

INSIGHT

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Infrastructure debt: where is the value for investors?

MARCH 2019



KEY POINTS

2018 MARKET OVERVIEW

- A growing market driven by transactions in Europe and Asia-Pacific, as well as the Transport sector.
- Conventional electricity and Renewables reached a peak in volume.
- New high-potential territories have appeared – Offshore Wind outside Europe, Batteries in Renewables sector, and Broadband.

OUTLOOK FOR 2019

- Renewables and related sub-sectors to be boosted by energy transition.
- Doubt over the launch of Transport and Public Building projects in Europe and the USA.
- Transaction volumes in Broadband and Undersea Cable projects expected to increase sharply.

ZOOM ON OUR ESSENTIAL INFRA DEBT STRATEGY

- Focus on Europe, opportunistic on USA, Canada and Australia.
- Key sectors are Renewables, Waste and Water Treatment, Energy Efficient Social Accommodation and Green Mobility.
- Energy and Ecological Transition for Climate Label is a flag for clients who want to include ESG dimensions in their investment policy and need to assess their impact.

2018 MARKET OVERVIEW

Market growth was driven by transactions in Europe and Asia-Pacific in 2018, while the Transport sector overall posted the strongest increase in volume terms.

2018 was a very positive year for volumes in infrastructure debt, with overall transactions up 16% vs 2017 to \$279bn. From a geographical standpoint, Europe grew 21% relative to 2017, and Asia-Pacific surged 63%, driven mainly by Australia. From a sector

standpoint, transactions in the Transport sector saw the highest growth – soaring 58% vs 2017 – with Road acting as the main contributor.

POWER AND RENEWABLES REACHED A PEAK IN VOLUME

Power and Renewables have been the major sectors in the infrastructure debt market since 2008, and this trend continued in 2018. Transactions in these

**\$ 125bn
in 2018**

**For the energy
and renewable
energy sectors**

Sources: Ostrum AM, "Infrastructure Journal Database", Dec. 2018

sectors reached their highest point ever, at approximately \$125bn, equating to 45% of the global infrastructure market, largely on the back of Renewables, which reached a peak at around \$82bn, or 30% of the worldwide market.

RENEWABLES: THE NEW WORLD OF SUBSIDY-FREE

In 2018, the continued decrease in costs in the Renewables space led to widespread "grid parity" in the market, paving the way for the development of subsidy-free projects.

At the beginning of the year, Portugal saw its first ever unsubsidized financing of a photo-voltaic farm, followed by Italy and Spain. Later in the year, the first ever unsubsidized onshore wind project was launched in Spain, followed by a similar project in Finland. At the end of the year, the Netherlands launched its second subsidy-free auction for offshore wind.

We anticipate that the fading out of subsidies will significantly and permanently reshape the risk profile of Renewables transactions, bringing merchant risk and corporate purchase agreement risk into the equation.

NEW TERRITORIES: OFFSHORE WIND OUTSIDE EUROPE, BATTERIES IN RENEWABLES, BROADBAND

The offshore wind industry is expanding into new countries both within Europe (an 8GW auction is currently under preparation in Poland) and on other continents (28 projects have been proposed in the USA, 5.5 GW have been allocated in Taiwan despite uncertainties due to tariff flip-flops, and a new offshore wind law is in preparation in Japan).

>70%

**of deals in 2018
were in America
and Europe**

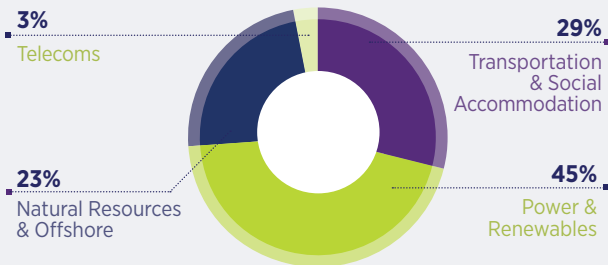
Sources: Ostrum AM, "Infrastructure Journal Database", Dec. 2018

Of note in the Renewables sector is the increase of integrated batteries being included in projects. The batteries mitigate the alternative nature of Renewable power and help to keep the grid balanced. Early 2018 even saw the first ever stand-alone battery transaction. In Telecoms, the new sub-sector of Broadband projects supported overall growth in Europe and USA throughout the year.

BROWNFIELD VS GREENFIELD. AND THE WINNER IS....

Refinancings and Acquisition Financings largely supported the market in 2018 and reached an all-time high volume of \$135bn, accounting for roughly 48% of the year's activity. Brownfield transactions were therefore slightly less dominant across the board than they were in 2017 when they represented 55% of transactions. Renewables and Transport were the main contributors to the Greenfield part of the market this year.

Breakdown by sector 2018



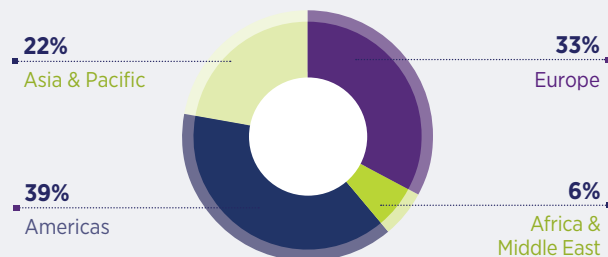
Sources: Ostrum AM, "Infrastructure Journal Database", Dec. 2018

EUROPE AND THE AMERICAS WERE THE MOST ACTIVE REGIONS

Europe and the Americas have always been the two most active geographical areas and this trend was yet again confirmed this year. The Americas were the most active region (market share of 39%) with numerous Refinancing and Acquisition transactions.

