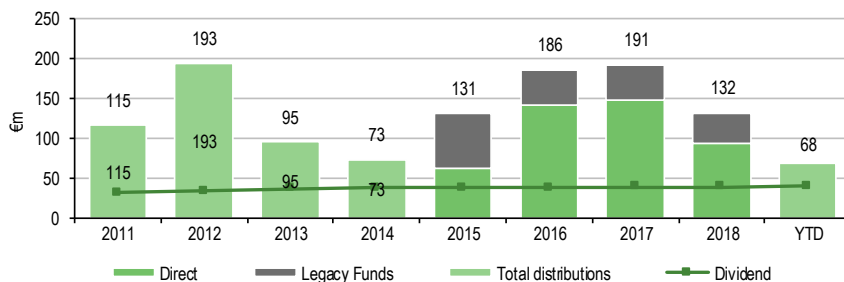


Princess Private Equity Holding

Steady realisations support dividend payout

Following high investment activity in 2018, which allowed Princess Private Equity (PEY) to become fully invested, its balance of new investments vs realisations has been broadly neutral so far in 2019. PEY received c €68m in distributions, mainly from the winding down of legacy funds and gradual disposal of Ceridian HCM shares. The proceeds were used to finance a healthy dividend (current yield of 5.7%) and €52m in new deals, mainly in fairly defensive sectors such as healthcare and education. We also note that PEY's investment manager (Partners Group) has agreed to fully exit Action (PEY's second largest holding). NAV total return to end-October was a solid 14.0%, driven by the revaluation of holdings on the back of robust organic growth (eg Action) and continued execution of the 'buy-and-build' strategy (eg Permotio).

Dividends well covered by distributions



Source: Princess Private Equity, Edison Investment Research

The market opportunity

The current late-cycle environment and demanding valuations call for a long-term approach to private equity. PEY focuses on value creation in companies that can expand, even during an economic downturn, through a global investment team (over 90 members) and an in-house industry value creation (IVC) team (more than 40 members). It considers well-managed platforms, category winners and cash-generative, defensive leaders as particularly compelling plays. PEY supplements its equity portfolio with senior secured and mezzanine debt investments.

Why consider investing in Princess Private Equity?

- Investment manager's extensive experience (more than 20 years)
- Well-resourced team and global platform.
- Portfolio diversified across industries and vintages.
- Attractive dividend policy with targeted payout at 5–8% of opening NAV.

Valuation: Dividends assist narrower discount

At 27 November 2019, PEY's shares traded at a 15.8% discount to NAV. This was wider than the one- and three-year averages of c 15% and 11%, respectively. Nevertheless, PEY's discount stands below the peer group average (currently at 16.8%), which may be attributable to its relatively attractive dividend policy.

Investment companies Private Equity

29 November 2019

Price	€10.20
Price (PEYS)	872.38p
Market cap	€705.8m
NAV	€837.9m

NAV*	€12.12
Discount to NAV	15.8%

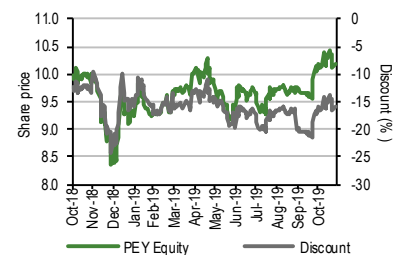
*As at end-October 2019.

Yield**	5.7%
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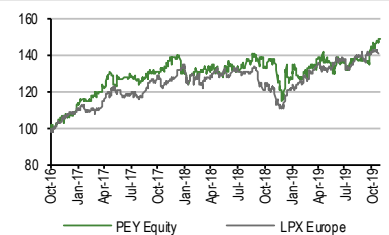
**Including recently declared dividend

Ordinary shares in issue	69.2m
Code	PEY/PEYS
Primary exchange	LSE
AIC sector	Private Equity

Share price/discount performance



Three-year performance vs index



52-week high/low	€10.45	€8.36
NAV high/low	€12.16	€10.90

Gearing

Gross*	3.0%
Net*	2.3%

*As at end-September 2019.

Analyst

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Princess Private Equity Holding is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

Princess Private Equity Holding is an investment holding company domiciled in Guernsey that invests in private equity and private debt. Its portfolio may include direct, primary and secondary fund investments. Princess aims to provide shareholders with long-term capital growth as well as an attractive dividend yield. The shares are traded on the Main Market of the London Stock Exchange.

Recent developments

- 15 November 2019: Partners Group to fully exit Action
- 11 November 2019: second interim dividend declared at €0.29 per share
- 23 October 2019: September monthly report. NAV TR +4.2%, ytd +14.4%.
- 7 October 2019: exit from Vermaat Group: €17.8m cash proceeds and 27% uplift to book value.
- 12 August 2019: Q219 results: Q219 NAV TR +3.7% (EUR), H119 +9.6%.

Forthcoming

AGM	May 2020
Interim results	12 November 2019
Year end	31 December
Dividend paid	June, December
Launch date	1999 (listed since 2006)
Continuation vote	None

Capital structure

Ongoing charges	1.8%* (LTM)
Net gearing	2.3%** (LTM)
Annual mgmt fee	1.5%
Performance fee	See page 14
Company life	Indefinite
Loan facilities	€50m

Fund details

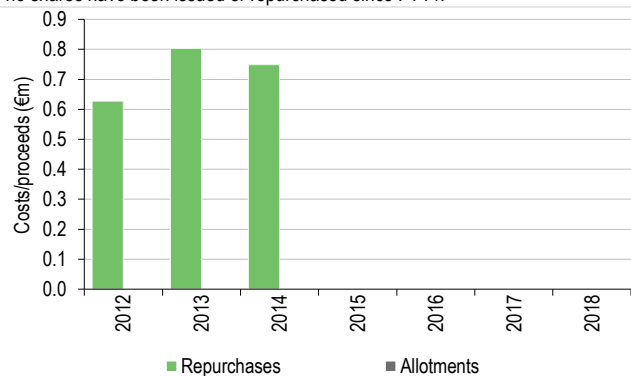
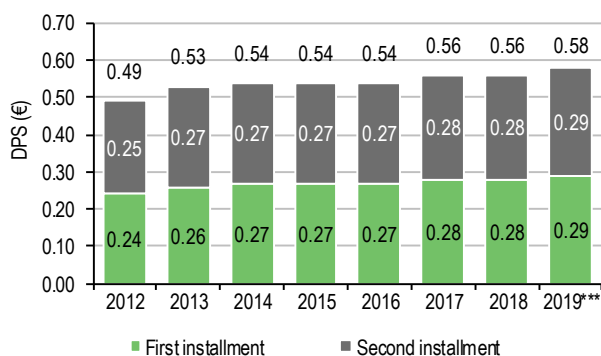
Group	Partners Group
Manager	Team-managed
Address	Tudor House, PO Box 477, Guernsey, GY1 1BT
Phone	+44 (0) 1481 730 946
Website	www.princess-privateequity.net

Dividend policy and history (financial years)

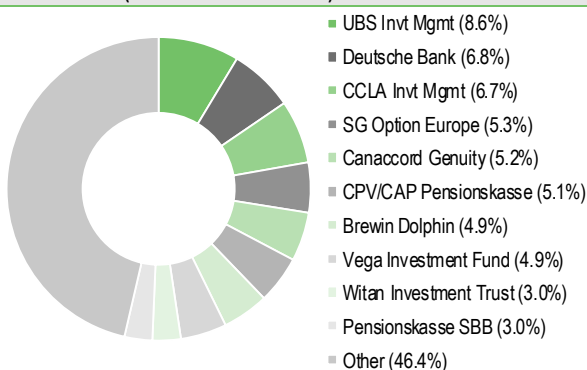
PEY intends to pay a total annual dividend equivalent to c 5–8% of NAV per share, in two instalments.

