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Pantheon International PLC
08 August 2018

**PANTHEON INTERNATIONAL PLC (the "Company" or "PIP")**
**ANNUAL REPORT FOR YEAR ENDED 31 MAY 2018**

The full Annual Report and Accounts can be accessed via the Company's website at www.piplc.com or by contacting the Company Secretary by telephone on +44 (0)1392 477500.

**Pantheon International Plc (the "Company" or "PIP")**

Pantheon International Plc, an investment trust that invests in private equity funds globally, today publishes its Annual Financial Report for the year ended 31 May 2018.

*PIP had a very active year during which its underlying portfolio generated strong investment returns and it continued its strategy of investing selectively with the best private equity managers globally.*

**HIGHLIGHTS - 12 MONTHS ENDED 31 MAY 2018**

*Performance update*

- NAV per share **increased by 10.3%**, from 2,189.9p to 2,414.8p.
- Net assets at 31 May **were £1,307m** (May 2017: £1,388m), the increase in gross assets being partially offset by the effect of issuing an Asset Linked Note ("ALN").
- The ordinary share price increased from 1,793.0p to 2,010.0p, **an increase of 12.1%** and the discount decreased slightly from 18% to 17%.

*Portfolio update*

- Assets in the portfolio generated underlying (pre-FX) returns of **14.7%.**
- Distributions received in the twelve months to 31 May 2018 were **£280m**. Excluding the distributions attributable to the ALN, this was equivalent to 26% of opening private equity assets. After funding **£86m** of calls, net cash flow from the portfolio totalled **£194m**.
- **£256m** of new investment commitments were made during the year of which £139m was funded at the time of purchase.

*Company update*

- Ordinary and redeemable shares were consolidated into a single enlarged class of ordinary shares leading to **entry into FTSE 250 index**.
- **Older assets in portfolio de-emphasised** through issue of £200m ALN.
- **£3.5m invested** in acquiring 190,000 ordinary shares.

Commenting on PIP's performance for the year, **Sir Laurie Magnus, Chairman,** said:

"PIP has had a milestone year. It celebrated its 30 year anniversary, simplified its capital structure and entered the FTSE 250 index. PIP also issued an Asset Linked Note, which had the effect of de-emphasising the older assets in its portfolio and is expected to boost NAV per share. The Board believes that the continued active management of PIP's portfolio, through Pantheon's well-established platform, provides an attractive means of maximising long-term capital growth for shareholders."

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A video of Andrew Lebus, Partner responsible for PIP, discussing PIP's financial year is available on our website at www.piplc.com.

**STRATEGIC REPORT**

**CHAIRMAN'S STATEMENT**

## A Milestone year

PIP has had a milestone year. It celebrated its 30 year anniversary, simplified its capital structure by consolidating its two classes of shares and, as a result of its market capitalisation standing at just over £1bn, entered the FTSE 250 index in March. In connection with this, PIP also issued a £200m Asset Linked Note ("ALN"), which has had the effect of de-emphasising the tail of older assets in its portfolio and is expected to boost the NAV per share.

**IN SUMMARY**
Strong performance from the underlying portfolio

We made 50 new investments amounting to £256m in commitments

The Board, together with Pantheon, reviewed the flexibility of its investment approach in order to find ways further to improve PIP's rate of NAV per share growth.

PIP's portfolio provides an attractive means of maximising long-term capital growth for shareholders.

**KEY STATISTICS**

| | |
|---|---|
| 10% | NAV per share increase |
| 12% | Ordinary share price increase |
| £1,307m | Net asset value |
| £194m | Portfolio net cash flow |

**Performance for 12 months to 31 May 2018**

During the 12 months to 31 May 2018, PIP's NAV per share increased by 10.3% to 2,414.8p. Net assets decreased from £1,388m to £1,307m, reflecting the effect of issuing the ALN. PIP's portfolio performed well during the period: investment returns from the underlying portfolio (14.7%) and share buybacks (0.1%) were offset by foreign exchange movements (-2.2%) and expenses and taxes (-2.3%). The NAV per share is stated net of movements in the value of the ALN. The majority of PIP's portfolio is invested in non-sterling assets, predominantly US dollars and euros, and therefore the NAV per share is susceptible to movements in sterling against those currencies. While the Board monitors the Company's underlying foreign exchange exposure, we believe the impact of currency fluctuations tends to be a less significant factor over the long term.

PIP is currently focused on the mid-market buyout and growth stages of investment, where pricing tends to be lower than at the large end of the market, and which both delivered strong returns during the period. The large buyout funds in PIP's portfolio also performed well. As previously reported, our venture portfolio has been impacted by the weaker performance of its older assets, but, through the effect of issuing the ALN, has been reduced and now represents just 6% of PIP's total portfolio. Special situations, consisting of energy, distressed and mezzanine funds, which had posted a negative performance in the first half of the financial year, recovered in the second half but still underperformed the rest of the portfolio.

During the period, PIP's ordinary share price increased by 12% and the discount at which the shares trade narrowed slightly to 17%. At the time of writing, the discount remained at 17%. Following the share class consolidation and the Company's entry into the FTSE 250 index, secondary market liquidity of PIP's shares has grown and the Board has been encouraged by the appearance of new names on the share register, representing both institutional and retail investors. The Company has already started to strengthen its marketing efforts to build on this momentum and stimulate demand for PIP's shares.

**Investment and realisation activity during the period**
PIP continued to benefit from the current exit environment, generating £280m of distributions, equivalent to 26% of the opening portfolio, excluding the distributions attributable to the ALN. Sales to corporate buyers were the most significant sources of exit distributions during the financial year. During the period, calls from existing commitments to private equity funds amounted to £86m, equivalent to 19% of opening undrawn commitments. This resulted in a net cash inflow from the portfolio of £194m during the period before taking account of new investments.

By issuing the ALN, the weighted average fund age was reduced to 5.7 years during the 12 months to 31 May 2018 (31 May 2017: 6.7 years) and the portfolio emphasis was shifted towards younger funds which the Board believes will perform better as a whole relative to the portfolio prior to the ALN issue.

As investors seeking growth and higher returns become more aware of the attractions of private equity, competition for deals has increased. Nevertheless, through using its extensive network of relationships, built up over 35 years, and its privileged access to information, Pantheon has been able to source opportunities which the Board believes are compelling. As the supply of capital builds in this high valuation environment, Pantheon has sought to maintain its disciplined and selective approach, using its detailed due diligence processes to evaluate the managers it is backing to ensure that they have the appropriate standards to generate future high returns regardless of past performance.

PIP made 50 new investments in the year, amounting to £256m in commitments, of which £139m was drawn at the time of purchase. Those investments comprised £107m committed to 13 secondaries, £87m committed to 15 primaries and £62m committed to 22 co-investments. Since the period end, PIP has committed a further £54m to seven investments.

At the beginning of 2018, the Board, together with Pantheon, reviewed its approach to investment selection in order to find ways further to improve PIP's rate of NAV growth. It was agreed that the Manager should be able to exercise more flexibility in terms of allocation to primary, secondary and co-investment transactions to ensure that PIP can take advantage of the best deal opportunities. While secondary investments will continue to be a significant portion of PIP's portfolio, those containing tail-end funds (funds that are older than 10 years at the time of purchase) will be de-emphasised in PIP's new commitments so that PIP can benefit from younger, better-performing assets. One of the many attractions of PIP for investors is how risk is managed through the diversification of its portfolio by manager, investment type, stage, geography, vintage and sector. PIP intends to maintain this diversified approach in future, but a more focused approach in the secondary market to filter out less attractive tail-end opportunities, is expected to contribute to a reduction in the number of third party managers and companies to which the portfolio is principally exposed. This should allow a clearer link to form between the strongest performing companies in the portfolio and their potential to boost future NAV growth. PIP invests alongside Pantheon directly into third party funds and co-investments, and not via Pantheon's other investment vehicles. This ensures that the Company has control over portfolio construction and meets its investment objectives.

PIP buys back its shares opportunistically. During the year, the Company invested £3.5m to purchase 190,000 shares, which added 1.3p to the NAV per share.

PIP's strategic objectives and approach are described in more detail below.

**Financial position and strength**
The £200m unlisted Asset Linked Note, issued by PIP at the end of October 2017, is due to mature in August 2027. Repayment of the ALN is only made as cash distributions are received from a reference portfolio of older assets. PIP made ALN repayments of £77m during the year and, as at 31 May 2018, the ALN was valued at £132m. Since its issue, the lower relative performance of the reference portfolio underpinning ALN has, as intended, enhanced NAV per share growth in the period.

As at 31 May 2018, PIP held cash of £162m and had access to an undrawn facility equivalent to £163m. After deducting the next payment of £17m due under the ALN, the Company has available financing of £309m to meet undrawn commitments of £440m. As at 31 May 2018, PIP's undrawn commitment cover, which measures the sum of PIP's undrawn commitments against its available financing and the value of its private equity portfolio, was 3.6 times.

Following the period end, the Company announced in June that it had agreed a new £175m multi-currency revolving credit facility to replace the £150m loan facility agreement that was due to expire in November 2018. The facility, denominated as to US$163m and €60m, will expire in June 2022 with an option to extend, by agreement, the maturity date by another year. The loan facility was agreed on terms the Board believes to be attractive and provides additional assurance that the Company has the ability to finance its unfunded commitments in the future.

**Outlook**
The global economy remained strong during the year, although the outlook appears vulnerable against a backdrop of geopolitical and economic tensions. Pantheon is backing managers that have experience of managing assets through changing market conditions and is focusing on investments with growth potential that is not strictly correlated to GDP growth. In addition, the long-term nature of private equity means that our managers can hold on to their assets until there is a more favourable exit environment.

Valuations in private equity continue to be high, as is the case across equity markets generally and other asset classes, and there are concerns about the growing amount of capital. Private equity managers are having to work harder than ever before to source attractively priced opportunities. The Board and Pantheon are very aware of the importance of navigating the current environment with caution.

PIP offers a simple way for investors to access a well-managed global portfolio of high quality assets, with real potential for outperformance, which are not readily available via the public markets. The Board is confident that Pantheon has the scale, knowledge and expertise, as well as the extensive long-term relationships internationally, that are required to access compelling deals which are often restricted to a selected group of investors. In addition, the Board recognises the strong culture of teamwork and diversity within Pantheon and its long history of investing its clients' capital responsibly. We believe that these attributes, coupled with a long-term outlook when making investment decisions, play an important role in constructing a high quality portfolio which can maximise long-term capital growth for shareholders.

The Strategic Report, set out in the full Annual Report, has been approved and signed on behalf of the Board.

**SIR LAURIE MAGNUS**
*Chairman*
7 August 2018

PIP is a listed FTSE 250 private equity investment trust, overseen by an independent Board of Directors and managed by Pantheon, one of the leading private equity investment managers globally.

**PIP's track record**

PIP is the longest established private equity fund-of-funds on the London Stock Exchange.

*Performance since inception in 1987*

| | |
|---|---|
| 11.8% | average annual NAV per share growth |
| 8.1% | growth in FTSE All-Share TR index |
| 8.0% | growth in MSCI World TR index |

**Our portfolio is crafted to deliver for shareholders**

Since PIP's inception, we have been able to generate excellent returns while structuring our portfolio to minimise the risks typically associated with private equity investments. Our established portfolio of assets has been carefully selected, based on the strengths of our appointed managers, actively monitored and diversified to reduce specific timing, regional and sector risks, and managed to maximise growth and liquidity over time.

**Investment type[1]**
Flexible approach to portfolio construction increases potential for outperformance.

| | |
|---|---|
| Secondary | 43% |
| Co-investments | 32% |
| Primary | 25% |

**Fund region[1]**
Weighted towards the more developed private equity markets in the USA and Europe while Asia and EM provide access to faster-growing economies.

| | |
|---|---|
| USA | 55% |
| Europe | 26% |
| Asia and EM[2] | 12% |
| Global[3] | 7% |

**Fund stage[1]**
Well diversified across different investment stages with a particular focus on mid-market buyout and growth funds.

| | |
|---|---|
| Small/mid buyout | 37% |
| Large/mega buyout | 28% |
| Growth | 17% |
| Special situations | 12% |
| Venture | 6% |

**Fund maturity[1]**
Maturity profile is managed to enhance performance while maintaining a cash-generative portfolio.

| | |
|---|---|
| 2017 and later | 12% |
| 2016 | 14% |
| 2015 | 18% |
| 2014 | 9% |
| 2013 | 4% |
| 2012 | 6% |
| 2011 | 4% |
| 2010 | 2% |
| 2009 | 3% |
| 2008 | 11% |
| 2007 | 12% |
| 2006 and earlier | 5% |

[1] Fund investment type, region, stage and maturity charts in the full Annual Report are based upon underlying fund valuations and account for 100% of PIP's overall portfolio value. The above exclude the portion of the reference portfolio attributable to the Asset Linked Note.

[2] EM: Emerging Markets.

[3] Global category contains funds with no target allocation to any particular region equal to or exceeding 60%.

**Key Performance Indicators**

We are focused on maximising capital growth over the long term.

In 2018, the Board reviewed PIP's key performance indicators ("KPIs") to ensure that the Company is using the most appropriate measures to monitor progress in delivering against its objective of maximising capital growth over the long term. A detailed explanation of the chosen KPIs, along with historical performance for each, can be found below.

| | What it is | How we have performed | | Link to our strategic objective | Examples of related factors that we monitor |
|---|---|---|---|---|---|
| *Performance* | | | | | |
| 5-Year cumulative total shareholder return 90.5% | Total shareholder return demonstrates the return to investors, after taking into account share price movements (capital growth) and, if applicable, any dividends paid during the period. | 1 year 12.1%<br><br>3 years (cum) 57.0%<br><br>5 years (cum) 90.5% | • PIP's ordinary shares had a closing price of 2,010.0p at the year end.<br><br>• While the Board was pleased to note some narrowing of the share price discount in the year, the ordinary shares continued to trade at a discount to NAV (17% as at the year-end). | •Maximise shareholder returns through long-term capital growth.<br><br>•Promote better market liquidity by building demand for the Company's shares. | •Rate of NAV growth relative to listed markets.<br><br>•Trading volumes for the Company's shares.<br><br>•Share price discount to NAV. |

| | | | | | |
|---|---|---|---|---|---|
| NAV per share growth during the year<br>10.3%* | NAV per share reflects the attributable value of a shareholder's holding in PIP. The provision of consistent long-term NAV per share growth is central to our strategy.<br><br>NAV per share growth in any period is shown net of all costs associated with running the Company. | 12M to 30 June 2016<br>22.3%<br><br>11M to 31 May 2017<br>16.9%<br><br>12M to 31 May 2018<br>10.3% | • NAV per share increased by 224.9p to 2,414.8p during the year.<br><br>• Strong performance despite the impact of foreign exchange movements. | • Investing flexibly with top-tier private equity managers to maximise long-term capital growth.<br><br>• Containing costs and risks by constructing a well-diversified portfolio in a cost-efficient manner. | • Valuations provided by private equity managers.<br><br>• Fluctuations in currency exchange rates.<br><br>• Ongoing charges relative to NAV growth and private equity peer group.<br><br>• Potential tax leakage from investments.<br><br>• Effect of financing (cash drag) on performance. |
| Portfolio investment return<br>15.4%* | Portfolio investment return measures the total movement in the valuation of the underlying funds and companies comprising PIP's portfolio expressed as a percentage of the opening portfolio value, before taking foreign exchange effects and other expenses into account. | 12M to 30 June 2016<br>6.8%<br><br>11M to 31 May 2017<br>16.2%<br><br>12M to 31 May 2018<br>15.4% | • Strong performance in the underlying portfolio, despite the impact of foreign exchange movements.<br><br>• PIP continues to benefit from good earnings growth in its underlying portfolio and from the favourable exit environment. | • Maximise shareholder returns through long-term capital growth. | • Performance relative to listed market and private equity peer group.<br><br>• Valuations provided by private equity managers. |
| *Liquidity* | | | | | |
| Net portfolio cash flow<br>£194m* | Net portfolio cash flow is equal to fund distributions less capital calls to finance investments, and reflects the Company's capacity to finance calls from existing investment commitments and to make new investments.<br><br>PIP manages its maturity profile through a mix of primaries, secondaries and co-investments to ensure that its portfolio remains cash-generative at the same time as maximising the potential for growth. With a weighted average fund age of 5.7 years[1], PIP is achieving this objective. | 12M to 30 June 2016<br>£190m<br><br>11M to 31 May 2017<br>£211m<br><br>12M to 31 May 2018<br>£194m | • PIP's portfolio generated £280m of distributions versus £86m of calls.<br><br>• The Company made new commitments of £256m during the year, £139m of which was drawn. | • Maximise long-term capital growth through ongoing portfolio renewal while controlling financing risk. | • Relationship between outstanding commitments and NAV.<br><br>• Portfolio maturity and distribution rates by vintage.<br><br>• Commitment rate to new investment opportunities. |
| Liquidity ratio<br>1.0x* | The liquidity ratio is the ratio of outstanding commitments to available financing, with the latter being the sum of cash, the unutilised portion of any loan facilities and 10% of private equity assets. The liquidity ratio is an indicator of the Company's ability to meet outstanding commitments, even in the event of a market downturn.<br><br>Under the terms of its current loan facilities, PIP is required to maintain a liquidity ratio of below 3.0 times. | 12M to 30 June 2016<br>1.1x<br><br>11M to 31 May 2017<br>1.0x<br><br>12M to 31 May 2018<br>1.0x | • The current level of commitments is consistent with PIP's conservative approach to balance sheet management. | • Flexibility in portfolio construction, allowing the Company to flex between primary, secondary and co-investments, and vary investment pace, to achieve long-term capital growth. | • Relative weighting of primary, secondary and co-investments in the portfolio.<br><br>• Level of undrawn commitments relative to gross assets.<br><br>• Trend in distribution rates.<br><br>• Ability to access debt markets on favourable terms. |

* Excludes valuation gains and / or cash flows associated with the Asset Linked Note.

