

HarbourVest Global Private Equity

Accessing global megatrends in private markets

HarbourVest Global Private Equity (HVPE) offers broad, selected exposure to leading private equity managers globally, and has a highly diversified underlying portfolio. HVPE celebrated its 10th anniversary in December 2017, and its 10-year sterling NAV total return of 12% pa is ahead of its global listed equity benchmark's 10% pa return, as well as the 6% pa return of the LPX 50 Index, representing its global listed private equity peers. However, an 11% gain in sterling versus the US dollar (HVPE's functional currency) has weighed heavily on its one-year sterling returns. Looking ahead, HVPE believes its unique access to HarbourVest funds should enable it to capture the opportunities created by key global megatrends that are expected to dominate private markets over the next 10 years.

12 months ending	Share price (GBP %)	NAV (GBP %)	Blended benchmark* (GBP %)	FTSE All-World (GBP %)	LPX 50 (GBP %)	LPX 50 NAV (GBP %)
28/02/14	10.0	5.9	7.6	7.4	17.1	4.0
28/02/15	34.9	20.9	17.2	17.5	8.8	7.8
29/02/16	5.3	16.3	(2.2)	(2.1)	(2.9)	12.9
28/02/17	34.9	22.8	37.6	37.7	39.9	21.9
28/02/18	1.2	4.1	7.8	7.8	9.3	9.4

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: Diversified global fund of funds

HVPE's manager 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. HVPE invests at a steady pace into primary and secondary funds as well as direct co-investments. Allocations are based on five-year strategic targets (revised in February 2018), to achieve a spread of exposure by vintage, investment stage (mainly buyout, venture and growth equity), geography and industry. Aiming to achieve long-term capital growth ahead of global listed equities, HVPE does not pay a dividend, instead reinvesting cash into new opportunities.

Market outlook: Three future global megatrends

Over the 10 years since its inception, alongside investments in more traditional private companies, HVPE has invested early in disruptive technologies emerging from the rapid development of the internet and smartphones, and can highlight the success of numerous leading private companies such as Facebook and Uber. HarbourVest's investment team sees technological advance, demographic shifts and the global role of China as key global megatrends in private markets for the next 10 years, and HVPE believes that its unique access to HarbourVest funds should enable it to gain exposure to many of the opportunities created.

Valuation: Discount wider than one-year average

HVPE's discount narrowed from its five-year wide point of 33.7% at the end of June 2016 to its five-year low of 9.6% in May 2017, and has since widened moderately. The current 18.8% discount is wider than its 16.0% one-year average, although narrower than its 19.7% and 20.7% three- and five-year averages.

Investment companies

16 March 2018

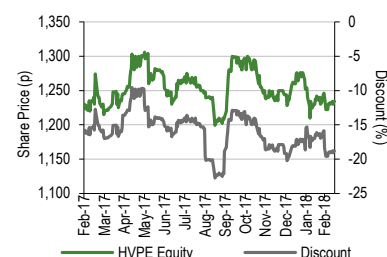
Price 1,234p
Market cap £986m
NAV* £1,214m

NAV per share* 1,520p
Discount to NAV 18.8%

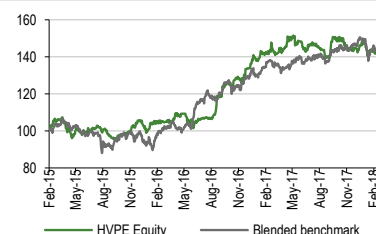
*Estimated by HVPE as at 28 February 2018.

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 1,306p 1,199p
NAV* high/low 1,552p 1,441p

*Including income.

Gearing

Gross* 0.0%
Net cash* 14.8%

*As at 28 February 2018.

Analysts

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[Edison profile page](#)

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 that aims to deliver long-term capital appreciation, while avoiding undue risk, by investing in a global portfolio of private equity investments diversified by stage, geography, strategy and industry.

