EDISON

Aberdeen Private Equity Fund

Initiation of coverage

Global exposure in a positive PE environment

Investment companies

Aberdeen Private Equity Fund Ltd (APEF) is a private equity (PE) fund of funds, diversified by geography, investment type and stage, but with a high weighting to technology and venture capital that has helped it to achieve strong NAV and share price performance over the past year. A cash buffer of c 15% is held to meet commitments without having to liquidate portfolio holdings. The investment process focuses on detailed due diligence to ensure robustness of underlying manager selection. The discount to NAV has been stable at c 20-25% over the past year, but there is scope for it to narrow to a level more in line with peers.

12 months ending	Share price return (%)	NAV return (%)	LPX 50 (%)	FTSE All Share (%)	MSCI World (%)
31/01/12	(30.9)	12.1	(12.2)	(0.3)	(1.0)
31/01/13	54.3	6.9	29.2	16.3	16.1
31/01/14	3.7	(2.3)	22.9	10.1	12.6
31/01/15	24.5	11.7	10.2	7.1	17.7

Source: Thomson Datastream. Note: Total return basis.

Investment strategy: Manager selection is paramount

The Aberdeen SVG team begins by assessing top-down factors to set the investment policy in terms of geography and investment type, but the main focus of the investment process is on manager selection. With a well-resourced in-house team covering legal, compliance, risk, investor relations and marketing functions as well as investment management, the investment team can focus its experience on identifying the best managers in each area. There is currently an increased focus on co-investments as a means of generating extra return at lower cost.

Private equity background: Returning to favour

Listed private equity funds sank to deep discounts to net asset value during the financial crisis, as investors turned away from leveraged strategies. Since then there has been a re-rating, although discounts are still significantly wider than on non-PE investment trusts. Ultra-low interest rates have seen investor demand increase for many alternative strategies. In time this may lead to a lack of attractively priced investment opportunities, but this is not yet an issue for funds of funds with well diversified portfolios.

Valuation: Discount stable but potential to narrow

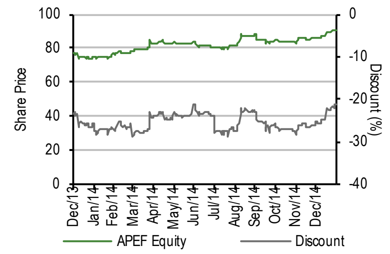
At 30 January 2015 APEF's shares were trading at a 21.4% discount to their 31 December net asset value (NAVs are published monthly). This was narrower than the 25.4% average discount over the preceding 12 months and recently equalled its one-year narrowest point of 21.2% (last seen in June 2014). While the shares have re-rated considerably in the past three years, the discount is still one of the widest in its peer group, suggesting there is scope for APEF's discount to narrow following a period of relatively strong performance in both share price and NAV terms.

4 February 2015

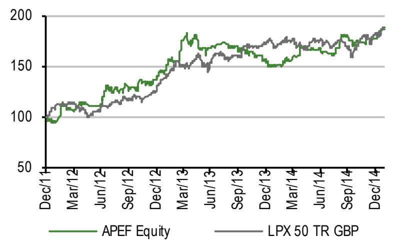
Price	**90.8p**
Market cap	**£99.0m**
NAV per share*	115.4p
Discount to NAV	21.4%
Shares in issue	109.1m
Code	APEF
Primary exchange	LSE

*Including income. NAV at 31 December 2014.

Share price/discount to NAV



Three-year cumulative perf. graph



52-week high/low	91.0p	74.3p
NAV high/low*	116.0p	103.3p

*Including income

Gearing

Gross	0%
Net	-15.9%

Analysts

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Edison profile page

Aberdeen Private Equity Fund is a research client of Edison Investment Research Ltd

Exhibit 1: Aberdeen Private Equity Fund Ltd at a glance

Investment objective and fund background

Aberdeen Private Equity Fund Ltd is a Guernsey-registered, London-listed investment company that seeks long-term capital growth through investment in a diversified portfolio of private equity funds. It may also invest directly in unquoted companies and securities, including fixed income, cash and cash equivalents, as well as in hedge funds and other specialist funds.

Recent news

- 24 November 2014: Half-year results for the six months to 30 September. NAV TR +6.1% and share price TR +15.1%.
- 14 August 2014: Interim management statement for the three months to 30 June. Share price +6.9% and NAV -4.0% (in sterling terms; -1.5% in US$).

Forthcoming announcements/catalysts

AGM	September 2015
Annual results	June 2015
Year end	31 March
Dividend paid	September
Launch date	July 2007
Continuation vote	Every three years, next Sept 15

Capital structure

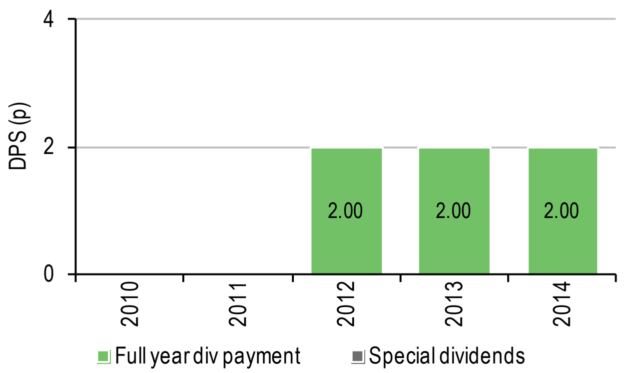
Ongoing charges	2.0%
Net gearing	Nil
Annual mgmt fee	1.5% of NAV (see page11)
Performance fee	See page 11
Trust life	Indefinite
Loan facilities	£15m

