



Panorama

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A semi-annual analysis
by Ofi Invest Group experts






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Contents

➤ Macroeconomic view		5
➤ Liquid assets.....		6
➤ Emerging markets.....		8
➤ Real estate.....		10
➤ Private debt		12
➤ Private equity and infrastructure		14
➤ Focus on ESG		16



⑦ **Éric Bertrand**
Deputy CEO, CIO
OFI INVEST AM

EDITORIAL



We are delighted to celebrate the first anniversary of Grand Angle, Ofi Invest's magazine dedicated to assisting you with your allocations through our research into both public and private markets.

In this new edition, we are pleased to present our full line of research, along with some food for thought that will assist you in implementing your allocation strategies as we approach yearend. In addition to optimising risk/return, and in an ever more volatile and uncertain world, our coverage includes liquidity and volatility, as well as capital consumption for insurance assets.

"Volatility" and "uncertainty" are not mere buzzwords. They are actual phenomena being driven by the US president, by the artificial intelligence boom, and by the ever-present matter of how the most heavily indebted governments will manage their budget deficits. On the corporate front, managing capital, debt and real estate remain core questions.

In an environment characterised by geopolitical tensions, by doubts being expressed on some established scientific findings, and by shifts in regulatory frameworks, we felt that it was also essential to reaffirm our approach to responsible finance.

The months to come are unlikely to be a walk in the park, but we must avoid the trap of trying to tap into volatility by switching from one asset class to another, or by excessively polarising portfolio construction. At Ofi Invest, we take a longer-term approach, one based on the expertise of our various specialists, who are committed to researching their asset classes without giving in to short-termism.

It is with this in mind and in the run-up to 2026 our specialists at Swen Capital Partners, Zencap Asset Management, Syncicap Asset Management, Ofi Invest Real Estate and Ofi Invest Asset Management have produced this look back at 2025 and outlook for 2026, in order to assist you in determining your allocations.

Enjoy your reading.

Growth resilient but under pressure



📍 **Ombretta Signori**

Head of Macroeconomic
Research and Strategy

OFI INVEST AM

The United States is becoming increasingly polarised not just politically and societally, but also economically. Domestic demand is being driven by private consumption by the richest. The highest quintile of the population accounts for 40% of total consumption, thanks to the wealth effect, which is being driven, in turn, by rising equity prices (hence, a vicious circle). On top of that come tech investments, which account for almost 5% of GDP.

Spending by middle- and low-income households, meanwhile, is closely dependent on the strength of the job market, which has been at a near-standstill for one year, with few hirings and few dismissals. Lower immigrant numbers have lowered the minimum number of jobs to create each month to head off an increase in unemployment, but demand-side factors have also played a role, and the jobless rate is approaching 4.5%, a four-year high. Employment risks therefore remain on the downside. However, **in 2026 growth in the US is likely to remain close to its potential, driven by tax cuts, investment incentives provided in the budget, more dovish monetary policy, and trade uncertainty that, while still with us, has receded.**

Tariffs were the main US inflation risk this year. According to our estimates, about 40% to 50% of tariff costs were passed on into end-prices, less than in 2018, as demand was less robust. Barring a knock-on effect and assuming that housing inflation can still cool off, total inflation is expected to recede gradually in 2026. In light of all this, the US Federal Reserve, which has already paused the shrinking of its balance sheet, is likely to ease its monetary

policy further. Inflation, in fact, is a concern of US voters. Aware of what's at stake in the mid-term elections, the Trump administration must weigh the benefits of the recent tariff receipts against their potential cost in terms of inflation. 2026 will also feature events that could have a big impact, including Donald Trump's likely visit to China, the appointment of a new Fed chairman⁽¹⁾ and the start of the 2027 French presidential campaign.

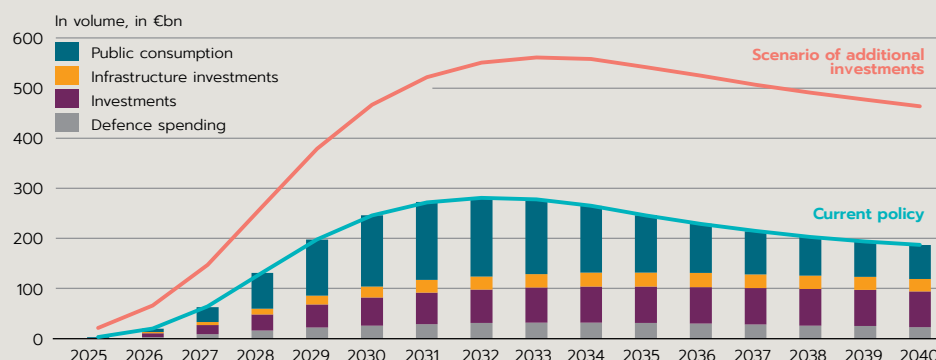
Despite political instability and trade uncertainties, growth held up well in France in 2025. However, euro zone strength was driven by Spain, Portugal and smaller economies. The outlook is good for these countries, pending an upturn in Germany, driven by investments of the special fund for infrastructures and defence spending. Domestic demand is likely to be supported by easing financing conditions, combined with a lower VAT rate and subsidised energy prices for energy-intensive industries. **The German plan's effectiveness is crucial to the euro zone, and risks could arise from delays or inefficient allocation of resources** (see chart).

