

# Standard Life Private Equity Trust

## Moving to quarterly dividends with improved yield

Standard Life Private Equity Trust (SLPET) takes a long-term, conviction approach to fund selection, evidenced by its new primary commitments in FY17 being made to private equity managers where there was a strong existing relationship. NAV total returns have been ahead of peers over three and five years, and share price returns have noticeably outpaced NAV returns over one year. The share price discount to NAV has narrowed markedly from c 36% in early 2016 to c 14% currently, arguably due in part to the strength of SLPET's underlying performance, as well as its revised dividend policy, with improved and more frequent payouts scheduled. The manager sees portfolio companies' earnings growth continuing to drive value creation, with the maturity profile of SLPET's portfolio suggesting further near-term upside potential from prospective realisations.

12 months ending	Share price (%)	NAV (%)	LPX Europe (%)	LPX Europe NAV (%)	MSCI Europe (%)	FTSE All-Share (%)
31/12/13	23.2	11.5	33.9	12.9	23.5	20.8
31/12/14	10.0	8.8	4.5	4.9	0.2	1.2
31/12/15	1.1	11.3	14.9	5.2	3.3	1.0
31/12/16	43.0	26.0	27.7	24.6	19.6	16.8
31/12/17*	21.2	10.8	23.7	17.8	15.4	13.1

Source: Thomson Datastream, Bloomberg. Note: 12-month discrete £-adjusted total return performance up to last quarter-end. \*Based on estimated NAV at 31 December 2017.

## Investment strategy: Systematic, disciplined approach

SLPET aims to achieve long-term total returns through investing in a portfolio of 35-40 funds run by experienced private equity managers with strong track records of generating attractive investment returns, giving exposure to an underlying portfolio of c 350 private companies. Funds are selected that invest in mature businesses, primarily via buyout transactions. A systematic, disciplined approach is followed, involving detailed and rigorous screening and due diligence to identify and evaluate primary fund offerings as well as secondary market transactions, which are used to adjust portfolio exposures and to maintain SLPET's capital efficiency.

## Outlook: Robust transaction activity expected

The manager expects new investment and realisation activity to remain robust over the next year, with the large number of private companies in Europe and North America providing significant opportunities. SLPET's portfolio is focused on private equity managers that historically have been able to generate value through operational improvements and strategic repositioning, and these factors are expected to underpin value creation going forward. SLPET has a relatively mature portfolio, which is viewed as providing additional potential for near-term value creation, with c 25% average uplifts to valuations historically achieved on exit.

## Valuation: Narrowed discount; above-average yield

SLPET's share price discount to NAV has narrowed markedly from its five-year high of 36.3% in March 2016 to its current level of 14.2%, which is towards the lower end of the peer group range. The total dividend was more than doubled to 12.0p for FY17 and the board intends to pay four quarterly dividends of 3.1p for FY18.

## Investment trusts

7 February 2018

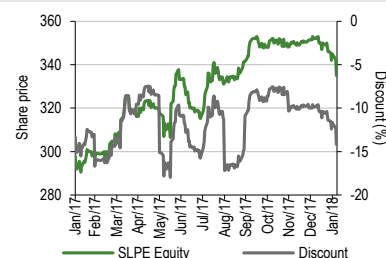
**Price** 335.0p  
**Market cap** £515m  
**AUM** £589m

NAV\* 390.5p  
Discount to NAV 14.2%

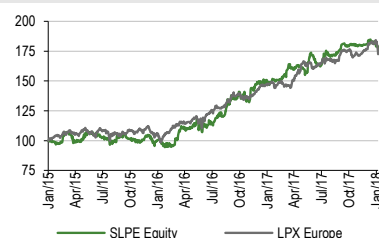
\*Estimated NAV as at 31 December 2017.

FY18 prospective yield 3.7%  
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 353.0p 290.5p  
NAV\*\* high/low 400.7p 343.8p

\*\*Including income.

## Gearing

Gross\* 0.0%  
Net cash\* 18.0%

\*As at 31 December 2017.

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### Exhibit 1: Trust at a glance

#### Investment objective and fund background

SLPET's objective is to achieve long-term total returns through investing in a diversified portfolio of leading private equity buyout funds, a majority of which have a European focus, with exposure managed through the primary and secondary funds markets. Since January 2017, there have been no size and geographic restrictions applying to fund selection. There is currently no available benchmark that the board deems an appropriate measure of SLPET's investment performance.

