

# IFM Global Infrastructure Fund (GIF)

**Leicestershire County Council Pension Fund**

**25 March 2022**

*Strictly Confidential*

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## Meeting Agenda

1. **Overview of the Mandate**
2. **ESG management in the IFM Global Infrastructure Fund (GIF)**
3. **Performance of LCCP's investment in GIF**
4. **Market outlook**

# Focus of Today's Discussion with Leicestershire County Council Pension Fund



## IFM Global Infrastructure Fund offers investors access to a portfolio of critical infrastructure



### A pension-owned infrastructure specialist

- ▶ IFM is owned by **22 pension funds** encouraging **long-term** alignment with our **like-minded** investors
- ▶ Pioneer of **open-ended infrastructure** which encourages **sustainable stewardship** of long-term **essential** community assets
- ▶ Focus on **delivering** meaningful **long-term net returns** for our investors' members and pensioners
- ▶ **US\$41bn** open-ended fund **established** for pension funds by pension funds over **17 years** ago



### A proven track record and a long-serving, experienced team

- ▶ **Net return of 9.2% pa** since 2004 with **strong contribution from cash yield**<sup>(2)</sup>
- ▶ Mature, diversified portfolio of **19 infrastructure companies** across **82** assets
- ▶ Demonstrable track record **across market cycles**
- ▶ Large, stable team of **100+ investment executives** across **7 offices** globally
- ▶ Range of **operational, financial and transactional expertise**



### Commitment to ESG and energy transition

- ▶ Top-down corporate commitment to **net zero by 2050**
- ▶ Initial bottom-up **40% carbon reduction** goal by **2030**
- ▶ Range of initiatives underway at portfolio companies to **transition assets to net zero**
- ▶ **Innovative** behind-the-meter **repowering** strategy alongside a commitment to **engagement**
- ▶ ESG fully integrated into investment process including **rigorous climate risk assessments**

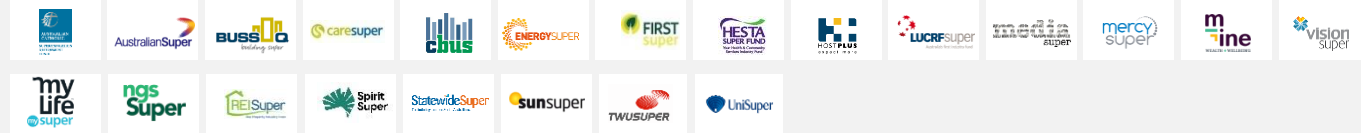
(1) As of 31<sup>st</sup> December 2021. Past returns are not indicative of future performance.

# Firm Overview

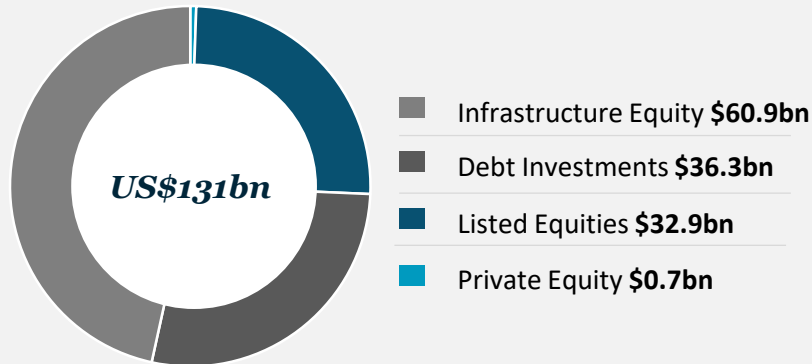


IFM is a global infrastructure specialist with over 26 years' experience in the infrastructure sector investing on behalf of long-term, like-minded investors

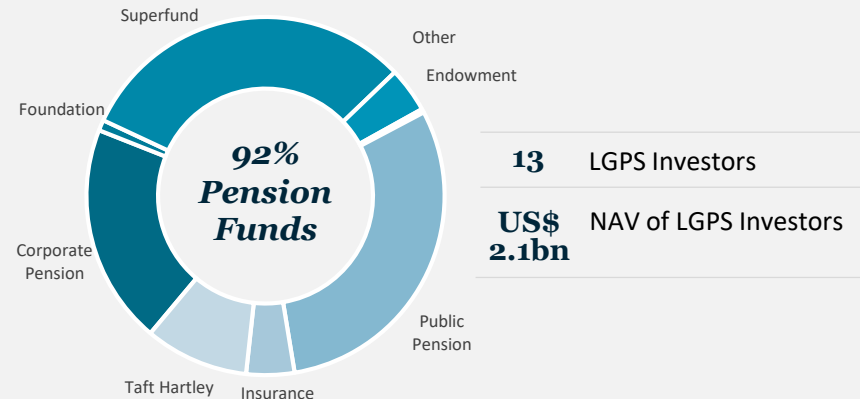
*Established & owned by 22 pension funds*



*US\$131 billion across four asset classes<sup>(1)</sup>*



*Long Term and Like-Minded Pension Fund Investor Base<sup>(2)</sup>*



*To protect & grow the long-term retirement savings of working people*

(1) As at 31 December 2021. US \$131bn represents the FUM of investments and undrawn investor commitments. Differences may be due to rounding.

(2) As at 31 December 2021. US\$2.1bn represents NAV, or if undrawn, committed capital.