The boost should in any case be enough to keep euro zone growth slightly above 1%. Consumption is likely to remain moderate but in positive territory, while European investments should improve gradually during the year if trade uncertainties recede. **Inflation is unlikely to be an issue.** We forecast it, on average, at below 2% in 2026, with a downside risk. If the ECB were to deem a foray under 2% sustainable, it could adjust its monetary policy accordingly. The European Council's decision to postpone to 2028 the implementation of the ETS 2⁽²⁾ system is expected to subtract 0.2 to 0.3 percentage points of inflation from the ECB's 2027 forecasts.

⁽¹⁾ See our research note entitled: *"The independence of the Fed in question"*.

⁽²⁾ The Emissions Trading System 2 (ETS 2) is the new European carbon market, a cap-and-trade mechanism aiming to reduce greenhouse gases in sectors that had not been covered by ETS 1.

Cumulative impact on German GDP based on the quality of the stimulus plan



Sources: German Council of Economic experts, Federal Statistical Office, Ochsner and Zuber (2025), Ofi Invest AM.

One of the criticisms being made of the German stimulus plan in its current form is its underweighting of new investments. The German Council of Economic Experts suggests that the plan could have a greater and a longer-lasting multiplier effect on growth, without worsening the debt burden, if public funds were to be steered more into true investments, rather than into financing projects that are already on the drawing boards. The Council also applies this reasoning to regional and local governments and suggests that non-priority spending (such as certain subsidies) should be avoided, in order to keep public finances healthy. Based on its estimates, increased investment in infrastructures could boost GDP by 6 percentage points instead of 3 over the next three years. The impact estimated for 2026 is about 0.5%, which is near our 0.4% estimate.

Same player *shoot again*



📍 **Éric Bertrand**
Deputy CEO, CIO
OFI INVEST AM

Donald Trump, tariff barriers, central banks, AI, and geopolitics – without a doubt these five themes will remain in the spotlight in 2026.

The new US president has lived up to expectations... by being unpredictable. Although he has shown pragmatism in signing numerous bilateral agreements that significantly ease the pain of "Libération Day"⁽¹⁾ for international trade, he continues to blow hot and cold. The risk of a protectionist spiral is still with us, with repercussions on global growth. Neither this risk, nor doubts on the strength of the US economy are yet sufficient to push the US Federal Reserve into a more dovish stance on monetary easing. Another rate cut looks more than likely by yearend, but how far rates will be cut in 2026 is open to question. We don't expect the Fed Funds rate to fall below 3%, with all due respect to the Trump administration, which is doing its utmost to pressure the Fed. The replacement of Jerome Powell in May 2026 will tell us much about the future of Fed independence.

The European Central Bank looks more predictable. Growth in Europe came in stronger than expected in the first half of 2025, driven by inventories, consumption, investment, and a stable job market, which makes a further rate cut less urgent, despite a still-uncertain economic outlook. Our scenario is for stability of key rates in 2026.

Further east, the Bank of Japan has been in an easing cycle since 2024, in contrast to the ECB or the Fed. **We therefore expect little volatility in long-term interest rates on either side of the Atlantic**, and we would not be surprised to see the Bund and the 10-year US yield end

2026 near their current levels.

We are overweighting US debt, in light of the Fed rate cuts expected for 2026 and the defensiveness they offer in a portfolio of 10-year US government bonds in a stressed scenario.

The OAT/Bund spread has levelled off at 75 basis points, despite French political turmoil. The government is still unstable but has for the moment managed to hang on, at the price of budget concessions. The trade-offs that have been made may provide short-term reassurance to investors on stability but don't look commensurate with the challenges and threats of deficits hanging over public debt for the coming years.

On the credit markets, spreads are historically low in both investment grade and high yield. We expect a buy-and-hold strategy to remain attractive next year, but believe that selectiveness is needed more than ever. **We are waiting for the risk premium to be restored before taking on any more exposure.**

In equities, although the year is not over, it has featured returns to all-time highs on almost all the world's markets. Keep in mind, however, that most of the gains have been by companies that are more or less connected to artificial intelligence, and that investors are increasingly wondering whether those companies are indeed overpriced, even if earnings come in as expected. The spectre of a potential bubble bursting could stoke volatility on the markets, especially considering that the huge investments made must still pay off.

As for geographical choices, we are still facing the same dilemma: **Wall Street is priced far higher than Europe. But that, after all, is where the tech giants are. That's why we are not ranking the world's two main financial markets, and prefer Japan and emerging markets, which are being driven by stimulus plans and valuations that we deem attractive.**

CURSORS

BONDS



EQUITIES



Sovereign bonds remain attractive in a buy-and-hold and diversification strategy and for their role as a safe haven against tail risks. However, given the issuance volumes in core countries like Germany and France, yields are unlikely to exceed those of a simple buy-and-hold strategy. As with corporate bonds, selectiveness will be crucial in generating performance above buy-and-hold levels.

In equities, the global context is still favourable, in our view, thanks to dovish monetary policies and fiscal stimulus in the main countries (US, China, Germany and Japan). Although AI could cause some disruption, the investment cycle is still just now starting. In our baseline scenario, equities are likely to perform at least in line with their long-term returns, barring some darker alternative scenarios (such as a hard landing by the US economy or a resurgence in global uncertainty).

⁽¹⁾ "Liberation Day" is a term used by Donald Trump for 2 April 2025, the day he announced major new tariffs. Our views of asset classes provide a broad and forward-looking framework for discussion and serve as a guide for interactions between Ofi Invest's investment teams. The investment horizon of these views is short-term and subject to change at any time. Accordingly, this framework does not constitute an indication for building up a long-term asset allocation. Past performances are not a reliable indicator of future performances.

