INVESTING IN PRIVATE MARKETS
NORTH AMERICA 2021
Finding opportunities in the face of economic headwinds and inflationary pressures

JUNE 2021
SPONSOR

Download the full report from www.clearpathanalysis.com

This is an excerpt of a full report.
MetLife Investment Management serves institutional investors by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Capital and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building tailored portfolio solutions. We are institutional, but far from typical.

Learn more at investments.metlife.com
3.1 ROUNDTABLE DISCUSSION

What role does corporate private placement debt have within an investment portfolio?

Moderator
David Grana, Head of North America Media, Clear Path Analysis

Panelists
Jennifer Potenta, Managing Director, Global Head of Corporate Private Placements, MetLife Investment Management
Frank Monfalcone, Client Portfolio Manager, Private Capital, MetLife Investment Management
Thomas Metzler, Managing Director, Institutional Client Group, MetLife Investment Management

POINTS OF DISCUSSION

- Investment-grade private credit provides favorable financial covenants and structures
- Since the onset of the pandemic, issuers have raised their liquidity levels, having accessed capital through the market
- Though this has been a market dominated by insurers, it is increasingly open to other investors, such as defined benefit pension plans
- A global rise in capital expenditure and M&A activity will likely open up new opportunities in the asset class

David Grana: How has private credit performed through previous economic crises and how do those numbers contrast with the current health crisis?

Jennifer Potenta: It’s important to level set where this team specializes in the private credit market, as it is a large and diverse market. Our expertise is the investment-grade segment, also known as the private placement market. Long-standing relationships with management teams, meaningful financial covenants and structures are the cornerstone of the corporate private placement market.

Looking back at the Global Financial Crisis of 2008-09, the asset class performed well, driven by the covenant protections that were in place, as well as management teams who protected cash flow and company balance sheets. The private placement market operates similarly to the banking market. Relationships, expertise, and a long history of lending to borrowers helps both markets work through challenging times together. The private placement market tends to be a longer-term lender, whereas the bank market tends to focus on shorter-duration loans.

Understanding and analyzing a vast array of industries, businesses and management teams helps private placement lenders make informed investment choices in private credit. In addition, covenant protections give lenders a seat at the table alongside other senior lenders during challenging times, allowing them to work closely with issuers to balance borrower needs with the needs of investors.

The pandemic has been different than previous crises, as every industry was affected by the disruptions. Transportation, leisure and travel were among the hardest hit. As a result, private placement lenders worked closely with borrowers alongside other senior lenders to ensure that companies had adequate liquidity to get through what was, at the time, an unknown period. Lenders that provided temporary relief through covenant waivers and adjusted reporting requirements were able to help borrowers maintain liquidity and cover any near-term liabilities.
Frank Monfalcone: I would emphasize that having covenant protections built into the loan documents helps ensure that the private placement lender remains in the most senior part of the capital structure. This not only gives the lender a seat at the table during disruptions, but, we believe, the right seat at the table. Unlike in some circumstances, where bank lenders can jump ahead and become senior to other lenders, private placement lenders stay senior with bank lenders, which is critical in negotiating equitable solutions that work for both senior lenders and the issuers.

David: What are some of the ways that you are protecting some of your positions and the positions of your investments through these short-to-medium-term difficulties that present themselves as we try to get back to some sense of normalcy?

Frank: Steering affected issuers toward liquidity solutions has been our focus through this crisis. As Jennifer commented, certain industries were more dramatically affected and continue to be slower to recover. However, because those borrowers have business models and assets with good long-term value, we look toward equity to provide some liquidity support. In some cases, borrowers have gone into the public markets for equity infusions, while in other instances, owners have put cash directly into the business to provide liquidity. Lenders have also provided new capital into these businesses based on solid management teams and long-term business prospects.

Jennifer: In such cases, we have seen company management teams take the difficult but right steps to manage costs and optimize cashflows, and have been willing to add additional covenant protections and reporting for the near term.

David: Why has the asset class been a favorite among insurers and how has it helped their portfolios achieve their return goals?

Jennifer: The private placement market originated as an insurance company asset class, given the stable, intermediate-to-long duration, often-illiquid liability base.

In addition, the asset class is very customizable from both a tenor and currency standpoint. Within a diversified insurance company with short and long-duration liabilities, investors can invest anywhere along the curve. Due to a diversified client base, origination opportunities can be in any major currency, across the entire maturity spectrum, including short floaters to long, 30-to-40-year deals. This provides client portfolios with a robust, diversified opportunity set.

Moreover, there are the covenant protections which serve as key structural protections to dampen downside volatility. One of the key objectives for insurers is to minimize losses while generating incremental book yield. This asset class has a demonstrated track record of lower losses relative to other public asset classes, which makes it a nice fit for insurers.

The potential for incremental book yield private placements generate is through a combination of an illiquidity premium, as well as the opportunity for incremental income over time. This can be in the form of coupon enhancements in deals if a credit starts to deteriorate from its original credit profile, for example. This type of mechanism helps protect investors from a potentially higher capital charge. There are also prepayment protections built in to protect against a liability mismatch in a situation where private placement notes might be paid off early. All of these factors have made it an attractive asset class for insurers and one where we have seen increased allocation over time.
Frank: These are all reasons that insurance companies have been investing in this asset class for about a century. We believe it is a perfect fit for the industry to generate income to support long-term liabilities. In the past, it took an insurance company with enough size to make private placement investing work; however, through investment managers such as ourselves, the market is now also open to smaller companies.

David: Have defined benefit (DB) pension plans also benefited from private credit investments? What has been their feedback since allocating capital to the asset class?

