

PANORAMA

A SEMI-ANNUAL ANALYSIS BY OFI INVEST GROUP EXPERTS

#1 | December 2024

Special edition on
listed and non-listed assets



PANORAMA



The analyses presented in this document are based on the assumptions and expectations of Ofi Invest. These analyses were made as of the time of this writing. It is possible that some or all of them may not be validated by actual market performances. No guarantee is offered that they will prove to be profitable. They are subject to change. A glossary listing the definitions of all the main financial terms can be found on the last page of this document.

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● FOCUS ON ESG



Éric
BERTRAND

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The end of the year traditionally comes with Christmas lights and family reunions but also, on a more austere note, accounting book closings and annual results. For investors, this is also a time for reflection in preparing their asset allocations for the coming year.

For 2025, Ofi Invest proposes an allocation plan not just in listed assets, but also in non-listed assets. Non-listed assets have long been included on the balance sheets of insurance companies, who are pioneers in that field. They are now accessible to a broader range of investors, thanks to their attractiveness for a portfolio and a more amenable regulatory framework.

Ofi Invest has long had experts in various fields: Swen Capital Partners and Zencap Asset Management in private equity, infrastructure and private debt; Ofi Invest Real Estate in real estate; Syncicap Asset Management in emerging assets; and Ofi Invest Asset Management in listed assets. Ofi Invest AM also advises or manages tactical allocations on behalf of a number of insurance companies while integrating these asset classes.

2025 looks like an exciting year, with a monetary easing cycle playing out against a backdrop of receding inflation and resilient growth, and with the return to power in the US of Donald Trump, whose plans may very well sweep away current expectations. Broad economic balances, as well as the political and geopolitical situations in the US, Europe, China and Russia will evolve, pushing each region to reposition itself, or to reinvent itself in the case of Europe.

With all this in mind, we trust that our experts' views will be of use to you in setting your allocations, particularly between listed and non-listed assets.

Enjoy your reading! 



2025: a Trump-dependent year?



Ombretta SIGNORI

Head of Macroeconomic
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OFI INVEST AM

The macroeconomic environment is still generally buoyant. The US is once again playing a decisive role in the resilience of global growth, driven by the strength of consumption and disposable income. The euro zone, in contrast, is experiencing a modest recovery, with wide sector and national disparities. Strong private consumption is the main cause of the growth gap between the US and the euro zone.

CONSUMPTION AND GROWTH

The US job market is no longer in a state of surplus demand, and that should mean more moderate US household consumption. What happens next will depend on labour market trends, but consumers may decide to get a jump on Trump's plan to prolong individual tax cuts beyond 2025, by continuing to spend and thereby providing an additional boost to growth. In the euro zone, consumption should be slightly stronger, as the unemployment rate declines and as wages gradually catch up with inflation, before investment takes over – starting with residential investment and then business investment – boosted by less stringent financing conditions.

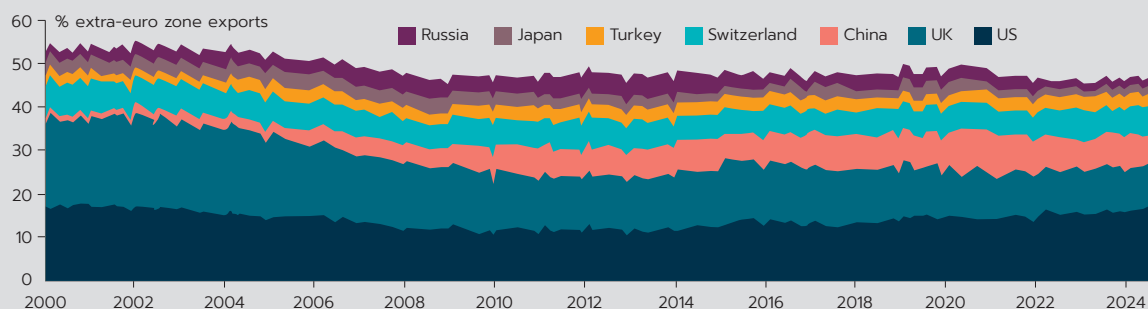
KEY RATE CUTS LIKELY TO CONTINUE IN THE SHORT TERM

The worldwide slide of inflation to close to 2% has allowed central banks to begin easing their monetary policies. Risks are more balanced between growth and inflation, and inflation remains on a trajectory that would see it return to the target rate in 2025. Key rate cuts are therefore likely to continue gradually in the coming months. In the euro zone, key rates should land near neutrality (around 2%) next year. In the US, the higher tariffs that Trump wants to introduce are probably the main risk hovering over US inflation. That said, they would be unlikely to come into force until the second semester of 2025, which means that the first impacts on actual inflation would not show up until the second half at the soonest. Under such a scenario, if US inflation turns out to be more stubborn, key rates could be lowered less than expected in 2025, and remain closer to 4% than 3%.

