

PICTET ASSET MANAGEMENT

Il mercato privato in Europa: la visione di Pictet

GIAMBATTISTA CHIARELLI

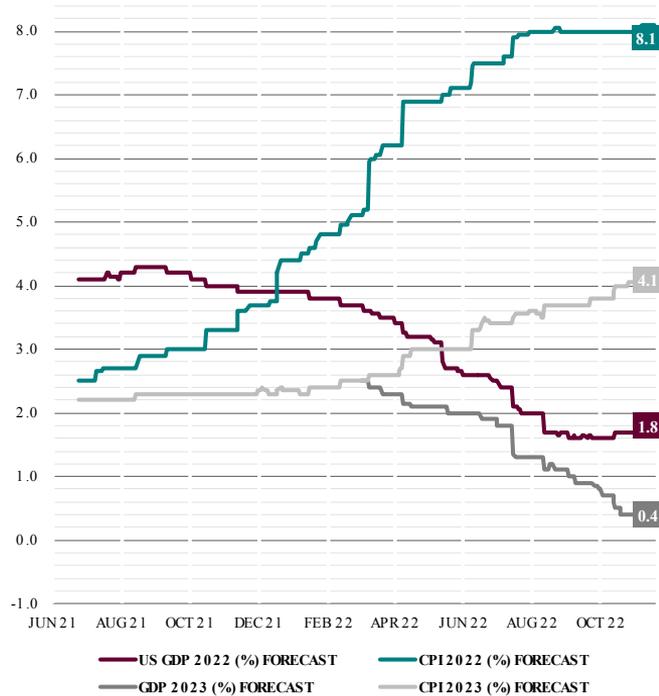
RESPONSABILE ISTITUZIONALE ITALIA E ISRAELE

NOVEMBRE 2022, ROMA

Market Outlook

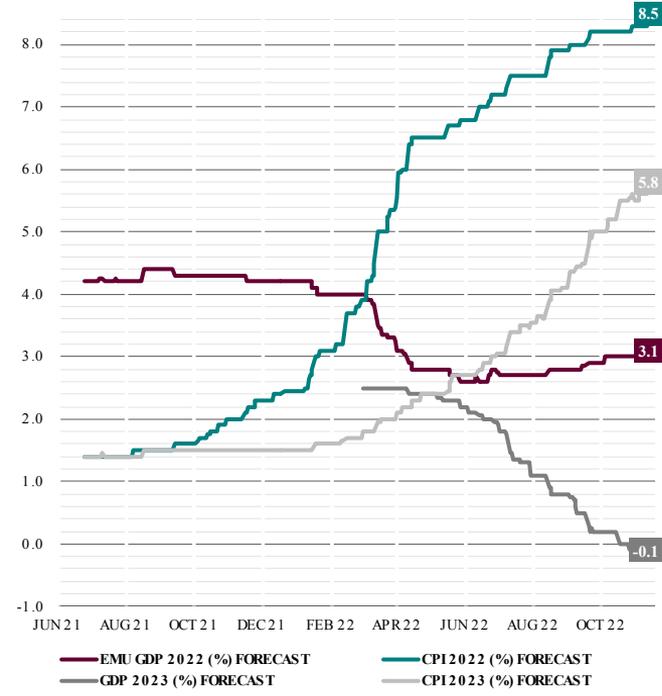
Growth and inflation | worsening mix

US Bloomberg Consensus Real GDP & CPI Forecasts (%)



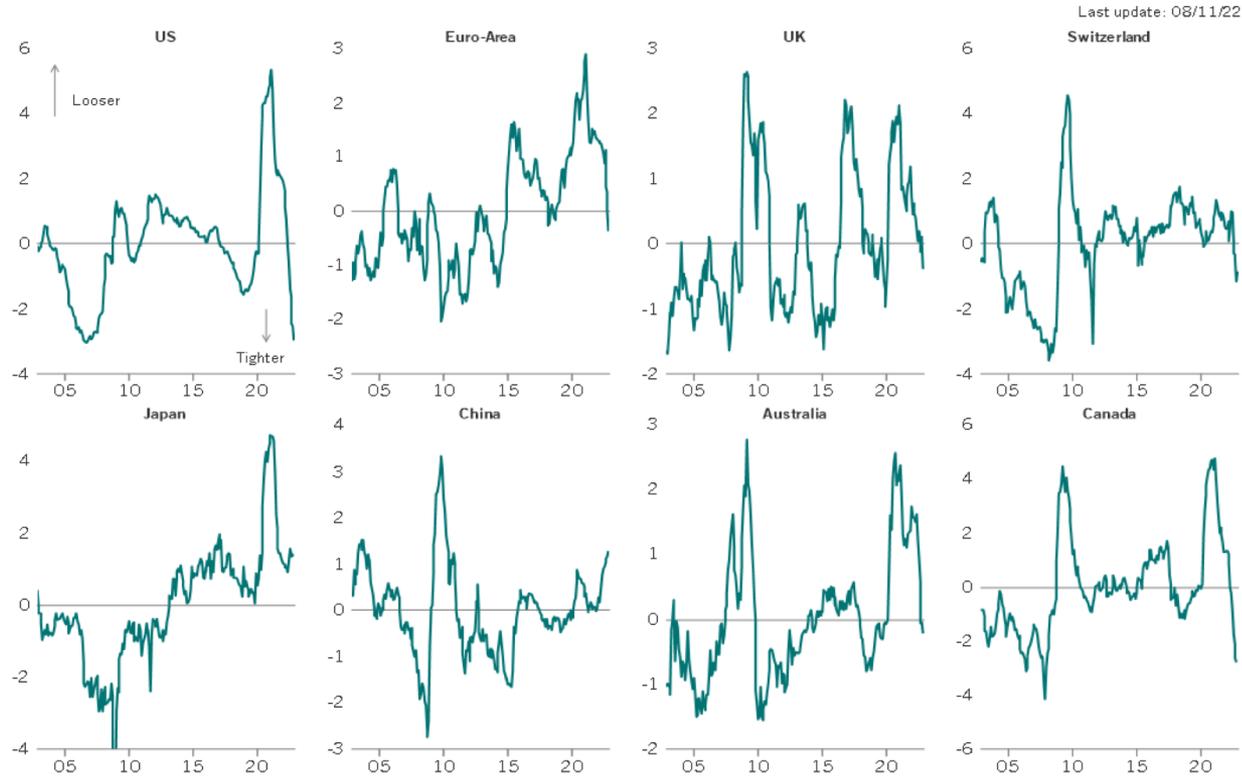
Source: Bloomberg, Pictet Asset Management. As of 18th November 2022.

