

HarbourVest Global Private Equity

Robustly positioned, with a strong track record

HarbourVest Global Private Equity (HVPE) aims to provide shareholders with access to the best private markets opportunities globally, through investing in a portfolio of HarbourVest funds. HVPE's portfolio is broadly diversified by underlying manager, vintage, strategy, stage and regional exposure. Its recent performance has been strong in its US dollar functional currency, with a 16.2% NAV total return in FY18, although currency moves have weighed on its performance in sterling terms. After three years of strong portfolio distributions, the 2018 commitment plan has been drawn up with a view to ensuring that HVPE moves closer to a fully invested position over the next two to three years.

12 months ending	Share price (GBP %)	NAV (GBP %)	Blended benchmark* (GBP %)	LPX 50 (GBP %)	LPX 50 NAV (GBP %)
30/04/14	12.9	5.1	6.0	9.2	5.2
30/04/15	28.7	24.3	18.7	16.9	8.1
30/04/16	9.8	10.8	(0.5)	(0.9)	8.9
30/04/17	31.7	23.8	31.2	36.6	26.8
30/04/18	1.0	7.1	7.8	3.9	4.7

Source: Thomson Datastream, Bloomberg. Note: *Blended benchmark is MSCI AC World up to 30 November 2016 and FTSE All-World thereafter. Total returns in pounds sterling.

Investment strategy: Selective diversification

HVPE makes regular commitments to new HarbourVest primary, secondary and direct co-investment funds, with reference to its long-term strategic asset allocation targets, resulting in a steady pace of investment. HarbourVest takes a disciplined approach to selecting third-party private equity managers' funds, using its network of specialists and relationships built up over 35 years, aiming to select the highest-quality opportunities. The result is that HVPE's portfolio has exposure to c 5% of available private markets investments, with a focus on proven managers with whom HarbourVest has built strong relationships through multiple fund cycles.

Market outlook: Grounds for cautious optimism

Private markets fundraising remains close to or above 2007 peak levels and a growing surplus of uninvested capital and presence of new market entrants have increased competition for deals, leading to elevated pricing levels. However, many private equity managers remain cautious and are net sellers of assets, often to strategic buyers. In response to high pricing, buyout managers are seeking to generate similar returns to those achieved historically through more complex transactions and buy-and-build strategies. In this environment, investors may find appeal in a broadly diversified fund, with a robust balance sheet and a consistent and selective long-term investment approach, run by an experienced manager.

Valuation: Discount has widened over one year

Since reaching a five-year low of 9.6% in May 2017, HVPE's share price discount to NAV has widened towards the middle of its five-year range. The current 19.4% discount is wider than its 17.8% one-year average, but modestly narrower than its 20.0% and 20.5% averages over three and five years respectively.

Investment companies

12 June 2018

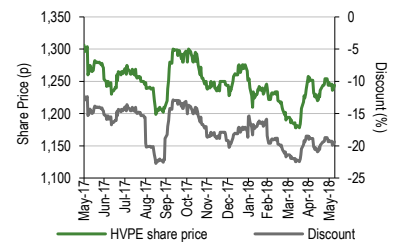
Price 1,244p
Market cap £993m
NAV* £1,232m

NAV per share* 1,543p
Discount to NAV 19.4%

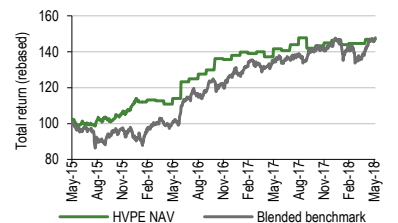
*Estimated by HVPE as at 30 April 2018.

Yield 0.0%
Ordinary shares in issue 79.9m
Code HVPE
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 1,300p 1,178p
NAV* high/low 1,552p 1,477p

*Including income.

Gearing

Gross* 0.0%
Net cash* 12.3%

*As at 30 April 2018.

Analysts

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HarbourVest Global Private Equity is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

HarbourVest Global Private Equity is a Guernsey-incorporated, LSE-listed, closed-ended investment company. Its investment objective is to generate superior shareholder returns, relative to global listed equities, through long-term capital appreciation by investing primarily in a diversified portfolio of private markets investments. Performance is benchmarked against the FTSE All-World index.

Recent developments

- 14 May 2018: Steven Wilderspin joined the board as a non-executive director.
- 11 May 2018: Full-year results to 31 January 2018. NAV total return +3.0% in £ and +16.2% in US\$. Share price total return +4.8% in £ and +18.2% in US\$.
- 16 March 2018: Strategic allocation targets revised – increases in direct strategy from 15% to 20%, and mezzanine and real assets from 5% to 10%, offset by decreases in primary strategy from 60% to 55%, and buyout stage from 65% to 60%.
- 6 December 2017: US\$500m credit facility renewed and extended to five years.

