

LPeC

LISTED PRIVATE CAPITAL

Annual Review
2022

Rising to the challenge





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Chief Executive's message

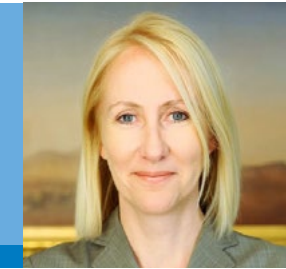
Deborah Botwood Smith

Chief Executive, LPeC

The world economy is in a very different place today than it was at the time of our last Review. Inflation is soaring almost everywhere, and the risk of recession has risen sharply, exacerbated by the war raging in Ukraine and the pandemic-related supply-chain disruption that continues to plague businesses everywhere. Central banks around the world have performed U-turns in an attempt to squeeze out inflation, reinstating a more normal monetary policy regime with higher interest rates and the reversal of twelve years of 'emergency' quantitative easing programmes.

Asset markets have responded accordingly. In our 2022 report we look at how listed private capital is adjusting to these new conditions. We discuss the big trends and then open the floor to some expert guest contributors, new this year.

LPeC's members then tell us how they see the current state of play in the markets, in the economy and in their portfolios. And, as in past years, for those new to listed private capital, we have a section explaining more about what listed private capital is and how to go about accessing this special asset class.



The world economy is in a very different place today than it was at the time of our last Review

2021-2022 – A game of two halves

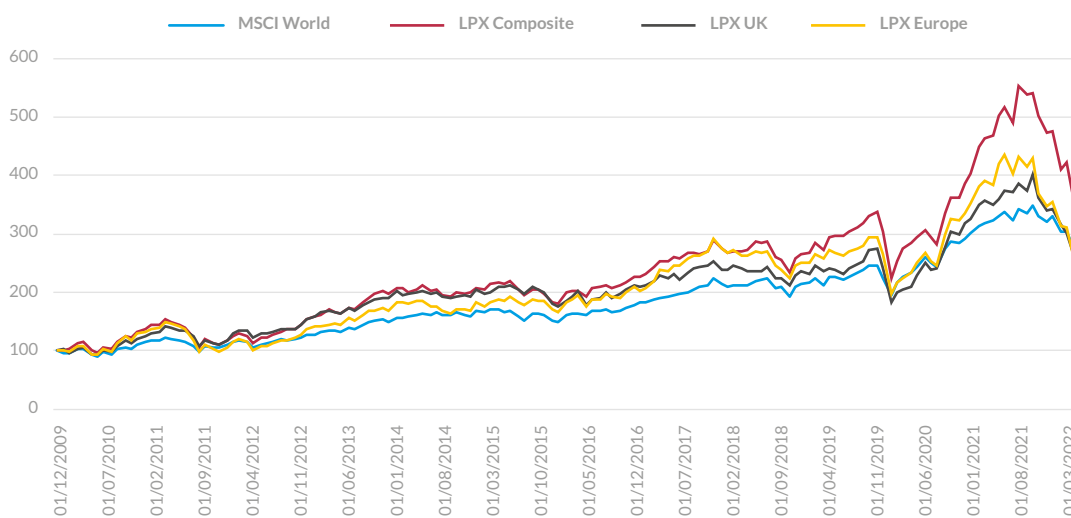
The economic recovery in Europe, the UK and the US in 2021 was astonishingly strong. Surging demand for goods and services of all kinds drove company profits across a range of sectors and geographies to extraordinary highs¹ – and stock markets soared. The value of private assets also rose sharply, and this in turn drove the share prices of listed private capital stocks, that include LPeC's members, higher too. The LPX Composite², an index which tracks a basket of private capital companies listed on stock exchanges around the world, peaked in the middle of November 2021, having risen an astonishing 56.4% since the beginning of the year. The MSCI World³, an index which comprises large, listed companies like Microsoft, Shell, Anheuser-Busch InBev and Samsung, came close to peaking at the same time, up by 21.5% over the same period. After a brief correction, it reached its all-time record at the beginning of 2022.

Rapid economic growth was already causing strains before the stock market topped out. Demand butted up against supply constraints caused by fractured supply chains and worker shortages, and propelled energy and commodity prices ever higher. In our Annual Market Review last year we identified inflation as a growing cause for concern, but central banks were seemingly unmoved by the threat it posed.

Bond markets had begun to notice. Yields nudged higher through the early autumn, but the moves were relatively small at first. By January 2022, however, as complacency on inflation turned to horror as it accelerated, a wholesale reappraisal of economic policy in the US, the UK, and to a lesser extent Europe, was under way. Central banks made hasty plans to unwind quantitative easing programmes and set the course for higher interest rates. The yield on the US 10-year benchmark bond more than doubled between December and April to a peak of 3.5%. Its UK counterpart had tripled to 2.7% by June. Meanwhile the German 10-year surged from a negative yield of -0.4% shortly before Christmas to 1.8% in June.

Comparing Listed Private Equity to Global Stock Markets (total return, USD)

Source: LPX



¹ Source: Henderson International Income Trust; Global Dividend Cover research (September 22) reported global net profits at record levels for 2021

² Total return index, USD, source: LPX

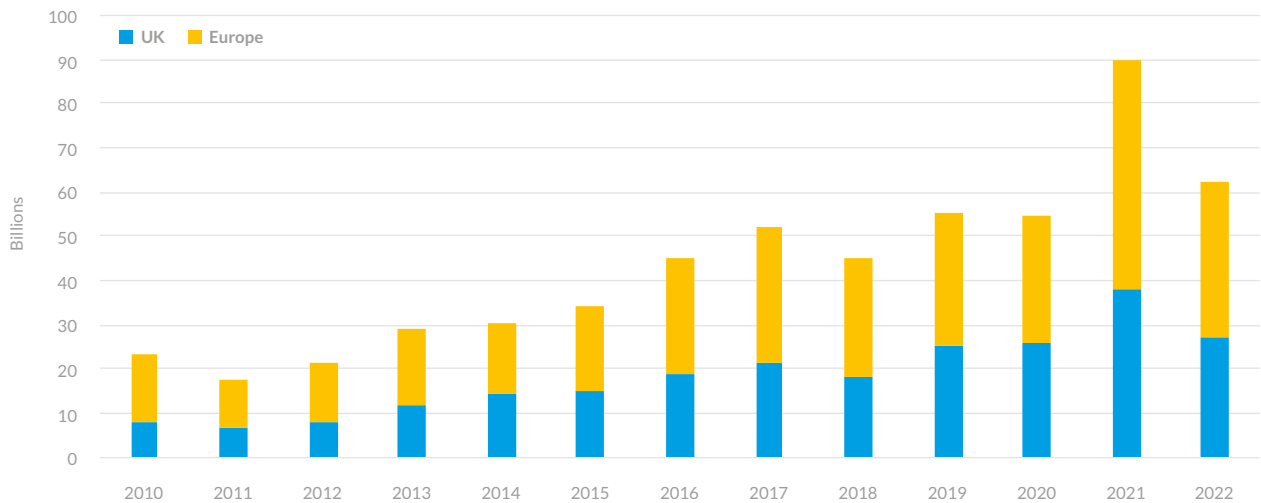
³ Total return index, USD; source: Bloomberg

The bear market had begun in earnest and quickly spread to equities. By its June 2022 low point the MSCI World had fallen 22.8%, back to its November 2020 level. Investors fled from overvalued, cash-hungry technology stocks (primarily in the US) to the safety of highly cash-generative dividend-yielding traditional blue chips, leading to a wide dispersion between the performance of stock markets around the world. The surge in oil prices that followed Putin’s attack on Ukraine meant the oil sector was especially prized.

The share prices of listed private capital companies dipped too. The LPX Composite had fallen by 38.0% in USD terms by the middle of June 2022 before recovering a touch into July. This took it almost exactly back to the level at which it started 2021. The LPX Europe, which features a mixture of listed European and UK private capital companies, dropped by 42.4% over the same period, though the decline was exaggerated by the surging US dollar. In euro terms the fall was 32.9%. The LPX UK dropped 26.3% in sterling terms, equivalent to a dollar decline of 35.6%. The smaller constant-currency decline in European and UK private asset share prices reflects lower valuations in the first place compared to frothier North American markets. At the beginning of July 2022, the combined market capitalisation of UK and European listed private capital companies was £62.4bn (€72.6bn)⁴.

