December 2016

Infrastructure Debt & Institutional Investors

Essentiality provides stable and secure revenue streams

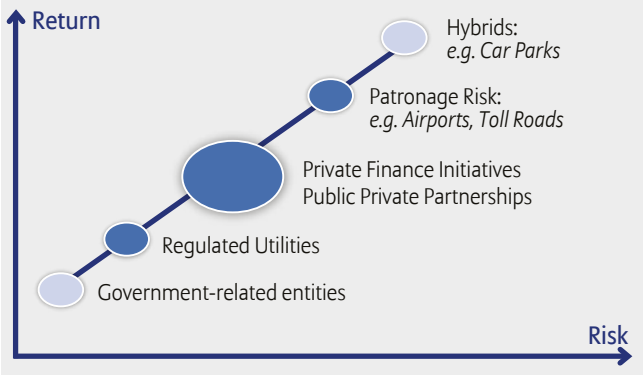
Infrastructure is a new asset class to many institutional investors despite its being perhaps one of the oldest with examples of early infrastructure (aqueducts) dating back to the Assyrians in the 7th Century BC. Infrastructure refers to the physical and technical structures that support the operation, development and growth of societies and economies such as roads, bridges, tunnels, water supply, energy production and transmission and telecommunications. The term also encompasses functional services that enable economic development and maintain social structure such as schools, hospitals, social housing and judicial accommodation.

As an asset class infrastructure is diverse, encompassing transport, water and energy, communications and social infrastructure. Our definition of the asset class icludes only those sub-sectors that have *essentiality*, existing within a regulated, often quasi-monopolistic environment that offer long-term operating contracts and stable, secure revenue streams.

The main sectors of infrastructure are shown below, along with the relative risk and return for the debt of these transactions. Allianz Global Investors' primary focus is on the sectors highlighted in dark blue i.e. core/conservative PPP/PFI projects as they meet the core criteria expected from institutional investors. The sectors shown in light blue are often characterised as infrastructure but fail to meet all of the criteria required by the team. For example car parks and roadway service stations have been sold in the past as infrastructure but are not considered essential by our definition and as a result may lack the stability of assured long term revenue streams that the team seeks.

Similarly additional care must be taken with infrastructure assets, such as regional airports or ports, which are subject to competition and patronage risk that can (and often do) impact their on-going economic viability. In addition, projects that are technologically complex to build (e.g. Channel Tunnel) or those that rely on the adoption of new technologies (e.g. offshore wind farms) are, in our view, unproven and therefore would not likely meet the stability factors and criteria described above. At the other end of the spectrum, public utilities and entities such as Network Rail have such a close tie to the government that, while they are considered acceptable credit risks, the yield pick-up available is not likely to offer sufficient reward for the liability matching criteria of our investors.

Risk/return profiles depending on structure



Source: Allianz Global Investors.

Allianz Global Investors

Infrastructure in the UK: investing for growth

The UK has a proud legacy of investment and innovation in infrastructure and infrastructure financing for economic (roads, canals and trains) and social infrastructure (hospitals, schools). However over the past decade UK infrastructure spending has been declining. The UK Government's National Infrastructure Plan[1] highlights a pipeline of 500 infrastructure projects across roads, rail, airports, ports, electricity, gas, communications, water, waste and flood defences that will require more than £200 billion of investment by 2020. These are by their very nature 'primary' or new construction ('greenfield') opportunities. Traditionally, these investments have been financed by commercial banks and public authorities. However, increasing public debt and new bank regulations put pressure on the ability of these investors to provide long-term finance to the infrastructure market.

PFI/PPP as a form of private funding of public infrastructure commenced in the UK in 1996 (the first transactions were two prisons and four roads, with hospitals following shortly afterwards) primarily as a means of bringing discipline to the procurement of public infrastructure. The initiative was reinforced with the election of the Labour government in 1997. At this time the policy framework was made more robust and comprehensive such that the UK became the model for other PFI/PPP programmes around the world. In the years since 1997 PFI/PPP has had its critics in the UK who have questioned the public benefit of this form of procurement. The reality though is that as a financing model it has been proven robust, through the financial crisis of 2008, and has delivered in excess of 700 underlying projects with very few of these transactions experiencing financial difficulty.

[1] HM Treasury/Infrastructure UK – National Infrastructure Plan - November 2011.

