



BAI Newsletter – August 2019

Editorial article from Frank Dornseifer, Managing Director, BAI e.V.,
Bonn

Dear Ladies and Gentlemen, dear members,

Focus on Infrastructure - Where is the road headed?

2018 was a sunny year not only for wine but also for the infrastructure sector, especially as far as fundraising is concerned. The data provider preqin reports a record value of around US\$ 85 billion collected for infrastructure investments by funds in the last year. According to preqin, investors have entrusted the relevant asset managers with around US\$ 43 billion in the first half of 2019, so it appears as if this positive trend will continue. Private market strategies have been running extremely well for a long time now, and investors in the infrastructure asset class in particular are constantly confirming that it not only scores in terms of diversification effects through a low correlation to equities and bonds, but also generates stable and regular returns.

So far so good. The downside of the lush fundraising is - as always - dry powder and a challenging deal flow; and here the asset managers are under obligation. First: in dry powder, preqin has another absolute high of over US\$ 200 billion. Investors' money that is not invested does not bring any returns. Secondly, as far as the number of deals is concerned, things have been going down steadily since the peak of Q4/2017, even though Q1/2019 was one of the best in terms of total volume of transactions. Even if there are dark clouds in the sunny infrastructure sky, investor money is not only continuously flowing on, but well-known providers even manage to close funds not in the single-digit, but even in the double-digit billion range within a manageable period of time. Chapeau!

Investors do not behave like lemmings at all, instead taking a close look not only at the transactions, but also at the selection of managers. Infrastructure as an asset class has a lot to offer and it is not without reason that investor interest continues to be significant, as this year's BAI Investor Survey, on which we will report in this newsletter in advance, shows.

Infrastructure has been one of the core areas of the association's work for many years: through our due diligence questionnaires on infrastructure investments, our involvement in the introduction of the new asset class "qualified infrastructure" under Solvency II, or in the development of the asset class "digital infrastructure" in the context of fibre-optic expansion, etc. Particularly in view of the complexity and heterogeneity that distinguishes infrastructure from other asset classes, it is important for us to once again devote a separate newsletter and a separate thematic focus to infrastructure.

BAI Investor Survey 2019 –An Inventory of 900 billion AuM

First of all, a very warm thank you to 75 institutional investors from Germany who took part in this year's BAI Investor Survey. They have enabled a well-founded and meaningful stocktaking of the professional capital investments of institutional investors in Germany with derivations on opportunities and challenges in the coming years.

In the last BAI Newsletter we had already briefly reported on the BAI Investor Survey 2019, which was still running at the time and which was based on trend statements by investors who together represented around 450 billion assets under management. Now, after the survey has been completed, the 75 participating investors manage around 900 billion assets under management. This figure is not only impressive in itself, but represents well over half of the assets managed by insurers, pension funds, pension schemes in Germany. Many positive statements on alternative investments, which we had already received in the previous survey in recent years, have not only been strengthened further, they are now also on a broader basis and show a greater degree of detail. Here, too, we were able to significantly improve the survey compared with previous years.

The core message of the survey is abundantly clear: Alternative investments are an elementary portfolio component of German old-age provision! And rightly so. Portfolio change has increased significantly and alternative investment strategies are clearly catching up, even in comparison with an institutional anchor investment class such as real estate! Of course, there are not only winners in this stocktaking and it is obvious that in the next few years the challenges in institutional investment will continue to increase, as is also the case for alternatives.

In this newsletter, we present a few key findings of the study. The entire study will be presented shortly and made available to investors and members. Together with the BAI Investors' Advisory Board, we will then discuss the results of the survey in more detail and draw conclusions for further association work. At the European level in particular, the Sustainable Finance Initiative, Solvency and CRR Review, as well as the revision of the AIFM Directive, are important legislative packages of particular relevance to the investment of institutional investors.

BAI Workshop on ESG, 26.9.

You have already received the announcement for the ESG Workshop. In the meantime, we have coordinated and finalised the programme with the involvement of numerous member companies. (You can find the programme on our homepage). The registration process is already underway. Due to the great interest we ask for your understanding that - as in previous workshops - we initially only offer one free ticket per member company and that further tickets can only be purchased for a fee.

