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London Borough of Hammersmith and Fulham Pension Fund

Partners Infrastructure Update

June 2021

Introduction

This paper has been prepared for the Pension Fund Committee ("the Committee") of the London Borough of Hammersmith & Fulham Pension Fund ("the Fund"). The purpose of which is to provide the Committee with information on the Fund's current investment within the Partners Group Direct Infrastructure 2015 Fund, including details on expected cashflows and the current underlying portfolio, and to provide details on Partners Group current direct infrastructure offering, the Partners Group Direct Infrastructure 2020 Fund.

This paper will outline considerations the Committee may wish to take with respect to their allocation to the infrastructure asset class as the Fund's current investment evolves and highlight any potential risks and issues that might arise. The information provided in this paper has been provided by Partners Group, with Deloitte partaking in a call with the manager on 8 April 2021.

Background

Following an investment strategy review in November 2014, the Fund agreed to a c. 5% allocation to infrastructure. During March 2015, a manager selection exercise was carried out with the Fund choosing to invest within the Partners Group Direct Infrastructure 2015 Fund, with a total commitment value of €55.0m.

At final close the Direct Infrastructure 2015 Fund had total commitments of €1,080.6m, with an expected 4-year drawdown period with the option to extend this by a further 12-months, if required. The total fund term was 12 years, with the option of a further three one-year extensions. The Fund made its first investment into the Direct Infrastructure 2015 Fund during August 2015, with the final close to new investors occurring in August 2017.

The Direct Infrastructure 2015 Fund is expected to achieve both a yield and capital return through a portfolio diversified by sector, global geography and stage of development with a focus on risk-adjusted returns. The fund is also able to invest in both infrastructure equity and debt opportunities.

Current Position

Since August 2015, the Direct Infrastructure 2015 Fund has issued 25 capital calls, as it draws down funds to invest, with the latest occurring in April 2021. For earlier investments, Partners Group has also been able to realise some of these investments, with London Borough of Hammersmith and Fulham Pension Fund subsequently receiving three distributions through three realisations, with two occurring during the fourth quarter of 2020.

As at 31 December 2020, the Partners Group has made 16 unrealised investments, which are predominantly within the energy infrastructure sector including within renewable energy generation and transmission, alongside communication and transportation based assets.

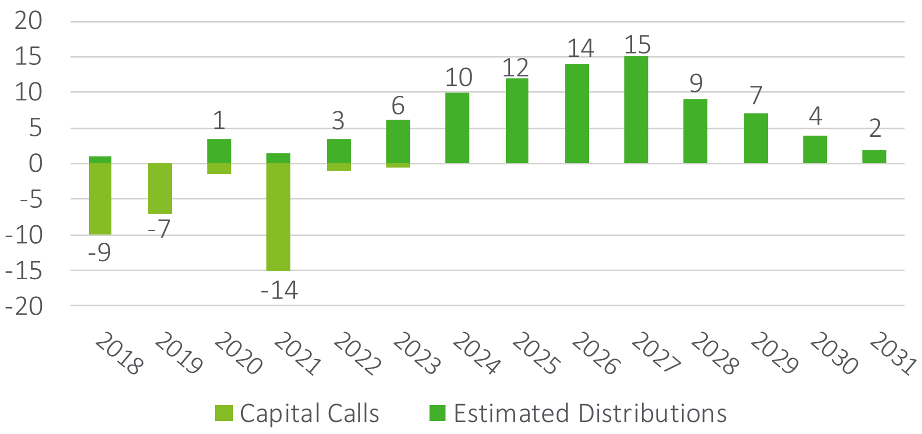
Partners Group have stated that the infrastructure fund is now c. 92% committed to opportunities and investments, with Partners Group likely to only make one or two future investments to fully commit all capital.

Despite the challenges to certain infrastructure sectors that have occurred due to the pandemic, the Direct Infrastructure 2015 Fund has benefitted from Partners Group strategy to invest in opportunities that are not dependent on GDP and for those that are, for them to be an essential service or with strong contractual backing. Resultantly since inception to 28 February 2021, the Fund's allocation has delivered a c. 7.1% p.a. return.