# 1. Overview of the Mandate

63

## Summary of Principal Terms <sup>(1)</sup>

<b>Feeder Fund</b>	UK Limited Partnership
<b>The Master Fund</b>	IFM Global Infrastructure Fund (the “Master Fund”) holds the underlying infrastructure investments
<b>Return target</b>	10% pa net of all fees, ranging from 8-12% depending on the stage of the market cycle
<b>Management fee</b>	<ul style="list-style-type: none"> <li>▶ No fees on undrawn capital</li> <li>▶ 0.77% pa for NAVs &lt;US\$300m</li> <li>▶ 0.65% pa for NAVs &gt;US\$300m (charged on an absolute rather than incremental basis)</li> <li>▶ 0.65% pa for LGPS, regardless of NAVs</li> </ul>
<b>Performance fee</b>	<ul style="list-style-type: none"> <li>▶ 10% over 8% per annum (calculated per investor, since drawdown of their commitment)</li> <li>▶ 33.3% catch-up</li> <li>▶ 50% held back each year to cover underperformance in subsequent year</li> <li>▶ Paid annually</li> </ul>
<b>Other fees</b>	<ul style="list-style-type: none"> <li>▶ No transaction, monitoring, financing, consulting, hedging fees<sup>(2)</sup>, etc.</li> <li>▶ Partnership establishment cost/expenses shared pro rata among investors</li> </ul>
<b>Term</b>	Open-end
<b>Valuations</b>	Quarterly independent valuations conducted for all portfolio companies
<b>Redemptions</b>	No lock up period – quarterly redemption requests serviced in line with redemption policy

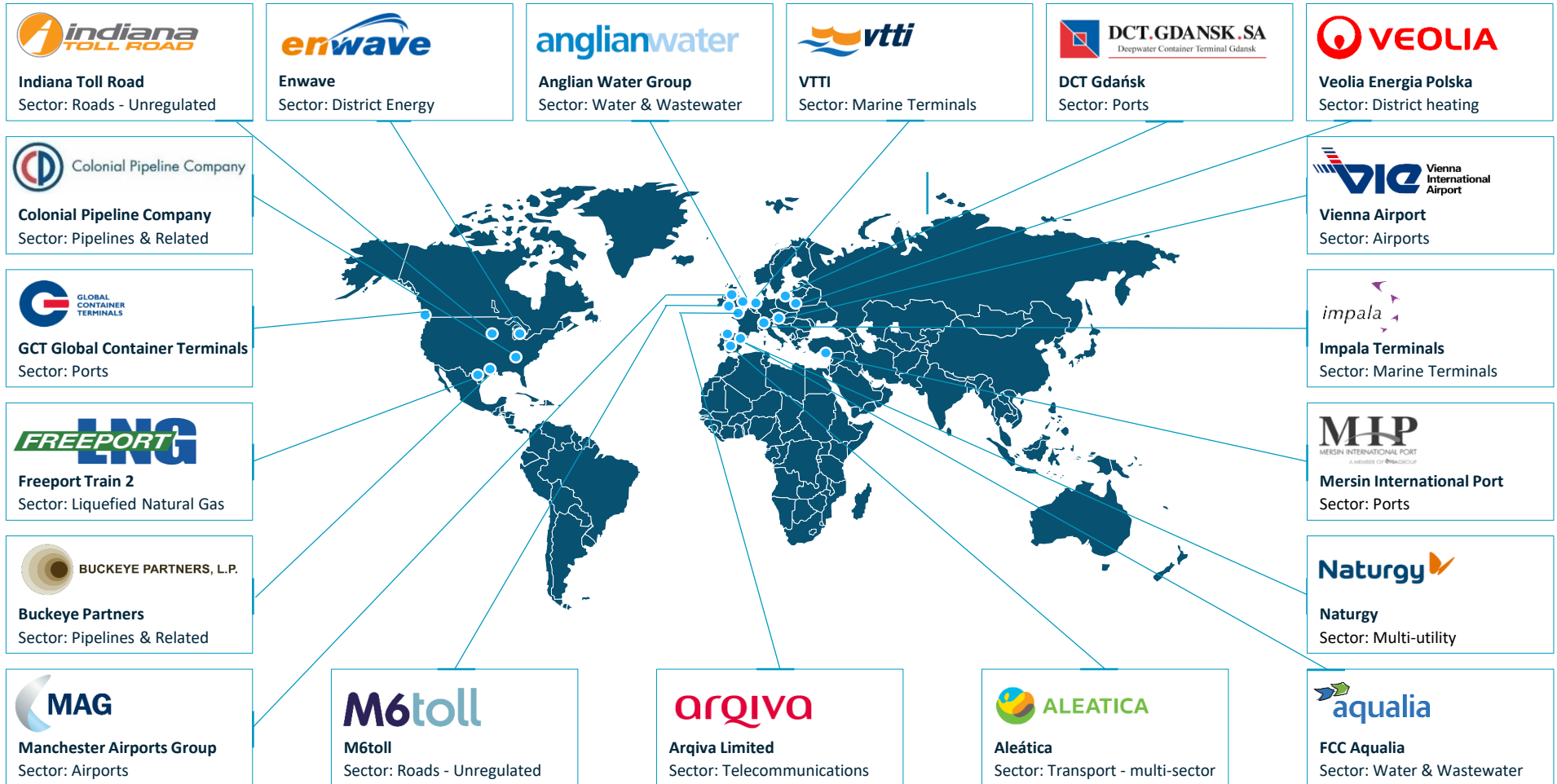
(1) Note: The summary of terms provided are for informational purposes only and should not be relied upon to make an investment decision. Please refer to the fund offering documents for a full and complete discussion of the terms.

(2) IFM does not charge for hedging services provided.

# IFM Global Infrastructure Fund (GIF)



Portfolio companies are largely domiciled in OECD countries with mostly control/co-control positions



Note: As at 31 December 2021.

