

## Financial Services Sector insights

### Our investments

### Financial Services

Successful investment in financial services demands a deep sector understanding and comfort with navigating the regulated environment, combined with both regional expertise and international reach, and it is therefore well-suited to Cinven.

Our Financial Services team of eight investment professionals has established itself as one of the foremost private equity investment teams in the sector over nearly a decade. So far it has invested €900 million in four companies.

### Our Financial Services portfolio in 2014

**Avolon**  
partially realised

**Guardian Financial  
Services**  
current

**Heidelberger  
Leben Group**  
new in 2014

**Partnership**  
partially realised

Partners

Portfolio companies in 2014

2

4

## Our investments

Financial Services

Sector insights continued

“Our financial services investments include stand-out leaders and market consolidators, having a transformative effect on their industries.”

Caspar Berendsen Cinven Partner

### Challenges and opportunities

More than six years on from the global financial crisis, we are entering a phase of more measured portfolio restructurings by larger financial institutions which, combined with the adoption of new crisis-driven regulation, will drive significant new transaction opportunity in the sector.

In particular, we continue to see opportunities in the insurance sector, both in Northern and Southern Europe, in non-bank finance and in wealth management.

Unusually for financial investors, given our team's skills and experience, we are comfortable with taking balance sheet risk, which affords us access to a relatively uncontested market for such assets. We are also willing to buy relatively small financial services businesses and provide significant capital funding in order to finance their growth, particularly through buy and build strategies.

### Generating exceptional value

During 2014 we made a major new financial services investment, in Heidelberger Leben, a German life and deferred pension products provider. Our investment strategy dramatically recasts



Financial Services sector Partners

- 1 Caspar Berendsen Partner
- 2 Peter Catterall Partner

the company's role in the market, from a small life insurance business to a well-resourced consolidator of closed life books across the German speaking markets. Following our investment in April 2014, the company has since acquired the German and Austrian businesses of Skandia, with €4.9 billion in assets under management.

The Heidelberger Leben investment follows our investment in Guardian Financial Services, which is now the largest privately held life insurance business in the UK and continuing to grow rapidly.

Our partially realised investment in London-listed Partnership has so far generated a money multiple of 1.9x cost, based on the share price at 31 December 2014,

which combined with fair value indicates a money multiple of 4x. This is despite the fact that an unexpected government policy change announced during 2014 imposed significant uncertainty on the broader annuities market. Given Partnership's specialist focus, the company and its customers may ultimately benefit from the increasing flexibility in the construction of tailored annuities that the policy change will introduce.

In December 2014, aircraft leasing business Avolon listed in New York, raising \$273 million. Cinven invested in the specialty finance business in May 2010 and provided significant capital to finance its international growth.

## Our investments

### Financial Services



#### Overview

Avolon is a global aircraft leasing business headquartered in Dublin with additional offices in New York, Hong Kong, Singapore, Dubai and Shanghai. Avolon focuses on the acquisition of the latest generation of narrow-body, fuel efficient aircraft.

#### Investment thesis

Our Financial Services team identified the aircraft leasing market's temporary dislocation following the financial crisis, as an investment opportunity. Despite long-term structural growth characteristics – more than 40% of new aircraft are leased compared to less than 20% 15 years ago. Avolon was well positioned to execute a growth strategy in the sector given an experienced management team and their network of senior contacts in the airline, manufacturing and airline banking sectors.

#### Progress in 2014

Avolon performed strongly in 2014, following several years of intensive value creation that has included expansion into Asian markets, new equity from the Government of Singapore and the launch of Avolon Capital Partners, a Wells Fargo joint-venture to build a \$500 million aircraft portfolio. During the year, Avolon signed lease agreements for 46 aircraft, took delivery of 41 aircraft, added eight new customers and sold nine aircraft. Avolon continued to secure further incremental debt to facilitate growth, raising \$2.3 billion over the course of 2014.

In December, Avolon listed on the New York Stock Exchange raising \$273 million. Cinven sold 17.5% of its shares at IPO and retains a 17.3% stake in the business, which is subject to a six-month lock-up, expiring in June 2015. The company's projected earnings growth and visibility, coupled with an anticipated closing of the IPO discount over time, provides an encouraging backdrop for future disposals.



CEO  
**Domhnal Slattery**

Cinven representatives  
**Caspar Berendsen**  
**Maxim Crewe**

[www.avolon.aero](http://www.avolon.aero)

Acquired  
**May 2010**

HQ  
**Ireland**  
(global operations)

Sales  
**\$606m**

12 months ending December 2014  
(audited)

Employees  
**63**  
(approximate)



## Our investments

### Financial Services



#### Overview

UK-based Guardian Financial Services (Guardian) has provided life insurance and pensions products for nearly 200 years. Cinven approached Guardian's owners AEGON in 2009 and when the business came up for sale in 2011 Cinven was the sole private equity group invited to make a final offer for the business. Since Cinven's acquisition in late 2011, the company has acquired c. £10 billion of life assurance books across the UK and Ireland.

