

MARKET INSIGHTS



ASIA-PACIFIC INFRASTRUCTURE: BUILDING THE OPPORTUNITY TOP 10 REASONS TO CONSIDER INFRASTRUCTURE DEBT AS A PORTFOLIO DIVERSIFIER

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KEY POINTS

- Governments in Asia-Pacific have strengthened fiscal, regulatory and environmental policies, implying the market is ready to accommodate increased investor flows
- We identify infrastructure debt opportunities in developed and developing Asia-Pacific, and across six themes (conventional power², renewables, transportation, social accommodation, natural resources and communications)
- Ostrum HK aims to propose investment grade portfolios (min. BBB- on average), targeting a 6% yield objective and semi-annual potential distribution³

INTRODUCTION

The unprecedented speed of urbanization in fast-growing Asia-Pacific implies a substantial need for infrastructure. Governments across the region have firmed up their fiscal, regulatory and environment policies, seeking to attract investors. The work has paid off. Interest for the region is increasing as investors are recognizing significantly improved 'ease of doing business' factors.

To accompany investors in this long-term growth story, Ostrum Asset Management, an affiliate of Natixis Investment Managers, has set up a presence in Hong Kong (HK), offering infrastructure investment opportunities to clients within and outside of the region.

By 2025, it is estimated that 60% of global infrastructure spending will flow into the Asia-Pacific region.*

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3. There is no assurance or guarantee that Ostrum HK will achieve these targets

* Bloomberg New Energy Finance: The Future Of Energy, 2016 and PWC, Capital Project and Infrastructure Spending: Outlook to 2025, 2014.

Source: Ostrum Asset Management, August 2019. Representative overview of the investment process, which may differ by product, client mandate or market conditions. This information is non-contractual, purely indicative and may change over time. The analyses and opinions referenced herein represent the subjective views of the author(s) as referenced, are subject to change without prior notice. There can be no assurance that developments will transpire as may be forecasted in material.

SOURCING INVESTMENT OPPORTUNITIES

Infrastructure debt makes up about 70% of each infrastructure transaction and we are positioned in this segment of the market. Ostrum HK is monitoring a pipeline comprised of country and thematic opportunities. Ostrum HK will be looking at PPP (Public Private Partnerships) opportunities that are arranged by governments via a traditional RFP (Request for Proposal) process. Here, the Ostrum HK team may decide to bid for a piece of the project or partner with a group and bid via a consortium. Ostrum HK may also consider opportunities that are sourced via a pool of long established business relationships.

COUNTRY AND PROJECT CONSIDERATIONS

Within Asia-Pacific, Australia and Singapore have attracted large amounts of commitments as the two have long track records in regards to the ‘ease of doing business’ factor. That said, across the region, the narrative has changed as countries improve policies, allowing them to bring in more foreign and domestic capital for infrastructure. Reasonable budgets, debt sustainability and conducive environments for doing business are now on the agendas. There is also recognition that the social and economic benefits of infrastructure are closely related.

“Ostrum HK mitigates country risk by working with developed market sponsors”.

When considering country allocation, Ostrum HK teams divide the opportunity set into two groups: developed and developing Asia-Pacific:

- Developed: Australia, Singapore, HK, Japan, South Korea, Malaysia and Taiwan
- Developing: the Philippines, Indonesia, Thailand, Vietnam and India

Within these two country groups, Ostrum HK investment decisions will vary by structure (brownfield/greenfield) and range from low risk secured senior debt to higher risk mezzanine secured debt. Ostrum HK intends to invest in projects across all economic sectors, ranging from conventional power¹ to renewables, transportation, social accommodation, natural resources and communications.

Ostrum HK aims to propose investment grade quality portfolios (rated at least BBB-) on average and characterized by attractive credit spread levels with a 6% yield objective and potential semi-annual distribution².

ASIA-PACIFIC INFRASTRUCTURE DEBT – OSTRUM HK IDENTIFIES 10 ATTRIBUTES:

1.Low correlation to other asset classes	3.Potential stable bond-like income with relatively low business risks	5.Fixed and/or floating rate exposure	7.Longevity of assets and even longer concession agreements imply good matching potential for long-term liabilities	9.Credit strength comparable to Europe and the United States
2.Underlying assets benefit from high barriers to entry and shielded operating regimes	4.Yield pick-up relative to Government bonds	6.Superior risk adjusted returns relative to Government bonds	8.Lower volatility profile	10.Direct investment, through mandates or by funds (mono or multi-sourcing opportunities)

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STRONG TAILWINDS ARE IN PLACE

According to Preqin (www.preqin.com), a data provider, in 2018, investors allocated a fresh USD85bn to infrastructure funds, up USD10bn from 2017. Levels of dry powder (sums available for investment) also reached record levels in 2018 with USD280bn reported as available for private debt and USD172bn for infrastructure.

The landscape has clearly changed as investors gain comfort from their growing experience with the sector. Investment opportunities have also matured from simply buying loans to more tailored solutions at potentially higher yields. Ostrum HK is well positioned in the market cycle. Demand is increasing along side more serious government planning and more private sector involvement.

At Ostrum HK, we intend to invest broadly across sectors and the Asia-Pacific region. Through its licensed distributors, Ostrum HK is actively discussing with institutional investors on tailored solutions, varying from focusing on market specific PPP projects to cross-market plays on renewables or to investing purely in ESG projects (wind and solar).

Ostrum HK Asia-Pacific Infrastructure Key takeaways:

TARGETING 2 TYPES OF DEBT INVESTMENTS:



PORTFOLIO CHARACTERISTICS:



SOURCING INVESTMENTS?



INVESTMENT OPPORTUNITIES MAPPING

COUNTRY		THEME
Developed Asia-Pacific	Developing Asia-Pacific	Conventional power ²
Australia, Singapore, HK, Japan, South Korea, Malaysia and Taiwan	Philippines, Indonesia, Thailand, Vietnam and India	Renewables
		Transportation
		Social accommodation
		Natural resources
		Communications

TYPE OF STRUCTURE	
GREENFIELD	BROWNFIELD

OSTRUM HK INVESTMENT TEAM HISTORICAL SCORECARD³



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 3. Past performance is not indicative of future performance.

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Summary of risk factors for real assets private debt strategies: loss of capital, performance of assets, no assurance of investment return, 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.

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