

SHORT VERSION

THE FULL VERSION CAN BE DOWNLOADED IN THE CLOSED
INVESTOR AND MEMBER AREA OR REQUESTED FROM THE BAI
OFFICE.

**BAI Alternative Investor Survey
2019**

Bonn, 28.08.2019

Introduction

Background



The BAI Investor Survey has been an integral part of BAI's research offering since 2013. The questionnaire has been continuously updated and adapted to the needs of member companies and investors.

Participants



The BAI Investor Survey is exclusively addressed to institutional end investors in Germany. BAI understands this to include pension funds, large insurance companies (Solvency II), small insurance companies (Investment Ordinance), pension funds and corporate investors.

Targets



BAI aims to increase transparency in the alternative investment market through its annual survey of investors. Among other things, its aim is to better tailor products of member companies to the needs of investors. The Investor Survey also serves as an important basis for the association's lobbying activities.

New Features



In connection with the *Sustainable Finance Initiative*, a special focus was placed on ESG investments this year. Additionally, the study was extended to include a number of questions relating to private debt, with the aim of following up the BAI Private Debt Study.

Agenda



– General information on the participants



– Portfolio allocation in connection with alternative investments



– Opportunities, expectations and challenges



– Private Debt



– ESG-Investments



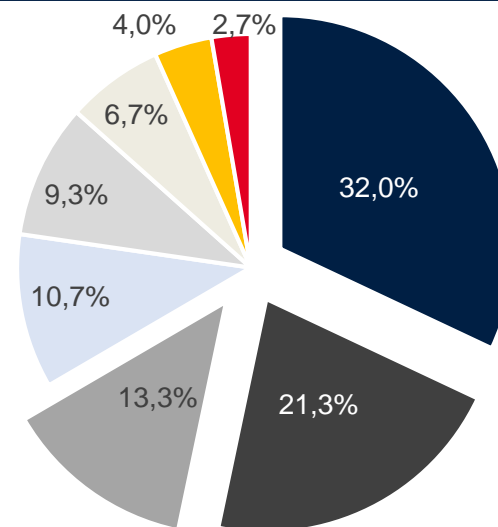
– Core statements and conclusions

A total of 75 different institutional end investors participated in this year's BAI Investor Survey*



Which investor group do you belong to?

- Insurance Companies
- Pension Plans / Pension Fund
- Pension Scheme
- Corporate Investor
- Bank/Depot A (Treasury)
- Other
- Family Office
- Endowment

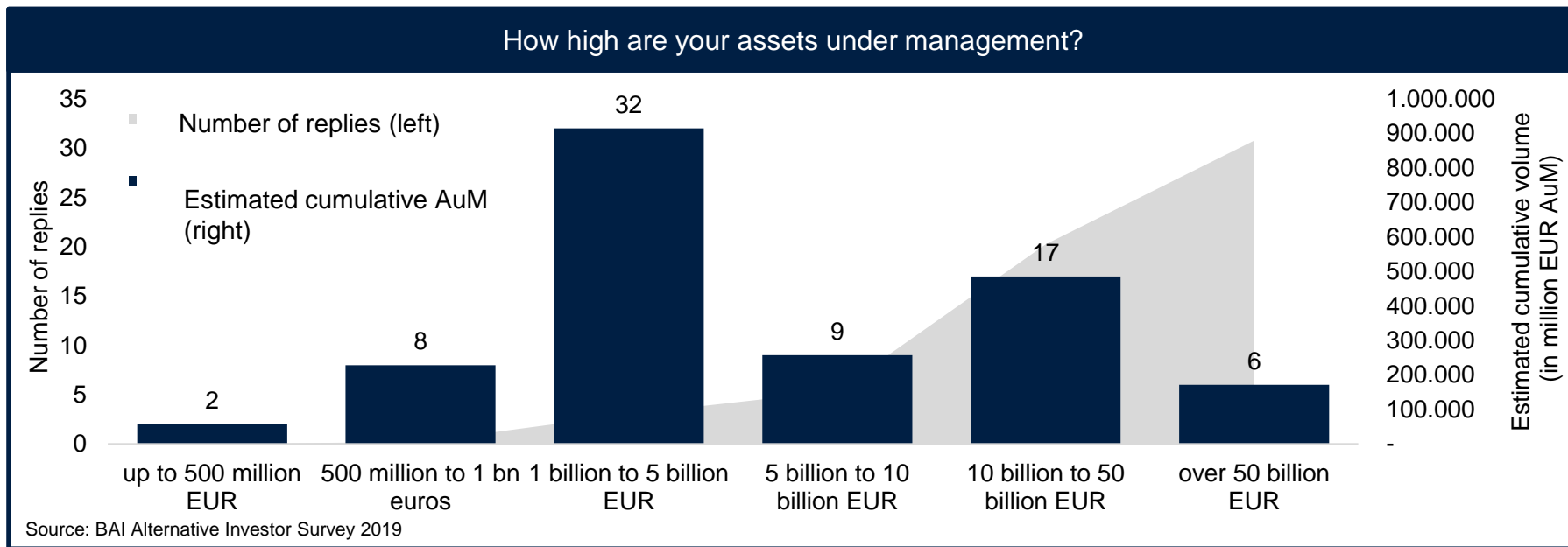


Source: BAI Alternative Investor Survey 2019

- The largest participant groups in the survey are insurance companies (including Solvency II), pension funds and pension schemes.
- BAI was able to significantly increase the number of participants to 75 this year and thus improve its informative value.







* The number of answers may be lower for individual questions.

Most of the participants manage assets between 1 - 5 billion EUR AuM

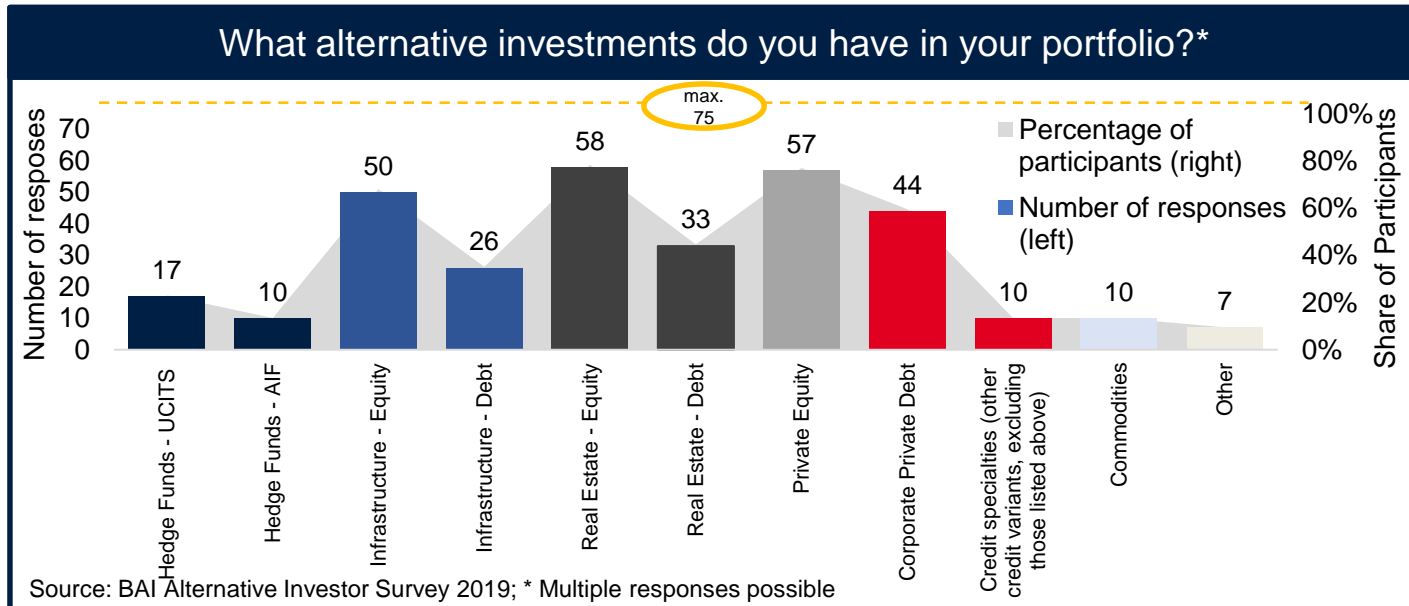


- 32 of 75 participants indicated that they managed an investment volume in the interval of EUR 1-5 billion AuM (of those almost 1/3 of the participants belong to pension funds).
- The second most frequent answer was in the interval 10-50 billion EUR AuM (>50% are Solvency II regulated insurances).
- In total, the participants manage an estimated EUR 900 billion of AuM, i.e. the survey covers a significant share of the market.
 - According to GDV, the investment volume of the German insurance industry in 2017 was EUR 1,351.0 billion AuM
 - As of 31.12.2018, the capital investment volume of the pension funds on a book value basis is likely to have been around € 220 billion according to ABV.
 - According to BaFin statistics, the investment volume for pension funds is € 166 billion AuM