Expected Future Cashflow

As with any infrastructure investment, as the Direct Infrastructure 2015 Fund's investments begin to reach their maturity, the cashflow profile of the overall investment will begin to change from calling the remaining capital to higher amounts of distribution until the investments are all fully realised.

Partners Group have currently called a total c. €37.6m or c. 68% of the total commitment made by the Fund, with a further c. €17.4m expected to be drawn down over the remainder of the year. Partners Group have provided the following estimation of future cashflows for the Fund's investment as an illustrative guide dependent on future investment performance and market conditions:



Post 2022, it is expected that the Direct Infrastructure 2015 Fund will become a net distributor and return a significant proportion of capital between 2022 and 2027. As such this presents both a re-investment risk to the LBHF Pension Fund if the funds are not appropriately re-invested into assets, which occurs with the majority of infrastructure investments, and an opportunity to consider where to re-invest this capital.

One consideration that the Committee could choose to explore is to re-invest this capital into a newer vintage infrastructure fund to allow for a continuation of the Fund's current infrastructure allocation.

Partners Group Direct Infrastructure 2020 Fund

The Partners Group Direct Infrastructure 2020 Fund is the third vintage in the Direct Infrastructure series and resultantly follows a similar process and approach to the Fund's current investment.

As the sector has evolved since 2015, the target assets and themes have also developed to address areas of the market that Partners Group deems attractive, including decarbonisation, digitisation and 'new living', which includes mobility, water sustainability and other social infrastructure.

The latest fund continues to have a strong focus on ESG, which has been incorporated into Partners Groups four step approach to delivering investor return through sourcing, due diligence, holding and reporting. Sourcing includes the negative screening of illegal and harmful products/services and high-level ESG trends and themes, whilst Partners due diligence stage involves the identification and mitigation of material ESG risks. To ensure that future assets continue to meet ESG related metrics, continued management and responsible investment is continued over the lifetime of the investment, including necessary monitoring and reporting.

At a high level, the 2020 Fund is expected to have a similar geographic allocation to the 2015 Fund, predominantly across Europe and the Americas, with a small allocation to the Asia Pacific region.

Similarly, it is expected to target the same sectors, with investments across communication, energy infrastructure, renewable power, transportation, social infrastructure and waste/water management. Resultantly, Partners Group has sourced six seed assets that are expected to exceed $1bn in commitment value, which are expected to close during Q2 2021.

As a comparison, the terms of the 2015 and 2020 Funds as given by Partners Group are provided below:

	Direct Infrastructure 2015 Fund	Direct Infrastructure 2020 Fund
Fund size/AuM	€1,080.6m final close, €738.1m funded as at 3 May 2021	$5bn target, $3bn closed, $1.2bn committed as at May 2021
Liquidity	12-year close ended fund term with option for three 1-year extensions following final close. 4-year investment period with option for 1-year extension.	12-year close ended fund term subject to extensions. 4-year investment period subject to extensions.
No. of assets	19 (3 realised) as at 31 December 2020	c. 20 target
Performance/expected return	Since Inception: 10.5% p.a. as at 31 December 2020	Target: 8-12% p.a. with a 4-6% p.a cash yield
Management Fees	0.75% p.a. (the London Borough Hammersmith and Fulham received an early investor discount in 2015)	1.05% p.a. (LGPS discount)
Performance Fees	15% of performance above a preferred return of 6% p.a.	20% of performance above a preferred return of 7% (with 80/20 catch up)

[1]Source: Partners Group. EUR returns.

Deloitte Comments

The Fund's infrastructure allocation is likely to reduce from next year. Although this is expected to happen over a period of 8-10 years, by 2025 we would expect the allocation to almost half. Should the Committee wish to maintain this allocation, it would be worth considering over the next 6 - 12 months, given the relatively slow ramp up that a new allocation would take.

Partners Group have delivered strongly with the 2015 fund in terms of deployment, diversification and return. The 2020 fund looks to follow a similar structure but given changing market opportunities, may have more exposure to green/renewable energy sectors.

As part of any review, the Committee should also consider any infrastructure fund available through the London CIV.

Deloitte Total Reward and Benefits Limited

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Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.