**Interview by Michael Bickers of Martin Opfermann from Allianz Global Investors**

**Michael:**

Hello everyone! I'm here with Martin Opfermann who is Senior Portfolio Manager at Allianz. And I'm going to be speaking to him in advance of our ***Alternative and Receivables Finance Summit***, which will take place in London on the 18th of November. Martin, welcome to this interview. And thank you very much for joining us today.

**Martin:**

Welcome, Michael.

**Michael:**

I've got a few questions for you relating to your session next month at the conference. And of course, we're going to be talking about asset investment and receivables as an investment asset and the benefits of that and advantages. I want to kick off by just asking you why is a receivable a good asset to invest in? And what sort of yields can investors expect from it?

**Martin:**

Absolutely. Yeah. The main question first, why is it a good asset? There are actually many reasons for it, and but it all, I think, on a very high level boils down to very few attributes, and one, it's got very short duration. And in a time of rising yields and rising inflation expectations, that's something that a lot of investors appreciate the most. Along with the short duration comes also this - it's very uncorrelated to other fixed income assets, and also to equities and other portfolio components of a normal institutional portfolio. So you have that un-correlation to the rest of the book, which makes this very good diversifier in a portfolio context. Also, investors don't need to take a long-term view on credit, on the economic cycle when investing in receivables generally, because the assets are 90 days. And you don't have to have a three-year outlook or a three-year market view, which would bring a lot of uncertainty, medium term.

**Michael:**

And investors looking for new opportunities at the moment, are they - would you say?

**Martin:**

Yeah, there's more demand coming from the institutional side as we see as also seen by other people launching funds. When we look at this asset class, there are few out there today, there's more demand, and there's more conversations that we're having with investors. So that's really something that's nicely developing. Back to the advantage I mean also for institutions such as insurance, who are under solvency too, it's very risk capital, efficient asset class. So that's another reason. Structurally, if you are comparing this asset class to public bond markets, for instance, because of high barriers to entry for this asset class, there's a structural premium to be earned, whether you call that illiquidity premium or complexity premium, or private market premium. The name is different, but there is a structural element of yield pickup that can be achieved here. And we allude this to the high barriers to entry, because of the high operational complexity that this asset class brings. You first have to overcome it. Once you're in, you can benefit from the higher returns. Now talking about returns, what can you expect? I mean, if you go from receivables and trade finance, there's something for everyone, right? There's the very high-quality 30-day risk paper for investment grade issuers, which yields in the 60 to 90-basis-points margin. And then on the high-risk spectrum, you have these commodity related receivables and positions which can run easily for several years, and which are in the double-digit-type-return category, and then you have everything in between. So if you look at a defensive positioning, it would be anywhere in the 150 to 200 basis point margin space.

**Michael:**

And looking at the broader picture, if we do get more investors coming into the space and providing finance, do you think that's going to help the sort of the long term SME finance gap that everybody's familiar with? But everyone struggled to fill that gap over the years and decades. Do you think opening up of this market more might help in that respect?

**Martin:**

Right. Certainly, it certainly brings in new flows into the market, whether these flows will all go into the SME space, I doubt it because the SME space is yet not to be tackled first. I would say it requires some special setup to really go into that space. So I would expect that the bulk stays more defensive than SME. That's just my expectation of where investors will start about a certain portion. And we'll also go into these segments.

**Michael:**

And you mentioned in terms of investors that there's something for everyone. Can you just explain the differences or opportunities between institutional investors and private investors? How do those markets differ? And where, how are the opportunities divided between those two sectors?

**Martin:**

Yeah, absolutely. I mean, right now, as we stand today, I'm not aware of any sort of real retail market products that investors can - retail investors, private investors can buy. And the definition really comes from the European definition of what is a retail customer and what is an institutional customer. So far, all the products we've seen, and also the ones that our houses launched, they're all targeted towards institutional buyers. So that is more currently the focus of the market. For retail, it just comes with a different regulatory frame set and reporting set. And that's why sort of everybody starts with the institutional investors. But there's no particular reason why this market over time would not open up also for retail money.

**Michael:**

Sure. And what about asset managers? What role do they play as an investor and why?

**Martin:**

They bridge the gap, these asset managers like ourselves, because you have in the whole value chain, if you think from the corporate that borrows or that always the invoice, and on the other hand side, you have the investor, who just puts money and wants to return at the right risk level. And between that there's a lot of intermediaries such as banks, such as factoring companies, such as fintechs, or different operating entities in between. And they all have conflicts of interest, because they have a different business model, a different value function. And they have other deals, they have other investors, they have their own money that they invest. So there's a lot of inherent conflicts of interest between the different sources of money, and the different types of transactions. And that means that somebody has to sort of look out for the interests of the investors. And that's per definition, that's the business model of an asset management company, because we alone in this value chain, have only fiduciary duties towards the investors and no one else. That's essentially what our role is: so select, find the deals, select the deals, but also and crucially look out that the interests are always aligned, and if they're not aligned, that are sufficiently monitored, so that any mis-incentives don't happen day to day.

**Michael:**

So you're the experts. You can monitor the situation, monitor the assets, see which are the best assets to invest in, and basically acting in the best interests of your clients.

