EDISON

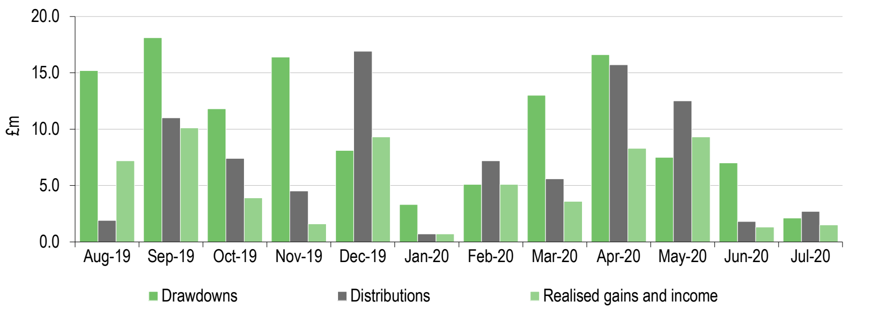
# Standard Life Private Equity Trust

## Leveraging long-term partnerships with top GPs

Investment trusts

**Standard Life Private Equity Trust (SLPET) reported a 5.8% decline in NAV total return (TR) in H120 (based on June NAV estimate), driven mainly by the COVID-19 induced market downturn in March 2020. While macro factors may trigger further declines, the quality of general partners (GPs) chosen by SLPET coupled with good portfolio diversification by region, sector and vintage are key mitigating factors. SLPET's capacity to fund future capital calls is supported by its liquid position (£45.3m at end-July 2020) and the £100m undrawn credit facility, with an overcommitment ratio of 48.1% (close to the mid-point of the targeted 30–75%). SLPET maintains its dividend policy and the shares currently offer an LTM yield of 4.1%.**

**Drawdowns, distributions, and realised gains over the last 12 months**




Source: SLPET, Edison Investment Research

## The market opportunity

Although private equity investments remain at risk of further downward revaluations (alongside public markets) if the current crisis continues for a prolonged period, there are a number of supportive factors that could limit the impact. These include: 1) private equity (PE) backed companies benefiting from better access to capital, 2) value creation expertise allowing GPs to perform well throughout the cycle, 3) a high level of dry powder available to pursue new investment opportunities at more attractive prices and 4) fund-raising remaining strong for top GPs.

## Why consider investing in SLPET?

- Continuous focus on top-performing European private equity managers.
- Experienced investment team with strong PE manager relationships.
- Top 10 conviction-based fund investments make up c 50% of NAV, while the underlying portfolio is diversified with 400+ holdings across different regions, sectors and vintages.
- Long-term NAV outperformance of European and global PE indices.

## Discount in line with peers and 10-year average

While SLPET's share price dropped sharply in March amid the broader COVID-19 market sell-off, the fact that its NAV is updated with a time lag (based on underlying valuations shared by GPs) resulted in its share price discount widening to a record of close to 60% in March 2020. Subsequently, the discount narrowed to c 24%, close to its 10-year average of c 23% and current peer group average (c 24%).

**8 September 2020**

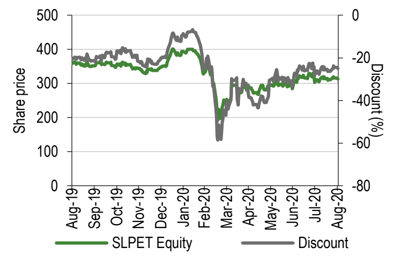
| | |
|---|---|
| **Price** | **318p** |
| **Market cap** | **£490m** |
| **AUM** | **£647.8m** |

| | |
|---|---|
| NAV* | 421.4p |
| Discount to NAV | 24.4% |

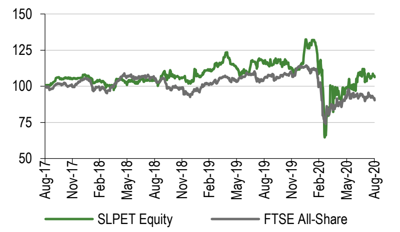
*Estimated NAV as at 30 June 2020.

| | |
|---|---|
| Yield | 4.1% |
| Ordinary shares in issue | 153.7m |
| Code | SLPE |
| Primary exchange | LSE |
| AIC sector | Private Equity |
| Benchmark | None |

**Share price/discount performance**




**Three-year performance vs index**




| | | |
|---|---|---|
| 52-week high/low | 401.0p | 192.5p |
| NAV* high/low | 465.8p | 426.4p |

*Including income.

**Gearing**

| | |
|---|---|
| Gross* | 0.0% |
| Net cash* | 9.1% |

*At 31 March 2020.

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Edison profile page


***Standard Life Private Equity Trust is a research client of Edison Investment Research Limited***

## Exhibit 1: Trust at a glance

**Investment objective and fund background**

Standard Life Private Equity Trust's objective is to achieve long-term total returns through investing in a diversified portfolio of leading private equity buyout funds and direct co-investments, a majority of which have a European focus, with exposure principally managed through the primary and secondary funds markets. No size or geographic restrictions apply to fund selection. There is currently no available benchmark that the board deems an appropriate measure of SLPET's investment performance.

