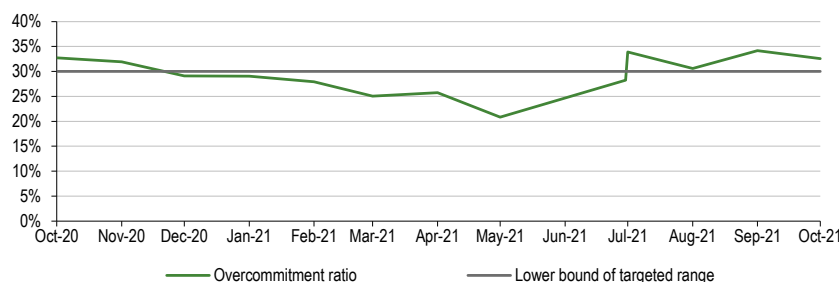


Standard Life Private Equity Trust

Increasing its investment level

Standard Life Private Equity Trust (SLPET) recorded a NAV total return of 11.7% in the quarter ended 30 June 2021 (last date of portfolio valuations). SLPET benefited from improving public market multiples, driving unrealised portfolio gains to £72.2m (representing c 8.2% return), as well as strong realisations. The average uplift on exits in the quarter reached 29.3%, translating into an average multiple on invested capital of 3.2x. Based on the last reported NAV estimate as at end-October 2021, reflecting end-June 2021 portfolio valuations adjusted for subsequent FX movements and dividend payments, SLPET reported a one-year NAV TR of 36.7%, above the 35.4% return posted by the FTSE All-Share index and 25.6% by the LPX Europe NAV index, used as a broad PE market reference.

Overcommitment ratio returns to 30–75% target range



Source: Standard Life Private Equity Trust, Edison Investment Research

Why invest in SLPET now?

The significant pick-up in M&A and IPO activity, which started in H220, has driven strong and profitable realisation activity in SLPET's general partners (GPs) and cash distributions to SLPET. Consequently, the best-performing GPs continue to deliver attractive long-term returns and SLPET benefits from its selection of high-conviction GPs with which it has longstanding relationships. Moreover, it has a well-balanced portfolio in terms of cyclical and non-cyclical sectors, with combined tech and healthcare exposure at end-June 2021 of 39%.

The analyst's view

SLPET's investment activity has picked up in the recent months, with a notable volume of co-investments of £53m in the second half of the financial year 2021 (ended 30 September 2021), or c 25% of new commitments/investments in the period. As a result, its overcommitment ratio reached 33% at end-October 2021 (versus 25% and 28% at end-March 2021 and end-June 2021, respectively), which is already in line with management target of 30–75% (although closer to the lower bound). At end-October 2021, SLPET held liquid resources amounting to £37.6m. Together with the fully undrawn £200m syndicated credit facility, it represents a robust coverage ratio of outstanding commitments of 44%. On 29 October 2021, SLPET made its third interim dividend payment for FY21, amounting to 3.4p per share, which constitutes an annualised yield of 2.6%, assuming a dividend for the year of 13.6p.

Investment trusts Private equity funds

3 December 2021

Price 520.0p
Market cap £800m
AUM £969m

NAV* 613.0p
Discount to NAV 15.2%

*Including income. As at 31 October 2021.

Yield 2.6%
Ordinary shares in issue 153.7m
Code/ISIN SLPE/GB0030474687
Primary exchange LSE
AIC sector Private equity
52-week high/low 531.9p 345.0p
NAV* high/low 627.1p 479.8p

*Including income.

Gross gearing* 0.0%
Net cash* 4.0%

*As at 31 October 2021.

Fund objective

Standard Life Private Equity Trust's (SLPET) investment objective is to achieve long-term total returns through holding a diversified portfolio of private equity funds and direct investments into private companies alongside private equity managers ('co-investments'), a majority of which will have a European focus.

Bull points

- Focus on top-performing European private equity managers.
- Experienced investment team with strong private equity manager relationships.
- Increasing share of direct co-investments should reduce costs on a look-through basis.

