![EDISON]

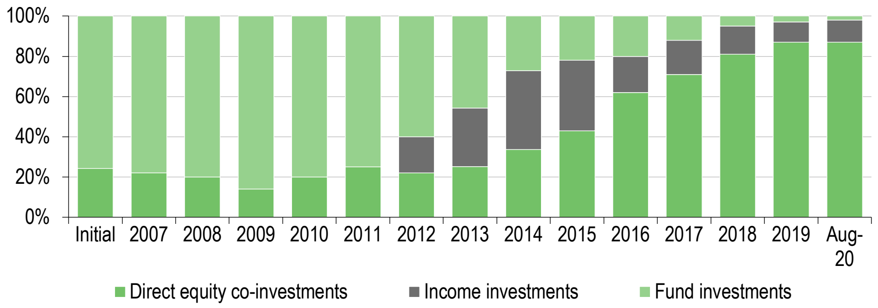
NB Private Equity Partners

Unique co-investment play at a wide discount

Investment trusts
private equity

In recent years, NB Private Equity Partners (NBPE) has largely become a play on direct co-investments (currently 87% of the portfolio, largely in North America). This positioning provides access to investments alongside top general partners (GPs) with a single-layer fee structure while at the same time allowing NBPE to be selective in terms of investments, with its direct co-investment portfolio achieving three- and five-year gross IRRs to end-August 2020 of 12.0% and 13.6% pa in US dollar terms, respectively. It also allows NBPE to keep a lower level of unfunded commitments, which are currently fully covered by available liquidity (184% adjusted coverage).

NBPE's shift from fund investments to direct PE co-investments



Source: NBPE, Edison Investment Research

The market opportunity

NBPE may benefit from the capabilities of carefully selected sponsors in the current crisis, with a large number of its sponsors having in-house value creation teams. In this context, we note that during the global financial crisis (GFC), GPs with their own value-creation teams outperformed peers with no dedicated in-house teams by 5pp in net IRR terms (according to McKinsey). NBPE offers moderately geared exposure to PE investments (with structural leverage through zero dividend preference shares), which could enhance returns in a recovery scenario. NBPE's current leverage is somewhat above its target, suggesting that part of the proceeds from realisations may be used to reduce gearing.

Why consider investing in NBPE?

- Although NBPE's exposure is largely direct, its model gives much higher diversification than direct peers while still based on an attractive one-layer fee structure (as opposed to PE funds-of-funds).
- Attractive and historically growing dividend (although future payments depend on board authorisation).
- Investment manager maintains high emphasis on environmental, social and governance (ESG) factors, including policy recently implemented by NBPE.

Discount above direct peers

NBPE's shares trade at a relatively wide discount of 25% (compared to the peer average of c 21%), which translates into an attractive dividend yield of 4.5%. NBPE was able to maintain its dividend policy in the current challenging environment.

14 October 2020

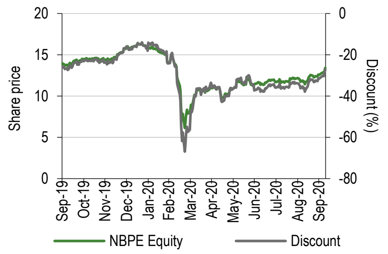
Price	**1,033p**
Market cap	**£482.8m**
NAV*	**£642.5m**
NAV*	**US$860.4m**

NAV*	£13.74
NAV*	US$18.40
Discount to NAV	24.9%

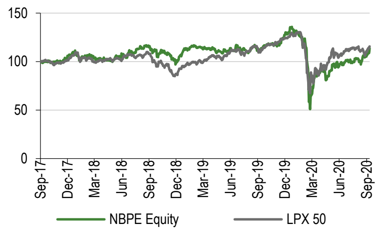
*As at August 2020.

Yield	4.5%
Ordinary shares in issue	46.8m
Code	NBPE
Primary exchange	LSE
AIC sector	Private Equity
Benchmark	N/A

Share price/discount performance



Three-year performance vs index



52-week high/low	1,255p	534p
NAV* high/low	1,612p	1,324p

*Including income.

Gearing

Gross*	29.8%
Net*	29.0%

*As at August 2020.

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Edison profile page

NB Private Equity Partners is a research client of Edison Investment Research Limited

Exhibit 1: NBPE at a glance

Investment objective and fund background

NB Private Equity Partners invests in direct private equity investments alongside market-leading private equity firms. NB Alternatives Advisers, an indirect wholly owned subsidiary of Neuberger Berman, is responsible for sourcing, execution, and management of NBPE. The vast majority of direct investments are made with no management fee to third-party GPs. NBPE seeks capital appreciation through growth in net asset value over time while paying a biannual dividend.

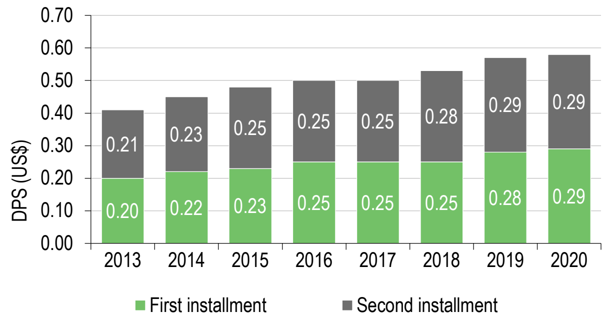
Recent developments

- 14 September 2020: August NAV update. NAV TR 0.7%; ytd at -0.7%.
- 14 September 2020: H120 report. End-June NAV update, +7.2% revision.
- 29 June 2020: semi-annual dividend announced at US$0.29 per share (flat y-o-y), implying trailing dividend yield of 5.1%.
- 4 May 2020: Credit facility increased to US$300m from US$250m.

Forthcoming		Capital structure		Fund details	
AGM	Est. September 2021	Ongoing charges	2.13% (FY19)	Group	Neuberger Berman
Interim results	Est. December 2020 (Q320)	Net gearing	30% (June 2020)	Manager	NB Alternatives Advisers
Year end	31 December	Annual mgmt fee	1.5%	Address	Trafalgar Court, PO Box 226, Guernsey, GY1 4LY
Dividend paid	February, August	Performance fee	7.5%		
Launch date	22 June 2007	Company life	Indefinite	Phone	+1-214-647-9593
Continuation vote	None	Loan facilities	US$300m*	Website	www.nbprivateequitypartners.com/

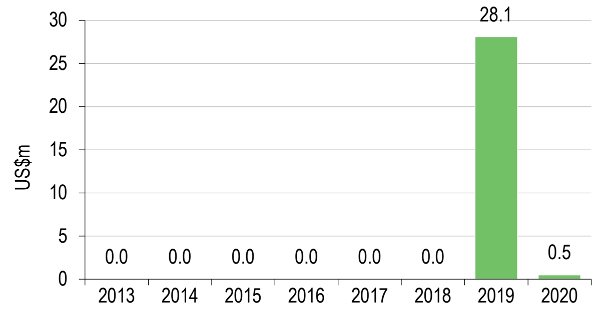
Dividend policy and history (calendar years)

NBPE implemented its current dividend policy in September 2018 and since then has distributed dividends semi-annually and targets at least a 3.0% yield on NAV. The company highlights that it is only a target aimed to increase investment transparency for investors, and management does not intend to decrease DPS in the event of a short-term NAV decline.

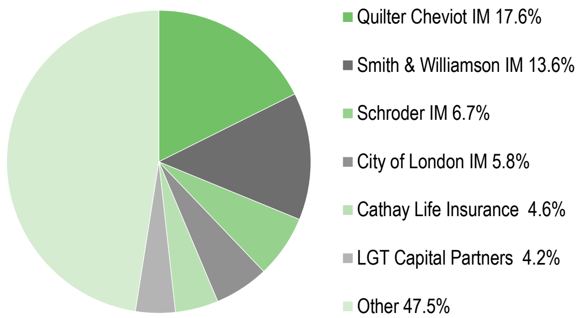


Share buyback policy and history (calendar years)

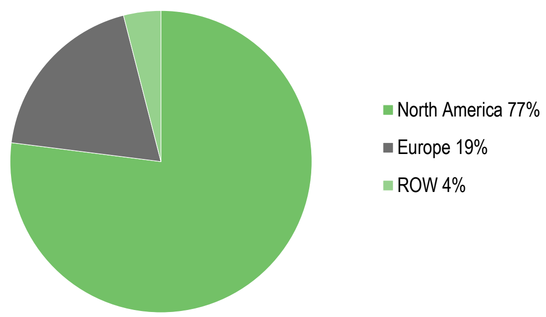
NBPE reintroduced share buybacks in January 2019; they are viewed as an effective use of capital given prevailing trading discounts. The buyback is conducted by Jefferies, and repurchased stock is cancelled. Earlier programmes were conducted in 2008-09 and 2010-12 at a total cost of US$24.7m. NBPE does not intend to perform buybacks in the near term though.



