



# Birds-Eye View on Private Debt Markets

Q1 2021

This is the inaugural issue of Prime Capital's Bird's-Eye View on Private Debt, an important and growing segment of financial markets for institutional investors. The aim of this quarterly publication is to provide a concise assessment of trends and pricing in markets, which due to their private nature, are necessarily less transparent than public fixed income. We hope this publication will be helpful to investors in Private Debt.

We estimate current spreads based on the wide range of transactions we observe in the course of our business. Due to the heterogeneity of obligors, credit qualities, structural features, security packages, etc. a certain level of abstraction and significant degree of judgement is required to arrive at the estimates, which, as such, reflect a good deal of expert opinion. It is also to reflect this heterogeneity that we report spread ranges rather than point estimates. In addition, we put current spreads in historical perspective, based on our past estimates, as well as provide projections of future spread developments. These projections, enriched by the Portfolio Management team's qualitative assessments, provide the basis for our Tactical Portfolio Allocation, which is reported at the end of the document. The Market Trends section both reports significant events and serves as a basis for the qualitative assessment.

## Pricing

	Current Spread	LTM <sup>1</sup>	NTMe <sup>2</sup>
Senior Infra Debt	200-270bps		
Mezzanine Infra Debt	450-570bps		
Mortgage Debt	100-140bps		
Senior Real Estate Debt	200-250bps		
Whole Loan Real Estate Debt	400-650bps		
Mezzanine Real Estate Debt	600-1,500bps		
Senior Corporate Debt	300-425bps		
Senior Government Risk Related Transport Debt	200-350bps		
Senior Commercial Transport Debt	300-400bps		
Mezzanine Transport Debt	500-600bps		

<sup>1</sup> Last twelve months

<sup>2</sup> Next twelve months expectation

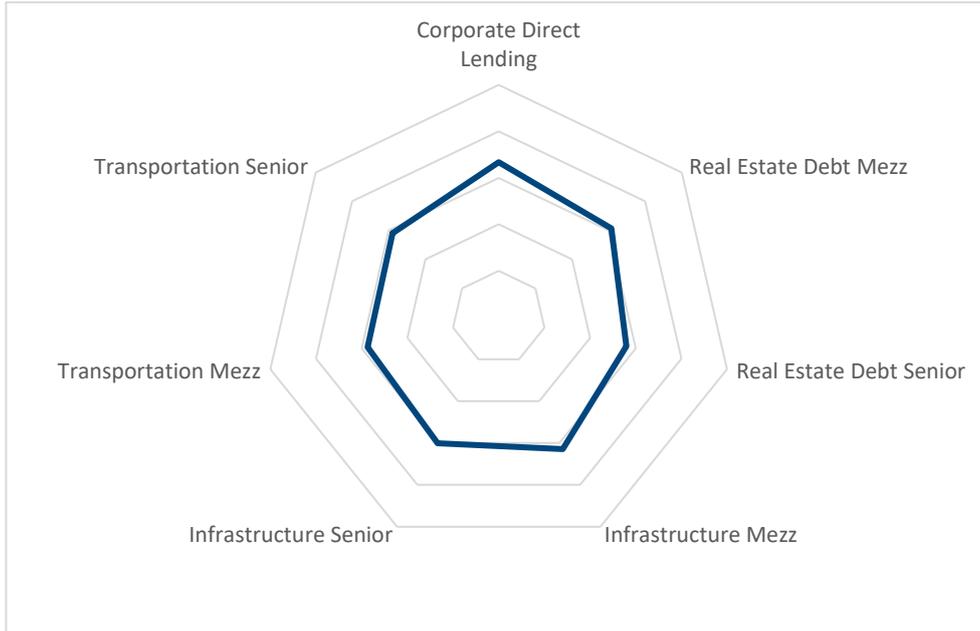
Methodology: The assessment of asset class pricing of the last and next twelve months is represented by the traffic-light system and based on Prime Capitals opinion and ranges from 0 to 5, where 0 indicates a strong decrease and 5 indicates strong increase of spreads. A value of 3 indicates stable market spreads.

