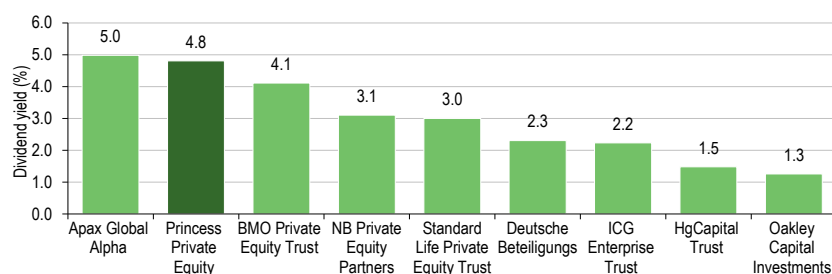


Princess Private Equity Holding

Solid Q121, attractive dividend and well-filled pipeline

Princess Private Equity (PEY) reported a strong c 10% NAV TR from January to end-April 2021 (10% in FY20), largely driven by its in-closing exit from GlobalLogic announced in March 2021, generating a 45% uplift from its end-February 2021 carrying value. This represents a very solid 5.3x multiple on invested capital, despite the short holding period since 2018. PEY's attractive dividend yield of c 5% is ahead of most of its peers and the manager is confident in its ability to maintain the current dividend policy to distribute c 5% of the opening NAV. PEY has a comfortable liquidity position with a coverage ratio at c 49% at end-April 2021, further supported by proceeds from major exits agreed in 2021 but not yet closed.

PEY's attractive LTM dividend yield compared to peers*



Source: Morningstar, Refinitiv, Edison Investment Research. Note: *Excluding peers whose dividend yield is 0%.

Why invest in PEY now?

The manager's focus is on secular transformative growth themes (eg digitalisation, aging of society/health awareness, automation, sustainability). Moreover, it aims to create defensiveness in PEY's holdings rather than simply buying defensive companies. This results in PEY's high exposure to resilient businesses, notably in the technology, education and healthcare sectors. The average last 12-month (LTM) EBITDA growth across its major holdings (c 83% of NAV) was 10.3% to end-March 2021, coupled with resilient portfolio valuation multiples with average LTM EV/EBITDA at 15.3x at end-Q121 (vs 15.7x at end-2020 and 14.0x at end-2019).

The analyst's view

We note PEY will have significant dry powder from realisations announced in 2021 to date, including €39m in transactions completed from January 2021 to April 2021 (vs €178m in FY20) and a further €135m in signed and in-closing transactions, Cerba HealthCare and GlobalLogic, which are expected to close in June and July 2021. Additional liquidity will come from its partial exit from International School Partnerships (ISP; its largest portfolio holding making up 13.7% of NAV at end-April 2021) announced in May 2021. However, the manager is confident the proceeds will be absorbed by its investment pipeline for 2021, which as of May 2021 includes nine live investment opportunities in Americas (with aggregate equity volume of US\$5.9bn), 11 in Europe (US\$7.9bn) and 12 in emerging markets (US\$7.0bn), primarily in the healthcare, education, technology, financials and industrials sectors.

Investment trusts Private equity

24 June 2021

Price	€13.0
Price (PEYS)	1,114p
Market cap	€899m
NAV	€1,017m
NAV per share*	€14.70
Discount to NAV	11.6%
*As at 30 April 2021.	
Yield	4.8%
Shares in issue	69.2m
Code	PEY/PEYS
Primary exchange	LSE
AIC sector	Private Equity
52-week high/low*	€13.35 €8.72
NAV** high/low	€14.70 €11.65

Gearing

Gross*	7.9%
Net cash*	0.0%

*At 30 April 2021

Fund objective

Princess Private Equity Holding is an investment holding company domiciled in Guernsey that invests in private equity and has a minor private debt position. Its portfolio consists mostly of direct investments but may also include primary and secondary fund investments. It aims to provide shareholders with long-term capital growth and an attractive dividend yield.

Bull points

- Strong NAV performance in 2021 so far, underpinned by solid uplifts on exits and exposure to resilient sectors.
- Attractive dividend policy.
- Operational performance of portfolio holdings returning to pre-COVID-19 growth rates.

Bear points

- Ample dry powder in the market translating into strong competition for quality assets.
- Continuously high valuations in the more resilient sectors.
- Potential reinstatement of lockdowns may affect operational performance of some of PEY's portfolio holdings.