Fund details

Group	Aberdeen SVG Private Equity Managers
Manager	Alex Barr, Guy Eastman
Address	Bow Bells House, 1 Bread Street, London EC4M 9HH
Phone	+44 (0)20 7463 6000
Website	aberdeenprivateequity.co.uk

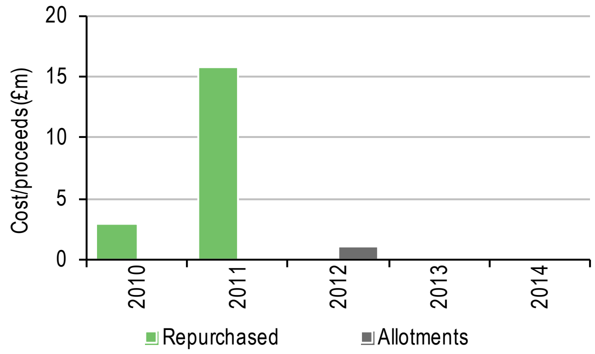
Dividend policy and history

Policy introduced in 2012: APEF will distribute not less than 10% of non-recallable distributions received each year, subject to a minimum dividend of 1p per annum.

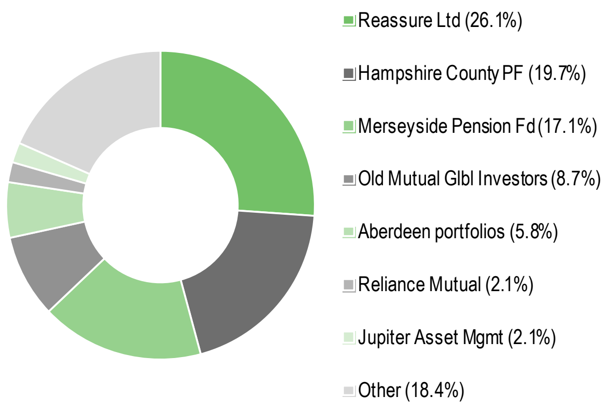


Share buyback policy and history

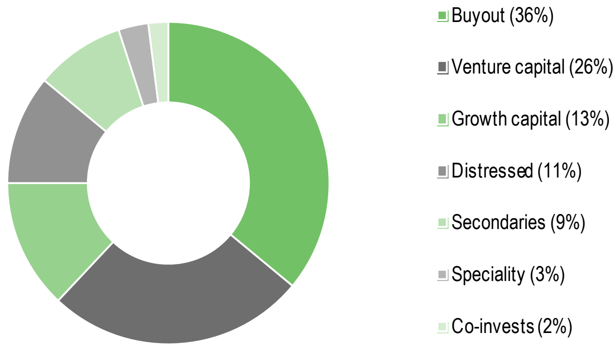
Renewed annually, APEF has authority to purchase up to 14.99% and allot up to 5% of issued share capital.



Shareholder base (as at 31 December 2014)



Breakdown by strategy as % of FMV (30 September 2014)



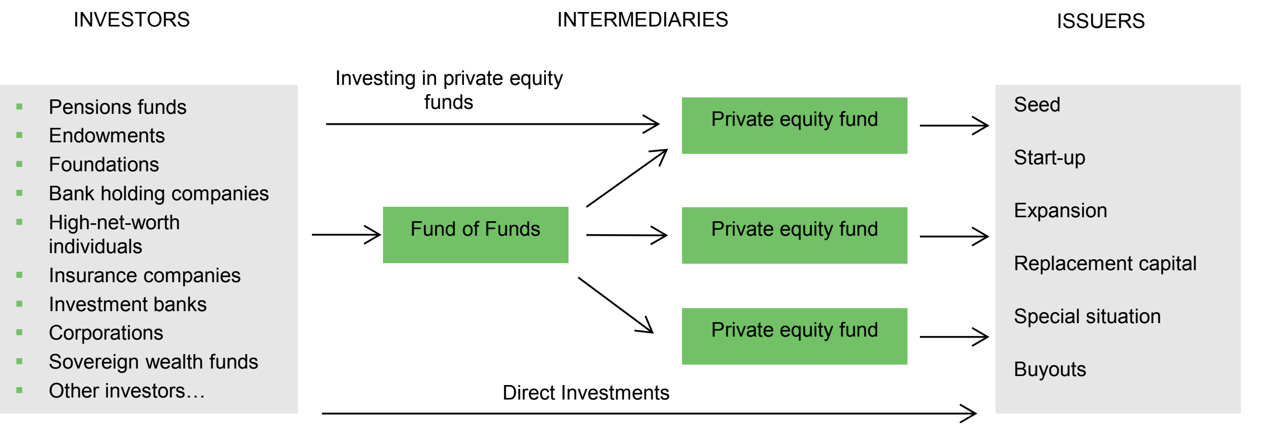
Top 10 holdings as at end December			Portfolio weight %	
Company	**Country/region**	**Sector**	**31 December 2014**	**31 March 2014**
Northzone VI LP	Scandinavia/UK	Technology	8.7	8.4
Lion Capital Fund III LP	US/UK	Consumer	7.4	5.1
Thomas H Lee Parallel Fund VI LP	US	Financial/consumer/media	7.2	7.0
Silver Lake Partners III LP	US/UK/Asia	Technology	7.1	5.1
Thoma Bravo IX Fund LP	US	Industry consolidation	6.1	4.9
Tenaya Capital V LP	US	Technology	5.8	6.3
Pine Brook Capital Partners LP	US	Energy/financial services	5.4	4.3
Rho Ventures VI LP	US/Canada	Tech/media/healthcare	5.3	4.4
HIG Bayside Debt & LBO Fund II LP	US/Europe	Debt capital markets	4.3	3.5
Gores Capital Partners III	US/UK	Business change	4.3	2.8
Top 10 (% of portfolio)			**61.7**	**54.0**

Source: Edison Investment Research, Aberdeen Private Equity Fund, Morningstar, Bloomberg. Note: *Formerly Greenpark International Investors III LP.

