EDISON

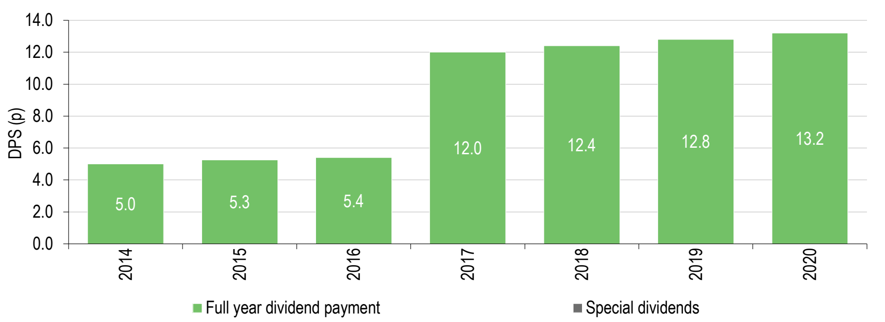
Standard Life Private Equity Trust

Ready to deploy further capital in 2021

Investment trusts
Private equity funds

Standard Life Private Equity Trust (SLPET) reported an 11.7% NAV TR in FY20 (ending 30 September 2020), driven by its resilient portfolio weighted towards technology, healthcare and consumer staples (c 51% of NAV at end-FY20). Over the period, the company received a healthy £140m from realisations at an average exit multiple of 3.5x (supported by the partial exit from Action). SLPET is well-placed to pursue new deals in 2021, which it expects to be skewed more towards secondaries and co-investments than in the past.

Steady increase in dividend per share since FY14



Source: Refinitiv, Edison Investment Research

Why invest in private equity now?

The private equity sector has withstood the COVID-19 crisis well so far, with the pick-up in M&A and IPO activity after Q220 driving strong realisation activity in SLPET's general partners (GPs) and cash distributions to SLPET. Consequently, top GPs continue to deliver attractive long-term returns. While valuations of the most resilient sectors are demanding, top sponsors could still benefit from their strong recent fund-raising, extensive deal origination networks, in-house value creation teams and ability to pursue a 'buy and build' strategy.

The analyst's view

- SLPET provides exposure to high-conviction GPs (primarily across Europe) and its recent new primary commitments were made to sponsors with whom the company has relationships of more than 10 years.
- Seven out of 10 investments in FY20 had a tech focus, which should help further increase SLPET's exposure to the sector over time from the current 19% of NAV, closer to 25–30%.
- Following the upsizing of its credit facility to £200m, SLPET's over-commitment level (29%) is slightly below its targeted range of 30–75%, providing balance sheet headroom to pursue further investments in 2021.

Sustained dividend policy despite COVID-19

SLPET's total FY20 dividend of 13.2p (up c 3% y-o-y) translates into an attractive 3.3% yield, while the current 16.4% discount to NAV is slightly narrower than the five-year average (c 20%), but also broadly in line with the peer group average (17.2%).

NOT INTENDED FOR PERSONS IN THE EEA

24 February 2021

Price		**401.0p**
Market cap		**£617m**
AUM		**£744m**
NAV*		479.8p
Discount to NAV		16.4%
*Including income. As at 4 February 2021.		
Yield		3.3%
Ordinary shares in issue		153.7m
Code/ISIN		SLPE/GB0030474687
Primary exchange		LSE
AIC sector		Private Equity
52-week high/low	410.5p	192.5p
NAV* high/low	501.0p	421.4p
*Including income.		
Gross gearing*		0.0%
Net cash*		5.9%
*As at 31 January 2021.		

Fund objective

Standard Life Private Equity Trust (SLPET) investment objective is to achieve long-term total returns through holding a diversified portfolio of private equity funds and direct investments into private companies alongside private equity managers ('co-investments'), a majority of which will have a European focus.

Bull points

- Focus on top-performing European private equity managers.
- Experienced investment team with strong private equity manager relationships.
- Consistent DPS growth in recent years.

Bear points

- Ample dry powder in the market translating into high competition for quality assets.
- High valuations in most resilient sectors.
- Changes to sector exposure take more time due to SLPET's fund-of-fund structure.

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

Market outlook: PE market regaining momentum

We believe the top private equity (PE) funds are well positioned to seek further investment opportunities in 2021. They withstood the 2020 turmoil relatively well, as illustrated by the slight 1.8% increase in the LPX Europe Index representing the broader PE market (which also includes PE asset managers). One of the important reasons for this was the decision of PE managers to increase exposure to more resilient sectors benefiting from long-term secular trends, such as TMT, healthcare and consumer staples during the mature stage of the particularly long pre-COVID-19 bull market (in anticipation of a cyclical downturn). According to PitchBook Data, Inc, PE investments in IT comprised a record proportion of overall European deal flow in 2020, making up 21.7% of value and 25.9% of volume.

