For much of the last decade, investors globally have faced a challenging return environment. For investors relying on their portfolios to generate steady income, historically low interest rates have proved particularly exacting, putting them on a constant "search for yield". More broadly, investors have had to adjust to a lower return environment in general, against a background of unexceptional (but still positive) economic growth. It's not surprising therefore that many investors have cast their investment net wider to solve their yield and return challenges—and in the process, many have come to embrace private assets as part of the solution.

Since there is no 'formal' market where buyers and sellers of private assets can interact, the ability to originate and/or source deals and transactions is critical to successful investment in these assets. So, where and how are deals to be found? What does it take to generate a continuous pipeline of high-quality transactions? And most importantly, how can this origination and sourcing expertise benefit investors?

These are just some of the questions we will explore in this paper.

Private assets: a wide-ranging opportunity set
Private assets cover a wealth of diverse investment opportunities. In this paper, we focus specifically on four private asset segments in which Barings is particularly active and has a long-standing presence.

**DIRECT LENDING**
*Lending to middle-market companies in developed geographies.*
The loans are often used to support private equity activity, leveraged buyouts and refinancing. Opportunities exist across a number of developed market geographies, as well as up and down the capital structure including senior debt, junior capital/mezzanine debt, and unitranche investments.

**REAL ESTATE PRIVATE DEBT & EQUITY**
*Private Equity: The purchase, renovation and development, ongoing asset management and ground-up development of commercial real estate assets across the retail, industrial, office and housing sectors.*
*Private debt: The financing of transitional assets with sound and experienced sponsorship to develop and re-develop hotel, multi-family, office, industrial, retail, self-storage and assisted living assets.*

**INFRASTRUCTURE DEBT**
*Financing for capital intensive assets that typically meet key social and/or economic needs—such as water systems, roads, power plants and ports.*
Infrastructure exhibits high barriers to entry and generates steady long-term cash flows, which can be particularly useful for investors with asset-liability matching needs.

**DIRECT PRIVATE EQUITY**
*Direct equity investments in private assets and businesses.*
At Barings, we focus mainly on control equity investments in real assets and asset-based businesses. Investments are made across eight sectors spanning infrastructure, capital assets, natural resources and intangible assets. As control investors, we are looking to add value through active management of the assets, which range from maple syrup farms to intellectual property rights.
Each of these market segments offers unique risk, return and diversification characteristics for institutional investors’ portfolios. However, one common thread that runs through all of them is the importance of relationships in sourcing deals and transactions—and those relationships can often take decades to nurture and build. That is why it’s important for investors to partner with managers that have the experience and relationship network that is required to deliver continuous access to quality opportunities.

**Where are private transactions and deals sourced?**

Private asset investments can be sourced from a wide variety of channels, which can vary from one asset class to another. Listed below are some of the channels that Barings uses to originate and source transactions for the four private asset categories identified.

<table>
<thead>
<tr>
<th>DIRECT LENDING</th>
<th>INFRASTRUCTURE DEBT</th>
<th>REAL ESTATE PRIVATE DEBT &amp; EQUITY</th>
<th>DIRECT PRIVATE EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Private equity firms</td>
<td>• Banks—project finance, commercial lenders, debt capital markets</td>
<td>• Private equity firms</td>
<td>• Platform companies—which we build to guide sourcing in a particular sector</td>
</tr>
<tr>
<td>• Banks</td>
<td>• Sponsors—equity sponsors, pension funds, construction companies</td>
<td>• Banks</td>
<td>• Banks</td>
</tr>
<tr>
<td></td>
<td>• Investors—club transactions, insurance companies, other asset managers</td>
<td>• Debt advisors</td>
<td>• Consultants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Current/prior portfolio companies</td>
<td>• Regulatory experts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Industry executives</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Management teams from current/prior portfolio companies</td>
</tr>
</tbody>
</table>

Our relationships with the professionals in these various channels are obviously key to our ability to access the widest range of opportunities for our investors. Important as these relationships are, our focus is on the transaction and delivering the right asset, under the right terms, for our investor. We want to touch all the sources involved in a deal, so we get the clearest picture possible of the investment opportunity.

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In 2017, Barings Infrastructure Debt team originated a government supported airport opportunity. The deal began through discussions with the sponsor and its financial advisor and lead to Barings working with the advisor and sponsor to structure the transaction. When a capital markets bank was brought in to round out the financing group, Barings received a protected allocation on a unique core infrastructure asset club transaction.
What makes for a successful origination and sourcing platform?
It can be hard to separate the many strands that make for a successful origination and sourcing platform, as so many are interconnected, but here are what we at Barings consider some of the essentials:

**Time in the market.** Relationships take time to build, so the longer an investor is active in a market the more likely they are to have the relationships they will need to build successful, diverse portfolios. It has taken over five years for the very experienced Barings European real estate team (established in 2010) to build the local relationship network it now enjoys, while our private credit team has been over 20 years in the making. Our direct private equity team has been active since 2005, but our broader presence in private equity markets dates back to 1991. And we started investing even earlier (the 1980s) in infrastructure debt.

**Communicating with integrity and decisiveness.** The goal is to create a brand reputation of integrity. At Barings, that means doing what we say we’ll do when we said we’d do it, being a reliable, stable source of capital in the market and being decisive when we are presented the right opportunities.

**Consistent behavior through the cycle.** Most businesses want to partner with an investor whose behavior is consistent through the cycle. That consistency means that market participants, over time, become more familiar with the kind of transactions an investor favors. That familiarity may place the investor “top of their mind” when the right transaction crosses their desk.

**“Boots on the ground” for origination.** To see the widest funnel of investment opportunities, a manager needs to be regularly originating transactions in the markets where they want to invest—not just relying on industry sources to bring deals to them. Direct origination has the potential to generate exclusive deal flow for investors, but more importantly, without it, a manager’s pipeline of transaction opportunities gets reduced, which can lead to adverse selection. By that we mean, the manager makes their selection on the basis of the deals that are presented to them, rather than the wider universe of opportunities that may exist in the asset class.
The potential benefits to investors of robust origination and sourcing

_Diversification, to the power of..._ Diversification is typically high on an investor’s checklist when picking a new asset class for their portfolio. Private assets can have low correlation with public markets/assets, which helps diversify overall portfolio risk. However, risk within the asset classes can be further diversified by geography, industry/sector and capital structure (equity, senior debt, junior debt). Indeed, depending on an investor’s approach to managing a specific private asset, it may provide diversification within the private asset classes itself. Barings’ approach to direct private equity, for example, focuses on buying assets that are cash generative from the start, which can make it complementary to an investor’s other private market holdings (that may have a more significant “J curve” effect on their portfolio.)

**Access to a wide funnel of opportunities allows for selectivity.** One of the key benefits investors derive from private assets is access to investments they might not otherwise see or be able to invest in. Just as critical is building as broad a funnel of opportunities as possible, ensuring that investors see as many transactions and investment opportunities as possible, and then being extremely selective in picking investments. Adopting a global focus in the asset class is one key way to widen the funnel of investment choices.

_Multiple sources of alpha._ One of the attractions for investors in private assets is the opportunity to earn a premium over what they might get on public market assets. That premium can come from multiple sources:

**ILLIQUIDITY PREMIUM**
The illiquidity premium compensates the investor for not having short-term access to their money and makes the asset class suited to the investor with a longer time horizon.

**COMPLEXITY PREMIUM**
Part of the return premium potentially available to investors in private assets stems from the complexity involved with sourcing and structuring transactions. These investments often involve unique terms and covenants structured to meet specific investor needs.

**ACTIVE VS. PASSIVE PREMIUM**
The final potential premium comes from active (versus passive) management of the private asset. For example, in direct private equity we make control equity investments so we can actively drive the agenda and add value for our investors. Real estate private equity demands an equally hands-on approach with control and active management of property operations to generate income and capital gains through the holding period. While on the private credit and infrastructure debt side, appropriately structured covenants can allow the investor to take a pro-active stance if they see signals of financial stress from the borrower.

**Ability to tailor to specific investor needs.** When a manager has the appropriate standing in a private market, it is often possible for them to successfully advocate for the inclusion of specific transaction terms that reflect their investors’ unique needs. Also, if the originator of the deal is engaged and creative, they can often, within the one transaction, structure a tranche to meet the very specific needs of one investor, while the balance of the transaction serves more mainstream investor demands.

However, even without such special measures, private assets can potentially serve many investor needs. Infrastructure debt, for example, where 30-year maturities are common, can be very effective in helping insurance companies and pension plans manage their long-term liabilities. The steady cash flow from the same asset class can also work for any long-term income-oriented investor, as can some private credit instruments. Similarly, the floating rate on income-focused direct private equity strategies and real estate high yield debt can help the income-oriented investor maintain yield when interest rates rise.

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**THE VALUE OF THE RIGHT NETWORK**

“We wouldn’t have seen the opportunity if we didn’t have the relationships in the market”

—Jon Rotolo
Managing Director, Head of Directs
Barings Alternative Investments

In 2016, the Barings Alternative Investments Direct Private Equity team executed a business line expansion strategy with its trailer leasing business in the U.S. Through its relationships with over 1,200 counterparties—largely trucking and logistics companies—the team heard a demand-driven story about the need for new equipment in and around U.S. ports. A number of the existing market players were overleveraged, had old equipment and a reduced ability to reinvest. The team deployed capital to build a new business focused on servicing several ports in the U.S., providing new equipment to existing counterparties. The team expects to deploy additional capital in the same business over the next three years.
A myriad of investment opportunities—in the right hands

For investors with the ability to take a longer term view, private assets offer a diverse wealth of investment opportunities. But given the complexity often involved with structuring and accessing transactions in this space, deep experience investing across cycles is needed to truly grasp where relative value opportunities lie.

Barings has that experience. We also have the asset-specific expertise and global footprint necessary to harness the power of private assets around the world—in a way that can make them work for the needs of institutional investors.

BARINGS: A WIDE RANGE OF PRIVATE ASSET CAPABILITIES*

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>DIRECT LENDING</th>
<th>INFRASTRUCTURE DEBT</th>
<th>REAL ESTATE PRIVATE DEBT &amp; EQUITY</th>
<th>DIRECT PRIVATE EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lending to companies that are too small to access public markets, syndicated loan markets or the high yield bond market. EBITDA range of $10-$50mm.</td>
<td>Focus on high-quality debt, supported by key assets (e.g. water systems, roads and contracted solar generation) that provide steady long-term cash flows.</td>
<td>Investing in commercial real estate, globally, across the risk spectrum and covering all the main market sectors and investment structures.</td>
<td>Targeting control equity investments in real assets and asset-based businesses, with a focus on cash-flow investments.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AUM/ASSETS INVESTED</th>
<th>$10+ billion</th>
<th>$7.8 billion</th>
<th>$18.2 billion¹</th>
<th>$2.9 billion²</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARRING PRESENCE IN THE MARKET</td>
<td>25 years</td>
<td>&gt; 30 years</td>
<td>22 years</td>
<td>10+ years</td>
</tr>
<tr>
<td>PORTFOLIO INVESTMENTS</td>
<td>600+</td>
<td>Approximately 150</td>
<td>200+</td>
<td>48 active investments / 20 control investments / 12 operating companies</td>
</tr>
<tr>
<td>INVESTMENT PROFESSIONALS</td>
<td>64</td>
<td>11</td>
<td>185</td>
<td>21</td>
</tr>
<tr>
<td>RANGE OF SOLUTIONS</td>
<td>• 1st lien</td>
<td>Primarily fixed rate, investment grade multicurrency debt across a variety of asset types.</td>
<td>Core, value add, opportunistic and development strategies through discretionary and non-discretionary funds and separate accounts.</td>
<td>Proprietary sourcing dominates completed deals in eight “focus” sectors spanning infrastructure, capital assets, natural resources and intangible assets.</td>
</tr>
</tbody>
</table>

*Risks: Investing in private assets involves risks. In addition to potentially adverse changes in asset values, investors may be unable to exit positions quickly without incurring a loss. Allocations to private assets must therefore be considered appropriately in relation to an investors’ broader portfolio.

* Data as of December 31, 2016
1. Includes global real estate private equity and global structured real estate investments but excludes core mortgage loans.
2. NAV plus unfunded commitments.
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