Market Capitalisation of UK and European listed private equity funds

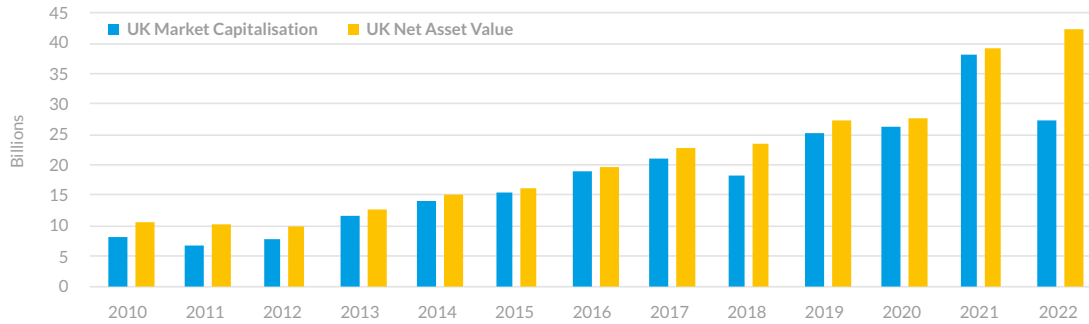
Source: LPX, LPeC



⁴ Source: LPX, LPeC

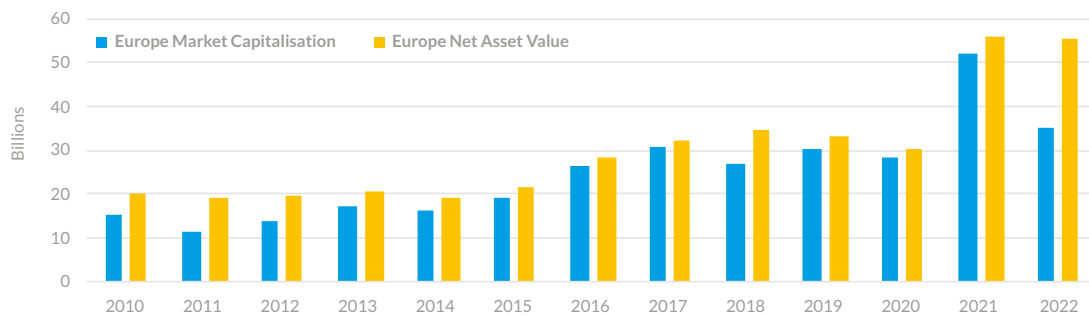
UK Listed Private Equity - Net asset values are more stable than share prices

Source: LPX, LPeC



European Listed Private Equity - Net asset values are more stable than share prices

Source: LPX, LPeC



Of course, the big question for listed private capital is the extent to which the value of the underlying assets has diverged from the share price. The latter is driven in large part by market sentiment, reading across from what is happening in other asset classes. The former is typically much more stable. The difference between the two is the discount (when the share price is trading below the net asset value). By November 2021, discounts to NAV across the LPX Composite, the LPX Europe and the LPX UK had almost disappeared entirely, but as markets began to fall, they widened sharply. At the beginning of July 2022, they had expanded to 28.9%, 36.3% and 35.0% respectively, their widest level since the market convulsions at the beginning of the pandemic.

Michel Degosciu, managing partner of LPX, which produces the vital listed private capital benchmarks, and Aaron Stocks, a partner at corporate law firm Travers Stocks and an expert on private capital markets, have contributed articles to this year's Annual Market Review that really help investors understand how to think about discounts to NAV. In addition, a number of LPeC's members touch on asset valuations in their own Viewpoint articles.

We will not therefore dwell on discounts here. Suffice it to say that investors marked down share prices sharply to reflect uncertainty about the value of the assets held within portfolios as well as an anticipation that valuations may come down. Yet our experts will explain that this is largely a knee-jerk reaction that side-steps a full understanding of how private asset valuations are derived, and suggests that share prices are not reflecting the key qualities of businesses owned by LPeC's members or loans made to them. Wide discounts also reflect greater risk aversion.

Discounts widen and narrow over the course of a stock market cycle and are the mechanism by which investors in listed private capital can be assured of liquidity if they wish to buy or sell shares. As the global economy slows, there may well be some reduction in asset valuations – and this will play a less welcome part in narrowing the discount. But equally, stock markets will begin to anticipate the recovery before it comes. History shows that discounts narrow very rapidly when that happens, as investor confidence in the asset class quickly rebounds.

Ultimately, as all our experts emphasise, private capital is a long-term investment – and over the long term the gap between the NAV and the share price is much less important than the delivery of growth. Not only that, but even with the market disruption that has hit the sector in 2022, listed private capital has outperformed public markets over the longer term. The LPX Composite is suitable for comparison to the MSCI World, because it comprises a global universe of listed private capital companies. In the ten years to the end of June 2022, private capital had outperformed global listed equities by 58 percentage points, or more than two fifths. Of all of this the sector can be duly proud.

Ultimately, as all our experts emphasise,
private capital is a long-term investment



Market expert views



Don't mind the gap

Michel Degosciu

Managing Director, LPX AG

Understanding risk and how it balances against returns is the starting point for almost any investment decision. Benchmark indices are vital to investors because they provide the information needed to assess how an asset class performs as well as how individual companies stack up against their peers and rivals. At LPX, we produce two kinds of index. One tracks share prices, just like the CAC 40 or the FTSE 100. The other tracks net asset values (NAV) – the value of the companies held in listed private capital portfolios. The difference between the two gives rise to the discount.

Because it can be benchmarked and indexed, listed private capital provides a valuable service for the wider industry. Institutional investors are increasingly using the LPX indices to help them manage risk in their own (unlisted) private equity holdings. They are especially interested in the NAV indices we produce because these are not subject to the vagaries of market sentiment that push share prices up and down, but instead represent an up-to-date proxy for underlying asset valuations across the private capital industry. Indeed, we use all publicly available information about portfolios to track NAV, for example when an asset is sold, rather than just relying on the periodic publication of NAV by a private equity company at results time. By understanding the performance and volatility of NAV, investors can more reliably form a view on how much capital to allocate to private assets as a share of their total assets under management.

When discounts widen as much as they have in recent months, many simply expect NAVs to come down to narrow the gap. There is some truth to this, but it is often exaggerated. For the most part, companies in private equity portfolios are cash generative today, making their values less sensitive to changing market conditions. As an industry we must constantly counter this misperception because it is a key contributor to widening discounts at times of market stress. Those who recognise that private equity assets are not as risky as some imagine have found themselves at a real advantage during previous episodes of significantly widening discounts.

It is likely that NAVs will come down a little to reflect higher market interest rates and lower multiples, so this will contribute to a narrowing of discounts in the months ahead. But should this worry investors? Will a 35% discount today simply be eaten up by lower asset values or does it represent a buying opportunity? History suggests the latter.

Because it can be benchmarked and indexed, listed private capital provides a valuable service for the wider industry

Those who recognise that private equity assets are not as risky as some imagine have found themselves at a real advantage during previous episodes of significantly widening discounts

We have looked at listed private capital performance since 1993. Stocks have ended the year trading at a discount to NAV in 19 out of those 28 years. And following 15 of those 19 discount years, they have significantly outperformed traditional equity markets. For example, in December 2002, the discount on our LPX50 index of private equity companies was 20.7%. Over the next five years, the index returned 231% compared to 147% for the MSCI World. The same pattern is repeated again and again – in 2009, in 2011, 2016 and 2020, for example. Each time, NAV did tend to be reduced initially to reflect weaker market conditions, but recovering share prices usually made a more significant contribution to narrowing the discount, and outperformance ensued in the years to follow as NAVs returned to growth.

