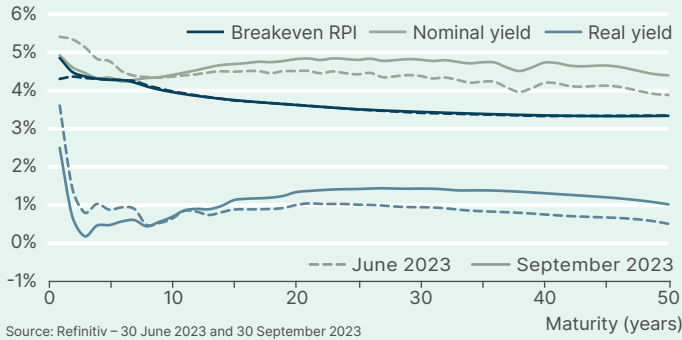


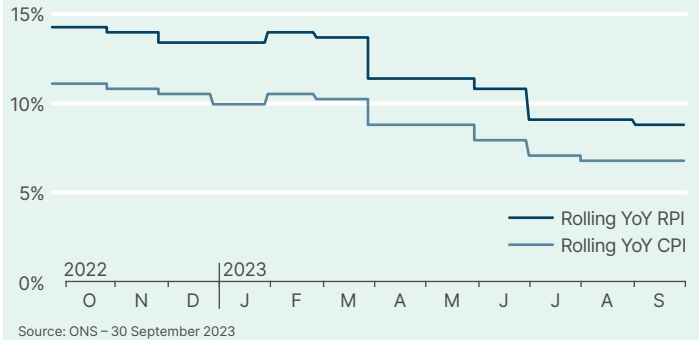
# Market Monitor Q3 2023

## Rates, inflation and credit spreads

### Gilt yield curves



### 12 month rolling inflation



- Over the quarter, long dated Real and Nominal Gilt yields increased by at least c.30bps, for the longest maturities the increase was as high as c.50bps. Inflation expectations have not materially changed versus the previous quarter, hence the higher yields are driven by higher real yields as opposed to higher inflation.
- Inflation has continued to decrease in Q3 albeit still significantly higher than the Bank of England's 2% target for CPI.
- The consensus is that inflation is on track to fall below 5.0% by December, although the conflict in the Middle East poses some upside risk to inflation. It is anticipated the BoE will not hike rates further, although the market view is that a rate cut is unlikely until at least the second half of 2024.
- Non-financial corporate bond spreads have been less volatile this quarter. They ended the quarter marginally higher than at the start having been tighter during the quarter.

### Credit spreads



## Secure income market update



### Spreads remain compelling for secured long income assets

- Spreads over risk-free yields for Commercial Ground Rents remain unchanged. There was a softening of yields and therefore spreads to risk-free real rates remain largely unchanged. Income Strip spreads remain unchanged in line with valuers' latest views.
- Spreads for Renewables over the equivalent duration gilt increased by 50 bps at the bottom and top end to 225bps – 275bps respectively. This reflected an anticipated increase in discount rates from valuers.
- The bottom end of Social Infrastructure spreads fell by 25bps whilst the top end remained the same. For Long Lease the lower end of the spread increased to 330bps
- As the higher-than-expected inflation period lasts, the inflation linked nature of the assets (albeit typically capped) has acted to maintain values and spreads.

### Asset class definitions

**Senior Investment Debt:** 5-year interest and fees cashflow from senior investment term-loan secured against core real estate where interest is comprised of a margin over either SONIA or BoE base rate.

**Renewables Infrastructure:** 15+ year inflation-linked cashflows from unlevered wind and solar infrastructure assets subject to Feed-in Tariff (FIT) or Renewable Obligation Certificate (ROC) regimes.

**Long Leases:** 15+ year inflation-linked leases on commercial real estate. Traditional sale & leasebacks fall within this market.

**Social Infrastructure:** 15-20+ year inflation-linked leases on operational real estate across the housing, healthcare and education sectors.