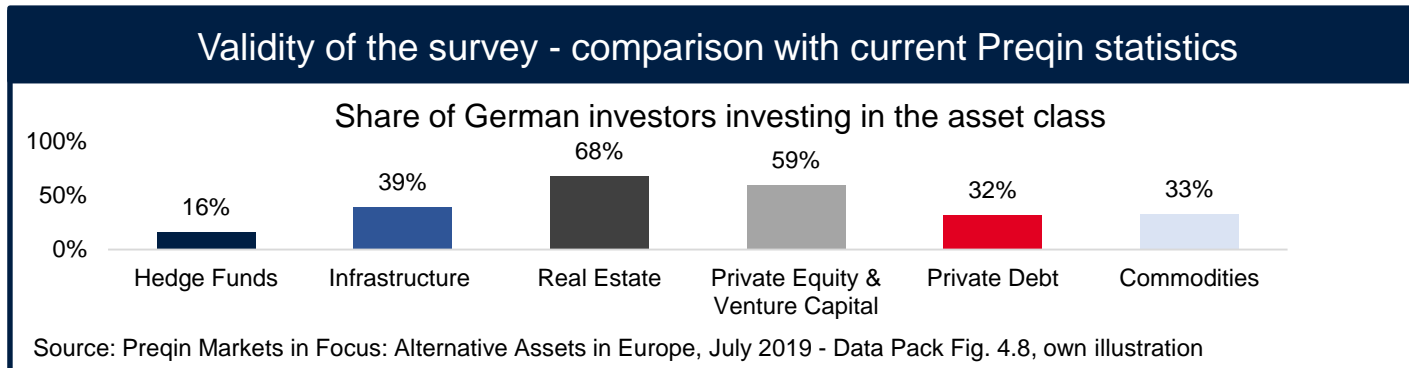
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The majority of institutional investors invest in a variety of alternatives



- 78% of participants invest in Equity Real Estate
- Investment in private equity remains strong at 77%
- 60% of respondents invest in Corporate Private Debt (as a subset of Private Debt)



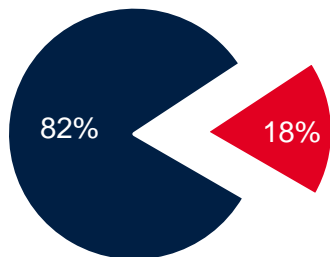
- In the asset classes Liquid Alternatives/ Hedge Funds, Real Estate and Commodities, comparable approval values can be observed within the survey

The demand for the proven alternatives will continue to increase, starting from a high level



Have you changed your Alternative Investment engagement in the last 12 months?

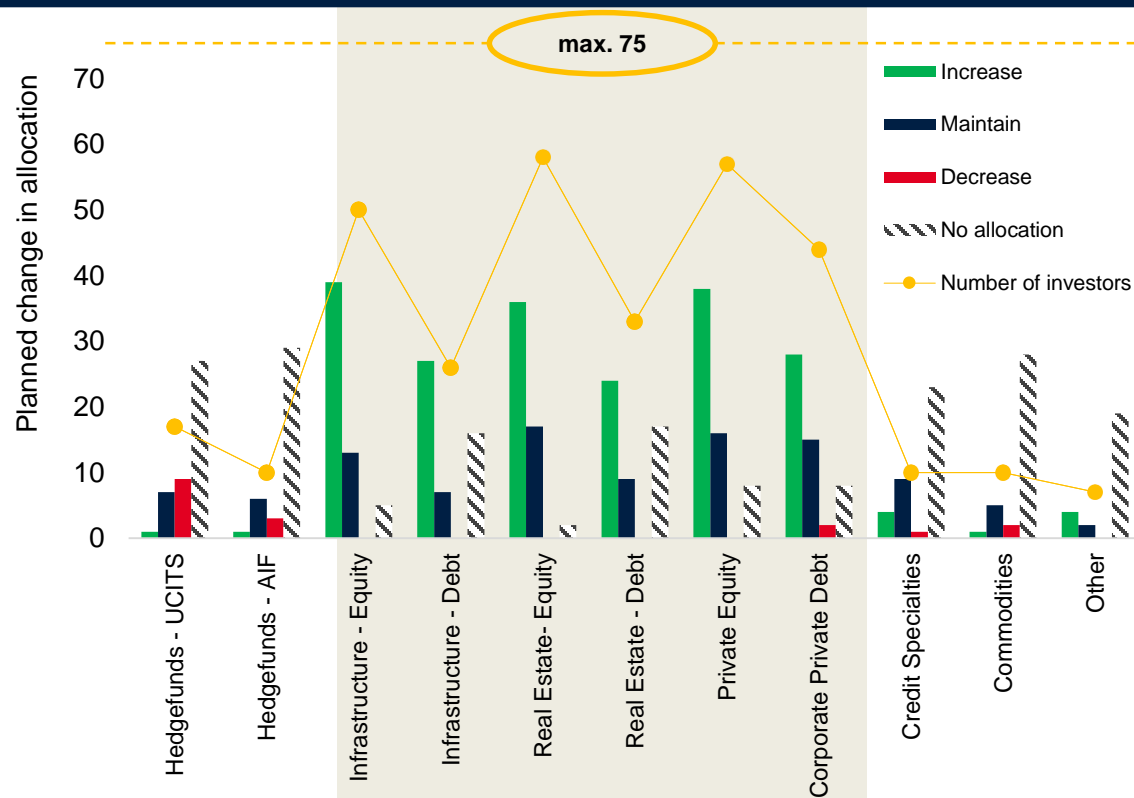
■ Yes, raised ■ No, unchanged



Source: BAI Alternative Investor Survey 2019

- Investors continued to focus on alternatives in the past year and increased their engagement by 82%
- The established alternatives will be in even greater demand next year

In which alternative asset classes will you change your allocation over the coming 12 months?



Source: BAI Alternative Investor Survey 2019

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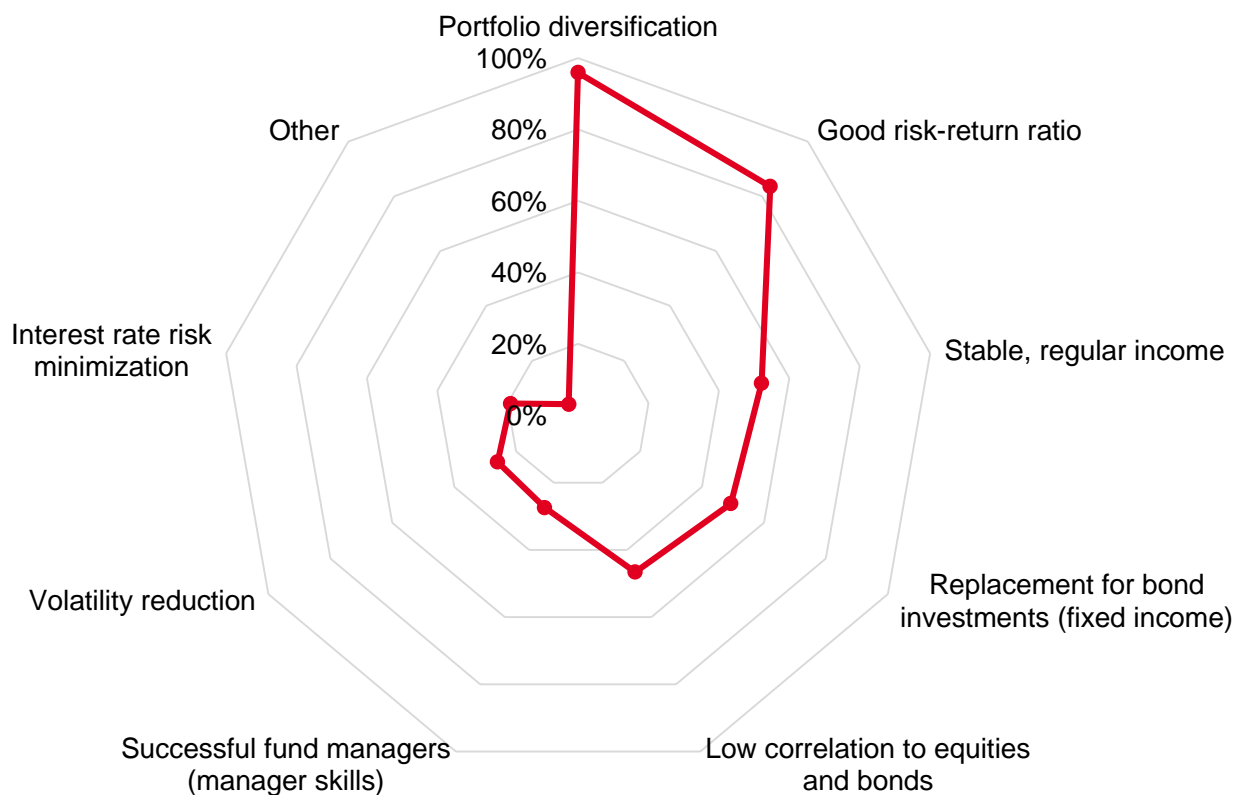


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Portfolio diversification & optimisation of risk-return profile as main reasons for investing in alternatives