EMU Bloomberg Consensus Real GDP & CPI Forecasts (%)



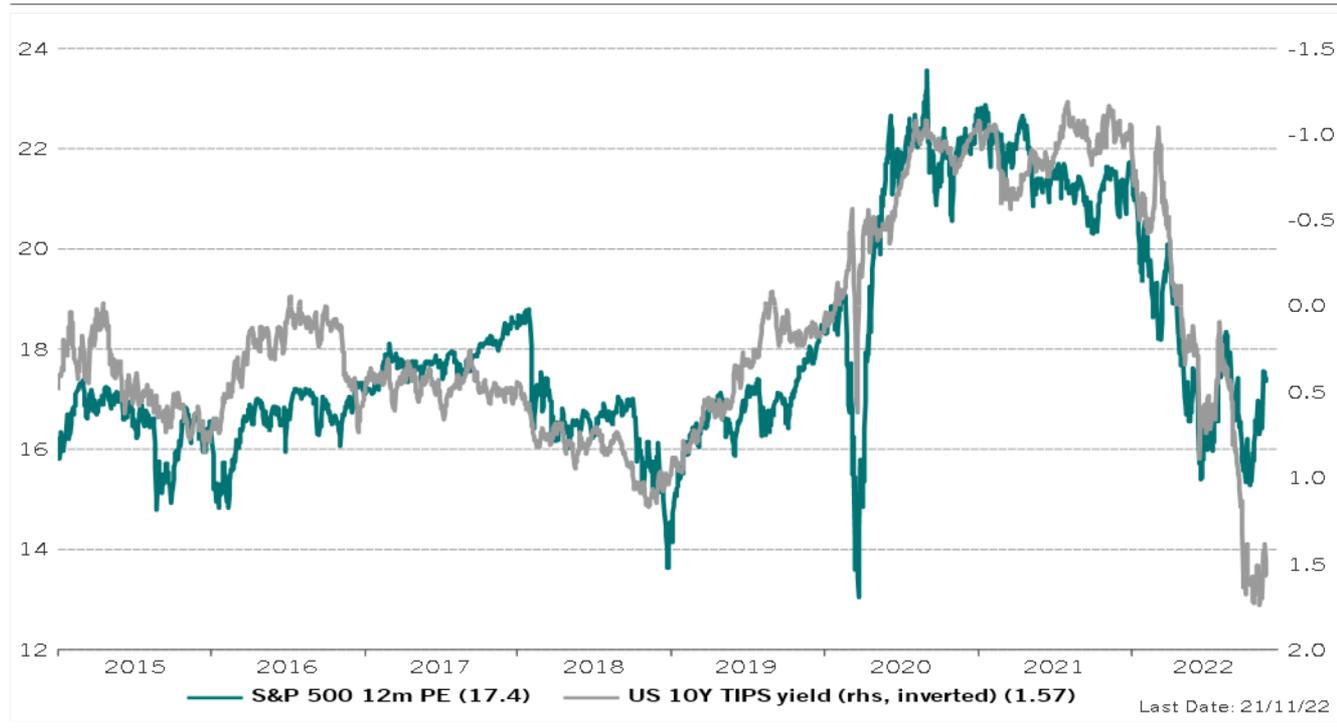
Source: Bloomberg, Pictet Asset Management. As of 18th November 2022.

Global monetary conditions | who is different?



Equities valuation | real bond yields are the driver

US 10Y TIPS yield in % and S&P 500 12m PE



Source: Refinitiv Datastream, MSCI, IBES, Pictet Asset Management.

