

# Opportunistic Credit – Beyond the Mainstream

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Financial Investigator Private  
Offices Seminar

21st November 2024

# Opportunistic Credit Investor Focused on Four Core Asset Classes




**Corporate Securities**

- Corporate Credit
- CLOs
- Bankruptcies and Liquidations




**Specialty Finance**

- Residential Mortgages
- Consumer
- Small Business
- Commercial Real Estate



**Structured Credit**

- Buyer of Asset-Backed Securities
- Issuer of Mortgage-Backed Securities, Residential Solar Securities and Aviation Securities



**Hard Assets**

- Energy Transition
- Aviation

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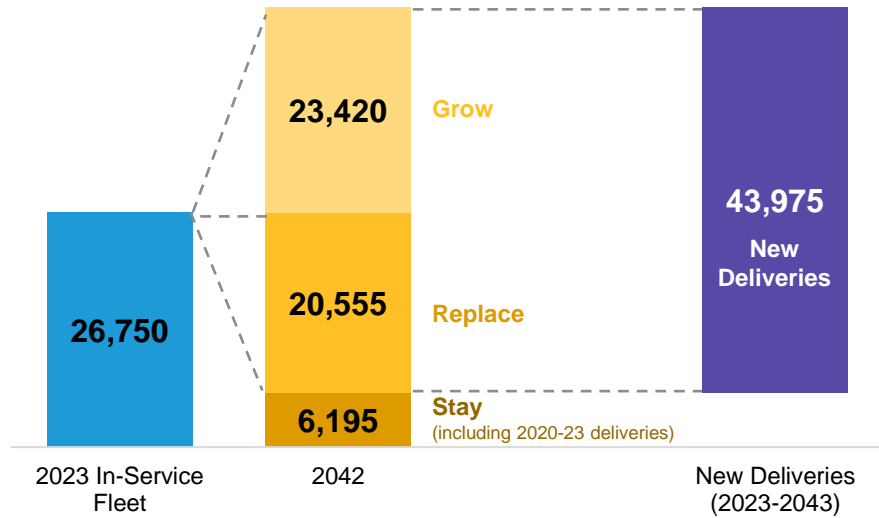
# Investment Strategies