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NAV TR in Q121 driven by GlobalLogic

In Q121 (to end-March 2021), PEY's NAV total return reached a notable 8.5% (after c 10% in FY20) with its NAV up by c €79m to c €1,002m. Its 10 largest portfolio companies (c 52% of PEY's NAV at end-March 2021) contributed c €63m to the growth. This was largely attributable to a c €48m (or c +45%) uplift upon the exit from GlobalLogic (to be sold to Hitachi), a software development company providing experience design and digital engineering services (comprising c 10% of PEY's NAV at end-March 2021).

Exhibit 1: Top 10 portfolio holdings at end-March 2021

Company	Region	Sector	Portfolio weight (%)
International Schools Partnership	Western Europe	Consumer discretionary	13.9
GlobalLogic	North America	Information technology	10.3
Foncia	Western Europe	Financials	5.0
Fermaca	Rest of World	Energy	3.5
Ammega (Megadyne - Ammeraal Beltech)	Western Europe	Industrials	3.4
Vishal Mega Mart	Asia - Pacific	Consumer discretionary	3.3
Cerba HealthCare	Western Europe	Healthcare	3.1
SRS Distribution	North America	Materials	3.1
KinderCare Education	North America	Consumer discretionary	3.1
Techem Metering	Western Europe	Industrials	3.0
Top 10 (% portfolio)			51.7

Source: PEY, Edison Investment Research.

GlobalLogic exited after less than three years at a multiple on invested capital of 5.3x

Upon closing the GlobalLogic deal (expected in July 2021), PEY will achieve a multiple on invested capital (MOIC) of 5.3x and an internal rate of return (IRR) of 76%, according to the manager. Despite a relatively short holding period (since August 2018), Partners Group (PEY's investment manager) was able to implement a number of value creation initiatives in the company, including establishing private equity sales channels (facilitating client introductions within the Partner's Group portfolio and other private equity companies); improving the service delivery utilisation and modernising global shared services to assist business scalability; strengthening the company's leadership team by appointing a number of key senior management members; and refining GlobalLogic's M&A criteria, which led to the completion of four acquisitions over the holding period (including three in Europe, despite the company's previous focus on the US market). These efforts were reflected in GlobalLogic's EBITDA growing at a CAGR of c 28% since PEY's initial investment, with an EBITDA margin of c 23% at exit versus c 20% at entry, according to the manager.

In Q121, PEY also agreed the sale of Cerba HealthCare (c 3% of PEY's NAV at end-March 2021) to a financial sponsor, leading to an upward revaluation of 6.4% in Q121 and contributing c €2.0m to PEY's Q121 NAV growth. The transaction will have generated a MOIC of 2.6x and an IRR of 27% (assuming a closing in June 2021 and with initial investment in 2017), according to the manager.

Q121 results assisted by portfolio earnings growth and multiples

NAV TR in Q121 was also assisted by improving portfolio trading, which returned to double-digit pre-COVID-19 pandemic EBITDA growth rates (EBITDA at +10.3% on average for companies representing c 83% its NAV over the 12 months to end-March 2021 versus 7.7% LTM to end-December 2020). Finally, valuation multiples continued to be supportive for PEY's portfolio in Q121, reflecting sector mix, particularly exposure to resilient companies from the technology, education

and healthcare sectors. That said, average LTM EV/EBITDA went slightly down to 15.3x at end-March 2021 versus 15.7x at end-December 2020 (for companies representing c 84% of PEY's NAV at end-March 2021).

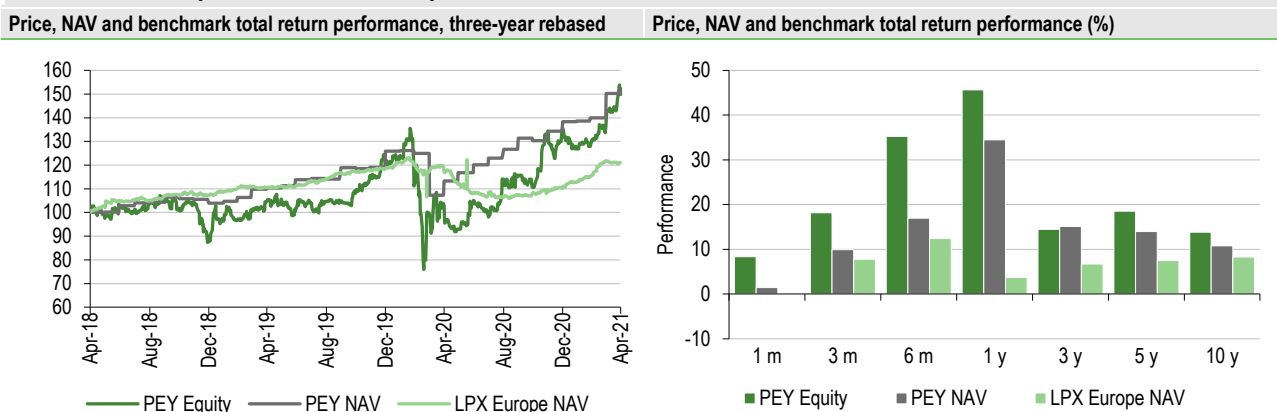
KinderCare Education reopened its centres

