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BY MARTEN & CO

INVESTOR

Pantheon Infrastructure

Investment companies | Annual overview | 6 March 2024

Compelling opportunity

At just over two years old, the Pantheon Infrastructure Trust (PINT) can claim to have seen a lot in its short life. Its positive net asset value (NAV) return over this period, despite increasingly challenging economic conditions, is a testament to the execution of the fund's advisers, and the stability of its assets.

Whilst the company's share price has fallen, this is more a reflection of negative market sentiment towards the broader infrastructure sector than any fundamental weakness on the part of PINT.

Promisingly, as the rate of inflation began to trend lower, sentiment towards the listed infrastructure sector improved steadily, particularly for companies such as PINT which maintained financial discipline as funding costs rose. Over the last few weeks, discounts to NAV have widened once more due to the rebound in inflation. However, despite these short-term fluctuations, we believe the PINT portfolio remains well positioned for significant growth.

Sector	**Infrastructure**
Ticker	**PINT LN**
Base currency	**GBP**
Price	**81.0p**
NAV	**106.3p[1]**
Premium/(discount)	**(23.8%)**
Yield	**4.9%**

Note 1) Morningstar estimate. Last published 106.62p as at 30 September 2023

PINT's 6.5% NAV total return over the past six months is the best in its peer group

Global high-quality infrastructure with strong ESG credentials

PINT aims to provide access to a globally diversified portfolio of high-quality infrastructure assets, primarily in developed OECD markets, which are expected to generate sustainable attractive returns over the long term. It targets co-investment assets that have strong ESG credentials and underpin the transition to a low-carbon economy.

Over the third quarter of 2023, PINT's NAV increase was driven by improvements in the underlying fair value of its assets

With interest rate expectations now heading down, this should allow the market to take stock of companies such as PINT which are, in our view, now drastically oversold

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Domicile	United Kingdom
Inception date	16 November 2021
Manager	Pantheon Ventures (UK) LLC
Market cap	380.3m
Shares outstanding (exc. treasury shares)	469,550,000
Daily vol. (1-yr. avg.)	739,294 shares
Net gearing	Nil

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Click for PINT's peer group analysis

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At a glance

Share price and premium/(discount)

Over the 12 months period to 29 February 2024, PINT's shares traded in a discount to NAV range of between 6.6% and 27.3%. On average, the discount was 19.8%.

As central banks increased interest rates to combat a dramatic surge in inflation, investment flowed towards risk-free government debt and away from capital intensive sectors such as infrastructure and utilities. However, inflation is now coming under control.

Time period 16 November 2021 to 4 March 2024

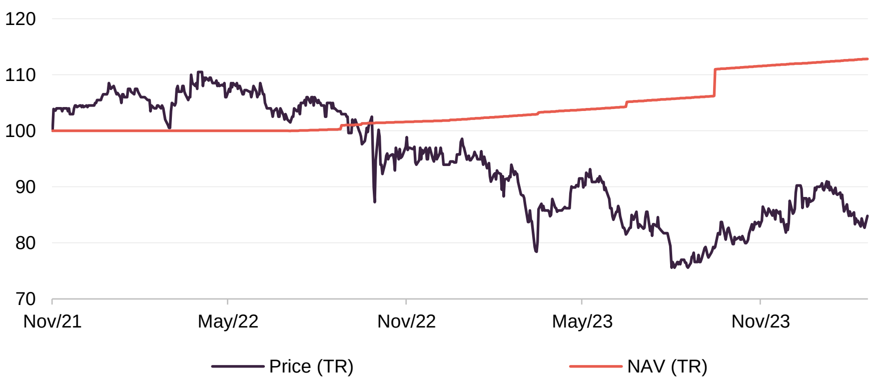
Source: Morningstar, Marten & Co

Performance since launch

Despite broader macro-economic headwinds, PINT's portfolio has continued to grow solidly, reflecting the quality of its underlying assets.

Unfortunately, the company's share price performance does not currently reflect its underlying fundamentals and, with market sentiment still tied to the trajectory of interest rates in the short term, this has allowed a significant discount top open up.

