LHI Leasing GmbH

Asset Management Rating 2024

Asset Management Rating

AA_{AMR}

Real Estate	AA_{AMR}
Renewables	AA_{AMR}
Aviation	$AA-_{AMR}$

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Publication date
09.12.2024

Rating rationale

Scope has reaffirmed the asset management rating of LHI Leasing GmbH at AA_{AMR}, reflecting the company's very strong asset-management qualities and expertise. The ratings for the Real Estate and Renewable Energy sub-segments have also been confirmed at AA_{AMR}, while the Aviation sub-segment is rated at $AA-_{AMR}$.

Rating driver

The rating is supported by (1) outstanding proficiency in structuring tailored product solutions for institutional investors offering significant opportunities, particularly in turbulent economic times, along with the dedicated support of relationship managers with extensive experience; (2) the deep industry expertise of both first and second-level management teams; (3) consistently good to very good investment performance across the asset classes reviewed; (4) reliable, modern operating systems, combined with effective risk management and compliance mechanisms; and (5) a risk-averse yet highly profitable approach, supported by a broad revenue base and excellent fixed-cost coverage, largely due to predictable management fees.

The rating is limited by (1) reliance on a concentrated customer base in the investment business; (2) a recent rise in staff attrition, particularly in the renewable energy sector, and (3) while individualised ESG reporting for clients is commendable, there is potential to expand standardised ESG reporting at product level.

Company and assets under management

As of December 31, 2023, LHI Leasing GmbH ("LHI") managed assets of around EUR 14.2bn (2022: EUR 14.3bn) in the areas of leasing and structured financing, the development and management of real estate portfolios and real asset investments. As of September 30, 2024, assets remained constant at EUR 14.4bn.

The company's in-house capital management company, LHI Kapitalverwaltungsgesellschaft GmbH ("LHI KVG"), is responsible for core functions in risk, portfolio, and asset management. The company offers a broad and innovative product portfolio tailored exclusively to institutional investors. In 2025, structural adjustments to the investment business are planned across the group, aiming to reduce complexity and costs while capitalising on efficiencies driven by digitalisation.

As of December 31, 2023, real-asset investments comprised 91 active investment vehicles with a total of around EUR 5.8bn in assets under management, spread across the asset classes of real estate (52%), renewable energies (34%) and aviation (14%).

LHI achieved a significant increase in new business volume, rising from EUR 520m in 2022 to EUR 3.0bn in 2023, coming close to the original target. This growth was primarily driven by the Renewable Energies and Structured Finance segments. In contrast, the real estate segment faced investor constraints, largely due to rising interest rates and persistently high inflation.

Scope views positively the achievements of the “Rolling Stock” team, established within LHI's Structured Finance division in 2020, which has successfully executed several large-scale transactions, thereby contributing to the stabilisation of AuM at the Group level. In 2023, for instance, the team completed a structured financing deal for 90 new S-Bahn trains in Munich, amounting to over EUR 2bn, alongside financing additional projects in local rail passenger transport. The long-term nature of these projects, with peak terms extending until 2062, notably supports a stable and predictable revenue base.

In October 2024, Florian Heumann, who had been with LHI since October 2000 and served as Chief Financial Officer of LHI Leasing GmbH since July 2020, stepped down from his role as Managing Director. Effective October 1, 2024, Alexander von Dobschütz was appointed as his successor as Managing Director of LHI Leasing GmbH. As of October 15, 2024, he also assumed the role of Managing Director of LHI KVG GmbH. Prior to this, Mr. von Dobschütz served as a member of the management board of a direct bank, focusing on back-office operations. He also brings extensive experience as Head of Structured Finance and Project Finance at a Landesbank.

According to LHI, the remuneration structure at management level was revised in 2024 to improve efficiency. The long-term payment component was removed, and bonuses are now paid out in full without a staggered payment period. Scope views this change negatively, as it reduces the alignment of management’s interests with those of the company over the long term.

Earnings situation and warehousing capacity

Scope views positively that in the company’s more than 50-year history only positive annual net profits have been generated, and the main portfolio companies have also been consistently profitable since their establishment. A profit and loss transfer agreement exists between LHI CapMan and LHI KVG with LHI Leasing GmbH.

The annual result of LHI Leasing GmbH decreased by EUR 4.2m to a total of EUR 6.3m in 2023 but still exceeded the original target of EUR 5.0 million. This better-than-expected performance was primarily driven by one-off effects.

Other operating income declined from EUR 38.7m in 2022 to EUR 36.5m in 2023, largely due to a reduced volume of new business and lower commission income from capital brokerage activities by LHI KVG and LHI CapMan. In contrast, net fee and commission income increased by EUR 2.4m to EUR 3.4m, supported by prematurely terminated commitments. Net interest income was nearly balanced in 2023.

