Standard Life Euro. Pvt. Equity Trust

Focused European private equity fund of funds

Investment trusts

Standard Life European Private Equity Trust (SEP) provides access to a select portfolio of private equity funds investing predominantly in Europe (including the UK). The manager focuses on funds investing in mid-market buyouts that give high levels of operational input to investee companies. SEP is differentiated from European fund-of-fund peers by its focused portfolio with 11 private equity managers representing over 80% of NAV. SEP's NAV total return has outperformed European peers represented by the LPX Europe index over one, three, five and 10 years. A mature portfolio and the 14% average value uplift on exit achieved in FY15 are encouraging indicators for NAV progression and positive cash flows.

12 months ending	Total share price return (%)	Total NAV return (%)	FTSE All-Share (%)	MSCI Europe (%)	LPX Europe NAV (%)	LPX 50 NAV (%)
31/12/11	(8.2)	6.6	(3.5)	(9.8)	(4.6)	(0.4)
31/12/12	32.0	0.9	12.3	14.8	7.1	10.1
31/12/13	23.2	11.5	20.8	23.5	12.9	13.6
31/12/14	10.0	8.8	1.2	0.2	4.9	8.8
31/12/15	1.1	8.0*	1.0	3.3	5.2	4.9

Source: Thomson Datastream, Bloomberg. Note: Twelve-month discrete £-adjusted total return performance up to last quarter end. *Based on estimated NAV at 31 December 2015.

Investment strategy: Conviction-based fund selection

SEP invests via primary commitments and secondary transactions in what the manager views as the leading European private equity funds investing in mid- to large-sized buyouts (enterprise values €100m to €2.0bn). The aim is for the portfolio to comprise around 35 to 40 active private equity fund investments broadly diversified by country, sector and maturity. The manager employs a bottom-up investment strategy to identify and evaluate private equity fund offerings, which is augmented with a top-down overlay designed to direct the investment team toward attractive geographies, sectors and strategies.

European private equity market

The economic backdrop in Europe has been sluggish but there are signs of improvement and forecasts suggest this will continue. Currently, the private equity market in Europe is seen by the manager as offering more value opportunities and better corporate growth prospects than the US, with a pick-up in transaction activity indicating a broadening set of opportunities for investment and realisation. The exit environment for private equity-backed businesses remains robust, helped by rising pricing levels, with corporates in particular being active buyers.

Valuation: Recent discount widening

Mirroring wider market weakness, listed private equity company discounts have widened recently, implying lower medium-term growth expectations for private equity-backed businesses. This differs from the relatively strong near-term trading outlook presented in aggregate by the underlying companies in SEP's portfolio. SEP's current 32.7% discount represents its widest level for more than three years, suggesting scope for significant narrowing once investor sentiment improves.

24 February 2016

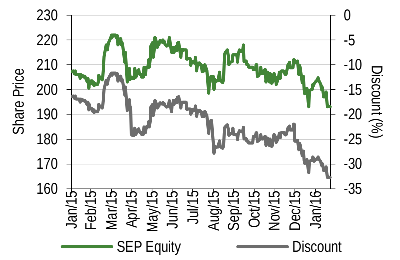
Price	**193.0p**
Market cap	**£301m**
AUM	**£453m**

NAV*	286.8p
Discount to NAV	32.7%

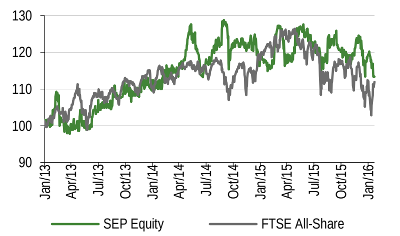
*Estimated NAV as at 31 January 2016.

Yield	2.7%
Ordinary shares in issue	155.8m
Code	SEP
Primary exchange	LSE
AIC sector	Private Equity

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	222.0p	193.0p
NAV** high/low	286.8p	247.9p

**Including income.

Gearing

Gross*	0.0%
Net cash*	17.0%

*As at 31 January 2016.

Analysts

Gavin Wood +44 (0)20 3681 2503

Andrew Mitchell +44 (0)20 3681 2500

investmenttrusts@edisongroup.com

Edison profile page

Standard Life European Private Equity Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

SEP's objective is to achieve long-term capital gains through holding a diversified portfolio of private equity funds investing predominantly in Europe with a focus on funds that invest in mid-market buyouts and expansion capital. The board has concluded that there is no currently available benchmark that is an appropriate measure of SEP's investment performance.

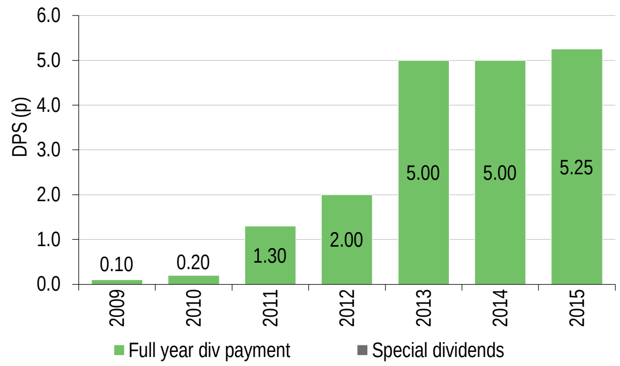
Recent developments

- 12 February 2016 – January 2016 estimated NAV 286.8p; +1.4% increase on month after 3.5p dividend payment, helped by +3.5% euro gain vs sterling.
- 20 January 2016 – December 2015 estimated NAV 282.8p; estimated NAV total return +0.4% for three months to 31 December 2015.
- 7 December 2015 – Full year results to 30 September 2015: NAV total return +11.9% (FX-adjusted +16.0%); 3.5p final dividend (FY15 total dividend 5.25p).
- 18 September 2015 – New £80m syndicated revolving credit facility agreed with Citi and Société Générale, expiring December 2020.

Forthcoming		Capital structure		Fund details	
AGM	January 2017	Ongoing charges	0.98% (FY15 direct fees)	Group	SL Capital Partners LLP
Interim results	May 2016	Net cash	17.0%	Managers	Team managed
Year end	30 September	Annual mgmt fee	0.8% of net assets	Address	1 George Street, Edinburgh EH2 2LL
Dividend paid	July, January	Performance fee	See page 13		
Launch date	May 2001	Trust life	Indefinite	Phone	0131 245 0055
Continuation vote	N/A	Loan facilities	£80m revolving credit	Website	www.slcapital.com/SLEPET

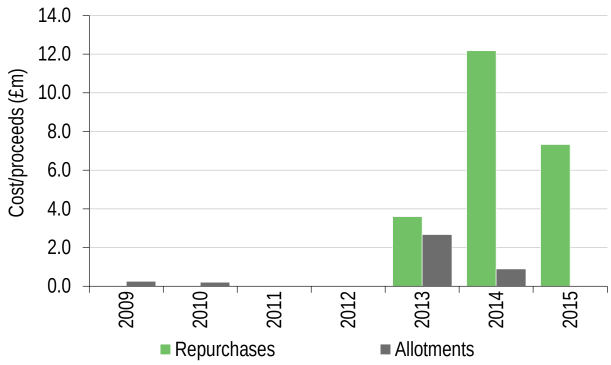
Dividend policy and history

From FY14, the board has undertaken to maintain the annual dividend in real terms. An interim dividend was introduced in FY15.