# What Does GIF Invest In?



Primarily targeting Utilities, Energy and Transportation

## Key target sectors



Utilities



Energy



Transportation



Gas & Electric



Water



Telecom



Terminals & LNG



Pipelines



Renewables



Toll Roads



Airports



Seaports

## We focus on assets with distinct characteristics:

01

Strong market positions/ High barriers to entry

02

Long asset/ concession life

03

Inflation protection

04

Benefit from regional/global economic growth

05

Stable and predictable revenues

06

Stable regulatory environment

07

Targeting investment-grade financing

66



**IFM GIF is focused on building and managing a diversified portfolio of essential infrastructure assets to deliver stable long-term returns**

**Key building blocks of our investment strategy include specific goals through the investment cycle:**



*Buy  
Well*

- ▶ A long-term partner aligned with government entities and strategics
- ▶ Opportunities sourced through 100+ dedicated specialists and senior advisors, extended sourcing network through portfolio companies' industry relationships
- ▶ Current portfolio is a platform for bolt on acquisitions and capital reinvestment

*Manage  
Intensively*

- ▶ Strong governance and active board representation
- ▶ Integrated Asset Management Specialist team driving global knowledge sharing and best practice
- ▶ Prudent and conservative approach towards leverage
- ▶ ESG principles embedded in investment decision and asset management

*Sell  
Opportunistically*

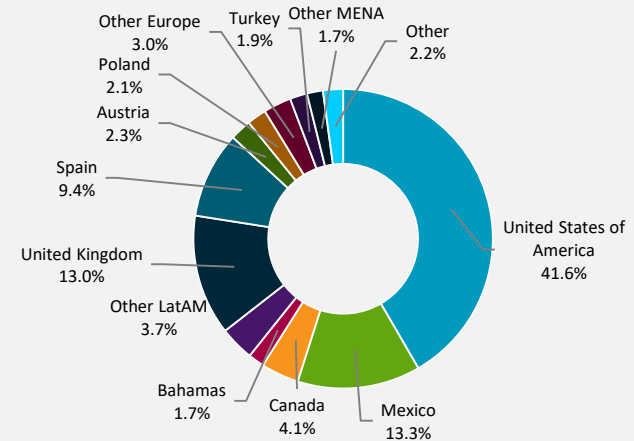
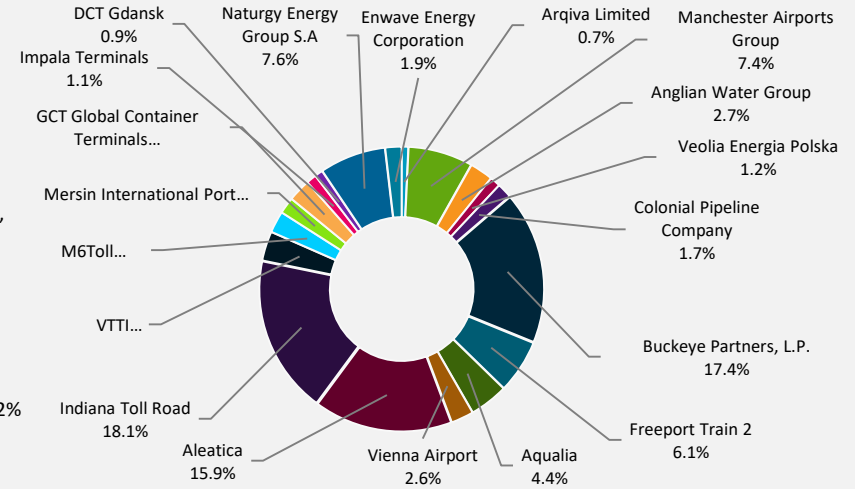
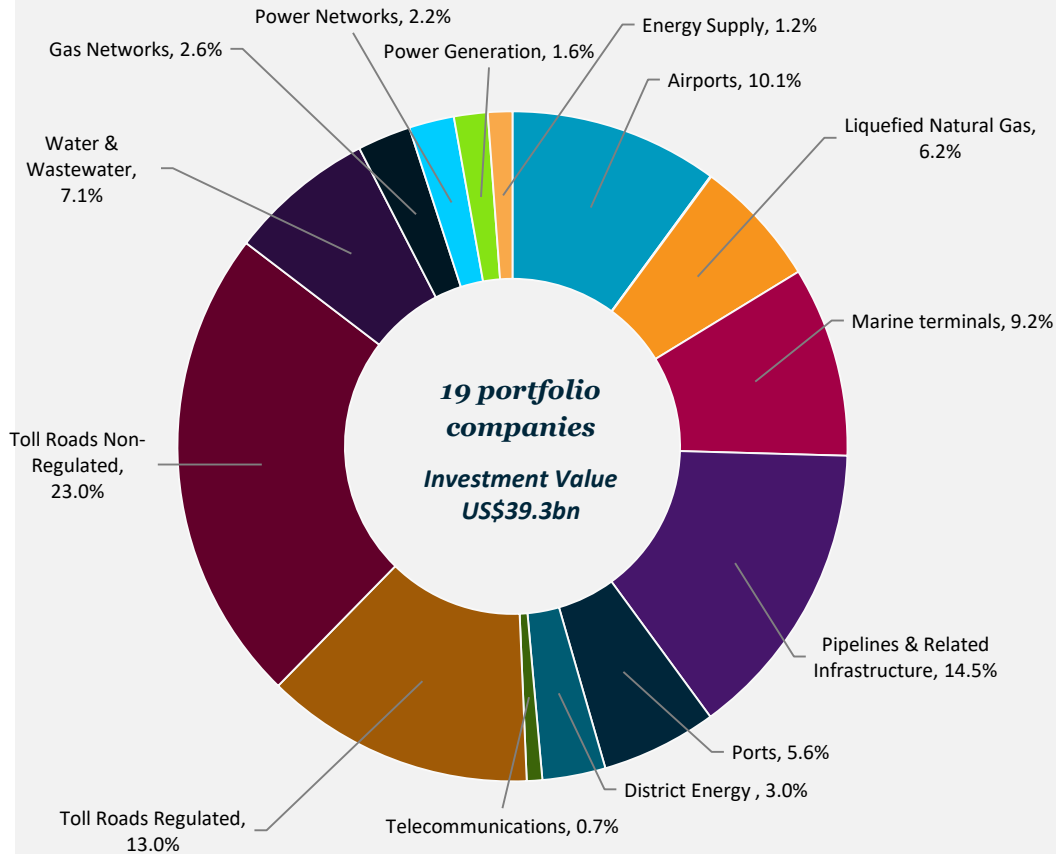
- ▶ Create value with a long-term return focus
- ▶ Sell to capture one-off market opportunities
- ▶ Partial divestments to rebalance portfolio and partner with strategic sponsors

