**Townsend–Cliffwater RE Interval Fund 2.0: Differentiators**

**1. Sector-Focused Core Plus Over Diversified ODCE**

* **Market norm:** Existing RE interval funds (Apollo, Bluerock, etc.) allocate heavily to **ODCE-style diversified core funds**.
* **Townsend–Cliffwater approach:** Emphasize **sector-focused core plus open-end funds** (e.g., industrial, multifamily).
* **Why it matters:**
  + Sector specialists historically **outperform ODCE** due to slightly higher leverage.
  + Elevated leverage supports **higher income yields**, improving coverage of the **~5% distribution yield** expected by interval fund investors.

**2. Secondaries in New Core Plus Fund Launches**

* **Market norm:** Competitors rarely access discounted secondaries at fund launch.
* **Townsend–Cliffwater approach:** Target **special-situation secondaries** where Townsend aggregates >$500M anchor commitments for new core plus funds.
* **Why it matters:**
  + Townsend typically negotiates **10–15% discounts to appraised NAV**, creating an **“IPO-like pop”** for interval fund investors.
  + Provides **alpha** and potential outperformance versus Apollo, Bluerock, and peers.

**3. Scale Advantage Through Townsend’s Sourcing**

* **Market norm:** Other interval funds invest into the same open-end core/core plus managers but without special pricing power.
* **Townsend–Cliffwater approach:** Leverage Townsend’s position as **15–18% of capital in this market**.
* **Why it matters:**
  + Secures **discounted fee structures** unavailable to most investors.
  + Pass-through of these savings directly boosts **net returns and fund alpha**.

**4. Exclusive Real Estate Secondaries Strategy**

* **Market norm:** Apollo, Bluerock, Versus, etc. **do not integrate secondary fund investments** into their interval structures.
* **Townsend–Cliffwater approach:** Allocate to **real estate secondaries** with **2–4 year investment-to-exit windows**.
* **Why it matters:**
  + Offers **higher returns with strong cash flow**.
  + Shorter exit horizon versus traditional value-add strategies ensures **liquidity discipline**—critical under the **’40 Act interval fund redemption rules**.
  + Creates a **unique market positioning** as the **only RE interval fund with this secondary component**.

**In Summary**

The **Townsend–Cliffwater RE Interval Fund 2.0** differentiates itself by:

* **Better yield coverage** (via sector-focused core plus funds with prudent leverage),
* **Built-in alpha from secondary discounts**,
* **Fee advantages from Townsend’s scale**, and
* **Exclusive access to real estate secondaries** that balance **return, cash flow, and liquidity**.

**Cliffwater: Core Strengths**

* **Interval Fund Market Leader:** Largest manager in the U.S. interval fund space with **~$36B AUM** in interval fund structures.
* **Distribution Powerhouse:** Best-in-class **RIA and wealth management distribution platform**—broad reach to advisors and HNW investors.
* **Operational & Regulatory Expertise:** Proven ability to manage the **complexity of interval funds**—balancing yield targets, liquidity constraints, and regulatory/reporting obligations.
* **Performance Track Record:** Long record of delivering strong performance in **private credit-focused interval funds**.
* **Gap:** No real estate interval fund, hence no track record in this fast-growing category.

**Townsend: Core Strengths**

* **Global RE Fiduciary Leader:** World’s largest real estate advisory platform, with a **40-year track record** across all major RE strategies.
* **Core/Core Plus Expertise:** Deep experience underwriting and allocating to **core and core plus funds**, the essential building blocks for interval funds.
* **Secondaries Advantage:** Unique **sourcing capabilities** in RE secondaries and **discounted fund launches**, creating embedded alpha opportunities.
* **Scale Benefits:** Represents **15–18% of the capital base** in the relevant open-end fund market, enabling **fee discounts and access terms** unavailable to most.
* **Trusted Reputation:** Viewed as a **fiduciary partner** by institutional investors—bringing credibility to new wealth products.
* **Optionality Beyond RE:** Capabilities in **infrastructure, agriculture, and timber**, positioning for a potential **Real Assets Interval Fund** expansion.

