Infra debt funds: small but growing

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Even though the *IJInvestor* database shows that only 20% of total funds in raising mode are geared towards debt rather than equity deals, investor appetite for the asset class seems to be slowly picking up in Europe – with managers either setting up debt strategies from scratch or launching next generation vehicles.

As recently as this week (21 March), established real estate investor Generali announced the launch of a previously speculated infrastructure debt fund – Generali Global Infrastructure. The vehicle, which marks Generali's debut into the infrastructure fund world, will invest in both senior and mezzanine debt.

Then there is UBS Asset Management (UBS AM), who in the beginning of the week announced the official launch of fundraising for its second generation infrastructure debt fund – Archmore Infrastructure Debt Platform II (Archmore IDP II) – with €448.4 million ($550.2 million) in seed capital.

The capital came exclusively from nine existing investors in the fund's predecessor – Archmore Infrastructure Debt Platform I (Archmore IDP I) – who are clearly happy with the manager's investment strategy, and keen to maintain or even increase their exposure to infrastructure debt.

Sources have previously told *IJInvestor* that UBS AM has indeed been doing very well among peers, returning above 300bp. Its debt range covers senior secured, investment grade debt deals in Europe – across a wide spectrum of sectors, including transport, utilities, energy and social infrastructure.

Archmore IDP I is now 94% deployed across 11 assets, with deals such as French energy business Exeltium, Belgian social infrastructure provider Senior Assist and Alkion Terminals France.

Investor appetite for infra debt

While UBS AM has been investing in European senior debt deals through a pooled vehicle for the past couple of years – Archmore IDP I's vintage year is 2016 – other managers have launched similar products in this space only recently.

AXA Investment Management and BNP Paribas Asset Management – to name just two – have previously been active in direct infrastructure lending through separately managed accounts (SMAs), but set up their first infrastructure funds – and in the latter's case, also a brand new infrastructure debt unit – just last year.

While AXA IM has been quietly raising its AXA Infrastructure Finance SCS-SIF - European Infra Senior 1 from its launch in October 2017 to final close one year later at €1.1 billion capital, BNP Paribas' debt fund endeavour is more recent.

Following Karen Azoulay's appointment as head of infrastructure debt within the firm's newly-created private debt and real assets investment group, BNP Paribas AM bulked out the team through the hires of Vincent Guillaume from Societe Generale, and Pauline Fiastre from Credit Agricole.

The fund – BNP Paribas Europe Infra Debt Fund – launched in September last year (2017), hit a €200-250 million first close in December and is understood to be on track for a post summer final close at the €750 million target.

Senior fund manager Pauline Fiastre, told *IJInvestor*: "Some investors are willing to keep or increase their exposure to infrastructure debt as they seek to diversify and increase returns from their traditional fixed income allocation. We aim at providing that diversification by investing in investment grade – BBB on average – senior secured deals with the best relative value and enjoying an equivalent investment grade credit profile."

Another source in the debt fund space previously told *IJInvestor* that debt made up about 20% of each transaction taking place in Europe.

In their opinion, it is inevitable that funds will have an increasingly prominent role to play, offering longer contracts compared with banks, which have traditionally dominated the lending space in Europe.

The mezz debt option

Senior debt is not the only type of debt investors are hungry for in such a low fixed income yield environment. Over the past year, subordinated debt – or mezzanine debt – funds have sprung up in the European lending space.

And this trend is expected to grow through 2018.

As Generali's maiden fund shows, managers setting up funds from scratch in Europe are starting to look at the higher-yielding, higher-risk bearing mezzanine debt.

Here too, some managers have been operating for quite some time – AMP Capital, albeit with a global remit – but some have only just made an entrance, like Brookfield and Schroders.

Quite popular in the US – where Brookfield, for instance, closed its maiden fund at $885 million – mezzanine debt funds have started emerging in Europe too. Brookfield itself is in the market with the European equivalent of the US mezzanine strategy, targeting around €300 million according to sources.

Senior vice president Hadley Peer Marshall, who heads Brookfield’s Americas’ infrastructure debt platform, previously told *IJInvestor* that the decision to launch a mezzanine debt fund was mainly driven by banks’ new capital requirements following regulation like Basel III that limit leverage.

“Mezzanine debt has become a more established financing tool to help sponsors meet financing objectives and we believe we can add value in this space,” she explained at the time.

Another manager to set up shop fairly recently to target infrastructure debt is Schroders. Launched at the end of 2015, the debt team invested in senior debt only via SMAs at first and most recently launched pooled vehicles in both senior – Schroders Loan Infrastructure Senior Europe and Schroders UK Infrastructure Debt Fund – and mezzanine debt – Schroders European Infrastructure Debt Fund.

Whether these managers – new and old – will be able to raise and invest the amount of capital they set out to remains to be seen. However, their continued and increased presence in the European lending landscape attests to an increasing investor appetite in the asset class as yields on government bonds seem set to remain low for at least a little longer.