NATIXIS ASSET MANAGEMENT

Infrastructure debt market insight

February 2018

2017 quick overview

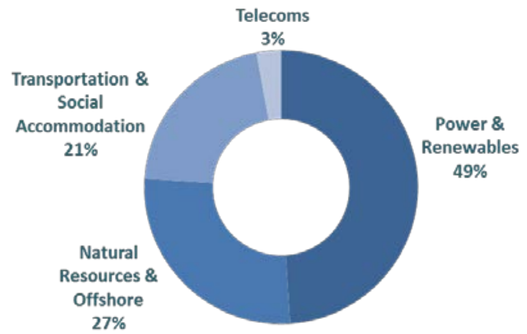
Market growth driven by the Americas and Power & Renewables

2017 was a positive year for infrastructure debt in terms of volume ($240Bn and + 10% vs 2016) thanks to the Americas (+ 57% vs 2016) and Power and Renewables (+ 42% vs 2016).

Power & Renewables reached a peak in volume

Since 2008, Power and Renewables have been the major sector in the market, following the decline in public orders in transportation and social accommodation. This trend continued in 2017. Power and Renewables' transactions reached their highest point ever, at roughly $120Bn (49 % of the global market), largely due to Renewables, which reached a peak at roughly $62Bn (21% of the global market).

Sector breakdown 2017



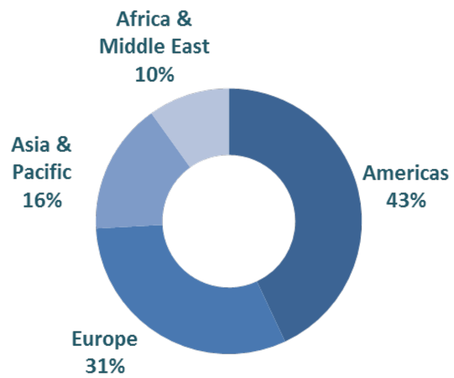
Source: Infrastructure Journal Database as of 31/12/2017

Europe and the Americas the most active regions

Europe and the Americas have always been the two most active geographic areas. This trend was confirmed again this year. Nevertheless, the Americas were the most active regions (market share 43% vs 30% in 2016) with numerous refinancing and acquisition transactions of gas-fired plants in the USA, along with some jumbos in Canadian oil and gas.

As usual, Australia accounted for the bulk of Asia-Pacific activity. Recently, other Asian countries (especially Indonesia, Japan and Philippines) substantially supported market growth.

Regional Breakdown 2017



Source: Infrastructure Journal Database as of 31/12/2017

Several records in Power & Renewables - Decreasing costs trigger the end of subsidies

This year, the sector experienced the lowest solar photo-voltaic cost due to the decrease in the cost of solar panels. This was particularly evident in Saudi Arabia where costs fell to $0.01785 Kw/H. This record has already revived interest in photo-voltaic farms in other countries (e.g. auctions in France, Denmark Spain, and recently in Germany). This decrease in costs will spread grid parity in the market of photo-voltaic energy, paving the way for the development of free-subsidy projects. Incidentally, the beginning of 2018 has seen first unsubsidized photo-voltaic farm in Portugal.

In Germany, EnBW and Orsted won the first free-subsidy offshore wind auctions. The Netherlands followed with the launch of their first free-subsidy auction by year-end. These leading players introduced merchant risk in the wind offshore sub-sector.

We anticipate that the fading out of subsidies will significantly and permanently reshape the risk profile of renewables transactions.

New territories: Offshore wind out of Europe – Batteries in Renewables – Broadband

The offshore wind industry is also expanding out of Europe, its historical market-place: the USA and Taiwan have now signed many water lease agreements allowing the development of the sector.

Of note in the Renewables' sector is the increase of integrated batteries being included in projects. The batteries mitigate the alternative nature of renewable power and help to keep the grid balanced. At the beginning of 2018, we even saw the first stand-alone battery transaction.

The new sub-sector of broadband projects supported the growth of the Telecom sector in Europe and USA.

Brownfield vs greenfield, and the winner is….

Refinancings and acquisition financings largely supported the market in 2017 and reached an all time high volume of $132 Bn, i.e. roughly 55% of the year's activity, vs 32% in 2016. Brownfield transactions have been dominant across the board. One reason for this growth is that many of the post construction refinancings were initially financed as "greenfield" a few years ago

Outlook for 2018

Energy transition to boost Renewables and related sub-sectors

Following the COP meetings commitments and due to the decrease in costs, we anticipate that Renewables will drive a significant portion of the market growth in the coming years. it should be noted, that power storage and transmission line projects are likely to develop in the wake of the boom in Renewables.

Unclear launch of Transport & Social Accommodation in Europe and the USA.

A lot of greenfield projects are still awaiting the green light from public authorities, struggling with budget cuts in Europe and with the Trump administration's decision on the infrastructure plan in the USA. However, some major projects should close this year: rail and road in Australia, Canada, Norway, Germany and the Netherlands. The Transportation and Social Accommodation sector is expected to be supported by refinancings and asset acquisitions, continuing the 2017 trend.

New developments

Broadband and undersea cable projects are also expected to increase in the coming years. The access to broadband networks in urban and rural areas is on the agenda in several regions, e.g. the 2020 Strategy and Digital Agenda issued by the European authorities.

Where is the value for investors?

Where can investors find added value in infrastructure debt?

We believe that value still exists in the European market. Nevertheless, this market is restrictive (30% of the global market) and not so booming. The growth and the value are likely to be partly beyond Europe and beyond traditional sectors. That is why Natixis AM opens its strategies to the whole infrastructure universe including traditional and new sub-sectors in Europe and in OECD. Moreover this universe covers over 70% of the global market (i.e. 40% more than the sole Europe). With this coverage, we are able to perform a real selection of transactions.

Which risk approach should investors favor to capture yield in this broad universe?

Widening the investment universe to access new and attractive transactions means taking new risks: country, technological or merchant risks. Natixis AM developed a very structured investment process: We control and limit the risk at the transaction level. In addition we apply a unique portfolio construction methodology to achieve an effective diversification of risk factors.

Which portfolio duration should investors target?

We believe the universe offers attractive opportunities across the entire maturity spectrum. Our diversified strategies combine short to long duration transactions resulting in portfolios with a mid-term average duration, including greenfield, brownfield refinancings and acquisitions.

Natixis AM implements a mid-term duration strategy selecting attractive transactions diversified across Europe and OECD, across all sectors (with an emphasis on "green" sectors), with the aim to build portfolios displaying an effective diversification of risk factors.

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