

# **La diversificazione dei portafogli obbligazionari previdenziali: il ruolo del Private Debt**

Vanni Mario Zanchi | VP, Private Debt, BlueBay Asset Management LLP

Conferenza MEFOP

Roma, 4 June 2019

# Contents

INTRODUCTION TO BLUEBAY

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BUSINESS UPDATE & MARKET OVERVIEW

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BLUEBAY'S PRIVATE DEBT PLATFORM AND EXPERTISE

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# Overview of BlueBay

Leading European Fixed Income manager

- 417 partners and employees worldwide
- Manages over US\$60 billion for institutional investors, distributors and wealth managers
- Owned by Royal Bank of Canada – a leading global bank
- BlueBay has full investment autonomy
- Private Debt business is a separate and distinct business within BlueBay

## ASSETS UNDER MANAGEMENT ('AUM') (US\$M)

Investment Grade	33,617
Emerging Market	9,935
Leveraged Finance <sup>1</sup>	11,354
Multi-strategy	5,558
Convertibles	1,718
<b>Total AuM</b>	<b>62,182</b>
<i>Total Private Debt commitments (EURm)</i>	<i>12,741</i>

## OFFICE LOCATIONS



Note: BlueBay Asset Management, as at 31 March 2019; number of employees as of March 2019; Private Debt commitments as of May 2019 and refers to investable capital assuming 1:1 leverage is put in place for the levered vehicles; AuM is exclusive of non-fee earning assets. <sup>1</sup> Leveraged Finance consists of High Yield, Leveraged Loans, Special Situations and Private Debt (drawn capital). <sup>2</sup> BlueBay's distribution affiliate Phillips, Hager & North Investment Management (PH&N) is the operating division of RBC Global Asset Management.

# BlueBay's Private Debt Platform

BlueBay has a market-leading European Private Debt business

- Leading European player in Private Debt, with approximately €13 billion of AuM across four fund platforms
- Approximately €7.2 billion committed across 110 transactions to date
- Completed deals with more than 40 different private equity sponsors across 12 geographies
- Experienced team of 20 investment professionals with 11 years' average experience
- 0.0% loss ratio across all funds to date

## BLUEBAY'S PRIVATE DEBT FUNDS

	DIRECT LENDING FUND I	DIRECT LENDING FUND II	SENIOR LOAN FUND	DIRECT LENDING FUND III
<b>Fund vintage<sup>1</sup></b>	2011–2013	2014–2015	2016–2017	2017–2018
<b>AuM<sup>2</sup></b>	€955m (Unlevered)	€2.8bn (Unlevered)	€3.3bn <sup>2,3</sup> (Levered and unlevered)	€6.0bn <sup>2,3</sup> (Levered and unlevered)
<b>Geographical focus</b>	Northern Europe	Europe	Europe	Europe
<b>Strategy focus</b>	Mid-market	Mid-market	Upper / Mid-market	Upper / Mid-market
<b>Size of borrower</b>	Up to €500m	Up to €1bn	Up to €2bn	Up to €2bn
<b>Loan focus</b>	Senior, unitranche, subordinated	Senior, unitranche, subordinated	Senior only	Senior, unitranche, subordinated
<b>Status</b>	Fully invested 21 investments, 1 unrealised	Fully invested 28 investments	Investing 23 investments	Investing 10 investments

Notes: **1** Fund vintage refers to year from first to final or expected final close; **2** Includes parallel, non-parallel vehicles and SMAs; **3** Investable capital, assuming 1:1 leverage is put in place for the levered vehicles.

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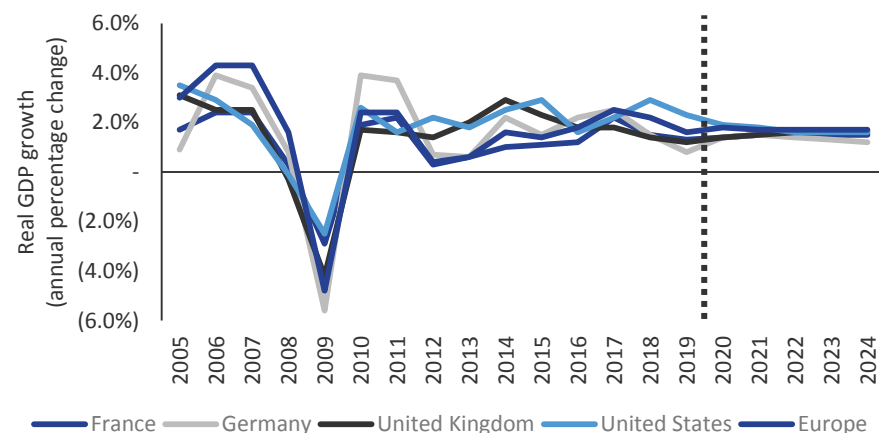
BLUEBAY'S PRIVATE DEBT PLATFORM AND EXPERTISE

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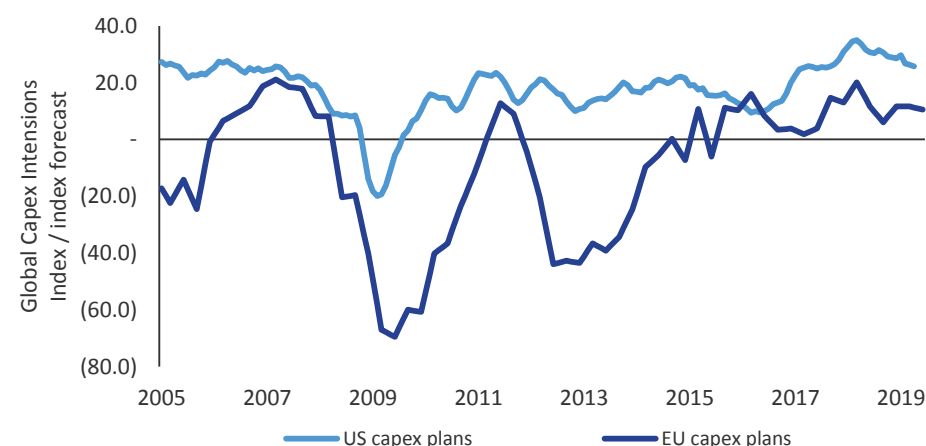
# Extended credit cycle background

EU transitioning from credit-friendly 'recovery' phase to expansionary phase

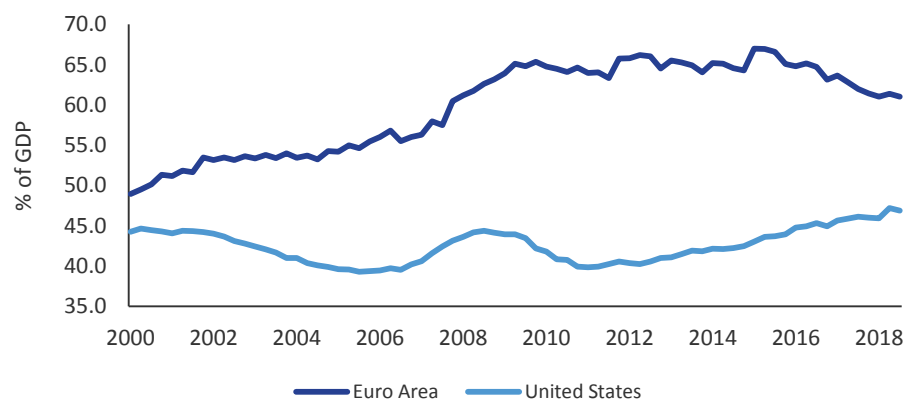
## STABLE GDP GROWTH EXPECTED TO CONTINUE <sup>1</sup>



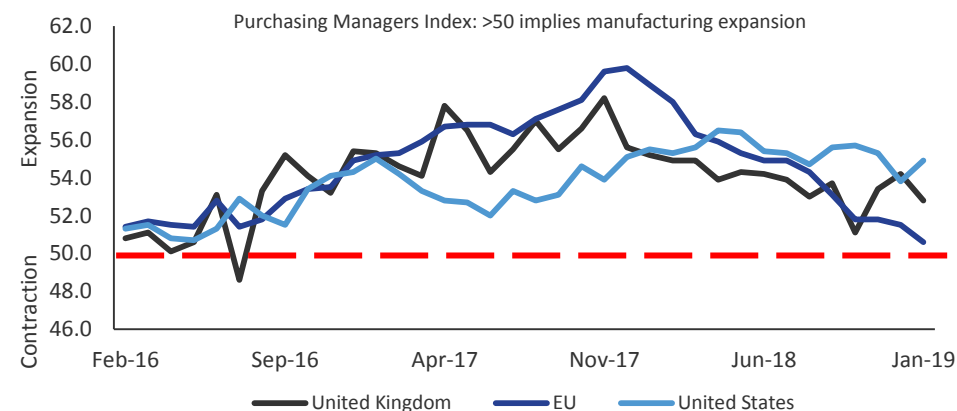
## COMPANIES PLANNING TO INVEST MORE <sup>2</sup>