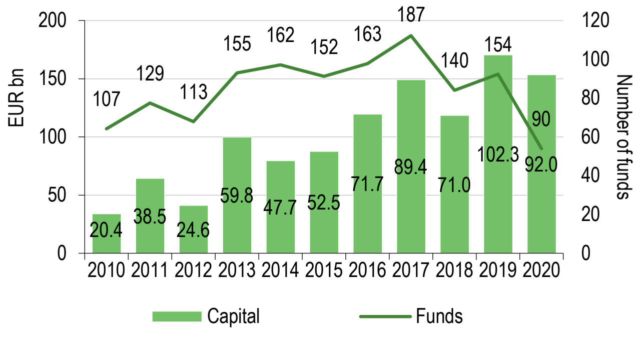
Moreover, the sector's response to the lockdowns was swift and involved securing additional liquidity to support portfolio companies, enabling them to avoid asset fire-sales. The liquidity needs of portfolio holdings subsequently proved less severe than initially expected, which was partially a function of state support measures and monetary stimulus, as well as strong private debt activity and the prevalence of covenant-lite loans. Moreover, PE managers worked closely with management boards to implement cost savings, address potential supply chain disruptions and determine non-essential operations.

Transaction and fund-raising activities remained robust in 2020

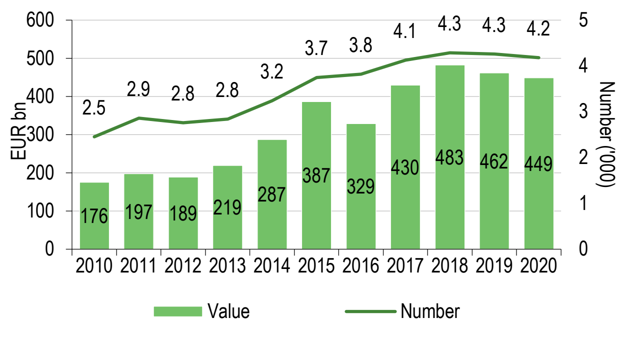
Going into 2021, PE funds have considerable dry powder at their disposal (€294bn in European funds at 31 December 2020, according to PitchBook Data, Inc.), with European fund-raising volumes slowing down only moderately in 2020 (-10% y-o-y to €92.0bn). Consequently, after an M&A market standstill in Q220, activity picked up significantly in H220, bringing the full-year transaction value (€449bn) close to the 2019 figure (€462bn), which bodes well for deal volumes in 2021. On one hand, this should provide GPs with additional exit options through sponsor-to-sponsor deals, but on the other, translates into greater competition for quality private assets.

Exhibit 1: European PE market development

Fund-raising: PE funds closed (number and volume)*



PE transactions closed (number and value)*

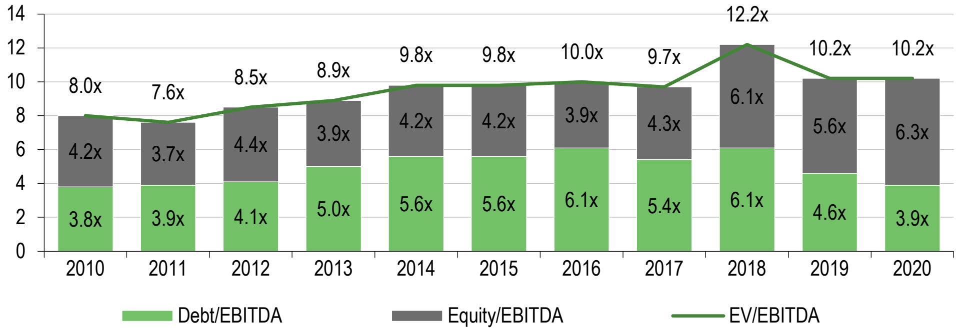


Source: PitchBook Data, Inc. Note: *2020 values based partially on estimates.

Valuations remain high in most sought-after sectors

The initial drop in PE portfolio valuations in March 2020 was recovered in the later part of the year supported, among other things, by the expansion of public market multiples and, for some sectors, resilient portfolio company earnings. This also brought the median PE transactions multiple close to 2019 levels (see Exhibit 2). However, we note that deal activity was centred around businesses that proved resilient to the downturn (tech companies in particular) and which thus commanded relatively premium valuations. On the contrary, owners of companies in sectors that were more affected by the crisis (eg offline retail or some industrials) were less likely to sell them at depressed valuations.

Exhibit 2: Median European PE buyout multiples



Source: PitchBook Data, Inc.

Consequently, we believe that in order to meet the IRR targets on new investments in the more sought-after sectors, PE managers should: 1) underwrite multiple contraction in the investment case; 2) focus on investments in their core areas of expertise; 3) clearly define the value creation plan prior to deal closure; and 4) consider a 'buy-and-build' strategy to blend down the entry multiple through subsequent bolt-on acquisitions (these represented 61.4% of European PE deals in 2020, according to PitchBook Data, Inc.) which are normally carried out at more attractive multiples and are often less risky than the initial platform investment. 'Serial acquirers' with a proven track record of acquiring and integrating businesses may continue to command a certain premium vs peers.

Alternatively, PE managers can pursue investments in more cyclical value businesses ahead of a global economic rebound and in the meantime strengthen their resilience through, eg process digitalisation. New investment opportunities may come from a pick-up in corporate carveouts (which were muted last year as companies focused on short-term initiatives to mitigate the impact of the COVID crisis) and possibly also realisations from PE portfolios approaching the end of their lifetime. However, the economic recovery path remains uncertain and may prove both protracted and volatile. This is illustrated by recent IMF forecasts from January 2021 for the eurozone, of a 7.2% decline in GDP in 2020 followed by 4.2% and 3.6% growth in 2021 and 2022, respectively. Several countries reported delays in the vaccination process due to slower than expected vaccine deliveries as well as internal bottlenecks. Moreover, while fiscal and monetary stimulus coupled with the prevalence of loose debt covenants allowed the avoidance of a spike in corporate defaults similar to the global financial crisis (GFC), Fitch Ratings still expects the three-year cumulative default rate to be broadly similar to the aftermath of the GFC.