Share buyback policy and history (financial years)

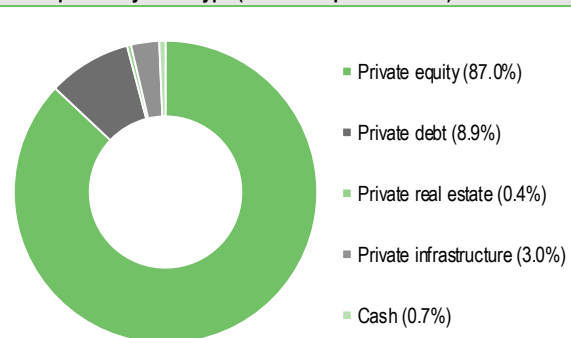
Under an authority granted in 2010, PEY's directors may buy back up to 14.99% of shares or allot shares up to c 10% of the share capital, each year. However, no shares have been issued or repurchased since FY14.



Shareholder base (as at 22 November 2019)



Portfolio exposure by asset type (as at 30 September 2019)



Top 10 holdings (as at 31 October 2019)

Company	Region	Sector	Portfolio weight %	
			31 October 2019	31 October 2018
Permotic International Learning	Western Europe	Consumer discretionary	11.9	6.9
Action	Western Europe	Consumer discretionary	10.7	8.1
Foncia	Western Europe	Financials	4.7	3.5
GlobalLogic	North America	Information technology	4.7	3.1
KinderCare Education	North America	Consumer discretionary	3.7	3.3
Form Technologies	North America	Materials	3.5	5.0
Fermaca	Rest of world	Energy	3.4	3.2
Techem Metering	Western Europe	Industrials	2.8	2.7
Ammega	Western Europe	Industrials	2.6	4.0
Hearthsides Food Solutions	North America	Consumer staples	2.5	N/A****
Top 10 (% of holdings)			50.5	42.3

Source: Princess Private Equity Holding, Edison Investment Research, Bloomberg. Note: *See Capital structure and fees on page 13. **See Financial resources and commitments on page 6. ***Second interim dividend declared but not paid yet. ****Not in top 10 holdings at end-October 2018.

Fund profile: Direct private equity and debt

Princess Private Equity Holding (PEY) is an investment company registered in Guernsey, which was established in 1999, raising US\$700m through a convertible bond to make commitments to third-party managed private equity funds. Subsequently in 2006, the bonds were converted into shares, which were listed on the Frankfurt Stock Exchange. Although PEY gained an additional listing on the London Stock Exchange in 2007 and cancelled its Frankfurt listing in 2012, its functional currency has remained the euro. A sterling-denominated quote (PEYS) was added in September 2017.

The fund is a combination of long-term capital appreciation and an income vehicle, targeting a recurring dividend yield at 5–8% of NAV based on semi-annual payments. PEY primarily makes direct private equity investments, but it also makes co-investments with other managers. Moreover, it has some exposure to private debt investments to support efficient balance sheet management. PEY changed its focus from third-party funds in 2011 and now invests predominantly via its investment manager's (Partners Group) direct private equity investment programmes (funds). The remaining third-party funds represented 8% of PEY's portfolio at end-October 2019.

PEY is a member of the Association of Investment Companies' Private Equity sector. It has a borrowing facility of €50m (of which €25.5m was drawn at end-October 2019) used to provide flexibility in the timing of investments. Moreover, it invests in relatively liquid senior loans (as a higher-yielding alternative to money market instruments) for liquidity management purposes. Unlike many of its peers, PEY does not tend to follow an overcommitment strategy. After a higher than usual pace of new investments in FY18, the portfolio is effectively fully invested, having previously had significant liquid resources (c €90m at end-2017).

The fund manager: Partners Group

Princess Private Equity is managed by Partners Group, a global private markets specialist with over US\$90bn in assets under management at end-June 2019. The investment manager had over 1,400 employees across the 20 offices, with more than 650 private markets professionals at end-September 2019. Its PE leadership team consists of 20 professionals with average experience in excess of 20 years (including more than 10 years at Partners Group).

The manager's view: Focus on long-term value creation

Partners Group is convinced global markets are in the late stages of the macroeconomic cycle. The US economy has seen its longest expansion, and asset valuations have progressively risen to the upper end of historical ranges. In this environment, a pick-up in volatility is likely and the investment manager sees more downside risks than upside potential given current valuation levels.

In Partners Group's view, it is key to concentrate on sourcing companies and industries with long-term growth potential. Among its portfolio companies, the focus is on building out cash flows and establishing resilience through value creation and strong governance. This should be achieved through the efforts of its IVC team. The investment manager remains convinced that this is the only way to achieve sustainable, long-term growth in private markets today.

Partners Group proactively seeks investment opportunities in subsectors it finds compelling. As an example, the manager points to the recent investment in Confluent Health (June 2019). Physical therapy has been identified as an attractive sector, due to an ageing population and steady increase in chronic diseases, which can be addressed through physical therapy instead of riskier and more expensive medical procedures. The company has been tracked 'for a long time' and investment has been made when a good opportunity has materialized.

Asset allocation

Investment strategy

PEY focuses on direct private equity transactions alongside other Partners Group-managed funds and accounts, and private debt investments overseen by Partners Group, as well as co-investments with other private equity managers (such as 3i, the lead investor in PEY's second-largest holding, Action). It invests mainly in mid-cap buyouts with an enterprise value of c €500m to €2bn where Partners Group has a controlling or majority position, either as the lead investor or co-lead with another private equity manager. PEY invests in these deals both through Partners Group's flagship limited partnership funds and as a co-investor. Having previously invested in third-party private equity funds, this has not been a focus for PEY since 2011. While these funds still account for 8% of the portfolio, they are mature investments that are now largely in the process of returning capital. PEY is less diversified than a private equity fund of funds, which may be exposed to hundreds of underlying companies. Still, it does hold a relatively diversified portfolio and targets direct investments in c 50–80 companies (not including holdings in legacy third-party funds) to reduce the cash flow volatility that might occur with a more concentrated strategy. This is particularly important given its aim to sustain a regular high dividend payout.