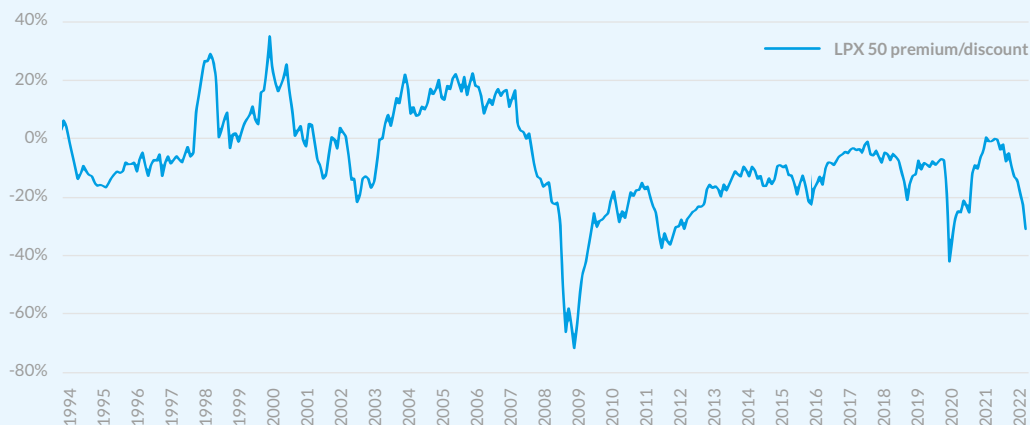
And so we find ourselves looking at similar market conditions again today. Listed private equity can offer access to private assets at exceptionally low prices at moments like this. I do not have a crystal ball, but the evidence is pretty strong that the current crunch will represent a buying opportunity for investors prepared to look beyond the current uncertainty. For those with a long-term view and the courage to weather short-term volatility, there is no reason to mind the gap.

About LPX AG

LPX AG is a leading research house in the field of Listed Alternatives and offers investment professionals a wide range of services, covering the global listed private equity universe. Having been at the vanguard of alternative asset democratisation since 2004, LPX AG offers representative benchmarks for the asset classes Private Equity, Infrastructure and Private Debt. It also offers investment advisory and research data based on in-depth research, to a broad array of financial institutions seeking liquid exposure to alternative asset classes.

Listed private equity - discount level

Source: LPX





Worries over private equity valuations are overdone

Aaron Stocks

Partner, Travers Smith

Whether I am speaking to investors, private capital funds, or companies being bought or sold by private equity managers, everyone is busy trying to plot the likely trajectory of the economy over the next few months. How high will inflation go? To what extent must rates rise to choke it off? Will there be a recession? Uncertainty like this means activity in the private equity market is likely to slow down in the second half of the year, with fewer deals and less fund-raising. It also means discounts on listed private capital funds – the gaps between net asset value and share prices - have widened substantially. But to what extent should investors worry about them?

First of all it's important to understand how the net asset value, or NAV, is derived. Critics like to pretend it is plucked from the air, with privately owned companies benchmarked against the priciest stocks in the frothiest public markets. But this is not so. The bifurcation of asset values in global public markets that saw a few mega-cap tech stocks pull away from 'regular' blue chips has distorted the apparent valuation of public equities.

Most businesses owned by private equity funds are not racy tech start-ups burning capital and attracting crazy multiples. Instead they span a range of sectors that attract more defensible multiples and have a clear investment case delivering cash flow on a much shorter time horizon - and this reduces the sensitivity of their valuation to higher market interest rates.

What's more, private equity funds including listed private capital companies are obliged to apply prudent valuations. They do not register assets on the balance sheet at what they hope to get when they sell them, but instead look at how much they paid for a company and make conservative assessments of how much value they have unlocked as they work through the process of transforming its business. The nature of this transformation is such that the fruits often mature after a number of years and then rapidly improve, following the so-called hockey-stick pattern. This is why the price for which private equity managers sell businesses is nearly always greater than the NAV on the balance sheet.

Listed private capital companies are obliged to apply prudent valuations

Investors should remember that private equity is not a short-term investment. This means investors can look ahead beyond periods of market disruption

So what should private investors do today? I do not advocate attempting to time the market – you have to be right twice and that’s difficult! But history suggests the current gap between share prices and NAVs will close. And though NAVs may come down a little as periodic valuations catch up with wider financial conditions, the gap is more likely to close by share prices recovering when uncertainty in the market eventually dissipates. This presents an opportunity for private investors. Normally only institutions have the chance to acquire private assets at juicy discounts in the frequent so-called ‘secondary market transactions’ that take place outside the listed private capital sphere when sellers want an early exit from a stake and are prepared to take a haircut. In today’s market, discounts to NAV on listed private capital companies mean this opportunity is effectively open to private investors too.

Most important of all, investors should remember that private equity is not a short-term investment. That means that investors can actually afford to just ignore discounts and simply look beyond periods of market disruption. The investment case for a private equity manager depends on value being unlocked over several years, not from one week to the next. This is how private investors should behave too.

About Travers Smith

Travers Smith advises global asset owners and asset managers in the private equity, alternative credit, real estate and infrastructure sectors, with a market leading team of 48 partners representing clients in the private capital sector, who manage more than USD4 trillion of assets.

Through our consolidated approach to providing sophisticated legal services across every area of interest to the asset management sector, Travers Smith provides holistic support to asset managers on important matters both for the funds that they operate and for their own businesses, as well as on the structuring and raising of new funds.



Looking beyond discounts in the UK

Shonil Chande

Investment Fund Analyst, Liberum

The job of an investment analyst is to understand what drives value in a business, to connect that to its share price and to make a recommendation to their client base. When we see a stock trading well below our judgement of fair value we can advise investors to buy it. And if prices move significantly above what we think is sensible we sound a note of caution.

In the UK listed private equity sector, we distinguish between direct private equity investment strategies, which invest directly in funds managed by the investment manager, and fund of fund strategies that invest in multiple externally managed funds.

When evaluating which listed direct private equity funds we believe are most likely to outperform, we consider the fund and the investment manager's track record, paying attention to the investment manager's record of adding value and exiting investments at attractive uplifts to carrying values, and if the manager has a demonstrable edge when it comes to originating new investments. We also form a view on the sector positioning, which is important as more sector specialists come to the fore.

It is also important to consider the maturity profile of the portfolio. If several investments have been held by the manager for five years and you know this is typically how long they hold investments, the chances of exits increase significantly. Exits can crystallise significantly higher values than their most recent valuation.

The managers will typically publish a look-through portfolio valuation and debt level twice a year. With direct private equity strategies, we can see which companies are driving portfolio performance and whether this valuation growth is being driven by operating performance or by increasing the valuation multiple. Managers usually disclose an EV/EBITDA multiple for a sample of the portfolio. This is a yardstick that compares the value of a company's total capital to its operating income. We compare this to the fund's previous disclosures, its listed peers, and wider market and private equity trends. Managers also tell us the amount of borrowing in the portfolio, as this can help us understand its risk/return profile, and revenue and operating income growth averages over the past 12 months.

Listed private equity funds publish net asset value (NAV) figures every quarter or semi-annually. This is the anchor that drives the share price. It can take some time for private market valuations to flow through to the NAV, so it is common for the share price to respond to market sentiment between NAV updates. The NAVs of funds that have some exposure to listed markets, usually after retaining some stake following an exit, can be more volatile as valuations are based on share prices. Often the main drivers of changes to NAV are announced between reporting periods after a major transaction, such as a sale. The funds will typically provide disclosure on the level of uplift and the proceeds that will be due to the fund, which analysts can use to calculate the impact on NAV.

Exits can crystallise significantly higher values than their most recent valuation

Over the past five and ten years, the private equity sector has been the best-performing listed investment company sector in the UK on an annualised NAV total return basis

Given that these are private investments, the amount of information you have on the underlying investments can be limited, so a lot of your conviction rests on how you view the investment manager. As analysts, we can still be creative in using third-party sources and using listed companies with similar profiles to plug some of the gaps. Managers are also typically responsive whenever we have questions.

2022 has undoubtedly been a difficult year, though we still think that discounts have widened too far for some of the direct private equity funds in particular. This is especially so when investment managers focus on a particular niche that is supported by strong secular tailwinds. Over recent months, there have been several instances of realisations at valuations of more than 25% above holding values at the end of the first quarter of this year. Capital is being invested in building new businesses.

We view the recent weakness in listed private equity funds as an attractive entry point, given the resilient pricing we are seeing on exits in the sector. Dry powder and competition remain high and this should continue to support valuations in the near to medium-term.

Finally, it is also worth noting that listed private equity has almost always traded at a discount to NAV. Sometimes we as analysts and investors can fixate on the discount when ultimately it is NAV growth that drives investment performance over the long term. Over the past five and 10 years, the private equity sector has been the best-performing listed investment company sector in the UK on an annualised NAV total return basis.

