

# HarbourVest Global Private Equity

## Rebounding NAV, liquidity remains sufficient

Following HVPE's August update, its last-reported NAV is now largely based on end-June valuations and captures the rebound in equity markets following the March downturn. In recent months, capital calls from underlying general partners (GPs) moderated compared to March/April while distributions to HVPE resumed (although are still below historical average). Consequently, HVPE was able to partially repay its credit facility and maintained a stable coverage ratio versus April. While the ratio remains relatively low compared to prior years, we still consider it a safe level.

## Ytd FY20 NAV total return back in positive territory

At end-August 2020, HVPE's NAV per share was at US\$28.45, which implies a solid 8.3% increase since end-July 2020 (Exhibit 1) and 3.2% since end-January 2020 (HVPE's fiscal year end). Importantly, this reflects updated underlying company valuations HVPE received from GPs, with 84% of the portfolio now based on end-June 2020 valuations. Moreover, exposure to listed companies (valued at end-August) represented 11% of the portfolio and only 5% of NAV is still based on end-March values. These valuations are adjusted for cashflows, FX movements and any subsequent material events post the valuation date.

## Reduced capital calls coupled with realisations

It is important to note that since our [last note](#) (which was based on end-May 2020 figures), distributions from underlying funds to HVPE have resumed and in aggregate reached US\$31.2m over the last three months (Exhibit 2). While this is still below historical levels (the average monthly distribution in 2018 and 2019 was US\$28m), it suggests activity in the M&A market has started to pick up after the muted April and May. In July 2020, the largest IPOs by HVPE-apportioned value were nCino, Relay Therapeutics, and Jamf Holding. We note that underlying realisations never fully stopped, with 19 liquidity events per month on average in 2020 (including both IPOs and M&As), compared to 29 on average during 2019.

The lower distributions are coupled with a reduction in capital calls after the spike during the initial downturn (US\$124m was called in March and April, compared to US\$306m in the whole of 2019). We believed HarbourVest funds were prepared for more intensive capital calls from underlying GPs and reduction in capital calls suggests liquidity needs of GPs have been fulfilled.

## Narrowing discount to NAV

HVPE's share price followed the equity market recovery and the current price implies discount to last reported NAV at 25%, narrowed from a multi-year low of 60% on 19 March 2020. The discount is still significantly larger than the five-year average discount of 21%. We understand the wider discount may at least partially reflect the macro uncertainty and is a common feature among private equity investment companies. Nevertheless, we note the valuations of most of the underlying companies HVPE has exposure to have already been updated since March 2020.

### Investment companies private equity

29 September 2020

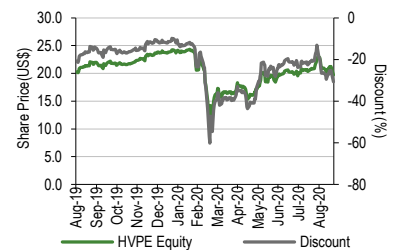
<b>Price</b>	<b>£15.90/ US\$19.91</b>
<b>Market cap</b>	<b>£1,270m/ US\$1,590m</b>
<b>NAV*</b>	<b>£1,699m/ US\$2,272m</b>

NAV per share*	£21.28/US\$28.45
Discount to NAV	25.3%

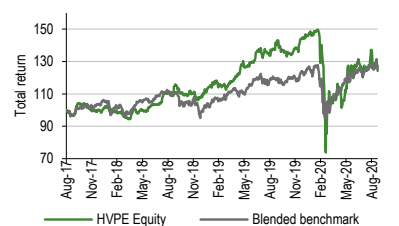
\*Estimated by HVPE at 31 August 2020

Yield	0.0%
Ordinary shares in issue	79.9m
Code	HVPE/HVPD
Primary exchange	LSE
AIC sector	Private Equity
Benchmark	FTSE All-World index

### Share price/discount performance



### Three-year performance vs index



52-week high/low	1,868p	921p
NAV** high/low	2,174p	2,004p

\*\*Including income.

### Gearing

Gross*	5.3%
Net*	0.7%

\*At 31 August 2020.

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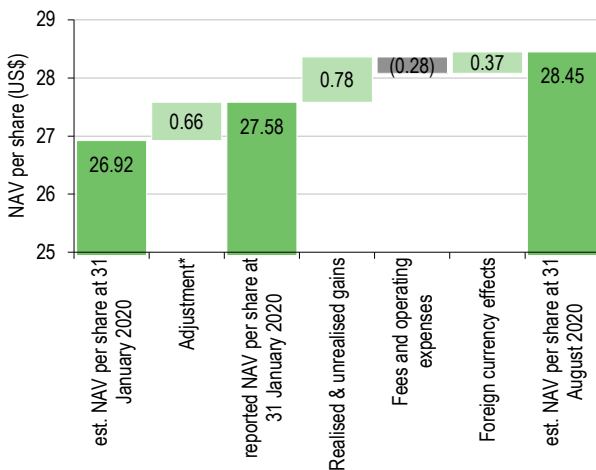
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## Liquidity remains sufficient to cover near-term commitments

HVPE's total investment pipeline at end-August 2020 was US\$1.7bn (down from US\$1.8bn at end-FY20). This compares to US\$103m of liquid resources held at the HVPE level, which is further supported by the US\$480m remaining undrawn credit line. As concerns around companies' liquidity gradually eased, HVPE reduced its leverage post April and May, with its gross leverage down to 5.3% at end-August from 9.8% in May. At the same time, leverage at the level of underlying HarbourVest funds attributable to HVPE was at 17% of HVPE's NAV – flat versus end-FY19, according to our calculations. As a reminder, HVPE commits capital to HarbourVest funds (unallocated commitments), which are then committed to underlying funds (allocated commitments). HarbourVest funds do not lever their portfolio but use bridge financing to accrue capital needs and in turn lower the frequency of capital calls from investors (including HVPE). We believe that lower capital calls recently (as described above) resulted from the fact that HarbourVest funds and underlying GPs used excess liquidity drawn during the downturn.

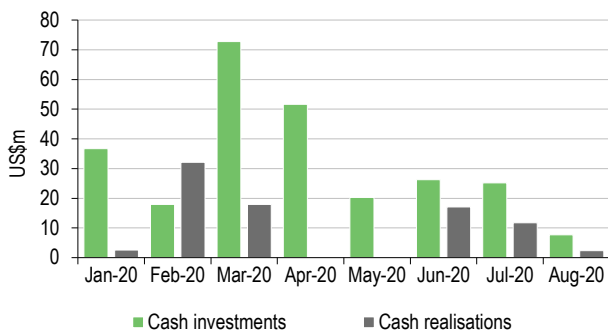
That said, HVPE's coverage ratios have remained stable following the initial decrease in March, putting them below long-term averages. The total coverage ratio stands at 35% (vs 40% at end-FY19 and 43% on average since July 2019). The rolling coverage, which compares available resources and estimated one-year distributions to estimated calls over the three-year period, decreased to 64% (from 79% at end-FY19 and 74% respective average). Nevertheless, as discussed in detail in our [previous note](#), we still consider it a relatively safe level. It is also worth noting that as at end-January 2020 70% of commitments were to primary funds, which have a longer drawdown profile.

**Exhibit 1: Movement in NAV per share (US\$) in the seven months to 31 August 2020**



Source: HVPE, Edison Investment Research. Note: \*Revision from monthly estimate to final reported value.

**Exhibit 2: Capital calls and distributions from HarbourVest funds to HVPE (US\$m)**



Source: HVPE, Edison Investment Research

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