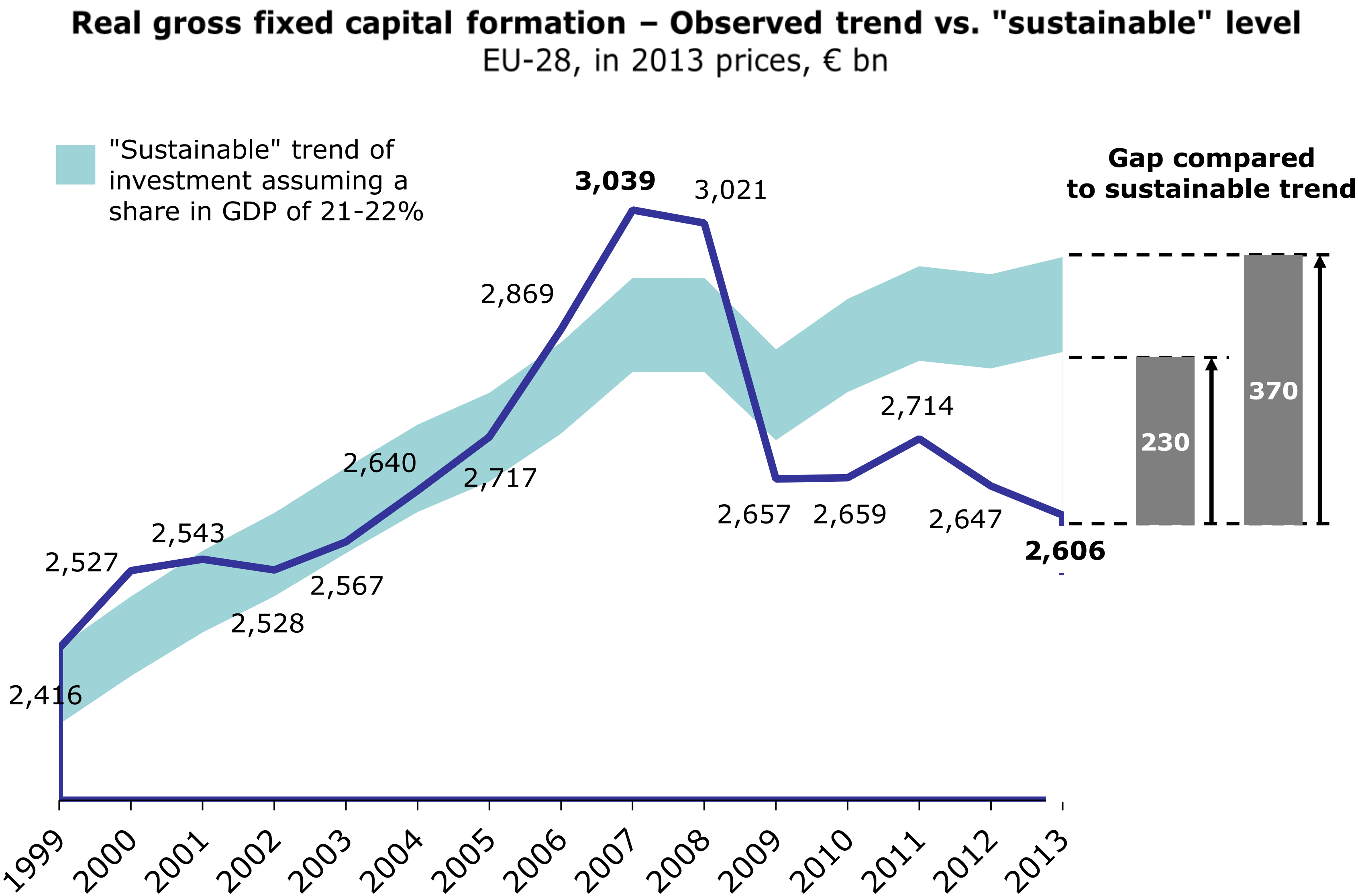
Investing in infrastructure

Luxembourg, 27 May 2015

The Investment Plan for Europe

Luxembourg, 27 May 2015

The challenge of boosting investment



EU INVESTMENT TRIANGLE

1. MOBILISING FINANCE FOR INVESTMENT

- Strong boost to strategic investments
- Better access to investment finance for SMEs and mid-cap companies
- Strategic use of EU budget
- Better use of the European Structural and Investment Funds

2. MAKING FINANCE REACH THE REAL ECONOMY

- Project pipeline preparation and selection
- Technical assistance at all levels
- Strong cooperation between National Promotional Banks and the EIB
- Follow-up at global, EU, national and regional level, including outreach activities

3. IMPROVED INVESTMENT ENVIRONMENT

- Predictability and quality of regulation
- Quality of national expenditure, tax systems and public administration
- New sources of long-term financing for the economy
- Removing non-financial, regulatory barriers in key sectors within our Single Market