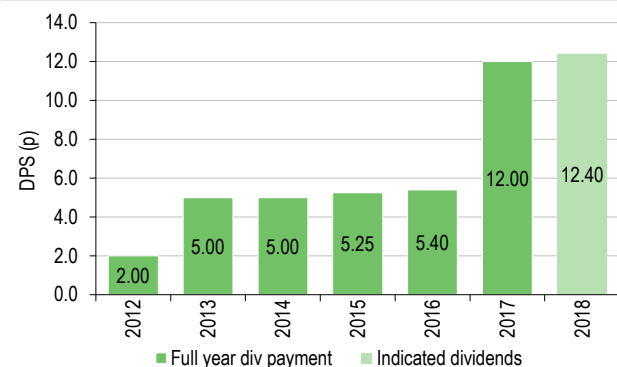
#### Recent developments

- 11 December 2017: Confirmation of intended move to quarterly dividends, with four quarterly payments of 3.1p planned for FY18.
- 4 December 2017: Full-year results to 30 September 2017 – NAV total return +14.9%; 6.0p final dividend recommended.
- 30 November 2017: Calum Thomson appointed as a director, ahead of Alastair Barbour stepping down from the board on 29 December 2017.
- 14 November 2017: 31 October 2017 estimated NAV per share 380.7p.
- 20 September 2017: Qtrly update to 30 June 2017: NAV per share +5.9% to 390.6p.

Forthcoming		Capital structure		Fund details	
AGM	25 January 2018	Ongoing charges	1.14% (FY17 direct fees)	Group	SL Capital Partners
Interim results	June 2018	Net cash	18.0%	Manager	Team managed
Year end	30 September	Annual mgmt fee	0.95% of net assets	Address	1 George Street, Edinburgh EH2 2LL
Dividend paid	Apr, Jul, Oct, Jan	Performance fee	None	Phone	0131 245 0055
Launch date	29 May 2001	Trust life	Indefinite	Website	<a href="http://www.slpet.co.uk">www.slpet.co.uk</a>
Continuation vote	N/A	Loan facilities	£80m revolving credit facility		

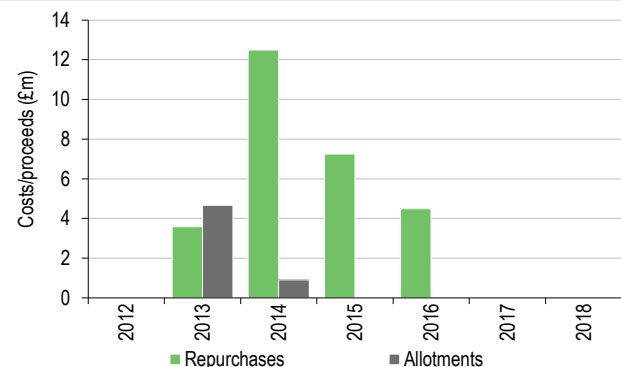
#### Dividend policy and history (financial years)

Since FY15, interim and final dividends have been paid. The board's intention is to maintain the real value of the 12.0p FY17 annual dividend in future years, with four quarterly dividends of 3.1p planned for FY18.

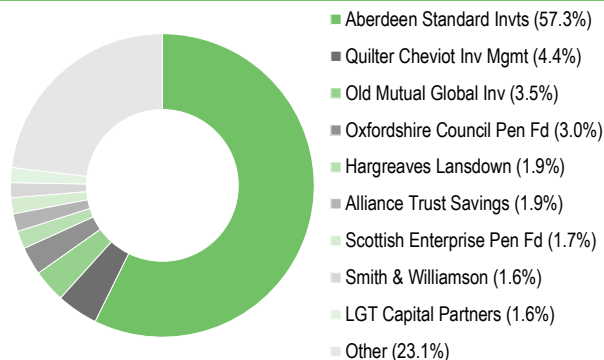


#### Share buyback policy and history (financial years)

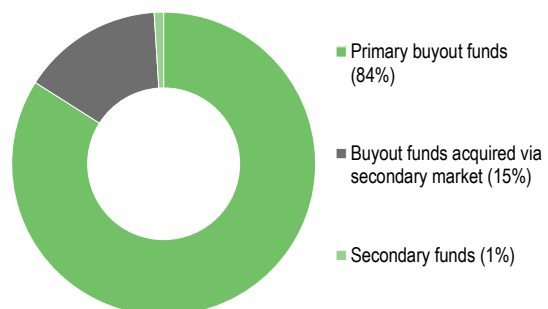
The board views buybacks as part of its strategy in relation to capital efficiency. SLPET has authority to repurchase 14.99% and allot 5.0% of issued share capital. No shares have been repurchased since August 2016.



