



CLEAR PATH ANALYSIS

PUBLISHED BY



INVESTING IN PRIVATE MARKETS, EUROPE 2020

Navigating the Private Equity landscape post today's affairs

DECEMBER 2020

SPONSOR





CLEAR PATH ANALYSIS

Clear Path Analysis is a media company that specialises in the publishing of high quality reports, events, and online trade media and market intelligence websites in the financial services and investments sector.

FOR MORE INFORMATION:

- W** www.clearpathanalysis.com
- T** +44 (0) 207 688 8511
- E** marketing@clearpathanalysis.com

SPONSOR

At Natixis Investment Managers, our multi-affiliate model offers active investment solutions from over 20 high-conviction investment managers. These affiliates can unlock 200+ strategies that cover a wide range of traditional and alternative asset classes, including private equity (Flexstone Partners), private debt (MV Credit) and infrastructure (Mirova).

Natixis ranks among the world's largest asset management firms¹ (\$1,017.7 billion AUM²).

Visit www.im.natixis.com/en-institutional.



Important Information:

The information in this report is for professional investors only. This material is provided for informational purposes only and must not be construed as investment advice. Any views expressed are those of the author(s) and are subject to change without notice. There can be no assurance that developments will transpire as forecast, and actual results may vary. The entities referenced in this report are affiliates of Natixis Investment Managers, the holding company of a diverse line-up of specialized investment management and distribution entities worldwide. Their services and the products they manage are not available to all investors in all jurisdictions. Provided by Natixis Investment Managers UK Limited, authorised and regulated by the Financial Conduct Authority (register no. 190258). Registered Office: Natixis Investment Managers UK.

Flexstone Partners, An affiliate of Natixis Investment Managers
Flexstone Partners, SAS - Paris - 5/7, rue Montessuy, 75007 Paris, www.flexstonepartners.com

MV Credit Partners, An affiliate of Natixis Investment Managers
MV Credit Partners LLP - 45 Old Bond Street, London W1S 4QT, www.mvcredit.com

Mirova, An affiliate of Natixis Investment Managers
Mirova, 59 avenue Pierre Mendès France, 75013 Paris, www.mirova.com

1. Cerulli Quantitative Update: Global Markets 2020 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2019.
2. Asset under management ("AUM") as of June 30, 2020. AUM, as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.

1.1 INTERVIEW

Lifting the veil of opportunity: After two decades of resilience, it is no wonder that more investors are looking to private debt

Interviewer



Mathew Croft,
Content Producer,
Clear Path Analysis

Interviewees



Nicole Downer,
Managing Partner
Head of Investor
Relations, MV Credit



Murtaza Merchant,
Partner, Head of Fund
Optimisation, MV Credit



Harry Elliot,
Associate, MV Credit

SUMMARY

- *The changing role of private debt in the European economy*
- *Increasing focus on the upper-mid market*
- *The importance of private debt, flexibility and diversification*
- *Optimising allocation to compliment DC requirements*

Mathew Croft: Why do you think private debt has stood the test of time?

Nicole Downer: Private debt as an asset class has certainly evolved and grown over the past 20 years. When we started back in 2000, it was very much a niche product. Today, it is mainstream and a big contributor to the European economy. The asset class has gone through many cycles and we as a manager have seen these and, by and large, the asset class does perform well through the cycles.

The key to having a performing portfolio is not to take your eye off the ball, which means being disciplined in the way the portfolio is constructed in terms of diversification. Fundamentally, private debt is a credit asset class and so it is all about minimising downside and being defensive in the way that credit is chosen.

We do this by focusing on what we feel are strong credit characteristics. We focus on defensive industries, like healthcare, IT and software, which are a large part of our portfolio – around 70% across our various funds. We try to avoid retail, travel, restaurants, and so on – those industries that tend to be more cyclical.

This discipline of a defensive nature is key to the asset class doing well and managing the asset class successfully. I know this seems like an obvious thing to say now that we are going through the pandemic, but we have been saying this for the past 20 years.

In terms of other areas that we concentrate on, we like the upper mid-market, which we define as companies with an EBITDA of €30-100 million. We like this part of the market because we feel that these companies are large enough to be diversified in their own rights in terms of their geographies, and while they are headquartered in Europe, they tend to be regional or pan European and, in some cases, global businesses. This also gives them a bit more optionality when things go wrong – making sure that the underlying companies can work through their difficult times.

We also like businesses that are owned by private equity sponsors. We have built strong relationships with tier 1 sponsors and if you are in a strong relationship with responsible sponsors, they have the ability to add more cash to a company when it is required. They also have the ability to make changes to management or other parts of the company

“

FROM A PORTFOLIO
CONSTRUCTION POINT
OF VIEW, IT IS ABOUT
THE YIELD THAT IS
OFFERED AS WELL AS
THE INFLUENCE THAT
INVESTORS ARE ABLE
TO EXERT OVER THEIR
INVESTMENT

”

to ensure that the company can adapt to changing circumstances. These are all ways to minimise the downside risk.

The asset class shows a lot of stability and is less correlated to some of the larger and more traditional asset classes. However, investors do have to carefully choose the right, experienced manager to ensure strong yields with low volatility.

Mathew: How does private debt fit into a portfolio and how do you go about construction and monitoring of private debt performance?