[1] Excludes the portfolio of the reference portfolio attributable to the Asset Linked Note.

**OUR BUSINESS MODEL**

We aim to deliver attractive and consistent returns over the long term.

**OUR INVESTMENT PROCESS**

1. Deals are originated via Pantheon's well-established platform
2. Within our diversified portfolio, we back the best managers globally that are able to identify and create value in growing companies
3. Cash generated when those companies are sold is returned to PIP and redeployed into new investment opportunities

**INVESTMENT STRATEGIES**

**Primary**
We invest in a new fund when it is established

- Captures exposure to top-tier, niche managers as well as to smaller funds that are generally hard to access.

**Secondary**
We replace an investor in a fund or funds typically late into, or after, the investment period

- Targets favoured funds at a stage when the underlying assets' performance is visible and the funds are realising investments, returning cash to PIP more quickly.

- One of the advantages of investing in secondaries is that earlier fees will have been borne by the seller so total expenses are lower.

**Co-investments**
We purchase a portfolio company directly, alongside a private equity fund, during the investment period

- Invests in the securities of individual companies with attractive characteristics at the exclusive invitation of Pantheon's private equity managers.

- This boosts performance potential because there are typically very low or no fees, making it a cost-effective way of capitalising on the high value added by Pantheon's selected managers.

**What we do**
PIP invests in private equity funds and co-invests (alongside selected private equity managers) directly into private companies worldwide.

An investment in PIP offers shareholders exposure to a growing market worth c.$3tn* where the best private equity managers might otherwise be inaccessible to shareholders.

We aim to deliver attractive and consistent returns to shareholders over the long term, and at relatively low risk.

*Preqin May 2018

**Why we do it**
Through Pantheon, we have an opportunity to invest with many of the best private equity managers globally based on the trust and experience built up over the more than 35 years during which Pantheon has been making investments.

With the right people in charge, we believe that the strong credentials of private equity and its track record of outperforming public markets, speak for themselves.

It is our mission to generate sustainably high investment returns through a well-managed, institutional grade portfolio built by investing with the best managers globally.

**How we do it**
PIP's manager, Pantheon, has a well-established platform built on three strategic pillars of investment: primary, secondary and co-investments, with each offering their own merits.

We believe that by combining the three ways of accessing private equity investments, we are able to:

- Build and maintain a well-balanced portfolio in a combination that we monitor and manage with the aim of maximising capital growth;

- Manage the maturity profile of our assets so that our portfolio remains naturally cash-generative on a sustainable basis;

- Ensure that the vehicle remains as cost-effective as possible for our shareholders by reducing any potential drag on returns.

Private equity managers take controlling or influential positions in companies where they believe they can create value with a view to exiting their position at a multiple to their original investment. As portfolio companies are sold by the managers, PIP's share of the cash that is generated from those sales is deployed into new investment opportunities.

For more information on the commitments that PIP has made during the year, see below.

**What sets us apart**
*Broad and deep relationships*
With investments in the USA, Europe, Asia and Emerging Markets, PIP provides a carefully constructed, broad-based portfolio for investors. The presence of Pantheon's dedicated investment team of 78[1] people in six offices around the world means that they are on the ground locally, working with their extensive networks of relationships with private equity managers and taking advantage of proprietary information flows and access to opportunities. These relationships enable Pantheon to source and respond quickly to the best deal flow in those regions.

[1] As at 1 August 2018.

*Independence*
PIP is offered the opportunity to participate in the full range of the private equity investments that Pantheon sources, and it invests alongside other Pantheon managed funds into third party funds and underlying companies rather than as a feeder into Pantheon's other investment vehicles. The Board believes that this offers several benefits to PIP and its shareholders, including:

- Control of investment strategy, overseen by the Board;

- Reduction of financing risk by being able to accept or decline investments offered to it by Pantheon according to its financial resources at the time;

- The flexibility to vary the size of its commitments as appropriate and in line with any adjustments to its investment strategy;

- Lower cost due to the elimination of expenses that can arise in intermediate vehicles.

*Track record*
For more than 30 years, PIP has been able to adapt quickly and effectively to changing market conditions. This flexible and proactive approach means that PIP is well placed to continue to deliver on its strategic objectives.

*Culture*
Pantheon has a strong culture of teamwork and diversity, as well as a long history of investing its clients' capital responsibly.

For more information on PIP's strategic objectives, see below.

**OUR STRATEGY**

Our independent and experienced Board ensures that our strategy puts shareholders first.

**The role of the PIP Board**

*Safeguarding shareholders' interests*
The independent Board of Directors is responsible for ensuring that PIP is managed in a way that achieves the best outcome for its shareholders. As part of this, one of its roles is to monitor the Manager's investment strategy to ensure that it is relevant, adheres to the Company's investment policy, and is constructed around seeking the best performing assets worldwide that can generate above average returns over the long term.

*Monitoring of ongoing investment strategy*
At the start of each year, PIP's investment strategy is considered by the Board together with the Manager. Throughout the year, there is an ongoing dialogue between the Board and Pantheon, and the Manager reports regularly to the Board on progress. In addition, it highlights any obstacles or changes in market conditions which may impact the Company's ability to achieve its strategic goals. In cases where this may occur, the Manager will propose solutions for which it will seek the support of the Board. Equally, the Board maintains the flexibility to propose amendments to the strategy as it deems necessary.

The Board and the Manager consider how PIP can most profitably deploy capital in the prevailing investment environment. In addition, the Board also reviews individual investments that exceed exposure limits, which are set at low levels (and below the hard limits in the Company's investment policy) to reflect a diversified approach. At times, the Manager may make recommendations to the Board and seek approval for certain investments that fall outside of any limits expressed in the agreed strategic approach, but which the Manager believes to be a good investment opportunity for PIP. The Board maintains its independence at all times and robustly challenges such recommendations to ensure that they are in the best interests of shareholders.

This year, following the simplification of PIP's share structure and the Company's expected exposure to a wider investor base following its entry into the FTSE 250, the Board took the opportunity to conduct a more detailed strategic review and explore how the Company's historically strong NAV performance could be built upon and improved. It is the Board's view that further improving performance is one of the ways in which more demand could be created for PIP's shares, which in turn could lead to a narrowing of the discount at which the shares trade. Some of the conclusions from that review are discussed below.

**Maintain a diversified approach while increasing potential for outperformance**

As Manager of PIP, Pantheon focuses on selecting the best private equity managers and the companies they back worldwide and carefully constructing and maintaining a mature portfolio that has exposure to different parts of the investment life cycle. PIP's portfolio is carefully diversified by manager, investment type, stage, geography, fund age (vintage) and sector. One of the key advantages of this approach is that it reduces the risk of any individual underperforming company or fund having an adverse effect on the Company's overall performance.

In 2018, the Board has agreed with the Manager that the Company will maintain its diversified approach but that, by increasing the focus on portfolio construction as explained below, over time the number of third party managers and companies to which the portfolio is principally exposed may reduce to around half the current amount. The Board also confirmed it would like to see the Manager exercise slightly more flexibility in the types and size of investments that it makes; this is discussed in more detail below.

We believe that this approach will give investors the best of both worlds: manageable risk in the Company's portfolio by remaining diversified, while at the same time increasing the potential for outperformance. The improved transparency of PIP's underlying portfolio, and increased investment flexibility, should create a clearer link between the strongest performing companies in the portfolio and the potential to boost NAV growth in the future.

**Tighten control of portfolio construction**

The Company has traditionally emphasised secondaries as PIP makes new investments. Secondary investments offer very attractive characteristics as highlighted in the Business Model above, however as part of the strategic review, it was recognised that certain secondary opportunities may not always be the best fit for PIP's portfolio.

There is a tendency for some recent secondary investments to be dominated by older assets, defined as those in funds which are 10 years or older at the time of purchase. Although those assets often generate good levels of cash, extensive analysis has shown that the rate of value increase tends to be lower than that offered by younger assets and therefore can be a drag on overall performance. The issuance of the ALN at the end of 2017 has allowed PIP to actively de-emphasise the older funds in PIP's portfolio and tilt it towards younger funds which the Board believe will perform better as a whole relative to the portfolio prior to the ALN issue. Therefore, as PIP seeks to maximise capital growth and avoid older assets becoming over-weighted in the portfolio, it was agreed that the Company would benefit from Pantheon's greater control over allocation, making it able to put capital to work in primary and co-investment opportunities as well as secondaries where they represented a more compelling investment proposition. While secondaries should continue to represent a significant portion of PIP's portfolio, it is recognised that over time these three different investment types may take on more equal weightings.

The benefits of this approach are clear: Pantheon can remain highly selective and disciplined when assessing deal flow while at the same time reducing the risk of PIP being excluded from exciting opportunities due to investment constraints.

The Board recognises that on occasion, the discounts at which the Company's shares trade may make them an attractive investment proposition for PIP when considered alongside other new investment opportunities. The Manager reports to the Board on a regular basis on the investment market conditions and on those occasions, the Board may authorise the Company to buy back a specified amount of its own shares.

**Focus on mid-market and growth opportunities**

PIP's portfolio is diversified by stage, which ranges across venture, late stage growth, small/mid and large/mega buyout opportunities, as well as those classified as special situations. While the Company's strategy is to maintain a healthy mix of all stages, Pantheon favours growth and buyout funds with a particular focus on the mid-market. The mid-market offers strong credentials, when compared with large deals, such as:

- More attractively priced assets which tend to have lower levels of leverage than the broader market average;
- Greater visibility of the value drivers and the levers to pull to improve operational efficiency to better drive growth, both organically and through buy-and-build strategies;
- More routes to exit (including strategic acquisitions, sales to other private equity managers or initial public offerings (IPOs)).

While late stage growth opportunities remain attractive, it is our view that the return profile of early stage venture can often be too drawn-out to be suitable for PIP's portfolio. Therefore any investment activity by PIP in early stage venture funds is focused on investing with top tier venture managers, mainly through primary fund investments, who are able to spot innovative opportunities with the potential to generate significant outperformance. While special situations includes funds with unique characteristics offering potential for outperformance, it is the Board's intention that special situations investments will be only a minority of the overall portfolio.

**Identify inefficiencies and growth potential in sectors and geographies**

The Board is committed to offering investors a global portfolio with investments in the USA, Europe, Asia and Emerging Markets. It takes an agnostic approach towards the weightings of those geographies but supports the majority of the Company's capital being invested in the USA and Europe where the private equity market are well-established and have been resilient.

The Board relies on Pantheon's investment teams around the world that are on the ground locally, to take advantage of proprietary information flows and access to opportunities through their extensive networks of relationships. The Board is confident that these relationships enable Pantheon to source and respond quickly to the best deal flow in those regions to optimise risk-adjusted performance.

It is our objective to seek managers globally that are able to take a thematic approach and focus on high growth sectors, many of which may not be fully represented by the public markets. In addition, Pantheon has a deliberate strategy of targeting sectors experiencing dislocation as well as niches where underlying growth is less correlated to GDP growth. Recent examples of this have been energy and financial services.

For more information on the sectors in which PIP is invested, see below

The Board believes that its oversight of the Manager's activities while at the same time allowing Pantheon the flexibility that it needs to make the appropriate investment decisions on PIP's behalf, ensures that PIP is able to deliver on its strategic objectives for shareholders over the long term.

**PIP's approach to ESG and employment issues**

The Company has no employees and the Board consists entirely of Non-Executive Directors. At the end of the period under review, the Board was comprised of six male Directors and one female Director.

As an investment trust, PIP has no direct impact on the community or the environment. However, Pantheon is careful through its due diligence process to encourage a sustainably positive impact of our investments, with a view to generating consistently high returns over the long term. Pantheon's commitment to leading the practice of responsible investment for many years meant it was one of the first signatories to the UN's Principles for Responsible Investment. Pantheon continues to explore ways in which we can promote accountability for Environmental, Social and Governance ("ESG") ethics through our investment process and the managers that we back.

For more information on Pantheon's approach to responsible investment, see the full Annual Report.

**OUR INVESTMENT POLICY**

Our investment policy is constructed around maximising capital growth

The Company's policy is to make unquoted investments. It does so by subscribing for investments in new private equity funds ("Primary investment"), buying secondary interests in existing private equity funds ("Secondary investment"), and acquiring direct holdings in unquoted companies ("Co-investments"), usually either where a vendor is seeking to sell a combined portfolio of fund interests and direct holdings or where there is a private equity manager, well known to the Company's Manager, investing on substantially the same terms.

The Company may from time to time hold quoted investments as a consequence of such investments being distributed to the Company from its fund investments and as a consequence of an investment in an unquoted company becoming quoted. In additon, the Company may invest in private equity funds which are quoted. The Company will not otherwise normally invest in quoted securities, although it reserves the right to do so should this be deemed to be in the interests of the Company.

The Company may invest in any type of financial instrument, including equity and non-equity shares, debt securities, subscription and conversion rights and options in relation to such shares and securities and interests in partnerships and limited partnerships and other forms of collective investment scheme. Investments in funds and companies may be made either directly or indirectly, through one or more holding, special purpose or investment vehicles in which one or more co-investors may also have an interest.

The Company employs a policy of over-commitment. This means that the Company may commit more than its available uninvested assets to investments in private equity funds on the basis that such commitments can be met from anticipated future cash flows to the Company and through the use of borrowings and capital raisings where necessary.

The Company's policy is to adopt a global investment approach. The Company's strategy is to mitigate investment risk through diversification of its underlying portfolio by geography, sector and investment stage. Since the Company's assets are invested globally on the basis, primarily, of the merits of individual investment opportunities, the Company does not adopt maximum or minimum exposures to specific geographic regions, industry sectors or the investment stage of underlying investments.

In addition, the Company adopts the following limitations for the purpose of diversifying investment risk:

- That no holding in a company will represent more than 15% by value of the Company's investments at the time of investment (in accordance with the requirement for approval as an investment trust which applied to the Company in relation to its accounting periods ended on and before 30 June 2012);

- The aggregate of all the amounts invested by the Company in (including commitments to or in respect of) funds managed by a single management group may not, in consequence of any such investment being made, form more than 20% of the aggregate of the most recently determined gross asset value of the Company and the Company's aggregate outstanding commitments in respect of investments at the time such investment is made;

- The Company will invest no more than 15% of its total assets in other UK-listed closed-ended investment funds (including UK-listed investment trusts).

The Company may invest in funds and other vehicles established and managed or advised by Pantheon or any Pantheon affiliate. In determining the diversification of its portfolio and applying the manager diversification requirement referred to above, the Company looks through vehicles established and managed or advised by Pantheon or any Pantheon affiliate.

The Company may enter into derivatives transactions for the purposes of efficient portfolio management and hedging (for example, hedging interest rate, currency or market exposures).

Surplus cash of the Company may be invested in fixed interest securities, bank deposits or other similar securities.

The Company may borrow to make investments and typically uses its borrowing facilities to manage its cash flows flexibly, enabling the Company to make investments as and when suitable opportunities arise and to meet calls in relation to existing investments without having to retain significant cash balances for such purposes. Under the Company's articles of association, the Company's borrowings may not at any time exceed 100% of the Company's net asset value. Typically, the Company does not expect its gearing to exceed 30% of gross assets. However, gearing may exceed this in the event that, for example, the Company's future cash flows alter.

The Company may invest in private equity funds, unquoted companies or special purpose or investment holding vehicles which are geared by loan facilities that rank ahead of the Company's investment. The Company does not adopt restrictions on the extent to which it is exposed to gearing in funds or companies in which it invests.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Company is exposed to a variety of risks and uncertainties. The Board, through delegation to the Audit Committee, has undertaken a robust assessment and review of the principal risks facing PIP, together with a review of any new risks that may have arisen during the year to 31 May 2018, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the risk management and internal control processes can be found in the Statement on Corporate Governance in the full Annual Report.

**Funding of investment commitments and default risk**

*Risk*
In the normal course of its business, the Company typically has outstanding commitments to private equity funds which are substantial relative to the Company's assets and may be drawn down at any time. The Company's ability to meet these commitments is dependent upon it receiving cash distributions (the timing and amount of which can be unpredictable) from its private equity investments and, to the extent these are insufficient, on the availability of financing facilities.