3. Removing barriers to investment

Better and more predictable **regulation** at all levels

Capital Markets Union

Making most of the **Single Market**

- Energy Union
- Digital Single Market
- Services Market
- Better implementation and enforcement

Structural reforms in the Member States

Openness to international trade and investment

2. Getting finance to the real economy

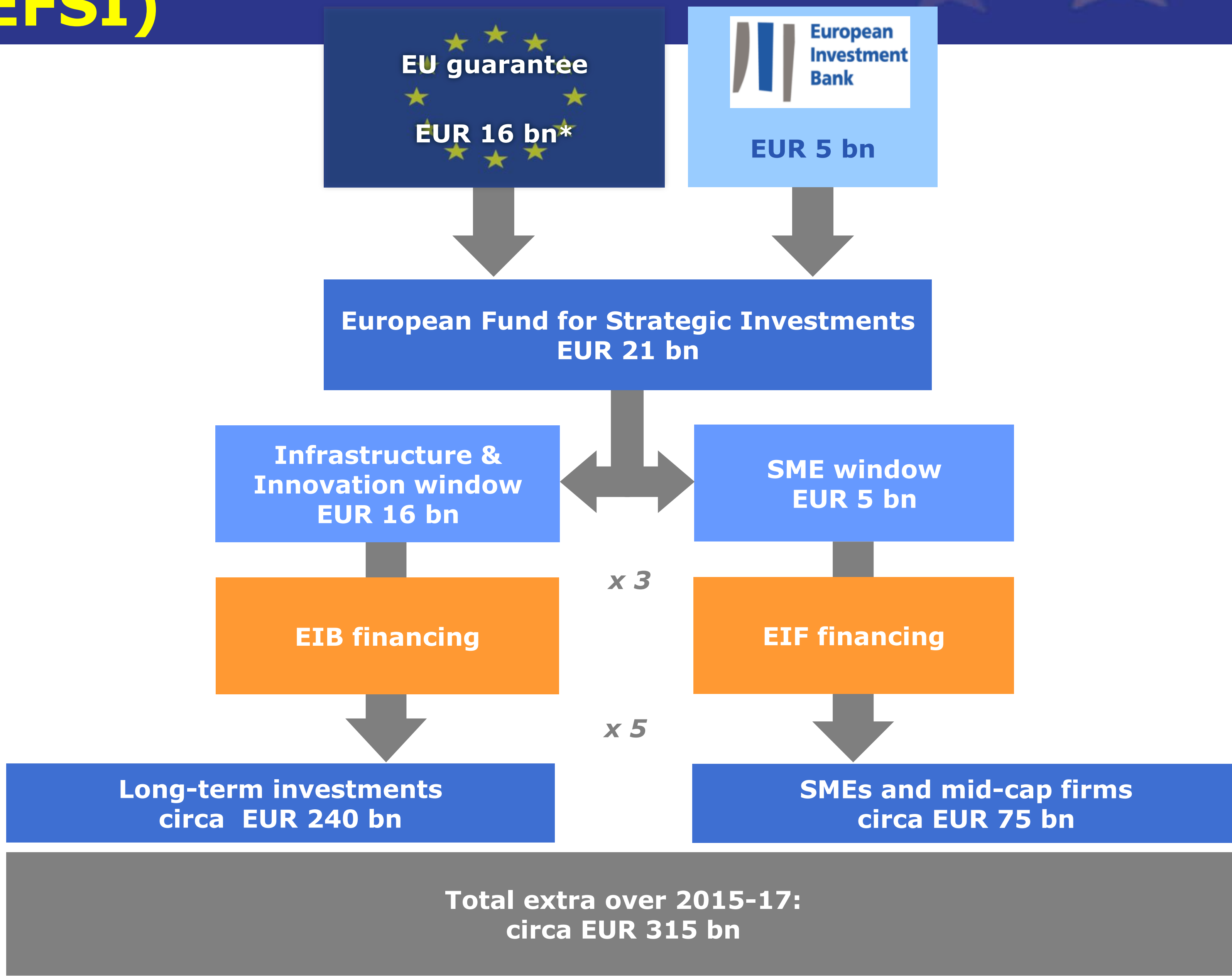
Building a dynamic pipeline of viable projects

- Joint Taskforce compiled 2000 projects (€1.3 trn.)
- European Investment Project Portal
- Opportunities for private sector to propose projects

Strengthening advisory services

- European Investment Advisory Hub
- Technical assistance
- Pooling resources & expertise

1. European Fund for Strategic Investment (EFSI)



Key features of EFSI

- Investment in real economy – impact
- Additionality – higher risk
- Complementarity with existing instruments
- Leverage – crowding-in private sector
- Diversified portfolio
  (sectors, regions, instruments)

EFSI governance

EFSI Steering Board (EC/EIB)