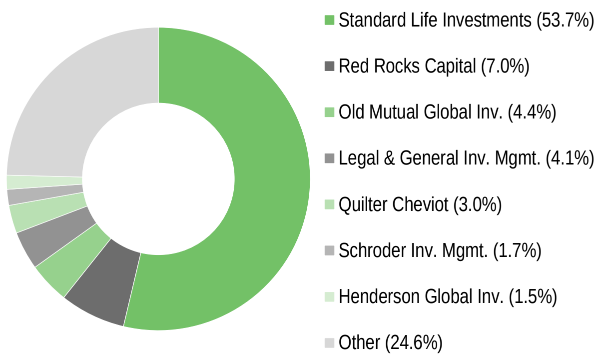


Share buyback policy and history

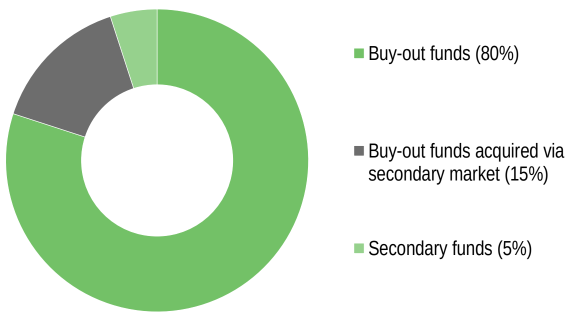
The board views buybacks as part of its strategy in relation to capital efficiency. SEP has authority to repurchase 14.99% and allot 5.0% of issued share capital.



Shareholder base (as at 12 January 2016)



Portfolio exposure by fund type (as at 30 September 2015)



Top 10 underlying holdings (as at 30 September 2015)

Company	Sector	Portfolio weight %	
		30 September 2015	30 September 2014*
Action	Non-food discount retailer	3.4	2.9
Parques Reunidos	Amusement parks	1.7	1.7
Vistra	Trust, fiduciary, corporate services	1.6	N/A
Not Disclosed	Card payment services	1.3	N/A
Scandlines	N. European ferry operator	1.2	1.1
Guardian Financial Services	Closed life assurance assets	1.2	N/A
AWAS/Pegasus	Aircraft lessor	1.2	1.4
Schenck Process	Industrial weighing systems	1.2	0.8
Not Disclosed	Cable communications system	1.1	0.7
Stork	Manufacturing conglomerate	1.1	1.2
Top 10		15.0	N/A

Source: SEP, Edison Investment Research, Morningstar, Dealogic. Note: *N/A where not in September 2014 top 10.

Fund profile: European private equity fund of funds

Launched in May 2001, SEP is a closed-ended investment trust listed on the London Stock Exchange. It aims to achieve long-term capital gains through holding a diversified portfolio of private equity funds investing predominantly in Europe, with a focus on funds that invest in mid to large buyouts. SL Capital Partners has acted as SEP's investment manager since launch. The investment strategy employed by the manager involves a detailed and rigorous screening and due diligence process to identify and evaluate private equity fund offerings.

The private equity asset class has historically exhibited a wide dispersion of returns generated by fund investments and the manager believes that access to leading European groups, manager selection and appropriate portfolio construction are vital to optimise investment performance. In that regard, the objective is for SEP's portfolio to comprise around 35 to 40 active private equity fund investments at any one time, with portfolio diversification being controlled through concentration limits applied at an individual fund (12.5% of NAV) and manager (20.0% of NAV) level.

SL Capital Partners is one of the largest investors in private equity funds and co-investments in Europe, managing €10.0bn of commitments. The investment team comprises 25 professionals with an average of more than 12 years of relevant private equity and investment experience. The team's extensive fund and direct deal experience gives the manager a strong insight into the strategies, processes and disciplines of the funds considered for investment, which should lead to better qualitative judgements being made. The manager believes that its scale and the experience of the investment team enables it to identify and invest in Europe's premier private equity funds, where knowledge of and access to these funds may be limited.

SL Capital Partners is headed by senior managing partner and CIO Peter McKellar and managing partner Roger Pim and is a subsidiary of Standard Life Investments, a leading global asset manager. SL Capital is a private markets solutions provider spanning private equity, infrastructure, private junior debt and strategic credit and comprises a team of 55 based in Edinburgh, London and Boston. The investment team are mainly ex-direct private equity or infrastructure managers, investment bankers, strategy consultants and private equity-backed CFOs.

The fund manager: SL Capital Partners

The managers' view: Continuing valuation uplifts on exit

We spoke to SL Capital partner Graeme Gunn, who joined the manager in 1999 and currently sits on the investment and portfolio construction committees. He conveys the view that private equity managers are in general reporting a steady new deal pipeline, with increasing transaction values, set against a background of strong mergers and acquisitions activity in Europe. The current exit environment for private equity-backed businesses is also reported as robust, with corporates in particular being active buyers. This exit activity has been evident for a number of years and SEP's mature private equity portfolio is expected to continue to benefit from valuation gains on realisations (valuation uplifts on exits completed in FY15 averaged 14%). Gunn comments that, while positive for realisations, this corporate activity can narrow the range of opportunities available to private equity buyers. Hence SL Capital prefers to invest with private equity groups that have a strong and differentiated sourcing model and a high value add component to their strategy to combat this increased competition. The managers' view is that while average pricing multiples for new transactions appear to have risen, the level of total debt multiples remains in line with the prior year. SL Capital has a greater emphasis on monitoring the level of debt/EBITDA multiples as it regards the debt multiple as a more critical measure of risk in its portfolio.

Gunn highlights that the investment team has relationships with over 100 private equity managers and 200 plus fund investments across its investment portfolio and so is often the first call for a fund manager looking to raise capital. The team monitors c 800 institutional-grade private equity funds in Europe out of the total universe of c 1,500 groups. Fund origination comprises a bottom-up analysis of regional markets across Europe at a manager level that generates a forward buy list of fund launches. This analysis is the result of significant time spent in each European country, proactively meeting managers, intermediaries and advisers to fully understand the private equity landscape from a primary and secondary investment perspective. Responsibility for the regions is allocated across the investment team to develop a strong view on the most credible managers.

Gunn notes that SL Capital's view on the macro factors is somewhat different from listed equity managers, with a focus on the longer-term private equity perspective. The SL Capital portfolio construction committee guides the investment team to markets or strategies that provide opportunity over the medium term. This top-down view is revised every quarter. He indicates a current emphasis on the Nordic countries, where substantial investment has been made over the past two years by the trust, as well as Germany, which is seen as underserved and under-penetrated by private equity. He notes the counter-cyclical view that private equity can take when markets have tough macro and political issues. The increased exposure to France is based on availability of high-quality assets at attractive valuations reflecting a tougher economic situation. This contrasts with the more neutral view on the highly competitive UK private equity market.

The increased allocation to secondaries in the current cycle allows SL Capital to target pricing dislocations or inflection points in valuation through the investment team's detailed knowledge of the managers and the underlying assets.

Asset allocation

Investment strategy

SEP's principal focus is to invest in what the manager views as the leading European private equity funds investing in mid- to large-sized buyouts, categorised as transactions with enterprise values between €100m and €2.0bn. During 2015, the board agreed to widen the EV range marginally (previously €200m and €2.0bn), enabling the manager to consider a wider range of European lower mid-market and country/regional specific managers. The aim is for the portfolio to comprise around 35 to 40 active fund investments; this excludes recently raised funds that have not yet started investing and funds that are close to or being wound up. SEP's policy is to maintain a broadly diversified portfolio by country, industry sector, maturity and number of underlying investments.

To maximise the proportion of invested assets, the manager follows an over-commitment strategy by making fund commitments that exceed the trust's uninvested capital. When making new commitments, the manager assesses available capital, the amount and timing of expected and projected portfolio cash flows and the potential use of borrowings to meet draw downs.

In the last four years, there has been greater focus by SEP on the private equity secondary market, whereby original investors sell their fund interests, which may comprise an unfunded outstanding commitment as well as invested assets. This market has developed in size and sophistication in recent years enabling SEP to buy and sell selected secondary fund interests to fine tune portfolio exposures as well as maintain capital efficiency. Secondary investments typically generate lower absolute returns, but shorter holding periods can lead to higher internal rates of return (IRRs) being achieved. The manager expects c 1.4x exit multiples with IRRs of 20% to 25% for secondary investments compared with c 1.8x exit multiples and IRRs of 17% to 18% for primary investments. Fully-invested secondary interests also have a lower risk profile than primary commitments as the underlying holdings can be evaluated prior to purchase.