GIF asset:  
Global Container Terminals (US)

# Top-Down Portfolio Composition



## Sector, Investment & Geographic Exposure



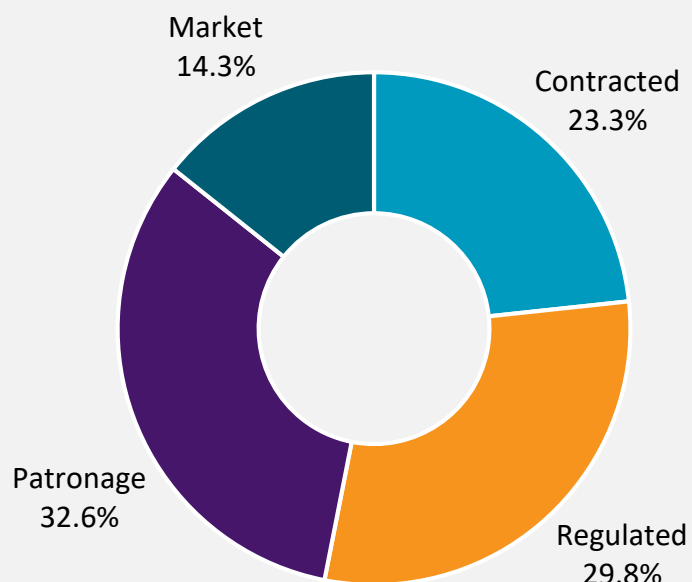
Note: As of 31 December 2021. Master Fund NAV has been presented on a CUM basis to reflect distributions made during the period. Geography represents companies' primary asset locations.

# Bottom-Up Portfolio Composition



IFM Investors targets a balance of key revenue characteristics to drive risk and return outcomes

GIF Portfolio Composition by Revenue Types



Revenue Type	Description	Asset Exposure
Patronage	<ul style="list-style-type: none"> <li>Prices are contracted or indexed with modest volume risk.</li> <li>Volume risk is often constrained by monopolistic characteristics.</li> </ul>	
Regulated	<ul style="list-style-type: none"> <li>Limited volume and price risk, potentially subject to periodic regulatory reviews.</li> <li>Equity return outcomes are reasonably constrained.</li> </ul>	
Contracted	<ul style="list-style-type: none"> <li>Revenue derived from long-term contracts with government (PPP) or commercial counterparties.</li> <li>Limited price/volume risk, if any.</li> </ul>	
Market	<ul style="list-style-type: none"> <li>Pricing is determined through competitive market forces</li> <li>Some levels of volume risk exposure.</li> </ul>	

As at 31 December 2021.

Diversification does not guarantee investment returns and does not eliminate the risk of loss. The assets are referenced only to show examples of each revenue type and were not selected based on performance. It should not be assumed that the investments referenced will be profitable or that investments made in the future will be profitable or will equal the performance of the investments referenced.

# Looking Through GIF



## The assets in GIF's portfolio provide essential services to the global economy

**47,000+**

*Operating employees*



### **7 airports**

- ▶ Located across 5 countries



### **9 port facilities**

- ▶ Located across 6 countries, including US and Canada



### **~5.3GW renewable generating capacity**

- ▶ >6GW development pipeline



### **130+ storage terminals**

- ▶ 153 mm barrels and 6+mm metric tons of capacity
- ▶ Across 20+ countries

**20+**

*Countries represented in the portfolio<sup>(1)</sup>*



### **17 toll roads**

- ▶ Located across 8 countries
- ▶ 1,300+km in length



### **18,500 km of pipeline**

- ▶ Largest US refined products pipeline
- ▶ Flagship LNG export facility in Houston

**US \$1.4bn**

*Average deal size*



### **400+ water concessions**

- ▶ Located across 20+ countries
- ▶ >35 million customers
- ▶ Regulated water in the UK & Czech Republic

70

As at 30 September 2021 unless otherwise indicated.

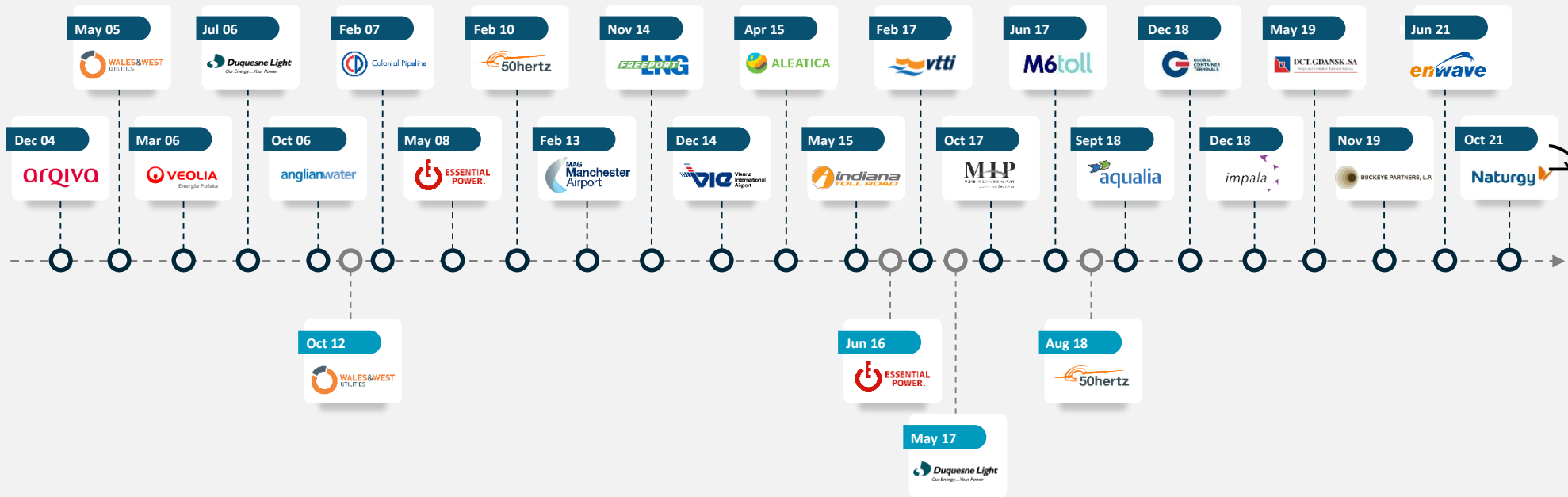
(1) Country exposures outlined here reflect material asset exposures (based on contribution to total EBITDA) across our portfolio companies. GIF has assets located in 45 countries, of which 21 countries account for 98%+ of the portfolio. Note that as Naturgy closed in October 2021, it is not incorporated in this portion of analysis.