About Liberum

Liberum is an independent investment bank with offices in London and New York. Founded in 2007 as a wholly staff-owned business, since inception we have aimed to provide insight, honesty, and a highly personalised approach to all our clients.

Our investment banking division provides expert advice and solutions including corporate broking, equity capital markets and M&A services. We look to build long term partnerships with companies, enabling us to be trusted advisers to them throughout their life cycle.

Our differentiated all cap pan-European equity research and sales model allows us to provide a first-rate service to institutional investors and corporate clients. Investors hunting for ideas get direct access to our seasoned sales team and research analysts, whilst companies receive thoughtful advice and commentary from our experienced team. Traders wanting high or low touch execution from multiple venues, with proper performance benchmarking, deal with us daily.

Our expertise covers many sectors with Alternative Funds, which includes listed private equity clients, being a key area of focus.



Is concern about the economy pushing ESG down the priority list?

Jessica Hodges

Partner, Deloitte - Investment Management Assurance (governance risk and controls)

Katherine Lampen

Partner, Deloitte - Sustainable Finance Lead, EMEA

Investment managers in listed private equity firms have a pivotal role in supporting both their institutional clients and retail investors with their climate ambitions.

The demand is from the investors, as well as the regulators. Investors first. According to Deloitte's analysis, most institutional clients (i.e., the Limited Partners investing in private equity) have more than 500 employees, therefore, are obliged to comply with the Sustainable Finance Disclosure Regulation (SFDR)'s Principle Adverse Impacts (PAI) disclosures. For retail investors, our research shows that 90% of GenZ and millennials are making some effort to reduce their environment impact. As well as opting for sustainable products, they want businesses and employers to do more, though they are sceptical about the true commitment of industry and governments to solve the manifold problems.

With the growth in demand for ESG/sustainable investment products, firms must be mindful of the gap between customer expectations of their ESG investments, and the realities of what ESG investments may comprise. This expectation gap may quickly widen where there is poor disclosure, where definitions are not shared across the industry, where the bar is set too low, and where measurement is inconsistent or poorly targeted. This in turn breeds reputational risk for an industry where reputations are valuable and fragile.

The 'greenwashing' backlash against ESG products is a clear manifestation of this risk. Of course, most of the attention is on climate and the environment, but there is also a rainbow of social and governance issues on which fund managers may be exposed. Moreover, sometimes there are uncomfortable trade-offs between the E, the S and the G that have to be navigated. Bottom-up pressure is driving development of propositions.

Firms must be mindful of the gap between customer expectations and the realities of ESG investments

The pressure from regulators and supervisors has increased significantly

The pressure from regulators and supervisors has increased significantly too, for example via the EU's Sustainable Finance and Action Plan, or via a pending new taxonomy that will help nail down definitions of 'green' and other issues. Regulators, supervisors, and wider stakeholders increasingly expect investment managers to develop, disclose and execute credible transition plans to support the drive to net zero. Net zero commitments may have initially emerged from corporate strategy, public affairs or corporate responsibility teams, so the challenge is to change behaviour throughout organisations, ensuring all functions play their part.

While Task Force on Climate-related Financial Disclosures (TCFD) is clear on guidance at entity level, how to implement the net zero strategy at portfolio company level remains a big challenge for fund managers. The credibility and business implications mean increasing supervisory and stakeholder scrutiny. As well as reputational risk, firms will have to be alert to regulatory, conduct and liability risks too.

Despite economic pressures from rising inflation and the gas price surge, the demand from regulators and supervisors remains strong. In late May, the Bank of England insisted that banks and insurers must manage climate risks as a "first-order" issue. Those that fail to do so could face a 10 per cent to 15 per cent hit to profits, it warned. The regulation in private space is also evolving. The SFDR regulatory technical standards (RTS) will apply from 1 Jan 2023. Financial market participants, including private equity firms, will need to implement it.

Private Equity and Alternative Funds have had less exposure in the past to retail markets, and less investor pressure beyond a stellar return. Listed private capital managers certainly recognise the importance of ESG (not least the potential in driving positive returns), but there is still work to do. The new regulatory framework means they must publish clear statements of ambition and demonstrate effective measurement of their progress. Firms will want to crack how to calculate the financial value this will add to investment returns in the long term, but this is difficult in practice. Examples include adding a notional carbon tax to each investment they hold (in the expectation that such taxes might bite in reality in future), or considering whether assets will end up stranded one day, and therefore of no value on exit. At Deloitte we are helping a number of organisations tackle this problem.

Simple disciplines like maintaining a risk register can really help. The pandemic helped companies focus on what risks their business really faced, sweeping away what was often a rather vanilla, generic document and replacing it with a well thought-out understanding of the issues. Climate change now features much more prominently.

As the European and UK economy enters a tough period, there may be a temporary slowdown the progress companies make on their ESG agenda. But the top-down and bottom-up pressures are intensifying so we are confident that medium-term momentum is only going to gather pace. Listed private equity is sensitive to its investors' demands and is responding accordingly. The problems the world faces are so much more visible and tangible now that they simply cannot be swept under the carpet any longer.

About Deloitte

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax, and related services, the firm currently has approximately 330,000 people in more than 150 countries and territories.

Our investment management team partners with clients across all segments of the market to deliver a wide range of operational, technical and regulatory solutions, designed to help investment managers create a competitive advantage and achieve their growth ambitions.

One of our ambitions is to support investment managers to integrate environmental, social and governance (ESG) criteria into their strategic decision making for the lasting benefit of their company, clients, environment, economy and society. And we help them to transform. We make an impact by shaping solutions to our clients biggest ESG challenges and help to define the future of the industry in line with new ESG regulations and standards. Our work primarily falls in to three categories across a range of ESG topics spanning Risk, Regulatory, Governance and Compliance; Strategy & Transformation; and Products & Innovation.

Listed private equity is sensitive to its investors' demands. The problems the world faces are so much more visible now.



Views from LPeC's members



The view from the north

Mari Simula

Head of Investor Relations, CapMan

CapMan focuses its activities on the Nordic private markets, but our investor base is very international. The Nordic region has a lot of interesting investment opportunities that a specialist investor like us is better placed to access than many of the very large global private equity houses, and this has attracted investors of all kinds.

Global capital markets are obviously having a tough time as the world economy grapples with rising inflation, the risk of recession and the energy crisis. This is certainly influencing how our investors view their private equity priorities.

Cash yielding asset classes continue to prove very popular at the moment, especially among our large institutional investors, including pension funds and asset managers. Real estate is certainly popular as well, but crucially also our infrastructure funds which have a focus on inflation-protected assets. Infrastructure assets like district heating are characterised by long-term contracts, index-linked cash flows and are highly defensive at a time when discretionary spending may be under pressure. Soaring fossil fuel prices have also caused a surge in interest towards our clean energy and sustainable transport investments where we drive the green shift of the industry. And of course, digital infrastructure is a perennial favourite. These types of assets continue to be popular because they have generated good returns in the recent years and because they go hand-in-hand with our investors' ESG requirements, and now there is an additional cyclical impetus to add them to portfolios.

Our smaller investors include family offices, foundations, municipalities, unions and university endowments, among others, and these groups are often more interested in niche segments. They tend to have more flexible mandates and a less mature private equity programme which also enable them to pick interesting themes whenever they see them. They tend to favour growth strategies investing for example in market leading companies in niche b2b software and business services, as well as special situations strategies investing – for example investing in a company that has a solid core but perhaps needs help restructuring its balance sheet or its operations. We are not seeing much change in fund raising among these types of investors in the current market because the deal flow in special situations in particular, is especially strong at the moment.

Larger investors are a bit different. Private-market fund raising was very strong globally in 2021 and into early 2022 but is likely to slow down a bit now. These larger investors have often very mature private capital programmes, so asset allocation limits are a factor for them. Private equity portfolios have performed very strongly in recent years and now when equity and bond markets have fallen sharply – the result is an overallocation of assets invested in private equity, almost by default. This has changed the volume of capital they have available to invest in the short term, although they do have flexibility, for example by stretching allocations temporarily or selling less core private equity holdings on a secondary market.

