



JONATHAN ROTOLO
HEAD OF PRIVATE EQUITY / REAL ASSETS

OPPORTUNITIES IN PRIVATE EQUITY & REAL ASSETS

IN THIS Q&A, JONATHAN ROTOLO DISCUSSES THE POTENTIAL BENEFITS OF AN ALTERNATIVE INVESTMENT STRATEGY FOCUSED ON REAL ASSETS AND ASSET-BASED PRIVATE EQUITY AND WHAT SUCH AN APPROACH LOOKS LIKE IN PRACTICE. IN PARTICULAR, JON DISCUSSES WHY CERTAIN ASSET TYPES ARE BETTER SUITED FOR THIS STRATEGY AND HOW THESE ARE SOURCED AND ACTIVELY MANAGED TO CREATE A UNIQUE RISK-ADJUSTED RETURN PROFILE THAT INVESTORS SHOULD FIND COMPELLING.

Could you describe the investment strategy of Barings' private equity / real assets platform?

We target real assets and asset-based private equity investments, and, in certain scenarios, we can move along the continuum between these two investment styles to create substantial incremental value for our investors. Through this approach we aim to build diversified portfolios that have the downside protection and cash flow profile of something like infrastructure with the upside potential of something like lower middle market buyouts. Ultimately, we are investors, not deal makers, and have always tried to differentiate ourselves with a focus on portfolio construction and risk-adjusted returns.

What types of assets do you invest in?

We consider capital assets, infrastructure, natural resources and intangible assets as the building blocks of our portfolios. Across these asset areas, we cover a total of eight sectors and organize our sector specialist teams on the basis of this coverage model. The high number of potential targets for asset acquisition in each sector makes the overall investment universe quite robust. By focusing on these asset types and utilizing multiple investment styles, we find there is no lack of opportunity to deploy capital and, given our risk-adjusted return focus, to build efficient portfolios for our clients. In the past, we have been able to deploy our clients' capital efficiently— with a weighted average dollar deployment of roughly three years for unconstrained client mandates.

AI BARINGS
ALTERNATIVE
INVESTMENTS

\$54+ BILLION
ASSETS UNDER MANAGEMENT

450+
PROFESSIONALS

REAL ESTATE

One of the largest global real estate managers, providing our clients with a diverse set of investment opportunities enhanced by local market insights and a cycle-tested perspective

PRIVATE EQUITY / REAL ASSETS

Concentrated, control ownership of actively-managed, thematically-driven asset-based investments that generate both current income and capital appreciation

FUNDS & CO-INVESTMENTS

Efficient, highly diversified delivery of full spectrum of private equity and real asset risk premia with alpha generation through proprietary manager selection and sector and vintage rotation strategies

AS OF MARCH 31, 2018.

Why do you focus on these asset types?

As investors, we are focused on assets. Whether that is a cell tower, a music copyright or an intermodal asset, our investment theses are asset-centric. We employ a top-down approach in thinking about where to seek out investments and constantly update our macro research to better identify the ideas—themes and trends—that we think will play out over multiple economic cycles and with limited volatility around those trends. That way, we can focus on actively managing an asset through time, not on timing a cycle. Over time, we have solidified a framework for screening assets across our investment universe to ensure that besides exposure to targeted investment themes, the assets in our portfolio also have consistent characteristics:

- identifiable demand, because of an essential nature of the asset;
- transactional cash flow (rents, leases, licenses, etc.) that results from market demand for the asset;
- benefits from active management;
- barriers to entry;
- returns to scale

CAPITAL ASSETS



TRANSPORTATION

NATURAL RESOURCES



AGRICULTURE

INFRASTRUCTURE



TELECOM
ENERGY INFRASTRUCTURE
MIDSTREAM AGRICULTURE

INTANGIBLE ASSETS



MEDIA & ENTERTAINMENT
PHARMACEUTICALS
FINANCIAL SERVICES

Can you provide an example?

Of course, today the growing global middle class is a widely recognized macro trend and one that we have capitalized upon. At this point in the maturity of the theme, we've accessed this opportunity in a number of ways, including through the commercial aviation market as an owner and lessor of mid-life, narrowbody airplanes. Our client roster of aircraft lessees includes global businesses that are all directly benefiting from the rise in disposable incomes and growing middle class demand for travel around the world. Another example includes our investment into the e-commerce theme through the logistics industry. In the U.S., we own one of the largest national equipment lessors with over 80,000 pieces of intermodal and over-the-road trucking equipment. These assets are being used by the biggest players in the e-commerce supply chain, which are experiencing strong boosts in demand. Indeed, given the just-in-time nature of e-commerce, many of the goods we consume are now effectively warehoused on the road and rail in logistics assets like those that we own.

“Over the past three years, about two-thirds of Barings’ investments have come from our proprietary network, including the management teams at our portfolio companies.”

What is your approach to sourcing assets?

Sourcing is a big issue in all private markets today. Being part of a global platform that touches upon so many parts of the private market universe is hugely beneficial. Ultimately, however, there is no substitute for a good network and strong industry partners.