Private markets in Europe

European private equity market | deal activity

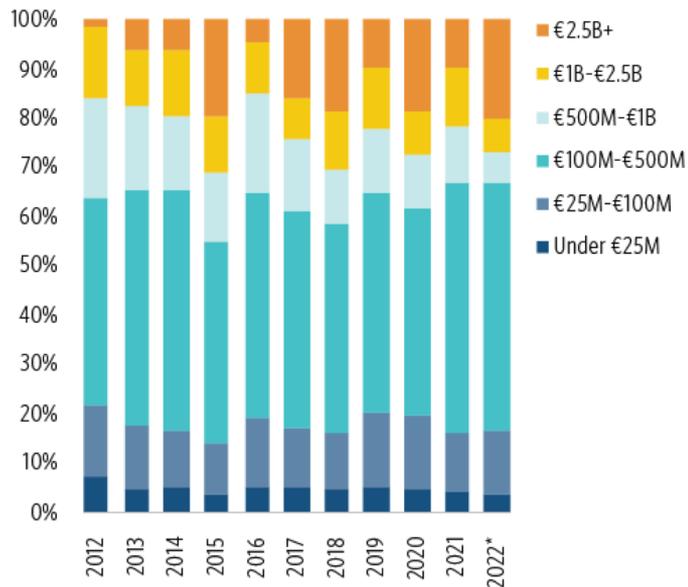
PE deal activity



Source: PitchBook | Geography: Europe
*As of September 30, 2022

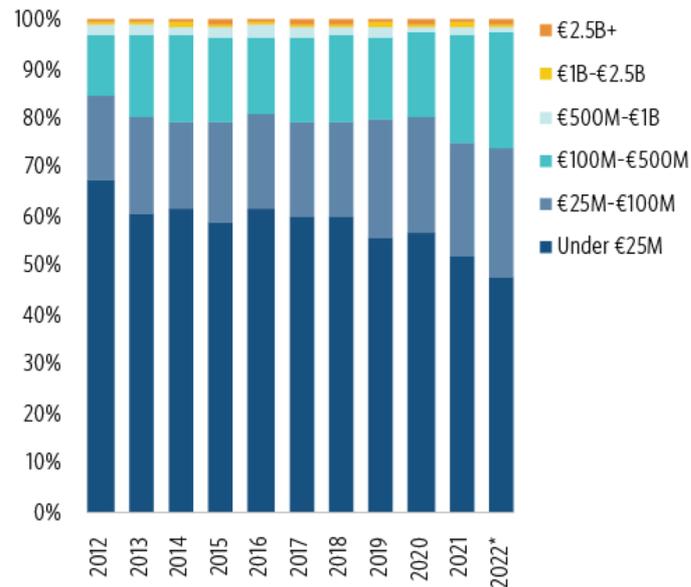
European private equity market | deal value

