

TREASURY SOLUTIONS: GROWING INTEREST IN TRADE FINANCE

Up to 80% of global trade is supported by some sort of financing or credit insurance. In fact, commodity trade finance represents a \$134 bn industry annually. In short, trade finance is a multi-trillion USD global lending industry; largescale trading historically dominated by banks.

However, banking dominion is losing its grip. Basel 3 capital reserve requirements, a host of new regulations and balance sheet constraints of many financing institutions are driving banking retrenchment from the sector. There is now a window of opportunity for institutions, asset managers and corporates to fill the financing void, and benefit from the low volatility, attractive, uncorrelated income streams with limited interest rate sensitivity that such transactions bring.

Trade Finance in numbers:



Of asset managers
Invested in TF*



down months
in TF even in 2008**



shortfall in
funding required***



size of TF market
annually****

A recent Euromoney article reflected that there was \$9tn in bank financing in trade finance, and of that, currently less than 1% is provided by institutional investors. Given the numerous studies that point to its very low default rates, low volatility and lack of correlation to stock and bond markets, it makes for a prudent addition to portfolios or not to mention an option for corporate treasurers for 'yield pick up' on cash holdings, without the attendant interest rate risk that corporate bonds can bring. Institutional investors are currently responsible for nearly 29trn USD in debt and bond markets, suggesting huge potential for asset managers and corporate treasurers to take on the reins from the banking institutions.

Testimonial:

“ The risk/reward profile of trade finance strategies sits comfortably with many institutional and corporate treasury investment requirements. ”

Most goods we touch, eat, drink and own have been moved with the help of trade or commodity finance. This means short-term, asset backed lending, usually lasting only 15 -120 days, depending on the trade and the commodity.

The ARIA Commodity Finance Fund focusses on agricultural commodity trade finance, connecting producers and users of grains, biofuels and oilseeds, around the globe. Offering investors a 7.25% p.a. fixed return paid quarterly, with a 90% credit insurance facility from 'A' rated institutions such as AIG, the Fund provides access to institutions and corporates to trade finance in a transparent and convenient investment vehicle.

*EuroMoney, Trade Finance Survey 2018

** ICCWBO

*** Asian Development Bank (ADB), Trade Finance Survey 2018

**** ICCWBO



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