Shareholder base (as at 12 October 2020)



Portfolio exposure by geography (as at August 2020)



Top 10 holdings (as at end- August 2020)

Company	Asset class	Lead sponsor	% of portfolio	
			August 2020	September 2019
ProAmpac**	Mid-cap Buyout	Pritzker Private Capital	3.3%	3.0%
Material Handling Systems	Mid-cap Buyout	THL	3.1%	3.8%
Agiliti	Mid-cap Buyout	THL	3.0%	2.4%
USI	Large-cap Buyout	KKR	2.9%	2.9%
Business Services Company***	Large-cap Buyout	Not Disclosed	2.8%	2.8%
Action	Large-cap Buyout	3i	2.6%	-
Marquee Brands	Special Situations	Neuberger Berman	2.6%	2.8%
Cotiviti	Income Investment	Veritas Capital	2.6%	2.3%****
Telxius	Large-cap Buyout	KKR	2.5%	2.0%
Beyond Trust	Mid-cap Buyout	Francisco Partners	2.4%	1.8%
Top 10 (% of holdings)			**27.8%**	**28.3%**

Source: NBPE, Refinitiv, Edison Investment Research. Note: *See Capital structure on page 16 for further details. **Combined exposure of equity and second lien loan. ***Name not disclosed due to confidentiality provisions. ****Verscend prior to merger with Cotiviti.

Fund profile: Focus on direct PE co-investments

NB Private Equity Partners is a closed-end private equity (PE) investment company incorporated in Guernsey and listed on the London Stock Exchange since 2009. It was established in 2007 as Lehman Brothers Private Equity Partners Limited raising US$400m from external investors and US$100m from Lehman Brothers (LB). Following the management buyout (MBO) of Neuberger Berman (NB) from Lehman Brothers in 2008, the fund was renamed while the manager continued to manage the fund as part of the MBO.

The initial portfolio was acquired from LB and consisted predominantly of investments as limited partner (LP) into funds externally managed by GPs (fund investments, c 76% of portfolio value), while direct PE investments represented just c 24% at that time. Since then, the fund investments exposure has been steadily reduced in favour of direct PE co-investments, where the leading sponsor retains full control over the company, and NBPE invests alongside as minority shareholder (this investment type accounted for 87% of NBPE's portfolio at end-August 2020; see chart on the front page). In 2012, NBPE expanded its portfolio to include income investments, covering senior debt (both first and second lien), as well as mezzanine loans issued to PE-backed companies. However, in recent years it has reduced exposure to this asset type to only 11% of portfolio value at end-August 2020 (vs 39% at its peak in 2014). Consequently, NBPE has become a largely pure-play direct PE co-investment vehicle (investing alongside high-quality lead sponsors), which is intended to be the predominant investment strategy going forward. Since 2015, NBPE has invested over US$700m in more than 80 direct equity investments, and has a supplementary modest exposure to PE debt investments and legacy PE funds.

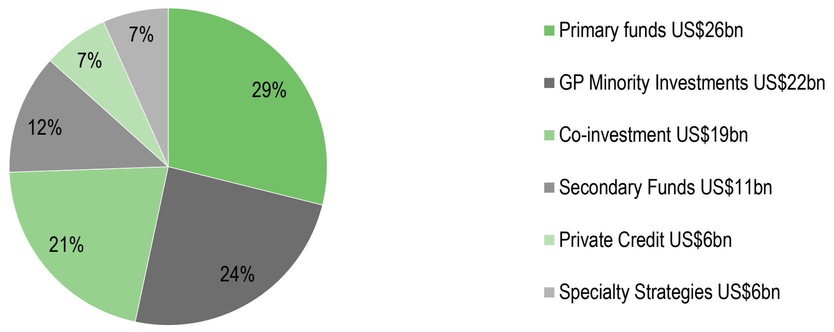
The fund manager: NB Alternatives Advisers

NBPE is managed by NB Alternatives Advisers (NBAA), the private equity arm of NB with 30+ years of experience managing PE investments, with assets under management of US$90bn as at end-June 2020, out of the US$357bn total assets under management (AUM) of NB. NBAA invests across a variety of strategies on behalf of client portfolios, including primary and secondary equity, minority investments into GPs, private debt as well as healthcare credits. In particular, NBAA currently manages US$19bn in AUM in co-investment strategies (see Exhibit 2) and the platform has more than 530 active LP fund relationships. Over the last three years, it has committed c US$10bn annually into private market strategies. Overall, since 2009 NBAA has reviewed 2,450 co-investment opportunities with a ticket size of up to US$400m.

NBPE benefits from NB's PE co-investment platform, which offers:

- a 12-person investment committee with average experience of 30+ years (including 16 years on average with the firm), supported by a broad team of over 150 professionals across 11 offices globally within NB's PE vertical;
- long term co-investment expertise (including a well-established due diligence process), with specialist experience from 2006;
- an extensive deal origination network based on multiple NB private equity/debt strategies, including in particular the primary PE platform;
- strong relationships with top-tier PE GPs, often being considered a preferred co-investment partner; and
- capacity to make considerable equity investments across diverse deal types.

Exhibit 2: Neuberger Berman private equity platform at May 2020



Source: NBPE

NBPE has recently adopted a formal Responsible and Sustainable Investment Policy (see company website for details). While NBPE does not specifically focus on impact investing, its investment manager considers the positive sustainability potential an important driver of investment returns. According to the company around 25% of its current portfolio represent companies with an overall positive benefit to the society or environment, some of which contribute to solutions to pressing social or environmental challenges. At the same time, 74% of its portfolio includes companies with mixed or unknown social and environmental benefit, while only 1% consists of businesses which have a significant negative impact. Since 2012, NB has been a signatory of the UN-supported Principles for Responsible Investment, obtaining the highest score of A+ in the most recent assessment.

The manager's view: GPs responding well to COVID-19

NBAA is pleased with the actions taken by underlying GPs with their respective portfolio companies in response to the recent COVID-19 crisis. These include in particular: 1) ensuring that portfolio companies have appropriate liquidity (eg by initially drawing down on revolving facilities back in March/April), 2) determining which operations may be considered 'non-essential' and thus could be (at least temporarily) suspended, 3) addressing potential supply chain disruptions and 4) implementing cost reduction plans. It also notes a growing number of cases where strategies to increase market share and/or conduct accretive M&A have also been considered. NBAA also appreciates GPs' focus on the health and safety of the companies' employees, customers and suppliers.

While almost all businesses are or will have been affected by the lockdown in the short term, the extent of the longer-term impact will depend on the severity and duration of the pandemic-related downturn, as well as company-specific factors. In the initial phase of the crisis, the hardest-hit businesses are those relying on physical locations (certain subsectors of industrials) and passenger and customer traffic (travel, leisure), as well as companies less resilient to an unexpected revenue decrease, for example smaller businesses, and those with high operating leverage and/or facing operational challenges before the coronavirus outbreak. On the other hand, industries such as IT (eg enterprise software and network management) and telecom, as well as e-commerce and healthcare have proven to be more resilient. These represented c 40% of NBPE's portfolio at end-August 2020. The manager highlights that in recent years the portfolio has been positioning with the expectation of a downturn occurring during the holding period. According to the company, a single-digit percentage part of its current portfolio value is considered as potentially being materially affected by COVID-19 in the medium to long term. The manager has a positive view on NBPE's current portfolio positioning, underpinned by the expected solid performance of most of the businesses in Q320.

Market outlook: Planning to endure the slowdown

We believe that in the decade following the 2008/09 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 may represent a pause in this trend (as it triggered net asset value (NAV) declines across the sector in the early stage of the crisis), 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 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.

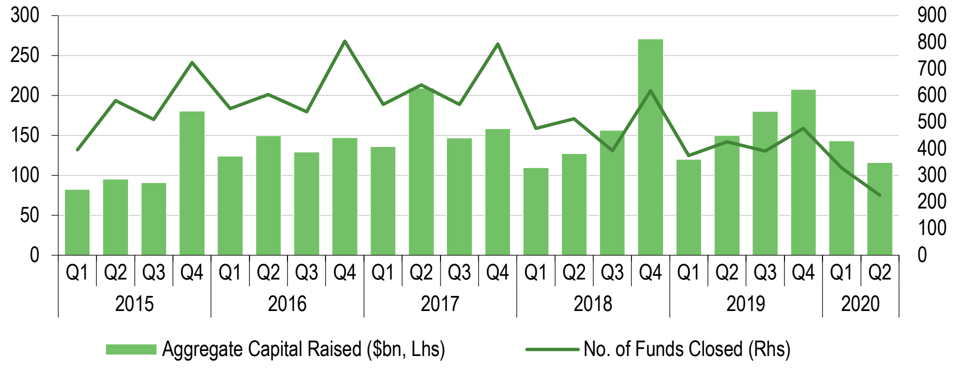
Value creation expertise allows managers to outperform throughout the cycle, as illustrated by the findings of a recent McKinsey study, which suggests that during the latest recession and recovery (2009–13), PE funds actively involved in managing portfolio companies provided an internal rate of return (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 (including NBPE) were expecting an economic downturn for some time and have been positioning their portfolios to more defensive sectors, such as technology, media and telecom (TMT), healthcare or 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.

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 buyout multiples reached 11.9x, marking the highest level in the last 15 years. For now, multiples have largely recovered on the back of the stock market rebound in recent months.

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. LPs now show limited willingness to significantly reduce their commitments based on the experience gathered from the previous crisis when PE investments performed well during the recovery phase.

