

HSH Nordbank eyes second fund

Date: 29/07/2008 10:00
Source: Commercial Aviation Online
Location: London
By: Olivier Bonnassies

A year after launching Global Aircraft Fund I, HSH Nordbank is considering the launch of a second fund.

HSH Nordbank's Head of Aviation Europe, Olaf Sachau, says the bank is "exploring ways to launch a second fund by year-end."

"We expect more asset availability and volatility in prices in the upcoming downturn with sale and leaseback opportunities," says Sachau.

"A second fund will take opportunities of market conditions and, if we launch it, we might be looking at similar parameters and terms as Global Aircraft Fund I," he adds.

Currently, Global Aircraft Fund I has committed to a total of 19 aircraft by now with airlines worldwide. Sachau, who has recently been promoted to the role of Head of Global Commodity Finance at HSH Nordbank with effect from 1 August 2008, says the response from institutional and private investors has been very positive.

The bank raised \$203m in equity for its Global Aircraft Fund I at the end of last year from a combination of institutional investors and wealthy individuals for a total planned investment volume of \$1.35bn.

Sachau says "the asset quality is outstanding, with the portfolio consisting exclusively of new narrow and wide-body equipment as well as a few top end regional jets. The lessee names and quality have been as intended, an excellent cross section of the global airline market, from promising LCCs, charter airlines, start-ups to top flag carrier credits."

Global Aircraft Fund I initially acquired six Airbus A320 family and Boeing 737 Next Generation aircraft that are on lease with three different lessees: Deccan, Lion Air and Hamburg International. The fund is currently in final lease negotiations with BMI (two A321-200s, Emirates Airlines (one 777-200LR), Air Comet (two A330-200s), TUI Group (two B737-800), an ME based cargo airline (one 747-400ERF), and Air France/KLM Group (five Embraer 190LRs).

According to Sachau, Global Aircraft Fund I is targeting a total of approx 25 aircraft. "We have clearly defined limits in terms of wide-bodies in the fund, so that it will probably focus on narrow-bodies for the remaining acquisitions," he says.

Under the Global Aircraft Fund I structure, the fund has a 10-year term, with an option for prolongation of up to two years. The investment period has been established at three years from when the fund is active. HSH Nordbank has promised a net internal rate of return of 12% per annum for investors, after fund costs. The bank says the underlying lease payments for the aircraft will secure on-going quarterly interest payments to the investors of a target amount of 5% per annum.

Sachau says aviation funds are an important part of the bank's aviation finance strategy. "The fund (s) and our Assets under Management approach are very much at the core of our aviation business model along with traditional aircraft lending," he comments. "HSH Transportation

Finance has gathered a strong Global Equity & Asset Management team under the leadership of Dr.Wulf Rendtorff. The cooperation with the HSH Aviation Market Teams is excellent and we look forward to more equity products coming out of Wulf's team."

The aviation fund portfolio is primarily offered to institutional investors, private banking investors with private investors subscribing only via feeder vehicles. It is managed by Dublin based Amentum Capital, a joint venture backed by HSH Nordbank and Deutsche Anlagen Leasing, which provides asset management, technical management and lease administration for the fund.

"Christian Hatje (CEO of Amentum Capital) has built up an expert aviation investment platform for HSH from scratch. The growth of Amentum Capital and its strong role as fund manager and technical adviser is remarkable. It complements our bank's aviation activities perfectly", says Sachau.

KG market

"There are opportunities for HSH in the KG market as well. We can provide structuring, asset sourcing, debt funding as well as asset management," says Sachau who adds that HSH Nordbank has excellent, long standing client relationships with KG houses through its globally leading ship financing unit.

Sachau is generally optimistic about the KG market. "Especially in the current environment with uncertainties in the equity capital markets and certain asset classes, the KG market for aircraft assets is seen as an attractive investment alternative by German retail investors. It is very much in the hands of the KG houses to keep this retail investor market strong by structuring products responsibly," he adds.