## Market Trends

- > Covid 19 had a huge impact on the real estate markets. Due to lock downs in many countries, inner city locations and CBD were virtually empty. This situation had a huge impact on the retail industry which faces a strong decrease in demand for retail and shopping center space since shops, restaurants and shopping centers were closed. Most of the consumer behavior shifted towards the e-commerce segment, which benefits the logistics industry with an increase in demand for logistics space for large logistic hubs but also inner city locations to provide space for last mile delivery concepts.
- > A second observation is that commercial and mortgage banks reduce their real estate lending business activities. Key drivers for this development are an increase on the Risk Weighted Assets on the bank's balance sheets, the focus on existing portfolio management and uncertainty about the future development on asset classes, such as office, retail and hotel. Before this background the banks are active in lending against residential assets and very selective on commercial asset lending, which leads in sum to a lending gap for commercial project developments and investment loans.
- > In the year of COVID-19, brownfield infrastructure showed its strength, which was reflected in a slight increase in brownfield deal value in FY 2020. Especially, established markets in America and Europe have been suffering from COVID-19, however some Asian markets such as China kept deal value at a comparable level to 2019. The Transport sector suffered the largest loss in terms of sub-sector deal value share in 2020.
- > The exceptional performance of the Telecom sector as well as the strong performance of the Renewables sector prove that the macro trends of decarbonisation and digitization more than compensated for the general slowdown in the broad infrastructure market. It is expected that those trends will also shape the broad infrastructure market and other sub-sectors in 2021
- > The decrease in aircraft values in the second half of 2020 was moderate compared to H1 2020 valuations. New technology aircraft continue to show more resilient values compared to older, out-of-production aircraft, where value declines can be in the double digits. Due to improved operating economics, the demand for new technology aircraft is expected to remain stable, with limited price impacts.
- > IATA currently estimates that the global airline industry will turn cash positive in the second half of 2021. The forecast is based on the expected vaccination progress allowing passengers to plan trips with a higher certainty. IATA expects cash burn of the airline industry to gradually decline from around USD 30 bln to USD 0+ bln in Q4 2021. Forward bookings for Q1 2021 remain muted, given continued travel restrictions due to new virus variants. In its optimistic case, IATA expects a +50% year-on-year growth in passenger numbers until December 2021. The downside case is based on the expectations of new virus variants and expects a +13% year-on-year growth.

## Tactical Portfolio Allocation

- > Tactical Portfolio Allocation currently covers seven Private Debt asset classes with specification of seniority.
- > In Q1 2021, the strongest asset classes are Corporate Lending, Real Estate Mezzanine and Infrastructure Mezzanine. Asset Class with lowest scoring is Senior Real Estate.
- > Macroeconomic data show low scoring on all Private Debt asset classes. This is mainly driven by market liquidity data and asset class specific surveys (e.g. Retail survey). Liquid benchmarks show low scorings, too.
- > Whereas macroeconomic data and liquid benchmarks show a low scoring on Real Estate (senior and mezzanine), pipeline and expert opinion see strong growth which could result in increasing demand over time and a great market entry point.
- > Infrastructure Debt scores pretty stable in most sub-categories and can be understood as a basis investment with stable returns and low volatility.
- > Corporate Direct Lending has relatively low macroeconomic scorings but assessments of experts and pipeline are better than the historic average which could be seen as a market where you can find good targets if you are selective.



Tactical Portfolio Allocation Methodology: The asset class specific grades describe the asset class specific investment environment relative to historic observations. Grades range from 0 to 5, where 0 indicates that the current investment environment compares to the worst observed historic outcomes and a value of 5 indicates a historically attractive investment environment. A value of 3 indicates the historic median. The grades are derived from 4 sub-categories: macroeconomic survey data, financial market variables, liquid benchmark proxies and expert opinion. Each sub-category is comprised of several variables. For each variable we define a grade based on the comparison of the current realization to percentiles of the historic distribution. E.g. the PCAG illiquidity premium in January 2021 was 144bps, which is above the 75th percentile of the historic spread distribution and is associated with grade 5. A PCAG illiquidity premium close to the median would imply grade 3. To obtain the grades associated with the 4 sub-categories, we take the average across all individual variable grades associated with the respective category. The final grade is then the average of the 4 sub-categories.

### About Prime Capital's Private Debt Team

Prime Capital's Private Debt Team manages in excess of EUR 2bn across asset classes for institutional investors. The Team invests in Infrastructure Debt, Real Estate Debt, Transport Debt and Corporate Lending. We expect significant further asset growth in these areas, while providing satisfactory risk adjusted returns to our largely institutional investors.

Further information about Prime Capital AG can be found at [www.primecapital-ag.com](http://www.primecapital-ag.com)

#### Contact:



**Stefan Futschik**  
Head of Private Debt

Prime Capital – Investment Management Private Debt  
mailto: [impd@primecapital-ag.com](mailto:impd@primecapital-ag.com)

#### Prime Capital Private Debt Expertise

- > Investment and Portfolio Management, advice and support for direct investments, portfolio strategy and sector allocation
- > Managed accounts and funds with investment expertise in various jurisdictions and markets
- > Unique “multi-channel sourcing” with access to transactions via direct lending, bank and advisor sourcing on the basis of longstanding relationships to market leading sponsors, equity funds and banks
- > Independent Risk Management function to improve sustainable investor yield
- > Investments in Senior and Mezzanine debt, global as well as local investment strategies
- > Specific ESG related strategies

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