PRIME CAPITAL

Birds-Eye View on Private Debt Markets

Q2 2021

Private Debt is an important and growing segment of financial markets for institutional investors. Prime Capital's quarterly Birds-Eye View on Private Debt Markets aims 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 Prime Capital's Private Debt 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[1]	NTMe[2]
Senior Infra Debt	200-270bps	●●●●○	●●●○○
Mezzanine Infra Debt	400-580bps	●●●●○	●●●○○
Mortgage Debt	100-130bps	●●○○○	●●●○○
Senior Real Estate Debt	200-280bps	●●●●○	●●●○○
Whole Loan Real Estate Debt	450-650bps	●●●●○	●●●○○
Mezzanine Real Estate Debt	650-1,500bps	●●●●○	●●●○○
Senior Corporate Debt	300-475bps	●●●●○	●●●○○
Senior Government Risk Related Transport Debt	200-300bps	●●●●○	●●○○○
Senior Commercial Transport Debt	275-400bps	●●●●○	●●○○○
Mezzanine Transport Debt	500-600bps	●●●●○	●●●●○

Figure 1: Pricing of selected Private Debt asset classes
Source: Prime Capital Research

Strong increase in spread level ●●●●●
Strong decrease in spread level ●○○○○

[1] Last twelve months
[2] 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

> In 2020, EUR 80bn were invested in the real estate investment market in Germany which is c. 6% lower compared to 2019, but still a very good result. Commercial real estate accounted for. c. EUR 60bn and residential real estate accounted for c. EUR 20bn. Two major topics are expected to have medium to high impact on the German investment market: A) The residential rental levels and acquisition prices will remain a focus topic for political discussions since 2021 is an election year for the German government. B) The European taxonomy comes into force and has to be applied with a special focus on sustainable investments, which also impacts investor's decision making processes.

> The financial supervisory authority Bafin has announced a new regulation of determination of the Mortgage Lending Value. The points at which Bafin will intervene are not known as per today. Mortgage banks have a strong wish to ease the rigid requirements for capitalization rates in particular, which are way above current market levels. Another example is the logistics segment, in which historical and outdated cap rates are still applied. This effect leads to a large gap between market and mortgage lending values, sometimes the gap can be as large as 50%. As a result, banks refinance smaller shares of their loans via Pfandbriefe and are required to refinance increasingly via uncovered bonds, which is more expensive. It is expected that the new regulations will be issued by BaFin until summer this year and we are curious which mechanisms are then adjusted. In case of being implemented, the supply of capital in Pfandbrief-like senior loans will increase and margins will tend to decrease.

> Again, brownfield infrastructure has performed strongly. In 2020 we have seen a slight increase in brownfield deal value. Even though the market has seen some decline in Q1 2021, the overall decarbonisation will mainly push Power generation and Utilities towards a strong year.

> Activity in the transport sector remained on the same low level (13% market share) compared to 2020 whereas the telecom sector – a beneficiary of the pandemic – showed first signs of cooling off (YoY: -11%) throughout Q1 2021. All of this may point to a rather gloomy start into to the year, however several large-scale deals have already been agreed in Q1, which are still subject to close.

> The aviation market remains active in both debt and equity, with investors benefitting from dislocations and banks being cautious in the sector. More advanced structures remain challenging for banks, and alternative lenders move in to fill the gap. With air traffic recovering, deal volume is expected to increase further throughout the year.

> During the first quarter of 2021, the recovery in the airline sector remained slow. Passenger traffic slightly improved, but remained significantly below pre-COVID levels. This improvement is largely due to a rebound in domestic travel stemming from China, where COVID-19 restrictions have been widely lifted in late February. This is consistent with IATAs observation, that a global pickup in bookings for domestic travel is recorded (QoQ: +30%). Nevertheless, the international equivalent remains stable at low levels. The rise in domestic bookings already indicates the strong pent-up demand in travel, but uncertainty and current restrictions hinder a further recovery into the summer. Once roadmaps for easing COVID-19 restrictions are set and proper policies are implemented, we expect to see a similar rise in international bookings. Following a recent news that the UK set out a way out of the lockdown restrictions, bookings from UK to Greece and Spain for the summer period more than tripled.