As usual, Australia accounted for the bulk of Asia-Pacific activity. However, it is noteworthy that other Asian countries (e.g. Indonesia, Japan and Vietnam) have recently supported the region's market growth in a substantial way.

Regional Breakdown 2018



Sources: Ostrum AM, "Infrastructure Journal Database", Dec. 2018

OUTLOOK FOR 2019

ENERGY TRANSITION TO BOOST RENEWABLES AND RELATED SUB-SECTORS

Following commitments made during the COP meetings and due to the decrease in costs, we anticipate that Renewables will drive a significant portion of market growth in the coming years. It should be noted that transmission line and power storage projects, either combined with renewable farms or on a standalone basis, are likely to develop in the wake of the boom in Renewables.

DOUBT OVER THE LAUNCH OF TRANSPORT AND SOCIAL ACCOMMODATION PROJECTS IN EUROPE AND THE USA

Many Greenfield projects are still waiting for the green light from public authorities struggling with budget cuts. Certain projects should however be expected to reach closing this year in specific sub-sectors (Rail, Road and, to a lesser extent, Social Accommodation) and specific geographical areas (Australia, USA, Canada, Norway, Germany and the Netherlands).

NEW DEVELOPMENTS

Transaction volumes in Broadband and Undersea Cable projects are also expected to increase in the coming years as access to broadband networks, both in urban and rural areas, is on the political agenda in several regions (as evidenced by the 2020 Strategy and Digital Agenda issued by the European authorities).

WHERE CAN INVESTORS FIND VALUE IN PRIVATE INFRASTRUCTURE DEBT?

WHICH GEOGRAPHICAL AREAS SHOULD INVESTORS FAVOR IN THE BROAD UNIVERSE OF INFRASTRUCTURE DEBT?

At Ostrum AM, we believe that value still exists in the European market. Nevertheless, we also know that only investing in this market is restrictive (Europe accounts for 33% of the global market) and that growth and value are likely to be partly found beyond Europe.

That is why our Essential Infra Debt strategy focuses not only on Europe but also widens its exposure to the USA, Canada and Australia on an opportunistic project-by-project basis. This broadened investment universe covers over 70% of the global market i.e. 40% more than if we invested solely in Europe. This coverage gives us access to a wide range of opportunities, which enable us to perform a true selection of transactions.

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It is natural that we wanted to achieve the TEEC label for our “Essential Infra Debt strategy”, which we are proud to have achieved in 2018.

WHICH SECTORS SHOULD INVESTORS FAVOR?

We believe that infrastructure debt has a major role to play in the energy and ecological transition. We apply a long-term strategy and focus on diversified and attractive opportunities. We invest on green and ecological-driven sectors. We favor sectors such as Renewables Energy, Waste and Water Treatment, Energy Efficient Social Accommodation and Green Mobility. We also exclude certain sectors, such as oil, gas, coal and nuclear power.

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We favor sectors such as Renewables Energy, Waste and Water Treatment, and Green Mobility.



FOCUS

THE ENERGY AND ECOLOGICAL TRANSITION FOR CLIMATE LABEL (TEEC LABEL)

It is the first public label for private investments in the green economy. The TEEC label guarantees the transparency and environmental commitment of financial products, thus meeting the expectations of a growing number of investors who are eager to contribute to financing ecological transition

Extract from the website for the Ministry for the Ecological and Inclusive Transition
Find out more: [The energy and ecological transition for the climate label](#)

WHY OBTAIN THE ENERGY AND ECOLOGICAL TRANSITION FOR THE CLIMATE LABEL (TEEC)?

As a committed and responsible company, Ostrum was one of the first asset managers to sign the UN PRI in 2008*. We have also carbon compensated 100% of our direct greenhouse gas emissions since 2016**. It is therefore quite natural that we wanted to achieve the TEEC certification for our Essential Infra Debt strategy, which we are proud to have achieved in late 2018.

*United Nations Principles for Responsible Investment 2018. More details: [unpri.org](#).

**Source Ostrum AM 12/31/2018.

This certification gives our investors a guarantee of transparency and ensures them that the strategy supports the financing of the energy transition. It is also a flag for investors who want to include ESG dimensions in their investment policy and need to assess their real impact.

WHAT RISK APPROACH SHOULD INVESTORS FAVOR TO CAPTURE YIELD?

Ostrum AM has more than 30 years' expertise in active fundamental investment management, paying very close attention to both selecting assets and diversifying underlying risk factors. We rely on an external methodology to analyze transactions and identify assets, while also using

proprietary tools to build portfolios and actively steer risk budgets.

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We are paying very close attention to both selecting assets and diversifying underlying risk factors.

WHAT PORTFOLIO DURATION SHOULD INVESTORS TARGET?

We believe that our investment universe offers attractive opportunities across the entire maturity spectrum (5–25 years). Our diversified strategies combine short-, medium- and long-term transactions and include a possible reinvestment period resulting in portfolios with a long-term average duration (10 years), with exposure to Greenfield Financings, Brownfield Refinancings and Acquisition Financings.



Céline Tercier

Head of Infrastructure Private Debt

Céline has more than 20 years' experience in the financial sector, and more particularly in international infrastructure private debt. In the past, she has worked in credit insurance followed by a ratings agency and then banking. She has been with Ostrum Asset Management since 2016.

Main risks of the Infrastructure strategy

Loss of capital, performance of assets (especially construction risk and merchant revenue risk), illiquidity, risks associated with the deployment of the fund, general counterparty, macro-economic, general taxation, impacts of governmental regulation and legislative changes and risks associated with the deployment of the strategy.

Additional notes

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