The investment result, at EUR 12.4m, was lower than the previous year’s EUR 15.5m. This decline was mainly attributable to reduced one-off income from LHI KVG and LHI CapMan. Overall, Scope continues to assess the current profitability of LHI as very strong. However, a lower result is anticipated for 2024, reflecting economic developments and investor caution. Nevertheless, the 2024 forecast remains aligned with the strategic target, and earnings are expected to recover and increase again from 2025 onward.

At the group level, LHI’s sustainable income components totaled approximately EUR 33.6m in 2023 (up from EUR 31.5m in 2022), covering more than 90% of the company’s fixed costs, well above the strategic target of at least 75%. From Scope’s perspective, this high level of fixed cost coverage remains a competitive advantage, enabling a selective market approach aligned with the company’s medium-sized, long-term orientation and commitment to safeguarding its reputation.

Furthermore, LHI Group retains the flexibility to secure liquidity for asset purchases at any time through existing financing lines with various banks. However, in line with its business and risk strategy, LHI KVG prioritises structures that are implemented collaboratively with investors.

ESG

LHI has been a member of the United Nations Principles for Responsible Investment (UN PRI) since May 10, 2023. In the aviation sector, LHI became one of the 26 founding members of *Impact on Sustainable Aviation e.V.* in 2022 and actively participates in various other working groups. Since 2020, the group has been offsetting its CO_2 emissions through certificates. Over this period, the company has achieved a reduction of more than 10% in greenhouse gas emissions, as evidenced by the renewed certification in 2024 (based on year 2023) compared to its baseline certification in 2020.

As of September 30, 2024, the assets under management (AuM) in current Article 9 funds (three funds in total) represented approximately 40% of the KVG's total regulated funds. The product portfolio now includes four ESG strategy funds and three ESG impact funds, fully compliant with Articles 8 and 9 of the SFDR.

In the real estate segment, 31 properties have been converted to green electricity or have contractual agreements in place for this transition, while 12 properties have been converted to green gas. The KVG applies an ESG checklist across all asset classes during acquisition. For real estate and renewable energy assets, a comprehensive methodology based on a scoring process has been implemented. This methodology facilitates detailed ESG assessments and ensures continuous data collection.

LHI has established a Sustainability Advisory Board, comprising employees from various departments within LHI as well as two external members. The Advisory Board meets at least twice a year. Additionally, LHI published its 2023 Sustainability Report in 2024.

Real Estate

Office properties represent 40.8% of the investment assets totaling approximately EUR 3.0bn, while retail and retail parks account for 18.1%. Hotel and logistics investments make up 15.9% and 15.0%, respectively, with educational properties contributing 3.6%. Other asset types, including residential and commercial properties, senior living facilities, production sites, and warehouses, complete the portfolio at 6.6%. The managed rental space of approximately 1.3m square meters is nearly fully occupied, boasting a utilisation rate of 98.9% by floor area.

Rising interest rates and persistently high inflation in 2022 and 2023 triggered a significant slowdown in the real estate transaction market, which continues to be constrained. Additional uncertainty factors, such as declining purchasing power and evolving user demands, particularly in relation to ESG compliance and the future need for office space, have further heightened risks in many real estate segments. Properties outside prime locations (A locations) are particularly affected, facing challenges such as increased vacancies and declining rents. In this environment, enhanced measures are essential to maintain fund yields and strengthen risk-bearing capacity. Despite the challenging market conditions, the average payout of the investment vehicles in 2023 rose to 4.3%, compared to 2.8% in the previous year, and the five-year average remained strong at 5.7%.

Scope assessed the market values of 41 properties, worth approximately EUR 960m, as of December 31, 2023 and December 31, 2022. On average, these properties experienced a 12% devaluation in 2023. However, since the affected vehicles are not slated for liquidation within the next two years, the properties do not need to be sold during the current market downturn. Notably, more than half of these properties are valued above their respective purchase prices as of year-end 2023.

In 2023, LHI recorded a transaction volume of approximately EUR 132m, a significant decrease compared to EUR 490m in 2022. This included three property acquisitions totaling EUR 37m (2022: EUR 451m) and four property sales amounting to EUR 95m (2022: EUR 39m). In contrast, during the first three quarters of 2024, transaction volumes improved to EUR 221m, comprising two acquisitions worth approximately EUR 166m – s of which was secured via a purchase agreement in 2021 –and two property sales totaling EUR 55m. Scope highlighted that despite the challenging market environment, LHI achieved sales that in some cases exceeded fund performance targets.