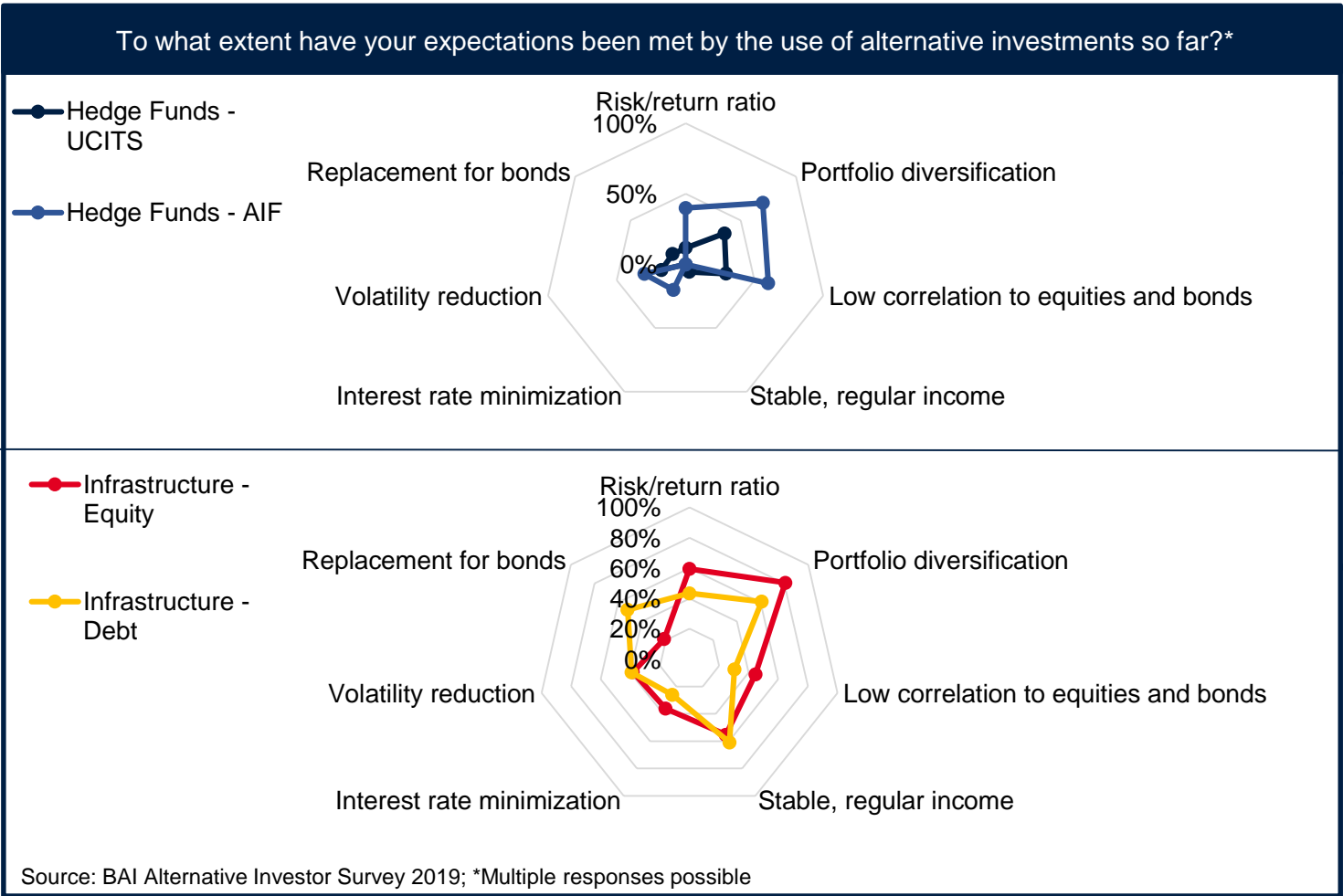
What are the main reasons for investing in alternative investments?*



- Portfolio diversification is the most important reason for investing in alternative investments among survey participants
- In addition, both stable cash flows and the risk/return ratio are crucial for investing in alternatives
- Only 27% consider manager skills to be one of the main reasons for engagement

Source: BAI Alternative Investor Survey 2019; * Multiple responses possible

Positive experience with infrastructure investments due to diversification effects and stable cash flow



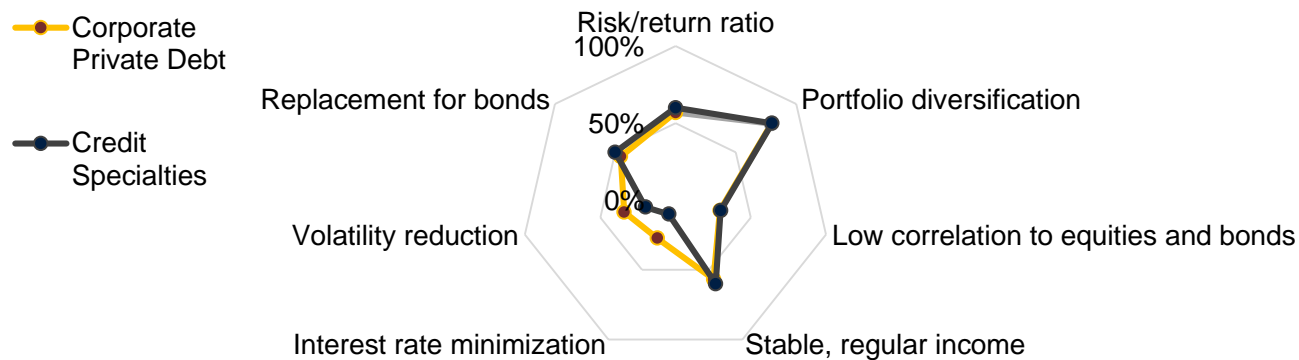
- Traditional hedge funds outperform UCITS (OGAW) funds in meeting investor expectations for portfolio diversification, risk/return profile and correlation

- Infrastructure (Equity & Debt) meets expectations in terms of diversification effects through low correlation and expansion of investment universe
- In addition, infrastructure investments provide stable cash flows (>50% of respondents who have invested in infrastructure).

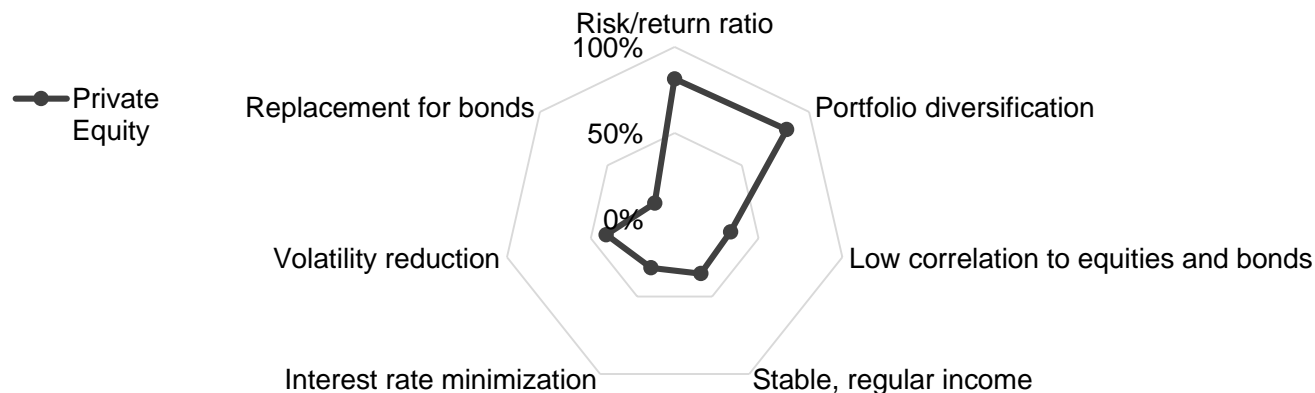
Corporate Private Debt generates stable and regular returns



To what extent have your expectations been met by the use of alternative investments so far?*