**Complementarity: Why This Works**

1. **Cliffwater’s Distribution + Townsend’s Sourcing**
   * Cliffwater can **push product through its unmatched RIA/wealth channels**.
   * Townsend supplies the **differentiated RE content** (core/core plus, secondaries, discounted fund launches).
2. **Cliffwater’s Interval Fund Expertise + Townsend’s Real Estate Expertise**
   * Cliffwater knows how to **balance liquidity, yields, and regulatory requirements**.
   * Townsend ensures **high-quality underlying deal flow and strategies** that generate sustainable returns.
3. **Closing Strategic Gaps**
   * Cliffwater fills its **product gap** in real estate—the fastest-growing alt interval fund segment.
   * Townsend gains **wealth distribution scale** it has historically lacked, expanding its brand beyond institutions.
4. **Enhanced Investor Value Proposition**
   * Better **yield coverage and alpha potential** (through secondaries, discounted entries, scale economics).
   * Combined credibility: **Cliffwater’s interval fund leadership + Townsend’s real estate fiduciary brand** creates the **most compelling RE interval fund offering in the market**.
5. **Future Growth Optionality**
   * After RE Interval Fund 2.0, the partnership can expand into **Real Assets Interval Funds** (infra, ag, timber)—first-of-its-kind in the market.

**Business Model Options for Townsend–Cliffwater Real Estate Interval Fund 2.0**

**Model 1: Cliffwater Product Powered by Townsend**

* **Structure & Branding**
  + The product is launched under the **Cliffwater platform**, but may be branded as either **Cliffwater or Townsend** depending on market dynamics.
  + Investment Committee (IC) comprised of equal representation from both firms; decisions require a **majority**, ensuring each party has an **effective veto**.
* **Roles & Responsibilities**
  + **Townsend**: Provides investment expertise, sourcing, and data for daily NAV inputs.
  + **Cliffwater**: Oversees NAV calculation, statutory reporting, and compliance.
* **Governance**
  + Townsend is **not a subadvisor**; rather, both firms contribute equally to IC decision-making, aligning investment and portfolio management responsibilities.
* **Economics**
  + Townsend is paid as a **percentage of AUM**.
  + Fee structure is calibrated to produce a **roughly 50/50 profit split** between the two firms.
  + **Guardrails** are established to define and cap allowable business expenses.

**Model 2: Joint Venture Entity**

* **Structure & Governance**
  + A new **joint venture (JV) entity** is established, governed by a board with representatives from both Townsend and Cliffwater plus **2–4 independent directors**, nominated equally by the partners.
* **Revenue & Services**
  + All product revenue flows into the JV.
  + The JV compensates:
    - **Cliffwater** for distribution, interval fund management, and compliance/reporting execution.
    - **Townsend** for sourcing investments, managing RE allocations, and providing inputs for NAV reporting.
* **Economics**
  + Profits accrue within the JV and are shared according to the agreed governance framework.
  + Creates a **single aligned platform** with transparent economics.

**Additional Considerations**

* **GP Capital Contribution**
  + The entity (or partner) providing GP funding earns a **12% preferred return** on its committed capital until fully repaid.
* **Seed Capital**
  + Target seed: **$200 million**.
  + If raised from **third-party sources**, it is treated as a **joint effort**.
  + If sourced from the **existing capital pools** of either Townsend or Cliffwater, the contributing partner receives **additional compensation** for providing the seed.

**Summary**

Both models align incentives while reflecting each partner’s distinct strengths:

* **Model 1** leverages Cliffwater’s established distribution and reporting infrastructure, with Townsend as an equal co-decision maker ensuring RE expertise is embedded at the core.
* **Model 2** creates a standalone JV that integrates revenues, governance, and services under one umbrella, offering transparency and longer-term optionality.