Partners Group is a relative value investor, which means it examines the pricing of investment opportunities in the context of both historical valuations and a relevant peer group. The manager seeks to make direct investments in companies that are highly cash-generative and/or offer meaningful top-line growth potential. In an environment of generally high prices for private equity deals, Partners Group has found it beneficial to focus on companies that fit into one or more of the following categories:

- **Well-managed platform companies** that can be expanded via bolt-on acquisitions.
- **Category winners** with a strong competitive position in a growing market segment.
- **Cash-generative and defensive leaders** in sectors with high barriers to entry.

An essential part of the Partners Group private equity investment approach is its industry value creation team (see below), which it uses to help drive through initiatives to enable companies to strengthen their financial and competitive positions and achieve their full potential.

Private debt investments serve two purposes: uninvested cash may be used to purchase first-lien senior loans, which are relatively liquid but offer higher returns than other near-cash investments, while second-lien or mezzanine investments are longer term and may be used to gain exposure to favoured private companies that are not (yet) seeking additional equity financing.

Investment process: Proactive approach to deal sourcing

Through its primary and secondary private equity teams, along with private debt and infrastructure teams, Partners Group maintains a detailed database of over 8,000 companies used to source investment ideas. In total, the group has information on more than 36,000 businesses, relationships with more than 900 private equity general partners, and representation on more than 350 advisory boards. Every investment professional has a target list of companies in which they would like to invest if the opportunity arose, and the team spends time speaking to company managements, working out an investment case, and identifying value creation potential and likely M&A targets. In addition, the group can build detailed knowledge of the operational and financial characteristics of private companies (where publicly available information may be scant) through its debt investments, giving Partners Group's investors an advantage in due diligence terms when these companies seek private equity funding. Partners Group has a highly selective approach to investment, with less than 1% of potential deals on average (0.9% in FY18) making it into the group's portfolios in any given year. The team screens around 1,000 deals each year (1,054 in FY18) on a high-level basis, looking at industry developments, market attractiveness, headline company financials, return potential, exit scenarios and how Partners Group could add value to the

business. From this initial screen, c 10–20% of potential deals (20.1% in FY18) are selected for initial due diligence, which assesses a range of quantitative and qualitative factors, with the most promising ideas (69 in FY18) moved to advanced due diligence, including in-depth financial modelling, scrutiny of legal terms and an assessment of environmental, social and governance (ESG) factors. Apart from checking how a company measures against various ESG metrics, the ESG team also suggests positive drivers, identifying initiatives that can improve the ESG profile of an asset and ultimately create value.

Following the due diligence stage, the Partners Group team comes up with a detailed investment thesis (including an operational assessment by the IVC team) and creates a 100-day plan for execution of the deal and implementation of value creation initiatives. The final step of the process is a positive or negative investment recommendation. PEY made nine new direct private equity investments in FY18 (five with Partners Group as lead investor and four co-investments), broadly in line with historical averages. In FY19, the company has so far made six new direct private equity investments (with another one yet to be closed).

PEY invests mainly through Partners Group's flagship direct private equity funds, which are normally raised every three to four years. PEY makes commitments to these funds and may also conduct direct 'top-up' investments alongside them, providing flexibility to deploy additional capital. Funds may take several years to draw the commitments made at launch to make new investments, with the latest ongoing programme (Partners Group Direct Equity 2016) still in its investment period. However, as it is almost fully invested, the new Partners Group Direct Equity 2019 programme (the fourth global buyout fund) is already being marketed with the intention of raising up to US\$6bn. To smooth the pace of investment and avoid cash drag, which may occur when cash is returned to the portfolio (for example, as a result of realisations from legacy third-party funds) but is not drawn down by the direct funds, PEY may also make direct co-investments with other managers to reduce cash drag and to bring additional diversification.

New private equity positions typically represent 0.5–3.0% of NAV, but PEY aims to express conviction in its investments and position sizes are ideally around 2.0%. However, this is dependent on the size of the investee company and PEY's liquidity position. During FY18, several new investments were large enough to be included in PEY's top 10 holdings. PEY's standard holding period is three to five years. Exits may be through trade sales, IPO or sale to another private equity buyer. Where an exit is executed through a company listing on a stock market, the manager will usually aim to gradually sell the investment within two years (subject to any lock-ups). However, listed companies may be held for longer if there is a strong investment case for doing so.

Partners Group closely monitors investee companies through its board representation, quarterly performance assessments, active engagement with stakeholders and the progress of value-creation initiatives. Private equity investments are revalued quarterly (in March, June, September and December), although material changes that may affect the value of an investment will be factored in as they occur.

On the private debt side (c 9% of the portfolio at end-September 2019), investments may be made directly by PEY or via Partners Group programmes. Second-lien or mezzanine debt investments target high single- to low double-digit returns, with typical holding periods of two to three years, while liquid first-lien loans are more short term in nature and are held mainly as a higher-yielding alternative to cash (although they are not traded on any public platform). Partners Group is a conservative lender with an emphasis on capital preservation, seeking businesses with predictable cash flows, sustainable margins, a conservative capital structure and a stable record of historical performance. All PEY's debt investments have floating rather than fixed interest rates, which should be beneficial in a rising interest rate environment (while constituting a disadvantage during periods of monetary easing).

PEY uses hedging through options and forward contracts to limit the impact of currency fluctuations (primarily US\$/€) on the portfolio. As a result, FX neither contributed to nor detracted from returns

for FY18 as a whole, while 9M19 FX effects had a minor 0.1% positive impact on performance. At end-FY18, PEY's portfolio currency exposure before and after hedging (post-hedging figures in brackets) was 57% euro (86%), 37% US dollar (11%), 5% sterling (2%), and 1% other (1%).

Industry value creation (IVC) team

Partners Group sees its IVC team as a key differentiating factor in its – and by extension PEY's – offering. Rather than engaging management consultants to drive through operational improvements at investee companies (like many private equity groups), Partners Group has its own in-house team implementing value-add measures. As at end-June 2019, the team comprises more than 40 professionals (with Partners Group's intention to expand it to 50 by the end of 2020), organised across six industry groups (healthcare, technology, media & telecoms, education, financial & business services, industrials and consumer), as well as infrastructure and real estate. Importantly, the IVC team is involved in the investment process from the earliest stage of deal sourcing, and a key factor in declining a potential investment would be where there is no clearly identifiable opportunity for the team to create value. Where initiatives can be identified, the IVC team draws up a 100-day plan from the point of investment and creates a five-year roadmap. The team coaches and assists the management of investee companies in the implementation of projects, with all IVC work co-ordinated through a strategic project management office. Examples of recent initiatives include the merger of industrial belt manufacturers Megadyne and Ammeraal Beltech in September 2018 (renamed to Ammega), consolidating the businesses in growing end-markets, creating economies of scale, optimising the footprint, and improving distribution and cross-selling opportunities. With the software developer GlobalLogic (a new investment in Q318 discussed in more detail in the top three snapshot section below), the Partners Group platform is a key driver of value creation, as other investee companies provide both a potential customer base and an additional source of distribution.