#### Shareholder base (as at 15 January 2018)



#### Portfolio exposure by fund type (as at 30 September 2017)



#### Top 10 underlying holdings (as at 30 September 2017)

Company	Business	Fund	Year of investment	% of net assets	
				30 Sept 2017	30 Sept 2016
Action	Non-food discount retailer	3i Eurofund V	2011	7.1	6.1
Scandlines	Northern European ferry operator	3i Eurofund V	2007/2010/2013	2.3	1.7
Bambora	Physical, e-commerce & mobile payment services	Nordic Capital VIII	2014	1.2	N/A
Lindorff	European credit management services	Nordic Capital VIII	2014	1.1	1.3
Schenck Process	Industrial weighing, feeding, screening systems	Industri Kapital 2007	2007	1.1	1.2
ista	Energy management services	CVC Euro Equity V	2013	1.0	N/A
Handicare	Technical aids for the elderly and physically disabled	Nordic Capital VII	2010	1.0	N/A
Vistage	Subscription-based leadership development services	Tower Brook III	2012	1.0	0.8
CPA Global	IP software & services for corporates and law firms	Fourth Cinven	2012	0.9	N/A
Element	Materials testing	Bridgepoint Europe V	2016	0.9	N/A
<b>Top 10</b>				<b>17.6</b>	<b>16.2</b>

Source: SLPET, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in September 2016 top 30.

## **Fund profile: Selective Europe-focused fund of funds**

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Launched in May 2001, SLPET is an LSE-listed investment trust which aims to achieve long-term total returns through investing in a diversified portfolio of private equity buyout funds, a majority of which have a European focus. To give investment flexibility, SLPET's investment policy was revised in January 2017, removing restrictions over the target enterprise value range of the funds selected for investment and the limit on portfolio investments outside Europe.

SLPET's investment manager, SL Capital Partners, adopts an investment approach that comprises rigorous screening and thorough due diligence to identify and evaluate suitable private equity fund investments. The manager's view is that access to leading private equity managers and appropriate fund selection are essential to achieving the best possible investment performance, given that historical returns across the private equity fund universe have varied widely. The aim is for SLPET's portfolio to comprise around 35 to 40 active fund investments at any one time, with individual fund and manager exposure limits set at 12.5% and 20.0% of NAV to ensure sufficient diversification.

Part of Aberdeen Standard Investments, the manager is one of the largest private equity fund investors in Europe, with a deeply resourced and experienced investment team. The manager believes that its scale and the team's experience enable it to identify and invest in Europe's top-tier private equity funds, which may be less accessible to the wider market.

## **The fund manager: SL Capital Partners**

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### **The manager's view: Maintaining capital discipline**

The manager reports that the fund-raising environment in Europe and North America for leading private equity managers remains strong, with 2017 likely to have been another record year for global private equity fund-raising. Against this backdrop and with high levels of competition for quality companies, average purchase price multiples have continued to rise. However, the manager highlights that, despite debt markets being supportive of private equity transactions, funding structures remain relatively conservative with equity tending to represent 45-50% of average purchase prices.

The investment team has seen a steady pace of transaction activity in recent years and expects new investment and realisation activity to remain robust over the next year, with the large number of privately owned small- and medium-sized businesses in Europe and North America providing significant opportunities for private equity managers. In the 12 months ending September 2017, fund drawdowns rose from £66.2m in the prior year to £94.0m, but the manager notes that these were more than covered by £130.7m in realisation proceeds, allowing SLPET to invest a further £20.2m in three secondary transactions. The manager emphasises the importance of maintaining capital discipline, reporting that a number of secondary transactions were declined due to high price levels, noting that average prices for buyout fund interests have risen to represent only a 2% discount to NAV, with many strongly performing funds often being traded at a premium to NAV of 5% or more.