SEP invests in private equity funds that themselves invest principally in Europe. However, the trust has the flexibility to invest up to 20% of its gross assets, at the time of purchase, in private equity funds that invest principally outside Europe. SEP invests only in private equity funds, but occasionally may hold direct private equity investments or quoted securities as a result of distributions in specie from its portfolio of fund investments. SEP's policy is normally to dispose of such assets where they are held on an unrestricted basis.

SEP's non-sterling currency exposure is principally to the euro and US dollar. The manager and the board do not believe it is appropriate to hedge the trust's foreign exchange exposure, given the irregularity in size and timing of individual cash flows. Any cash balances and bank debt are held in sterling, euro and US dollars, broadly in proportion to the currency of SEP's outstanding fund commitments. Cash held pending investment in private equity funds may be invested in short-dated government bonds, money market instruments, bank deposits or funds whose principal investment focus is European (including UK) listed equities.

Investment process: Bottom-up fund selection

The SL Capital Partners investment team follows a systematic, disciplined approach to investment selection, monitoring and realisation applied consistently across all its funds under management. Key investment decisions are made by an investment committee comprising six senior members of the team, chaired by Peter McKellar. The investment selection process broadly breaks down into three stages resulting in the preparation of a deal qualification memorandum (DQM), preliminary investment recommendation (PIR) and final investment recommendation (FIR). Partly dependent on the calendar of fund raisings, each year DQMs are prepared on around 100 to 150 of the c 800 institutional-grade private equity funds in Europe that are monitored and this list is narrowed to about 25 funds that reach the PIR stage. SL Capital as a whole typically commits to between 10 and 15 primary fund investments and completes at least 15 secondary transactions each year, while SEP makes around four primary and five secondary investments a year. From start to legal completion, the process can take three to six months for a primary commitment, while the timescale for secondary investments is more compressed, typically lasting between a week and a month.

Summary terms of all qualifying proposals received or identified by the investment team are entered into a database and allocated to one member of the team for review, based on existing manager and country relationships and sector experience. If a proposal is deemed to be suitably interesting a DQM is prepared, comprising a summary of the proposal together with a strengths and weaknesses analysis. The deal log and relevant DQMs are discussed at each weekly team meeting, where the decision is taken as to whether to advance the proposal to the next stage of review.

The next stage involves as many of the investment team as possible meeting key executives of the manager of the fund investment after which a PIR is prepared and all relevant material information about the proposal collated for assessment by the investment committee. Analysis at this stage includes a preliminary review of the fund investment's proposed strategy and market environment, the manager's team, economics and track record, deal attribution, techniques for value enhancement and the proposed terms of the investment.

The PIR informs the investment committee's decision on whether the proposal is investigated further. Following investment committee approval, detailed due diligence is undertaken. This includes obtaining references for the key personnel of the manager and evaluation of published data and available research reports on the sector, geography and opportunity. Regard is given to the financial strength of the manager and key limited partners in the fund investment, with counter-party risk also considered. Throughout this stage, the proposal is discussed at the investment team's weekly meetings and it may be decided at any stage not to proceed.

During the due diligence process, at least two members of the investment team visit the offices of the proposed fund investment and meet the management team. More detailed than the initial meetings, the purpose of these visits is to review the background and experience of key personnel as well as the overall investment strategy, track record, deal attribution, techniques for value enhancement and the current market environment. Where practicable, two members of the investment committee should also meet key members of the management team.

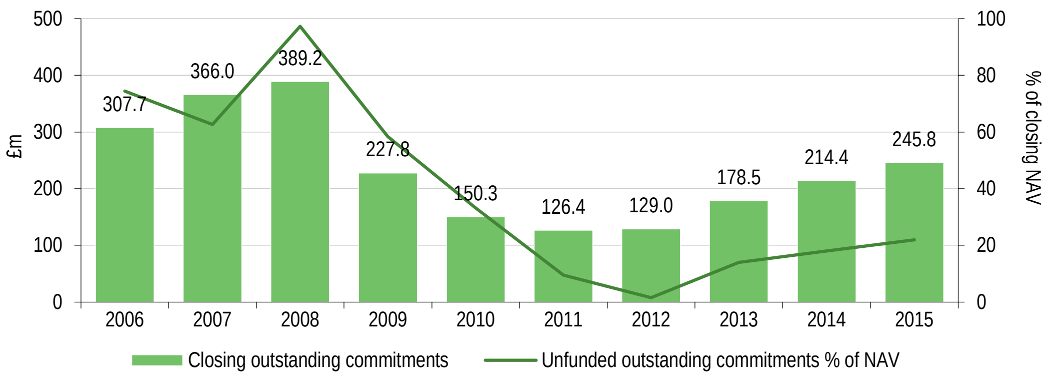
On completion of due-diligence procedures, an FIR is prepared, which follows the same format as the PIR, but is more detailed and addresses any issues raised at the PIR meeting. Following an in-depth review of the FIR and discussion with relevant members of the investment team, the investment committee makes a final investment decision.

Financial resources and commitments

The size and timing of commitments to new funds are driven by the manager's forecast of available financial resources as well as an assessment of the potential pipeline of new fund offerings. The manager's analysis of SEP's liquidity position needs to take into account the likely pace of cash inflows and projections for the drawdown of outstanding commitments.

As shown in Exhibit 2, outstanding commitments were reduced considerably in the three years following the financial crisis, but have been steadily increased each year from 2012. The level of unfunded commitments relative to NAV peaked at close to 100% during the financial crisis, while commitments reduced to a level where they were almost fully funded in 2012.

Exhibit 2: Outstanding commitments over 10 years



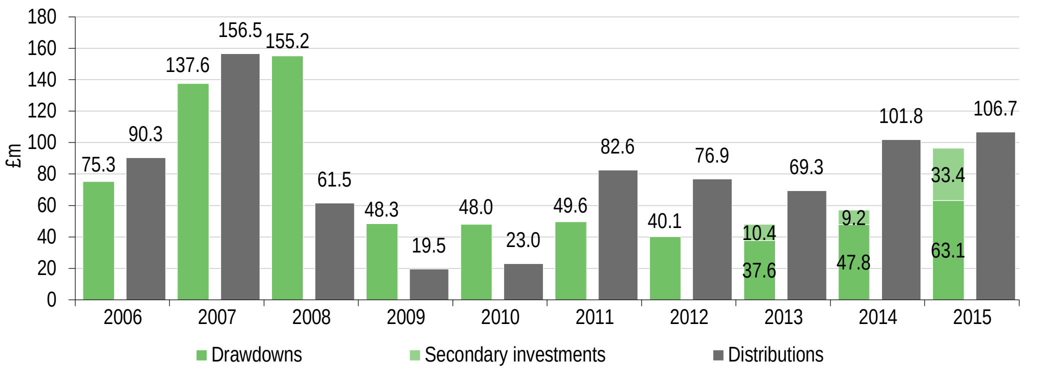
Source: SEP, Edison Investment Research

SEP made four new fund commitments during FY15, comprising €35m to PAI Europe VI, £28m to Exponent Private Equity Partners III, €35m to Bridgepoint Europe V and €30m to Equistone Partners Europe V. This brought outstanding commitments at 30 September 2015 to £245.8m, of which up to £50m was considered as unlikely to be drawn. At 31 January 2016, SEP had £238.6m of outstanding commitments and the manager believes that up to £55m of this total is unlikely to be drawn. At 31 January 2016, SEP had liquid resources of £76.0m and an undrawn credit facility of £80.0m, leaving £82.6m of total outstanding commitments unfunded of which £27.6m are expected to be drawn, representing 18.5% and 6.2% of NAV respectively.

