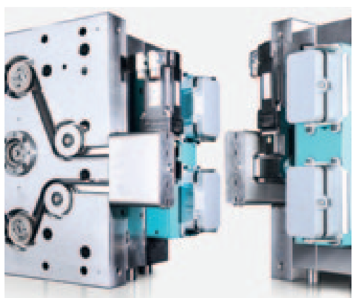
3i Group plc

Overview of strategy and business model

Extract from the 3i Group plc Annual report and accounts 2013


Private Equity


Infrastructure


Debt Management

Our strategic goal

Clear vision and strategy

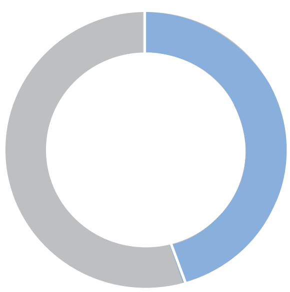
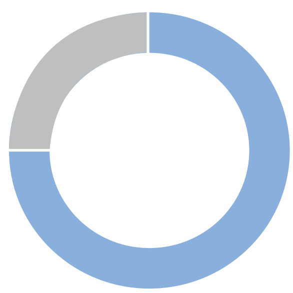
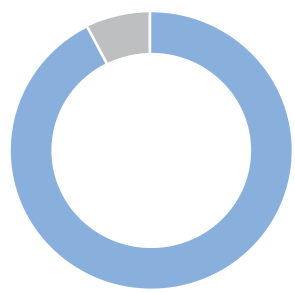
3i's strategic goal is to be a leading international manager of third-party and proprietary capital with three strong investment businesses delivering top quartile cash investment returns over the longer term:

- Focused mid-market **Private Equity**;
- Class-leading **Infrastructure**; and
- Growing **Debt Management**.

Each of these businesses has different drivers and return characteristics. Together, they provide an attractive balance of income and capital returns.

We believe that the combination of our asset management skills across these three complementary platforms, together with our strong balance sheet and access to permanent capital, represents a differentiated and attractive value proposition.

Three strong and complementary business lines

	Private Equity	Infrastructure	Debt Management
Illustrative capital allocation			
Key return drivers	1. Portfolio returns 2. Portfolio income 3. Fee income	1. Portfolio income 2. Fee income 3. Portfolio returns	1. Fee income 2. Portfolio income 3. Portfolio returns
Key characteristics and sensitivity to market cycle	■ Pro-cyclical asset class ■ Realised and unrealised capital gains and carried interest	■ Counter-cyclical asset class ■ Income from investment portfolio ■ Recurring annual fee income from permanent capital vehicle	■ Low exposure to volatility of underlying assets ■ Recurring annual third-party fee income ■ Proprietary capital "light"

The 3i Value Build

The clear objective of all of the steps within our multi-year strategic plan is to improve business performance and maximise value for 3i, its shareholders and its fund investors – we call this the "3i Value Build" and it comprises:

Grow Private Equity investment portfolio earnings	■ Grow NAV
+	
Realise investments at good uplifts to book value and strong cash-on-cash multiples	■ Optimise value of existing portfolio and enhance P/NAV rating
+	
Generate a sustainable annual operating profit from our fund management activities	■ Add value beyond NAV
+	
Utilise strong balance sheet and permanent capital	■ Invest in value-creating growth opportunities
+	
Increase shareholder distributions through our enhanced distribution policy	■ Greater capital efficiency; focus on shareholder distributions and attractive re-investment opportunities

Delivering our strategic goal

Our future strategy

On 29 June 2012, following a strategic review of the business, we announced the future strategy for 3i and our immediate priorities for the business.

The first step in FY2013 was an extensive organisational change and cost reduction programme – the year of "**Restructuring**". We have made significant and rapid progress with this restructuring plan and we have met or exceeded all of our targets for the business in FY2013.

We believe that these actions have established solid foundations for 3i's future growth and success, and we expect to see further benefits coming through in FY2014 and FY2015 – the years of "**Transition and delivery**".