The Nordic region has a lot of interesting investment opportunities that a specialist investor like us is better placed to access

Downturns prove often to be good 'vintage' years for investors

We know that we and the sector will come through this downturn in good health. Downturns prove often to be good 'vintage' years for investors as these times offer opportunities to acquire great assets at good valuations. In private equity, we often invest directly in entrepreneur and family-led businesses, and are always looking for strong management teams with a good track record. We aim to be a sustainability frontrunner and seek interesting growth opportunities in sectors that have growing investor interest – like businesses contributing to or benefiting from the net zero initiative. We do not see that changing.

About CapMan

CapMan was founded in 1989 as an investment manager focusing on traditional private equity opportunities in the Nordic region. Over the years, the business has expanded to include minority investments, credit, infrastructure and real estate investment too. We have €4.8bn of assets under management on behalf of third-party clients but we also invest €200m of our shareholders' capital too. CapMan has dedicated teams focusing on each of our investment divisions. These teams have deep knowledge of the region, the competitive environment facing companies and the relevant decision-makers and that gives us a real edge in the Nordics. It's important to understand that investors who buy CapMan shares are not just buying a piece of a private equity fund, but rather a share in our whole operation. Our shareholders benefit in two ways. First, we charge fees to manage capital for our clients and we earn performance fees too, so the profits we make from our fund management operation make up a very important part of shareholder returns. And secondly, the €200m portfolio of assets that CapMan itself owns and invests on behalf of our shareholders provides investment returns. This means the CapMan share price is derived both from the value of our cash flow earned from the long-term fund management contracts we have in place with our clients and from the net asset value of our in-house portfolio.



Private equity – resilience in uncertain times

Hamish Mair

Managing Director and Head of Columbia Threadneedle Investments Private Equity / Investment Manager of CT Private Equity Trust PLC

Private equity coped with the Covid-19 pandemic very well. Companies valued the assistance private equity owners provided through the crisis and this drove a greater appreciation among companies and investors of the value that private equity can add. This stands us in good stead as the world economy stumbles.

Higher interest rates are inevitable with inflation at current levels and necessary anyway as a process of normalisation of monetary policy takes place. The good news is that companies in private equity portfolios are well capitalised and easily able to service their debts. We do not expect to see significant strains emerging as a result of higher rates. Inflation is more serious, especially for companies with low margins that are subject to rising input costs. We therefore prefer sectors like healthcare and IT that are demonstrating secular growth, untroubled by the economic cycle. These are relatively immune to rates and inflation too. These two sectors alone make up about 40% of our portfolio.

As a value-added fund of funds, CT Private Equity Trust may be the only exposure many of our investors have to the sector. Many of them are wealth managers with retail clients, so they are keen to understand our investment process as well as the underlying health and resilience of our portfolio. Our portfolio is very diversified, with more than 240 companies represented, so we help investors understand the underlying growth trends to which the trust is exposed. Net Asset Value (“NAV”) is the critical issue for our institutional investor base, in particular how it will respond to the current conditions in the market.

Crucially, we do not tend to see dramatic drops in asset values – certainly it is more muted than listed markets and this is right and proper given the conservative valuations and good business models typically seen in private equity. Some of the funds we hold may even see their NAV rise this year because they are disposing of assets at very attractive prices.

We therefore prefer sectors like healthcare and IT that are demonstrating secular growth

Stick to a disciplined investment process, with a focus on finding and backing good people

We see that businesses are keen to push ahead with deals even if the market is less frothy than late 2021. It also just takes time for deal flow to slow down – the second half the year is likely to be quieter. We do detect less interest from US buyers for European private equity assets since Russia invaded Ukraine so while that may impact realisations, it also means less competition for new opportunities.

Private equity is an absolute return asset class, so it is more attractive in times of volatile public markets. Its superior returns will be attractive at times of higher inflation. But there is a longer-term trend of rising allocation to the sector too, especially since similar assets are hard to find in public markets.

As we go through the current choppy period it is important to remember that quality companies do well not only in good times but also in bad times. Sticking to a disciplined investment process, with a focus on finding and backing good people ensures we and our partners find those companies. We are confident that CT Private Equity Trust and the wider sector will emerge even stronger from the downturn.

About CT Private Equity Trust

CT Private Equity Trust offers access to investment in unlisted companies, an opportunity which typically lies beyond the reach of individual investors.

We invest in a diverse spread of private equity investments both via specialist private equity funds and as co-investments in individual companies. In particular we look for private equity managers with a proven ability to make excellent absolute returns over the medium to long term. We also aim to provide shareholders with a predictable and above-average dividend funded from a combination of revenue and realised capital profits. Our dividend is a key draw for private investors in particular.



Credit where credit is due

Pieter Staelens

Portfolio Manager, CVC Credit Partners European Opportunities

Bonds and loans behave very differently as market interest rates change. Most bonds have a fixed coupon, so their prices fall when interest rates rise. Loans, by contrast, tend to have floating interest rates linked to central bank policy rates – when these rise, the interest due to the lender goes up too. For this reason, the market value of loans is much more stable than bonds in a rising rate environment. Of course, both are sensitive to deteriorating credit risk. And both are sensitive to maturity – loans and bonds that redeem in the more distant future typically see bigger price moves as market conditions change.

Bonds and loans are behaving true to form. In the first few months of the year, the European high yield bond market fell three times further than loan prices as market rates and risks rose. The return to a more normal monetary framework is delivering greater differentiation between borrowers which expands the opportunities for active fund managers like us to find the best companies to lend to and to make good returns. Our trust invests around 80% of its assets in loans, so higher interest rates mean more income for our investors.

When we speak to investors, the biggest question they have right now concerns default rates. The approximately 4% decline in loan prices up to end of May reflects market concerns over economic growth and the possible impact on credit quality, but it is an extreme reaction. We just do not consider today's challenge as comparable to what we saw during the global financial crisis or the onset of the pandemic. Companies are not faced with a sudden refinancing need, so there are few 'forced borrowers', their cash flow, even if it suffers from a possible recession, is well able to cover expected interest payments and covenants are light.

According to Credit Suisse research, over the last five years, default rates have on average been around 1% with recovery rates at 67%. This implies loss rates have on average been just 0.33% each year. Today's loan prices are at 91c per €1 of face value. This implies loss rates would have to soar to levels similar to the GFC, which we don't anticipate right now. Moreover investors get paid a rising coupon - with most central banks hiking rates - while they wait for loan prices to recover. That's not a prediction, of course, and we may yet see further price falls as the global markets continue their adjustment, but it suggests that loan markets are already pricing in a lot of bad news.

We just do not consider today's challenge as comparable to what we saw during the global financial crisis or the onset of the pandemic

We expect opportunities to open up among cyclically sensitive companies towards the end of the year

We recognise the volatile market conditions and so are defensively positioned at present, favouring sectors like healthcare and software. Perhaps controversially, we also like travel and leisure. Household budgets may be under pressure, but there is huge pent-up demand for holidays. We are cautious on retail and strongly cyclical sectors. We expect opportunities to open up among cyclically sensitive companies towards the end of the year as we will have a better view on economic outlook by then.

About CVC Partners Credit Opportunities Ltd

There are two main markets for corporate borrowing, beyond traditional bank lending. There are the bond markets, where companies issue a bond at a fixed interest rate and pay back their loan in full at the end of its term. And there is the leveraged loan market, where an investment bank arranges a loan for a borrower and funds like CVC Credit Opportunities provide the capital.

For the most part, listed companies use the bond markets while privately owned companies tend to rely on leveraged loans. Bonds and leveraged loans are bought and sold regularly on the secondary market – the former via exchanges and the latter in so-called over-the-counter (OTC) deals.

The most important difference is that leveraged loans have a floating rate of interest which rises and falls as market rates move. The price of a leveraged loan therefore tends to remain close to the initial issue value, except when a company is thought to be in trouble. If investors fear for a company's future, they will demand a discount and the loan will change hands below par, sometimes substantially so.

This is where the real opportunities lie. Our flexible investment strategy also allows us look for companies whose loans are trading at a discount and consider whether that company can work through its problems before the loan is due for repayment. If it can, there is a capital gain to be made as well as an income that comes from the interest payments. For this reason, we spend a lot of time carefully getting to know and understand the companies whose loans we buy. Most of the time, these companies are owned by private equity funds – they provide equity finance and we provide private credit funding.