Exhibit 3: Global quarterly private equity fund-raising, Q115-Q220



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

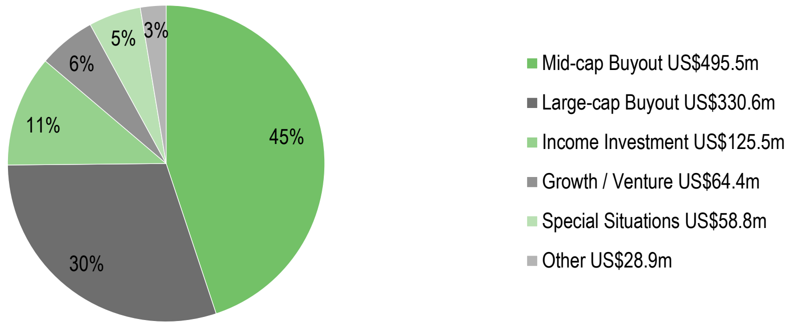
Asset allocation

Investment strategy: Investing alongside top-tier GPs

NBPE mainly seeks opportunities to perform equity co-investments alongside high-quality lead sponsors (in their respective core areas of expertise), predominantly outside of the NB fund commitments (90% of the whole portfolio at end-August 2020). This covers both new buyouts (such as buyouts of family businesses, take-privates, carve-outs or division spin-offs), as well as 'mid-life' investments in PE-backed companies, eg to fund their M&A activity or provide the opportunity for a partial exit to existing investors. By doing so, NBPE leverages the trend of increasing willingness by GPs to offer co-investment opportunities to LPs to access larger deals or deepen the relationships with selected institutional investors. According to the Global Private Equity Report 2020 by Bain Capital (based on Dealogic and Preqin data), the average global buyout co-sponsorship deal value for the 15 most active institutional investors in 2015–19 (as measured by the number of deals) stood at close to US$40bn pa compared to c US$10–20bn pa on average in 2010–14. Moreover, 45% of GPs planned to offer more co-investment opportunities in 2020, according to the report. The NB platform supports its offer with the ability to partner through co-underwritings, as well as its ability to invest across capital structure or unique transactions, which is appealing to GPs.

NBPE's current portfolio lies particularly in mid-cap and large-cap buyouts (see Exhibit 4), where companies have more room for growth through improved management practices and inorganic growth. NBPE also invests in carve-outs, as some business units suffer from insufficient management attention within larger capital groups (we believe divisional spin-offs could intensify amid the current crisis). NBPE has limited equity and debt exposure to distressed assets and only occasionally invests in restructuring or operational turnaround situations. Consequently, these made up only a small part of the portfolio at the onset of the ongoing COVID-19-induced turmoil. Similarly, growth and venture investments in less mature companies with little or no profitability are opportunistic and made up only 5.8% of the portfolio as at end-August 2020.

Exhibit 4: NBPE portfolio by investment type



Source: NBPE as at end-August 2020

NBPE invests within the NB platform in transactions with the ticket size usually ranging from US$5m to US$25m. NBPE can invest up to 10% of portfolio value into a single entity (or up to 20% upon NBPE's board approval), but over the last six years the largest single company exposure did not exceed 5% of the investment portfolio value (3.3% as at end-August 2020). Moreover, the upper range of NBPE's target deal value (US$25m) is equivalent to 2.3% of the portfolio. Its portfolio as at end-June 2020 consisted of 117 direct exposures, including 103 equity (alongside 50+ underlying private equity sponsors) and 14 debt positions. This illustrates its good portfolio diversification compared to direct PE investment companies (which normally acquire controlling stakes as lead sponsors). NBPE's portfolio concentration is higher than in the case of PE funds-of-funds (such as HarbourVest Global Private Equity or Pantheon International) and the company offers more attractive fees compared to the double-layer structure usually applicable to the latter (see below for more details). At present, 96% of its co-investments are excluded from any management fee or carried interest to underlying GPs.

NBPE supplements its income with PE debt investments, mostly in junior tranches offering significantly higher coupons than regular high-yields (partially due to an illiquidity premium) and has also invested in healthcare credits in the past. The investment manager believes that PE debt securities offer a risk-reward relationship based on attractive yields coupled with default rates that are significantly lower than the broad leveraged loans market. This was illustrated during the GFC when leveraged loan defaults peaked at 16.3% compared to 7.5% at the sponsored companies (according to S&P data from November 2009). However, we understand that NBPE does not intend to significantly expand its income investments portfolio and will likely retain a 5–10% exposure on an opportunistic basis. The company also has diminishing exposure to fund investments, which are tail-end positions in the process of winding down.

NBPE applies structural leverage at the company level in the form of zero dividend preference shares (ZDPs). By doing so, it intends to keep its target investment level at 115–120% (defined as fair value of investments to NAV). As at end-August 2020, however, its investment level was higher at 128% as a consequence of the partial drawdown of its credit facility. We discuss NBPE's leverage in more detail in the 'Commitment coverage ratio' and 'Capital structure and fees' sections.

Investment process: Leveraging expertise of lead sponsors

NBPE leverages NB's broader platform for deal origination (in particular NB's primary PE platform), generating in recent years on average around five new deals per week (and eight deals per week in Q320), with only around 10–15% of available investment opportunities being pursued. The investment manager performs an extra layer of due diligence (on top of the analysis conducted by the sponsor). The investment selection process is based on evaluating the merits and risks of individual companies as opposed to favouring industries and macrotrends. Moreover, as mentioned above, the company normally invests in industries that are ‘sweet spots’ of the respective sponsor. As a result, it does not impose any target allocations in terms of industry and its sector diversification is a function of opportunities arising with the respective GPs. The deal flow is allocated across NB’s PE strategies depending on demand from the respective funds and based on a pre-defined pro-rata allocation policy to avoid favouring any of them.

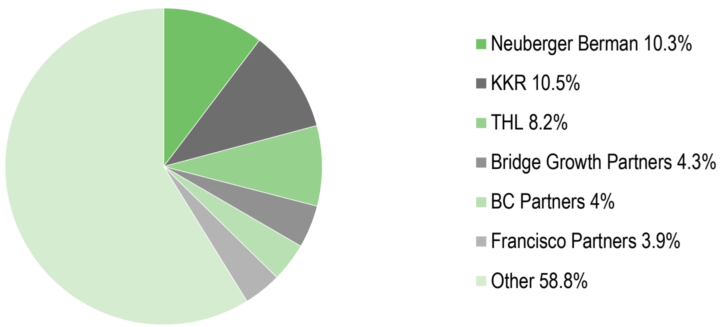
Once the transaction is completed, NBPE relies on the value creation capabilities of the lead sponsor. While the investment agreement normally covers certain protective and information rights for the company, it is typically not entitled to board representation or any similar control over the investment. The decision with respect to the exit timing is also in the hands of the lead sponsor.

Current portfolio positioning

A diversified portfolio across companies and sponsors

Sponsors with the highest share in NBPE’s portfolio at end-August 2020 include the parent group of its investment manager **Neuberger Berman** (10.3%), as well as private equity giant **KKR** (10.5%), and **THL** (8.7%), which focuses on mid-market growth companies in its four core industries of consumer, financial services, healthcare and technology & business solutions (see Exhibit 5). The top five GPs cover 37% of NBPE’s portfolio.

Exhibit 5: NBPE’s portfolio split by sponsor



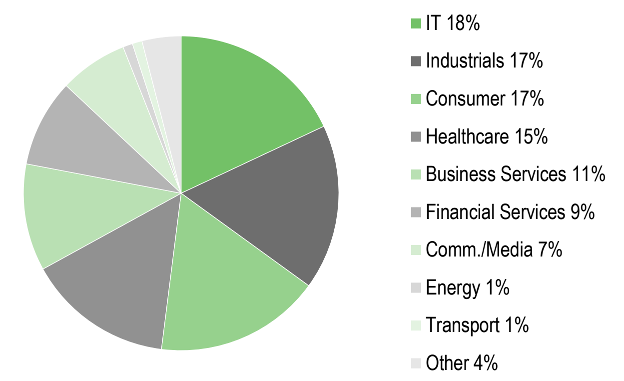
Source: NBPE data as at end-August 2020

North America is 77% of the portfolio, with combined TMT and healthcare exposure at 40%

We have examined NBPE’s portfolio sensitivities in the context of the current pandemic. Region-wise, the company’s particular focus is on North America (77% of the portfolio at end-August 2020), supplemented by Europe (19%) and Asia/Rest of World (4%). Its exposure to sectors that should prove more resilient to the ongoing crisis include IT (18%), healthcare (15%) and communications and media (7%, although some advertising businesses have been challenged by lockdowns). This is broadly in line with the market as illustrated by the MSCI ACWI Index (see Exhibits 6 and 7). At the same time, it has a somewhat higher weighting towards industrials (17% vs 9% for MSCI ACWI).