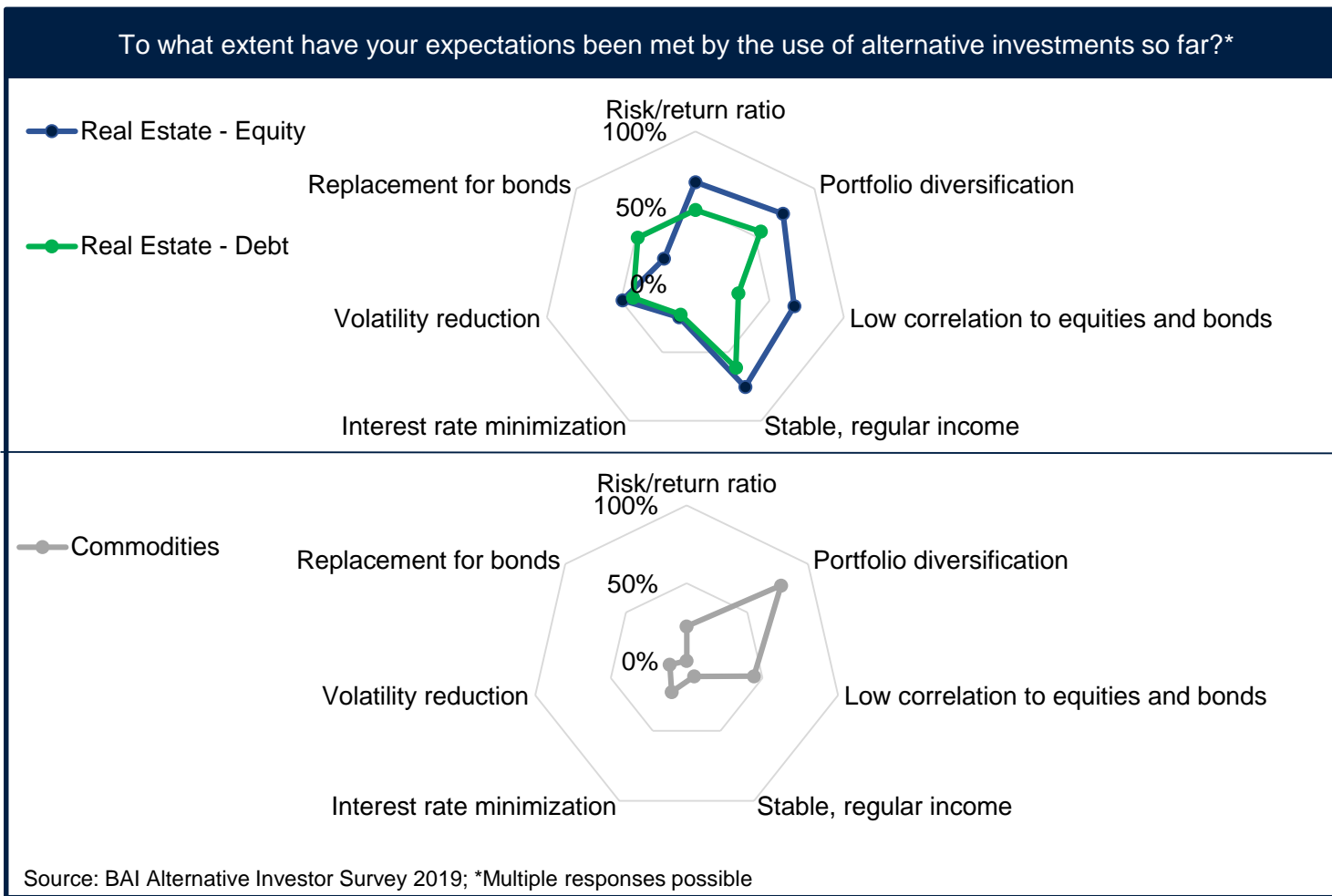
- Well diversified receivables pools generate stable and predictable returns
- Additionally, investors benefit from diversification effects by adding private debt to their portfolios



- Private equity as a widespread alternative investment appeals above all through the relation between risk and the expected return

Source: BAI Alternative Investor Survey 2019; *Multiple responses possible

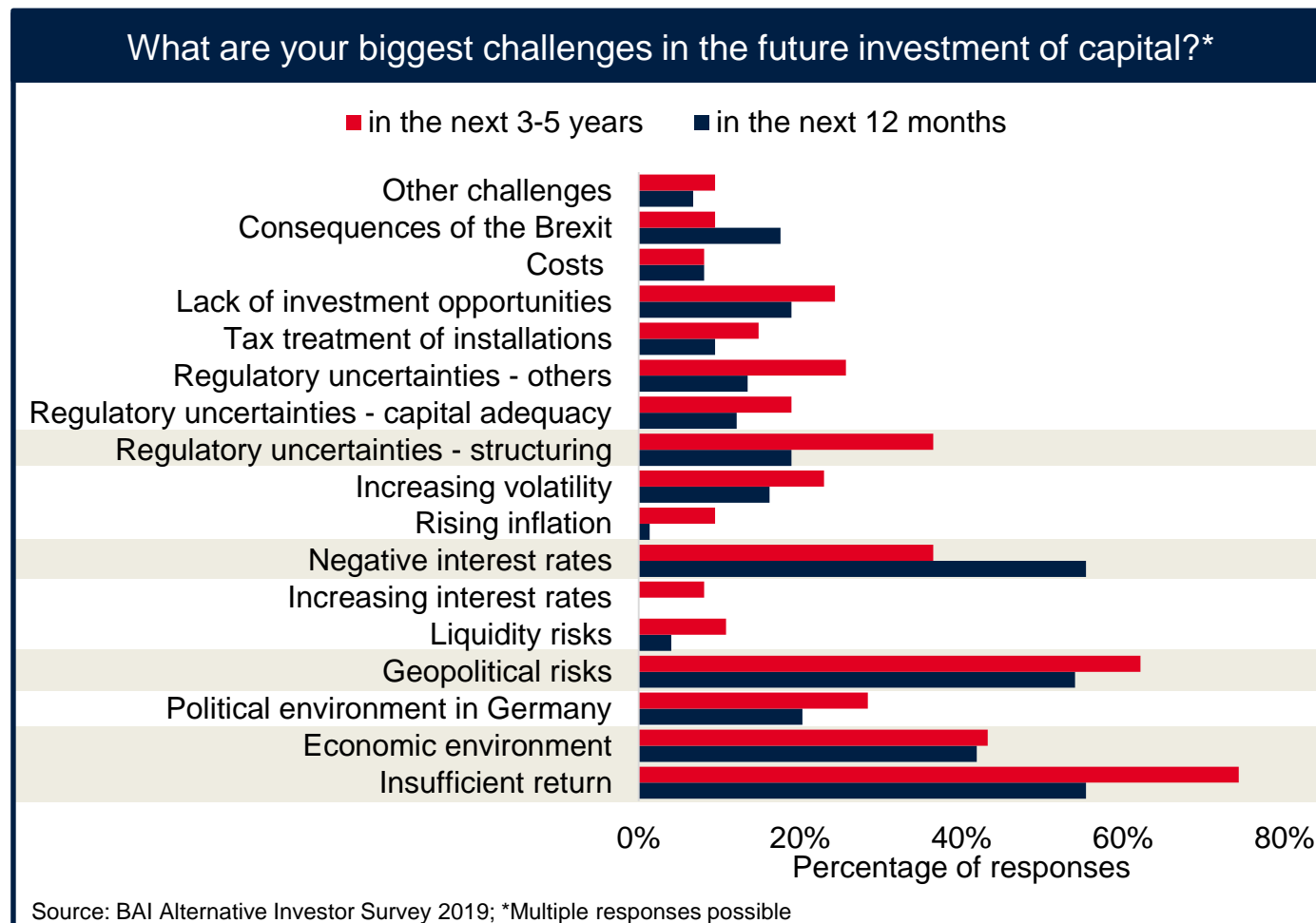
Investors value real estate investments based on long-term experience and stable returns in a low-interest environment



- The asset class real estate has particularly positive results; due to the nature of the risk and the structure of the repayments, the empirical values are comparable with infrastructure investments
- Real Estate is regarded as a traditional investment amongst the alternatives

- The ability to interpret empirical values with commodity investments is limited due to the low use of the asset class in the portfolios of the participants
- Nevertheless, the addition creates diversification effects

Investors are increasingly confronted with geopolitical challenges, which will become particularly significant in the medium term (see USA/China trade dispute etc.)



– The following points are most frequently mentioned in the short term:

- I. Unsufficient returns
- II. negative interest rates
- III. Geopolitical risks

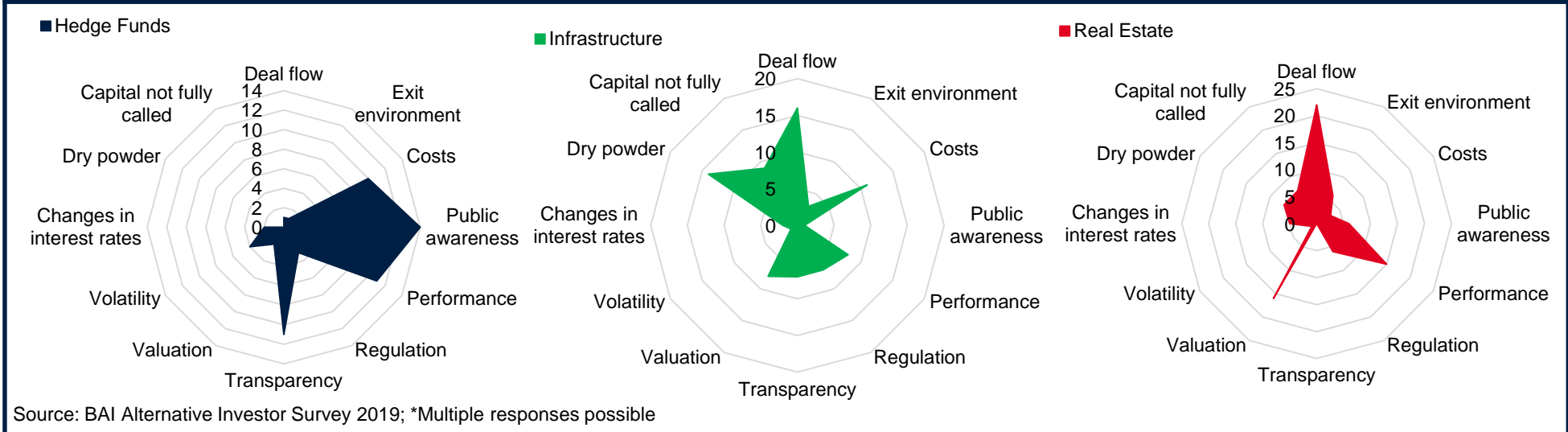
– In the medium term (3-5 years) the following challenges are cited:

- I. Unsufficient returns (even above the short term)
- II. Geopolitical risks
- III. Regulatory uncertainty in structuring

Dry powder and deal flow as key challenges for infrastructure investments



Where do you see the main challenges in the alternative asset classes over the next 12 months?*



- Investors see the greatest challenges for hedge funds within the next 12 months in the areas of:
 - (1) Public perception
 - (2) Transparency
 - (3) Performance

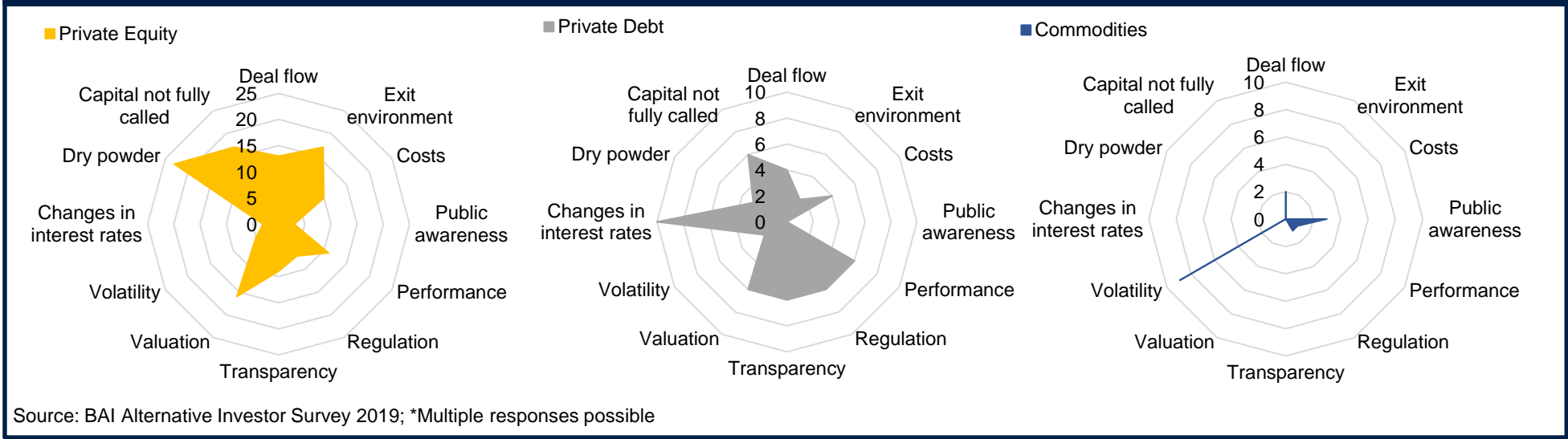
- Investors see the greatest challenges for infrastructure within the next 12 months in the areas of:
 - (1) Deal Flow
 - (2) Slow capital call/ Dry powder
 - (3) Costs

- Investors see the greatest challenges for real estate within the next 12 months in the areas of:
 - (1) Deal Flow
 - (2) Valuation
 - (3) Performance

Exit Environment, Valuations and Dry Powder as Core Issues for Private Equity



Where do you see the main challenges in the alternative asset classes over the next 12 months?*



– Investors see the greatest challenges for private equity within the next 12 months in the areas of:

- (1) Valuation
- (2) Slow capital call/ Dry powder
- (3) Exit Environment

– Investors see the biggest challenges for Private Debt within the next 12 months in the areas of:

- (1) Interest rate risks**
- (2) Performance
- (3) Regulation

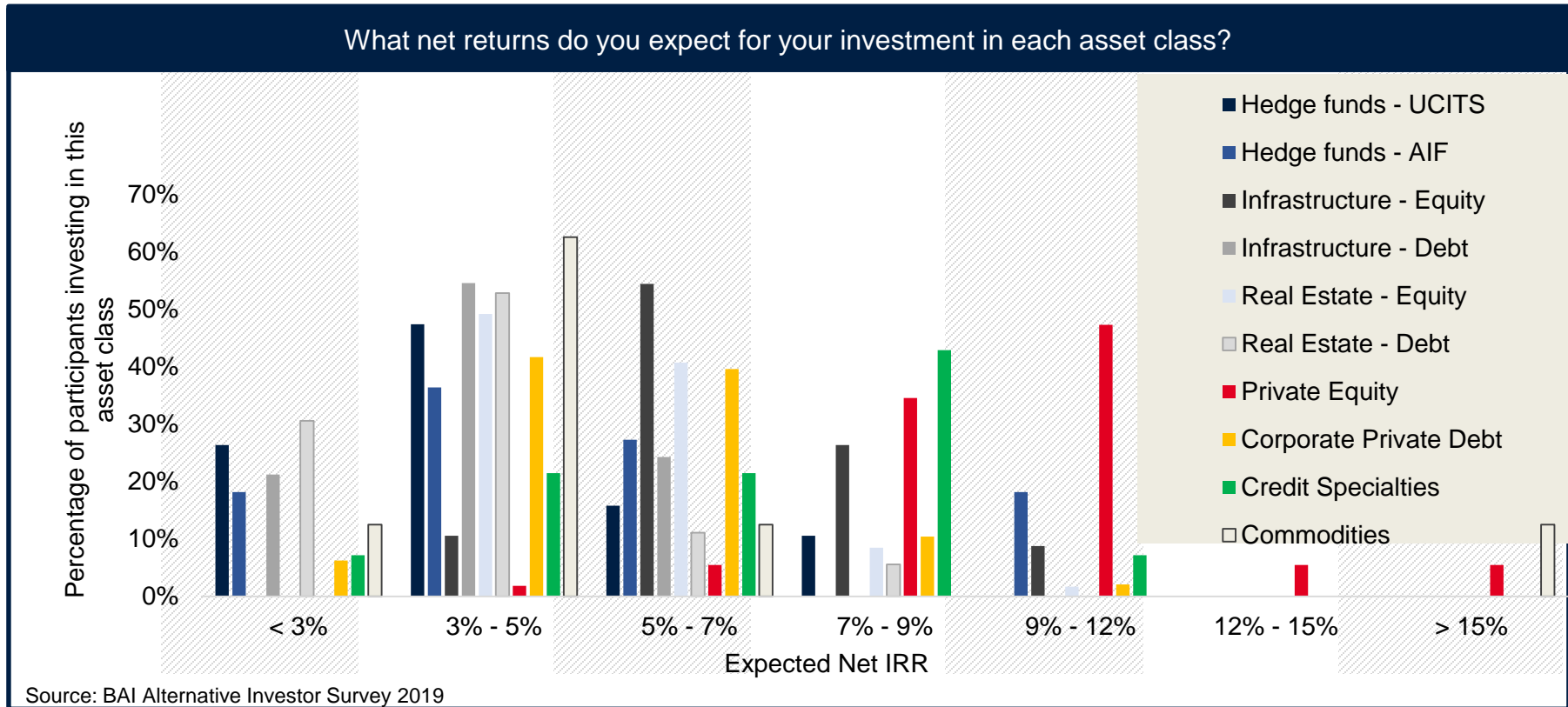
– Investors see the greatest challenges for commodities within the next 12 months in the areas of:

- (1) Volatility
- (2) Public perception

** Fear of interest rate changes is surprising, as the asset class offers protection against interest rate changes



Most of the alternatives are expected to generate returns in excess of 3% - in the expectation of investors



- Higher risk brings higher investor expectations with it regarding net IRRs
- On average, private equity is expected to generate the highest returns - mostly between 7 and 12 % net IRR - in line with the default risk