During the high-price market phase from 2019 to 2022, LHI acquired 43 properties for a total of over EUR 1.2bn. In recent years, however, LHI has shifted its focus in real estate toward sub-asset classes that are more resilient to economic cycles, such as food retail. Moving forward, the company plans to increasingly concentrate on non-cyclical social and infrastructure properties, which tend to exhibit greater stability over time.

In addition, LHI Luxembourg obtained its full AIFM license in 2024, initially focused on the real estate sector. In cooperation with the real estate division of LHI KVG, it assumed management of an open-ended special real estate fund with a volume of approximately EUR 210m. This fund invests in various retail properties across Germany.

Renewables

As of the end of 2023, the renewable energy investment fund, with a total volume of approximately EUR 2.0bn, focuses on onshore wind farms and photovoltaic systems, complemented by hydropower and e-charging stations. The wind and solar parks have a combined nominal output of around 1,180 MW, distributed across 51% solar and 44% wind energy, within 12 actively managed investment funds. The average payout for 2023 was a competitive 7.7%, compared to 8.6% in 2022.

The primary energy markets experienced significant disruptions in 2022 due to the effects of Russia's war against Ukraine, which resulted in volatile energy prices and increased uncertainty in financial modeling. While gas and electricity markets have since stabilised, volatility persists. Additionally, rising operating and financing costs present ongoing challenges. Nevertheless, the asset class continues to experience strong investor demand, coupled with higher expected returns, which has made access to attractive investment opportunities increasingly competitive for asset managers.

In 2023, LHI acquired nine individual assets and 23 assets within a financing structure, with a total investment volume of approximately EUR 80m (2022: four acquisitions for EUR 97m). In the first half of 2024, the transaction volume increased to EUR 123m, encompassing six acquisitions. Additionally, a wind farm was sold in 2023 for approximately EUR 10m.

Aviation

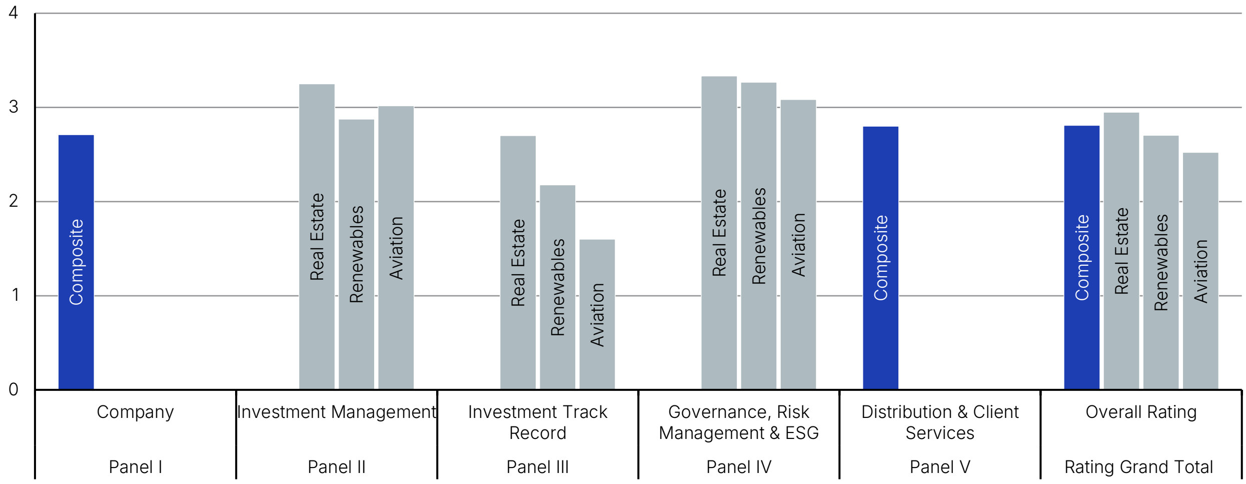
In the Aviation segment, LHI managed nine active investment funds focused on aircraft as of December 31, 2023. Over its history, the Group has launched aviation assets under management totaling approximately EUR 1bn, supported by a well-established international network. The average payout of 5.5% achieved in 2023 (compared to 6.9% in 2022) is considered significantly above average by Scope.

Following the coronavirus crisis, which caused a sharp decline in passenger volumes in 2020, the aviation market has seen a strong recovery, with passenger numbers now returning to pre-pandemic levels.

In December 2023, LHI successfully structured a financing solution for three additional training aircraft and established this investment for institutional investors through a Luxembourg securitisation structure, mirroring the set-up of a similar transaction involving four training aircraft in the previous year. Additionally, one helicopter was sold ahead of schedule in 2023.