## EUROZONE CORPORATE LEVERAGE IS FALLING AND RISING IN US<sup>3</sup>



## ECONOMIC ACTIVITY RUNNING ABOVE TREND<sup>4</sup>

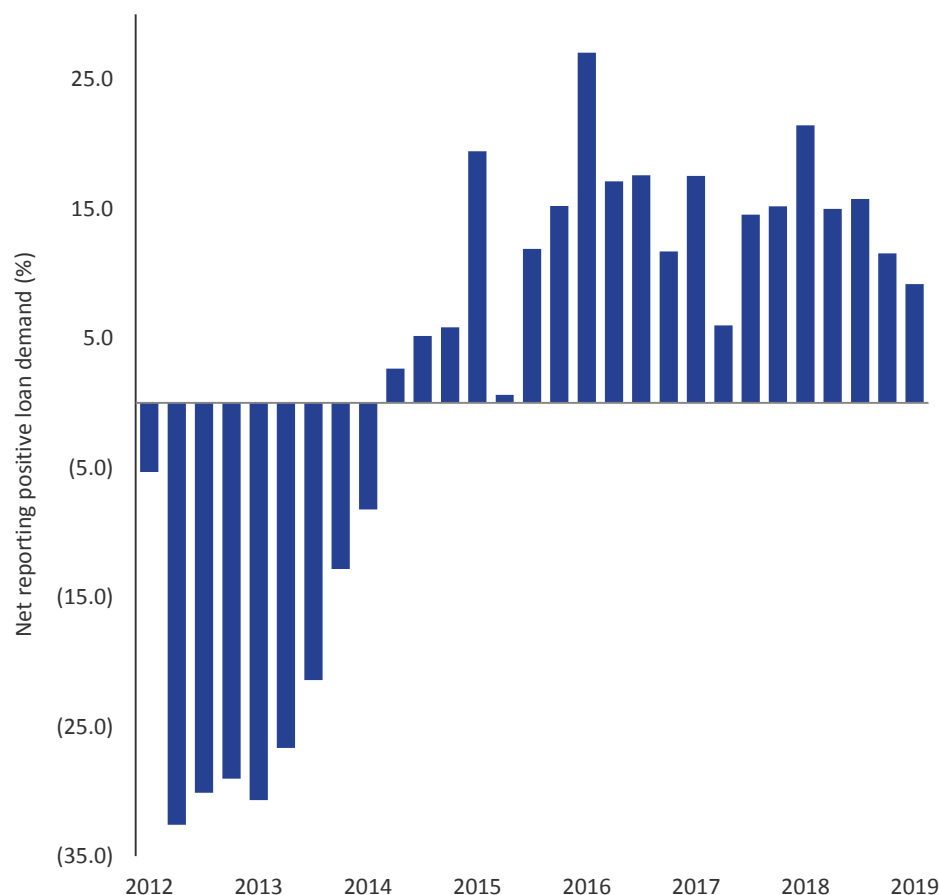


Sources: <sup>1</sup> Real GDP growth, forecasts based on IMF: Source: IMF. <sup>2</sup> Source: MacroBond. <sup>3</sup> Eurozone & US non-financial corporate debt expressed as percent of GDP, Source: Bank of France; Macrobond; latest quarterly data for Q3 2018. <sup>4</sup> Purchasing Managers Index, Source: Markit.

# European bank disintermediation

Despite demand for credit being positive, bank credit remains constrained by regulation

## EUROZONE CORPORATE DEMAND FOR CREDIT REMAINS HEALTHY <sup>1</sup>



## REDUCTION IN BANK LENDING TO CORPORATES, WITH BANK CREDIT GROWTH AT LESS THAN 2% <sup>2</sup>



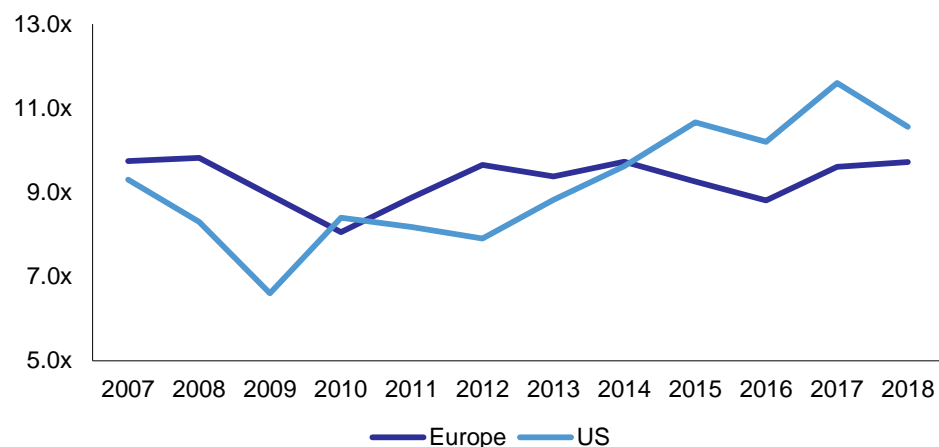
**BlueBay considers that alternative lenders are therefore necessary to provide credit to the corporate sector to fulfil investment needs**

Sources: <sup>1</sup> ECB Quarterly Bank Lending Survey; Macrobond; latest data for Q1 2019. <sup>2</sup> Euro Area, ECB, Consolidated Balance Sheet, Monetary & Financial Institutions (MFIs), Assets, All Maturities, Currency Denominator: All Currencies Combined, Counterpart Area: Euro Area (Changing Composition), Outstanding Amounts at the End of the Period, Calendar Adjusted, SA, EUR.

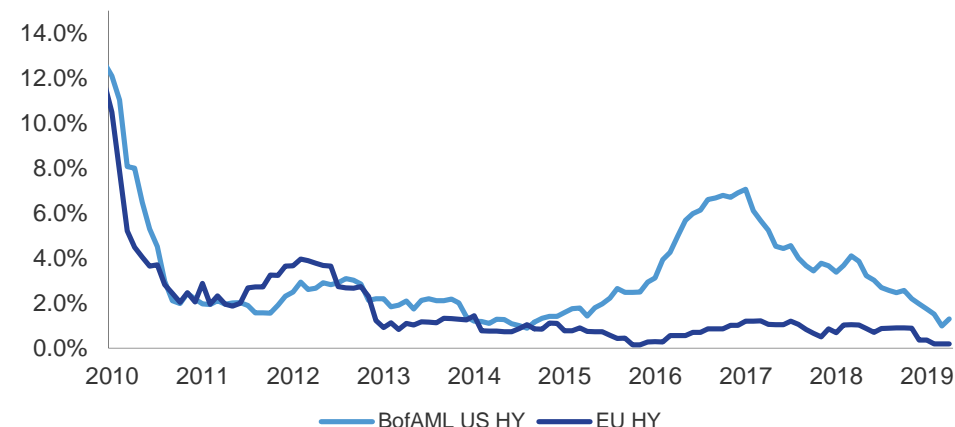
# The EU leveraged finance markets have grown in this period...