Over the past three years, about two-thirds of Barings’ investments have come from our proprietary network, including the management teams at our portfolio companies. This is particularly important for our strategy as we are looking at buying assets or portfolios of assets that might not be going through traditional banking channels. For example, very often if we’re buying a portfolio of music rights, it’s being sold by an estate or lawyer/manager, not through a banked process. Similarly, if we are buying a portfolio of pharma IP rights or a portfolio of mid-life transportation equipment, those sales may happen through the seller’s business development team, not an external bank.

Are there any assets you like in particular right now?

Certainly, for several of the themes we’ve been investing into over recent years we continue to see assets that offer longer-term potential. Within the sectors those themes touch, however, we have been rotating into new asset types over the past 12-18 months. And we really favor investments, where, as a control investor, we can earn a premium for active management of an asset. For private market investors,

we think there is a major opportunity to earn an active-passive spread, as opposed to simply hoping for an illiquidity premium. In the media and entertainment sector, for instance, we continue to see strong consumer demand for content. At the same time, we also are also seeing strong demand for consumer experiences. So we’ve started to leverage our position in the music industry to broaden into the theatrical space, where we think demand is strong and there is healthy long-term support from emerging markets, particularly in Asia.

Is there anything that you dislike?

Generally, we dislike assets where there is a transmission mechanism for passive capital to distort prices. We want to own assets that lend themselves to active ownership for value creation. In our view, active ownership continues to be a highly effective barrier to entry for passive capital. At the same time, active management can also provide one of the best opportunities to earn a premium in today’s private markets in which investors are flush with cash. Where we see a transmission mechanism for passive capital, we also tend to see the highest leverage levels and thus the most systematic risk. It’s not just that there is multiple expansion in these areas, we think there are lower returns and higher risks. Generally, we are running our portfolios at substantially lower leverage levels than other firms. A big part of this is our risk-adjusted return focus, but we also are long-term investors and want to be positioned to be countercyclical and

want to preserve the ability to pay out cash yield from our investments and our portfolio.

In which ways do you create value once you’ve acquired an asset?

In two ways, control and active management. Having control gives us a clear path to implement our business plan around the assets we own. There are a number of common tools we use across the portfolio to drive incremental value. As an example, we like to find ways to extend the life of assets we own. If we can make a trailer last a year longer, or get a contemporary artist to sample an older song we own and take a stake in that new copyright, we can create very high margin incremental cash flows. Similarly, we look for ways to expand the product offering of the assets we own. Maybe an older trailer can be used for storage rather than sold for scrap. If you look at the multiples on storage businesses as opposed to logistics businesses, this is a pretty lucrative revenue stream to diversify into. And trailers are a lot cheaper on a per/sqft basis than a typical warehouse. So it can be a win-win for our investors and our lessees.

For our investment strategy, enterprise value creation is also another key strategy. This entails the scaling of assets and creation of operational and management teams to transform a portfolio of assets into a company that can be valued on a multiple of its earnings, rather than on an NAV basis, as is the case for most real assets alone. So, staying with the example of ground transportation, by scaling up logistics assets and installing a

management team to run and expand the business in the growing but highly fragmented U.S. market, our portfolio holding Milestone has become a leading lessor of transportation equipment in the market.

Given the current market environment, what are the main threats of the strategy?

There are several risks to the strategy that we are focused on at the moment. The first is the potential for changing regulation to impact a particular sector or asset type, or for changing regulation to impact our business more broadly. Of course, in certain sectors we focus on, regulation helps create a stable and disciplined market. So regulation itself is not a bad thing for our strategy – it’s the changes that we need to be focused on. Changing regulation can come through a number of channels. It could be direct, such as through an industry regulator, or it could be indirect through tax policy or new regulation of institutional investors, such as pension funds.

A second risk we are watching closely is rising rates. While we believe the high cash generation of our assets help mitigate interest rate risk by decreasing duration and providing reinvestment optionality, rising rates can change demand for yield assets. Many of the investments we target do have substantial reinvestment opportunity and if we see the market paying a premium for those opportunities, we can always redirect yield accordingly. We’ve built enough breadth into our business that we think will allow us to invest through a cycle, whether that’s a liquidity cycle or an economic cycle or a credit cycle. The market is always evolving, however, so we need to stay nimble and be in front of changes to help our investors.

“Given these differentiated risk and return attributes, investors have found a number of ways to incorporate our product into portfolios.”

Can you discuss the risk-return profile of your strategy and its role in investor portfolios?

We think that our investment approach and focus on real assets and asset-based private equity can offer investors a compelling risk-adjusted return profile. In particular, we aim to protect capital and to deliver a regular current cash yield, while using lower leverage levels than traditional private equity. These attributes are designed to lessen the risk within portfolios—i.e. shorten the duration and lower vintage risk—and create reinvestment optionality. Indeed, it helps create the option for upside potential through enterprise value creation.