Forthcoming

AGM	19 July 2018
Interim results	October 2018
Year end	31 January
Dividend paid	N/A
Launch date	6 December 2007
Continuation vote	N/A

Capital structure

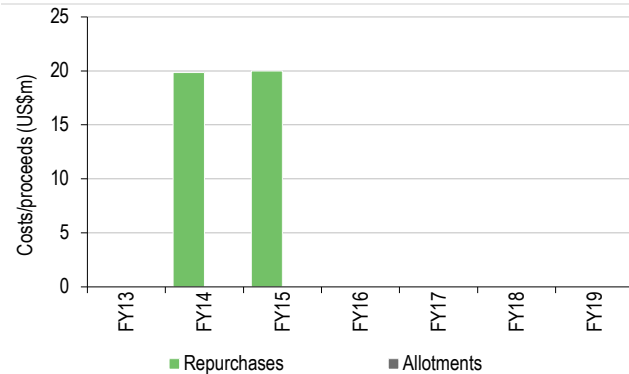
Ongoing charges	1.89% (excluding performance fees)
Net cash	12.3%
Annual mgmt fee	1.01%
Performance fee	Secondary invts & direct co-invts only
Company life	Indefinite
Loan facilities	US\$500m

Fund details

Group	HarbourVest Partners LLC
Manager	HarbourVest LP
Address	BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA
Phone	+44 (0)1481 750 800
Website	www.hvpe.com

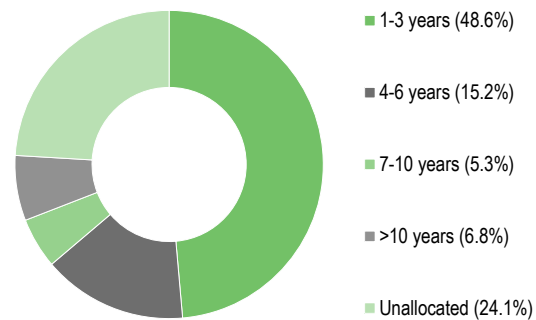
Share buyback policy and history (financial years)

HVPE has authority to purchase up to 14.99% of its issued share capital. FY14 and FY15 costs reflect A share redemptions to distribute profits on the partial realisations of the Absolute and Conversus co-investments.

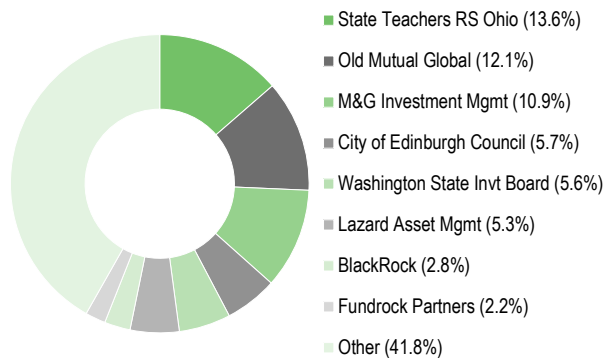


Age of the investment pipeline (31 January 2018 – latest available)

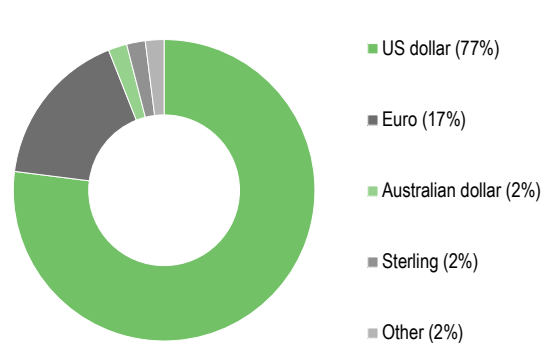
This analysis shows the age profile of HVPE's investment pipeline (totalling US\$1,238m). When commitments are made to underlying third-party funds or HarbourVest secondary or direct funds, these are classified as allocated.



Shareholder base (as at 8 June 2018)



Portfolio currency exposure (as at 30 April 2018)



Top 10 underlying holdings (as at 31 January 2018 – latest available)

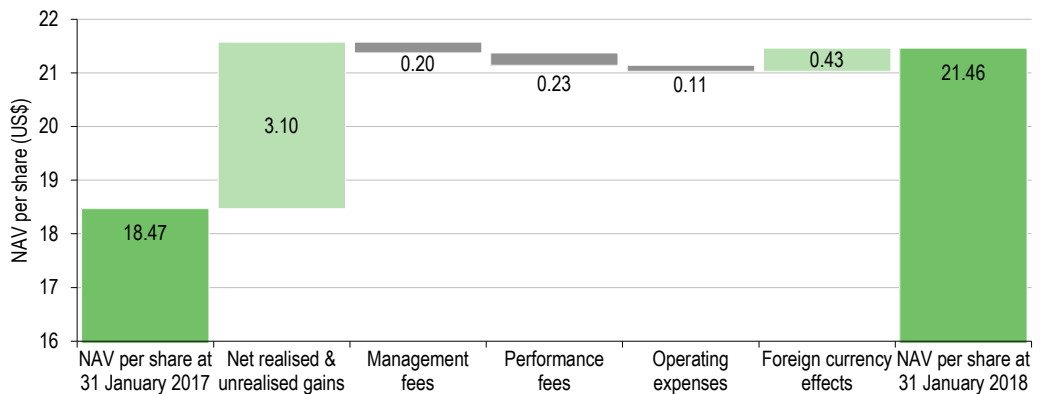
Company	Strategy	Status	Location	Business	% of portfolio	Investment value (US\$m)
Undisclosed*	Buyout	Private	Netherlands	Undisclosed	1.45	21.0
Preston Hollow Capital*	Buyout	Private	US	Speciality finance platform	1.42	20.7
Press Ganey Associates*	Buyout	Private	US	Patient satisfaction surveys	1.13	16.4
Acrisure*	Buyout	Private	US	Property and casualty insurance broker	1.08	15.7
H-Line Shipping*	Buyout	Private	South Korea	Marine bulk shipping	0.88	12.8
SolarWinds*	Buyout	Private	US	IT management software	0.85	12.4
Rodenstock	Buyout	Private	Germany	Ophthalmic device manufacturer	0.70	10.2
Infinitas Learning	Buyout	Private	Netherlands	Online education provider	0.67	9.8
Ministry Brands*	Venture	Private	US	Software provider for faith-based organisations	0.64	9.3
Staples*	Buyout	Private	US	Office supply retailer	0.63	9.2
Top 10 (% of portfolio)					9.45	137.5

Source: HarbourVest Global Private Equity, Edison Investment Research, Bloomberg, Thomson Reuters. Note: *Held at least in part via a HarbourVest direct co-investment fund.

