



Infrastruktur Investments

Alternative im Niedrigzinsumfeld

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Allianz 

Agenda

- 1** Allianz Capital Partners
- 2** Low-Interest Rate Environment
- 3** Infrastructure – Characteristics and Risks
- 4** Investment Process Overview
- 5** Infrastructure Investments – A Synthesis

Allianz is Europe's largest insurer and the world's second largest asset manager

Split of revenues, operating profit and customers¹⁾

EUR **106.4bn** total revenues

EUR **1,852bn** AuM

EUR **9.5bn** operating profit

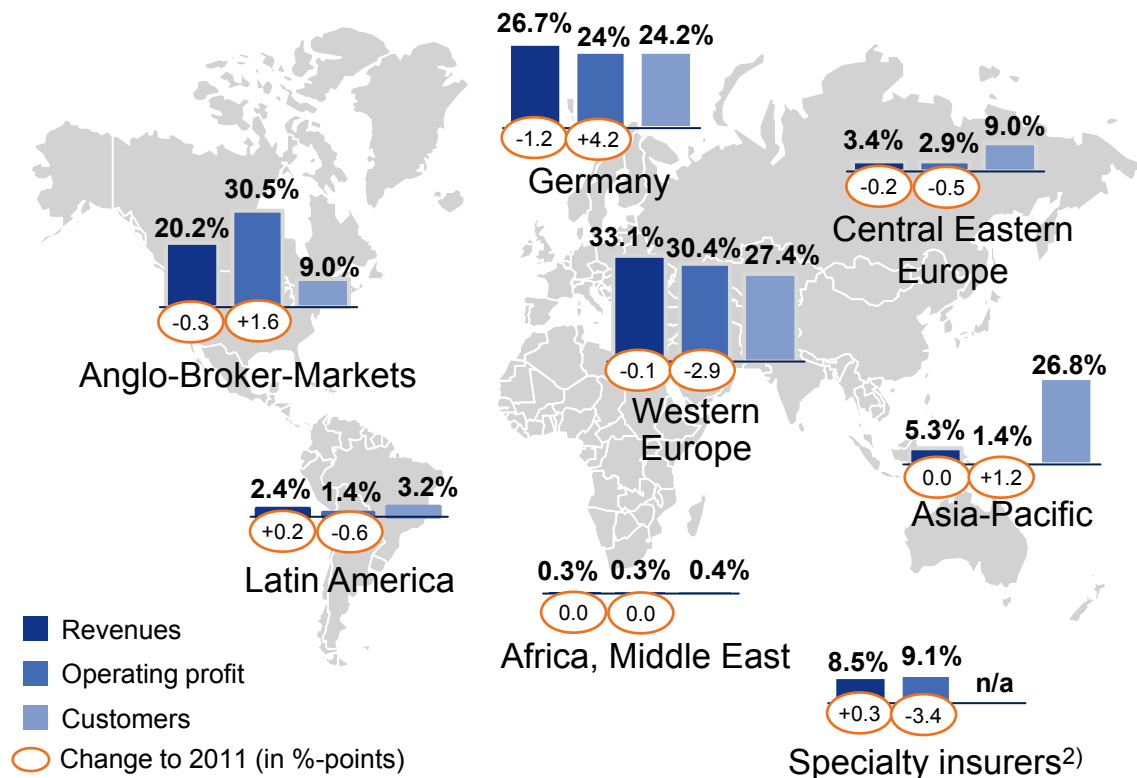
197% FCD solvency ratio

S&P **AA** Rating

EUR **47.8bn** market cap

Approximately **78mn** customers

Present in over **70** countries