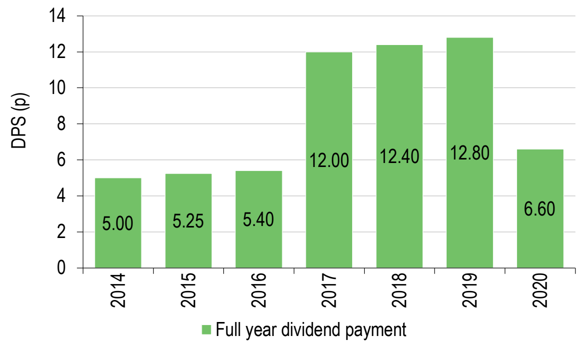
**Recent developments**

- 3 September 2020: Third interim dividend declared (3.3p per share)
- 14 August 2020: Est. NAV/share at end-July 2020: 421.4p
- 31 July 2020: Second interim dividend paid (3.3p per share)
- 14 July 2020: Est. NAV/share at end-June 2020: 431.2p (quarterly TR +1.9%)
- 26 June 2020: Half-year report published (data as at 31 March 2020)
- 18 June 2020: Est. NAV/share at end-March 2020: 427.7p (quarterly TR -7.5%)
- 12 June 2020: Second interim dividend declared (3.3p per share)

| Forthcoming | | Capital structure | | Fund details | |
|---|---|---|---|---|---|
| AGM | March 2021 | Ongoing charges | 1.09% (FY20)* | Group | Aberdeen Standard Investments |
| Interim results | June 2021 | Net cash | 7.0% (est. as at end-July 2020) | Manager | SL Capital Partners |
| Year end | 30 September | Annual mgmt fee | 0.95% of NAV | Address | 1 George Street, |
| Dividend paid | Jan, Apr, Jul, Oct | Performance fee | None | | Edinburgh EH2 2LL |
| Launch date | 29 May 2001 | Trust life | Indefinite | Phone | 0131 245 0055 |
| Continuation vote | N/A | Loan facilities | £100m revolving credit facility | Website | www.slpet.co.uk |

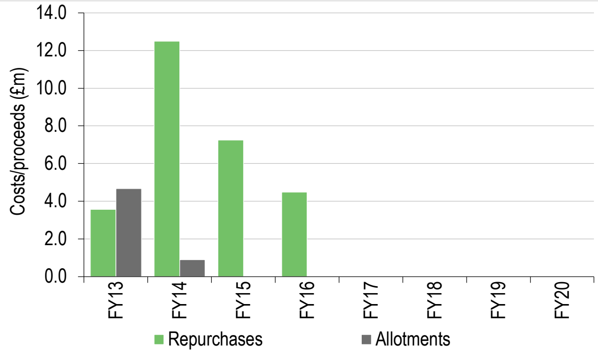
**Dividend policy and history (financial years)**

Since FY17, the board's intention has been to maintain the real value of the annual dividend. Four quarterly dividends of 3.3p are planned for FY20.

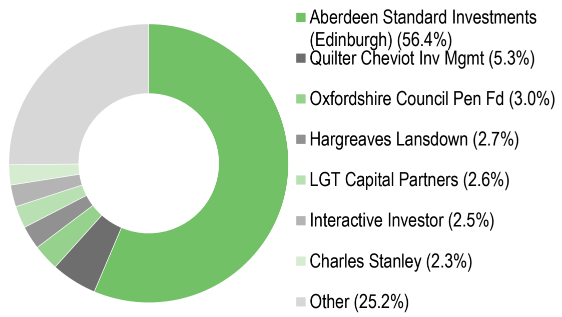



**Share buyback policy and history (financial years)**

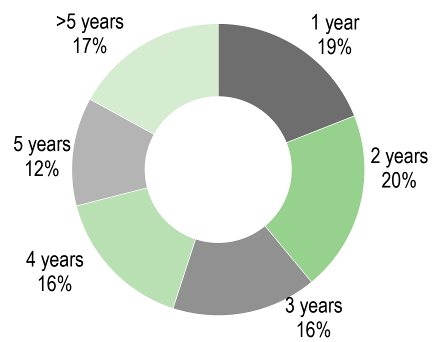
The board views buybacks as part of its strategy in relation to capital efficiency. SLPET has authority to repurchase 14.99% and allot 5.0% of its issued capital.




**Shareholder base (as at end-March 2020)**




**Portfolio exposure by maturity (as at 31 March 2020)**




**Top 10 underlying holdings**

| Company | Business | Location | Fund | Year invested | % of SLPET's net assets | |
|---|---|---|---|---|---|---|
| | | | | | 31 March 2020 | 31 March 2019** |
| Action | Consumer staples | Netherlands | 3i Venice SCSp | 2011***, 2020**** | 3.7 | 6.1 |
| TeamViewer | Information technology | Germany | Permira V | 2014 | 2.1 | 0.8 |
| Mademoiselle Desserts | Consumer staples | France | IK Fund VIII | 2018***, 2019**** | 1.3 | 0.9 |
| Handicare | Healthcare | Sweden | Nordic Capital VII | 2010 | 1.2 | 0.8 |
| CID Lines | Industrials | Belgium | IK Fund VII | 2015 | 1.2 | N/A |
| Colisee | Healthcare | France | IK Fund VIII | 2017 | 1.1 | N/A |
| R1 RCM | Healthcare | US | Towerbrook Investors IV | 2016 | 1.1 | 1.1 |
| Froneri | Consumer staples | UK | PAI SP SCSp | 2019 | 1.0 | N/A |
| Signature Foods | Consumer staples | Netherlands | IK Fund VII | 2016 | 0.9 | N/A |
| Benvic | Industrials | France | Investindustrial Growth | 2018 | 0.9 | N/A |
| **Top 10 (at each date)** | | | | | **14.5** | **9.7** |

Source: SLPET, Edison Investment Research. Note: *Company forecast for FY20 disclosed in the interim report to March 2020. **N/A where not in end-March 2019 top 10. ***Fund investment. ****Co-investment.

## Fund profile: Valuable long-term partnerships

Since 2001, when SLPET was launched and listed on the London Stock Exchange, its main objective has been to achieve long-term total returns through investing in a diversified portfolio of leading PE buyout funds, predominantly with a mid-market European focus. The targeted portfolio structure consists of c 50 active fund investments, currently with exposure to around 400 underlying private companies, with individual fund and manager exposure limits set at 12.5% and 20.0% of net asset value (NAV), respectively. The portfolio is well diversified by country, industry sector, maturity and number of underlying investments, with the top 10 fund holdings constituting c 48% of its total NAV as at end-March 2020 and the top five managers covering over 40% of NAV. SLPET's manager considers that access to leading PE professionals and selective fund allocation are essential to achieving the best possible investment performance, given that historical returns across the PE fund universe have varied widely. The company highlights that during the 10-year period to 2017, 72% of SLPET's investments reached the top or second quartile in terms of total value to paid in capital (TVPI) and internal rate of return (IRR) (based on Burgiss data). Long-term relationships with leading PE managers are especially important now, on the brink of the likely economic crisis, as successful asset allocation would be essential to weather its impact.

