BAI Newsletter – June 2019

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

Ladies and gentlemen, dear members,

AIC 2019 – the success story continues!

By, with and for investors: Alternative investments and institutional asset allocation were once again the focus of this year's Alternative Investor Conference (AIC), which took place for the 12th time in Frankfurt on 14 and 15 May. The entire BAI team, which planned this event meticulously and with great commitment over the months, was highly satisfied, not only with the event, but also with the feedback from the participants. In short: the expectations set in advance were greatly exceeded. Not only because we set a new attendance record with around 570 participants, but it was also the around 90 institutional investors who confirmed that AIC had developed into the annual industry conference on alternative investment that is a must. We'd like to take this opportunity to let a few investors who took part in AIC have their say:

- “Interesting keynote speakers, panels on current topics, in-depth break-out sessions. Two informative days for investors from the alternative investment sector which were perfect for networking ". (Kathrin Kalau-Reus, Investment Manager Private Equity, Infrastructure, Timber, Bayerische Versorgungskammer)

- “AIC has long since established itself as the central information and discussion platform in Germany and is a profit for every investor in alternatives". (Mr Frank Egermann, Head of Portfolio Management, BVV)

- AIC 2019 was an excellently organised event, which was particularly convincing due to the relevance of the topics dealt with, but also not least due to the perfect opportunity for exchange with other investors and providers". (Mr. Stefan Schütte, Senior Portfolio Manager Alternative Debt Investments, R+V)

Together with member companies and investors, we had set the programme and, of course, taken particular account of the special challenges in the current sensitive geopolitical and macroeconomic environment. The cornerstones of the high-calibre programme were alternative risk premiums and value drivers on the one hand and risk management and portfolio optimisation on the other. There were numerous presentations by members and sponsors, e.g. on performance measurement and evaluation for private equity, risk management for infrastructure investments, managed accounts for alternative assets or the set-up and management of private markets or multi-asset portfolios. In addition, we looked at new trends in the private equity and real estate markets, the implementation of alternative risk premia and, of course, the megatopic ESG.

As in previous years, renowned scientists also spoke and answered fundamental questions relevant to asset allocation, e.g. on the use of financial mathematical models in asset allocation (Prof. Rudi Zagst from the Technical University of Munich), on the effects of low interest rate policy from a microeconomic perspective (Prof. Aloys Prinz from the University of Münster), and on the stability and efficiency of financial systems from a systemic perspective (Prof. Hans-Peter Burghof from the University of Hohenheim).

We must also mention the get-together lecture by Henry Maske, who fascinated many listeners.
And finally, of course, we would like to thank all sponsors and cooperation partners again, but above all the many speakers for their contribution to the success of this event. We are looking forward to seeing you again next year! Apropos: Please make a note of the date of the AIC 2020, which will take place again in Kap Europa in Frankfurt on 22 and 23 April 2020.

BAI Investor Survey 2019 – the challenges of asset allocation are growing

This year's BAI Investor Survey is still in progress and is intended to provide an inventory and outlook of investment behaviour and the associated challenges for institutional investors in Germany. An initial interim result from investors, who manage around 450 billion assets under management together, shows the ambivalence of asset allocation, which investors, and correspondingly their asset managers, have to deal with in current and future terms.

On the one hand - in this order - private equity, real estate (equity) and infrastructure (equity) as well as corporate private debt are the big winners, who have exceeded investors' expectations, e.g. in terms of risk/return ratio or portfolio diversification. And it is precisely for this reason that the allocation in these segments is to be further increased over the next twelve months.

On the other hand, there are not only asset class-specific challenges such as dry powder, exit environment, valuation, asset competition, etc., but also overriding problems and risks such as low interest rates and yield shortfalls, geopolitical risks and a lack of investment opportunities. But that's not all: from the investors' point of view, these difficulties will not only shape the next twelve months, but in the next 3-5 years they will even - in some cases significantly - increase! And finally and surprisingly, the participating investors even expect and fear an increase of regulatory uncertainties, despite the fact that the relevant regulatory and tax framework for both investors and asset managers has been established and implemented now for a while and even upcoming revisions, e.g. of the Solvency or AIFM Directive, should be approached moderately and selectively rather than fundamentally. Anything else would also be counterproductive. So why are investors still worried on the regulatory side?

