Performance Comparison

Hornet Infrastructure ï Water Fund (EUR)

with various Global Bond Indices

July 2018

Performance Comparison between the Hornet Infrastructure ï Water Fund (EUR) and various Global Bond Indices

1. Comparison of direct infrastructure investments with government bonds

The following table concentrates on an integrated comparison between government bonds and actual direct infrastructure investments by means of shares. Nowadays state infrastructure investments (frequently regarded as costs) are financed by means of borrowed capital and/or state or local authority bonds.

	Government bonds / Borrowed capital	***Infrastructure investments / Equity***
Classification	Debt instrument / borrowed capital	Shares / equity capital
Interest of the investor	Nominal interest rate Preservation of nominal capital	Dividends and capital revaluation Preservation of real capital
Investment and interest in the success of the company	Partially preexisting, but asymmetric risk / earnings structure	Through capital growth and dividend increases with symmetrical profit sharing
Inflation protection	Usually not present and/or real loss with increasing inflation	Inflation protection usually present thanks to regulated price mechanisms
Compound interest effect and/or long-term benefit	Investment limited in time; currently usually terms of 3-5 years with low compound interest effect, low interest level neutralises the compound interest	Takes effect through the long-term nature of the assets, with terms of 15-40 years and the periodically determined cash flows, which currently lie globally in the region of 5-10% p.a.
Risk	Currently low compensation for sovereign and interest rate risks, due to extremely low interest rates and unstable banking system	Global risk premiums lie in the region of 3-5% p.a. when investing directly in infrastructure shares; interest rate risks neutral in the medium term
Expected return	The **expected return** (yield to worst*) of a global government bond portfolio **currently** lies at around **1.4% (in EUR)**	The **expected total return** of the Hornet Infrastructure - Water Fund (EUR) for example, **currently** amounts to **7.5%**; it comprises of an expected return on dividends of 3.9% and capital revaluations

*Yield to worst: when a bond is callable, puttable, exchangeable, or has other features, the yield to worst is the lowest yield of yield to maturity, yield to call, yield to put, and others.

Table 1: Characteristics of government bonds versus infrastructure investments

2. Performance comparison water infrastructure portfolio versus bonds

The expected total annual return in the long-term for a portfolio of globally diversified water infrastructure companies consists of about one third dividend payments and about two thirds capital revaluations and lies in the range of 5 to 7% (net, in EUR).

A performance comparison (net of costs) over 5 years shows that the focussed infrastructure equity strategy performed better than various global bond strategies. The graph also illustrates the sensitive reaction of the bond strategies when the risk-free interest rate in the United States increased from less than 2% to 3% in 2013.