TRUMP: WIDE GAPS BETWEEN SHORT-TERM AND LONG-TERM IMPACTS

It is not clear how much Trump's plans will be implemented, but it could have a heavy impact on the US (and global) economy. In the short term, the upside impact of tax cuts on growth should offset the negative impact of higher customs tariffs and a tougher immigration policy. In the medium term, however, the drag on growth caused by protectionism and a more stringent immigration policy are likely to prevail. The impacts may therefore vary on the markets, depending on the timeframe. And, lastly, Trump will continue to play a key role in an already unstable global geopolitical picture.

MAIN DESTINATIONS OF GOODS EXPORTED FROM THE EURO ZONE (EXCL. INTRA-EURO ZONE TRADE)



Sources: FMI, Macrobond, Ofi Invest AM. Data as of 12 November 2024

Since 2015, the US has passed up the UK as the euro zone's top trading partner. The other three top export markets for euro zone goods are China, Switzerland and Turkey. The euro zone exports a little more than \$500bn to the US, or 18% of its total exports. Assuming unit elasticity of trade to customs duties, i.e., that a 10% increase in tariffs would cause a 10% decrease in exports, lower US imports could cause about a 0.3% drop in euro zone GDP, not counting the negative impact of uncertain prospects for global trade. These negative impacts would be only slightly offset by an increase in exports, driven by a more expansionary US fiscal policy.

2025: Trump shakes it off?



Éric BERTRAND
Deputy Chief Executive Officer,
Chief Investment Officer
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The new year will open with a new economic and geopolitical phase that will disrupt the reading of this cycle that began in 2022. After an initial phase of combatting inflationary tensions arising from the Covid crisis and the Ukraine war, followed by a pivot by central banks in 2024 in reaction to a steep drop in inflation and resilient growth, 2025 might have been the year of monetary easing and a return to a neutral monetary policy. But **this prospect may change, at least in part, after Donald Trump's election** as US president, combined with the Republicans' control of the Senate and the House of Representatives.

Trump's platform, as well as the profiles of the first appointments he has announced to implement that platform, are likely to boost US growth and inflation in the short term. Moreover, the "Trump 2" team seems to want to hit the ground running, having learned from the experience of "Trump 1", which got off to a rocky start to say the least. Keep in mind, however, that beyond attention-grabbing announcements, all measures will have to be negotiated

and approved, and the outcomes will surely not be as black-or-white as promised.

In concrete terms, announced tax cuts and deregulation are creating a **pro-business framework** and clearer visibility, at least until the 2026 mid-term elections. This is likely to support investment and growth in the US at first. Customs tariff hikes and changes in immigration laws – which will probably be hard to put through as they are – will probably cause an initial uptick in inflation but could end up being deflationary in the medium term and drag down growth.

Europe is likely to take a hit from these tariffs at first but, conversely, should **benefit from stronger growth in the US economy, as well as a weaker euro boosting exports** with a little imported inflation. The main issue for Europe will be to stay unified and withstand centrifugal forces, in order to retain its negotiating clout. This is proving to be quite a challenge, given the political weakness of France and Germany and the geopolitical stances taken by Hungary, Poland and Italy.

Against this backdrop, **the US Federal Reserve is likely to go slower and not as far in its rate cuts, in contrast to the European Central Bank.** Remember that, given Trump's recent pronouncements, volatility could be stoked by the prospect of a new Fed chairperson in the first quarter of 2026.

As a result, **long US bond yields are likely to remain high** on a steepening yield curve. Any spike towards the highs already seen in mid-2024 can be exploited for increasing exposures. **Long European bond yields, however, are likely to become uncorrelated from US yields and to fall.**

2025 is also likely to see a **downgrade of France** to single-A, something that is already being priced into its yield spreads vs. Germany. New early parliamentary elections in France in mid-2025 would **stoke volatility** and, depending on the outcome, would be a **source of opportunities.**

After two strong years on the credit markets, **a rebalancing of portfolios towards government bonds seems to make sense**, in particular for insurance portfolios, with a 10-year German yield almost at the swap rate level.

US equities could once again outperform European equities in the new year against **a moderately bullish, but more volatile, backdrop.** Even so, the low relative valuations of some European companies and the ties some of them have to US growth suggest they should not be overlooked. Keep in mind that **sectorially** in the US, **banks, technology** (with Elon Musk on Trump's top team) **and energy** could fare well in some cases, **to the detriment of the planet.**

CURSORS



The ECB is likely to continue gradually lowering its key rates, thus limiting the upside risk on long European long bond yields. Other bouts of stress, if any, could be used to increase exposure to duration in 2025. European government bonds now look attractive once again vs. corporate bonds. In equities, the US markets are likely to benefit from a more pro-business framework and improved visibility, thanks to the unequivocal outcome of the US elections. Trump's targeted fiscal policy should be an additional factor in support of Wall Street, whereas European equity markets are mainly fearing US protectionism's impact on growth.