Aviation

# Commercial Aircraft Market Fundamentals

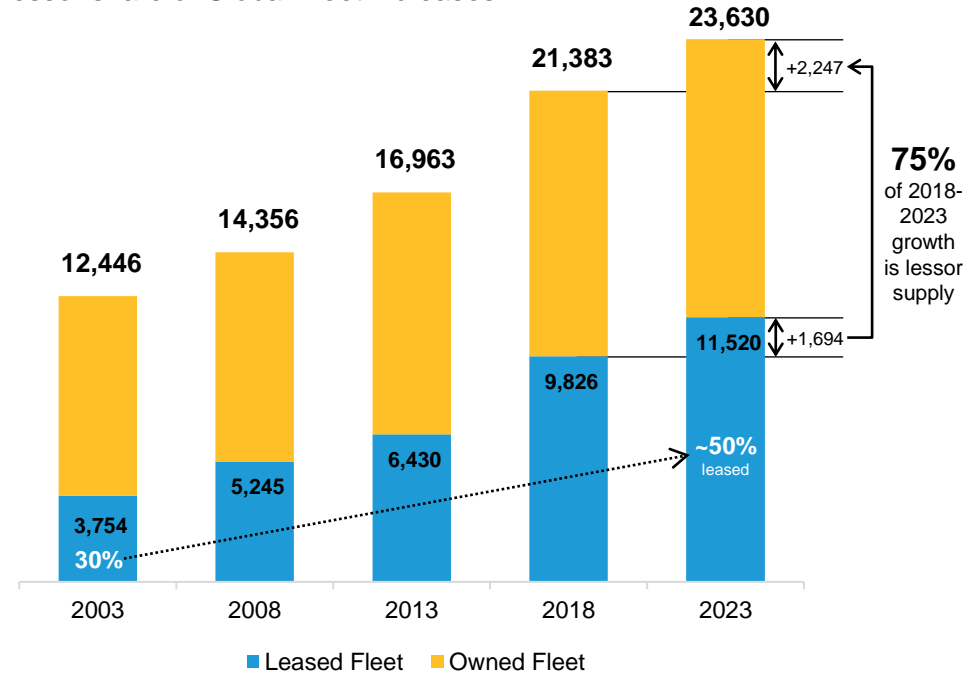
## New aircraft deliveries 2023 – 2042

Demand for >40,000 new aircraft over the next 20 years



## Airline: Lessor share of global fleet

Lessor share of Global Fleet increases



Source: (left) Boeing Commercial Market Outlook July 2024; (right) AerCap

# Low Correlation to the Broad Market

January 1995 – July 2024

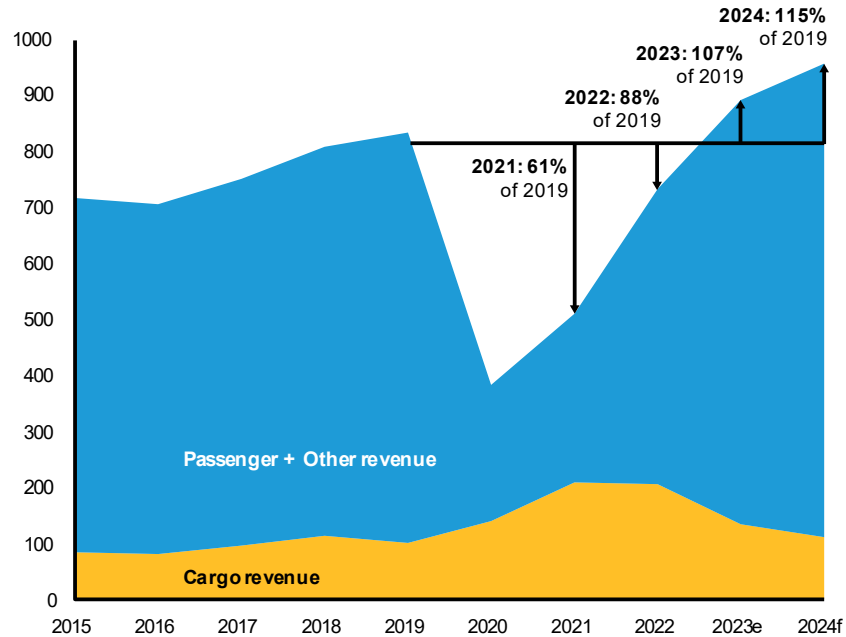
Correlations	ALRI (Leased Aircraft)	MSCI World
Leased Aircraft	1.00	0.03
Airlines	0.08	0.71
Infrastructure	0.01	0.83
MSCI World	0.03	1.00
REITs	-0.02	0.87
Shipping	0.01	0.74
Global Bonds	-0.04	0.34
Leveraged Loans	0.08	0.53

Source: Ascend Leasing Returns Index, MSCI Daily TR World Net Airlines USD, Dow Jones Brookfield Global Infrastructure Total Return Index, MSCI World Net Total Return USD Index, FTSE EPRA Nareit Global Index TR USD, DAXglobal Shipping USD Total Return

# Airline Industry Profitability Turns Attention to Growth

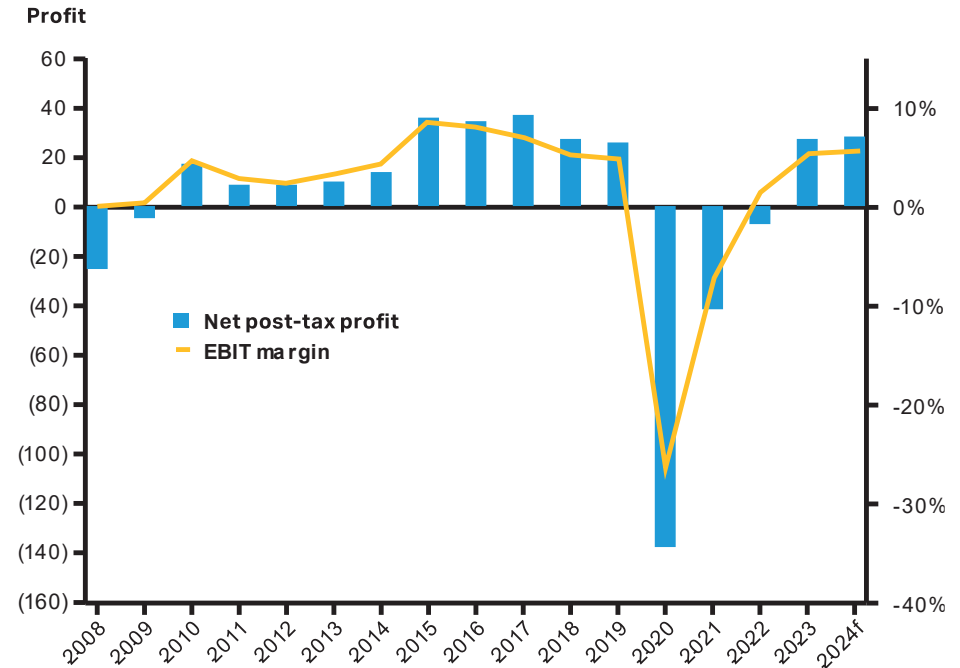
## Airline Profitability Forecast to Continue into 2024

