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Property specialist Agincourt discusses new RMB fund

With the launch of its RMB secured convertible-bond fund, real-estate fund manager Agincourt Capital hopes to attract investors wary of locking up assets for five years or more.

By **Joe Marsh, Leanne Wang** | 14 July 2011

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Hong Kong-headquartered property specialist Agincourt Capital's launch of its new offering today is unusual for several reasons.

It is the first renminbi-denominated and Australian dollar-settled secured convertible-bond (CB) fund; it will raise RMB from largely Chinese professional investors to invest solely in Australian real estate; and it offers three different risk levels within the one fund.

Agincourt has an AUM target of A\$500 million (\$536 million) – to be raised through the issue of CBs by the fund – and already has "significant" soft commitments and several anchor investors, says William Nobrega, managing partner of the Conrad Group, a strategic partner of the fund manager.

The firms expect the bonds to issue in eight weeks – by mid-September at the latest – and the entire issue to close within 30 days after that.

The synthetic three-year, 4%-coupon bond is secured by real-estate assets in Australia, with a maturity of five years. During the first three years, the bond investors can convert their debentures into equity.

Once issued, the bonds will be listed and traded on the Hong Kong exchange's secondary market, as with other RMB bonds. Nobrega admits the liquidity is likely to be low initially, but points to the potential for significant volumes.

The company is likely to list the fund on HKEx four or five years after the launch, since most bondholders will have converted to equity by year three, he adds. The other option is to wind down the fund.

The product's unusual structure is designed to attract investors wary of five-year or longer lock-up periods typical of many private-equity and real-estate funds, and aims to offer greater liquidity and visibility, says Nobrega. This is further reflected in the ability to select the level of risk within the fund.

Investors can choose one of three special-purpose vehicle (SPV) structures – commercial, residential and blended – to meet the risk-return profiles of different institutional and high-net-worth investors.

SPV Core will invest in office and retail buildings with five- to 10-year leases and will achieve a total annual return (rental income and capital gain, net of fees) of 10–12%.

SPV Opportunity will invest in residential development projects in the centres of highest population growth and achieve a total net annual return of 18–22%.

SPV Fusion will invest in core commercial property plus special situations created by the 2008 financial crisis and targets a total annual income and capital return in a range of 15–17%, net of fees.

Only once the fund is closed will Agincourt know how much of each type of assets it needs to source. However, Nobrega doesn't foresee any capacity issues as regards finding sufficient property investments of each type, noting Agincourt has already identified a potential A\$300 million in real-estate assets.

Nor is there expected to be any shortage of demand from investors. In Hong Kong, RMB deposits have grown to Rmb548.8 billion as of the end of May, but interest rates of term deposits is less than 1%. Investors are looking for higher-yielding investments, such as dim-sum (or CNH) bonds.

Meanwhile, Australian real-estate developers have difficulty getting loans from the local banks that have been cautious since the global financial



Craig Turnbull, CEO of Agincourt Capital

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crisis, and thus have to seek funding from alternative channels, says Craig Turnbull, CEO of Agincourt Capital.

"The opportunity assets include distressed assets and land opportunities," he adds. "There are three capital cities in Australia that are growing very fast and demanding land for housing development; there are other cities developing mixed-used real-estate projects for both residential and commercial purposes."

Turnbull believes the core assets will appeal to institutional investors, while the HNWIs will be more interested in opportunity assets.


The weakness of the new bond offering, as with other synthetic RMB bonds, is that it is not rated. "But in six months' time it will be rated," says Nobrega. "We chose a leading Chinese rating agency, Dagong Global Credit, which boldly downgraded the US last year."

"We are now finalising the syndicate consisting of a group of investment banks to place the bond offering in the primary market," he adds. "Then at the next stage, the lead manager will take care of listing the bond."

MDS Financial will be part of the syndicate and one or other of two major investment banks will lead-manage the deal. Deutsche Bank is the bond trustee, escrow agent and settlement agent for the fund, says Nobrega.

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