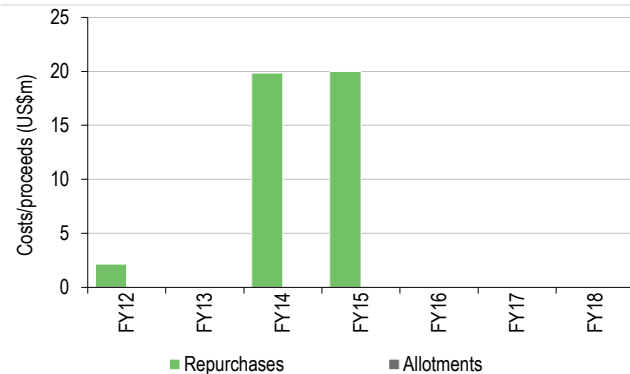
Recent developments

- 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.
- 28 September 2017: Interim results to 31 July 2017. NAV total return +0.5% in £ and +5.3% in US\$. Share price total return +6.3% in £ and +11.4% in US\$.
- 12 May 2017: Full-year results to 31 January 2017. NAV total return +24.8% in £ and +10.3% in US\$. Share price total return +37.2% in £ and +21.1% in US\$.

Forthcoming		Capital structure		Fund details	
AGM	July 2018	Ongoing charges	2.17% (FY17)	Group	HarbourVest Partners LLC
Full-year results	May 2018	Net cash	14.8%	Manager	HarbourVest LP
Year end	31 January	Annual mgmt fee	1.08% (FY17)	Address	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT
Dividend paid	N/A	Performance fee	Only paid at underlying fund level	Phone	+44 (0)1481 702 400
Launch date	6 December 2007	Company life	Indefinite	Website	www.hvpe.com
Continuation vote	N/A	Loan facilities	US\$500m		

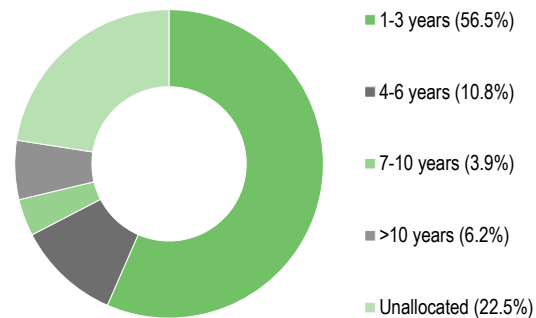
Share buyback policy and history (financial years)

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 realisation of Absolute and Conversus co-investments.

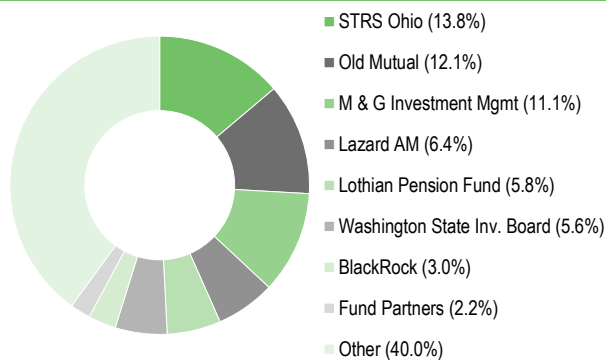


Age of the investment pipeline (31 July 2017)

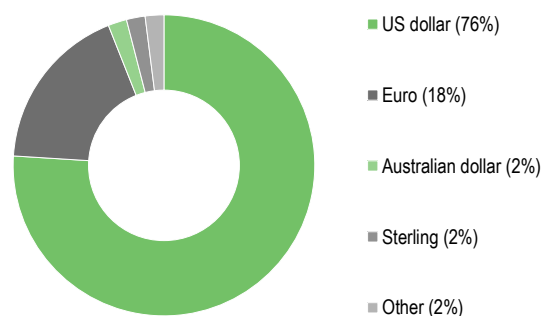
This analysis shows the age profile of HVPE's investment pipeline (totalling US\$1,251m). When commitments are made to underlying third-party funds or HarbourVest secondary or direct funds, these are classified as allocated.