In both cases, the structure ensures:

* **Balanced governance and effective veto power**,
* **Equitable economics (~50/50 split)**, and
* **Clear delineation of roles** where Cliffwater manages interval fund infrastructure and Townsend delivers differentiated real estate sourcing and investment capability.

**Townsend–Cliffwater Real Estate Interval Fund 2.0**

**Executive Summary**  
Existing leaders such as Apollo and Bluerock rely heavily on diversified ODCE strategies. Townsend and Cliffwater together can deliver a **Gen 2 RE Interval Fund** that provides better dividend coverage, stronger alpha, and differentiated investor value.

**1. How Townsend Can Power a Differentiated Gen 2 Interval Fund Along with Cliffwater**

**Key Differentiators vs. Current Market Offerings**

* **Sector-Focused Core Plus vs. ODCE Diversification**
  + Apollo and Bluerock rely on broad ODCE core funds.
  + Townsend–Cliffwater will emphasize **sector-focused open-end funds** (e.g., industrial, multifamily).
  + Slightly higher leverage produces superior income returns, supporting the **5% distribution yield** interval investors demand.
* **Special-Situation Secondaries at Fund Launch**
  + Townsend aggregates >$500M anchor commitments to new core plus funds, often at **10–15% discounts** to NAV.
  + These “IPO-like” entry points provide alpha and **outperformance potential**.
* **Scale Economics and Fee Discounts**
  + Townsend sources **15–18% of capital flows** into the open-end market.
  + This purchasing power secures **discounted fee structures** not available to others—passing savings through to investors.
* **First Real Estate Interval Fund to Include Secondaries Strategy**
  + 2–4 year secondary investments generate **higher returns and cash flows**.
  + Shorter holding periods balance alpha with **liquidity discipline**, a critical requirement under the ’40 Act.

**Net Result:** A **next-generation RE interval fund** with stronger yield coverage, embedded alpha, and unique secondary access—outpacing existing funds in both design and performance potential.

**2. Complementary Capabilities**

**Cliffwater**

* **Market leader** in interval funds (~$36B AUM).
* **Unmatched distribution** through RIAs and wealth channels.
* **Operational excellence** in NAV reporting, liquidity, and compliance.
* **Strong track record** in private credit, but **no RE product** today.

**Townsend**

* **Global real estate fiduciary** with 40 years of leadership.
* Deep **core/core plus expertise**, the foundation of interval funds.
* **Secondaries and launch access** delivering discounted entry points.
* **Scale leverage** (15–18% of open-end RE capital) to secure fee breaks.
* **Trusted brand** with institutions, plus **real assets optionality** (infra, ag, timber).

**Why Together**  
Cliffwater brings the **distribution platform and interval fund infrastructure**; Townsend contributes the **real estate engine, sourcing edge, and fiduciary credibility**.

**3. Potential Business Models**

**Model 1 – Cliffwater Product Powered by Townsend**

* Launched on Cliffwater’s platform; brand could be Cliffwater, Townsend, or co-branded.
* **Joint Investment Committee**: equal representation, majority required, each party with effective veto.
* **Roles**: Townsend supplies data and investment input; Cliffwater executes NAV reporting and statutory compliance.
* **Economics**: Townsend compensated via AUM-based fee; structure designed for **50/50 profit split**.
* **Guardrails**: Expense policies set to protect profitability.

**Model 2 – Joint Venture Entity**

* Establishes a new JV governed by a board with both firms plus 2–4 independents.
* All revenue captured at the JV level; JV compensates:
  + **Cliffwater** for distribution, portfolio management, compliance.
  + **Townsend** for sourcing, investment oversight, NAV inputs.
* Creates a **single aligned platform** with transparent economics.

**Additional Considerations**

* **GP Funding**: Partner providing GP capital earns a **12% preferred return** until capital is repaid.
* **Seed Capital**: Target $200M. If raised externally, treated as joint effort; if provided by one partner’s existing pools, that partner receives **additional compensation**.