- policy setting and supervision

Project identification and selection

- Market-driven
- No political interference
- No geographic or sector pre-allocation
- EIB/EIF due diligence

EFSI Investment Committee

- 8 independent experts
- Approval of EU Guarantee for each investment

EFSI Managing Director + deputy

Opportunities for investors & third parties

Project level

- Cofinancing / risk-sharing with EIB/EIF

Investment Platforms

- Pooling of projects with thematic or geographic focus
- Agreement or Fund
- Can benefit from EU Guarantee via EIB, subject to Investment Committee approval
- Cooperation with National Promotional Banks (eg KfW, CDC, CDP, ICO, BGK)

EIB warehousing

Eight projects already approved by EIB

- Bioscience R&D (Spain) € 240m
- Primary care PPP (Ireland) €140m
- Airport expansion (Croatia) € 246m
- Industry modernisation (Italy) € 227m
- Renewable energy (Denmark) € 2bn
- Energy efficiency in buildings (France) € 800m
- Gas transmission (Spain) € 326m
- Pulp production upgrade (Finland) € 1.2bn

Status and next steps

By June 2015:

- agreement on EFSI Regulaiton by European Parliament, Council and EC

Q3 2015:

- EFSI operational
- Advisory Hub operational

Q4 2015:

- Investment Project Portal



Panel on Infrastructure Investment in Europe
Insurance Europe Conference

Luxembourg, May 27th, 2015

Europe – New Investment and Financing

- Focus on increasing public investment as counterpart to structural reforms and monetary policy

- A significant portion will have to be financed by the private sector given fiscal and budgetary restrictions

- A key issue identified by investors is lack of project pipeline post-crisis

An expanded programme of investments is expected to be matched by increased activity from institutional investors

Infrastructure: Investment Plan for Europe (IPE)

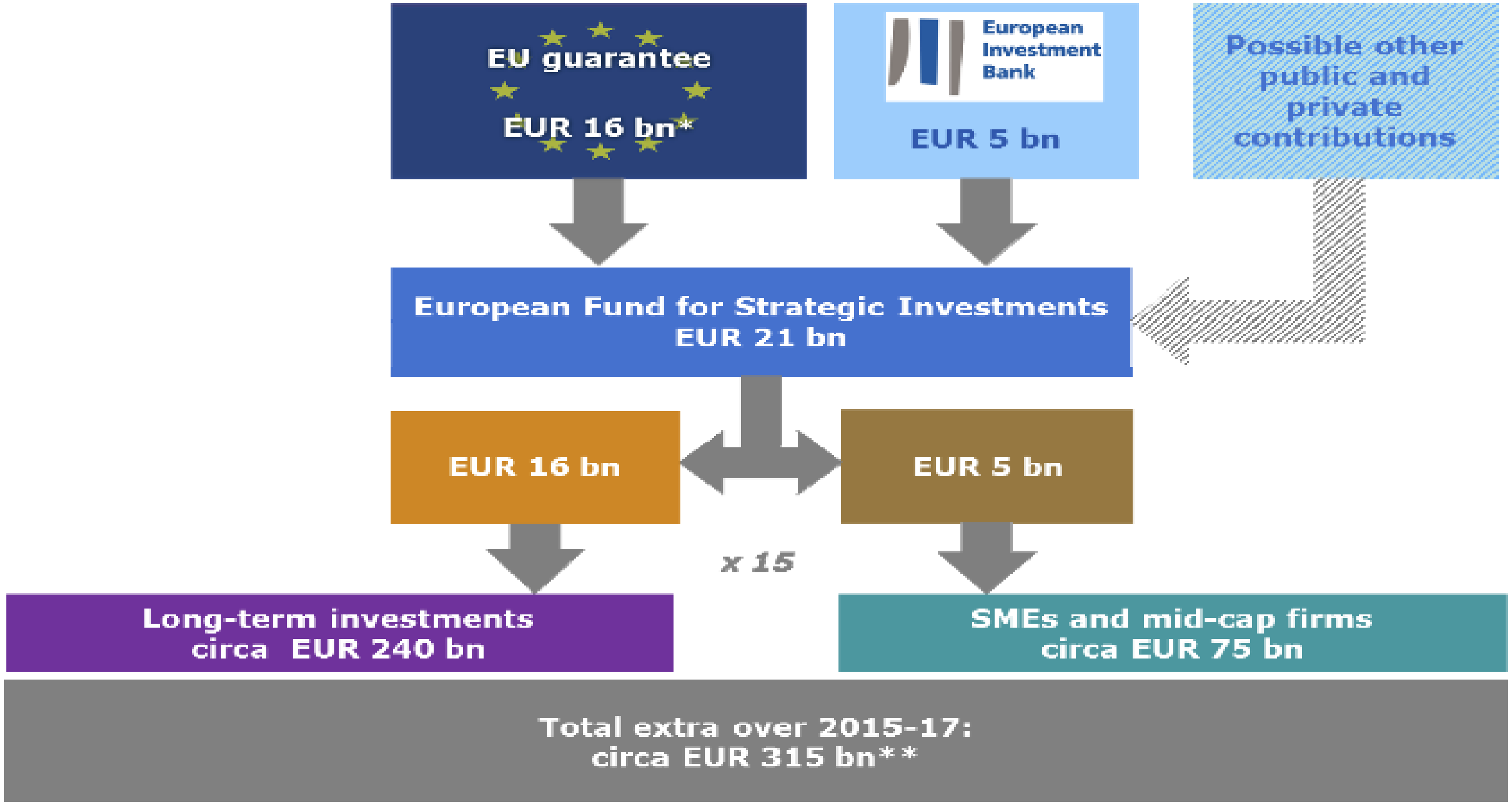
- European Fund for Strategic Investments (EFSI) is being set up with EUR 16bn EU resources and EUR 5bn from EIB