Shareholder base (as at 15 March 2018)



Currency exposure of assets (as at 28 February 2018)



Top 10 holdings (as at 31 July 2017)

Company	Strategy	Status	Location	Business	% of portfolio	Investment value (US\$m)
Lighttower Fiber Networks*	Buyout	Private	US	Fibre optic telecommunications	2.7	37.7
Preston Hollow Capital*	Buyout	Private	US	Speciality finance platform	1.3	18.5
Press Ganey Associates*	Buyout	Private	US	Patient satisfaction surveys	1.2	16.8
LeasePlan Corporation*	Buyout	Private	Europe	Vehicle leasing and fleet management	1.1	15.4
Acrisure*	Buyout	Private	US	Property and casualty insurance broker	1.0	14.6
H-Line Shipping*	Buyout	Private	Asia	Marine bulk shipping	0.9	12.5
Wayfair*	Growth equity	Public	US	Online home goods retailer	0.7	9.9
Infinitas Learning	Buyout	Private	Europe	Online education provider	0.7	9.9
CareCentrix*	Growth equity	Private	US	Healthcare management services	0.7	9.8
Ssanyong Cement Industrial*	Buyout	Private	Asia	Korean cement manufacturer	0.7	9.8
Top 10					11.1	154.9

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

Fund profile: Diversified private equity fund of funds

HVPE is a Guernsey-incorporated, closed-ended investment company, listed on the Main Market of the London Stock Exchange since September 2015 (having traded on the LSE's Specialist Funds Market from May 2010), and included in the FTSE 250 index since December 2015. HVPE was listed on Euronext Amsterdam from its inception in December 2007 until October 2016. HVPE's share price is quoted in sterling, but its functional currency is the US dollar and it publishes its NAV monthly in both sterling and dollar terms.

HVPE invests in a diversified portfolio of private equity investments, comprising HarbourVest-managed primary and secondary funds of funds and co-investment funds, as well as selected direct investments. HarbourVest is an independent, global private markets investment specialist, with a 35-year track record and over US\$40bn of assets under management. HarbourVest's investment team includes more than 100 professionals responsible for managing a broad range of funds.

HarbourVest funds make investment commitments to leading third-party fund managers across the spectrum of global private equity investment, including venture capital, growth equity and buyout strategies. HVPE's approach gives investors exposure to a broad range of underlying companies.

The fund manager: HarbourVest

The manager's view: Three global megatrends for next 10 years

Towards the end of 2017, HVPE conducted an in-depth survey of 30 HarbourVest managing directors to identify key investment themes and opportunities in private markets. The survey results highlighted three key global megatrends that are expected to dominate private markets over the next 10 years:

- **Technological advance** – revolutionising the home, workplace and healthcare
- **Demographic shifts** – ageing developed market populations; favourable demographics in Asia
- **The global role of China** – increasing global influence

HarbourVest funds are expected to provide HVPE with exposure to many of the opportunities created by these megatrends through the following aspects of HarbourVest's investment approach:

- Investing globally with leading private equity managers, backing companies seeking to leverage strong secular trends
- Growing coverage of micro buyout markets, which are positioned to access fast-growing businesses at attractive valuations
- Operating from a number of offices across Asia, focusing on local investment opportunities, with an emphasis on China
- Maintaining a focus on seed/early-stage investments and access to the top tier venture capital managers globally
- Partnering with managers that focus on helping established companies adapt to technological change, which often requires private capital to facilitate

Reflecting on the 10 years since its launch in December 2007, HVPE highlights some of the most significant investment themes, including:

- The major impact of the internet and shift to online consumer spending globally
- The development of new and disruptive technologies, with the growth of mobile devices changing human behaviour and creating new industries in on-demand services and mobile payment methods
- The strength of the venture capital market in China
- The development of the secondary private equity transaction market in Europe

Asset allocation

Investment process: Rigorous, long-term, consistent approach

Each year, HVPE's investment manager plans the new commitments to be made to HarbourVest funds over the following 12 months, seeking to optimise long-term returns for HVPE shareholders. The total commitment level is based on forecast cash flows and investment returns, while fund allocations are determined with reference to HVPE's strategic asset allocations, which were revised in February 2018 to reflect the recent strong performance of direct co-investments and the appeal of the somewhat uncorrelated returns provided by mezzanine and real assets. These 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.