**Income Strips:** 30+ year inflation-linked leases on commercial real estate where the lessee has an option to purchase the real estate back at the end of the lease for a nominal amount (e.g. £1).

**Commercial Ground Rents:** 100+ year inflation-linked leases on commercial real estate, with a higher degree of rental and value cover than a traditional sale & leaseback.

## Secure income strategies – a brief comparison

At AlphaReal, we specialise in secure income real assets. We originate, structure and manage assets that generate a secure income so that investors such as pensions schemes and insurance companies can use the asset income to meet payments to beneficiaries and policy-holders.

Secure income is stable and predictable cashflows, often inflation-linked, backed by real assets or other forms of collateral. Secure income helps investors meet financial and ESG priorities.

In this note we take the opportunity to compare AlphaReal secure income strategies across some financial and ESG priorities that are important to investors. This is summarised in the table below. We also include traditional property and public credit, two asset classes often seen as mainstream alternatives to our strategies.

	Commercial Ground Rents	Social Infrastructure Equity	Renewable Infrastructure	Social Infrastructure Debt	Traditional Property	Public Credit
Secure income	✓ ✓ ✓	✓ ✓	✓ ✓	✓ ✓	✓	✓ ✓
Contractual inflation linkage	✓ ✓ ✓	✓ ✓	✓ ✓			
Journey to net zero	✓	✓	✓ ✓ ✓	✓		
Levelling up agenda	✓	✓ ✓ ✓	✓	✓ ✓		
Maturity profile (years)	60 to 100+	20 to 30	15 to 40	3 to 10	Less than 10	Average 7 to maturity
Security of assets	A	Ba	Ba2-Baa3	Baa1 to Ba3	N/A	Aa to Ba2
GBP Returns (Net IRR)	6%-7%	6.5%-9%	7%-8%	7%-9%	5%*	5.15%-6.15%**

\* Capital Economics commercial property five year end forecast 2023-2027 – assumed 50bp AMC

\*\* Iboxx £ Non-financials Index AA/A/BB indices as at End August 2023 – assumed 10bp AMC

✓ ✓ ✓ Very good   ✓ ✓ Good   ✓ Neutral

Source: AlphaReal. As at 30 September 2023

### Financial priorities

Each of the AlphaReal strategies we offer provides attractive risk adjusted returns as well as helping investors achieve a broader range of objectives. When comparing returns across asset classes it is worth bearing in mind:

- The maturities can be very different – for example CGRs we have structured and transacted have a lease term of 40 to 100+ years, while traditional property and public credit portfolios are typically much lower.
- The inflation-linkage in our secure income strategies is typically contractual, which is not the case for traditional property rental increases for example.

- The credit risk is an indicator of how secure the income is assessed to be. This can vary by strategy, and returns need to be attractive on a risk-adjusted basis.

### ESG priorities

Investing in our renewables or social infrastructure strategies clearly helps investors target the 'E' and the 'S' respectively. As well as targeting ESG aligned sectors, investing via private markets can involve a closer relationship with the investee companies than via public markets and better alignment with investor ESG priorities.

## Contact us

Client Solutions  
clientsolutions@alphareal.com  
www.alphareal.com



Real assets. Real security.

Alpha Real Capital is authorised and regulated by the Financial Conduct Authority. Copyright © 2023 Alpha Real Capital

**Important notice:** This report is issued by Alpha Real Capital LLP ("AlphaReal"), which is authorised and regulated by the Financial Conduct Authority ("FCA") FRN: 436048, and the registered address is 338 Euston Road, London, NW1 3BT. This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is sourced from AlphaReal, unless otherwise stated, and is provided for informational purposes only. The data and information contained in this report represents AlphaReal's view as at 30 September 2023. Where any data has not been externally verified, we have taken measures we believe to ensure the accuracy of the data. The Information may not be modified, reverse-engineered, reproduced or re-disseminated in whole or in part without prior written permission from AlphaReal. Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results. The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

03-5584-1123