**Martin:**

I think all the people, all the different institutions along the value chain would claim that they select the best transaction, that they monitor them properly and so on. I think the key differentiator is that they don't owe a fiduciary duty to the investors. There will always be a disclaimer for conflicts of interest in their documentation towards the investor. And that is naturally because of the business model. And as an asset manager that's the essential element that we don't have.

**Michael:**

Let's go back a few years and think about the Banking Crisis and what happened then and just after. We saw quite a big move coming out of the Banking Crisis in terms of an increase demand for receivables finance. And also there seem to be an increase in interest in the receivables and asset class coming out of the Banking Crisis. What's your view on that? To what extent has the investment climate, the climate for trade receivables changed in the post Banking Crisis era?

**Martin:**

Yeah, I would take it a bit broader. It's receivables. It's also trade finance in general. I think it goes along the same universal trend that investors are operating in a low yield environment, quantitative easing. All these stimulus packages have led to no way financial repression that the formerly risk-free assets are yielding negatively. The bond market, I think it's 30-40%, is yielding negative rates these days. So investors were looking for new yields. And they found those in private markets in general over the years. Private markets have then therefore also been seeing a lot of interest. And then sort of margins were compressed in private markets in the traditional loan businesses, as new institutional investors were entering and now basically, you're seeing that they are entering the trade finance, receivables finance, and that your investment, that entering that market is not so easy to do. Because you have such high barriers to entry, you have a high operational complexity, because the invoices are very small, they're maturing after 90 days. So you have a lot of churn in the portfolio, you need systems, you need operations, you need all these frameworks, you need API's to connect to your sourcing partners and so on. So it's not like buying a single loan for 5 million or 50 million for seven years. It requires a lot of setups, a lot of work in advance. And that's why this asset class comes sort of last in this flood of money.

**Michael:**

But the short-term sort of self-liquidating aspect of it - is that particularly attractive? Would you say?

**Martin:**

I mean, all the reasons I've mentioned early on is resonate well with investors. But it was more the operational hurdle that had to be overcome. And that takes quite an amount of investment and time. And you know, somebody to do it, I mean, whether it's a FinTech or a bank or an asset manager doing it, but somehow that hurdle has to be overcome for investors to be accessing this market, since where they are now as an industry. And that's sort of leading to the flows because it's just not as easy to enter compared with other asset classes. But that also means there's a structural premium to be earned still, and that's what's making it highly attractive these days.

**Michael:**

Sure. And what about the current situation, the current pandemic? Has that affected the appetite or climate for investment, particularly in receivables at the moment?

**Martin:**

From the conversations with our investors or prospective investors, we haven't really seen that the pandemic has had a shift. It's more of these macro trends. And I mean, the fiscal stimulus that came after the pandemic has also increased that sort of appetite for yield and attractive yield.

**Michael:**

Okay, let's move on to technology. And, you know, you can hardly have a discussion these days in any areas of finance, and trade finance particularly, about a discussion on technology and risk as well. So how is technology helping in modelling risk? I mean, if you look back to, let's say, the Banking Crisis, again, I think things were significantly more difficult than compared to today in terms of risk assessment and modelling risk. Is that a fair statement to say that technology has come quite a long way, even in the last 10 or 12 years in terms of helping to model risk?

**Martin:**

I would not know whether I'm the right person to talk about the last decade on technology, but I can only talk about how we are using it. And it is in very selective corners of our portfolio, of our investment universe where we are employing artificial intelligence or certain technological edges. Yeah, I would say, in assessing risks and rewards, we tend to be for the main portfolio, very very much traditional in terms of credit analysis, transaction analysis, fraud risk analysis, we're not completely outsourcing it to some bot that runs it in the background. It wouldn't work across the whole board. Having said that, there are certain areas where it absolutely makes sense to adapt, and to use technology to drill deeper.

**Michael:**

So you are taking perhaps a quite cautious or fairly cautious approach to new technology before you decide to adopt some of them.

**Martin:**

Yeah, absolutely. I mean, it always, technology always comes with implementation effort. And that's money, but also time spent. And that time spend, you wouldn't spend on other things. And so it is a trade-off. And, yeah, I mean, there has to be something in it if we're employing a new technology or any technology, that it returns an analysis or an outcome that we haven't had otherwise before, or that it's easier or harder to get, or faster to get. There are many reasons why this can make sense. But across everything, I wouldn't say that there's this one technology that covers it all.

**Michael:**

But generally speaking, you see a very positive outlook for this sector in the coming years, do you?

**Martin:**

I think, I mean, there's all it's got - all the right features. I think also the short-term nature of it makes active risk management just much easier than in other asset classes, such as medium term bonds or loans. I mean, just letting exposures roll off is something that this asset class is made for. So investors appreciate that notion as well. And yeah, from an outlook, we are very positive on the whole.

**Michael:**

OK. Well, Martin, we very much look forward to hearing more from you and seeing more from you next month at, as I mentioned earlier, our Alternative and Receivables Finance Summit in London, which again is on the 18th of November. And Martin, thank you very much for joining us today. Thank you.

**Martin:**

Thank you, Michael for your time and see you in London then. Bye!

**Michael:**

See you in London!