HVPE's approach is to maintain a consistent rate of investment, which ensures a broad spread of fund vintages are held in the portfolio. The fund-of-funds structure enhances this approach, as commitments made by HVPE to HarbourVest funds are allocated over three to four years to third-party managers, who invest in operating companies over the following three to five years.

HarbourVest conducts extensive due diligence before investing with third-party managers. Primary commitments are made to funds at launch, taking into consideration 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. For secondary assets (whole or part portfolios of maturing investments), a bottom-up valuation of portfolio companies is completed, and the capabilities of the underlying fund manager assessed. Direct investments – usually co-investments alongside managers of underlying portfolio funds – typically arise from HarbourVest's strong relationships with leading managers. Around 100 of these opportunities are reviewed in depth each year, with a proprietary database maintained covering 20 years of transactions.

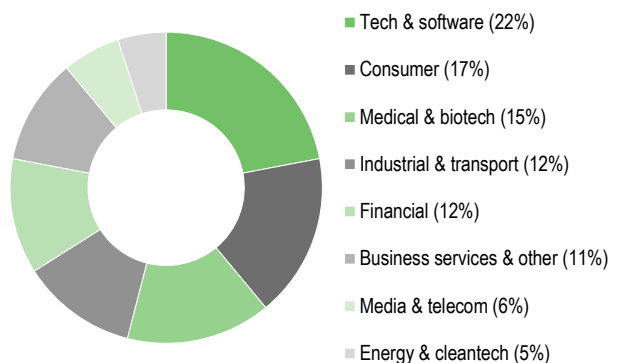
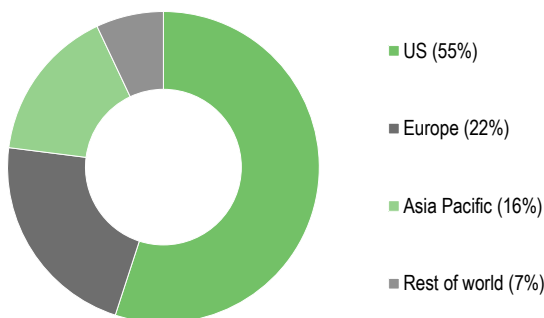
Current portfolio positioning

HVPE's portfolio comprised 42 HarbourVest funds and two secondary co-investments at end-February 2018, giving exposure to c 900 underlying private equity funds and partnerships, which are invested in over 7,500 operating companies. Exhibit 2 shows HVPE's portfolio exposure at end-February 2018, and illustrates the broad diversification by geography and industry. Compared with end-February 2017, US exposure has declined by 8pp, mainly 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, last revised in November 2016 (US 65%, Europe 18%, Asia Pacific 12%).

Exhibit 2: HVPE portfolio exposure by geography and industry at end-February 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-February 2018 exposures with a year earlier, the overall exposures appear broadly similar. Over the four months to end-February 2018, the most significant changes in exposure were a 3pp decline in media and telecom and a 2pp increase in tech & software, with no other changes in industry exposure of more than 1pp.