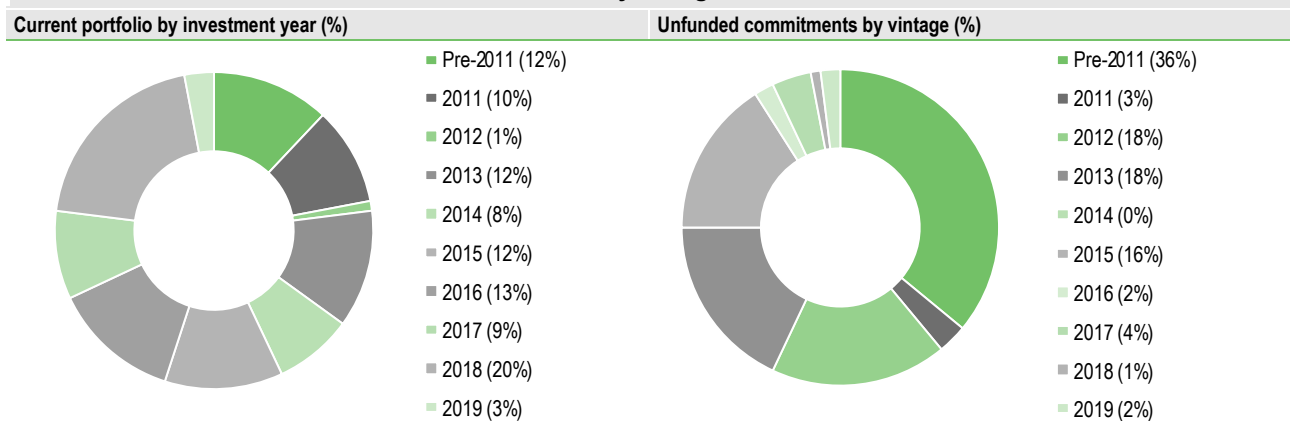
There are currently more than 200 value-creation initiatives in progress across Partners Group's 2012 and 2016 direct programmes (funds). PEY director Felix Haldner points out that the systematic value-creation approach includes the time and consideration taken in composing investee company boards, so that they are tailored to the company and the investment thesis. Partners Group has a large industrial partner network from which it sources non-executive directors and will usually appoint a chairman with industry-relevant executive experience, who can step in as an interim CEO if required.

Financial resources and commitments

PEY's unfunded commitments at end-October 2019 stood at €78.2m, down from €93.8m at end-2018, predominantly as a result of reduced commitments to legacy third-party funds dated pre-2009. It is important to note that the outstanding balance is somewhat overstated, given that c 36% is still attributable to these legacy funds, which have already reached their distribution phases, meaning that only a minor part of these commitments will be drawn.

As discussed earlier, PEY invests part of its liquidity in first-lien loans (€29.0m or 4% of NAV at end-2018). It also has a €50m credit facility, which is used to bridge the gap arising from the timing mismatch between investment opportunities and realisations rather than permanently gearing the portfolio. As of end-October, €25.5m of the facility has been drawn. PEY's net gearing (including only cash and the drawn credit line) stood at a minor 2.3% at end-September 2019 vs 1.1% at end-2018. After adding PEY-calculated net gearing and subtracting the undrawn part of its credit facility from total unfunded commitments, we arrive at an overcommitment ratio (as a percentage of NAV) of c 10.0% at end-October 2019 (vs 11.1% at end-FY18, respectively).

Exhibit 2: Investments and unfunded commitments by vintage



Source: Princess Private Equity Holding, Edison Investment Research. Note: Current portfolio by investment year as at end-September 2019, unfunded commitments by vintage as at end-December 2018.

Investments and realisations

PEY has invested c €52m capital ytd (until October), including €40m deployed in seven major new investments, as well as €8.0m in add-on growth financing to its largest portfolio holding Permotio. With respect to new investments, two were conducted in the consumer sector (Blue River PetCare and Schleich), two in healthcare (Confluent Health and Nestlé Skin Health – rebranded to Galderma), one in IT (Idera), one in the financials sector (Project Fox) and one in industrials (BCR Group). Below we briefly summarise each of the deals.

Project Fox (€8.9m invested by PEY in April 2019) is a speciality property and casualty (P&C) insurer and reinsurer focused on complex risks for commercial clients. The company was recently set up by a team of experienced risk experts and will initially focus on expanding its underwriting capacity and developing its underwriting strategies.

Idera (€7.9m invested in June 2019) provides on-premise and cloud-based infrastructure software solutions for more than 50,000 customers worldwide. PEY has acquired a minority stake as part of an equity recapitalisation alongside existing investors.

Confluent Health (€5.4m invested in June 2019) is a network of 198 outpatient physical therapy clinics in the US with ambitions to grow both organically and through acquisitions to benefit from an ageing population.

Blue River PetCare (€4.8m invested in August 2019) is a US-based veterinary network of more than 90 general practice hospitals, which plans to take part in consolidating this highly fragmented market (only 13% of the market is consolidated according to PEY).

BCR Group (€2.2m invested in September) is a Shanghai-based provider of retail display solutions. It offers design and manufacturing services as well as installation of display fixtures, mainly in the fast-growing Chinese sportswear segment. PEY will leverage the company as an investment platform and will assist the company in the construction of a new factory.

Schleich (€2.0m invested in August) is one of the largest toy manufacturers in Germany, selling its products in more than 50 countries. It posted a c 16% revenue CAGR in 2014–18 and PEY's IVC team plans to support further international business expansion, facilitate its e-commerce roll-out and help improve its supply chain.

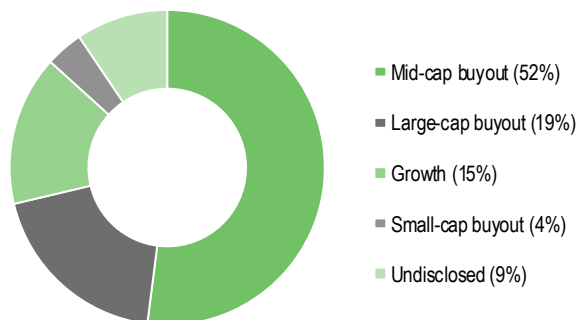
Nestlé Skin Health (€9.7m invested in October) is a carve-out from the food and beverage company Nestlé and was recently renamed Galderma. The company is the world's largest independent dermatology company with three business segments, including aesthetics, prescription and consumer.

Moreover, in March 2019, PEY also made an €8.0m add-on investment in **Permotio International Learning** (c 12% of PEY’s NAV as at end-October 2019). Permotio is an owner and operator of private schools and education centres and is considered a platform investment for PEY to pursue a ‘buy-and-build’ strategy (see below for further details).

PEY has received €68.4m distributions ytd, which were mostly fuelled by steady inflows from the legacy third-party fund portfolio (€22.6m out of €49.3m in H119). In Q119, PEY’s largest exit was Universal Hospital Services, which translated into a distribution of €10.6m and a realised money multiple of 2.6x after an 11-year holding period. The transaction was executed at 27% above the previous carrying book value and already reflected in PEY’s end-2018 valuation. PEY continued selling down its stake in Ceridian HCM following its IPO in April 2018, realising €9.3m ytd to end-September. We note that these transactions were executed while the shares traded c 120% above the IPO price.