The fund manager: ASI Private Equity team

Since its launch in 2001, SLPET has been managed by SL Capital Partners, a wholly-owned subsidiary of Standard Life Aberdeen, operating under the Aberdeen Standard Investment (ASI) brand. The manager is one of the largest investors in PE funds and co-investments with a European focus, with more than £10bn in managed assets. An investment team based in Europe and the US, 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 has been involved in all aspects of investing, including sourcing, appraising and executing investments as well as portfolio monitoring. He has a strong network and extensive experience in leading PE funds, particularly pan-European, French, Nordic and Iberian GPs. He is supported by Patrick Knechtli, who leads the secondaries team at ASI, and Mark Nicolson, head of primaries. All three have been working at SL Capital Partners for more than 10 years.

The manager's view: Post-COVID returns above expectations

The COVID-19 outbreak in early 2020 resulted in a significant downturn across stock markets and a temporary suspension of PE transaction activity. At that time, SLPET focused on stress testing the portfolio and ensuring that the company had sufficient liquidity to meet its obligations in the bleakest of scenarios, as it did not expect a prompt rebound at that point.

Eventually, selected sectors turned out to be resilient to the pandemic impact, most notably technology, healthcare and consumer staples. Fortunately, these were also the key areas of SLPET's investment focus (51% of NAV at end-2020), which fuelled a strong rebound in NAV over the following quarters. While M&A activity was indeed disrupted by lockdowns during the year, many PE managers nevertheless found a way to work around the restrictions and continue finalising transactions. Distributions to SLPET proved to be more resilient than had been expected at the onset of the pandemic. Notable exits included Roompot (in PAI VI), Rovensa (Bridgepoint Europe V), Surfaces (Astorg VI) and Colisee (IK VIII). Furthermore, the IPO market reopened for quality PE-backed assets, with portfolio companies Moonpig (in Exponent Private Equity Partners III), Allegro (Sixth Cinven Fund), Dr Martens (Permira V) and Nordnet (Nordic Capital VIII) serving as key examples.

Despite the healthy bounceback in valuations in the second half of 2020 and positive developments around the deployment of COVID-19 vaccines, the investment manager remains cautious as the long-term impact of the pandemic is still difficult to forecast. The management of economic and social consequences will take several years given that a complete return to the pre-pandemic 'normal' seems unlikely. However, based on the level of diversification and proven resilience of its portfolio, the manager believes it is well positioned to weather potential breakdowns in the broad market in 2021, and continues to build on its successful long-term track record. With access to a £200m credit facility, SLPET's strong balance sheet should ensure sufficient liquidity, not only to support underlying investments during the crisis, but also to benefit from any potential opportunities opening in the market.

Asset allocation

Amid broader market uncertainty, SLPET's investment manager followed a more cautious approach to new investments between end-March and end-September, with an allocation of £52m bringing the FY20 figure to £140m (vs £188m in FY19). SLPET made six new primary commitments totalling £99.4m, all of which were made to PE managers with whom it has established relationships with a track record of over 10 years (see Exhibit 3). £82.4m was invested in funds with a European focus, complemented by a small North American lower mid-market fund.

As opportunities to acquire good-quality secondaries at a discount to NAV were limited in 2020 (as investors waited for valuations to stabilise), SLPET completed only two secondary transactions (amounting to £12.5m), including a position in the two remaining assets in PAI Fund V (Froneri, an international ice cream manufacturer and Marcolin, an Italian eyewear manufacturer) and in Vitruvian Investment Partnership III, which the manager describes as a maturing and diversified portfolio of high-quality companies focused on disruptive growth trends. We note that the latter was purchased from a distressed seller at a 'meaningful' discount to the carrying value, while the former was acquired at close to par.

SLPET also made two co-investments – a partial re-investment in Action (£22.6m) and a new investment in Visma (£5.3m), which is the top holding in the tech-focused funds managed by Hg, one of SLPET's core GPs (see our coverage of HgCapital Trust for reference). We note that seven of the above 10 investments have a tech focus, which should drive an increase in SLPET's tech exposure over time.

Exhibit 3: SLPET's primary fund investments in FY20

Investment	Investment month	Commitment £m	Fund volume	Investment focus
Hg Saturn 2	February	12.2	$4.9bn	Upper mid-market and large software companies in Europe and the US.
Hg Genesis 9	March	13.8	€4.4bn	Mid-market software and tech-enabled services companies in Europe.
Hg Mercury 3	March	11.4	€1.3bn	Lower mid-market software and tech-enabled services companies across Europe.
Seidler Equity Partners VII	March	17.0	$800m	Lower mid-market North American companies.
Vitruvian Investment Partnership IV	May	22.3	€4.0bn	Mid-market businesses in Northern Europe.
Nordic Capital X	September	22.7	€6.1bn	Mid-market businesses in Northern Europe.

Source: Standard Life Private Equity Trust

In the last calendar quarter of 2020, SLPET continued to expand its portfolio through a €25m commitment to Triton Smaller Mid-Cap Fund II and a €9.9m co-investment in North American Science Associates (NAMSA), a clinical research organisation specialising in providing services to medical device companies.