Exhibit 3: HVPE portfolio profile at end-February 2018

Stage	%	Phase	%	Strategy	%	Currency exposure*	%
Buyout	60	Investment	44	Primary	46	US dollar	76
Venture and growth equity	32	Growth	31	Secondary	31	Euro	18
Mezzanine and real assets	8	Mature	25	Direct	23	Australian dollar	2
						Sterling	2
						Other	2
	100		100		100		100

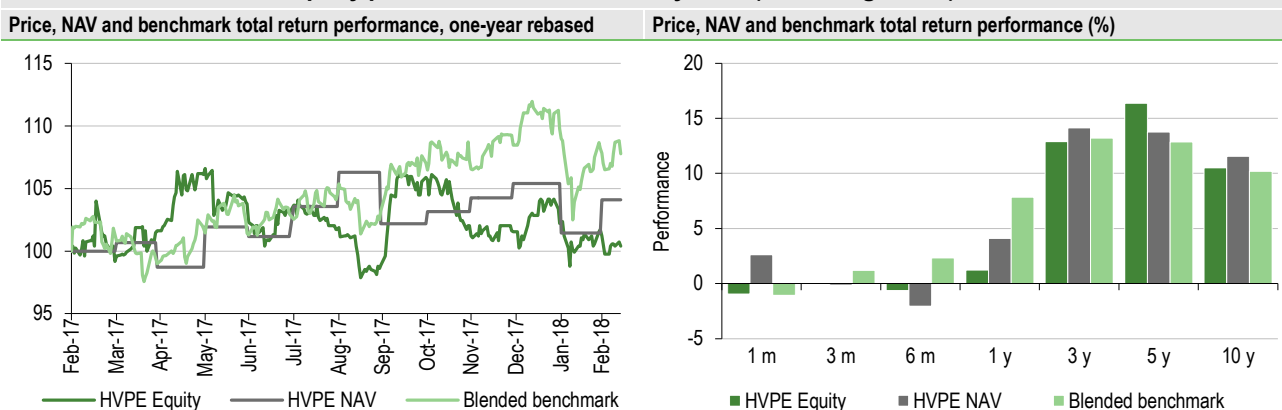
Source: HarbourVest Global Private Equity, Edison Investment Research. Note: *Reflects functional currency of underlying funds.

Exhibit 3 shows HVPE's portfolio profile by stage, phase, strategy and currency exposure. Compared with a year earlier, there have been relatively modest changes in portfolio exposures, the most significant being an 8pp reduction in mature phase exposure, offset by 6pp and 2pp increases in the investment and growth phases, reflecting the natural realisation of mature investments, with proceeds being drawn down for new investments. Similar to the geographical exposures, the investment stage and strategy exposures are expected to shift over the medium term, as the portfolio moves closer to the current strategic allocation targets, revised in February 2018 (buyout 60%, venture and growth equity 30%, mezzanine and real assets 10%; primary 55%, secondary 25%, direct 20%). Over the year, there was a 2pp decline in US dollar exposure, but this remains by far the dominant currency exposure in the portfolio.

Performance: Ahead of benchmark over 10 years

HVPE's investments are principally denominated in US dollars (the company's functional currency), while NAV is reported in US dollars and sterling, and the share price is quoted in sterling. In US dollar terms, HVPE's NAV total return was 15.7% for the year to end-February 2018, which is higher than the returns achieved in each of the prior three financial years. However, as illustrated in Exhibit 4, in sterling terms, HVPE's NAV total return over one year was much more modest, underperforming its FTSE All-World benchmark by some margin. In contrast, HVPE's NAV total return over three, five and 10 years has been ahead of its listed equity benchmark, with HVPE's 11.6% pa NAV total return over 10 years comparing to its blended benchmark's 10.2% pa return.

Exhibit 4: Investment company performance to 28 February 2018 (in sterling terms)



Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Blended benchmark is MSCI AC World up to 30 November 2016 and FTSE All-World thereafter.

Exhibit 5: 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	0.1	(1.2)	(2.9)	(6.1)	(0.9)	16.6	3.0
NAV relative to blended benchmark	3.7	(1.3)	(4.3)	(3.5)	2.5	4.0	13.0
Price relative to FTSE All-World	0.1	(1.2)	(2.9)	(6.1)	(1.1)	16.3	2.2
NAV relative to FTSE All-World	3.7	(1.3)	(4.3)	(3.5)	2.3	3.8	12.2
Price relative to LPX 50	1.2	(1.9)	(0.4)	(7.4)	(3.1)	12.9	28.1
NAV relative to LPX 50 NAV	1.0	(1.6)	(2.3)	(4.8)	(1.2)	12.9	66.6

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

As illustrated in Exhibit 6, after broadly matching its benchmark performance from early 2013 to mid-2015, the second half of 2015 and early 2016 saw HVPE substantially outperform, largely reflecting global equity market weakness 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.

