-year lending facility to meet those asset managers' needs.

As an insurance company, we have had more longevity to our liabilities and can write longer facilities to better match those policy liabilities on the insurance side. Keeping our investor's needs in mind, it is important to underwrite as an investment-grade type exposure with tight structural protections, proper asset diversification, and restricting the type of assets that we will lend against. We also underwrite the manager as if we were going into the fund as an LP. This includes a full deep dive into their track record, process, sourcing, and team expertise.

***FFF: Since Phil has talked vertically about the market, perhaps Dadong you can talk horizontally and how you expanded your solutions for GPs.***

**Dadong:** Sure, Leah. We have done it through a simple concept of listening and seeing if there are areas where we can add value where investment-grade risk makes sense for investors.

We are focusing on tailoring solutions, not pushing products. One of the biggest unmet needs in the market for GPs is for financing either at their management company, the GP, or the asset manager. Historically, this has only been met in the private equity markets, like with selling a GP stake to a 3rd party. We have heard from some GPs that they were looking for a non-dilutive debt solution tailored to their needs. This is why we feel traditional lenders have not excelled in this space:  one standardized term sheet might work for one GP but won't work for another GP.

So, our thesis is that there is a huge market opportunity because GPs need this capital, and that need is not going away.  Here is where we are typically seeing GP use debt proceeds for:

(1) GP commitments – as funds get bigger, investors are requiring the GP commitment also get larger, making for more capital resources to be devoted to that.

(2) to launch new strategies, which may be organic or inorganic. In terms of inorganic growth, if a GP is looking to buy a 3rd party asset manager with complementary strategies, they can take equity capital, which is more expensive, or they can use debt capital that we can provide. In terms of organic growth, that takes resources in terms of hiring a team and injecting seed capital into a new strategy and raising capital on top of that. Initial seed capital requires capital from GP, which can come from management company financing.

(3) helping GPs to manage succession planning. We can help to come up with innovative strategies to be sure that the next generation is appropriately incentivized to stay and continuing to drive value through a succession transition.

***FFF: Ultimately, it sounds like you see yourselves as problem solvers and that drives your relationships with your asset manager partners. Can you expand upon that?***

**Phil:** Usually the calls we get are from clients who say they "want to think through a problem with us." We then listen and suggest a solution, and sometimes a deal can come out of that solution. Sometimes we help them think of a solution that isn't necessarily with us – again, a sign that we are committed to helping in the relationship. We are fortunate to be selective in the loans we execute and our clients are sophisticated professional investors that we typically see eye to eye with. While banks will usually beat us on pricing and advance rate, the asset manager may decide that they would prefer to pay a premium for our more tailored offerings. If a borrower is looking for the maximum leverage at the lowest cost, we probably aren't going to be a fit.

What differentiates us from the other offerings is that, on one side, the client gets the same lending team cradle to maturity – we don't turn over a deal to another team after close to manage. We focus on ease of use for our asset managers during the entire lifetime of the transaction, from having the same contacts to work with daily to streamlining processes like getting managing security over bank accounts.

**Dadong:** Here is an example of how growth requires listening to our asset manager partners. We started a European DPI team based in London last year. That gave us boots on the ground there, but from a culture perspective, we think about it as still having one integrated team and we utilize deal staff to work together regardless of location. We took a portfolio lending concept we developed in the U.S. for commercial real estate debt financing to our clients in Europe, which in turn broadened our managers' ability to originate CRE debt deals. This was something that we could not have done without an integrated one-team approach.

***FFF: There are a lot of moving parts with a big announcement like this one, so we appreciate you both giving us some insight about this transition and the way you currently service the market. We wish you all the best with the transition.***