Based on commentary from SLPET's investment manager, we understand that primary investment activity is likely to be relatively moderate in 2021 following a period of successful fund-raising activity by its core GPs in 2019 and 2020. At the same time, the investment manager expects more opportunities on the secondaries side (one investment is at an advanced stage) as some investors look to rebalance their portfolios due to liquidity or allocation pressures. However, given the current high level of dry powder that the market is dedicating to secondary strategies, prices should be on a par or at a slight premium to NAV (and thus close to pre-COVID levels). Furthermore, we note the positive environment for co-investments, with the manager seeing good deal flow in FY21 with one closed (Namsa) and three others at an advanced stage.

At end-January 2021, SLPET's total outstanding commitments amounted to £458.0m, of which the manager considered c £68.8m unlikely to be drawn. Bearing in mind the undrawn £200m credit facility and £43.5m in available resources, uncovered commitments at end January 2021 amounted to £214.5m, translating into an over-commitment ratio of 29%. We note that this is slightly below the targeted range (30–75%), which is mainly attributable to upsizing the credit facility to £200m from £100m in September 2020, as well as precautionary measures applied to the investment process during the pandemic. Entering 2021, SLPET is ready to utilise the credit facility to pursue attractive investment opportunities. Moreover, we note that SLPET's direct co-investment pipeline is not captured in the over-commitment ratio.

Current portfolio positioning

At end-September 2020, SLPET retained a relatively high concentration level in its portfolio, consisting of 58 investments (including three co-investments), with the top 10 largest holdings constituting c 48% of NAV. However, we consider it well diversified as it provides exposure to 456 underlying companies (with the top 100 constituting over 60% of NAV), with the only holding with a share in NAV above 2% being its co-investment in Action (3.8% of NAV).

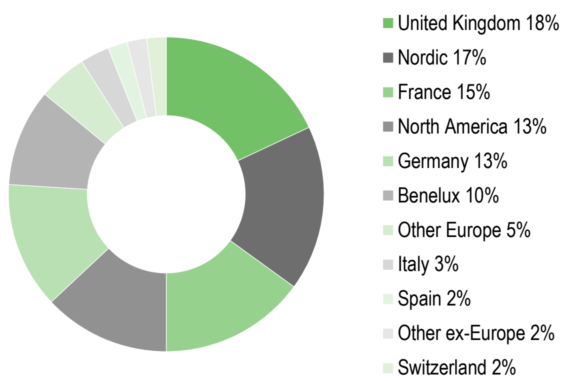
Exhibit 4: SLPET's top 10 private equity fund* holdings as at 30 September 2020

Fund	Strategy	Vintage	Number of holdings	Outstanding commitments £000s	Residual cost £000s	Valuation £000s	% of NAV 30 Sep 2020	% of NAV 30 Sep 2019	Net multiple
Advent International GPE VIII	Mid-market buyouts, Europe and North America focus	2016	31	1,959	37,682	57,759	7.5	6.3	1.5x
IK Fund VIII	N. European mid-market buyouts	2016	15	2,222	36,636	49,948	6.5	5.8	1.4x
Altor Fund IV	N. European mid-market buyouts	2014	20	15,318	31,327	41,819	5.4	4.7	1.4x
Nordic Capital VIII	European complex buyouts & global healthcare	2013	13	28,373	24,388	38,202	5.0	5.3	1.5x
Permira V	Transformational buyouts globally	2014	15	2,689	15,463	37,338	4.8	5.5	3.3x
Exponent Private Equity Partners III	UK mid-market buyouts	2015	11	3,071	26,104	32,782	4.3	4.7	1.3x
Sixth Cinven Fund	European buyouts and selective North American investments	2016	17	4,578	20,385	29,322	3.8	2.3	1.4x
Bridgepoint Europe V	European mid-market buyouts	2015	13	1,408	21,556	28,691	3.7	4.4	1.5x
PAI Europe VI	Upper middle market	2014	12	2,383	22,109	27,318	3.5	3.5	1.6x
CVC VI	Mid to large buyouts, Europe and North America focus	2014	27	4,723	17,834	27,118	3.5	3.9	1.6x
Top 10 at each date	**-**	**-**	**174**	**66,724**	**253,484**	**370,297**	**48.0**	**46.4**	**-**

Source: SLPET, Edison Investment Research. Note: *Does not include co-investment in Action, made through 3i Venice SCSp fund. Commitments, cost and valuation figures relate to SLPET's interest.

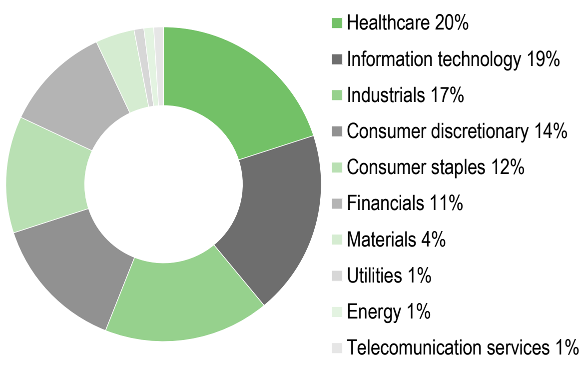
IT, healthcare and consumer staples represented c 51% of SLPET's NAV as at end-September 2020 (with none exceeding a 20% share), underpinned by its long-term investment strategy, focused on high-growth, non-cyclical sectors. This is ahead of broader European public markets and helped SPLET limit the impact of the pandemic-driven slowdown. As the global economic situation remains uncertain, SLPET plans to continue its thematic-driven approach aimed at further increasing the percentage of resilient investments (tech, healthcare and consumer staples in particular) in its portfolio.