Global airline revenue (USD Billions)



## Airlines are making good profits - Demand is strong

Airline net profit and EBIT margin development (USD Billions)



Source: (left) IATA Sustainability and Economics, The Airline Analyst - December 2023; (right) AITA Annual Review 2024

# Volume Recovery + Constrained Supply = Demand for Aircraft

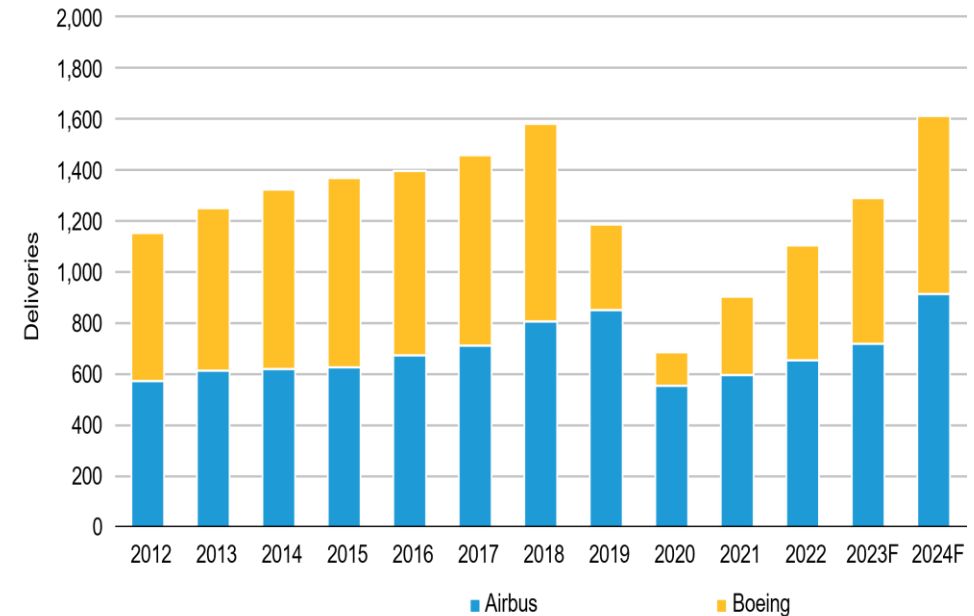
Demand recovery is underway, supply is constrained

## Demand recovery

Industry RPKs (Billions per month)



## “Lost Generation” of aircraft production



Sources: (left) IATA Sustainability and Economics, IATA Monthly Statistics; (right) Cirium Ascend Commercial Aviation Monitor, July 2023

# Case Study: Purchase Lease-Back of 8x 737 Max with Asian Carrier

## Overview

- Acquire 8x new/ tier 1 technology 737MAX at attractive price (3-8% discount from market)
- Deploy with major carrier in Indonesia, the sixth largest domestic market in the world

## Investment Rationale

- Excellent medium-term supply/demand dynamics for narrowbody aircraft, and the MAX in particular: MAX cancellation backlog fully allocated; MAX new production constrained; domestic demand accelerating; most fuel-efficient technology
- We believe lessee will emerge post COVID in a dominant competitive positions versus direct competitors, who are either in court directed restructuring or liquidation.
- Default is very manageable due to our attractive purchase price and the ability to get better market rents

Components of Cash Flow (USD millions)	
Purchase	\$(382.0)
Residual	147.9
Rent	381.0
EOL	—
Expenses	(1.6)
MR	287.6
MX	(167.7)
Servicer	(23.8)
Loan Advance	282.0
Loan Amort	(284.0)
Loan Interest	(136.5)
Loan Expense	(5.1)
P&L	99.8

Timing of Cash Flow (USD millions)	
2022	\$(93.8)
2023	19.5
2024	22.6
2025	23.4
2026	24.3
2027	22.2
2028	25.6
2029	24.2
2030	22.9
2031	(115.5)
2032	22.1
2033	30.5
2034	71.8
	99.8



See disclaimers regarding Investment Examples, Risk of Loss and Projections.