Bear points

- Ample dry powder in the market translating into high competition for quality assets.
- High valuations in most resilient sectors.
- Changes to sector exposure take more time due to SLPET's fund-of-fund structure.

Analyst

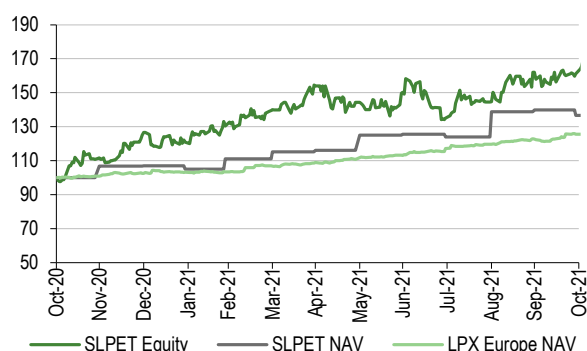
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Strong equity markets support valuation multiples

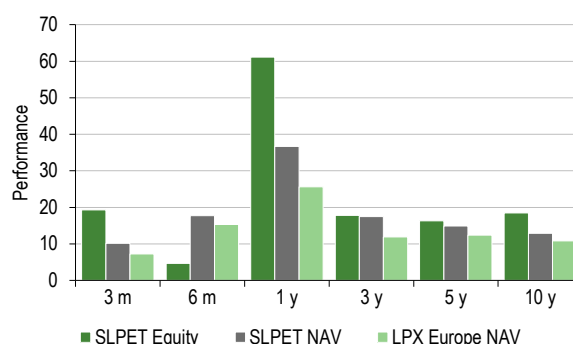
As at end-October 2021, the estimated NAVPS amounted to 613.0p, which translates into a one-year total return of 36.7%, compared to 35.4% recorded by the FTSE All-Share Index (official benchmark) and 25.6% posted by the LPX Europe NAV index, which we use as a broad PE market reference. However, we note that all SLPET's portfolio holdings were last valued at 30 June 2021 (except for new investments completed after that date) and its NAV has been adjusted for subsequent FX movements and dividend payments.

Exhibit 1: Price, NAV and index TR performance, one-year rebased, to end-October 2021



Source: Refinitiv, Edison Investment Research. Note: SLPET NAV data stream consists of actual figures for quarter-ends and NAV estimates for the remaining months.

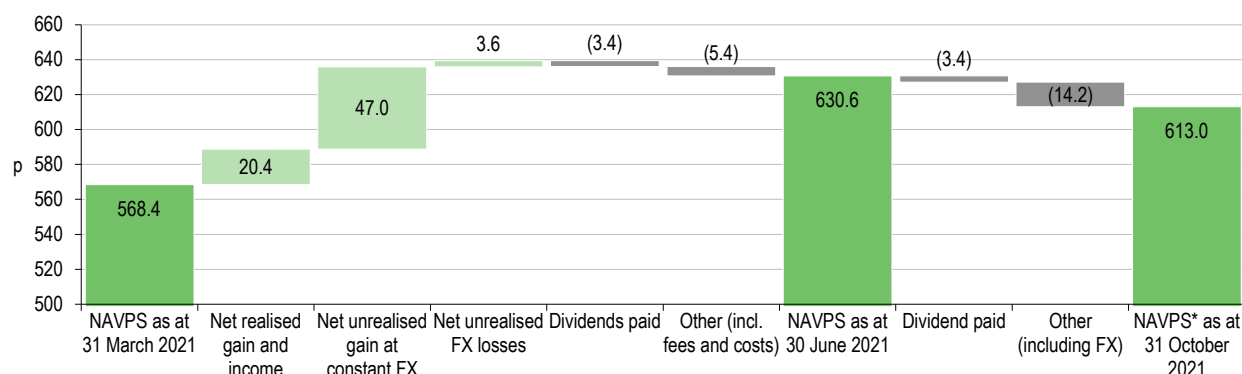
Exhibit 2: Price, NAV and benchmark TR performance (%), to end-October 2021



