FLASH MARKET

Resilient, profitable and impactful:
Why it is the right time to invest in infrastructure debt ?

November 2022

Bérénice Arbona

Head of the Infrastructure Debt team at LBP AM

Private Debt Infrastructure LBP AM

5 investment managers
2 dedicated portfolio managers

The infrastructure debt team has a strong track record of over ten years.

7 funds

More than €2.7bn of commitments raised from institutional investors since 2013.

€ 2.4bn

invested in the asset class since 2013, **more than half of which in low-carbon projects.**

Art.9 *(SFDR)*

Launch in May 2022 of an impact fund **«LBPAM Infrastructure Debt Climate Impact Fund»** classified as article 9 according to SFDR regulations with € 273M of commitments at the first closing.

The infrastructure debt market has demonstrated its strengths since its creation as an institutional asset class ten years ago:

- Stability and long-term visibility of the cash flows generated by essential infrastructure for local authorities, mainly due to their usually contracted and/or regulated nature,
- decorrelation from the volatility of liquid markets,
- low default rates,
- higher recovery rates than other asset classes*.

The asset class has delivered on its promise and offers investors an illiquidity and complexity premium over liquid markets.

Since the beginning of the year the market environment has fundamentally changed. Investors are concerned about soaring inflation, the sudden and massive rise in interest rates, the consequences of the war in Ukraine, the development of an energy crisis and the prospects of recession.

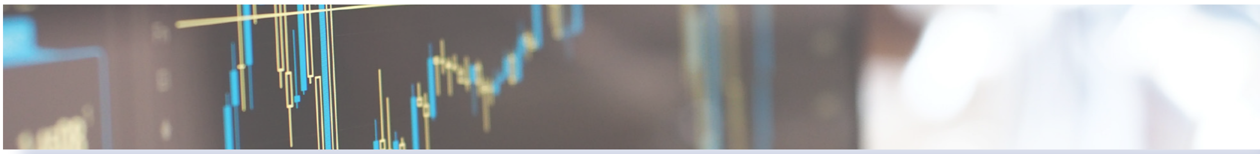
In this context, to what extent can we say this is the right time to invest in infrastructure debt?

*Source : Moody's Infrastructure Default and Recovery Rates

1 A defensive asset class which has demonstrated its resilience

The defensive nature of infrastructure has been recognised by the European Commission, which has granted a decrease in the capital requirements of qualifying infrastructure investments for insurance companies and pension funds subject to Solvency II regulations.

This resilience was highlighted during the Covid-19 crisis in our portfolios and more broadly in the market (see Moody's study: Default and recoveries: Covid-19 one year on - infrastructure proves its resilience, May 2021). In this uncertain economic environment, the resilience of the asset class and the high degree of protection provided by infrastructure debt instruments and associated security packages represent solid advantages for investors looking for defensive and long-term assets.



2 Assets with protection against rising interest rates and inflation

Given the core nature and long lifespan of the assets, this asset class is relatively well protected against inflation risk. **Infrastructure projects business plans usually take into account adaptability to different inflation contexts.** The managers' expertise in analysing mitigants including project contracts with the regulator, the grantor or the subcontractors and are key to ensure this risk is correctly taken into account. **Analyses of the price elasticity of demand and the social acceptance of the indexation mechanisms are also needed.**

Given the long-term investment horizon, amortizing debt assets are usually hedged against interest rate risk thanks to interest rate hedging contracts for variable rate transactions or the implementation of fixed rate financing. The sensitivity of the project to rising interest rates is systematically analysed for projects whose financing is not fully amortised at maturity.

3 Growing investment needs in key areas for communities

The European Commission estimates that, in order to reach its target of a 55% reduction in CO_2 emissions by 2030, they will have to invest on average at least €175 billion per year between 2021 and 2030.

The current energy crisis in Europe has been an electric shock highlighting the urgency to invest in the energy transition and the decarbonisation of the energy mix. Many national and European initiatives have been taken to accelerate this transition. A law aimed at accelerating the implementation of new renewable energy projects is currently being debated in the French Parliament.

The Covid 19 crisis has also accelerated the digital transformation in almost all economic sectors and reinforced the importance of a rapid deployment of high quality digital infrastructures across the territories.