Drawdowns, distributions and secondary investments

SEP funded £63.1m of drawdowns during FY15, ahead of the prior-year figure of £47.8m, and the manager attributes this uplift to the modest increase in outstanding commitments together with rising new investment activity in the European private equity market. Exhibit 3 illustrates the lower pace of drawdowns that SEP has experienced since the financial crisis, with distributions having materially exceeded drawdowns in each of the last five years. The manager expects a further gradual increase in the pace of drawdowns during FY16, as a result of new fund commitments and many of the underlying managers reporting steady new deal pipelines in the face of a competitive environment, against a background of strong mergers and acquisitions activity in Europe.

Exhibit 3: Drawdowns, secondary investments and distributions over 10 years



Source: SEP, Edison Investment Research

During FY15, SEP's portfolio generated aggregate distributions of £106.7m, including net realised gains of £40.7m and income of £10.9m. The manager reports that the level of distributions in the year reflected the strong exit environment for European private equity investments and notes the encouraging feature that nearly all of the individual company realisations were at a premium to the last independent valuation. The manager expects SEP to receive a meaningful level of distributions during FY16, helped by the maturity of the underlying portfolio.

With distributions materially exceeding drawdowns in recent years, the manager's strategy has been to top up existing holdings in certain funds and to fine tune the portfolio by adding exposure to particular managers or vintages through opportunistic secondary fund purchases. In FY15, this included acquiring further positions in Advent Global Private Equity VI, Cinven Fourth Fund and Permira IV, adding £24.3m of exposure to these three funds. New positions were acquired in Nordic Capital Fund VII and Permira Europe III, adding £13.5m of exposure. The manager also took advantage of strong market pricing for certain large buyout funds to rebalance SEP's portfolio and sold its interest in Apax Europe VII, realising proceeds of £21.7m and releasing SEP from outstanding commitments of £3.4m.

Recent investment activity

During the first four months of the current financial year, SEP made no new primary commitments, but, through a secondary purchase, acquired an original US$60m commitment to TowerBrook Investors III with outstanding commitments of £10.8m. The manager considers the portfolio to be well diversified by geography, sector and vintage. The purchase price for the fund interest was £19.1m, equivalent to a 6.1% discount to the most recent valuation adjusted for subsequent cash flows. The valuation of the acquired interest represents 4.6% of SEP's NAV at 31 January 2016, ranking it as a top 10 holding. While SEP had no existing commitment to this fund, it has respective commitments of US$25m and US$35m to TowerBrook Investors II and IV funds so is very familiar with the manager and investment team. Based on valuations at 30 September 2015, TowerBrook funds represent c 7.0% of SEP's NAV following this purchase.

Exit activity from SEP's mature portfolio continued through the first four months of FY16 with some strong realised returns. Distributions totalled £56.9m including £9.1m and £5.1m from Industri Kapital 2007 following the exit of Vistra Group (a top 10 underlying holding) at 2.4x cost and the exit of Solina (a top 20 underlying holding), a producer of ingredient-based solutions for the food industry, also at 2.4x cost. Other notable distributions were £8.6m from Cinven Fourth Fund following the exit of Guardian Financial Services (a top 10 underlying holding) at 4.3x cost and the exit of Avolon, an international aircraft leasing company, at 2.3x cost; £3.5m from BC European

Capital IX, primarily from the sale of North American based cable operator Suddenlink at 2.4x cost; and £2.9m from Equistone Partners Europe Fund IV, primarily from the sale of Audley Travel, a provider of tailor-made travel services, at 4.6x cost.

Drawdowns totalled just £1.8m in October and November, but the investment pace picked up in December with £15.1m drawn down including £5.0m by CVC Capital Partners VI to repay the finance facility which funded investments in Spanish olive oil company Deoleo, perimeter protection specialist Betafence and stone wool insulation provider Paroc. £2.9m was drawn down by PAI Europe VI to fund investments in Europe's largest specialty retailer of outdoor equipment and clothing AS Adventure Group and Spanish outsourcing and contact centre service provider Grupo Konecta, as well as a follow-on investment in DomusVI, a French nursing homes and services provider. £9.3m was drawn down in January 2016 including £6.0m by IK VII to fund investments in Salad Signature, a manufacturer of spreadable salads in Benelux, and CID Lines, a Belgium-based provider of innovative hygiene solutions. £3.2m was drawn down by Exponent Private Equity Partners III to fund an investment in Photobox Group, a European digital consumer service for personalised products and gifts.

Current portfolio positioning

At 30 September 2015, SEP was invested in 46 private equity funds, which collectively had interests in 471 underlying companies (excluding four secondary fund investments made in 2001 and 2005/06, there are c 300-350 'core' underlying companies). Through analysis of the underlying fund investments, the manager tracks SEP's overall portfolio exposure by geography, sector, investment maturity and value relative to original cost. This gives a top-down perspective on the timing of prospective cash flows, helping inform the manager in making new investment decisions.

Highlighting SEP's focused approach, the portfolio's top 10 fund holdings at 30 September 2015 represented close to half the net asset value of the portfolio with each fund holding 14 investments on average (see Exhibit 4). There is greater concentration of exposure to individual managers with over 80% of NAV attributable to 11 private equity managers. Top 10 underlying company holdings represent a material 15% of net asset value (see Exhibit 1), which means that individual underlying companies are able to differentiate SEP's performance from the broader private equity market.

Exhibit 4: SEP's top 10 private equity fund holdings as at 30 September 2015

							% of net assets	
Fund	Description	Vintage	Number of investments	Outstanding commitments £m	Cost £m	Valuation £m	30 Sep 2015	30 Sep 2014
3i Eurofund V	Mid- to large-sized European buyouts across a range of sectors	2006	12	1.8	21.7	34.5	7.9	8.1
Industri Kapital 2007	Northern European buyouts of businesses	2007	11	1.3	21.0	25.8	5.9	7.7
Equistone Partners Europe Fund IV	European middle market buyouts	2011	25	1.9	21.2	24.0	5.5	5.3
Advent Global Private Equity VI	Mid-market buyouts in Europe and North America	2008	21	0.7	17.2	22.9	5.2	2.9
BC European Capital IX	Buyouts of large companies	2011	13	6.1	18.3	19.8	4.5	3.6
Candover 2005 Fund	European buyouts with larger buyouts in UK market and investments in continental Europe	2005	6	N/A	40.5	18.5	4.2	5.0
Montagu IV	Northern Europe focused targeting middle market buyouts	2011	13	2.2	17.1	17.8	4.1	3.2
CVC European Equity Partners V	Focused on European medium- and large-sized buyout transactions	2008	24	1.5	16.0	17.8	4.0	5.0
IK VII	Northern European buyouts	2012	9	10.5	16.2	16.6	3.8	1.3
Terra Firma Capital Partners III	European market focus on asset-backed businesses in resilient and regulated sectors	2006	6	0.1	25.2	15.6	3.6	4.0
			140	26.1	214.5	213.2	48.7	46.1

Source: SEP, Edison Investment Research

Hansen Protection provides an example of a typical underlying portfolio investment. One of the nine holdings within the IK VII fund (one of SEP's top 10 fund holdings), Hansen Protection, is a

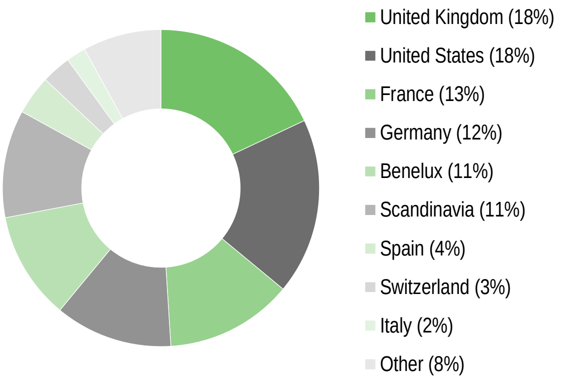
Norwegian manufacturer of advanced survival suits, which it rents to customers in the North Sea and Canada. There are four aspects to the value creation opportunity: organic growth of the existing high-margin business, development of sales and distribution networks, strategic options for non-core business areas and leveraging IK Partners' industry expertise. The IK VII fund is managed by IK Partners, who focus on Northern European defensive/recovery sectors, seeking to add value through the cycle. Sourcing deals on a proprietary basis, IK Partners has raised over €7bn since its inception in 1989, realising €11.8bn, representing an average 2.2x cost multiple on 74 investments.

