Investment Fund Designer

UNECE

Fourth International Forum: Energy for Sustainable Development

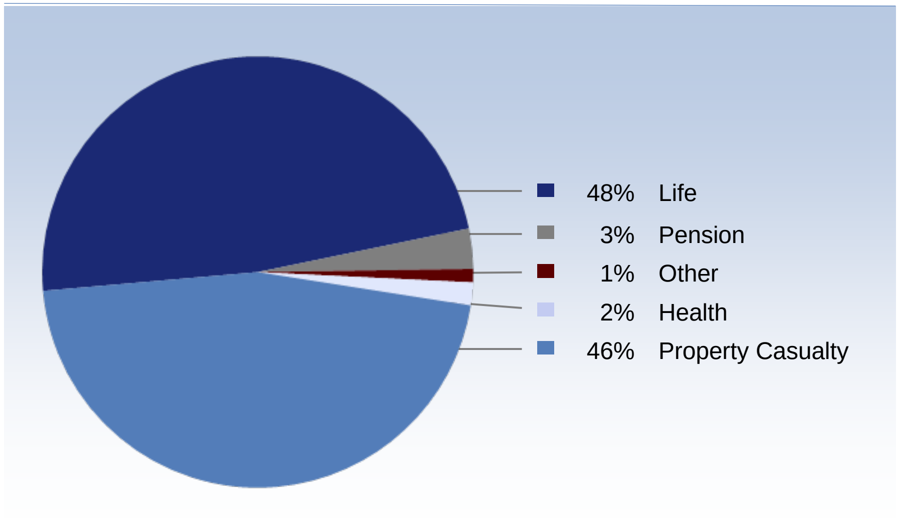
17 – 19 September 2013

55 King William Street
London, EC4R 9AD
United Kingdom
conning.com

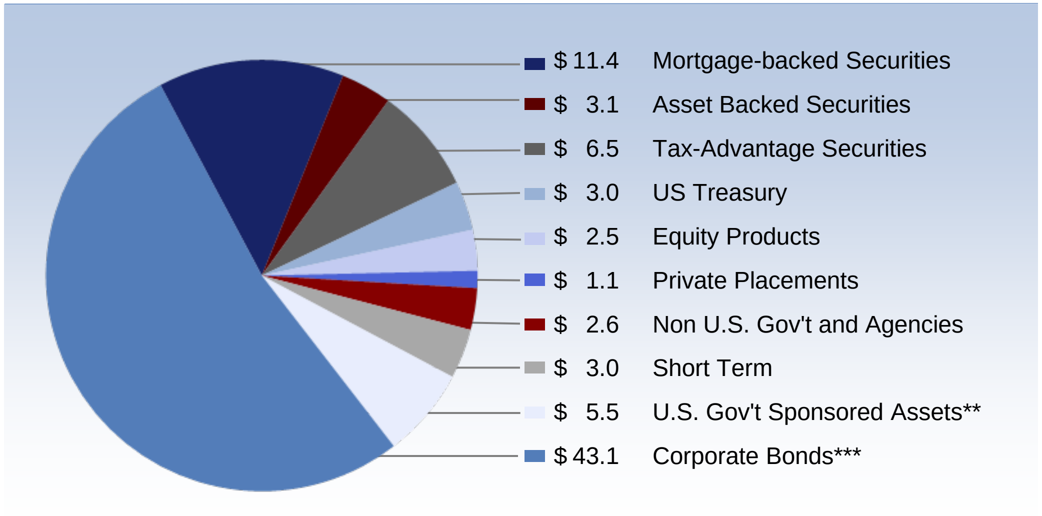
Who we are…

- Founded in 1912; insurance specialists for more than 100 years; investing insurance assets for nearly 3 decades
- Managing $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*



Assets by Security Class*



As of 6/30/2013 Includes Conning Inc., Conning Asset Management Limited, Cathay Conning Asset Management Limited, and Goodwin Capital Advisers, Inc.