Share of PE deal value by size bucket



Source: PitchBook | Geography: Europe
*As of September 30, 2022

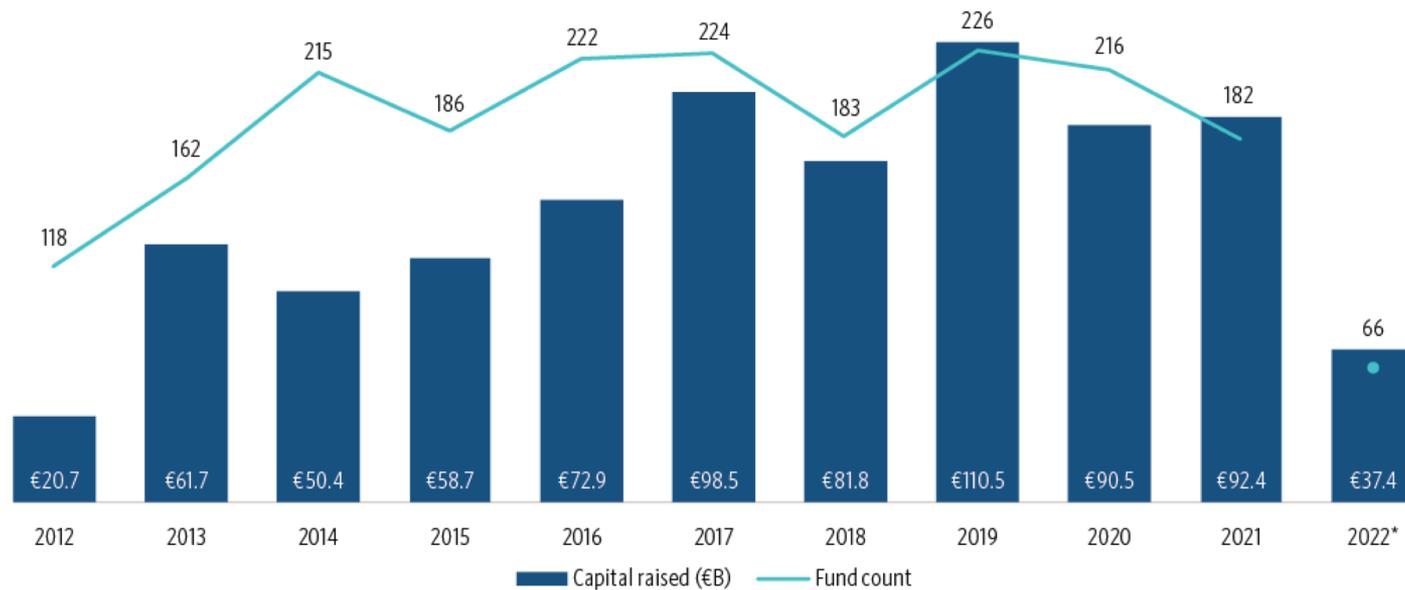
Share of PE deal count by size bucket



Source: PitchBook | Geography: Europe
*As of September 30, 2022

European private equity market | fundraising

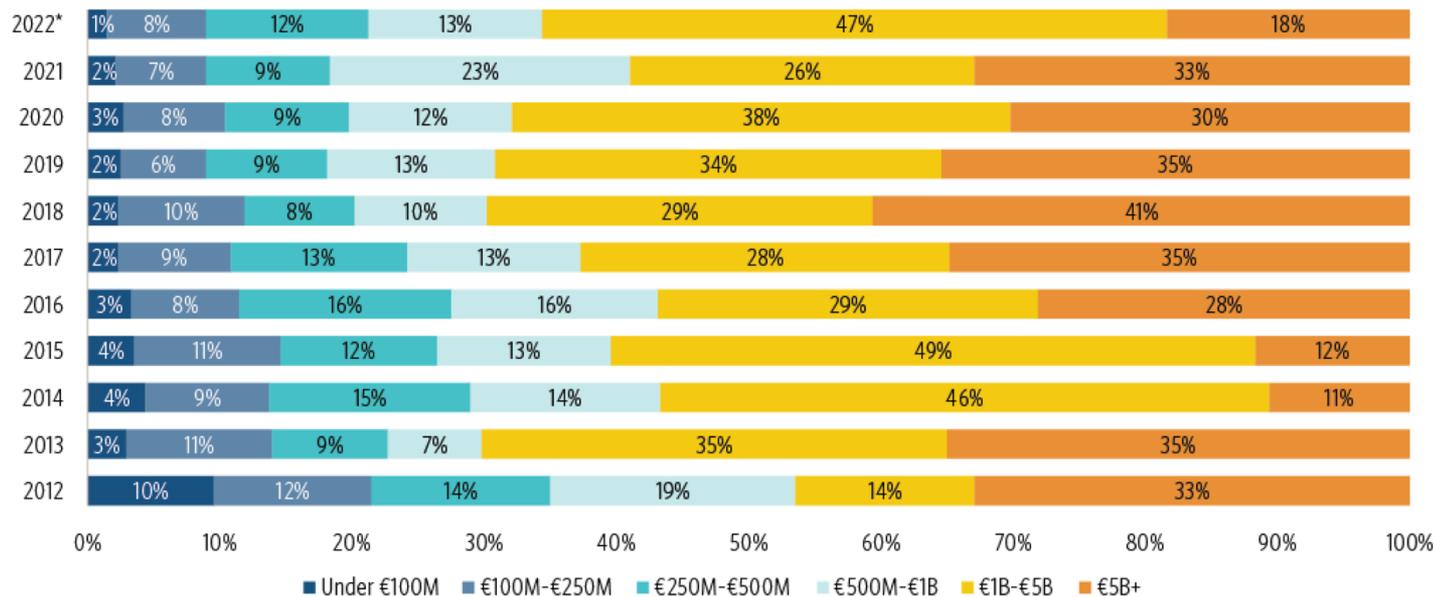
PE fundraising activity



Source: PitchBook | Geography: Europe
*As of September 30, 2022

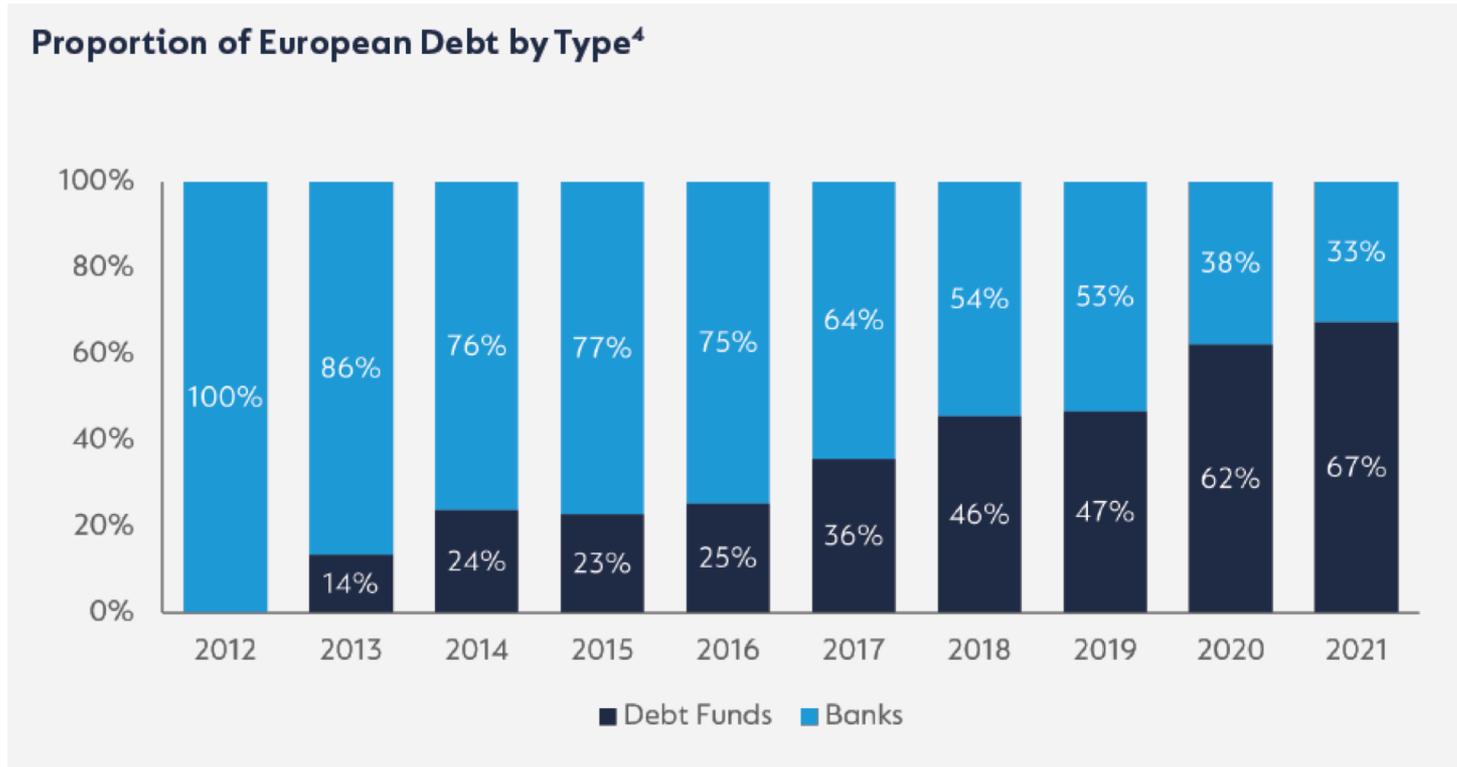
European private equity market | fundraising cont.

