“What is a Bankable Project”
International Training Course On Business Planning 2nd Training Session

20-21 June 2013

55 King William Street
London, EC4R 9AD
United Kingdom
conning.com
Who we are…

- Founded in 1912; insurance specialists for more than 100 years; investing insurance assets for nearly 3 decades
- Managing $85.8 billion for 129 clients*
- 279 employees with locations in Hartford, Purchase, London, Cologne and Hong Kong
- Independently owned by Aquiline Capital Partners, Conning employees, and Cathay Financial Holdings

Assets by Client Type*

- 48% Life
- 3% Pension
- 1% Other
- 3% Health
- 45% Property Casualty

Assets by Security Class*

- $11.8 Mortgage-backed Securities
- $3.3 Asset Backed Securities
- $7.1 Tax-Advantage Securities
- $3.3 US Treasury
- $2.5 Equity Products
- $1.1 Private Placements
- $2.6 Non U.S. Gov't and Agencies
- $3.9 Short Term
- $6.0 U.S. Gov't Sponsored Assets**
- $44.2 Corporate Bonds***

** Includes Agencies, Taxable Municipals and Government related assets
*** Includes Convertible and High Yield Securities
Conning - European Overview

- 14 clients – Insurance Companies, Lloyd’s Agencies & Pension Funds
- $8.3 billion in Asset under Management for European domiciled clients of which $6.3 billion is managed out of our London Investment centre*

- Full client service including
  - Input into ICA/ Solvency II
  - Extensive knowledge of Trust requirements, custodians, documentation etc.
  - Lloyd’s reporting – LIM/QMR

### Assets by Client Type*

- 3% Life
- 19% Pension
- 78% Property Casualty

### Assets by Currency**

- $1,506 Sterling
- $1,405 Euro
- $440 Other Currencies
- $4,930 U. S. Dollar

*As of 3/31/13 Includes Conning Inc. and Conning Asset Management Limited

**USD equivalent, in millions
Introduction to Conning: Platform Overview

**Investment Capabilities**

Publicly Traded, Investment Grade Securities
- U.S. Treasury / U.S. Agency Bonds
- Treasury Inflation-Protected Securities (TIPS)
- U.S. Corporate Bonds
- Mortgage Back Securities
- Commercial Mortgage Back Securities
- Asset Backed Securities
- Municipal Securities (Taxable and Tax-Exempt)
- Foreign Government / Provincial / Corporate Bonds

Non-USD Investment Grade Securities
- Government Bonds
- Agency Bonds
- Covered Bonds
- Inflation-linked Bonds
- Investment Grade Corporate Bonds

Specialty Asset Classes
- High Yield
- Private Placements
- Convertibles
- Supply Chain Finance
- Commercial Mortgage Loans

Equity
- High Dividend Income Equity
- Replication Strategies
- Exchange Traded Funds (ETF)

**AUM Growth (USD Billions) as of March 31, 2013**

UNECE - What is a Bankable Project?

- Country
- Sector
- Proven technology/equipment
- Owner/Operators
- Long term contracts
- Sound economics
- All parties share profits

start
UNECE - Where is project – country?

IF NOT, IT CANNOT BE CONSIDERED

END

continue
UNECE – Does the sector qualify?

- For example, for power projects is it renewable or clean?
- For energy efficiency, does it reduce energy consumption or shift time of use?

Types of renewable and clean projects: Wind energy, solar energy, hydro-electric, biomass, cogeneration, combined-cycle, fuel switching, geothermal, clean coal, waste-to-energy, district heating and electric, waste fuel, combined heat & power (CHP), efficiency retrofit and related projects and companies.

IF NOT, IT CANNOT BE CONSIDERED

continue
UNECE - What is the technology?

- Is it a known and proven technology?
- Is it used by others successfully?
- Is it built by a creditworthy firm?
- Are the supplier warranties creditworthy?

IF NOT, IT CANNOT BE CONSIDERED end

continue
Is the owner/operator experienced in the sector?

Are they financially viable as an operator?

IF NOT, IT CANNOT BE CONSIDERED

end

continue
UNECE - Who are the project owners?

- Will they invest in the project?
- Do they have experience with similar project technology?
- Do they have experience in the region?
- Do they have a financial incentive to meet/improve on the base case?

IF NOT, IT CANNOT BE CONSIDERED end

continue
- Is there a long term off take contract in place?
- Does the contract allocate economic and operational risks fairly?
- Is the payer creditworthy?