***** Includes Agencies, Taxable Municipals and Government related assets***

****** Includes Convertible and High Yield Securities***

Introduction to Conning: Platform Overview

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

The Market Opportunity

As a consequence of the financial crisis, investment yields are falling and so more investors are actively looking to invest in, what is increasing 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

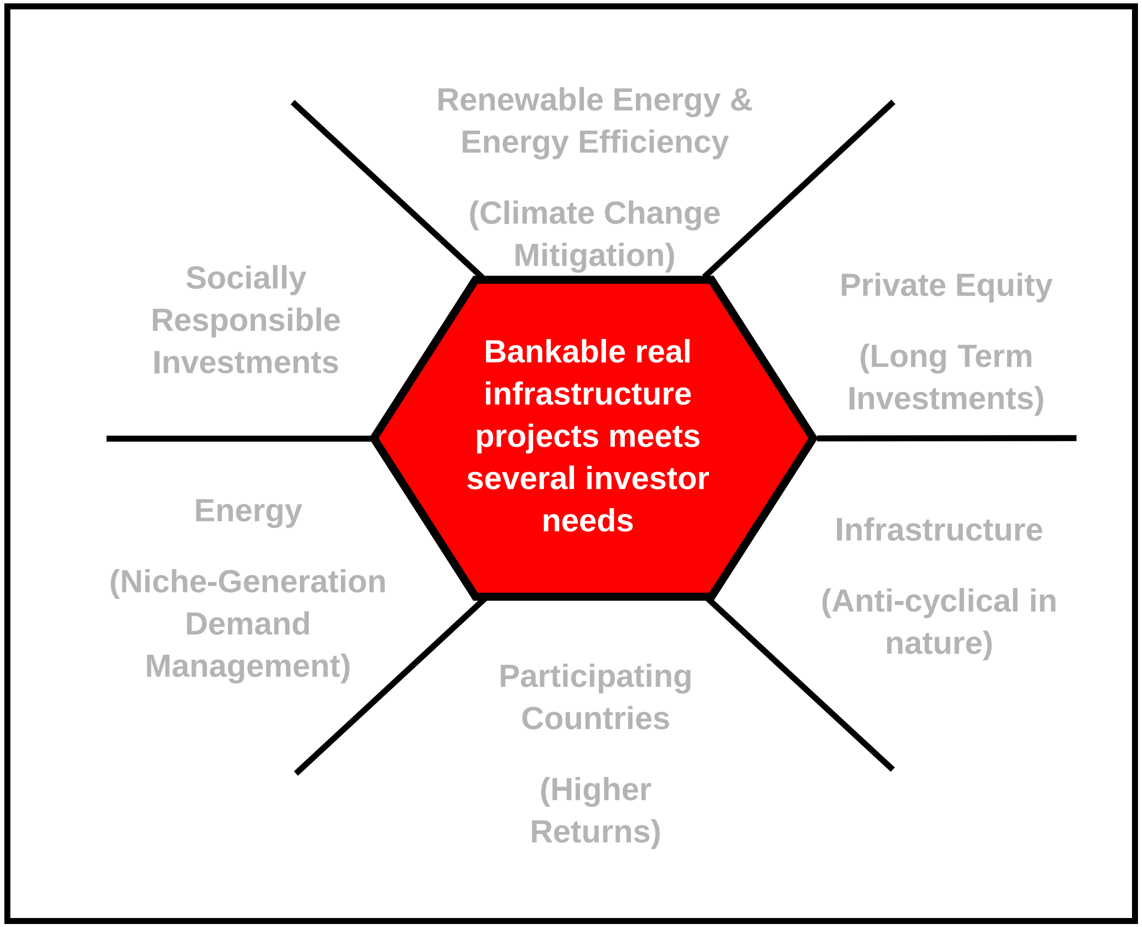
Against such a framework suitable financing structures, both standard and innovative, can be implemented. The right framework still needs the right financing structure to fit the right project. E.g. RE projects have upside and can attract private equity investments, but EE projects are more bond-like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