Our fund manages €700m of such assets, mainly in Europe and the UK with a small portion in the US, but the leveraged loan markets are much bigger than this, with the loan market having more than doubled in value to €360bn in the last five years. This is a large, liquid and growing market that continues to provide opportunities for investors who want a reliable income with a hedge against inflation.



Private equity discipline will see it through the downturn

Olivier Millet

Executive Board Member, Eurazeo

Pierre Bernardin

Head of investor Relations, Eurazeo

The economy in Europe has certainly taken a turn for the worse, but it is too simplistic to assume that private equity must by its nature suffer a greater impact. Indeed, we believe it is relatively insulated, especially Eurazeo's portfolio. The problem of inflation is certainly serious, but its effect on different sectors varies widely – for example business services, healthcare and technology - three sectors we favour strongly – will see a much smaller impact on their margins from higher inflation than firms that depend on consumer spending. Each company is different too. We select market leaders - pricing power protects both the top line and the profit margin. And we like strong management teams that we can further enhance with our own expertise.

The discipline of private equity is about selecting the right company in the first place and then creating value by reinforcing its competitive advantages, driving its growth and expanding its margins. The macroeconomic conditions are secondary to the growth story.

Higher market interest rates have affected the value of growth assets, but Europe did not experience the same bubble as the US in 2021 and is therefore not as severely affected by the correction. Moreover, small and medium-sized companies on a clear growth trajectory have more room to expand than the listed global tech giants. This supports valuations as well as indicating good opportunities.

Our investors are keen to understand whether we still have free access to capital, especially in debt markets. Banks have reduced their appetite to lend, but private debt markets remain open and prices are very reasonable, especially for mid-sized companies. We remind our investors, however, that debt is not fundamental to how we create value. We do that by growing profit and cash flow – a percentage point or two extra on a loan is immaterial if sales are doubling every three years and margins are rising.

The macroeconomic conditions are secondary to the growth story of the right companies

We see growing interest from retail investors who understand that listed private equity offers access to assets that are otherwise hard to reach

Discounts to NAV in listed private equity show that investors are worried but we think these concerns are overdone. Valuations are conservative compared to public markets and based on solid long-term delivery. As majority shareholders, we can carefully plan how we sell a business, typically with a range of bidders meaning that the final price is secured at a premium to our book value.

Allocations to private equity are still low, but performance is good so we expect them to continue rising. We see growing interest from retail investors who understand that listed private equity offers access to assets that are otherwise hard to reach.

As we work through this economic downturn, it's likely that realisations may slow down and that selecting new investments may take longer. But none of the fundamental drivers have gone away and public markets remain unsuitable for companies that have not yet reached multi-billion euro valuations. Private equity fills the gap.

About Eurazeo:

With more than €32 billion in assets under management, including €9 billion in permanent capital and more than 530 portfolio companies invested or funded, Eurazeo is one of Europe's leading private equity companies. The Group is listed on Euronext Paris. Eurazeo has a longstanding presence in France and the rest of Europe and but in the last ten years has expanded into North America and Asia too.

Eurazeo specialises in three asset classes in which it has developed substantial expertise, helping finance businesses right across the investment spectrum. It invests both for its shareholders and for institutional clients. It's sector specialisms include business services, tech, healthcare and financial services.



Cash is king

Kristof Vande Capelle

CFO, Gimv

Private equity is not a single, homogenous asset class so the changing economic environment is impacting some parts of the market much more than others. For example, in the leveraged buy-out market the use of debt is a key means of generating equity returns. Meanwhile, venture capitalists often invest in technology companies which are still burning cash, rather than generating it. Rising interest rates have limited access to cheap financing or have caused a big decline in the valuations of high growth companies. The motor simply stops when the finance gets expensive. Investors rightly worry about this.

Gimv is relatively less exposed to these challenges and we take great care to ensure our investors understand this point. It's a message that bears repeating again and again.

We invest directly in cash-generative companies with strong market positions, clear visibility over their growth trajectory and solid pricing power. Their operations are more resilient in an economic downturn and, given the more limited use of debt, their valuations are more resistant to higher market interest rates. We only use debt to facilitate investment, not to drive value. Instead, we unlock value by generating growth, for which buyers pay a premium when we reach the point of exit.

Over the last couple of years, asset managers have increased allocations to private equity markedly, as they understand the potential for superior long-term returns. We do not expect them to reduce their holdings drastically during this difficult economic period, though they might shift their investment focus onto styles, like Gimv's, that take a long-term, growth-focused approach, rather than riskier venture capital or leveraged buy-out funds.

We invest directly in cash-generative companies with strong market positions, clear visibility over their growth trajectory and solid pricing power

With a more unstable economic environment, we devote more due diligence to understanding how protected a company's position is

We do not attempt to time the market, but because we select our investments carefully, we buy with confidence at any point in the cycle. Indeed, the second quarter of 2022 saw us make a number of sizeable new acquisitions in a market with still plenty of other buyers looking to deploy capital. And we will not shy away from buying if and when the economy starts to shrink. There are often good opportunities then too. With a more unstable economic environment, we simply devote more of our due diligence to understanding how protected a company's position is likely to be in a downturn. The coming months will be no different.

About Gimv

Gimv manages a portfolio of more than EUR 1.4 billion, invested in around 60 companies with a combined turnover of €3.1bn, employing 19,000 workers. Gimv looks for small to medium-sized, ambitious, innovative companies with growth potential. These companies are typically looking for €10 to €75m of capital and are based in the Benelux, France and Germany. Gimv's five main investment themes articulate key drivers of today's economy and society. They are consumer, healthcare, life sciences, smart industries and sustainable cities.

Gimv's strategy to create value in portfolio companies is to drive sales forward, provide companies the anchoring to become global leaders in their field; to propel growth through organic expansion or acquisitions; to help transform innovation into marketable products; to instil the operational discipline necessary to manage rapid growth; and to position companies for their next phase of development.

Gimv is listed on Euronext in Brussels. Investors in Gimv's shares directly invest in a portfolio of growth companies on the company's balance sheet.



Venturing on zero – the opportunities in climate tech

George Chalmers

Head of Climate, Molten Ventures

Venture capital (VC) finances companies in their very earliest phases of growth. At Molten Ventures plc, our flexible structure means we can look beyond traditional VC fund lifecycles, to deploy patient capital into Europe's future tech leaders from early stages through to exit. We invest across a range of technology sectors that are defined by this long-term potential but nowhere is this more appropriate than the nascent field of climate technology, where I specialise.

As the world transitions to net zero, trillions of dollars of investment will be needed to transform every aspect of our economies, not just our energy systems. Too often this is thought of as a 'cost' but actually it's a phenomenal investment opportunity. A whole generation of start-ups will emerge, and are emerging, that will grow to define the net-zero era, helping businesses, governments, and consumers meet the challenges that come with reaching net zero. The sheer scale and scope of opportunity is truly enormous, presenting ideal prospects for venture capital.

Specifically, we back companies that provide the infrastructure, the rails if you like, to enable the net zero economy to run. Across the corporate world, one of the toughest nuts to crack is how to measure progress towards corporate net zero goals, to analyse performance, benchmark against peers and crucially take the most effective steps to meeting obligations.

As net zero commitments from corporates ramp up, so does interest in carbon offsetting. As such the voluntary carbon market has the potential to act as a powerful mechanism to drive billions of dollars into carbon sequestering or avoidance projects. However, until now, the market lacks the data and infrastructure needed for the market to scale.

A buyer for instance would find it difficult to scrutinise whether any given credit offers good value, in either financial or climate terms. A forestry credit issued as a carbon offset in one part of the world may not be as high quality as one issued somewhere else and yet right now there is no reliable correlation between price and quality. Equally there is no ongoing monitoring, so a fire that destroys a forest may not impair the stated value of that credit as a fire that destroys a building would impair its book value. This lack of data and accountability means the carbon market is dysfunctional. And it presents a major stumbling block.

As the world transitions to net zero, trillions of dollars of investment will be needed to transform every aspect of our economies, not just our energy systems

Good data will enable the whole carbon offset system to take off and really start to deliver the world's climate change goals

Molten Ventures is backing BeZero, which aims to change all this and help carbon emerge as a functioning asset class. BeZero provides carbon ratings and risk analytics, much like debt rating agencies, including ongoing monitoring, for carbon markets. Every part of the value chain requires the tools to price and manage risk, from investors looking to finance new projects to buyers building portfolios of credits. BeZero provides the whole ecosystem - exchanges, brokers, intermediaries, buyers, and sellers - with the tools to be able to treat carbon as a true financial asset class. In turn this injects confidence into the market and helps unlock much needed finance for new project development. Good data will enable the whole carbon offset system to take off and really start to deliver the world's climate change goals.

