Multi-Sector Private Credit Fund

Making an impact with mixed-use real estate

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Multi-Sector Private Credit Fund (MSPC) aims to provide investors with attractive income through diversified exposure to investment-grade private and alternative credit assets. The Fund offers investors the potential for higher yield compared to public corporate bonds, due to illiquidity and complexity premia, as well as diversification advantages.

It does this by investing in infrastructure debt, which finances social and economic projects, commercial real estate loans, which finance property across a range of sectors, and corporate debt, including private placements, corporate loans and structured credit.

Real-world positive impact

MSPC also offers investors the opportunity to make a real-world positive impact. For example, we can engage with borrowers to achieve clear, positive environmental and social outcomes.

At abrdn, we work with our commercial real estate debt borrowers to implement a sustainability framework, setting challenging, meaningful targets at a property level. We believe this approach enables lenders, borrowers and tenants alike to be rewarded with a more sustainable property. This process can also result in reduced refinance risk and an improved credit profile.

Sustainability framework in action

One example of the approach in action came in Q3 2021, when MSPC was able to contribute to a senior secured loan financing with a total loan size of £66.3m.

The portfolio consisted of seven multi-let office investments and an industrial estate located in England and Scotland. As investors, we focused on the sponsor's management and operation of the properties in line with environmental, social and governance principles (ESG) alongside the loan's yield potential. The sponsor had a stated commitment to sustainability and improving the green credentials of its portfolio, which we were keen to incorporate into the loan facility.

Three key performance indicators (KPIs) were highlighted, which related to **Energy Efficiency**, the **Circular Economy** and **Green Buildings and Governance**. These KPIs covered decreased emissions of the financed portfolio, an increase in recycling rates over the life of the loan and the implementation of Green leases and renewals going forwards

Real Estate Loan – UK mixed-use Portfolio

Asset characteristics

- Refinance of a UK portfolio of 7 office and 1 industrial property
- Midlands, Scotland and the North West
- Day 1 LTV of 57.5% amortising to 52% by end of loan term

Key points

- Top tier Sponsor with background in sustainability
- Diversified portfolio
- Occupancy c.95%
- Strong Covid rental collections of >97%
- Granular rent roll with no reliance on any single tenant

ESG Characteristics

- ESG risk rating: LOW
- Margin ratchet in place based on 3 core sustainability KPIs (energy efficiency, waste and green leases)
- Margin ratchet from 5bps to a max of 10bps on achieving all 3 KPI tests

Debt characteristics	
Loan size	£8.6m of £66.3mn (100% abrdn)
Yield	~270bps margin over SONIA
Rating	BBB (internal model)
Term	5 years
Security	Senior secured
Originated	Q3 2021

Tapping into flexible working trends

With a significant rise in home and flexible working expected, physical office spaces need to work even harder to enrich the experience for employees. We believe occupiers will switch to buildings with high quality amenities to entice employees back to the office.

We also believe the properties in the portfolio represent the creation and operation of some of the finest regional office amenity space available.

Thanks to the refinancing, the repair and redecoration works have extended the life expectancy of these buildings, there is improved energy efficiency in the property and we have provided a safe and healthy environment for all, with a focus on wellbeing and health. As a result, tenant demand for the available space is continuing to rise as are the rental levels secured from both existing and new tenants.

Working with stakeholders for the benefit of our clients

We view this deal as an excellent example of all stakeholders working together in order to achieve the right outcomes from ESG, lending and investment perspectives.

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