INTEREST RATES

Focus on *buy-and-hold and diversification*



📍 **Geoffroy Lenoir**
Co-CIO,
Mutual Funds
OFI INVEST AM

The re-election of Donald Trump as US president has made the markets harder to read but ultimately has had little impact on the bond markets. The monetary easing that the Fed and the ECB began in 2024 continued into 2025, albeit at different paces. The ECB had begun its easing cycle earlier and ended it in June, after lowering its main key rate to 2%. The Fed, meanwhile, resumed its series of rate cuts in September after a long nine-month pause and could end this cycle in early 2026. The slight cooling off of the job market should allow the Fed to lower its key rates to between 3.0% and 3.5%, but probably no lower, due to the resilience of the US economy and to inflation, which should remain above 2%. Bond yields appear to have some downside potential, albeit limited whereas on short-term rates, changes at the head of the Fed pose the risk of a cut in key rates. For the ECB, a rather stable outlook on growth and inflation suggest that it could opt for the status quo for most of the year. The 10-year German yield is likely to remain within a

trading range of 2.5% to 3.0% with an upside risk, due to fiscal stimulus in Germany and the heavy volumes of public debt to be issued on the markets. The ECB may consider slowing the shrinking of its balance sheet, particularly if it sees upward pressures on money-market rates.

Tariffs grabbed headlines 2025, but Europe faces other sizeable challenges in 2026 in both geopolitics and politics. The budget standoff in France is one example.

A RESILIENT CREDIT MARKET

With the steepening of yield curves in Europe, corporate bonds on the whole outperformed government debt in 2025. The credit market was highly resilient, high yield in particular, with the exception of the lowest-rated issuers. The asset class got a boost from heavy investor inflows and busy primary market activity. Credit spreads narrowed to historical lows. We believe that a defensive approach to these spreads is necessary. Credit spreads are likely to hold up but at the price of heavy volatility.

Both government and corporate bonds are still attractive in a buy-and-hold and diversification strategy. However, agility and selectiveness are called for within each asset class, even more so than in 2025. "Absolute return" funds could stand out in this environment.

EQUITY

Bubble or not Bubble ?... That is the question



📍 **Éric Turjeman**
Co-CIO,
Mutual Funds
OFI INVEST AM

Over the past few weeks, as almost all equity markets have rubbed up against their all-time highs, a sudden concern is threatening to spoil the party: what if AI stocks are overvalued?

Obviously, when the subject turns to technology and bubbles, we can't help thinking back to the bursting of the infamous Internet bubble, 25 years ago. But that comparison doesn't go very far, and while many AI-related companies are clearly overvalued, the megastars that generate huge revenues quarter after quarter are not necessarily the most vulnerable. **More than ever, we have to separate the wheat from the chaff. Stock-picking will be especially important in the coming months.**

Moreover, recent concerns are due to the fact that the risk premium has vanished, although many risks are still with us, independently of a possible bubble. These

risks include a still-tense geopolitical situation, tariff negotiations, and doubts on how long monetary easing will last on both sides of the Atlantic. Within this fraught environment, fourth-quarter corporate earnings were actually quite strong, especially in the US, and Nvidia*, the flagship AI stock, did not sit this one out, beating forecasts once again.

KEEP AN EYE ON EARNINGS

Clearly, P/E ratios of 24 in the US and 16 in Europe for the current year are justified only if 2026 earnings growth meets expectations. Such growth would lower P/Es to, respectively 21 and 14, more in line with their long-term averages.

The main Asian markets are, for the moment, catching up significantly and, for once, outperforming Western markets. A weaker yen is boosting Japanese exports, and the structural reforms Japan has made are paying off, while Chinese stocks are being driven up by economic stimulus and their discounts vs. US stocks.

In light of the above, we are sticking to our global neutral stance on equity markets with a preference for Japan and emerging markets.



Did you *know* ?

Despite the trade war with the US, Chinese exports will reach their all-time high in volume terms in 2025.

China's trade surplus could exceed \$1000 billion this year!

Chinese companies are gaining market share, particularly in non-OECD countries, which now account for more than 50% of its exports. The government now wants to rebalance the economy towards domestic consumption.

EMERGING MARKETS

Asia, a key player in the current global transformations



🕒 **Jean-Marie Mercadal**
CEO
SYNCICAP AM

2025 featured two major phenomena that are shifting the world's political and economic equilibria: the emergence of regional blocks and the irruption of artificial intelligence (AI). Asia is at the heart of both these phenomena.

In recent months, the world has seemed to be evolving towards a multi-polar set-up in which Asia – led by China – has become a key player. This seems to have been borne out in the performances of Asian financial markets in 2025. International investment inflows have returned, and performances are in positive territory. In dollar terms, Chinese equity gains range from 20% to 30% year to date, depending on the indices. In Asia ex-China, they are up by about 15%, while South Korea has stood out as the world's best-performing market, with an increase of almost 75%.

Donald Trump's return to the US presidency has

accelerated this transformation. His diplomatic style has been one cause of the weakening in traditional multilateral institutions (e.g., the UN, G7, and G20), and the strengthening of bilateral negotiations and regional summits.

In this new geopolitical landscape, and despite stubborn domestic challenges, China emerged in 2025 as a key player. Its negotiations with Washington illustrate a clear and self-assured strategy, in contrast to its more cautious past stances. China now looks confident in its industrial and technological capacities. "Made in China" now boasts a new image, something that investors have just become aware of. Chinese products – electric vehicles, smartphones, drones, robots, machine-tools, household appliances, and so on – now stand out in their innovativeness and their highly competitive prices. While China is still lagging behind in the strategic field of advanced semiconductors, the massive investments it has made suggest that it will soon catch up.