*Mitigation*
The Company has a mature portfolio that is naturally cash generative and does not ordinarily gear its balance sheet for the purpose of enhancing performance. The Board intends to manage the Company so that undrawn commitments remain at an acceptable level relative to its assets and available financing. The total available financing as at 31 May 2018 stood at £309m, comprising £146m in available cash balances[1] and £163m in undrawn bank facilities. As a result, the available financing along with the private equity portfolio exceeded the outstanding commitments by a factor of 3.6 times. The Company ordinarily expects to finance the majority of calls from undrawn commitments out of distributions. In the event that the levels of cash distributions and cash balances are insufficient to cover capital calls, the Company has the ability to draw funds from a credit facility (see Gearing section below for details of the credit facility).

[1] Available cash calculated as cash and net current assets/(liabilities) less undistributed net cash flows associated with the Asset Linked Note.

**Risks relating to investment opportunities**

*Risk*
There is no guarantee that the Company will find a sufficient number of suitable investment opportunities, or that the private equity funds in which it invests will find suitable investment opportunities, in order to achieve the level of diversification which the Company seeks to achieve in relation to its investment portfolio.

*Mitigation*
In line with the Investment Policy shown above, the Manager has put in place a dedicated investment management process that is designed to help maximise the chances of the Board's intended investment strategy being achieved. The Board periodically reviews investment and financial reports from the Manager to monitor the effectiveness of the Manager's investment management process.

**Financial risk of private equity**

*Risk*
The Company invests in private equity funds and unquoted companies, which are less readily marketable than quoted securities. In addition, such investments may carry a higher degree of risk than investments in quoted securities.

*Mitigation*
The Manager's investment management process is designed to produce the best possible risk-adjusted returns from private equity investments. Where the Company commits to private equity funds, such funds are structured as limited life funds where the manager is incentivised to realise investments and return proceeds to investors within the funds' limited life span. As part of the investment process for secondaries and co-investments, an assessment is made to understand the possible impact of the underlying assets' illiquidity on projected exit outcomes. As part of the investment process for primaries, an assessment is made to understand a manager's approach to underlying company illiquidity.

**Long-term nature of private equity investments**

*Risk*
Private equity investments are long term in nature and it may take some years before they reach a level of maturity at which they can be realised. Accordingly, it is possible that the Company may not receive a return on its investments for a number of years.

*Mitigation*
The Company pursues a flexible investment strategy, combining secondary investments, which will typically have shorter exit horizons on average, with co-investment and primary commitments. Therefore, this flexible investment strategy results in a range of likely exit horizons for underlying investments, mitigating this risk.

**Valuation uncertainty**

*Risk*
When valuing its investments in private equity funds and unquoted companies and publishing its NAV, the Company relies to a significant extent on the accuracy of financial and other information provided by these funds and companies to the Manager. There is the potential for inconsistency in the valuation methods adopted by the managers of these funds and companies. In addition, the information provided is typically more than 60 days old at the time the Company's NAV per share is reported.

*Mitigation*
In the case of the Company's investment in private equity funds, and direct investments managed by private equity managers, the valuation of investments is based on the periodically audited valuations that are provided by the private equity managers. Pantheon carries out a formal valuation process involving a monthly review of these valuations, verification of the latest audited reports coverage, as well as a review of any potential adjustments that are required to ensure reasonable valuation of the underlying investments and in accordance with the fair market value principles required under Generally Accepted Accounting Principles ("GAAP").

**Gearing**

*Risk*
The use of gearing could cause the magnification of both gains and losses in the asset value of the Company. The Company may also invest in private equity funds or unquoted companies which are geared by loan facilities that rank ahead of the Company's investment both for payment of interest and capital. As a consequence, the Company may be exposed from time to time to gearing through the borrowings of such private equity funds and companies, thereby increasing its investment risk.

*Mitigation*
While debt is commonly used within the capital structure of private equity funds' portfolio investments, it is not commonly used at the fund level other than for working capital purposes. Thus, leverage risk is typically non-recourse between portfolio companies operating independently within the same portfolio.

The Company renewed its revolving credit facility after the year-end. The new £175m facility is due to expire in June 2022, and is comprised of facilities of $163.0m and €59.8m which remained completely undrawn at the time of writing. The principal covenant that applies to the loan facility ensures that the Company is limited to a maximum gearing of 34% of adjusted gross asset value.

**Foreign currency risk**

*Risk*

The Company makes investments in US dollars, euros and other currencies as well as sterling. Accordingly, the Company is exposed to fluctuations in currency exchange rates.

*Mitigation*
The Manager monitors the Company's underlying foreign exchange exposure and seeks to balance the risks associated with holding different currencies through diversification and cost-averaging effects. Furthermore, as part of the investment management process, the Manager will assess the risk/return of a specific investment, taking into consideration the currency denomination of the investment and the opportunity to mitigate currency risk. However, foreign currency risk tends to be a less significant factor over longer investment horizons.

**Unregulated nature of underlying investments**

*Risk*
The private equity funds and underlying unquoted investments that form the basis of the majority of the Company's portfolio are not necessarily subject to regulation by the Financial Conduct Authority ("FCA") or an equivalent regulatory body. Funds and unquoted companies in which the Company invests (directly or indirectly) may be domiciled in jurisdictions which do not have a regulatory regime that provides an equivalent level of investor protection to that provided under the laws of the United Kingdom.

*Mitigation*
The Manager's investment management process for primary and secondary investments requires verification of the regulatory jurisdiction of underlying funds. In addition, the managers of the underlying funds are mostly regulated by the FCA, US Securities and Exchange Commission ("SEC"), or an equivalent body in the managers' respective jurisdictions.

**Counterparty risk**

*Risk*
PIP's investments in private equity funds typically include a portion of undrawn commitments. Investors in such funds are contractually obliged to fund undrawn commitments as they are called. It is possible that another investor in the target fund is unable or unwilling to meet future capital calls. In this scenario the defaulting investor would have the option of selling its position in the secondary market, or suffering various penalties prescribed under the fund's constitutional documentation. During a fund's investment period, a default could have a potential impact on the shape of the remaining investors' investment including, for example, an increase in portfolio concentration, which is different to the concentration that the manager had initially envisaged at the fund's outset. To the extent that a defaulting investor does not sell its position, and the default occurs after the fund's investment period, the manager may have to limit the amount invested in follow-on investments for existing companies or potentially leave the fund unable to meet a contractual liability such that the manager has to sell existing portfolio companies.

*Mitigation*
This is a rare occurrence given the damaging economic and reputational consequences for a defaulting investor, and given the typically high credit ratings for institutional private equity investors, which comprise a considerable proportion of the capital being invested in the private equity fund market. In addition, the secondary market has become increasingly liquid and an investor has the option to sell its position before it might default on its future undrawn commitments. The majority of PIP's investments are funded positions, where an investor's forfeit of existing NAV would mitigate the potential impact on the shape of the remaining portfolio.

**Taxation**

*Risk*
Any change in the Company's tax status, or in taxation legislation or practice, could affect the value of the investments and the Company's performance. In addition, the Company's income and gains from its investments may suffer withholding tax, which may not be reclaimable in the countries where such income and gains arise.

*Mitigation*
The Manager's investment management process incorporates an assessment of the tax impact of each primary or secondary fund investment, or co-investment that is purchased. For every investment, the Manager also reviews the appropriateness of an investment's legal structure and any action required, including the establishment of special purpose, and/or blocker vehicles, to tailor an investment's structure to minimise the potential tax impact on the Company.

**The Manager and other third party advisers**

*Risk*
Like most investment trust companies, the Company has no employees and the Directors are all non-executive. The Company is dependent upon the services of Pantheon as its Manager and may be adversely affected if the services of Pantheon cease to be available to the Company.

*Mitigation*
The Board keeps the performance of the Manager under continual review. In addition, the Management Agreement is subject to a notice period of two years that is designed to provide the Board with adequate time to put in place alternative arrangements in the event the services of Pantheon cease to be available.

**Brexit**

*Risk*
The UK has voted to leave the EU and, depending on what arrangements might be negotiated, there are likely to be consequences for the Company, and for the wider Pantheon organisation as a whole. Uncertainty about the Brexit process may result in some market and currency volatility, which may adversely impact returns. In addition, given a significant proportion of UK financial services legislation, such as the AIFMD, the Prospectus Directive and Regulation and MiFIDII/MiFIR, is derived from EU law, assuming the UK does not accede to the EEA Agreement or negotiate an equivalent arrangement, the Company's continued ability to market its shares to European investors may be at risk.

*Mitigation*
Following the UK's decision to leave the EU, the Manager, through a dedicated working group, has been monitoring policy developments and reviewing aspects of the Company's business that rely on pan-EU arrangements. Pantheon will open an office in Dublin, ensuring that Brexit will have a minimal impact on Pantheon Group's ability to operate in Europe.

**Cybersecurity**

*Risk*
The Company is dependent on effective information technology systems. These systems support key business functions and are an important means of safeguarding sensitive information. Any significant disruption to these IT systems, including breaches of data confidentiality or cybersecurity, could result in, among other things, financial losses, the inability to perform business critical functions, regulatory censure, legal liability and reputational damage.

*Mitigation*
Pantheon has a robust information and cybersecurity programme in place, aligned with SANS20 controls and the NIST cybersecurity framework. This includes a comprehensive set of policies, standards, procedures and technology related to information security. Third-party cybersecurity oversight is administered by means of a comprehensive cybersecurity questionnaire which must be completed by vendors and then reviewed and approved by the Chief Information Security Officer prior to any engagement. Validation of the Pantheon's own information and cybersecurity solutions is tested annually by means of a full penetration test, including phishing expeditions by accredited third party cybersecurity specialists. The findings of these tests are reported to both the Pantheon Operational Risk Committee and Pantheon Operating Committee. In addition, a company-wide cybersecurity awareness training programme has been put into place for all staff. Over the past 12 months the Company has not experienced any material breaches in respect of information or cybersecurity.

**Retail Investors Advised by IFAs**

The Company currently conducts its affairs so that its shares can be recommended by independent financial advisers to retail private investors in accordance with the FCA's rules in relation to non-mainstream investment products.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in a UK-listed investment trust.

**Viability Statement**
Pursuant to provision C.2.2 of the UK Corporate Governance Code 2016, the Board has assessed the viability of the Company over a three year period from 31 May 2018. It has chosen this period as it falls within the Board's strategic planning horizon. The Company invests in an internationally diversified portfolio of private equity assets, both through funds and by co-investing directly into companies alongside selected private equity managers. The Company invests significantly in the private equity secondaries market as this allows the Company to maintain a more mature portfolio profile that is naturally cash-generative in any particular year.

Commitments to new funds are restricted relative to the Company's assets and its available liquid financial resources so as to maintain a reasonable expectation of being able to finance the calls, which arise from such commitments, out of cash flow that is generated internally. In addition, the Company has put in place a revolving credit facility to ensure that it is in a position to finance such calls in the event that distributions received from investments in the period are insufficient to finance calls. The Board reviews the Company's financing arrangements at least quarterly to ensure that the Company is in a strong position to finance all outstanding commitments on existing investments as well as being able to finance new investments.

In reviewing the Company's viability, the Board has considered the Company's position with reference to its business model, its business objectives, the principal risks and uncertainties as detailed above and of its present and expected financial position. In addition, the Board has also considered the Company's conservative approach to balance sheet management, which allows it to take advantage of significant investment opportunities, and the appropriateness of the Company's current investment objectives in the prevailing investment market and environment. The Board regularly reviews the prospects for the Company's portfolio and the opportunities for new investment under a range of potential scenarios to ensure it can expect to be able to continue to finance its activities for the medium-term future. Based on its review, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three year period.

On behalf of the Board

**SIR LAURIE MAGNUS**
7 August 2018

**MANAGER'S MARKET REVIEW**

The global private equity market is growing and, while still relatively small compared with many other asset classes, it is estimated to be worth just under $3 trillion[1].

[1] Preqin May 2018.

Over the past year, global fundraising has been at record levels and investment activity has remained robust. The prevailing high valuation environment has increased the pressure on private equity managers to find ways of creating value in order to generate attractive returns from the underlying businesses. Pantheon has maintained its disciplined and selective approach when assessing deal opportunities, and backs the best managers globally that are able to make investments where there is scope for them to use their operational and strategic expertise to deliver strong performance.

The global economy has performed well in the past year. However, the threat posed to future growth by the escalating tariff wars between the world's economic super powers, rising geopolitical tensions and the expected volatility in the financial markets, cannot be ignored. In addition, there is the risk of further currency volatility as central banks follow divergent paths and uncertainty remains over the pace of expected interest rate rises in the world's major economies.

**Regional outlook**
The USA has continued to experience positive economic growth over the past year, which is expected to be boosted further in the near term by the more favourable tax and regulatory environment introduced by the current administration. At this stage, it is still not clear how the tax reforms and restrictions on the tax deductibility for interest expenses will impact private equity in the USA, however our managers are examining each of the companies in their portfolios so that they can act quickly to minimise or avoid any negative effects. In addition, we aim to only back private equity managers, or General Partners ("GPs"), who adopt a disciplined approach to managing debt levels when investing in companies that offer opportunities for growth. Our strategy has remained consistent in the USA, focusing on smaller companies which generally offer better opportunities for lower entry prices and higher growth potential.

In 2017, the Eurozone experienced its fastest GDP growth in a decade. While this is a positive development, political challenges remain in Europe and Pantheon continues to favour countries in Northern Europe for investment. In the UK, the consumer and retail sectors in particular have been negatively impacted as uncertainty around the outcome of Brexit negotiations remains. It should be noted that the UK represents only a minority (less than 10%) of PIP's portfolio. Also, many of the European managers that we back are regional or pan-European managers who are able to deploy capital in different countries as political and economic events unfold during an investment period. A mix of founder- and family-owned buyouts, corporate carve-outs and transformational secondary buyouts feed the pipeline of opportunities for managers who have the expertise to identify assets where many levers can be pulled to drive growth and value creation. The performance of many of the companies in which Pantheon is invested in Europe is not strictly correlated to GDP growth and they continue to generate consistent revenue and earnings growth.

Economic growth across Asia exceeded the developed world in 2017 and this is expected to continue over the next few years. At the same time, the private equity market in Asia is maturing and its share of global M&A and buyout markets is increasing. During 2017, there were record levels of investment volume in the region with investments and exits significantly outpacing fundraising. In China, Pantheon focuses on companies in the consumer, healthcare, financial services and education sectors, and the majority of these businesses continue to deliver strong earnings growth. While it is not possible to predict the likely market volatility resulting from the trade tensions with the USA, relatively few companies in PIP's portfolio are dependent on exports to the USA. The high valuation environment observed across the globe has also impacted Asia, but to a lesser extent; the combination of more attractive entry valuations into companies with higher growth potential means the Asian region should continue to offer strong deal opportunities for Pantheon.

The private equity market in Latin America is still relatively nascent and this, coupled with the economic volatility in the region, offers both challenges and opportunities. We are investing in managers in the region who are finding ways to mitigate currency fluctuations, actively manage liquidity and market risk, and are able to identify companies in sectors that are exceeding GDP growth.

While Asia and Emerging Markets represent a smaller part of PIP's portfolio, when compared to the USA and Europe, PIP will continue to acquire assets in these regions as part of its long-term strategy.

**An adaptable and flexible approach to primary investments**
During 2017 and in the first half of 2018, fundraising in the USA and Europe has continued apace and competition for deals has increased as investors are allocating more capital to private equity in search of growth, diversification and higher returns. Pantheon has benefited from its managers taking advantage of the resulting strong exit environment. At the same time, however, valuations have continued to be pushed up and many industry commentators have expressed concern about the high levels of "dry powder" (funds that have been raised but are yet to be invested) in private equity.

It should be noted that a significant portion of the new capital raised over the past year was committed to the large multibillion dollar and euro funds. In the mid-market, where we are most active, the deployment pace is commensurate with investment periods in the underlying funds of four to five years. By continuing to increase its share of the M&A market, of which private equity is still a relatively small part, as well as benefiting from the trend seen in global public markets where the number of listed companies and IPOs are in decline as many companies turn to the alternative source of capital and "hands-on" approach offered by private equity managers, the outlook for private equity strategies appear positive.

Without doubt, the high valuation environment means that GPs are having to work much harder and at a much earlier stage of investment to create value in their portfolios. However, resilience and adaptability are inherent characteristics of private equity and Pantheon-backed managers are using a range of tactics to mitigate the situation and expand the opportunity set:

- Buy-and-build strategies: By bolting smaller companies acquired at lesser multiples onto a large enterprise which has a premium valuation, managers are able to lower the average entry multiple for the whole asset and increase its critical mass.

- Focus on small/mid buyout: Smaller assets can typically be acquired at more attractive prices than larger buyouts. This segment also offer higher average growth rates and a wider range of exit opportunities.

- Expansion of their own origination and operational teams: By bolstering their own origination team and operational expertise, GPs are able to access a larger pool of deal flow and work alongside management teams to drive even greater operational improvements and boost growth in the underlying companies that they already own.

- Sector specialisation: Sector knowledge is just as important, if not more important, as the geographical location of assets when selecting companies for investment. As a result, managers are becoming sector experts and focusing on micro rather than macro factors as well as taking advantage of mispricing situations and dislocations in niche sectors, such as energy and financial services.

- Corporate carve-outs: The divestment of a non-core division or company from a larger corporation can be complicated as new systems and/or teams must be put in place. This offers significant opportunities for private equity managers that are able to deal with operational and financial complexity.