Political pressure more recently warranted a further examination of PFI/PPP financing culminating with the development of PF2 as a revised form of financing in 2010. PF2 essentially reaffirms the Government's commitment to private sector involvement in the delivery of core infrastructure and services with a strategic plan detailing these plans published in June 2013[2]. Given the declining ability of the Government to fund projects from its own balance sheet it is anticipated that the involvement of the private sector will be as important as ever in delivering HM Treasury's intended National Infrastructure Plan. At the same time, new capital adequacy requirements extended to commercial banks have meant that their appetite for long-term lending has been suppressed. As a consequence, the UK government is now looking to institutional investors to fill the void left by the contraction of this commercial bank funding at the same time when those same investors are looking for alternative sources of long dated investment. As a consequence we see the UK as being a substantially proven and robust future market for third-party investors. Critically AllianzGI's Infrastructure Debt team has been active in the UK PFI/PPP market since its inception.

[2] HM Treasury – Investing in Britain's Future – June 2013.

Capital structure: debt versus equity

AllianzGI is targeting primary, private debt placements within the capital debt structure. The advantage of this approach is that it combines the UK Government's plans for new-build PPP/PFI projects with the simple fact that high leverage numbers mean the quantum of opportunity is far higher for senior debt than for other areas of the capital structure. Infrastructure equity and mezzanine debt have risk return characteristics that mean they are 'growth' as opposed to 'matching' assets; that is to say, the forecast IRR of equity and mezzanine is typically higher than the forecast yield of senior debt but there is less (if any) contractual certainty as to the minimum return of equity and mezzanine. In contrast senior debt pays a contractually fixed return that enables it to be treated as a matching asset or hedge of similarly well-defined liabilities e.g. annuities or pension funds approaching their pay-out phase. The contractually promised yields of senior debt would only not be received if the borrower became insolvent, whereas in the case of equity and mezzanine investments, pay-outs can be reduced or delayed in situations far less extreme than insolvency of the borrower. Indeed, in many infrastructure debt investments, the stability of senior debt returns is partly assured by the very ability (obligation) of the borrower to defer or reduce returns to equity and mezzanine investors in times of commercial stress.

Senior debt is preferred due to the safety that it confers on the lender. The investment team, as a controlling creditor commenting on the funding structure prior to financial close, is better able to write the triggers and covenants into contracts that ensure a minimum debt coverage ratio and other controls through the life of the asset. Whilst most focus is given to construction risk, operational assets can and do encounter problems that require active management to maintain the credit quality of the underlying transaction over the long life of the financing. Remedial action is uncommon within this asset class but the benefit of being a controlling creditor within an individual project is that it conveys the ability to use remedial tools to maintain the project terms. Examples of typical protections are shown below.

1. **Dividend block.** Typically following minor breaches ("Trigger Events"), creditors can withhold their consent to dividends to equity. Cessation of dividends traps liquidity within the

borrower (which may automatically cure some minor breaches e.g. cover ratio breaches) and provides an economic incentive for the project sponsors to work to cure the breach to the satisfaction of creditors.

2. Replacement of subcontractor. Some remedies (e.g. dividend blocks or share enforcement or refinancing) are likely to be most effective where the underlying problem is economic rather than operational. In the case of operational failures, the solution may be to force the replacement of a subcontractor. However, the cost of a replacement contractor (and other terms and conditions) may be less favourable than those of the incumbent.
3. Enforce against surety bonds, or letters of credit (this is mainly a construction phase remedy)
4. Exercise pledge of shares. Security packages typically include a pledge of shares. Sale (or threat of sale) of a project company can be used as an enforcement action without disturbing underlying business.
5. Refinancing. Refinancing (either at par or at a discount) may provide an exit for creditors of a distressed project without disturbing underlying business operations. This may be combined with other actions.
6. Step-in rights. Typically, creditors have the right to "step-in" to key project agreements in place of the borrower to prevent a termination where a termination right has arisen for breach. While continuity of business operations is generally important in maximising the recovery for creditors, step-in can give rise to risk of increased costs and liabilities. The exercise of step-in rights would require careful planning – illustrating the importance of anticipatory creditor rights and information to allow time for such planning.
7. Procuring additional funding – in extreme cases, such as the case of a construction phase default where the Contractor has to be replaced (which are also extremely rare), it may be necessary to procure additional funding to complete construction to ensure the greatest recovery for the existing investment. Typically any third party additional funding would need to be senior to existing debt. Existing creditors would need to weigh the risk of subordination versus the risk of higher rates of loss if construction is not completed.

