LHI Leasing GmbH
Asset Management Rating

SCOPE AA AMR

Rating rationale

Scope confirms the current asset management rating of LHI Leasing GmbH at AA$_{AMR}$. Scope attests the company a very high asset management quality and competence. The Real Estate and Renewable Energy sub-segments are each confirmed at AA$_{AMR}$, the sub-segment Aviation at AA-$_{AMR}$.

At the rating date of 31 December 2022, LHI Leasing GmbH (LHI) managed assets worth around EUR 14.3 billion (31 December 2021: EUR 14.4 billion) in the areas of leasing and structured financing, the ramp-up and portfolio management of real estate portfolios as well as investment products in real assets. At 30 September 2023, assets remained constant at EUR 14.3 billion.

The company's own capital management company (KVG) assumes the central tasks of risk, portfolio and asset management. The broad and innovative product range is currently aimed exclusively at institutional clients.

The area of investment products in real assets, to which this asset management rating refers, comprises 95 active investment vehicles with around a combined around EUR 5.7bn in assets under management (AuM) as of 31 December 2022, distributed across the asset classes of real estate (54%), renewable energy (31%) and aviation (15%). The rise in interest rates and high inflation since 2022 have led to uncertainty among market participants and thus to a reluctance to invest on the part of private and institutional investors. As a result, the new business volume of EUR 520m in 2022 was 83% below target and below the previous year's level (2021: EUR 1.13bn).

The rating is supported by the outstanding expertise in structuring individual product solutions for institutional investors and underpinned by seasoned relationship managers. The company also has extensive industry experience and long tenure of the first and second management ranks. In addition, there is the good to very good investment performance in the three asset classes considered, proven and modern operational processes as well as effective risk control and compliance mechanisms. Finally, we consider the diversified, risk-averse and at the same time profitable business model with a broad revenue base, moderate risk values as well as excellent fixed cost coverage due to well plannable management fees.

The rating is limited by a concentrated client base in the investment business and the expandable standardized ESG reporting at product level, although the individualized ESG reporting for clients should be highlighted positively.

From Scope's perspective, the very high fixed cost coverage continues to represent a competitive advantage, as this enables a selective approach in the relevant markets, which is in line with the company's orientation, which is typical of medium-sized companies (SME) and is geared towards the long term and safeguarding its reputation. Scope also takes a positive view of the fact that the company has generated positive annual net profits in its 50-year history and that the main portfolio companies have been profitable since they were founded. In addition, the "Rolling Stock" team, which was newly established in LHI's Structured Finance division in 2020, has succeeded in implementing several large-volume transactions, thereby helping stabilise AuM at group level. The long-term nature of the projects, with a peak term extending to 2062, provides a stable revenue base.

Regarding ESG, LHI has made further progress since the last rating. As an example, LHI KVG has been a member of the United Nations Principles for Responsible

Rating

Rating overall	**AA$_{AMR}$**
Real Estate	AA$_{AMR}$
Aviation	AA-$_{AMR}$
Renewable Energy	AA$_{AMR}$

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Investment (UN PRI) since May 10, 2023. In the aviation sector, LHI is one of the 26 founding members of "impact on sustainable aviation e.V." in 2022. LHI is active in various other working groups. The group has offset its CO_2 emissions with certificates since 2020. Since the first certification in 2020, the company's greenhouse gas emissions have fallen by more than 10% compared with the renewed certification in 2023 (based on the 2022 financial year).

At 30 September 2023, the AuM of the current Article 9 funds (three funds in total) accounted for around 42% of the KVG's total regulated funds. The product range now includes three ESG strategy funds and three ESG impact funds (in accordance with Art. 8 and 9 SFDR). In real estate, 12 of the 120 properties were assessed according to the ECORE standard, and 27 properties were converted to sustainable energy. LHI has a Sustainability Advisory Board made up of employees from different areas of LHI and two external members. The Sustainability Council meets at least twice a year. LHI published a sustainability report in 2023.

Real estate

Office properties accounted for 40% of the investment assets of around EUR 3.1 billion and retail/retail parks for 17%. Logistics, production and warehousing as well as hotel investments each account for around 16%, while residential properties (2%) and other types of use (educational, senior citizens' properties and mixed use) complete the spectrum with 9%. The managed rental space of around 1.3m m^2 is almost fully let at 98.9% (in terms of floor space).

LHI's real estate acquisitions for 2022 total around EUR 455m, which represents a significant increase on the previous year (around EUR 70m). Sales amounted to around EUR 39m (2021: EUR 59m). In the first half of 2023, the transaction volume amounted to around EUR 28m - two purchases of around EUR 17m were offset by one sale of around EUR 11m. In the market's peak price phase (2019 to 2022), LHI purchased a total of around EUR 810m or 40 properties. This may entail corresponding devaluation risks. However, LHI has focused on largely non-cyclical sub-asset classes, such as food retail, in the real estate sector for several years. In addition, LHI says it will increasingly focus on non-cyclical social and infrastructure properties in the future, which often show more stable developments.

Rising interest rates and high inflation rates nearly brought transactions in the real estate market to a standstill in 2022 and 2023. Further economic uncertainty such as loss of purchasing power and changing user requirements for buildings, particularly with regard to ESG and future demand for office space, are increasing the risks in many segments. It can be assumed that the office sector will face further challenges regarding letting and valuation. Against this backdrop, measures are required to keep the funds' yield levels stable and strengthen their risk-bearing capacity. At 2.8%, the average payout of the investment vehicles in 2022 was significantly lower than in the previous year (10.7%), but the five-year average of 6.4% is still at a solid level.