The manager's approach means that SLPET's portfolio is predominantly focused on private equity managers that historically have been able to generate value through operational improvements and strategic repositioning of investee companies. The manager expects these factors to continue to contribute significantly to value creation going forward, and notes the 9.1% average portfolio EBITDA growth over the year to end-June 2017 on 8.7% revenue growth, with continuing positive earnings growth subsequently reported by many of the funds.

The manager highlights the broadly diversified maturity profile of SLPET's portfolio, albeit with 36% of the underlying holdings in the five years or older category, and typical holding periods of four to six years for private equity backed companies. This is viewed as providing additional potential for near-term value creation as historically there has been a c 25% average uplift to investee company valuations on exit.

## **Asset allocation**

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### **Investment strategy and process**

SLPET primarily invests in what the manager considers to be Europe's leading private equity buyout funds. The manager aims for the portfolio to comprise c 35 to 40 active fund investments, providing exposure to an underlying portfolio of around 350 private companies, giving a broad diversification by country, industry sector, maturity and number of underlying investments. The investment team's extensive fund and direct deal experience gives the manager a strong insight into the strategies of the funds considered for investment, as well as the processes and disciplines of the private equity managers, which is considered to lead to better qualitative judgements being made.

There has been a gradual increase in the importance to SLPET of the private equity fund secondary market, where the manager can acquire or sell selected fund interests to adjust portfolio exposures as well as to maintain capital efficiency. Secondary investments typically generate lower absolute returns, but higher internal rates of return (IRRs) can be achieved due to their shorter holding periods. Secondary interests that are partly or fully invested when acquired also have a lower risk profile than primary commitments, as underlying holdings can be evaluated prior to purchase.

The manager follows a systematic, disciplined approach to investment selection, monitoring and realisation. From a universe of c 800 institutional-grade private equity funds in Europe that are monitored, 100 to 150 funds are screened for investment each year, with around 25 of these shortlisted and subjected to detailed review. SLPET typically makes around four to six primary and secondary investments each year.

Fund commitments are made in excess of SLPET's currently available capital, based on a detailed analysis of scheduled and projected portfolio cash flows, in order to maximise the level of invested assets and reduce cash-drag on performance. However, commitment levels appear relatively conservative, with fund drawdowns lower than realisations in each of the last five financial years. SLPET has non-sterling currency exposure primarily to the euro and US dollar. This is unhedged, but cash and debt are held broadly in proportion to the currencies of outstanding fund commitments.

### **Current portfolio positioning**

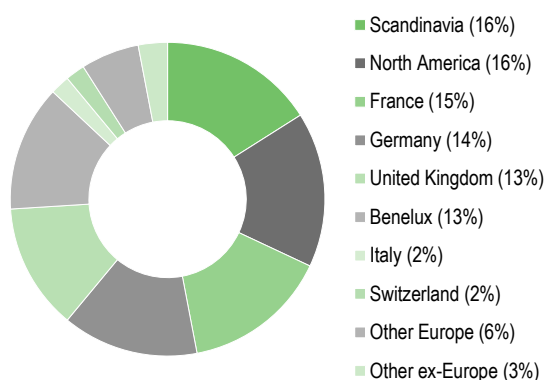
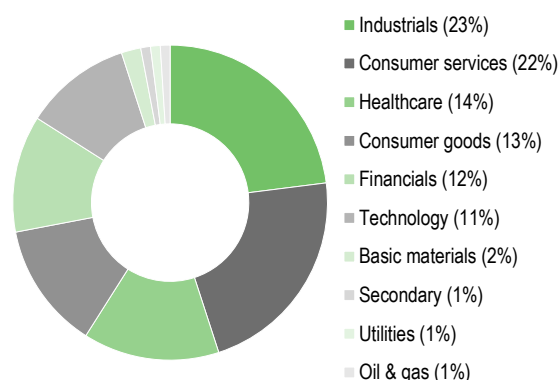
At 30 September 2017, SLPET's portfolio comprised 51 private equity fund interests, which were collectively invested in a total of 374 separate companies. While the portfolio is broadly diversified, SLPET's focused approach is reflected in the concentration of its top 10 fund holdings (see Exhibit 2) which represented 47.7% of NAV and 56.6% of the invested portfolio at 30 September 2017. On a number of occasions, SLPET has invested in successive funds run by individual managers, and the top 10 managers accounted for 58.9% of NAV. The top 10 underlying company holdings accounted for 17.6% of NAV (see Exhibit 1), with eight companies each representing more than 1.0% and the top three companies together representing more than 10.0%, a level at which they can make a material contribution to portfolio returns, thus differentiating SLPET's exposure and performance from the wider private equity market.