Exhibit 5: Geographical structure of the portfolio at 30 September 2020



Source: Standard Life Private Equity Trust

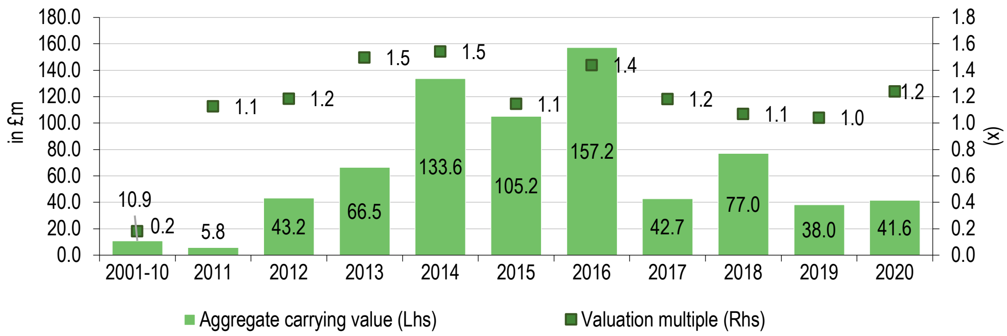
Exhibit 6: Industry structure of the portfolio at 30 September 2020



Source: Standard Life Private Equity Trust

The geographic structure of the portfolio illustrates SLPET's European bias, with a tilt towards North-Western countries, albeit without any dominant exposure (helping to weather the impact of country-specific factors such as Brexit). Similarly, the high level of diversification across vintages, achieved through steady primary investment activity (assisted by secondaries to support underweight ageing classes) helps offset cash flows against drawdowns and realisations, enabling efficient utilisation of liquid resources. We note that c 72% of portfolio value at end-September 2020 was invested before 2017 (see Exhibit 7), which could assist realisation activity in the next few years as funds approach the end of their typical investment horizon.

Exhibit 7: Portfolio's carrying value by vintage



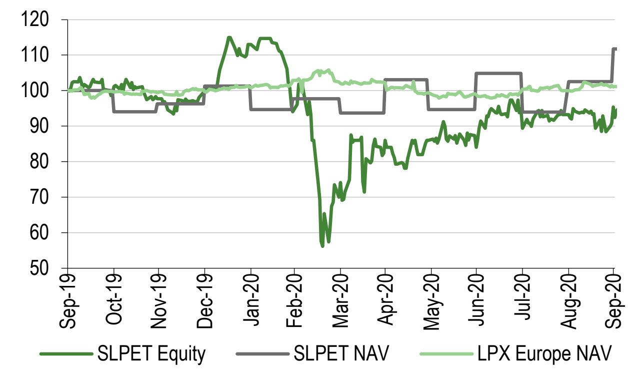
Source: Standard Live Private Equity Trust, Edison Investment Research

Performance: Uninterrupted healthy return

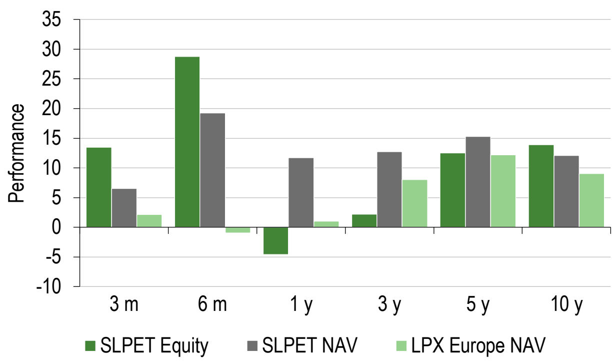
SLPET reported a NAV total return in FY20 (ending September 2020) of 11.7% (compared to 10.5% in FY19) despite the 12.5% quarterly markdown at end-March 2020. This was ahead of both its official benchmark (FTSE All-Share Index down 16.6%) and the MSCI World Index (5.6% in sterling terms). SLPET's return was also visibly ahead of the LPX Europe NAV Index representing the broad European PE market (1.0%).

Exhibit 8: Investment trust performance to 30 September 2020

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



Price, NAV and benchmark total return performance (%)