- Public-to-private activity: This has increased significantly in the last couple of decades and continues to be a good source of deal flow for private equity managers.

Against this backdrop, manager selection remains key. Pantheon is highly selective and is focused on managers that we believe can implement effective operational change and deliver outsized returns. Our extensive investment team sits on more than 350 advisory board seats, which provides an insight into deal flow but also facilitates the continuous assessment of a manager. When assessing a manager's fund for investment, Pantheon does not just consider past performance and the validity of the fund strategy, but also makes sure that the composition of the team remains appropriate and individuals are fully aligned and incentivised.

**Uncovering value in the secondary market**

The global secondary market is growing and evolving, reaching an estimated record level of $58bn[2] worth of deals transacted in 2017, and offers more choice to buyers than ever before. Unlike some other investment types, secondary buyers can factor recent company performance and liquidity into their pricing, potentially mitigating cyclical extremes. Pantheon was one of the pioneers of the secondary market and our platform built up over 35 years enables us to use our deep knowledge and relationships to source and deploy capital into the most compelling deals. Our ability to respond quickly often makes Pantheon a preferred investor in secondary transactions.

[2] Greenhill Cogent Secondary Market Trends & Outlook, July 2018.

Secondaries are attractive given the opportunity to deploy capital into funds where a significant portion of the fees paid on undrawn commitments has already been paid down, otherwise known as mitigating the J-curve effect. In addition, market estimates indicate that, despite the increased competition, "dry powder" in the secondary market is decreasing and proportionally lower than in the broader private equity market.

During the year, the market has seen a full range of deal flow and transaction types: large diversified portfolios; large, concentrated fund positions; and structured transactions involving combinations of funds and individual company assets. GP-led transactions have grown in both absolute and relative terms, as managers become more attuned to the opportunities presented by the secondary market: these transactions are initiated and overseen by the private equity managers themselves and can include tender offers, fund preferred capital investments and fund restructurings. Consequently, the secondary market continues to grow.

Pantheon's secondary strategy is to target the highest quality managers and assets, focus on acquiring concentrated fund positions and to identify embedded value in funds and purchase them at a favourable point of time in their development, rather than relying on any discount achieved at purchase to drive returns. We are also interested in secondaries which involve companies that have demonstrated financial resilience through previous economic downturns and where the manager has multiple opportunities to accelerate growth. Sectors in which PIP has transacted during the year include energy, financial services and for-profit education services. As described in PIP's strategy above, tail-end funds, or those older than 10 years at the time of purchase, will be de-emphasised in PIP's new commitments.

Despite the increasingly specialised nature of the secondary market, Pantheon is still able to uncover value by taking advantage of the inefficiencies of the secondary market when compared to direct private equity markets. Examples of this include:

- Inconsistent valuation methodologies amongst private equity managers means that a manager's conservative valuation policy provides the potential for attractive uplifts to NAV on exit;

- Inefficient sales processes resulting from a limited buyer universe that excludes strategic acquirers, reduced competition due to seller confidentiality and transfer restrictions imposed by the private equity manager;

- Information insights as the private equity manager may not share all information equally amongst potential bidders;

- Transaction processes becoming ultra-fast which means that buyers must respond quickly and have capital available for investment.

The growing and maturing secondary market is supplying diverse deal flow and interesting opportunities that can offer an effective discount. Against this backdrop, we continue to maintain our discipline and only close on a small number of the deals that we have sourced where there is strong conviction in both the manager and the underlying portfolio's prospects.

**Pantheon's platform continues to yield attractive co-investment opportunities**

The co-investment market continues to be attractive to professional fund investors such as Pantheon as well as to a variety of institutional participants such as sovereign wealth funds, pension funds and family offices. According to market estimates, co-investments represented a growing proportion of global private equity buyout called capital in 2017. It has also been a significant year for Pantheon's co-investment platform in terms of distributions and attractive exits.

The ability to deploy capital selectively and diligently is a meaningful component of the market and Pantheon continues to be a partner of choice for the high quality private equity managers that we are also backing on a primary basis. Pantheon invests alongside these managers predominantly in mid-market companies with proven, differentiated growth potential. Our dedicated global co-investment team has underweighted opportunities in cyclical industries and focused on businesses with defensive characteristics in the event of an economic downturn. Recent examples have been co-investments in healthcare and education.

The outlook for Pantheon's co-investment programme is positive given that there are fewer club deals - in other words, private equity managers are partnering with one another less frequently - and investors such as Pantheon are able to add value by providing GPs with more solutions for capital provision. Co-investments are still largely free of fees and expenses therefore they offer cost-effective access to high quality assets.

**Summary and outlook**

Although Pantheon does not ignore and is not immune to the macroeconomic situation in the countries where it invests, it prefers to focus on areas of growth driven by innovation or demographics rather than GDP. Pantheon also seeks opportunities where the fundamental business strength is aligned with what can be viewed as a good entry valuation. In addition, in an environment of rising interest rates, Pantheon is backing managers that are more experienced and often more cautious in their use of leverage.

The valuation environment is expected to remain challenging in Europe and USA and many investors are preparing for increased market volatility in the future. Private equity managers acquire active, control positions and are able to react to market conditions and changing regulations with the aim of creating value over the long term. They are under no pressure to sell their assets and can therefore wait for a more favourable exit environment if necessary.

Private markets provide access to smaller, higher growth companies and a differentiated sector focus that may not be represented by the public markets. For example, the businesses backed by private equity in healthcare and technology tend to address a different set of needs and end user to the companies that are available in the same sectors via the public markets. Research by Pantheon has shown that the number of public companies globally is in decline and it would appear that private equity is now mature enough that company management often wishes to stay under private equity ownership for longer, while the value creation potential is still building, rather than seeking a public listing for their businesses. In light of these trends, it is our view that prudent investors need exposure to both private and public markets in their portfolios.

We believe that private equity has strong credentials and the potential for further growth is apparent. With our track record and expertise built up over 35 years, Pantheon will continue to back the best private equity managers globally which we believe have the tools and resources to generate healthy returns over the long term regardless of prevailing market conditions.

**Performance**
Overall, PIP's underlying portfolio continues to deliver strong returns

**Private equity portfolio movements**

- PIP's total portfolio generated investment returns, prior to foreign exchange effects, of 15.0%.
- Excluding returns attributed to the ALN share of the portfolio, PIP's portfolio generated returns of 15.4% during the year.

**Valuation gains by stage[1]**

- PIP experienced strong performance from growth and mid-market buyout funds, particularly those with an investment emphasis on the IT and healthcare sectors.
- The performance of our predominantly vintage 2009 and earlier venture portfolio has lagged although this now represents just 6% of PIP's total portfolio.
- The performance of special situations was impacted by company-specific valuation declines.

**Valuation gains by region[1]**

- Strong performance across all geographies during the year.

[1]Portfolio returns include income, exclude gains and losses from foreign exchange movements, and look through feeders and funds-of-funds to the underlying funds. Portfolio returns exclude returns generated by the portion of the reference portfolio attributable to the Asset Linked Note.

**Sector Themes**

Pantheon assesses deals across all sectors and has seen interesting opportunities in consumer, information technology and healthcare as well as attractive deal dynamics in certain energy and financial sector transactions. Investing in, or alongside, managers who have the expertise to identify and capitalise on shifting sector trends gives PIP access to the most promising segments within these sectors.

**Company Sectors[1]**

| | |
|---|---|
| Consumer | **23%** |
| Information Technology | **24%** |
| Healthcare | **13%** |
| Industrials | **11%** |
| Financials | **13%** |
| Energy | **9%** |
| Telecom Services | **3%** |
| Materials | **3%** |
| Utilities | **1%** |

[1] The above is based on underlying company valuations as at 31 December 2017 and account for over 95% of PIP's overall portfolio value.

**Distributions**
PIP received more than 1,500[1] distributions in the year, with many reflecting realisations at significant uplifts to carrying value. PIP's mature portfolio should continue to generate significant distributions.

[1]This figure looks through feeders and funds-of-funds.

**Distribution by Region and Stage**
PIP received £280m in proceeds from PIP's portfolio in the year to 31 May 2018 equivalent to 26%[2] of opening private equity assets. The USA accounted for the majority of PIP's distributions, where market conditions supported a good level of exits, particularly from buyouts.

[2] Including distributions attributable to the asset linked note, the distribution rate for the year was 28%.

*Distributions by region*

| | |
|---|---|
| USA | **54%** |
| Europe | **30%** |
| Asia and EM | **11%** |
| Global | **5%** |

*Distribution by stage*

| | |
|---|---|
| Small/mid buyout | **33%** |
| Large/mega buyout | **30%** |
| Growth | **20%** |
| Special situations | **9%** |
| Venture | **8%** |

**Quarterly Distribution Rates**
Strong quarterly distribution rates reflect the maturity of PIP's portfolio.

Distribution rate equals distributions in the period (annualised) divided by opening portfolio value.

**Distribution Rates by Vintage**
With a weighted average fund maturity of 5.7 years[3], PIP's portfolio should continue to generate significant levels of cash.

[3] Calculation for weighted average age excludes the portion of the reference portfolio attributable to the Asset Linked Note.

**Exit Realisations by Sector and Type**
The portfolio benefited from strong realisation activity, particularly in the consumer, information technology, and healthcare sectors.

Trade sales represented the most significant source of exit activity during the year.

The data in the sample provide coverage for 100% (for exit realisations by sector) and 66% (for exit realisations by type) of proceeds from exit realisations received during the period.

*Exit realisation by sector*

| | |
|---|---|
| Consumer | **28%** |
| Information Technology | **26%** |
| Healthcare | **17%** |
| Industrials | **13%** |
| Financials | **8%** |
| Energy | **4%** |
| Others[1] | **4%** |

[1] The Others category includes exit realisations from Materials (3%) and Real Estate (1%) received during the period.

*Exit realisation by type*

| | |
|---|---|
| Trade Sale | **54%** |
| Public Market Sale | **19%** |
| Secondary buyout | **18%** |
| Refinancing and Recapitalisation | **9%** |

**Calls**
Calls during the year were used to finance investments in businesses such as cloud software developers, care centres, pharmaceuticals and business support service companies.

**Calls by Region and Stage**
PIP paid £86m to finance calls on undrawn commitments during this year.

The calls were predominantly made by managers in the buyout and growth segments, reflecting the focus of PIP's recent primary commitments.

*Calls by region*

| | |
|---|---|
| USA | **55%** |
| Europe | **29%** |
| Asia & EM | **4%** |
| Global | **12%** |

*Calls by stage*

| | |
|---|---|
| Large/mega buyout | **34%** |
| Small/mid buyout | **25%** |
| Growth | **24%** |
| Special Situations | **16%** |
| Venture | **1%** |

**Calls by Sector**
A large proportion of calls were for investments made in the healthcare, industrials, consumer and energy sectors.

*Calls by sector*

| | |
|---|---|
| Healthcare | **17%** |
| Industrials | **16%** |
| Consumer | **15%** |
| Energy | **15%** |
| Information Technology | **15%** |
| Financials | **14%** |
| Materials | **4%** |
| Telecommunications | **2%** |
| Real Estate | **2%** |

**Quarterly Call Rate[1]**
The average annualised call rate for the year to 31 May 2018 was 21%.

[1] *Call rate equals calls in the period (annualised) divided by opening undrawn commitments. All call figures exclude the acquisition cost of new secondary and co-investment transactions.*

**New Commitments**
Despite the highly competitive market characterised by record-high valuations, PIP has been able to secure attractive deals and committed £256m across 50 new investments during the year. Of the total commitment made, £139m was drawn at the time of purchase.

**New Commitments by Region**
The majority of commitments made in the year were to US and European private equity funds.

| | |
|---|---|
| USA | **55%** |
| Europe | **40%** |
| Asia and EM | **5%** |

**New Commitments by Stage**
The majority of new commitments made in the year were to buyout funds, with particular emphasis on small and medium buyouts.

| | |
|---|---|
| Small/mid buyout | **52%** |
| Large/mega buyout | **26%** |

| | |
|---|---|
| Special Situations | **12%** |
| Growth | **10%** |

**New Commitments by Investment Type**
New commitment activity reflects attractive opportunities in primaries and co-investments.

| | |
|---|---|
| Secondary | **42%** |
| Primary | **34%** |
| Co-investment | **24%** |

**New Commitments by Vintage**
Primaries and co-investments, which accounted for over half of total commitments during the year offer exposure to current vintages. Secondary investments made during the period were mostly in 2010 and later funds, consistent with PIP's strategy of reducing its exposure to older tail-end funds.

| | |
|---|---|
| 2018 | **31%** |
| 2017 | **41%** |
| 2016 | **3%** |
| 2015 | **5%** |
| 2014 | **0%** |
| 2013 | **4%** |
| 2012 | **0%** |
| 2011 | **6%** |
| 2010 | **7%** |
| 2009 and earlier | **3%** |

**Secondary Commitments[1]**
Secondary investments allow the Company to access funds at a stage when the assets are generating cash distributions.

The private equity secondary market has grown significantly over the last ten years, both in scale and complexity. Despite strong competition, PIP continues to see compelling opportunities derived from Pantheon's global platform and its expertise in executing complex secondary transactions over which it may have proprietary access. Over the last 12 months, in addition to traditional secondary transactions, PIP has participated in preferred capital investments and deals that involved hybrid (fund + company) portfolios with significant upside potential.

£107m committed to 13 secondary transactions during the year.

1. Funds acquired in secondary transactions are not named due to non-disclosure agreements.

*Examples of Secondary Commitments made during the year*

| REGION | STAGE | DESCRIPTION | COMMITMENTS £M | % FUNDED[2] |
|---|---|---|---|---|
| Europe | Small/mid | Mid-market buyout fund principally focused on France and Germany | **14.8** | **97%** |
| Europe | Special sits | Secondary acquisition of diversified portfolio of five European toll road and renewable energy assets | **13.7** | **73%** |
| USA | Special sits | Secondary acquisition of portfolio of US oil and gas assets | **12.7** | **100%** |
| USA | Small/mid | Secondary acquisition of a minority interest in a dermatology company | **12.1** | **100%** |
| Europe | Large/mega | Secondary acquisition of global higher education services provider | **11.4** | **100%** |
| USA | Small/mid | North American mid-market fund focused on the business services sector | **10.4** | **74%** |
| USA | Multiple | Portfolio of five North American large buyout and growth funds | **9.0** | **67%** |
| USA | Large/mega | North American large buyout fund | **6.8** | **71%** |

2 Funding level does not include deferred payments.

**Primary Commitments**
Investing in primary funds allows PIP to gain exposure to complementary niche investments as well as to smaller funds that might not typically be traded on the secondary market. Our focus remains on investing with high quality managers who have the proven ability to drive value at the underlying company level, and generate strong returns across market cycles. In addition, we target funds with market leading specialisms in high growth sectors such as healthcare and information technology.

£87m committed to 15 primaries during the year.

*Examples of Primary Commitments made during the year*

| INVESTMENT | STAGE | DESCRIPTION | COMMITMENTS £M |
|---|---|---|---|
| **HgCapital Saturn I** | Large/mega | Large buyout fund targeting the European software sector | **10.0** |
| **Chequers Capital XVII** | Small/mid | European mid-market fund focused on France and Germany | **9.8** |
| **Onex Partners V** | Large/mega | North American large buyout fund focused on the manufacturing, healthcare and services sectors | **9.6** |
| **Equistone Partners Europe Fund VI** | Small/mid | Mid-market fund focused on the UK, France and Germany | **9.6** |
| **Venture Fund[3]** | Growth | North American fund targeting growth-stage technology companies | **9.5** |
| **Charlesbank Equity Partners IX** | Small/mid | North American mid-market buyout fund | **8.7** |

| | | | |
|---|---|---|---|
| **Water Street Healthcare Partners IV** | Small/mid | North American healthcare specialist fund | **8.6** |
| **Providence Equity Partners VIII** | Large/mega | North American large buyout fund | **5.2** |

[3] Confidential.

**Co-investments in the year to 31 May 2018**
PIP's co-investment programme continues to benefit from Pantheon's considerable primary investment platform which has enabled PIP to participate in proprietary midmarket deals that would otherwise be difficult to access. PIP invests alongside managers who have the sector expertise to source and acquire attractively priced assets and build value through operational enhancements, organic growth and buy-and-build strategies.

The healthcare, industrials and consumer sectors in the USA and Europe in particular, offered compelling investment opportunities.

£62m committed to 22 co-investments during the year.

| | |
|---|---|
| **Co-investment by Geography** | |
| USA | **50%** |
| Europe | **38%** |
| Asia & EM | **12%** |

| | |
|---|---|
| **Co-investment by Sector** | |
| Healthcare | **28%** |
| Industrials | **20%** |
| Consumer | **19%** |
| Information Technology | **17%** |
| Financials | **11%** |
| Energy | **5%** |

**Undrawn Commitments**

PIP's undrawn commitments[1] will enable the Company to participate in future private equity investments as they arise.

[1] *Capital committed to funds that to date remains undrawn.*

**Movement in Undrawn Commitments for the Year to 31 May 2018[2]**
PIP's undrawn commitments to investments decreased slightly to £440m as at 31 May 2017 from £445m as at 31 May 2017. The Company paid calls of £86m and added £127m of undrawn commitments associated with new investments made in the year. Foreign exchange effects and fund terminations accounted for the remainder of the movement.