China's image has accordingly become considerably more modern, and Chinese soft power is having a greater impact, especially among the younger generations. China now enjoys a more attractive image, marked by progress and modernisation, and also constitutes a pillar of stability vs. a form of American impulsiveness. Its new

cultural influence will alter consumer habits in China, where international brands, American ones in particular, are no longer held in such high regard.

The other big disruption of 2025 was the boom in artificial intelligence, which is transforming both the business world and the lives of ordinary people. Progress has been so fast and spectacular, and fields of application so vast, that AI-related tech stocks have skyrocketed, led by Nvidia*, the first company to exceed \$5,000 billion in market capitalisation. Asia is playing a leading role in this revolution. Companies like TSMC* (Taiwan), Samsung* and SK Hynix* (South Korea) are at the heart of the global value chain, producing semiconductors and high-bandwidth memories that are essential accelerators of AI, such as Nvidia's* graphic processing units. Giants such as Alibaba* and Tencent* have integrated AI into their e-commerce, gaming, and social media services, while investing massively in cloud infrastructure to support the development of large-scale AI models.

ASIAN EQUITIES: A STRATEGIC LONG-TERM OPPORTUNITY

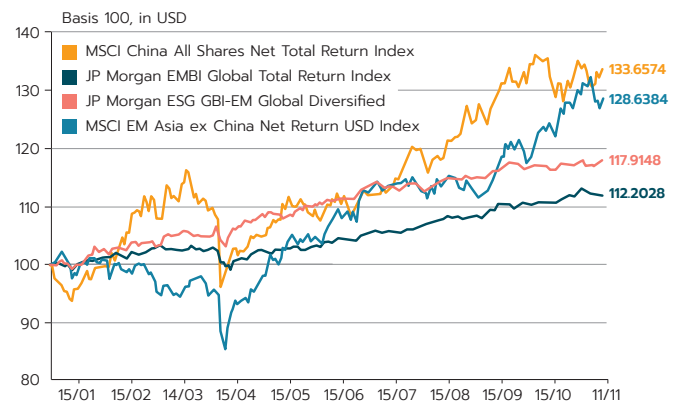
In light of the above, we expect international investors to increase their allocations in Asia equities in the coming years. Asia accounts for 60% of the world's population, almost 50% of the global economy, and about 25% of global market cap. The continent's economy is expected to grow by almost 4.5% in 2025 and its long-term economic outlook looks rather solid. Its valuations, on the whole, look reasonable, especially as companies' earnings momentum is improving. Third-quarter reporting season is almost over, and aggregate earnings of the more than

950 companies in the emerging Asia index rose by 14% on the quarter, beating consensus forecasts and finishing well above the 4% growth of the previous quarter. These good results are being driven by strong performances of tech companies in Taiwan and Korea. But figures have also improved in China (+ 11%) and India (+ 14%), where momentum has taken back off. For 2026, the consensus forecast is for 18% aggregate earnings growth, which would mean a 2026 P/E⁽¹⁾ of about 15 for this index. In the short term, however, a phase of consolidation looks likely following the recent showing, which could produce investment opportunities.

⁽¹⁾ The price-earnings ratio is an equity research indicator.

*Companies are mentioned only for informational purposes, and not as an offer to sell, or a solicitation to buy, financial securities.

2025 PERFORMANCE OF THE MAIN EMERGING MARKETS INDICES



Source: Bloomberg as of 11/11/2025

CURSORS



We don't think Chinese equities have caught up yet. International investors are still underweighted, and domestic investors are just now wading back in. So, there is still some inflow potential. Meanwhile, the Chinese government is taking a more positive stance on the private sector and equities market. And valuations look quite reasonable, with a 2025 P/E⁽¹⁾ of about 15 with 15% to 20% earnings growth forecast in 2026.

Among other Asian markets, macroeconomic momentum and corporate earnings growth are improving in India, although its market has been rather flat this year. The other markets would be vulnerable in the short term to a phase of consolidation of the AI tech sector.

Local-currency Emerging Markets bonds continue to perform well, up by almost 16% in dollars this year (+ 5% in euros). We expect this trend to continue against a backdrop of relative weakness of the dollar, which is favourable to Emerging Markets currencies and in a global rate-cutting environment.

In contrast, Emerging Markets bonds in hard currency do not look attractive, as their spreads⁽²⁾ are historically very low.

⁽¹⁾ The price/earnings ratio is an equity research indicator.

⁽²⁾ Sovereign spread: the difference in yield between a sovereign bond and benchmark bond of the same maturity, which is considered less risky.



Did you *know* ?

Each day, the equivalent of 20 football fields are artificialized in France. This is one cause of the vanishing of natural habitats⁽¹⁾.

And yet, buildings can become refuges for biodiversity. Vegetalised roofs, façades planted with local species, in-ground gardens and ecological corridors are all solutions for reintroducing living beings into our built environments.

The real estate of tomorrow will no longer settle for limiting its impact; it will also help regenerate ecosystems.

⁽¹⁾ Source: www.ecologie.gouv.fr/politiques-publiques/artificialisation-sols

REAL ESTATE

Real-estate markets are *recovering*



📍 **Sébastien Chemouny**
Director
OFI INVEST REAL ESTATE

Slowing of global growth, serious geopolitical tensions, and the implementing of high tariffs have all exacerbated uncertainty in recent months. And yet, although the political and economic situation remains shaky, French real-estate markets have shown more robust investment volumes on the year to date. Severe turbulence in real estate, particularly in office property, since mid-2022 seems to be receding gradually, thereby reviving investors' appetite for well-located assets.