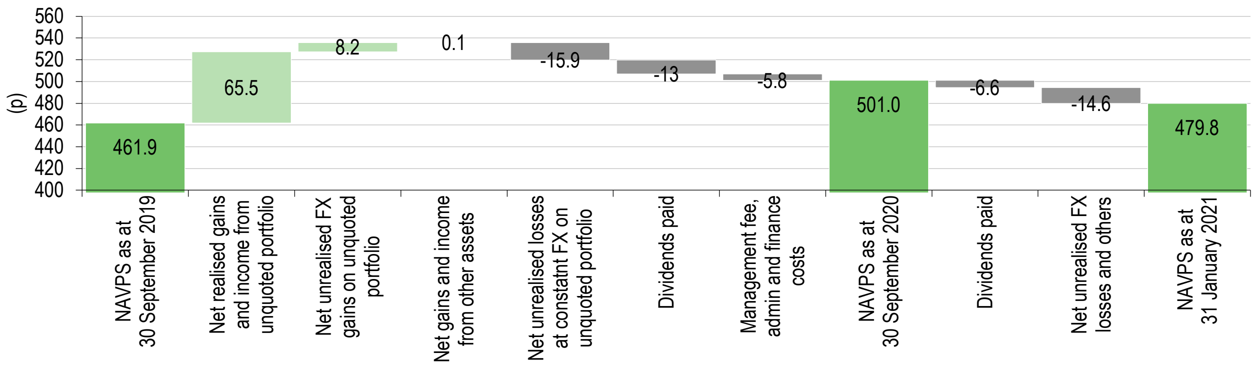
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

SLPET's NAV total return (TR) was driven by a 12.2% increase in the underlying portfolio valuation excluding the 1.8% positive FX impact (adding 8.2p to its NAV per share), mainly from the appreciation of the euro vs sterling. This was assisted by multiples expansion, with the median EV/EBITDA multiple for SLPET's top 50 underlying companies at 13.5x at end-September 2020 vs 12.7x at end-September 2019.

The investment manager did not disclose last 12-month revenue and EBITDA growth at end-September 2020 across SLPET's portfolio, but indicated that portfolio earnings had been resilient during the period. At end-September 2020, only two of the top 100 companies (0.8% of NAV) were considered materially disrupted by COVID-19. This is down from nine companies reported earlier because of subsequent write-downs, which pushed some of the holdings outside the top100 holdings.

The last available NAV estimate at 31 January 2021 implies a decrease of 21.2p (or c 4.2%) against end-September 2020. However, this is primarily attributable to the 2.5% depreciation in the euro vs sterling during the period and the third and fourth interim dividend payments of 3.3p per share in October 2020 and January 2021, as c 99% of the portfolio valuations were still as at 30 September 2020. Therefore, the Q420 stock markets rally, driven by emergency approvals of the COVID-19 vaccines, is not yet reflected in SLPET's NAV.

Exhibit 9: NAV per share development in FY20 and Q420



Source: Standard Life Private Equity Trust, Edison Investment Research

We note that the growth in SLPET's NAV per share in FY20 from 461.9p to 501.0p was mainly on the back of 65.5p of net realised gains from the unquoted portfolio, only partially offset by unrealised losses of 15.9p per share. Realisations stood at a strong £140.0m (vs £107.4m in FY19) and included the £51.1m realisation of Action from 3i Eurofund V, which was its largest fund exposure at end-September 2019 (c 7.7% of NAV). This brought the average exit multiple over the period to 3.5x cost. Excluding Action, the multiple is still a robust c 2.3x and compares to 2.2x in FY19, which was on par with the US and Western Europe buyout market's average (based on Bain Capital data). Importantly, the average uplift to carrying value of sold companies in the two quarters prior was 22.3%, which according to the investment manager is consistent with the 20%+ historical levels since 2010. SLPET received a further £52.3m of distributions between end-September 2020 and end-January 2021.

Peer group comparison

We continue to compare SLPET with a PE fund-of-funds peer group, putting more emphasis on mid- to long-term performance, which aligns better with a PE investment approach. It also limits the impact of different time frames used to calculate the NAV total return figures, depending on the date of the last published NAV. However, compared to our previous notes, we have removed JPEL from the group, as it is already in the process of winding down. Performance figures are based on the latest available ex-par NAV as at end-January 2021, except for ICG Enterprise Trust – end-October and BMO Private Equity Trust – end-September. Having said that, we note that the majority of SLPET's portfolio valuations (99%) were made as at end-September 2020, which was then subject to limited adjustments (mostly FX impact, see above).

SLPET's three-year NAV TR to end-January 2021 of 39.8% is broadly in line with the group average of 40.2%. Extending the analysed period to five and 10 years brings SLPET's NAV TR to 91.9% and 174.6%, respectively vs peer averages of 83.4% and 205.4%, respectively. We note that SLPET's one-year NAV TR to end-January 2021 of 14.6% is the highest among its peers and significantly above their average of 10.1%. However, this figure is a function of portfolio valuations as at end-September 2020 and end-September 2021.

Following the recent price appreciation, SLPET's shares currently trade at a 16.4% discount, which is broadly in line with the peer group average but narrower than its own long-term average (three years: 20.8%; five years: 19.9%). Still, the company offers a solid 3.3% dividend yield, which ranks second among three dividend paying peers in the group.

Exhibit 10: Selected peer group as at 17 February 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Standard Life Private Equity	617	**14.6**	**39.8**	**91.9**	**174.6**	**1.10**	**No**	(16.4)	**95**	**3.3**
BMO Private Equity Trust	222	3.4	22.1	58.7	138.1	1.22	Yes	(22.0)	115	5.1
HarbourVest Global Private Equity	1,549	14.0	53.7	97.6	264.7	0.55	No**	(16.5)	96	0.0
ICG Enterprise Trust	681	11.1	41.2	97.0	202.5	1.37	Yes	(11.8)	98	2.3
Pantheon International	1,325	11.8	43.9	80.2	216.2	1.23	Yes	(18.6)	93	0.0
Peer average	944	**10.1**	**40.2**	**83.4**	**205.4**	**1.09**		(17.2)	**100**	**1.9**
Rank in peer group	**4**	**1**	**4**	**3**	**4**	**2**	**-**	**2**	**4**	**2**

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). *12-month performance based on latest available ex-par NAV: SLPET, Pantheon and HarbourVest – end-January, ICG Enterprise Trust – end-October, BMO Private Equity Trust – end-September. **No performance fee is charged at the HVPE level, but it is charged on the HarbourVest secondary and direct funds.

