

Editor's Blog

The Lloyds CLO and BNP does a Deutsche

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In the past couple of weeks - especially during research for my last editorial on unwrapped bonds - people have been asking me what I can tell them about the Lloyds CLO.

The most frequently asked question was over the identity of this mysterious investor who has money to invest and a hunger for a synthetic instrument that is the pariah of the international investment community.

Curiosity aroused, I picked up the phone to Lloyds and got chatting with Mike Chappell who was only too happy to talk about the CLO.

The bank is over the moon to have got away a securitisation in this market [fair enough, it warrants a feather in the cap], but when the question over the identity of the investor was raised, the shutters came crashing down.

The closest Mike got to revealing the identity of this mystery Loads-Of-Money was to say that it was a European investor - not a UK investor - and that Lloyds had done business with them four times prior.

In this week's editorial, I am reporting on the Lloyds securitisation and taking a look at BNP Paribas' shiny new infra fund. And when you look at BNP's Antin IP, think of the relationship between Deutsche Bank and RREEF - this is the same.

But first, the Mike Chappell and the Exeter Blue interview:

You must be pretty pleased to have got away a CLO in a market like this?

This is one that we have been looking to do for a couple of years. The bank has done a number of CLOs recently and project finance was seen as a good asset class to make a sizeable CLO with one of our specific investors with whom we have worked on previous CLOs.

They have a good idea of the bank's credit appetite, structure and tolerances - which seems to fit with their operation as well.

Broadly it is worth €1 billion and the vast majority - 75 per cent plus - of the asset class is PFI/PPP and of that more than 90 per cent is UK. There is a little bit of energy and utilities in there and a handful of hybrid transactions - ports and airports etc.

It is a synthetic structure - so no physical transfer of the assets. We are still lender of record and we have kept a proportion of each of the assets, which I think is important to the investor. And, indeed, it is important to us as well.

So you have not sold down to zero?

No we have not sold down to zero. The structuring guys came up with some slicing and dicing of the assets and they are split into five or six different tranches each with different investment grades [work on this done by Fitch Ratings] and we sell a proportion of each of those.

This is a good opportunity for us to churn the book and one of the reasons we are doing this is that the syndication market is pretty moribund at the moment and this is one asset class where there still seems to be appetite in the market.

Also - from my perspective - this is a good thing because it shows the liquidity of the asset and makes more space for us to do more transactions next year. That is the main driver from my perspective and from the bank's perspective it is control of the balance sheet.

I was surprised to see a CLO make it away in this market.

We were pleased to see it get away and we were delighted the investor followed through. And that was very much on the basis that we had delivered four CLOs for them in the past (including one for the SME market) - and they saw this as a good opportunity.

They wanted to deliver for us in the same way that we wanted to deliver for them. It worked well.

I was keeping my fingers crossed that it would make it away and was half expecting that they would postpone it to the new year - but they delivered.

And who is the investor again? [Slipping in a surprise question once the interviewee has relaxed is a time-honoured journalistic bear trap... that never works]

I can't tell you, I'm afraid. They are very protective of their positions. I can tell you they are a European investor and not UK. That's all.

But there is a lot of interest out there in finding out who the investor is.

We have had a lot of interest from competitors who want to know who the investor is. We are not going to pass on this information because, clearly, we will want to work with them again.

While some are interested to know who they are, some banks are interested to know because it is an interesting deal - particularly down to the timing, why it happened at that specific time.

There was no particular reason why it happened in the depth of the market meltdown, but it wasn't without a significant level of work that was put in from the beginning of 2007.

We were hoping to get it away at the end of last year, but it took another 10 months of working on the structure.

The level of information they wanted on the specific underlying assets is more deep than we had done on previous CLOs.

Would you say this was a hangover from sub prime - that people will demand far greater transparency on such vehicles?

These institutional investors themselves have credit committees and investment funds and they have to go through a detailed process to justify why they would invest into it.

The one group that will do well out of this is the ratings agencies.

Now to the BNP infra fund

Earlier this week, we reported that BNP Paribas was out there looking for investors for its recently-launched Antin Infrastructure Partners.

This fund is to BNP what RREEF is to Deutsche Bank. In other words, while it is very closely aligned to the parent bank, it claims to operate independently.

It has already had its pump primed with €300 million from BNP and is now on the hunt for cash. It has slated the second closing for Q1 2009 by which time it hopes to have raised a further €2-300 million, and have hit its €1 billion target by the end of the year.

This is all very interesting stuff - there is money out there that is looking for a home and I believe infra funds stand a better chance than most of hoovering it up.

So, while greenfield projects will find 2009 challenging, acquisitions look set to see the lion's share of activity.

Antin IP is focusing on Transport, Energy and Telecoms primarily in continental Europe and has targeted an IRR of 15 per cent from this 10-year fund which has an option to extend by one year, and then a further option to extend by the same.

It was amusing at the breakfast briefing on Wednesday morning to be told that one of their primary focuses was to wrest France's regional airports from their public sector owners.

Now this is well-trod ground and I am aware of a few players out there who are trying to crowbar these assets from the jealous grasp of French regional authorities.

This is no slight challenge that they are putting themselves up for and I wish them the best of luck. If they are successful, it could provide a healthy feeding ground for infra funds next year.

Antin has a very strong Gallic flavour [so much so, one of the speakers on Wednesday morning referred to the "bonking" community... I grinned openly] with close ties to Bouygues and Vinci and as such they stand a very good chance in this endeavour.