Time period 16 November 2021 to 29 February 2024



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	Dividend (pps)	Target dividend (pps)
31/12/2022	(10.4)	1.9	2.0	2.0
31/12/2023	(7.0)	9.9	2.0[1]	4.0

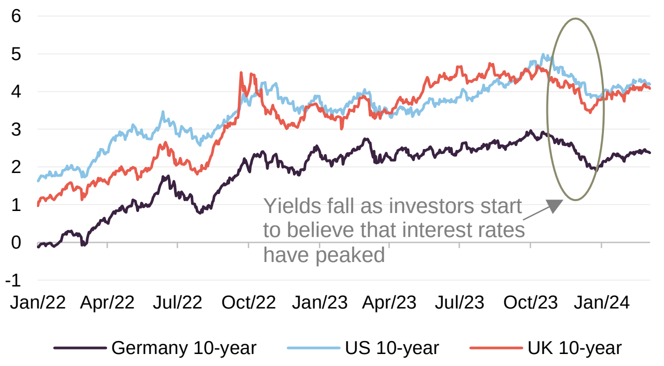
Source: Morningstar, Marten & Co

Market Backdrop

By now, the challenges faced by PINT and the broader infrastructure sector over the past 12-18 months are familiar. As interest rates rose to stem the tide of a dramatic surge in inflation, investment flowed towards risk-free government debt and away from capital intensive sectors such as infrastructure and utilities; this drove down share prices in these sectors. Since the end of 2023, however, the narrative has improved, with bond yields tumbling in December as inflation finally appeared to surrender to falling energy prices and more normal supply chains.

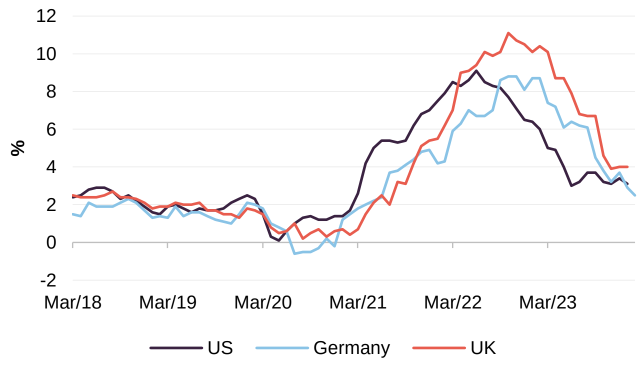
Figure 1 charts the yields on government debt maturing in 10 years for Germany, the US, and the UK. Figure 2 shows the annual rate of consumer price inflation (CPI) in those countries.

Figure 1: Benchmark 10-year yield curve



Source: Bloomberg

Figure 2: Headline inflation (CPI)



Source: Bloomberg

As markets began to price in a series of interest rate cuts over 2024, easier financial conditions juiced a global equity rally, despite headline inflation still running at almost twice the target rate (2%) in the UK and Eurozone. Unfortunately, this enthusiasm hit a speed bump in January as an unexpected uptick in inflation across developed markets sent bond yields skyward once more. The data provides a timely reminder that although interest rate cuts remain likely in 2024, market pricing for imminent and rapid cuts may be too aggressive in light of the economic backdrop.

For a period, easier financial conditions helped support a steady recovery in PINT's shares. While this has reversed over the last few weeks, there remain several factors that should hold the company in good stead going forward.

For one, while inflation remains elevated, particularly in the UK and Eurozone, based on current data it seems reasonable to assume that interest rates have peaked for this economic cycle and should be on their way down in 2024. This removes a key pillar of uncertainty for the infrastructure and utilities sectors, where much of the recent selling has been driven by negative sentiment surrounding rates, rather than the fundamental reality of many companies within the sector. With interest rate expectations now heading down, this should allow the market to take stock of companies such as PINT which are, in our view, now drastically oversold.