Our views on asset classes provide a broad and forward-looking framework and serves as a guide to discussions between Ofi Invest investment teams. The investment time horizon of these views is short term and subject to change at any time. This framework therefore does not constitute a guide for constructing a long-term asset allocation. Past performances are not a reliable indicator of future performances.

INTEREST RATES

Grabbing opportunities



**Geoffroy
LENOIR**
Co-CIO,
Mutual Funds
OFI INVEST AM

2024 was a turning point in monetary policies, with initial rate cuts by the European Central Bank (ECB) and the US Federal Reserve. The Fed is expected to land at neutrality by the end of 2025. However, the re-election of Donald Trump could alter its views on neutrality and on the pace of future rate cuts. The new administration's desired fiscal policy could also trigger upward surges on the long section of the yield curve. In the euro zone, with inflation already close to 2%, the ECB will be able to revoke its restrictive bias. This will provide a boost to an economy that is slowing but is nonetheless

expected to grow slightly faster in 2025 than in 2024.

The markets are already pricing in key rates at around 2%. Meanwhile, the need to shore up public finances could exert upside pressure on long bond yields in the event of loss of market confidence, barring a demonstration or political will in Europe. However, excessive fiscal rigour could drag down growth, which would push interest rates downward. Once again, it will be a tightrope walk, but it will be worth grabbing any opportunities to strengthen duration in 2025. From the allocation viewpoint, investment grade government bonds may always be used as safe havens in a context that is moving towards a steepening of the curves.

CREDIT SHOULD PERFORM IN POSITIVE TERRITORY

Corporate bonds, meanwhile, have

had two very good years, in both investment grade and high yield. More moderate performances are therefore to be expected between now and the end of 2025. Even so, and although key rates were lowered in 2024 and although corporate bond spreads have fallen below their historical average, we are still bullish on the asset class, due to its carry opportunities that are still historically attractive. We would also point out that default rates are likely to remain low in 2025 and that rating agency outlooks are unlikely to worsen too much. Some sectors will remain under pressure, such as automakers and auto equipment makers. But barring a highly unfavourable economic scenario (which is not our central scenario), corporate bonds are likely to continue to perform in positive territory.

ACTIONS

Buy on the market dips to reposition



**Éric
TURJEMAN**
Co-CIO,
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Beyond investor psychology and technical factors, equity markets continue to be driven mainly by companies' earnings capacity, long-term interest-rates by which the present value of future earnings is determined and which constitute an alternative to equities, and valuations. We do not expect any upward bond market pressure that could undermine the relative valuation of equities. Company earnings depend on global growth, which is expected around 3% in 2025. This level is consistent with an increase in earnings per share on both sides of the Atlantic.

So that leaves valuations. In the US, the price/earnings ratio is slightly above 20 for the coming year, in line with its historical average. The P/E is being driven by the heavy weighting of US tech stocks exposed to the artificial intelligence boom. Europe is lagging behind, at just slightly over 12 times projected 2025 earnings. European markets are being bid down because economic growth is slower there than in the US. In Asia, the Japanese market remains at valuations that we believe are prohibitive, while Chinese equities are being dragged down by growth that is weaker than in the 2000s but could benefit from the government's desire to provide support in the form of monetary, tax and fiscal stimulus.

KEEP AN EYE ON HEADWINDS

This seemingly perfect world may face some headwinds. First of all, Donald Trump's triumph, if his announced

plans are implemented, should trigger a steep increase in protectionism that would undermine international trade. Second, European companies are now having a hard time passing on their higher production costs to consumers, and that could dent their margins. And, third, geopolitical risk – which the markets have thus far shrugged off, whether from Europe, the Middle East or Taiwan – could have meaningful consequences on the semiconductor and artificial intelligence sectors. For all these reasons, we expect only a moderate, single-digit increase by equity markets on the whole in the first half of 2025. With this in mind, it would be wise to buy on the market dips, such as occurred in early August, to add to exposures.

DID YOU KNOW?

China has adjusted its retirement age to match with an increased life expectancy.

Effective 2025, women will be able to retire at the age of 58, instead of 55, and female manual workers at 55 instead of 50. For men, the retirement age will increase from 60 to 63 years. Moreover, the minimum duration of contributions to receive a pension will rise from 15 to 20 years. These measures aim to ensure the viability of the retirement system, with life expectancy having risen from 51 in 1962 to almost 78 today. This was a necessary adjustment that makes sense!

Emerging markets: a more favourable cycle could open up, with already promising signs of recovery



Jean-Marie
MERCADAL

Chief Executive
Officer
SYNCICAP ASSET
MANAGEMENT

Developed-economy equities have outperformed emerging equities by far over the past 15 years, driven by US equities. However, recent positive signs are pointing to a more favourable phase for emerging markets.