Background to the private equity market

Private equity is a form of funding that enables companies to access capital without having to seek a stock market listing. Broadly the finance available falls into three areas: venture capital, which funds start-ups and early-stage companies; growth capital, to fund expansion; and buyout financing, which enables a change of ownership of an existing company, often taking it into the hands of its managers (‘management buyout’). Private equity funding may also be used in other situations such as replacement capital (where, for example, a founding shareholder of a business wishes to realise their investment), or ‘special situations’, such as rescuing and restructuring companies in financial distress.

Exhibit 2: Private equity market schematic



Source: The CityUK, Federal Reserve Bank of Dallas, EVCA/Thomson Reuters/PricewaterhouseCoopers

This type of direct private equity investment is usually undertaken by specialist firms, which may offer expertise as well as investment, helping to refocus or restructure businesses through operational and/or board involvement. These firms, known as ‘general partners’ (GPs) may structure portfolios of their investments as a fund, typically with a fixed life and containing a mix of investee companies. Such funds are usually structured as limited partnerships and the investors in them are known as ‘limited partners’ (LPs). Sometimes private equity investments may be sold in the market rather than being held by the GP until maturity; this is known as a secondary investment. A fund that specialises in these is called a ‘secondaries fund’.

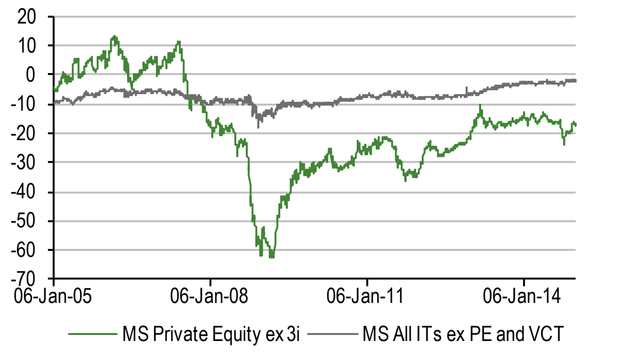
The size of minimum investment required from an LP puts these vehicles out of reach of most individual investors, although as shown in Exhibit 2 above, they may be accessed by pension funds and other institutional investors. Individual investors can access the asset class by investing in a listed private equity fund, which may make investments directly or in a portfolio of underlying funds (a ‘fund of funds’). APEF is an example of a listed private equity fund of funds.

In comparison to listed equities, private equity is relatively illiquid. The funds are committed by the GP for a certain amount of time, and may not all be drawn at the outset, so there may be further funding commitments. In addition, underlying portfolio holdings are valued periodically, usually on a quarterly basis, so there is a time lag inherent in the net asset value of a listed private equity fund: today’s NAV may reflect a portfolio valuation three months ago. The trade-off for the illiquidity and relative lack of transparency of private equity investment is the greater growth potential of earlier-stage companies or those undergoing a period of transformation, although equally, less established companies or those that have a troubled recent history will carry a higher level of risk. While these risks cannot be mitigated entirely, investing via a listed private equity fund of funds can give the smaller investor access to a more diversified portfolio and the benefit of a team of experienced investors choosing and monitoring the underlying holdings.

The listed private equity sector

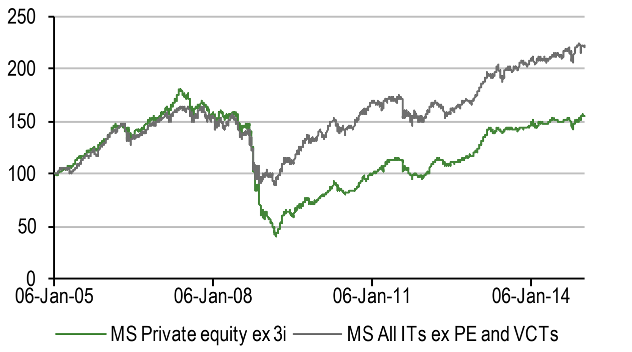
Listed private equity funds such as investment trusts benefit from having a permanent pool of capital that allows the formation of a stable portfolio without the need to sell investments in order to meet redemption requests. The corollary to this is that when demand for such strategies is low, investors who wish to sell may have to settle for a price significantly below the underlying asset value. This effect is illustrated in Exhibit 3, showing the discount to NAV on private equity funds versus the rest of the investment trust universe. Discounts on listed private equity funds, many of whose underlying holdings sought to enhance returns through leveraged balance sheets, ballooned in the financial crisis, reaching an average of more than 60% at the low point in 2009. The recovery since then has been significant, but the average fund (excluding 3i) still stood on a discount of 17.3% at 6 January 2015, compared with a 2.0% average discount for the rest of the IT universe.

Exhibit 3: Private equity discount vs all ITs



Source: Morningstar, using Morningstar sectors

Exhibit 4: Private equity returns vs all ITs



Source: Morningstar, using MS sectors. Note: Price total return.

Because of the more pronounced impact of the financial crisis, over 10 years the price total return for listed private equity funds (ex 3i) trails returns for the rest of the investment trust sector. Taken from the bottom of the market in March 2009, narrowing discounts have seen private equity funds outperform on a price total return basis, although NAV total returns are behind the rest of the IT universe, at 43.5% since 5 March 2009 compared with 103.8% for the broader market.

The global economy, and the US in particular, is showing some signs of sustainable recovery following the deep recessions that followed the financial crisis in many developed markets. Economic recovery is more often driven from the grass-roots level, with smaller firms having greater potential for rapid growth. Investment in private equity can give access to these growing firms, and the listed structure allows smaller investors to gain diversified exposure to the sector.