SEP's portfolio diversification by geography and sector (Exhibit 5) is the result of the investment process rather than a driver as no top-down allocations are imposed. The manager reports that the approach of investing in a broad portfolio of fund interests leads to a natural diversification of the portfolio by geography and sector due to the variety of investments within each of the funds combined with the different sector and geographic specialisations of individual managers.

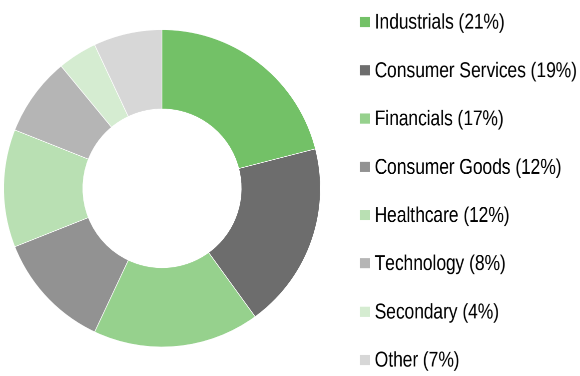
The 18% US exposure stands out given SEP's European focus. However, the manager explains that rather than representing a top-down allocation to non-European funds, this results from a number of their preferred European managers having operations outside Europe and investing a proportion of their funds in stronger investment opportunities in non-European countries, principally the US. SEP holds four secondary fund investments: Pomona Capital V, Pomona Capital VI, Coller International Partners IV and Coller International Partners V; and two buyout funds: TowerBrook Investors II and TowerBrook Investors IV, which are likely to invest a significant proportion of their capital outside Europe. These funds represented 6.3% of SEP's net assets at 30 September 2015.

Exhibit 5: Portfolio diversification by geography and sector at 30 September 2015

Geographic exposure by portfolio value



Sector exposure by portfolio value

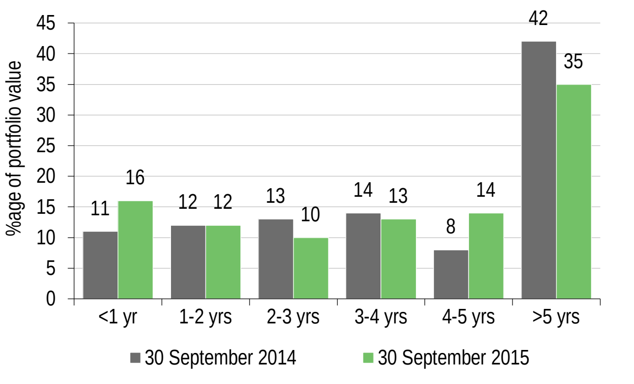


Source: SEP, Edison Investment Research

The UK remains the portfolio's largest geographic exposure although it has fallen from 64% at the time of SEP's listing to 18% at 30 September 2015 as other European private equity markets have developed and due to the manager broadening the portfolio of fund interests. Compared with a year earlier, the most significant changes in geographic exposure were 5pp and 3pp increases in Scandinavia and France largely offset by 4pp and 2pp reductions in the UK and Germany. Similar to a year earlier, the portfolio was well spread by sector at 30 September 2015 with industrials and consumer services representing the largest sector exposures. The most notable changes in sector exposure compared with a year earlier were a 5pp increase in financials and a 2pp reduction in secondary fund exposure.

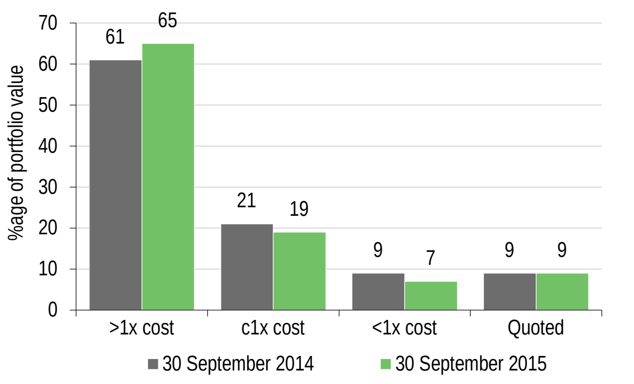
Exhibit 6 shows the maturity exposure of the portfolio's underlying investments at 30 September 2015 and highlights the relative maturity of the portfolio, which the manager attributes to the lack of new commitments made post-financial crisis between Q208 and Q211. However, the average maturity of the portfolio has decreased compared with a year earlier as pre-crisis investments have been exited and the manager anticipates that this trend will continue as a result of increased exit activity and the new fund commitments made.

Exhibit 6: Portfolio maturity profile



Source: SEP, Edison Investment Research

Exhibit 7: Portfolio investment value relative to cost



Source: SEP, Edison Investment Research

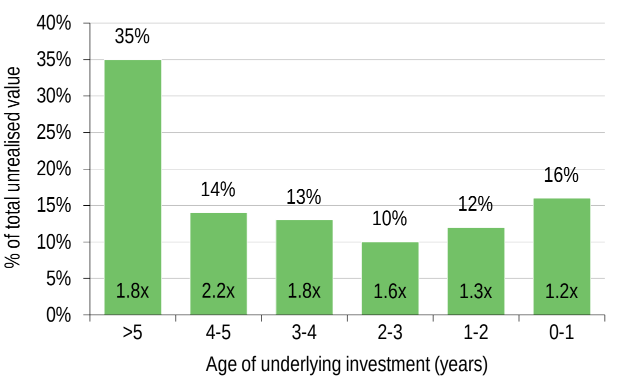
Portfolio company valuation and leverage analysis

Based on an analysis of the 50 largest underlying portfolio companies, which accounted for 47% of SEP's net assets at 30 June 2015, there is a wide spread of valuation multiples from 5x to more than 15x EV/EBITDA. While the median valuation multiple had modestly declined to 10-11x EV/EBITDA at 30 June 2015 from 11-12x EV/EBITDA at 30 June 2014, no discernible trend is evident. The manager emphasises that variations in the valuation multiple profile reflect a variety of factors including changes in the sector bias of the portfolio and the proportion of companies valued at their listed share price or expected sale proceeds.

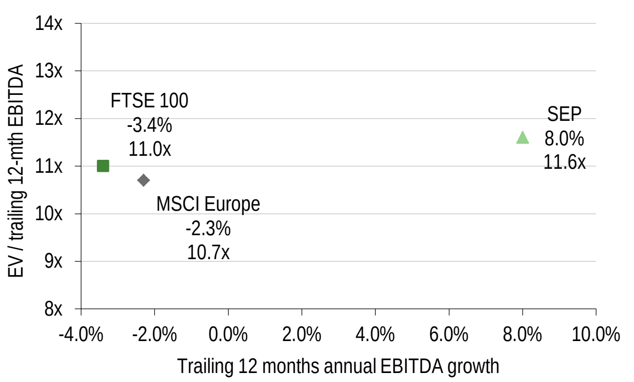
The left-hand chart in Exhibit 8 shows the valuation multiple of cost relative to investment maturity within the portfolio at 30 September 2015, indicating a steady value progression over time. The average valuation uplift on realisations of 14% achieved in FY15 and more mature portfolio investments valued at an average 1.8x multiple of cost suggests potential for exits to be completed at valuations of more than 2.0x cost. SEP's portfolio valuation of 11.6x EV/EBITDA at 30 June 2015 represented a premium to UK and European stock market valuations, however, expected earnings growth of 8.0% pa across the underlying portfolio companies contrasts with forecast earnings declines for the FTSE 100 and MSCI Europe indices (see Exhibit 8 right-hand chart).

