A ROLE FOR TRADE FINANCE

GERRY AFENTAKIS, HEAD OF CORPORATE DEVELOPMENT AT EUROFIN ASIA GROUP, TALKS TO HUBBIS ABOUT TRADE FINANCE AS AN ASSET CLASS, AND HIS FIRM'S ROLE WITHIN THE MARKET.

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Hubbis - *Why is trade finance an interesting asset class in the first place?*

Gerry Afentakis - A trade finance portfolio such as ours consists of a number of short-term senior loans which are collateralised by the goods that we are financing.

The average loan in our portfolio is about 60 days in tenor and goods are financed at an average loan to value (LTV) ratio of 80%.

The characteristics of our business – short-term and secured loans that generate a steady yield and are performed in a marketplace that never stops – has become very appealing to investors. These characteristics result in portfolios that are largely uncorrelated to other asset classes.

Trade finance generates consistent returns throughout market cycles. In our case, even during the volatility of 2008 and 2011, our flagship LH Asian Trade Finance Fund has experienced a steady increase in net asset value (NAV) with only positive months since inception in September 2006.

These characteristics also result in trade finance being a low-volatility strategy. High granularity portfolios such as ours will generally experience minimal volatility, in our case that translates to less than 1% volatility in our fund's performance since it was launched.

Additionally, trade finance is not really exposed to mark-to-market risks.

Since the capital is used to finance physical transactions that have a crystallised liquidation date at the onset, we are able to offer investors the ability to redeem funds at NAV. The roughly 60-day tenor of our loan book corresponds to the liquidity we offer investors.

Finally, the returns of trade finance funds will enjoy a positive correlation to rising interest rates. A rise in rates will effect and an overall appreciation in portfolio yield.

Hubbis - *What role do you play in this market?*

Gerry Afentakis - By packaging trade finance assets in a fund format, EuroFin Asia (EFA) is able to provide much-needed liquidity to regional markets while providing investors a vehicle to access what has become a very interesting asset class, characterised by steady, non-directional returns and low volatility.

Let me go back and explain the market a little. Trade finance, while being a relatively new asset class for investors, has been the focus of much attention recently.

The explosion of commodity prices in the early 2000s created an environment fit for the emergence of non-banking trade finance providers. This was exacerbated during the financial crisis of 2008 and the European debt crisis of 2011 where liquidity issues along with new Basel regulations have required banks to reconfigure their balance sheets, resulting in a reduction in the amount of capital available to the market.

These developments have opened a niche of up to 20% of the total commodity trade finance market – estimated at about US$1.8 trillion per year within Asia alone – for non-banking capital providers such as EFA.

Hubbis - *So how have you expanded your offering in line with more market demand?*

Gerry Afentakis - We have been seeing a shift towards an institutional investor base, whose investment objectives on a risk-adjusted basis are aligned with the types of returns our funds generate.

In addition to our LH Asian Trade Finance Fund, we launched two further funds in 2012.

The first, the EFA Dynamic Trade Finance Fund, focuses on investment into transactions in Eastern and Central Europe, and will utilise mild leverage to generate a net return to investors of between 8% and 10% per annum.

The second, launched in conjunction with Asiya Investments, is the Asia Islamic Trade Finance Fund.

This is a Shariah-compliant trade finance fund which we believe to be first-of-its-kind in Asia. The Fund focuses on trade flows within the Middle East and between the Middle East and Asia.

Hubbis - *To what extent is this asset class of interest to private clients?*

Gerry Afentakis - Around 30% of our client base consists of high net worth individuals and family offices.

These investors have invested into our flagship fund as they see it as an uncorrelated strategy with a track record of conservative growth and capital protection. For investors focusing on the

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long term, and with an eye on preservation of capital, our offering makes a lot of sense.

Private and institutional clients alike are beginning to see the asset class as a valuable complement to a traditional fixed-income portfolio and I think the seven-year track record of our flagship fund combined with the fact that we are a Singapore CMS-license holder gives a further layer of comfort to investors.

Hubbis - *What misconceptions do investors have around trade finance generally, and your fund specifically?*

Gerry Afentakis - Investors sometimes believe we are a commodity fund, so it is important to disassociate ourselves from that.

In reality, we lend money to participants in the commodity supply chain on a short-term basis and those loans are collateralised by the

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goods being financed, which happen to be commodities.

Another misconception is that we lend to companies that cannot obtain bank financing.

The opposite is true. We position ourselves as an ancillary capital provider to our borrowers who have existing banking lines.

Our borrowers are glad to diversify their sources of capital between various banking and non-banking institutions. We are one of many providers to their capital structure.

Hubbis - *What is your outlook for the market?*

One of the benefits of the trade finance strategy is that we are not dependent on the markets or market conditions in the short term, and the trade finance niche is here to stay for the foreseeable future.

As the only Asian fund manager offering investors access to the trade finance strategy through our various funds, we welcome more non-banking players in this niche. The market certainly has the space!