Tactical Portfolio Allocation

> Our Tactical Portfolio Allocation model currently covers seven Private Debt asset classes across different seniorities.

> Compared to Q2 2021, in Q1 2021 the signals on the liquid benchmarks and the expert opinion were slightly more positive on average, but the assessment of the pipeline improved in Q2.

> In Q2 2021, the strongest asset classes are Corporate Lending, Real Estate Mezzanine and Infrastructure Mezzanine. The asset Class with the lowest score is the Transportation Senior.

> Macroeconomic data show low scoring on all Private Debt asset classes. This is mainly driven by market liquidity data and asset class specific expert surveys (i.e. Lending survey). Liquid benchmarks show low scorings, too.

> The overall score for both Real Estate asset classes decreased due to deteriorating signals from the liquid benchmarks, the pipeline and expert opinions. In General, macroeconomic data and liquid benchmarks show a low scoring on Real Estate (senior and mezzanine), Financial Markets data and expert opinion see strong growth which shows further improving asset class sentiment which could result in increasing demand over time and a strong 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. Both, senior and mezzanine debt show strong performance. In more detail, Infrastructure Senior has improved, driven by better signals from liquid benchmarks in particular due to an improvement of credit risk signals.

> Corporate Direct Lending has relatively low macroeconomic scorings but assessments of experts are above the historic average, which could indicate a market where you can find good targets if you are selective.

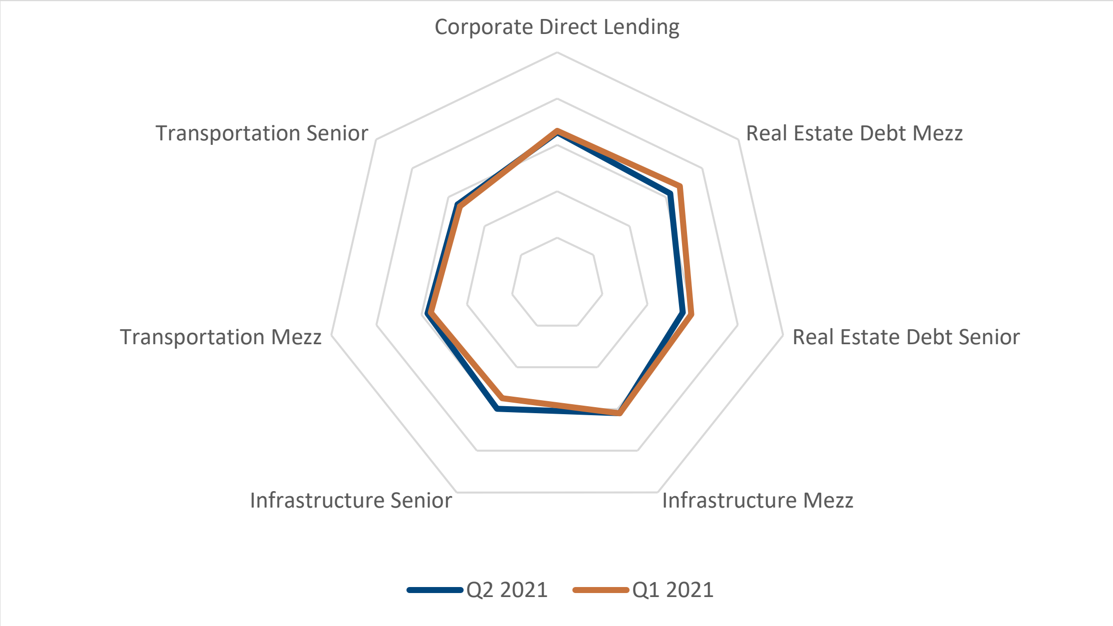

Figure 2: Assessment of selected Private Debt asset classes
Source: Prime Capital Research

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 April 2021 was 140bps, 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.

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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

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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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