The mechanical impact of falling rates should also be beneficial for PINT, reducing financing costs and the discount rates that are used in discounted cash flow models to calculate its NAV, while its dividend yield of around 5% becomes increasingly attractive as the 'risk-free' yield on government bonds normalises. However, whilst the market views falling interest rates as a positive, it is important to make the distinction between disinflation driven interest rate cuts and cuts which stem from concerns around growth. In the US, where growth remains above trend, it appears to be the former; however, with GDP forecasts in the UK and Eurozone barely above zero, it is hard to make the same judgment.

With its diversified portfolio, PINT has exposure to US markets (36%) where growth remains resilient; but around 60% of its assets are in weaker markets in the Eurozone and UK. It would be easy, then, to assume that this is a negative for PINT. However, the 'defensive growth' sectors favoured by the managers should actually have a net positive effect on the portfolio, as capital flows towards sectors of the market that can offer real growth despite deteriorating economic conditions. PINT has investments in secular growth industries with inflation linkages, regulated revenues, and recession-proof demand.

Third quarter (Q3) update

The NAV increased by 5.5%, driven by improvements in the underlying fair value of its assets.

PINT's third quarter update for the three months to 30 September 2023, published on 15 December 2023, provided further evidence of the company's resilience. The NAV increased by 5.5%, driven by improvements in the underlying fair value of its assets, particularly Calpine, CyrusOne, National Gas and GlobalConnect. Notably, all but two of its investments achieved positive returns. Foreign exchange (fx) movements also contributed thanks to appreciation of both the euro and US dollar compared to the pound. Full contributions to NAV throughout the quarter are shown in Figure 2.

Investment activity during the period included a £35m commitment to invest in UK battery storage and electronic vehicles (EV) fleet specialist, Zenobe (with the funds drawn subsequent to the period end). This is discussed in more detail on page 7.

Figure 3: NAV bridge Q3 2023

	Impact (pence)
Opening NAV per share at 30 June 2023	101.0
Fair value gains / (losses)	4.6
FX movement	2.0
FX hedge movement	(1.0)
Deposit interest	0.2
Expenses	(0.4)
NAV accretion from share buybacks	0.2
Closing NAV per share at 30 September 2023	106.6

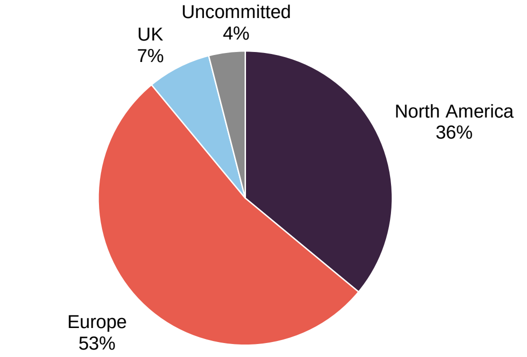
Source: PINT

Cash totalling £19.4m was advanced under existing commitments. This was primarily on the investment into GlobalConnect, which had been committed to in the previous quarter. The company also invested £2.8m into the acquisition of its own shares at a weighted average discount of 21.6% to the NAV.

Asset allocation

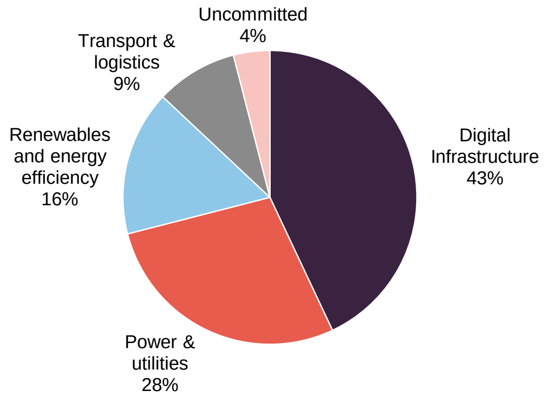
The following charts are based on PINT's Q3 2023 update using data as at 30 September 2023 (note: the charts reflect the portfolio as a percentage of gross asset value).

