Invesco Global Real Estate Debt

A source of diversification for insurers

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With a relatively high yield compared to corporate bonds and a mild regulatory capital charge, Senior Real Estate Debt aims to offer an attractive return on Regulatory Capital for insurers

Why should Insurers consider Real Estate Debt?

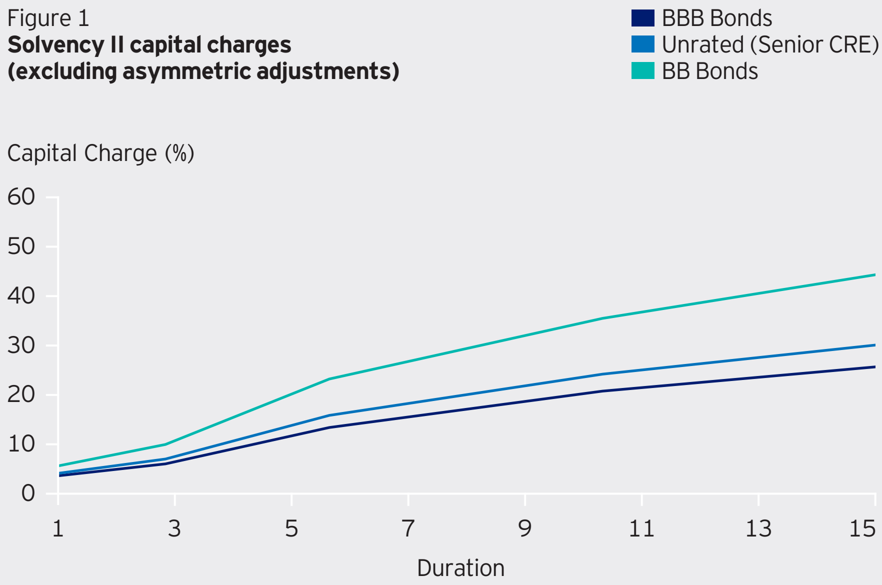
Real Estate Debt offers yield and diversification benefits coupled with reasonable capital requirements

- In the current low yield environment with compressed spreads in public bond markets, Real Estate Debt is an attractive alternative to public bonds.
  - Senior Real Estate Debt investments offer **higher rates of return** when compared to corporate bonds of similar credit ratings.
- Real Estate Debt provides portfolio **diversification benefits** versus both equity and bond markets, and also versus direct real estate, due to the specific value drivers of individual properties.
  - Insurers may capture the diversification benefits within an internal model, or within the ORSA[1] for those insurers with standard models.
- Senior Real Estate Debt markets exhibit a **loan to value (LTV) which is lower than 60%** compared to an average of just 40% for corporate bonds.
- Senior Real Estate Debt is secured against an underlying property which serves as collateral and could offer **a higher recovery rate** than the typical corporate bond recovery rate (40%).
- Real Estate Debt is the most common private debt investment allocation by insurers, and is forecast to see increases in the future[2].

Regulatory capital requirements under Solvency II

- As a private asset class, Real Estate Debt does not have public ratings, which are a source of return drag.
- Under the Solvency II framework, Real Estate loans are classified as "not rated", which gives **a spread capital charge slightly higher than BBB loans** (Figure 1).
- These loans are medium duration, typically 5 years, therefore we can use **15% as an approximation of their credit capital charge** if they are treated as unsecured bonds.
- The **significant collateralisation** could provide greater **capital efficiency under Solvency II.**
- Capital charge reduction can be achieved if the interpretation of the qualifying/eligible collateral rules backing the Real Estate Debt investment is met.

Figure 1
Solvency II capital charges (excluding asymmetric adjustments)



Representing Senior Real Estate Debt on Solvency II charge spectrum[1]:
- Being unrated by ECAI[2], Senior **Real Estate Debt capital charge is slightly higher than BBB 5 Years[3]**

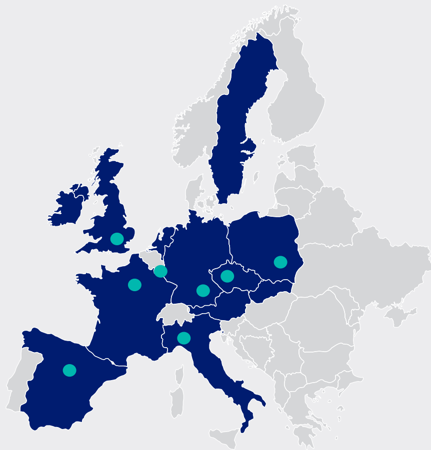
Source: Invesco Insurance Solutions. [1]For illustrative purposes only for Senior Real Estate Loans (Not including whole loans/mezzanine). [2]ECAI: External Credit Assessment Institutions. [3]Expected BBB rated (Internal model) since there is not a diversified source of cash flows.

1 Own risk and solvency assessment.
2 EY asset manager survey 2020.

Why should insurers consider Invesco for Real Estate Debt?

- Invesco Real Estate is an established and stable global real estate investment manager with over 35 years' experience and over $80bn in assets under management.
- We are one of the largest real estate investment managers worldwide with 21 offices in 16 countries and c.535 real estate professionals.
- In Europe, we manage over $15bn of assets across 14 countries. (Figure 2)
- Our established platform of 166 professionals across the UK, Germany, France, Spain, Italy, Poland, Czech Republic and Luxembourg ensure we live and breathe the markets in which we invest.

Figure 2
Invesco Real Estate – European market coverage



'Bringing together deep, debt experience with a large, Pan-European real estate platform'

- Invesco have added a Real Estate Debt capability to our European offering. These specialists bring with them existing associated assets and a Seven-year European track record.
- Pan-European coverage is an important factor when considering Real Estate Debt transactions. Local real estate market coverage enhances deal sourcing through on-the-ground investment professionals. (Figure 3)
  - Real estate markets are, by definition, localised through the application of local laws and lease structures.
  - Sourcing of many Real Estate transactions are heavily reliant on local relationships. Local presence offers considerable advantages.
  - Underwriting debt secured against Real Estate benefits from both understanding of the local market dynamics, and also relationships with local borrower entities and originating banks.
- The European Debt capability is further enhanced through the expertise and experience of Invesco's highly successful global and US Real Estate Debt platform.

Expanding our Global Real Estate Debt Capabilities

Figure 3
Invesco European Real Estate Platform Synergies

Pan-European Debt Team

Est 2012

Origination Volume

$1.7bn

Loans Originated

45

Local real estate market coverage enhances deal sourcing through on-the-ground investment professionals

Pan-European Real Estate Platform

8 Offices

Assets Under Management

$15.3bn

Dedicated Professionals

171

Invesco insurance client segment

- Managing over $100bn in assets for insurance clients globally 35 years experience managing insurance assets.
- Invesco manages Real Estate Debt, Real Estate Equity and Listed Real Assets across separate account mandates and pooled capital for over 413 clients worldwide.
- Invesco Insurance Solutions partner with insurers to integrate Real Estate exposure across their portfolios. Due to unique client challenges, we incorporate a tailored approach in order to design a highly customised solution.

Source: Invesco as at 30 September 2020

Contact us

Please contact your local Invesco sales representative for more information.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realised.

Real estate investments are exposed to counterparty risk, which is the risk that a counterpart is unable to deal with its obligations.

Many Real Estate investments are illiquid, meaning that the fund may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the underlying investments.

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Data as at 30 September 2020, unless otherwise stated.

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