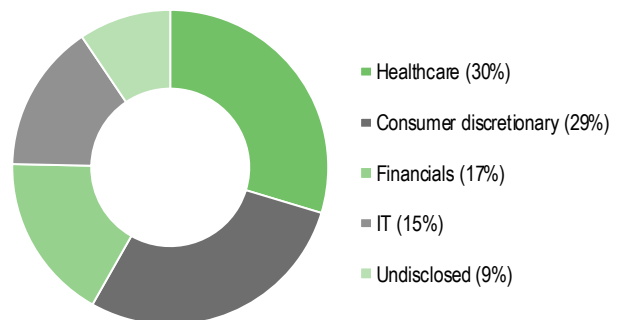
On top of the above, in October 2019, Princess announced that it expects to receive €17.8m in proceeds from fully exiting its investment in Vermaat Groep, a Dutch market leader in premium outsourced catering and hospitality services, at a price representing a c 27% uplift to the end-August 2019 carrying value. The deal is subject to regulatory approvals. Based on the disposal proceeds indicated by PEY, we estimate that it will achieve a c 30% IRR on disposal since its investment in December 2015. Finally, Partners Group has agreed to fully exit Action (PEY’s second largest holding at end-September 2019) as discussed in the top three snapshot section below.

Exhibit 3: New investments value by type (2019 ytd)



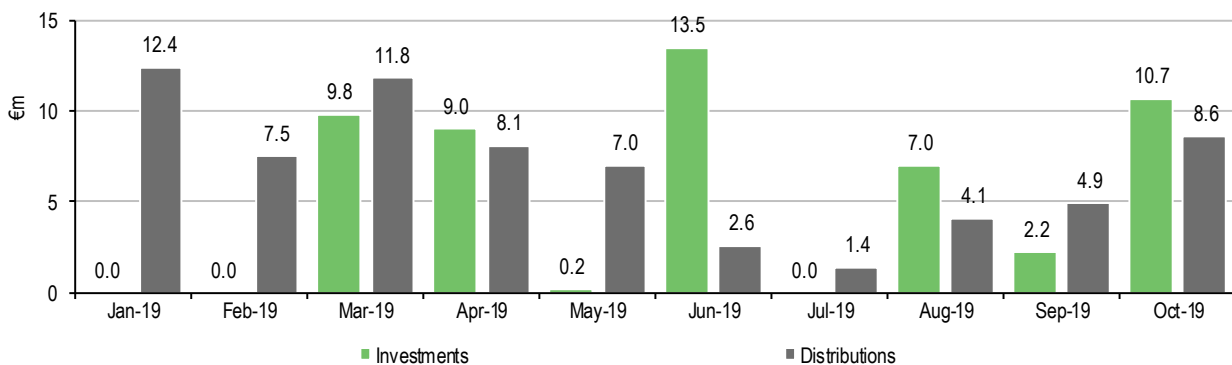
Source: Source: Princess Private Equity Holding, Edison Investment Research

Exhibit 4: New investments value by sector (2019 ytd)



Source: Source: Princess Private Equity Holding, Edison Investment Research

Exhibit 5: Investments and realisations in 2019 until end-October



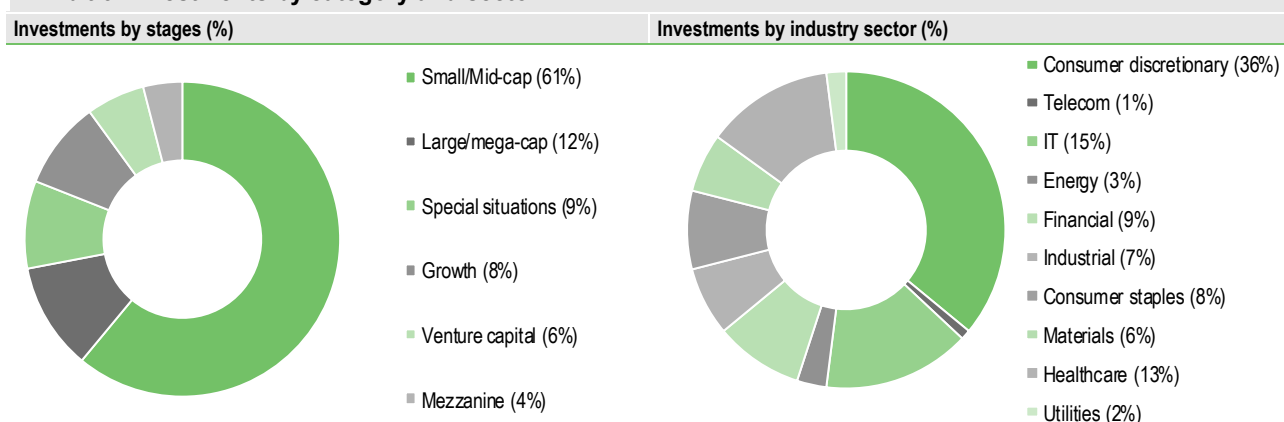
Source: Princess Private Equity Holding, Edison Investment Research

Current portfolio positioning

At end-October 2019, PEY’s top 10 direct holdings represented c 50.5% of the portfolio (see Exhibit 1), up from 42.3% a year earlier. Among the top 10 holdings, Hearthside Food Solutions replaced

Envision Healthcare Holdings. The total value of the top holdings increased by around €90m y-o-y to c €423m, with PEY providing a further €12.1m to its current largest holding, Permuto International Learning, and €4.5m to Hearthsides Food Solutions over the last 12 months.

Exhibit 6: Investments by category and sector



Source: Princess Private Equity Holding, Edison Investment Research. Note: Investment by stages as at 31 October 2019 and investments by industry sector as at 30 September 2019.

PEY primarily focuses on the mid-cap segment of the market, which made up 61% of the portfolio at end-October 2019. The fund is globally diversified, but with no hard limits with respect to regional exposure, taking a relative value approach to regional allocation (but with focus on developed markets). PEY's legacy third-party funds had fallen to 8% of the portfolio from 12% a year earlier. Investments by geography remained broadly unchanged over the 12 months ended October 2019, with 54% of the portfolio invested in Europe (53% at end-October 2018), North American exposure at 32% (vs 35% a year ago) and Asia Pacific at 7% (vs 5% at end-October 2018).

The portfolio is also broadly diversified by sector (Exhibit 6, right-hand chart), although it has deliberately low exposure to cyclical industries. Compared with the MSCI AC World index, a broad global index of listed companies, PEY's portfolio has a particularly high exposure to consumer discretionary companies (36% versus 11% for the index), and a significantly lower weighting to financial stocks (9% versus 16% for the index). We note that c 73% of the fund's exposure to consumer discretionary is made up of three investments that do not seem particularly cyclical: Permuto (an owner and operator of private schools and education centres), Action (European non-food discount retailer) and KinderCare Education (US childcare provider). Sector allocations remained broadly stable over the last 12 months to June 2019, although exposure to consumer discretionary went up somewhat subsequently. Looking at a broader five-year perspective, PEY has been reducing its exposure to industrials (7% at end-September 2019 vs 25% at end-2014) and allocating its resources to consumer discretionary (36% vs 22%) and IT (15% vs 8%).