Capital structure: primary/greenfield versus secondary/brownfield

Infrastructure debt including construction, i.e. primary/greenfield, is suitable for low risk investors, focusing on investment grade projects, providing stable returns and predictable cash flows over long-term horizons assuming they have access to the appropriate expertise to analyse and structure the transaction (see below for more discussion of construction risk). There are many investors who choose to limit their investments in infrastructure to the 'simpler' credit story of operational, or secondary/brownfield credits and, as a consequence, there are many more potential investors looking to purchase the relatively few brownfield assets that come to market. Consequently, returns are lower for secondary loan/brownfield assets due to a combination of perceived drop off in risk and greater demand. Investors who are prepared to look deeper into the sector and invest in primary, greenfield projects can expect to receive a higher remuneration throughout the life of the deal for taking the shorter term construction risk and thus receive a spread premium to secondary, brownfield, monoline wrapped or guaranteed solutions (including the UK Guarantee Scheme which effectively trades yield for security).

However, if well-priced, investment grade secondary assets become available the team will consider them for investment. There are occasionally opportunities to invest in such assets as banks deleverage and sell non-core assets. The pace of delivery of the bulk of these assets to the secondary market will be determined by the ability of banks to absorb the losses that crystallise from the re-pricing of these loans at levels that are consistent with current primary market new issue prices (the re-pricing typically takes the form of sale at a discount to par value).

As a number of banks do not expect credit losses in these assets, finding a clearing price that matches investors' current yield requirements has proven to be somewhat more elusive hence secondary opportunities are limited presently. Furthermore as infrastructure financing was dominated by the banks, whose preference was for floating rate lending, the majority of secondary portfolios will comprise floating rate assets some of which may be sub-investment grade. Floating rate debt also allows for prepayment without penalties other than the potential for the ancillary swap breakage cost discouraging pre-payment. Generally, as institutional investors are seeking long dated liability matches, the prepayment condition on fixed rate and inflation-linked debt is a better match of investment objectives. These may still pre-pay, but are subject to compensation fees, typically Spens or modified Spens provisions, which are well established in the UK PPP market.

Generally, the rationale behind a primary transaction is clear. For a sale of an existing bank loan book, it could be that there is a bargain to be had, but investors should ask themselves:

- Has the owner looked to sell it already?
- If so, has it been cherry picked?
- Has the portfolio been amortising for a while, and, if so, what is the remaining duration, does this meet your duration requirements?
- If there are recently booked loans in the portfolio, are there mini-perms (i.e. bullets) and, if so, are you ok with the refinancing risk? (For reference, AllianzGI would only accept refinancing risk for regular issuers, such as utilities, but typically not for concessions.)
- Is the bank that originated the loans continuing to do business?
- What is the pre-payment risk if spreads come in?
- How are the related swaps being treated?
  - If the swaps are being transferred, is there an embedded mark-to market and, if so, is the investor being compensated for this?
  - If the swaps are not transferred are you comfortable with any residual bank risk?
- Who is managing the waivers and consents, are their interests aligned, do you have control?
- Is it rated, if so, by whom?
- What are the reasons for sale?
- Is it being sold at a discount to par and, if so, why is the seller comfortable doing this, when other banks are not?

The chart below highlights the risk/return profile one can expect from infrastructure debt when compared with other areas of the capital structure.

Areas of infrastructure

Equity

- **Primary provides** 10% p.a. through higher risk projects.
- **Secondary** equity portfolios provide 7-8% p.a.
- As with **Mezzanine** equity holders provide capital buffer

Primary debt

- **High volume** of new projects and available debt given typical leverage ratios
- Takes **construction risk** thus 5-6% p.a. returns
- Appropriate for **low risk investors** though illiquid
- **Investment grade**

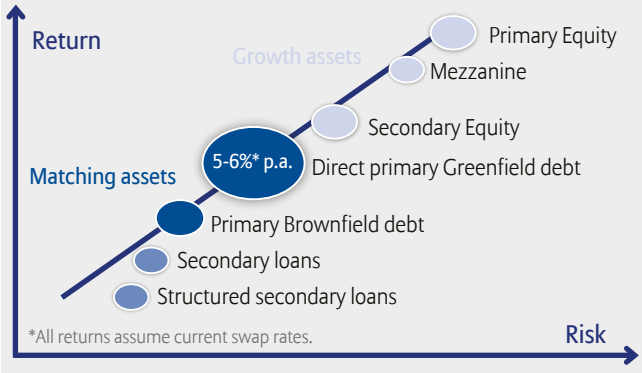
Secondary debt

- **Secondary loan** portfolios offer 3-4% p.a.
- As operational assets returns are 3-4% p.a. for **public bonds** due to higher credit ratings
- Volumes low in both cases
- Not all investment grade

Conclusion

- You get paid to take and can mitigate construction 'risk'
- The market volume is far greater for primary projects
- Understand and manage credit from early phase development

Risk/return profiles depending on structure



Inflation linkage

Historically 20-30% of UK PPP/PFI projects have issued index-linked debt tranches. These have been within a relatively narrow list of sectors e.g. hospitals and toll-roads where the underlying revenues were also index linked. Latterly there are other availability, concession-based financings that have also issued index linked debt e.g. Offshore Transmission Owners (OFTOs). Such assets also come with the additional benefit that they are operational assets and hence do not bear the 'risks' associated with construction.