[2] *Includes undrawn commitments attributable to the reference portfolio underlying the Asset Linked Note.*

**Undrawn Commitments by Region**
The US and Europe have the largest undrawn commitments, reflecting the Company's investment emphasis. Commitments to Asia and other regions provide access to faster growing economies.

| | |
|---|---|
| USA | **56%** |
| Europe | **30%** |
| Asia and EM | **9%** |
| Global | **5%** |

**Undrawn Commitments by Stage**
PIP's undrawn commitments are diversified across the major stages, with an emphasis on small and mid-market buyout managers.

| | |
|---|---|
| Small/mid buyout | **40%** |
| Large/mega buyout | **32%** |
| Special situations | **12%** |
| Growth | **14%** |
| Venture | **2%** |

**Undrawn Commitments by Vintage**
Approximately a quarter of PIP's undrawn commitments are in vintage 2011 or older funds, where drawdowns may naturally occur at a slower pace. It is likely that a portion of these commitments will not be drawn. The rise in more recent vintages reflects PIP's recent primary commitment activity.

| | |
|---|---|
| 2018 | 15% |
| 2017 | 18% |
| 2016 | 22% |
| 2015 | 14% |
| 2014 | 4% |
| 2013 | 2% |
| 2012 | 2% |
| 2009 - 2011 | 2% |
| 2008 | 5% |
| 2007 | 7% |
| 2006 and earlier | 9% |

**Finance and Share Buyback**

Efficient balance sheet management supports PIP's investment strategy

**Cash and Available Bank Facility**
At 31 May 2018, PIP had available cash[1] balances of £145.8m. In addition to these cash balances, PIP can also finance investments out of its multi-currency revolving credit facility agreement ("Loan Facility"). The Loan Facility was due to expire in November 2018 and comprised facilities of $138.8m and €66.6m which, using exchange rates at 31 May 2018, amounted to a sterling equivalent of £162.8m.

At 31 May 2018, the Loan Facility remained fully undrawn.

PIP renewed its credit facility shortly after its financial year end. The new £175m four-year Loan Facility has been redenominated using current exchange rates to $163.0m and €59.8m. The terms of the new facility are materially the same as those of the existing facility but will expire in

June 2022 with an option after one year to extend, by agreement, the maturity date by another year. The new Loan Facility provides a margin of additional assurance that the Company has the ability to finance its unfunded commitments in the future.

[1] The available cash and loan figure excludes the current portion payable under the Asset Linked Note, which amounted to £16.5m as at 31 May 2018.

**Asset Linked Note**
As part of the share consolidation effected on 31 October 2017, PIP issued an Asset Linked Note with an initial principal amount of £200m to a single holder ("Investor"). Repayments under the ALN are made quarterly in arrears and are linked to the ALN share (approximately 75%) of the net cash flow from a reference portfolio which is comprised of interests held by PIP in over 300 of its oldest private equity funds, substantially 2006 and earlier vintages. PIP retains the net cash flow relating to the remaining c.25% of the reference portfolio. The ALN is unlisted and subordinated to PIP's existing Loan Facility (and any refinancing), and is not transferable, other than to an affiliate of the Investor. The ALN is expected to mature on 31 August 2027, at which point the Company will make a final repayment under the ALN. As at 31 May 2018, the ALN was valued at £131.6m. For more information on the ALN refer to Note 1 (E) below.

**Undrawn Commitment Cover**
At 31 May 2018, the Company had £308.6m of available financing, comprised of its cash balances and Loan Facility less the current portion payable under the ALN. The sum of PIP's available financing and private equity portfolio provide 3.6 times cover relative to undrawn commitments. Generally, when a fund is past its investment period, which is typically between five and six years, it cannot make any new investments and only draws capital to fund follow-on investments into existing portfolio companies, or to pay expenses. As a result, the rate of capital calls by these funds tends to slow dramatically. Approximately a quarter of the Company's undrawn commitments are in fund vintages that are older than six years.

**Share Buybacks**
In the year to 31 May 2018, PIP bought back 190,000 ordinary shares at an average discount of 15% to the NAV per share as at 31 May 2017 NAV, resulting in a total uplift to NAV per share of 1.3p. The discounts at which the Company's shares trade from time to time may make buybacks an attractive investment opportunity relative to other potential new investment commitments.

**Other Information**

**The Largest 50 Managers by Value**

| RANK | MANAGER | REGION[2] | STAGE | % OF PIP'S TOTAL PRIVATE EQUITY ASSET VALUE[1] |
|---|---|---|---|---|
| 1 | Providence Equity Partners | USA | Buyout | 6.0% |
| 2 | Texas Pacific Group | USA | Buyout | 3.2% |
| 3 | Ares Management | USA | Buyout | 3.1% |
| 4 | Essex Woodlands | USA | Growth | 2.8% |
| 5 | Energy Minerals Group | USA | Special Situations | 2.5% |
| 6 | Warburg Pincus | Global | Growth | 2.3% |
| 7 | Baring Private Equity Asia | Asia & EM | Growth | 2.2% |
| 8 | EQT[3] | Asia & EM | Buyout | 2.1% |
| 9 | Growth Fund[4] | USA | Growth | 1.9% |
| 10 | Quantum Energy Partners | USA | Special Situations | 1.9% |
| 11 | J.C. Flowers | USA | Buyout | 1.7% |
| 12 | Apax Partners SA | Europe | Buyout | 1.7% |
| 13 | IK Investment Partners | Europe | Buyout | 1.5% |
| 14 | Yorktown Partners | USA | Special Situations | 1.4% |
| 15 | Mid-Europa Partners | Europe | Buyout | 1.3% |
| 16 | Shamrock Capital Advisors | USA | Buyout | 1.2% |
| 17 | Venture Fund[4] | Europe | Venture | 1.2% |
| 18 | IVF Advisors | Asia & EM | Buyout | 1.2% |
| 19 | Lee Equity Partners | USA | Buyout | 1.1% |
| 20 | Veritas Capital | USA | Buyout | 1.1% |
| 21 | Calera Capital | USA | Buyout | 1.1% |
| 22 | Sheridan Production Partners | USA | Special Situations | 1.1% |
| 23 | NMS Management | USA | Buyout | 1.0% |
| 24 | Buyout Fund[4] | USA | Buyout | 1.0% |
| 25 | Marguerite | Europe | Special Situations | 1.0% |
| 26 | Altor Capital | Europe | Buyout | 1.0% |
| 27 | Abris Capital | Europe | Buyout | 1.0% |
| 28 | Chequers Partenaires | Europe | Buyout | 1.0% |
| 29 | Gemni Capital | Europe | Venture | 0.9% |
| 30 | The Banc Funds Company | USA | Growth | 0.9% |
| 31 | Bridgepoint Partners | Europe | Buyout | 0.9% |
| 32 | Hellman & Friedman | USA | Buyout | 0.9% |
| 33 | KKR | Europe | Buyout | 0.9% |
| 34 | Summit Partners | USA | Growth | 0.8% |
| 35 | Apax Partners & Co | Europe | Buyout | 0.8% |
| 36 | Equitstone Partners Europe | Europe | Buyout | 0.8% |
| 37 | ABRY Partners | USA | Buyout | 0.8% |
| 38 | Apollo Advisors | USA | Buyout | 0.7% |
| 39 | Clessidra Capital Partners | Europe | Buyout | 0.7% |
| 40 | Baring Vostok | Europe | Buyout | 0.7% |
| 41 | TPG Asia | Asia & EM | Buyout | 0.7% |
| 42 | ABS Capital | USA | Growth | 0.7% |
| 43 | MatlinPatterson Global Advisers | USA | Special Situations | 0.7% |
| 44 | Searchlight Capital Partners | Global | Special Situations | 0.6% |
| 45 | The Vistria Group | USA | Buyout | 0.6% |

| | | | | |
|---|---|---|---|---|
| 46 | Bain Capital | Global | Buyout | 0.6% |
| 47 | Francisso Partners Management | USA | Buyout | 0.6% |
| 48 | Brentwood Associates | USA | Buyout | 0.6% |
| 49 | Lovell Minnick Equity Advisors | USA | Buyout | 0.6% |
| 50 | Advent International | Global | Buyout | 0.5% |
| **COVERAGE OF PIP'S PRIVATE EQUITY ASSET VALUE[1]** | | | | **65.6%** |

[1] Percentages look through feeders and funds-of-funds and excludes the portion of the reference portfolio attributable to the Asset Linked Note.
[2] Refers to the regional exposure of funds.
[3] The majority of PIP's investments in EQT is held in EQT Greater China II and a co-investment in Sivantos, a company headquartered in Singapore.
[4] Confidential.

**The Largest 50 Companies by Value[1]**

| | COMPANY | COUNTRY | SECTOR | % of PIP'S NAV |
|---|---|---|---|---|
| 1 | EUSA Pharma[2] | United Kingdom | Healthcare | 1.8% |
| 2 | Abacus Data Systems[2] | USA | Information Technology | 1.3% |
| 3 | LBX Pharmacy[3] | China | Consumer | 1.1% |
| 4 | StandardAero[2] | USA | Industrials | 0.9% |
| 5 | NIBC Bank[2] | Netherlands | Financials | 0.8% |
| 6 | Spotify[3] | United Kingdom | Information Technology | 0.8% |
| 7 | Kyobo Life Insurance[2] | South Korea | Financials | 0.8% |
| 8 | Confidential[2] | USA | Information Technology | 0.8% |
| 9 | Atria Convergence Technologies[2] | India | Telecommunications Services | 0.8% |
| 10 | Sivantos[2] | Singapore | Healthcare | 0.8% |
| 11 | Confidential | Luxembourg | Consumer | 0.7% |
| 12 | Permian Resources[2] | USA | Energy | 0.7% |
| 13 | Project Phoenix Confidential [2] | France | Telecommunications Services | 0.7% |
| 14 | Instituto Centrale delle Banche Popolari[2] | Italy | Financials | 0.7% |
| 15 | Confidential[2] | USA | Consumer | 0.6% |
| 16 | ALM Media | USA | Consumer | 0.6% |
| 17 | Vistra Orangefield[3] | Netherlands | Industrials | 0.6% |
| 18 | American Tire Distributors[2] | USA | Consumer | 0.6% |
| 19 | Confidental[2] | USA | Information Technology | 0.6% |
| 20 | GE Capital Services India[2] | India | Financials | 0.6% |
| 21 | Vertical Bridge[2] | USA | Telecommunications Services | 0.6% |
| 22 | Apollo Education[2] | USA | Consumer | 0.6% |
| 23 | ZeniMax Media | USA | Information Technology | 0.5% |
| 24 | Salad Signature[2] | Belgium | Consumer | 0.5% |
| 25 | National Veterinary Associates | USA | Consumer | 0.5% |
| 26 | Arnott[2] | USA | Consumer | 0.5% |
| 27 | Profi Rom[2] | Romania | Consumer | 0.4% |
| 28 | Blackboard | USA | Information Technology | 0.4% |
| 29 | OWP Butendiek | Germany | Utilities | 0.4% |
| 30 | Shawbook[2] | United Kingdom | Financials | 0.4% |
| 31 | Alliant Insurance Services[2] | USA | Financials | 0.4% |
| 32 | Confidential[2] | USA | Information Technology | 0.4% |
| 33 | FlagStar Bancorp[3] | USA | Financials | 0.4% |
| 34 | Ciprès[2] | France | Financials | 0.4% |
| 35 | Centric Group[2] | USA | Consumer | 0.4% |
| 36 | Affinity Education[2] | Australia | Consumer | 0.4% |
| 37 | Engencap[2] | Mexico | Financials | 0.4% |
| 38 | Extraction Oil & Gas[2,3] | USA | Energy | 0.4% |
| 39 | Coliseè[2] | France | Healthcare | 0.4% |
| 40 | Global Tranz[2] | USA | Industrials | 0.4% |
| 41 | Capital Vision | USA | Healthcare | 0.4% |
| 42 | Verimatrix | USA | Information Technology | 0.4% |
| 43 | Adyen | Netherlands | Information Technology | 0.3% |
| 44 | Ministry Brands[2] | USA | Information Technology | 0.3% |
| 45 | Groupe INSEEC[2] | France | Consumer | 0.3% |
| 46 | GTS | Brazil | Information Technology | 0.3% |
| 47 | RightPoint Consulting[2] | USA | Industrials | 0.3% |
| 48 | Nord Anglia Education[2] | Hong Kong | Consumer | 0.3% |
| 49 | Mobilite[2] | USA | Industrials | 0.3% |
| 50 | Home Shopping Europe | Germany | Consumer | 0.3% |
| **COVERAGE OF PIP'S PRIVATE EQUITY ASSET VALUE** | | | | **28.3%** |

[1] The largest 50 companies table is based upon underlying company valuations at 31 December 2017 adjusted for known call and distributions to 31 May 2018, and includes the portion of the reference portfolio attributable to the Asset Linked Note.
[2] Co-investments/directs.
[3] Listed companies.

**THE DIRECTORS**

The Directors in office at the date of this report are:

Sir Laurie Magnus* (Chairman)
Susannah Nicklin* (Senior Independent Director)
Ian Barby* (Audit Committee Chairman)
Rhoddy Swire
David Melvin*
John Burgess*
John Singer*

** Independent of the Manager*

**EXTRACTS FROM THE DIRECTORS' REPORT**

**Share Capital**

As at 31 May 2018 and as at the date of this Report, the Company had shares in issue as shown in the table below, all of which were admitted to the official list maintained by the FCA and admitted to trading on the London Stock Exchange. No shares were held in treasury at the year end.

During the year, the Company purchased 190,000 ordinary shares for cancellation (with a nominal value of £127,300) at a total cost of £3,546,000. This represented 0.4% of the issued share capital at 31 May 2018. Since 31 May 2018, the Company has not purchased any further shares.

| **Share Capital and Voting Rights at 31 May 2018** | **Number of Shares in issue** | **Voting rights attached to each share** | **Number of shares held in treasury** |
|---|---|---|---|
| Ordinary shares at £0.67 each | 54,114,447 | 1 | - |
| **Total voting rights** | **54,114,447** | - | - |

**Going Concern**
The Company's business activities, together with the factors likely to affect its future development, performance and position, including its financial position, are set out in the Strategic Report and Manager's Review.

At each Board meeting, the Directors review the Company's latest management accounts and other financial information. Its commitments to private equity investments are reviewed, together with its financial resources, including cash held and the Company's borrowing capability. One-year cash flow scenarios are also presented to each meeting and discussed.

After due consideration of the Balance Sheet and activities of the Company and the Company's assets, liabilities, commitments and financial resources, the Directors have concluded that the Company has adequate resources to continue in operation for at least 12 months from the approval of the financial statements. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

**Statement of Directors' Responsibilities**
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of each financial year and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Present a true and fair view of the financial position, financial performance and cash flows of the Company;
- Select suitable accounting policies in accordance with United Kingdom GAAP and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report, the Corporate Governance Statement and the Report of the Audit Committee in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules. The Directors have delegated responsibility to the Investment Manager for the maintenance and integrity of the Company's corporate and financial information included on the Company's website (www.piplc.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed above, confirms that:

- The financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Strategic Report contained in the annual report and financial statements includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The UK Corporate Governance Code requires Directors to ensure that the annual report and financial statements are fair, balanced and understandable. In order to reach a conclusion on this matter, the Board has requested that the Audit Committee advises on whether it considers that the annual report and financial statements fulfil these requirements. The process by which the Audit Committee has reached these conclusions is set out in the full Annual Report. As a result, the Board has concluded that the Annual Report and financial statements for the year ended 31 May 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board by
**Sir Laurie Magnus**
Chairman
7 August 2018

**NON-STATUTORY ACCOUNTS**

The financial information set out below does not constitute the Company's statutory accounts for the year ended 31 May 2018 and period ended 31 May 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered in due course. The Auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The text of the Auditors' report can be found in the Company's full Annual Report and financial statements at www.piplc.com.

**Income Statement**

Year ended 31 May 2018

| | | **Year ended 31 May 2018** | | | 11 months ended 31 May 2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Revenue £'000** | **Capital £'000** | **Total* £'000** | Revenue £'000 | Capital £'000 | Total* £'000 |
| Gains on investments at fair value through profit or loss** | 9b | **-** | **149,778** | **149,778** | - | 201,198 | 201,198 |
| Losses on financial liabilities at fair value through profit or loss - ALN | 13 | **(1,083)** | **(10,083)** | **(11,166)** | - | - | - |
| Currency (losses)/gains on cash and borrowings | 17 | **-** | **(1,929)** | **(1,929)** | - | 2,389 | 2,389 |
| Investment income | 2 | **15,504** | **-** | **15,504** | 17,436 | - | 17,436 |
| Investment management fees | 3 | **(15,020)** | **-** | **(15,020)** | (12,659) | - | (12,659) |
| Other expenses | 4 | **(296)** | **(2,974)** | **(3,270)** | (1,433) | (350) | (1,783) |
| **Return before financing costs and taxation** | | **(895)** | **134,792** | **133,897** | 3,344 | 203,237 | 206,581 |
| Interest payable and similar expenses | 6 | **(1,950)** | **-** | **(1,950)** | (1,791) | - | (1,791) |
| **Return before taxation** | | **(2,845)** | **134,792** | **131,947** | 1,553 | 203,237 | 204,790 |
| Taxation | 7 | **(9,170)** | **-** | **(9,170)** | (4,345) | - | (4,345) |
| **Return for the year/period, being total comprehensive income for the year/period** | | **(12,015)** | **134,792** | **122,777** | (2,792) | 203,237 | 200,445 |
| **Return per ordinary share (31 May 2017: ordinary and redeemable share)** | 8 | **(20.72)p** | **232.48p** | **211.76p** | (4.41)p | 320.77p | 316.36p |

* The Company does not have any income or expense that is not included in the return for the year and therefore the return for the year is also the total comprehensive income for the year. The supplementary revenue and capital columns are prepared under guidance published in the Statement of Recommended Practice ("SORP") issued by the Association of Investment Companies ("AIC").