- The aim is to mobilise EUR 315 bn of public and private investment over the next 3 years for infrastructure and companies

- Greater transparency of project pipelines; establishment of a European Investment Advisory Hub within the EIB

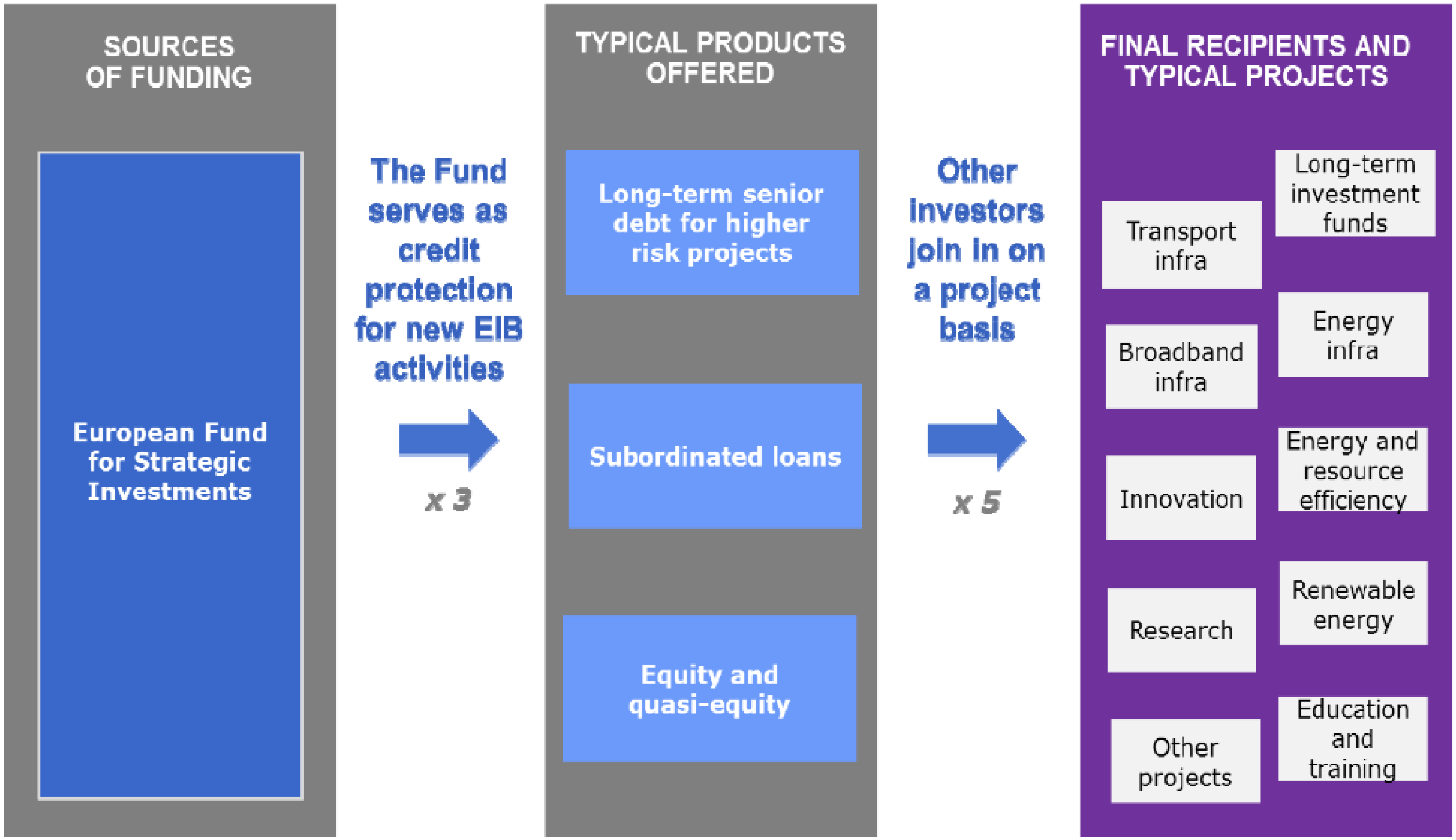
- Completing the single market (Energy and Capital Markets Union etc.) and prudential regulatory changes to support investment

