Investment Fund Designer

UNECE

Fourth International Forum: Energy for Sustainable Development

17 – 19 September 2013
Who we are…

- Founded in 1912; insurance specialists for more than 100 years; investing insurance assets for nearly 3 decades
- Managing $81.8 billion for 128 clients*
- 273 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
- 2% Health
- 46% Property Casualty

Assets by Security Class*

- $11.4 Mortgage-backed Securities
- $3.1 Asset Backed Securities
- $6.5 Tax-Advantage Securities
- $3.0 US Treasury
- $2.5 Equity Products
- $1.1 Private Placements
- $2.6 Non U.S. Gov't and Agencies
- $3.0 Short Term
- $5.5 U.S. Gov't Sponsored Assets**
- $43.1 Corporate Bonds***


** Includes Agencies, Taxable Municipals and Government related assets

*** Includes Convertible and High Yield Securities
<table>
<thead>
<tr>
<th>Investment Grade Securities (USD)</th>
<th>Investment Grade Securities (Non-USD)</th>
<th>Specialty Asset Classes</th>
<th>Equities and Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Inflation-Protected Securities (TIPS)</td>
<td>Agency Bonds</td>
<td>Private Placement Bonds</td>
<td>Liquid Alternatives</td>
</tr>
<tr>
<td>U.S. Corporate Bonds</td>
<td>Covered Bonds</td>
<td>Convertible Bonds</td>
<td>Master Limited Partnerships</td>
</tr>
<tr>
<td>Mortgage-Backed Securities</td>
<td>Inflation-Linked Bonds</td>
<td>Supply Chain Finance</td>
<td>High Dividend Income Equities</td>
</tr>
<tr>
<td>Commercial Mortgage-Backed Securities</td>
<td>Corporate Bonds</td>
<td>Commercial Mortgage Loans</td>
<td>Indexed Equities</td>
</tr>
<tr>
<td>Asset Backed Securities</td>
<td>Structured Securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal Securities (Taxable and Tax-Exempt)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Government / Provincial / Corporate Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fourth International Forum: Energy for Sustainable Development
17 – 19 September 2013, Tbilisi, Georgia
As a consequence of the financial crisis, investment yields are falling and so more investors are actively looking to invest in, what is increasingly being called, “real assets” which includes green economy projects.

Green economy, both RE and EE* projects are inherently cost effective and self-financing projects. As energy projects, they also enjoy a special status in a country’s infrastructure and as such are more resilient and flexible to change; so whilst activity may rise and fall, it is unlikely for bankable projects in this industry to fail outright.

In its simplest form, bankability is the ability to repay and so borrow more or again, but this is totally reliant on a predictable legal framework.

Against such a framework suitable financing structures, both standard and innovative, can be implemented. The right framework still needs the right financing structure to fit the right project. E.g. RE projects have upside and can attract private equity investments, but EE projects are more bond-like in nature.

Contrary to general belief, neither the shortage of funds for investment, nor the lack of projects are challenges. The real issue is in making projects bankable, given both their size and the prevailing legal framework.

* RE and EE = Renewable Energy and Energy Efficiency
Why investor demand is strong

The recent financial crisis, prolonged level of low activity and low yields means investors are now turning to real investments for several reasons.

Bankable real infrastructure projects meets several investor needs:
- Renewable Energy & Energy Efficiency
  - (Climate Change Mitigation)
- Private Equity
  - (Long Term Investments)
- Infrastructure
  - (Anti-cyclical in nature)
- Participating Countries
  - (Higher Returns)
- Energy
  - (Niche-Generation Demand Management)
- Socially Responsible Investments
Why Public-Private?

Whilst government policy reforms are put in place, investing in untested markets involves significant risks. To overcome these risks, public-private initiatives are needed as an interim solution; but always with the long-term focus of making projects self-sustaining i.e. bankable to the private sector alone.

Private companies and organizations are unable or unwilling to create the necessary financing framework for the successful financing of bankable projects on their own, given the scale of the risk and number of issues involved.

Consequently, cooperation between public and private institutions becomes essential to address the interim legislative gaps and to address all the complexity surrounding green economy projects; as by definition relatively new industries need time for the legislative framework to be created to allow bankable projects to be financed as business as usual.
If we accept that the private sector is quite capable of identifying, developing and implementing green economy projects and the public sector can introduce economic, institutional and regulatory reforms needed to support investment projects, then in combination, cooperation between public private partnerships will create opportunities for banks, funds, investors to invest in bankable projects.

So why isn’t this happening already? The answer is size. Large projects will attract the necessary attention of all to become financed, but as the work for smaller projects is largely the same, it is only by making these projects business-as-usual that spontaneous financing for market standard bankable projects will occur.

Size, or rather the lack thereof, creates its own issues as without a sufficiently high pay-off, no-one is incentivized to address this issue as individually the success risk/return ratio is too small.