Figure 4: Portfolio split by geography



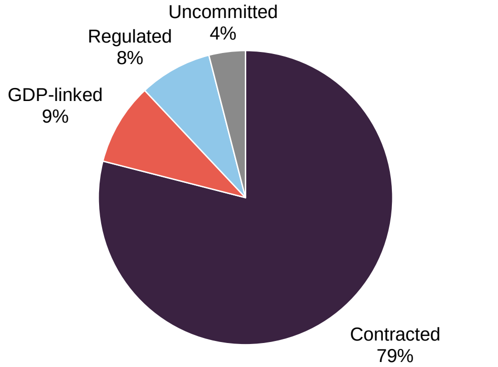
Source: PINT, Marten & Co

Figure 5: Portfolio split by sector



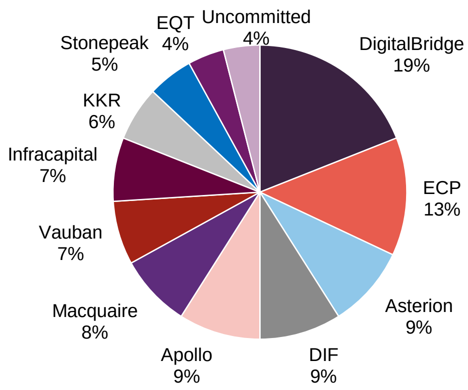
Source: PINT, Marten & Co

Figure 6: Portfolio split by revenue type



Source: PINT, Marten & Co

Figure 7: Portfolio split by sponsor



Source: PINT, Marten & Co

Since our last note, there has been a significant move in the company's cash position following investments in Zenobe and GlobalConnect (a pan-Nordic data centre and fibre business). As such, the company's uncommitted capital fell from 19% to 4%, while its European exposure increased to 53%.

In terms of sector allocations, the additions to the portfolio have increased renewables and energy efficiency and digital infrastructure exposure.

As at 30 September 2023, the company had a NAV of £506.5m, comprising the investment portfolio valued at £441.4m, net working capital of £68.5m and a derivative mark-to-market liability of £3.4m (relating to the trust's hedging activities). In addition, the company has a £115m revolving credit facility which was unused, reflecting the conservative approach to balance sheet management that has served it well as financing costs have risen dramatically.

Figure 8: PINT's portfolio as at 30 September 2023

Holding	Business	Region	Sponsor	Committed/ invested £m
Calpine	Electricity generation	North America	ECP	64
National Broadband Ireland	Digital fibre	Europe	Asterion	49
Fudura	Renewables and energy efficiency	Europe	DIF	47
Primafrio	Transport & logistics	Europe	Apollo	44
National Gas	Gas utility and metering	UK	Macquarie	44
GD Towers	Towers and telecoms infrastructure	Europe	DigitalBridge	41
Cartier Energy	District heating	North America	Vauban	35
Zenobe	Renewables and energy efficiency	UK	Infracapital	35
CyrusOne	Data centres	North America	KKR	30
Vertical Bridge	Digital towers	North America	DigitalBridge	28
Vantage	Data centres	North America	DigitalBridge	27
Delta Fiber	Digital fibre	Europe	Stonepeak	26
GlobalConnect	Digital fibre and data centres	Europe	EQT	20
Total				490[1]

Source: PINT, Marten & Co Note 1) Value of investment portfolio (£441.4m plus undrawn commitments of £48.1m)

New investments – Zenobe

£35m commitment to Zenobe in conjunction with Infracapital

On 7 September 2023, PINT announced that it had committed £35m to Zenobe (zenobe.com) through a co-investment vehicle managed by Infracapital, the infrastructure equity investment arm of M&G. Infracapital, an existing investor and majority shareholder in Zenobe, contributed c.£270m, with funds managed by New York listed alternatives giant KKR investing c.£600m, to acquire joint control of the company.

Zenobe is the leading EV fleet and battery storage specialist in the UK, supporting bus operators through fleet electrification and charging infrastructure design, while also providing a range of services involving transmission grid-scale batteries to National Grid.

Zenobe had already secured around £1.8bn of equity and debt finance

The investment was made through the latest in a series of fundraises by Zenobe, which had already secured around £1.8bn of equity and debt finance since it was founded in 2017. The scale of the deal highlights the potential value that exists in the space and additional investments made over the past six months point towards a company which is expanding rapidly, capitalising on its competitive advantages in both battery technology and EV infrastructure.