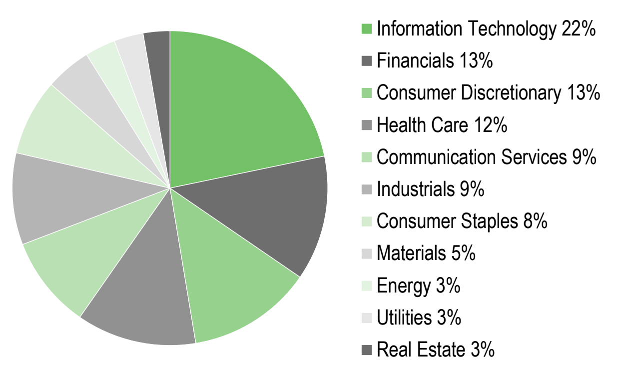
Having said that, NBPE emphasises that common investment themes among its top 30 exposures (apart from technology and healthcare) include sectors with low cyclicality and/or long-term secular growth trends (also including some industrial businesses). Examples of businesses outside of TMT and healthcare that NBPE considers to be more defensive are USI (an analytics/consulting/ brokerage company active in P&C insurance, employee benefit, personal risk and retirement), GFL (a waste management services company that completed its IPO this year) and Action (a non-food discount retailer). Plays on secular trends include MHS (a provider of turnkey material handling automation solutions), Autostore (storage automation solutions) and PetSmart/Chewy (the latter of which is an online pet supplies retailer).

Exhibit 6: Portfolio split by sector



Source: NBPE data at end-August 2020

Exhibit 7: MSCI ACWI Index split by sector



Source: MSCI, Edison Investment Research

High proportion of companies with covenant lite debt or low leverage

An additional potential mitigating factor is the high proportion of companies with covenant lite debt (67% of NBPE's top 50 investments at end-August 2020). This is in line with the broader market trend as nearly 80% of outstanding US leverage loans at end-2019 were covenant lite. Loose covenants are beneficial for equity investors, because they constitute more flexible funding terms limiting the risk of a COVID-19-induced credit crunch and providing more room for restructuring efforts if necessary, while they can translate into lower debt recovery rates on default.

Out of NBPE's 50 largest investments as at end-August 2020, 8% in terms of fair value was invested in companies with relatively low leverage defined as net debt to EBITDA not greater than 3.0x. Across a large sample of NBPE's portfolio at end-June 2020 (77 equity investments representing 84% of the equity exposure), average leverage went up between end-March and end-June 2020 from 4.3x to 4.7x (of last 12 months (LTM) EBITDA), which could be partially explained by lower results in Q220 across portfolio due to the lockdown. This is below the average level for US buyout transactions at 6.6x EBITDA in 2019 (which is close to the 2007 pre-crisis peak of 6.5x, according to Bain Capital data).

Investment manager remains confident about the portfolio's resilience to COVID-19

We note that 41% of NBPE's top 50 holdings at end-August 2020 represents companies with an enterprise value (EV) in excess of US$3.0bn, while a further 31% have EVs between US$1.0bn and US$2.9bn. Overall, a single-digit percentage of the current portfolio value (mostly oil & gas, discretionary retail and other discretionary) is considered by the investment manager as potentially experiencing a medium to high impact from COVID-19 in the medium to long term. Based on our discussion with the investment manager, we also understand that at this stage the manager is not aware of significant liquidity issues across NBPE's material holdings (although it is still possible that some additional equity injections throughout the portfolio may be required over time).

Income portfolio: 41% in NB programmes, 59% from external sponsors at present

NBPE's income investments (US$125.5m at end-August) consist, among others, of credit portfolios managed within the NB Alternatives Credit Opportunities Program and NB Specialty Finance Program (c 41% of the total income investments' fair value at end-August 2020). The former programme is focused on opportunistic purchases of loans and bonds in the secondary market (often at a discount to face value) coupled with primary credit investments to support growth and recovery in existing PE-backed companies. The NB Specialty Finance Program looks for consumer, small business and bridge loans in order to build short duration, income producing credit portfolios. NBPE also has a number of income investments with third-party sponsors (see Exhibit 8).

Exhibit 8: Summary of NBPE's income investments

Investment	Region	Date of investment	Lead sponsor	Description	Fair value (US$m)
NB Alternatives Credit Opps	Global	Sep-19	NB	Diversified credit portfolio	43.5
Cotiviti*	US	Aug-18	Veritas Capital	Healthcare analytics	28.0
Drive Medical	US	Jan-17**	CD&R	Medical equipment distributor	13.2
Schumacher	US	Oct-15	Onex	Agricultural machinery and tools	9.9
Carestream	US	Jun-17	CD&R	Dental equipment	9.4
NB Specialty Finance	Global	Oct-18	NB	Small balance loan portfolio	7.7
ProAmpac	US	Nov-16	Pritzker Private Capital	Flexible packaging supplier	6.0
OB Hospitalist Group	US	Aug-17	Gryphon Investors	Obstetrics & gynaecology hospitals	3.5
Blue Nile	US	Mar-17	Bain Capital	Online jewellery retailer	2.5
Other	-	-	-	-	1.8***
Total	**-**	**-**	**-**	**-**	**110.7**

Source: NBPE data at end-August 2020. Note: *Payment-in-kind (PIK) preferred equity. **First investment in January 2017 (valued at US$5.4m) and second investment in October 2019 (US$7.5m). ***Calculated based on total and sum of disclosed investments and may be subject to a rounding error.

Potential liquidity from selling down listed holdings subject to GP's decision

Holdings in listed companies made up 9% of the company's private equity portfolio at end-August 2020. These are mostly attributable to seven listed companies: GFL, SolarWinds, Vertiv, Ingersoll Rand, Avantor, Brightview and Chewy (although the latter is held through an unlisted company, PetSmart). We note that NBPE holds these listed stocks through co-investment special purpose vehicles and, similarly to unlisted equity, is dependent on the lead sponsor's decision with respect to selling down the investment (which is accounted for on a pro rata basis for each investor including NBPE). Still, it is worth noting that except for GFL, Progenity and Vertiv (the most recent IPOs making up a significant part of the listed exposure at end-August 2020), most of the portfolio is no longer subject to any lock-ups. Vitru, a Brazilian digital education provider, is another company within NBPE's portfolio which completed its listing recently (in September 2020).

Portfolio valuation: Reflecting the rebound from March turmoil

Fair values of NBPE's direct PE co-investments are in principle in line with valuations from lead sponsors received on a quarterly basis. These are in turn estimated predominantly based on financial results reported for the last 12 months and market multiples of relevant listed peers. In some instances, GPs may apply a forward-looking approach, ie value the respective holdings based on forecast/budgeted earnings.

We note that while NB's internal valuation committee may adjust the fair values estimated by sponsors, it only happens in exceptional circumstances. An example would be when there are two lead sponsors in a given investment and both provide NBPE with different valuations, in which case the company would normally apply the midpoint between these two. Based on our conversation with the investment manager, we understand that there are no material positions in NBPE's current portfolio with in-house adjustments to fair value.

Due to the timing of receipt of company valuations from underlying sponsors, these are reflected in the company's reported NAV with a lag of up to three months. For instance, NBPE's June factsheet largely contained fair values as at end-March 2020. Its NAV has subsequently been adjusted in its H120 financial report to reflect the end-June valuations received from GPs, resulting in a 7.2% upward revision from the initial June factsheet. Similarily, its NAV at end-August 2020 currently reflects most private company valuations as at end-June 2020 (adjusted for subsequent foreign exchange movements). Shares in listed companies are updated based on the closing price as at the respective date and are thus not subject to any lag.

NBPE's primary debt investments are generally carried at cost plus accrued interest, while secondary debt investments normally are marked to market (depending on the availability of market quotations). Having said that, in the latter case, if the investment manager believes that market yields moved substantially since the last security pricing, it may apply a DCF valuation (based on expected future cash flows and market rates). We discuss how NBPE's valuation approach translates into the company's NAV total return (TR) in the 'Performance' section below.

Performance: Broadly in line with PE markets

Since inception in July 2007, NBPE has generated a 6.9% NAV total return pa. This performance captures the 28% fall in NBPE's NAV during the GFC (between June 2008 and March 2009). The initial drop in NAV after the coronavirus outbreak has been mostly restored and as at end-August NBPE's NAV stands close to the end-2019 level (only 0.7% decrease in TR terms ytd). When looking at the 10-year period between end-2009 and end-2019 (which is post GFC but pre-COVID-19), NBPE generated an average 9.8% NAV TR pa. This represents a moderate outperformance of 1.5pp pa vs the NAV TR of the broader US PE market (illustrated by the LPX America NAV index in US dollar terms) at 8.3% pa over this period. At the same time, NBPE's 10-year performance to end-2019 is broadly in line with the public equity markets represented by the MSCI World Index (TR at 9.9% pa). Its five-year NAV TR stood at 9.5% pa, outperforming the LPX 50 and LPX America indices in NAV TR terms by 2.4pp and 3.9pp per annum in US dollar terms, respectively.

However, the above covers a period when NBPE gradually reduced exposure to fund investments in favour of direct co-investments (86% of NBPE's portfolio at end-2009 consisted of fund investments; see chart on the front page). Moreover, it also had significant exposure to income investments (in particular in the period 2013–15), which had lower return outcomes compared to equity investments. It was not until 2018 that direct co-investments started making up more than 80% of NBPE's portfolio. Hence, it is also instructive to look at the gross IRR of the direct co-investment part of its portfolio, with the three-year and five-year performances to end-2019 at 14.8% and 17.6%, respectively.

