Good risks, bad risks

Luxembourg, 31 January 2022 – Risk assessment is becoming increasingly important, particularly for institutional investors. In view of new risk measures such as those related to ESG, the trend is to take individual risks that are as clearly defined as possible. "Securitisations with clear separation within investment vehicles are very much in demand", said Levke Hansen, Board Member at FAIR ALPHA.

"We see strong demand for specialised financing, such as in international infrastructure", Hansen pointed out. "Clients, however, want to limit their risks to the projects." Therefore, investments in corporate bonds of infrastructure companies, for example, are not an option. "In these cases, today's investors are buying the complete corporate history as well and would additionally have to analyse all the holdings, projects and thus the entire past", said Hansen. It is better to invest in individual projects through compartments.

"The classic corporate bond entails risks that are difficult to assess", Hansen explained. On the other hand, a project-based investment is simple via the securitisation of projects under an investment vehicle. And it is also possible in a legally secure manner, at least if the company has been established in Luxembourg. "The Luxembourg Securitisation Act offers an optimal opportunity for segregation", said Hansen. "Investors' and creditors' rights are governed by law." Both the statutes of the securitisation vehicles and the individual terms of issue provide for asset segregation. Investors are therefore able to clearly decide which good risks they want to take – and which ones they definitely do not want to bring into the portfolio.

"Investors appreciate the legal certainty that Luxembourg created with the Securitisation Act back in 2004", Hansen mentioned. "The global investment approach of disregarding diversified companies has also caught on in the securitisation sector." Instead of providing debt to companies, securitisation is used to finance assets and corporate initiatives that are detached from other operational risks. This also leaves out incalculable risks of other company units.

"This may also concern any reputational risks, which have become ever more important in recent years and which sometimes have a severe impact on company values", said Hansen. Investors just like rating agencies, however, do not like to assess reputational risks, but focus entirely on the individual sustainable projects. "Compartments such as those envisaged in Luxembourg offer the opportunity for investors not having to take these risks into account", Hansen added. "This offers investors planning security that is probably unique worldwide."

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About FAIR ALPHA

FAIR ALPHA offers financial market solutions for (semi-)institutional investors and asset managers through its subsidiaries. Investment ideas and trading strategies are implemented in investable and custodial securities. In addition, the company pursues digital approaches, which focus on creating and issuing crypto assets (tokens) that are held in specific wallets. With the help of customised issuance vehicles, structures are created that exclude issuer risk. In each case, FAIR ALPHA assumes the entire value creation process ranging from product set-up to administration and ongoing life cycle management.

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