It is worth noting that secondary assets are largely floating rate, which implies the need to obtain primary, greenfield assets to obtain inflation linked debt tranches. The decision is ultimately an economic one for the borrower. Since the preference would be to obtain senior or controlling creditor status, teams that are originating and structuring transactions direct with the borrower ought to be able to make investment contingent on at least a proportion of it being index linked. In this way it should be possible to target a portfolio that could achieve 30-50% inflation linkage.

A further point to note is that clients that are overly prescriptive about the need for inflation-linked assets will limit the opportunity set and likely end up with a less diversified portfolio of assets than would otherwise be the case. Within infrastructure debt, and given the low level of historic defaults, the level of diversification that is required is far less than that associated with equities or corporate bonds. Nevertheless clients may feel uncomfortable holding debt in just one or two sub-sectors of PFI/PPP projects.

Construction risk/political risk

The market view of risk at the *construction* phase often reflects a lower understanding of the infrastructure specifics with a number of investors likening infrastructure construction to commercial real estate development including the development risk and speculation. Risks associated with construction on infrastructure can be significantly mitigated by an experienced and skilled team through standard project financing structuring techniques. Key features of such structuring are:

Fixed-price, date-certain, "turnkey" design-and-build contract: The PPP borrower enters into a bespoke contract with a prime contractor that reflects all of the obligations of the PPP borrower. The Prime Contractor takes responsibility for sub-contracting the work and integrating the output of the subcontracts. Thus the borrower has certainty as to price; the risk to the borrower is largely a contingent credit risk associated with the Prime Contractor.

No "development" risks: All planning and licenses required for construction are either sought prior to financing or mitigated by the PPP contract.

No funding shortfall risk: The PPP borrower lets a fixed price contract to a main contractor and the full cost of this contract (including all ancillary costs that will occur during the construction period e.g. interest payments during construction, fees, SPV running costs) is pre-funded with committed sources of capital (debt and equity). There is no speculative or follow-on funding risk that is sometimes seen in commercial real estate development.

Timing of cash-flow: The prime contractor is paid in arrear against defined milestones, so assets are financed after they are constructed. The value-at-risk is therefore limited to rectification of defects in the completed assets and the additional costs (above the budget of the original contractor) if the contractor has to be replaced mid-way during construction.

Delay-liquidated-damages: The construction contract will contain provisions for payments of "delay-liquidated-damages" to cover debt service and fixed overheads of the project in the event of a delay in the construction works that leads to a delay to the commencement of project revenues.

Construction security: Even following a contractor default, a loss by debt investors is not inevitable. Surety bonding and infrastructure equity bear the first loss, typically meeting the cost to complete the project after replacing the defaulted contractor.

Many institutional investors cite *political risk* or uncertainty as an obstacle to financing infrastructure projects. It is true that certainty over cross-party policy is difficult to achieve from government to government but the UK PFI/PPP market has mitigated these risks though the use of formal contracts. Thus to infer that political risk is an issue is to question the fundamentals of UK contractual law. Of course if the government were to simply default on its contractual obligations recourse for investors would be difficult to achieve, but this is a situation that is no different for investors who currently hold gilts and index-linked gilts within their matching portfolio.

Benchmarking and the illiquidity premium

AllianzGI's Infrastructure Debt team originates and structures private loans/bonds to acquire senior debt in core UK infrastructure projects. The majority of these will be fixed rate transactions with pre-agreed contractual terms running for the whole of the life of the underlying physical assets. The weighted average maturity of a typical portfolio (whether segregated or pooled) is 15-17-years.

Based on current spreads (over mid-swaps) we believe these transactions can generate spreads of 150-250bps over mid-swaps generating a long-term cash-on-cash yield of 3.5-5.5%. This is achieved through the underlying coupon, plus additional fees payable by the borrower upon legal commitment (i.e. arrangement and commitment fees). Clearly as spreads evolve this may change.