Strong underlying returns in FY18

Although HVPE shares are listed on the London Stock Exchange, with the share price quoted in sterling, HVPE's investments are principally denominated in US dollars. This remains the company's functional currency; NAV is reported in US dollars and sterling. In US dollar terms, HVPE achieved a 16.2% NAV total return in FY18 (to end-January 2018), which was its strongest financial-year return since FY11. Exhibit 2 shows an analysis of HVPE's NAV per share progression in US dollar terms during FY18, highlighting that underlying investment performance was the overriding driver of the strong return achieved.

Exhibit 2: NAV per share progression in US dollar terms in the year to end-January 2018



Source: HarbourVest Global Private Equity, Edison Investment Research

Fund profile: Selective, diversified, global fund of funds

HVPE is a Guernsey-incorporated, closed-ended private equity investment company that has been listed on the Main Market of the London Stock Exchange since September 2015 (having previously traded on the LSE's Specialist Funds Market from May 2010). HVPE has been included in the FTSE 250 index since December 2015. The shares were listed on Euronext Amsterdam (and quoted in US dollars) from HVPE's launch in December 2007 until October 2016. HVPE's share price is quoted in sterling, but its functional currency is the US dollar and its monthly NAV per share is published in both US dollar and sterling terms.

HVPE holds a broadly diversified portfolio of private equity investments, comprising HarbourVest-managed primary, secondary and direct co-investment funds, as well as selected secondary co-investments. HarbourVest funds selectively make investment commitments to leading third-party fund managers and direct co-investments across a wide spectrum of global private markets investment, covering venture capital, growth equity and buyout strategies, as well as mezzanine and real asset investments. HVPE's approach gives investors exposure to a broad range of underlying private companies, providing exposure to c 5% of the available private markets opportunities, with a focus on proven managers with whom HarbourVest has built strong and enduring relationships through multiple fund cycles.

HarbourVest is an independent, global private markets investment specialist, with a strong 35-year track record and over US\$49bn of assets under management. HarbourVest's investment team includes more than 100 professionals responsible for managing a broad range of funds.

Private markets outlook: Managers remain cautious

The investment manager's view

HarbourVest observes that private markets fundraising remained strong in 2017, with total US private equity fundraising of US\$272bn. Buyout fundraising surpassed the previous peak level in 2007, and over 50% of capital raised was concentrated in several mega-cap funds. In contrast, US venture funding fell below the 2016 peak, while remaining above the 10-year average. New investment by buyout managers remained steady at well below the pre-crisis peak, while new venture capital investment reached a record level in the year. Overall, a growing surplus of uninvested capital and new market entrants have increased competition for deals, leading to record pricing levels across US private markets. Many managers have been able to capitalise on this environment, remaining net sellers of assets, often to strategic acquirers. In reaction to high pricing, buyout managers have sought to create value through more complex transactions and buy-and-build strategies, while venture managers have increasingly maintained ownership of perceived winners through later-stage financing rounds.

The manager also remarked on the continued strength of European private markets in 2017, across fundraising, realisations and investment activity. Strong investor demand enabled high-quality managers to continue to raise heavily oversubscribed funds, with overall fundraising increasing to c €61bn. Continued interest from strategic buyers seeking growth opportunities led to a 17% increase in exits via merger and acquisition (M&A) transactions compared to 2016. As in other regions, managers remain selective in the high transaction price environment, focusing on premium assets where operational and strategic improvements can drive value creation.

From a global perspective, private markets saw continued strong growth during 2017, with more than US\$700bn of capital being drawn into the industry during the year, contributing to a record US\$1.7tn in uninvested capital (dry powder) being reached. Overall investment activity increased in the year, led by Asia where the amount of capital invested almost doubled versus 2016.

In the current environment, HarbourVest emphasises the high level of scrutiny applied when evaluating new investment opportunities, with downside risk always a key focus. A bias is maintained towards mid-to-small buyouts where pricing is less elevated, which is reflected in the focus of the largest underlying managers in HVPE's portfolio (see Exhibit 5). Additionally, the HarbourVest platform continues to expand into newer areas of private markets, such as real assets, which provides additional scope to deploy capital into attractive new opportunities.

Asset allocation

Investment process: Long-term strategic, diversified allocation

Each year, HVPE's investment manager assesses forecast cash flows and investment returns to establish an appropriate overall level of new commitments to be made to HarbourVest funds over the next 12 months, with the aim of optimising long-term returns for HVPE shareholders. Following board approval, commitments are made with a view to maximising the benefit of available early-closing fee discounts on the selected HarbourVest funds, while ensuring that HVPE remains within a set of agreed balance sheet ratios.