Key phases of our strategic plan

FY2013

Restructuring

Immediate priorities:

- **Reduce** operating costs; create a leaner organisation
- **Reduce** gross debt and funding costs materially
- **Achieve** greater central control and business focus
- **Improve** consistency and discipline in investment and asset management
- **Re-focus** and re-shape the Private Equity business
- **Review** Group-wide compensation and define new arrangements

FY2014–15

Transition and delivery

Key objectives:

- **Cover** operating costs with annual cash income
- **Grow** third-party income and generate a sustainable annual operating profit from our fund management activities
- **Improve** capital allocation, focusing on enhanced shareholder distributions and re-investment in our core investment businesses

FY2016+

Strategic goal

Clear strategic goal:

To be a leading international manager of third-party and proprietary capital with three strong investment businesses delivering top quartile cash investment returns over the longer term:

- Focused mid-market **Private Equity**
- Class-leading **Infrastructure**
- Growing **Debt Management**

Our strategic priorities and progress

Strategic priorities	Progress in FY2013	Priorities for FY2014–15
1 **Create a leaner organisation with a cost base more closely aligned with its income**	■ Net reduction of 168 staff before Debt Management acquisitions; ahead of target reduction of more than 160 staff ■ Re-shaped international network with closure of six offices, reducing network to 13 offices ■ Achieved greater central control and business focus through removal of organisational complexity and bureaucracy ■ £51m run-rate operating cost reduction; 28% ahead of £40m target	■ New target of £60m of cumulative run-rate operating cost reduction by 31 March 2014; 33% increase from original target of £45m ■ Cover operating costs with annual cash income by 31 March 2014 on a run-rate basis
2 **Improve consistency and discipline of investment processes and asset management approach**	■ Substantially implemented programme of six asset management improvement initiatives across Private Equity – Investment review process – People: governance and resourcing – Operational capabilities, knowledge management and networks – Monitoring and performance tracking – Valuation process, exit strategy and planning – Systems upgrade and reporting ■ Implemented new vintage control policy	■ Grow Private Equity investment portfolio earnings through asset management improvement initiatives ■ Continue to re-establish investment track record through improved performance and new investment ■ Roll-out of upgraded Private Equity system
3 **Re-focus and re-shape the Private Equity business**	■ Combined into single business unit ■ Re-focused Private Equity on mid-market investing in our core northern European markets, North America and Brazil ■ Continued to manage intensively the existing portfolio with total realisations of £575m, representing an uplift to opening value of 49% and a money multiple of 2.1x	■ Continue to manage intensively the existing portfolio and realise investments at values representing good uplifts to book value and strong cash-on-cash multiples, thereby optimising the value of the portfolio for 3i, its shareholders and its fund investors ■ Selective investing in our core markets using a combination of proprietary capital and third-party co-investment
4 **Grow third-party AUM and income**	■ **Private Equity** – Established framework arrangements with a number of leading investors to invest alongside 3i in Europe – Completed second Brazilian investment alongside co-investors ■ **Infrastructure** – European portfolio continued to perform well and generated a strong level of portfolio income ■ **Debt Management** – Substantial increase in third-party AUM from £3.3bn to £6.4bn – Acquisition of Invesco European CLO management contracts – Strategic transaction with Fraser Sullivan, to establish US debt management platform – Launched two US CLOs, raising c.US$1bn	■ Continue to explore opportunities to further grow and develop our three fund management platforms ■ Grow annual operating profit from fund management activities, demonstrating additional value beyond NAV
5 **Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business**	■ Announced strengthened distribution policy in May 2012 to give shareholders a direct share of our realisation proceeds ■ Achieved gearing of less than 20% and gross debt reduction ahead of schedule to less than £1bn – 44% reduction in gross debt from £1.6bn to £0.9bn by 30 April 2013 (31 March 2013: £1.1bn) ■ Reviewed Group-wide compensation arrangements. Established new principles and designed new arrangements	■ Initiate additional shareholder distributions above the annual base dividend in respect of FY2014 ■ Reduce gross interest payable to less than £60m, excluding costs of early debt repayment ■ Implement new compensation arrangements across the Group