Private Debt Investor

Germany Forum
Munich 2019

Highlights from the 2019 Forum

PEI

With a seemingly inevitable economic downturn looming over financial markets and Brexit uncertainty continuing to cast a cloud in Europe, PDI Germany provided attendees with the perfect opportunity to ensure their preparation was appropriate for these and other market scenarios. But it certainly wasn't all doom and gloom – the nature of private debt assets' ability to offer downside protection, coupled with investors' apparent enthusiasm for diversifying their allocation, meant that the forum was also a timely and effective platform for creating and strengthening relationships between debt managers and institutional investors in the region.

Over the two days in Munich, we heard from 50 speakers who shared their insights on the state of the private debt market in continental Europe and beyond. There was plenty to discuss and dissect, with significant cause for optimism in this rapidly evolving asset class.

PDI Germany Forum speakers included

Hans-Jorg Baumann
Chairman
StepStone Private Debt

Thomas Bayerl
Head of Illiquid Asset Debt
MEAG

Kirsten Bode
Co-Head of Pan European Private Debt
Muzinich & Co

Abhik Das
Managing Director, Head of Private Debt
Golding Capital Partners

Frank Dornseifer
Managing Director
Bundersverband Alternative Investments

Boerge Grauel
Managing Director, Co-Head of Private Debt
YIELCO Investments

Aileen Haller
Principal
Ares Management

Jurij Puth
Managing Director
GSO Capital

Tobias Ripka
Partner
Mercer

Sebastian Schroff
Global Head of Private Debt
Allianz Investment Management SE

Patrick Suchy
Director – Head of Private Debt
HSBC

Madeleine Szeluch
Head of Investor Relations
UK Government Department for Business, Energy & Industrial Strategy

Patricia Volhard
Partner
Debevoise & Plimpton

Thierry Wolff
Principal
European Investment Fund

Michael Wolfram
Director
bfinance

PDI GERMANY: Politics, not economics, is the biggest risk for funds

Although portfolios are strong, political uncertainty and originating good deals pose risks for private debt providers.

By John Bakie

A mismatch between available capital and dealflow is one of the biggest problems facing private debt today, according to a panel at the PDI Germany Forum 2019. Panellists were also of the view that political issues posed threats to the asset class, though some panellists felt these might be turned to the advantage of private markets.

Patrick McAuliffe, managing director and head of direct origination at First Eagle Investment Management, said: "We're seeing lots of capital coming into the market and not much dealflow, and these are a volatile combination."

He said the challenge of deploying dry powder was the key issue for industry professionals, rather than underlying portfolio performance and economics, both of which remain healthy.

"American mid-market companies are doing really well," he said. "And while we are seeing some indicators of a market correction taking place, we just aren't seeing it within our portfolio."

Thierry Vallière, head of private debt at Amundi Asset Management, agreed that although talk of the credit cycle turning had been commonplace, this had not been reflected in portfolio performance. However, he added there were some political issues that could become economic issues in the near future.

However, Jurij Puth, managing director at GSO Capital Partners, believed political crises could be beneficial for private debt providers.

"Brexit and trade wars will create pockets of volatility and panic, which will cause the capital markets to shut down," he explained. "[This] could allow private debt providers to step in and plug that gap."

> Uncertainty right now is very high. Between Brexit and trade wars, it's a very complex environment.
>
> Thierry Vallière, Amundi Asset Management

Panellist also cited higher leverage levels and lower covenants as potential risks.

McAuliffe said his company's portfolio in recent years had typically had leverage levels of 3.8-3.9x, but that these had increased slightly, to 4.2-4.3x, since late 2018.

"While leverage levels have increased, they have not grown as much as valuation multiples, so we still have healthy equity cushions," he said. "Covenants have loosened as well. Where we used to have two covenants, we now typically have one, and it's a leverage covenant."

LGT's head of private debt, Philipp Wagner, added that conditions were still less risky than they had been in the run-up to the 2008 financial crisis. "There is still a healthy equity cushion in the market, with an average of about 50 percent," he said. "This is far better than we saw pre-crisis, when equity cushions were often just 35 percent."

Information source: privatedebtinvestor.com/pdi-germany-politics-not-economics-biggest-risk-funds/

Companies in attendance included

- Adams Street Partners
- Alcentra
- Allianz Global Investors
- Alpha Associates
- alterDomus
- Alternative Investment Management Association
- AMP Capital
- APS Investments
- Aquila Capital Concepts Gmbh
- Arbour Partners
- Ardian
- Ares Management
- Argenthal Private Capital
- Avondale Alternative Advisors
- BB Alternative Partners
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- Brown Brothers Harriman
- Bundesverband Alternative Investments
- Buysse & Partners
- Cambridge Associates
- Certior Capital
- Churchill Asset Management
- Commerzbank
- CORDET Capital Partners
- Credit Suisse
- Creditshelf
- Crescent Capital Group
- CVC Foundation
- CVI Dom Maklerski
- DC Placement Advisors
- Debevoise & Plimpton
- Dechert
- Department for Business, Energy and Industrial Strategy
- Derigo
- Eaton Partners
- EIF
- EnTrust Global
- EQT Partners
- ESO Capital
- Euler Hermes Rating Center
- European Investment Fund (EIF)
- First Eagle Investment Management
- Golding Capital Partners
- Goldman Sachs
- GVV-Kommunalversicherung
- Hartz, Regehr & Partner
- Hauck & Aufhäuser Privatbankiers
- HF Debt GmbH
- HSBC
- IANUA Market
- ICA Institutional Capital Associates
- ICP Capital
- Idinvest Partners
- IQ-EQ
- ISP Group
- KGAL Investment Management
- Lebensversicherung von 1871
- LGT Capital Partners
- Macquarie
- MEAG
- Mercer
- Mizuho Bank Europe
- Morgan Stanley
- Muzinich & Co
- Neuberger Berman
- Nuveen
- ODDO BHF Asset Management
- Opticrest S.A
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- PER-people
- PERPETUAL Investors
- PLEXUS Investments
- Pollen Street Capital
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- RAG-Stiftung
- Royaumont Foundation
- Sigefi Private Equity
- Siparex
- StepStone
- Strategic Value Partners
- Stuttgarter Lebensversicherung
- Summit partners
- SVP Global
- The Blackstone Group
- Tikehau Capital
- UBS
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Giulia Corsini | Business Development EMEA
T: +44 (0) 20 3994 7964
E: giulia.c@peimedia.com