Exhibit 8: Portfolio valuation analysis by investment maturity and comparison with public markets

Portfolio valuation multiples vs investment maturity at 30 September 2015



Portfolio valuation and growth vs public markets at 30 June 2015

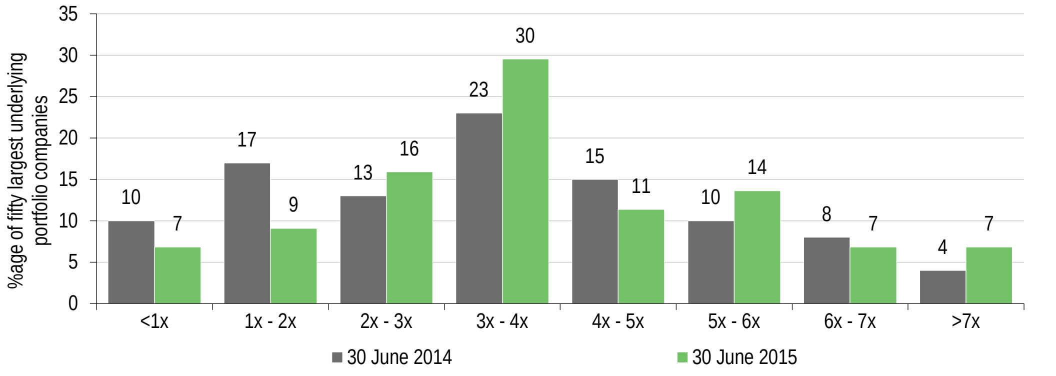


Source: SEP, Bloomberg, Datastream, Edison Investment Research

Exhibit 9 shows the leverage multiple profile of SEP's portfolio at 30 June 2015 compared with a year earlier, also based on the 50 largest underlying portfolio companies at each date. Similar to the valuation multiple analysis, there is a wide range of leverage multiples at both dates with no obvious trend evident, while the median multiple was 3-4x debt/EBITDA at both 30 June 2015 and 30 June 2014. The manager notes that the median multiple had risen to 4-5x debt/EBITDA at 31

December 2014 with the subsequent decline in part reflecting robust trading and debt paydown at a number of underlying portfolio companies.

Exhibit 9: Debt/EBITDA multiple analysis of 50 largest underlying portfolio companies



Source: SEP, Edison Investment Research

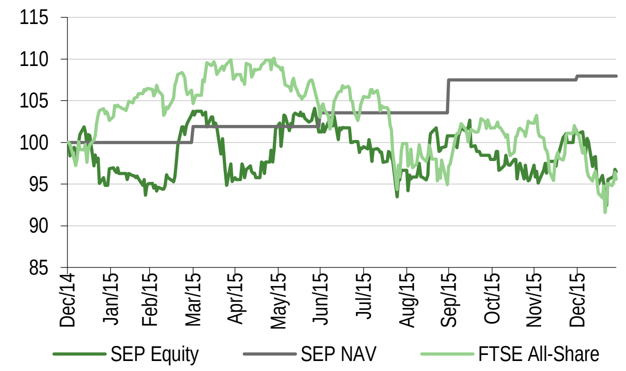
Overall the manager believes these valuation and leverage multiples are in line with the European private equity market for similar-sized deals and vintages.

Performance: Outperforming peers over 10 years

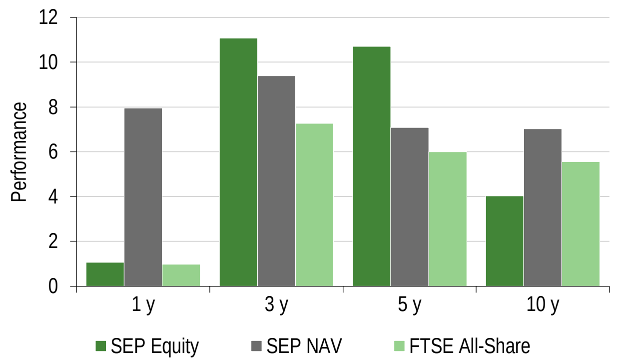
As shown in Exhibit 11, SEP's NAV total return has outperformed the LPX 50 index NAV over one, three and 10 years while marginally underperforming over five years. Compared with the LPX Europe index, SEP's NAV total return has outperformed over all time periods shown. SEP's weaker price total return performance compared with the LPX 50 index over one and three years reflects short-term fluctuations in both SEP's discount and the LPX 50 index discount (see Exhibit 16) rather than any longer-term trend. Exhibit 10 illustrates SEP's NAV total return outperformance of the FTSE All-Share Index over one, three, five and 10 years. While SEP's NAV steadily gained during 2015, its share price appears to have been significantly influenced by broader market sentiment, achieving a similar performance to the FTSE All-Share Index over the 12 months to 31 December 2015. Exhibit 12 serves to illustrate that since the global financial crisis, SEP has delivered a similar performance to global listed private equity peers represented by the LPX 50 index, with a modestly outperforming trend evident over the last three years. While SEP witnessed a weaker performance relative to the LPX Europe index during the financial crisis, subsequent outperformance of European peers has been stronger than against global peers.

Exhibit 10: Investment trust performance to 31 December 2015

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



Price, NAV and index total return performance (%)



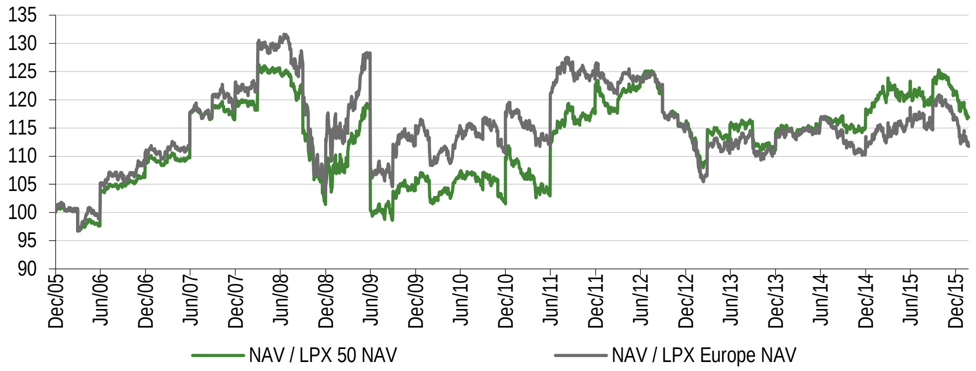
Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: Three, five and 10-year performance is annualised.

Exhibit 11: Share price and NAV total return relative performance, versus indices

	One year	Three years	Five years	10 years
Price relative to FTSE All-Share	0.1	11.0	24.2	(13.6)
Price relative to MSCI Europe	(2.2)	7.2	25.6	(13.5)
Price relative to LPX 50	(4.5)	(10.1)	6.6	6.1
Price relative to LPX Europe	(12.1)	(14.8)	8.9	(8.0)
NAV relative to LPX 50 NAV	2.9	1.0	(1.0)	16.7
NAV relative to LPX Europe NAV	2.6	5.1	10.6	21.5

Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: Data to end-December 2015. Geometric calculation.

Exhibit 12: NAV performance relative to LPX 50 and LPX Europe NAV indices over 10 years



Source: Thomson Datastream, Bloomberg, Edison Investment Research

Non-sterling currency exposure is not hedged and, with the majority of investments being euro-denominated, fluctuations of the euro against sterling can have a material effect on reported NAV performance. Exhibit 13 shows a comparison of SEP's share price and NAV total return performances over one, three, five and 10 years in sterling and euro terms. This highlights the effect of the recent euro weakening against sterling, which has weighed on SEP's sterling-denominated performance over one, three and five years (the euro weakened by 5.9%, 10.9% and 16.6% over these periods). In contrast, the euro's 4.8% rally versus sterling in December 2015 was the primary driver of the 4.1% increase in estimated NAV during the month.