Exhibit 7: Portfolio by sponsor type (% unless stated)

	End-September 2019	End-June 2019	End-June 2018	Change (pp)
Partners Group lead/co-lead	70.0	68.0	55.0	13.0
Co-investments	12.0	13.0	16.0	(3.0)
Funds	9.0	9.0	15.0	(6.0)
Debt	9.0	10.0	14.0	(4.0)
		100.0	100.0	-

Source: Princess Private Equity Holding, Edison Investment Research

As shown in Exhibit 7, Partners Group lead or co-lead investments went up significantly as a percentage of the portfolio during the 12 months ended June 2019, while the proportion in funds continued to fall as the mature legacy fund holdings returned cash.

Exhibit 8: Sample* valuation and performance metrics for direct portfolio

	End-September 2019	End-June 2019	End-June 2018	Market transaction average**
Valuation metrics				
EV/EBITDA	14.2x	13.8x	12.8x	11.1x
Net debt/EBITDA	5.1x	5.2x	5.5x	5.5x
Weighted average leverage	38.3%***	39.9%***	44.6%***	50.0%****
Weighted average EV	€3.1bn	€2.9bn	€2.5bn	US\$157m
Performance metrics (12m)				
Weighted average revenue growth	11.7%	11.6%	9.9%	
Weighted average EBITDA growth	14.1%	14.1%	11.8%	
Weighted average revenue	€1.2bn	€1.2bn	€1.1bn	

Source: Princess Private Equity Holding, Edison Investment Research. Note: *Valuation metrics are based on a sample of all direct equity investments, which constituted 84.3% of NAV at end-September 2019, 74.9% of NAV at end-H119 and 63.6% at end-H118. Performance metrics are based on sample of all companies where comparable data available and not driven mainly by M&A (69.1% of NAV at end-September 2019, 62.6% of NAV at end-H119 and 48.0% at end-H118). **2018 average global PE purchase multiples according to McKinsey *Private markets come of age* report. ***Defined as debt as a % of enterprise value. ****Median.

In terms of the performance of the portfolio companies (see Exhibit 8), they exhibited double-digit growth in revenues and EBITDA over the 12 months to September 2019 (weighted average growth at 11.7% and 14.1%, respectively), far in excess of GDP growth in any large economy. In valuation terms, the average EV/EBITDA multiple increased to 14.2x from 12.8x at end-H118 despite the EBITDA expansion, while net debt/EBITDA was down to 5.1x vs 5.5x at end-June 2018. Importantly, PEY predominantly values its investments based on the last 12 months rather than budgeted forward earnings.

Snapshot of selected top holdings

We have decided to provide some additional colour on some of PEY's largest holdings, including Permotio International Learning, Action and GlobalLogic. These made up c 27.3% of its NAV at end-October 2019.

Permotio International Learning (11.9% of PEY's NAV): The company is PEY's basis to pursue a 'buy-and-build' strategy in the global education market under the International Schools Partnership umbrella. Interestingly, rather than acquiring a platform company which already had an extensive school chain, Partners Group set up an investment vehicle in 2013 specifically to consolidate the market and attracted an experienced leadership team composed of former senior executives of several for-profit school chains (World Class Learning, Alpha Plus, Cognita etc). The investment vehicle secured c £200m in prospective funding (investment commitments) through Partners Group in early 2014, and subsequently in May 2014, Permotio carried out its first acquisition of Colegios Laude, a company operating several internationally oriented schools in Spain. As a result of further acquisitions (five of which were completed in the 12 months ended June 2019) and like-for-like growth, the company's adjusted LTM EBITDA as at end-June 2019 reached €74.4m (up 38.0% y-o-y). At end-June 2019, it operated 41 schools in 10 countries, with a student base at c 39,000.

Permotio's customers may be divided into two groups: domestic middle-class parents interested in bilingual education for their children and expats who relocated together with their families. Importantly, the company puts more emphasis on the former group, which represents less cyclical demand in comparison to expats (who may be relocated back to their home countries by the employer during an economic recession). The investment manager seeks to implement a number of value-creation initiatives at the acquired schools to enhance the learning experience, strengthen the managerial capabilities within the schools and expand their key marketing activities.

PEY provided aggregate net funding of c €43m to Permotio up to end-June 2019, which compares with the end-October valuation of PEY's stake at c €100m (based on our calculations). Consequently, the investment is held at a multiple of 2.3x cost. Having said that, we note that in the past, PEY was often able to realise a sizeable uplift vs the last book value on exit.

Action (10.7% of PEY's NAV): The company is a western European non-food discount retailer offering a wide range of low-cost products from decoration, DIY, garden and outdoor through sports

and multimedia to clothing, linen and personal care. Interestingly, only c 35% of its product range is fixed (unlike most traditional retailers). It operated more than 1,325 stores with over 46,000 employees across Europe at end-December 2018, including the Netherlands, Belgium, France, Germany, Austria and Poland. Rather than a platform investment, Action is a play on solid organic growth on the back of store expansion coupled with a defensive profile and high cash generation. It generated annual sales in excess of €4.0bn in FY18 (compared to €1.5bn in FY14) and EBITDA of around €450m (vs €166m in FY14).

PEY initially invested c €3.7m in 2011 alongside 3i, which acted as lead investor. Since then, Action has undergone five recapitalisations between 2013 and 2018. PEY's current stake is valued at c €90m at end-October 2019. Importantly, Partners Group has recently agreed to sell its stake in Action to Hellman & Friedman and fully exit the investment. The transaction implies Action's Enterprise Value at €10.25bn, which represents a minor uplift to the end-September 2019 valuation.

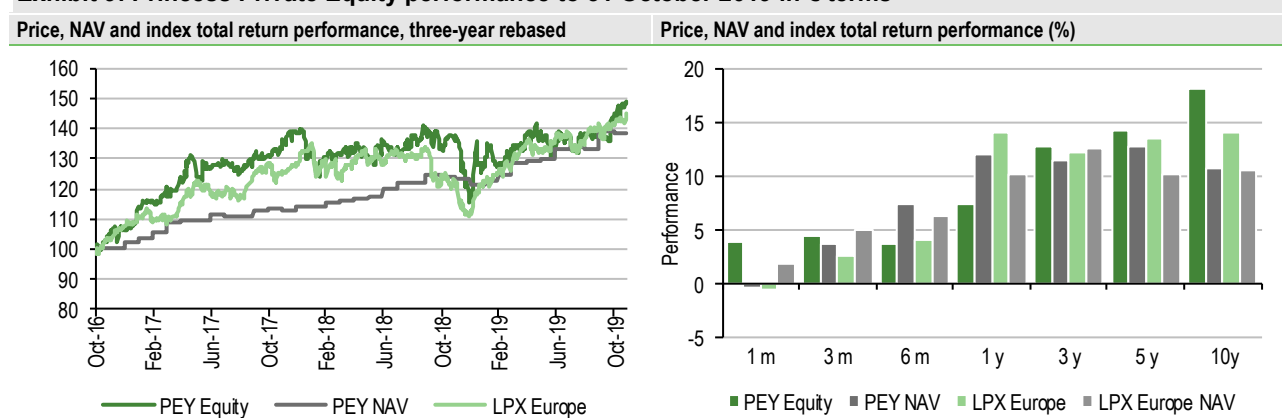
GlobalLogic (4.7% of PEY's NAV): The company is an IT outsourcing firm which specializes in digital product engineering services, benefiting from the trend for digital transformation. This includes innovative technologies, such as cloud platforms, mobile and web applications, as well as the Internet of Things (IoT). It currently plans to expand its capabilities in niche areas such as machine learning and artificial intelligence by acquiring companies ranging from US\$60m to US\$250m in size. GlobalLogic's customers include Microsoft, Oracle, Cisco and Coca Cola.