As of September 30, 2023, one special alternative investment fund (AIF) was terminated ahead of its original schedule. Since 2024, new business in the Aviation segment has been operated and managed by LHI Leasing, potentially in collaboration with LHI Luxembourg.

Rating Summary



Source: Scope Fund Analysis

Rating-Scorecard-Summary

Rating driver

Positive	Negative
Outstanding expertise in structuring individual product solutions for institutional investors, which offer opportunities particularly in turbulent economic phases, as well as support from experienced relationship managers with many years of experience	Concentration risk on a client basis in the investment business
Very extensive industry experience at first and second management level	Recent increase in employee turnover, particularly in the Renewable Energies segment
Good to very good investment performance in the three asset classes under review	Expandable standardised ESG reporting at product level, although the individualised ESG reporting for customers should be emphasised positively
Proven and modern operational 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 easily plannable management fees	

Rating Scorecard

Panel	Weighting / Score	Criteria	Weighting / Score	Real Estate	Renewables	Aviation
Panel I – Company Partial Results	**20%** 2,7	**Organisation** Partial Results	**30%** 2,2			
		Management Partial Results	**20%** 3,3			
		Financial Structure Partial Results	**30%** 3,0			
		Market Positioning Partial Results	**20%** 2,5			
Panel II – Investment Management Partial Results	**20%** 3,1	**Personnel** Partial Results	**50%**	3,5	2,8	3,5
		Investment Process and Research Partial Results	**40%**	3,0	3,0	2,7
		External Service Providers Partial Results	**10%**	3,0	3,0	2,0
Panel III – Investment Track Record Partial Results	**30%** 2,4	**Performance Track Record** Partial Results	**40%**	3,0	2,0	1,0
		Asset Sourcing Partial Results	**15%**	2,0	3,0	2,0
		Exit Partial Results	**15%**	2,0	-	2,0
		Operational Asset Management Partial Results	**30%**	3,0	2,0	2,0
Panel IV - Governance, Risik management t & ESG Partial Results	**20%** 3,3	**Compliance** Partial Results	**20%** 3,7			
		Operations Partial Results	**20%**	3,0	3,0	2,8
		Risk Management Partial Results	**40%** 3,7			
		ESG Partial Results	**20%**	2,7	2,3	1,7
Panel V – Distribution & Client Services Partial Results	**10%** 2,8	**Distribution** Partial Results	**20%** 3,0			
		Client Services Partial Results	**80%** 2,8			
Score			**2,81**	**2,95**	**2,70**	**2,52**
Rating			**AA$_{AMR}$**	**AA$_{AMR}$**	**AA$_{AMR}$**	**AA-$_{AMR}$**

Important notes and information

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The publisher responsible for preparing and distributing this management rating is Scope Fund Analysis GmbH, Berlin, Germany, Local Court of Berlin (Charlottenburg) HRB 97933 B, Registered Office: Lennéstraße 5, 10785 Berlin, Germany, Managing Directors: Christian Werner, Dr. Lars Edler, Florian Schoeller.

Rating history

Date	Rating Action	Rating	Date	Rating Action	Rating
09.12.2024	Affirmation	AA_{AMR}	06.12.2017	Affirmation	AA_{AMR}
28.11.2023	Affirmation	AA_{AMR}	30.11.2016	Affirmation	AA_{AMR}
28.11.2022	Affirmation	AA_{AMR}	02.12.2015	Affirmation	AA_{AMR}
30.11.2021	Affirmation	AA_{AMR}	08.05.2015	Watchlist resolved / Affirmation	AA_{AMR}
10.11.2020	Affirmation	AA_{AMR}	20.04.2015	Watchlist (evolving)	AA_{AMR}
08.01.2020	Affirmation	AA_{AMR}	05.05.2014	Initial Rating	AA_{AMR}
21.12.2018	Affirmation	AA_{AMR}			

Information on interests and conflicts of interest

A description of the precautions taken by SFA, especially to prevent and avoid conflicts of interests regarding the preparation and distribution of management ratings, can be found in Scope Fund Analysis GmbH's "Conflicts of Interests Policy" at www.scopeexplorer.com.

This management rating was prepared independently by SFA but in return for payment, based on an agreement with the asset management company on the provision of this management rating.

Sources for the management rating

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.

The information contained in the ratings is derived from sources that SFA deems to be reliable; it has been compiled in good faith. Nevertheless, SFA cannot give any guarantee that the information used is correct, nor can it assume any liability for the correctness, completeness, timeliness or accuracy of the information.

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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