Fund profile: Diversified global private equity exposure

Aberdeen Private Equity Fund Ltd (APEF) began life as the Bramdean Alternatives fund on 9 July 2007. The company is incorporated in Guernsey and listed in London. Following the rebuff of a takeover approach, and the appointment of a new board after an EGM requisition by a major shareholder, Aberdeen Asset Managers was named as the fund's manager on 19 November 2009. In 2010 the company restructured, simplifying its investment approach as a private equity fund of funds (previously its portfolio had included speciality and hedge funds), consolidating its shares into a single sterling-denominated class, and changing its name to Aberdeen Private Equity Fund Ltd.

Alex Barr has managed APEF since Aberdeen took on the mandate. Barr has 20 years' investment experience and has been at Aberdeen since 2005, following Aberdeen's acquisition of Deutsche Asset Management. In May 2013 Aberdeen Asset Management and SVG Capital set up a joint venture (see below), boosting the size of the private equity team and increasing assets under management. Aberdeen SVG chief investment officer Guy Eastman works on APEF alongside Barr. APEF aims to be a diversified fund giving broad global exposure to private equity funds. In order to spread risk, no more than 20% of the net asset value may be invested in a single holding at the time of acquisition.

Aberdeen SVG Private Equity: Joint venture builds on strengths

APEF's manager Aberdeen SVG is a specialist private equity joint venture, set up in May 2013, between Aberdeen Asset Management plc and SVG Capital plc. Aberdeen owns 50.1% and SVG 49.9%, and the JV has an initial life of three years.

Under the new structure the team now includes seven investment managers, as well as marketing and investor relations specialists, a strategist and in-house legal, compliance and risk functions. The presence of these support functions within the JV allows the APEF investment team to remain completely focused on building and managing the portfolio. Aberdeen SVG is separate from the private equity team acquired as part of AAM's takeover of Scottish Widows Investment Partnership (SWIP) in 2014.

In the closed-ended space Aberdeen SVG runs APEF and SVG Capital. The two listed funds have different investment mandates and shareholder bases, and currently have only one common holding, CCMP Capital Investors III.

The fund managers: Alex Barr and team

The managers' view: Getting the balance right

APEF lead manager Alex Barr says the private equity fund of funds market is rapidly maturing, and that scale is a key advantage as larger managers have greater resources to dedicate to research. Increasingly, says Barr, success will depend on fund of funds managers getting the balance right between the different sources of alpha inherent in primary, secondary and co-investments. While secondary investments became very cheap in the aftermath of the financial crisis, this discount to other strategies has begun to reverse and the team has recently sold out of two secondary positions.

The APEF portfolio has a small but growing focus on co-investments (where the fund invests directly in an underlying company, alongside the GP), which Barr describes as 'best ideas'. "With a co-investment you get to know the GP much better; you have to have sufficient confidence in the idea to take the isolated risk, but a 'best idea' should perform better," he explains. A key advantage of co-investments is the lack of management fees on the underlying investment, and Barr says he aims to reduce fee drag in the portfolio by increasing the weighting in active co-investments from the current four (see Current portfolio positioning section below) to around 10 holdings over the next two to three years. However, he notes that sourcing co-investments is not always easy, particularly given the need to ensure diversification by both sponsor and sector.

Asset allocation

Investment process: Rigorous focus on manager selection

While the Aberdeen SVG investment process is largely bottom-up, the mechanism of portfolio construction begins with a top-down asset allocation view on the relative attractiveness of geographic regions, different financing stages (venture capital, growth capital, buyout) and investment types (primary, secondary or co-investment). The team formally reviews the macro picture at least once a year; however, this is not a 'set and forget' process, and top-down factors are likely to feature in all team discussions.

Manager selection begins by looking at the manager universe as defined by the asset allocation process. 'Market maps' are used to identify which managers are likely to be raising funds during the coming quarters, to ensure that attractive opportunities are not missed; and detailed due diligence is undertaken to assess each potential investment's portfolio, strategy, team and track record. Analysis focuses on the following four areas:

- Investment strategy, including how GPs have adapted their strategy to the current environment.
- Return attribution, looking at how GPs have achieved returns, and seeking those whose focus on generating operational improvements in investee companies has resulted in strong performance. Barr notes that much of the value added in private equity investment comes from a higher level of operational input from the GPs, although the strategy of the fund will have a bearing on the level of involvement: for instance, growth capital managers tend to be less operationally involved in investee companies than buyout managers.
- Team stability, including an assessment of the likelihood of the strongest dealmakers leaving or becoming more involved in the management of the GP itself rather than operational involvement in investee companies.
- Legacy portfolio performance, looking at how team resources are split between managing existing and new or forthcoming investments. Eastman says it is important to link people to deals, in order to get a better understanding of how returns have been achieved. The APEF team will interview different strata of staff at the GP to talk about unrealised investments – how they were sourced, how value has been added and plans for exit – and may also talk to the management of underlying holdings to assess how the investee companies have benefited from the relationship.

There is no auto-reinvestment in new funds from GPs already in the portfolio, with full due diligence being undertaken on every potential investment. The APEF portfolio is monitored on an ongoing basis to ensure it maintains an appropriate level of diversification. As an example, Barr explains that venture capital strategies currently make up c 25% of APEF's fair market value (FMV), in part because of very strong performance from funds including Northzone VI and Tenaya Capital V, where exits are in some cases being achieved ahead of schedule. As a result the team would think carefully before committing money to new venture funds, in order to maintain portfolio balance.

In many cases Aberdeen SVG will have a seat on the advisory board of a fund, allowing them a greater insight into the GPs' operations, although even where the team does not have a formal governance role, Barr says they will bring pressure to bear if managers are falling short. "We will sell out and move on if necessary," he notes. However, he adds that it is better not to make mistakes in the first place, which is why the APEF team undertakes such a high level of due diligence before making an investment.