Mechanism for EC-EIB contributions to IPE



* 50% guarantee = EUR 8 bn from Connecting Europe Facility (3.3), Horizon 2020 (2.7) and budget margin (2)
** Net of the initial EU contributions used as guarantee: EUR 307 bn

Multiplier effects and sectors



EUR 1 of public contribution => circa EUR 3 of financing => circa EUR 15 of total investment

Catalysing Institutional Investment in Infrastructure: The EU-EIB 2020 Project Bond Initiative

Infrastructure investment

Large infrastructure financing needs of estimated EUR 1.5 trn for main European networks by 2020

- Growing constraints on long term bank lending capacity (Basel III, de-leveraging etc.)
- Increased reliance on private financing due to limits on public funding / indebtedness

Institutional investors

Capital markets can help fill the funding gap:

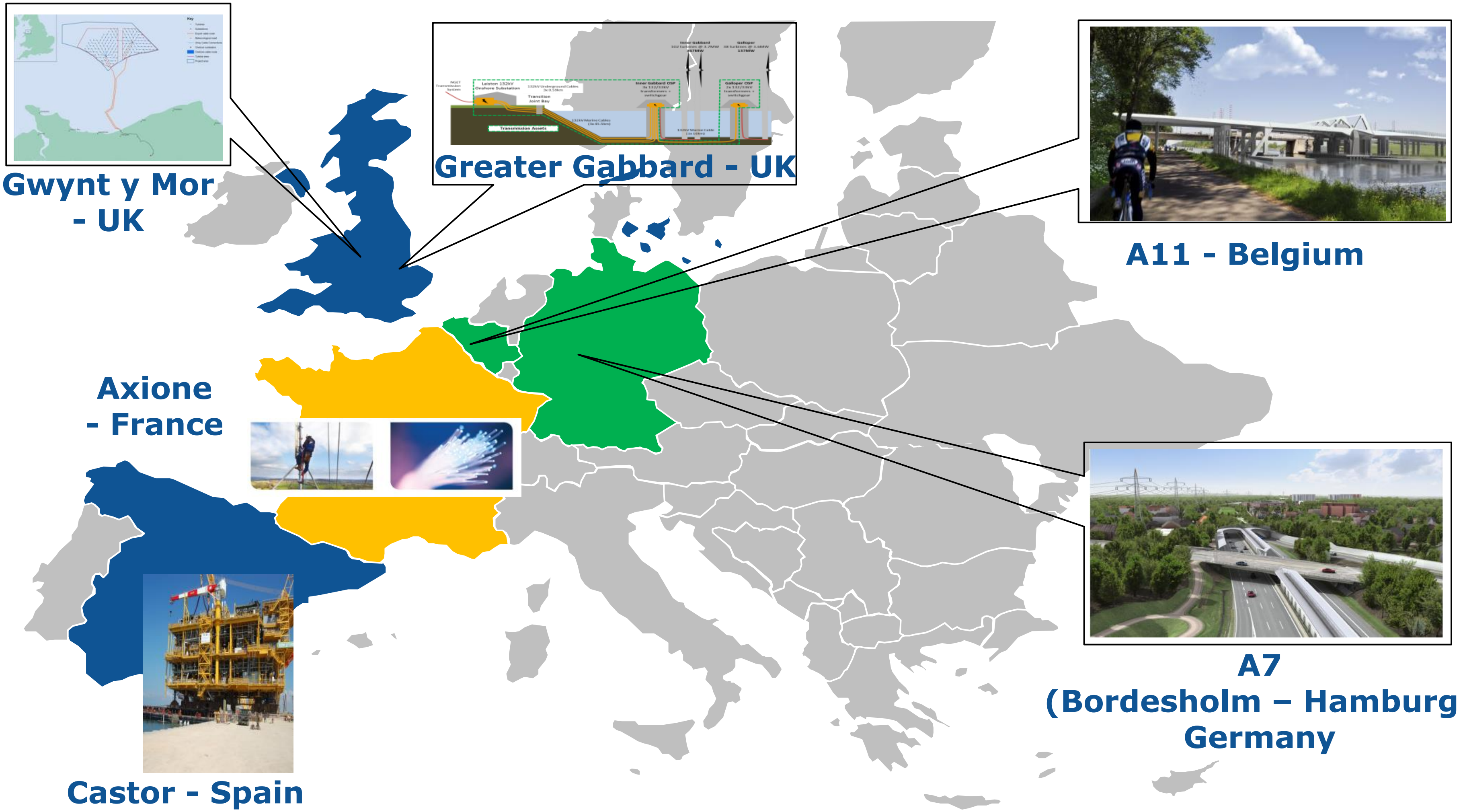
- Asset class is suitable for institutional investors (secured, historically robust)
- Long term nature matches liabilities
- But investors seek well rated assets (e.g. 'A')