The level of commitment allocated to individual funds is determined with reference to HVPE's longer-term strategic asset allocation targets (see Exhibit 3). These were revised in February 2018 to reflect the opportunities in direct co-investments as well as the desire to capture the uncorrelated returns available from real asset investments. The strategic allocations comprise a set of rolling five-year portfolio construction targets by investment stage, geography and strategy, as a proportion

of NAV. The targets take into account macroeconomic and geopolitical factors, the available opportunity set, historical performance and HarbourVest's specific areas of expertise.

Exhibit 3: HVPE strategic asset allocation targets – revised February 2018

Stage	%	Geography	%	Strategy	%
Buyout	60	US	65	Primary	55
Venture and growth equity	30	Europe (incl UK)	18	Secondary	25
Mezzanine and real assets	10	Asia Pacific	12	Direct	20
		Rest of world	5		
	100		100		100

Source: HarbourVest Global Private Equity, Edison Investment Research

HVPE aims to maintain a consistent rate of investment, which ensures that portfolio investments are well spread by vintage, both at the fund level and the underlying portfolio company level. This approach is enhanced by HVPE's fund-of-funds structure, with commitments made by HVPE to HarbourVest funds being allocated over three to four years to selected third-party managers, who then invest in operating companies over the following three to five years. Over time, this strategy has resulted in a portfolio that is diversified across the different phases of the investment cycle (see Exhibit 7). The investment phase is when capital is drawn down by underlying managers to build their portfolios; the growth phase is the majority of the life of the underlying investment; and the mature phase is when portfolio companies are prepared for sale and realisations are achieved through trade sales, sales to other financial/private market investors, or companies becoming publicly listed.

HarbourVest conducts extensive due diligence on third-party managers prior to making investment commitments to new funds. Primary commitments are made to funds at launch, after consideration of the fund manager's investment skills, leadership and track record, the fund's investment focus and strategy, contractual terms, fund size, expected duration, exposure limits and fees. A bottom-up valuation of portfolio companies is completed on secondary purchases (whole or part portfolios of maturing investments), with the capabilities of the underlying fund manager also assessed. Bottom-up valuations are also carried out on prospective direct investments – usually co-investments alongside managers of underlying portfolio funds. The HarbourVest platform spans all three strategies, allowing the investment teams to leverage each other's knowledge and insights, which gives HarbourVest a distinct competitive edge when negotiating deals and making commitments.

Current portfolio positioning

HVPE has a broadly diversified private markets portfolio, which comprised 42 HarbourVest funds and two direct secondary co-investments at end-January 2018. The portfolio provides exposure to over 800 underlying funds and partnerships, which are invested in over 7,500 operating companies. While highly diversified in terms of the total number of underlying investee companies, HVPE's portfolio has a significant degree of concentration in the larger holdings, which allows the performance of individual portfolio companies to have a material effect on HVPE's returns.

As shown in Exhibit 1, four companies each represented 1.0% or more of the portfolio (compared with seven a year earlier), with the top 10 underlying holdings accounting for 9.5% of the portfolio (compared with 11.8% a year earlier). While the portfolio was slightly less concentrated in the larger holdings than a year earlier, this primarily reflected the sale of HVPE's previously largest holding Lightower Fiber Networks, which represented 2.14% of the end-January 2017 portfolio. At end-January 2018, portfolio concentration in the top five, 25, 100 and 1,000 underlying holdings was 6.0%, 17.3%, 36.3% and 86% respectively. As shown in Exhibit 4, the top 10 HarbourVest funds in the portfolio are broadly diversified by phase, vintage, stage, region and strategy, and accounted for 56.5% of HVPE's portfolio at end-January 2018, which compares with 63.8% a year earlier.

Exhibit 4: Top 10 HarbourVest funds by investment value at end-January 2018

Fund	Phase	Vintage	Stage	Region	Strategy	Unfunded commitment (US\$m)	Amount invested (US\$m)	Distributions received (US\$m)	Fair value (US\$m)	% of portfolio	% of NAV
HIPEP VI Partnership Fund	Mature	2008	Buyout/venture	Europe/AsiaPac/RoW	Primary	9.9	114.4	49.7	124.2	8.6	7.2
HarbourVest VIII Buyout	Mature	2006	Buyout	US	Primary/secondary/direct	11.3	241.5	278.9	116.4	8.0	6.8
HarbourVest 2013 Direct Fund	Growth	2013	Buyout/venture	Global	Direct	3.2	97.1	42.7	108.0	7.4	6.3
Dover Street VIII	Growth	2012	Buyout/venture	Global	Secondary	22.5	157.6	155.2	83.8	5.8	4.9
HarbourVest Global Annual Private Equity Fund	Investment	2014	Buyout/venture/other	Global	Primary/secondary/direct	30.3	69.7	16.1	79.6	5.5	4.6
HarbourVest Partners IX Venture Fund	Growth	2011	Venture	US	Primary/secondary/direct	8.1	62.3	23.6	70.0	4.8	4.1
HIPEP VII Partnership Fund	Investment	2014	Buyout/venture	Europe/AsiaPac/RoW	Primary/secondary/direct	66.6	58.4	6.0	66.9	4.6	3.9
HarbourVest 2015 Global Fund	Investment	2015	Buyout/venture/other	Global	Primary/secondary/direct	47.5	52.5	6.6	60.9	4.2	3.6
HarbourVest Partners Co-Investment IV	Investment	2016	Buyout/venture	Global	Direct	47.5	52.5	0.0	59.4	4.1	3.5
HIPEP VI Asia Pacific Fund	Mature	2008	Buyout/venture	Asia Pacific	Primary	3.3	46.9	20.1	50.7	3.5	3.0
Top 10						250.1	953.0	599.0	820.1	56.5	47.8

Source: HarbourVest Global Private Equity, Edison Investment Research. Note: Mature phase includes vintage years pre-2008, growth phase 2009 to 2013, and investment phase 2014 to 2018.

