Investor Interview

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What is Pantheon's current infrastructure portfolio composition (region, sector, investment type etc.)? Will it be adjusted in the next 12 months?

Our most recent global infrastructure fund, which we announced in March last year had closed oversubscribed, has an OECD markets, core and core-plus and secondaries & co-investments focus. We were an early pioneer of infrastructure secondaries – our private equity secondaries franchise was established in 1987 – so it made sense for us to major on secondaries in this, Pantheon's second vintage, global infrastructure program. Whilst we always retain the flexibility to make tactical allocation adjustments where we see compelling drivers or opportunities, we don't foresee any significant adjustments, although, of course, in light of the UK's vote to leave the EU, we will be closely monitoring developments as exit negotiations get underway during September.

What impact will Brexit have on global and European infrastructure markets? Will it affect Pantheon's current / future strategy and allocation?

Our approach is to focus on building diversified portfolios with inflation protection and the potential for cash yield and attractive risk-adjusted returns. As with our private equity strategies, our various programs – funds and separate accounts – generally target a mixture of primary funds, co-investments and secondaries, spread between different geographies, stages, sectors, vintages and managers.

Post-Brexit the early sentiment amongst our infrastructure GPs has reaffirmed our view that infrastructure assets are generally expected to continue to perform well based on their long-term predictable cash flows, strong cash yield and in many cases low or no correlation to GDP. We expect the short term impact of Brexit on infrastructure investments to be principally influenced by currency volatility - devaluation in Sterling and to a lesser degree Euro denominated assets in dollar denominated vehicles. Projects tend to have limited cross border exposure which reinforces the traditionally defensive nature of the asset class as a whole.

Although early days, a common response from our GP community at this point is that they expect some attractive opportunities to present themselves and whilst the scale of the task ahead for the UK and the EU cannot be underestimated, the fundamentals of the UK and most EU economies remain intact in their view.

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At this stage, our GPs are reporting no intention to change their investment strategies, although they indicate they will exercise caution on "tail risks" of further EU contagion and Sterling-linked assets. Some dollar based investors believe this could be an opportunity to acquire assets at attractive valuations.

Through Pantheon's history, our robust investment approach and ability to select quality managers has enabled us to ride out several challenging macroeconomic periods. We have confidence that our managers will continue to demonstrate their ability to navigate turbulent times and seek out attractive opportunities.

At this stage, we do not see any reason to change our longer term geographic or sector allocations. But obviously we are carefully watching developments.

Some institutional investors start to build/have built their in-house management capacity. What still attract investors to invest through infrastructure fund/fund of funds?

Any mature asset class experiences cycles whereby as long-standing investors become more confident in their capabilities and knowledge, they may decide either to incorporate some direct investment into their approach, or, more typically at the larger end of the LP market, move fully to a direct investment model. For many investors, including new LPs entering the asset class for the first time, the cost and bidding risk involved with a direct platform can be prohibitive and often investors prefer to build experience in the sector by partnering with a manager through a fund of funds. In today's competitive infrastructure market access to top tier GPs is often restrictive and fund of fund platforms with strong existing relationships can be well placed to help new investors get access. In the infrastructure secondaries market, it can be more difficult for LPs to go it alone given the relative immaturity of this part of the infrastructure market.

A fund of funds can offer the advantage of providing access to investment experience, global manager coverage, monitoring, due diligence, deal sourcing and completion, operational, tax and legal support, reporting – myriad functions which investors would otherwise need to staff and provide themselves. Some don't have the scale or desire to do this, others can't justify the outlay given their allocation size. There can be all sorts of practical drivers for preferring to access the asset class through a fund of funds. But ultimately, and this should be the key factor, if you can generate the net performance that investors are seeking, then a fund of funds makes sense in my view. We have investors who want us to manage very specific strategies for us; others who come to us to access co-investment opportunities; others who seek a portfolio of quality managers they cannot access themselves. Investors will always have a range of drivers and factors and there will be never be a single solution that works for them all.

How is the current secondary market for LP interests? Do you see more opportunities or challenges from deal sourcing, pricing and performance?

Deal flow in the global infrastructure market continues to climb – a trend we have watched since 2010 when the market really started to gain traction. At the end of 2015, the volume, as estimated by market intermediaries, was hovering just below $10 billion, a dramatic ballooning over a 12-month period. We are well placed to see the majority of that deal flow and have been consequently well placed to pick our preferred investments judiciously.

Our privileged position in the market as a result of our long-standing presence and deep network of managers helps us to spot value and, at the moment, we see these particularly in 'off the beaten path' opportunities as well as in the dislocated energy market.

Of course, the explosive growth in the secondaries market is a sign of it attracting more participants. This happened in the infrastructure primary market in 2012 and was one of the drivers for our portfolio tilt towards secondaries where, at that point, the market was considerably less crowded. Avoidance of what we call the 'crowded core' has been a key factor for our second vintage fund that, in my view, differentiated Pantheon's strategy and attracted the high demand we saw from investors.

Which sectors and countries in Europe are expected to present good investment opportunities in the next 12 months?

On a global basis, we have been favouring growth-oriented co-investments and defensive energy transactions. Closer to home, the impact of Brexit cannot, of course, be downplayed at this early stage. At the very least, it will provide pause for thought as the UK's exit path clarifies. But as I mentioned earlier, some dollar based investors will likely position themselves to acquire assets at attractive valuations.

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