



Investment
Managers

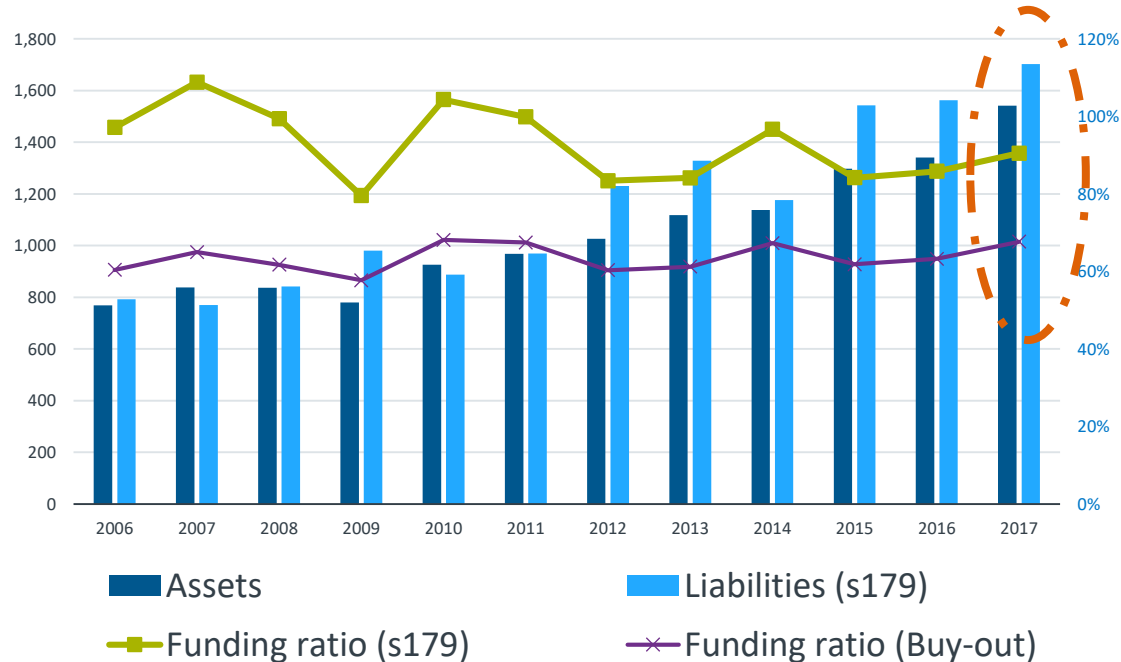
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Investing across the credit continuum

14 June 2018

UK DB schemes face well-documented challenges

Funding levels



Meeting benefits payments

85%

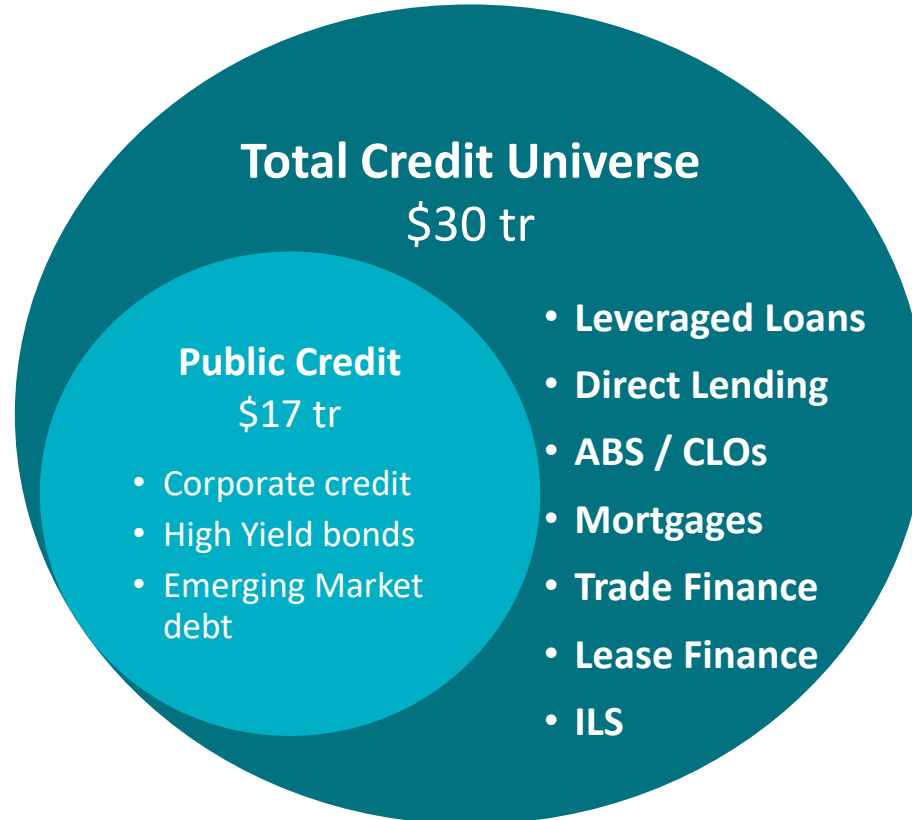
UK DB schemes
expected to be
cash-flow negative
in next 10 years

