BAI publishes Study on Corporate Loan Financing by Non-Banks in Germany

- First-time presentation of the views of the three relevant market players - companies, debt funds and institutional investors - in an overall study;
- Debt funds play out their advantages with longer maturities, "challenging" business developments and in the sub-investment grade area of German SMEs;
- For investors, a good risk-return ratio is the main reason for investing in corporate loans;
- German debt fund market offers significant potential with attractive returns and good collateral structures for investors.

Bonn, 16. April 2019. The **Bundesverband Alternative Investments e.V. (BAI)**, the central advocacy association for the Alternative Investments industry in Germany, just released the study "Corporate Loan Financing by Non-Banks in Germany". It is the first study on the **debt fund market in Germany** to present the views of the three relevant market players - **companies, debt funds and institutional investors** - as a whole. In addition to the definitional and legal fundamentals, the study contains an up-to-date market overview and detailed information on the three market players, based in particular on BAI surveys and interviews from the period summer/autumn 2018.

In Germany, around 35 pure corporate loan funds are active, which had a total volume of approximately US$ 17.5 billion in 2017 (source: Preqin) and provide **growth and acquisition financing** for German SMEs. These companies are predominantly in the upper sub-investment grade range and predominantly have EBITDA between EUR 5 million and EUR 25 million and correspondingly turn-over of EUR 25 million to EUR 75 million. The size of loans provided by the debt funds show a large spread of 5 to 100 million euros.

Matthias Erb, member of the BAI Managing Board and responsible for Alternative Markets, explained: "German SMEs offer great potential for the further growth of debt funds in Germany. There are thousands of companies that are eligible for financing through debt funds and are ideal companions for growth and takeover financing for the debt funds. Debt funds can play out their advantages especially with longer maturities, challenging business developments and in the sub-investment-grade segment of the German SME market."

The growth of debt funds is triggered and accompanied by demand from institutional investors. In Germany, this demand comes not only from large, global insurance groups, but also from pension funds, pension schemes and many other, smaller investors. According to the study, the **main reason** for investing in debt funds is the **good risk-return ratio**, followed by diversification and use as a bond/pension replacement due to stable regular income.

Andreas Kalusche, member of BAI's Managing Board and also responsible for Alternative Markets, commented as follows: "All investors in Germany have long since included the debt fund market for corporate loans as an essential component of their portfolio decisions and regard it as an alternative to conventional fixed-income investments. As corporate private debt in Germany also offers adequate returns and collateral for investors, this market will continue to develop positively on the demand side".

The funds operating in Germany are predominantly located in Luxembourg and so far only smaller credit funds active in the areas of restructuring (distressed debt) and special situations are based in Germany.

Frank Dornseifer, Managing Director of BAI, explained: "Due to the European focus of most debt funds, the choice of Luxembourg as a location is not surprising. Although the survey does not criticise German regulation in principle, well coordinated and pragmatic regulation, as well as already existing structures often give rise to the choice of Luxembourg as a location. We hope, however, that the momentum will continue for small funds, some of which are already established in Germany after all. It is precisely here that we want to act as an association and remove existing hurdles."

Overall, the BAI believes that **Corporate Private Debt** is on the advance in Germany. This market will gain in **breadth and depth** in the future. Due to the German economic structure and the (still) high density of banks, this development will differ from that in the USA, for example. Growth in Germany will not be continuous, but will continue to fluctuate as before and extend beyond the existing focus areas of acquisition and growth financing. As a result, debt funds are an important enrichment for the financial centre and expand the financing opportunities of German SMEs to complement banks and other market-based forms of financing that are currently developing.

The study "Corporate Loan Financing by Non-Banks in Germany" can be downloaded from BAI's homepage at www.bvai.de . There you will also find a summary of the study and further information on the subject of private debt (in particular under the heading "Main topics").

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Bundesverband Alternative Investments e.V. (BAI) is the central advocacy association for the alternative investment industry sector in Germany. The BAI serves as a catalyst between institutional and professional German investors and recognized providers of alternative investment products worldwide. Particularly, one goal is to make it easier for institutional and professional German investors to more effectively diversify their financial assets into Alternative Investments, especially as many of those investors are responsible for safeguarding long-term retirement pensions. Another core task of the organization is to improve public awareness and enhance the understanding of asset classes and strategies in public. The BAI maintains an intense dialogue with political institutions as well as supervisory bodies. Furthermore, the BAI cooperates with various national and international organizations and industry associations. It advocates for legal reforms to design an attractive and competitive regulatory environment for Alternative Investments in Germany. At present, BAI counts 205 members from all areas of the professional alternative investments sector.