BAI Newsletter I/2022– February 2022

Editorial article from Frank Dornseifer

Managing Director, BAI e.V.

Ladies and Gentlemen, Dear Members,

anyone who thought or hoped that this new year 2022 would get off to a leisurely start was quickly proven wrong. Corona continues to nag like a tooth root treatment without anesthesia. The Ukraine conflict had already become a powder keg in a ring of fire; now the Russian president has even put the torch to the fuse himself and no one knows how far he will go with his Soviet omnipotence fantasies. In addition to the pandemic (or endemic in the meantime?) and geopolitics, there is a third party in the mix, and that is - as you know - inflation. This sow has been herded through the village for a few weeks now, scaring not only consumers but also capital investors worldwide. And the inflation sow is not alone, of course, but has a companion in its luggage called the interest rate turnaround. This contemporary, in turn, has slightly schizophrenic features, on the one hand - on the other side of the Atlantic - with a relatively clear strategy of the Fed towards slight gradual interest rate increases, on the other hand - on this side of the Atlantic - with a hitherto very nebulous and hesitant assessment and strategy of the ECB, which clearly astonishes markets and market participants; after all, the ECB has now recently at least no longer ruled out key interest rate increases. The fact that the stock markets are currently riding a bit of a roller coaster is therefore not surprising; only that bitcoin, which was hailed by some prophets as a safe haven, has now finally lost its anti-correlation nimbus. From this we learn on the one side that even in this asset class the calculation should not be made without the investors, and on the other side that statements on correlation should always be taken with a grain of salt. Just remember - with a wink - the strong correlation between U.S. crude oil imports and per capita consumption of chicken meat.

BAI Asset Class Outlook 2022

The year 2022 is therefore off to a tricky start and also holds numerous surprises in store. The BAI Investor Survey published in November with its diverse and interesting insights from over 100 participating investors already impressively showed which fundamental risks on the one hand, and which asset class-specific risks on the other hand, the industry and investors should have on their radar. And that is exactly why we had decided to open this year with a short webinar series

with outlooks on different asset classes from the alternative investments segment, in order to discuss scenarios, opportunities and challenges of capital investment with the industry and investors. The inaugural webinar on private equity and private debt was followed by a second webinar on infrastructure and real estate, and we had record participation in both webinars, which is a testament to how much these topics are driving the industry and investors.
Moreover, the very successful macroeconomic opening lecture by Dr. Ulrich Kater, Chief Economist of DekaBank Deutsche Girozentrale, was extremely insightful with his comments on the development of inflation and the - so far - forecasts of the ECB, the economic overcoming of Corona and a possible exodus in the middle class, the resistant real interest rate trap and many other macroeconomic aspects and scenarios. This in turn kicked off the presentation and discussion of the various asset classes, which, if you were unable to attend the first two webinars, you can still view on the BAI homepage. The next webinar with an outlook on Liquid Alternatives and Hedge Funds will take place in the 8th calendar week and we will inform you about the program as soon as possible. In our view, liquid strategies have tended to be neglected by institutional investors in the past, but they are still an important portfolio component and especially in volatile times we need hedging strategies more than ever.

Alternative Investor Conference (AIC) 2022

Have you already visited our conference site www.ai-conference.com this year? If yes, then you have done everything right and are well informed about the almost final program of our Flagship Conference from May 2-4. If not, and if you are surprised that this year's AIC will last three days, then you should immediately click on the aforementioned link - after reading this newsletter - and find out more. With Prof. Dr. Ottmar Edenhofer, Prof. Dr. Christian Klein, Prof. Dr. Axel Ockenfels and Prof. Dr. Jens Südekum, we will once again present top-class key-note speakers from the scientific community with practical topics for investors and the industry. Likewise, in the exclusive investor workshop, investors will not only once again have their own forum for exchanging experiences, but with Ms. Verena Kempe, Head of Investment Management at KENFO, a unique investor in Germany will also provide extraordinary insights into its portfolio and strategy. With the member slots now also selected by the BAI Investor Advisory Board, but also the panels and the presentations of the gold/dinner sponsors in the break out sessions, we then again comprehensively cover relevant and current topics from the world of alternative investments.
Not only that, but in addition to the two main conference days on May 3 and 4, there will be a pre-event on May 2 focusing on ESG & Data, one of the key topics this year with a view to further

work on and implementation of the Sustainable Finance Initiative measures. But not only the pre-event is a novelty at AIC, but also the joint evening event at Westhafen Pier on May 3, to which we will for the first time welcome not only all AIC participants, but also Jonas Deichmann, multiple world record holder in Ironmans and continental races, as well as bestselling author. So, also this year we will further increase the attractiveness of this unique conference and we are looking forward to seeing you in person (!) again.

BAI Association Anniversary – 25 years BAI

But the year 2022 has more highlights to offer, and one of them is the 25th anniversary of the association, which we will celebrate on June 23. Since 1997, BAI has been advocating for the interests of the alternative investments industry and investors across asset classes and products. Together with our approximately 250 members and our large network of institutional investors and representatives from politics, supervision and the industry, we will celebrate this joyous occasion in a fitting manner this year. So join us through this important year and, in particular, make a note of the date. We will inform you about details of the event in due course.