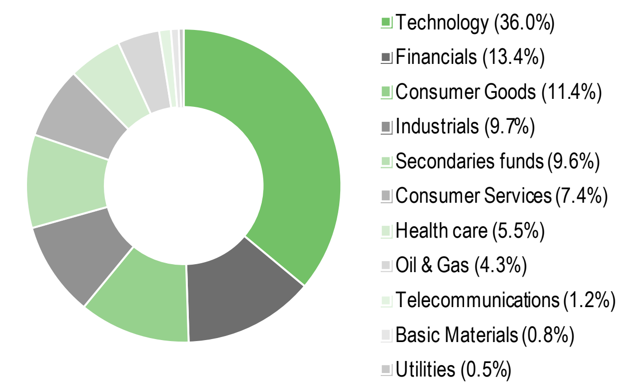
Current portfolio positioning

The APEF portfolio contained 29 investments at 31 December 2014. Of these, the top 10 holdings accounted for 61.7% of the investment portfolio (51.9% allowing for a net cash weighting of 15.9% at 30 November). The US is the biggest underlying geographical exposure (Exhibit 6), making up 58.3% of the portfolio at the 31 March year-end. The largest individual holding, Northzone VI, is managed by a Scandinavian firm specialising in technology companies, though it invests worldwide.

From a sector perspective (Exhibit 5), the fund is heavily weighted towards technology. Barr says this exposure comes from a variety of segments: from venture capital, where the majority of private equity-funded start-ups are either out-and-out technology companies or those that are enabled by technology, such as online retailers; but also from the growth capital and buyout sectors. The team believes the technology cycle is helping drive efficiency gains, the result of which is that tech is a key element in global growth. “We may not yet have scratched the surface in terms of how technology will improve business,” says Barr, pointing to the trend towards factory automation as evidenced by US electric car maker Tesla’s growing use of robots in its assembly lines.

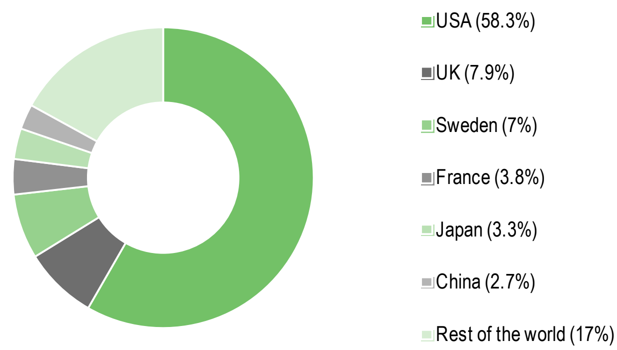
The tech weighting has reached a high level partly because of very strong performance from some underlying holdings such as Avito, a Russia-based classified advertising business whose websites are among the most visited globally. Although the recent falls in the rouble could have an impact on the company’s next quarterly valuation, the investment has grown tenfold since inception. APEF’s tech weighting is higher than peers and Barr says it is unlikely to rise materially; the decision to limit further investment in venture capital strategies (26% of FMV at 30 September – see Exhibit 1 on page 2) is driven partly by a desire to keep the tech weighting close to its current level. Eastman acknowledges the higher risks inherent in tech start-ups, adding that getting manager selection right is particularly critical in the tech area, because of the volatility of returns: “There might only be 10 in 500 managers you would really want to work with.”

Exhibit 5: Sector allocation of underlying holdings, by % of FMV



Source: Aberdeen Private Equity Fund, at company year-end.

Exhibit 6: Country of domicile of underlying holdings, by % of FMV



Source: Aberdeen Private Equity Fund, at company year-end.

As noted in the ‘Manager’s view’ section above, there is an increasing focus on co-investments as a source of future returns. **Hitachi Via Mechanics** is a China-based manufacturer of precision drills for printed circuit boards. It is a co-investment with the Japan-focused buyout/growth firm Longreach, which specialises in facilitating the sale of unloved or orphan assets of Japanese companies to Chinese or Korean buyers. **Alain Afflelou**, a French optician with branches also in Spain and Morocco, is a co-investment with Lion Capital. Barr says this is one of the larger macro-biased investments, taken as a means of increasing exposure to the European consumer. **Hillman Group**, a co-investment with CCMP, is a play on the US housing recovery. It is a specialist distributor of fixtures and fastenings in the US building and DIY sectors, and has the potential to grow through acquisition or by moving into adjacent sectors such as plumbing and pipes. Last but best-known is **Dell**, the computer firm taken private in 2013 and now majority-owned by the family office of its founder Michael Dell. APEF has invested alongside Silverlake Partners. Barr says the investment case for Dell hinges on its behind-the-scenes work to transform itself from being a PC manufacturer to a firm offering total enterprise solutions, encompassing software and consulting as well as PC hardware. He notes that the investment is already valued at above cost.

Secondaries funds are a less important part of the portfolio and are unlikely to rise from the 9% weighting at 30 September. Barr describes these holdings as legacy positions, and says the team will continue to make disposals in this area on an as-and-when basis.

