Return potentials plus social value

Strategies in Focus: Infrastructure and Private Equity

Private equity is a broad asset class covering many sectors of the economy, investment styles and return profiles. From venture capital at one end of the risk-return spectrum to infrastructure at the other end, the asset class provides considerable opportunities for portfolio diversification and return enhancement. The two themes discussed below highlight this diversity.

Unfortunately, over the course of our lives, most of us will be touched by cancer either directly or through family and friends. Longer lifespans mean that cancer is now the leading cause of death. Fortunately, scientific advances have given rise to a new generation of oncology therapeutics with very positive outcomes. These advances arise from advances in the science dealing with genetics and from technology developments that have dramatically reduced the cost of genetic sequencing and molecular screening. Regulatory reform has also helped by accelerating drug approval processes.

Life science investments are currently at the forefront of venture capital

Much of the innovation in oncology therapeutics is originating from biotech start-up companies funded initially by venture capital. Ultimately, large pharmaceutical companies acquire and/or partner with these companies to bring the drugs to market. From an investor perspective, the promising trends in scientific knowledge and drug development coexist against a background of high and increasing expenditure on health.

Life science investments are at the forefront of venture capital at the moment accounting for 64% of venture capital IPOs in 2014. Oncology therapeutics is the hot spot in life sciences accounting for 30% of pharmaceutical biotech licensing activity in 2014. Investors are backing the scientific breakthroughs and facilitating the revolution in cancer treatment.

At the other end of the risk-return spectrum lies investing in infrastructure. It is no less important from a social perspective as it facilitates provision of the essential services that we all depend on. In fact, it is hard to find a government that is not supporting new and expanded investment in infrastructure at the moment.

Ultimately, infrastructure is an important contributor to productivity growth, and thus future economic growth rates, directly influencing citizens‘ standard of living.

Infrastructure has the lowest default rate and lowest loss given default within corporate debt

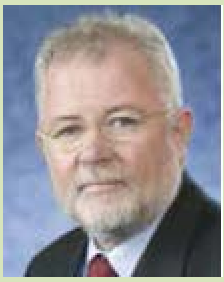
There are many investment strategies available for investing in infrastructure with the most recent innovation being institutional investment in infrastructure debt. This is consistent with the broader trend of institutional investment in private debt markets with infrastructure debt having the advantage of the lowest default rates and lowest loss given default of all classes of corporate debt.

Within this sector, additional opportunities for enhanced returns are available in the European markets where private investment in infrastructure is well developed and where, historically, the majority of infrastructure debt financing has been provided by private bank loans rather than public market issuance.

Taking advantage of the investment climate change and dislocated banking landscape

Changes in bank regulation have resulted in banks reducing lending to infrastructure companies at the same time as the demand for financing is increasing. Infrastructure debt funds are taking advantage of this change in the investment climate to facilitate institutional investment in the sector and fill the funding void created by the dislocation in the banking landscape.

The healthcare sector provides investment opportunities for both venture capital and infrastructure investors: from innovative therapies to state-of-the-art hospitals. Both types of investment have high social value and offer interesting risk-adjusted return potential.



Paul Moy is Head of Infrastructure and Private Equity and has responsibility for the global investment activities of this business. He was with UBS from 1999 to 2002 and rejoined in 2005. Paul has 30 years of industry experience.

UBS Deutschland AG
Asset Management
Bockenheimer Landstraße 2–4
60306 Frankfurt am Main
Tel. +49-69-1369-5300

www.ubs.com/deutschlandfonds