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

Key Pre-requisites

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

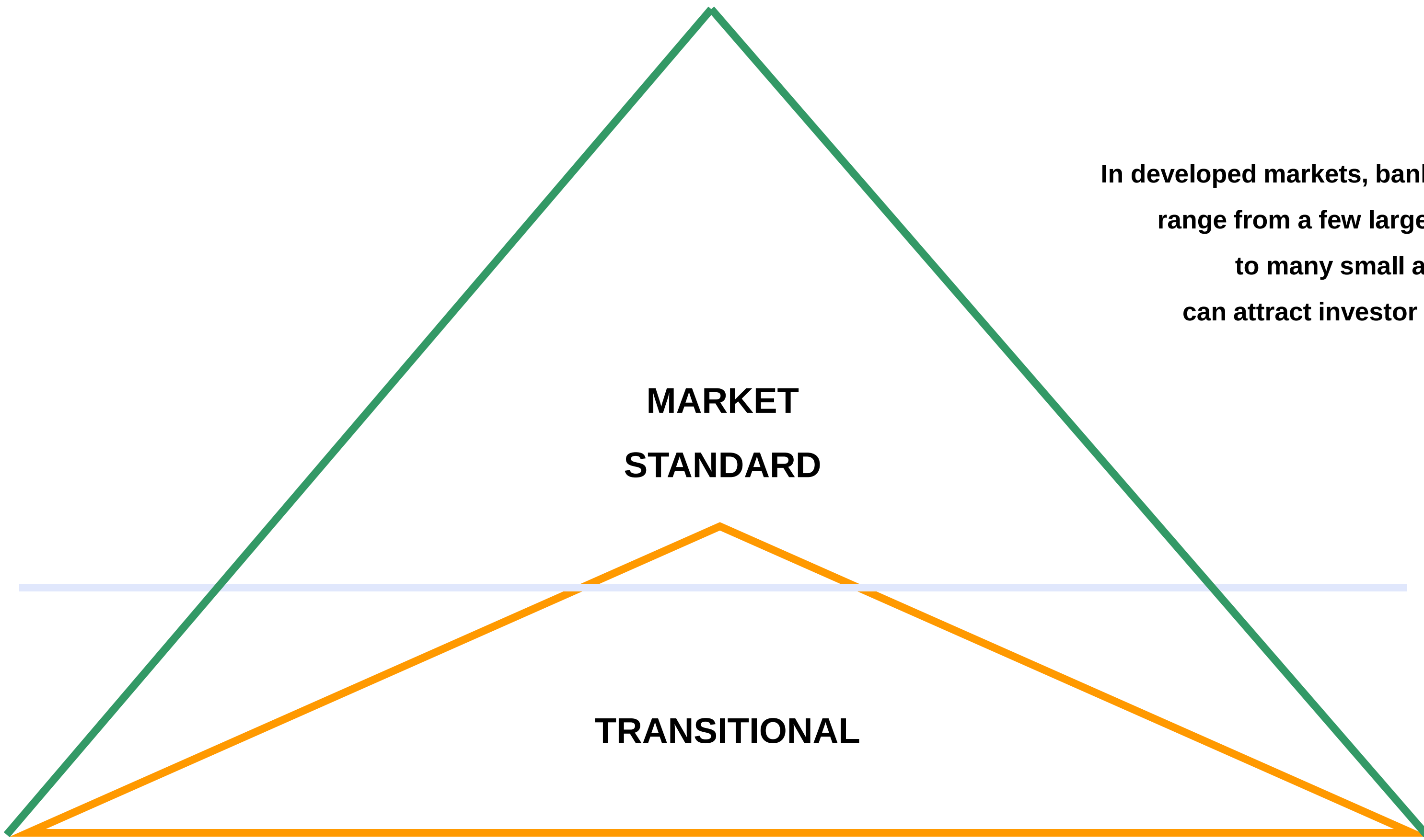
So why isn't this happening already ? The answer is size. Large projects will attract the necessary attention of all to become financed, but as the work for smaller projects is largely the same, it is only by making these projects business-as-usual that spontaneous financing for market standard bankable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

Project size demands a problem solving forum



In developed markets, bankable projects range from a few large projects to many small and can attract investor interest

In developing markets, most projects are small to medium sized and so complex to finance

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.