Rising purchase price multiples and increased leverage multiples increase new issue volume

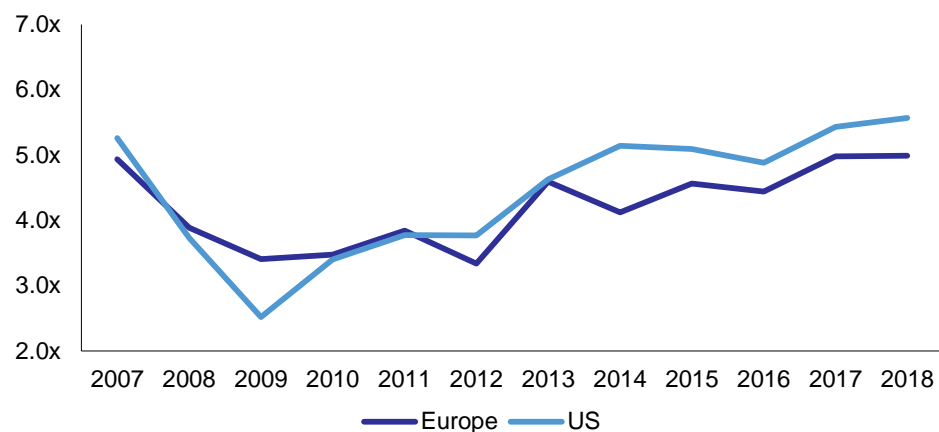
## PURCHASE PRICE MULTIPLE <sup>1</sup>



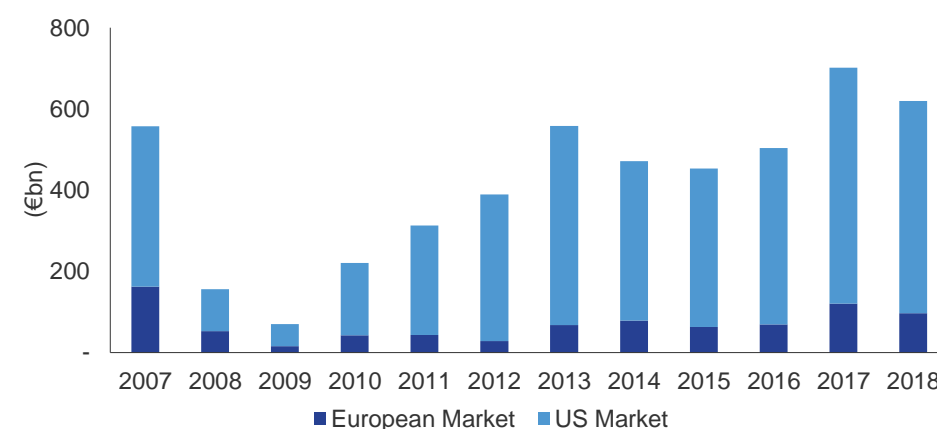
## CORPORATE DEFAULT RATES REMAIN SUBDUED <sup>2</sup>



## BUYOUT LEVERAGE (SENIOR DEBT/EBITDA) <sup>3</sup>



## INCREASING SENIOR NEW ISSUE LOAN VOLUME <sup>4</sup>

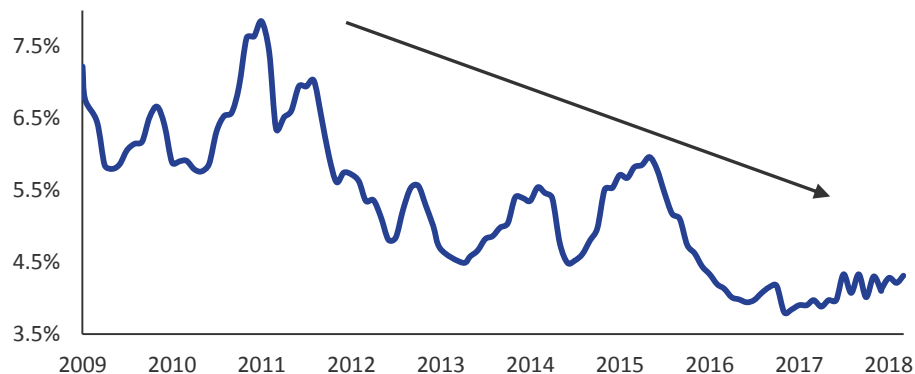


Sources: **1** Average Purchase Price Multiple of pro forma trailing EBITDA; EBITDA of less than €/ \$ 50 million, EUR Global Leverage Lending Report, 2019 Q1. **2** BofAML High Yield Default Rates, May-19. **3** LBO average pro forma credit statistics: Senior debt/EBITDA; EBITDA of less than €/ \$ 50 million, EUR Global Leverage Lending Report, 2019 Q1. **4** Senior Loan Volume, EUR Global Leverage Lending Report, 2019 Q1.

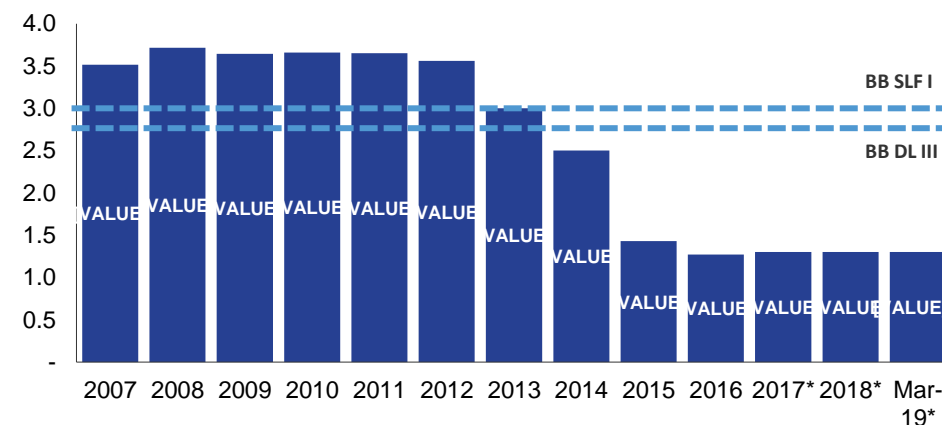


# ...leveraged loan markets suffer from falling yields and weakening lender protection

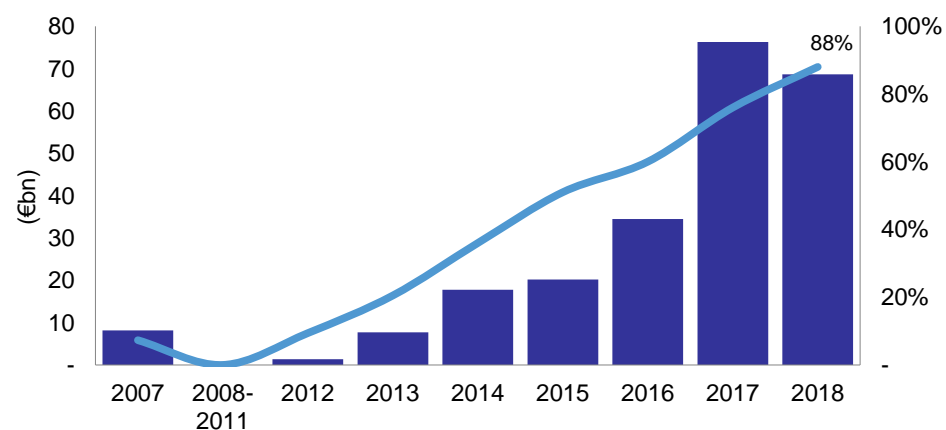
## YIELD COMPRESSION HAS OCCURRED <sup>1</sup>



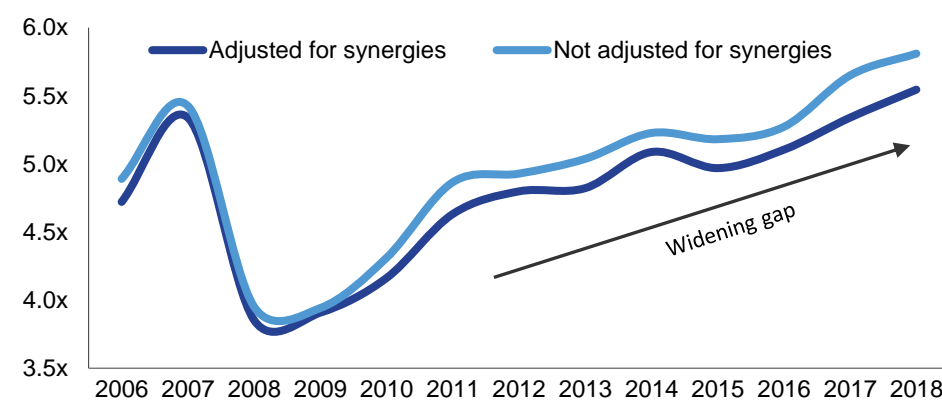
## DEALS WHICH DO HAVE COVENANTS HAVE EXPERIENCED A DECLINE IN AVERAGE NUMBER OF COVENANTS <sup>2</sup>



