Portfolio Finance for Insurers

Dadong Yan, Head of Barings Portfolio Finance, said portfolio finance is the next extension in the evolution of private investment grade assets. "To source portfolio finance investment opportunities, you need to invest the time to build deep, meaningful relationships with asset managers," he said. Following are excerpts from an interview.

BARINGS

Dadong Yan
Head of Portfolio Finance
Barings

"Where we have the most success is when asset managers call us—not with the deal, but rather with a problem they're looking to solve."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Dadong Yan.

Can you help explain what portfolio finance is?

It's simply lending against diverse portfolios of private market assets. It's typically in the form of a senior secured loan, and the loan is cross collateralized by the entire portfolio. The lender benefits from both significant structural subordination and having the entire portfolio as collateral. As a result, losses on individual assets are mitigated by other assets in the portfolio. The underlying collateral is what most insurance companies are already familiar with. Portfolio finance has been around for a really long time, and it's historically been done by banks and predominantly structured for bank balance sheets.

Then how does it fit in an insurance portfolio?

It's a great question. It's because the defensive characteristics that have historically made this asset class so attractive for banks — including cross collateralization, asset diversity, and structural subordination — are also attractive for an insurance portfolio. If you're an insurance investor, it could be complementary to your existing private investment-grade allocation and give you additional diversifying sources of incremental spread. It could also give you access to several different underlying private asset classes in a diversified low risk exposure.

How do you source portfolio finance investment opportunities?

For us, we're a direct origination strategy. We partner bilaterally with asset managers on their portfolio financing needs. We focus on direct origination as it allows us to provide customized solutions that are higher value add for our borrowers. In doing so, we have the potential to achieve incremental spread for our investors. However, it's not easy to do as it takes scale and dedicated resources. That's why, for us, we've intentionally built our team with over 30 dedicated professionals focused on just this asset class. That's enabled us to originate over $38 billion of direct investments across over 100 transactions since inception.

What does it take to win in this asset class?

To win you need three key things: You have got to have scale, you need to have the direct relationships, and you have to have the track record. In addition, you need the scale of the team to directly originate and manage a diverse portfolio. Also, you need the scale of the capital base to offer that certainty of execution for these asset managers. In addition, you need to have the direct relationships for the sourcing as this leads to unique access to deals for insurance investors. Finally, asset managers want to see your track record of providing successful customized solutions. Investors want to see your track record of capital preservation and also delivering attractive risk adjusted returns consistently over time. When you combine all of that—scale, relationships and track record—on top of a market tailwind of increasing demand for portfolio finance, that creates an exciting opportunity for insurance companies to access this asset class.