The company's market leading position was identified by Pantheon as a significant factor in its investment decision. The dominant positioning of its grid-connected batteries and services has enabled Zenobe to negotiate long-term trading floor contracts and grid services contracts including a deal to supply reactive power to the grid (helping to keep the supply and demand of power on the grid in balance), the first battery project of its kind to achieve such an arrangement. These types of contracts greatly increase the downside protection of the investment and have enabled the company to secure capital to finance new projects, including a £147m project finance deal announced in January for its Kilmarnock South battery storage site, allowing Zenobe to fully capitalise on the rapidly developing thematic tailwinds driving the sector.

As more intermittent renewables supply comes online (generating power when the sun is shining or the wind blowing), storage projects are expected to become increasingly important to manage grid capacity. This increases the capacity of the transmission system without having to upgrade infrastructure. Currently, the UK has just 4.5GW of storage in operation, (3GW of pumped hydro, and 1.5GW of batteries), and the government's Climate Change Committee estimates that the UK will require 18GW of flexibility capacity to hit its decarbonisation targets by 2030.

The ability to attract financing further entrenches the competitive advantage established by the company's existing scale, and this is helped further by the technical and commercial expertise required to grow these battery assets and services. This includes sourcing and developing grid connection points which are crucial given the localised nature of voltage fluctuations and battery requirements, with the company leveraging the knowledge of its advisors, including the company's non-executive chairman Steve Holliday (a former CEO of National Grid).

By 2026, Zenobe aims to support about 4,000 electric buses, trucks, and commercial vehicles on the road

Whilst initially established as a pure play battery technology business, the company has also been investing heavily in fleet electrification, predominantly through EV buses and related infrastructure, with plans to expand this into other forms of heavy-duty vehicles. The segment now represents a significant portion of the company. By 2026, Zenobe aims to support about 4,000 electric buses, trucks, and commercial vehicles on the road, significantly increasing its market share, which already stands at about 25% of the UK's EV bus market, and benefitting from market leading position in Benelux, Australia and New Zealand.

Its successful expansion in the EV space is thanks in part to the company's unique approach to the existing bus services, which are traditionally operated by councils and private bus operators often working within tight financial constraints. Zenobe provides funding solutions for EV bus operators, along with guarantees around charging and infrastructure provisions, mitigating both the technology and operating risks that would pose a significant barrier to the operators looking to transition their vehicles and systems from diesel to electric.

Just 1,800 of the UK's 37,500 buses are electric

Leveraging this service, the company has also been able to lock in contracts and integrate physical infrastructure with some of the leading providers in these markets, increasing switching costs and making it harder for other players to enter the market. These relationships have also been beneficial for the company's growth ambitions, with global operators integrating Zenobe' s electric bus and charging infrastructure in their already established overseas markets. There are currently about 37,500 buses in operation in the UK of which only about 1,800 are electric, implying a considerable growth opportunity with over 95% of the country's bus fleet yet to transition to electric.

Crucially, although current regulations have been supporting adoption through various subsidies and other measures, operational costs for EV buses have come down drastically. In some cases, supported by Zenobe's long term financing, bus operators are beginning to see that electric vehicles are comparing favourably to diesel equivalents meaning adoption can be driven purely through commercial means in the future, a milestone which lays the foundation for a significant ramp up in growth.

Zenobe recycles and repurposes batteries that no longer meet the requirements for the EV market

Given the company's exposure to a range of commercial batteries, Zenobe has also committed significant resources to creating a circular economy by recycling and repurposing batteries that no longer meet specific commercial requirements for the EV side of the business. When the battery comes to the end of its useful life in its EV bus application, it is still applicable for smaller capacity applications such as portal power and on-site static power for construction sites, festivals and film shoots that require on site temporary power sources. Zenobe can earn revenues from these refurbished batteries and pass the monetary and carbon savings onto customers compared to the alternative diesel generator.

