REAL ESTATE, INFRASTRUCTURE, AIRCRAFT : INSTITUTIONAL INVESTORS ATTRACTED BY REAL ASSET PRIVATE DEBT

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The real asset private debt market has long been the preserve of banks, but is now opening up to institutional investors. These debt instruments are non-liquid, non-rated and have tangible underlying assets, for instance buildings, road or energy infrastructure, or even aircraft, which represent a new potential source of yield.

A DIVERSIFYING ASSET CLASS WITH A DEFENSIVE PROFILE

Banks have been driven to open up this asset class to other types of investors by Basel III. The new regulations incite them to limit their exposure to this type of asset, which can have very long maturities, ranging from 5 to 30 years depending on the segment. This phenomenon has created a genuine opportunity for institutional investors seeking diversification and long-term yields in the current low yield environment. Real asset private debt offers investors attractive upside potential together with a defensive profile as it benefits from securities based on real assets which, in the event of a default, have higher recovery rates than those of high yield instruments[1].

REAL MARKET DEPTH

The asset class provides not only stability but also the added benefit of a low correlation with the financial markets, as there is no mark-to-market reevaluation[2]. Although the real asset private debt market is over-the-counter, it has the advantage of being both global and deep in each of its segments: €130 billion of annual trades in real estate debt in Europe and worldwide €230 billion in infrastructure debt and €100 billion in aircraft financing[3]. Furthermore, given the market's broad diversity in terms of sector (real estate, energy, transport, infrastructure, aircraft, etc.), geographical region (Europe, Americas, Asia), maturity of funding and, more generally, risk, different investment strategies can be defined to meet various risk/reward profiles. Investors can look for spreads[4] ranging from 100 to 400 basis points.

GLOBAL, SELECTIVE MANAGEMENT APPROACH

One of the main features of the asset class lies in the challenge of establishing and maintaining strong relationships and networks. It is essential to know the sellers well so as to lock in the assets considered to be the most attractive: having access to the broadest range of assets possible enables the investment management team to be selective. For this new real asset private debt activity, Natixis Asset Management is setting up a global area of expertise combining three complementary, high potential sectors: real estate, infrastructure and aircraft. The ambition is to offer investors several funds in each segment and, potentially, funds combining the three sectors, making it possible to meet various requirements in terms of risk/return and diversification. The objective of the proposed funds will be to shorten investment periods (2 to 3 years) so that the investment guidelines remain in line with the market.

(1) High yield: bond offering a high yield in return for a high level of risk. The average recovery rate in infrastructure in the event of default is about 80%.
(2) Mark to market: valuation of an asset based on the current market price.
(3) Source: Infrastructure Journal
(3) Spread: the difference between a bond's yield-to-maturity and that of a risk-free borrowing of the same duration.

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ADDITIONAL NOTES

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