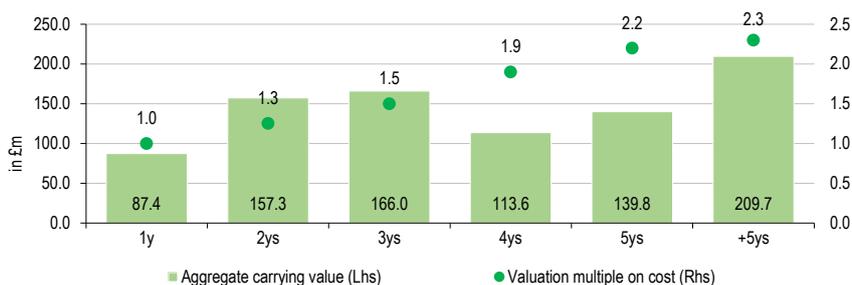


Standard Life Private Equity Trust

Ample dry powder for new investments

Standard Life Private Equity Trust (SLPET) reported a NAV total return of 14.9% in H121, on the back of a 22.9% increase in the underlying portfolio value at constant currency, partially offset by negative FX effects (in particular sterling appreciation vs euro). SLPET's high realisation activity (including several successful IPOs and private transactions) continued in the period with £92.7m proceeds. These exits generated an average uplift to carrying value two quarters prior (to exit dates) at 63.1% and average multiple on invested capital (MOIC) at 2.6x.

Portfolio's net asset value by vintage



Source: Standard Life Private Equity Trust, Edison Investment Research

Why invest in SLPET now?

The private equity sector has withstood the COVID-19 crisis well so far, with the pick-up in M&A and IPO activity, which started in H220, driving strong and profitable realisation activity in SLPET's general partners (GPs) and cash distributions to SLPET. Consequently, 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 currently at 38%.

The analyst's view

While private equity exit activity has been strong recently, the high level of dry powder results in fierce competition for quality assets. Consequently, SLPET's investment level (defined by the overcommitment ratio) remains below the 30–75% target range (currently at c 28%). We believe that its recent high realisation activity may continue in the near term, given that 53% of its portfolio represents vintages of four years or older, with the five-year-plus bucket held at 2.3x cost on average, while the five-year and four-year buckets are held at 2.2x and 1.9x, respectively. At the same time, SLPET's manager sees a good pipeline of primary fund and co-investment opportunities (with three primary commitments and three co-investments closed in H121), which will absorb some of the exit proceeds.

Investment trusts Private equity funds

19 July 2021

Price 465.5p

Market cap £716m

AUM £871m

NAV* 566.6p

Discount to NAV 17.8%

*Including income. As at 30 June 2021.

Yield 2.9%

Ordinary shares in issue 153.7m

Code/ISIN SLPE/GB0030474687

Primary exchange LSE

AIC sector Private equity

52-week high/low 490.0p 296.5p

NAV* high/low 567.0p 421.4p

*Including income.

Gross gearing* 0.0%

Net cash* 8.1%

*As at 30 June 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.

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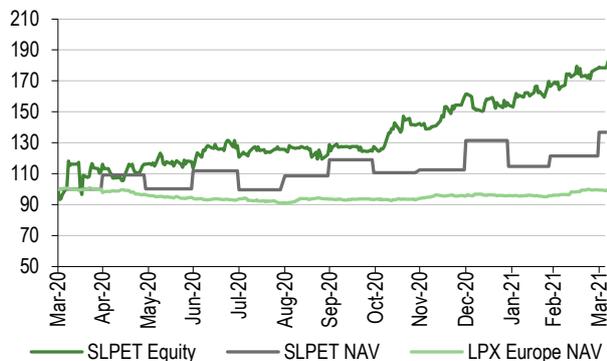
Standard Life Private Equity Trust is a research client of Edison Investment Research Limited

H121 driven by benign public markets and strong exits

SLPET reported a 14.9% NAV total return (TR) for the six-month period ended 31 March 2021 (H121), based on actual NAV figures, with c 99.6% of portfolio valued as at end-March. This sits slightly below the official benchmark – the FTSE All share Index, which posted an 18.5% total return over the same period. We note, however, that the analysed time frame started shortly before the emergency approvals of the COVID-19 vaccines, which triggered a strong rebound in the broader equity market. On the other hand, SLPET’s return in the period was visibly ahead of the LPX Europe NAV Index representing the broader European PE market (6.5% return). The fund’s robust performance was mainly driven by an increase in the value of underlying holdings of c 22.9% on aggregate over the period at constant currency (16.9% in sterling terms). In this context, we note that growth in the last-12-month revenue and EBITDA across SLPET’s underlying companies stood at 2.1% and 6.6% at end-March 2021, respectively.