# Long-Term Evolution of GIF



## GIF's open-ended structure alleviates vintage and blind pool risk

### Acquisitions



### Disposals

2004

2021

Note: The chart above only represents initial acquisitions and full disposals, and does not include follow-on, bolt on acquisitions and partial disposals, which is available upon request.



## 2. Responsible Investment & ESG

# Institutional Commitment to Net Zero by 2050



A responsible, long term investor, with a commitment to supporting the transition to a low carbon economy

*IFM Investors is a Founding Partner of the Net Zero Asset Managers Initiative*

The initiative aims to galvanise the asset management industry to commit to a goal of net zero emissions.

## NET ZERO ASSET MANAGERS INITIATIVE

**30** asset managers

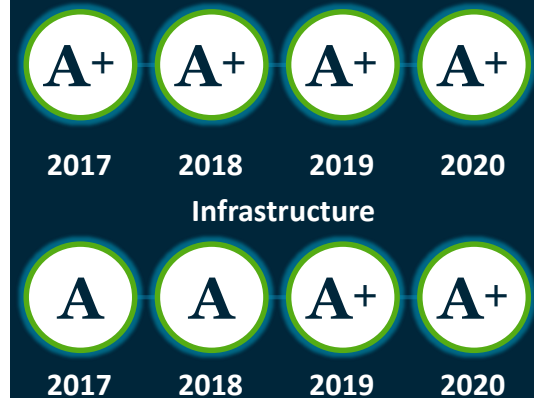
**\$9 trillion** USD in assets

committed to **net zero** emissions goal by 2050 or sooner.



### Principles of Responsible Investment

Enterprise-wide measure of Strategy & Governance



73



# Net Zero: Advancing a Strategic Priority



## A continued evolution



- ✓ **Corporate:** IFM signed up to Net Zero Asset Managers Initiative – 128 signatories representing \$43 trillion of capital
- ✓ **Portfolio targets:** net zero by 2050, interim target of 1.16m tonne reduction by 2030 (40% of existing emissions)
- ✓ **Investment process:** all investments analysed on basis of net zero alignment and resilience to physical / transition risks
- ✓ **Reporting:** transparent reporting of emissions with fourth edition of annual “Carbon Footprint” report to be published shortly
- ✓ **New investments:** hydrogen (Buckeye), biofuels conversion (VTTI), renewables (Swift Current, Naturgy), continued behind-the-meter rollout
- ✓ **Green financing:** \$700+ million of green/sustainability bond issuance across portfolio

74



## IFM GIF's preliminary pathway to net zero

1

Be a responsible owner of assets to **manage the transition for a low carbon future** and **help decarbonise the broader economy**

2

Target **1.16 million tonnes in absolute emissions from 2019 levels by 2030** for the asset class; target will be rebaselined to enable acquisition and transition of new assets

3

**Embed climate change into asset management** by assessing climate risk of assets and portfolio, seeking asset-level net zero commitments, emissions reduction plans and (where appropriate) transition plans

4

**Embed climate change into new investment decisions** by assessing climate risk with an external reference scenario, and setting a reduction target upon acquisition

5

Restrict investment in **infrastructure related to thermal coal or that facilitates new upstream oil & gas extraction**

6

Pursue **climate-related investment opportunities** within current products and assets and **explore new products** to help meet investor needs and capture opportunities

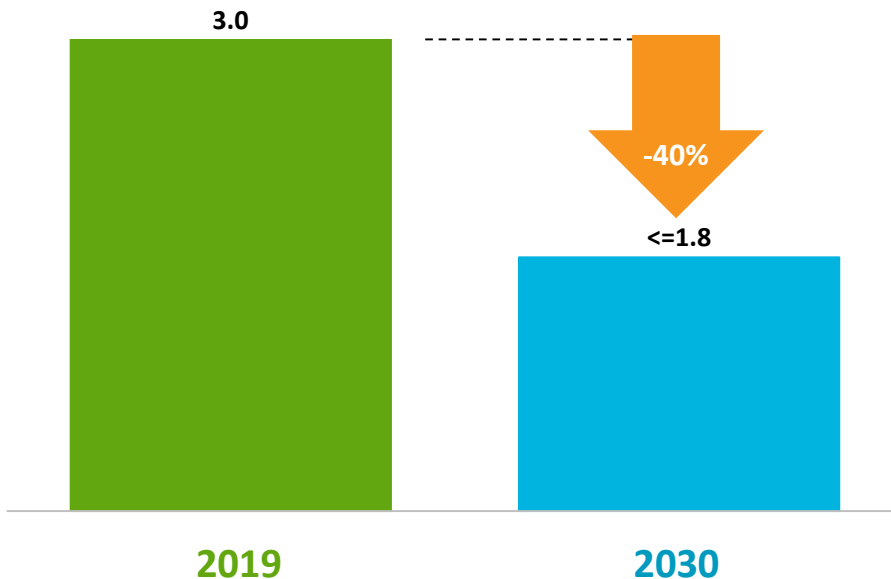
# Portfolio Wide Emissions Reductions Targets