# AB CarVal/Aergo Capital Lessor Ranking

Aergo Capital is a Top-20 Lessor



Rank	Manager	2022	2023	% change since last year	
1	Aercap	1,809	<b>1,746</b>	↓	-3.5%
2	SMBC Aviation Capital	506	<b>720</b>	↑	42.3%
3	Avolon	587	<b>581</b>	↓	-1.0%
4	Air Lease Corporation	507	<b>538</b>	↑	6.1%
5	ICBC Financial Leasing	428	<b>515</b>	↑	20.3%
6	BBAM	456	<b>500</b>	↑	9.6%
7	BOC Aviation	426	<b>452</b>	↑	6.1%
8	DAE Capital	362	<b>397</b>	↑	9.7%
9	Carlyle Aviation Partners	406	<b>390</b>	↓	-3.9%
10	Aviation Capital Group	347	<b>373</b>	↑	7.5%
11	Nordic Aviation Capital	350	<b>300</b>	↓	-14.3%
12	Bocomm Leasing	270	<b>298</b>	↑	10.4%
13	CDB Aviation	269	<b>294</b>	↑	9.3%
14	Falko	257	<b>272</b>	↑	5.8%
15	Aircastle	255	<b>246</b>	↓	-3.5%
16	Castlelake	272	<b>235</b>	↓	-13.6%
17	<b>Aergo Capital</b>	110	<b>229</b>	↑	108.2%
18	Jackson Square Aviation	195	<b>210</b>	↑	7.7%
19	China Aircraft Leasing Company	175	<b>196</b>	↑	12.0%
20	Macquarie Airfinance	189	<b>195</b>	↑	3.2%

Source: AirFinance Journal as of January 2024.