Each of Zenobe's business segments continue to grow strongly and since PINT's initial investment, the company has maintained its momentum, announcing several new rounds of financing to help fuel its growth strategy. With an established base in markets across the UK, New Zealand, and Australia, the company is now targeting expansion into the US, and Europe, a key to which will be the guidance of new partner, KKR who bring a global network and extensive expertise in scaling growth assets.

For PINT, the opportunity to invest alongside partners KKR and Infracapital in a highly sought-after asset highlights the quality of their existing relationships and pipeline. With the investment making up around 7% of PINT's portfolio, the potential upside from Zenobe's expansion is significant, and provides investors with a unique opportunity to gain exposure.

Outside of Zenobe, PINT also made a recent investment in pan-Nordic data centre and fibre business GlobalConnect, which we covered in our last note. You can view this here.

Performance – strong NAV growth

Despite broader macro-economic headwinds, PINT's portfolio has continued to grow solidly, reflecting the quality of its underlying assets. As we have discussed, this is particularly notable given that around 60% of its assets are invested in markets where growth has been flat or negative over the past year, highlighting the benefits of a portfolio that is able to generate stable earnings regardless of the economic cycle.

Figure 9: Cumulative total return performance over periods ending 29 February 2024

	3 months (%)	6 months (%)	1 year (%)	Since launch (%)
PINT share price	(1.2)	9.7	(8.8)	(16.9)
PINT NAV	0.9	6.5	9.9	12.8

Source: Morningstar, Marten & Co. Note) based on Morningstar estimates.

Unfortunately, the company's share price performance does not currently reflect its underlying fundamentals, with market sentiment still tied to the trajectory of interest rates in the short term.

Peer group

Up-to-date information on GCP and its peers is available on the QuotedData website

PINT sits within the AIC's infrastructure sector, which is made up of three funds that invest predominantly in public/private partnership project equity (BBGI, HICL and International Public Partnerships), two digital infrastructure funds (Cordiant Digital Infrastructure and Digital 9 Infrastructure), two infrastructure debt funds (Sequoia Economic Infrastructure, and GCP Infrastructure), and one fund (3i Infrastructure) which invests more in demand-driven assets. We have excluded the Infrastructure India fund due to its risk profile, which does not align with the rest of the sector.

Figure 10: Infrastructure peer group comparative data as at 4 March 2024

	Premium / (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (GBPm)
Pantheon Infrastructure	(23.8)	4.9	n/a	380
3i Infrastructure	(5.0)	3.6	1.64	3,071
BBGI Global Infrastructure	(15.1)	6.8	0.87	884
Cordiant Digital Infrastructure	(35.6)	5.5	1.10	555
Digital 9 Infrastructure	(81.6)	23.7	1.10	164
GCP Infrastructure Investments	(31.6)	9.4	1.10	649
HICL Infrastructure	(21.3)	6.6	1.09	2,539
International Public Partnerships	(18.8)	6.5	1.06	2,431
Sequoia Economic Infrastructure	(13.2)	8.4	0.96	1,334
Peer group median	(21.3)	6.6	1.10	884
PINT rank	6/9	8/9	n/a	8/9

Source: Morningstar, Marten & Co

Median discounts to NAV in the infrastructure sector have been trending in the right direction (narrowing) over the last few months, reflecting improving global sentiment around the trajectory of interest rates; however, they remain deeply depressed compared to historic averages. PINT's discount is a little wider than the peer group median, although it is worth noting that 3i infrastructure, the company with the most similar structure to PINT, trades on a much tighter discount of just 5.0%.

Promisingly, PINT's NAV returns are amongst the best in the sector in over the past 12 months and we expect that this should provide some support to PINT's share price going forward.

PINT's 6.5% NAV total return over the past six months is the best in the peer group and its 9.9% return over the past year sits just behind the leader, 3i Infrastructure. Returns since launch reflect the lag effect as the capital raised at IPO was deployed. Over time, this effect should become less pronounced as those investments mature.