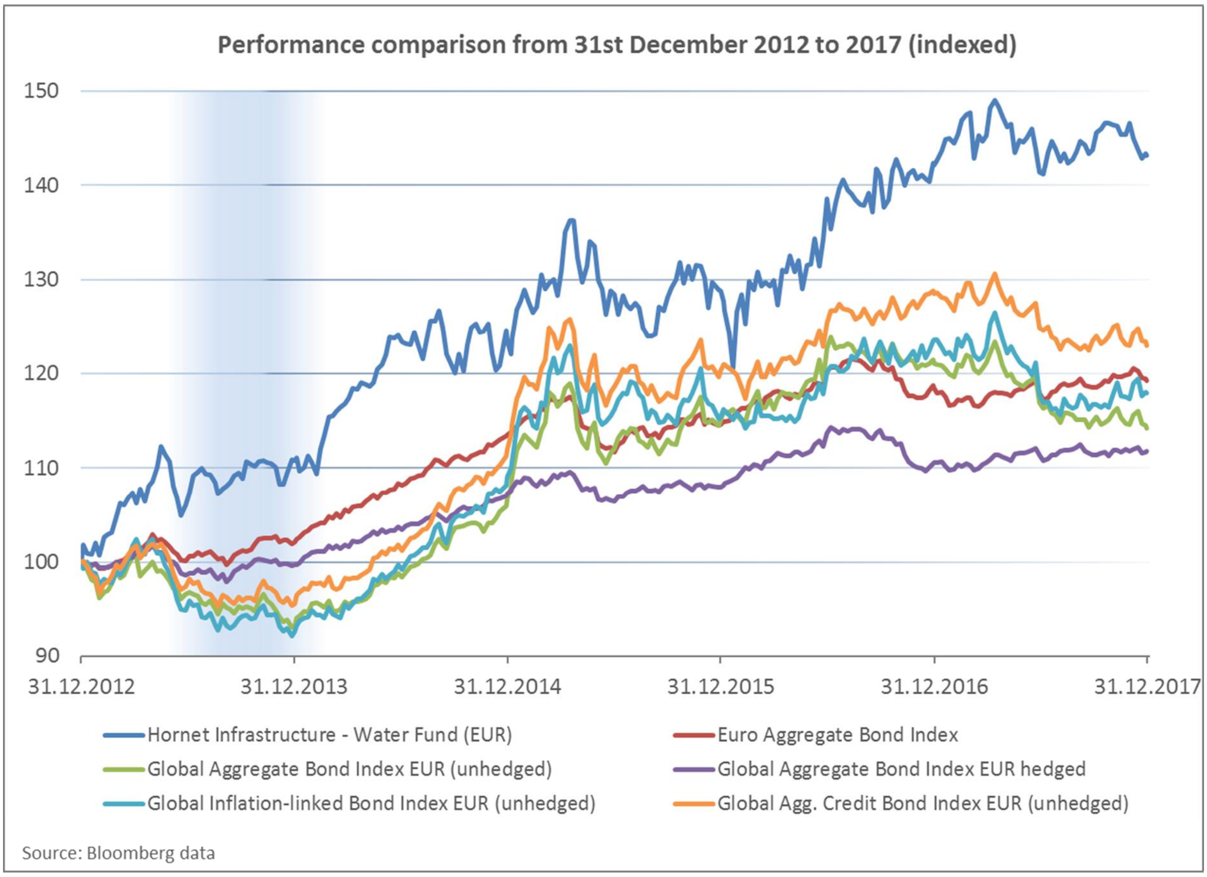

Figure 1: Performance comparison Hornet Infrastructure ï Water Fund (EUR), net of costs, versus various global bond indices from 31st December 2012 to 2017 (indexed)

We can also notice that over the period under review a globally diversified bond portfolio with currency hedging in euros (purple line) has achieved the lowest return on investment. A portfolio of purely euro denominated bonds (red line) achieved a significantly better performance. A globally diversified bond portfolio including currency risks (green line) lies between the two aforementioned portfolios as of the end of the period under review. In the case of globally diversified bond portfolios the currency risks seem scarcely to be compensated in the low interest rate environment, which prevailed during the period under review.

In contrast, we have learned from experience that in a global water infrastructure equity portfolio both the currency and the interest rate and country risks are compensated.

The following illustration visualises a performance and risk comparison including the global equity index MSCI All Countries World Index (EUR). As anticipated, it shows that the focussed water infrastructure strategy lies between a global bond portfolio and a global equity index with respect to performance development and value stability (span between the minimum and maximum weekly performance).