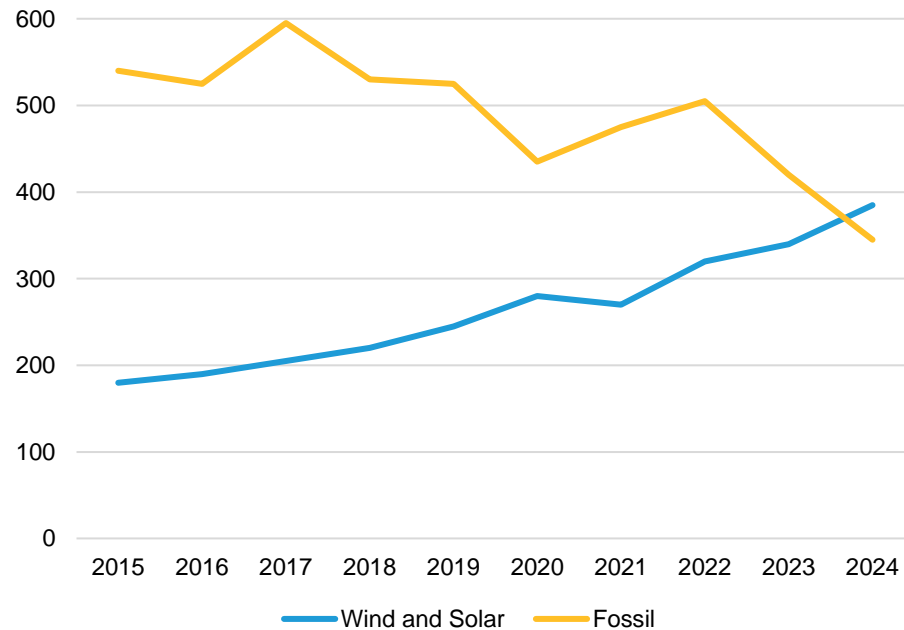
# Investment Strategies

Energy Transition

# Supportive Policies in Europe Propel Renewables Generation

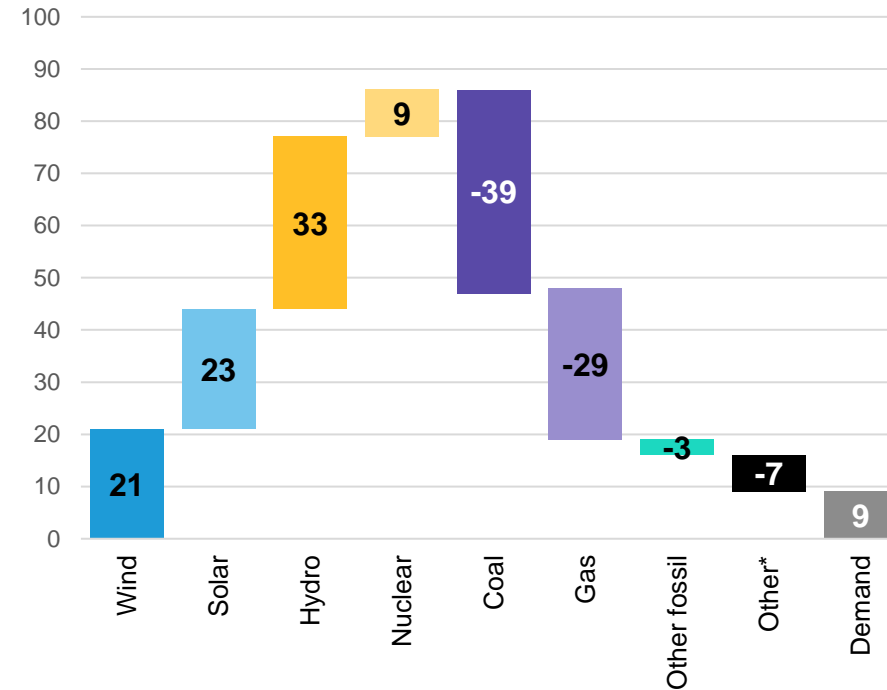
## EU wind and solar overtake fossil power in first half of 2024

Generation in the first half of each year (TWh)



## Changes in generation by type

H1-2024 vs. H1-2023 (TWh)

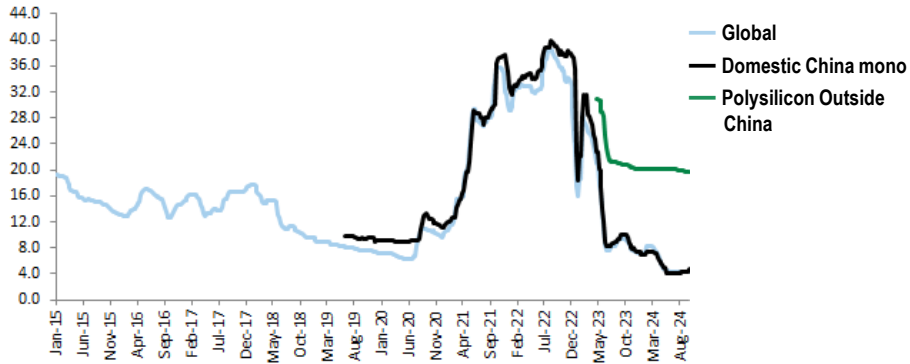


Source: Monthly electricity data, [Ember](#)

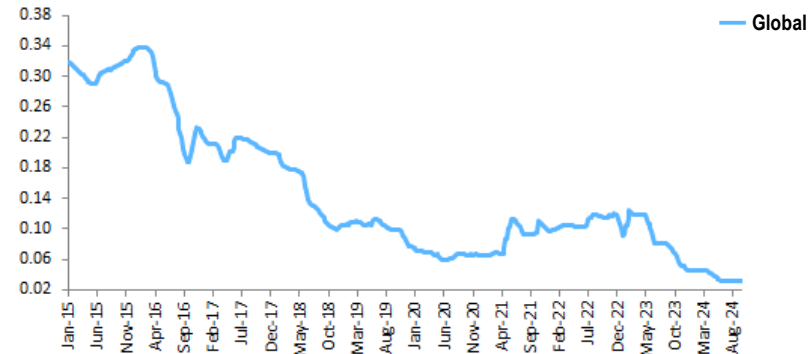
\*Other includes bioenergy, other renewables and net imports