Share of PE capital raised by size bucket



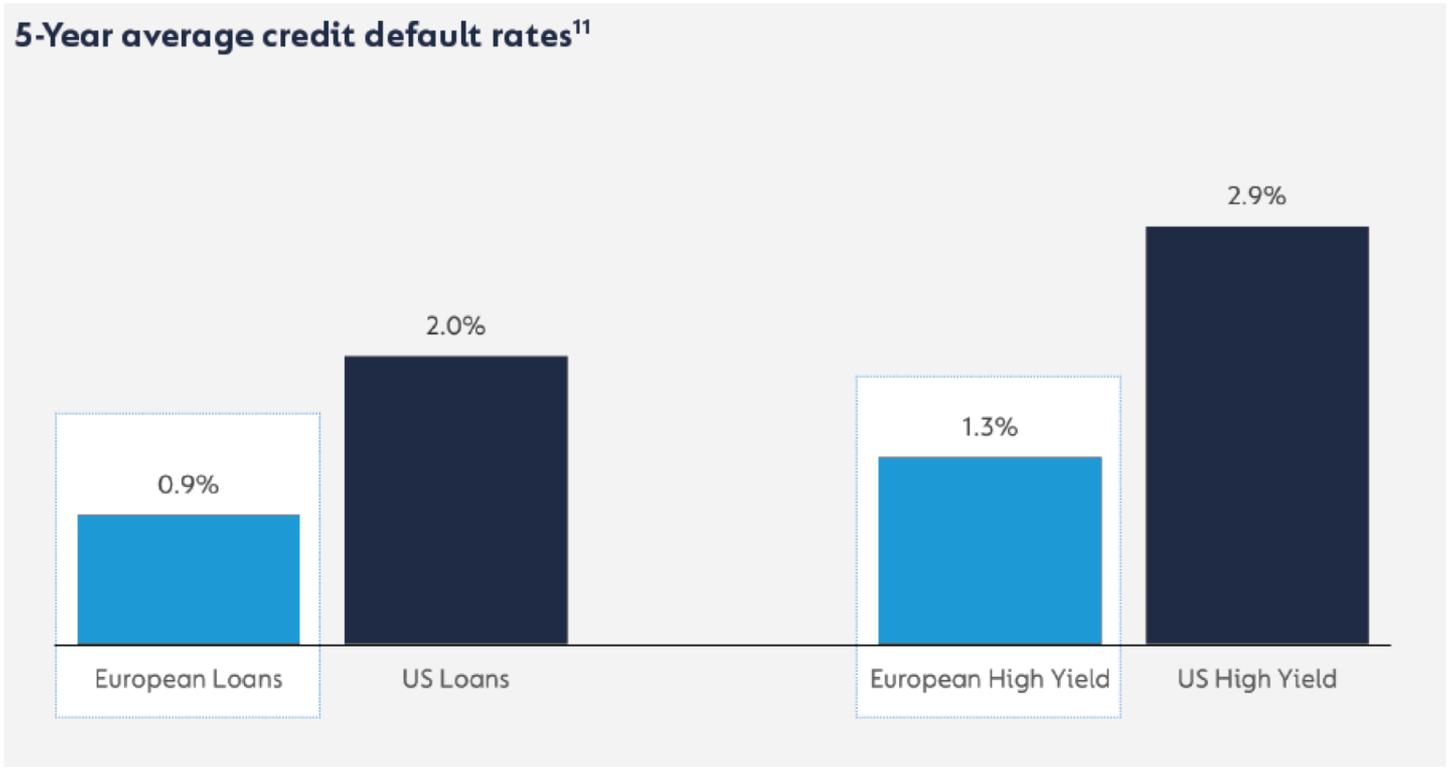
Source: PitchBook | Geography: Europe
*As of September 30, 2022