Although in aggregate the HarbourVest funds may be invested in a number of funds run by the same third-party manager, HVPE's portfolio is broadly diversified by fund manager, with no manager accounting for more than 2.6% of the portfolio at end-January 2018, and the top 10 managers representing 14.6% of the portfolio. As shown in Exhibit 5, the top 10 third-party managers in the portfolio are broadly diversified by region, strategy and investment stage.

Exhibit 5: Top 10 third-party managers by investment value at end-January 2018

Manager	Region	Strategy	Stage	% of portfolio	Investment value (US\$m)
IDG Capital Partners	Asia	Secondary	Venture	2.60	37.8
Thoma Bravo	US	Primary	Mid-cap buyout	1.85	26.8
Compass Partners	Europe	Secondary	Mid- to large-cap buyout	1.49	21.6
Index Ventures	Europe	Primary	Venture and growth	1.41	20.5
Hellman & Friedman	US	Primary	Large-cap buyout	1.40	20.4
Insight Venture Management	US	Primary	Growth	1.38	20.0
CapVest Equity Partners	Europe	Secondary	Mid-cap buyout	1.33	19.4
The Blackstone Group	US	Primary	Buyout	1.12	16.2
Lightspeed Venture Partners	US	Primary	Venture	1.04	15.1
Welsh, Carson, Anderson & Stowe	US	Secondary	Mid-cap buyout	1.02	14.8
Top 10 (% of portfolio)				14.64	212.6

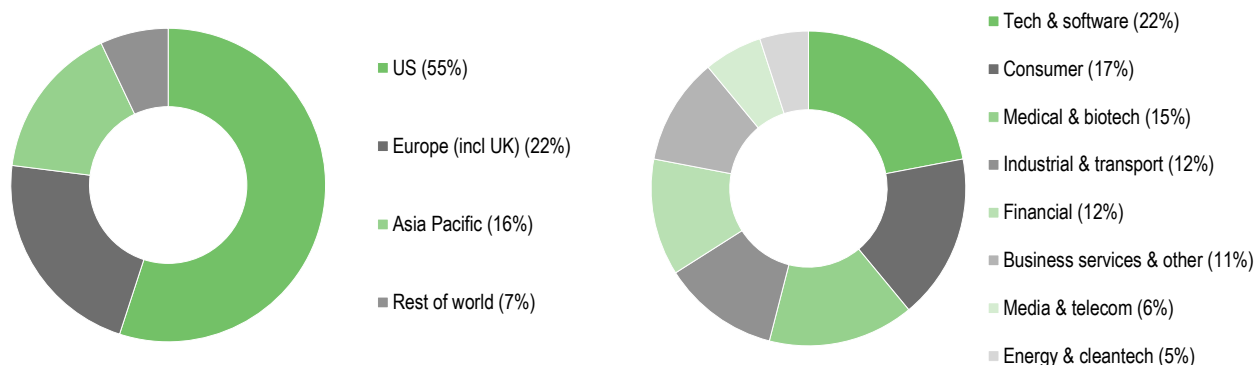
Source: HarbourVest Global Private Equity, Edison Investment Research

Exhibit 6 shows HVPE's portfolio exposure at end-April 2018, illustrating the broad diversification by geography and industry. Compared with end-April 2017, US exposure has declined by 7pp, offset by 4pp and 3pp increases in exposure to Asia Pacific and Europe. These changes would be expected to reverse over the medium term, as the portfolio moves closer to the geographic strategic allocation targets (see Exhibit 3), which were not changed in the February 2018 revision.

Exhibit 6: HVPE portfolio exposure by geography and industry at end-April 2018

Geographic diversification by value of underlying portfolio funds

Industry diversification by value of underlying portfolio companies



Source: HarbourVest Global Private Equity, Edison Investment Research

HVPE has provided a more detailed industry exposure analysis of the portfolio since October 2017 and, while it is not possible to make a direct comparison of the end-April 2018 exposures with a year earlier, the overall exposures appear broadly similar. Over the six months to end-April 2018, the most significant changes in exposure were a 3pp decline in media & telecom and a 2pp increase in tech & software, with no other changes in industry exposure of more than 1pp.

Exhibit 7: HVPE portfolio profile at end-April 2018

Stage	%	Phase	%	Strategy	%
Buyout	60	Investment	46	Primary	46
Venture and growth equity	32	Growth	31	Secondary	31
Mezzanine and real assets	8	Mature	23	Direct	23
	100		100		100

Source: HarbourVest Global Private Equity, Edison Investment Research

Exhibit 7 shows HVPE's portfolio profile by stage, phase and strategy at end-April 2018. Compared with a year earlier, the most significant changes were an 8pp reduction in mature phase exposure, offset by 5pp and 3pp increases in the investment and growth phases, reflecting the natural realisation of mature investments, with proceeds being drawn down for new investments. Over the year, buyout exposure declined by 3pp, offset by 2pp and 1pp increases in exposure to venture and growth equity, and mezzanine and real assets, respectively. Similar to the geographical exposures, the investment stage and strategy exposures should be expected to trend towards the strategic allocation targets (see Exhibit 3) over the medium term.

