

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	6 December 2022
Classification:	General Release (Appendix 1 is exempt)
Title:	Pantheon Global Infrastructure Fund IV
Wards Affected:	None
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report.
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1 EXECUTIVE SUMMARY

- 1.1 As agreed at the last Pension Fund Committee meeting on 27 October 2022, this paper provides further due diligence on the Pantheon Global Infrastructure Fund IV, should the Committee wish to maintain the current 5% strategic asset allocation to Pantheon in the future.

2 RECOMMENDATIONS

- 2.1 The Pension Fund Committee is recommended to:

- Consider the views outlined by Deloitte, attached in appendix 1, with an investment strategy review to take place for discussion at the next Pension Fund Committee meeting on 9 March 2023.
- Approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person, including the authority holding that information, as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3 BACKGROUND

- 3.1 At the Pension Fund Committee on 27 October 2022, the Committee agreed to undertake further due diligence on the Pantheon Global Infrastructure Fund IV (PGIF IV). The paper, produced by Deloitte, attached at Appendix 1, provides further details on the Environmental, Social and Governance (ESG) processes and Pantheon's cashflow analysis underlying assumptions.
- 3.2 Infrastructure assets can be defined as those that are required by society to facilitate the operation of the economy: this includes transportation, utilities, energy distribution and telecommunications.
- 3.3 The secondary market gives investors the opportunity to access assets that are already fully functioning and tend to be more yield generating in comparison to primary investments. Co-investments allow investors to invest additional capital alongside a fund manager to gain direct exposure to an infrastructure position, which they could not usually access due to lack of experience or lack of capital resource.
- 3.4 As at 30 September 2022, the PGIF III fund was 80% drawn, with the remaining commitment expected to be called by early 2023. Based on the current market value of £68.9m, the portfolio's allocation totals 4.0% of the Pension Fund's strategic asset allocation, with the Fund's remaining commitment expected to take the allocation to circa 5.0%.
- 3.5 The PGIF III fund has a close-ended structure with the investment period to finalise over the coming months. From 2023 onwards, PGIF III will begin to return capital to investors as the underlying assets are realised. Therefore, the allocation will continue to reduce over the next seven years.

4 PANTHEON GLOBAL INFRASTRUCTURE FUND IV

- 4.1 The Pantheon Global Infrastructure Fund IV (PGIF IV) was launched in 2021, and broadly exhibits the same characteristics as PGIF III, with a similar investment process. The fund has a ten-year, close-ended structure with circa 70% of assets within the secondary market and the remaining allocated to co-investments.
- 4.2 Pantheon embeds ESG factors into its investment process, with bespoke ESG due diligence undertaken at the general partner and asset based level. This includes an in depth risk assessment and risk ratings assigned to counterparties, which are assessed on an annual basis. As part of this process, Pantheon considers several ESG key performance indicators (KPIs) including company policy, investment team and due diligence processes, and reporting and monitoring.
- 4.3 At the Pension Fund Committee meeting on 27 October 2022, Pantheon provided modelling to estimate the required commitment to PGIF IV in order to:

- **Scenario 1: No Growth Assumption**

Maintain a net asset value of 5.0% across PGIF III and PGIF IV, assuming the Fund's investment portfolio valuation remains relatively static; and

- **Scenario 2: 5% p.a. Investment Portfolio Growth**

Maintain a net asset value of 5.0% across PGIF III and PGIF IV, assuming a 5.0% annual growth rate of the Fund's investment portfolio valuation.

- 4.4 Deloitte has provided an in depth analysis based on the scenario cashflow analysis produced by Pantheon, attached at appendix 1. The details the expected drawdown timeline of PGIF IV, as well as the winding down and selling of assets within PGIF III.

5 CONCLUSIONS AND NEXT STEPS

- 5.1 Deloitte has prepared a report, attached at Appendix 1, which outlines the PGIF IV fund, with further due diligence on the products ESG process and cashflow assumptions. The Pension Fund Committee is recommended to consider the following:

- That the investment performance of PGIF III relative to the rest of the Fund may take the allocation higher or lower than the 5.0% allocated;
- Given that the mandate is denominated in USD, there is an element of currency exchange rate risk which will impact the market value; and
- The second scenario provided by Pantheon assumes a constant 5.0% annual growth, this may differ from actual performance.

- 5.2 Deloitte will undertake a review of the Pension Fund's strategic asset allocation following the 2022 actuarial valuation. This will be taken to the next Committee meeting on 9 March 2023. As part of this, Deloitte will consider the Fund's allocation infrastructure, should the Committee wish to allocate to PGIF IV.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDIX:

Appendix 1: Deloitte: Pantheon Global Infrastructure Fund IV – Follow Up (EXEMPT)