To mark the start of our anniversary year, we have also created a new image film (in German), which we are pleased to present to you here for the first time. We hope you like it as much as we do. We will also be posting soon a short version on social media as well as an English version. We look forward to your likes! 👍

2022 will also be eventful and varied in regulatory terms

You have experienced for yourself that 2021 was already a regulatory hammer year. For those who believed or hoped that 2022 would at least be smoother in this respect, I would like to outline a small selection of regulatory projects for this year:

ESG/Sustainable Finance

First of all, there will be considerable implementation work this year with regard to the many new requirements of the complex Sustainable Finance Regulations. Under the Disclosure Regulation SFDR, the final implementing regulations, i.e. the so-called RTS, will soon be published and will then have to be implemented. Data collection on the one hand, data processing on the other, and then the transfer to templates with the subsequent disclosure are anything but trivial. The so-called EET, i.e. the European ESG Template, has just been put out for consultation by the FinDatEx industry committee, with which the many reporting obligations are to be consolidated.

Here, too, there will be considerable implementation effort. The same applies to ESG-compliant investor advice in accordance with MiFID, which will apply from August. The Taxonomy Regulation is and will remain a major construction site as well, because it is not complete with regard to the various environmental objectives (as is well known, so far only climate protection and adaptation to climate change are covered; the remaining four environmental objectives are still outstanding), let alone with regard to social and governance aspects. This will keep us busy beyond the year.

AIFMD and ELTIF review

Then, of course, we are occupied with the AIFMD and ELTIF reviews. We basically support the AIFMD review and the proposals for loan funds could, in our view, provide important impetus, e.g. for the financing of SMEs and infrastructure. Given the great interest of investors in loan funds, a strengthened single market for these, especially cross-border lending, is an important further development. However, it will be important to ensure that the actual design and implementation is not thwarted in the end, as was the case here in Germany, for example, where a largely irrelevant alignment with banking supervision law once again nipped the seedling of loan funds in the bud. We also see the danger that, on the one hand, outsourcing options - especially in the context of third countries - will be made de facto more difficult and, on the other hand, liquidity risk management will be overburdened. The proposed reporting requirements, which are becoming increasingly granular, are also not without merit. There is no maladministration here; the supervisory authority needs essential information and not superfluous information.

The parallel ELTIF review deserves broad support and we are confident that this particular European fund format will become established in the medium term. The greater differentiation between funds for institutional and retail investors is consistent and greater flexibility, both in terms of structures and permissible assets, will move the industry and investors forward. We expect less to hardly any friction loss in this legislative process and will soon also present this special and promising fund format in a separate webinar. Regarding the AIFMD review, as well as the ELTIF review, you will find two short articles from the BAI office in this newsletter with an overview of the most important planned innovations.

Solvency and CRR review

Just for the sake of completeness, I would also like to mention two important investor-related regulatory areas, namely Solvency and CRR, because here, too, the review process is in full swing and we have to ensure that the increased investor demand for alternative investments is not - once again - put between regulatory sticks. We have been able to make first progress here, e.g. reduced capital requirements for qualified infrastructure or so-called long-term equities, but the further legislative process must nevertheless be monitored carefully and attentively.

Digital Finance

And of course we are not losing sight of the megatopic of digitization, after we were able to generate momentum and achieve successes here last year. Here in Germany, the first crypto securities are now available under the eWpG, which is a real milestone. Soon, the regulation for crypto fund units will also be passed and then we will certainly see the first funds on the blockchain in the short term. This will not only be very exciting on the technological side, but should also mean considerable efficiency potential for the industry. Finally, the package of measures under the Digital Finance Package, which is about to be finally adopted, is even bigger on the European level. By the middle of the year, the relevant regulations for cryptoassets (MiCAR), for the DLT pilot regime, etc. should have been adopted, and then we will be - also in regulatory terms - in the middle of the new digital financial world.

But that's not all, because the new federal government has only just started work at the national level, and one or two legislative initiatives are likely to follow. Following the limited success of the Fund Location Act, we still need a serious and focused strengthening of Germany as a fund location. Sustainable and digital finance are two developments that hold enormous potential, especially for the fund industry, and also provide significant economic stimuli. The traffic light coalition agreement, on the contrary, is rather colorless with regard to the financial industry in general and the fund industry in particular. The new federal government must do better here, particularly because a large proportion of German pension provision is invested in a future-proof manner via funds, and this will not become any easier in the ongoing low-interest environment. A consistent regulatory and tax framework is therefore mandatory, not optional.

In short, we and you are facing an eventful and varied regulatory year!

Main topic Private Equity and Venture Capital

The kick-off topic this year is private equity and venture capital. You are largely saddle-fasted when it comes to private equity, so we are going further and further into breadth and depth here with our specialist articles and the accompanying webinars. In the future, however, we want to and will devote more attention to the venture capital segment, precisely so that this asset class is also further developed. Market maturity has also reached a new level in Germany, slowly but steadily, and it is precisely in this segment that the new German government wants to provide important stimuli and, as is known, Germany and France have just launched a start-up initiative called the European Tech Champions Initiative (ECTI). This is precisely why we also want to introduce investors to this asset class more intensively and have not only named the main topic of this newsletter accordingly, but are also offering you an accompanying webinar on the topic on March 2.

I wish you a varied and informative reading of our newsletter!

Frank Dornseifer