European debt market | the changing of the guard



Source: Houlihan Lokey

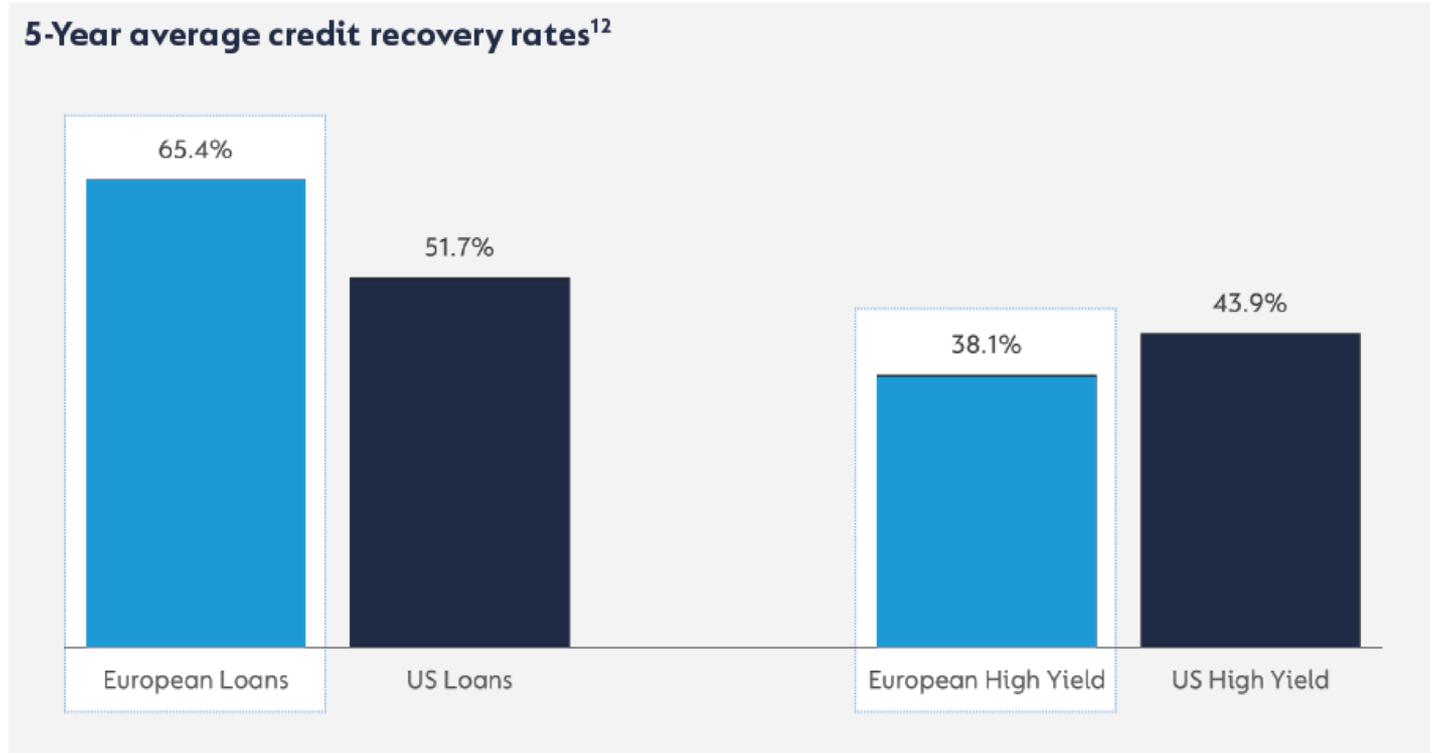
European debt market | default rates versus US



Source: Credit Suisse



European debt market | recovery rates versus US



Source: Credit Suisse

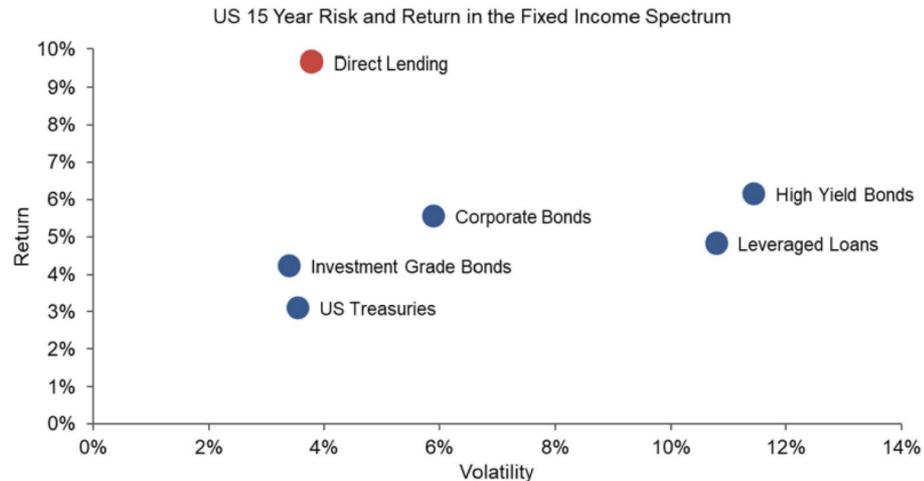


European debt market | risk return profile

Where Does Direct Lending Fit With Fixed Income

Compared to other fixed income strategies direct lending offers relatively high returns with lower volatility

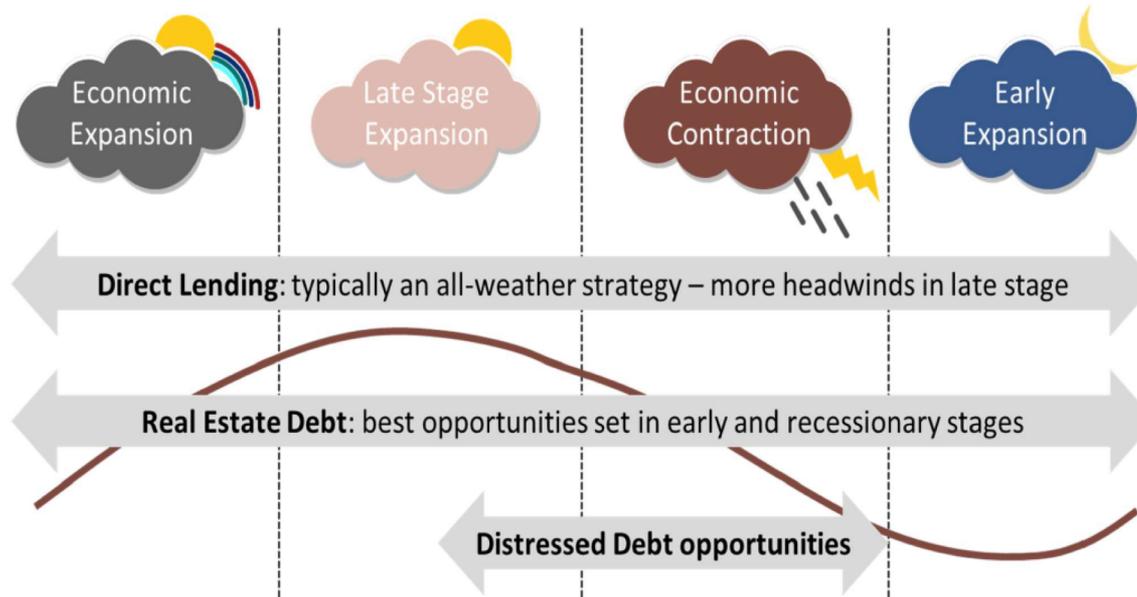
- Due to its illiquidity its price is also less volatile than comparable debt that is publicly traded



Source: Bloomberg

European debt market | the economic cycle

Credit Strategies Across The Economic Cycle



Direct Lending is an attractive asset class less sensitive to economic cycles and also offering an inflation hedge in addition to downside protection.