**Exhibit 2: SLPET's top 10 private equity fund holdings as at 30 September 2017**

Fund	Strategy	Vintage	No. of invts	Remaining commitments £m	Residual cost £m	Valuation £m	Net multiple	% of NAV	
								30 Sept 2017	30 Sept 2016
3i Eurofund V	European mid-market buyouts	2006	5	2.0	16.1	51.0	2.4x	8.5	7.6
IK VII	Northern European mid-market buyouts	2012	15	1.5	24.4	33.9	1.4x	5.7	5.8
Permira V	Transformational buyouts globally	2014	18	1.9	21.6	31.4	1.4x	5.2	4.5
BC European Capital IX	European and US mid to large buyouts	2011	18	0.2	20.5	28.6	N/A	4.8	4.9
Nordic Capital Fund VIII	European complex buyouts & global healthcare	2013	14	9.4	15.4	27.2	1.8x	4.5	3.0
Equistone Partners Europe Fund IV	European mid-market buyouts	2011	20	1.3	17.1	23.5	2.0x	3.9	5.0
Nordic Capital Fund VII	European complex buyouts & global healthcare	2008	13	1.6	27.5	23.2	1.3x	3.9	2.7
Montagu IV	Northern European mid-market buyouts	2011	10	2.4	15.4	23.1	1.7x	3.9	4.0
Exponent Private Equity Partners III	UK mid-market buyouts	2015	10	6.9	21.1	22.8	1.1x	3.8	1.9
Equistone Partners Europe Fund V	European mid-market buyouts	2015	20	8.2	16.7	21.2	1.3x	3.5	2.8
<b>Top 10 holdings</b>			<b>143</b>	<b>35.3</b>	<b>195.8</b>	<b>285.8</b>		<b>47.7</b>	<b>45.9</b>

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

SLPET made four new primary commitments totalling £110.1m in FY17, all to funds run by managers already represented in the portfolio. Three secondary investments totalling £20.2m were made during the year, all in funds that were already held in the portfolio, with an associated £2.1m of outstanding commitments as at end-September 2017.

**Exhibit 3: Portfolio diversification by geography and sector at 30 September 2017**
**Geographic location of underlying investments by portfolio value**

**Underlying investments sector exposure by portfolio value**


Source: SLPET, Edison Investment Research

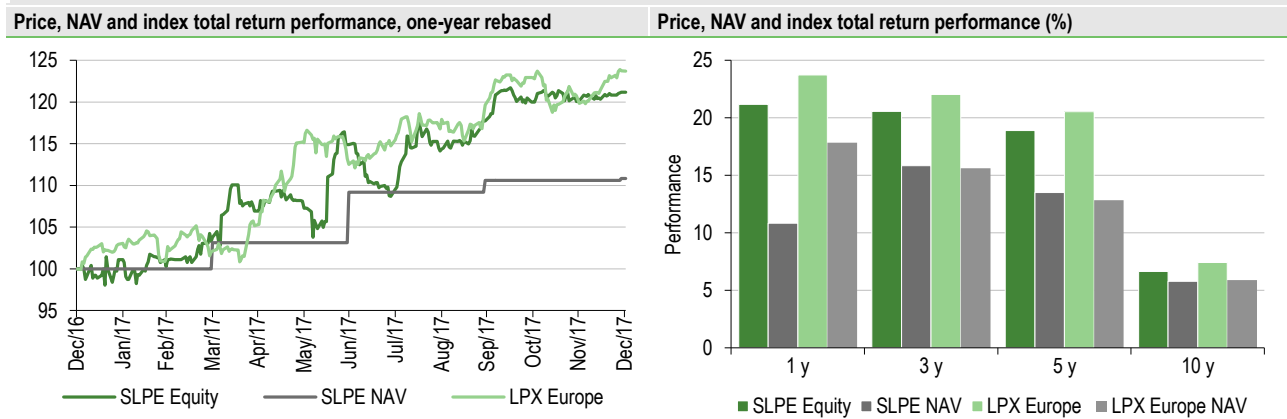
Exhibit 3 shows SLPET's geographic and sector exposures at end-September 2017, illustrating the portfolio's broad diversification, which is the outcome of the investment process. Despite the restriction on investing outside Europe being removed in January 2017, SLPET's exposure to North America has actually declined to 16% from 21% a year earlier. Sector exposures at end-September 2017 are similar to a year earlier, with the greatest changes being a 3pp increase in industrials and a 2pp decrease in consumer services.

