

Dear ladies and gentlemen, dear members,

Infrastructure – Boredom in the portfolio?

“Low correlation with traditional investments”, “low volatility compared to stocks”, “generally stable and projectable cash flows”, since years a long-runner topic and meanwhile firmly anchored in the institutional investor portfolio as the previous BAI Investor Survey impressively confirmed: Infrastructure investments. To some the already mentioned characteristics might already sound boring but we can assure you that with infrastructure in your portfolio, there surely will not be any boredom. Because duration premiums, illiquidity premiums and complexity premiums and the resulting yield potential must be unlocked and realized.

Even while investment needs in the infrastructure sector are gigantic and are likely to further increase, it shows in practice that availability and access to infrastructure assets is rather limited. In some segments and some assets regular bidding battles exist – the investment plight sends its greetings. And otherwise, resources and information about infrastructure are rather scarce than abundant, however, the effort regarding sourcing and transaction processes, inventory management as well as monitoring and supervision is very high. Still, the effort is worth it to investors. And many are well underway to not just increase their positioning towards private market assets including infrastructure with the help of a qualified inhouse team or specialized consultants but also concomitantly strengthen organization and processes.

At this year’s virtual AIC, we presented you numerous infrastructure topics. Starting from investment strategies for core infrastructure in the EK segment to investment opportunities in the segment global infrastructure credit. Those presentations were highly instructive and should

be pointed out with regards to the focus of the



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newsletter. They will be available on talque until mid July. Taking a look at them will be worth it!

Apart from that, a lot stays as usual: infrastructure investments are embossed by ecological, social economic and technological aspects and developments and a special dynamic can be observed. Just now, the G7 announced in their closing statement with the motto “Build Back Better” (B3W) that they plan a billion-dollar initiative to promote infrastructure in poor countries, obviously by integrating the private sector. The closing statement not just picks up the aforementioned aspects and developments but also accentuates the role and importance of the private sector. It literally says in the communiqué: “market-led: we believe current funding and financing approaches are not adequate to address the infrastructure financing gap and are committed to enhancing the development finance tools at our disposal, including by mobilizing private sector capital and expertise, through a strengthened and more integrated approach across the public and private sector, to reduce risk, strengthen local capacities, and support and catalyse a significant increase in responsible and market-based private capital in sectors with anticipated returns, and to strengthen local capacities, in a sustainable manner, in line with the Addis Ababa Action Agenda on Financing for Development.”

Naturally, such political declarations of intent should always be treated with caution and acts must follow words, but the Green Deal of the EU commission

already showed that this should be the case. No matter whether in the renewable energies sector, the development of sustainable and intelligent mobility or regarding measures and projects to support the realization of a climate neutral environment, the list is long and heavy.

The more important it is now that respective asset managers and investors obtain access to these projects to then implement in practical investment structures. It remains to be seen how a European or global pipeline, respectively, for investable infrastructure projects can be created and how private investors can be included. Because only when it can be ensured that functioning cooperating investment models for the public sector and private capital exist, it will be possible to close that gap. Whether the Fund Jurisdiction Act (Fondsstandortgesetz), e.g., will play a role and how helpful it is for German investors that special funds were not allowed to invest in ELTIF under the investment tax law, also remains to be seen. Anyway, it cannot be ruled out that a significant part of adding value to infrastructure investments will take place outside of Germany.

Independently from that it is to state that the asset class infrastructure, which simply used to be economically influenced, is now under heavy influence from socioeconomical, ecological and technological trends. This is e.g., climate change and the development of renewable energy, InfraTech, digitalization and the associated extension of the fibre glass network, the digitalization of cities including autonomous driving, and finally the social and demographic transformation including urbanization. There are plenty of indications that pertinent theme funds complete the wide range of infrastructure investment opportunities.

Surely you remember the highly informative presentation by the member of the German council for economic experts Prof. Dr. Veronika Grimm on the third day of the AIC who exemplary and decidedly pointed out investment opportunities in the hydrogen sector. Those are the so-called mega trends which decide the range of the asset class

infrastructure and provide many new opportunities. And this is exactly why it is worth it to further explore the chances and opportunities offered by infrastructure. Infrastructure is and will remain a long-term investment. Anybody investing now will inevitably have to deal with scenarios that dictate the social, political and economic environment in 20 or 30 years, maybe even further ahead. It is not just the range of future scenarios which is enormous, the impact on single infrastructure assets in the portfolio also is. Sustainability and digitalization are heavy influencers; however, it remains open which others will join and in which geopolitical context we will live and invest. The accomplishment of the climate targets is a challenge, but there will be many others and I am sure that at least one unknown variable will stay in the investment equation. In other words: it is and remains an interesting and challenging task for masterminds who aim to be successful in their future portfolio allocation.

As always, it is necessary to take a deeper look into the regulatory component and the dominating regulatory challenge for infrastructure investments will be ESG-compliance. Looking at the package of measures presented by the Sustainable Finance Initiative, taxonomy conformity of the particular asset is undoubtedly in the spotlight. Connecting to that, it is also about the so-called non-financial disclosure on an asset and corporation level, as well as the reporting duties for funds and finally the risk management and reporting system for investors. Data generation and management will be – at least in the beginning – a bottleneck. And after it will show whether and to which extent infrastructure investments receive ESG awards. Therefore, it is even more worth it right now to closely follow diverse regulatory intentions towards taxonomy, disclosure agreement and Corporate Sustainability Reporting.