Pictet way in Private Equity

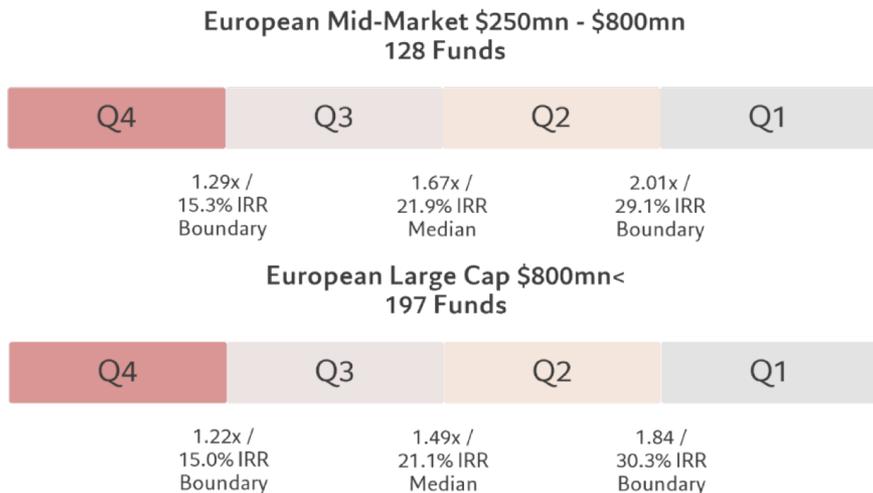
European mid-market private market | Large investable market

European mid-market provides a wide range of opportunities for long-term investments

- Europe is the **world's single largest trading area**, generating around a quarter of global GDP.
- Home to many **world-leading mid-market businesses** whose products and services are sold worldwide. Many of which are family and entrepreneur owned.
- In Europe, there are around **25,000 companies with EBITDA** between €15-75 million.



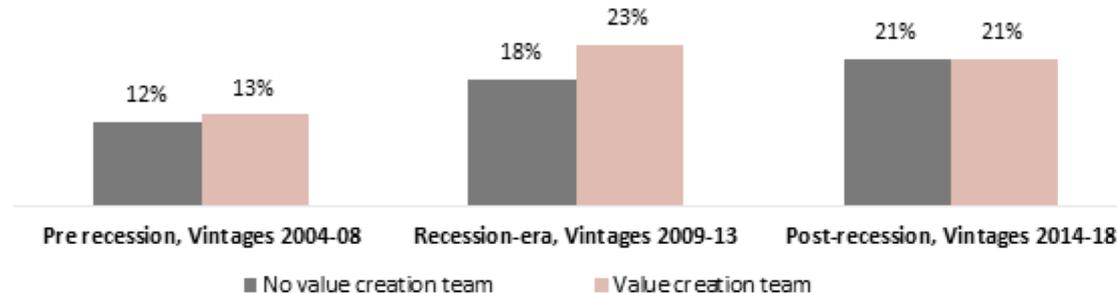
European mid-market private market | Consistently outperforming Large Cap



- Mid-market strategies are **more likely to outperform large cap strategies** during difficult macro-economic periods & deliver higher returns.
- This outperformance is more marked for funds raised and deployed during the last significant downturn during 2008-2013 with **top quartile mid-market funds delivering 3.6% higher IRR** than top quartile large cap funds.
- Pictet believes **European mid-market will remain the most attractive segment** of the market, creating steady returns regardless of the macro-economic climate.

European mid-market private market | Opportune moment for PE investment

- Market dislocations caused by economic headwinds as well as the reduction in the availability of debt to companies, will create attractive investment opportunities.
- Research by McKinsey demonstrates that funds deployed in the aftermath of the last global recession generated significantly higher returns than those invested before 2008.



Many mid-cap companies often have potential for value add from 'hands-on' partners



- Founder, family and entrepreneur-owned management team regularly look for support in **'future proofing'** their businesses.
- In general, small-medium sized, privately owned companies operate sub-optimally, **lacking operational efficiencies**, global presence, strategic focus, and management resources.
- These companies also often operate in **fragmented industries**, have **higher concentrations of customers and suppliers**, and lack product diversification.
- This presents the **opportunity for private equity investors** with the resources and experience in the middle market to add value and generate attractive returns.

We partner with entrepreneurs and families to accelerate growth and transform businesses

1. Focus on long-term trends

The global economy is now facing challenges that require it to develop towards new levels of resilience and sustainability. The Pictet Entrepreneur Capital team (the "Team") will focus initially on the core trends of i) Energy Transition and ii) Digitalisation

2. Develop detailed investment theses

The Team will work to identify specific investment theses, themes and market segments that stand to benefit from these long-term secular trends

3. Search for 'good to great' opportunities

Based on our defined theses, we will search out niche market leaders across the European mid-market who possess clear growth avenues, proven resilience, business transformation and 'buy & build' potential

4. Play active part in value creation as 'partner of choice' for entrepreneurs

We aim to partner with founders, families and entrepreneurial management teams to play an active role in their 'future proofing' and to assist them on their journey from good to great as their trusted partner