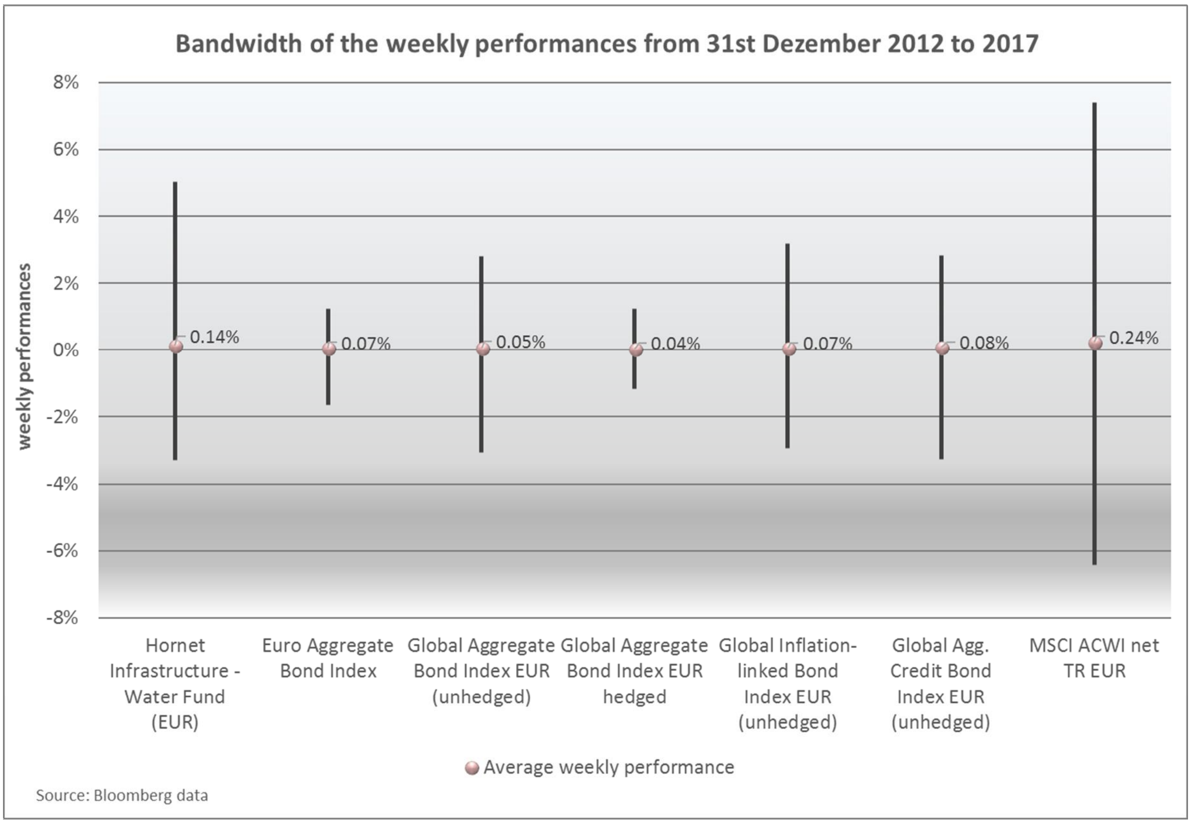

Figure 2: Bandwidth of the weekly performances of the Hornet Infrastructure - Water Fund (EUR) in comparison with various bond indices and the MSCI All Countries World Index in the period from 31st December 2012 to 2017

In the historical period under review the maximum negative deviation from the mean value at about -3% lies only slightly below the global bond indices ï it is on a par with the Global Aggregate Credit Index ï but significantly above the value for the MSCI All Countries World Index (EUR). On the other hand, at +5 % the maximum positive deviation lies about 2% above that of the bond indices and 2% below that of the MSCI All Countries World Index (EUR).

In addition to the stable investment characteristic of the water infrastructure sector, another reason for this lies in the active, value-oriented investment approach of the investment committee, which is based on fundamental analysis. Furthermore, the investment guidelines allow for hedging of the market as well as currency risks.

Since we are comparing two different asset classes (bonds and equities) in Figures 1 and 2, we would now like to illustrate the risk-adjusted value added by the focused infrastructure portfolio versus the bond indices.

The following table shows the performance per unit risk (volatility) based on annualised performance and volatility over 5 years.

Period under review 2013 - 2017	**Hornet Infrastructure - Water Fund (EUR)**	Global Aggregate Bond Index (EUR)	Global Inflation-linked Bond Index (EUR)
Performance per annum	**7.4%**	2.7%	3.4%
Volatility per annum	**9.4%**	5.7%	6.7%
Performance per unit risk	**0.79**	0.47	0.50

Source: Bloomberg data

Table 2: Risk-adjusted performance in comparison to global bond indices

3. Summary

We observe, like an increasing number of investors, such as foundations, pension schemes, family offices and other sustainably oriented organisations, institutions and governments, that investments in infrastructure in general and in water distribution in particular serve a precious social purpose.

The great investment need will in the future be less financed through borrowed capital, but rather through equity capital, the return on which also compensates the risk of long-term maintenance and operation of infrastructure facilities.

Long-term sustainable investment returns from dividends and capital growth lie in the region of 5-7% net p.a.

Investment in this sector is to be recommended in this very low interest environment, despite the change in asset class. Therefore it is recommended to discuss the investment profile with the client and change it accordingly.

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