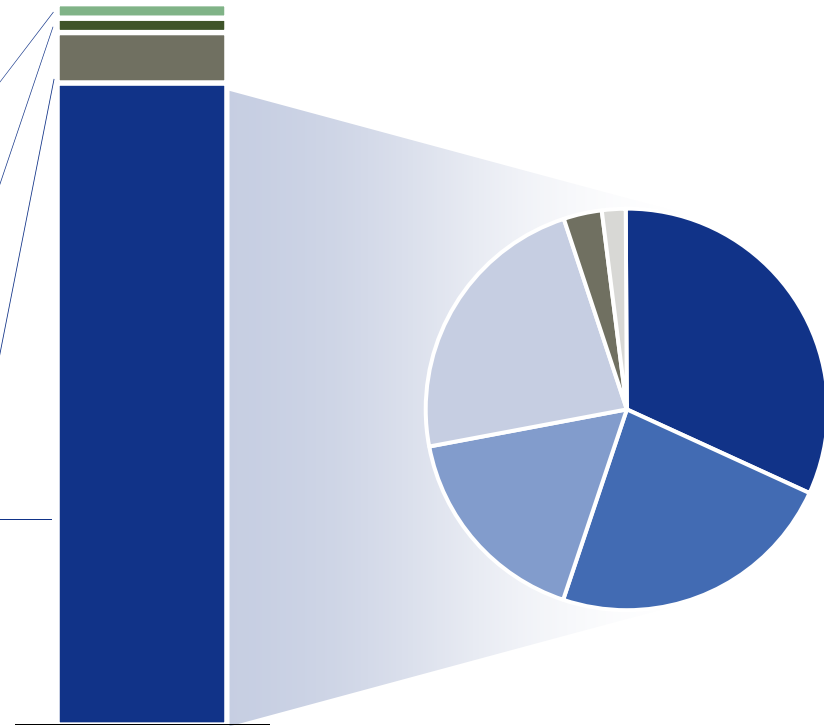
3 1) Figures as per 31/12/2012
 2) Allianz Global Corporate & Specialty, Euler Hermes, Mondial Assistance, ART

Allianz manages EUR 508bn own assets ...

Asset allocation¹

EUR 507.5bn

Cash / Other	1%
EUR 7.4bn	
Real estate	2%
EUR 9.7bn	
Equities	6%
EUR 29.6bn	
t/o ACP 8.7bn	~1.7%
Debt instruments	91%
EUR 460bn	



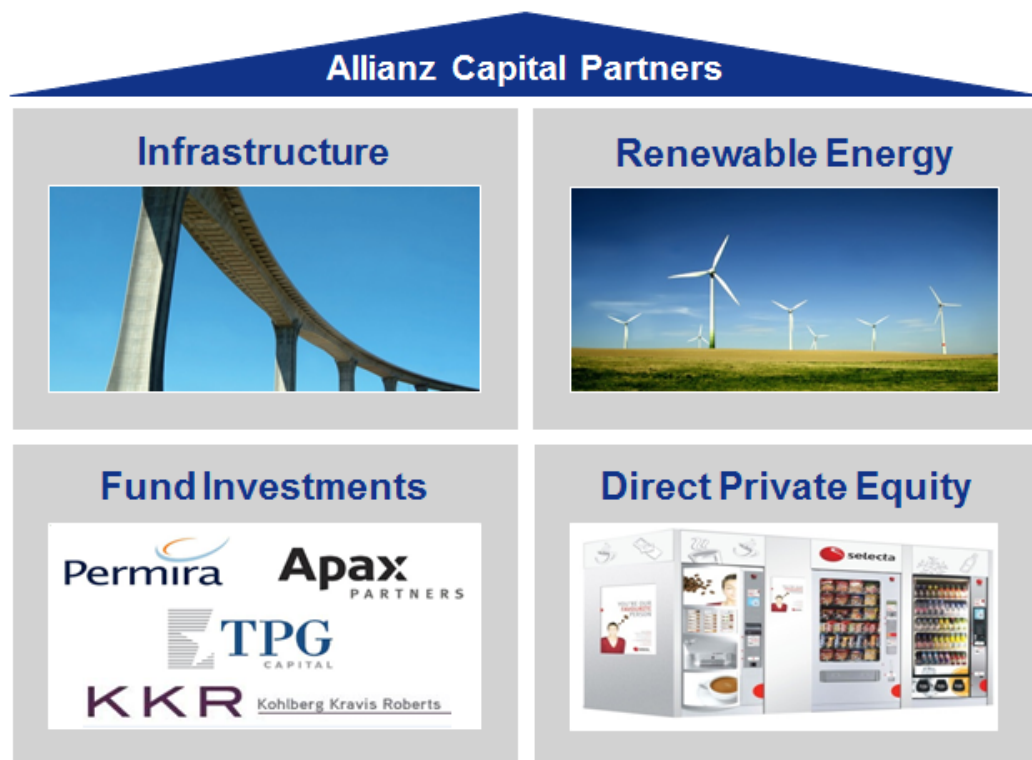
Rating profile²

AAA	32%
AA	23%
A	17%
BBB	23%
Non-investment grade	3%
Not rated ³	2%

... and has strong ambitions to increase its investments in alternative assets

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 1. Based on consolidated insurance portfolios (P/C, L/H), Corporate and other (Q4 2012)
 2. Excluding self-originated German private retail mortgage loans

