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German pension fund establishes €100m debt portfolio

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By: **David Brooke**

TÜV SÜD Pension Trust has made its first move into the private debt market. It will invest mostly in senior and mezzanine loans in Europe and the US, but will also deploy a smaller amount in distressed debt and credit opportunities.

German pension fund TÜV SÜD Pension Trust will sink €100 million into the US and European private debt markets as it seeks more attractive returns in the current low interest rate environment.

The pension fund has tasked Munich-based asset manager Golding Capital Partners (GCP) with the role of managing its portfolio of investments across the debt spectrum. The majority of investments will be targeted at senior loans and mezzanine debt, but a small portion of the fund will be deployed in credit opportunities and distressed debt.

Investors are increasingly looking for a more attractive risk-return profile in the existing low interest rate environment and this is leading them to deploy more capital in alternative investments, a statement from both firms said. It is the first time the pension fund has invested in private debt.

The targeted IRR of the portfolio has not been disclosed, but GCP has achieved an average IRR of 11 percent on its investments in the last decade. The portfolio is comparatively more conservative than GCP’s previous investments, which suggests that the expected IRR may be lower. The portfolio is set to be fully deployed within the next three years, but PDI understands that the capital could be fully committed as early as 2017.

“We increasingly find that in addition to returns, our investors are looking for investments that diversify their portfolio and are not correlated with stock market performance,” said Reinhold Haas, managing director of TÜV SÜD Pension Trust.

The pension fund, established in 2006, manages the assets of TÜV SÜD in order to fund the company’s pension obligations. TÜV SÜD is the world’s largest provider of technical services, according to a statement from the firm.

“We are delighted by the new partnership with TÜV SÜD Pension Trust. With six institutional investments programmes for private debt and now four managed accounts in this asset class we will continue to develop our role as one of Europe’s leading independent asset managers for private debt,” said Hubertus Theile-Ochel, managing partner of GCP.

At the end of last year GCP closed its sixth private debt fund of funds on €413 million, surpassing its €300 million target. The majority of contributors to the fund consisted of pension funds and it also attracted investments from mid-size insurers. PDI understands that the firm will launch its next debt fund in the second half of 2016.

GCP manages around €5 billion in assets comprising of private equity, private debt and infrastructure across Europe. It attracts investments from insurance companies, pension funds, foundations and banks. It has offices in Munich, Luxembourg and New York.