** Includes currency movements on investments.

All revenue and capital items in the above statement relate to continuing operations.

The total column of the statement represents the Company's Statement of Total Comprehensive Income prepared in accordance with Financial Reporting Standards ("FRS").

No operations were acquired or discontinued during the period.

There were no recognised gains or losses other than those passing through the Income Statement.

The Notes form part of these financial statements.

**Statement of Changes in Equity**

**Year ended 31 May 2018**

| | **Note** | **Share capital £'000** | **Share premium £'000** | **Capital redemption reserve £'000** | **Other capital reserve £'000** | **Capital reserve on investments held £'000** | **Revenue reserve* £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|---|
| **Movement for the year ended 31 May 2018** | | | | | | | | |
| Opening equity shareholder' funds | | **22,456** | **283,555** | **3,089** | **645,011** | **496,100** | **(62,678)** | **1,387,533** |
| Return for the year | | **-** | **-** | **-** | **130,813** | **3,979** | **(12,015)** | **122,777** |
| Ordinary shares bought back for cancellation | **14** | **(128)** | **-** | **128** | **(3,546)** | **-** | **-** | **(3,546)** |
| Redemption of redeemable shares to ALN | **14** | **(91)** | **-** | **91** | **(200,000)** | **-** | **-** | **(200,000)** |
| Bonus issue of deferred shares to redeemable shareholders | **14** | **14,020** | **(14,020)** | **-** | **-** | **-** | **-** | **-** |
| Conversion of deferred and redeemable shares to ordinary shares | **14** | **(14,232)** | **-** | **-** | **-** | **-** | **-** | **(14,232)** |
| Ordinary shares issued following conversion of deferred and redeemable shares as part of the share class consolidation | **14** | **14,232** | **-** | **-** | **-** | **-** | **-** | **14,232** |
| **Closing equity shareholders' funds** | | **36,257** | **269,535** | **3,308** | **572,278** | **500,079** | **(74,693)** | **1,306,764** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Movement for the period ended 31 May 2017** | | | | | | | | |
| Opening equity shareholders' funds | | 22,456 | 283,555 | 3,089 | 515,720 | 422,180 | (59,886) | 1,187,114 |
| Return for the period | | - | - | - | 129,317 | 73,920 | (2,792) | 200,445 |
| Redeemable Shares bought back for cancellation | 14 | - | - | - | (26) | - | - | (26) |
| **Closing equity shareholders' funds** | | 22,456 | 283,555 | 3,089 | 645,011 | 496,100 | (62,678) | 1,387,533 |

* Reserves that are distributable by way of dividends. In addition, the Other Capital Reserve can be used for share buybacks.

The Notes form part of these financial statements.

**Balance Sheet**
As at 31 May 2018

| | Note | **31 May 2018 £'000** | 30 May 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 9a/b | **1,274,737** | 1,224,142 |
| **Current assets** | | | |
| Debtors | 11 | **3,891** | 1,661 |
| Cash at bank | | **162,292** | 167,252 |
| | | **166,183** | 168,913 |
| **Creditors: Amounts falling due within one year** | | | |
| Other creditors | 12 | **19,046** | 5,522 |
| | | **19,046** | 5,522 |
| **Net current assets** | | **147,137** | 163,391 |
| **Total assets less current liabilities** | | **1,421,874** | 1,387,533 |
| **Creditors: Amounts falling due after one year** | | | |
| Asset Linked Loan | 13 | **115,110** | - |
| | | **115,110** | |
| **Net assets** | | **1,306,764** | 1,387,533 |
| **Capital and reserves** | | | |
| Called-up share capital | 14 | **36,257** | 22,456 |
| Share premium | 15 | **269,535** | 283,555 |
| Capital redemption reserve | 15 | **3,308** | 3,089 |
| Other capital reserve | 15 | **572,278** | 645,011 |
| Capital reserve on investments held | 15 | **500,079** | 496,100 |
| Revenue reserve | 15 | **(74,693)** | (62,678) |
| **Total equity shareholders' funds** | | **1,306,764** | 1,387,533 |
| **Net asset value per share - ordinary (31 May 2017: ordinary and redeemable)** | 16 | **2,414.82p** | 2,189.94p |

The Notes form part of these financial statements.

The financial statements were approved by the Board of Pantheon International Plc on 7 August 2018 and were signed on its behalf by

**SIR LAURIE MAGNUS**
Chairman

Company No. 2147984

**Cash Flow Statement**
Year ended 31 May 2018

| | Note | **Year ended 31 May 2018 £'000** | 11 months ended 31 May 2017 £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Investment income received | | **13,619** | 17,105 |
| Deposit and other interest received | | **830** | 343 |
| Investment management fees paid | | **(14,969)** | (12,506) |
| Secretarial fees paid | | **(223)** | (200) |
| Depositary fees paid | | **(229)** | (210) |
| Other cash payments | | **(5,857)** | (1,457) |
| Withholding tax deducted | | **(10,483)** | (4,257) |
| **Net cash outflow from operating activities** | 17 | **(17,312)** | (1,182) |
| **Cash flows from investing activities** | | | |
| Purchases of investments | | **(254,426)** | (251,181) |
| Disposals of investments | | **351,335** | 303,131 |
| **Net cash inflow from investing activities** | | **96,909** | 51,950 |

**Cash flows from financing activities**

| | | |
|---|---|---|
| ALN repayments | **(77,152)** | - |
| Ordinary shares purchased for cancellation | **(3,546)** | - |
| Redeemable Shares purchased for cancellation | **-** | (26) |
| Loan commitment and arrangement fees paid | **(1,577)** | (1,378) |
| Finance cost paid for deferred payment transaction | **-** | (182) |
| **Net cash outflow from financing activities** | **(82,275)** | (1,586) |
| **(Decrease)/increase in cash in the year/period** | **(2,678)** | 49,182 |
| **Cash and cash equivalents at beginning of the period** | **167,252** | 115,522 |
| **Foreign exchange (losses)/gains** | **(2,282)** | 2,548 |
| **Cash and cash equivalents at end of the period** | **162,292** | 167,252 |

The Notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies**

**(A) Basis of Preparation**
The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 May 2018. They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when indicated otherwise.

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of certain assets at fair value.

On 18 April 2017, the Board approved, with immediate effect, a change in the Company's accounting reference date from 30 June to 31 May of each year. As a result, the financial statements for the period ended 31 May 2017 reflect an 11 month accounting period. The change in accounting reference date and quicker publication of results enables the Company to provide more up-to-date information on its underlying portfolio.

**(B) AIC SORP**
The financial statements have been prepared in accordance with the SORP (as amended in November 2014 and updated in January 2017 and February 2018 with consequential amendments) for the financial statements of investment trust companies and venture capital trusts issued by the AIC.

**(C) Segmental Reporting**
The Directors are of the opinion that the Company is engaged in a single segment of business, being an investment business.

**(D) Valuation of Investments**
Given the nature of the Company's assets which comprise predominantly unlisted fund investments, while the Company operates a robust and consistent valuation process, there is significant estimation uncertainty in the underlying fund valuations estimated at a point in time. Accordingly, while the Company considers circumstances where it might be appropriate to apply an override, for instance in response to a market crash, this will be exercised only where it is judged necessary to show a true and fair view. Similarly, while relevant information received after the measurement date is considered, the Directors will only consider an adjustment to the financial statements if it were to have a significant impact. In the view of the Directors, a significant impact would be a movement of greater than 5% of the overall estimate of the value of the investment portfolio made at the measurement date.

The Company has fully adopted sections 11 and 12 of FRS 102. All investments held by the Company are classified as "fair value through profit or loss". As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, investments are recognised at fair value on initial recognition. The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business at the Balance Sheet date. For investments that are not actively traded in organised financial markets, fair value is determined using reliable valuation techniques as described below:

(i) Unquoted fixed asset investments are stated at the estimated fair value.

In the case of investments in private equity funds, this is based on the net asset value of those funds ascertained from periodic valuations provided by the managers of the funds and recorded up to the measurement date. Such valuations are necessarily dependent upon the reasonableness of the valuations by the fund managers of the underlying investments. In the absence of contrary information the values are assumed to be reliable. These valuations are reviewed periodically for reasonableness and recorded up to the measurement date. If a class of assets were sold post period end, management would consider the effect, if any, on the investment portfolio.

The Company may acquire secondary interests at either a premium or a discount to the fund manager's valuation. Within the Company's portfolio, those fund holdings purchased at a premium are normally revalued to their stated net asset values at the next reporting date. Those fund holdings purchased at a discount are normally held at cost until the receipt of a valuation from the fund manager in respect of a date after acquisition, when they are revalued to their stated net asset values, unless an adjustment against a specific investment is considered appropriate.

In the case of direct investments in unquoted companies, the initial valuation is based on the transaction price. Where better indications of fair value become available, such as through subsequent issues of capital or dealings between third parties, the valuation is adjusted to reflect the new evidence. This information may include the valuations provided by private equity managers who are also invested in the company. Valuations are reduced where the company's performance is not considered satisfactory.

(ii) Quoted investments are valued at the bid price on the relevant stock exchange.

Private equity funds may contain a proportion of quoted shares from time to time, for example, where the underlying company investments have been taken public but the holdings have not yet been sold. The quoted market holdings at the date of the latest fund accounts are reviewed and compared with the value of those holdings at the period end. If there has been a material movement in the value of these holdings, the valuation is adjusted to reflect this.

(iii) Deferred payments transactions

The Company may engage in deferred payments transactions. Where the Company engages in deferred payment transactions the Company initially measures the financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. The difference between the present value and the undiscounted value is amortised over the life of the transaction and shown as a finance cost in the revenue column in the Income Statement

**(E) Asset Linked Note**
As part of the share consolidation effected on 31 October 2017 the Company issued an Asset Linked Note ("ALN") with an initial principal amount of £200m to the Investor. Payments under the ALN are made quarterly in arrears and are linked to the ALN share (c.75%) of the net cash flows from a reference portfolio which is comprised of interests held by the Company in over 300 of its oldest private equity funds, substantially 2006 and earlier vintages. The Company retains the net cash flows relating to the remaining c.25% of the reference portfolio.

The ALN is held at fair value through profit and loss and therefore movements in fair value are reflected in the Income Statement. Fair value is calculated as the sum of the ALN share of fair value of the reference portfolio plus the ALN share of undistributed net cash flow. The fair value movement is allocated between revenue and capital pro rata to the fair value gains and income generated movements in the reference portfolio.

A pro rata share of the Company's total ongoing charges is allocated to the ALN, reducing each quarterly payment ("the Expense Charge") and deducted from Other Expenses through the revenue account in the Income Statement.

The ALN's share of net cash flow is calculated after withholding taxation suffered. These amounts are deducted from Taxation through the relevant account in the Income Statement.

See Note 13 for further information.

**(F) Income**
Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective interest rate on the security.

Other interest receivable is included on an accruals basis.

**(G) Taxation**
Corporation tax payable is based on the taxable profit for the period. The charge for taxation takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen but not reversed by the Balance Sheet date.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular to which it relates, using the marginal method.

Dividends receivable are recognised at an amount that may include withholding tax (but excludes other taxes, such as attributable tax credits). Any withholding tax suffered is shown as part of the revenue account tax charge.

**(H) Expenses**
All expenses are accounted for on an accruals basis. Expenses, including investment management fees, are charged through the revenue account except as follows:

- Expenses which are incidental to the acquisition or disposal of an investment are treated as capital costs and separately identified and disclosed in Note 9;
- Expenses of a capital nature are accounted for through the capital account; and
- Investment performance fees.

**(I) Foreign Currency**
The currency of the Primary Economic Environment in which the Company operates ("the functional currency") is pounds sterling ("sterling"), which is also the presentation currency. Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the revenue or capital column of the Income Statement depending on whether the gain or loss is of a capital or revenue nature. For non-monetary assets these are covered by fair value adjustments. For details of transactions included in the capital column of the Income Statement please see (J) and (K) below.

**(J) Other Capital Reserve**
The following are accounted for in this reserve:

- Investment performance fees;
- Gains and losses on the realisation of investments;
- Realised exchange differences of a capital nature; and
- Expenses of a capital nature.

Capital distributions from investments are accounted for on a reducing cost basis; cash received is first applied to reducing the historical cost of an investment; any gain will be recognised as realised only when the cost has been reduced to nil.

**(K) Capital Reserve on Investments Held**
The following are accounted for in this reserve:

- Increases and decreases in the value of investments held at the year end and the ALN.

**(L) Investment Performance Fee**
The Manager is entitled to a performance fee from the Company in respect of each 12 calendar month period ending on 31 May in each year and, prior to 31 May 2017, the period of 12 calendar months ending 30 June in each year. The performance fee payable in respect of each such calculation period is 5% of the amount by which the net asset value at the end of such period exceeds 110% of the applicable "high-water mark", i.e. the net asset value at the end of the previous calculation period in respect of which a performance fee was payable, compounded annually at 10% for each subsequent completed calculation period up to the start of the calculation period for which the fee is being calculated. For the calculation period ended 31 May 2018, the notional performance fee hurdle is a net asset value per share of 3,139.8p. The performance fee is calculated using the adjusted net asset value.

The performance fee is calculated so as to ignore the effect on performance of any performance fee payable in respect of the period for which the fee is being calculated or of any increase or decrease in the net assets of the Company resulting from any issue, redemption or purchase of any shares or other securities, the sale of any treasury shares or the issue or cancellation of any subscription or conversion rights for any shares or other securities and any other reduction in the Company's share capital or any distribution to shareholders.

**(M) Significant judgements and estimates**
The preparation of financial statements requires the Manager to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the financial reporting date and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. Details of any estimates are provided in section (D) of this Note, in the Valuation of Investments policy and also within the Market Price Risk section in Note 19.

**2. Income**

| | 31 May 2018 £'000 | 31 May 2017 £'000 |
|---|---|---|
| **Income from investments** | | |
| Investment income | **14,618** | 17,086 |
| | **14,618** | 17,086 |
| **Other income** | | |
| Interest | **884** | 359 |
| Exchange difference on income | **2** | (9) |
| | **886** | 350 |
| **Total income** | **15,504** | 17,436 |
| **Total income comprises** | | |
| Dividends | **14,618** | 17,086 |
| Bank interest | **884** | 359 |
| Exchange difference on income | **2** | (9) |
| | **15,504** | 17,436 |
| **Analysis of income from investments** | | |
| Unlisted | **14,618** | 17,086 |
| | **14,618** | 17,086 |
| | | |
| **Geographical analysis** | | |
| UK | **803** | 839 |
| US | **9,568** | 12,903 |
| Other overseas | **4,247** | 3,344 |
| | **14,618** | 17,086 |

**3. Investment Management Fees**

| | | 31 May 2018 | | | 31 May 2017 | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| **Investment management fees** | **15,020** | **-** | **15,020** | 12,659 | - | 12,659 |
| | **15,020** | **-** | **15,020** | 12,659 | - | 12,659 |

The investment management fee is payable monthly in arrears at the rate set out in the Directors' Report within the full Annual Report.

During the year, services with a total value of £15,510,000 (period to 31 May 2017: £13,172,000), being £15,020,000 (period to 31 May 2017: £12,659,000) directly from Pantheon Ventures (UK) LLP and £490,000 (period to 31 May 2017: £513,000) via Pantheon managed fund investments were purchased by the Company.

The value of investments, in and outstanding commitments to, investment funds managed or advised by the Pantheon Group ("Pantheon Funds") are excluded in calculating the monthly management fee and the commitment fee. The value of holdings in investments managed by the Pantheon Group totalled £24,014,000 as at 31 May 2018 (period to 31 May 2017: £32,510,000). In addition, the Manager has agreed that the total fees (including performance fees) payable by Pantheon Funds to members of the Pantheon Group and attributable to the Company's investments in Pantheon Funds shall be less than the total fees (excluding the performance fee) that the Company would have been charged under the Management Agreement had it invested directly in all of the underlying investments of the relevant Pantheon Funds instead of through the relevant Pantheon Funds.

At 31 May 2018, £1,284,000 (31 May 2017: £1,233,000) was owed for investment management fees. No performance fee is payable in respect of the year to 31 May 2018 (period to 31 May 2017: nil). The basis upon which the performance fee is calculated is explained in Note 1(L) and in the Directors' Report within the Company's full Annual Report.