## The fund manager: ASI Private Equity team

SL Capital Partners, part of the Aberdeen Standard Investment (ASI) private equity team, has served as SLPET's investment manager since the launch of the trust in 2001. With 41 professionals based in Europe and the US managing over £12bn in PE assets it is one of the largest investors in PE funds and co-investments with a European focus. An investment team with decades of experience and over 400 advisory board seats held, further supported by the broad ASI resources, is a key advantage in selecting Europe's top-tier PE funds as well as sourcing attractive co-investment opportunities, which may be less accessible to the wider market.

The investment team is led by Alan Gauld, who previously served as an investment director focused on buyout funds, co-investments and secondary investments. He has been involved in all aspects of investing, including sourcing, appraising and executing investments as well as portfolio monitoring. He is supported by Patrick Knechtli, who leads the secondaries team at ASI, and Mark Nicolson, head of primaries. Prior to joining SL Capital, Patrick Knechtli spent eight years at Coller Capital in London, responsible for secondary portfolio transactions, while Mark Nicolson worked for the corporate finance division of KPMG UK and served as an advisory board member on a number of leading private equity funds, before joining the company in 2007. The management team also includes Merrick McKay, who served as head of private equity Europe in SL Capital Partners and is a member of the ASI Private Equity Investment Committee. He led the SLPET investment team before taking on a wider role within Aberdeen Standard Investments as head of European private equity.

## Investment process: Leaning towards best performers

With management teams located on both sides of the Atlantic, SLPET monitors potential investments in Europe as well as in the US. The universe covered includes c 800 institutional-grade PE funds, with 100–150 funds screened for investment each year, of which typically c 25 are shortlisted and reviewed in detail. This approach supports the targeted investment structure, consisting of c 50 active fund investments, currently with exposure to c 400 underlying companies. SLPET typically makes around four to six primary fund commitments each year, coupled with secondary market transactions and direct co-investments. Inclusion of secondary investments, even though these typically generate lower valuation gains in absolute terms, serves as an additional means of portfolio diversification and risk profile adjustment, as the underlying holdings can be evaluated prior to purchase. Between September 2019 and March 2020, SLPET acquired £6.7m of secondary exposure, while £37.4m was committed to new PE primary funds focused on Europe and £17.0m to a North American fund. During almost 20 years of operations, SLPET's manager successfully built strong relationships with best-performing PE fund managers. The latest commitments were made to Hg and Seidler Equity Partners, with which Aberdeen Standard Investments has established relationships of more than 10 years.

## Market outlook: Planning to endure the slowdown

In the decade following the 2008–09 Global Financial Crisis (GFC), the broader PE market has solidified its position as an investment class delivering better returns than public markets and has become less prone to downward revaluations. Its rising popularity resulted in almost threefold growth in capital invested in the segment between 2010 and 2020. While the COVID-19 crisis is likely to represent a pause in this trend (and has already started to trigger NAV declines across the sector), we believe that there are several mitigating factors for the PE industry, which could allow it to be less severely affected throughout the downturn and subsequent recovery than the broader economy.

PE-backed companies benefit from **more accessible funding during a crisis** and thus their financial condition tends to be more resilient. Apart from follow-on PE investments, private companies may receive funding from private debt funds, which emerged post-GFC as major players in the market (with assets under management (AUM) of US$854bn entering 2020 against US$317bn in 2010 according to Preqin), filling the gap left by banks that were affected by an increased regulatory burden.

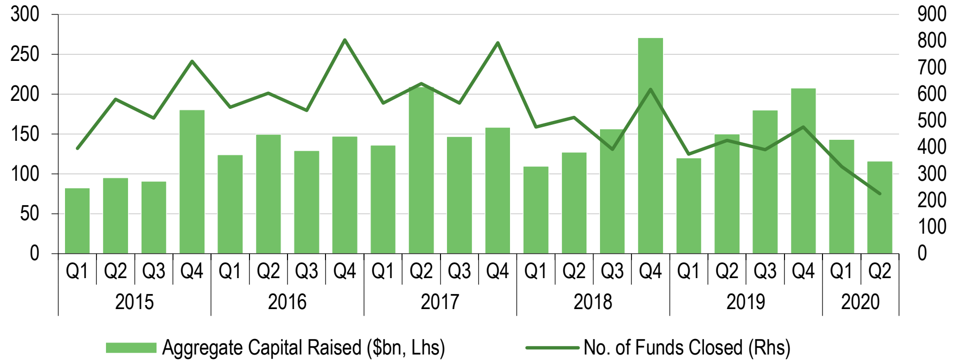
**Value creation expertise allows managers to outperform throughout the cycle**, as illustrated by the findings of a recent McKinsey study, which suggests that during the latest recession and recovery (2009–13), PE funds actively involved in managing portfolio companies provided an IRR of 23% on average against just 18% reported by funds with no value-creation teams. In this context, it is also important to flag that many GPs were expecting an economic downturn for quite some time and have been positioning their portfolios to more defensive sectors, such as technology, media and telecom (TMT), healthcare and consumer staples.

**PE funds with available firepower have wider buying opportunities** at reasonable valuations to pursue in a distressed environment. In this context, it is worth highlighting that the upturn in the PE market in recent years has driven strong fund-raising, c US$660bn globally in both 2018 and 2019 according to Preqin data. This in turn (together with strong realisation activity over the last two to three years) led to a significant increase in dry powder across the sector. According to Bain & Company, in April 2020 PE funds held a record US$2.6tn in uncalled capital globally, with over US$800bn attributable to buyout funds alone. European buyout dry powder stood at US$187bn at end-2019, according to Preqin.