This context of energy and digital transition is favourable to the development of massive and diversified investment opportunities in these transition infrastructures in the near future. With infrastructure debt financing between 60 and 90% of the financing costs of these assets, the transaction pipeline is not about to dry up **for managers with a recognised franchise and track record in the market.**

4 A liquidity environment favourable for institutional investors

Infrastructure debt is a market traditionally driven by bank liquidity. Institutional investors started to invest in this asset class after the 2008 financial crisis, in parallel with a wave of credit disintermediation. The share of institutional investors has been growing ever since, via secondary, intermediated or direct investments.

This trend is expected to increase in the coming years, in line with further tightening of banking regulations for long-term financing. **The current environment is therefore favourable for investors who have developed a solid network of contacts with borrowers, advisors and commercial banks.**

5 A financial performance directly correlated with rising interest rates

Infrastructure debt continues to offer an illiquidity and complexity premium over liquid assets of similar rating and duration. It is also a market in which pricings are built on a «rate + margin» basis, allowing a direct correlation between rising interest rates (Euribor or Mid-swap) and improving yields.

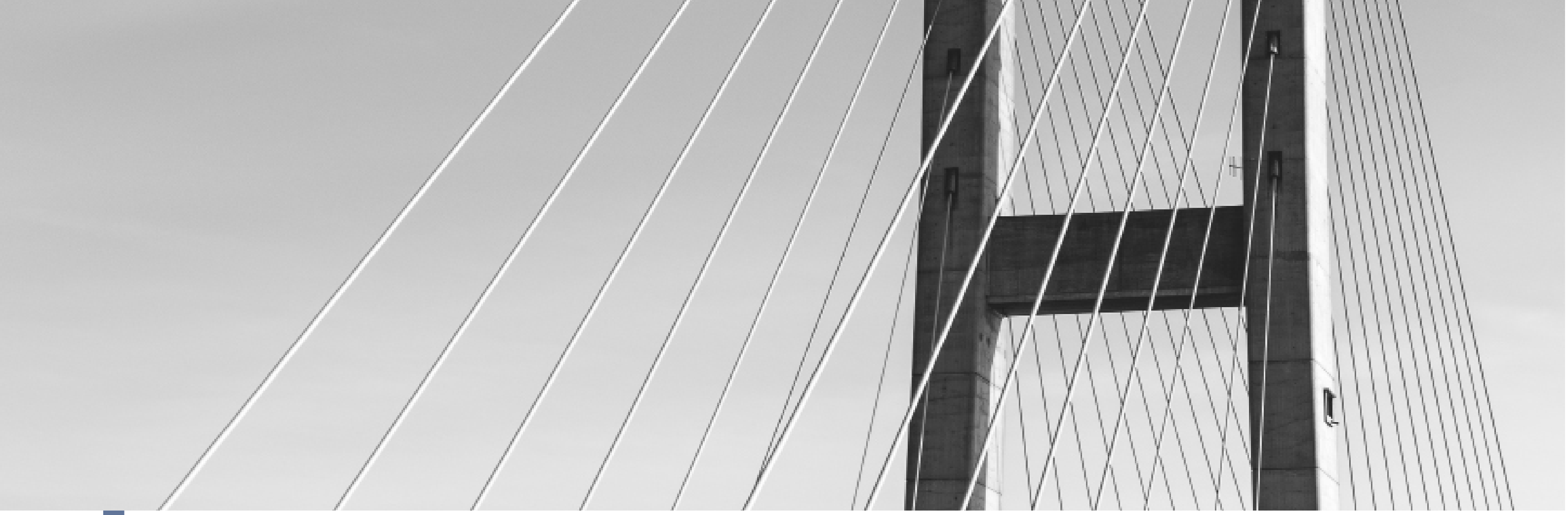
This correlation currently allows the yields of infrastructure debt assets to approach equity infrastructure yields with a coupon of around 5 to 6% for senior secured debt, **while benefiting from a reduced capital charge for investments considered as «qualifying infrastructure» as per the EIOPA's definition.**

On the other hand, as **the infrastructure debt market** is mainly composed of floating rate debt, it **allows investors to invest in products which capture future interest rate increases.**

6 Non-financial performance and impact

The Covid 19 crisis has accelerated the momentum towards responsible and sustainable finance. Investing in infrastructure means participating in long-term investments that are useful for the real economy. The integration of ESG analysis into our investment processes has been enhanced in recent years by the calculation of the carbon footprint of our portfolios on a scope 3 basis, the portfolio alignment with temperature scenarios and the reporting of social and economic KPIs such as job creation and GDP improvement for our Article 8 funds. This expertise has enabled us to launch an **Article 9 climate impact debt fund aimed at reducing CO_2 emissions** through debt investments in **assets infrastructure eligible for Objective 1 of the European Taxonomy.**

Infrastructure debt investments allow to merge the return requirements of investors with the need for investments in resilient assets that have a direct positive impact on society.



Bérénice Arbona
Head of infrastructure debt

- 19 years of international experience in origination, structuring and arrangement of structured finance and projects, at Dexia and industrial sponsors: motorway operator (ASF), constructor (Eiffage), rail transport (Alstom Transports)
- Within LBPAM infrastructure debt team since 2014 and team head since 2020
- Graduated from EM Lyon Business School

New arrivals

Jean-Marie Tassel, investment manager

- 12 years of experience
- Previous professional experiences: project finance at HSBC (Paris), Mitzhuo and MUFG (London)
- Speciality: Energy and infrastructure
- Graduate of ESSCA and a Master in project financing from ENPC & Nanterre

Nicolo Tito, investment manager

- 7 years of experience
- Previous professional experiences: Intesa Sanpaolo Paris (Client Coverage team), London and Milan (Structured finance team)
- Graduate of ESCP Europe Business School and University of Rome Tor Vergata

Aegon Disclaimer

For Professional Investors only and not to be distributed to or relied upon by retail clients.

This is a marketing communication. Please refer to the Prospectus of the [UCITS/ AIF] and to the [KIID/KID] before making any final investment decisions. The relevant documents can be found at aegonam.com. The principal risk of this product is the loss of capital.

All investments contain risk and may lose value. Responsible investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgement exercised, by any company of Aegon Asset Management will reflect the beliefs or values of any one particular investor. Responsible investing norms differ by region. There is no assurance that the responsible investing strategy and techniques employed will be successful. Investors should consult their investment professional prior to making an investment decision.

Opinions and/or example trades/securities represent our understanding of markets both current and historical and are used to promote Aegon Asset Management's investment management capabilities: they are not investment recommendations, research or advice. Sources used are deemed reliable by Aegon Asset Management at the time of writing. Please note that this marketing is not prepared in accordance with legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing by Aegon Asset Management or its employees ahead of its publication.

Data attributed to a third party ("3rd Party Data") is proprietary to that third party and/or other suppliers (the "Data Owner") and is used by Aegon Investment Management B.V. under license. 3rd Party Data: (i) may not be copied or distributed; and (ii) is not warranted to be accurate, complete or timely. None of the Data Owner, Aegon Investment Management B.V. or any other person connected to, or from whom Aegon Investment Management B.V. sources, 3rd Party Data is liable for any losses or liabilities arising from use of 3rd Party Data.

Aegon Asset Management UK plc is authorized and regulated by the Financial Conduct Authority. Aegon Investment Management B.V. is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company. On the basis of its fund management license Aegon Investment Management B.V. is also authorized to provide individual portfolio management and advisory services. Aegon AM NL also operates through branches in Germany and Spain. These branches are regulated by the BaFin (Germany) and CNMV (Spain) based on the home-host state supervision rules.

LBP AM Disclaimer

This analysis has been disseminated for information purposes only and does not constitute a personalised recommendation within the meaning of Article D321-1 of the Monetary and Financial Code, nor does it constitute the provision of research within the meaning of Article 314-21 of the AMF General Regulation, nor does it constitute a financial analysis within the meaning of Article 3, 1°, 35) of EU Regulation No. 596/2014 of 16 April 2014 on market abuse (MAR).

This information is therefore not intended to enable you to take investment decisions on an exceptional basis.

The information, opinions and figures contained in this document are considered to be accurate at the time they are drawn up in the light of the current economic, financial and stock market context and reflect the analysis of La Banque Postale Asset Management at the time this document is published.

This document has no pre-contractual or contractual value and may be subject to change. Thus, given the subjective and indicative nature of these analyses, we draw your attention to the fact that the actual development of economic variables and financial markets could differ significantly from the information provided in this document and that La Banque Postale Asset Management cannot be held liable in any way.

This document is intended solely for the persons to whom it was initially addressed and may not be used for any purpose other than that for which it was designed. It may not be reproduced or transmitted, in whole or in part, without the prior written authorisation of La Banque Postale Asset Management, which may not be held responsible for the use that may be made of the document by a third party.

La Banque Postale Asset Management, SA with a capital of 5,924,098.60 euros, registered with the RCS of Paris under the number 879 553 857 - Registered office: 36, quai Henri IV 75004 Paris - APE Code 6630Z - Intracommunity VAT N°: FR 71 879 553 857

LA BANQUE POSTALE

ASSET MANAGEMENT