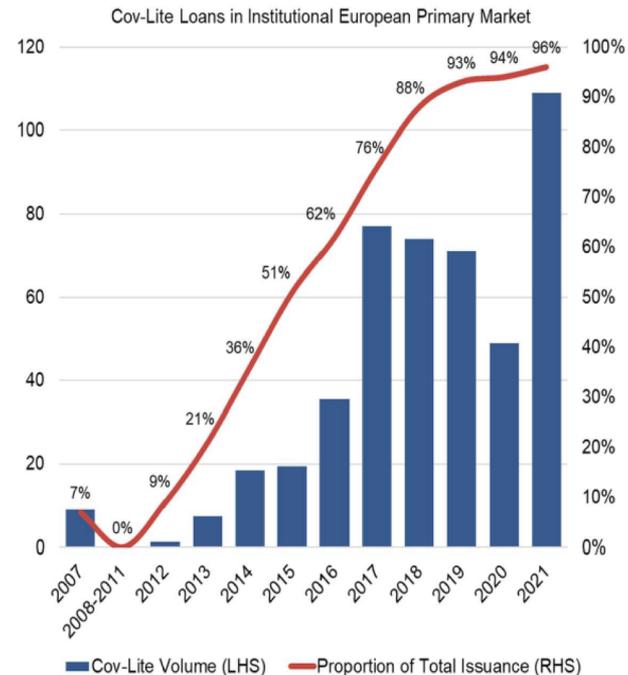
Pictet way in Direct Lending

European debt market | Leveraged Loans investors unfriendly terms

Over 90% of New Leveraged Loans Have Been Cov-lite Over the Past Three Years

The European Leveraged Loan market has become Cov-lite market – in 2021

- 96% of Leveraged Loan issuance was cov-lite compared to just 5% of **Direct Lending** issuance
- Without covenants the ability the lender to take actions is driven by an actual payment default
- At this point the condition of the company will have deteriorated significantly resulting in a lower recovery
- Cov-lite is typically a feature of the large cap market and not of the lower mid-market



Terms of the Transaction – Covenants

Maintenance / Financial Covenants	Examples <ul style="list-style-type: none">▪ Interest coverage▪ Maximum leverage▪ Fixed charge coverage
Incurrence Covenants	<ul style="list-style-type: none">▪ (Weaker) incurrence-based covenants are typically a feature of the high-yield market and less relevant in direct lending space

Definition

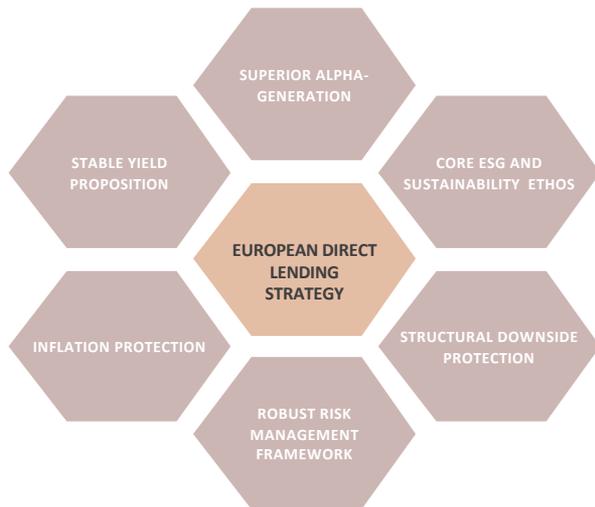
- Covenants set certain standards that must be maintained by the borrower
- Maintenance covenants are typically tested every quarter

Why It Matters

- Lenders can set covenants to ensure the borrower maintains financial health potentially reducing overall investment risk
- Once breached, covenants allow lenders a seat at the table to take actions with a view to protect the credit exposure

European debt market | Direct Lending

We focus on delivering superior returns from a portfolio of loans to lower-mid market companies that pass our strict ESG criteria



European debt market | Direct Lending

Our vision	<ul style="list-style-type: none">• Bespoke financing solutions which address the strategic and operational needs of borrowers
Robust portfolio	<ul style="list-style-type: none">• Diversified pan-European portfolio of robust first-lien senior secured loans• Low-beta, high-cashflow industries (e.g. Healthcare, Education, Business Services, Software/Tech)• Low asset intensity with a flexible cost base• Downside protection via customised contract terms and documentation
Market focus	<ul style="list-style-type: none">• Niche market leaders with c.€4-12m EBITDA• €15-40m loans with a loan-to-value of c.40-50%
Our ESG ethos	<ul style="list-style-type: none">• Active engagement and stewardship with borrowers• Partnership with best-in-class 3rd party data & service providers• Aims to select companies with a strong alignment towards generating positive ESG and sustainability outcomes.
Alpha generation	<ul style="list-style-type: none">• Through: proprietary origination, asset selectivity, illiquidity premia, and lower competition• c. EURIBOR+8% gross yield target*

* This objective is based on the achievement of market assumptions approved by the management company. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and is not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. The expected future performance does not in any way constitute a promise of future returns. All form of investment involve risk. The value of investments and the income derived from them is not guaranteed and it can fall as well as rise and you may not get back the original amount invested.

Conclusions

Final comments

- 1. Macro environment continues to present many economic challenges (inflation, war, energy, fragmentation, etc.) across Europe in particular**
- 2. This creates an opportune moment for private equity and direct lending – especially in the mid-market – as market dislocations and higher cost of debt offer many opportunities**
- 3. Direct lending in volatile times is attractive as it is less risky than public debt and shows higher returns**
- 4. Direct Private equity will thrive where investment teams have differentiated origination strategies and partner with entrepreneurs**
- 5. A meticulous attention to terms' details and covenants is the watershed between average and superior returns: with those in place we expect good vintages in next years**

For more information

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