**The contraction in PE valuations may be less significant than in public markets during the GFC**. As highlighted by McKinsey in its recent study, the decline in EV/EBITDA multiples during the GFC (based on a two-year trailing average EBITDA) was less pronounced in US buyouts, with transaction multiples falling from 9.4x in 2007 to 8.8x in 2010, than in public assets (Russell 2000 Index), declining from 11.6x to 9.8x, respectively. Having said that, we need to flag that average 2019 US buyout multiples reached 11.9x, marking the highest level in the last 15 years. The same multiple in the European market oscillated between 10.2x and 10.4x in 2018 and H119, according to Clearwater International. Based on Roland Berger's European Private Equity Outlook 2020, 94% of surveyed PE professionals considered pre-COVID-19 valuation multiples as demanding.

**Fund-raising so far has remained solid**, although there are already signs of a 'flight to quality' and due diligence processes becoming extended. In H120, around US$258.9bn of capital was raised in the global PE market according to Preqin data, which is broadly in line with recent years. Limited Partners (LPs) now show reluctance to significantly reduce their commitments based on the experience gathered from the previous crisis when PE investments performed well during the recovery phase.

**Exhibit 2: Global quarterly private equity fund-raising, Q115–Q220**




Source: Preqin Quarterly Update: Private Equity & Venture Capital, Q2 2020

## The manager's view

While the investment manager expects COVID-19 to be a headwind to SLPET's NAV growth and a decline in the level of distributions over the remainder of 2020, he also highlights a number of factors that should have a mitigating impact. These include 1) quality and operational capabilities of GPs selected by SLPET, with all of these successfully weathering the GFC, 2) good portfolio diversification by region, sector and vintage with 400+ underlying companies, 3) solid liquidity of the underlying PE funds available to support portfolio holdings, 4) greater flexibility of debt structures in PE-backed companies in current markets compared to during the GFC, including a higher proportion of covenant-lite loans and higher equity ratios, and 5) the comfortable level of SLPET's liquid resources and undrawn credit facility to cover prospective capital calls from GPs. SLPET's positioning is further enhanced by the deep relationships and continued active dialogue with its GPs.

Exit processes were generally postponed in the first half of 2020 due to uncertainty and difficulty in valuing portfolio companies. The investment manager expects this to have a knock-on impact on the level of distributions in the short term. On the other hand, new investment volumes are also likely to decline, limiting the extent of capital calls. At the same time, the investment manager assumes a higher level of follow-on equity being called by GPs in the coming 12 months to cover potential covenant breaches or short-term liquidity issues.

SLPET is well placed in terms of liquid resources to pursue investment opportunities in the secondary PE investments market, ie buying existing fund commitments from investors looking for liquidity. Having said that, the investment manager does not expect these opportunities to arise until towards the end of FY20 (ending September 2020) and into FY21. In this context, it is worth noting that the investment manager has a dedicated secondaries team of nine investment professionals. SLPET also intends to make new commitments on a selective basis to high-quality GPs in order to benefit from the solid returns that these normally generate for funds set up in the midst of a broader market downturn. At the same time, we understand that the investment manager expects few co-investment opportunities until the end of the year.

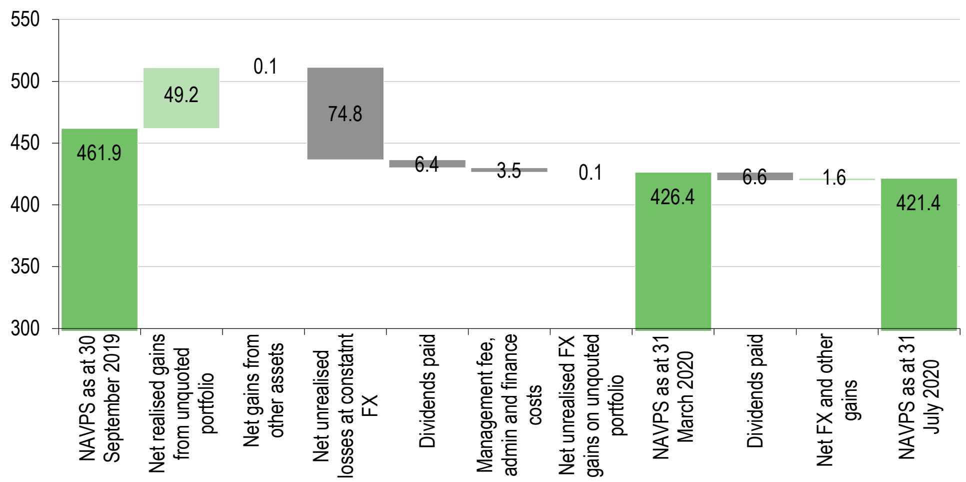
## Performance: Reflecting the initial COVID-19 impact

In H120, SLPET reported a 5.8% decline in NAV TR (vs -0.8% for LPX Europe NAV Index and -17.5% for the UK All-Share Index) in sterling terms. This was largely driven by the 7.6% decline recorded in Q120. After adjusting for the positive foreign exchange impact stemming from sterling's depreciation versus the euro and US dollar (SLPET's NAV is denominated in sterling with less than 20% invested in the UK), SLPET's Q120 NAV TR declined 12.5%.

For 50 out of SLPET's 54 holdings at end-March 2020 (97.6% of portfolio value), valuations were provided by the underlying GPs, with 46 of them (86.9% of portfolio value) already reflecting the initial impact of the COVID-19 outbreak (presumably through lower public market multiples used to value the holdings). Valuations of the remaining four investments (10.7% of portfolio value) were subject to in-house downward adjustments applied by SLPET's investment manager. The remaining 2.4% of the portfolio was based on valuations at end-2019, but adjusted by the investment manager.