#### Investment thesis

Cinven's Financial Services team actively targeted the closed life book segment as ripe for consolidation, with strong deafflow from financial institutions seeking to divest. Guardian, which had been closed to new business for 10 years, was identified as an ideal platform for such consolidation, while de-risking its with-profits fund, implementing upgraded asset management and improving the company's processes and customer service.

#### Progress in 2014

In May 2014 Guardian completed the acquisition of 330,000 Ark Life policies from Allied Irish Bank representing £3.5 billion of assets. In July 2014 Guardian acquired a second portfolio from Phoenix, funded from surplus capital on Guardian's balance sheet, this time £1.7 billion of in-payment annuities, increasing Guardian's assets under management to £17 billion and around 900,000 policies. Cinven and Guardian's management continue to cultivate an attractive pipeline of acquisitions, while continuing to make progress in all areas of the value creation plan.



Chairman  
**Ian Owen**

Cinven representatives  
**Peter Catterall**  
**Caspar Berendsen**  
**Rory Neeson**

[www.guardianfs.co.uk](http://www.guardianfs.co.uk)

Acquired  
**Nov 2011/July 2012/  
May 2014/July 2014**

HQ  
**UK**

Market consistent embedded value

**£2,713m**

12 months ending December 2014  
(actual)

Employees

**190**

(approximate)



## Our investments

### Financial Services

## Heidelberger Leben

### Overview

Heidelberger Leben Group is a German life and deferred pension products provider. At acquisition the company had around 600,000 policies and €5.2 billion of assets, with relatively young and affluent policyholders. Our Financial Services team initiated discussions with Heidelberger Leben owners Lloyds Banking Group and acquired the business following a bilateral process. Cinven introduced reinsurance company Hannover Re as a minority strategic investor.

### Investment thesis

Following our success in consolidating the UK life insurance market with Guardian Financial Services, we see Heidelberger Leben Group as a rare opportunity to repeat this in German-speaking markets. New EU regulation has made guaranteed life books less attractive for insurers,

which are looking to close to new business and divest their portfolios, and there is significant scope for an industry consolidator to benefit from efficiency savings and operational improvements.

### Progress in 2014

Since Cinven's acquisition, the company has already made significant progress in a number of areas. It has acquired Skandia's German and Austrian businesses; with c. €4.9 billion of assets under management and approximately 400,000 policies, as an ideal first acquisition to start Heidelberger Leben Group's consolidation strategy. It has significantly enhanced its management team, including a new CEO, COO, Chief Actuary, Chief Investment Officer, Chief Information Officer and non-executive Chairman. The company has also made significant progress in integrating Heidelberger Leben Group and Skandia and in its IT improvement plans.



Non-Executive Chairman  
**Rolf-Peter Hoenen**  
CEO  
**Heinz-Peter Roß**

Cinven representatives  
**Caspar Berendesen**  
**Rory Neeson**

[www.heidelberger-leben.com](http://www.heidelberger-leben.com)

Acquired

**April 2014**

HQ

**Germany**

Group traditional embedded value

**€1,004m**

12 months ending December 2014  
(preliminary)

Employees

**480**

(approximate)



## Our investments

### Financial Services

#### Overview

Partnership provides annuities for retirees with a reduced life expectancy due to a medical condition, and who therefore qualify for higher annuity payments, or require products to cater for their long-term care.

#### Investment thesis

In Partnership, Cinven saw a well-managed business in a market with strong structural growth trends and significant scope for organic growth. Unusually, Partnership owns the actuarial data used to price longevity, driving more efficient margins, and ensuring the company can offer a better deal for customers.



#### Progress in 2014

Under Cinven's ownership, Partnership invested in its leadership and technical teams, and built on its market leadership with new product launches, such as 'Equity Release' and by securing exclusive long-term contracts with major distribution partners such as financial adviser networks and corporations.

In June 2013 the company's listing on the London Stock Exchange was nine times oversubscribed. As a result of the IPO, Cinven has realised 1.9x cost, and there have been no further sell downs since the IPO. Cinven retains a 52% stake in the business. In March 2014, the UK Chancellor announced unexpected budgetary reforms, that increased the flexibility retirees would have regarding their pension, prompting significant market uncertainty.

Cinven believes Partnership's core product remains strongly relevant to a segment of retirees that are seeking a guaranteed income for life. Partnership is broadening the company's offerings (including a strengthened defined benefit proposition) and positioning it for the new regulatory regime as it came into effect in April 2015.



Chairman  
**Chris Gibson-Smith**  
CEO  
**Steve Groves**

Cinven representatives  
**Peter Catterall**  
**Maxim Crewe**

[www.partnership-group.co.uk](http://www.partnership-group.co.uk)

Acquired  
**August 2008**

HQ  
**UK**

Market consistent embedded value  
**£576m**

12 months ending December 2014  
(actual)

Employees  
**427**  
(approximate)