Existing assets will aim to have emissions reductions target of at least 40% by 2030 vs. 2019

## Reductions target for 2030 (Existing assets)

Total emissions  
MtCO<sub>2</sub>



## Target setting methodology

- ▶ IFM will target at least a 40% reduction in emissions across our existing infrastructure portfolio by 2030 (from 2019 levels)
- ▶ Provides a strong emission reduction commitment by IFM
- ▶ Work underway currently to undertake detailed analysis of the preliminary emissions reduction target
- ▶ Adjustments will be made for divestments and new investments

76

# Energy Transition and Emission Reduction Initiatives Underway

Examples of initiatives implemented at portfolio companies to date including ~650MW of behind-the-meter renewable development underway

## Buckeye, United States

- ▶ Recently announced strategic investments in critical renewable and low-carbon opportunities, including:
- ▶ **Behind-the-meter solar projects** – c.600MW capacity under development with potential to offset more than 200% of electricity consumption once operational in 2023.
- ▶ **OneH2** – a provider of hydrogen fuel supply and logistics solutions that is partnering with General Motors and Navistar to develop hydrogen fuel cells for long-haul trucking.
- ▶ **Swift Current Energy** – a solar and wind power developer with a project pipeline totalling c. 6 GW of capacity.



## Manchester Airports Group, UK

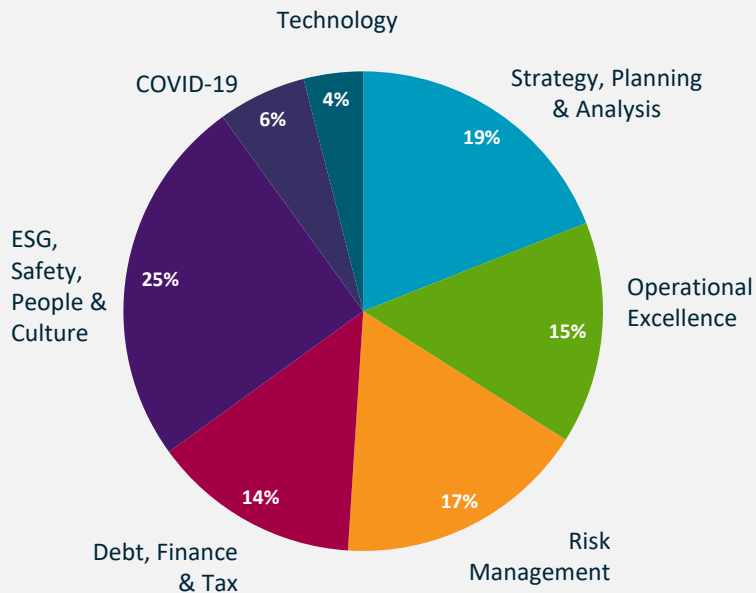
- ▶ **32.7% reduction in GHG intensity** through initiatives such as low-energy lighting upgrades, energy-efficient buildings and purchasing 100% of its electricity from renewable sources.
- ▶ Recently recognised by FT as top performing transport company on a list of **Europe's top 300 climate leaders**
- ▶ Aiming to achieve **net zero carbon operations by 2038** - 12 years ahead of UK national target
- ▶ Manchester Airport will become the first airport in the UK to have a **direct feed of sustainable aviation fuel** thanks to a partnership with Fulcrum BioEnergy Limited UK

# Engagement Across GIF







## Driving improvements across the GIF portfolio

### Breakdown of initiatives<sup>(1)</sup>



### Outcomes

-  Lost Time Accidents **59% lower** than benchmark
-  ~**5.3GW of renewable energy** and >0.1GW behind-the-meter<sup>(2)</sup>
-  **1** regulatory reset completed
-  **US\$8.8bn** of refinancings

-  **38%** of IFM Board seats filled across GIF and AIF by women
-  **10 out of 18** assets have formal emissions reduction targets
-  **14** cyber security maturity assessments completed
-  **US\$235m** of annual cost savings across airports

(1) Period covering 1<sup>st</sup> July 2020 to 30<sup>th</sup> June 2021.

(2) Pro-forma including investment in Naturgy.

## Transparency is important to credibility and accountability

**Since 2017, IFM has been measuring and reporting annually the CO<sub>2</sub>e emissions of its Australian and Global infrastructure portfolios**

*Going forward, the annual carbon footprint report will include additional information to reflect the enhanced approach to climate change reflected in the strategy, such as:*

- ▶ Progress against IFM's 2030 emissions reduction target
- ▶ Changes to portfolio level targets due to acquisitions and divestments, and the pathway for new assets
- ▶ Progress against key asset targets (e.g. Veolia Energia Polska milestones)
- ▶ Progress against asset management targets (e.g. number of portfolio companies with net zero targets)
- ▶ Contributions to decarbonisation in the broader economy (e.g. additional avoided emissions attributable to assets)
- ▶ Renewables capacity that has been installed across the portfolio
- ▶ Emissions intensity of certain key sectors across the portfolio (e.g. power generation)





# 3. Performance

80

# GIF Performance



**IFM GIF's strategy is to manage a diversified portfolio of global infrastructure investments with a net target return of 8-12% over the long term <sup>(1)</sup>**

*Total Investment Value: \$40.8 bn*

*Number of portfolio companies: 19*

*Weighted average leverage: 36.1%*

	1-Year	3-Year	5-Year	7-Year	10-Year	Since Inception
<b>GIF Gross Return (USD) <sup>(2)</sup></b>	<b>19.3%</b>	<b>13.8%</b>	<b>16.5%</b>	<b>13.8%</b>	<b>12.0%</b>	<b>10.1%</b>
<b>Leicestershire Council Net Return (USD) <sup>(3)</sup></b>	<b>16.9%</b>	<b>11.9%</b>	<b>14.3%</b>	<b>11.5%</b>	<b>n.a.</b>	<b>10.1%</b>

81

***6.0% net cash yield since inception <sup>(4)</sup>***

GIF's total return seeks a significant contribution from cash yield over the medium to long term.