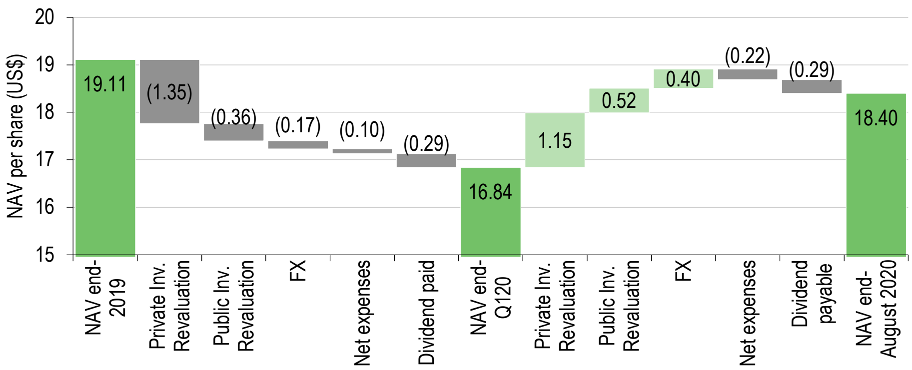
Exhibit 9: Share price and NAV total return performance, relative to indices to end-2019 (pp, annualised)

	One year	Three years	Five years	10 years
Price relative to LPX 50	(11.7)	(1.1)	0.9	2.6
NAV relative to LPX 50 NAV	2.2	0.1	2.4	1.6
Price relative to LPX America	(14.4)	0.2	2.6	2.4
NAV relative to LPX America NAV	5.9	3.5	3.9	1.5
Price relative to MSCI World	2.4	1.2	2.4	5.1
NAV relative to MSCI World	(18.1)	(3.6)	0.2	(0.3)

Source: Refinitiv, LPX Group, Edison Investment Research.

More recently, as stated above, NBPE posted a ytd NAV TR (to end-August 2020) of a negative 0.7%, which is primarily a function of Q120 performance (-10.5% after accounting for the US$0.29 per share dividend payment), and the subsequent rebound reflected in the end-June valuations. The NAV TR between end-June 2020 and end-August 2020 (+2.3%) largely reflects revaluation of listed holdings, the rolling forward of debt positions, as well as fx movements (and includes the second US$0.29 dividend installment). Returns in the income investments bucket were supported by a US$5.3m realisation of an income investment in Galco as well as interest accruals from the NB Credit Opportunities Program. Consequently NBPE's NAV per share declined by US$0.71 (of which US$0.58 is attributable to the dividend payout) from US$19.11 at end-2019 to US$18.40 at end-August 2020, after the $0.58 per share of annual dividends (see Exhibit 10).

Exhibit 10: NBPE's NAV development (end-2019 – August 2020, US$ per share)

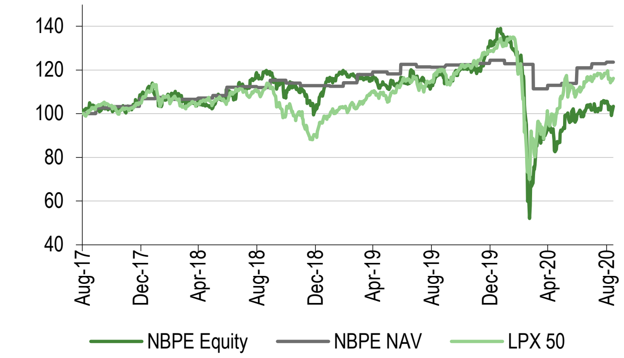


Source: NBPE

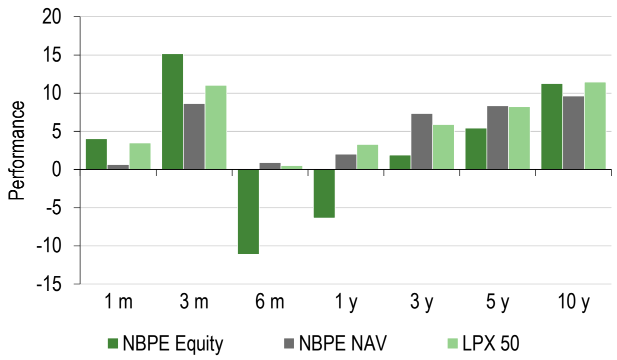
The relatively solid long-term performance to end-2019 coupled with the COVID-19-induced downturn translated into NBPE's five-year and 10-year NAV TR to end-August 2020 of 11.4% and 11.1% pa in sterling terms, respectively. Meanwhile, its share price TR in sterling was 8.4% and 12.8% pa, respectively. In US$ terms (see Exhibit 11), NBPE's five- and 10-year NAV TR to end-August 2020 was 8.3% and 9.6% pa, respectively, while its share price TR stood at 5.4% and 11.3% pa, respectively.

Exhibit 11: NBPE performance to 30 August 2020 in US dollar terms

Price, NAV and index total return performance, three-year rebased



Price, NAV and index total return performance (%)



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

In gross IRR terms, NBPE's portfolio generated a one-year return to end-August of 6.3%, while performance over three and five years was much better at 10.3% and 11.0% pa, respectively (see Exhibit 12). Since 2017 to end-August 2020, NBPE was able to realise an average gross exit multiple of 2.9x (2020 ytd at 2.8x) and an average uplift to the carrying value three quarters prior to exit of 23% on its direct co-investments.

Fund investments underperformed heavily in recent months (particularly due to a write-down reported on one position), but these make up only 2% of NBPE's portfolio. The legacy funds are in their late divestment phase.

Exhibit 12: Gross IRR of NBPE portfolio (end-August 2020, annualised)

	% of fair value	One year	Three year	Five year	Ten year
Direct equity investments	87%	6.3%	12.0%	13.6%	16.6%
Income investments	11%	8.2%	6.5%	8.0%	10.9%
Fund investments	2%	(20.7%)	(1.8%)	2.4%	9.4%
Portfolio	**100%**	**6.3%**	**10.3%**	**11.0%**	**12.8%**

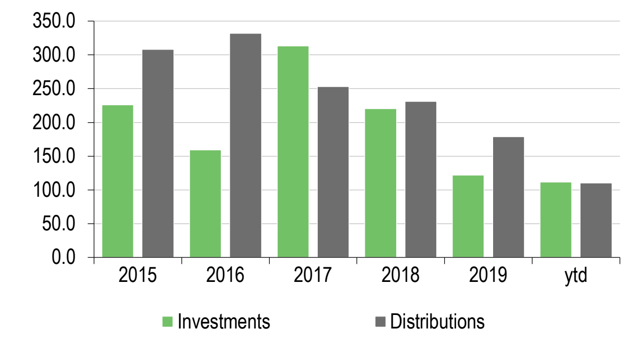
Source: NBPE

NBPE applies structural leverage in the form of ZDPs, which while enhancing returns in a bull market, weighs on performance when markets deteriorate. Over the last three years, NBPE's investment level (portfolio value over NAV) amounted to 117% on average, and currently it stands at 128% (as at end-August 2020). NBPE temporarily increased its gross leverage to increase its liquidity at hand by utilising its credit facility (the credit line was already partially repaid). We estimate the net impact of its gearing on NAV performance at a negative 0.8pp in H120, while it contributed 0.4pp to 2019 performance.

Commitment coverage ratio in excess of 100%

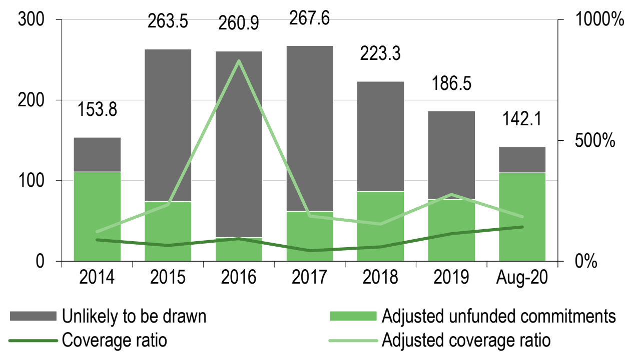
NBPE's focus on direct co-investments translates into a lower level of unfunded commitments required to continuously maintain a fully invested portfolio compared to PE funds-of-funds. Over the last five years, NBPE's liquidity covered its commitments more than threefold on average (excluding commitments unlikely to be drawn, see Exhibit 14). Also, over the last three years (noting that 2015 and 2016 realisations were somewhat inflated by some larger income realisations), annual realisations were on average two times higher than year-end commitments (see Exhibit 13). Taking into account the full amount of unfunded commitments, the coverage ratio stood at 75% on average over the last five years (which is even higher than for many direct PE peers), and annual realisations covered c 95–125% of year-end unfunded commitments over the last three years.

Exhibit 13: NBPE cash investments and realisations (US$m)



Source: NBPE. Note: Ytd to end-August 2020

Exhibit 14: NBPE's unfunded commitments (lhs, US$m) and coverage ratio* (rhs, %)



Source: NBPE. Note: *Unfunded commitments and coverage ratio adjusted for commitments unlikely to be drawn.