## Performance: Medium-term NAV returns ahead of peers

Exhibit 4 illustrates the strength of SLPET's share price total returns compared with its NAV total returns over one, three and five years to 31 December 2017, which is reflected in the significant narrowing of its discount over this period, with a similar trend demonstrated by its European private equity peers, represented by the LPX Europe index. As shown in Exhibit 5, SLPET's NAV total return modestly outperformed the LPX Europe index over three and five years to 31 December 2017, while underperforming over one and 10 years. Compared with global private equity peers, represented by the LPX 50 index, SLPET's NAV total return has outperformed over one, three and five years. SLPET's share price total returns have trailed the LPX Europe index over all periods

shown, but are ahead of the LPX 50 index over all periods less than 10 years. SLPET's share price total returns have outperformed the FTSE All-Share and MSCI Europe indices over one, three, five and 10 years, and its NAV total returns are ahead of both indices over three and five years, although lower over one and 10 years. These performance figures are based on SLPET's estimated NAV at end-December 2017, which does not yet incorporate year-end revaluations of underlying funds, and we note that final NAV figures have been between 1.7% and 5.1% above estimated NAV figures in each of the last four quarters.

**Exhibit 4: Investment trust performance to 31 December 2017 (based on published estimated quarter-end NAV)**



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

**Exhibit 5: Share price and NAV total return performance, relative to indices (%)**

	Three months	Six months	One year	Three years	Five years	10 years
Price relative to LPX Europe	(0.5)	(4.1)	(2.1)	(3.6)	(6.6)	(7.1)
NAV relative to LPX Europe NAV	(5.7)	(4.8)	(5.9)	0.6	3.0	(1.1)
Price relative to LPX 50	2.5	2.5	5.8	11.2	4.8	(5.5)
NAV relative to LPX 50 NAV	(4.0)	(1.7)	1.4	4.7	2.8	(3.5)
Price relative to MSCI Europe	1.3	0.7	5.0	22.9	34.7	6.4
NAV relative to MSCI Europe	(1.3)	(3.1)	(3.9)	9.0	6.8	(1.9)
Price relative to FTSE All-Share	(1.9)	(1.6)	7.1	31.3	45.7	3.1
NAV relative to FTSE All-Share	(4.5)	(5.3)	(2.0)	16.5	15.6	(4.9)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-December 2017. Geometric calculation.

**Exhibit 6: NAV total return performance relative to LPX Europe index NAV over five years**



Source: Thomson Datastream, Edison Investment Research

## Discount: Towards the lower end of its five-year range

As illustrated in Exhibit 7, over the last five years, SLPET's share price discount to NAV has moved in a relatively wide range, narrowing from its five-year high of 36.3% in March 2016 to its five-year low of 7.4% in May 2017. This followed a broadly widening trend for the two years to March 2016. The discount currently stands at 14.2%, which compares to its five-year average of 19.3%.

**Exhibit 7: Share price discount to NAV over five years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

SLPET has 153.7m ordinary shares in issue, unchanged since August 2016 (Exhibit 1). The board considers share repurchases in the context of efficient capital management, alongside new fund commitments, secondary fund purchases and dividend payments. At 31 December 2017, SLPET's £80m credit facility (which expires in December 2020) was undrawn and £107.2m was held in cash, money market funds and listed equities, equating to an 18.0% net cash position. To reduce cash drag, as part of SLPET's cash management process, £14.8m of the £107.2m was held in two listed equities, one of which is the manager of a secondary interest recently purchased by SLPET.

From FY17, SLPET pays SL Capital an annual management fee of 0.95% of NAV and there is no performance fee. Previously, SLPET paid a 0.8% pa management fee, with a five-yearly incentive fee of 10% on returns above 8% pa. Ongoing charges (excluding indirect fund fees) in FY17 were 1.14%, which compares to 0.99% in FY16 excluding incentive fees.

