AT A GLANCE – INFRASTRUCTURE INVESTMENTS

REALIZING ADVANTAGES THROUGH MULTI-MANAGER SOLUTIONS NR. 3

Advantages provided by Multi-Manager solutions

By bundling capital via investors, Multi-Manager solutions achieve a second level of intermediation. Outsourcing of investments also has a whole range of other positive effects:

Lot size transformation
Especially in the infrastructure segment, which is often characterized by very large-volume projects, lot size transformation creates the possibility of overcoming access restrictions. This allows investors to participate in the development of the infrastructure sector.

Diversification
Diversification is at the heart of a Multi-Manager approach. Investments, especially in unlisted infrastructure projects, reduce the volatility of the overall portfolio. A diversification effect can also be achieved within the infrastructure class, resulting from the distribution across different projects within the infrastructure universe. Multi-Manager solutions provide the necessary market access. In addition to investments in diversified funds, they also allow investments in specialised individual funds. Spreading the invested capital across different managers and investment strategies also make a significant contribution to reducing the volatility of returns due to different applied processes and decision-making parameters. In addition, further diversification effects can also be achieved by investing in infrastructure assets with different remuneration structures.

Significant cost savings
Due to their market access and investment amounts, Multi-Managers can often benefit from discounts on the management fees of the target funds. Generally, investment funds offer discounts for multiple subscribers, early subscribers or when certain subscription volumes are exceeded. Besides, a significant cost saving advantage can be achieved by using economies of scale.

Win-win situation
Investments in funds with different investment objectives make it possible, on the one hand, to limit the downside risks through defensively oriented projects. On the other hand, upside potential can be preserved by investing in funds geared to growth. Adding direct investments, secondary-market transactions and debt capital investments also open up a way to avoid the negative effects of an initial J curve[1].

Expertise
Investors gain access to specialized investment teams. Their expertise is a key success factor in selecting suitable target funds. The competence of the investment team also provides access to opportunities that cannot be reached by any other means, which are not only subject to minimum capital requirements but also result from previous cooperation and corresponding experience.

Market screening and monitoring of target funds
Multi-managers undertake market screening and monitoring of the target funds. Experience in the market environment is of great importance in order to ensure optimal performance and to benefit from changes in the economic environment in accordance with strategic allocation decisions.

Reduction of complexity
By combining several professionally managed investment funds in the Multi-Manager structure, investors can invest in the parent fund rather than in several different individual funds. The investor therefore only has to make one investment decision. In addition, tax and legal audits, liquidity management of the individual target funds, checking the limits for each new investment and booking the returns as income or capital repayment are also handled by the Multi-Manager. The investor only receives an aggregated reporting system for all investments. Specific requirements (e.g. of investors with regulatory reporting requirements) can be taken into account and only need to be agreed once with the manager of the Multi-Manager solution.

Additional diversification potential through Multi-Manager structure

By investing in selected target funds, Multi-Manager solutions enable further positive effects on the portfolio by exploiting diversification effects. The volatility of the return is only one of the options for measuring the risk of a portfolio. Taking into account the long-term time horizon and the illiquidity of unlisted infrastructure investments, the valuation of the assets and their volatility also plays a key role. Analogous to the stock market, there are positive and negative points in time for entering and exiting certain markets. This risk is known as "terminal wealth dispersion" and refers to the difference between the expected and actually realised result of an investment. This means that different managers who operate under the same conditions in similar asset classes may have identical yield volatility and yet a high degree of heterogeneity concerning the overall realised result. This risk is measured using the standard deviation of net asset values.

Within a Multi-Manager structure, the focus is on the selection of target funds. The allocation to different managers is reflected in the resulting distribution of capital across different processes, with a significant impact on the standard deviation of the terminal wealth.

[1] J-curve: Describes a phase-typical yield curve in which, due to acquisition costs or assets still under construction, a negative result is initially achieved in the first years before, in the later years, the income exceeds the costs and a positive yield is achieved.

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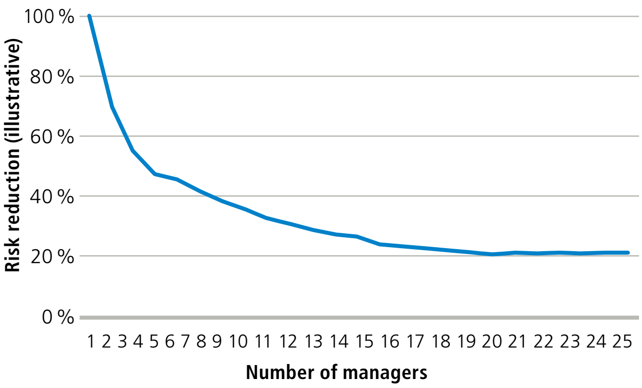
The figure below illustrates the significant reduction in risk resulting from the allocation of capital to several managers. However, as can be seen from the curve, the benefit is defined by a positive but decreasing marginal utility. From a certain point on, an excessive distribution over a large number of managers makes monitoring more difficult and leads to a sharp increase in complexity. In this context, infrastructure investmentsoffers an advantage over equity funds, as the size of the projects, unlike company shares, makes duplication of investment very unlikely or can be easily avoided by appropriate management. By avoiding these multiple investments in the same product, the potential is used efficiently.