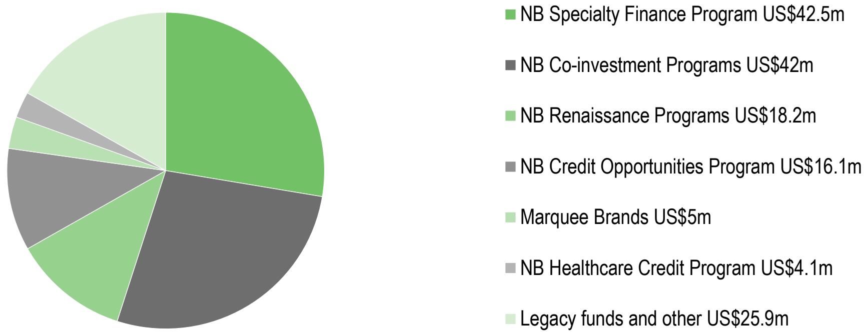
We note that between January and April 2020, the number of exit transactions in the PE market has fallen by 72%, according to Bain & Company. Furthermore, 83% of GPs surveyed by Investec in May expected to hold onto all their portfolio investments for at least the next 12 months, as they waited for pricing conditions to improve and prioritised supporting their existing holdings.

Having said that, we believe that activity in the M&A market has started to pick up from July/August, with several PE companies successfully concluding a number of exits. In line with this trend, NBPE finalised the earlier agreed exit from one of its largest single exposures (Engineering) in July 2020 with total proceeds of US$33.4m received in July and August. Moreover, the company's liquidity was also supported by the selling down of some of the listed equity positions in Q320 executed by lead sponsors. Hence, we believe that GPs are now more willing to realise their investments in good quality businesses which were less affected by COVID-19, while holding periods may remain extended in case of holdings which require further restructuring/value creation efforts.

Higher emphasis of GPs on securing the financial standing of portfolio holdings translated into increased capital calls from LPs (as reported by some of the listed PE funds-of-funds) in the initial months following the pandemic outbreak. In response, managers decided to draw down on available credit facilities partially or fully (this was also the case with NBPE as discussed below). While we understand that capital calls have so far been more limited than LPs initially expected and started declining in recent months, the ability to secure sufficient liquidity for the unfunded commitments remains important. In an adverse scenario, it is possible that realisations in the PE market will again decline and NBPE will have to cover its capital calls to a greater extent by utilising its credit line.

At end-June 2020, the company's unfunded commitments stood at US$153.8m primarily across a number of NB programmes (see Exhibit 15). After funding some of these in the subsequent three months, unfunded commitments declined to US$142.1m at end-August 2020. However, some of these are considered by the management as unlikely to be called and include in particular programmes that are past their investment period (excluding funds that may be called for follow-on investments). Adjusted for these, NBPE's pro forma unfunded commitments at end-August 2020 stood at US$109.8m (according to the company). Management expects these to be called over two to three years. Here, we note that NBPE recently changed its adjustment methodology to a more conservative approach, which partially explains the increase in pro-forma unfunded commitments vs 2019. We also note that NBPE has an opt-out option in the case of two programmes (currently representing unfunded commitments of c US$40m), which are not included in the unlikely to be drawn adjustment.

Exhibit 15: NBPE's unfunded commitments split by source (end-June 2020)



Source: NBPE

NBPE's cash position at end-August 2020 was relatively modest at US$7.2m. Having said that, its liquidity is further supported by its US$300m credit facility (upsized from US$250m in March 2020), of which US$195m is currently undrawn after the company paid down US$125m on 29 May 2020 and a further US$20m during June (see the 'Capital structure and fees' section for details of the terms of the credit line). NBPE's liquidity at end-August 2020 was US$202.2m. Consequently, NBPE's adjusted commitments coverage ratio at end-August 2020 stood at a very comfortable level of 184%.

The above calculations assume that NBPE's ability to draw on its remaining credit facility will not be limited by the covenants embedded within the credit line itself. NBPE has a loan-to-value (LTV) covenant in its credit facility at 45% until December 2027. Importantly, the covenant does not account for NBPE's ZDPs. This means its current LTV calculated for the purpose of the covenant test is low at c 10%, well below the 45% threshold. Assuming a stable value of NBPE's investment portfolio and a drawdown in line with the adjusted unfunded commitments would, we estimate, result in an LTV of c 18%, while full facility utilisation would increase it to 23%. For illustrative purpose, we have also examined NBPE's LTV ratio after accounting for the ZDPs. At end-August 2020, the combined value of NBPE's portfolio and cash position was US$1,111m, while the value of its outstanding ZDPs stood at US$151.7m. Together with the US$105m drawn credit facility, this translates into an LTV of c 23% (see Exhibit 16).

Exhibit 16: NBPE's LTV at end-August 2020

	US$m
Direct equity investments	956.5
Income Investments	125.5
Total direct investments	**1,082.0**
Fund investments	21.7
Total private equity investments	**1,103.7**
Cash and cash equivalents	7.2
Total portfolio	**1,110.9**
Total credit facility	**300.0**
Drawn	105.0
Undrawn	195.0
ZDPs outstanding	**151.7**
2022 ZDPs	78.2
2024 ZDPs	73.5
Net other assets	6.3
NAV	**860.4**
LTV calculated as per the credit line covenant	**9.5%**
Total LTV	**23.1%**

Source: NBPE, Edison Investment Research

Moreover, the credit line includes a borrowing base clause limiting the amount NBPE can draw down to the lesser of 30% of investment value plus cash and the size of the facility (US$300m). Hence, a portfolio value decline could also reduce the credit line available for drawdown. However, we estimate that even with a 35% portfolio value decline, the remaining available undrawn credit facility plus cash at end-August 2020 would fully cover the current adjusted commitments.

Exhibit 17: Borrowing base sensitivity to portfolio value decline

	0%	-10%	-15%	-20%	-25%	-30%	-35%	-40%
Credit facility drawdown limit (US$m)	300.0	300.0	283.6	267.0	250.5	233.9	217.4	200.8
Available undrawn + cash at end-August 2020 (US$m)	202.2	202.2	185.8	169.2	152.7	136.1	119.6	103.0
Coverage ratio*	**184%**	**184%**	**169%**	**154%**	**139%**	**124%**	**109%**	**94%**

Source: NBPE, Edison Investment Research. Note: *Coverage ratio based on adjusted commitments as per NBPE, not including expected realisations nor signed transactions. As at end-August 2020.

Its ZDPs are also subject to a cover test according to which NBPE's gross assets divided by the sum of ZDP final capital entitlement upon redemption and the aggregate amount payable on maturity in respect of any other liabilities due before the ZDP repayment date should be greater than 2.75x. The ratio includes amounts drawn from the credit facility at the time of calculation, despite the borrowing availability period for NBPE's credit facility ending on 23 December 2029 (ie beyond the maturity of both 2022 and 2024 ZDPs). Unless this test is satisfied, NBPE is not allowed to pay dividends or engage in share buybacks. However, it is important to note that the cover test itself does not limit the company's capacity to utilise its credit facility.

NBPE's 2024 ZDP cover at end-August 2020 stood at 4.0x, according to our estimates. Assuming a stable value of NBPE's investment portfolio and a drawdown in the credit facility in line with its adjusted unfunded commitments would, we estimate, result in 2024 ZDP cover at 3.2x (above the 2.75x threshold), while full facility utilisation would reduce it to 2.77x (marginally above threshold). As the COVID-19 crisis is still unfolding, we present a sensitivity analysis including different levels of portfolio value decline and credit line drawdown. For this purpose: 1) we do not include already signed transactions or any further portfolio realisations, which could increase NBPE's cash position and in turn limit the portfolio decline, 2) we simplistically assume that the credit line is drawn after the portfolio value declines and 3) we ignore other assets/liabilities, as net assets at end-August 2020 were just US$6.3m. We conclude that NBPE's ability to pass the cover test required to pay a dividend becomes more limited as the portfolio falls in value and borrowing levels increase. Based on end-August NAV and credit line utilisation the portfolio value would need to decrease by over 30% to breach the limit. This is illustrated in Exhibit 18, where we have also separately marked (in a lighter green colour) these credit line drawndown levels, which would anyway be unavailable to NBPE due to the borrowing base limit, as discussed above.