Of PEY's 10 largest investments, only KinderCare (c 3% of NAV at end-March 2021) contributed negatively to PEY's NAV growth in Q121 (declining by €0.9m). The manager notes its valuation is based on LTM EBITDA, which still covers a period when the company was negatively affected by COVID-19. However, the manager highlights an improving outlook for the childcare services sector in the US as parents return to work and KinderCare has now reopened most of its centres. Moreover, some of its competitors have not been able to reopen, which the manager says created some supply shortages.

Solid three- and five-year NAV TR at c 15% pa

PEY's NAV increased by a further 1.5% to €14.70 per share in April 2021, driven by portfolio performance (+1.7%). PEY's NAV TR over a three- and five-year period was c 15% and c 14% pa, respectively, which compares with c 14% and 13% pa, respectively for MSCI World Index (listed equity) and c 7% and c 8% pa for LPX Europe NAV (private equity index).

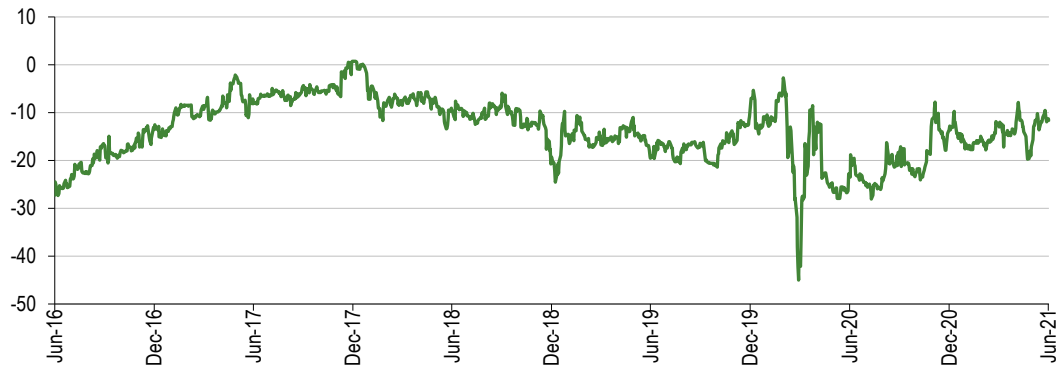
Exhibit 2: PEY's performance to 30 April 2020



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

The discount to NAV has been narrowing over recent months after solid NAV performance in FY20 and in the four months from January to April 2021. This was coupled with a gradual share price recovery since March 2020 (share price return at c 12% in FY20, c 11% in January 2021 to April 2021 and broadly stable since then). PEY's discount to NAV of c 12% at 22 June 2021 is in line with the average c 11% over three years to end-February 2020 (pre-COVID-19 pandemic) and is lower than its peer group average of c 17% at 22 June 2021 (see Exhibit 6 and related comments below).

Exhibit 3: Share price discount to NAV over five years (%)



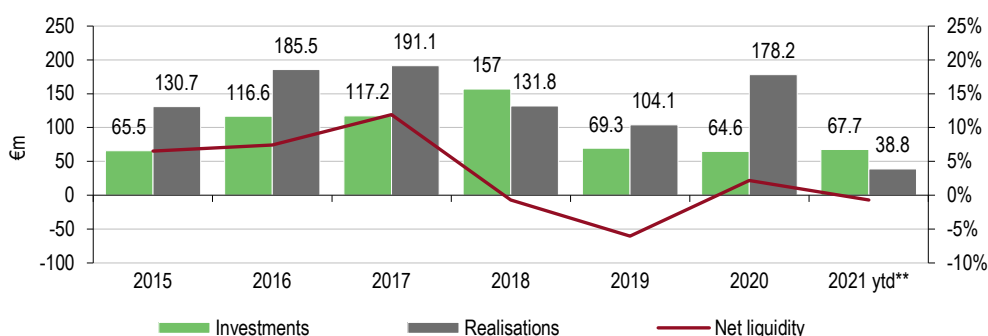
Source: Refinitiv, Edison Investment Research

Robust realisations activity in 2021 to date

PEY's realisations reached c €178m by the end of FY20, equivalent to c 19.3% of the opening NAV (vs c €149m or c 22.7% of opening NAV on average between 2015 and 2019). This was assisted by a c €98m full exit from Action, which it signed in November 2019 and completed in June 2020, and a €24m partial realisation from PCI Pharma. Strong realisations have continued in 2021, reaching c €52.7m to end-April 2021. Notably, this does not reflect the above-mentioned two signed and in-closing exits from GlobalLogic and Cerba HealthCare, which represent c €135m of proceeds.