## Dividend policy and record

The board believes that a strong, stable dividend is attractive to shareholders and took the decision in late 2016 to increase the annual dividend to 12.0p per share for the year ending 30 September 2017, more than double the total dividend for FY16. The board is committed to maintaining the real value of the dividend from this level, in the absence of unforeseen circumstances. Additionally, having introduced an interim dividend in FY15, the board has decided to move to quarterly dividend payments, comprising three interims and a final dividend, which will continue to be subject to shareholder approval. Four quarterly payments of 3.1p are planned for FY18, and the 12.4p total dividend represents a prospective yield of 3.7%. A 6.0p interim dividend was paid in July 2017 and a 6.0p final dividend for FY17 was paid in January 2018. Deducting the 6.0p final dividend, SLPET's revenue reserves at end-September 2017 equated to 1.7p per share. Future dividends will be paid from capital and revenue earnings, with the 12.0p payment comparing to SLPET's FY17 total earnings per share of 68.74p.

## Peer group comparison

Exhibit 8 shows a comparison of SLPET with a peer group of private equity funds of funds from the AIC Private Equity sector. SLPET's NAV total return to end-December 2017 (based on its published estimated quarter-end NAV) is ahead of the eight-fund peer group average over one, three and five

years but below the six-fund average over 10 years. SLPET's share price discount to NAV is lower than the peer group average, and distinctly narrower than the 16.9% average discount when excluding Aberdeen Private Equity (which has proposed a portfolio sale and return of capital). SLPET's 1.14% FY17 ongoing charge (excluding indirect fees) is one of the lowest in the peer group, and it is among the minority of peers that do not levy a performance fee. SLPET is ungeared, similar to the majority of peers, and its 3.7% yield, which reflects the planned 12.4p FY18 annual dividend, is above-average among the dividend-paying funds in the peer group.

**Exhibit 8: Selected private equity fund of funds peer group as at 6 February 2018\***

% unless stated	Region	Mkt 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	Dividend yield (%)
Standard Life Private Equity	Europe	515.1	10.8	55.4	88.4	75.4	(13.7)	1.14	No	100	3.7
Aberdeen Private Equity	Global	156.6	1.8	36.1	58.9	66.9	(1.0)	1.87	Yes	100	2.8
F&C Private Equity Trust	Global	227.7	4.9	43.4	69.4	94.2	(13.0)	1.27	Yes	88	3.8
HarbourVest Global Private Equity	Global	966.3	6.2	52.7	109.7		(19.6)	2.17	No	100	
ICG Enterprise Trust	Europe	538.9	16.3	46.4	73.0	109.4	(15.5)	1.28	No	100	2.6
JPEL Private Equity	Global	229.3	2.2	61.0	81.3	47.2	(16.2)	1.86	Yes	100	
NB Private Equity Partners	Global	464.5	1.6	51.0	106.9		(21.9)	2.28	Yes	100	3.9
Pantheon International	Global	974.1	7.6	48.6	86.4	113.6	(18.1)	1.13	Yes	100	
<b>Average</b>		<b>509.1</b>	<b>6.4</b>	<b>49.3</b>	<b>84.3</b>	<b>84.4</b>	<b>(14.9)</b>	<b>1.63</b>		<b>99</b>	<b>3.3</b>
<b>Trust rank in peer group</b>		<b>4</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>7</b>		<b>1</b>	<b>3</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 31 December 2017. TR = total return. All returns expressed in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

SLPET's board comprises five independent non-executive directors, with Calum Thomson joining the board on 30 November 2017 to replace Alastair Barbour, who stepped down at the end of 2017 after nearly seven years as a director. Thomson is a qualified accountant with over 25 years' experience in financial services. He has been a partner at Deloitte for 21 years, and is a director of Diverse Income Trust, British Empire Trust and Baring Emerging Europe. This follows another board change on 7 June 2017, when David Warnock retired after almost nine years and Diane Seymour-Williams was appointed as a director. Seymour-Williams spent 23 years at Deutsche Asset Management and nine years at global emerging markets specialist, LGM Investments, and is a director of Witan Pacific Investment Trust. Edmond Warner (appointed November 2008) has been chairman since January 2013; he is also chairman of BlackRock Commodities Income Investment Trust. Senior independent director, Christina McComb (appointed January 2013) has a private equity and venture capital background, having spent 14 years with 3i Group. Alan Devine (appointed May 2014) has 40 years' experience in commercial and investment banking.

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