**4. Other Expenses**

| | | 31 May 2018 | | | | 31 May 2017 |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Secretarial and accountancy services | **235** | **-** | **235** | 210 | - | 210 |
| Depositary fees | **221** | **-** | **221** | 218 | - | 218 |
| Fees payable to the Company's Auditor for the audit of the annual financial statements | **64** | **-** | **64** | 43 | - | 43 |
| Fees payable to the Company's Auditor for | | | | | | |
| - audit-related assurance services - Half-Yearly report | **8** | **-** | **8** | 8 | - | 8 |
| - other non-audit services not covered above - net asset value calculations | **25** | **-** | **25** | 24 | - | 24 |
| Directors' remuneration (see Note 5) | **264** | **-** | **264** | 229 | - | 229 |
| Employer's National Insurance | **26** | **-** | **26** | 23 | - | 23 |
| Irrecoverable VAT | **142** | **-** | **142** | 60 | - | 60 |
| Legal and professional fees | **144** | **972** | **1,116** | 300 | 783 | 1,083 |
| Printing | **52** | **-** | **52** | 48 | - | 48 |
| Other* | **319** | **-** | **319** | 270 | (433) | (163) |
| ALN issue costs | **-** | **2,002** | **2,002** | - | - | - |
| ALN Expense Charge ( see Note 1 (E) ) | **(1,204)** | **-** | **(1,204)** | - | - | - |
| | **296** | **2,974** | **3,270** | 1,433 | 350 | 1,783 |

The Directors do not consider that the provision of non-audit work to the Company affects the independence of the Auditor.
* See Note 9b for detailed information.

**5. Directors' Remuneration**

Directors' emoluments comprise Directors' fees. A breakdown is provided in the Directors' Remuneration Report in the full Annual Report.

**6. Interest Payable and Similar Expenses**

| | 31 May 2018<br>£'000 | 31 May 2017<br>£'000 |
|---|---|---|
| Amortised costs associated with finance transaction | - | 147 |
| Negative bank interest | 18 | 7 |
| Loan commitment and arrangement fees | 1,932 | 1,637 |
| | 1,950 | 1,791 |

On 14 November 2014, the Company renewed its 4 year multi-currency revolving credit facility agreement with improved terms and a revised maturity date of November 2018. At this date, the size of the facilty with The Royal Bank of Scotland plc and Lloyds Bank plc was £100m equivalent which, using exchange rates as at 14 November 2014, was redominated to $100m and €46m. On 21 October 2016, the Company, exercised its right via the accordian facility to increase the option size by £50m equivalent which, using exchange rates as at 21 October 2016, was redominated to $39m and €21m .The total size of the facility is therefore £150m equivalent redominated to $39m and €21m. Each individual drawdown bears interest at a variable rate agreed for the period of the drawdown and a commitment fee of 0.94% per annum is payable in respect of the amounts available for drawdown in each denomination. The Company paid to The Royal Bank of Scotland plc an upfront fee of £900,000 in respect of the £100m facility and £318,000 in respect of the £50m facility both representing 0.90% of the total facility. These fees are being amortised over the life of the loan. At 31 May 2018 and 31 May 2017 the loan facility remained fully undrawn.

On 1 June 2018 the Company has agreed a new £175m multi-currency revolving credit facility agreement, arranged by Lloyds Bank plc and NatWest Markets plc. This will replace the £150m loan facility agreement which was due to expire in November 2018. See Note 21 for further information.

**7. Taxation**

| | | 31 May 2018 | | | 31 May 2017 | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Withholding tax deducted from distributions | **9,170** | **-** | **9,170** | 4,345 | - | 4,345 |

**Tax Charge**
The tax charge for the period differs from the standard rate of corporation tax in the UK (19%). The differences are explained below:

| | | | | | | |
|---|---|---|---|---|---|---|
| Net return before tax | **(2,845)** | **134,792** | **131,947** | 1,553 | 203,237 | 204,790 |
| Theoretical tax at UK corporation tax rate of 19% (31 May 2017: 20%) | **(540)** | **25,610** | **(25,070)** | 311 | 40,647 | 40,958 |
| Non-taxable investment, derivative and currency gains | **-** | **(26,175)** | **(26,175)** | - | (40,717) | (40,717) |
| Effect of expenses in excess of taxable income | **-** | **185** | **185** | - | 70 | 70 |
| Expenses disallowed for tax purposes | **-** | **380** | **380** | - | - | - |
| Carry forward/(utilised) management expenses | **540** | **-** | **540** | (311) | - | (311) |
| Withholding tax deducted from distributions | **(9,170)** | **-** | **(9,170)** | (4,345) | - | (4,345) |
| | **(9,170)** | **-** | **(9,170)** | (4,345) | - | (4,345) |

**Factors That May Affect Future Tax Charges**

The Company is an investment trust and therefore is not subject to tax on capital gains. Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to meet for the foreseeable future) the conditions for approval as an investment trust company.

No deferred tax asset has been recognised in respect of excess management expenses and expenses in excess of taxable income as they will only be recoverable to the extent that there is sufficient future taxable revenue. As at 31 May 2018, excess management expenses are estimated to be in excess of £165m (31 May 2017: £135m).

At 31 May 2018, the Company had no unprovided deferred tax liabilities (31 May 2017: £nil).

**8. Return per share**

| | | 31 May 2018 | | | 31 May 2017 | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| Return for the financial period in £'000 | **(12,015)** | **134,792** | **122,777** | **(2,792)** | **203,237** | **200,445** |
| Weighted average ordinary and redeemable shares | | | **57,980,242** | | | **63,359,547** |
| Return per share | **(20.72)p** | **232.48p** | **211.76p** | **(4.41)p** | **320.77p** | **316.36p** |

As described in note 14, during the year, the Company consolidated its ordinary and redeemable share capital into a single class of ordinary shares. On 31 October 2017, each remaining redeemable share was re-designated as an Ordinary share, therefore no separate return per share analysis has been presented for redeemable class for the year ended 31 May 2018.

There are no dilutive effects to earnings per share.

**9a. Movements on Investments**

| | 31 May 2018<br>£'000 | 31 May 2017<br>£'000 |
|---|---|---|
| Book cost brought forward | **729,164** | 650,818 |
| Acquisitions at cost | **251,327** | 246,929 |
| Capital distributions - proceeds | **(350,693)** | (295,637) |
| Capital distributions - realised gains on sales | **134,777** | 127,054 |
| Book cost at year/period end | **764,575** | 729,164 |
| **Unrealised appreciation of investments** | | |
| Unlisted investments | **509,592** | 493,614 |
| Listed investments | **570** | 1,364 |
| Valuation of investments at year/period end | **1,274,737** | 1,224,142 |

**9b. Analysis of Investments**

| | 31 May 2018 £'000 | 31 May 2017 £'000 |
|---|---|---|
| **Sterling** | | |
| Unlisted investments | **26,694** | 37,371 |
| | **26,694** | 37,371 |
| **USA dollar** | | |
| Unlisted investments | **980,063** | 944,681 |
| Listed investments | **568** | 1,431 |
| | **980,631** | 946,112 |
| **Euro** | | |
| Unlisted investments | **238,925** | 215,227 |
| | **238,925** | 215,227 |
| **Other** | | |
| Unlisted investments | **28,485** | 25,432 |
| Listed investments | **2** | |
| | **28,457** | 25,432 |
| | **1,274,737** | 1,224,142 |
| Realised gains on sales | **134,777** | 127,054 |
| Amounts previously recognised as unrealised appreciation on those sales | **1,364** | 391 |
| Increase in unrealised appreciation | **13,820** | 73,529 |
| Revaluation of amounts owed in respect of transactions | **(183)** | 224 |
| Gains on investments | **149,778** | 201,198 |

Further analysis of the investment portfolio is provided in the Manager's Review above.

Transaction costs, (incurred at the point of the transaction) incidental to the acquisition of investments totalled £nil (31 May 2017: £nil) and to the disposals of investments totalled £11,000 (31 May 2017: £22,000) for the period. In addition, legal fees incidental to the acquisition of investments totalled £972,000 (31 May 2017: £783,000) and to the share consolidation totalled £2,002,000 (31 May 2017: £nil) as disclosed in Note 4, have been taken to the capital column in the Income Statement since they are capital in nature. For the period ended 31 May 2017, there is also a credit of £433,000 included in the capital column of the Income Statement received from a break fee.

**9c. Material Investment**

At the period end, the Company held the following material holdings in the following investments:

| **Investment** | **%Ownership** | **Closing net assets value £M** |
|---|---|---|
| Ares Corporate Opportunities Fund IV | 0.9% | 29.6 |

**10. Fair Value Hierarchy**

**Financial Assets at Fair Value Through Profit or Loss at 31 May 2018**

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unlisted holdings | **-** | **-** | **1,274,167** | **1,274,167** |
| Listed holdings | **570** | **-** | **-** | **570** |
| | **570** | **-** | **1,274,167** | **1,274,737** |

**Financial Assets at Fair Value Through Profit or Loss at 31 May 2017**

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unlisted holdings | - | - | 1,222,711 | 1,222,711 |
| Listed holdings | 1,431 | - | - | 1,431 |
| | 1,431 | - | 1,222,711 | 1,224,142 |

**Financial Liabilities at Fair Value Through Profit or Loss at 31 May 2018**

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Asset Linked Note | - | - | 131,585 | 131,585 |

**Financial Liabilities at Fair Value Through Profit or Loss at 31 May 2017**

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Asset Linked Note | - | - | - | - |

**11. Debtors**

| | 31 May 2018 £'000 | 31 May 2017 £'000 |
|---|---|---|
| Amounts owed by investment funds | **724** | 1,014 |
| Prepayments and accrued income | **3,167** | 647 |
| | **3,891** | 1,661 |

**12. Creditors Amounts Falling Due Within One Year**

| | **31 May 2018 £'000** | 31 May 2017 £'000 |
|---|---|---|
| Investment management fees | **1,284** | 1,233 |
| Amounts owed in respect of transactions | **478** | 3,392 |
| ALN repayment to the Investor | **16,475** | - |
| Other creditors and accruals | **809** | 897 |
| | **19,046** | 5,522 |

**13. Creditors Amounts Falling Due After One Year - Asset Linked Note**

| | **31 May 2018 £'000** | 31 May 2017 £'000 |
|---|---|---|
| Balance brought forward | **-** | - |
| Initial principal amount issued | **200,000** | - |
| Repayments made to the Investor | **(77,152)** | - |
| Fair value movements through profit or loss | **11,166** | - |
| Expense Charge and ALN share of witholding taxes | **(2,429)** | - |
| Transfer to creditors due within one year | **(16,475)** | - |
| | **115,100** | - |

As part of the share consolidation effected on 31 October 2017, PIP issued an Asset Linked Note ("ALN") with an initial principal amount of £200m to the Investor. Payments under the ALN are made quarterly in arrears and are linked to the ALN share (c75%) of the net cash flow from a reference portfolio which is comprised of interests held by PIP in over 300 of its oldest private equity funds, substantially 2006 and earlier vintages. PIP retains the net cash flow relating to the remaining c25% of the reference portfolio.

The ALN is held at fair value through profit or loss and therefore movements in fair value are reflected in the Income Statement. The Directors do not believe there to be a material own credit risk, due to the fact that repayments are only due when net cash flow is received from the reference portfolio. Fair value is calculated as the sum of the ALN share of fair value of the reference portfolio plus the ALN share of undistributed net cash flow which is equivalent to the amount which would be required to be repaid had the ALN matured on 31 May 2018. Therefore no fair value movement has occurred during the year as a result of changes to credit risk.

A pro rata share of the Company's Total Ongoing Charges is allocated to the ALN, reducing each quarterly payment ("the Expense Charge") and deducted from Other Expenses in the Income Statement.

The ALN's share of net cash flow is calculated after withholding taxation suffered. These amounts are deducted from Taxation in the Income Statement.

During the year, the Company made repayments totalling £77.1m, representing the ALN share of net cash flow for the nine month period to 28 February 2018. The fair value of the ALN at 31 May 2018 was £131.6m, of which £16.5m represents the net cash flow for the three months to 31 May 2018, due for repayment on 31 August 2018. This amount has therefore been transferred to amounts due within one year (see Note 12).

**14. Called-up Share Capital**

| | **Shares** | **31 May 2018 £'000** | Shares | 31 May 2017 £'000 |
|---|---|---|---|---|
| **Allotted, called-up and fully paid:** | | | | |
| **Ordinary Shares of 67p each** | | | | |
| Opening position | **33,062,013** | **22,153** | 33,062,013 | 22,153 |
| Issue of shares following conversion | **21,242,434** | **14,232** | - | - |
| Cancellation of shares | **(190,0000)** | **(128)** | - | - |
| **Closing position** | **54,114,447** | **36,257** | 33,062,013 | 22,153 |
| **Redeemable Shares of 1p each** | | | | |
| Opening position | **30,297,534** | **303** | 30,297,534 | 303 |
| Redemption of shares to ALN | **(9,055,100)** | **(91)** | - | - |
| Conversion to ordinary shares | **(21,242,434)** | **(212)** | - | - |
| **Closing position** | **-** | **-** | 30,297,534 | 303 |
| **Deferred shares of 66p each** | | | | |
| Opening position | **-** | **-** | - | - |
| Bonus issue of shares to redeemable shareholders | **21,242,434** | **14,020** | - | - |
| Conversion to ordinary shares | **(21,242,434)** | **(14,020)** | - | - |
| **Closing position** | **-** | **-** | - | - |
| **Total shares in issue** | **54,114,447** | **36,257** | 63,359,547 | 22,456 |

During the year to 31 May 2018, the Company consolidated its ordinary and redeemable share capital into a single class of ordinary shares. The Company also issued an unlisted ALN. See Note 13 for further information.

The reorganisation of the share capital was implemented on 31 October 2017 and consisted of:

a) a redemption by the Company of 9,055,100 redeemable shares owned by the Investor for an aggregate consideration of £200m and the subsequent application of these redemption proceeds for the subscription for the ALN by the Investor;

b) a bonus issue of new deferred shares of 66p each in the capital of the Company; and

c) the subsequent consolidation, sub-division and redesignation of the remaining redeemable shares and the new deferred shares into new ordinary shares of 67p each in the capital of the Company, ranking pari passu in all respects with the existing ordinary shares.

During the period 190,000 ordinary shares (31 May 2017: nil) were bought back in the market for cancellation. The total consideration paid, including commission and stamp duty, was £3,546,000 (31 May 2017: £nil).

Each holder of ordinary shares is entitled, on a show of hands, to one vote and, on a poll, to one vote for each ordinary share held.

**15. Reserves**

| | Capital | Other | Capital reserve on |
|---|---|---|---|

| | Share premium £'000 | redemption reserve £'000 | capital reserve £'000 | investments held £'000 | Revenue reserve* £'000 |
|---|---|---|---|---|---|
| Beginning of period | 283,555 | 3,089 | 645,011 | 496,100 | (62,678) |
| Transfer | - | - | 1,122 | (1,122) | - |
| Net gain on realisation of investments | - | - | 134,777 | - | - |
| Increase in unrealised appreciation | - | - | - | 13,820 | - |
| Losses on financial instruments at fair value through profit or loss - ALN | - | - | - | (10,083) | - |
| Transfer on disposal of investments | - | - | - | 1,364 | - |
| Revaluation of amounts owed in respect of transactions | - | - | (183) | - | - |
| Exchange differences on currency | - | - | (2,282) | - | - |
| Exchange differences on other capital items | - | - | 353 | - | - |
| Legal and professional expenses charged to capital | - | - | (972) | - | - |
| Other expenses charged to capital | - | - | (2,002) | - | - |
| Share re-organisation and share buybacks | (14,020) | 219 | (203,546) | - | - |
| Revenue return for the year | - | - | - | - | (12,015) |
| End of year | 269,535 | 3,308 | 572,278 | 500,079 | (74,693) |

* Reserves that are distributable by way of dividends. In addition, the Other Capital Reserve can be used for share buybacks.

**16. Net Asset Value per Share**

| | 31 May 2018 | 31 May 2017 |
|---|---|---|
| Net assets attributable in £'000 | 1,306,764 | 1,387,533 |
| ordinary and redeemable shares* | 54,114,447 | 63,359,547 |
| Net asset value per share - ordinary (31 May 2017: ordinary and redeemable | 2,414.82p | 2,189.94p |

* The redeemable shares converted to ordinary shares on 31 October 2017 and were admitted to trading on the Main Market of the London Stock Exchange on 1 November 2017. As at 31 May 2018 there are only ordinary shares in issue.

**17. Reconciliation of Return Before Financing Costs and Taxation to Net Cash Flow from Operating Activities**

| | 31 May 2018 £'000 | 31 May 2017 £'000 |
|---|---|---|
| Return before finance costs and taxation | 133,897 | 206,581 |
| Withholding tax deducted | (9,170) | (4,345) |
| Gains on investments | (149,778) | (201,198) |
| Currency losses/(gains) on cash and borrowings | 1,929 | (2,389) |
| (Decrease)/Increase in creditors | (31) | 117 |
| (Increase)/Decrease in other debtors | (2,896) | 52 |
| Losses on financial liabilities at fair value through profit or loss - ALN | 11,166 | - |
| Expenses and taxation associated with ALN | (2,429) | - |
| Net cash flow from operating activities | (17,312) | (1,182) |

**18. Contingencies, Guarantees and Financial Commitments**

At 31 May 2018, there were financial commitments of £440.2m (31 May 2017: £444.5m) in respect of investments in partly paid shares and interests in private equity funds.