Tom Metzler: Many insurance companies match liabilities, similar to DB pension plans. There are many different nuances to those liabilities, which have a lot of different variables.

Often times, publicly traded fixed income serves as a hedge in these portfolios, and we found that private placements may be a nice complement to this allocation. It also provides diversification to companies that do not issue debt in public markets. And we should not fail to mention that it provides incremental income potential over the public markets, in addition to helping manage downside risk in a negative credit environment. We are starting to see that more plans are turning to private placements as they continue to de-risk and look toward other asset classes to allocate their capital.

David: Can investors gain global exposure through private credit investments and is it dollar-denominated or in local currency?

Jennifer: Absolutely. Quality borrowers from around the world come to the private placement market based on the market’s flexibility, efficiency of execution and privacy. Global managers, like ourselves, with offices across North America, Europe, Latin America and Asia can access and closely monitor private placement deals. Having a local presence provides greater opportunities and diversification into unique borrowers. Investments in regions like the UK and Australia also have a very supportive equity investor base, which can benefit a company’s long-term credit profile. Managers experienced in hard- and local-currency management can also add value in the asset class.

Frank: Some non-US companies issue in US dollars, while others issue in their local currency or even in a third currency. The private market knows how to assess and price these issuances accordingly. This further diversifies an investor’s portfolio. We have clients that are specifically looking for this type of global diversification.

David: Based on your conversations with asset owners, what is the outlook for private credit for the short to medium term?

Frank: We are seeing significant demand from asset owners and investors for the private credit asset class. New investors are coming into the market, and existing investors are looking for new ways to expand their access and allocation to the market. The potential opportunities in the sector continue to be recognized and appreciated by the investor base and I don’t see any of this changing. Fortunately, issuance for the last two years has been very robust to support this demand. The market grew from $60 billion per year to over $100 billion.

Jennifer: We feel the outlook is quite positive, with investors increasing their demand and, as a result, the capital that they are committing to the asset class. The manager’s role is to generate and uncover a deep and broad set of private placement investment opportunities for their clients, aligned with their investment objectives. From an issuer standpoint, as the economic recovery continues to unfold and we continue to see more positive news, we expect increased issuance. We believe an increase in capital expenditure and M&A activity will present new opportunities in the private placement market globally.

David: Thank you for sharing your thoughts on this topic.

1 Source: private placement monitor

Disclaimer:

This article has been sponsored by and prepared in conjunction with MetLife Investment Management (“MIM®”) solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any investments or investment advisory services. The views expressed herein do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. Subsequent developments may materially affect the information contained in this article. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This article may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements may turn out to be wrong. All investments involve risks including the potential for loss of principle. Past performance is not indicative of future results. No representation is being made that any investment will or is likely to achieve profits or losses or that significant losses will be avoided. Investments in private placements involve significant risks, which include certain consequences as a result of, among other factors, issuer defaults and declines in market values due to, among other things, general economic conditions, the condition of certain financial markets, political events or regulatory changes, and adverse changes in the liquidity of relevant markets. Investments may be subject to periods of illiquidity, and such securities may be subject to certain transfer restrictions that may further restrict liquidity. Accordingly, no assurance can be given that, if an investor were to seek to dispose of a particular private placement investment that he/she could dispose of such investment at the previously prevailing market price. Any person contemplating corporate private placement investments must be able to bear the risks involved and must meet the qualification requirements of the underlying investments.

MIM is MetLife, Inc.’s (“MetLife”) institutional management business and the marketing name for subsidiaries of MetLife that provide investment management services to MetLife’s general account, separate accounts and/or unaffiliated/third party investors, including: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorías e Inversiones Limitadas, MetLife Asset Management Corp. (Japan), and MIM LLC.

L0621014519[exp0623][All States] L0621014514[exp0623][All States] L0621014511[exp0623][All States] L0621014510[exp0623][All States]
Tailored investment solutions.

Global market perspective.

With 150 years of disciplined risk management experience, MetLife Investment Management is grounded in understanding your unique needs. We listen first, strategize second and collaborate constantly to create tailored portfolio solutions. With the goal to deliver strong, risk-adjusted returns, we believe there’s no more effective way to navigate constantly changing markets. Institutional investors turn to us for a client-first approach along with deep expertise in Public Fixed Income, Private Capital and Real Estate.

Institutional. But far from typical.™

Learn more at investments.metlife.com

All investments involve risk, including possible loss of principal; no guarantee is made that investments will be profitable. This material is for informational purposes only, and does not constitute investment advice or an offer to buy or sell any security, financial instrument or service. Securities products are sold by MetLife Investments Securities, LLC, a FINRA member firm and member of SIPC. L0520003927[exp0622][All States] © 2021 METLIFE, INC.
The opinions expressed are those of the individual speakers and do not reflect the views of the sponsor or publisher of this report.

This document is for marketing and/or informational purposes only. It does not take into account any investor’s particular investment objectives, strategies or tax and legal status, nor does it purport to be comprehensive or intended to replace the exercise of an investor’s own careful independent review regarding any corresponding investment decision. This document and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities or intended to constitute any binding contractual arrangement or commitment to provide securities services. The information provided herein has been obtained from sources believed to be reliable at the time of publication, nonetheless, we cannot guarantee nor do we make any representation or warranty as to its accuracy and you should not place any reliance on said information.

© Clear Path Analysis Ltd, registered in England and Wales No. 07115727.
Registered office: 601 London Road, Westcliff-On-Sea, United Kingdom, SS0 9PE.
Trading office: Business Design Centre, 52 Upper Street, London, N1 0QH