Allianz Capital Partners consolidates alternative investment activities of the Allianz Group under one platform



- ACP advises on **direct** and **indirect investments** in **alternative assets**
- Focus on **equity** investments in Infrastructure, Renewable Energy and Private Equity Funds
- **Balance sheet investor** with **EUR 8.7bn** assets under management
- **40 investment professionals** in Munich, New York, London and Singapore
- Independent investment committee (Allianz SE board members)
- **Key activities** are
 - Deal origination and screening,
 - In-depth due diligence,
 - Structuring, negotiation and closing of a transaction, and
 - Active asset management

Allianz is a truly long-term and strong balance sheet investor able to commit to future capital expenditures

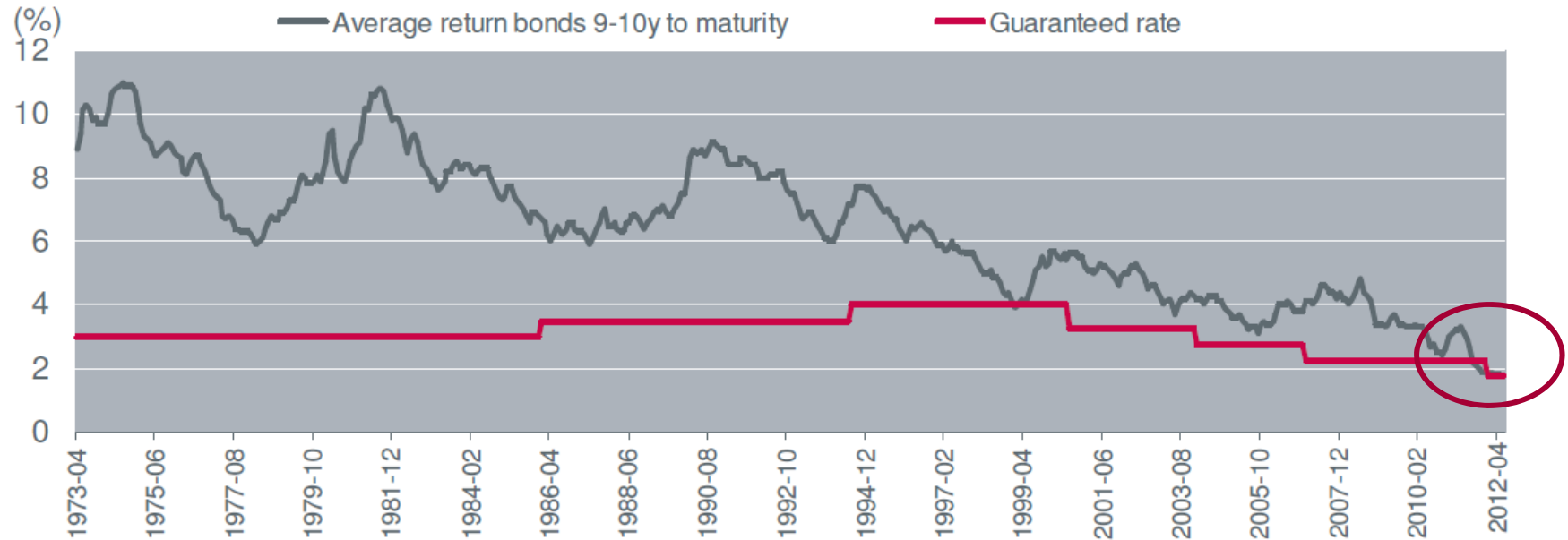
Illustrative

	Balance Sheet Investor	Infrastructure Fund	Private Equity Fund
Long-term orientation	✓	~	✗
No specific exit requirement	✓	✗	✗
Ability to commit to future capex	✓	~	✗
No specific return hurdle	✓	✗	✗
Structuring flexibility	✓	~	~