SEVERAL TYPES OF POSITIVE SIGNS

Economically first of all, Western economies seem to be mature and are entering into a slower phase of growth and possibly a recession. According to the International Monetary Fund (IMF), the proportion of emerging economies in which per capita GDP could expand faster than

in the US is expected to rise from 48% to 88% over the next five years. What's more, emerging markets are not driven solely by China, which is facing growing political isolation. Heavily populated countries like India, Indonesia, and Vietnam are seeing a phase of acceleration in per capita GDP growth, which is the most attractive time for companies' expansion.

Another new and important factor is that emerging markets are at the core of the global decarbonisation movement. Exports of green technologies and commodities, such as copper and lithium, are supplied mainly by emerging market companies and are therefore likely to improve their trade balances and public finances. Likewise, the rapid expansion of artificial intelligence (AI) is stimulating exports of chips and electronics from countries like Korea, Taiwan, Malaysia and the Philippines. One more thing: valuations are attractive. The 2024 P/E of the MSCI Emerging markets index is

estimated at 15. When excluding China, emerging market companies' earnings are expected to rise by 22% in 2025, with a P/E of 12.3.

ASIAN EQUITIES LOOK THE MOST PROMISING

With 60% of the world's population and exceptional industrial capacities, Asia is a major source of value creation.

China is currently facing a significant economic slowdown but its equity markets have rallied recently by 30% (from mid-September to mid-October 2024), thanks to a series of government measures. More generally, China is the world's second-largest economy and is rich in companies of very high quality, which operate on a huge domestic market of more than 1.4 billion people, a considerable edge in a world that is polarising into blocks. Moreover, China has taken a big lead industrially and now produces high-quality products at highly competitive

prices. Keep in mind also that China is increasingly uncoupling itself from US and European economies amidst the current trade war context. Chinese trade is increasing with other countries of the “Global South”. The share of Chinese exports to emerging countries now exceeds 50%. Investors are therefore beginning to understand that it is hard to ignore this major equity market. Moreover, it is an asset class that is decorrelated from Western markets, something that offers additional protection to an equity portfolio. Valuations still look reasonable, with a 2025 P/E estimated at 12.5. That leaves one major question: will the Chinese authorities manage to restore confidence in the country? That is the key parameter that must be monitored in the coming months.

Other Asian markets benefit from three long-term growth themes: the acceleration of artificial intelligence, the development of consumption by an emerging middle class in heavily populated countries like India and Indonesia, and finally the bypassing of China in industrial supply chains (“China+1” strategy). While US AI-related stocks could very well experience a correction in the short term, the other themes are decorrelated, offering a promising medium- and long-term outlook.

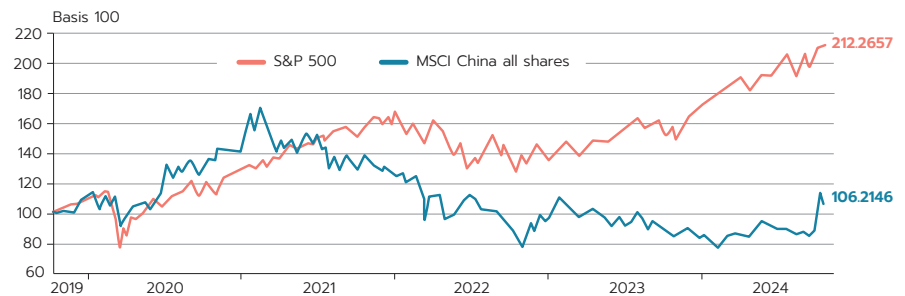
EMERGING DEBT IN LOCAL CURRENCY LOOKS LIKE AN ATTRACTIVE OPPORTUNITY

After a rough decade, conditions have been improving since 2023. Many countries have reduced their fiscal and current accounts deficits and have made significant headway in governance. With high yields and lower inflation, this asset class looks well placed for 2025, especially with the Fed’s monetary easing and growing demand for commodities.

In contrast, emerging bonds denominated in hard currency are at a crossroads. Yields are high, averaging 7.8%, but spreads⁽¹⁾ could widen in the event of a US economic slowdown, as they are closely correlated to US corporate bonds.

In short, despite past challenges, emerging markets are showing signs of recovery and could offer investors promising opportunities at a time when Western markets look “mature”.

S&P 500 AND MSCI CHINA ALL SHARES PAST 5 YEARS



Source: Bloomberg as of 14/10/2024

After five tough years, Chinese equity markets have recovered nicely since mid-September, driven by a series of government measures to counter a deflationary spiral, and investors once again look enthusiastic. Retail investors are rushing into Chinese equities, with record numbers of trading account openings. After three years of strict regulatory policies, the government has changed course and seems to be taken seriously this time. Nobody wants to miss this equity market rally. “Don’t fight Beijing!”

CURSORS



There is still some upside potential on Chinese equities, at least from a tactical point of view. The government seems to have understood the extent of the economic problem and looks determined to take the necessary measures. Meanwhile, international investors are rediscovering the wealth and quality of Chinese companies, whose valuations are still attractive on the whole.

