

Scope confirms KGAL Group's rating of AA- (AMR)

This confirms the company's very high quality and expertise in the asset management of aircraft, real estate and renewable energies. The aircraft segment is confirmed with AA (AMR) and the Real Estate and Renewable Energies segments with AA- (AMR).

The KGAL group, based in Grünwald (near Munich), was founded in 1968. The company's original objective was to finance national customers' real assets through leasing. It then developed into one of Germany's leading lessors of real estate. KGAL entered the closed-end fund sector in 1990 with the launch of a closed-end aviation fund. Today, the company is one of the leading investment and asset managers in the aviation sector.

Since 2013, the company has concentrated on the institutional sector and was able to further expand its business in all evaluated segments. Since 2019, KGAL has again been active in the private investor sector via an open-ended real estate public fund.

The substantially above-average industry experience and company tenure at the board and management levels should also be highlighted. In organisational terms, clear responsibilities and representation regulations are in place. The quality of the investment processes and the risk management are of a very high standard.

The IT and process infrastructure is being continuously further developed and will form the basis for even more efficient processes. KGAL, for example, acquired a stake in the specialized information technology company control.IT. The full integration of reporting was expanded and is now used for all evaluated areas. With regard to digitalisation, KGAL is developing an online platform and investment products with its own fintech team, "physible", which is generally rated positively. The first bond has already been placed. The fact that KGAL does not have its own independent research limits its rating. However, the research department is to be built up in 2019, which will result in an increase in personnel.

The track record of the individual areas evaluated is above average compared to the industry as a whole. However, like other asset managers, KGAL faces the challenge of acquiring suitable properties in the current challenging market price environment.

Real Estate

Since 1968, KGAL has launched an individual mandate, eight institutional investment funds and club deals as well as around 150 mutual funds and private placements in the real estate segment. So far, properties have been acquired for more than EUR 20 billion. The investment focus in office real estate is on the top 20 cities in Germany and on European metropolises such as Vienna, Dublin, Budapest and Amsterdam. In the retail real estate segment, the focus is currently on mixed-use district centres and specialist retail centres in

Germany and neighbouring countries, while in the residential segment the focus is primarily on core investments in prime locations. In 2019, the open-ended real estate public fund KGAL immoSUBSTANZ was launched and the company returned to the retail client market.

Since 2000, the real estate dispositions from liquidated institutional products as well as private investor products realised above-average returns, with a pre-tax IRR of 9.7%. The average investment period was 7.3 years.

Renewable Energies

KGAL has been active in the onshore wind sector since 2003 and in photovoltaics since 2005. At the end of 2018, the investment volume in this segment amounted to EUR 2.9 billion. Throughout Europe, it is divided among 61 solar parks, 54 wind parks and six hydroelectric power plants. In 2019, the company entered a new asset class by acquiring a stake in an offshore wind farm. This portfolio makes KGAL one of the largest asset managers in the renewable energy segment in Europe.

The portfolio is divided into four institutional funds, one individual institutional mandate and nine mutual funds and private placements. Due to the buy-and-hold strategy and the associated long-term fund maturities, no exits have yet been recorded for the investments launched to date. Three of the four retail funds that invest in German photovoltaics were able to exceed their planned payouts, in some cases significantly, as electricity revenues were higher than calculated. The remaining mutual funds invested primarily in Italian and Spanish photovoltaic systems, the disbursements for which are well below their forecast values due to retroactive changes in feed-in tariff regulations. The ESPF 4 fund, which is currently being placed, is to be closed in the third quarter of 2019 with equity capital of EUR 650 million and will also invest in assets that are still in the development or construction phase.

The current return of institutional investor products is in the range of 4.1% to 9.4%.

Aviation

KGAL has been active in the aircraft segment since 1979. To date, it has executed more than 850 transactions for 81 private placements and other investment models as well as 58 retail and three institutional funds in the aircraft segment. Including the three portfolio funds for institutional investors, the cumulative investment volume of the aircraft funds managed to date amounts to more than EUR 7.9 billion.

In the aircraft segment, the company covers the entire value chain in-house, which is one of the positive rating drivers. GOAL acts as KGAL's exclusive technical asset manager in the aircraft sector. GOAL was founded in 1998 as a joint venture between KGAL and Lufthansa. KGAL holds a majority interest of 60%. More than 250 aircraft and engine transactions have been completed to date as part of the cooperation. With a fleet of 57 aircrafts, GOAL is currently the largest operating lessor of aircraft in Germany and one of the 50 largest in the world. The active portfolio of operating funds has made attractive annual distributions so far.

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The present management rating was generated and written by: Frank Netscher, Associate Director, Lead Analyst.

Management rating history

02.08.2019 | Affirmation | AA⁻AMR
02.08.2018 | Initial Rating | AA⁻AMR

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Contact

Scope Analysis GmbH
Lennéstraße 5
10785 Berlin
Germany
Phone +49 30 27891-0
Fax +49 30 27891-100
VAT-ID DE226486027

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Contact

Analyst	Frank Netscher	f.netscher@scopeanalysis.com
Team leader	Sonja Knorr	s.knorr@scopeanalysis.com
Press	André Fischer	a.fischer@scopegroup.com



Scope Analysis GmbH • Lennéstraße 5 • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scopeanalysis.com

Executive Board: Torsten Hinrichs, Said Yakhloufi • District Court: Berlin Berlin-Charlottenburg: HRB 97933 B • VAT identification number: DE226486027

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