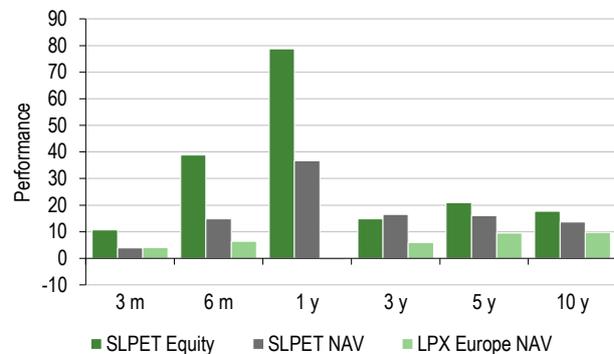
The above translated into a one-year NAV TR to end-March 2021 of c 36.4%, but we note that this reflects the end-March 2020 NAV, which was affected by the pandemic outbreak (NAV TR in Q120 amounted to -12.5%). However, over the five-year and 10-year periods, SLPET reported an annualised NAV TR of 16.1% and 13.7%, respectively, confirming its successful long-term track-record, as the LPX Europe NAV Index reported 9.4% and 9.7% returns, respectively, in the periods.

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



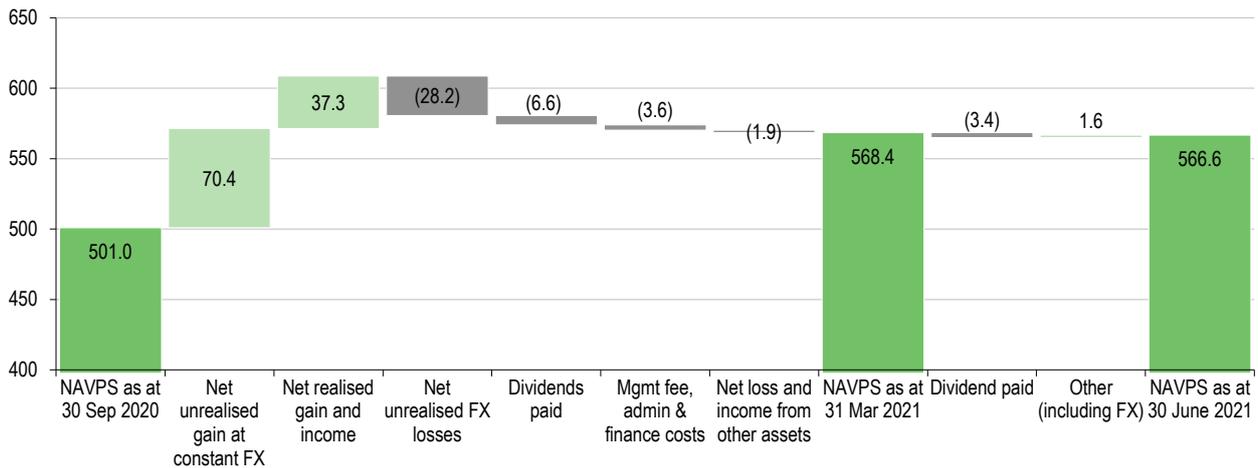
Source: Refinitiv, Edison Investment Research. Note: SLPET NAV data stream consists of actual figures for quarter-ends and NAV estimates for the remaining months.