Project Bond Initiative

Aim: Enhance rating of project debt to around 'A'

- Subordinated debt by EIB provides risk cushion
- EU budget bears first-loss, EIB remainder (high leverage effect of EU funds)
- EIB also adds value given reputation/experience

Project Bond Transactions



Project Bond Ratings

Summary terms of credit enhancement of the Project Bond Initiative (Source Moody's - forthcoming report)

	A7, Germany	Axione Infrastructures, France	A11, Belgium	Greater Gabbard OFTO, UK	Castor Gas Storage Project, Spain
Form of PBCE	Unfunded PBCE facility	Unfunded PBCE facility	Unfunded PBCE facility	Unfunded PBCE facility	Unfunded PBCE facility
Amount of PBCE	Construction (20%)	Operation (20%)	Construction (20%); Operation (10%)	Operation (15%)	Construction (14.3%); Operation (14.3%)
Pre-completion cash shortfall	Yes, subject to certification from Technical Advisor (TA). Failure to fund not covered	Not applicable - operating phase project	Yes, subject to certification from TA. Failure to fund not covered	Not applicable - operating phase project	Construction cost overruns, subject to certain provisos including certification from TA
Shortfall in scheduled debt service	Yes. NB: PBCE facility expires at completion	Yes	Yes	Yes	Yes
PBCE rebalancing (see further below)	Not applicable - PBCE facility expires at completion	Yes	Yes	Yes	Yes
Payments following acceleration	Yes	Yes	Yes	Yes	Yes
Underlying credit quality ignoring the PBCE facility	Equivalent to Baa2. The A3 rating includes rating uplift of around 1½ notches during construction (see Note 1)	Equivalent to Ba1. The Baa2 rating includes a rating uplift of around 1½ notches (see Note 1)	Equivalent to Baa3. The A3 rating includes rating uplift of around 2½ notches during construction	Equivalent to Baa1. The A3 rating includes a rating uplift of around 1 notch	Not rated by Moody's
Rating	A3, stable outlook	Baa2, stable outlook	A3, stable outlook	A3, stable outlook	Not rated by Moody's

Sources: Prospectuses for Axione Infrastructures, A11, Greater Gabbard and Castor. Moody's New Issuer Report for Via Solutions Nord GmbH & Co. KG

Note:

1: A rating uplift of 1½ notches enhances an underlying credit profile strongly positioned within its rating category to a final rating 2 full notches higher, but weakly positioned in that rating category

What happens next on Project Bonds and similar 'crowding-in' instruments?

- European Commission expects a full roll-out of Project Bonds under EFSI and the Connecting Europe Facility (CEF):
  - ✓ Assuming the external independent evaluation of the Project Bonds Pilot Phase currently underway is positive

- Sectors (renewables, social infra) for financial instruments are being widened under Investment Plan for Europe

- Other complementary financial products will be available – corporate subordinated debt, subordinated guarantees for bank loans, pooling and aggregation instruments – in addition to EIB senior loans

Market Developments

- 2014: a record year for project finance activity in the global infrastructure market

- Banks' appetite for long term lending has improved with the result that funding and liquidity costs continue to decrease

- Institutional Investors' appetite for long-term infrastructure is also increasing with bond financing conditions also improving

A more competitive market for funding but in an environment suffering from weak demand due to lower investment post crisis