Although flows could shift back towards China in the short term, other Asian markets appear to offer very strong longer-term potential, driven by three early-cycle growth themes.

In an international bond allocation, emerging bonds in local currencies now make good sense. Currencies are rather cheap on the whole and yields – both absolute and relative to Western markets – look attractive.

Lastly, while yields are high on hard-currency emerging bonds, spreads could widen in the event of a US economic slowdown as they are closely correlated to US corporate bonds.

⁽¹⁾ Sovereign spread: the difference between the yield on a government bond and a benchmark bond of the same maturity regarded as the least risky. Our views on asset classes provide a broad and forward-looking framework and serves as a guide to discussions between Ofi Invest investment teams. The investment time horizon of these views is short term and subject to change at any time. This framework therefore does not constitute a guide for constructing a long-term asset allocation. Past performances are not a reliable indicator of future performances.



Prime assets will be the big winners of the recovery in the real estate market



Sébastien
CHEMOUNY

Director
OFI INVEST
REAL ESTATE

The European Central Bank (ECB) has pursued its interest rate cut since last June. Yet, for the moment, real estate markets have not fundamentally integrated this change of paradigm, as long bond yields had already anticipated this. Even so, although investment and development deals are on long timeframes and do not instantly reflect trend shifts, cycles tend to resynchronise gradually both between countries and various

assets classes. Market prices are no longer decreasing and have even begun a slight recovery since last summer in the case of prime properties in the UK, Germany and the Netherlands, where property values began to fall earlier. Prices are already stabilising in other countries, in France for example. Real estate yields appear to have stabilised for the most virtuous and best located assets, the very ones that are seeing rents continue to move upward.

MARKETS ARE HIGHLY POLARISED GEOGRAPHICALLY

While prices of prime properties seem to have bottomed out, those for assets located outside the best geographical sectors, in particular

peripheral offices, are still falling considerably in France. The Covid crisis has fundamentally reshuffled the cards on the office property market. The boom in remote working has shortened considerably the time spent on site, and the flex office has completely dematerialised the link with the workplace. These new uses have in some cases made it possible to lower companies' square meter consumption considerably and have questioned the very notion of office work in employees' daily lives. Moreover, as baby-boomers gradually retire, the working population will shrink and increase pressure on companies to attract the top talents from a generation with new aspirations. Demand from companies is therefore focusing

on the most central and accessible market areas. In Greater Paris, for example, Paris itself has accounted for half of office rental deals so far this year, for the first time in 30 years. In the Netherlands, vacancy has risen in logistics platforms located in secondary zones while quickly finding tenants at more established locations. Properties located on the periphery of sought-out sectors are suffering from chronic vacancies that the sometimes-substantial cuts in rental values are unable to stop.

NEW DISTRIBUTION OF INVESTMENT VOLUMES

Not all real estate segments are equally attractive to investors. A growing share of investment volumes is in logistics, whether large warehouses or smaller “last mile” ones located on the outskirts of major consumer centres. In France, offices and logistics have each totalled 35% of investment commitments since the start of 2024, while logistics dominates volumes in Germany, with 39% of amounts invested. Storage requirement for products to be delivered has increased markedly, driven by the rapid expansion of

DID YOU KNOW?

Since 2019, **France’s tertiary decree** has required that landlords and tenants reduce energy consumption in their office buildings by 40% by 2030, by 50% by 2040 and by 60% by 2050. In accordance with the 2015 Paris Agreement, Ofi Invest Real Estate’s initiatives in its managed assets will reduce energy consumption by about 40 GWh by 2030, or the equivalent of annual consumption by 8,500 households.

e-commerce, whereas available land is harder and harder to come by (with the “zero net artificialisation of ground” in France and similar mechanisms elsewhere in Europe). Meanwhile, demand continues to rise. Residential property, which is being driven by long-term demographic and sociological trends, is drawing investor appetite, especially as there are currently few new housing starts, thereby exacerbating the scarcity of new housing in the tightest markets. Investments in residential property has thus risen by just 7% on the year to date in France.

OUTLOOK NOW LESS PROMISING FOR POTENTIAL RENTAL INCREASES

Prime yields once again look

acceptable to investors, at close to 4.00%-4.50% in offices and 4.25%-4.75% in logistics in Europe. However, in a financing environment that is gradually reverting to its long-term averages, a more sluggish economic context could dent companies’ business activities and squeeze their margins. Rental markets could thereby lose some momentum, with a slower increase, or even a stagnation, of prime rents. That being said, demand should continue focusing mostly on the top segments, where supply is most limited, in particular in new properties, which are highly sought after by users. They are therefore likely to enjoy higher returns over the long term, as they will see a strong re-compression of their yields.

CURSORS



In this context, we expect the best-performing properties will be offices and logistics platforms acquired at prices currently close to their lows and then leased for medium- and long-term periods to quality tenants located in the top sectors of the deepest European markets (Germany, France, and the Netherlands). Likewise, residential properties - from new and existing conventional to student housing - address essential needs when they are located in markets where demand is the greatest. Acquisition of hotel complexes, whether for business travellers or tourists, will help diversify an allocation based on structural trends for the real estate market.