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



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

Between end-September 2020 and end-March 2021, SLPET’s NAV per share increased from 501.0p to 568.4p due to unrealised upward revaluations of portfolio holdings, which added 70.4p per share, as well as strong realisations, contributing a further 37.3p per share. This was partially offset by net unrealised FX losses (-28.2p per share), mainly due to appreciation of sterling against the euro and US dollar. Over the period, SLPET incurred management fees, admin and financial costs totalling c 3.6p per share. The last-reported estimated NAV per share as at end-June 2021 amounted to 566.6p, which represents an 0.3% decrease against the end-March 2021 figures. The decline resulted from the first interim dividend payment of 3.4p per share on 23 April, partially offset by positive FX changes over the period.

Exhibit 3: NAV per share development in H121 and to end-June 2021


Source: Standard Life Private Equity Trust

In H121, SLPET reported a 38.8% share price total return, from 320p as at 30 September 2020 to 437p at end-March 2021. Consequently, the share price discount to NAV narrowed from 36.1% to 23.1%, which is broadly on par with the SLPET's 10-year average of 23.2%. The share price rally continued in the following months, rising to 465.5p as at 16 July 2021 close, which translates into a 17.8% discount to the end-June NAV estimate.

Steady increase in dividend per share

The relatively limited impact of COVID-19, coupled with strong realisation activity and a solid liquidity position, enabled SLPET's management to sustain its dividend policy, including preservation of the real value of the annual distribution. After making four payments of 3.3p per share in FY20, SLPET increased the quarterly dividends in FY21 to 3.4p per share (up c 3%), which is in line with historical dividend growth. The company has already made one interim payment (with an ex-dividend date on 18 March) and announced the second payment with an ex-dividend date on 24 June 2021, which puts SLPET on track to distribute 13.6p per share in FY21. The total distribution announced over the past twelve months (13.4p) constitutes a 2.9% dividend yield.

Peer group comparison

While comparing SLPET's performance figures with a private equity fund-of-funds peer group, we continue to focus on mid- to long-term performance, which aligns better with a private equity investment approach and limits the impact of different asset valuation dates and, consequently, the FX changes. Performance figures are based on the latest available ex-par NAV, which is end-June for SLPET, end-May 2021 for Pantheon and HarbourVest, end-April for ICG Enterprise, and end-March for BMO. Having said that, we note that SLPET's portfolio has been largely revalued as at end-March 2021, while that is not the case for all of its peers. HarbourVest's last-reported NAV is based on data as at end-May (15%), end-March (46%) and end-December 2020 (39%). ICG revalued c 82% of its portfolio as at 31 March 2021, while for BMO this figure sits at just 15%, with most holdings reflecting end-December-2020 valuations. Finally, 93% of valuations in the last-reported data by Pantheon are dated as at 31 March 2021 or later. Given the continued upward trend in the public equity markets in Q121 (assisting private equity valuations), the valuation lag could explain at least some part of the underperformance of selected peers vs SLPET over one year.

We view longer-term returns as better indicators of the performance within the PE space, as they are less reliant on the timing of new investments and exits. SLPET's three-year NAV TR to end-June 2021 of 56.4% sits on a par with the peer group average and ranks it second to HarbourVest (65.2%). The company's five-year NAV TR of 100.9% is somewhat below the peer average of 106.6%, whereas in the 10-year horizon SLPET's NAV TR exceeds the group average by c 29pp. SLPET's one-year NAV TR of 34.1% is the highest among peers and above their average of 25.6%.

Exhibit 4: Selected peer group as at 16 July 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	715.7	34.1	56.4	100.9	260.3	1.14	No	(17.8)	92	2.9
BMO Private Equity Trust	308.3	22.9	54.0	93.1	190.1	1.23	Yes	(13.2)	117	4.0
HarbourVest Global Private Equity	1,760.0	30.2	65.2	126.1	309.4	2.50	Yes	(21.2)	97	0.0
ICG Enterprise Trust	717.9	29.8	53.1	108.7	199.9	1.42	Yes	(25.5)	88	2.3
Pantheon International	1,460.0	19.6	42.8	98.5	227.6	1.23	Yes	(21.8)	88	0.0
Peer average	1,061.6	25.6	53.8	106.6	231.7	1.59	-	(20.5)	97	1.6
Rank in peer group	4	1	2	3	2	5	-	2	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 – end-June; Pantheon and HarbourVest – end-May; ICG Enterprise Trust – end-April; BMO Private Equity Trust – end-March. **No performance fee is charged at the HVPE level, but it is charged on the HarbourVest secondary and direct funds.