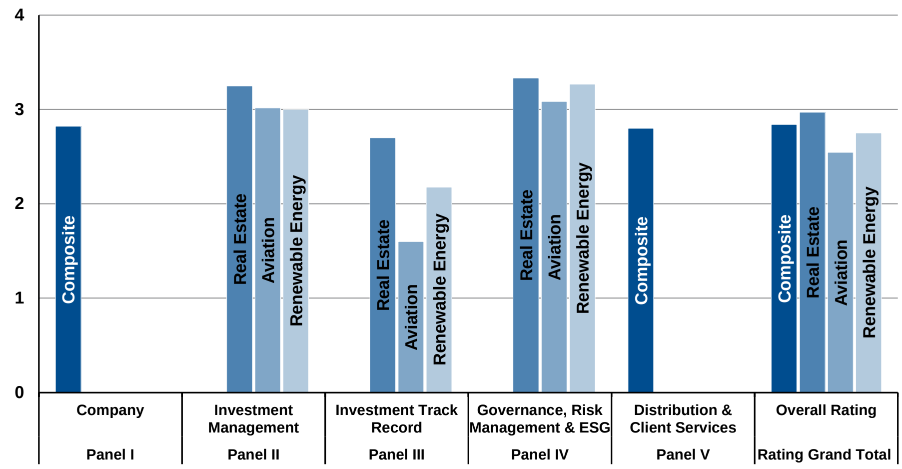
Renewable energies

The invested capital in the renewable energies asset class with a total volume of around EUR 1.8bn at the end of 2022 focuses on onshore wind farms and photovoltaic systems with an admixture of hydropower and e-charging stations. The wind and solar parks have a nominal output of around 920 MW (54% wind / 46% solar) in 13 actively managed investment funds. In 2022, the average payout of the investments was at a competitive level of 8.6%. Russia's war against Ukraine distorted primary energy markets and led to volatile energy prices in 2022, complication the calculation of investment returns. The gas and electricity price markets calmed down this year and last. Increased operating and financing costs also pose a challenge. Nevertheless, the asset class is enjoying high investor demand combined with higher expected returns, which is making access to suitable investments more difficult for asset managers. In the area of renewable energies, LHI made transactions totaling around EUR 97m or four acquisitions in 2022, tapping into the Swedish and Norwegian markets. In the first half of 2023, the transaction volume amounted to around EUR 57m or five purchases.

Aviation

In the aviation segment, LHI managed 10 active investment funds invested in aircraft, helicopters and aircraft turbines at December 31, 2022. In its history, the group has launched assets under management totaling around EUR 1bn in this segment and has an established international network. The average payout of 6.9% achieved in 2022 represents a significantly above-average result in Scope's view. In 2022 and 2023, the aviation market continued to recover from the Covid crisis. Many airlines are operating profitably again. Refinery bottlenecks, the significant rise in interest rates, the current armed conflicts and the strong US dollar, which are leading to high oil prices, among other things, continue to pose challenges for the industry. In the aviation segment, LHI acquired four training aircraft in 2022 and set up this investment for institutional investors in a Luxembourg securitization structure. One engine or propulsor was sold in 2022. In addition, a helicopter was sold prematurely in 2023, representing an unexpectedly large gain for investors.

Rating Summary



Rating drivers

+	Outstanding expertise in structuring individual product solutions for institutional investors, which offer opportunities particularly in turbulent economic phases, and support from experienced relationship managers with many years of experience
+	Extensive industry experience and long service at first and second management level
+	Good to very good investment performance in the three reviewed asset classes
+	Proven and modern processes and effective risk control and compliance mechanisms
+	Diversified, risk-averse and at the same time profitable business model with a broad revenue base and excellent fixed cost coverage thanks to predictable management fees
-	Client concentration risk in the investment business
-	Expandable standardized ESG reporting at product level, although the individualized ESG reporting for customers should be emphasized positively

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The present management rating was generated and written by Hosna Houbani, CFA, Director, Lead Analyst.

Rating history

Date	Rating Action	Rating	Date	Rating Action	Rating
28.11.2023	Affirmation	AA_{AMR}	06.12.2017	Affirmation	AA_{AMR}
28.11.2022	Affirmation	AA_{AMR}	30.11.2016	Affirmation	AA_{AMR}
30.11.2021	Affirmation	AA_{AMR}	02.12.2015	Affirmation	AA_{AMR}
10.11.2020	Affirmation	AA_{AMR}	08.05.2015	Watchlist resolved / Affirmation	AA_{AMR}
08.01.2020	Affirmation	AA_{AMR}	20.04.2015	Watchlist (evolving)	AA_{AMR}
21.12.2018	Affirmation	AA_{AMR}	05.05.2014	Initial Rating	AA_{AMR}

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Wesentliche Quellen des Management-Ratings

The following principal information sources were used to produce the management rating: website of the asset management company - detailed information provided on request - annual financial statements - interim financial statements - data supplied by external data providers - interview with the asset management company – external market reports - press reports/other published data.

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Before publication, the client had an opportunity to review the rating and the key factors leading to the rating decision (rating drivers), including a summary of the underlying rating rationale. The rating was not revised following this review.

Methodology

The management rating relates to an evaluation of the quality of the asset management company in its function as a product manager and issuer of financial instruments within the meaning of the methodologies published by SFA. The applicable methodology can be viewed at https://www.scopeexplorer.com/methodologies . Information on the meaning of the rating scale used for the rating is contained in the applicable methodology.

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