Investing in SMID⁽¹⁾ private debt to reconcile yields and sustainable financing



Richard
JACQUET

Chairman
ZENCAP ASSET
MANAGEMENT

YIELDS AT A 10-YEAR HIGH

Over the past 18 months, private debt has offered unprecedented returns close to those of the equity markets (~10%), driven by rising interest rates and generous spreads. Private debt is not risk-free, but we believe its returns far offset its risks, especially as it is possible to limit risk by targeting certain market segments and strategies with moderate levels of leverage and sufficient diversification

and granularity.

Within private debt, the large cap segment has slowed over the past 24 months; competition is keen and the level of leverage has recently increased despite narrower spreads. In contrast, the small and mid-cap (SMID) segment is moving along at a sustained pace. SMID focuses on providing financing of 10 to 50 million euros to companies that are profitable but not yet ready to seek financing from investment banks or on the capital markets.

SMIDS: A DIVERSIFYING AND ATTRACTIVE PRIVATE DEBT SEGMENT

Competition is less intense in SMIDs, a segment that offers moderate leverage and spreads that are higher

than in large caps. SMIDs' defensive profile makes it easier to adjust to worsening macroeconomic conditions. SMID debt, accessible mostly via non-listed companies, also helps to diversify debt portfolios, which are often focused on more easily accessible large caps.

Beyond positioning in defensive and diversifying segments such as SMIDs, unitranche **private debt is another way to reduce risk**. This strategy requires control of the transactions by being the sole, or majority, lender, which promotes a one-on-one relationship with the company. This often takes the form of a seat on the borrower's governing bodies. In bank syndication, in contrast, there is less proximity, although such proximity is crucial for managing risks, engaging

⁽¹⁾ SMID: financings from 10 to 50 million euros



with the company, and overseeing its environmental, social and governance (ESG) policy.

in the coming years. One of these benefits arises from the increasing needs of baby boomers wishing to sell their companies.

provides a way to invest directly in energy and sustainable transition.

DID YOU KNOW?

Unitranche is a secured senior debt offering the same securities as senior debt, but **generally held by a single lender** (a debt fund).

- In ~90% of cases, it is tied to a private equity sponsor as part of an LBO.
- Leverage (net debt/EBITDA) is slightly higher but still moderate, from ~3x in small caps to ~4.5x on large caps.
- Spreads (> 6%) are higher, due to sourcing.

Moreover, external growth ambitions and sector consolidation opportunities are numerous and essential for France in its attempt to develop a fabric of companies similar to the Mittelstand in Germany. By investing in small and mid-caps, we can promote the emergence of tomorrow's mid-majors.

REAL-ESTATE DEBT FOR A FOOHOLD ON A MARKET RALLY

Amidst a challenging environment for real estate, some real-estate sub-segments have held up well, thanks to a strategy based on a precise analysis of property use and how well they address supply and demand; value creation, which offers a cushion against real-estate volatility; and tailored financing with securities and suitable control over the financing, such as non-syndicated unitranche structuring.

More and more investors regard real-estate debt as an alternative way to tap into a future rally in the real estate market, with attractive returns (> 8-12%) and moderate leverage.

In conclusion, the private debt asset class is attractive. It has continued to generate cash in recent years, especially in the SMID segment. The current vintage stands out with returns that we believe comfortably remunerate risk. Moreover, investing in SMIDs promotes the emergence of sustainable mid-majors, which are essential to future growth in France and elsewhere in Europe.

As for ambitious sustainability strategies, **investing in SMIDs is a good way to support companies' growth, while urging them to integrate sustainability into their model** and making them aware of the challenges of decarbonation. As the sole or majority lender, we have the necessary clout to do so, and we can lay out tailored and ambitious ESG objectives for each financing deal.

Unitranche SMID also combines high returns (8-10%), diversification and risk control while transforming small and mid-caps into mid-majors and sustainable mid-majors.

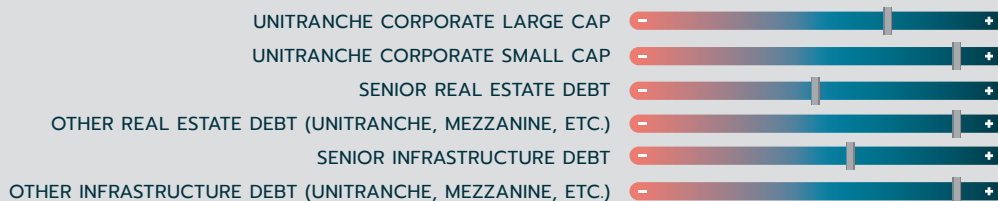
INFRASTRUCTURE DEBT TO FINANCE THE TRANSITION

The energy transition requires significant financing. Capital is mainly focused on large caps and senior financing, but there are many useful small and mid-cap projects that are partly overlooked by banking debt. The repricing of the past 18 months (8-10% in secured junior debt), combined with low Solvency II costs, makes these projects attractive and

CORPORATE DEBT TO PROMOTE THE EMERGENCE OF TOMORROW'S MIDCAPS

We see many benefits in the unitranche corporate SMID strategy and expect good investment momentum

CURSORS



Unitranche corporate debt returns are at a 10-year high. In the large cap segment recently, leverage has increased and spreads have narrowed, while small caps continue to show moderate leverage and wide spreads.