A Potential Solution – An Financing Co-ordination Agreement ?

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

Significant Project Demand

Financing Co-ordination Agreement

Increasing Investor/Lender Appetite

Market Failure

Friction Costs

Conflict of Interest

Low Skill Sets

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

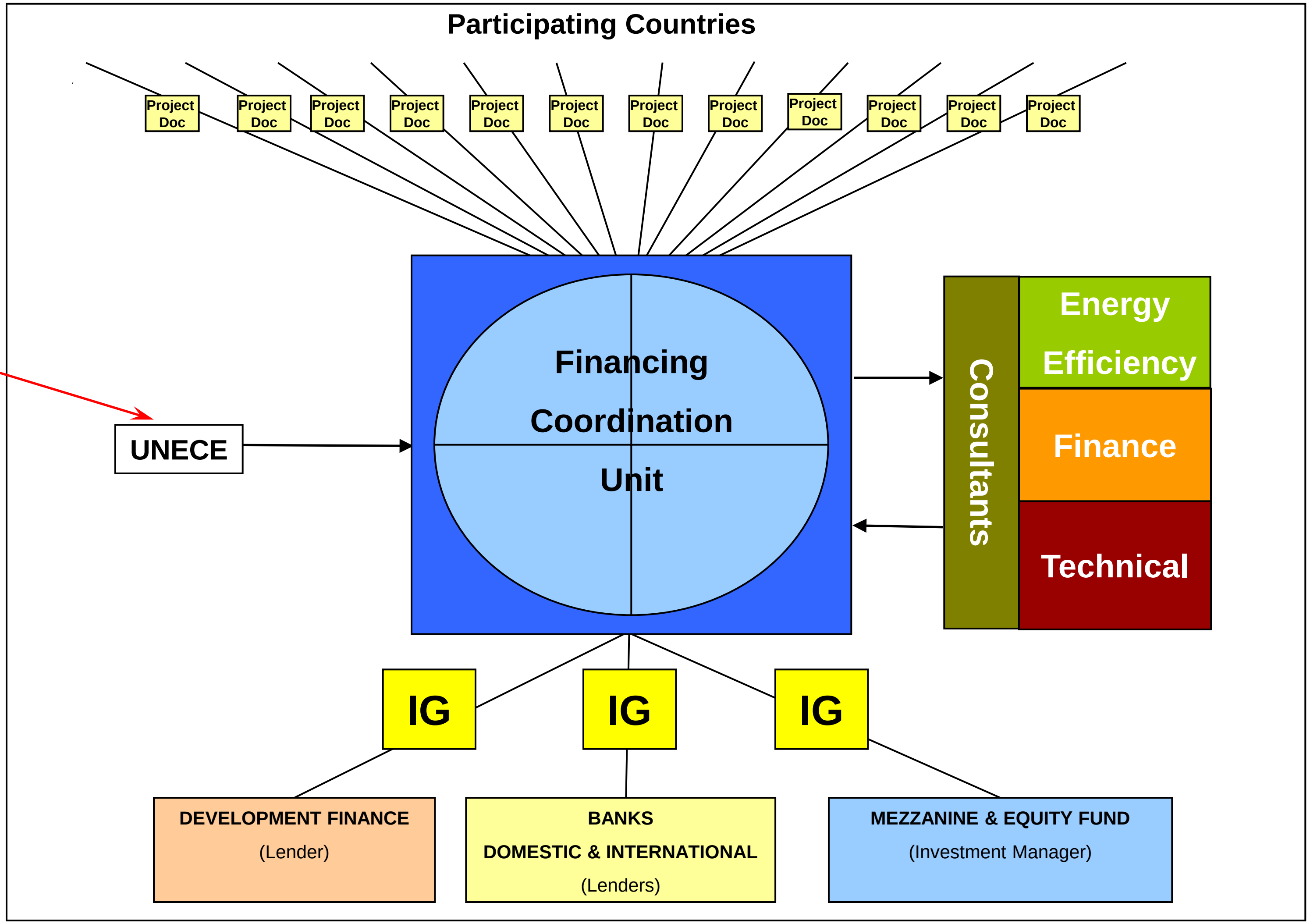
Support Structure Summary

Prospect Countries