TENTATIVE RENTAL ACTIVITY

Volumes placed on the market, meanwhile, continue to be driven down by companies' wait-and-see attitude to this uncertain environment, as well as the spread of remote-working and flex offices. Moreover, cost-cutting

is now an increasingly integral part of real-estate strategies. Office take-up in Europe's top 18 markets rose by 2% in the first nine months⁽¹⁾, but fell by 8% in Greater Paris, where the vacancy rate also rose⁽²⁾ and is still far more constrained for the most highly sought-after properties (central business districts and logistics). Rental values held up well for offices and increased considerably for the top logistics platforms, by almost 3% on average in Germany and even by 9% in Greater Paris⁽³⁾. In the case of offices, higher rents and scarcity of new open-spaces led to a gradual shift of leasing towards the most accessible peripheral areas, with their lower rents. Moreover, the reduction of weekly remote-work days by some companies could provide a boost to areas farther from the centre.

That being said, rental activity continues to focus on central business districts, amounting to 75% of office rentals in Europe⁽⁴⁾. CBDs are attracting companies wanting to retain or attract talent, even if that means higher rents. Leasing of 15,830 m² by JP Morgan at Marché Saint Honoré and 20,640 m² by Datadog at *M Les Cimes de la Madeleine* shows how able the largest players are to pay prime rents for new Paris office space⁽³⁾.

INVESTMENTS CONTINUE TO FOCUS ON RENTAL PROPERTY

Despite a cooler second quarter, office real-estate investments have recovered well on the year to date. Commitments rose by 7% year-on-year on the French market, which accounts for 12% of the European market. France thereby outperformed Europe on the whole, which shrank by 4%⁽⁵⁾. There were far more deals amounting to more than €100 million in 2025 than in 2023 and 2024. Most of them were in the most central neighbourhoods of Paris. Of the 14 such deals recorded in 2025, eight were for office and retail properties in Paris, amounting to 69% of volumes⁽⁶⁾.

However, not all markets or properties attract the same amount of interest, and multi-track markets could become a recurring phenomenon. While some sectors remain attractive to both users and investors, others could have a hard time returning to their pre-Covid level of activity.

NIMBLE STRATEGIES FOR CREATING VALUE

Political uncertainty in France has not, so far, turned investors away from real estate. This suggests that Paris, continental Europe's deepest market, still offers an especially promising medium-/long-term outlook. The fourth quarter is indeed looking busier than last year, driven by several deals exceeding €300 million. These deals are drawing foreign inflows, often financed in their home countries. Meanwhile, investors are

widening their targets to new office properties located in the near suburbs, offered at attractive yields of greater than 7%. Some of these properties could be attractive opportunities if they offer long-term secured rental income streams and are located close to public transport, thereby expanding the volumes at play.

In a shifting market, value cannot be created solely by market beta⁽⁷⁾. Differentiating asset management strategies, managed expertly and nimbly, generate the alpha⁽⁸⁾ sought out by investors, i.e., maintaining and improving valuations. Investment volumes are up, driven by ever-pricier deals, thereby illustrating the true liquidity of a property that is well-managed and aligned with market uses and expectations. In contrast, a poorly managed property hinders financial performance. More than ever, real estate managed carefully, with vision and an eye on technical issues, constitutes, in our view, a solid and sustainable opportunity for institutional investors. The future belongs to those who combine high management standards with an accurate reading of the market.

⁽¹⁾ Source: BNPPRE

⁽²⁾ Sources: Immostat, BNPPRE

⁽³⁾ Source: JLL

⁽⁴⁾ Source: Cushman&Wakefield

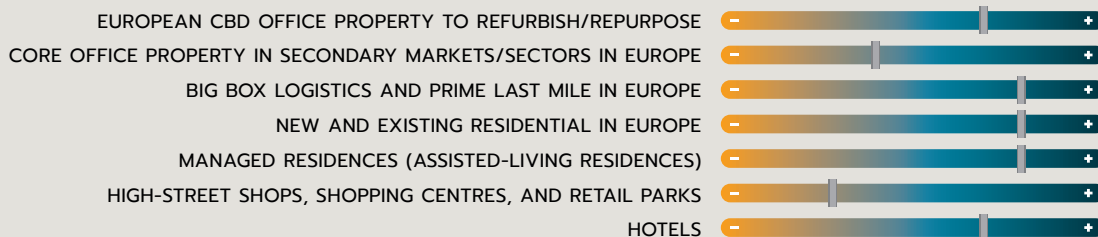
⁽⁵⁾ Sources: Immostat, JLL

⁽⁶⁾ Source: CBRE

⁽⁷⁾ Market beta is a statistical measure that indicates an asset's sensitivity compared to shifts in the overall market.

⁽⁸⁾ Alpha is a risk-adjusted performance indicator used in finance to measure added value compared to the broader market.

CURSORS



Logistics and residential properties seem to offer the best prospects, thanks to structural trends that guarantee resilient demand. Prime office properties to be refurbished and hotels, meanwhile, offer strong value-creation potential. Both rents and yields have adjusted downward in accessible offices located in the near suburbs of large cities. They now look attractive when adapted to new uses, carrying an ESG-performance label, and ensuring secured long-term rental income.



Did you *know*?