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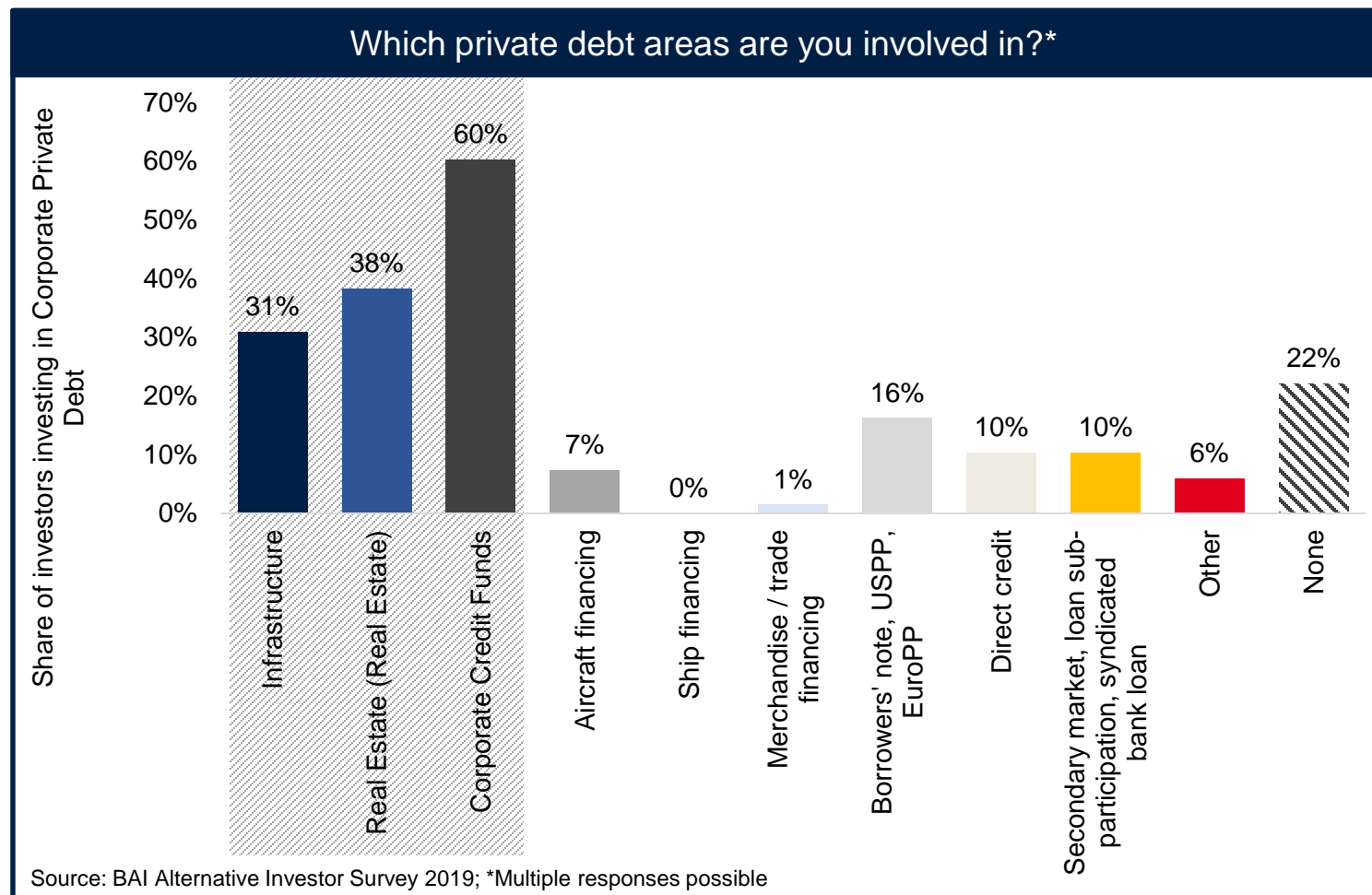


– ESG-Investments



– Core statements and conclusions

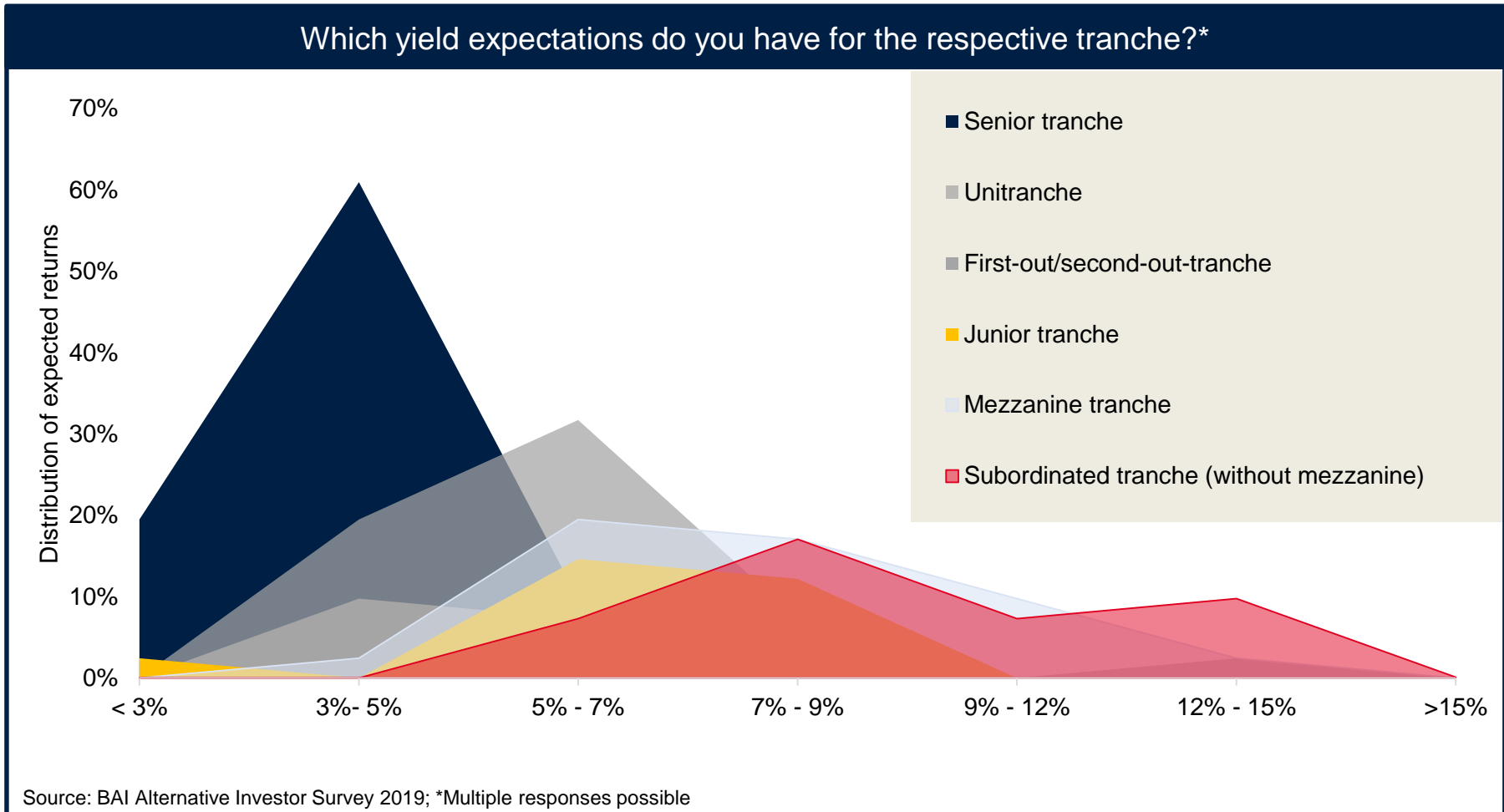
Corporate Finance - Corporate Private Debt - the most popular sub-category of Private Debt









– The following fields are the most common among all participants:

- (1) Corporate Private Debt, 60% of participants
- (2) Real Estate Debt, 38% of participants
- (3) Infrastruktur Debt, 31% of participants

The majority of respondents expect the senior tranche to yield a return of 3 to 5%



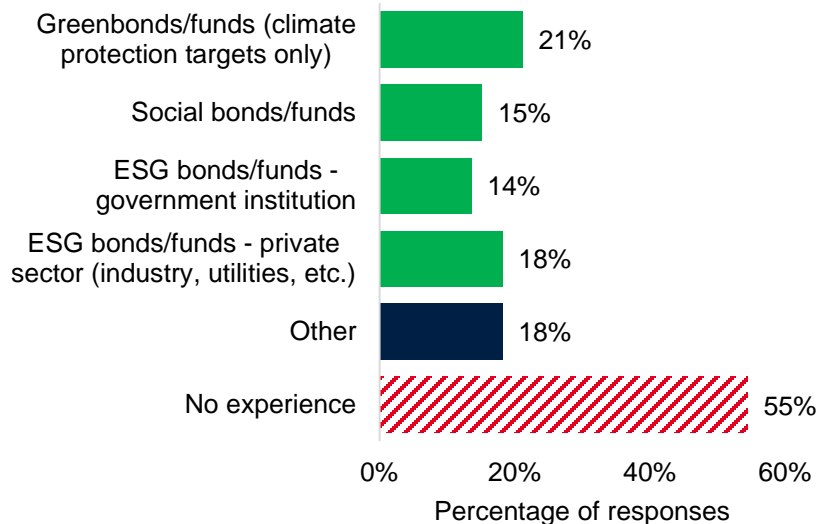
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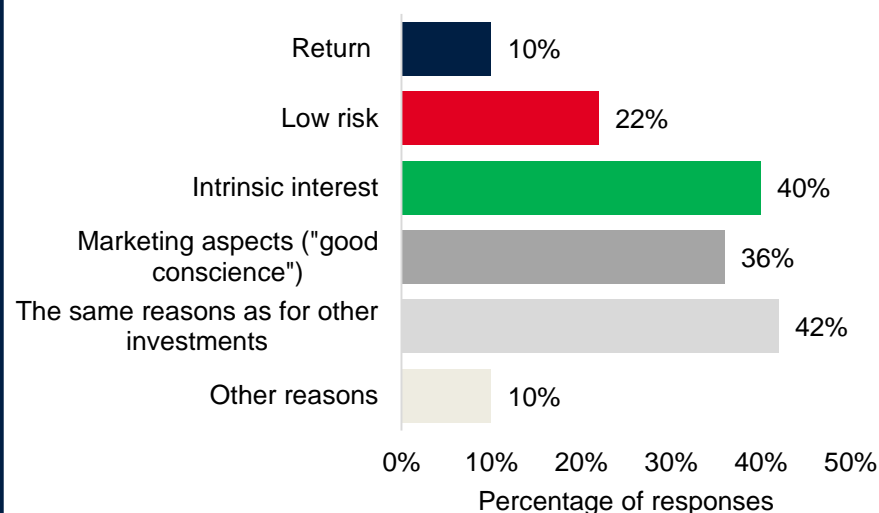
Experience with ESG investments mostly limited to date

