The HUB
NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

Solving the Asian infrastructure debt challenge

Sourcing and risk management are key to executing green projects in the region.

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Green infrastructure debt deals in Asia are growing fast as governments in the region introduce policies to make their energy supplies more sustainable.

Most deals are sourced and executed by local banks. So how can international asset managers successfully enter this market and add significant value for their investors?

Dealflow from a leading infrastructure finance bank

Clearly, to buy, manage and derive value from private assets, you need to be able to source deals.

Natixis Investment Managers has developed two dealflow channels. The first is Natixis CIB, the global investment bank which has subsidiaries in more than 30 countries and has operated in Asia since 1982 when it set up a branch in Singapore. It now has operations in every major Asian economy.

The second is direct sourcing, which requires a strong local presence and direct knowledge of each of the target Asian infrastructure markets.

Natixis CIB is one of the strongest infrastructure players, doing USD 7.8 billion worth of loans globally[1]. Natixis IM maintains a close relationship with Natixis CIB, so it gets an early look at deals being structured by the investment bank across the APAC region and can signal at an early stage which ones it is interested in.

"Natixis CIB has a market-leading distributor platform, particularly for infrastructure debt, and we have a great seat at that table," says Angus Davidson, managing director of APAC Infrastructure at Natixis IM.

"We talk to the investment bank on a daily basis about both the pipeline and about deals in the execution phase. That kind of information flow is a real advantage in this market."

The relationship is strengthened by a movement of staff over the years from the investment bank to the investment firm, and vice versa. As well as flagging up deals for Natixis IM, this cross-fertilisation helps to enhance the investment bank's awareness of the investment arm's investors and their requirements.

For instance, Natixis IM is completing a telecoms deal in Malaysia. "The investment bank originated the deal and structured a fixed tranche which is ideal for some of our insurer investors who want to be able to match long-term liabilities," says Davidson. "Due to the depth of the relationship, the bank is able to anticipate what we need, and this simplifies deals and brings efficiency to transactions."

Key takeaways:

- Direct sourcing requires a strong local presence and in-person knowledge of target Asian infrastructure markets.
- A strong, independent risk function is key to ensuring due diligence and deal execution add the maximum value.
- Natixis IM's sourcing and risk expertise has led to the signing of a number of mandates with Asian institutions and robust dealflow.

Direct sourcing can improve terms and increase dealflow

Although deals in the APAC region are dominated by banks, increasingly the region's borrowers are considering alternative lenders and are open to partnerships with non-bank entities.

Local knowledge and contacts are important when sourcing deals directly. "We've been in the region for over 20 years, so we know the landscape and the players," says Davidson.

Natixis IM's direct lending capability means it can get involved in transactions

1. Source: IJ Global, Infrastructure and Project Finance League Table Report 2022.

from day one and thereby structure deals to the needs of its investors.

Natixis IM has ramped up its APAC infrastructure debt team to source, structure and execute deals. Davidson, who leads the team, has over 25 years' experience in infrastructure, mainly in Asia. He initially worked for Société Générale Australia project finance for 10 years, before moving to Hong Kong with WestLB, where he covered energy and infrastructure across Asia for over six years.

Following WestLB, he advised corporates and governments on infrastructure development throughout the APAC region and developed an APAC-focused infrastructure debt fund with an affiliate of BNP Paribas Investment Partners.

In 2019 he and Evelyn Chan, a colleague at WestLB moved to Natixis IM. Chan, an Executive Director, brings over 20 years' experience in leveraged and project finance in the region. She focuses on securing regional investor mandates as well as structuring financings to fit the relevant investment criteria.

Meanwhile Helene Boursier, who joined Natixis IM in September 2022 has 15 years of project finance infrastructure experience in both equity and debt. She specialises in deal sourcing and transaction execution in the renewable energy sector, with previous experience at Natixis CIB, and has worked in Hong Kong, New York, Dubai and Paris.

The revamped team can offer fixed rate tranches, and can also tailor prices for clients. Boursier says: "Rather than being a price taker, as a direct lender we are in a stronger position to negotiate the price we need whether that is the yield, the margin, the upfront fee or if required, the fixed rate."

Natixis IM also has the expertise to rate its transactions internally, which is attractive to clients seeking a particular rating for their portfolio.

Finally, direct lending allows Natixis IM to develop relationships with sponsors, further enhancing the pipeline of deals. "If you are transacting only through banks, you are not going to see that pipeline," says Chan.

The value of an independent risk function

Underpinning Natixis IM's infrastructure debt offering in Asia is its independent risk function, headed by Pascal Leccia.

Leccia joined the team in January 2022 as chief risk officer for APAC. He has worked for nearly 30 years in infrastructure, mostly in project finance.

Importantly, Leccia does not report to the head of any Natixis IM commercial unit, but has a fully independent remit. Although he works in collaboration with the APAC infrastructure debt team, his role is to probe and challenge the quality of deals in the pipeline and those being executed.

The team carries out due diligence on deals and terms, and presents their ideas to a committee and then to a review by the legal and risk teams. "I am there every step and we share opinions throughout the process, on every aspect of due diligence and on the structuring of deals."

Leccia is involved from the outset, prompting additional due diligence work that has not yet been undertaken and reviewing existing due diligence. He says: "In essence, I take a step back and provide a bird's eye view – distance really helps when doing deals."

Davidson adds: "It is a real competitive advantage to have someone this senior overseeing and challenging us."

Leccia's role also extends to monitoring. He says: "Our transactions tend to be very long term – at least 5 to 10 years and sometimes up to 30 years. So ongoing monitoring is a key driver of value."

Mandates and deals surge

This combination of sourcing capability, execution expertise and independent risk management has led to Natixis IM signing of a number of infrastructure debt mandates, mainly with Asian insurers. Clients in Hong Kong are particularly attracted to Natixis IM's ability to provide fixed rate returns from infrastructure debt, as they look to match their liabilities by investing in fixed income with a buy and maintain approach.

Direct lending activity is also accelerating. Deals include participating in the A$610m refinancing of a 317MW wind farm in South Australia. And in late 2022, Natixis IM, together with Fubon Bank Hong Kong, provided a 10.5-year, $50 million debt facility to finance rooftop solar photovoltaic projects for corporate, industrial and public buildings in Hong Kong.

The loan was secured against one of the largest rooftop solar portfolios in Hong Kong, with over 100 existing rooftop solar PV projects, approximately 20MW of capacity, and plans for significant further expansion. The financing supports the growth of renewable energy and green finance in the city, both of which are key strategies in Hong Kong's Climate Action Plan 2050, which aims to achieve carbon neutrality by 2050.

Davidson says: "Soon after closing this deal, we were approached by another solar developer in Hong Kong as well as private equity companies looking for a partner to structure these kinds of deals. Deals beget deals and business begets business."

Published in April 2023

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French Public Limited liability company with board of Directors (Société Anonyme).
Share capital : €51 371 060,28. RCS Paris : 329 450 738.
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HUBINT9EN-0423