Past returns are not indicative of future performance. All figures as at 31 December 2021.

(1) There is no guarantee that target returns will be realized. Actual returns may vary materially from target and past returns as a result of changes in the portfolio composition, such as acquisitions, divestments or material changes in business plan forecasts for individual assets. Returns are reported on an annualized basis.

(2) The IFM Global Infrastructure Fund ("Master Fund") has been investing in core infrastructure assets globally since 1 December 2004 (including investments made through predecessor vehicles). The return series shown above is time-weighted, reported on an annualised basis, and reflects the gross USD return at the Master Fund level. The Master Fund return series does not reflect the impact of fees, costs of hedging and other expenses charged to the fund, which will further reduce returns. No representation is being made that the Master Fund return series reflects the returns of any feeder fund or the returns of an actual investor in the fund. Actual net feeder performance is available upon request. This information is provided for illustrative purposes only. Investment decisions should not be made solely based on the returns series shown above. Past performance is not indicative of future performance.

(3) Initial drawdown in February 2013

(4) Cash yield for the IFM Global Infrastructure Master Fund represents aggregate feeder cash yield to investors on a NAV basis net of management and performance fees. Since inception cash yield is calculated as of the Fund's first distribution to investors on June 1, 2012. Returns are reported on an annualized basis.

# Responding to COVID-19



**IFM continues to monitor and manage impact of COVID-19 on assets and the global economy, with a focus on ensuring operational and financial resilience**

Higher

Degree of impact

Lower



Sector



**Airports**

- ▶ Border closures and social distancing have had an unprecedented impact on the global aviation market
- ▶ Gradual recovery expected subject to successful vaccine roll-out, limited spread of new strains, in Europe and lifting of international travel restrictions



**Toll roads**

- ▶ Drops in traffic most pronounced amongst light vehicles
- ▶ Heavy vehicle traffic proved to be more resilient



**Seaports**

- ▶ Links to global GDP
- ▶ Seaports are a critical component of local economies



**Midstream**

- ▶ Economic restrictions initially drove a decline in the demand for refined oil products, negatively impacting throughput volumes, though there have since been signs of recovery
- ▶ Long-term take-or-pay contracts provide protection against market swings



**Utilities  
Water, Heating, Telco**

- ▶ Regulatory frameworks provide a degree of protection against volume risk

82

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
<b>GIF Net Return<sup>1</sup></b>	<b>-4.50%</b>	<b>1.47%</b>	<b>1.90%</b>	<b>4.14%</b>	<b>2.09%</b>	<b>6.53%</b>	<b>4.22%</b>	<b>3.52%</b>

Past returns are not indicative of future performance. All figures as at 31 December 2021.

(1) The IFM Global Infrastructure Fund ("Master Fund") has been investing in core infrastructure assets globally since December 1, 2004 (including investments made through predecessor vehicles). The return series shown above is time-weighted, reported on an annualized basis, and reflects the aggregated performance of each asset's respective local currency performance at the Master Fund level, weighted by the USD proportionate equity value of each asset. In order to show net returns for the Master Fund return series, the highest Class A management and performance fees structure has been applied on a pro-forma basis. The Master Fund return series does not reflect the impact and costs of hedging and other expenses charged to the fund, which will further reduce returns. No representation is being made that the Master Fund return series reflects the returns of any feeder fund or the returns of an actual investor in the fund. Actual net feeder performance is available upon request. This information is provided for illustrative purposes only. Investment decisions should not be made solely based on the returns series shown above. Past performance is not indicative of future performance.



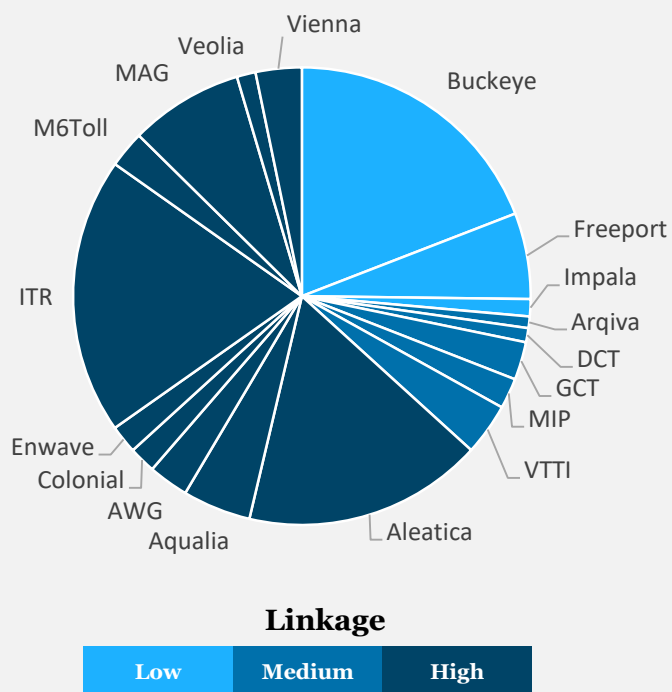


# 4. Market Outlook

# Inflation Sensitivity in GIF

## Inflation is expected to have a net positive impact

### Inflation Heat Map<sup>1</sup>



### Inflation Beta<sup>1</sup>

	Inflation Beta	% of Portfolio
Total Portfolio	1.05	100%
High Inflation Linkage	1.46	64%
Medium Inflation Linkage	1.03	10%
Low Inflation Linkage	0.06	26%

- Inflation beta is defined as the change in equity return for a 1% constant change in inflation
- The GIF Portfolio has an inflation beta of approximately 1.1
- 64% of the portfolio has a strong linkage to inflation, and approximately three quarters of the portfolio has a significant linkage to inflation.