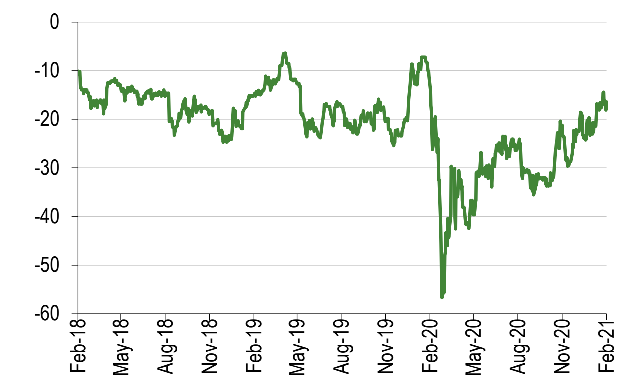
Dividends

SLPET's management is committed to ensure regular, strong and stable dividend payments, which since 2017 have been made on a quarterly basis, in April, June, October and January of the year following financial year end. It is worth noting that the company sustained its dividend policy during the pandemic on the back of a stable liquidity position and strong portfolio realisations. The board also aims to preserve the real value of the annual distribution, which resulted in a gradual annual increase of the payments by 0.4p (0.1p per each dividend payment), which constitutes a 3.1% y-o-y increase in FY20. Quarterly dividends in FY20 amounted to 3.3p per share and translate into a 3.3% dividend yield.

Discount: Below long-term average level

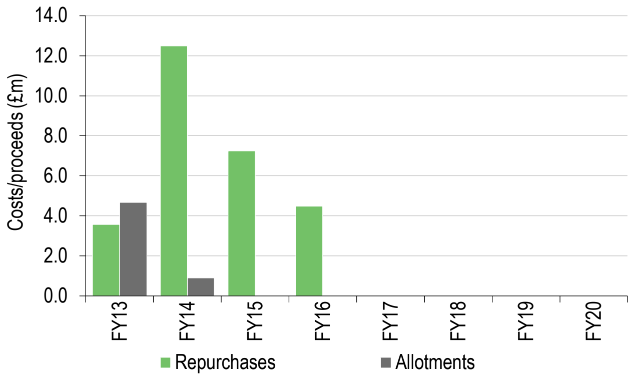
As SLPET has not introduced any discount control policy, it is subject to broader market trends, including the significant share price volatility amid the COVID-19 outbreak. In the past, SLPET bought back its shares to manage the discount, but currently it is focused on preserving safe liquidity levels and cash for investment purposes and therefore did not conduct any share buybacks during FY20. Having said that, we note that SLPET's discount to NAV ranged from 7.2% to 56.7% in 2020 and averaged 26.2% – in line with the peer group, but broader than its five-year average of 19.9%. Currently, the discount sits at 16.4%.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: SLPET, Edison Investment Research

Fund profile: European mid-market focus

The main objective of SLPET remains achievement of long-term total returns through investing in a diversified portfolio of leading PE buyout funds, as well as direct investments into private companies alongside PE managers. The latter investment class was added to the mix in 2019 but should expand to a meaningful exposure over the medium term. The company is predominantly focused on the European mid-market, with the ability to remain selective in adjacent and complementary PE strategies, ranging from growth to large/mega buyout funds. SLPET's manager considers that access to leading PE professionals and selective fund allocations are essential to achieving the best possible investment performance, given that historical returns across the PE fund universe have varied widely. Therefore, the portfolio-building process is based on strong long-term relationships with carefully selected top-performing PE managers.

The targeted portfolio consists of c 50 active PE fund investments, acquired on a primary basis as well as in the secondary market, with up to 20% of the portfolio's NAV committed to co-investments. Individual fund and manager exposure limits are set at 12.5% and 20.0% of NAV, respectively. Even though SLPET is one of the most concentrated listed PE fund-of funds, with the top 10 investments representing almost 50% of portfolio NAV and over 70% of NAV committed to 17 core managers, its portfolio remains well diversified by country, industry sector, maturity and number of underlying investments.

Investment process: Relying on long-term partnerships

Although SLPET's main investment focus lies in the European mid-market, the company benefits from its management teams being located on both sides of the Atlantic, which enables broader monitoring of potential investments. 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. Consequently, SLPET typically makes around four to six primary fund commitments each year, coupled with secondary market transactions and direct co-investments.

To limit the amount of dry powder, the company follows an over-commitment strategy, by making commitments exceeding its uninvested capital. The board has agreed that the over-commitment ratio should sit within a range of 30% to 75% over the long term. Such a strategy enables it to maximise the proportion of invested capital but requires careful monitoring of value and timing of both expected and projected cash flows within the portfolio. To fill in potential timing gaps between distributions and drawdowns as well as to seize attractive market opportunities, the company may use its revolving credit facility amounting to £200m. Based on the company's articles of association, borrowings should not normally exceed 30% of the NAV at the time of drawdown.