Overall, it is clear that the use of diversification potential can generate advantages, but that a large number of factors influence these effects. Experienced and specialized providers can, especially through a Multi-Manager approach, efficiently exploit the entire potential and thus offer significant advantages for investors.

Decline in terminal wealth standard deviation as a function of the number of managers[2]

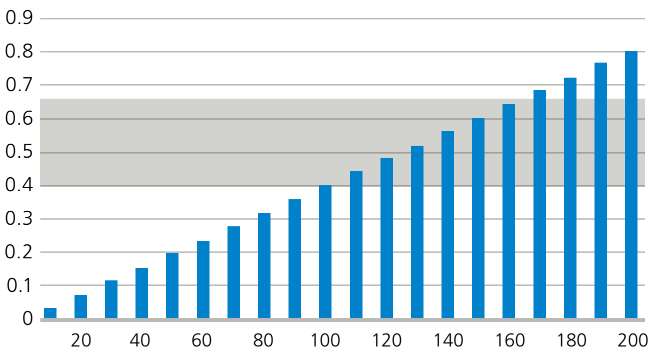


Implementation of a diversified infrastructure portfolio – make or buy?

Investors who want to make or expand investments in the infrastructure sector are faced with a classic "make or buy" situation. This means for investors: Do they build up their own personnel- and IT-capacities or do they invest in a Multi-Manager fund and bear the resulting fee?

Fund selection is at the heart of building a diversified infrastructure portfolio. A specialized investment team is essential for this. Ignoring additional costs and assuming that infrastructure experts can be found on the labour market, an initial consideration can be made based on salaries. According to a study by Banking Consult[3], a portfolio manager with seven years of professional experience currently earns up to EUR 160,000 a year. On top of this come bonuses of up to EUR 96,000 per year. A department head in fund management, on the other hand, earns up to EUR 400,000 a year, and even young professionals can expect to earn up to EUR 84,000. For a two-person, experienced investment team, a range of EUR 400,000 to EUR 656,000 can be expected. The figure shows – based on a fee of 0.4 percent of the Multi-Manager fund – from which investment sum the costs of a Multi-Manager solution exceed the salaries.

Fees according to investment amount and salary range of an investment team (in Mio. EUR)



[2] *Aquila Capital (illustrative), based on: O'Neal, „How Many Mutual Funds Constitute a Diversified Mutual Fund Portfolio?"; Financial Analysts Journal (March/April 1997)*
[3] *https://www.manager-magazin.de/finanzen/artikel/so-viel-verdienen-fondsmanager-in-deutschland-a-1227311.html*

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The chart shows that this range is only touched from an investment amount of EUR 100 million upwards. From an investment volume of EUR 170 million, the fees are above the expected salary limit for the first time. However, it should still be noted that other costs are incurred in addition to salaries, such as the renting of office space, IT equipment and overhead costs of the fund management team. Furthermore, unlike an existing Multi-Manager fund, which has a historical performance and track-record, the process is subject to further uncertainties.

Besides, there is potential for savings in Multi-Manager solutions through, for example, discounts for high subscription sums, cooperation agreements, early subscriber bonuses and follow-up investments, which open up corresponding compensation potential. Multi-Manager funds offer new market participants and smaller investment-sums, in particular, the opportunity to efficiently participate in the infrastructure segment. However, the structures also offer a cost-efficient option for larger investors who lack the experience and specialized teams, as the additional fee is usually more than compensated by the result.

Conclusion

Multi-Manager solutions can create considerable added value. In addition to reducing volatility in several ways, they offer access to specialized managers and corresponding resources. This allows efficiency within the portfolio to be exploited to full effect. Diversification within the infrastructure segment is essential in this respect. Multi-Manager solutions provide the necessary market access and, in addition to investments in diversified funds, also allow investments in specialized individual funds. Market screening and the selection of target funds are of crucial importance here.

Overall, Multi-Manager solutions allow the construction of a balanced portfolio. This is otherwise only available to very large investors with the appropriate capital and staff resources. Particularly in the area of investment in non-listed funds - which represent an extremely advantageous addition to the overall portfolio due to their low correlation to other asset classes - there are high access restrictions. The balance between stable, long-term cash flows with limited downside risk and existing upside potential can be achieved without a doubt with a Multi-Manager approach. The advantages lead to significant overcompensation of additional fees and allow a large number of investors to participate cost-efficiently in the development of infrastructure portfolios. Especially following the investment pressure and diversification requirements of institutional investors, the expansion of investments in the infrastructure sector offers valuable alternatives.

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