On top of that, in May 2021 PEY agreed on a partial exit from ISP (see more details below), its largest portfolio holding (c 14% at end-March 2021). The agreed disposal of the 25% stake in ISP across all Partners Group-managed vehicles to the Ontario Municipal Employees Retirement System valued ISP at c €1.9bn, which translated into the value of PEY's stake in the company of c €150m (versus its carrying value of €139m at end-March 2021 and residual cost of c €49m at end-December 2020), implying an uplift to carrying value of c 8%. Additionally, based on our discussion with management, we understand that PEY sold more than 25% of its own stake in ISP due to portfolio management considerations to reduce its single company concentration but will retain an investment of c €20m to continue to participate in the future growth of the business.

ISP is an owner and operator of private schools and education centres and a platform investment to pursue a 'buy-and-build' strategy. Interestingly, rather than acquiring a platform company that already had an extensive school chain, Partners Group set up an investment vehicle in 2013 from scratch 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). Since then, the company has grown to become the fifth largest K-12 (ie from kindergarten to 12th grade) international school group globally, operating 50 schools across 15 countries and serving more than 45k pupils. The funds raised from ISP's shareholder expansion will predominantly be used to continue ISP's platform-building strategy, with key value creation initiatives including ongoing investment in learning and technology, further improvements to the physical infrastructure of schools, and M&A.

Exhibit 4: Investments, realisations and net liquidity* in 2015 to end-April 2021


Source: PEY, Edison Investment Research. Note: *Net liquidity calculated as net current assets to NAV.
 **Includes realisation and investments completed to end-April 2021, thus not reflecting major full exits from GlobalLogic and Cerba HealthCare announced in March 2021 and partial exit from ISP announced in May 2021.

PEY's manager confident in its investment pipeline

The investment volume of c €65m in FY20 was only slightly lower than the c €69m in FY19 and the company deployed a further €68m in the four months to end-April 2021 (see Exhibits 4 and 5). Moreover, in Q121 PEY made a €25m commitment to the manager's Partners Group Direct Equity 2019 programme, which provides additional exposure to its seed portfolio of five companies: Blue River PetCare, Confluent Health, EyeCare Partners, Rovensa and Schleich. This follows a €50m commitment PEY made to the programme in Q420, bringing its total commitment to €75m.

Exhibit 5: PEY's major investments in 2021 to date

Investment date	Amount (€m)	Investment type	Company	Description
January 2021	10.4	New	Careismatic Brands	Global designer, marketer and distributor of branded medical scrubs
February 2021	4.3	Follow-on	Form Technologies	Global manufacturer of customised, highly engineered metal components
March 2021	14.5	New	Telepass	European provider of electronic toll road payment services
March 2021	13.8	New*	Idera	US-based provider of infrastructure software solutions to businesses for testing, application development and database architecture and management, both on premises and in the cloud
March 2021	5.6	New	Ecom Express	Provider of technology-enabled end-to-end logistics solutions to Indian e-commerce industry
April 2021	9.5	New	Wedgewood Pharmacy	US provider of custom-compounded animal medications for acute and chronic conditions
April 2021	2.3	Follow-on	eResearch	Provider of integrated online software application services that enables the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data more efficiently during clinical trials

Source: PEY, Edison Investment Research. Note: *Investment in Idera (with Partners Group the lead investor) followed PEY's €14m exit from the company in Q121 (Partners Group held a minority position in the company before the latter transaction).

The manager expects the rest of 2021 to continue to be active with respect to both realisations and investments. The six-month pipeline as at May 2021 included nine live investment opportunities in the Americas (with aggregate equity volume of US\$5.9bn), 11 in Europe (US\$7.9bn) and 12 in emerging markets (US\$7.0bn). It continues to focus on transformative growth themes (which benefit from long-term trends) and avoiding cyclicality.