Junior infrastructure debt has a far shorter maturity (5-8 years) than senior infrastructure debt (often > 10 or 15 years). This is due to its role (of filling the gap between bank debt and equity) and its cost (which encourages borrowers to refinance – via senior debt – as soon as possible).

Accordingly, it offers a return/risk/maturity/SCR profile that we regard as attractive.

PRIVATE DEBT

Energy transition and private infrastructure debt



🕒 **Victoire Blaszin**
CEO
ZENCAP AM

The energy transition is not a choice but a prerequisite for European sovereignty. Private infrastructure debt is one of the key tools for contributing to it.

Infrastructures are the backbone of an economy. Without them, there is no sustained or inclusive growth. This asset class addresses transition challenges – energy, digital, and sustainable ones – especially well. These are objectives in themselves but also conditions for preserving our sovereignty.

Private infrastructure debt is an effective vector for financing these transitions and thereby strengthening our sovereignty, just as defence funds are doing. It fills a need for financing and offers investors an attractive and diversifying profile in unlisted assets, with recurring cash flows that are less volatile than in other private markets.

ENVIRONMENTAL TRANSITION: KEY TO ENERGY SOVEREIGNTY

The environmental transition is a prerequisite for Europe's energy independence.

It is a key to reducing not just our carbon footprint but our imports of fossil fuels from outside of Europe, with the consequences that this has on our (in)dependence and competitiveness.

Energy sovereignty is, in fact, essential to companies' competitiveness and to keeping manufacturing in Europe. This can be promoted by having available, affordable energy at a predictable cost. This is a prerequisite for maintaining value-added manufacturing in Europe and for sustainable growth.

Our energy sovereignty is thereby a key to the competitiveness of our European companies and, hence, **to our future growth**. This growth, without close energy dependence, will help strengthen our political sovereignty and, hence, our democratic and social model.

Ultimately, the energy transition is therefore essential for our independence and for preserving our democratic model.

Green energy is one of our answers to this challenge. It is up to us to make it available. Green energy prices are more predictable than those of fossil fuels, thanks to contracts that companies can sign for 10 or 15 years with local renewable energy producers. This price visibility and stability are essential for supporting our manufacturing and keeping it in Europe.

Along with nuclear power, green energy is one of the only forms of energy that can strengthen our energy independence. It is therefore absolutely essential, not just for achieving our climate goals, but also for preserving our economic, political and democratic sovereignty. The challenge is to integrate these non-fossil fuels into our energy mix, pragmatically, without undermining the resiliency of our grid and at a reasonable cost.

WHAT ROLE CAN DEBT PLAY?

The resulting financing needs are huge, for producing energy, of course, but also for storing it and for energy efficiency, electrification, an energy-efficient digital transition, etc. Governments cannot handle these costs alone. Private investors have to contribute, and it happens that this segment offers many opportunities.

Among the possible instruments (e.g., senior and junior debt, equity), junior infrastructure debt stands out. It fills a need between equity and bank debt, which are often more readily available for industrial projects.

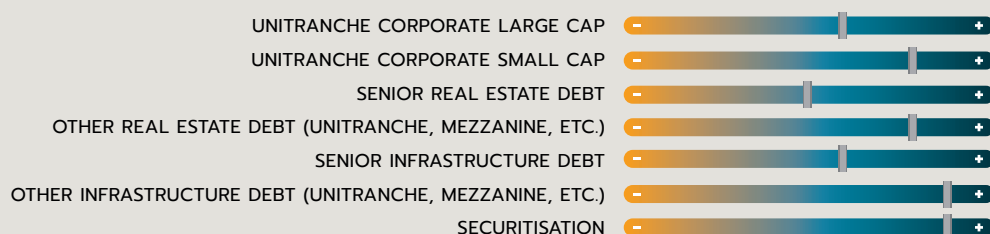
From investors' point of view, beyond addressing the aforementioned transition and sovereignty issues, debt offers the security that makes it possible to address development issues alongside industrial companies.

Among various debt instruments, junior exposure offers yields considered attractive (>6-7%) for limited durations (5-8 years), in exchange for risk that is halfway between equity (which, moreover, are often inaccessible to financial investors on more granular or local projects, as they are pre-empted by industrial companies) and senior debt, yields on which remain lower for far higher durations⁽¹⁾.

Lastly, junior private infrastructure debt enjoys attractive treatment under Solvency 2.

⁽¹⁾ Duration: the weighted average life of a bond or a bond portfolio, in years.

CURSORS



Private debt enjoys greater inertia than listed credit markets. As a result, credit spreads⁽¹⁾ remain at levels we feel are attractive, similar to small-cap unitranche⁽²⁾ debt, even though they have narrowed slightly in recent months.

Junior infrastructure debt is one of our favourite segments, with yields that seem both to remunerate credit risk and to offer an illiquidity premium, despite relatively short maturities.

Investors continue to neglect securitisation⁽³⁾ and real-estate debt, but they offer very attractive expected returns, in our view.

⁽¹⁾ The credit spread is the difference in interest rate between a corporate bond and a benchmark bond of the same duration considered the least-risky (e.g., a benchmark government bond).

⁽²⁾ Unitranche is a senior secured debt offering the same securities and pledges as senior debt but generally held by a single lender (a debt fund).

⁽³⁾ Securitisation is a financial technique consisting of transforming illiquid assets (e.g., loans, receivables or mortgages) into negotiable securities.



Did you *know* ?

Biodiversity is in danger.

95% of our food comes from soils. In Europe, 70% of these soils is in bad shape. Erosion results in €1.3 billion in lost agricultural output each year, according to the UN Food and Agriculture Organization.

