Q&A

LP CORNER

IMOGEN RICHARDS

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Pantheon's Richards discusses recent deal flow, the LP's portfolio and the changing LP-GP relationship during and after the pandemic.

By *Talya Misiri*

In what ways has Covid-19 impacted investment at Pantheon?

Covid-19 has undoubtedly had a big impact on all of our lives, and investment has not been immune from that.

The negative effects have primarily been concentrated in certain sectors, particularly those related to travel and tourism, that rely on physical retail sales or manufacturing supply chains that have been disrupted.

On the other hand e-commerce companies and providers of healthcare products and services are seeing an increase in demand. The impact of knock-on effects for a broader range of companies is inevitable, but are hard to estimate at this stage as it depends to a large extent on how quickly the global economy can recover from the long term impacts of the virus.

Recent deal flow has been mixed, with some areas experiencing a slow down, but other asset classes seeing increased opportunities. The market disruption is inevitably creating interesting opportunities that will present a strong buying opportunity, but there is a heightened risk barrier on new investments relating to the impact of current environment. We are also actively pursuing creative structures that can provide robust downside protection, whilst maintaining exposure to equity upside.

In terms of the impact on the current portfolio, valuations of private assets fell around 3-8% in Q1, however we expect these to fall further in Q2. We have developed a proprietary in-house system that provides us with an additional benchmark to track how private valuations are likely to be impacted based on daily public market movements, which has been especially interesting in the current environment. We've also seen a marked decrease in distributions from assets received this year so far, as well as significant increases in capital calls received from investments, neither of which is perhaps surprising, and we expect existing investments to require follow on investment to protect existing capital.

How are you monitoring your portfolio? What conversations are you having with funds and how have these changed?

We are in constant dialogue with all of our GP relationships to understand the potential impact of the current environment on their portfolio companies. We've been impressed with the level of communication and information we have received, and in general our GPs are on top of their portfolios and are taking action where appropriate to mitigate the impact of Covid-19 on their companies and employees.

A particular focus has been to better understand the liquidity positions of companies in our portfolio, and their ability to withstand significant cashflow disruption in the near and medium term, and also the likely impact on valuations. Our investment risk committee has also been very actively monitoring the situation such as the implications of forex risk, potential for defaults, impact of debt etc.

Are you considering new allocations at present?

Yes, we're investing cautiously.

How important is ESG in your investment strategy at present?

It is still a very important aspect of investing and firmly remains at the heart of our investment strategy. It's heartening to see the role that private capital can play in community initiatives and we've been delighted by the responses by many of our GPs around the world to support their local communities.

How will LP-GP relations change post-Covid-19?

The environment has resulted in more frequent touch points with GPs, and because meetings are being held virtually, it has freed up time from travelling and enables broader reach of our GP relationships. We expect that virtual calls will become the norm, and we've all learned the value of communication. Providing information and being on the front foot has been very valuable both for us from our GPs and also from us to our LPs, and I think this level of communication will be expected going forwards.

We have been able to maintain strong relationships with GPs, and actually I think the increased communication will further strengthen them. We're also still seeing that it's possible to close capital and open new relationships with our own investors, and it's possible we will close capital without having met a new client in person. Hopefully when we come through the other side of this crisis we will be able to hang on to the positives that we've learned from this period of disruption, whilst also being able to reintroduce those elements of personal interaction that we are all missing during these times.

About Pantheon

Pantheon invests in primary, secondary and co-investment strategies across private equity, infrastructure and real assets. Opportunities are sourced through deep relationships and an extensive global network.

Many of the managers that Pantheon commits capital to have been known to the investor for a number of years. It is familiar with their investment strategy, their portfolio, their investment teams and what motivates them. Equally, Pantheon is an advocate of emerging managers and new opportunties.

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