SLPET's Q220 NAV TR was a positive 1.9%, with 99% of its end-June 2020 portfolio by value based on end-March 2020 valuations, of which 88.8% accounted for the initial COVID-19 impact and 10.2% had valuations adjusted downwards by SLPET's investment manager. The remaining 1% was based on end-2019 valuations, but with downward adjustments by the investment manager and accounting for subsequent cash flows. Hence, the Q220 performance largely reflects foreign exchange movements and SLPET's ongoing charges rather than portfolio revaluation post March 2020. SLPET's NAV at end-June 2020 of 431.2p is an initial estimate, which may be subsequently revised with the final figure disclosed in its interim report. At end-July 2020, NAV stood at 421.4p (down 2.3% during the month) due to fx movements and interim dividend payment.

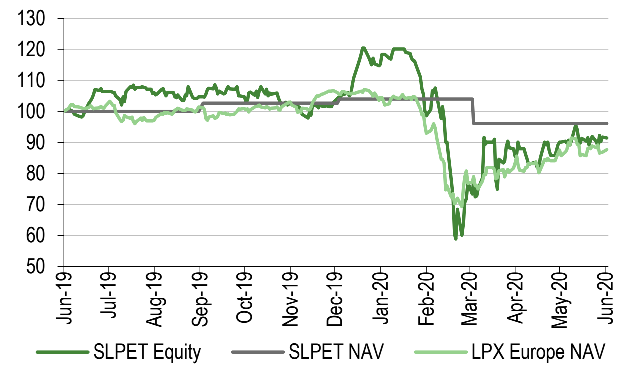
**Exhibit 3: NAV/share bridge between end-September 2019 and end-July 2020**




Source: SLPET, Edison Investment Research. Note: Movements between end-March and end-July 2020 are based on initial company estimates.

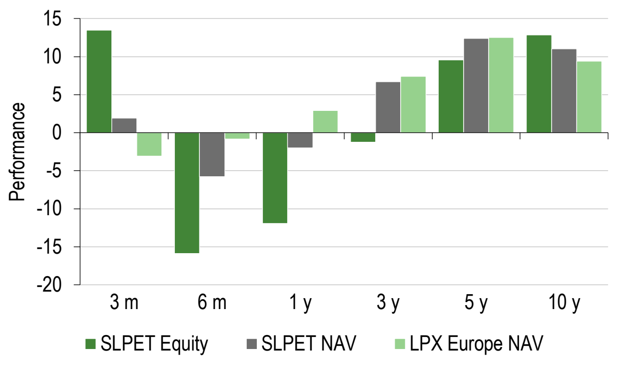
SLPET's three-year NAV TR to end-June 2020 was 6.8% pa, slightly below the LPX Europe NAV index (up 7.4% in sterling terms). However, SLPET's five-year NAV TR of 12.6% was in line with the index (12.5% pa). Over 10 years to end-June 2020, the company outperformed with 11.1% vs the index's 9.4% pa. Over the same periods, three, five and 10 years to end June 2020, SLPET outperformed its comparator, the broad UK stock market index, by 8.3%, 9.5% and 6.3% respectively. More recently, in the six months and one year to end-June 2020, SLPET's declines of 5.8% and 2% outperformed the sharply declining UK index by 11.7% and 11% respectively.

**Exhibit 4: Price, NAV and index TR performance, one-year re-based to end-June 2020**




Source: Refinitiv, Edison investment Research

**Exhibit 5: Price, NAV and index TR performance to end-June 2020 (%)**




Source: Refinitiv, Edison investment Research

## Commitments and realisations

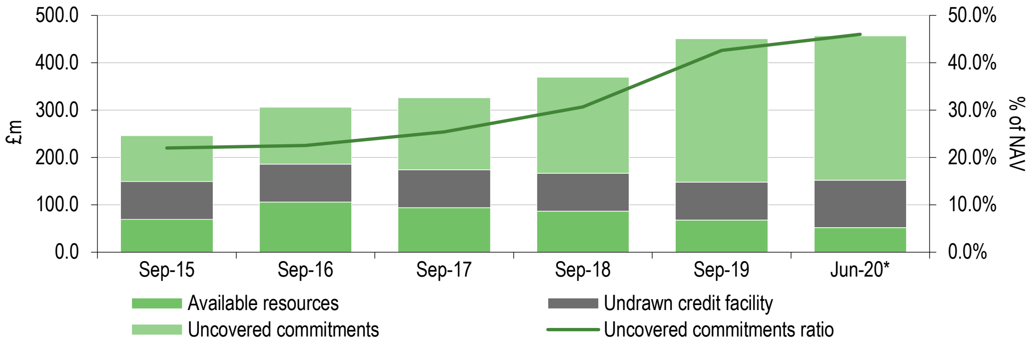
As at end-July 2020, SLPET's outstanding commitments were £456.8m compared with £394.6m at end-2019. We note, however, that since the start of Q220, when the COVID-19 crisis gathered pace in Europe, only one significant new commitment of £25m was made in May 2020 to Vitruvian IV, which is the first primary fund investment managed by Vitruvian Partners in the trust's portfolio (although SLPET did conduct a secondary of a fund managed by Vitruvian last year). New commitments in Q120 included in particular the software and services-focused Hg funds, including US$15.6m to Hg Saturn 2 made in February followed by €15.0m to Hg Genesis 9 and €12.4m to Hg Mercury 3. Moreover, SLPET committed US$20.0m to Seidler Equity Partners VII. All these commitments were finalised in March 2020.

In H120, total drawdowns amounted to £52.5m, with £13.0m and £16.6m called in March and April, respectively, while other months saw levels not exceeding £7.5m. The increase was likely driven by GPs' emphasis on securing additional liquidity available to support underlying portfolio companies amid uncertainties regarding the pandemic impact. While these had already been expected by the investment manager, they were below the manager's initial working assumption at c 5%. This seems to be confirmed by developments in July 2020 when drawdowns equalled a mere £2.1m.