Comfortable liquidity position

PEY's coverage ratio (calculated as the sum of net current assets and undrawn credit facility divided by unfunded commitments) was c 49% at end-April 2021, compared with 94% at end-

December 2020. Its long-term €80m credit facility was partially drawn at end-April 2021, with c €65m still available at this date. That said, PEY intends to repay it after it receives proceeds from realisations of Cerba HealthCare and GlobalLogic, which are expected to close in June and July 2021, respectively. After PEY made a €25m commitment to the Partners Group Direct Equity 2019 programme in Q121, its unfunded commitments increased to c €117m at end-April 2021 (or c 12% of NAV), including c €44m commitments to mature funds (at end-March 2021), which it does not expect to be called in full. The remaining unfunded commitments is expected to be called over the next three years.

Offering an attractive dividend yield

PEY has declared the first interim dividend for FY21 of €0.335 per share (payable in June 2021), in line with its guidance to distribute c 5% of opening NAV in dividends via semi-annual payments. This implies an LTM dividend of €0.625 per share and a solid yield of c 5%. The manager is confident in the outlook for the portfolio and PEY's ability to pay future dividends even if in case of continued lockdowns. PEY's total dividend for FY20 was €0.435 per share (or 3.5% of opening NAV), compared with €0.58 a year earlier (5.3% in FY19). The decline followed the company's decision to revise its previous dividend guidance (ie distribute 5–8% of opening NAV in the form of dividends via semi-annual payments) due to the COVID-19 pandemic, and assume a total dividend of no less than €0.29 per share in FY20. While the first interim dividend for FY20 was €0.145 per share, the second pay-out increased to €0.29 per share (in line with the H219 dividend) following a robust performance of the portfolio and increasing transaction activity on capital markets in H220 after a muted H120. In turn, PEY reinstated its dividend guidance in H220 to its current form.

PEY's LTM dividend yield is the second highest in the peer group (Exhibit 6). Its NAV TR (in sterling terms) was slightly above the peer group average over one year and five years to end-April 2020 and in line with its peers over a three-year period to end-April 2021. PEY's shares are trading at a narrower discount to NAV compared to the peer group average. Two companies from PEY's peer group are trading at a premium to NAV, including HgCapital Trust (which we believe is a function of its tech-focused portfolio) and Deutsche Beteiligungs (reflecting its asset management segment generating regular fee income).

Exhibit 6: Listed private equity investment companies peer group, at 22 June 2021* in sterling terms

% unless stated	Country focus	Market cap (£m)	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	Latest discount)	Ongoing Charge	Perform. Fee	Net Gearing	Dividend yield (%)
Princess Private Equity	Global	767.3	33.8	50.9	113.4	(11.6)	1.9	Yes	100	4.8
Apax Global Alpha	Global	999.4	40.2	65.7	103.1	(13.3)	1.5	Yes	100	5.0
BMO Private Equity Trust	Global	289.9	22.9	54.0	93.1	(18.4)	1.3	Yes	114	4.1
Deutsche Beteiligungs	Europe	558.7	32.9	24.4	85.0	7.7	0.02**	No	109	2.3
HarbourVest Global Priv Equity	Global	1,661.1	22.4	71.7	127.6	(21.5)	1.5	Yes	100	0.0
HgCapital Trust	UK	1,476.1	43.3	88.0	162.5	0.5	1.8	Yes	100	1.5
ICG Enterprise Trust	UK	738.6	22.5	53.1	109.3	(22.4)	1.5	Yes	100	2.2
NB Private Equity Partners	Global	647.6	36.2	56.7	117.5	(22.6)	2.1	Yes	114	3.1
Oakley Capital Investments	Europe	644.7	18.2	71.6	116.2	(11.4)	2.5	Yes	100	1.3
Pantheon International	Global	1,471.2	22.8	45.8	93.4	(18.9)	1.2	Yes	100	0.0
Standard Life Private Equity Trust	Europe	680.3	16.3	48.9	98.5	(16.0)	1.1	No	100	3.0
Symphony International	APAC	150.9	17.7	-24.6	-18.3	(46.6)	3.0	No	101	0.0
Peer group average		847.1	26.8	50.5	98.9	(16.6)	1.8***		103	2.0
PEY rank in group (12 funds)		5	4	8	5	4	4		6	2

Source: Morningstar, Refinitiv, Edison Investment Research. Note: *12-month performance based on latest available ex-par NAV (end-April for Princess Private Equity, NBPE, HarbourVest Global Private Equity, Pantheon International and Standard Life Private Equity; end-March for Apax Global Alpha, BMO Private Equity Trust, Deutsche Beteiligungs, HgCapital Trust and Symphony International; end-January for ICG Enterprise Trust; and end-December 2020 for Oakley Capital Investments). **Calculated as opex less fee income divided by total AuM. ***Excluding DBAG. TR, total return. All returns expressed in sterling terms.

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