Commitments and financial resources

HVPE committed a total of US\$340m to four newly formed HarbourVest funds in FY18:

- US\$170m to HIPEP VIII Partnership Fund – an international fund of funds
- US\$50m to HIPEP VIII Asia Pacific Fund – an Asia-focused fund of funds
- US\$100m to HarbourVest 2017 Global Fund – a global multi-strategy fund of funds
- US\$20m to Secondary Overflow Fund III – a global opportunistic secondary fund

During FY18, HVPE invested US\$313m through capital calls to fund underlying investments (US\$212m to primary funds, US\$52m to secondary funds and US\$49m to direct co-investment funds) and received US\$405m from realisations (US\$217m from primary funds, US\$91m from secondary funds, US\$77m from direct co-investment funds and US\$20m from secondary co-investments). The higher level of distributions relative to capital calls reflected the wider private equity market, where exit activity outpaced the rate of new investment.

At end-April 2018, HVPE held US\$208m in cash, with its undrawn US\$500m credit facility giving it a total of US\$708m in short-term liquidity. This compared to its investment pipeline of US\$1,282m.

Three key ratios are used to assess HVPE's commitment levels:

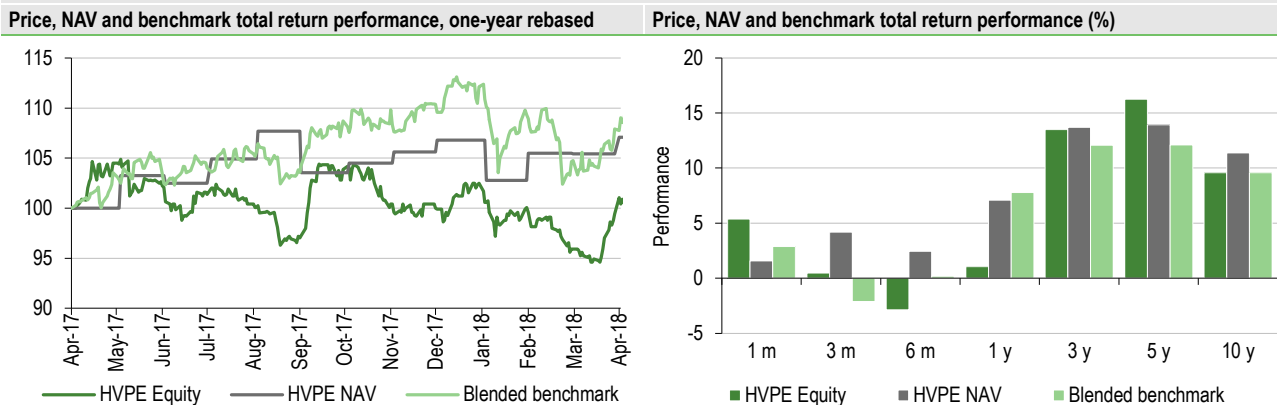
- **Total commitment ratio (TCR)** – the sum of the current investment portfolio and total investment pipeline as a percentage of NAV. This ratio provides a measure of total private markets exposure and is a key determinant of HVPE's total commitment capacity for new HarbourVest funds and co-investments within a given period. At end-April 2018, HVPE's TCR was 163%, slightly lower than its end-April 2017 level of 171%.
- **Commitment coverage ratio (CCR)** – the sum of cash and available credit as a percentage of the total investment pipeline. This ratio is used as a measure of balance sheet risk. HVPE's listed private equity peers typically have a shorter-term investment pipeline, which means that HVPE's CCR may appear relatively low in comparison. At end-April 2018, HVPE's CCR was 55%, the same level as at end-April 2017.
- **Rolling coverage ratio (RCR)** – the sum of cash, available credit and projected realisation proceeds expected to be received in the next 12 months as a percentage of expected cash investment over the next 36 months. Considering forecast investments over a three-year period, rather than the total investment pipeline, makes the RCR a more equivalent ratio for comparison of HVPE's commitment coverage relative to its peers. At end-April 2018, HVPE's RCR was 82%, significantly lower than its end-April 2017 level of 108%, reflecting the level of new commitments scheduled for the current and following two years. This commitment plan has been made with a view to ensuring that HVPE moves closer to a fully invested position over the next two to three years.

HVPE principally invests via funds of funds, making its cash drawdown profile relatively predictable, with primary fund drawdowns typically spread over five to seven years. HVPE has a large invested portfolio that has historically delivered a steady flow of realisations. Potential cash flows under several different macroeconomic scenarios have been analysed, with the conclusion drawn by the board that HVPE's balance sheet should be able to withstand a downturn worse than the 2008 global financial crisis. While the expected level of borrowing remains very modest under most scenarios, the board has chosen to maintain US\$500m of secured and committed bank facilities, believing that they provide an essential foundation for future investment performance by allowing HVPE to run a commitment ratio materially higher than many of its peers.

The HarbourVest funds employ leverage to a limited extent for two main purposes: bridging capital calls and distributions; and financing specific investment projects where the use of debt may be advantageous. HarbourVest could potentially also use debt opportunistically to recapitalise funds, in order to accelerate distributions to investors. The amount borrowed varies according to the type of fund, but the outstanding debt typically represents between 5% and 30% of a fund's committed capital, with the majority of funds below 20%. On a look-through basis, HVPE's total embedded leverage was US\$238.7m at end-January 2018. The increase in embedded leverage from US\$46.8m in December 2015 has been a significant factor underlying the increase in HVPE's cash balance in recent years.