What experience do you have in the field of sustainable investments?*



Source: BAI Alternative Investor Survey 2019; *Multiple responses possible

What are the reasons for investing in ESG bonds/funds?*

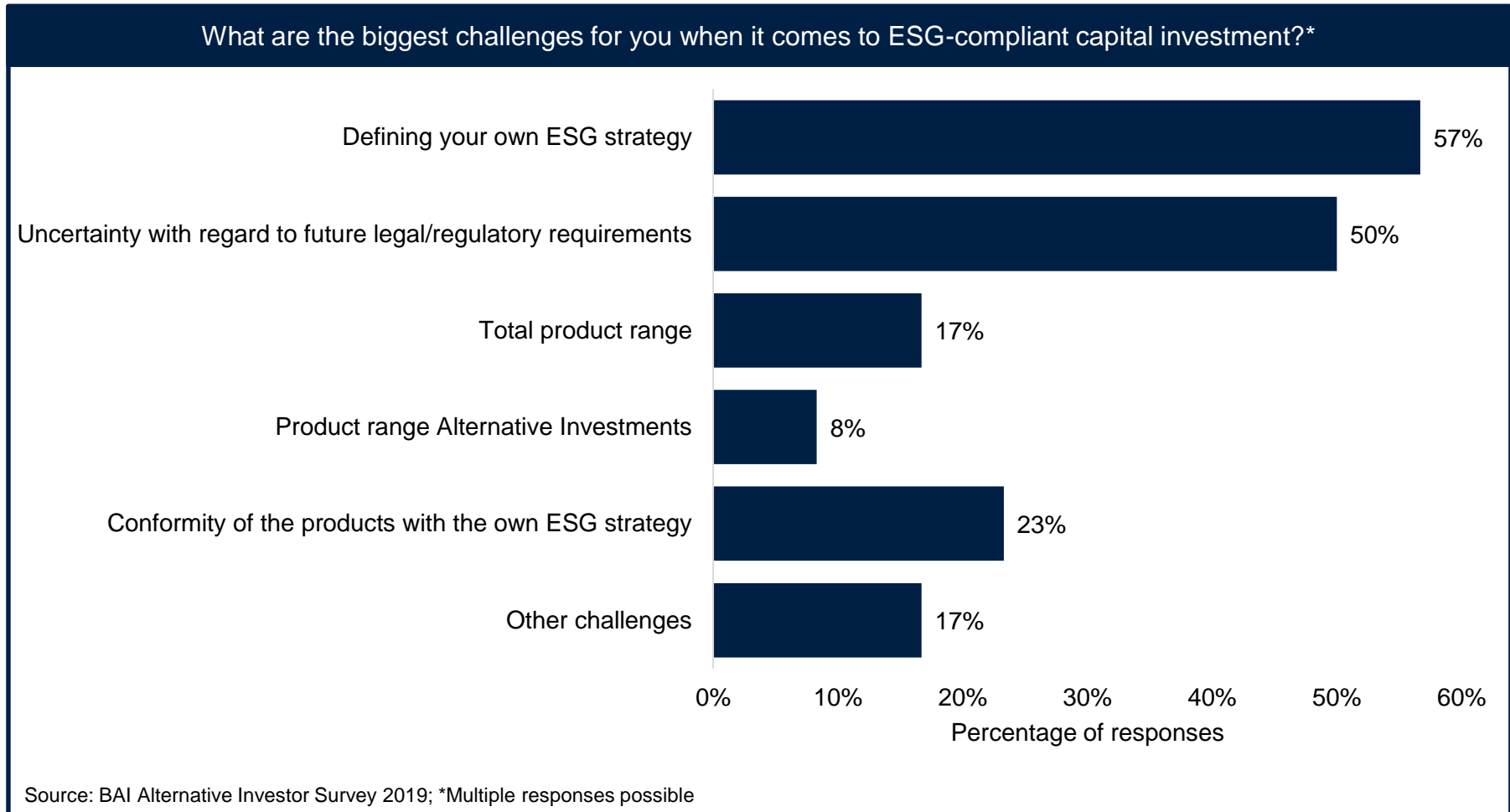


Source: BAI Alternative Investor Survey 2019; *Multiple responses possible

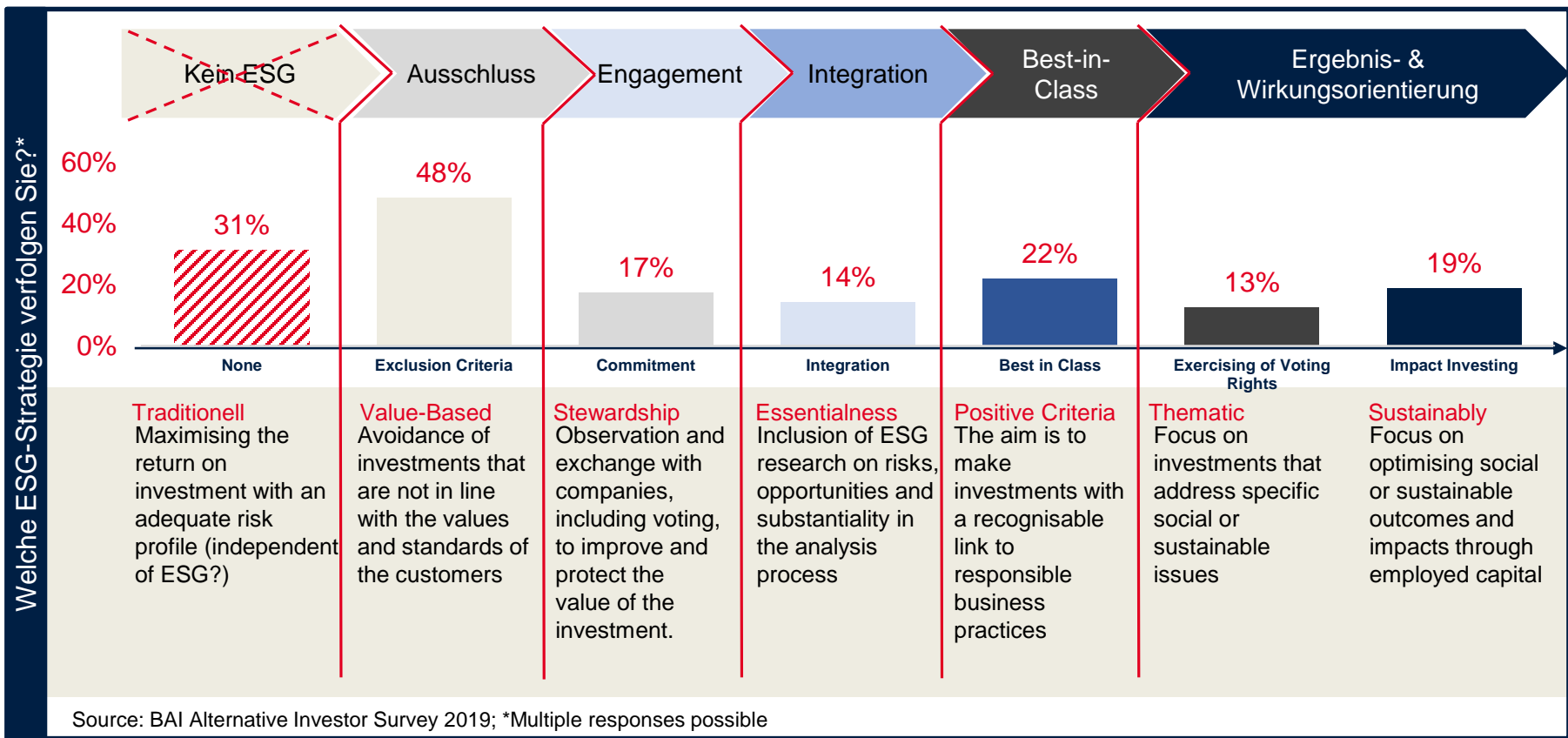
– 55% of investors have not yet gathered any experience with sustainable investment, which may prove critical in the context of the *Sustainable Finance Initiative*

- The reasons for investing in ESG bonds/funds are partly heterogeneous:
 - 42% of respondents see ESG investments as "business as usual"
 - For 36% of the respondents, the sustainability criterion represents a marketing aspect