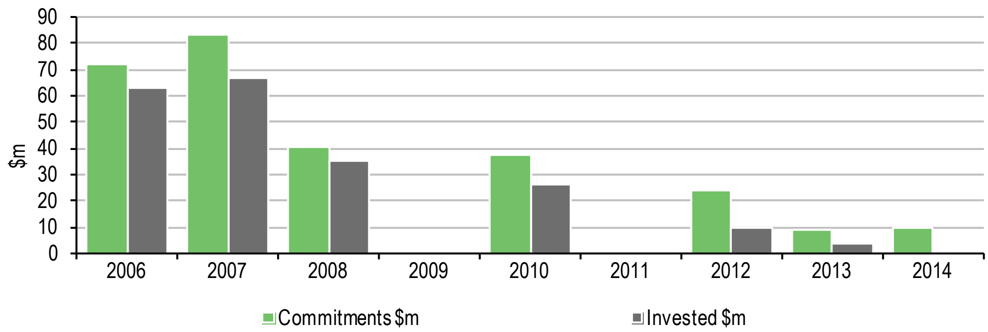
The majority of underlying funds are invested in developed markets. A recent exit from a Latin America fund means most of the emerging markets investments are in Asia, although the Cartesian Pangaea fund provides global EM exposure. Barr says Asian private equity is tricky to get right as there is less transparency than in developed markets. Western markets tend to offer similar returns but with less risk than emerging markets, making them preferable from a risk-adjusted perspective.

APEF does not currently hedge currency exposure in its underlying investments, given the uncertainty over the timing of cash flows. Economic exposure to US dollar and non-dollar assets is broadly equal to geographical exposure, as some US funds have non-US investments and vice versa. Undrawn cash is largely kept in the currency appropriate for outstanding commitments.

Commitments and distributions

As shown in Exhibit 7 below, the APEF portfolio contains a spread of vintages, but with a significant weighting to the 2006-08 period, consistent with the age of the fund itself. At 31 October 2014 there were c $83m of outstanding commitments, biased towards post-2010 investments. The 15.8% cash weighting is held largely in order to meet commitments. The £15m borrowing facility (currently undrawn) provides extra flexibility in this regard, although it is principally designed to bridge timing differences between distribution receipts and when calls are paid or initial investments made. Commitments are modelled in depth to strike a balance between the opportunity cost of holding too much cash, and the risk of having to sell assets to cover cash calls from investee companies.

Exhibit 7: Portfolio commitments by vintage and amounts invested



Source: Aberdeen Private Equity Fund, at 30 June 2014

Barr views the APEF portfolio as being mid-cycle, with a balance between outstanding commitments and the flow of distributions being received. As underlying investments mature, new opportunities are identified by the Aberdeen SVG team. Exhibit 8 below shows commitments to and distributions from the top 10 holdings at 30 June 2014. Outstanding commitments to the top 10 funds at this date totalled $20.8m, while distributions received totalled $72.4m. During the six months to 31 October 2014, APEF paid calls of $17.6m and received distributions of $18.9m.

Exhibit 8: Commitments, drawdowns and distributions of largest holdings

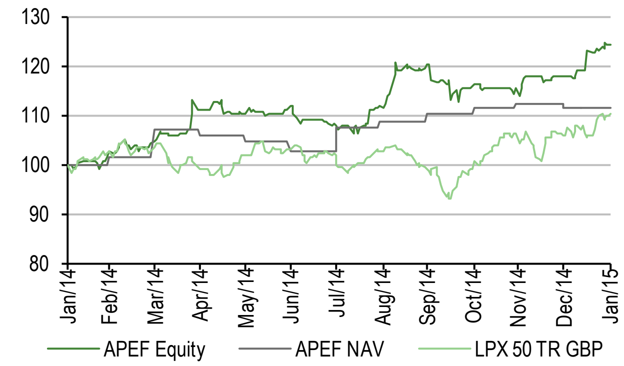
Fund	Committed $m	% drawn	Outstanding $m	Distributions $m
Northzone VI LP	13.6	78.6	2.9	2.2
Thomas H Lee Parallel Fund VI LP	15	90.1	1.5	7.8
Tenaya Capital V LP	12.5	89.0	1.4	8.5
Lion Capital Fund III LP	13.6	62.7	5.1	0.4
Silver Lake Partners III LP	15	84.2	2.4	12.4
Thoma Bravo IX Fund LP	10	100.0	0.0	18.4
Pine Brook Capital Partners LP	10	81.7	1.8	4.3
Rho Ventures VI LP	10	96.5	0.4	0.2
StepStone International Investors III LP	19.9	95.1	1.0	11.5
HIG Bayside Debt & LBO Fund II LP	15	70.3	4.5	6.7
	185.6		**20.8**	**72.4**

Source: Aberdeen Private Equity Fund. Note: All data at 30 June 2014.

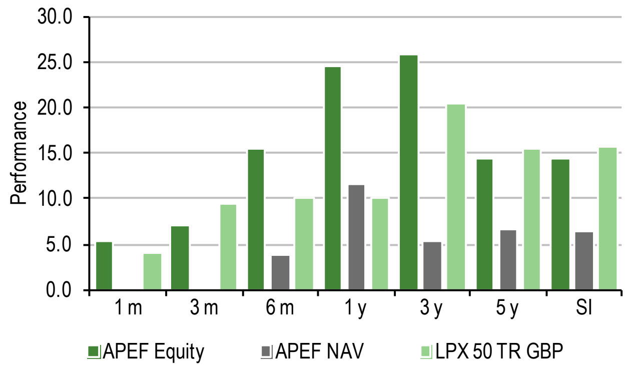
Performance: Looking stronger over past year

Exhibit 9: Investment company performance to 31 January 2015

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)*



Source: Morningstar, Thomson Datastream, Edison Investment Research. Note: *Three and five years and since managed by Aberdeen (SI; 19 November 2009) annualised.

Exhibit 10: Share price and NAV total return performance (sterling adjusted), relative to benchmarks

	One month	Three months	Six months	One year	Three years	Five years	Since inception
Price relative to LPX 50 TR GBP	1.3	(2.1)	4.8	13.0	13.9	(4.7)	(5.5)
NAV relative to LPX 50 TR GBP	(3.9)	(8.5)	(5.7)	1.4	(33.3)	(32.6)	(35.1)
Price relative to FTSE All Share	2.7	3.0	12.6	16.2	45.3	20.9	26.0
NAV relative to FTSE All Share	(2.6)	(3.7)	1.3	4.3	(14.9)	(14.4)	(13.5)
Price relative to MSCI World	3.4	1.9	3.9	5.8	29.5	6.9	9.1
NAV relative to MSCI World	(1.9)	(4.8)	(6.5)	(5.1)	(24.1)	(24.3)	(25.1)

Source: Morningstar, Thomson Datastream, Edison Investment Research. Note: Geometric calculation.