Exhibit 18: NBPE's cover test on ZDPs sensitivity analysis

Credit line drawn (US$m)	Portfolio value decline vs end-August 2020							
	0%	-10%	-15%	-20%	-25%	-30%	-35%	-40%
0	5.85	5.21	4.88	4.56	4.24	3.92	3.60	3.28
25	5.23	4.67	4.39	4.11	3.83	3.55	3.27	2.99
50	4.76	4.26	4.01	3.76	3.51	3.26	3.02	2.77
75	4.38	3.93	3.71	3.48	3.26	3.04	2.81	2.59
100	4.07	3.66	3.46	3.25	3.05	2.85	2.65	2.44
125	3.81	3.44	3.25	3.06	2.88	2.69	2.51	2.32
150	3.59	3.25	3.08	2.90	2.73	2.56	2.39	2.22
175	3.40	3.08	2.93	2.77	2.61	2.45	2.29	2.13
200	3.24	2.94	2.80	2.65	2.50	2.35	2.20	2.05
225	3.10	2.82	2.68	2.54	2.41	2.27	2.13	1.99
250	2.98	2.71	2.58	2.45	2.32	2.19	2.06	1.93
275	2.87	2.62	2.50	2.37	2.25	2.12	2.00	1.88
300	2.77	2.53	2.42	2.30	2.18	2.07	1.95	1.83

Source: NBPE, Edison Investment Research

Based on the above, at current credit facility borrowings of $105m, the portfolio would have to fall in value by more than 30% before the ZDP cover test was not satisfied – a significantly adverse scenario, considering the COVID-19 induced first quarter decline was (10.4%). We believe that NBPE has a relatively wide safety margin in terms of the ability to utilise its credit facility. Our above comments are focused on downside scenarios for risk analysis purposes only and should not be considered an indication that we expect NBPE's NAV to decline (our analysis has not involved preparing our own forecasts).

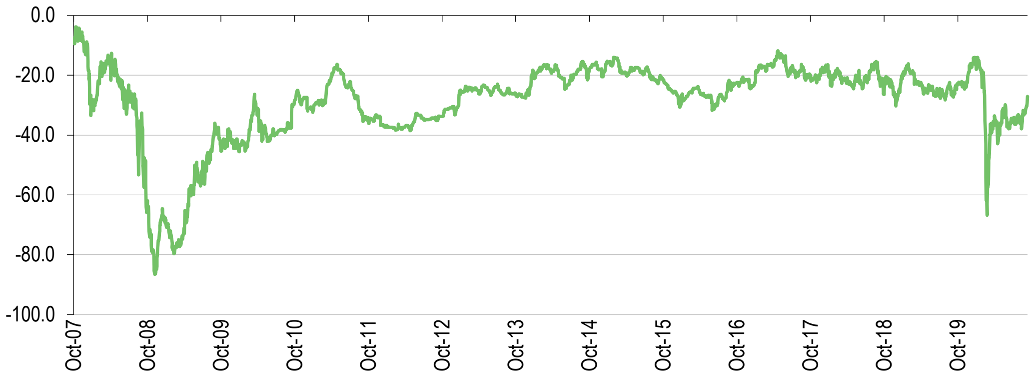
At the same time, we note that NBPE is targeting an investment level (defined as the carrying value of total PE investments to NAV) of around 115–20%. At end-August 2020, the company's leverage was above this range at 128%, which is a consequence of a proportion of its credit facility being drawn. Hence, the investment manager will aim to deleverage the company slightly, which could consume part of the proceeds from realisations.

Discount: Wider than the historical average

At 9 October 2020, NBPE's shares traded at a 25% discount to end-August NAV (sterling quote). This is wider than its 2013–19 average of 22% (or 16.1% at end-2019) and represents a rebound from the trough level of 67% at 23 March 2020. The discount has narrowed since then, driven by the share price rebound (up 104% since 23 March to end-August, ahead of LPX Direct (US$) posting a 66% increase). Meanwhile NAV returned to end-February level (1% increase in TR terms to end-August), ahead of LPX Direct NAV decreasing by 3.9%.

The discount is visibly ahead of the direct PE peers (represented by the LPX Direct discount at 9.5% in the period on average), and broadly similar to the PE funds-of-funds, which traded on average at a 17.5% discount (LPX FoF), despite NBPE's portfolio transition to direct co-investments (with no second layer of fees). There may be various reasons for this, which may potentially include: 1) historical performance broadly in line with fund-of-funds peers (before completion of portfolio repositioning) despite a more attractive fee structure, 2) reliance on third-party GPs in value creation and exit decisions, 3) risk associated with its structural gearing (though at the same time offering an upside return potential) and 4) changing portfolio exposure over time affecting investor perception.

Exhibit 19: Share price discount to NAV since inception (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

NBAA collects a management fee equal to 1.5% of the PE investments' value. This effectively translated to 1.5–1.7% of NAV annually in 2016–19 mostly due to applied leverage. We note that there is no double-charge on NB funds within NBPE's portfolio. After accounting for operating costs and administration fees, the ongoing charges amounted to 2.37% in H120, above its historical average of 1.96% since 2012 (mostly due to declining NAV in the period). The investment manager is also entitled to a performance fee, which is set at 7.5% of NAV accretion (including dividends paid), subject to a 7.5% hurdle rate and an absolute high-water mark. In FY19, the performance fee amounted to 0.8% of average NAV (Edison calculation), which has driven the total charge to 2.91% (2.62% pa on average since 2012).

NBPE currently has a US$300m credit facility in place provided by MassMutual (after exercising a US$50m accordion in March 2020 and expanding the facility by a further US$50m in May 2020). To secure additional liquidity at the beginning of the crisis, the investment manager decided to increase the amount drawn to US$250m from US$47m at end-2019. Subsequently however, NBPE has repaid US$145m (which leaves US$195m undrawn as at end-August 2020). The facility has a 10-year availability period (ending December 2029) and bears a Libor +2.875% coupon (increased from Libor +2.75% upon facility extension in March) with a Libor floor at 1.00%, as well as a non-utilisation fee of 0.55% pa. Additionally, beginning in June 2021, the facility has a minimum draw requirement of US$90m. As discussed above, the agreement provides a maximum LTV ratio of 45%. The current facility replaced in December 2019 the US$150m facility provided by JP Morgan, which had an interest of Libor +3.75% (no floor) and a 1.25% non-utilisation fee.

NBPE currently has two £50m ZDP issues outstanding, maturing in 2022 and 2024. The carrying values of these ZDPs at end-August 2020 stood at US$78.2m and US$73.5m, respectively which includes accrued interest at a rate of 4.00% and 4.25%, respectively. Both ZDP series are traded on LSE, under the tickers NBPP and NBPS, respectively.

At end-August, NBPE's share capital consisted of 51.9m class A shares issued (46.8m outstanding) and 10,000 class B shares. The class B shares were issued to a charitable trust during the IPO (First Directors Limited serves currently as trustee) and carry no voting rights. However, if the level of ownership of outstanding class A shares by US residents exceeds 35%, the class B shares will automatically gain voting rights in the sufficient amount to dilute the voting power of US residents below 35% in respect to director resolutions. According to the company, currently US residents make up far less than that threshold in the shareholder base. Both share classes participate in profits equally. Neuberger Berman does not hold any direct shareholdings in the public entity, and the management board holds a marginal number of outstanding shares (<0.1%).

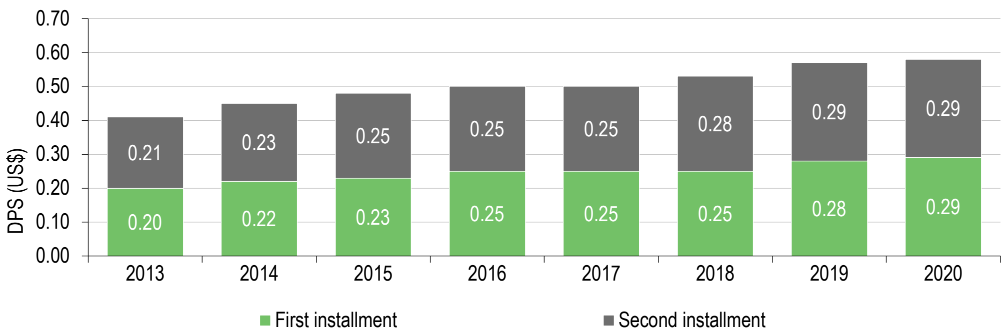
Dividend policy and record

In September 2018, NBPE introduced its target of annualised dividend yield to NAV of 3%. However, it highlights that it is indicative only and there is no intention to reduce dividends should a short-term decline in NAV occur. This is illustrated by the most recent payment of US$0.29 per share made in August 2020, which was up vs the prior year despite NBPE's NAV decline reported back then. We present historical dividend payments made by NBPE in Exhibit 20.

In the initial phase of the current market turmoil, the focus of the investment manager and board was on preserving capital and assuring liquidity and, consequently, the company decided to suspend its share buyback programme. However, unlike many market participants, NBPE did not suspend its dividend payout and its recent August semi-annual dividend was in line with the previous two semi-annual dividends, and translated into a 3.2% LTM dividend yield on end-August 2020 NAV. Given the current discount to NAV at which NBPE's shares trade, they now offer a dividend yield of 4.3% (4.5% in sterling quote).

Management highlights that NBPE's current financial standing allows it to maintain the dividend level. Subsequent dividend declarations will depend on how the crisis unfolds. In this context, we note that ytd distributions of c US$110m represent a 4.0x annual dividend cover.

Exhibit 20: NBPE dividend per share record



Source: NBPE

Peer group comparison

In our peer comparison table (Exhibit 21) we present UK-listed PE investment companies divided into two groups by their investment structure (direct vs fund-of-funds). NBPE slightly underperforms the selected peers in NAV terms over periods of one to five years, despite outperforming the LPX indices (see 'Performance' section). However, we again underline that NBPE has gradually reorganised its portfolio to direct co-investments from the prior fund-of-funds structure (with the latter weighing on its historical performance). Moreover, its income investments (with peak exposure at c 40% in 2014–15) also generated a return visibly below the direct co-investments.