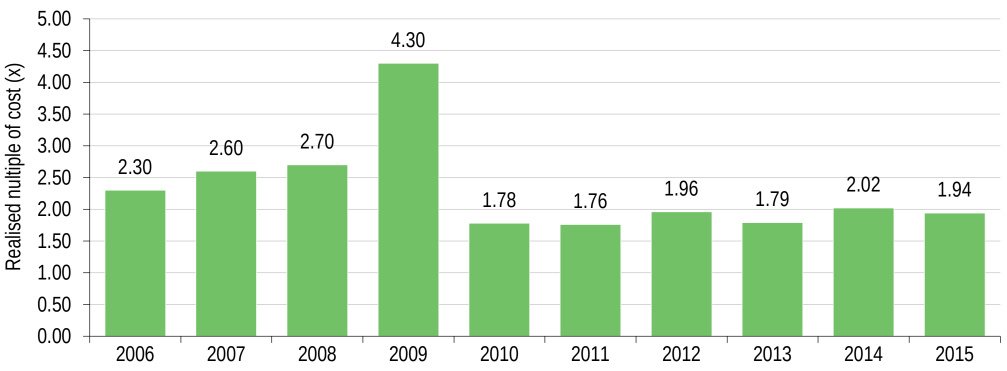
Exhibit 13: Comparison of SEP's performance in sterling and euro terms

	One year	Three years	Five years	10 years
SEP NAV total return £	8.0	30.9	40.8	97.1
SEP NAV total return €	14.4	45.2	64.1	84.3
SEP share price total return £	1.1	37.0	66.2	48.4
SEP share price total return €	7.1	52.0	93.8	38.7

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-December 2015.

While not matching returns achieved from 2006 to 2009, SEP's more recent realised investment returns relative to acquisition cost since 2010 have maintained a consistent level (see Exhibit 14).

Exhibit 14: Average realised return as a multiple of acquisition cost over 10 years



Source: SEP, Edison Investment Research

Discount: Recent widening

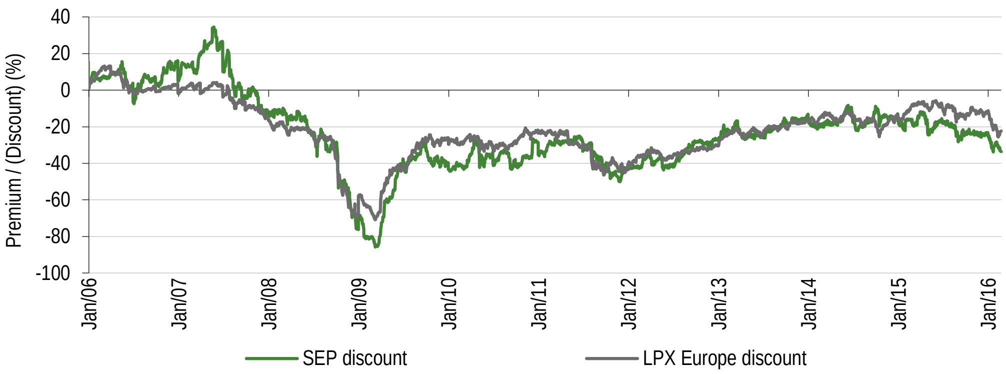
As illustrated in Exhibit 15, SEP's share price discount to NAV narrowed from 50% in November 2011 to 10% in June 2014 since when it has followed a widening trend. Although standing close to the mid-point of its five-year range, the current 32.7% discount represents its widest level for three years, suggesting scope for it to narrow once investor sentiment improves.

Exhibit 15: Share price discount to NAV over five years (%)

Source: Thomson Datastream, Edison Investment Research.

Private equity funds in general tend to trade at wider than average discounts compared with the broader investment company universe due to the illiquidity of underlying investments and relative lack of transparency (see Appendix: Private equity market background). Exhibit 16 illustrates the extreme widening of discounts in 2008 during the global financial crisis when levels of gearing and commitments fed expectations of sharp NAV write-downs. This experience may still colour market views but both leverage and commitments generally and at SEP are much more conservatively managed while trading at SEP's underlying investee companies is reported to be resilient.

Exhibit 16: SEP discount vs LPX Europe index discount over 10 years



Source: Thomson Datastream, Bloomberg, Edison Investment Research

SEP's share price discount to NAV has followed a broadly similar trend to the LPX Europe index discount over the last 10 years, suggesting the more recent widening is largely a reflection of wider market sentiment rather than being specific to SEP. The trust's current discount stands 11.3pp wider than the LPX Europe index discount compared with a 2.5pp five-year average differential.

Capital structure and fees

SEP has 155.8m ordinary shares in issue after repurchasing 3.1m shares for cancellation during the financial year to 30 September 2015, representing 2.0% of the outstanding share capital. This followed the repurchase of 2.0m shares in FY13 and 6.3m in FY14, representing 1.2% and 3.9% of shares in issue respectively. No shares have been repurchased in the current financial year. There are no other classes of shares, warrants or options to subscribe for equity shares outstanding. The board views share repurchases as part of its strategy in relation to capital efficiency and buy-backs are compared to new fund commitments, secondary fund purchases and the payment of dividends.

In September 2015, SEP signed an £80m credit facility with Citi and Société Générale that has a margin of 1.50% to 1.70%, a commitment fee of 0.70% and runs to December 2020, replacing an equivalent facility with less favourable terms. At 31 January 2016, the facility was undrawn and SEP had £76.0m in liquid resources, comprising £38.4m in cash and £37.6m invested in European and UK equity index tracker funds, giving a 17.0% net cash position.

SEP pays SL Capital a management fee of 0.8% pa of net assets. In addition, a 10% incentive fee is payable on the NAV total return in excess of an 8% pa hurdle rate, measured over the five-year period ending 30 September 2016. For the four-year period to 30 September 2015, NAV total return was 7.2% pa leaving an 11.2% required return for the year ending 30 September 2016 to reach the hurdle. For FY15, excluding indirect fund fees, the ongoing charge was 0.98% of net assets.

Dividend policy

Since listing in 2001, the board's strategy had been one of reinvestment and to pay a dividend marginally in excess of the minimum 85% of revenue income required to maintain investment trust status. The board reviewed this strategy in FY14 and decided to modify its approach to reflect better the importance many shareholders place on the reliability of income. Emphasising the overall approach to capital discipline, barring unforeseen circumstances and the impact of the broader market cycle on income received, the board stated its intention to at least maintain the real value of FY14's 5.0p dividend, noting that the strength of SEP's balance sheet, not least its level of reserves, will be used as appropriate to support this modified strategy.

The board declared an interim dividend for the first time in FY15, which amounted to 1.75p and was paid in July 2015. A dividend reinvestment plan has also recently been introduced, available from the FY15 final dividend distribution in January 2016. The final dividend for FY15 of 3.5p brings the total dividend for FY15 to 5.25p representing a 5% increase from FY14's 5.0p dividend. For comparison, the UK CPI increased by 0.1% for the year to 30 November 2015 with RPI rising by 1.1% over the same period. The board has confirmed that, subject to unforeseen circumstances, its intention remains to at least maintain the real value of the dividend in future years.

Peer group comparison

Exhibit 17 shows a comparison of SEP with a selected peer group of listed private equity fund of funds and direct investment companies. SEP is differentiated by its c 60:20:20 split between continental Europe, the UK and the US, placing it roughly midway between typical European and global funds in terms of geographic exposure. SEP's NAV total return in sterling terms to 31 December 2015 is moderately below the peer group average over the time periods shown. Recent euro weakness has weighed on SEP's performance relative to UK and global peers; over one, three and five years, the euro declined by 5.9%, 10.9% and 16.6% against sterling and SEP's NAV total returns were 14.4%, 45.2% and 64.1% in euro terms. The widening of SEP's share price discount to NAV from 18% to 25% over the year to 31 December 2015 was a contributing factor to the weaker price total return performance. SEP's discount currently stands at the wider end of the peer group, modestly wider than the 29% average excluding funds trading at a premium. SEP's 2.7% yield ranks it at the lower end of the eight dividend-paying funds in the peer group of 13.