Performance: Outperforming its private equity peers

As illustrated in Exhibit 8, HVPE's NAV total return only modestly lagged its FTSE All-World index benchmark over one year to end-April 2018, a period in which global equity markets delivered double-digit US dollar returns. HVPE's share price total return lagged the index by a greater margin, reflected by its share price discount to NAV widening from 13.6% to 18.5% over the period. In contrast, HVPE's NAV total return clearly outperformed its listed equity benchmark over three, five and 10 years, while its share price total return exceeded or matched the benchmark over these periods. Over 10 years to end-April 2018, HVPE's 11.4% pa NAV total return in sterling terms compares to the blended benchmark's 9.6% pa return.

Exhibit 8: Investment company performance to 30 April 2018 (in sterling terms)


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

While HVPE uses a global listed equity market index (MSCI AC World Index up to 30 November 2016 and FTSE All-World Index thereafter) as an official performance benchmark, we also compare HVPE's returns to its global private equity peers, as represented by the LPX 50 index, which comprises the largest, most liquid listed private equity funds globally. As presented in Exhibit 9, HVPE's NAV total return outperformed the LPX 50 index NAV return over all periods shown from one month to 10 years, while its share price total return was ahead of the index return over all but one of the periods shown. The weaker relative share price performance over one year reflects HVPE's discount widening relative to its peers over this period, suggesting scope for a relative narrowing of HVPE's discount if the historical correlation is re-established.

Exhibit 9: 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 Blended benchmark	2.4	2.7	(3.0)	(6.2)	3.9	20.0	0.1
NAV relative to Blended benchmark	(1.3)	6.4	2.3	(0.6)	4.4	8.4	17.8
Price relative to FTSE All-World	2.4	2.7	(3.0)	(6.2)	3.7	19.6	(0.7)
NAV relative to FTSE All-World	(1.3)	6.4	2.3	(0.6)	4.2	8.1	16.9
Price relative to LPX 50	2.3	4.6	0.0	(2.7)	3.9	18.3	21.9
NAV relative to LPX 50 NAV	0.8	4.2	0.7	2.2	1.6	16.7	65.8

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2018. Geometric calculation.

Exhibit 10 illustrates HVPE's NAV total return performance relative to its blended benchmark (the MSCI AC World index up to 30 November 2016 and FTSE All-World index thereafter) over the past five years. The comparison is made on an equivalent currency basis and relative performance is the same in US dollar and sterling terms. For reference, we note that the MSCI AC World and FTSE All-World indices delivered very similar performances over one, three, five and 10 years to end-April 2018, with annualised returns differing by 0.1pp at most across these periods.

Exhibit 10: NAV total return performance relative to blended benchmark over five years


Source: Thomson Datastream, Edison Investment Research

After two years of its NAV total return broadly matching the performance of the listed equity benchmark, HVPE achieved substantial outperformance between April 2015 and February 2016, largely reflecting the weakness of global equity markets during this period, with HVPE's NAV holding fairly steady. The subsequent weaker relative performance reflects the sustained rally of global equity markets, with HVPE's NAV progressing higher at a more measured pace over this period, although still recording a strong performance in absolute terms.

Exhibit 11: NAV and share price total return performance to end-April 2018 in US dollar and sterling terms (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
HVPE NAV US\$	(0.3)	(1.1)	6.1	13.8	31.5	69.6	104.4
HVPE NAV £	1.6	4.2	2.5	7.1	46.9	91.8	194.2
HVPE share price US\$	3.4	(2.7)	0.8	7.6	31.0	87.9	73.9
HVPE share price £	5.4	0.5	(2.9)	1.0	46.2	112.4	150.0

Source: Thomson Datastream, Edison Investment Research

Exhibit 11 shows a comparison of HVPE's share price and NAV returns to end-April 2018 in US dollar and sterling terms. Sterling weakened versus the US dollar in 2016, following the UK's vote to leave the European Union, compounding the long-term trend evident since HVPE's inception. However, the pound showed a steady recovery throughout 2017 and early 2018, with the exchange rate reaching US\$1.43/£ in mid-April 2018 compared with US\$1.21/£ in early January 2017. This 18.2% currency appreciation weighed significantly on returns for sterling investors over the last 18 months, although sterling returns have been enhanced by currency moves over longer periods.

Discount: Broadly in line with five-year average

HVPE's share price discount to NAV is reviewed regularly by the board, and actions are considered that might help to reduce it over the longer term. While aspiring to a lower discount, the board's overriding view is that investment performance and market sentiment towards the listed private equity asset class are the key drivers of the discount. Additional resources have recently been committed to marketing HVPE to a wider investor audience, which it is also believed will have a positive longer-term influence on the discount. HVPE has authority to buy back up to 14.99% of its issued share capital, but no shares have been repurchased in the last five financial years other than the share redemptions in 2013 and 2014 to distribute profits on the partial realisations of the Absolute and Conversus secondary co-investments.

As illustrated in Exhibit 12, HVPE's discount narrowed considerably from its five-year wide point of 33.7% at the end of June 2016 (following the UK's EU referendum) to a five-year low of 9.6% in May 2017, since when it has widened towards the middle of its five-year range. The current 19.4% discount (based on the 4 June 2018 share price) is wider than its 17.8% one-year average, but modestly narrower than its 20.0% and 20.5% averages over three and five years respectively.

