PRIVATE DEBT MARKETS:

ASSET OWNERS CAN WORK TOGETHER

Pension funds and other long-term asset owners are developing a greater appetite for private-sector loans. But the benefits of diversification and reliable yield come with the cost of greater analysis, more complex, idiosyncratic legal agreements and less liquidity. To weather these challenges, the best help might come from a like-minded institution.

SCOR Investment Partners, the asset management company of reinsurance group, SCOR, has a unique approach to face the key challenges of private debt markets. The company has developed not only extensive due diligence capacity to understand key drivers and risks underpinning cash flows for a project, but also their national and regional legal character.

IS LOCAL THE BEST WAY?

The private debt markets are rooted in local conditions. France's 'cession Dailly' is a good example. This law covers repossession of receivables and the development contract to secure budget and work timeframes. Understanding it is crucial to evaluate the French real estate debt sector. A 'global' or even European view on the asset class might overlook such national distinctions.

Another example would be the specificities associated with the French Public Private Partnership contract with the Dailly receivables assignment scheme, which contrasts ith the availability-based structure in other European countries. The same comment can be made about country-specific motorways concession contracts, particularly in relation to termination regime, tariff regulation and traffic risk mitigants.

Likewise, for company loans, investors want to know more about a debtor company's ecosystem, including the health of its relationships with suppliers and other creditors.

Even within a country, lenders then have to familiarise themselves with local situations. These can be just as important as national differences.

Such a level of analysis is already expected of high-yield and small-cap equity managers. But in the non-standardised world of European loans, asset owners may not be sure to whom to turn to conduct or scrutinise such analysis. The right partner might be SCOR Investment Partners.

SCOR Investment Partners – loan platform

Leveraged Loans	Infrastructure Loans	Real Estate Loans
EUR 720 million AUM	**EUR 286 million AUM**	**EUR 150 million AUM**

Source: SCOR Investment Partners.
Data as of 31/07/2015, including undrawn commitments.

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The company manages the SCOR portfolio, E17bn assets in total. For this size of capital, many investors would simply outsource management of the loan portfolio. But the asset management company has instead developed a sophisticated in-house capability, building specialised investment teams for leveraged loans, real estate loans and infrastructure loans.

With a focus on local markets where the company has extensive primary market access, SCOR Investment Partners is able to construct portfolios that meet its exacting requirements, in particular in terms of recurring yields and downside risk. SCOR Investment Partners will not endorse strategies that contradict the reinsurer's ethos of preserving capital. Alongside SCOR, similar institutions, including pension funds, partner as co-lenders for current loan portfolios in real estate, commercial and infrastructure. They too want to avoid capital depreciation but receive reliable cashflows. SCOR Investment Partners does not, however, create purely third-party funds. There is always 'skin in the game'.

Fabrice Rossary,
Chief Investment Officer, SCOR Global Investments

"We are the investment division of a very sophisticated asset owner, which happens to be prepared to partner on its specialities with similar institutions".

STRENGTH IN NUMBERS

SCOR Investment Partners already serves numerous pension funds and insurers and is actively seeking new partners. Joining with similar asset-owners allows SCOR Investment Partners to get better access to markets. As an illustration, in infrastructure, where just like any other major asset owner SCOR Investment Partners seeks diversification, partnering with external asset owners allows SCOR Investment Partners to reach the minimum size of E300m that necessitates the construction of a well-balanced portfolio.

This modus operandi presents attractions for all kinds of other asset owners seeking genuine alignment of interest with their providers. SCOR Investment Partners is already closing the gap between supply and demand in alternative fixed income thanks to its proximity to debt syndicators and originators. Having relationships with those parties that get deals off the ground helps immeasurably in securing not only flow but also favourable terms and conditions. For the foreseeable future, SCOR Investment Partners will continue to leverage on strong local relationships with debt syndicators and originators. The company manages seven loan funds and plans three more this year.

SCOR Investment Partners is today big enough to manage fixed income alternatives without becoming a 'supermarket' of investment strategies. Big asset gatherers put little of their own capital at stake.

INVEST IN WHAT YOU REALLY UNDERSTAND

Like other big asset owners, on the other hand, SCOR Investment Partners does not want to lose its money. The investment philosophy is thus driven by two beliefs: strong relationships with deal originators afford us the ability to reject deals that do not meet our clients' needs; and invest in what you really understand.

For example, between 2011 and 2014 we passed on more than 40% of the leveraged loans offered. Therefore, SCOR Investment Partners is well-versed in national and regional differences of private-sector commercial loans. A good example of our savoir-faire regards French retail conglomerate, Vivarte, whose loans we held until May 2013, when we feared a covenant breach. Our view was sage; we exited before the company's troubles really fed through to its financing. Other lenders suffered far more when the debt was restructured a year later.

This local knowledge gives our partners access to less covered market segments, offering better yield opportunities for similar risk. In real estate we decided to set up a fund taking positions on senior lending on value-added transactions, which means we intentionally seek transactions where there is intensive asset management to do, whether it be construction, restructuration of buildings, repositioning of assets - all transactions on which there is a real added value to be done by the asset manager. Actually, in the real estate market the way we work is the following: we both originate and buy from the banks.

CONCLUSION

Twenty years ago, pension funds and insurers in Europe started to include credit in their fixed income portfolios. Today the development is towards loans: a crucial sector for the economy traditionally served by banks. Asset owners have to look for a partner which understands this new type of debt but which also understands their needs in terms of risk and return.

We would be delighted to discuss the nature and content of our loan vehicles with other institutional investors.
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SCOR Investment Partners