Notice the role of international organisations

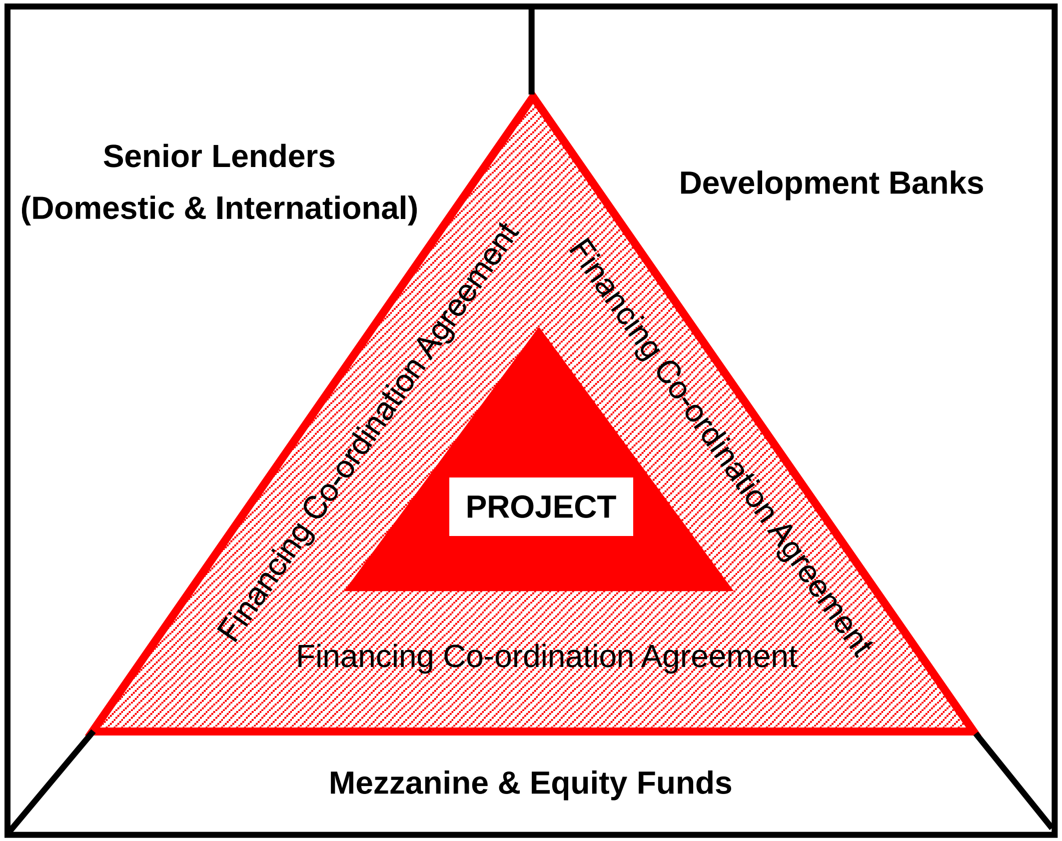
Pipeline Development

Investor/Lender Decisions



- **Project Doc = Project Document**
- **IG = Investment Guidelines**

Financing Co-ordination Agreement - Closes market failure gaps



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

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

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