SLPET's approach to ESG

SLPET aims to be an active, long-term responsible investor, partnering with PE managers that are ESG leaders and/or culturally committed to ESG improvements. All the company's investments are subject to ESG due diligence, which the manager believes will enhance the sustainable returns of the portfolio. We understand that going forward the board and the manager intend to devise specific ESG KPIs for monitoring its underlying portfolio companies.

With respect to ESG performance, 22 of SLEPT's 24 PE managers (representing more than 95% of the company's NAV) completed an Annual Private Equity ESG Survey held by ASI in 2020. 14 of them (64% of NAV) were granted the highest green rating (ie ESG criteria were fully implemented and monitored at manager and/or portfolio company level), seven (32%) received amber score and one (5%) obtained the lowest red rating. ASI highlights that the results of the survey will be incorporated into the assessment of new investment opportunities for SLPET and it will also engage with managers where the survey indicated relative ESG underperformance. It is noteworthy that the manager has been a signatory of United Nations-supported Principles for Responsible Investment (UNPRI) for more than 10 years and received the highest possible rating of A+ for Strategy & Governance in 2020.

Gearing: Fully undrawn £200m credit facility

As at end-January 2021, SLPET's syndicated multi-credit facility, amounting to £200m and expiring on 6 December 2024 remaining undrawn. We note that it was increased from £100m in September 2020 (on similar terms to the previous agreement), as State Street Bank joined the existing lenders Citi and Société Générale. We believe that SLPET's credit facility size relative to its last reported NAV (c 26.6%) is broadly in line with its closest peers. According to the investment manager, the additional firepower may be used over 2021 to seize new investment opportunities. We also note that in December 2020 the company received the remaining deferred consideration of £15.1m, relating to investments sold in 2019, bringing the cash and cash equivalents at end-January 2021 to £43.5m.

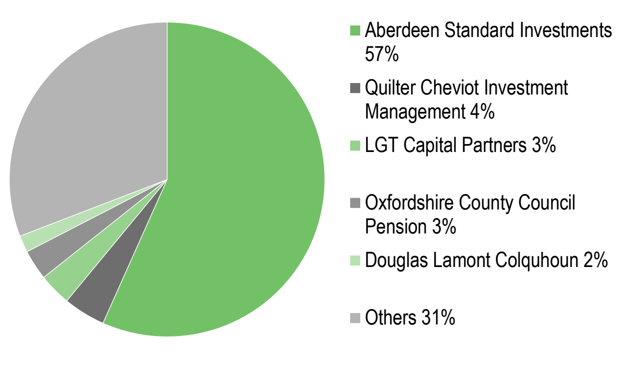
Fees and charges

Total ongoing charges in FY20 amounted to £7.9m (compared to £7.5m in FY19), which translates into 1.10% of average NAV over the period (vs 1.09% in FY19). These included investment management fees paid quarterly to ASI and calculated as 0.95% of NAV per annum, as well as other administrative expenses. The former costs increased to £6.8m in FY20 from £6.5m in FY19, on the back of the expanding portfolio, while the latter remained broadly stable at c £1.0m.

Capital structure

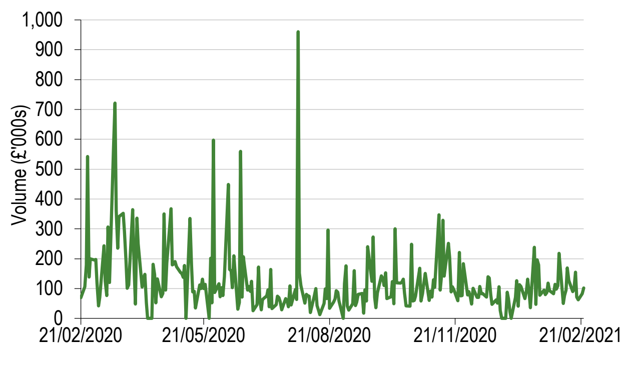
SLPET's share capital consists of 153.7m ordinary shares. The board was given authority at the AGM in February 2020 to buy back up to 14.99% of the shares in issue and/or to issue up to 5% of the issued share capital. However, neither buybacks nor allotments have been made since August 2016.

Exhibit 13: Major shareholders



Source: Refinitiv, at 24 February 2021

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 24 February 2021

The board

SLPET's board, which is led by Christina McComb (chair of the board since 1 January 2019), 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, who was appointed as senior independent director on 1 January 2019, has over 40 years' experience in commercial and investment banking. Diane Seymour-Williams spent 23 years at Deutsche Asset Management and nine years at LGM. Calum Thomson has over 25 years' experience in financial services; he is also a director of Diverse Income Trust and Baring Emerging EMEA Opportunities. Jonathon Bond has over 30 years' PE industry experience and is a director of Jupiter Fund Management.

Exhibit 15: SLPET's board of directors

Board member	Date of appointment	Remuneration in FY19 (£)	Shareholdings at end-FY20
Christina McComb (Chair)	29 January 2013	62,500	13,909
Alan Devine (Senior Independent Director)	28 May 2014	46,500	6,249
Jonathan Bond	15 June 2018	42,500	11,870
Diane Seymour-Williams	7 June 2017	42,500	31,500
Calum Thomson	30 November 2017	46,500	13,700

Source: Standard Life Private Equity Trust.