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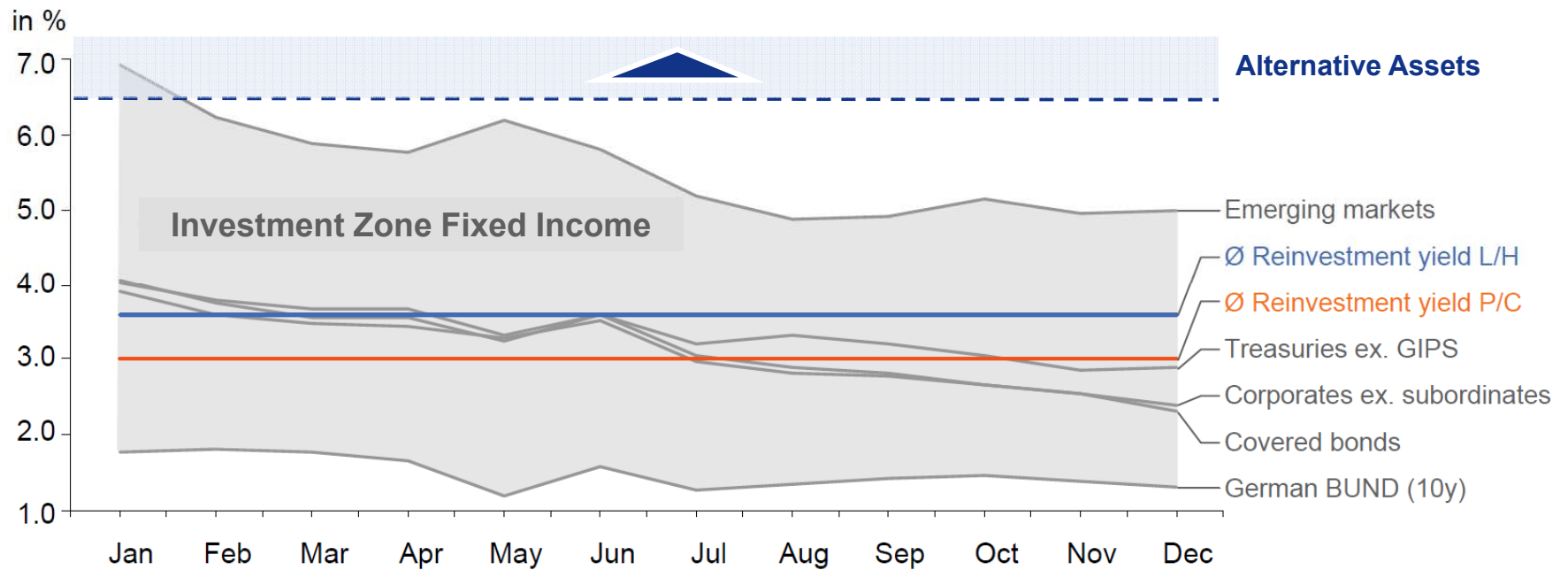
Investment in ,secure' government bonds alone insufficient to cover existing guaranteed rates in life-insurance



Source: Deutsche Bundesbank, Bafin

- Spread between yield on 9 to 10-year German government bonds and ,guaranteed rate' on existing life insurance contracts is **negative**
- Average ,guaranteed rate' on life insurance portfolios is still about **3.3%**
- Requirement to invest in **higher yielding assets**

The search for yield - Investment yields are impacted by the financial crisis



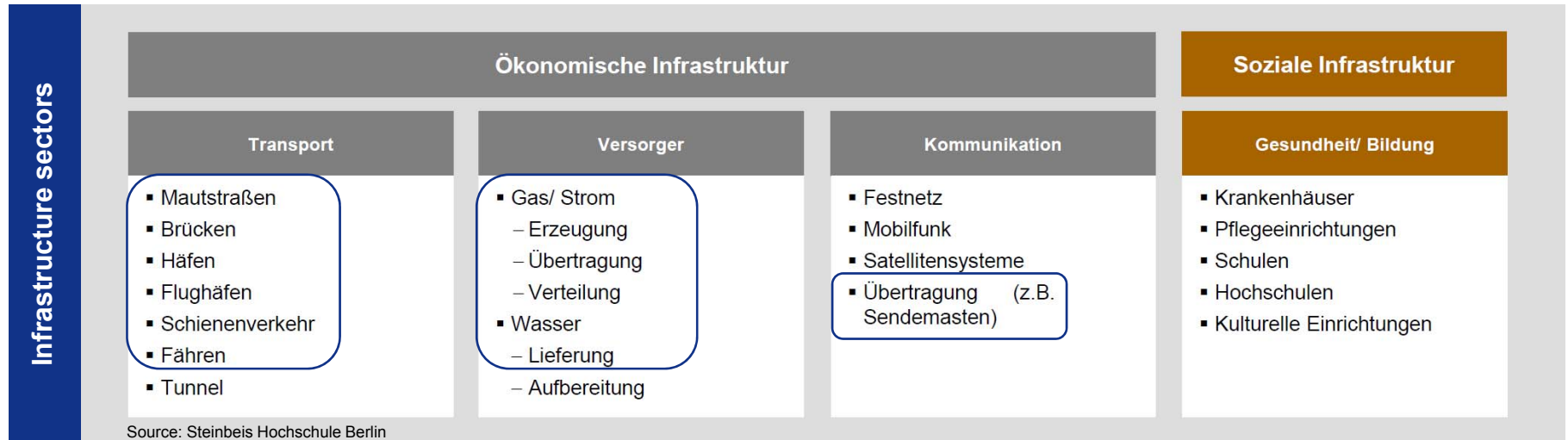
Allocation to alternative assets necessary to ensure reinvestment yield