A yield of 150-250bps over mid-swaps for BBB investment grade senior debt compares favourably with yields available for publicly tradable secondary infrastructure bonds (PFI/PPP and utilities). It is these that are used to benchmark our transactions and ensure at all times that the team is maximising available spreads (illiquidity premium) attributable to individual transactions. In summary, publicly traded debt of similar quality trades at around 100-125bps over mid swaps, and, as a consequence, investors sourcing private debt through AllianzGI access an illiquidity premium of 75bps or more at present.

The best available public data for spreads on public infrastructure bonds are the publicly traded utilities and, for the concession based financings, various Sterling PPP/PFI bonds. AllianzGI uses the trading levels of the following PFI concession bonds and utility indices as reference points for mark to model calculations on its private debt holdings.

The listed PFI bonds used are:

- Derby Healthcare plc - ED136226 Corp
- Annes Gate Property Plc Fixed - EC5415087 Corp
- Aspire Defence Finance plc [MBIA] - EF348243 Corp
- Integrated Accommodation Services Plc - EC265904 Corp
- RMPA Services PLC (Colchester) - ED318248 Corp
- Peterborough (Progress Health) plc - EG6056170 Corp

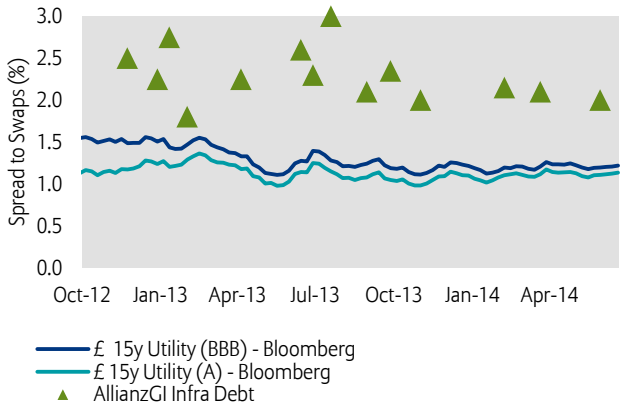
The index used for GBP utilities is: BVGBUA10 Index. For EUR utilities: IGEEUA10 Index[3].

[3] Note, the EUR utilities index is useful for benchmarking EUR. infrastructure exposures as it provides market based data for differences in spreads between currencies. The methodology for rebasing to EUR is not covered in this note, but can be detailed if required.

The chart overleaf shows the spreads that have been achieved by the Infrastructure Debt team since joining Allianz Global Investors in 2012. The transactions that have been closed by the team are for projects based in Europe, including an investment in a major Scottish road project in 2014[4].

Infrastructure illiquidity premium

AllianzGI transactions vs public bond indices



Source: AllianzGI and Bloomberg, as at 26 June 2014 – transaction spreads are all-in rates at which AllianzGI was chosen as preferred funder by Consortium.

[4] AllianzGI has committed to acquire listed Project Bonds issued by Scot Roads Partnership Finance Limited, which will be used alongside a term loan from the European Investment Bank (EIB) and shareholder funding to finance the design, construction, operation and maintenance of roads forming part of the M8, M73, M74 Motorway Improvements Project in central Scotland.

All of the transactions shown in the chart have been structured to investment grade. New PFI/PPP bonds start at low BBB, but typically mature to A once they are through construction and have an operating track record.

We can see that the current spread to swaps available for public infrastructure (as denoted by the £15y Utility indices) is currently around 100-125 bps whereas Allianz Global Investors' Infrastructure Debt team has achieved spreads in the region of 200-250. Whilst these have tightened recently, we believe there will always be a premium available for such private debt issuers.

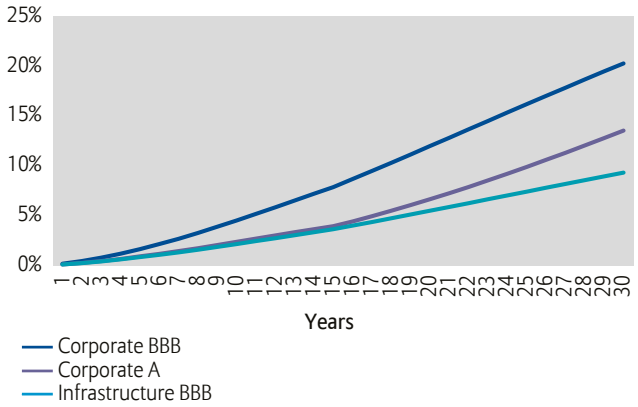
Risk adjusted returns/default rates

In addition to the returns available, equally important in assessing value is to assess the risk characteristics associated with the asset class.