Cormac Murphy

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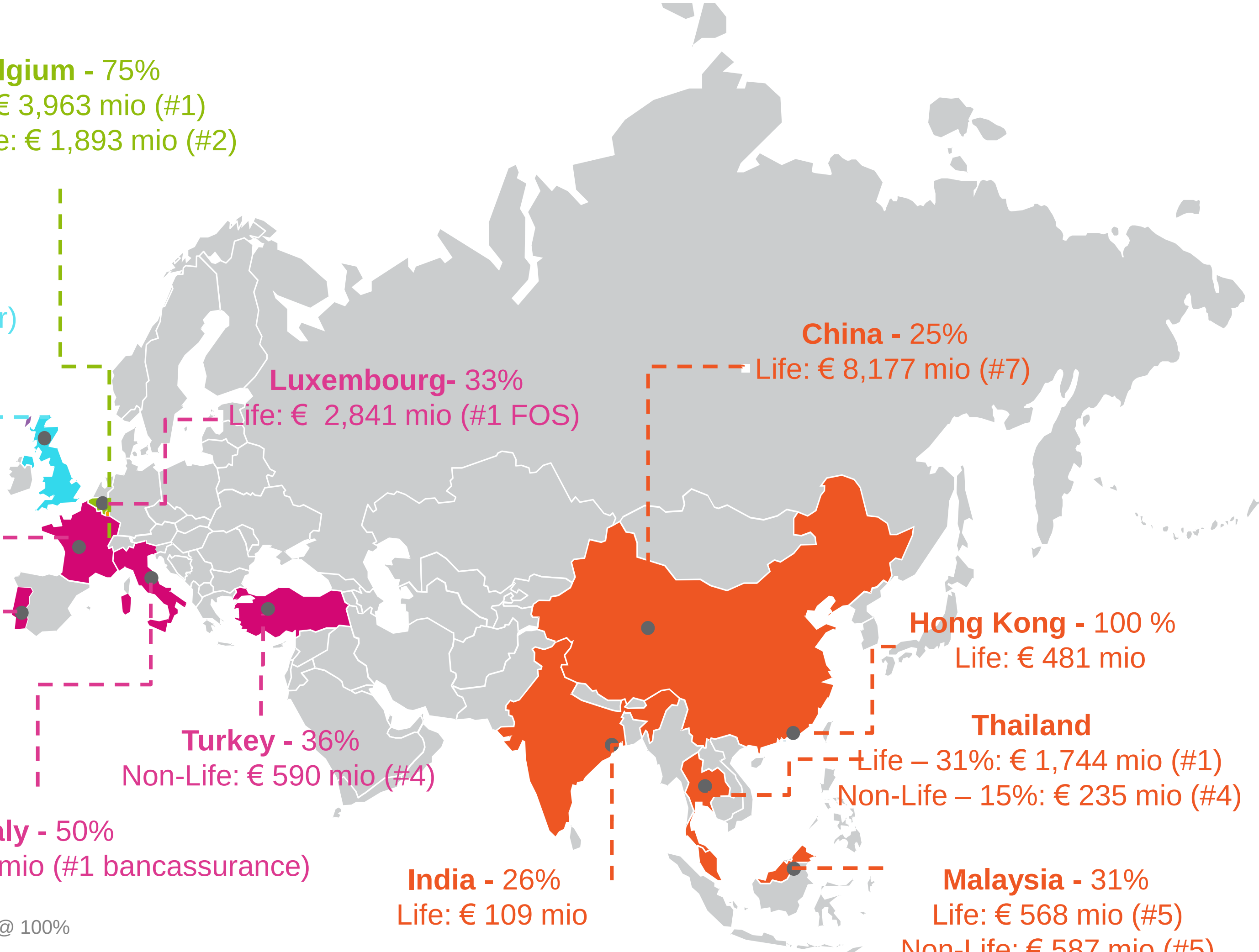
Infrastructure investments and the role of insurers

Wim Vermeir,
Head of Investments Ageas - CIO AG Insurance
Insurance Europe – May 2015

Ageas, an international insurance group active in 12 countries in Europe & Asia

Situation on 31 December 2014



* Inflow included non-consolidated partnerships @ 100%

Ageas's appetite for PPP & Infrastructure projects

AG Insurance (*) has decided to invest up to 5% (Eur 3Bn) of its assets in infrastructure and real estate loans in Europe

Infrastructure loans

- have long duration which match the long duration of insurance companies liabilities
- offer diversification as they have low correlation with other investments and business cycles
- offer a yield pick up against government bonds and similarly rated corporate bonds (illiquidity and complexity premium)
- usually offer higher recovery rates in case of default than corporate bonds

(*) Belgian daughter of Ageas

AG Insurance modus operandi

AG Insurance invests on its own in its local market but through a partnership with a bank in the rest of Europe

- **Partnerships** with
  - Natixis to cover European market - excluding Benelux
    - Natixis source transactions using preset criteria in terms of country and sector
    - Natixis conducts the negotiations with the borrower and supports AG Insurance in the monitoring of the loans
    - Alignment of interest is ensured through a co-investment scheme where Natixis has to take and hold a portion of the debt
  - AG Real Estate (100% subsidiary of AG Insurance) to cover Benelux based on its experience in PPPs and real estate

- **People:** AG Insurance has also hired experts in the sector

- **Governance:** AG Insurance has established a credit committee to make investment decisions with representation of Investment, Finance and Risk departments

AG Insurance track record

AG Insurance has committed to invest c. EUR 600M in 12 different projects since it started its infrastructure loan activity (combined with 500M in 6 real estate loans projects)

- AG Insurance has built a diverse portfolio of investments
  - comprising a mixture of brownfield and greenfield projects
  - covering a wide spectrum of sectors including transport (road and airport), renewable energy (solar) and social infrastructure (accommodation, education and prison)
  - All investments are in euros but they are in different European countries including France, Belgium, the Netherlands, Ireland, Spain and Slovakia

- AG Insurance aims at further investing in the sector and is in advanced discussions on several projects that it hopes to close in the coming months