The scale and scope of the climate tech opportunity is helpful in the current economic environment too. Rising interest rates have impacted asset values of all kinds and limited the flow of risk capital. Institutional investors are still getting to grips with how their asset allocations have been affected by the global bear market and the lags often associated with private asset valuations. This is a fact of the economic cycle. But climate tech is part of a secular mega-trend and this means both that valuations have enjoyed better support and that there is still really good interest in the sector.

Ultimately venture capital always looks to the future. The current period of turbulence is a bump in that long-distance road. The key is to find the opportunities that will deliver along the way. Climate-tech is one of them.

About Molten Ventures

Molten Ventures is one of the most active venture capital firms in Europe, developing and investing in disruptive, high growth technology companies. We believe it is our role to support the visionary entrepreneurs who will invent the future. We fuel their growth with our 'energy' in the form of truly patient capital, access to international networks and decades of experience building businesses. Currently, Molten Ventures is a shareholder in a diverse portfolio of companies including Revolut, UiPath, Trustpilot, Ledger, and Graphcore. For more information please visit: www.moltenventures.com



Growth and pricing power

Paul Daggett

Managing Director, Neuberger Berman and Manager, NB Private Equity Partners Ltd

NB Private Equity Partners Ltd (NBPE) co-invests alongside high-quality private equity managers directly into private companies and has a long track record of creating value for our shareholders. Our portfolio contains 94 companies all bought at different times and which are all therefore at different points in the process of transformation. There are two clear themes across the portfolio.

Firstly, we invest in companies whose performance is expected to be driven by long-term secular growth tailwinds, such as certain companies in the technology, business services or consumer sectors. Secondly, we also invest in companies that should have a relatively low sensitivity to the economic cycle, either in their end markets or because of their business models, such as companies providing mission critical or essential services and which have strong competitive positions. We believe that this focus positions NBPE well across the economic cycle and the evidence to-date supports this; the portfolio performed well through the COVID-19 pandemic, including a record year of performance in 2021.

More recently, in the inflationary environment of 2021 and in particular 2022, there has been some margin pressure, although we have not generally seen a material reduction in average margins to-date. We believe this is because so many of our portfolio companies are market leaders with strong value propositions to their customers and robust business models. Two examples that illustrate this in very different sectors are Real Page, an investment we made alongside Thoma Bravo in 2021, which is a software provider to the residential property industry which has a good market position in a stable industry and strong recurring revenue, and discount retailer Action which is an investment we made alongside 3i in 2020 and which continues to perform well with strong revenue and EBITDA growth in the first half of the year, due to attractive product pricing, a constantly refreshed product range, new store openings, efficient distribution and large-scale procurement.

We invest in companies whose performance is expected to be driven by long-term secular growth tailwinds

As owners rather than shareholders, private equity managers can be nimble and can react to changes in end markets or the economic environment quickly

Of course, beyond operational performance, there is currently an understandable focus on private company valuations. Private company valuations are often based on a number of valuation methodologies and inputs, but underlying financial performance is of course critical to these valuations. NBPE invests mainly in buyouts of cash generative companies with opportunities to drive value through operational and strategic transformation and profitable growth. These businesses should benefit from the active ownership of high-quality private equity managers. As owners rather than shareholders, private equity managers can be nimble and can react to changes in end markets or the economic environment quickly. In the current environment, we believe this ability to effect change quickly has not only protected value, but in a number of our companies has also contributed to driving growth. If I look across our portfolio, we have continued to see good revenue and EBITDA growth in 2022 year-to-date on average, which has in turn led to the value of the private companies in NBPE's portfolio holding up well in aggregate, despite the significant headwinds businesses have faced.

Our investors are keen to understand more about the companies NBPE has invested in and how resilient they are in the current difficult economic times, but they are also keen to know what new investment opportunities present themselves in this type of environment. It's worth noting that in the past, periods of high volatility and uncertainty have often created differentiated opportunities for private equity, and we have capital available to be deployed into new investments as and when the right opportunities arise. On the whole, private equity remains a well-capitalised asset class driven by institutional investors allocating significant sums to it over recent years. We believe that this positions the asset class well. More importantly, we think NBPE is well-positioned both for the current uncertain economic environment and the longer-term opportunities of the private equity market.

About NB Private Equity Partners:

NBPE invests directly into companies alongside leading private equity managers, primarily through equity co-investments. These are investments where private equity funds need additional equity capital from institutional limited partners to help them finance investment opportunities. We like to work with experts in particular sectors. The vast majority of direct investments we make are made with no management fee / no carried interest payable to third-party GPs, offering greater fee efficiency than many other listed private equity companies.

NBPE is well diversified. We invest in a broad mix of sectors including IT, business services, industrials, financial services, consumer and healthcare. As of 31 August 2022, most of our assets (74%) are invested in North American companies. 22% of the portfolio is in European based companies and the rest are mainly in Asia. Our fund holds direct equity positions in over 90 companies.

As a direct co-investor, NBPE is able to make new investment decisions on a real time basis, deal by deal, without having to make significant off balance sheet, long term commitments. NBPE has capacity for new investments but we are over 100% invested and therefore under no pressure to make new investments and we are very selective about the investments we include in the portfolio.



Private equity is patient

Steven Tredget

Partner, Oakley Capital Investments

The coming recession in Europe and particularly in the UK will be painful. But we think Oakley Capital's portfolio is defensively positioned. Our investments across Europe tend to be digital disruptors, light on assets, driven by technology, with little sensitivity to supply chain disruption elsewhere in the economy and offering lower cost alternative products and services for customers. It's not hard, for example, to see how a price comparison website can do well when consumers must shop around more to keep costs down, especially in a market like Italy where e-commerce adoption has a long way to catch up to other countries.

Facile is just one example of a company we hold that bears little cost of inflation, whose customers will interact more with it because of inflation and which has a large untapped market to grow into. For the investment cycle, uncertainty can actually drive deal flow, because companies may want to bring in private equity at an earlier stage to help them navigate difficult economic waters.

Inflation certainly means higher interest rates and these depress asset values, but the likely impact on portfolio valuations depends where you start from. Oakley Capital has typically paid around 9.5x EV/ EBITDA for investments in recent years in companies growing earnings around 30% pa. That's half the price for twice the growth compared to typical Nasdaq valuations, even after recent declines. We remain conservative with multiples, allowing ongoing valuations to be driven mainly by growth. And then we typically sell businesses at a significant premium to the prevailing book value, unlocking the remaining value at the point of exit.

Our share price discount to NAV per share therefore bears little relation to the reality of our portfolio and our business model. Oakley Capital Investments (OCI), like all Listed PE companies, has fallen in price as part of the indiscriminate sell off across all asset classes, however at the same time our portfolio companies have continued to grow driving up the NAV and widening the discount further.

Investors are often worried that private equity trusts are a black box, that there isn't enough transparency about the underlying companies, how they are valued and how they are performing. Enhanced investor communication is key to solving this problem.

For the investment cycle, uncertainty can actually drive deal flow, because companies may want to bring in private equity at an earlier stage to help them navigate difficult economic waters.

This is our opportunity. When we can show that private equity has come through the impending recession with strong NAVs, we can dispel the last lingering doubts.

Shareholder concerns understandably fluctuate. Before the pandemic investors wanted to know we had a strong investment pipeline in order to deploy cash for growth. During lockdowns, they preferred to see we held cash to meet commitments and maintain a strong balance sheet to cope with the uncertainty that lay ahead. The post-Covid bump has now passed and we are again encountering questions about resilience, rather than growth. Investors are assessing how private equity coped in previous downturns and considering whether this time will be different. This is our opportunity. When we can show that private equity has come through the impending recession with strong NAVs, we can dispel the last lingering doubts that remain from the post-GFC difficulties the sector experienced. Retail allocations to private equity have already increased substantially in recent years proving that investors can look beyond short-term ups and downs – we have seen this in the shareholder base of OCI. Allocations can certainly grow more over time.