IF NOT, IT CANNOT BE CONSIDERED  end  continue
A project which reaches this stage should be bought forward!

NOW THE ISSUE BECOMES HOW …
UNECE – What happens next?

- A project description is needed
- A financial model will be requested

What is a project description?

What is a financial model?
UNECE - What is a project description?

- A detailed written description, including the following
  - The country and location of the project
  - The sector and how the project fits into the sector
  - The technology used by the project
  - Description of the owner/operators
  - Track record of the operators
  - Description of the long-term cash generating contracts
UNECE - What is a financial model?

- Summary of the project economics

  - Revenue
    - Contracted revenues
    - Tax incentives
    - Potential incremental revenue

  - Expenses
    - Operations and maintenance
      - Management & employees
      - Parts, overhaul / replacement account
    - Fuel
    - Taxes
    - Rent/Lease
    - Cost of Financing
UNECE – Debt Characters

◆ Senior Debt:
  - Has fixed repayment amounts
  - Has fixed repayment dates
  - Has a fixed term

◆ Mezzanine Debt:
  - Has unknown repayment amounts
  - Has a fixed term
  - Has minimum repayment amounts

◆ Equity:
  - Has unknown dividend payments
  - Has an unknown term
  - Has unknown residual value
What is self amortisation?

Self amortisation is the single most important factor which allows for the financing of a project to happen, as it defines the base case while it allows for up-side events like an IPO* or trade sale.

* IPO = Initial Public Offering of shares in a company

The project generates cash sufficient to repay its debts and provides as acceptable return to equity without a sale or other exceptional event or improvement in contractual terms.
UNECE - What is IRR?

- It allows a project to happen
- It grants flexibility to the debt financing
- It meets investor needs i.e. long-term but worthwhile returns
- It is not expensive; market rates ensure competitors don’t step in
- It has advantages over equity finance, which can be expensive
UNECE – What is IRR?

\[ NPV = \sum_{t=0}^{N} \frac{C_t}{(1 + r)^t} = 0 \]

\[-IN + \frac{C_1}{(1+\text{IRR})^1} + \frac{C_2}{(1+\text{IRR})^2} + \frac{C_t}{(1+\text{IRR})^t} = 0\]

\[\text{EUR}7m + \frac{C_1}{(1+17\%)^1} + \frac{C_2}{(1+17\%)^2} + \frac{C_t}{(1+17\%)^t} = 0\]

Where C is the post-debt servicing free cash flow.
UNECE – Who produces the project document?

- Project document development support is key to promote bankable projects
- Targeted training could be used to maximum effect here
UNECE – Who coordinates which comes first?

- Feasibility Studies

III
Licenses, Permits (legal)

II
Financial Model (quantitative)

I
Project Description (qualitative)
**UNECE – The UNECE Solution**

**Pipeline Development**

**Consultants**

**Technical**

**Finance**

**Investment Decisions**

**UNECE**

**Financing Coordination Unit**

**Development Finance**

**Senior Lenders**

**Mezzanine Funds**

**ALB** NC = National Coordinator

**BLR** NB = National Bank/Ministry of Finance/Ministry of Energy

**BIH** CB = Commercial Bank

**BGR**

**HRV**

**KAZ**

**MDA**

**ROM**

**RUS**

**SCG**

**MKD**

**UKR**

**IG**

**Project Doc**

**IG**

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**MKD**

**UKR**

**Conditions**

- Project Doc = Project Document
- IG = Investment Guidelines
Fund meets several investor needs

- Renewable Energy & Energy Efficiency (Climate Change Mitigation)
- Socially Responsible Investments
- Private Equity (Long Term Investments)
- Energy (Niche-Generation Demand Management)
- Infrastructure (Anti-cyclical in nature)
- Participating Countries (Higher Returns)
UNECE - Conclusion

- National economies benefit from greater supply efficient i.e. lower cost
- Society benefits from good resource allocation, more from less
- Efficient regulatory structures permit more projects to be built
- Efficient financial structures encourage asset transfers to the most efficient operators
Websites – UNECE & FEEI

www.feei.info
http://www.unece.org/energyefficiency.html
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FCA Firm Reference Number: 189316
C11#1681044
Registered Office: 55 King William Street, London, EC4R 9AD
Conning - Contact Details

Markus van der Burg  
Alternative Investments

Tel: + 44 20 7337 1931  
Fax: + 44 20 7337 1941

E-mail: Markus.vanderBurg@conning.com

Conning Asset Management Limited  
55 King William Street  
LONDON EC4R 9AD  
United Kingdom