Murtaza Merchant: The world has changed since the global financial crisis. But even prior to that, the markets, institutions, and investors

started to realise the importance of private debt. They discovered the yield that is generated through the private markets and the role that private markets play in offering financial solutions to companies and sponsors in a much more flexible way.

As this has progressed over the past few years and investors have seen the flexibility provided by the private debt market, investors have realised that this is a must-have in portfolios for diversification as well as yield. It allows them to be more prescriptive about how they would like to build their portfolio.

This can be from various perspectives, such as ESG, where private debt allows investors to participate much more. For pension funds and larger investors, who have big ESG considerations, this means that rather than being in passive funds where they have little influence over how pension money is invested, they have more influence.

From a portfolio construction point of view, it is about the yield that is offered as well as the influence that investors are able to exert over their investment. This makes it important to have a private debt allocation within a broader portfolio. It also allows that little bit of extra diversification for investors to get that allocation within their broader portfolios.

The breadth of private debt is also expanding. There is more creativity coming into the private debt space, which offers more solutions and ideas to prospective investors who have regulatory and other considerations. This is a fast expanding space and, frankly, any investor who wants meaningful diversification in their portfolio cannot ignore private debt.

Nicole: If you are an investor with patient capital and have the ability to invest over a cycle, say 7-10 years, then there are numerous positives from this asset class. There's the yield, the diversification from other asset classes, the lack of volatility, as well as having much more transparency of the underlying assets that are being invested.

The issue that stops some investor types looking into private debt is the lack of liquidity that is inherent in the asset class. But if you have this form of patient capital and can wait through a cycle, it is a very good investment to have within your portfolio.

Mathew: What do you feel is the best approach for investors going into the private debt space?

Harry: Private markets in general have been slow to adapt to different investor demand, with rigid fund structures that are typically closed ended vehicles with no liquidity. It has historically been difficult for some institutional investors to access this because of regulations or restrictions on how they invest.

One of the markets that has been focusing on this is the UK defined contribution (DC) market. It is a fairly new market in the sense that, previously, pensions were predominantly defined benefit (DB) pension funds. The DC market isn't as large, but it is growing. We have been

working on solutions for the DC market for just over a year. We looked into all of the issues they had, the first of which was closed-ended funds and the issue of illiquidity. Typically, we manage closed-end fund structures on the senior side with a 5-10 year term, which is prohibitive to investors who need flexibility to want to move in and out of funds. So that's one hurdle we've needed to overcome, along with the challenges associated with a closed-ended vehicle.

Another issue is that investors find private markets complex and difficult to analyse. Additionally, the fees have been prohibitively high for some, so we have had to work around that. Then there's the size - typically these funds require a minimum investment of €10 million or larger. So all of these benefits that we feel we can give investors in accessing this asset class has had to be done by working through these challenges.

What we have come up with is a combination of private debt and liquid public credit. This means exposure to the private market, the illiquidity premium and diversification from this, but you also get some limited liquidity through the public credit side of the portfolio. Investors get a more flexible and open-ended fund structure which addresses other challenges through an easily accessible platform. We have seen a

blend of asset classes where you can have some infrastructure, real estate and a pure credit allocation, which we feel compliments all of the requirements of the DC market.

Murtaza: From the outset, many of the challenges with certain investors have been due to legacy issues. We are showing investors that things can be different now. Regulations are always slower to follow, and it is always a challenge to get regulation to move with the times, but over a certain period, these things are changing. For instance, with the DC market, if it is a young scheme where there are few people retiring and the scheme is in its accumulation phase, is 100% liquidity really necessary? The answer is no. So why restrict yourself to investing in 100% liquid funds that offer very little in terms of broader diversification?

The legacy issues mean you have certain restrictions on the pension side. These factors are slowly being addressed. We are coming up with solutions to address them and trying to broaden the horizon for some of these investors.

Mathew: Thank you for sharing your thoughts on this topic.



CLEAR PATH ANALYSIS

TO READ MORE FREE REPORTS VISIT:

www.clearpathanalysis.com

The opinions expressed are those of the individual speakers and do not reflect the views of the sponsor or publisher of this report.

This document is for marketing and/or informational purposes only, it does not take into account any investor's particular investment objectives, strategies or tax and legal status, nor does it purport to be comprehensive or intended to replace the exercise of an investor's own careful independent review regarding any corresponding investment decision. This document and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities or intended to constitute any binding contractual arrangement or commitment to provide securities services. The information provided herein has been obtained from sources believed to be reliable at the time of publication, nonetheless, we cannot guarantee nor do we make any representation or warranty as to its accuracy and you should not place any reliance on said information.

© Clear Path Analysis Ltd, registered in England and Wales No. 07115727.
Registered office: 601 London Road, Westcliff-On-Sea, United Kingdom, SSO 9PE.
Trading office: Business Design Centre, 52 Upper Street, London, N1 0QH

W www.clearpathanalysis.com
T +44 (0) 207 688 8511
E marketing@clearpathanalysis.com
🐦 ClearPathAnalysis
in [clear-path-analysis](https://www.linkedin.com/company/clear-path-analysis)

Additional Notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano nº90, 6th Floor, 28006, Madrid, Spain. Belgium: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10, JCD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd. Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No.425. Content of Business: The Company conducts investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors for informational purposes only.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.