Did you *know*?

Junior infrastructure debt has a far shorter maturity (5-8 years) than senior infrastructure debt (often > 10 or 15 years).
This is due to its role (of filling the gap between bank debt and equity) and its cost (which encourages borrowers to refinance – via senior debt – as soon as possible).

Accordingly, it offers a return/risk/maturity/SCR profile that we regard as attractive.

PRIVATE DEBT

Energy transition and private infrastructure debt

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The energy transition is not a choice but a prerequisite for European sovereignty. Private infrastructure debt is one of the key tools for contributing to it.

Infrastructures are the backbone of an economy. Without them, there is no sustained or inclusive growth. This asset class addresses transition challenges – energy, digital, and sustainable ones – especially well. These are objectives in themselves but also conditions for preserving our sovereignty.

Private infrastructure debt is an effective vector for financing these transitions and thereby strengthening our sovereignty, just as defence funds are doing. It fills a need for financing and offers investors an attractive and diversifying profile in unlisted assets, with recurring cash flows that are less volatile than in other private markets.

ENVIRONMENTAL TRANSITION: KEY TO ENERGY SOVEREIGNTY

The environmental transition is a prerequisite for Europe's energy independence.

It is a key to reducing not just our carbon footprint but our imports of fossil fuels from outside of Europe, with the consequences that this has on our (in)dependence and competitiveness.

Energy sovereignty is, in fact, essential to companies' competitiveness and to keeping manufacturing in Europe. This can be promoted by having available, affordable energy at a predictable cost. This is a prerequisite for maintaining value-added manufacturing in Europe and for sustainable growth.

Our energy sovereignty is thereby a key to the competitiveness of our European companies and, hence, **to our future growth**. This growth, without close energy dependence, will help strengthen our political sovereignty and, hence, our democratic and social model.

Ultimately, the energy transition is therefore essential for our independence and for preserving our democratic model.

Green energy is one of our answers to this challenge. It is up to us to make it available. Green energy prices are more predictable than those of fossil fuels, thanks to contracts that companies can sign for 10 or 15 years with local renewable energy producers. This price visibility and stability are essential for supporting our manufacturing and keeping it in Europe.

Along with nuclear power, green energy is one of the only forms of energy that can strengthen our energy independence. It is therefore absolutely essential, not just for achieving our climate goals, but also for preserving our economic, political and democratic sovereignty. The challenge is to integrate these non-fossil fuels into our energy mix, pragmatically, without undermining the resiliency of our grid and at a reasonable cost.

WHAT ROLE CAN DEBT PLAY?

The resulting financing needs are huge, for producing energy, of course, but also for storing it and for energy efficiency, electrification, an energy-efficient digital transition, etc. Governments cannot handle these costs alone. Private investors have to contribute, and it happens that this segment offers many opportunities.

Among the possible instruments (e.g., senior and junior debt, equity), junior infrastructure debt stands out. It fills a need between equity and bank debt, which are often more readily available for industrial projects.

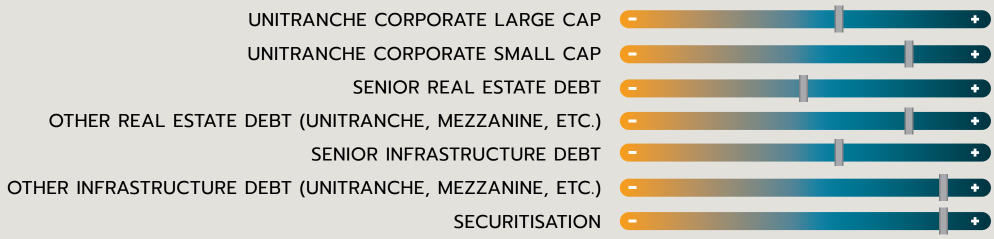
From investors' point of view, beyond addressing the aforementioned transition and sovereignty issues, debt offers the security that makes it possible to address development issues alongside industrial companies.

Among various debt instruments, junior exposure offers yields considered attractive (>6-7%) for limited durations (5-8 years), in exchange for risk that is halfway between equity (which, moreover, are often inaccessible to financial investors on more granular or local projects, as they are pre-empted by industrial companies) and senior debt, yields on which remain lower for far higher durations[1].

Lastly, junior private infrastructure debt enjoys attractive treatment under Solvency 2.

[1] Duration: the weighted average life of a bond or a bond portfolio, in years.

CURSORS



Private debt enjoys greater inertia than listed credit markets. As a result, credit spreads[1] remain at levels we feel are attractive, similar to small-cap unitranche[2] debt, even though they have narrowed slightly in recent months.

Junior infrastructure debt is one of our favourite segments, with yields that seem both to remunerate credit risk and to offer an illiquidity premium, despite relatively short maturities.

Investors continue to neglect securitisation[3] and real-estate debt, but they offer very attractive expected returns, in our view.

[1] The credit spread is the difference in interest rate between a corporate bond and a benchmark bond of the same duration considered the least-risky (e.g., a benchmark government bond).
[2] Unitranche is a senior secured debt offering the same securities and pledges as senior debt but generally held by a single lender (a debt fund).
[3] Securitisation is a financial technique consisting of transforming illiquid assets (e.g., loans, receivables or mortgages) into negotiable securities.