It is becoming apparent that especially with regard to the implementation of an ESG strategy, many investors are confronted with great uncertainties, especially with regard to future regulatory requirements, specifically the comprehensive package of measures of the Sustainable Finance Initiative of the EU Commission, which is currently being developed and filled with life. You just have to try to explore the 400+ pages of the taxonomy report of the technical expert group (TEG) the EU Commission has published last week. This gives a flavour of what can be further expected in the future on the various levels of legislation. It is therefore not without reason that BAI demanded at an early stage that the Sustainable Finance Initiative should promote self-responsible acting rather than bureaucratic regulation when implementing sustainable investment strategies. Sustainability is characterised by the fact that diversity and forward-looking action are not only recognised, but promoted. Only if, for example, an EU-wide harmonised taxonomy takes this into account and includes instead of excludes existing voluntary standards, does it have any justification. Sustainable investing is not so much the result of political definitions and compromises as of forward-looking, prudent and holistic actions by investors, who, for risk management reasons alone, have a duty to identify the resulting risks of climate change & Co. and to align their portfolios accordingly.

Overall, the various concerns and problems already articulated very clearly in the BAI Investor Survey give cause for concern. As an anchor of stability and return in the portfolio, alternative investments will only continue to be successful if investors carefully expand their allocation and if the AI sector sustainably meets the expectations placed on it. Politics, central banks and supervision naturally also play a decisive role in this, and a clear, stable and pragmatic course is now required of these players. This, too, is sustainability!

The BAI Investor Survey will run until 5 July 2019 and will be followed by a detailed summary.

Focus on "Institutional Investors and Alternative Investments“

This newsletter is dedicated to the topic "Institutional Investors and Alternative Investments" and accompanies the current focus on the BAI homepage. For many years, we have been dedicating our association work to institutional asset allocation in the context of alternative investments. Together with our expert committee on investor supervision law and, of course, the investor advisory board, we are active in numerous investor-relevant topics on both the regulatory and the market side. Our various event formats are not only always specially tailored to investors, they are also regularly actively involved in programme planning and design. A very large part of our Corporate Private Debt in Germany study is also devoted to the requirements and expectations of institutional investors. This orientation is highly appreciated by the industry and its members, and we will continue to manifest this unique selling proposition. This is one of the reasons why we have chosen this thematic focus for the newsletter and, in addition, present various publications by our members on this topic in the relevant thematic focus on the BAI homepage.

Here in the newsletter you will find a number of very informative technical articles on this main topic, which we would like to recommend for reading:

- Quantitative analyses for an asset allocation beyond traditional investment strategies, by Michael Busack and Dr. Jan Tille, Absolut Research GmbH
- Never say low interest!, by Susanne Hellmann, DekaBank
- From a single source: Alternative investments in a German special fund, by Felix von Bothmer and Meike Fröhlich, HSBC INKA
- Luxembourg - Why crossing the border is worthwhile, by Stephan Grimm and Viktoria Heyer, LIS Luxembourg
- Infrastructure loans - crisis-proof, less volatile, sustainable, by Thomas Wendt, NN Investment Partners
- Niche Alternatives: How to Access the Differentiating Alpha, by Flurin Grond and Dr. Thomas Kochanek, Progressive Capital Partners Ltd.
- Political Risk Drift and Stock Exchange Euphoria, by Harald Bareit, QC Partners
- Intelligent overlay approaches: More opportunities and fewer risks for strategic asset allocation (SAA), by Ralph Karels, Universal-Investment-Luxembourg S.A., Frankfurt am Main branch

In this issue you will also find an article by Michael Bommer, BAI e.V., on "The tension between (investor related) regulatory reporting obligations - and right in the middle of it: the asset manager".

I wish you informative and entertaining read.

Frank Dornseifer