- All investments are investment grade

AG Insurance investment criteria

AG Insurance invests in assets which have long term predictable cashflows

- Key investment criteria is cashflows predictability - AG Insurance has appetite
  - for availability based projects; but also
  - for assets with volume risk as long as these assets offer sufficient cashflows predictability – such as operating road with traffic risk, wind farms and solar parks benefiting from feed in tariffs (or similar tariffs mechanisms)
- AG Insurance covers all subsectors of infrastructure including social, transportation, utilities, renewable energy and power assets
- AG Insurance can handle construction risks in certain cases
- Given the high capital charge of below investment grade investments, AG Insurance invests in investment grade projects
- AG Insurance prefers to invest in fixed rate

Barriers to infrastructure investments

AG Insurance has appetite to further invest in the sector but faces investment constraints

Key concerns regarding infrastructure investments include

- Risk-*return* profile should be attractive
- Avoid crowding-out
  - Multilaterals should mainly invest in mezzanine and other subordinated debt
  - Investment grade projects do not need credit enhancement from the EFSI or the EIB
- Reluctance from public authorities to offer make whole clauses which protect insurance companies against early repayment risk
- Regulatory uncertainty
- There is a need for visibility on sufficient pipeline to allocate resources to the sector
- Avoid regulatory or fiscal barriers that limit access to some countries
- Infrastructure projects are complex and require specific skills and expertise
- Solvency 2 is not sufficiently supportive to the investments in the sector

AG Insurance options to enter the market

AG Insurance has explored several options to enter the infrastructure loans market

	AG Insurance alone	Externally managed fund	Co-investment scheme
PROs	+ Cost efficient + Full flexibility + Direct interactions with the clients and potential revenue synergies	+ Strong expertise + Relatively fast ramp up + Limited development risk	+ Cost efficient + Support in due diligence + Fast ramp up + Limited development risk + Complementary + Local presence
CONs	- Team hiring - Lack of experience on corporate level - Slow ramp up - Transactions in other jurisdictions - Regulators skepticism	- High management fees - Investment track records - No segregated allocation	- Conflict with existing bank's customers - Conflicting investment constraints

SESSION C

INVESTING IN INFRASTRUCTURE

VIIth International Insurance Conference

May 27th, 2015 / Luxembourg

INFRASTRUCTURE: AN ASSET CLASS SUITED FOR INSURERS

Cash yield, limited risks, low volatility… a good fit in a low yield environment!

- **Defensive in income**, less dependent from cycle and secured by long-term cash-flows
- Infrastructure investments can be made at **different level of the capital structure** (Equity and Debt)
- In addition infrastructure investments are **less correlated** to market moves and can bring **diversification** in an existing portfolio
- **Lower volatility** thanks to **stable cash-flow** pattern (plus amortized cost accountancy)
- **Long term characteristic** makes infrastructure investments interesting in an **ALM based** approach
- Illiquidity suited to **long-term nature** of Insurer's liabilities

STILL SOME BARRIERS

Limitations from both project pipe and regulation angles

Despite its attractive characteristics, infrastructure investment remains marginal on Insurers' balance sheet (on average below 1%).

Given the attractivity of the asset class, Insurers are keen on increasing their exposure. Nevertheless, some barriers makes a full implementation remains difficult due to:

Insufficient pipeline of projects

- Insuficient pipeline of viable projects
- The coordination of the deal pipe of project is important for investors to better assess the size and timing of their potential investments.

Regulation remaining punitive for infrastructure

- Solvency II standard formula remains very punitive with high capital charges despite the lower risk characteristic of infrastructure invesments

Still unclear definition of Public institution's appetite

- Lack of informaiton on governance process around the selection of new projects
- Public bodies need to better define the scope and universe of investments they are willing to be involved in.

OUR VIEW ON EU ROLE

The commission, through the EIB and thanks to Juncker plan has a central role to play

The plan currently deployed under JJ Juncker's initiative should help re-launching the growth in Europe. This success will be highly dependent on:

Develop and support a pipeline of viable projects

- Juncker plan will lead to an increase in infrastructure projects in Europe
- EFSI will induce an increase in due-diligence market standards
- It is important to diligently coordinate the deal pipe to insure viability of the projects
- EIB could use its funding capacity to guarantees on particular risk to increase some projects' viability

Prevent crowding –out effect and the role of EIB

EIB scope of involvement

If the bank lately clarified its sectorial orientation, numerous details remain to be clarified:

→ Clear scope of involvement of EIB

→ Targeted risk/reward profile

→ Policy with regards to private overlap

Involvement of private sector

Minimum requirement will be needed for private sector to get involved:

→ Economic viability of the project

→ Potential risk sharing/guarantee from EIB could be investigated

→ Equity EIB co-investment set-up to be refined

Reviewing infrastructure capital charge

- It is of essence to consider Infrastrucutre as a dedicated asset class
- This would allow a review of the capital charge applied to this stable/less volatile asset class.
- Current discussions with EIOPA is encouraging and could lead to a reclassification of these investments as strategic holding.

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