Exhibit 6: NAV total return performance relative to blended benchmark over five years


Source: Thomson Datastream, Edison Investment Research. Note: Blended benchmark is MSCI AC World up to 30 November 2016 and FTSE All-World thereafter.

Exhibit 7 compares HVPE's share price and NAV returns in US dollars and sterling. Sterling weakened versus the dollar in 2016, influenced by the UK vote to leave the European Union, continuing the long-term trend evident since the fund's inception. However, 2017 and early 2018 saw a significant recovery in sterling, and the exchange rate was US\$1.38/£ at end-February 2018 compared with US\$1.24/£ a year earlier. This 10.7% appreciation of sterling has weighed significantly on returns for sterling investors over one year, although sterling returns have been enhanced by currency moves over longer periods.

Exhibit 7: Comparing HVPE NAV and share price total return performance in US dollar and sterling terms (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
HVPE NAV US\$	(0.5)	1.6	4.2	15.7	32.3	72.5	106.5
HVPE NAV £	2.6	(0.1)	(2.1)	4.1	48.7	90.4	198.6
HVPE share price US\$	(4.0)	1.8	6.2	12.1	28.2	93.7	88.4
HVPE share price £	(1.0)	(0.0)	(0.6)	1.2	43.8	113.4	172.0

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2018.

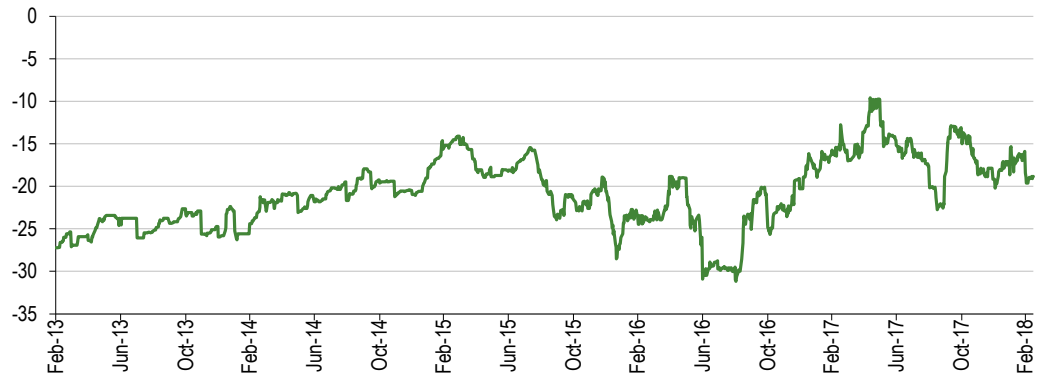
Discount: Narrower than three- and five-year averages

The board regularly reviews HVPE's share price discount to NAV and considers actions that might help to reduce it over the longer term. However, the board's overriding view is that investment performance and market sentiment towards listed private equity as an asset class are the key drivers of the discount. While HVPE has authority to repurchase up to 14.99% of its issued share capital, no shares have been repurchased in the last three financial years.

As illustrated in Exhibit 8, HVPE's discount narrowed substantially from its five-year wide point of 33.7% at the end of June 2016 (shortly after the UK's vote to exit the European Union) to its five-

year low of 9.6% in May 2017, since when it has widened moderately. The current discount of 18.8% is wider than its 16.0% one-year average, but narrower than its 19.7% and 20.7% averages over three and five years.