57% consider the definition of an ESG strategy to be a major challenge



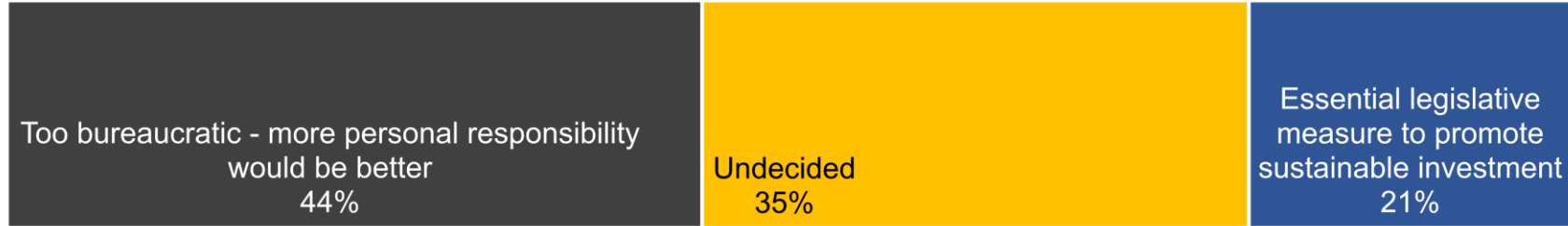
Exclusion criteria as the most common integration option of ESG within portfolios



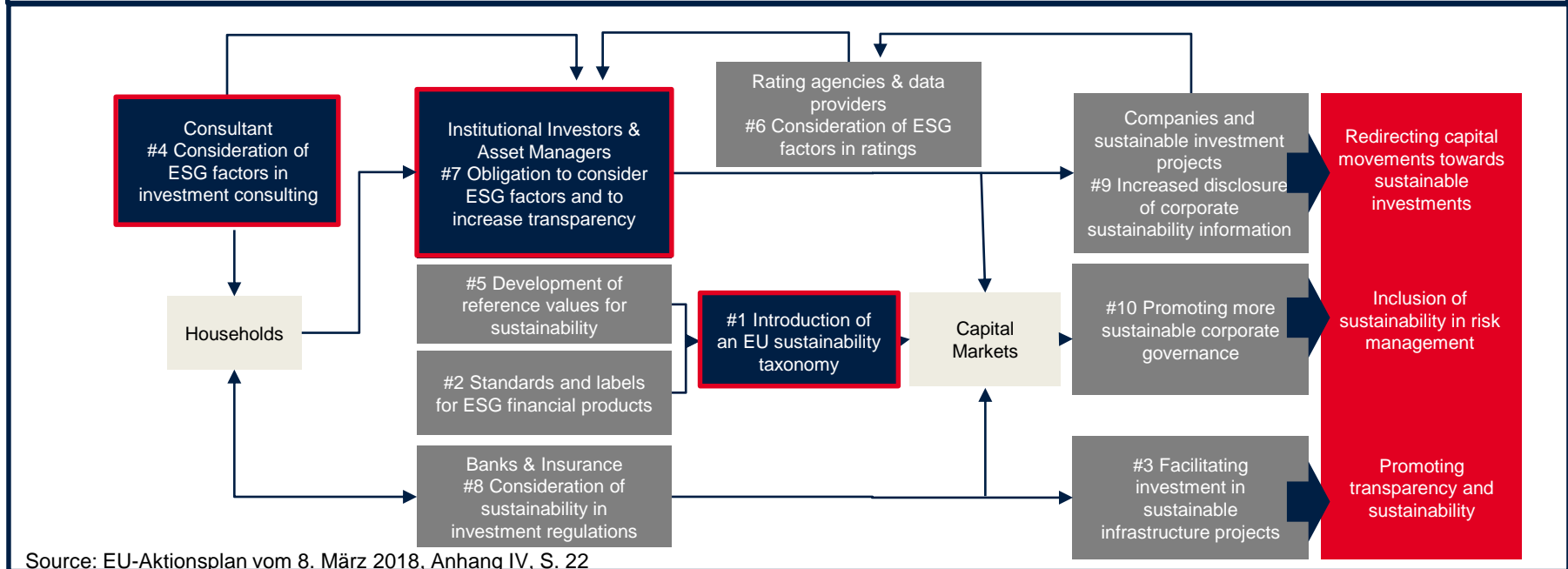


EU Commission's *Sustainable Finance* Action Plan perceived as too bureaucratic

As an investor, how do you assess the EU Commission's *Sustainable Finance* Action Plan (introduction of an ESG taxonomy, disclosure obligations, benchmarks, etc.)?









Source: BAI Alternative Investor Survey 2019








Source: EU-Aktionsplan vom 8. März 2018, Anhang IV, S. 22

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Core statements



<p>General Information</p> 	<ul style="list-style-type: none"> – The informative value was significantly raised by increasing the number of participants to 75 investors – In total, the participants manage an estimated EUR 900 billion, i.e. a significant share of the investment volume in Germany – The largest groups of participants are Solvency II-regulated insurance companies, pension funds and pension schemes
<p>Portfolio Allocation</p> 	<ul style="list-style-type: none"> – Real Estate, Infrastructure, Private Equity and Private Debt are equally popular for institutional end investors in Germany; Commodities and Liquid Alternatives are less important – 82% of the participants plan to increase their engagement in alternatives in the next twelve months – The highest demand for future investment opportunities is in already established asset classes (Private Equity, Infrastructure, etc.)
<p>Opportunities, Expectations and Challenges</p> 	<ul style="list-style-type: none"> – The main reasons for an exposure are portfolio diversification, a good risk-return ratio and stable cash flows, whereby experience in the Private Equity and Infrastructure asset classes were rated particularly positively – The slow capital call for the asset classes private equity and infrastructure is deemed challenging – The core challenges for hedge funds are public perception, transparency and performance – In the short and medium term, the focus is generally on geopolitical risks and inadequate returns
<p>Private Debt</p> 	<ul style="list-style-type: none"> – All investor groups in the survey generally participate in Corporate Private Debt – Corporate Private Debt boasts solid empirical values regarding the stability of diversification effects – Among Private Debt in general, Corporate Private Debt in particular is the most important sub-category for investors – The senior tranches of classic corporate loan portfolios are particularly popular in this respect
<p>ESG</p> 	<ul style="list-style-type: none"> – In view of the current efforts of the EU Commission, it is surprising that 55% of the participants have not yet had any experience with sustainable investments – When integrating ESG into portfolios, exclusion criteria were the most frequently cited - 48% of participants – 44% of participants call for more personal responsibility in relation to the EU Commission's <i>Sustainable Finance Action Plan</i>

Deductions for the individual asset classes

<p>Liquid Alternatives/ Hedgefunds</p>	<ul style="list-style-type: none"> – Only 23% of investors said they were investing in UCIT hedge funds, with corporate investors participating at a disproportionately high rate – A significant proportion of the participants already invested plan to reduce exposure – Closed structures offer the participants better experience values when compared directly – The core problems are public perception, transparency and performance
<p>Infrastructure</p>	<ul style="list-style-type: none"> – This asset class scores well with investors thanks to stable cash flows and diversification effects – Particularly in the low-interest environment - which is unlikely to change under the designated ECB President Lagarde - investors are planning to expand their commitments – However, all investors are seeking investment opportunities, resulting in problems such as dry powder, high costs and poor deal flow
<p>Private Equity</p>	<ul style="list-style-type: none"> – Private equity is not inferior to real estate in terms of distribution, although target allocations are presently lower – In addition, demand for private equity will continue to grow, creating challenges similar to those in the infrastructure sector – A slow capital call and therefore a compressed J-curve are just as challenging as the exit environment and a very high valuation
<p>Private Debt</p>	<ul style="list-style-type: none"> – Private debt, especially the corporate segment, is not only growing in the favour of investors but is also emerging as a new financing option for borrowers (see Private Debt Study) – Investors appreciate the risk/return ratio, but fear potential interest rate risks on the other hand – Fear of interest rate changes is surprising, as the asset class offers protection against interest rate changes
<p>Real Estate</p>	<ul style="list-style-type: none"> – Real Estate - in so far as this asset class may be interpreted as an "alternative" in the narrower sense - remains the "top dog" among the asset classes under review, with private equity and infrastructure catching up – Real Estate still represents the most important alternative investment in target allocation – Growth here may be finite, which manifests itself in challenges such as valuation - especially in A and B cities - deal flow and performance

Appendix: Kontakt

Questions and Comments



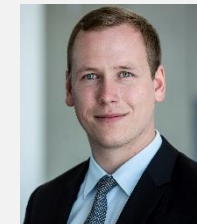
BAI is interested in the continuous improvement of its publications. Please do not hesitate to send us your praise, criticism or potential further questions for future surveys.

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The Bundesverband Alternative Investments e.V. (BAI) is the advocacy association for the Alternative Investments industry in Germany. The BAI is catalyzer between German institutional investors and recognized providers of Alternative Investments products worldwide. One goal is to enhance the environment for German professional investors when diversifying their financial assets into Alternative Investments, especially as many of those investors are responsible for safeguarding long-term retirement pensions. Another objective of the association is to increase the awareness level and the understanding of these asset classes and strategies in public. The BAI maintains an intense dialogue with political institutions as well as supervisory bodies. Furthermore, the BAI cooperates with various national and international organizations and industry associations and advocates for legal reforms to design an attractive and competitive regulatory environment for the Alternative Investments industry in Germany. At present, BAI counts 212 members from all areas of the professional Alternative Investments industry.