Exhibit 12: Share price discount to NAV over five years



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HVPE has a single share class, which is listed on the Main Market of the London Stock Exchange and quoted in sterling (since September 2015), with 79.9m ordinary shares in issue. HVPE shares were listed on Euronext Amsterdam and quoted in US dollars until October 2016. HVPE has a US\$500m multi-currency credit facility with Lloyds Bank and Credit Suisse, which was renewed in December 2017 and extended from four to five years' duration, now maturing in December 2022. The undrawn facility has a 115bp commitment fee, while borrowing costs are charged at Libor plus 275bp up to US\$250m, moving to Libor plus 300bp if borrowings exceed US\$250m. HVPE has maintained a net cash position since August 2014 and has not drawn against the current credit facility. As at end-April 2018, HVPE held US\$208.0m in cash, equating to 12.3% of net assets.

HVPE is one of the largest investors into the HarbourVest platform, and typically pays the lowest fee rates on its new commitments to HarbourVest funds. The lower fee rates available on a number of HarbourVest funds have contributed to a steady decline in total management fees paid as a proportion of HVPE's net assets, from more than 2% in its early years to 1.01% in FY18. This excludes fees paid by HarbourVest funds to the underlying third-party managers, which are deducted from underlying fund-level returns and not separately reported.

HVPE's recurring operating expenses, encompassing credit facility charges, board fees and expenses, professional fees, marketing, financial reporting and compliance costs, totalled 0.66% of net assets in FY18, while operating costs associated with the HarbourVest funds represented 0.22% of HVPE's net assets. Secondary investments and direct co-investments performed well in FY18, and carried interest (performance fee) payments on these amounted to 1.14% of HVPE's net assets, compared to 0.51% in FY17. No performance fee is charged by HVPE itself. Excluding interest income, HVPE's FY18 operating expense ratio (equivalent to the ongoing charge) was 1.89%, compared with 1.92% in FY17, while its total expense ratio (including performance fees) was 2.90%, compared with 2.36% in FY17.

Dividend policy and record

HVPE has a capital growth objective and has not paid a dividend since its launch, which is consistent with the primarily capital nature of private equity returns. HVPE made two US\$20m special distributions in FY14 and FY15 (see Exhibit 1), representing 50% of the profits achieved on the partial realisation of HVPE's direct secondary co-investments, made alongside HarbourVest, in the Absolute Private Equity and Conversus Capital listed private equity funds.

Peer group comparison

Exhibit 13 shows a sterling-based comparison of HVPE with six other members of the AIC Private Equity sector that have a fund-of-funds structure. HVPE's NAV total returns to end-April 2018 in sterling terms are ahead of the peer group average over five and 10 years, but moderately below the average over one and three years. As highlighted earlier (see Exhibit 11), HVPE's one-year NAV total return to end-April 2018 was 13.8% in its US dollar functional currency, and the 6.5% appreciation of sterling against the dollar over this period held back its performance in sterling terms. While HVPE's 19.4% discount is wider than the peer group average, we note that the majority of peers are also trading at a double-digit discount to NAV. HVPE has a capital growth objective and does not pay a dividend. Similar to its peers, HVPE is ungeared, maintaining a net cash position to meet its investment commitments. HVPE's ongoing charge is at the high end of the peer group range, possibly reflecting its 'fund of fund of funds' structure.

Exhibit 13: Private equity funds of funds peer group as at 8 June 2018* (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 (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
HarbourVest Global Private Equity	993.5	7.1	46.9	91.8	194.2	(19.4)	1.89	Yes	100	0.0
F&C Private Equity Trust	258.8	4.5	43.8	63.7	87.2	0.9	1.24	Yes	100	2.5
ICG Enterprise Trust	583.2	13.4	51.2	68.8	109.2	(12.4)	1.55	No	100	2.5
JPEL Private Equity	217.4	7.2	48.2	73.0	34.3	(15.1)	1.86	Yes	100	0.0
NB Private Equity Partners	500.1	6.2	46.5	97.4		(20.4)	1.91	Yes	100	3.6
Pantheon International	1,103.9	9.3	49.9	80.7	109.8	(13.4)	1.13	Yes	100	0.0
Standard Life Private Equity	518.1	14.7	55.8	79.5	68.6	(13.2)	1.17	No	100	3.7
Peer group average	596.4	8.9	48.9	79.3	100.6	(13.3)	1.54		100	1.8
Rank	2	5	5	2	1	6	2		1	5=

Source: Morningstar, Edison Investment Research. Note: *Performance data to 30 April 2018. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

After more than 10 years' service, Jean-Bernard Schmidt is scheduled to retire from HVPE's board after the July 2018 AGM, taking the number of directors back to eight, with six being independent of the investment manager. This follows Steven Wilderspin joining the board on 14 May 2018, temporarily increasing the number of directors to nine. He is a qualified chartered accountant with substantial experience of private equity companies, including funds of funds. He is also a director of Blackstone/GSO Loan Financing and recently retired from the board of 3i Infrastructure after 10 years' service. This board change continues the phased retirement of long-serving directors that commenced in 2017, and further new appointments to the board should be expected in due course. Four other directors have recorded more than 10 years' service: chairman Sir Michael Bunbury joined the board in October 2007, shortly before HVPE's launch in December 2007, as did Andrew Moore, Keith Corbin and Brooks Zug. Alan Hodson and Peter Wilson were appointed as directors in April and May 2013 respectively, while Francesca Barnes joined the board in April 2017. The non-independent directors are Brooks Zug, a founder and senior managing director emeritus of HarbourVest, and Peter Wilson, a member of HarbourVest's executive management committee. The independent directors have backgrounds in financial services, investment management and private equity.

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