Given these differentiated risk and return attributes, investors have found a number of different ways to incorporate our product into portfolios. We believe that reflects the value they see in it as a return driver, a cash yield producer and as a diversifier. We have clients who have included our product in their real asset portfolio, in their absolute return portfolio, in their credit and inflation portfolio, and in their fixed income portfolio. There is a lot of diversity, which we like because we are investors ultimately, not allocators. We aren’t big believers in style boxes or “buckets” and we see this as a big opportunity for sophisticated investors who too are able to look beyond more limiting views of a strictly segmented asset allocation approach.

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed. Past performance is no indication of current or future performance. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents for the details and specific risk factors of any Fund discussed in this document.

IMPORTANT INFORMATION

For Professional Investors / Institutional Investors only. This document should not be distributed to or relied on by Retail / Individual Investors.

Barings LLC, Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Barings Real Estate Advisers Europe Finance LLP, BREAE AIFM LLP, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate"), together known as "Barings." Some Affiliates may act as an introducer or distributor of the products and services of some others and may be paid a fee for doing so.

NO OFFER:

The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projections or predictions.

In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved and before making any investment decision, it is recommended that prospective investors seek independent investment, legal, tax, accounting or other professional advice as appropriate.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Barings to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any retirement plan, IRA investor, individual retirement account or individual retirement annuity as the recipients are fully aware that Barings (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to Barings' business objectives, and which has been disclosed to the recipient.

Nothing set forth herein or any information conveyed (in writing or orally) in connection with these materials is intended to constitute a recommendation that any person take or refrain from taking any course of action within the meaning of U.S. Department of Labor Regulation §2510.3-21(b) (1), including without limitation buying, selling or continuing to hold any security or other investment. You are advised to contact your own financial advisor or other fiduciary unrelated to Barings about whether any given course of action may be appropriate for your circumstances. The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

OTHER RESTRICTIONS:

The distribution of this document is restricted by law. No action has been or will be taken by Barings to permit the possession or distribution of the document in any jurisdiction, where action for that purpose may be required. Accordingly, the document may not be used in any jurisdiction except under circumstances that will result in compliance with all applicable laws and regulations.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction.

The information with respect to UCITS Funds is not intended for U.S. Persons, as defined in Regulation S under the U.S. Securities Act of 1933, or persons in any other jurisdictions where such use or distribution would be contrary to law or local regulation.

INFORMATION:

Barings is the brand name for the worldwide asset management or associated businesses of Barings. This document is issued by one or more of the following entities:

Barings LLC, which is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended (Barings LLC also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings Securities LLC, which is a registered limited purpose broker-dealer with the Financial Industry Regulatory Authority (Baring Securities LLC also relies on section 8.18 of NI 31-103 (international dealer exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings (U.K.) Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 194662) and is a Company registered in England and Wales (No. 03005774) whose registered address is 61 Aldwych, London, WC2B 4AE; Barings Global Advisers Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 552931) and is a Company registered in England and Wales (No. 07622519) whose registered address is 61 Aldwych, London, WC2B 4AE and is a registered investment adviser with the SEC; Baring Asset Management Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 170601) and is a Company registered in England and Wales (No. 02915887) whose registered address is 155 Bishopsgate, London EC2M 3XY; Baring International Investment Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 122628), and is a Company registered in England and Wales (No. 01426546) whose registered address is 155 Bishopsgate, London EC2M 3XY, is a registered investment adviser with the SEC (Baring International Investment Limited also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Quebec and Manitoba);

Barings Real Estate Advisers Europe Finance LLP, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 401543); or

BREAE AIFM LLP, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 709904);

Baring Fund Managers Limited, which is authorized as a manager of collective investment schemes with the Financial Conduct Authority in the United Kingdom and is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime;

Baring International Fund Managers (Ireland) Limited, which is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime and, since April 28, 2006, as a UCITS management company with the Central Bank of Ireland;

Baring Asset Management Switzerland Sarl, which is authorized by the Switzerland Financial Market Supervisory Authority to offer and/or distribute collective capital investments;

Barings Australia Pty Ltd (ACN 140 045 656), which is authorized to offer financial services in Australia under its Australian Financial Services License (No: 342787) issued by the Australian Securities and Investments Commission;

Baring Asset Management (Asia) Limited, which is licensed by the Securities and Futures Commission of Hong Kong to carry on regulated activities Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) in Hong Kong in accordance with the requirements set out in the Securities and Futures Ordinance (Cap 571);

Barings Japan Limited, which is registered as a Financial Business Operator (Registration No. 396-KLFB) for Type II Financial Instruments Business, Investment Advisory and Agency Business, and Investment Management Business with the Financial Services Agency in Japan under the Financial Instruments and Exchange Act (Act No. 25 of 1948);

Baring SICE (Taiwan) Limited, an independently operated business (Business license number: 2008 FSC- SICE- Xin- 030; Address: 21 F, No. 333, Sec. 1 Keelung Road, Taipei 11012; Taiwan Contact telephone number: 0800 062 068); or

Baring Asset Management Korea Limited, which is authorized by the Korean Financial Services Commission to engage in collective investment business and is registered with the Korean Financial Services Commission to engage in privately placed collective investment business for professional investors, discretionary investment business and advisory business.

Copyright

Copyright in this document is owned by Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings' consent.