In real assets (e.g., real estate and infrastructure), we see some opportunities in underlying assets. Senior debt does not look like the best investment avenue, whereas unitranche or junior debt offers an attractive risk/return profile via robust and controlled financing structures (governance, recovery, etc.).

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Private equity withstands uncertainties and is readying a rebound in 2025



Jean-Philippe
RICHAUD

CIO
SWEN CAPITAL
PARTNERS

As expected, inflation returned to more sustainable levels in 2024 in both Europe and the US, thus demonstrating the effectiveness of hawkish monetary policies.

However, the pace of economic growth varies with the region, with North America sustaining growth, Europe having a hard time getting around individual and collective fiscal restraints and China showing a disappointing pace of growth,

due mainly to weak domestic consumption.

While the first half of 2024 provided a glimpse of a gradual return to normal in companies' investment and growth, political uncertainties (in particular in France) combined with stubborn geopolitical tensions in Ukraine and the Middle East continue to disrupt the functioning of private markets.

PRIVATE MARKETS DRIVEN BY LONG-TERM TRENDS

With their direct connections to actual transformations taking place in the environment, digital technologies, and demographic trends, private markets continue to be driven by long-term trends

on both the supply side (heavy investment needs) and the demand side (investor appetite for these asset classes). The aforementioned uncertainties, financing terms that are still restrictive, and the asset valuation trends continue to hinder momentum in mergers and acquisitions, thus placing investors in front of their allocation constraints, the main one of which is to generate steady liquidity to maintain a healthy allocation policy.

Driven by a combination of further interest-rate cuts, inflation at acceptable levels (in prices and wages), and a gradual resolution of solvency issues linked to these macroeconomic parameters, 2025 is expected to show considerable improvement. 2025 is looking

promising for all private equity market segments, albeit with major uncertainty in the sub-segment of venture capital, which has been hit especially hard in the past 24 months by the lack of liquidity and an upward revision of risk levels.

**INFRASTRUCTURE:
A RESILIENT ASSET CLASS DESPITE
THE CHALLENGES INVOLVED**

The European infrastructure market is still rather deep, but is operating in an environment marked by interest rates that are still relatively high, despite major central banks' easing trajectory.

2025 is looking better. The measured and gradual reduction in interest rates that began in mid-2024 is likely to boost the European infrastructure market. On a more structural level, rising concerns over the energy transition, digitalisation and energy sovereignty are encouraging European governments to expand their investment plans. The needs are huge in comparison with the capacity of investment funds to act. Initiatives such as the European Green Deal and 2050 carbon neutrality objectives are ratcheting up pressure on the sector, thereby generating very

significant medium-term investment opportunities in sustainable infrastructure and transition projects.

DID YOU KNOW?

GP-led deals are expanding fast, accounting for 40% of secondary deals in the past three years.

With liquidity at low levels, they allow general partners (GPs) to return capital to investors faster by divesting several assets or fund units in a block.

**PRIVATE EQUITY:
IMPACT INVESTMENT IS EXPANDING**

Private equity fundraising has been harder in 2024, in both its durations (funds often need 24 months to be raised and sometimes even exceed their subscription periods) and amounts (few funds reach or surpass their hardcaps).

Against this backdrop, the impact investing market is expanding fast, on both a global and European scale. According to the Global Impact Investing Network (GIIN), the impact investing market is estimated at 1.3 billion euros as of the end of

2023, vs. 715 million euros at end-2020, a significant increase in just three years. This trend is especially apparent in Europe, which accounted for 60% of assets under impact investment in 2023. Moreover, the number of Article 9 private equity funds rose to 91 in France in 2023, thereby demonstrating the growing importance of impact investing for investors.

**MEZZANINE DEBT IS ATTRACTING
INVESTORS**

In France, mezzanine debt is a growing market, with new initiatives in creating funds. Despite the economic context and uncertainties, mezzanine remains in high demand by companies seeking flexible financing, small caps in particular, as they are not as well addressed by unitranche funds. We also believe that mezzanine's risk/reward ratio is attractive to investors.

This asset class has shown that the equity + mezzanine model makes sense, as it allows nimble players to address various issues that entrepreneurs have in financing organic growth, acquisitions, and the environmental and digital transformations.