Infrastructure debt as an asset class has lower default probabilities and higher recovery rates than equivalently rated corporate bonds. The chart below has been modeled by the team using Moody's ratings data to illustrate the long-term default probabilities for BBB/Baa rated infrastructure debt. This chart highlights that, over the long-term, default rates are low across the entire spectrum of available infrastructure projects, when compared to equivalently rated corporates. The team focuses on core UK PPP/PFI contracts and concessions with similar risk characteristics that are on the low end of any implied default rate. Moreover where defaults have occurred the recovery rates are such that the vast majority of senior debt holders are compensated at par[5].

[5] Moody's - Infrastructure Default and Recovery Rates 1983-2012H1 – December 2012.

Cumulative default rates for corporates and infrastructure investments in percent



Source: Allianz Global Investors and rating agencies, 2013.

Infrastructure versus sovereigns/corporates/ Risklab analysis

In a period of financial repression, with many highly rated interest bearing investments providing negative real yields, infrastructure debt investments offer higher yields due to the associated illiquidity/complexity premium. AllianzGI believes that core, conservative infrastructure projects, on a buy and hold basis, are ideally suited as a complement or alternative to sovereigns and covered bonds for investors with long-term liabilities. The opportunity exists for the acquisition of both attractive fixed rate and index-linked debt tranches. AllianzGI also considers that the financings fit well in the long-term fixed income portfolio as opposed to infrastructure equity, which is often positioned in the alternative or growth asset portfolio.

Modelling the historic risk/return profile of infrastructure debt compared with other asset classes one can see a historic return of 6.4% p.a. at a volatility of 3.6% p.a[6] (for the period 29.02.2000 to 28.02.2013). This compares favourably with both developed market bonds (sovereigns, covered and corporates) in addition to alternatives such as real estate. RiskLab has also provided forecasts for each of these asset classes for the 10-year period from 28.02.2013. This analysis (shown in Appendix A) suggests that Infrastructure debt compares favourably with all other yielding assets. This is not surprising given the expectation for continued low interest rates.

When analysing the illiquidity premium and risk/return profile for infrastructure debt it is critical to assess the asset class as an alternative to sovereign, covered or corporate bonds. In the latter case it is our view that the asset class achieves higher spreads at lower levels of risk and in the former case higher spreads with limited incremental risk. Compared with mezzanine or other alternative assets such as ground rents it can be erroneously concluded that the illiquidity premium is insufficient to justify an investment. The reality is that the risk profile of infrastructure debt is lower, if only as the contractual nature eliminates market/re-financing or patronage risk.

[6] Risklab – Portfolio Analysis and Risk Review – February 2013.

What is the pipeline in the UK?

Much has been made of the dearth of 'shovel-ready' infrastructure projects in the UK with 22 projects in procurement (as at 31 March 2013[7]) with combined capital costs of £3.5bn. Whilst overall levels of activity are down the opportunity that exists for senior infrastructure debt is far larger than for investors seeking mezzanine or equity within the capital structure. Additionally AllianzGI has identified further projects it would pursue on behalf of institutional clients that are availability based and structured in a similar fashion to that of typical PFI/PPP concessions.

[7] HM Treasury – UK PFI Projects Summary Data – March 2013.

What are key attributes of infrastructure debt managers?

On one level infrastructure debt as an asset class is established and is simple to understand. Investors lend money to projects and in return receive a quarterly coupon that sees this capital amortize over the life of the transaction. However, infrastructure debt transactions – historically the preserve of investment banks – are complex transactions that require specialist expertise to structure. Institutional investors themselves generally lack the skills required to source and structure illiquid credit transactions of this nature. For this reason it is sensible to delegate to a third party manager who can source and structure individual transactions through the whole of life to generate the yield premium relative to public bonds whilst understanding, monitoring and managing the underlying risks associated with each. This latter part is critical to maintaining the stability of the cash flows over time.

The following could be considered key criteria in assessing the suitability of a given infrastructure debt manager provider in structuring such transactions:

- An adequately resourced team of experienced infrastructure debt investment professionals.
- First-hand knowledge of the jurisdiction e.g. UK regulatory environment.
- A long-term track record of managing whole of life, primary assets.
- The ability to maximise spreads for investors versus publicly available bonds.
- An extensive network of industry contacts to source transactions including generating bespoke private placement opportunities.

- A sufficient level of funding to achieve credibility in the market with sponsors.
- A sufficient level of funding to achieve senior debt controlling or lead investor status for third party clients.
- An alignment of interest between the infrastructure debt manager and the client through co-investment.
- An operational platform that is able to offer the requisite loan servicing, administration and valuations.
- Appropriate vehicles for third-party investors.
- Fee structures that do not create a misalignment of interest e.g. performance related fees.
- A pure philosophy and process focused on maximising spreads for BBB assets rather than complex, structured finance secondary portfolios.

Allianz UK Infrastructure Debt Fund

AllianzGI's pooled fund invests primarily in greenfield/primary projects in the following sectors (to be considered only by way of example):

- Transport of people and goods (by air, railway, river, sea and road): ports, airports, railways (including rail transport connections), rolling stock, tunnels and bridges, road and motorways, urban and metropolitan transports.
- Utilities and transport of electricity and gas: electricity and gas transport and distribution networks, gas storage, regasification terminals.

- Other transport and distribution networks (water etc.) media and telecommunications (signal towers, satellite infrastructures, cable networks etc.); the aforesaid projects and/or entrepreneurial initiatives may therefore concern for example the following sectors: energy, transport and machinery, telecommunications and utilities in general.
- Limited production of electric energy from renewable and traditional sources.
- Local public services and social infrastructures (hospitals, car parks, prisons, social housing, schools, urban and environmental reclamation, waste disposal and treatment, etc.).

Investment objectives

The Fund's objective is to achieve attractive risk-adjusted returns, primarily through investments in, cash-yielding, direct loans to infrastructure businesses operating in the United Kingdom.

The Fund seeks to make investments:

(i) in UK GBP denominated secured loans, private notes or listed bonds, in respect of infrastructure projects funded during construction, during operational phase or as a post construction re-financing;

(ii) in debt with amortizing or non-amortizing (bullet) payment structures, with or without deferred drawdowns;

(iii) in infrastructure debt investments secured generally by assets of the borrower including negative pledge and other security typical for the asset class;

(iv) with final maturities typically between 20 and 35 years and weighted average maturities of 15 to 20 years; and

(v) in investment grade (minimum BBB-/Baa3 during construction and expected BBB/Baa2 post construction) investments, or an equivalent Allianz group internal credit rating, subject to the internal rating system being approved by the FCA and/or BaFin as meeting the requirements for an independent credit rating.

The Fund held its initial close on 30 June 2014. Subsequent commitments will be accepted until the 30 June 2015 subject to a minimum investment.

A sample portfolio for the Fund has been provided in Appendix B.

Conclusion

Investment in infrastructure stimulates economic growth and provides the ability for institutional investors to participate in both local and national impact investing initiatives. Whilst delivering environmental and social benefits, the spreads on offer for long-dated fixed rate and inflation linked senior debt tranches enable investors to generate positive real returns within their matching portfolio. With aggregator models and asset management companies providing the expertise and vehicles necessary to access the asset class, 2014 and 2015 will offer compelling opportunities for clients.

For professional investors only. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested. Infrastructure debt investments are highly illiquid and designed for long term investors only.

Past performance is not a reliable indicator of future results. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency. This is for information only and not to be construed as a solicitation or an invitation to make an offer, to conclude a contract, or to buy or sell any securities. The products or securities described herein may not be available for sale in all jurisdictions or to certain categories of investors. This is for distribution only as permitted by applicable law and in particular not available to residents and/or nationals of the USA. The investment opportunities described herein do not take into account the specific investment objectives, financial situation, knowledge, experience or specific needs of any particular person and are not guaranteed. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail. For a free copy of the sales prospectus, incorporation documents, daily fund prices, key investor information, latest annual and semi-annual financial reports contact the authorised corporate director Allianz Global Investors GmbH in the fund's country of domicile or the issuer which is available from www.allianzgi.com. Please read these documents, which are solely binding, carefully before investing. This is a marketing communication issued by Allianz Global Investors GmbH, www.allianzgi.com, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, 60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, www.allianzglobalinvestors.co.uk, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. The duplication, publication, or transmission of the contents, irrespective of the form, is not permitted.

Please see Appendices overleaf...