In the months ahead we have more asset disposals in the pipeline and new investment opportunities coming to the table. Public markets will be volatile, but private equity is patient capital that can look beyond the downturn.

About Oakley Capital Investments (OCI):

OCI is listed on the London Stock Exchange with a portfolio focused on high-growth, medium-sized companies in Europe and the UK, primarily in the technology, consumer and education sectors. OCI gains access to these companies and their performance via Oakley Capital's private equity funds. The Company aims to provide long-term capital growth through its exposure to private equity returns, where value can be created through market growth, consolidation and performance improvement. At the end of June 2022, the company's net asset value was £1.1 billion, equivalent to 630 pence of NAV per share.



Private equity is the right kind of ownership in difficult times

Helen Steers

Lead Manager, Pantheon International Plc and Partner, Pantheon Ventures

Rising interest rates and a looming recession have caused a prolonged bear market in 2022, hitting asset prices sharply. But not all assets are equal. Having reported record annual results in May, Pantheon International Plc's (PIN.L) NAV had held steady by the time of our market update in November. This reflects our successful strategy in several key ways. First our choice of industrial sectors; secondly, the sorts of businesses we look for; thirdly, our disciplined selection process and fourthly, the way we work with private equity managers to unlock value.

From a sector perspective, our key themes are Digitisation & Automation, Healthcare and Sustainability & Energy Efficiency. All of these will be resilient in the face of a slowing economy. In the IT space, we like businesses with mission-critical b2b products, strong pricing power and sticky customer relationships from multiple industries, for example in accounting software or cyber security services.

In Healthcare, we favour companies that meet the needs of ageing populations, such as cataract treatment, components in specialist medical equipment, and diagnostic provision. Among our Sustainability holdings, a great example is SatLink whose "smart" buoys monitor and track fish both to help fishermen find the right species quickly and efficiently (boosting profit and minimising wasteful by-catch) and to help regulators monitor stocks and enforce the rules. You could never find niche businesses like these on public markets, but they both need capital and make great investments – ideal for private equity.

Our selection process always means looking for cash generative companies or those with a resilient growth path to positive cash flow. But in the current environment we are additionally stress-testing for the impact of higher interest rates, persistent inflation and economic contraction both on the companies we are interested in and on their customers. We are also working with long-standing partners to take on quality secondary investments which still have lots of value to be unlocked but whose current investors may be looking for an exit. These often come at attractive valuations especially today when other routes such as IPO are temporarily closed.

It's so important to remember that private equity involves steady, planned investment over time. But as well as capital, we bring expertise that is extremely valuable to our portfolio companies

Our selection process always means looking for cash generative companies or those with a resilient growth path to positive cash flow. But in the current environment we are additionally stress-testing for the impact of higher interest rates, persistent inflation and economic contraction

Crucially, the private equity firms we work with are not financial engineers, but instead are hands-on active managers and this adds real value in tough times as well as when the economy is riding high. Our private equity managers have specialists in supply-chain management, digitisation, working capital optimisation and much more. They work closely with company execs, helping hone their strategy to unlock value over time as well as build resilience in the portfolio. We proved this point during the pandemic and are well placed for this downturn too.

Nevertheless, share prices of listed private equity companies can diverge significantly from the underlying performance of their portfolios. Through the last few months, listed private equity companies have seen their discounts widen sharply to levels not seen since the Global Financial Crisis (GFC). Investors have run scared, worried that history will repeat itself as debt levels either at the fund level or within the underlying companies will undermine solvency as interest rates rise. But Pantheon International Plc, like many of its peers, is in a strong position. We have cash on the balance sheet, no debt, and our commitments are well covered. What's more, the companies in our portfolio have low borrowing levels too and many have no loans at all.

The discount on the shares is frustrating for us and for investors who understand our strengths, but they go in cycles and at times like these present opportunity for newcomers. It's so important to remember that private equity involves steady, planned investment over time. But as well as capital, we bring expertise that is extremely valuable to our portfolio companies. Private equity is the right kind of ownership in difficult times.

About Pantheon International Plc

Pantheon International Plc (PIP) is a FTSE 250 investment trust that invests in a diversified portfolio of private equity assets managed by third party managers across the world. An investment in PIP gives shareholders access to the growing private equity market, effectively making investment opportunities in private companies available to the public. PIP is one of the longest established private equity companies listed on the London Stock Exchange. Its annualised NAV growth (net of fees) between 1987 and 31st October 2022 was 12.4%.

Listed Private Capital – a guide

What is private capital?

Companies need capital to invest and grow. Funding is not always easy to find. For many companies, banks may be reluctant to lend, or public markets unwelcoming especially to smaller companies. Private capital provides a vital lifeline, providing a reliable, planned sequence of funding over a long period of time as companies reach growth milestones. The pay-off for these investors comes as the company transforms and grows, becomes more profitable and can be sold for a premium price.

Private capital is, however, not well understood by many investors. It can also feel remote and hard to access for smaller investors, because most of the capital is put into funds (known as “limited partnership funds”) by large institutions – pension funds, insurance companies, sovereign wealth funds or large private foundations – in very large minimum stakes. The fund investments are then managed by the private capital firm (known as a “general partner”) and invested by them in private companies. This capital tends to be locked up in the funds for the long term, typically around five years, reflecting the time horizon of the transformation taking place in the underlying companies in the fund. Capital is released at planned points of exit, meaning liquidity (the ability to access your cash whenever you want) is limited.

Of course, institutions are often investing on behalf of individuals one way or another (for example as pension funds or life insurance products), but smaller investors rightly also want to be able to access these interesting investment opportunities directly.

Listed private capital meets this need. Smaller investors can invest as much or as little as they like by simply buying shares on the stock market. They can slowly build a stake over time by incorporating listed private equity shares into their regular monthly savings plans, and they can make the most of tax-free growth and dividends if they buy them via schemes such as the UK’s ISA plans. Dealing costs via regular retail stockbrokers are low, making the barrier to entry minimal. And crucially, investors can access their capital whenever they want, simply by selling their shares.

Listed private capital comes in different guises but shares a common thread

When an investor invests in listed private capital they can be buying a share in a direct fund, in a fund of funds managed by a private capital company or in the private capital company itself. A direct fund invests directly into the underlying companies and fund of funds works with lots of private equity managers, taking stakes in a range of private equity funds.

Of course, no two companies or funds are alike, because each has its own investment mandate and because each has teams of professionals selecting individual investments to drive returns. Some specialise in loans (listed private credit) rather than taking equity stakes (listed private equity). Funds can have particular geographic or sector focus, or are interested in companies at earlier (listed venture capital) or later stages in their development (listed buyouts).

The funds of funds can participate in the launch of individual private equity funds (primary investment) or they can provide finance during a fund’s life as it raises capital to meet ongoing commitments to the companies it holds (secondary investment). Some listed private capital companies own the investment assets only and employ a management company for a fee. This tends to be the UK model where the closed end investment trust structure is often used. Others are hybrids where the fund management company itself is part of the actual fund, meaning the investor owns both the underlying assets and a stake in the manager itself. This model is more common in Continental Europe.

Amid all this diversity, listed private equity shares a commitment to create value not just by passively investing, but by putting time into finding companies with potential attracting and building management talent and providing specialist expertise and management support to the companies they select.

How can I invest in listed private capital? Investing in listed private capital as a small investor

LPeC’s member funds and firms are listed on a number of stock exchanges in Europe and the UK. The first step is to open a stock brokerage account. A lot of retail banks offer this service, connected to your bank account, enabling you to buy and sell shares online. There are also a number of specialist stock brokerage firms that offer web and app share-trading services. Examples include Bolero in Belgium, Interactive Investor in the UK and etoro, which operates in a number of countries. Most of these services allow you to buy shares listed on a number of stock exchanges both in your home country and abroad so you have a one-stop shop.

Having opened your account, the next step is to think about what companies you want to own. The search function will help you find the company you are interested in. Each stock has a unique “ticker” code, usually three or four letters followed by a designation for its home stock market. These tickers will help you keep track of your investments.

LPeC members



About LPeC

Listed Private Capital (LPeC) is the industry voice of listed private capital companies. Based in London, it represents leading listed private capital companies and funds from the UK, Continental Europe and North America. LPeC explains listed private capital, the investment case and the role it plays in funding for growth at the forefront of sustainable and ethical investment and represents the industry with investors and other participants across the world.

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