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Infrastructure – a heterogenous asset class

Risk-return-characteristics of individual sectors can be quite different



Main characteristics
<ul style="list-style-type: none"> ▪ Substantial physical asset value ▪ High systemic importance ▪ Monopolistic demand / market structure ▪ High barriers to entry ▪ Cash flows uncorrelated to economy

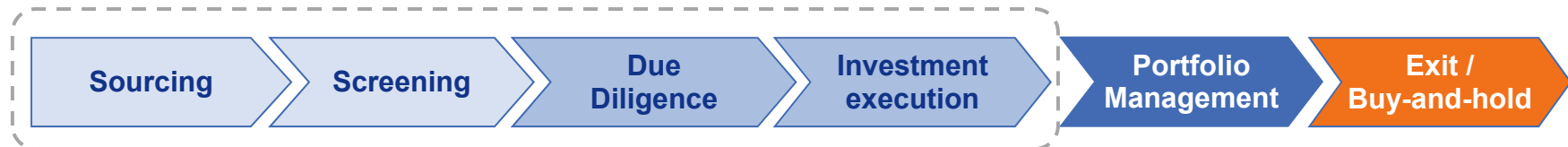


Investor needs
<ul style="list-style-type: none"> ▪ Long-term stable cashflows ▪ Steady income / cash yield ▪ Inflation protection ▪ Low volatility / value persistence ▪ Diversification benefits

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Investment Process



<ul style="list-style-type: none"> ▪ Proactive targeting and analysis <ul style="list-style-type: none"> – Targeted approach – Clear investment criteria <p><u>Sources</u></p> <ul style="list-style-type: none"> ▪ Intermediaries <ul style="list-style-type: none"> – Investment banks – Lawyers – Consultants ▪ Owner / Management ▪ Allianz internal network 	<ul style="list-style-type: none"> ▪ Disciplined outside-in analysis <ul style="list-style-type: none"> – Risk-return characteristics – Key investment drivers ▪ Sales process / competitiveness ▪ Partner selection ▪ Advisor selection 	<ul style="list-style-type: none"> ▪ In-depth analysis for every investment, regardless of size ▪ Key areas <ul style="list-style-type: none"> – Financial – Commercial – Technical – Legal / Regulatory – Tax – Environmental ▪ Valuation 	<ul style="list-style-type: none"> ▪ Financing ▪ Transaction structuring ▪ Contracts and Negotiations ▪ Investment Committee approval ▪ Signing / Closing 	<ul style="list-style-type: none"> ▪ Corporate Governance ▪ Mgt. Incentivization ▪ Controlling discipline <ul style="list-style-type: none"> - KPIs - Risk ▪ Value Added Contribution <ul style="list-style-type: none"> - Formal and informal advice - Entrepreneurial support - M&A / Capital structure 	<ul style="list-style-type: none"> ▪ Long-term hold ▪ Recapitalization <p><u>Exit options</u></p> <ul style="list-style-type: none"> ▪ Initial Public Offering ▪ M&A <ul style="list-style-type: none"> – Secondary sale – Trade sale – Split-up
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Infrastructure investing - A synthesis

Some considerations

- Risk of **mispricing of downside risks** in the search for yield
-> *Lack of risk-adjusted pricing?*
- Risk of **investment style skew**
-> *Infrastructure vs. Real estate vs. Fixed income*
-> *Businesses vs. passive assets*
- **Know-how** required for undertaking **direct investments** underestimated
- **Long-term nature** of infrastructure investments make **performance measurement** more tricky
- Different **incentives** between balance sheet investors and pooled funds

Outlook

- One of **most desirable asset classes**
 - Still attractive risk-adjusted returns
 - Rising allocations to infrastructure around the globe from pension funds and other investors
 - More players entering the field
- Generally favorable asset supply fundamentals
- But overall **asset scarcity** vs. increasing investor demand
 - Risk of **inflated asset prices**
 - **Compression** of achievable returns