## INCREASING COV-LITE VOLUMES AND INCREASING SHARE <sup>3</sup>



## WITH SYNERGIES AND ADD BACKS MASKING LEVERAGE LEVELS <sup>4</sup>

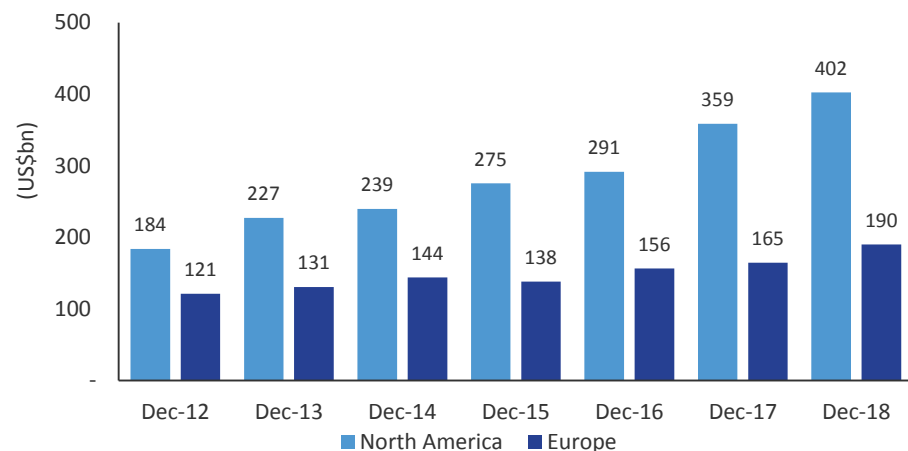


Sources: **1** Average Yield to Maturity for TLB, LCD's Quarterly European Leveraged Lending Review: 2019 Q1. **2** Average Number of Covenants per Transaction, BlueBay internal data, LCD's Quarterly European Leveraged Lending Review: 2019 Q1. (\*) indicates data is on a rolling 18 months basis. **3** Cov-Lite Institutional Volume (LHS), % of institutional debt that is cov lite (RHS), LCD's Quarterly European Leveraged Lending Review: 2019 Q1. **4** Pro forma debt / EBITDA ratio of M&A-related loans, based on issuers with EBITDA of \$50m or greater, LCD.

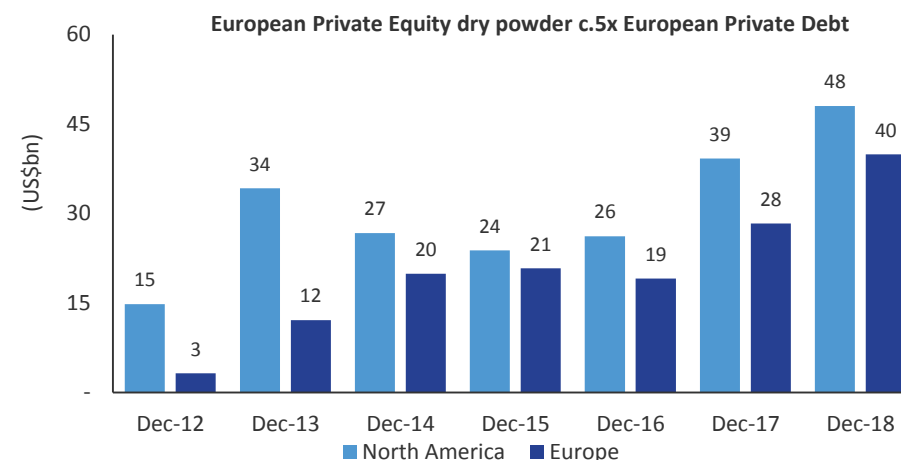
# Supply / demand imbalances has benefited private debt lenders

M&A activity has led to increased demand for alternative lenders

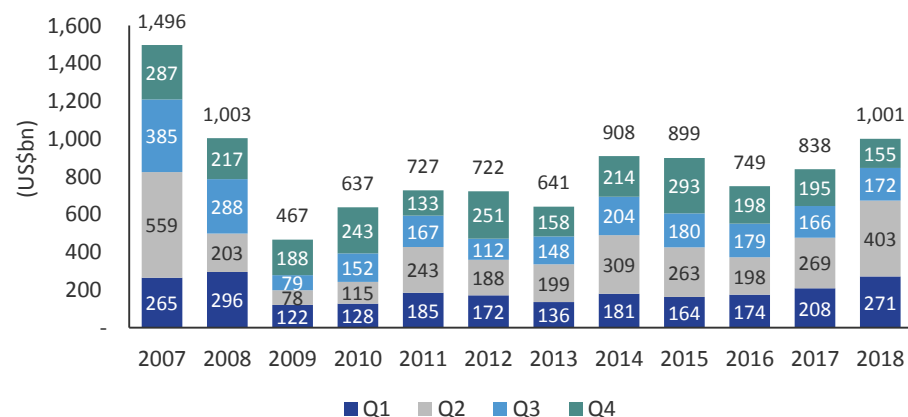
PRIVATE EQUITY DRY POWDER <sup>1</sup>



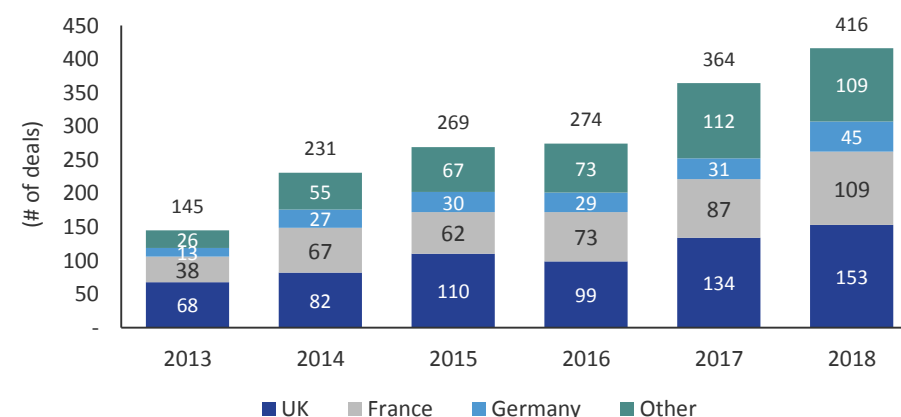
PRIVATE DEBT DRY POWDER <sup>2</sup>



GRADUAL GROWTH IN M&A VOLUMES IN EUROPE <sup>3</sup>



DEALS BY ALTERNATIVE LENDERS ARE INCREASING <sup>4</sup>

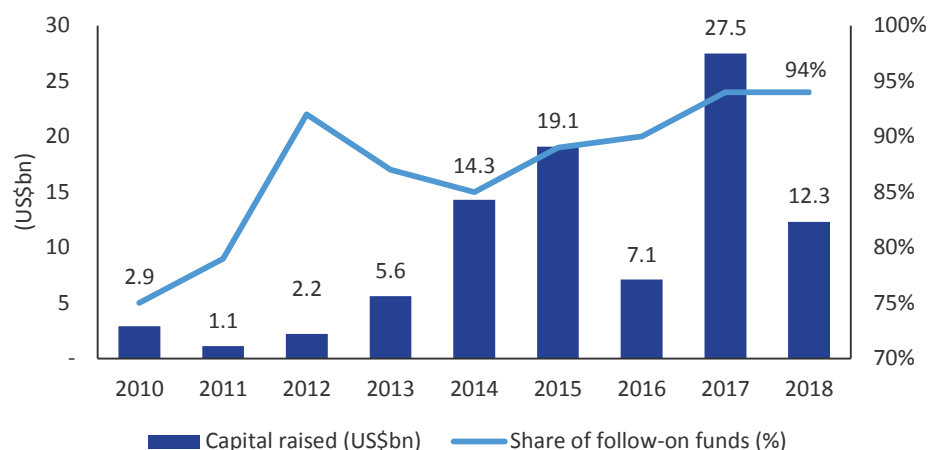


Sources: <sup>1</sup> Data request, Preqin, as at May 2019. Note: private equity dry powder for buyout strategy only. <sup>2</sup> Private Debt Dry Powder (Senior and Unitrache Direct Lending only), Preqin. <sup>3</sup> Global and regional M&A: Q1 2019, Mergermarket. <sup>4</sup> Deloitte Alternative Lender Deal Tracker, Q1 2019.