Further detail of the available finance cover is provided in Note 19.

**19. Analysis of Financial Assets and Liabilities**

The primary investment objective of the Company is to seek to maximise long-term capital growth for its shareholders by investing in funds specialising in unquoted investments, acquiring unquoted portfolios and participating directly in private placements. Investments are not restricted to a single market but are made when the opportunity arises and on an international basis.

The Company's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise from its operations, for example sales and purchases awaiting settlement and debtors for accrued income.

The principal risks the Company faces in its portfolio management activities are:

- Liquidity/marketability risk;
- Interest rate risk;
- Market price risk; and
- Foreign currency risk.

The Company has little exposure to credit risk. The Manager monitors the financial risks affecting the Company on a daily basis and the Directors regularly receive financial information, which is used to identify and monitor risk.

In accordance with FRS 102 an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

**Liquidity Risk**
Due to the nature of the Company's investment policy, the largest proportion of the portfolio is invested in unquoted securities, many of which are less readily marketable than, for example, "blue-chip" UK equities. The Directors believe that the Company, as a closed-end fund with no fixed wind-up date, is ideally suited to making long-term investments in instruments with limited marketability. The investments in unquoted securities are monitored by the Board on a regular basis.

There are times when opportunities for the Company to acquire secondary unquoted portfolios of interests or co-investments may be limited due to the cyclical nature of their occurrence. As a result, at times of low investment opportunity, some funds may be held on deposit or invested in gilts and other fixed interest government bonds. It is the nature of investment in private equity that a commitment (see Note 18 for outstanding commitments as at 31 May 2018) to invest will be made and that calls for payments will then be received from the unlisted investee entity. These payments are usually on an ad-hoc basis and may be called at any instance over a number of years. The Company's ability to meet these commitments is dependent upon it receiving cash distributions from its private equity investments and, to the extent these are insufficient, on the availability of financing facilities. In order to cover any shortfalls, the Company entered into a multi-currency revolving credit facility with The Royal Bank of Scotland plc and Lloyds Bank plc and comprising facilities of $139m and €67m of which at 31 May 2018 the sterling equivalent of £nil (31 May 2017: £nil) was drawn down (see Note 6 for further information). On 1 June 2018, the Company agreed a new £175m multi-currency revolving credit facility agreement, arranged by Lloyds Bank plc and NatWest Markets plc. This will replace the £150m loan facility agreement which was due to expire in November 2018. See note 21 for further information.

The principal covenant that applies to the loan facility is that gross borrowings do not exceed 30% of adjusted gross asset value.

Total available financing as at 31 May 2018 stood at £308.6m (31 May 2017: £332.8m), comprising £145.8m (31 May 2017: £167.3m) in cash balances and £162.8m (31 May 2017: £165.5m) (sterling equivalent) in undrawn bank facilities. The available financing along with the private equity portfolio exceeded the outstanding commitments by 3.6 times (31 May 2017: 3.5 times).

**Interest Rate Risk**
The Company may use gearing to achieve its investment objectives and manage cash flows and uses a multi-currency revolving credit facility for this purpose.

Interest on the revolving credit facility is payable at variable rates determined subject to drawdown. Variable rates are defined as LIBOR or EURIBOR + 2.35%, dependent on the currency drawn. The interest rate is then fixed for the duration that the loan is drawn down. At 31 May 2018 there was the sterling equivalent of £nil funds drawn down on the loan facilities (31 May 2017: £nil). A commitment fee of 0.94% per annum is payable in respect of the amounts available for drawdown in each facility.

**Non-interest rate exposure**
The remainder of the Company's portfolio and current assets are not subject to interest rate risks.

Financial assets for 2018 and 2017 consisted of investments, cash and debtors (excluding prepayments). As at 31 May 2018, the interest rate risk and maturity profile of the Company's financial assets was as follows

| **31 May 2018** | **Total £'000** | **No Maturity Date £'000** | **Matures within 1 year £'000** | **Matures after 1 year £'000** | **Fixed interest average interest rate %** |
|---|---|---|---|---|---|
| **Fair value of no interest rate risk financial assets** | | | | | |
| Sterling | **58,993** | **58,993** | **-** | **-** | **-** |
| US dollar | **1,109,499** | **1,109,499** | **-** | **-** | **-** |
| Euro | **241,035** | **241,035** | **-** | **-** | **-** |
| Other | **29,347** | **29,347** | **-** | **-** | **-** |
| | **1,438,874** | **1,438,874** | **-** | **-** | **-** |

The interest rate and maturity profile of the Company's financial assets as at 31 May 2017 was as follows:

| **31 May 2017** | **Total £'000** | **No Maturity Date £'000** | **Matures within 1 year £'000** | **Matures after 1 year £'000** | **Fixed interest average interest rate %** |
|---|---|---|---|---|---|
| **Fair value of no interest rate risk financial assets** | | | | | |
| Sterling | 63,196 | 63,196 | - | - | - |
| US dollar | 1,081,502 | 1,081,502 | - | - | - |
| Euro | 218,090 | 218,090 | - | - | - |
| Other | 29,620 | 29,620 | - | - | - |
| | 1,392,408 | 1,392,408 | - | - | - |

**Financial Liabilities**
At 31 May 2018 the Company had drawn the sterling equivalent of £nil (31 May 2017: £nil) of its four-year committed revolving dollar and euro credit facilities, expiring November 2018, of $139m and €67m respectively with The Royal Bank of Scotland plc and Lloyds TSB Bank plc. Interest is incurred at a variable rate as agreed at the time of drawdown and is payable at the maturity date of each advance. At the period end, interest of £nil (31 May 2017: £nil) was accruing. On 1 June 2018, the Company agreed a new £175m multi-currency revolving credit facility agreement, arranged by Lloyds Bank plc and NatWest Markets plc. This will replace the £150m loan facility agreement which was due to expire in November 2018. See Note 21 below for further information.

At 31 May 2018 and 31 May 2017, other than the ALN, all financial liabilities were due within one year and comprised short-term creditors. The ALN is repayable by no later than 31 August 2027.

**Market Price Risk**
The method of valuation of the fixed asset investments is described in Note 1(D) above. The nature of the Company's fixed asset investments, with a high proportion of the portfolio invested in unquoted securities, means that the investments are valued by the Directors after due consideration of the most recent available information from the underlying investments.

PIP's portfolio is well diversified by the sectors in which the underlying companies operate. This sectoral diversification helps to minimise the effects of cyclical trends within particular industry segments.

If the investment portfolio fell by 20% from the 31 May 2018 valuation, with all other variables held constant, there would have been a reduction of £254,958,000 (31 May 2017 based on a fall of 20%: £244,828,000) in the return before taxation. An increase of 20% would have increased the return before taxation by an equal and opposite amount.

**Foreign Currency Risk**
Since it is the Company's policy to invest in a diverse portfolio of investments based in a number of countries, the Company is exposed to the risk of movement in a number of foreign exchange rates. A geographical analysis of the portfolio and hence its exposure to currency risk is provided above and in Note 9b. Although it is permitted to do so, the Company did not hedge the portfolio against the movement in exchange rates during the financial period.

The investment approach and the Manager's consideration of the associated risk are discussed in further detail in the Strategic Report and the Manager's Review above.

The Company settles its transactions from its bank accounts at an agreed rate of exchange at the date on which the bargain was made. As at 31 May 2018, realised exchange gains of £353,000 (31 May 2017: realised exchange losses of £159,000) and realised losses relating to currency of £2,282,000 (31 May 2017: realised gains of £2,548,000) have been taken to the capital reserve.

The Company's exposure to foreign currency excluding private equity investments is shown below. In relation to this exposure, if the sterling/dollar and sterling/euro exchange rate had reduced by 10% from that obtained at 31 May 2018, it would have the effect, with all other variables held constant, of increasing equity shareholders' funds by £13,592,000 (31 May 2017: £10,787,000). If there had been an increase in the sterling/dollar and sterling/euro exchange rate of 10% it would have the effect of decreasing equity shareholders' funds by £12,686,000 (31 May 2017: £16,440,000). The calculations are based on the financial assets and liabilities and the exchange rate as at 31 May 2018 of 1.33035 (31 May 2017: 1.26735) sterling/dollar and 1.13945 (31 May 2017: 1.13135) sterling/euro. The Company's investment currency exposure is disclosed in Note 9b.

An analysis of the Company's exposure to foreign currency is given below:

| | **31 May 2018 Assets £'000** | **31 May 2018 Liabilities £'000** | 31 May 2017 Assets £'000 | 31 May 2017 Liabilities £'000 |
|---|---|---|---|---|
| US dollar | **128,812** | **731** | 135,390 | 3,480 |
| Euro | **2,110** | **118** | 2,863 | - |
| Swedish krone | **95** | **-** | 1,735 | - |
| Norwegian krone | **113** | **-** | 1,678 | - |
| Australian dollar | **653** | **-** | 775 | - |
| | **131,783** | **849** | 142,441 | 3,480 |

**Fair Value of Financial Assets and Financial Liabilities**
The financial assets of the Company are held at fair value. Financial liabilities are held at amortised cost, which is not materially different from fair value. For details of the ALN, see Note 13.

**Managing Capital**
The Company's equity comprises ordinary shares and redeemable shares as described in Note 14. Capital is managed so as to maximise the return to shareholders while maintaining a capital base that allows the Company to operate effectively in the marketplace and sustain future development of the business.

As at 31 May 2018 and 31 May 2017 the Company had bank debt facilities to increase the Company's liquidity. Details of available borrowings at the year end can be found earlier in this Note.

The Company's assets and borrowing levels are reviewed regularly by the Board of Directors with reference to the loan covenants.

The Company's capital requirement is reviewed regularly by the Board of Directors.

**20. Transactions with the Manager and Related Parties**
The amounts paid to the Manager, together with the details of the Investment Management Agreement, are disclosed in Note 3. The existence of an Independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under the AIC SORP, the Manager is not considered to be a related party.

The Company's related parties are its Directors. Fees paid to the Company's Board are disclosed in the Directors' Remuneration Report, which is provided in the full Annual Report. The Company's National Insurance contribution in relation to Directors' remuneration is disclosed in Note 4.

There are no other identifiable related parties at the year end.

**21. Post balance sheet events**
On 4 June 2018, the Company announced it had agreed a new £175m multi-currency revolving credit facility agreement dated 1 June 2018 ("Loan Facility"), arranged by Lloyds Bank plc and NatWest Markets plc. This replaces the £150m loan facility agreement which was due to expire in November 2018, as per Note 6.

The new £175m four-year Loan Facility has been redenominated using current exchange rates to $163.0m and €59.8m. The terms of the new facility are materially the same as those of the existing facility but will expire in June 2022 with an option after one year to extend, by agreement, the maturity date by another year.

PIP's mature portfolio, which at the year end was reported to have an average fund vintage maturity of 5.7 years, is in a cash-generative phase. The Company expects to continue to finance its new investments and meet its unfunded commitments, amounting to £440m as at 31 May 2018, principally from internally generated cash resources. As at 31 May 2018, PIP had available cash balances of £145.8m (excluding the short term ALN creditor). Therefore, based on current exchange rates, PIP's total liquid financial resources, taking into account the terms of the new Loan Facility and 31 May 2018 available cash balances, are equivalent to £320.8m.

The new Loan Facility provides a margin of additional assurance that the Company has the ability to finance its unfunded commitments in the future.

**AIFMD DISCLOSURES**

The Company is an alternative investment fund ("AIF") for the purposes of the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) ("AIFMD") and the Manager was appointed as its alternative investment fund manager ("AIFM") for the purposes of the AIFMD with effect from 21 July 2014. The manager is a "full scope" AIFM for the purposes of the AIFMD.

The AIFMD requires certain disclosures to be made in the Annual Report of the Company. Many of these disclosures were already required by the listing rules and/or United Kingdom Accounting Standards and these continue to be presented in other sections of the Annual Report, principally the Strategic Report, the Manager's Review and the financial statements. This section completes the disclosures required by the AIFMD.

**Assets subject to special arrangements**
The Company holds no assets subject to special arrangements arising from their illiquid nature.

**Remuneration disclosure**
The total number of staff of the Manager for the period ended 31 May 2018, including staff remunerated by affiliates of the Manager, was approximately 251, of which 14 were senior management or other members of staff whose actions have a material impact on the risk profile of the Company ("Identified Staff").

The total remuneration paid by the Manager and its affiliates to staff of the Manager in respect of the financial year ended 31 May 2018 attributable to work relating to the Company was as follows:

| | **Twelve months to 31 May 2018** | | | Eleven months to31 May 2017 | | |
|---|---|---|---|---|---|---|
| | **Fixed £'000** | **Variable £'000** | **Total £'000** | Fixed £'000 | Variable £'000 | Total £'000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Senior Management | **542** | **674** | **1,216** | 497 | 547 | 1,044 |
| Staff | **1,028** | **662** | **1,690** | 849 | 486 | 1,335 |
| Total Staff | **1,570** | **1,336** | **2,906** | 1,346 | 1,033 | 2,379 |
| Identified Staff | **325** | **464** | **790** | 271 | 347 | 618 |

No carried interest was paid in respect of the Company during the period.

The above disclosures reflect only that element of the individuals' remuneration which is attributable to the activities of the Manager relating to the Company. It is not possible to attribute remuneration paid to individual staff directly to income received from any fund and hence the above figures represent a notional approximation only calculated by reference to the assets under management of the Company as a proportion of the total assets under management of the Pantheon Group.

In determining the remuneration paid to its staff, the Manager takes into account a number of factors including the performance of the company, the Manager, and each individual member of staff. These factors are considered over a multi-year framework and include whether staff have met the Manager's compliance standards. In addition, the Manager seeks to ensure that its remuneration policies and practices align financial incentives for staff with the risks undertaken and results achieved by investors, for example by ensuring that a proportion of the variable income received by identified staff is deferred for a period of at least three years.

Full details of the Pantheon Group's remuneration policies and practices for staff (which includes the Manager's staff) can be found at www.pantheon.com.

**Leverage**
The AIFMD requires the Manager of the Company to set leverage limits for the Company. For the purposes of the AIFMD, leverage is any method by which the Company's exposure is increased, whether through the borrowing of cash or by the use of derivatives or by any other means. The AIFMD requires leverage to be expressed as a ratio between the Company's exposure and its net asset value and prescribes two methodologies, the gross method and the commitment method (as set out in Commission Delegated Regulation No. 231/2013), for calculating such exposure.

The following leverage limits have been set for the Company:

(i) borrowings shall not exceed 100% of the Company's net asset value or such lower amount as is agreed from time to time with the Company's lenders;

(ii) leverage calculated as the ratio between the exposure of the Company calculated in accordance with the gross method referred to above and its net asset value shall not exceed 200%; and

(iii) leverage calculated as the ratio between the exposure of the Company calculated in accordance with the commitment method referred to above and its net asset value shall not exceed 200%.

Using the methodologies prescribed under the AIFMD, the Company's leverage as at 31 May 2018 is shown below:

| | **Gross method** | **Commitment method** |
|---|---|---|
| Leverage ratio | 99% | 112% |

There have been no changes to the maximum level of leverage which the Manager may employ on behalf of the Company during the financial year to 31 May 2018. There are no collateral or asset reuse arrangements in place.

**Risk profile and risk management**
The principal risks to which the Company is exposed and the approach to managing those risks are set out in the Strategic Report and also in Note 19 above. The investment restrictions which seek to mitigate some of those principal risks in relation to the Company's investment activities are set out in the Investment Policy and under "Board Responsibilities and Relationship with the Manager" in the Statement on Corporate Governance in the full Annual Report. Additionally, the individual counterparty exposure limit for deposits with each of the Company's bank counterparties has been set at £60m or the equivalent in foreign currencies. The Manager's risk management system incorporates regular review of the principal risks facing the Company and the investment restrictions applicable to the Company. The Manager has established appropriate internal control processes to mitigate the risks, including those described in the "Mitigation" column in the "Principal Risks and Uncertainties" section of the Strategic Report. These investment restrictions have not been exceeded in the period to 31 May 2018.

**Article 23(1) disclosures to investors**
The AIFMD requires certain information to be made available to investors in the Company before they invest and requires that material changes to this information be disclosed in the Annual Report of the Company. The information required to be disclosed is contained in the document "Information for Investors" which is available on the Company's website at www.piplc.com.

There have been no material changes to this information requiring disclosure.

**ANNUAL GENERAL MEETING**

The Company's Annual General Meeting will be held on Wednesday, 31 October 2018 at 10.30am at The British Academy, 10-11 Carlton House Terrace, London SW1Y 5AH.

**NATIONAL STORAGE MECHANISM**

A copy of the Annual Report and Financial Statements will be submitted shortly to the National Storage Mechanism ("NSM") and will be available for inspection at the NSM, which is situated at: www.morningstar.co.uk/uk/nsm.

ENDS

*Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this document (or any other website) is incorporated into, or forms part of, this announcement.*

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