75% of crops depend on pollinizing insects. 80% of insects and 421 million birds have vanished in Europe since 1980 (source: CNRS).

Finance can and must do something about this!

PRIVATE EQUITY AND INFRASTRUCTURE

Private markets *pivots of the environmental transition*



🕒 **Jean-Philippe Richaud**
Deputy CEO,
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SWEN CP

2025 is the mid-point of a decade that was supposed to see a transition towards a more sustainable economy, at least from the point of view of greenhouse gases (GHGs). This picture has been blurred by factors that are: 1/ geopolitical, with the United States, for example, promoting a protectionism 3.0; and 2/ societal, driven by national populist movements that are raising doubts on the health of our democracies.

In France, which had been aiming at leadership in pro-climate innovation and commitment, political uncertainty is hindering its ability to act while undermining business confidence and, generally speaking, economic strength.

Meanwhile, while it appears to be mission accomplished on inflation, the boom in artificial intelligence (AI), alongside these uncertainties that are hindering long-term

investment projections, are keeping economic agents from being able to look at the future with confidence or at least with some certainties.

WHAT WILL 2025 BE KNOWN FOR?

A certain backstepping on climate commitments, the hard time that European manufacturing is having in responding to attacks from the US and China, an unwelcome phase of political instability, and lack of clear direction – all of these make it harder to manage a company.

WHAT PRIVATE MARKETS HAVE TO OFFER IN THE STORM

Private markets, in contrast, offer some fundamental qualities during this volatility-prone period: they are less sensitive to extreme polemics; their medium-/long-term stance allows them to surf over cycles; and they are more closely tied to the real world of entrepreneurs and companies.

As a result, statistics on private market activity for 2025 show a certain resilience in Europe, with inflows likely to almost match those of 2024, and activity indicators (investments and divestments) down slightly vs. last year but still at a solid level.

Institutional investors have, on the whole, met their exposure targets, and inflows are now being driven by asset rotation and the opening up to retail investors. The challenges of adapting to climate change may have faded a bit from public view but are still as relevant as ever.

Private capital is a key pivot in the transformations to come. That's its strength and no doubt more than ever, it's reason for being.

INFRASTRUCTURE: KEY TO ENGAGED TRANSITIONS

Amidst steep volatility, infrastructure offers a safe haven, featuring resilience (with secondary-market discounts and standard deviations narrower on average than other private market segments), its cashflow profiles, and its long-term trends.

Sector dynamics remain especially strong in digital technologies (in particular AI datacentres), energy and transports (decarbonization of uses), encouraged by major national or supranational plans.

Growth prospects are bright out to 2030, with almost \$3 trillion in assets under management projected and a compound annual growth rate of 14.5% (projection from Preqin's "Private Markets in 2030").

PRIVATE EQUITY: OPENING UP TO RETAIL INVESTORS

2025 was dominated by the mid-market⁽¹⁾, driven by secondary deals of a new type called "continuation funds"⁽²⁾. These generate liquidity on good terms and offer secondary participants a more specific access to quality assets.

The venture capital segment is no doubt still absorbing a liquidity shock. Inflows remain challenging but should benefit from AI- and decarbonization-related issues.

Key sector challenges such as healthcare, the energy transition and decarbonization, which are intimately linked to societal issues, are powerful allocation vectors, which must naturally be supported by the opening up to retail investors via unit-linked life insurance contracts.

PRIVATE DEBT: STRONG GROWTH EXPECTED

Momentum in private debt is being driven by the senior/ unitranche⁽³⁾ debt segment with, in 2025, a positive switch in investor allocations. Private debt is also one of the main beneficiaries of the widespread adoption of private assets, by providing greater liquidity and a capacity to generate recurring and steady returns.

Mezzanine⁽⁴⁾, a structurally modest market (about €650 million of investments annually in France), retains its flexibility in facilitating deals in a challenging transactional environment. As it is repaid prior to equity and is better remunerated than senior debt, it is a good addition to a private market allocation.

⁽¹⁾ Mid-market refers to mid-sized companies that generally have: 1/ revenues between €50 million and €500 million (the thresholds vary from country to country and fund to fund); 2/ valuations between €50 million and €1 billion.

⁽²⁾ Continuation funds are secondary investment vehicles set up by general partners (GPs) to prolong the holding of assets from an existing fund that is maturing.

⁽³⁾ Unitranche is senior secured debt offering the same sureties as senior debt but generally held by a single lender (a debt fund).

⁽⁴⁾ Mezzanine debt is subordinated financing that combines features of both debt and equity and that is ranked behind senior debt holders but ahead of shareholders in the event of default.

CURSORS



Liquidity, a key concern for investors.

Liquidity is of prime importance to investors in all private equity segments and, to a lesser extent, in infrastructure. Political and geopolitical uncertainty is weighing on the visibility of business plans and on getting full value out of assets. This constrained environment is favourable to investors, with lower or stabilised acquisition prices, while the secondary market offers some nice opportunities. Mezzanine, a flexible and lightly dilutive instrument, benefits from transactional complexity and continues to offer an attractive risk/reward pairing.

⁽¹⁾ A buy-out is a total or partial takeover of a company, often using leveraged financing.

⁽²⁾ The "value add" segment consists of assets that are riskier than "core plus" assets but, in exchange offer higher yields. They often feature potential growth through acquisitions or operating improvements.