Figure 11: Infrastructure peer group cumulative NAV TR performance ending 29 February 2024

	3 months (%)	6 Months (%)	1 year (%)	Since Launch (%)
Pantheon Infrastructure	0.9	6.5	9.9	12.8
3i Infrastructure	0.9	6.4	11.6	30.6
BBGI Global Infrastructure	1.6	3.0	4.1	21.0
Cordiant Digital Infrastructure	0.9	1.1	8.6	19.7
Digital 9 Infrastructure	1.1	2.0	(4.2)	9.4
GCP Infrastructure Investment	1.6	3.1	3.0	22.2
HICL Infrastructure Company	1.3	(0.8)	1.2	15.3
International Public Partnerships	1.4	2.8	3.9	20.2
Sequoia Economic Infrastructure	2.9	4.8	8.6	7.6
Peer group median	1.3	3.0	4.1	19.7
PINT rank	7/9	1/9	2/9	7/9

Source: Morningstar, Marten & Co

Premium/(discount)

Over the 12 months period to 29 February 2024, PINT's shares traded between a discount to NAV of 27.3% and 6.6%. On average, the discount was 19.8%. As of publishing, this was 23.8%.

In order to help address the current share price, PINT's board authorised a share buyback programme on 31 March 2023, with a total consideration of up to £10m. Over the six months to 30 September 2023, 4.835m shares were bought back into treasury. Since then, a further 5.615m shares have been repurchased into treasury.

As of publishing, every constituent of the AIC's infrastructure sector is trading on a discount. Whilst we would agree that some level of re-pricing was necessary, given the effects of one of the fastest interest rate tightening cycles in history, the depth of the current sell-off appears to be far detached from the fundamental realities. This is especially the case when we consider the earnings resilience of many of these companies, particularly for PINT, given the structure of its portfolio.

Figure 12: PINT premium/discount from launch to 29 February 2024

Source: Morningstar, Marten & Co. Note this chart is based on Morningstar's estimated NAV figures.

Balance sheet

PINT now has access to a £115m RCF plus a £185m uncommitted accordion facility

As of September 30,2023, PINT had undrawn commitments of £48.1m including the £35m Zenobe commitment announced on 7 September 2023, and its £115m revolving credit facility (RCF) had not been drawn on at all. Functionally, the increase in the RCF provides PINT with an efficient and flexible way to cover its risk buffers and working capital needs. It also provides additional liquidity in the event of potential investment opportunities. However, the managers have noted their intention to maintain a conservative balance sheet and see the facility as a bridge to a capital raise rather than an opportunity to deploy.

Positively, the portfolio remains fully funded, with no outstanding capital expenditure commitments, limiting the risks which have weighed on some of the others trusts in the sector.

Fund profile

Readers may wish to consult our initiation note, which was published on 17 March 2023

Pantheon Infrastructure (PINT) targets risk-adjusted total returns of 8–10% per annum comprising capital growth and a progressive dividend. This is achieved through equity and equity-related investments in private infrastructure assets made alongside other leading private asset investment managers and institutional investors (co-investments).

The company is designed to allow investors to gain exposure to a high-quality mix of yielding and growth infrastructure assets with strong downside and inflation protection in developed markets. Target assets typically benefit from defensive characteristics, including contracted cash flows, inflation linkage, conservative leverage profiles and strong Environmental, Social and Governance (ESG) credentials.

The fund's initial focus has been on digital infrastructure (data centres, fibre networks, mobile telecom towers and the like); renewables and energy efficiency (wind, solar, sustainable waste powered electricity generation, smart meters); power and utilities (energy utilities – transmission and distribution, water and conventional power generation); and transport and logistics (ports, rail, roads and airports).

The board believes that PINT can offer investors stable, predictable cash flows, inflation protection, embedded downside protection, and sub-sector diversification.

Previous publications

Readers interested in further information about PINT may wish to read our previous notes.

Figure 13: QuotedData's previously published notes on PINT

Title	Note type	Publication date
Reliable income streams with inflation protection	Initiation	17 March 2023
Traveling in the right direction	Update	11 September 2023

Source: Marten & Co

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IMPORTANT INFORMATION

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