Exhibit 8: Share price discount to NAV over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HVPE has a single share class, with 79.9m ordinary shares in issue, listed on the Main Market of the London Stock Exchange. HVPE has a US\$500m multi-currency credit facility with Lloyds Bank and Credit Suisse, which was renewed in December 2017 and extended to five years' duration, maturing in December 2022. The commitment fee on the undrawn facility is unchanged at 115bp, while borrowing costs have been modestly reduced to 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-February 2018, HVPE held US\$246.9m in cash, equating to 14.8% of net assets.

HVPE is one of the largest investors into the HarbourVest platform, and typically pays the lowest fee rates on new commitments to HarbourVest funds. In FY17, total management fees represented 1.08% of HVPE's net assets. 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 in FY17 totalled 0.65% of net assets, and carried interest payments (performance fees) on the HarbourVest secondary and direct co-investment funds, along with HVPE's two direct co-investments, amounted to 0.51% of net assets. No performance fee is charged by HVPE itself. Net of interest income, HVPE's FY17 total expense ratio was 2.17%.

Dividend policy and record

In accordance with its capital growth mandate and reflecting the capital nature of private equity returns, HVPE has not paid a dividend since its launch. Two US\$20m special distributions were made in FY14 and FY15 (see Exhibit 1), following the realisation of HVPE's direct co-investments in Absolute and Conversus, representing 50% of the profits on these transactions.

Peer group comparison

Exhibit 9 shows a comparison of HVPE with six other AIC Private Equity sector funds that have a fund-of-funds structure. In sterling terms, HVPE's NAV total returns are ahead of the peer group

average over five and 10 years, ranking first in both periods, in line over three years and below the average over one year. As highlighted earlier (see Exhibit 7), HVPE's one-year NAV total return was 15.7% in its US dollar functional currency, and the 10.7% appreciation of sterling against the dollar has weighed heavily on its performance in sterling terms. HVPE's 18.8% discount is the widest in the peer group, which has a relatively narrow range excluding F&C Private Equity Trust. HVPE does not pay a dividend and, similar to peers, it is ungeared, holding net cash to meet its investment commitments. HVPE's ongoing charge is higher than the peer group average, possibly reflecting its 'fund of fund of funds' structure. However, excluding performance fees on the HarbourVest secondary and co-investment funds and on its two direct co-investments, HVPE's 1.66% ongoing charge is only modestly above average.

Exhibit 9: Private equity funds of funds peer group as at 15 March 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	985.5	4.1	48.7	90.4	198.6	(18.8)	2.17	No	100	0.0
F&C Private Equity Trust	249.9	5.8	44.5	70.8	95.8	(4.5)	1.27	Yes	100	3.4
ICG Enterprise Trust	576.3	9.8	46.3	63.7	109.3	(10.1)	1.28	No	100	2.4
JPEL Private Equity	316.5	(0.7)	48.0	59.3	39.2	(14.8)	1.86	Yes	100	0.0
NB Private Equity Partners	487.9	(0.9)	44.5	89.3		(14.7)	2.28	Yes	100	3.7
Pantheon International	1,020.1	5.4	45.5	69.0	109.4	(12.3)	1.13	Yes	100	0.0
Standard Life Private Equity	516.6	10.7	62.9	87.0	75.2	(11.0)	1.29	No	100	3.7
Peer group average	593.2	4.9	48.6	75.6	104.6	(12.3)	1.61		100	1.9
Rank	2	5	2	1	1	7	2		1	5

Source: Morningstar, Edison Investment Research. Note: *Performance data to 28 February 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

HVPE has eight board directors, six of whom are independent. Chairman Sir Michael Bunbury has served on the board since October 2007, shortly before HVPE's launch in December 2007, as have Andrew Moore, Jean-Bernard Schmidt, Keith Corbin and Brooks Zug. Alan Hodson and Peter Wilson were appointed in April and May 2013 respectively, and Francesca Barnes joined the board in April 2017. Brooks Zug, a founder and senior managing director of HarbourVest, and Peter Wilson, a member of HarbourVest's executive management committee, are non-independent. The other directors have backgrounds in financial services, investment management and private equity. Five directors have served for over 10 years and the chairman has indicated that further new appointments to the board should be expected in due course.

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