Source: Purple Book, Broadridge analysis; Mercer's European Asset Allocation Survey, 2017

How investing across the credit continuum may help

- **Higher risk-adjusted yield** available across the credit continuum
- Benefit from a **rising rate** environment
- **Diversification** of growth portfolio to improve investment outcomes
- An additional tool to **help meet cash flows** and harvest illiquidity premium
- **Lower mark-to-market volatility** allowing pension funds to be long term

Access a wider range of credit opportunities beyond public bonds



Benefit from a change of investment paradigm

Changes in the credit market

Bank disintermediation



Risk-based regulation for institutional investors



Fading liquidity in bond markets



Opportunities for investors

Plug the financing gap and diversify credit exposure

Secure a competitive advantage by accessing capital charge friendly, higher yielding alternative opportunities

Move from bonds towards private credit asset classes to harvest illiquidity premium

Adapt to market conditions and harvest alternative drivers of return

Access to yield

Diversification

Manage volatility

In contrast to conventional credit, for which returns are extracted from spread tightening and default risk avoidance, **Alternative Credit can exploit a wider range of return sources**



**Complexity
premium**



**Illiquidity
premium**



**Structuring
Premium**



Mispricings



**Regulatory
changes**

Example: European Middle Market Loans

What is the opportunity?

- Directly originated floating rate loans to mid-market companies that are established businesses with limited access to capital markets
- Focus on companies with EBITDA between €10m and €100m

Why consider investing?

- €15bn+ issuances in 2017
- Target return: 4 to 5%
- Tight and tailored covenants (no covenant-lite)
- Low leverage
- Low historical default rate and high recovery rate

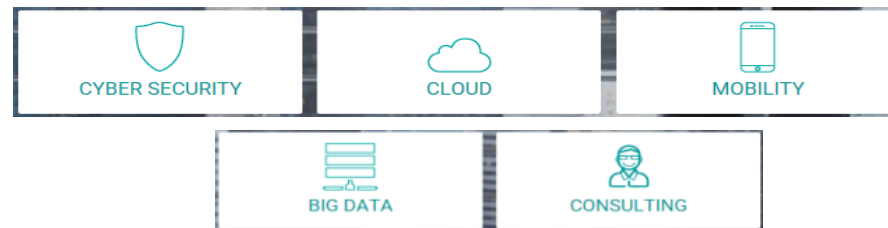
Source: AXA IM. For illustrative purposes only. Target returns are indicative and are not guaranteed.

Example: European Middle Market Loans

Deal example

Opportunity

- German medium-sized IT consulting and solutions provider with a focus on the public sector
- Strong position in its core market with high barriers to entry
- Steady market growth supported by demand for cybersecurity and ongoing digitalisation



¹ Source: AXA IM – Private Debt (unaudited) as at 30 March 2018. There can be no assurance that the Fund will implement its investment strategy or achieve its objectives. Pictures for illustrative purposes only

Example: European Middle Market Loans

Deal example

Key manager skills

- Strong sourcing power allowing to access all available deal flows
- Intensive credit analysis
- Secure attractive spread with favourable upfront fees in reward

Key data

| | |
|--------------------|---------------------|
| Geography | Germany |
| Sector | Software & Services |
| Type | Unitranche |
| Maturity | 7 years |
| EV (x EBITDA) | 6.8x |
| Net Lev (@ closing | 5.4x |
| Spread/Coupon | E+625bps |
| Upfront Fees | 1.50% |

¹ Source: AXA IM – Private Debt (unaudited) as at March 30th 2018

There can be no assurance that the Fund will implement its investment strategy or achieve its objectives.

Pictures for illustrative purposes only

Capturing the potential benefits of investing across the credit continuum

Considerations and requirements

- Client context eg valuation framework and liquidity requirements
- Deep understanding of heterogeneous private transactions
- Efficient sourcing and implementation
- Risk factors that may impact asset classes eg credit, performance, liquidity risk, regulatory change
- Frequent and thorough portfolio monitoring



Potential benefits

- Higher risk-adjusted yield
- Benefit from a rising rate environment
- Diversification of growth portfolio
- Help meet cash flow requirements
- Lower mark-to-market volatility

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