Consequently, with all of these cornerstones in place, what is needed is a more efficient forum to effect the transfer of information, with the primary focus on financing and also to facilitate policy reform, by focusing on the actual finance barriers at project level.

So whilst one-off forums, like this conference, do exist, where is the standing forum?
A forum is needed to discuss and address all issues which form part of commercial solutions and which in many cases, market participants cannot solve alone e.g. the bundling of small projects and financing complex projects e.g. energy efficiency, district heating, municipal lending, etc.
Conning is working on a solution is to create a structure is to use a Financing Co-ordination Agreement which creates a purpose and specific locus to address market failures, lower friction costs, avoid the conflicts of interest lenders have (in preparing project information memoranda on which they then need to make an impartial lending decision) and in doing so, to compliment and improve the skill sets required to produce information memoranda to market standards for bankable projects and so allow more projects to be financed by the private sector, also in conjunction with the public sector.

Current Status: Low number of projects financed by the private sector and disproportionately, high number financed only by the public sector.
Notice the role of international organisations.

Prospect Countries

Pipeline Development

Investor/Lender Decisions

UNECE - Investment Fund Designer

Support Structure Summary

Financing Coordination Unit

Participating Countries

Project Doc

IG

IG

IG

IG

UNECE

Energy Efficiency

Finance

Technical

Consultants

Development Finance (Lender)

Banks Domestic & International (Lenders)

Mezzanine & Equity Fund (Investment Manager)

● Project Doc = Project Document

● IG = Investment Guidelines
In undertaking to develop market standard investment memoranda, participants to the Financing Co-ordination Agreement undertake the necessary work to close market failure gaps, which they, also as investor/lenders, cannot do on their own. As is market standard, this would be on the basis of a success fee which imposes no additional financing costs financing and most importantly, makes this activity self-financing.
Recommendations

What?

Targeted intervention to address known market failures and so allow projects to be financed to market standards is an increasing imperative;

but only hand in hand with

Substantive progress in improving the relevant legislative framework

Why?

• Bankable projects financed to market standards ensure that there is no room for excess margins or extraordinary profits to be made; so national economies benefit from greater efficiency i.e. lower cost
• Society benefits from better resource allocation, more from less
• Predictable regulatory structures permit more projects to be built and efficient financial structures encourage asset transfers to the most efficient operators
Markus van der Burg
Alternative Investments
Tel: + 44 20 7337 1931
Fax: + 44 20 7337 1941
Email: Markus.vanderBurg@conning.com
Skype: Markus.van.der.Burg

Conning Asset Management Limited
55 King William Street
LONDON EC4R 9AD
United Kingdom
This document is prepared and issued by Conning Asset Management Limited ("CAML"). The information contained in this document is confidential and is intended solely for the recipients to whom it is transmitted by CAML.

The information in this document is not and should not be construed as any advice, recommendation or endorsement from CAML to any legal, tax, investment or other matter. Nothing in this document constitutes an offer to deal in investments, to buy or sell any security, future, option or other financial instrument, to provide advisory services or to form the basis of any contract or contractual obligation. This document is not to be reproduced or used for any purpose other than the purpose for which this document was prepared and transmitted by CAML. It should not be distributed to or used by any persons other than the intended recipients without the prior consent of CAML.

CAML is authorised and regulated by the Financial Conduct Authority.

CAML is a member of the Conning group of companies and may provide investment management and advisory services together with group companies in the United States of America, Ireland, Germany and Hong Kong. Such clients may not have the benefit of rights designed to protect investors under the regulatory system of the United Kingdom. Clients dealing directly with CAML’s affiliate Conning Asset Management (Europe) Limited may be protected under the Markets in Financial Instruments Directive ("MiFID") and the regulatory requirements of the Central Bank of Ireland.

Any statistics contained within this document have been compiled in good faith and do not constitute a forecast, projection or illustration of the future performance of investments. The past performance of investments is not necessarily a guide to future returns. Values of investments may fall as well as rise, and changes in rates of exchange may cause the value of investments to rise or fall in value, such that investors may not receive full return of capital invested.

The information contained in this document is compiled from internal and other sources which we consider to be reliable or are expressions of our opinion. Whilst every effort has been made to ensure that the information is correct at the date of publication, CAML does not guarantee the accuracy or completeness of the information. Recipients of this document need to evaluate the merits and risks of the information provided. Decisions based on the information contained within this document are the sole responsibility of the recipient. With the exception of statutory obligations, CAML, its Directors, officers and employees accept no liability whatsoever for any loss or damage which may arise in relying on any opinion, expression or conclusion contained within this document, its content or otherwise arising in connection with this document.

ADVISE®, FIRM® and GEMS® are registered trademarks of Conning, Inc.

Registered in England No. 3654447
FCA Firm Reference Number: 189316
Registered Office : 55 King William Street, London, EC4R 9AD