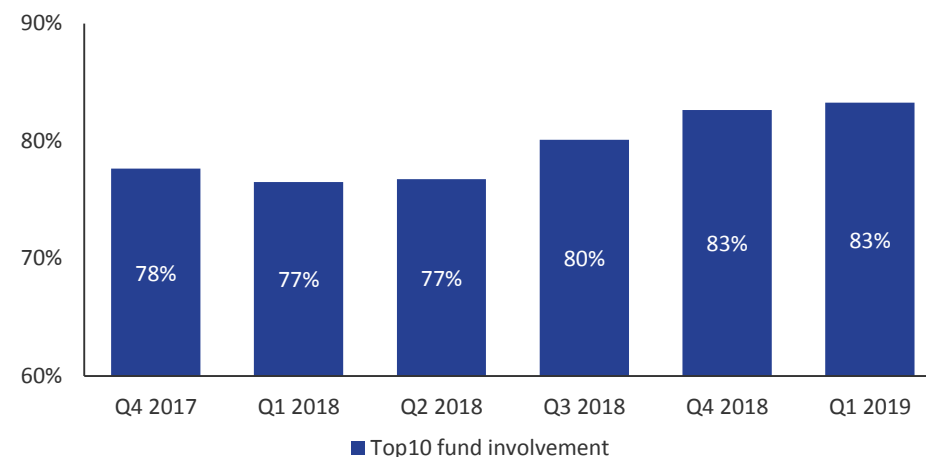
# Private Debt gaining market share, but large managers dominate

Fund raising and capital deployment is concentrated on a small number of large players

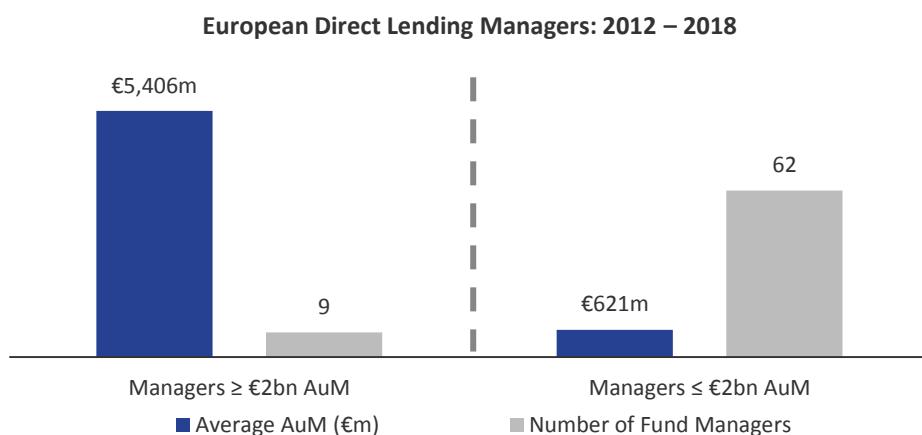
## CAPITAL FLOWS TO EXISTING PRIVATE DEBT FUNDS <sup>1</sup>



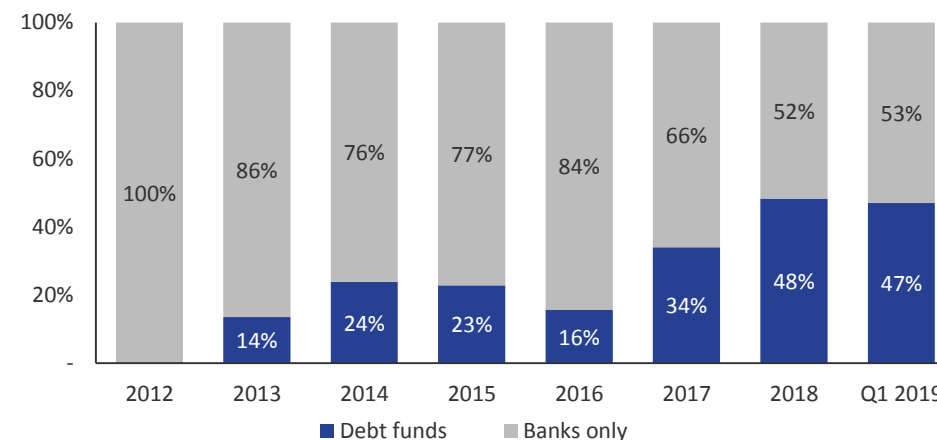
## LEADING DEBT MANAGERS DOMINATE EUROPEAN DEPLOYMENT <sup>2</sup>



## REDUCED COMPETITION AT LARGER END OF MARKET <sup>3</sup>



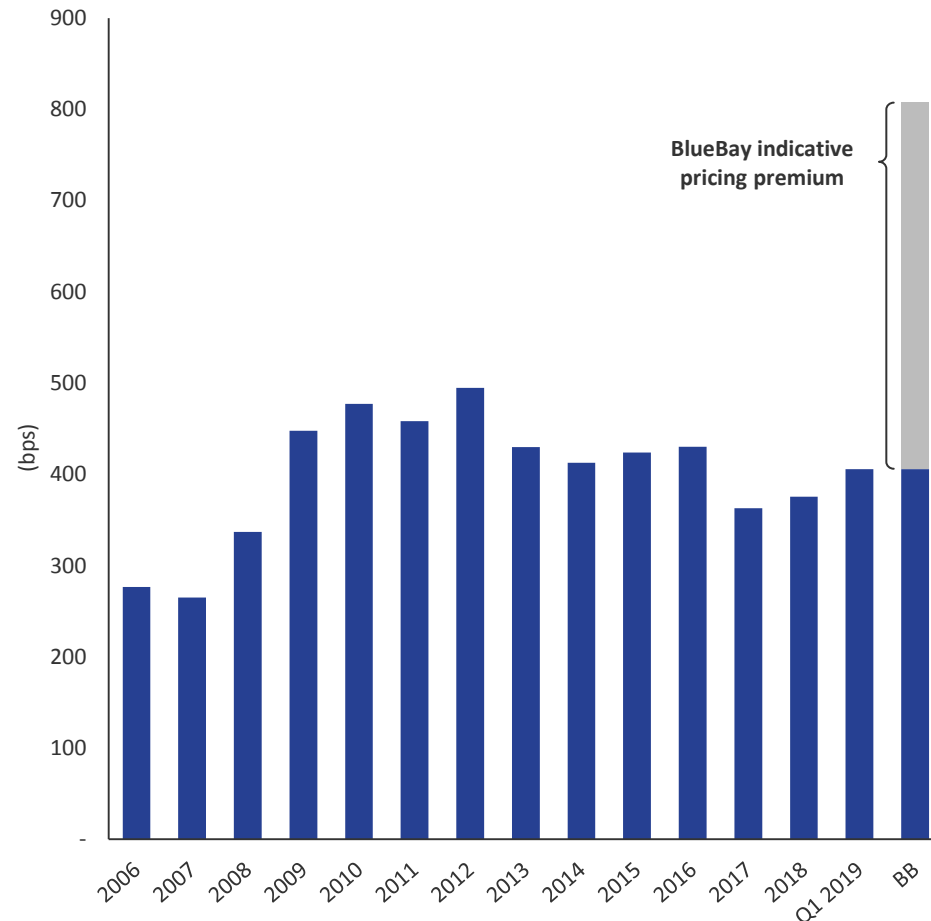
## INDICATIVE MARKET SHARE OF PRIVATE DEBT IN THE MID-MARKET <sup>4</sup>



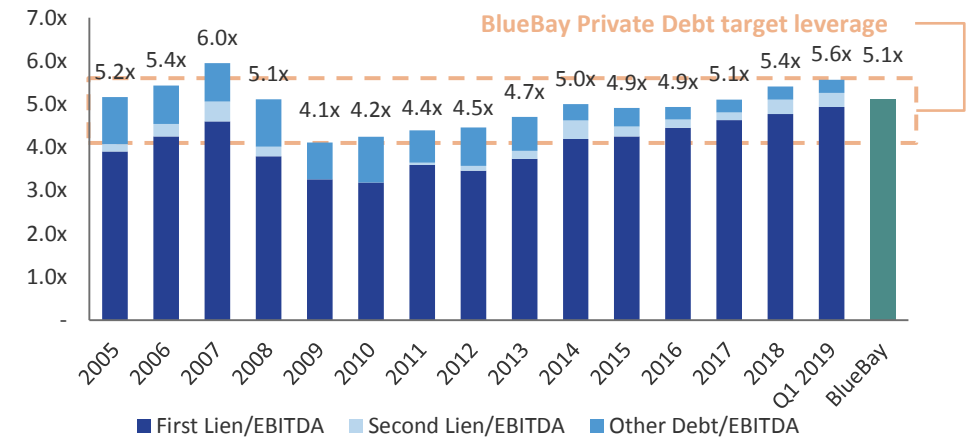
Sources: <sup>1</sup> First-Time Fundraising in Private Debt, Preqin (February 2019). <sup>2</sup> Based on LTM deal count of Top 10 funds as share of total reported deal count, Top 10 fund defined by LTM number of deals, GCA Altium Deal Tracker. <sup>3</sup> Preqin December 2018, BlueBay internal calculations. <sup>4</sup> Illustrative, based on GCA Altium Mid-Market Deal Tracker (Germany only, by number of deals).

# Private Debt achieving pricing premium to liquid debt markets and enhanced downside protection

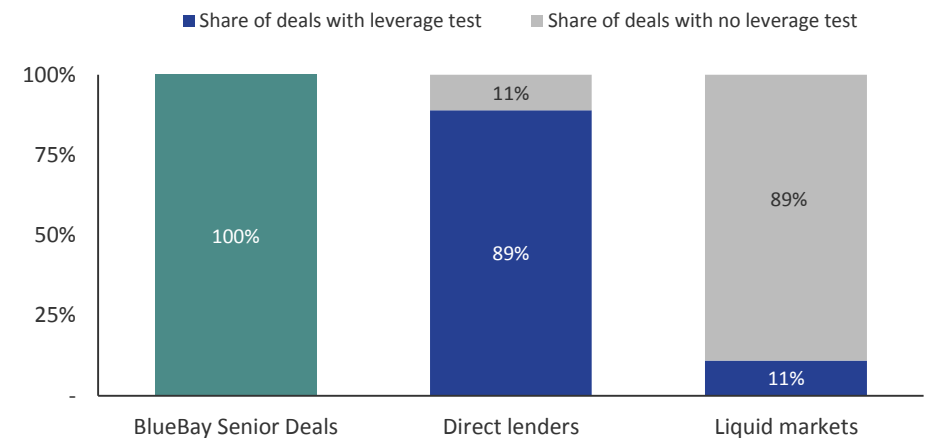
## PREMIUM MARGIN AND FEES OVER LEVERAGED LOAN MARKET <sup>1</sup>...



## ... AT COMPARABLE OR LOWER LEVERAGE LEVELS <sup>2</sup>...



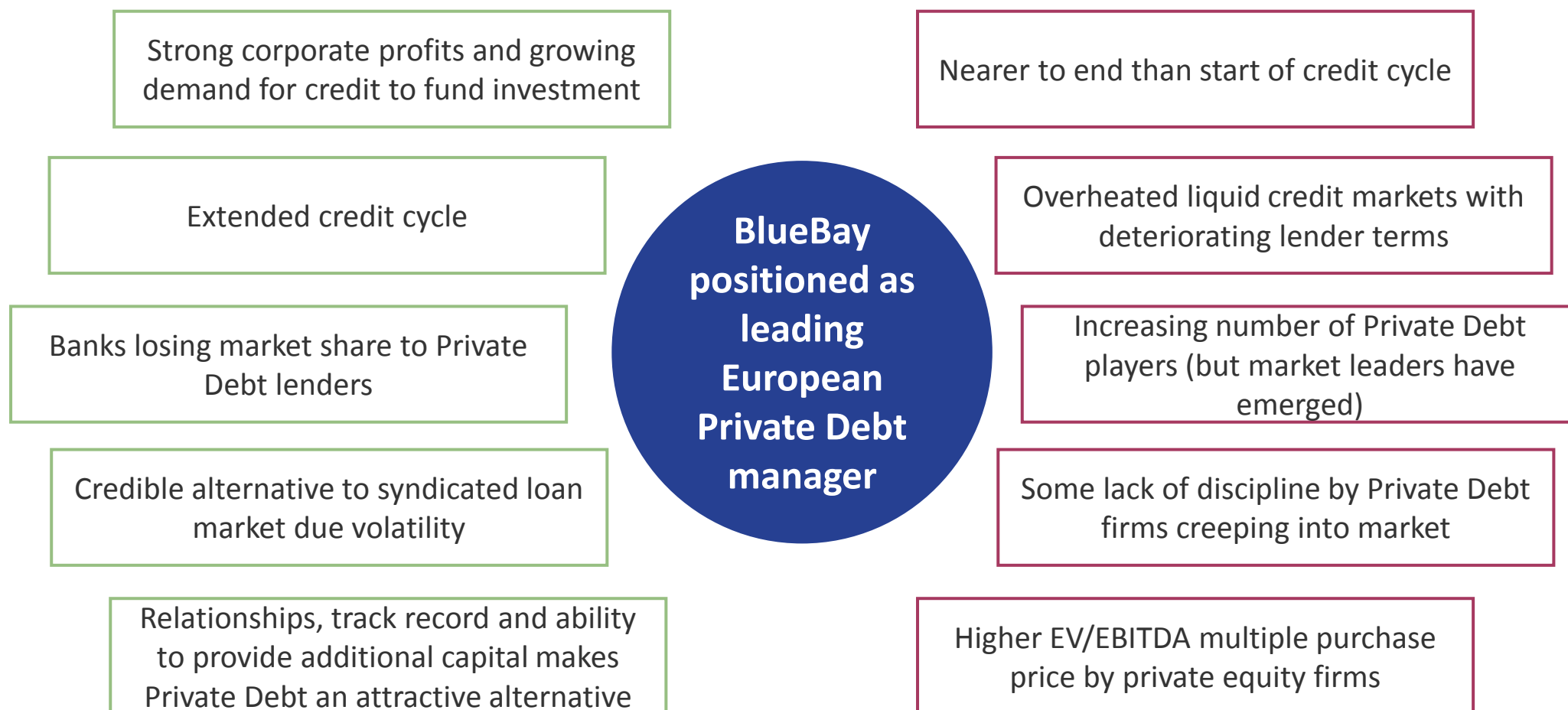
## ... BUT WITH ENHANCED PROTECTION <sup>3</sup>...



Source: <sup>1</sup> S&P Capital IQ LCD European Leveraged Lending Review: 2019 Q1. Note: BlueBay margin and fees are calculated as a weighted average across funds. <sup>2</sup> S&P Capital IQ LCD European Leveraged Lending Review: 2019 Q1. Note: BlueBay leverage is calculated as a weighted average across funds. <sup>3</sup> Proskauer, S&P Capital IQ LCD European Leveraged Lending Review: 2019 Q1, BlueBay internal analysis.

# Current state of the Private Debt market

Disciplined investing is paramount at this stage of the credit cycle



# Future challenges

KEY RISK	KEY CONCERNS	BLUEBAY APPROACH
<b>Economic Downturns</b>	<ul style="list-style-type: none"> <li>• Recessionary environment could reduce demand for financing</li> <li>• Inappropriately levered businesses will face difficulty</li> </ul>	<ul style="list-style-type: none"> <li>• Only target a small number of high quality deals each year</li> <li>• Disciplined approach to leverage and deal terms</li> <li>• Downturn analysis to understand worse-case scenario</li> </ul>
<b>Portfolio Management throughout the Downturn</b>	<ul style="list-style-type: none"> <li>• Majority of Direct Lending funds have not experienced a credit down-cycle</li> <li>• Direct Lenders' ability to manage problem investments and support their portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Do not invest in highly cyclical / GDP dependant businesses = robust portfolio</li> <li>• Team with extensive restructuring experience</li> <li>• Funds provide long-term commitment</li> </ul>
<b>Increased Competition</b>	<ul style="list-style-type: none"> <li>• New entrants have tried to price themselves aggressively</li> <li>• Providing below market terms and returns</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain discipline – long term strategy</li> <li>• 'Preferred lender' status with leading sponsors for deal flow</li> <li>• Leverage existing portfolio for new opportunities (refinancing and buy and build)</li> </ul>
<b>Lender Protection Deterioration</b>	<ul style="list-style-type: none"> <li>• Ability to maintain disciplined investing and adequate lender protections</li> <li>• Aggressive pro forma EBITDA definitions / add backs /re-leveraging</li> </ul>	<ul style="list-style-type: none"> <li>• Covenant protection in all senior deals</li> <li>• Focus on cash EBITDA</li> <li>• Robust downside/stress testing</li> </ul>
<b>Higher EV/EBITDA purchase multiples</b>	<ul style="list-style-type: none"> <li>• Private equity dry powder has increased year-on-year since 2013</li> <li>• Leading to higher enterprise values, and leverage levels</li> </ul>	<ul style="list-style-type: none"> <li>• Protection from equity cushion based on realistic EV</li> <li>• Disciplined amount of leverage</li> <li>• Reject deals - any problem for the sponsor will soon become ours!</li> </ul>

# Key advantages of Private Debt

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## FOR INVESTORS

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Attractive pricing, lender-friendly terms, conservative capital structures

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Illiquidity premium available compared to leveraged loan market

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Access to proprietary deal flow

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Attractive absolute and risk-adjusted returns

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High cash yield

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Hedge against inflation and rising interest rates

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Sustainable opportunity given prolonged structural changes in Europe

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## FOR CORPORATES AND PRIVATE EQUITY FIRMS

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Responsiveness, speed and certainty of execution

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Detailed, but targeted due diligence process – no “box ticking”

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Bespoke financing solutions tailored to a company’s requirements

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Flexible terms and structures

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No strategy of trading/syndication

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“One stop shop”

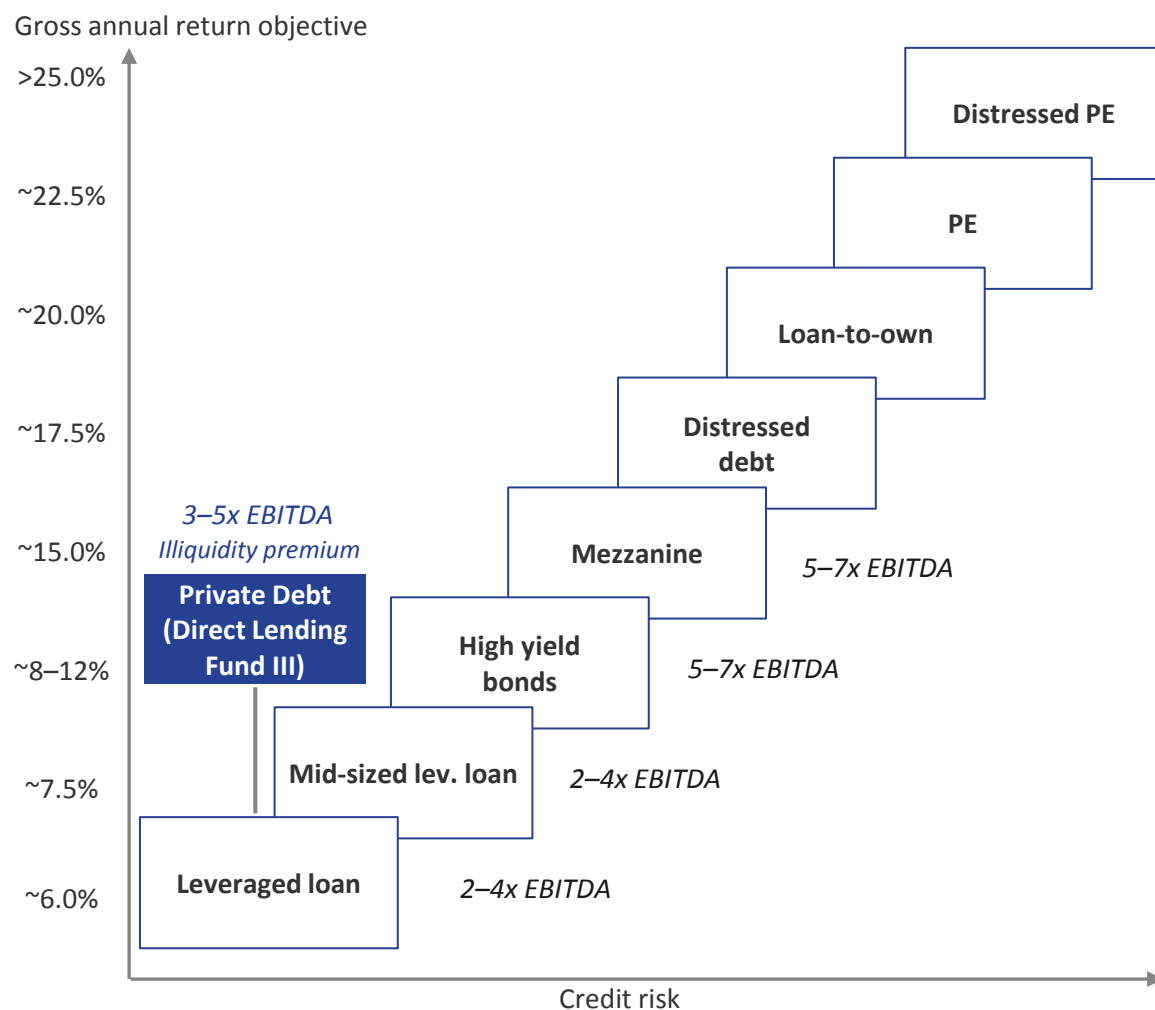
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Long-term partnership with borrowers

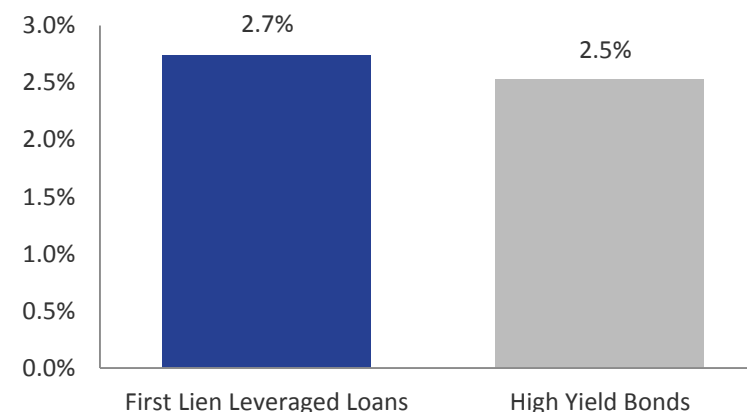
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# Private Debt: attractive risk-adjusted returns

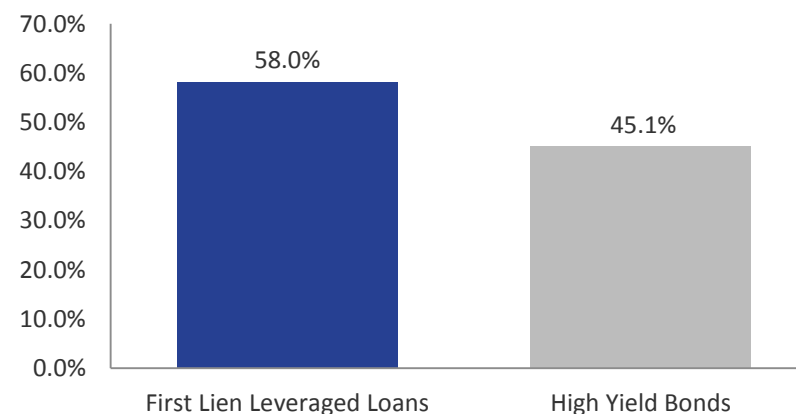
## ILLUSTRATIVE CREDIT SPECTRUM POSITIONING <sup>1</sup>



## AV. ANNUAL EUROPEAN DEFAULT RATES: 2003-'15 <sup>2</sup>



## NOMINAL AV. EUROPEAN RECOVERY RATES: 2003-'15 <sup>2</sup>



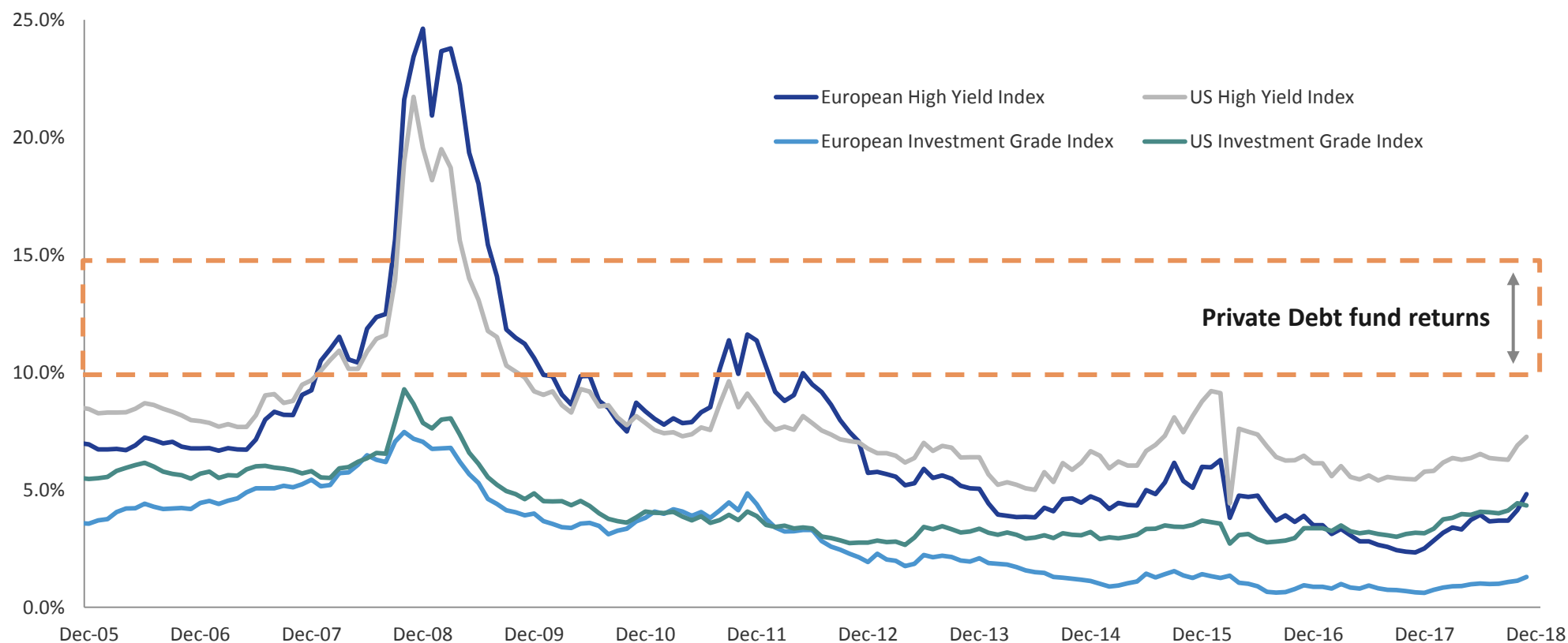
Sources: <sup>1</sup> BlueBay estimates of target returns; <sup>2</sup> S&P Capital IQ, Credit Suisse.

The return objective range is based upon certain facts and assumptions and is offered to give the reader context in which to assess the portfolio manager's objectives for the fund. No representation is being made that the Fund will or is likely to achieve the results similar to those shown as actual results could be lower. The return objective ranges are quoted above as gross-of-fee. Gross performance reflects the reinvestment of all dividends and earnings, but not the deduction of investment management and performance fees. Investors' returns will be reduced by the deduction of fees. Fees will vary with the Funds' rates of return. The compounding effect of a 0.60% management and a 0.20% performance fee would reduce annualized returns from 10% to 9.32% over a 5 year period. Typical Fund fees will offset the fund's trading profits.



# Private Debt offers higher yield for lower leverage

WEIGHTED AVERAGE YIELD TO MATURITY ACROSS VARIOUS ASSET CLASSES VS. PRIVATE DEBT “RETURN BAND” <sup>1</sup>



Sources: BlueBay internal estimates, S&P LCD European Leveraged Lending Review Q1-19. <sup>1</sup> Bank of America Merrill Lynch. Data for European High Yield Index (HPS2), US High Yield Index (H0A0), European Investment Grade Index (EU00) and US Investment Grade Index (C0A0) as of December 2018. The high grade and high grade bond indices include financials. The outlined area marked as private debt fund returns is shown solely to illustrate the illiquidity premium of private debt funds generally and is not intended to be relied upon. No representation is being made that the Direct Lending Fund III will or is likely to provide returns similar to those shown. Leverage calculated using total debt quantum through all tranches.

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# BlueBay Private Debt: “Private Credit Solutions Manager”

An established and well-developed credit manager, covering the full private lending spectrum for investors and borrowers

## STRATEGY

- Senior strategy focused on capital preservation / downside protection
- Provide whole loans
- Proprietary origination network
- Rigorous due diligence and investment processes
- High contact post-deal monitoring



- Range of products across the credit spectrum
- European (Northern bias)
- High quality, cash generative / non-cyclical businesses
- Leading market shares
- Strong, proven management teams
- Downside protection
- Risk diversification

## FOCUS

### Private Credit Solutions Manager “We are investors in businesses”

## INVESTORS

- Risk / return options across the spectrum
- Multiple funds available – currencies, leverage
- Attractive yield
- Variable rate / inflation hedge
- Demonstrated track record



- Range of investment products to meet borrower needs
- ‘One stop shop’
- Relationship-driven, reliable partner
- Established and expanding team
- Innovative and creative solution provider









































## BORROWERS

# BlueBay's key success factors

BlueBay's size, scale and established position means that it is a market leader in European Private Debt

KEY STRENGTHS	BLUEBAY STRATEGY	ADVANTAGES
SIZE AND SCALE	<ul style="list-style-type: none"> <li>• 'One stop shop' – loans up to €300m</li> <li>• Not to compete with liquid loans or high yield markets</li> </ul>	<ul style="list-style-type: none"> <li>• Less competition and better terms</li> <li>• Higher quality businesses</li> </ul>
ESTABLISHED PLAYER	<ul style="list-style-type: none"> <li>• 20+ years of relationships</li> <li>• Trusted and innovative partner</li> </ul>	<ul style="list-style-type: none"> <li>• High quality deal flow</li> <li>• Exclusive transactions</li> </ul>
HIGH QUALITY INVESTMENT TEAM	<ul style="list-style-type: none"> <li>• Highly experienced team</li> <li>• Deep origination network</li> <li>• Range of investing skills</li> </ul>	<ul style="list-style-type: none"> <li>• Pan-European origination</li> <li>• Barrier to entry for new participants</li> <li>• Embedded restructuring expertise</li> </ul>
BLUEBAY INFRASTRUCTURE	<ul style="list-style-type: none"> <li>• Managing numerous fund structures</li> <li>• Approximately 110 Direct Lending transactions completed</li> <li>• Complex legal and compliance regimes</li> </ul>	<ul style="list-style-type: none"> <li>• Experienced legal, compliance, fund administration and reporting support</li> </ul>
TRACK RECORD	<ul style="list-style-type: none"> <li>• Track record across 4 fund vintages</li> <li>• Zero credit losses to date</li> </ul>	<ul style="list-style-type: none"> <li>• High quality Investors that invest across the BlueBay Private Debt platform</li> </ul>
ENTREPRENEURIAL / INNOVATIVE CULTURE	<ul style="list-style-type: none"> <li>• Differentiating feature in a more commoditised market</li> <li>• "Investors in" rather than "lenders to" businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Should drive higher returns at lower risk</li> </ul>

# BlueBay Private Debt – overview of selected transactions to date

 <b>Der Grüne Punkt –</b> <small>Duales System Deutschland GmbH</small> Senior Secured Financing Refinancing	 <b>CPL</b> <small>CARTONPLAST Group</small> Senior Secured Financing Acquisition Financing	 <b>ghd</b> Senior Secured Financing Term Loan A/B Acquisition Financing	 <b>Petrocorner</b> Senior Secured Financing Refinancing	 <b>Switch</b> Senior Secured Financing Acquisition Financing	 <b>thetrainline.com</b> Senior Secured Financing Refinancing	 <b>TWINSET</b> <small>MILANO</small> Senior Secured Financing Refinancing	 <b>HK&gt;A</b> Senior Secured Financing Refinancing	 <b>Teufel</b> Senior Secured Financing Acquisition Financing	 <b>prima.com</b> Senior Secured Financing Term Loan C Acquisition Financing
 <b>facile.it</b> <small>RISPARMIARE È FACILE</small> Senior Secured Financing Acquisition Financing	 <b>Career Partner</b> Senior Secured Financing Acquisition Financing	 <b>GCI</b> Senior Secured Financing Acquisition Financing	 <b>heidelpay</b> Senior Secured Financing Acquisition Financing	 <b>servelec</b> Senior Secured Financing Refinancing	 <b>BIKE24</b> Senior Secured Financing Acquisition Financing	 <b>prima.com</b> Senior Secured Financing (Second Lien) Refinancing	 <b>DURAN GROUP</b> Senior Secured Financing Acquisition Financing	 <b>nfa</b> <small>national fostering agency</small> Senior Secured Financing Acquisition Financing	 <b>The MASAI</b> <small>Clothing Company</small> Senior Secured Financing Acquisition Financing
 <b>tracscare</b> <b>brookdale</b> Senior Secured / Subordinated Financing Acquisition Financing	 <b>melita</b> Senior Secured Financing Acquisition Financing	 <b>bibliotheca</b> Senior Secured Financing Acquisition Financing	 <b>OS</b> <b>OBER SCHARER GRUPPE</b> Senior Secured Financing Refinancing	 <b>gabocom</b> Senior Secured Financing Refinancing	 <b>avalog</b> Subordinated Financing Acquisition Financing	 <b>DADA</b> Senior Secured Financing Acquisition Financing	 <b>SF-FILTER</b> Senior Secured Financing Acquisition Financing	 <b>SAFTI</b> Senior Secured Financing Acquisition Financing	 <b>Outcomes First Group</b> Senior Secured Financing Acquisition Financing
 <b>GROUPE BERTRAND</b> Senior Secured Financing Refinancing	 <b>International Schools Partnership</b> Senior Secured Financing Growth Financing	 <b>marston</b> Senior Secured Financing Acquisition Financing	 <b>TRANSPOREON</b> Senior Secured Financing Acquisition Financing	 <b>prospitalia</b> Senior Secured Financing Refinancing	 <b>A-GAS</b> Senior Secured Financing Refinancing	 <b>accelya</b> Senior Secured / Subordinated Financing Acquisition Financing	 <b>Rhenoflex</b> Senior Secured Financing Refinancing	 <b>ALLOCATE</b> Senior Secured Financing Acquisition Financing	 <b>DFG</b> Senior Secured Financing Refinancing

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