# Solar Input Prices are at All-time Lows

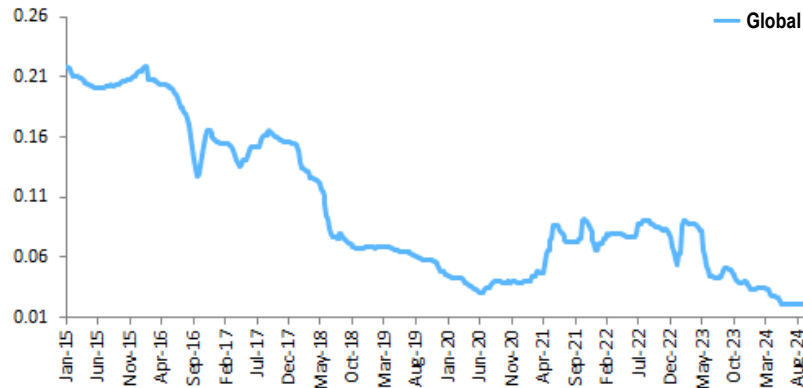
Polysilicon price (USD/kg)



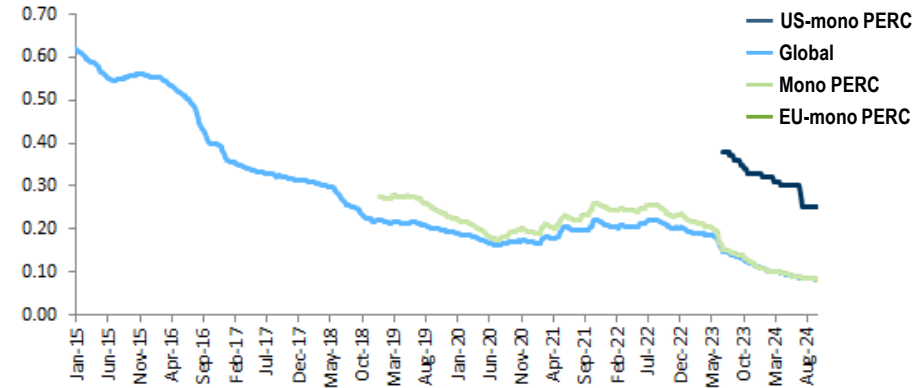
Cell price (USD/W)



Wafer price (USD/W)



Module price (USD/W)



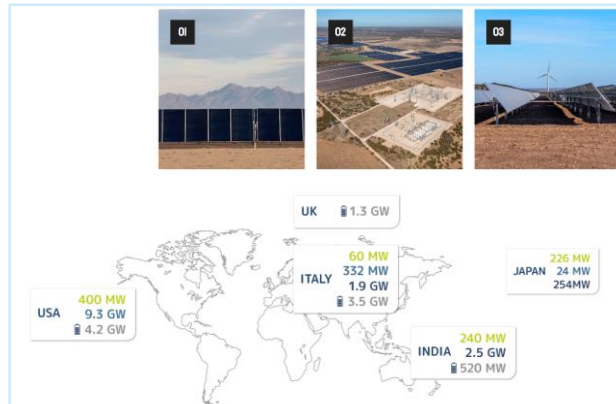
Source: GS Solar Input Pricing Data (Week of 9/23/2024)

# AB CarVal Energy Transition Investment Focus Areas

Capital deployed into private financings, assets, residential and ABS across the energy transition

## Developer & Corporate Financings

Loans, Notes, Preferred Equity



Private financings against developers, development-stage asset portfolios and corporations across renewable energy, energy efficiency, sustainability, and the energy transition.

## Project Financings

Loans, Operating Ownership Interests



Senior and mezzanine project finance loans, tax equity, project preferred equity, and operating asset lending/investing across distributed and utility-scale power assets including solar, battery energy storage systems (BESS), hydro, wind, fuel cells, and renewable fuels.

## Other: Hard Assets, Resi, Traded

Pre-Operating, Whole Loans, ABS, Public



Includes (i) directly held project assets acquired at the development and construction stage before commercial operation, (ii) newly originated and secondary purchases residential solar, energy storage, energy efficiency upgrade loans, (iii) syndicated ABS financings, and (iv) traded opportunistic credit

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# Secured Mezzanine Debt for GoldenPeaks Capital

## What is the Asset and Where is it in the Structure/Waterfall

- €75 million acquisition and construction loan for “Ready to Build” solar assets in Poland
- Maximum combined LTV of 76%\*
- Underwritten to mid – high teens levered return

## Pendulum Shifts and Market Dynamics

- Attractive dynamics – fast growing solar market, exiting coal
- Fragmented market with national utilities as asset buyers
- Lack of capital solutions
- Low development risk

## Origination and/or Operating Partner

- Positive selection of market leading partner – 800 MWs
- Bilateral negotiations
- Bespoke funding solution

## Shaping and Protective Provisions

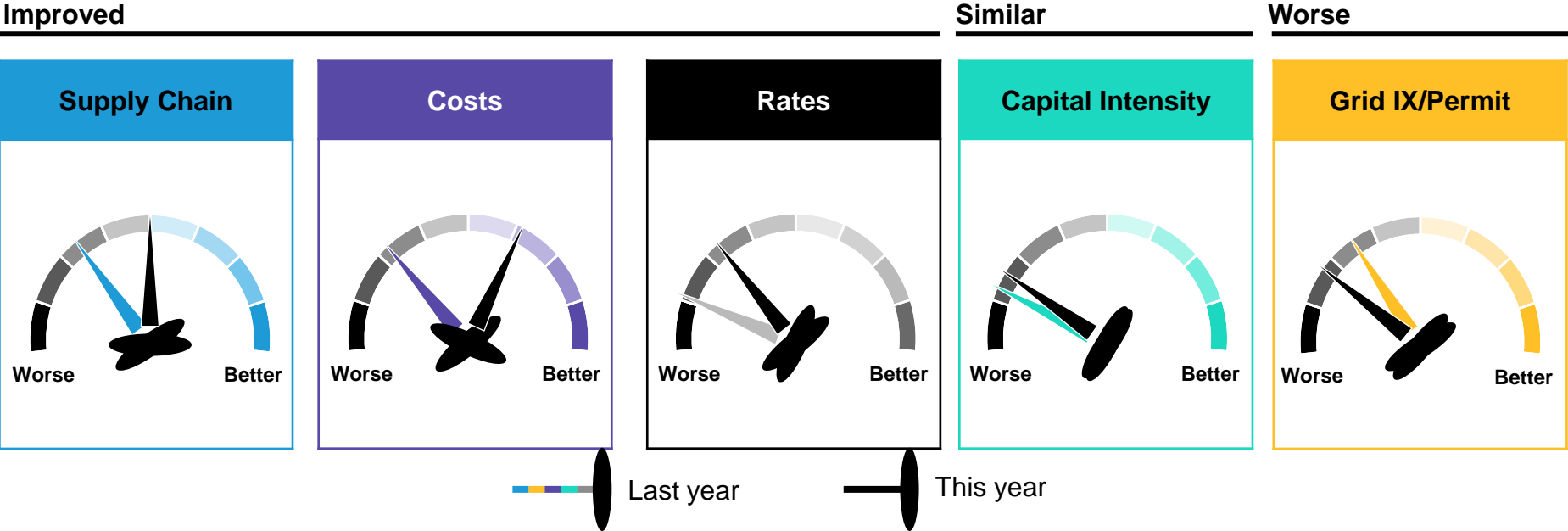
- Share security (after senior) and consent rights
- 1.35x Asset Coverage, “Milestone Tests”, Min. Project IRRs
- Alignment: €12.5 million cash equity + €20 million pipeline + €5 million PG
- Euro denominated



\*Combined LTV = (CVI Debt + Senior Debt) / (Total Project Sale Proceeds). Excludes €20 million pipeline value and €5 million.

# Energy Transition Sector Dynamics

Amidst a backdrop of strong fundamentals there are several cross-currents



Based on AB CarVal's view of the market and subject to change.



# Key Takeaways

- Aviation Leasing is a large market with attractive fundamentals
- Low correlation to other financial markets make it an efficient addition to many portfolios
- Clean energy exposure can be achieved using opportunistic credit
- Fundamentals in clean energy are good, US election result is likely to favour debt over equity

Based on AB CarVal's view and subject to change.



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