APEF does not have a formal benchmark, but for comparison purposes we have used the LPX 50 total return index, a global index consisting of the 50 largest listed private equity companies covered by index provider LPX Group, as well as including UK and global equity indices in Exhibit 10 as a means of measuring returns in the context of more mainstream investments.

Performance over the past 12 months was strong on both an absolute and a relative basis, with APEF posting an NAV total return of c 10% and a share price total return of c 25%, outperforming the LPX 50 as well as both the listed equity indices shown here. NAV performance has been less impressive over longer periods, trailing the index and the share price total return over three and five years and since Aberdeen began managing the fund in November 2009 (Exhibit 9 shows annualised performance for periods of three years and longer, while Exhibit 10 shows geometric relative performance). Following Aberdeen Asset Managers appointment as the company's investment manager on 19 November 2009, there followed a period of reorganisation and reconstruction of both the share register and the investment portfolio, culminating in a simultaneous tender offer and placing in June 2011. Share price total returns have been better over these longer periods as a result of a measure of re-rating from the deep discounts experienced by listed private equity funds following the financial crisis (see page 4).

Exhibit 11 below shows performance for the strategies in the APEF portfolio at the year-end. TVPI, or total value to paid in, is the ratio of the current value of remaining investments, plus the total value of all distributions to date, relative to the total amount of capital paid in to date. At the company year-end, 18 of 24 investments had a TVPI above cost and six were below cost. Of the investments marked at below cost, the majority of them are recent investments and are thus in the early stage of the private equity J-curve. The dispersion of internal rates of return (IRRs) in the final column shows the benefit of a portfolio diversified by strategy.

Exhibit 11: Portfolio performance by strategy, at company year-end

Strategy	No. of invts	Committed $m	Invested $m	Distributed $m	TVPI (x)	Net IRR (%)
Buyout	9	107.4	76.5	32.7	1.19	7.5
Growth	4	27.6	24.3	23.2	1.80	23.0
Venture capital	5	51.2	44.0	11.6	1.19	6.5
Distressed	3	40.0	35.6	34.8	1.48	13.5
Secondaries	2	35.1	33.0	19.3	1.09	1.9
Co-invests	3	3.9	3.9	0.0	0.99	-1.0
Other strategies	1	5.5	5.5	0.9	1.02	0.6
Total current portfolio	**27**	**270.7**	**222.8**	**122.5**	**1.28**	**8.9**

Source: Aberdeen Private Equity Fund. Note: TVPI is total value to paid in. TVPI and IRR totals are weighted averages.

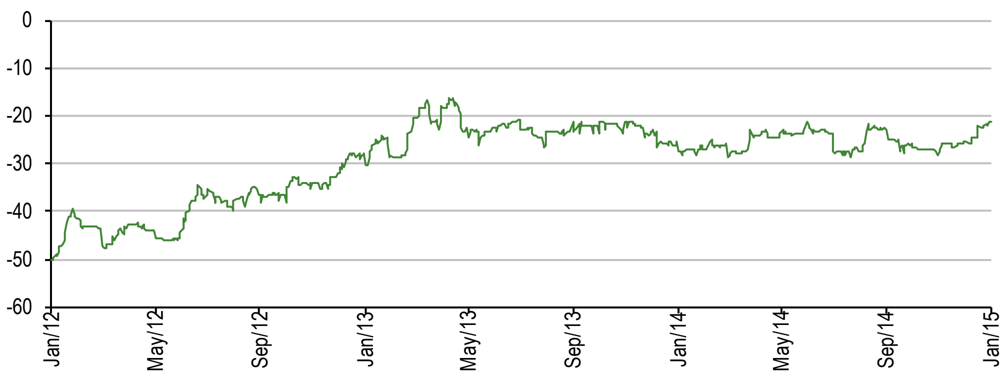
Discount: Trending narrower as sector re-rates

Discounts on listed private equity funds widened to extreme levels compared with other investment trusts in the wake of the financial crisis (see page 4) and have narrowed more slowly in the succeeding years. APEF was launched (as Bramdean Alternatives) in July 2007, not long before the crisis hit, and by January 2009 its discount to net asset value had reached 58%. Having narrowed to c 18% in late 2010, the discount hit 50% in January 2012, but has since narrowed significantly, and stood at 21.4% on 30 January 2015.

The discount is the widest in the peer group of similar funds shown in Exhibit 13 (figures from Morningstar), and is much wider than the weighted average for all listed private equity funds; however, the whole-sector average (2.3% discount) is dramatically skewed by the fact that 3i, significantly the largest fund in the sector, was trading at a 24.0% premium to NAV. Excluding 3i, the sector average discount is 12.8%, while the weighted average discount for the peer group of funds of funds is 17.9%.

The board of APEF has the discretion to buy back up to 14.99% of the shares in order to manage the discount. In practice this power is not often used, and the last major capital change was in June 2011, when a tender offer saw 41.7m shares validly tendered, with 24.7m being placed with new and existing investors, and the remainder bought back by the company. The company prefers to manage the discount by actively marketing the fund and seeking new investors to ensure there is liquidity in the shares. This has the added benefit of not shrinking the number of shares in issue.