GlobalLogic has been fund-backed since inception in 2000. Partners Group acquired a stake in GlobalLogic in 2018 from funds advised by Apax Partners, valuing the business at more than US\$2.0bn. As a result, Partners Group became an equal shareholder with Canada Pension Plan Investment Board (which acquired its stake from Apax in 2016) and both now fully control GlobalLogic. PEY's initial investment amounted to €22.5m, which compares with the current valuation of c €40m (an c 80% implied uplift).

Even though GlobalLogic follows an inorganic growth model, it has also recently delivered an LTM organic growth rate in excess of 20% (while maintaining margins at around 20%). Interestingly, its key accounts provide 88% visibility of its 2019 budget. It aims to reach US\$2bn in revenues by 2022 from more than US\$0.5bn in 2018. This should be achieved through further acquisitions, as highlighted by the recent takeover of Skookum, a US-based digital strategy, design and development firm. While details of the transaction were not disclosed, Owl estimates Skookum's annual revenue at c US\$15m. PEY's value creation initiatives involve international expansion (beyond North America), improving the pricing discipline in line with market/peers (aiming at a 3–4% average price increase pa vs the current 1-2% pa), as well as upgrades to sales and corporate finance teams.

Performance: Wider discount despite solid NAV return

Exhibit 9: Princess Private Equity performance to 31 October 2019 in € terms



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

Exhibit 10: Share price and NAV total return performance, relative to indices (%)

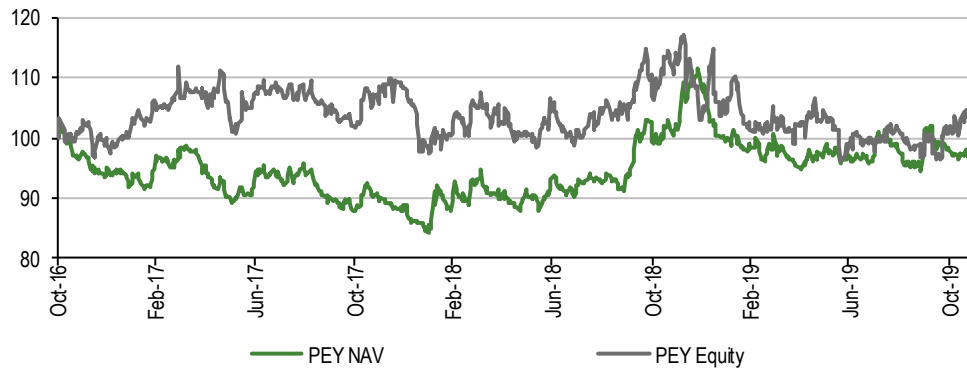
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to LPX Europe	4.4	2.0	(0.4)	(6.8)	2.1	6.9	155.6
NAV relative to LPX Europe NAV	(2.2)	(1.3)	1.1	1.9	(4.0)	20.0	2.1
Price relative to MSCI World	3.7	2.1	(0.6)	(7.7)	3.5	29.3	186.4
NAV relative to MSCI World	(0.6)	1.2	3.1	(3.0)	(1.2)	16.4	(67.7)
Price relative to FTSE All-Share	2.7	1.3	3.6	(2.5)	19.1	70.5	301.9
NAV relative to FTSE All-Share	(1.5)	0.4	7.3	2.2	14.4	57.7	47.7

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2019. Geometric calculation.

In late 2018, listed private equity share prices were affected by the widespread stock market decline, with both PEY and the broad LPX Europe index posting negative share price total returns. However, despite portfolio valuations being marked down in line with listed equity peer valuation multiples, NAV returns held up reasonably well, with PEY producing a total return of 6.8% in 2018. In early 2019, global equity markets rebounded significantly, which was only partially reflected in PEY's shares despite the healthy development of its NAV. PEY's last 12-month NAV TR performance (to end-October 2019) stood at 12.0% and was ahead of the LPX Europe NAV return of 10.2%. At the same time, PEY's share price lagged the LPX Europe index significantly (7.4% vs 14.1%). As a result, PEY's share price discount to NAV widened close to its five-year high (see Exhibit 12). Over a five-year period, however, both PEY's NAV and share price posted solid total returns of 12.8% pa, and 14.4% pa, respectively. This corresponds with the LPX Europe return in the period of 10.3% pa in NAV terms and 13.6% pa in price terms.

PEY's NAV TR performance ytd until October 2019 stood at 14.0%. Over the course of 2019, portfolio valuation developments in aggregate contributed 17.3pp to NAV progression until end-September 2019, while the net effect of currency movements was flat, having been positive in some months and negative in others. Significant value drivers included the revaluation of some of PEY's largest holdings improving their operating results. Permotio and Foncia constitute platforms for a buy-and-build strategy and continued to execute their acquisition pipeline. An important NAV driver was also companies presenting robust I-f-I growth coupled with store/centre chain expansion, in particular Action, Vishal Mega Mart and KinderCare Education. Overall, holdings focused on organic growth (representing 62.6% of PEY's NAV as at end-June 2019) delivered LTM sales and EBITDA growth of 11.6% and 14.1%, respectively.