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Appendix A: Historic and forecast asset class returns

Asset Class	Benchmark	Currency	Expected Return (p.a.)	Expected Volatility (p.a.)	Historic Return (p.a.)	Historic Volatility (p.a.)
Gov. Bonds Eur	JPM EMU Investment Grade Index	Euro	2.0%	5.4%	5.4%	3.80%
Gov. Bonds Core Eur	BofA ML AAA Euro Gov. Index	Euro	1.1%	4.5%	5.6%	3.90%
Gov. Bonds US	BofA ML US Treasury Index	hedged in Euro	1.1%	4.6%	6.0%	4.7%
Covered Bonds Eur	BofA ML Euro Covered Bond Index	Euro	2.3%	3.3%	5.2%	2.7%
Gov. Bonds IL Eur	Barclays Euro Gov. IL Bond Index	Euro	1.9%	5.7%	5.6%	5.1%
Corporates Eur	BofA ML Euro Corporate Bond Index	Euro	2.5%	3.8%	5.4%	3.5%
Global High Yield	BofA ML Global High Yield Constr. Index	hedged in Euro	4.1%	10.7%	8.0%	10.4%
EMD	JPM Emerging Mkts. Bond Global Div. Index	hedged in Euro	3.5%	8.5%	11.1%	8.8%
European Equity	MSCI Europe Net TR Index	Euro	6.1%	15.7%	0.7%	16.2%
US Equity	MSCI North America Net TR Index	Euro	6.0%	14.3%	-0.3%	16.2%
Asian Equity	MSCI Pacific Net TR Index	Euro	5.6%	14.4%	-0.8%	16.2%
Emerging Market Equity	MSCI Emerging Markets Net TR Index	Euro	7.0%	20.1%	6.0%	21.7%
Global Equity	MSCI World Net TR Index	Euro	6.0%	13.7%	-0.1%	15.1%
Global Small Cap Equity	MSCI World Small Cap Net TR Index	Euro	6.5%	16.4%	5.5%	17.8%
Real Estate	UK IPD All Property TR Index	hedged in Euro	3.8%	9.3%	6.5%	4.5%
Infrastructure Debt	BofA ML Euro Single A Utilities Index	Euro	4.3%	5.4%	6.4%	3.6%
Infrastructure Equity	-	Euro	6.0%	4.0%	0.0%	0.0%
Commodities	DJ UBS Commodity TR Index	hedged in Euro	4.5%	17.9%	4.9%	17.4%
Volatility	risklab Variance Premium Trading Index	Euro	5.0%	5.1%	7.3%	5.3%
Hedge Funds	HFRI Fund of Funds Index	hedged in Euro	4.6%	5.2%	3.4%	5.4%
Private Equity	LPX50 TR Index	Euro	10.0%	18.1%	-3.2%	25.0%
Cash	Eur Libor 1 Month TR Index	Euro	1.5%	1.4%	2.5%	0.4%

* Historic data is based on the peri od 29.02.2000 to 28.02.2013. Expected yearly returns and volatilities shown describe the 10-year forwa rd looking forecasts as at 28.02.2013. Source: AllianzGI and risklab as at 28 February 2013.

Appendix B: Sample sterling portfolio

Year Booked	Tenor	Avg Life	Asset Size (£m)	Country	Ccy	Sector	Rating	Spread to Swap	Accretion Adjusted Mid Swap	Running Yield	Front End	Commit-ment Fee	Total Cash-on-Cash Yield
1	35	22	45	UK	£	Student Accommodation	BBB+	1.75%	2.53%	4.28%	0.00%	0.00%	4.28%
1	29	19	45	UK	£	Road	A-	1.80%	2.61%	4.41%	0.00%	0.70%	4.50%
1	22	13	50	UK	£	Road Refinancing	BBB	1.50%	2.14%	3.64%	0.50%	0.00%	3.69%
1	25	17	35	UK	£	Rolling Stock	BBB	1.40%	2.66%	4.06%	0.75%	0.60%	4.25%
2	35	24	30	UK	£	Student Accommodation	BBB+	1.70%	2.68%	4.38%	0.50%	0.70%	4.47%
2	31	21	30	UK	£	Hospital	BBB	1.50%	2.73%	4.23%	1.00%	0.60%	4.39%
2	21	12	25	UK	£	Energy	BBB	2.00%	2.14%	4.14%	1.50%	0.00%	4.30%
2	22	15	50	UK	£	Renewable	BBB	1.70%	2.24%	3.94%	0.50%	0.70%	4.02%
3	28	19	20	UK	£	Government Accommodation	BBB	1.45%	2.51%	3.96%	0.75%	0.60%	4.05%
3	28	20	20	UK	£	Road	BBB+	1.60%	2.56%	4.16%	1.00%	0.60%	4.30%
Total/Avg		**18**	**350**					**1.65%**	**2.46%**	**4.10%**			**4.22%**

Source: AllianzGI, as at 17 November 2014.