CURSORS



Private equity market conditions are returning to normal, and the rebound of allocations expected for 2025 is expected to promote a return of confidence of market players, starting with funds and entrepreneurs. The VC (venture capital) and growth segments will continue to suffer from reduced allocations and a lack of liquidity, and general partners (GPs) may have to concentrate their investments. Mezzanine, a non-dilutive debt instrument, is likely to get a boost from buy-out momentum⁽¹⁾. Infrastructure investments are driven by long-term trends, in particular on the value-add segment⁽²⁾ in support of climate and biodiversity transitions.

⁽¹⁾ Buy-out is a total or partial takeover of a company, often using leveraged debt financing.

⁽²⁾ The value-add segment consists of assets that are riskier than on the "core plus" segment but, in exchange, offer higher yields. They often offer a potential boost to growth through acquisitions or operational improvements.

How will the acceleration of extra-financial risks affect long-term investment portfolios?



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OFI INVEST AM

Environmental and social risks are clearly rising in number and extent. A number of international scientific bodies have alerted us to an earlier-than-expected emergence of these risks. The WWF's latest Living Planet report paints a dark picture: in the past 50 years, wild animal populations have shrunk by almost 75% on average⁽¹⁾. This is threatening the resilience and stability of ecosystems. There are more and more alerts, and more and more evidence of the links between environmental damages and macroeconomic risks⁽²⁾, although these risks continue to be denied in some quarters.

Since the 2000s, ESG (Environmental, Social and Governance) has been based on a risk/opportunity approach. Often deemed long-term in nature, ESG addressed risks and opportunities materialising on a time horizon longer than that of the investor. However, in the past five years, risks have been materialising more rapidly than expected. For example, climate-related damage is already impacting insurance companies' results.

It is therefore crucial to include ESG issues in the analysis, both as a risk and as a prerequisite to economic

activity. This means realising that the use of natural and raw materials is subject to limited resources, while verifying that the resulting impacts do not exceed scientifically identified limits. This is something that must now be done routinely. Some activities will no longer be possible, as they use limited natural resources or fail to comply with the minimum labour standards. That is causing us to rethink ESG research. **Rather than overweighting the most virtuous companies in each sector, it is better to choose those companies that have revisited their economic activity within the limits imposed by nature and human beings.**

RISKS ARE SHOWING UP FASTER THAN EXPECTED, WHICH IS MAKING US RETHINK ESG RESEARCH

ESMA⁽³⁾ has already ruled on certain sectors for funds labelled "ESG", "SRI", "sustainable" or "impact". The same goes for the French government's *ISR* [SRI] label. For ESMA*, these are norms-based and sectorial exclusions defined by the European Commission for benchmark indices aligned with the Paris Agreement. These exclusions were taken up by ESMA in May 2024 to standardise sustainable funds in Europe. This little revolution, which went almost unnoticed, marks the first attempt to define and implement precise rules on what constitutes sustainability. In its third version, which enters into force in January 2025, the *ISR* label regards these exclusions as

prerequisites for labelling funds "SRI". There are a few differences between ESMA and *ISR*, particularly in fossil fuel, weapons and utilities thresholds and definitions. Nevertheless, the message is clear: an SRI/ESG fund must no longer contain fossil fuels, tobacco, weapons or companies in violation of the 10 Global Compact principles. In other words, **socially responsible investment acknowledges that some economic activities and even some economic sectors are no longer in compliance with our planetary boundaries** and, for this reason, they may no longer be part of a sustainable strategy. This is a key turning point in sustainable investment – a show of force by the European regulator and French labels to put an end to the lack of clarity and marketing consistency in SRI funds. We are looking forward to what happens next in this regulatory trend, with the revised version of the SFDR.



Standardising
sustainable fund
names in Europe



It is crucial
to include ESG issues
in research

⁽¹⁾ The WWF's Living Planet report 2024 WWF [Rapport Planete Vivante 2024 - WWF France.pdf](#), page 24.

⁽²⁾ See the IMF report *Embedded in Nature: Nature-related economic and financial risks and policy considerations*. Charlottes Gardes-Landolfini, William Oman, Jamie Fraser, Mariza Montes de Oca Leon, Bella Yao. 3 October 2024.

⁽³⁾ European Securities and Markets Authority (ESMA), recommendations published in May 2025: [ESMA Guidelines establish harmonised criteria for use of ESG and sustainability terms in fund names](#)

GLOSSARY

Carry: strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

Credit spread: difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

Duration: weighted average life of a bond or bond portfolio expressed in years.

Inflation: loss of purchasing power of money which results in a general and lasting increase in prices.

Investment Grade / High Yield credit: Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

PER : Price to Earnings Ratio. A stock market analysis indicator: market capitalisation divided by net income.

Risk premium: reflects the additional return demanded by investors compared to a risk-free asset

Spread: difference between rates.

Volatility: corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

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€203.3bn

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•
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Ofi Invest is one of the four brands of Aéma Groupe, alongside MACIF, Abeille Assurances and AÉSIO mutuelle, and is now the **5th-largest French asset management group**.

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