



## Maritime opportunities

### Container leasing is an undiscovered niche offering interesting yield opportunities

For now, the search for yield continues. Still relatively loose global monetary policies are stirring investors towards more exotic destinations. While genuine opportunities have become increasingly scarce in public markets, there are still some interesting niches in private markets. For example, the ownership and leasing of real assets, like transportation equipment, can offer investors the possibility to earn high lease rates and potential upside from capital appreciation. In our view, one such area that remains relatively undiscovered by investors is container leasing.

Containers first appeared on the global trade market in the 1950s and 1960s and quickly became the international standard for storage and transportation. Today's global trade flows largely rely on those same standardized containers and sizes. The world's shipping infrastructure (ports, cranes, railcars and the like) has been built around them. This makes containers an interesting asset. Obsolescence risk is unusually low. It is difficult to even imagine a new technology that might displace containers, as that would require a significant upgrade of existing global handling infrastructure. Containers also have a very established leasing industry, which comprises around 50% of the global fleet.

Containers are deeply linked with the global shipping industry, which historically has been associated with volatility and risk in the mind of investors. Since 2008, shipping has been through an unprecedented downturn, primarily due to the oversupply of vessels built up during the commodity-boom years in the late 2000s. The story for containers is altogether different. Volatility in both containers' leasing rates and asset prices has been a fraction of that experienced by shipping vessels. Part of the reason is that containers have short manufacturing cycles of just 1-3 months. This reduces the risk of excess capacity, as manufacturers can rapidly adjust production to market demand. For example, in 2009, container production dropped by 86% in response to the financial crisis and the number of containers worldwide shrank by 4.9%. By contrast, in the same year, the global fleet of vessels for containers still grew by 5.2%. The residual value of used containers has also been relatively stable over time due to limited obsolescence: pricing for a 12-year-old container is usually around 50% of the spot price of a new container.

As a result of all this, we view containers as simple assets with a long economic lifespan, high residual value and relative stability through the cycle. Of course, they are cyclical to the extent that demand for containers depends on levels of global trade, which in turn are highly dependent on global economic activity. Typically, daily lease rates for containers are agreed through long-term contracts (5-7 years) and are primarily a function of the cost of

#### In a nutshell

- Still relatively loose global monetary policies are stirring investors towards increasingly exotic destinations.
- One interesting example is the leasing of containers, on which much of the world's trade depends.
- More broadly, we believe deep fundamental market research can help identify opportunities in unexpected places.

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debt for the lessor. Therefore, rental yields tend to move in line with global interest rates. For this reason, cash yields on a new container are currently low, at around 9%, and are forecast to remain stable having historically ranged between 9% and 18%. The price of new ex-factory containers is also close to all-time lows at around \$1,500, having peaked historically at around \$3,000.

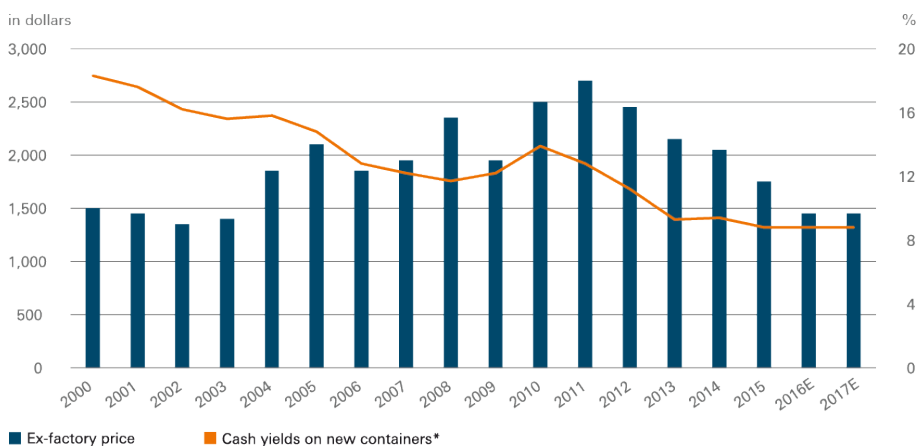
From an investor's point of view, we see benefit in the fact that, thanks to containers' low unit value, portfolios can be broadly diversified across manufacturing year, lessees and geographic focus, helping to reduce concentration risk. Moreover, there may even be some capital-appreciation potential, primarily coming from rising input costs (labor and steel) and rising global interest rates. This could offset the natural depreciation of the asset.

Container leasing is just one example of a potentially attractive niche: aircraft leasing, music-royalty and cell-tower leasing are other areas we have recently studied closely.

We believe that taking a dive into deep fundamental research can help investors identify opportunities with so-called "barriers to entry for institutional capital" effectively before they become widely adopted by investors. Scarcity of capital ensures investor-friendly terms and conditions, with return potentials that over-compensate for risks. We think this is the only way to thrive in a world with too much capital chasing too few investment ideas.

### How container leasing has evolved

Cash yields on new containers are currently low, as they tend to move in line with global interest rates.



Source: Drewry Maritime Research as of 6/30/18  
\*Based on master lease agreement

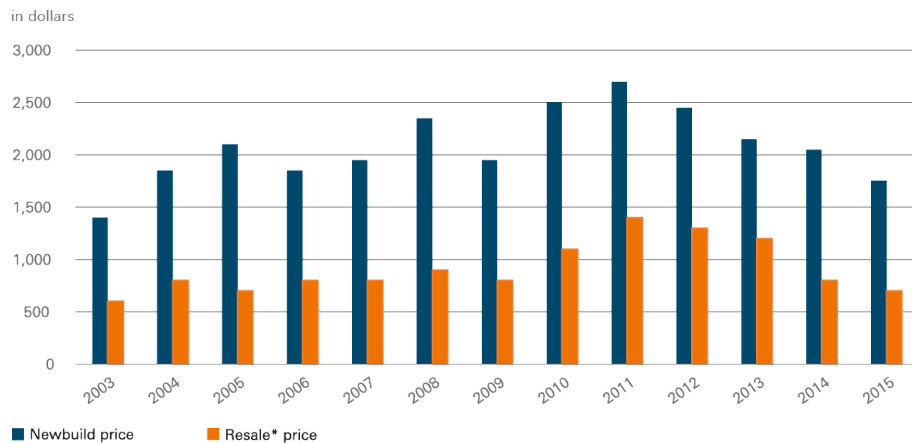
### Fairly steady prices across the economic cycle

Thanks to the low unit value of containers, portfolios can be broadly diversified and may even offer some capital-appreciation potential.

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## CIO View



Source: Drewry Maritime Research as of 6/30/18

\*applicable to used 20-foot standard containers of 12 years' approximate age and excluding cost of repairs/customization

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## Glossary

### Economic lifespan

**Economic lifespan** describes the length of time during which an asset remains useful to an average owner.

### Leasing

**Leasing** is a financial arrangement in which a person or company pays for the use of a good or property for a particular period of time.

### Lessor

A **lessor** is the owner of an asset, who leases or lets the asset to another person.

### Real assets

**Real assets** are physical assets that have an intrinsic value due to their substance and properties.

### Residual value

The **residual value** is the estimated value of a fixed asset at the end of its lease or at the end of its useful life.

### Volatility

**Volatility** is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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