(1) Analysis based on a hypothetical global infrastructure portfolio for illustration purpose only.

(2) Inflation beta has been calculated by using the 1% full lifecycle inflation sensitivity to net asset value, divided by the asset duration (the change in net asset value for a 1% change in discount rate).

# Global Infrastructure Market Themes



*High level of competition*



*Appropriate pricing of risks*



*Global outlook uncertainty + COVID-19*



*Regulatory & political risk*



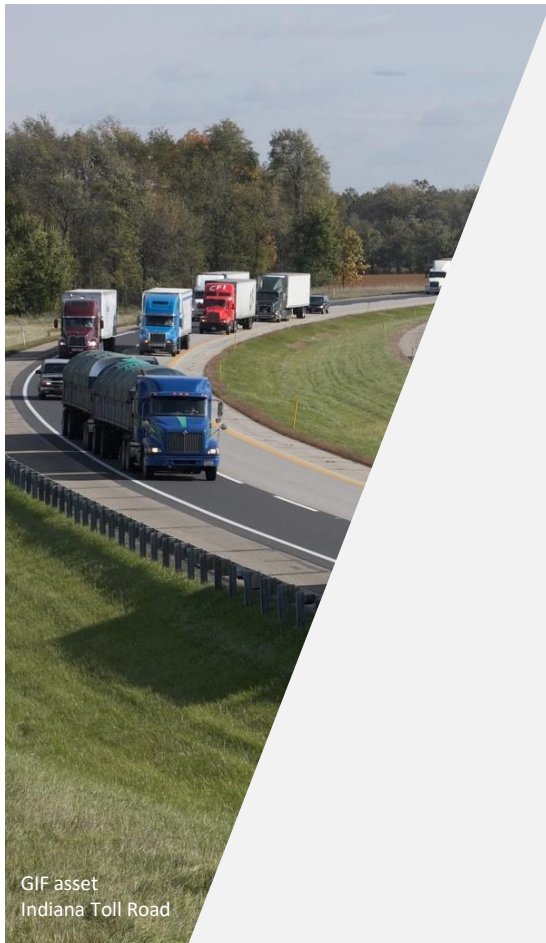
*ESG / Responsible investment*



*Technology / Disruption*



## A well-defined active portfolio risk management framework led by a dedicated Portfolio Management function



### 1. Revenue drivers and underlying risk characteristics

Proprietary framework (**InFRAME**) used to drive a **bottom-up assessment** of risk to:

- ▶ **Identify underlying revenue streams** to analyse their underlying risk characteristics
- ▶ Recognise **macroeconomic** and **industry** risks
- ▶ Frequently **monitor** the portfolio on an on-going basis

### 2. Macro-economic analysis

- ▶ Comprehensive **scenario analysis** during due diligence complemented by post-acquisition portfolio scenario analysis
- ▶ Based on **economic scenarios** sourced from a reputable global economics provider, in addition to **shock scenarios** developed alongside IFM's Chief Economist
- ▶ Provides the basis for InFRAME's revenue stream based **strategic asset allocation for infrastructure**

### 3. Geopolitical risk analysis

- ▶ Proprietary framework (**GeoScreen**) used to assess and monitor portfolio geographic exposures
- ▶ **Country risk assessments** used to assess risks and identify potential mitigants (e.g. insurance, local partnering, assessment of different political parties' views on foreign investment)
- ▶ Complements **rigorous country entry analysis**

### 4. Liquidity and FX risk analysis

- ▶ Fund liquidity managed through a **comprehensive cash management** program
- ▶ Reporting to Infrastructure Sub-Committee with respect to **cash balances** and **forecasted fund cashflows**
- ▶ Quarterly reporting to IFM Risk Committee with respect to **GIF liquidity**, with **FX hedging** the key risk being managed

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Liquidity- An investment in the Partnership provides limited liquidity since withdrawal rights are not unqualified and Interests may not be transferred without the prior written consent of the General Partner, which may be withheld in its absolute discretion. Although portfolio investments may generate some current income, they are expected to be generally illiquid.

Valuation- Most of the portfolio investments will be highly illiquid and will most likely not be publicly traded or readily marketable.

Economic conditions- Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value of portfolio investments made by the Master Fund or considered for prospective investment.

Leverage- Portfolio investments may include businesses whose capital structures may have significant leverage.

An infrastructure investment is subject to certain risks including but not limited to: the burdens of ownership of infrastructure; local, national and international economic conditions; the supply and demand for services from and access to infrastructure; the financial condition of users and suppliers of infrastructure assets; changes in interest rates and the availability of funds which may render the purchase, sale or refinancing of infrastructure assets difficult or impractical; changes in environmental and planning laws and regulations, and other governmental rules; environmental claims arising in respect of infrastructure acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; changes in energy prices; changes in fiscal and monetary policies; negative economic developments that depress travel; uninsured casualties; force majeure acts, terrorist events, under insured or uninsurable losses; and other factors beyond reasonable control. Please consult the constituent documents for more information on risks specific to infrastructure investing. An investment in any of these investment programs should be made only after careful review of the risk factors described in the related offering documents.

## ESG Disclosure

Investing on the basis of sustainability/ESG criteria involves qualitative and subjective analysis. There is no guarantee that the determinations made by the adviser will align with the beliefs or values of a particular investor. Companies identified by an ESG policy may not operate as expected, and adhering to an ESG policy may result in missed opportunities.



*One purpose. Shared prosperity.*

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