Exhibit 17: Listed private equity investment companies peer group as at 31 December 2015

% unless stated	Region	Mkt cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Price TR 1 Year	Price TR 3 Year	Price TR 5 Year	Price TR 10 Year	Discount (ex-par)	Dividend yield (%)
Standard Life Euro Private Eq	Europe	300.7	8.0	30.9	40.8	97.1	1.1	37.1	66.2	48.4	(32.7)	2.7
Aberdeen Private Equity	Global	91.7	12.1	31.0	53.9		5.8	37.6	40.8		(36.8)	2.3
Altamir	Europe	273.1	4.5	26.6	41.5	102.7	7.6	56.7	76.1	91.4	(44.0)	5.2
Deutsche Beteiligungs	Europe	284.5	13.5	38.7	43.1	260.9	18.4	62.3	62.4	385.8	15.2	3.6
F&C Private Equity Trust	Global	162.7	12.2	32.6	49.6	145.6	16.5	50.9	125.0	117.3	(24.2)	4.8
GIMV	Global	856.1	2.9	9.5	1.8	57.6	20.7	27.7	22.9	82.4	3.0	4.1
HarbourVest Global Priv Equity	Global	715.4	13.6	56.0	85.7		15.6	92.1	149.4		(18.7)	
ICG Enterprise Trust	UK	383.0	7.5	27.1	56.9	104.4	6.3	40.4	114.2	86.6	(26.5)	2.9
JPMorgan Private Equity	Global	219.7	10.2	24.1	3.0	35.9	22.3	65.0	(1.9)	(0.2)	(25.3)	
NB Private Equity Partners	Global	0.0	10.3	51.2	62.9		2.4	71.7	83.9		(28.2)	
Oakley Capital Investments	Europe	277.1	(1.0)	9.9	18.5		(6.8)	5.5	(1.0)		(27.0)	
Pantheon International	Global	772.1	9.5	37.4	69.4	115.6	3.8	49.0	110.4	73.8	(31.3)	
SVG Capital	Global	770.1	21.0	61.2	99.6	(3.1)	11.4	71.1	133.7	(29.8)	(26.4)	
Average		392.8	9.6	33.5	48.2	101.9	9.6	51.3	75.5	95.1	(23.3)	3.7

Source: Morningstar, Edison Investment Research. Note: TR = total return. All returns expressed in sterling terms. Market cap, discount and dividend yield as at 22 February 2016.

The board

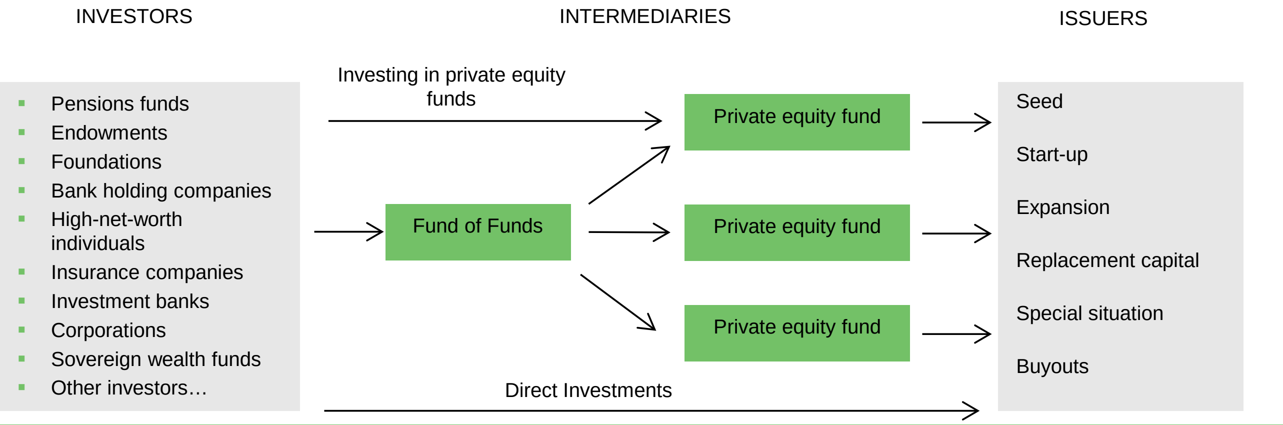
SEP's board comprises five independent non-executive directors. Chairman Edmond Warner (appointed director November 2008, chairman January 2013) has been a top-ranked investment strategist in institutional investor surveys; he is also chairman of investment bank Panmure Gordon & Co and online derivatives exchange LMAX, and a director of Grant Thornton UK and BlackRock Commodities Income Investment Trust. Senior Independent Director Christina McComb (appointed January 2013) has wide experience of investing in early-stage growth companies having spent 14 years with 3i Group. David Warnock (appointed January 2009) co-founded Aberforth Partners where he was a partner for 19 years; he is also chairman of Troy Income & Growth Trust and a director of Seneca Investment Managers. Alastair Barbour (appointed April 2011) is a chartered accountant and former partner of KPMG with extensive experience in advising on accounting, financial reporting and corporate governance; he is also a director of RSA Insurance Group, Phoenix Group Holdings and Liontrust Asset Management. Alan Devine (appointed May 2014) has a wide experience in both commercial and investment banking and is CEO of RBS Shipping Group, having spent 37 years with Royal Bank of Scotland Group.

Appendix: Private equity market background

Private equity is a form of funding that enables companies to access capital without seeking a stock market listing. Broadly, the finance available falls into three areas: venture capital, funding start-ups and early-stage companies; growth capital, to fund expansion; and buyout financing, which enables a change of ownership of an existing company, often taking it into the hands of its managers (management buyout). Private equity funding may also be used in situations such as replacement capital (for example, where a founding shareholder wishes to realise their investment), or 'special situations' such as rescuing and restructuring companies in financial distress.

This type of direct private equity investment is usually undertaken by specialist firms, which may offer expertise as well as investment, helping to refocus or restructure businesses through operational and/or board involvement. These firms, known as general partners (GPs), may structure portfolios of their investments as a fund, typically with a fixed life and containing a mix of investee companies. Such funds are usually structured as limited partnerships and the investors in them are known as limited partners (LPs). Sometimes private equity investments may be sold in the market rather than being held by the GP until maturity; this is known as a secondary investment.

Exhibit 18: Private equity market schematic



Source: The CityUK, Federal Reserve Bank of Dallas, EVCA/Thomson Reuters/PricewaterhouseCoopers

In comparison to listed equities, private equity is relatively illiquid. Funds are committed by the GP for a set time, and may not all be drawn at the outset, so further funding commitments may exist. In addition, underlying holdings are valued periodically, usually quarterly, so a time lag is inherent in the NAV of a listed private equity fund. The trade-off for illiquidity and relative lack of transparency is the greater growth potential of earlier-stage companies or those undergoing transformation, although equally, less established companies or those with a troubled history will carry a higher level of risk. While these risks cannot be mitigated entirely, investing via a listed private equity fund of funds can give the smaller investor access to a more diversified portfolio and the benefit of a team of experienced investors choosing and monitoring the underlying holdings.

The size of minimum investment required from an LP puts these vehicles out of reach of most individual investors, although as shown in Exhibit 18 above, they may be accessed by pension funds and other institutional investors. Individual investors can access the asset class by investing in a listed private equity fund. Listed funds benefit from having a permanent pool of capital that allows the formation of a stable portfolio without the need to sell investments to meet redemption requests. The corollary to this is that when demand for such strategies is low, investors who wish to sell may have to settle for a price significantly below the underlying asset value. Listed private equity funds may make investments directly or in a portfolio of underlying funds (fund of funds) and SEP is an example of a listed private equity fund of funds.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place,
88 Phillip Street, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand