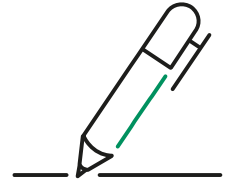


TALKING HEADS PODCAST



By **Daniel Morris**, Chief Market Strategist | **David Bouchoucha**, Head of Private Assets

THE STRATEGIC CASE FOR INVESTING IN PRIVATE ASSETS

Daniel Morris: Hello, and welcome to the BNP Paribas Asset Management Talking Heads podcast. Every week, Talking Heads will bring you in-depth insights and analysis through the lens of sustainability on the topics that really matter to investors. In this episode, we'll be discussing private assets. I'm Daniel Morris, chief market strategist, and I'm joined by David Bouchoucha, head of private assets. Welcome, David, and thanks for joining me.

David Bouchoucha: Thank you, Daniel. Happy to be here with you.

Daniel Morris: It's not surprising that there's even more interest in private assets than we've had over the last couple of years after what was clearly not particularly good year for publicly traded assets in 2022. That said, even if we have had a recovery so far this year, I think everyone's expectations for the potential returns for equities or fixed income this year and frankly, even later, have probably come down and certainly on a risk-adjusted basis. We've heard this phrase, poly crisis, and we think there are these once in a lifetime events except we've had several once in a lifetime events recently, and that would make you wonder if that's not going to continue in some shape or form.

If we think about private assets, then of course, we have a frankly radically different macroeconomic environment than we've had over the last decade, if not longer. Certainly, in terms of interest rates, policy rates from the central banks. We think about inflation and still a debate whether inflation is going to fall as far as quickly as markets assume when clearly the central banks don't necessarily see it quite that way. When we think about private assets, we also think about the illiquidity risk premium and how that changes again with higher interest rates. So, David, in this new world that we live in, the new normal, if you will, from your point of view, what is the strategic case for investing in private assets now?

David Bouchoucha: Thank you, Daniel. That's a very good question. I think there are two ways to address this question.

The first one, and that's where I would like to start because that's really the most important one, is that the trend to invest more into private assets is a structural trend, in my opinion, and a structural trend which is really encoded in a different way for economies to finance themselves. This is kind of overarching the many changes that we can have in interest rates level or macroeconomic conditions. The fundamental moves that we are seeing overall in the economy financing, and that's pretty relevant for investors, is that more and more of the economy, whether it's about equity or debt, is financed through private channels. And this is encoded into very fundamental and structural trends.

There is a move to go to the private sector for equity in a lot of areas, and also in the financing side, due to banking regulation, more and more of the debt flow is going into the private sector. That means, for investors, that there is a pool of available money that is shifting towards the private sector and a source of diversification which is up to absolutely huge. So for investors who are here to fulfill their goals and also finance the economy, there is this shift which is really fundamental and really moving into the private sector. The second way to address the question, which is perhaps a bit more tactical, is to recognize that the good stories that we had for years that was pretty simple, especially on debt, saying there is no yield everywhere, so you need to go to private debt in order to have a bit of yield. This story is over.

It's true and because there are yields now everywhere. You have yield in the public sector and there are yields in the private sector. However, there is still a lot of attractiveness in a large pool of private debt segments and also private equity because we are observing now in many, many segments of the market a combined effect on the internal rate of return that we can serve to our investors, which is made of on one hand because we have floating rate instruments, higher effect on the rate of return we can serve. On the other hand, the spreads that are adjusting to the new market conditions. This explains that in many segments of the market in private debt, for instance, we are now in high single digit or even double digit returns for a number of segments. So attractive returns and structural effect on diversification, which are really the two main levels for investors to consider private investing.



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Daniel Morris: Of course, the challenge with private assets is that it's a term that encompasses really a huge array of different types of investments. Where do you see then in particular the opportunities?

David Bouchoucha: The first thing that comes to mind is an opportunity to position within the capital structure, whether we talk about corporate or we talk about project finance positioning in the capital structure, in areas where there has been a significant repricing and where investors can now tap into opportunities where you have again high single digit returns. I can give you a few examples.

For instance, in real assets financing, so be it infrastructure or real estate, we are currently very positive on everything which is linked to junior debt. This is an array in the capital structure of the project financing, which is pretty attractive with measured risk because it's real assets, but with very interesting yield. Another area where we are pretty positive is also about various solutions that are linked to financing of the bank's balance sheet. So that's what we call credit risk sharing, where you can have attractive returns of more than 10% here again with pretty measured risk. So that's one angle.

The other angle I would give to come back to your introduction on inflation is that in real assets and in certain segments of corporates, you have a number of sectors which have natural hedge against inflation. Obviously, you can think of infrastructure which is an obvious case whether you talk about equity infrastructure or infrastructure debt. You can also think of a number of corporate sectors where companies are able to pass the cost increase into their prices. Obviously, the macroeconomic context is more challenging so it's very important to be extremely selective and it's very important to watch carefully those questions of sensitivity to interest rate, sensitivity to inflation and that's where we think there can be differentiation between the various portfolios that investors could look at.

Daniel Morris: The good news with all this increased interest in private assets for you is an opportunity to be in a business that's certainly growing and offer these opportunities to investors. The flip side of that though I imagine is a lot of competition I'm sure not the only one that's looking at these parts of the market. Where then do you see BNP Paribas Asset Management's unique selling points relative to competitors when it comes to investing in private assets?

David Bouchoucha: That's a very fair point and indeed there is competition, competition with private assets competitors and competition also with public markets. It's a big theme in the market currently that because public valuations have come down there is the so-called dilution effect which means that allocations to private markets can be a bit less temporarily especially with interest so indeed there is competition.

We believe that within the BNP Paribas Group, we have three differentiating factors. The first one is our unique access to markets. Thanks to the reorganization of private assets that we have been operating since the first of January, we can now combine three main levels to have access to the market. One is that we completely leverage the group's strength and its corporate and real assets franchises to have access to borrowers, to companies, to project sponsors. So unique access thanks to the group.

We also have a unique access being large investors in private equity funds, in large sponsors, being part of this private assets ecosystem. We are very big in this area. And this very strong network of relationship, more than 200 big financial sponsors we are working with, is allowing us to have access to good deal flow. And thirdly, also access to the market thanks to the experience of our teams. So first one is unique access to the market.

The second point is the quality and seniority of our teams. With private assets, we now have more than 100 experts with very, very seasoned teams who are covering private debt, private equity, real assets, individual financing, fund selection. So, a very broad range of assets and very seasoned teams with diversity, also in terms of background, gender diversity. So, the strength of the team we are combining with a new organization is pretty impressive. Last but not least, I think we have a very broad approach to sustainability and impact investing. I think we can be proud of having received already a number of awards for our approach to sustainability and infrastructure debt. And through our new organization we are adding new angles also on our impact approach. For instance, we are working on venture capital for ecological transition thanks to a partnership with the Solar Impulse Foundation. This is our Solar Impulse Venture strategy, and this is an area where we are going to continue to build upon always with a very robust and serious approach in a qualitative and quantitative way for sustainability and for impact.

Daniel Morris: Well David, thank you very much for joining me.

David Bouchoucha: Thanks for having me, as always.