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

The last reported actual NAV (dated 30 June 2021) of 630.6p implies a 36.9% one-year total return and 11.7% TR in Q3FY21 (SLPET's financial year ended on 30 September 2021). The robust three-month performance was primarily driven by an increase in the valuation of existing underlying holdings, representing a c 8.2% return, including positive foreign exchange effects, contributing 0.6% to the improvement. It was further assisted by healthy revaluations of exited underlying investments, with the £45.4m distributions received in Q321 resulting in a £31.3m net realised gain, or 3.2x acquisition cost multiple. We also note that the average valuation uplift on exit in the quarter reached 29.3%.

Exhibit 3: NAV per share development in Q321 and to end-October 2021



Source: Standard Life Private Equity Trust, Edison Investment Research

Strong NAV expansion, coupled with favourable public market dynamics, resulted in SLPET's impressive one-year share price total return of 61.1% as at end-October 2021. As the share price rally continued in November, the current discount to NAV amounts to 15.2%, which is narrower than the one-year and three-year averages of 19.9% and 21.7%, respectively.

Recent returns broadly in line with other PE funds-of-funds

We continue to compare SLPET's performance with a peer group including PE funds-of-funds, putting more emphasis on mid- to long-term performance, which not only better aligns with a PE investment horizon, but also limits the impact of different asset valuation dates and, consequently, FX changes. We note that the entire SLPET portfolio and the majority of its peers' holdings were revalued as at end-June 2021 and adjusted for subsequent FX movements. Based on the last reported figures, SLPET's three-year NAV TR of 62% ranks it in the middle of the peer group, although sitting below the group average of 70.9%. Its five-year NAV return is at the lower end of the peer range, but still represents a very robust return of c 100%, significantly ahead of the LPX Europe NAV Index over the period (79.2% NAV TR in sterling terms), which we consider a good indicator of the broad European PE market. The company has also outperformed the index in the ten-year period, posting a total return of 236.4% (vs 180.2%), which ranks fourth within the peer group, sitting slightly below the average return of 249.4%.

We note that SLPET's exposure to co-investments (11%) is currently below peer average of 28%, according to our calculations. As these are not subject to a two-layer fee structure, further growth of SLPET's co-investments portfolio could further enhance the company's performance.

SLPET's shares are trading at a 15.2% discount to NAVPS, which is narrower than the peer group average of 18.4%, with limited deviations among the group. The company's dividend yield reached 2.6%, which is slightly below the average of the other two dividend paying peers of 2.8% (the average of the whole group is 1.4%).

Exhibit 4: Selected peer group as at 19 November 2021*

% unless stated otherwise	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Standard Life Private Equity Trust	799.5	36.7	62.0	100.4	236.4	1.14	No	(15.2)	96	2.6
BMO Private Equity Trust	344.2	57.1	79.0	119.3	247.0	1.30	Yes	(20.8)	112	3.7
HarbourVest Global Private Equity	2,164.3	54.5	96.2	152.6	295.0	1.29	Yes**	(16.1)	100	0.0
ICG Enterprise Trust	856.5	37.5	57.2	111.3	213.3	1.50	Yes	(17.9)	100	1.9
Pantheon International	1,732.9	31.0	51.3	89.2	242.5	1.22	Yes	(18.6)	100	0.0
Peer average	1,274.5	45.0	70.9	118.1	249.4	1.33	-	(18.4)	103.2	1.4
Rank in peer group	4	4	3	4	4	5	-	1	3	2

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). *12-month performance based on latest available ex-par NAV: SLPET, Pantheon and HarbourVest – end-October; BMO Private Equity Trust – end-September; ICG Enterprise Trust – end-July. **No performance fee is charged at the HVPE level, but it is charged on the HarbourVest secondary and direct funds.

Investment activity pick-up in H221

SLPET's investment activity has accelerated recently, as new commitments in H221 amounted to c £211m, according to our calculations, which represents a more than twofold increase on the H121 total of £88.4m. This consists of £112m primary investments, £46m secondaries and £53m co-investments. This brought SLPET's outstanding commitments as at end-FY21 to £559.5m, which slightly decreased in October 2021 to £544.7m (of which £42.2m commitments were considered by the investment manager as unlikely to be drawn), as the company completed new investments amounting to another £24m in that month.