All the above numbers exclude the impact of changes in SLPET's exposure to its largest underlying holding, the non-food discount retailer Action. In January 2020, 3i Group conducted a process relating to Action to provide liquidity to investors in 3i Eurofund V. As a result, SLPET received proceeds of £51.1m (net of carried interest, fees and taxes). However, to retain its exposure to Action, the investment manager decided to reinvest £22.6m alongside the 3i Venice Partnership. This constitutes the second co-investment made by SLPET (after Mademoiselle Desserts).

SLPET's available liquid resources at end-July 2020 stood at £45.3m, boosted by £30m distributions received in Q220 (including £15.7m in April and £12.5m in May, against just £13.5m in Q120) and a minor £2.7m in July. Together with an undrawn £100m credit facility, this implies a level of uncovered commitments at c £311.5m and an overcommitment ratio of 48.1% of NAV at end-July 2020 (compared to 42.6% at end-FY19, ie end-September 2019). This is close to the midpoint of SLPET's long-term 30–75% target range. Moreover, we note that at end-May 2020, the investment manager considered £67.4m of SLPET's commitments as unlikely to be called. Finally, SLPET expects to receive a deferred consideration of £15.5m, which will further support its commitments coverage ratio.

**Exhibit 6: Available resources and outstanding commitments**




Source: SLPET, Edison Investment Research. Note: *Interim data.

## Current portfolio positioning

SLPET's portfolio consisted of 54 fund investments as at end-March 2020 (latest date with full portfolio statistics; 55 fund holdings at end-June 2020), providing exposure to over 400 underlying companies. SLPET's portfolio is relatively concentrated, with the top 10 funds constituting c 47.9% NAV (see Exhibit 7) and over 70% of NAV attributable to 17 core private equity managers, which represent SLPET's high conviction partners.

**Exhibit 7: SLPET's top 10 private equity fund holdings as at 31 March 2020**

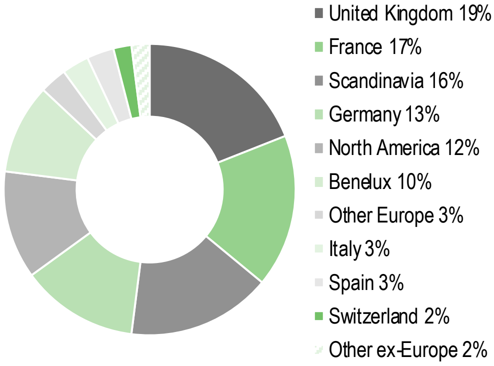
| Fund | Strategy | Vintage | Number of holdings | Outstanding commitments £m | Residual cost £m | Valuation £m | % of NAV 31 Mar 2020 | % of NAV 31 Mar 2019 | Net multiple |
|---|---|---|---|---|---|---|---|---|---|
| Advent International GPE VIII | Mid-market buyouts, Europe and North America focus | 2016 | 31 | 2.8 | 36.8 | 39.7 | 6.1 | 5.5 | 1.1x |
| Permira V | Transformational buyouts globally | 2014 | 16 | 2.6 | 17.3 | 38.3 | 5.8 | 4.7 | 2.9x |
| IK Fund VIII | N. European mid-market buyouts | 2016 | 15 | 4.1 | 34.1 | 36.9 | 5.6 | 3.6 | 1.2x |
| Altor Fund IV | N. European mid-market buyouts | 2014 | 20 | 16.2 | 30.3 | 34.0 | 5.2 | 4.5 | 1.2x |
| IK Fund VII | N. European mid-market buyouts | 2012 | 11 | 1.8 | 22.2 | 31.8 | 4.8 | 5 | 1.8x |
| Nordic Capital VIII | European complex buyouts & global healthcare | 2013 | 14 | 29.8 | 22.2 | 29.9 | 4.6 | 5.5 | 1.7x |
| Bridgepoint Europe V | European mid-market buyouts | 2015 | 14 | 1.4 | 22.8 | 28.0 | 4.3 | 4.5 | 1.3x |
| Exponent Private Equity Partners III | UK mid-market buyouts | 2015 | 11 | 0.8 | 27.2 | 26.4 | 4 | 4.8 | 1.0x |
| CVC VI | Mid to large buyouts, Europe and North America focus | 2014 | 27 | 0.6 | 17.8 | 24.7 | 3.8 | 4.1 | 1.5x |
| PAI Europe VI | Upper middle market | 2014 | 13 | 2.8 | 23.2 | 24.2 | 3.7 | 4.1 | 1.3x |
| **Top 10 at each date** | | | **172** | **62.8** | **254.0** | **313.8** | **47.9** | **46.3** | |

Source: SLPET, Edison Investment Research. Note: Commitments, cost and valuation figures relate to SLPET's interest.

SLPET is well diversified at the underlying company level, with its top 10 businesses representing c 14.5% of its NAV at end-March 2020 (Exhibit 1). These include the non-food discount retailer Action (3.7% NAV at end-March 2020), global connectivity platform TeamViewer (2.1%), frozen bakery manufacturer Mademoiselle Desserts (1.3%) and stairlift producer Handicare (1.2%).

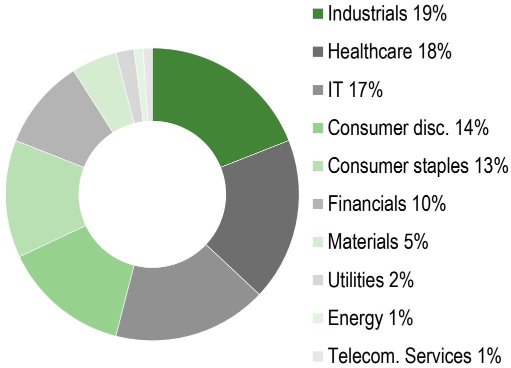
SLPET is also well diversified both geographically and by industry, with none of the exposures exceeding 20%. As at end-March 2020, SLPET's investments in the UK constituted c 19% of the portfolio, slightly up from 17% at end-September 2019. It was followed by France (17%), Scandinavian countries (16% in total) and Germany (13%). Exposure to North America remained broadly stable between 30 September 2019 and end-March 2020 at 12%, while Benelux reported the largest drop over the same period from 17% to 10%.

