PRIVATE CAPITAL

Finding Opportunities in the Private Placement Debt Market

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This vital asset class has played an important role in helping businesses and infrastructure projects withstand the pandemic's economic crisis.

In March of this year, a regional airport that routinely handled a million passengers a month sputtered to a halt. Fleets were grounded by government order. International borders were closed. Passenger traffic plunged to an unheard of 20,000 people per month. With almost no airplanes at its gates, and no travelers in its shops and restaurants, its revenues and cash flow all but ceased. The airport industry had never seen anything like it, not even after 9/11. Airports are both vital infrastructure assets as well as businesses. They have operating costs to pay and debts to service. Because of the pandemic, regional airports were suddenly, like many others across the globe, in danger of default.

MetLife Investment Management

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The airport had no choice but to turn to its creditors for help. One of its key lenders is the private placement arm of MetLife Investment Management (MIM). With a portfolio that exceeds $90 billion, MIM's Private Capital Group lends to more than 1,000 issuers around the world, including infrastructure assets as well as companies both publicly and privately held. But MIM has two categories of constituents, of course: the borrowers and the institutional investors that put up the capital, such as pension funds, endowments, foundations and other insurance companies. As the pandemic raged and lockdowns were put in place, the crisis set off individual financial shocks with scores of borrowers. MIM, therefore, had a balancing act to perform: getting borrowers and investors to work together through the emergency. "Our approach at the outset when COVID hit was to work with our borrowers across the board to make sure their businesses keep going, to keep them solvent," says Jennifer Potenta, managing director and global head of corporate private placement debt at MIM. "But we have to also make sure that we're protecting our end clients."

Covenant Relief

"We're going to need covenant relief." That's the first thing the sponsors and managers of the once-busy regional airport told John Tanyeri, MIM's head of infrastructure debt and project finance, in April. The airport's loan agreements with MIM contained financial covenants based on cash flow that had to be met or the airport would go into default. And one of the first measures taken was to grant a covenant holiday that would extend to June 2021.

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> John Tanyeri, Head of Infrastructure Debt and Project Finance, MetLife Investment Management

That was no small thing. Financial covenants "are what get lenders to the table to start negotiating with a company during hard times," Tanyeri says. "Covenants are really what helps protect lenders in a downturn and why the asset class has experienced lower historical loss rates compared to duration-adjusted public corporate bonds." In exchange for the covenant holiday, the airport agreed to submit itself to regular, rigorous liquidity tests to make sure it had enough cash on hand to keep the lights on. On monthly calls with MIM, the airport's team would provide a six-month forward-looking view into, among other things, its revenue, cashflow, passenger traffic and capital expenditures. Already, the airport had reduced that spending to "as little as was needed to keep the airport operating," Tanyeri says.

"In an effort to avoid a default, it was extremely important for us to partner with the equity sponsors to help them through this period, trying to give them the leeway—or the runway—to survive this," Tanyeri says. In the end, MIM's clients were compensated for its flexibility and the equity maintained its ownership and the long-term value of the asset.

Bespoke Agreements

Potenta says MIM's teams across its private-placement group strove to treat all of its borrowers struggling in the crisis with a consistent approach, though, she adds, MIM also prides itself on the bespoke nature of its loan agreements. One of her portfolio borrowers is a large private company that operates in the hospitality industry, and MIM has had a borrowing relationship with them for decades. It normally has billions of revenue and strong cash flow. But the pandemic erased virtually all of that. Among other survival measures, the company eliminated its dividend payments, applied for federal relief programs in order to bolster liquidity if needed and furloughed tens of thousands of employees. "With this company in particular, that was a brutal decision," Potenta says. "It's a hospitality company; people are everything to them."

All this wasn't enough, however. There were near-term liquidity concerns: The company also had a debt maturity coming due. And so, in addition to waiving covenants, Potenta's group refinanced its debt with the company, giving the business a dose of incremental liquidity with which to pay down that near-term debt maturity. MIM typically lends into the long-term, unsecured portion of a business's balance sheet. And so, in exchange for the covenant waivers and the refinancing, MIM became a secured lender, taking a lien on company assets.

Preparing for Recovery

Many are seeking to take advantage of the current low-rate environment to borrow more from MIM in order to build up dry powder in preparation for an eventual recovery. Potenta attributes performance amid the crisis to a lending mantra of "transparent management teams and business models with strong cash flow that stand the test of time." Before entering a transaction, she adds, "We look back to past recessions to see how these businesses performed and the actions that management took." Further, infrastructure projects MIM loans to are often backstopped by equity sponsors. "We believe these are solid companies that require temporary relief," Tanyeri says.

The pandemic has highlighted the desirability of private placement debt as an asset class, says Thomas Metzler, managing director, institutional client group, MetLife Investment Management. He says private placements have long offered institutional investors three key potential portfolio benefits: diversification, a liquidity premium over equivalent public fixed income and covenants that help provide downside credit protection. "We believe, now more than ever, you want those three attributes within your portfolio."

About MetLife Investment Management

MetLife Investment Management (MIM),[1] MetLife, Inc.'s (MetLife's) institutional investment management business, 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 listen first, strategize second, and collaborate constantly as we strive to meet clients' long-term investment objectives. Leveraging the broader resources and 150-year history of the MetLife enterprise helps provide us with deep expertise in navigating ever changing markets. We are institutional, but far from typical.

For more information, visit: **investments.metlife.com**

[1] 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 Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), and MIM I LLC.

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