Primary investments focused on technology and healthcare

In June 2021, SLPET made two US\$35m primary commitments to **Permira Growth Opportunities II** and **Excellere Capital Fund IV**, with the former targeting smaller, technology growth companies, while the latter focuses on founder-led, lower mid-market companies in North America from business services, healthcare and industrial sectors. In the same month, the company announced a €30m primary investment in **Nordic Capital Evolution Fund I**, which operates mainly in northern

Europe, selecting non-cyclical growth opportunities within the healthcare, technology & payments and financial services sectors.

In July 2021, SLPET committed US\$31.5m to **Advent Global Technology II fund**, focused on smaller technological companies and co-investments in larger deals alongside other Advent-managed funds. We note that the targeted fund volume amounts to US\$3bn just two years after the first Advent Global Technology fund collected US\$2bn, which confirms the strong market sentiment towards IT businesses. The healthcare sector targeted by **Archimed MED III** fund, to which SLPET made a €15m commitment in July, continues to attract investor interest. We note that the fund was well oversubscribed, as it closed the fund-raising process within two months at €650m hard cap (versus the original target of €500m).

In October 2021, the first month of SLPET's FY22, the company committed another €20m to **Capiton VI** fund, participating in a final close of a fund launched in 2020. It has already invested in CEDES, a sensor producer, MiP Pharma Group, an international manufacturer and distributor of generic pharmaceuticals with particular emphasis on anti-infectives, and Wundex, a German medical and physiotherapy company.

Selected secondary investments

In H221, SLPET was also active in the secondaries market, as it sold interests in Equistone Partners Europe Fund III and Terra Firma Capital Partners III in June for a combined total of €1.3m. It was followed by a US\$62.5m investment in Structured Solutions IV Primary Holdings with initial funding of US\$38.4m paid at the end of the month. The transaction's goal was to provide necessary diversification through the acquisition of a stake in a balanced portfolio of recent vintage large-cap buyout funds in Europe and North America. Finally, in October 2021, SLPET sold its interest in Equistone Partners Europe Fund VI for €18.2m while there was still €14.2m in outstanding commitments prior to the date of sale.

Building co-investment volume

In H221, SLPET conducted a number of co-investments amounting to c £53m, which constitutes c 25% of all new commitments/investments (including secondaries) made in the period. This brings it closer to reaching the mid-term target of a c 20% share of co-investments in portfolio NAV. We estimate that the end-FY21 exposure could have reached 11%, which is slightly above management's expectation of 8–10%. Having said that, we note that our estimate is based on the end-June 2021 valuation of portfolio holdings.

In June 2021, SLPET made a €4.9m co-investment in **KD Pharma**, the largest Omega-3 pharma producer worldwide, with 11 offices in eight countries and a portfolio consisting of more than 1,000 pharmaceutical and nutrition products. In July, SLPET completed three co-investments worth €10m each. These include **Wundex** (see above) and **Questel**, a software publisher and service provider for intellectual property, trademark law and innovation sectors as well as an undisclosed consumer health business. The following month, SLPET made a €10.5m commitment to Eurazeo Payment Luxembourg Fund SCSp, a single asset vehicle holding an investment in the global integrated payment provider **Planet**. It was followed by a US\$10m co-investment in **Insightsoftware**, a leading 'office of the CFO' software provider. Finally, in September 2021, SLPET made a €7.9m co-investment in **Riskalyze**, a US provider of risk tolerance software for financial advisors.

We note that the company has continued momentum into FY22, starting the financial year with a £4.2m co-investment in **SportPursuit**, a flash sale e-commerce business selling clearance stock from leading sports and outdoor brands, and €7.5m in **SuanFarma**, a manufacturer, CDMO and distributor of active pharmaceutical and nutraceutical ingredients, in October 2021.

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