Integrating ESG: a key to resilience



📍 **Luisa Florez**
Head of Sustainable
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OFI INVEST AM

At a time when competitiveness and sovereignty are increasingly prominent thematic in Europe, and when the US government and European Commission are dialling back their ambitions on standards frameworks that will guide companies' practices in sustainability, we may wonder why we persist in including sustainability factors in investment decisions.

For Ofi Invest AM, integrating environmental, social, governance (ESG) and sustainability criteria into investment decisions is increasingly a way to protect our clients' investments against systemic risks, thereby guaranteeing long-term value creation and resilience for both companies and investors.

As an asset management company working, among others, for insurance companies, we are witnessing the soaring direct costs that are being passed on to households, as well as indirect costs that show up in insurers' higher weather-related claims.

Losses from natural disasters caused direct and indirect costs of almost \$320 billion worldwide⁽¹⁾ of which \$140 billion were insured. Insured losses were far higher than the average of the past 10 to 30 years⁽²⁾. 57% of insured weather-related losses were in the US.

To ensure the long-term viability of their business, insurance companies have tended to raise premiums in high-risk areas. They may even go so far as to pull out of areas that are simply too risky. They have already done so in some parts of California, Florida and other parts of the US. In France, in late 2023, many contracts have been cancelled in Brittany and Vendée owing to repeated weather-related damages. In 2023, 67% of housing units were under-insured in the US, resulting in limited coverage and payments by government insurance policies⁽³⁾. A report by the US Senate Budget Committee in 2024 warned that the collapse of property values in uninsured areas could "trigger a shock to the economy similar to the financial crisis of 2008". According to EIOPA⁽³⁾, this "protection gap" means we must rethink the traditional models, which are still based on historical data that no longer reflect current systemic challenges⁽⁴⁾.

These factors are encouraging investors more and more to develop forward-looking scenarios in setting a capital allocation in line with such risks and, accordingly, to rethink their portfolio construction.

For, the main objective is to identify the various financial and non-financial risks that could impact the long-term value of investments but also to spot the opportunities offered by a more resilient and value-creating system in the real economy⁽⁵⁾.

RETHINKING TRADITIONAL BUSINESS MODELS

At Ofi Invest AM, we have reviewed the way in which we lay out macroeconomic scenarios, based on our view that current private and public investments are insufficient for truly transforming the real economy. We have focused on climate risk, as our largest clients are signatories of the Net Zero Asset Owners (NZAOA) initiatives, which requires setting transition-related targets and a commitment-based approach aligned with these targets. Accordingly, **we have developed an alternative net-zero scenario that captures macroeconomic and financial risks arising from the transition at the asset class level on a 10-year horizon**. It can be compared to a benchmark scenario in assessing the impact of transition risks on various asset classes and steering the strategic allocation.

ESG RISKS ARE NO LONGER PERIPHERAL

According to a MSCI⁽⁶⁾ study, robust ESG practices may act as a shield against systemic shocks. Companies that manage ESG issues well also manage their resources more efficiently, maintain transparency, and adopt forward-looking strategies prospectively, thereby helping to reduce their vulnerability.

As part of our research on corporate practices, we analysed the cost of the most prominent controversies⁽⁷⁾ or litigation since 2013. Whereas such events were often deemed "tail risks", the frequency of controversies and related costs show us that they could cause bankruptcies. In 2019, PG&E* (Pacific Gas and Electric Company) was the first company to declare bankruptcy because of climate change, following fires in California. Fines related to ESG controversies can reach huge amounts, of up to €25 billion for Volkswagen* (Dieselgate) in 2016. **Extra-financial risks can turn into major financial risks, affecting not just companies' reputations but also their capital structures and their solvency.**

⁽¹⁾ "When do you pull the trigger?" Rethinking insurance exposure in a warming world.

⁽²⁾ Source: Munich Re Septembre 2025: **Climate change is showing its claws: The world is getting hotter, resulting in severe hurricanes, thunderstorms and floods | Munich Re**.

⁽³⁾ L'EIOPA (European Insurance and Occupational Pensions Authority).

⁽⁴⁾ Source: **Bridging insurance protection gaps: regulation, incentives and coordination** (Eurofi Magazine, September 2025) on the EIOPA website.

⁽⁵⁾ Source: Addressing system-level risks and opportunities - a guide for investors. PRI November 2025.

⁽⁶⁾ Source: Sustainability as a Leading Indicator for Credit Events - September 2025, MSCI.

⁽⁷⁾ A controversy is an event (or a series of events) having a negative impact on sustainability factors and potential financial, reputational or operational consequences.

* Companies are mentioned only for informational purposes, and not as an offer to sell, or a solicitation to buy, financial securities.

GLOSSARY

Carry: strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

Credit spread: difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

Duration: weighted average life of a bond or bond portfolio expressed in years.

Inflation: loss of purchasing power of money which results in a general and lasting increase in prices.

Investment Grade/High Yield credit: Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

Mezzanine debt: a hybrid form of financing located between senior (priority) debt and equity in a company's financial structure.

PER: Price to Earnings Ratio. A stock market analysis indicator: market capitalisation divided by net income.

Risk premium: reflects the additional return demanded by investors compared to a risk-free asset.

Spread: difference between rates.

Steepening: shift in which the difference between long- and short-term interest rates increases, thus making the yield curve steeper.

Unitranche: senior secured debt offering the same sureties as senior debt but generally held by a single lender (a debt fund).

Volatility: corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

IMPORTANT DISCLOSURE

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Financing

projects that fight plastics pollution in the oceans

*Because each year it kills more than 1 million sea animals
and threatens the equilibrium of ocean ecosystems*



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