We also 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. Of the peer group, Oakley Capital Investments, BMO and ICG have not yet disclosed their respective NAVs as at end-August, with the latest available data representing portfolio valuations at end-June or July, and thus mostly incorporating updated valuations post the Q120 downturn and subsequent rebound. Having said that, part of the fund-of-funds' portfolios are somewhat outdated, as illustrated by 6% of Pantheon's NAV reflecting end-March valuations (remaining 94% as at end-June 2020). BMO is an outlier here with its end-June NAV being 'largely based on end-March 2020 valuations'.

The ongoing charge comparison presented in Exhibit 22 considers entity-level costs only, which should be higher on a look-through basis among funds-of-funds after accounting for the second layer of fees already reflected in their NAV TR. Moreover, NBPE's ongoing charge excluding performance fees was broadly in line with the average of its direct PE peers, but the ratio is elevated in our opinion due to its gearing (as its management fee is charged on the gross investment portfolio value rather than NAV). Consequently, we have included a more detailed analysis of management and performance fees across the peer group in Exhibit 21. As presented below, NBPE offers a quite attractive fee structure with a management fee that is broadly in line with direct PE peers average (HgCapital Trust, Oakley Capital Investments and Princess Private Equity) combined with a low performance fee and the lack of second-layer fees for nearly all direct co-investments. Although the first layer of management and performance fees for fund of funds is more attractive than for direct PE peers, these are also subject to a second layer of fees at the underlying GPs level. While the latter fees are not being disclosed and vary between GPs, we believe that on average these can include a management fee of c 1–2% of NAV pa, as well as a 10–20% carried interest on NAV TR above a certain hurdle rate (often set at 8%).

Exhibit 21: Management and performance fees comparison

	Fees at investment company level			Second-layer fees*	Comments
	Management fee pa (as % NAV)	Performance fee (as % of NAV accretion)	Hurdle rate/preferred return		
NB Private Equity	1.50%	7.50%	7.50%	See comments	No management fees or carried interest payable to third-party GPs for c 96% of the direct investments as at end-May 2020 (which cover close to 90% of NBPE's portfolio)
HgCapital Trust	1.20%	20.00%	8.00%	No	The presented management fee is for FY19 and the figure may vary over time given different management fees in case of the respective Hg funds. The performance fee is 20% except for Hg Saturn up to a return of 12% pa, in which case the carried interest equals 12% of aggregate profits
Oakley Capital Investments	2.00%	20.00%	8.00%	No	The fund is also charged an advisory fee on direct equity investments of up to 2% of the equity transaction value; management and performance fees removed from direct debt investments from 1 January 2020
Princess Private Equity	1.50%	15.00% / 10.00%	8.00%	No	Performance fee for direct investments is 15% and for secondaries is 10%
BMO Private Equity Trust	0.90%	7.50%	8.00%	Yes	Hurdle rate calculated over rolling three-year periods
HarbourVest Global Private Equity	0.86%	Yes	N/A	Yes	Performance fee charged only on secondary and direct co-investments and varies depending on the respective HarbourVest Fund; in FY19 it stood at 0.98% of the average NAV
ICG Enterprise Trust	1.20%	10.00%	8.00%	Yes	The presented management fee is an effective rate average NAV in the FY ended January 2020. According to the company, close to 50% of the portfolio was subject to a single layer of fees only. This includes co-investments (no fees at the underlying manager level) and investments through ICG and Graphite (no management fee at the ICGT level). The headline management fee is 1.40% of the portfolio value plus 0.5% of undrawn commitments to funds in the investment period
Pantheon International	1.50% / 1.00%	5.00%	10.00%	Yes	Management fee of 1.5% up to £150m of the investment portfolio value and 1.0% above £150m. Pantheon's investment manager also charges a fee of 0.5% pa on committed uninvested capital
Standard Life Private Equity Trust	0.95%	None	None	Yes	-

Source: Company reports and presentations. Note: *At the underlying funds level.

NBPE's net leverage amounts to 29% of NAV while five out of eight peers do not lever up their portfolios, though leverage may be applied in underlying funds in the fund-investing subgroup. It is also worth noting that many of these funds have a lower commitment coverage ratio compared to NBPE. NBPE trades at a wider discount than its peers at 25% compared to peers average at 21%. It is important to note that the whole listed PE space is currently at historically high discounts, which we believe may come from the market expecting a degree of further deterioration in NAVs. The broader LPX UK index discount currently stands at 16%, while in 2014–19 it was 8% on average. NBPE's 4.5% dividend yield is the second-highest among the selected peers (trailing 12-month calculations), while dividend pay-out capacity is under pressure across the sector.

Exhibit 22: Listed private equity investment companies peer group as at 12 October 2020* (in sterling terms)

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge**	Perf. fee	Net gearing	Dividend yield
NB Private Equity	**482.8**	**(7.2)**	**19.0**	**71.3**	**187.9**	**(24.9)**	**2.1**	**Yes**	**129.0**	**4.5**
HgCapital Trust	1,210.1	(1.7)	35.4	105.4	218.9	4.9	1.6	Yes	100.0	1.6
Oakley Capital Investments	485.7	13.4	61.3	108.7	160.2	(26.8)	2.6	Yes	100.0	1.7
Princess Private Equity	634.8	9.7	29.6	115.4	164.2	(19.1)	1.8	Yes	111.7	4.3
Direct funds average	**776.9**	**7.1**	**42.1**	**109.9**	**181.1**	**(13.7)**	**2.0**	**-**	**110.3**	**2.6**
BMO Private Equity Trust	204.1	2.3	22.1	56.1	153.7	(27.5)	1.2	Yes	114.7	5.6
HarbourVest Global Private Equity	1,405.6	1.0	37.1	98.5	268.7	(17.3)	1.5	No***	100.0	0.0
ICG Enterprise Trust	605.2	(2.2)	28.0	77.8	182.7	(21.6)	1.4	Yes	100.0	2.6
Pantheon International Ord PLC	1,138.6	(3.5)	23.5	77.8	197.0	(26.0)	1.2	Yes	100.0	0.0
Standard Life Private Eq Ord	486.6	4.0	30.7	88.4	191.2	(31.2)	1.1	No***	102.5	4.2
Funds of funds average	**768.0**	**0.3**	**28.3**	**79.7**	**198.7**	**(24.7)**	**1.3**	**-**	**102.9**	**2.5**
Average (8 funds)	**771.3**	**2.9**	**33.5**	**91.0**	**192.1**	**(20.6)**	**1.5**	**-**	**103.3**	**2.5**
NBPE rank in sector	**8**	**9**	**9**	**8**	**5**	**5**	**2**	**-**	**1**	**2**

Source: Morningstar, Refinitiv, Edison Investment Research. Note: *Performance to August 2020 based on latest available ex-par NAV. **Ongoing charge at fund level only; does not capture the second layer of fees in the fund of funds subgroup. ***Performance fees paid at underlying funds level. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. 100=ungeared.

The board

NBPE's management board consists of five directors, four of whom are independent. **William Maltby** (chairman, independent) is a corporate and leveraged finance specialist, who worked for Deutsche Bank for more than 25 years, serving in various roles over the time, most recently the vice chairman of investment banking. Maltby was also a chairman of PE fund Mithras Investment Trust from 2012 to 2018. He is also chairman of Ekins Guinness and a non-executive director of Pension SuperFund Capital GP II. **Wilken von Hodenberg** is a senior independent director and a lawyer in Hamburg, and has 34 years of experience in PE, investment banking and senior management. He has been at the head of five different entities, including German Private Equity & Venture Capital Association and Deutsche Beteiligungs, and has served as managing director at Merrill Lynch in Frankfurt and Baring Brothers. Currently he is a non-executive director of Sloman Neptun, Schloss Vaux, and Wepa.

Trudi Clark (appointed in 2017) and John Falla (2015) are independent directors. **Trudi Clark** is a chartered accountant. She co-established David Rubin & Partners in 2009, which specialises in corporate restructuring services and served there until 2018. Prior to that, she was managing director at Schroders, head of internal audit at Bank of Bermuda and also worked for 10 years at KPMG. She is a director of BMO Commercial Property Trust, River and Mercantile UK MicroCap Investment Company, Alcentra European Floating Rate Income Fund and The Schiehallion Fund Limited. **John Falla** is a chartered accountant and currently full-time non-executive director and consultant. Since 2000 he had been a part of Edmond de Rothschild Group, where he provided corporate finance advice to international clients including open and closed-ended funds, as well as serving as director at Edmond de Rothschild's operating and investment entities. He is a director at KKV Secured Loan Fund, CIP Merchant Capital and Marble Point Loan Financing.

Peter von Lehe was appointed as a director in 2007 by the investment manager. He has 26 years of industry experience and currently is the head of investment solutions and strategy and is a managing director of Neuberger Berman. He is a board member of NB Reinsurance Limited and serves on the investment committees of Athyrium, Marquee Brands and Renaissance. Previously he was a managing director and deputy head of the PE fund of funds unit of Swiss Reinsurance Company.

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