**Exhibit 8: Geoprahical structure of the portfolio as at 31 March 2020**




Source: SLPET

**Exhibit 9: Industry structure of the portfolio as at 31 March 2020**




Source: SLPET. Note: Exposure to Action has been reclassified from consumer discretionary to consumer staples to reflect the company's business profile more accurately.

### Investment manager assesses portfolio's exposure to COVID-19

SLPET's investment manager has recently assessed the impact of COVID-19 lockdowns imposed by governments across Europe and the deteriorating macro environment on its top 10, top 50 and top 100 holdings based on in-house analysis as well as guidance from the respective GPs (see Exhibit 10). Among its top 100 investments, 9% of them (by count) experience material disruptions to their business and will likely face liquidity issues in 2020, but none of them is among SLPET's top 10 holdings.

**Exhibit 10: COVID-19 impact assessment on SLPET's underlying portfolio**

| Category | % of SLPET portfolio NAV | Limited | Moderate | High |
|---|---|---|---|---|
| Top10 | 14.4% | 90% | 10% | 0% |
| Top50 | 39.1% | 66% | 30% | 4% |
| Top100 | 58.3% | 54% | 37% | 9% |

Source: SLPET. Note: Percentages calculated based on number of companies affected

Looking at SLPET's total portfolio as at end-March 2020, c 19% of its NAV was attributable to the industrial sector, including manufacturing, industrial B2B services, etc, which may experience a medium to high impact. Having said that, some industrials investments provide essential products (such as CID Lines) and could see a less pronounced impact. The company's second largest sector exposure is healthcare (18%), where the investment manager expects a medium impact from COVID-19. This is due to underlying companies being focused on medical technology, orthopaedics and elderly care (rather than biotech, which may see more limited headwinds).

Exhibit 11: SLPET's portfolio structure by business sector

| Sector | % portfolio NAV | Core sub-sectors | COVID-19 impact | Largest companies by value |
|---|---|---|---|---|
| Industrials | 19% | Manufacturing | Medium/high | CID Lines |
| | | Industrial B2B Services | | Norican |
| | | Specialty Chemicals | | Benvic |
| | | Testing | | Trioplast |
| Healthcare | 18% | Medical Technology | Medium | Handicare |
| | | Healthcare B2B Services | | Colisee |
| | | Orthopaedics | | R1 RCM |
| | | Elderly Care | | |
| Information Technology | 17% | Software | Low | TeamViewer |
| | | | | Vizrt |
| | | | | Informatica |
| Consumer Discretionary | 14% | Retailers (online and offline) | High | Dr Martin |
| | | Travel & Leisure | | Big Bus Tours |
| Consumer Staples | 13% | Packaged foods and meats | Medium/low | Action |
| | | Beverages | | Mademoiselle Desserts |
| | | | | Froneri |
| Financials | 10% | Payments | Medium | Trustly |
| | | Consumer Finance | | RL360 |
| Other | 9% | Materials | Mixed | Verastar |
| | | Energy | | |
| | | Telecommunications | | |

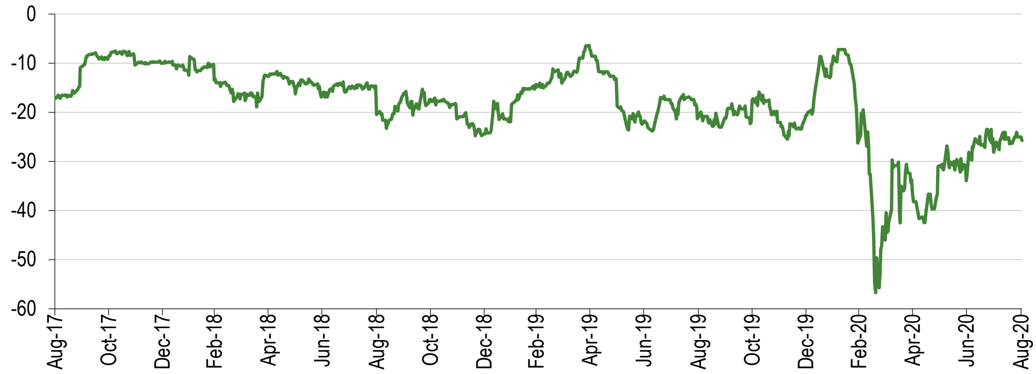
Source: SLPET

IT businesses (17%) have so far benefited from accelerated digitalisation of processes and the increasing prevalence of the work-from-home setup (a good example here is TeamViewer). SLPET's IT exposure consists primarily of software companies (eg investments through Hg Funds) providing mission critical solutions and characterised by a high level of recurring revenues and cash flow. While the risk coming from a combination of SaaS companies' valuations being at all-time highs and near-term concerns around growth (see our recent HgCapital Trust note for details) is worth highlighting, the medium- to long-term demand outlook for remote, cloud-based solutions looks encouraging. Consumer staples (including SLPET's largest exposure Action) is another sector that seems well-positioned to avoid a severe demand shock due to the focus on essential products (including packaged food and beverages), in contrast to consumer discretionary (in particular 'offline' retail and travel & leisure exposures, as well as companies with businesses relying on mass gatherings).

## Discount: Wider than its three-year average

SLPET's share price discount to NAV reached a record level close to 60% in March 2020; this subsequently narrowed to c 24% as a result of the share price rebound, but also of the downward NAV revision. Nevertheless, its current discount is still ahead of its three-year average of 18.5%, which may suggest that the market is discounting further NAV deterioration.

Exhibit 12: Share price discount to NAV over three years (%)




Source: Refinitiv, Edison Investment Research

## Capital structure and fees

The annual management fee paid to ASI amounts to 0.95% of NAV, which in the first half of FY20 (October 2019 to March 2020) reached almost £3.3m. In the same period, the manager also charged a promotion fee of £90k. The ongoing charges ratio, based on last available data (end-March 2020), remained broadly stable, at 1.09% (1.10% as at March 2019). At the same time, the company forecasts its ongoing charges ratio for FY20 at 1.11%. SLPET is not being charged any performance fees.

In early 2020, SLPET upsized its revolving credit facility with Citibank and Société Générale from £80m to £100m and extended its maturity to December 2024. At end-June 2020, the credit line remained undrawn. We estimate that a full drawdown would translate into a gearing ratio of c 15% of end-June 2020 NAV, which is at the midpoint of the company's policy limiting its borrowings to 30% of NAV.

SLPET's share capital consists of 153.7m single class shares, with c 14.99% possibly being subject to repurchase, based on authority held by management, and renewed on 24 February 2020. The same resolution gives management a right to allot 5.0% of SLPET issued capital. We note, however, that neither buybacks nor allotments have been made since August 2016.

## Dividend policy and record

The management board is dedicated to providing regular, strong and stable dividend payouts, but also to preserving its value in real terms. It distributes dividends on a quarterly basis and since 2017 has been increasing the aggregate annual payout by 0.4p each year. In the current fiscal year, it has already paid two quarterly dividends at 3.3p in April 2020 and July 2020, respectively. This implies an annualised dividend yield at 4.1%.

We note, however, that the dividend policy could be revised depending on the development of the coronavirus crisis. Subdued realisations coupled with increased capital calls could encourage SLPET to reduce dividend distributions to secure additional liquidity. Given the uncertain economic outlook, the board and the investment manager have stated that they will keep the level of future dividends under review. Nevertheless, it is worth highlighting that SLPET's current liquidity position remains robust as discussed earlier in the note.

## Peer group comparison

Compared to our previous note, we have narrowed SLPET's peer group to five PE funds (from seven), to ensure that all of them have the same fund-of-funds structure. SLPET slightly outperformed this peer group over 5 and 10 years, as illustrated in Exhibit 13. In this context, we note that SLPET has only started introducing co-investments in 2019. While PE funds should be evaluated over longer time periods, it is also instructive to examine SLPET's short-term returns. With a decline in NAV TR of 2.0% over the last year, SLPET ranks fifth among its peers, trailing the group average by c 4pp. A subpar performance in recent months has also affected the three-year return rate. However, we need to emphasise that PE investment companies are subject to a lag in NAV performance to various extents (more pronounced in funds relying on valuations received from GPs), as well as the reporting timing of their respective NAVs. Consequently, the last reported NAV for both SLPET and its peers is still largely based on end-March 2020 valuations.

SLPET's current discount to NAV at 24% and ongoing charges ratio of 1.09% are broadly in line with the peer group average. The company at present offers the second-highest last 12 months (LTM) dividend yield within the fund-of-funds group of 4.1%.

**Exhibit 13: Selected peer group as at 1 September 2020***

| % unless stated | Market cap £m | NAV TR 1 year | NAV TR 3 year | NAV TR 5 year | NAV TR 10 year | Discount (ex-par) | Ongoing charge | Perf. fee | Net gearing | LTM dividend yield |
|---|---|---|---|---|---|---|---|---|---|---|
| Standard Life Private Equity | **489.5** | **(2.0)** | **21.5** | **79.5** | **184.3** | **(24.4)** | **1.09** | **No** | **91** | **4.1** |
| BMO Private Equity Trust | 218.1 | 2.9 | 20.9 | 65.8 | 159.6 | (22.5) | 1.22 | Yes | 115 | 5.2 |
| HarbourVest Global Private Equity | 1,261.8 | 5.2 | 40.1 | 99.0 | 262.2 | (21.3) | 0.55 | No** | 90 | 0.0 |
| ICG Enterprise Trust | 563.9 | 4.9 | 33.4 | 72.8 | 185.8 | (24.9) | 1.37 | Yes | 98 | 2.8 |
| JPEL Private Equity | 103.1 | (5.5) | 1.2 | 56.3 | 47.6 | (32.4) | 1.23 | Yes | 137 | 0.0 |
| Pantheon International | 1,173.7 | 4.1 | 31.3 | 87.0 | 198.9 | (20.4) | 1.23 | Yes | 92 | 0.0 |
| **Peer average** | **664.1** | **2.3** | **25.7** | **76.0** | **170.8** | **(24.3)** | **1.12** | **-** | **106** | **1.6** |
| **Rank in peer group** | **4** | **5** | **4** | **3** | **4** | **5** | **5** | **-** | **5** | **2** |

Source: Morningstar, Edison Investment Research. Note: *Performance to end-June 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). **No performance fee is charged at HVPE level, but it is charged on the HarbourVest secondary and direct funds.

## The board

SLPET's management board, which is led by Christina McComb (chair of the board since the end of December 2018), comprises five independent non-executive directors. McComb has over 25 years' experience of investing in growth companies, including 14 years at 3i Group. Alan Devine (appointed to the board in May 2014), who was appointed as senior independent director on 31 December 2018, has over 40 years' experience in commercial and investment banking. Diane Seymour-Williams (appointed June 2017) spent 23 years at Deutsche Asset Management and nine years at LGM Investments; she is also a director of Brooks Macdonald Group. Calum Thomson (appointed November 2017) has over 25 years' experience in financial services; he is also a director of Diverse Income Trust and Baring Emerging Europe. Jonathon Bond (appointed June 2018) has over 30 years' private equity industry experience and is a director of Jupiter Fund Management.

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