As this is a workshop and we have already held various BAI-Insights and webinars on ESG topics we will not discuss general ESG topics. Instead, we will focus on selected topics with a practical and AI focus and allow experts who have been dealing with ESG and all its facets for many years to have their say. Both the asset manager side and the investor side will be examined so that comprehensive assistance from the drafting of an ESG strategy to implementation and measurement, control and reporting will be presented.

We are also particularly pleased to have Matthias Wohlmann as a speaker at BaFin who will not only present ESG-relevant topics relating to investment funds, but will also report on the BaFin bulletin on expectations with regard to dealing with ESG risks, which is expected for mid/late September. We are also pleased that Mr. Andreas Hallermeier,

speaker for Board of Management Matters and Sustainability at Bayerische Versorgungskammer, will give a field report from the perspective of a renowned institutional investor in the workshop and will also present the effects and challenges of the Sustainable Finance Initiative.

Starting signal for the AIC 2020

Even if there is still some time until 22/23 April 2020: after the AIC is before the AIC. And, of course, we want to shape the AIC programme together with our members and investors. Therefore, as a first step, our members are now called upon to submit concrete topic proposals - especially for the member slots - for next year. I would like to refer you to our member e-mail of August 12. We look forward to your ideas and suggestions. The member slots in particular are a hallmark of AIC and an ideal opportunity to present special expertise in the field of alternative investments.

In the near future we will also circulate further information about AIC, in particular about sponsoring. There have already been numerous expressions of interest, and of course we want to give all industry and member companies the chance to support AIC in the coming year.

BAI activities in Brussels - Expansion of AIMA cooperation

We regularly report on our cooperation with AIMA, which has been going on for several years now. After we had announced that we would not only strengthen our presence in Brussels but also our cooperation with AIMA, we are now able to announce the completion of our cooperation with Dr. Sylvain Bouyon, who will play a major role in shaping the work of the Brussels Association. Dr. Bouyon is a finance scientist and has a doctorate in econometrics and economic models. In addition to French, he speaks German, English and Dutch. Previously, Dr. Bouyon worked for the European think tank CEPS in a managerial capacity for several years.

Dr. Bouyon's areas of responsibility will initially be overarching market and regulatory issues, e.g. non-bank financial intermediation, liquidity risk management, digital assets, fintech and artificial intelligence, prudential regulation for investment firms, etc. He will also support our lobbying activities in the various ongoing review processes (Solvency, CRD/CRR/Basel III implementation, AIFMD).

After the parliamentary summer break in Brussels and the reconstitution of the EU Commission, we will increasingly support the upcoming projects at European level directly on the ground and in coordination with AIMA. We are also planning joint position papers and studies, which we will then draw up together with AIMA. We will inform you about the concrete projects at an early stage and of course also involve the relevant BAI expert committees as usual.

But it is not only in Brussels that the regulatory clock continues to tick. In Berlin, for example, preparatory work is also underway on a KAGB amendment to implement the EU directive on cross-border fund distribution. This amendment can also be used to make adjustments or corrections in other areas of the KAGB. If you have ideas and suggestions for changes and improvements at national or European level, please contact the office directly.

On the contributions to this Newsletter

The main topic "Infrastructure" has already been introduced at the beginning of this article and we are pleased to be able to present to you a series of very informative technical articles on this main topic. In detail these are:

- From promotion to market economy - renewables have grown up - paradigm shift in renewable energies, by Markus W. Voigt, AREAM GmbH
- Asset class infrastructure: special features, development and investment forms, by Ulrich Lingner and Dr. Susanne Dittrich, Helaba Invest
- Too much of a good thing: How an oversupply of credit can lead to opportunities in corporate finance, by Neal Reiner and Christian Stracke, PIMCO
- Infrastructure: Top Sector Trends 2019, by Declan O'Brien and Alex Leung, UBS-AM
- Infrastructure 2.0 - established, mature asset class with new challenges, by Uwe Fleischhauer, Caroline Steinort and Christoph Buchner, YIELCO Investments AG

In this issue you will also find the aforementioned preliminary report on this year's BAI Investor Survey by our research associate Sven Gralla (B.Sc. VWL). The survey will be presented shortly and made available to member companies and institutional investors in its entirety.

I wish you an informative and entertaining read