Exhibit 11: NAV and share price total return performance relative to LPX Europe index

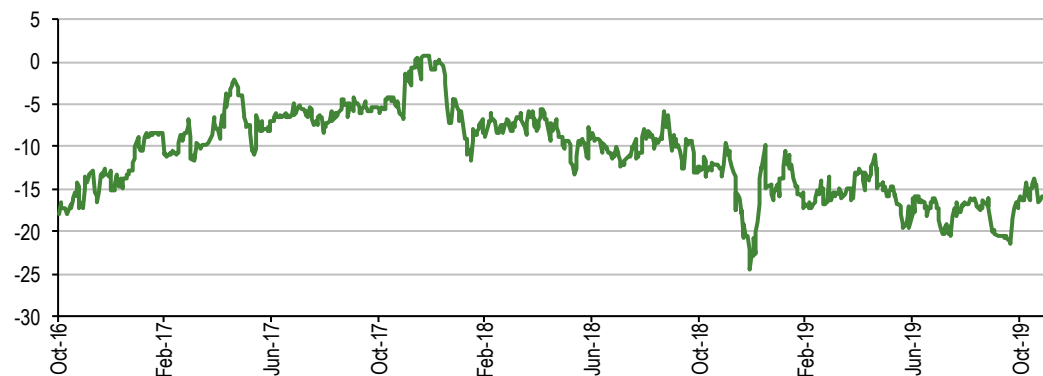


Source: Refinitiv, Edison Investment Research

Discount

Having progressively narrowed from a five-year widest point of 27.6% in mid-2016 (following the UK's vote to leave the European Union) to a premium of 1.0% at the end of 2017, PEY's discount to NAV widened again during the volatile stock market conditions of 2018, reaching 24.5% at end-December 2018. This year, PEY's share price rose until May and subsequently was influenced by the exclusion from FTSE All-share (following the change in index inclusion methodology by FTSE). Coupled with the healthy NAV progression, this resulted in the current discount to NAV at 15.8%.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

PEY is structured as a limited liability investment holding company domiciled in Guernsey and listed on the Main Market of the London Stock Exchange. It has one class of share, with 69.2m ordinary shares in issue, although the shares are quoted in both euros (PEY) and sterling (PEYS). Renewed annually, the board has the authority to repurchase up to 14.99% of shares or allot shares up to the equivalent of 10% of issued share capital, in order to manage a discount or a premium. However, no shares have been issued or repurchased since 2014.

Partners Group receives a management fee of 1.5% of PEY's NAV pa, which is paid quarterly. Its ongoing charges (including management fee) over the last 12 months (LTM, ended June-2019) stood at 1.78% of NAV and was broadly comparable with prior years (1.77% in FY18 and 1.83% in FY17). There is also an incentive (performance) fee paid to the investment manager based on realised profits of 15% in the case of direct investments and 10% in the case of secondary investments (subject to a hurdle rate/preferred return of 8.0% pa and a catch-up clause). Including

the incentive fee, ongoing charges amounted to 3.13% (LTM at end-June 2019), vs 3.25% in FY18 and 2.66% in FY17.

PEY has a €50m multi-currency revolving credit facility with Lloyds Bank, which may be used on a short-term basis to fund commitments. As of end-September 2019, €25.5m of the facility has been drawn, translating into net gearing of 4.0% (compared to 0.7% at end-FY18, and net liquidity of 11.9% at end-FY17), as defined by the company.

Dividend policy and record

PEY pays dividends twice a year, targeting an annual payout of c 5–8% of NAV. Because the target is set as a percentage of NAV (which declines in some periods), there should be no expectation of fixed year-on-year dividend growth. Having said that, PEY has maintained or increased the dividend in every year since the policy was introduced in 2011 (see Exhibit 1 on page 2). In H119, PEY paid a semi-annual dividend of €0.29 per share, which represents a 5.3% annualized payout based on NAV per share at the start of 2019. This also implies a c 4% y-o-y growth vs the FY18 payout of €0.56 (€0.28 semi-annually). Investors may elect to have their dividends paid in sterling instead of euros, and a dividend reinvestment plan is in place for those who would prefer to use their dividends to buy further shares rather than receiving cash income.

When assessing dividend cover, the manager focuses on cash flow rather than revenue. PEY's gross portfolio realisations in H119 stood at €49.3m and were already ahead of the full dividend of FY19 (after taking into account the second interim dividend at €0.29 per share, which has been declared but not paid yet). We note that PEY has already announced further realisations in H219. Based on the current share price, PEY's dividend yield stands at 5.7%

Peer group comparison

Below in Exhibit 13, we show a group of the larger funds in the Association of Investment Companies' Private Equity sector, of which PEY is a member, all in sterling terms. The peers are geographically diverse and follow a variety of investment strategies, from wholly or largely fund of funds to wholly or largely direct, and may also include secondary investments, co-investments and private debt.

Despite having experienced the second-worst share price performance in the group over one year to 31 October, PEY's NAV total return performance is only a little below average. Moreover, while it has slightly underperformed the peer group average for NAV total returns over three years, it was ahead of the peer group over five years in both NAV and share price total return (in sterling terms). Despite the recent widening, PEY's discount to NAV is still slightly below the peer average. PEY's 5.7% dividend yield is the highest in the group, substantially ahead of the 2.3% average.

Exhibit 13: Listed private equity investment companies peer group, as at 27 November 2019*

% unless stated	Country focus	Market cap (£m)	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	Price TR 1 year	Price TR 3 years	Price TR 5 years	P/NAV premium/(discount)	Dividend yield (%)
Princess Private Equity	Global	602.5	9.0	33.2	101.4	4.4	37.7	115.6	(15.8)	5.7
Apax Global Alpha	Global	849.6	13.3	36.1		32.8	34.5		(5.5)	5.2
BMO Private Equity Trust	Global	270.3	9.5	35.5	77.5	19.2	43.1	119.6	(4.9)	4.0
HarbourVest Global Priv Equity	Global	1,367.2	13.5	40.1	110.1	21.0	54.4	116.5	(14.6)	0.0
HgCapital Trust	UK	1,021.7	20.9	66.7	135.2	24.8	81.0	163.8	1.4	1.9
ICG Enterprise Trust	UK	647.4	14.7	52.6	92.2	15.5	53.8	85.5	(19.7)	2.3
JPEL Private Equity	Global	193.0	(5.7)	13.0	84.4	(12.2)	11.5	104.9	(23.4)	0.0
Oakley Capital Investments	Europe	475.1	23.3	54.6	74.0	24.0	60.2	61.0	(24.8)	1.9
Pantheon International	Global	1,257.6	7.1	33.6	87.8	8.1	35.1	89.6	(16.6)	0.0
Standard Life Private Eq	Europe	528.9	8.1	33.5	96.3	8.6	41.2	92.5	(20.2)	3.7
Symphony International Hldg	APAC	239.2	9.3	(1.1)	26.1	(5.2)	(1.6)	49.4	(39.5)	4.2
Peer group average		685.0	11.4	36.5	87.1	13.7	41.3	98.1	(16.8)	2.3
PEY rank in group (11 funds)		6	8	9	3	9	7	4	5	2.8

Source: Morningstar, Edison Investment Research. Note: *Performance data to 31 October 2019. TR = total return. All returns expressed in sterling terms.

The board

PEY has six non-executive directors, five of whom are considered independent of the manager. Richard Battey, who joined the board in 2009, became chairman in September 2018 following Brian Human's retirement from the role. Henning von der Forst became a director in 2012. Felix Haldner (a Partner at Partners Group, and as such deemed non-independent) and Steve Le Page (chairman of the audit committee) were appointed in 2017, with Fionnuala Carvill and Merise Wheatley joining the board in September 2018. The directors have professional backgrounds in investment management, accountancy and risk management. Fergus Dunlop resigned from the board in May 2018 and Brian Human retired as a director in November 2018.

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