Exhibit 12: Discount to NAV (debt at fair value, including income) – past three years



Source: Thomson Datastream, Bloomberg, Edison Investment Research

Capital structure and fees

APEF is a conventional investment company with a single share class and 109.1m shares in issue. The shares are all denominated in sterling following the conversion of a US dollar share class in January 2010. However, the company presents its accounts in US dollars as this is the currency of the majority of its underlying investments.

There is a £15m three-year borrowing facility (agreed in August 2014) in place with Lloyds Bank, although APEF has not drawn down any of the debt, and currently has a net cash position of c 15%. The formal gearing policy is that borrowing should not exceed 25% of net asset value. However, gearing is unlikely to be used for investment purposes, and the facility is in place principally to provide extra flexibility with regard to meeting commitments.

Aberdeen SVG receives an annual management fee equivalent to 1.5% of NAV (since 1 October 2013, 0.75% on assets held in cash or equivalents), paid monthly. Ongoing charges (management fee plus other expenses) were 2.0% for FY14. In addition, APEF pays fees to the managers of the funds in which it invests; for FY14 'capital call expenses' (relating to management fees and other expenses paid to investees) totalled \$2.51m, or 1.26% of total net assets at the 31 March year-end. A performance fee of 10% is payable where NAV returns (adjusted for share buybacks and dividend payments) exceed 8% for a financial year, subject to a high water mark (currently 118.8p per share, representing an 8% increase over the NAV at 31 March 2013, the last date at which a performance fee was paid).

Dividend policy and record

In 2012 the board of APEF instituted a distribution policy under which it aims to pay out as a dividend not less than 10% of the distributions that it receives from its investments, net of recallable distributions. It has committed to paying a dividend of at least 1p per year, regardless of the distributions received. However, there is no specific objective to grow the dividend. So far the company has paid three dividends, for the years ended 31 March 2012, 2013 and 2014, each of 2.0p per share. Dividends are declared in June and paid in September. The company accounts separately for distribution income and gains on investee distributions; for FY14 the two together totalled \$14.7m (£9.4m at 31 December 2014 exchange rates). Dividends paid were \$3.6m (£2.3m at 31 December exchange rates or £2.2m based on 109.1m shares and a sterling dividend of 2.0p). This represents 24.5% of the distribution income and gains for the year. APEF currently has a negative revenue reserve as it is still making up revenue losses accumulated during the financial crisis.

Peer group comparison

The Association of Investment Companies' Private Equity sector is a diverse group of 38 funds with differing approaches and objectives. The table in Exhibit 13 shows a subset of the sector, drawn from those constituents with a 'fund of funds' structure similar to that of APEF.

APEF is the smallest fund in the group of nine, with a market capitalisation of around £100m. In performance terms, its NAV total return is the third-highest over one year, but lags the weighted average over three and five years. Its risk-adjusted performance as measured by the Sharpe ratio is well ahead of the average both for the smaller group shown and for the sector as a whole over one year, while over three years it is in broadly line with the wider sector but behind the average for funds of funds. In a group where only two of the funds have employed gearing, APEF has the highest level of net cash. Ongoing charges are below average according to Morningstar, although this excludes the impact of performance fees. The discount to net asset value (23.7% at 30

January, according to Morningstar) is the widest in the sub-group of funds of funds, where most constituents are on discounts of 15-20%. It is significantly wider than the whole-sector average discount, although this is skewed by the fact that the largest company in the sector, 3i, stands at a premium of nearly 25%. With 3i excluded, the sector average discount for 37 funds is 12.8%. Given APEF's better performance in recent periods, there is scope for the discount to narrow to a level more in line with its peers.

Exhibit 13: Private equity funds of funds

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Aberdeen Private Equity	**99.0**	**20.2**	**27.0**	**50.3**	**1.3**	**Yes**	**-23.7**	**84.0**	**2.2**	**2.0**	**0.8**
F&C Private Equity Trust	157.9	2.9	19.0	42.7	1.4	Yes	-16.4	95.0	4.8	0.8	1.4
Graphite Enterprise Trust	419.3	1.4	24.1	53.1	2.1	No	-14.7	100.0	1.3	0.0	1.1
HarbourVest Global Priv Equity	683.9	23.1	42.9	91.4	0.8	No	-18.5	95.0	0.0	2.0	1.9
JPMorgan Private Equity	194.4	9.5	-8.3	-7.0	2.5	Yes	-23.3	116.0	0.0	1.0	-0.8
NB Private Equity Partners	390.6	23.1	40.7	73.9	2.6	Yes	-13.3	122.0	3.7	2.4	2.0
Pantheon International	846.5	17.3	34.9	81.1	1.1	Yes	-15.9	92.0	0.0	2.0	1.3
SVG Capital	819.7	7.7	58.3	148.6	2.0	No	-21.5	99.0	0.0	0.7	1.1
Standard Life Euro Private Eq	326.7	-63.5	-59.0	-46.9	1.0	Yes	-18.4	100.0	2.4	-1.0	-0.5
Sector average (38 funds)	**414.0**	**9.5**	**34.0**	**50.6**	**2.8**		**-2.3**	**93.7**	**3.0**	**1.0**	**1.0**
Selected stock average	**437.6**	**7.6**	**29.8**	**76.0**	**1.6**		**-17.9**	**99.6**	**2.7**	**1.0**	**1.2**
APEF rank (out of 9 funds)		**3**	**5**	**6**	**6**		**9**	**9**	**4**	**3**	**7**

Source: Morningstar, 30 January 2015, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

APEF has four non-executive directors, all independent of the manager. Howard Myles has served on the board since December 2009 and became chairman in September 2014 following the retirement of Jonathan Carr. David Copperwaite became a director in June 2009 (following a successful EGM requisition by a major shareholder to replace the incumbent directors), while Philip Hebson joined the board in the September, and David Staples in the December of the same year. The directors have backgrounds in fund management, corporate finance, banking and accountancy.

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