BAI ESG Workshop on June 23, 2021

Apropos ESG and Sustainable Finance, on June 23rd, the second BAI ESG-Workshop took place where more than 130 members, industry representatives and investors familiarized themselves with topics

and policies of the Sustainable Finance Initiative. However, the focus was not just on the rules and standards and their impact on institutional investment, but also on ways and approaches to implement the diverse guidelines and requirements in investment-, risk- and reporting processes.

With the approval of the “Renewed Sustainable Finance Initiative” of the EU commission, another milestone of the Sustainable Finance Initiative has been reached. The numerous measures include the ecolabel for financial products, the draft of a social taxonomy, the draft of technical criteria for the remaining four environmental targets under taxonomy and the upcoming consultation of recommendations for neutral and brown taxonomies, the first-time mandatory disclosure to Principal Adverse Impact, etc. More than enough topics not just for the workshop, but also for our work regarding this topic on a European level. Following the hands-on presentations and discussion rounds, three interactive roundtables regarding “Sustainability and capital investment”, “Sustainability and Risk management” and “New Disclosure Requirements under SFDR, Taxonomy and CSRD” also found great interest. And finally, the exclusive investors’ roundtable created a deeper exchange of opinions and experiences. I am convinced that this was not the last BAI ESG-workshop, after all further Sustainable Finance milestones and legal acts, implementation deadlines, statutory instruments and technical regulatory standards (RTS) are pending; moreover, the European ESG Template (EET) is casting its shadows which should create further implementation efforts. We will keep you up to date!

Break in institutional fund service - rules for pre-marketing are coming into effect

A break in the institutional fund service will take place on August 2nd, the date when the funds location law (FoStoG) will come into effect to implement the European guideline into national legislation. New and uniform European-wide rules

are finally applied regarding pre-marketing and we want to inform you about those at this point due to their great relevance for asset managers and investors. In summary, an AIF-KVG has to report the start of pre-marketing activities within two weeks to the BaFin or their respective national authority. Pre-Marketing is in § 1 Abs. 19 Nr. 29a KAGB defined as the direct or indirect supply of information or the notification about investment strategies or concepts to potential professional investors with the goal to determine, whether interest in an AIF is given, which is not yet registered or registered, but does not yet have a convening notification. The newly introduced § 306b in the KAGB regulates the type of information in this context which must be provided and the modalities of pre-marketing. In Germany and many other member states, such obligations do not yet exist. They are problematic due to several reasons: they are bureaucratic and impractical and overshoot their goals; they are quite unclear and heavily restrict institutional investors. Following preliminary negotiations, investors are not allowed to directly sign contract documents of the KVG; in fact, according to § 306 b Abs. 2, a distribution notification procedure must be conducted; in other words: the possibility of the so-called reverse solicitation, the signing of a fund due to initiative of the investor, will be forbidden. This is because every signing of the respective AIF, even after an approach coming from the depositor within 18 months after beginning of pre-marketing, will be a “sales event” by law so that a distribution notification procedure must happen before the signing. Violations against the documentation and disclosure requirements constitute infringements according to § 340 Abs. 2 Nr 79c and Nr. 79d KAGB.

It is not clear yet how the BaFin is going to deal with those new rules and standards. They announced that there will not be a further announcing regarding this matter. In this respect, it remains to be hoped that the notification letter and documentation requirement will be short and practical. Naturally, we are going to follow this subject matter and publish further references and tips to deal with this matter.

BAI Activities in the 2nd half-year

Shortly before the start of the summer holidays we want to give you a preliminary overview about future BAI activities in the second half of the year.

On the one hand we are working on a modification of the very successful BAI Investor Survey to address central and current topics of the institutional capital investment in order to provide the sector and especially the investors with new insights about trends, chances and challenges. Naturally, the investors will be surveyed about the current and expected challenges for future ESG implementation since – as aforementioned – more and more regulations and requirements will come into effect.

Preparations are already running for our first BAI InnovationsDay, where we present innovative technology topics which will change asset management and institutional investment in the future. This is very important to us, especially because of the currently running regulatory work in the context of the Digital Finance Package and the implementation of the eWpG. Furthermore, except for just introducing new trends and technologies, we want to initiate a dialogue between technology companies and service providers. We design the InnovationsDay with members from the BAI tech working group and also include external companies as well as many more members. Do not hesitate to contact us!

The award of the BAI- science award finally lines up this year. We are even planning a face-to-face event to further initiate the dialogue between industry and science. Precisely, we want to offer more formats for the dialogue with science in the future to inspire more graduates and young scientists. Presumably, we will create a BAI-trainee program together with our members to offer graduates entry-level opportunities in the

alternative investment industry. We will also ask for your help regarding that matter in the future.

Last but not least, we also have a lot of content in the regulatory pipeline. The Sustainable Finance Initiative and the Digital Finance Package are up and running and especially the Digital Finance Package currently creates intense discussion between EU parliament, Eu council and EU commission. We also expect these discussions regarding the Sustainable Finance Initiative in terms of technical standards of the different legislative acts where it will show in detail which challenges corporations, investors and industry will have to deal with. Ultimately, suggestions for amending acts of AIFMD and ELTIF follow in this year's fall and we assume that this will create further challenges. And of course, the Bundestag election is already casting its shadows.

On this newsletter's articles

Now, I do not want to further torture you and point to the numerous exciting contributions in this newsletter which should bring you even closer to infrastructure investments.

And finally, I want to remind you that we – as usual – set our thematic focus on the BAI homepage to infrastructure, just like in this newsletter. You can find many interesting technical papers, interviews, guidelines, studies presentations, statistics and more on our website. Please take a look!

I wish you an informative read.

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