Record-high realisations at favourable prices

The first three months of 2021 mark a record-high exit volume in the European private equity market, as total transaction volumes reached €115.5bn after a 150.4% y-o-y increase, according to PitchBook data. The increase was mainly driven by robust PE-backed IPO activity, which amounted to €30.1bn across 31 completed flotations, representing 20x and 7.5x improvements against Q120, respectively.

After reporting £140m from realisations in FY20 (12 months to 30 September 2020), SLPET received £92.7m in H121 to end-March 2021, which constitutes c 12% of its opening NAV (vs five-year average annual realisations at c 23% of NAV). Exits in H121 were completed at an average uplift to the prior two quarters at a strong 63.1% (and 2.6x MOIC), which is well above the long-term historical average of over 20% since 2010. The fund benefited from healthy demand for private-equity-backed assets, which also led to the successful IPOs of several underlying companies, such as the UK-based online gifting-card business, Moonpig, listed on the London Stock Exchange (LSE) on 19 January 2021 (c 1.2% of portfolio's NAV as at 30 September 2020), and the consumer footwear company, Dr Martens (1.1% of NAV as at 30 September 2020), floated on the LSE on 3 February 2021. Both companies were heavily oversubscribed and consequently priced their debuts at the top of their respective ranges, posting a c 20% share price increase on their first day of trading. We note that the Swedish payments business, Trustly (0.8% of NAV at end-December 2020), another portfolio company planning a listing in 2021, has postponed its IPO without providing an updated timeline, as the Swedish Financial Supervisory Authority recommended that the company carried out a customer due diligence.

In addition to the robust exit activity through public markets, several portfolio companies were sold to other private equity funds. In November 2020, a 100% stake in Questel, a global intellectual property solutions provider, was acquired by Eurazeo, Capital IK Investment Partners' IX Fund, RAISE Investissement and the existing management team. Both Eurazeo and IK IX Fund (which is also SLPET's fund investment) invested €200m each, giving them a combined majority stake. This marks a considerable uplift from the c €200m valuation of the whole company, based on the significant minority stake acquisition by IK VIII Fund, back in 2018. Similarly, IK VIII Fund divested Colisée Group (provider of nursing homes and homecare services for the elderly in France, Belgium, Italy and Spain) to EQT Infrastructure V Fund in 2020 after acquiring its stake in 2017. Finally, Astorg VI Fund sold its majority stake in Surfaces Group to TA Associates, after a holding

period of around three years. We note that the holding period for each of these investments was visibly shorter than the market average, which extended to a record-high of 5.4 years in 2020, according to eFront data.

New primaries, secondaries and co-investments

Selected primary commitments to well-known GPs

Global private equity fund-raising activity in 2020 was strong with investors committing c US\$628bn on aggregate (just 13% below the previous year's healthy figure, according to S&P Global Market Intelligence). Meanwhile, SLPET took a c six-month pause in primary commitments in 2020 due to pandemic-related uncertainty and expects 2021 to be stronger in terms of primary deployment than 2020. So far it has been able to selectively deploy capital in H121 into three new primary commitments (c €25m each) to mid-market focused GPs with which it has established long-term relationships. First, SLPET made a commitment to Triton Smaller Mid-Cap Fund II (November 2020), targeting entities from industrials, business services, consumer and health sectors in the German-speaking countries, Benelux and the Nordics. The second commitment was done in February 2021 to PAI Mid-Market Fund, which has a broader European focus and has already confirmed its strong pipeline, as prior to closing the fund-raising in March 2021 (€920m raised during eight months) it made three investments in Amplitude Surgical (lower limb orthopedics manufacturer), Angulas Aguinaga (seafood producer) and MyFlower (flower and gift digital platform). The third primary investment was in IK Small Cap Fund III (March 2021), investing in northern European, lower-mid-market companies, which overall raised €1.2bn over just three months (more than doubling the size of the previous IK Small Cap Fund II of €550m). It is worth noting that this fund accepted commitments from the IK platform only, narrowing the investor group to the already established partnerships. Its core investment sectors are business services, healthcare, consumer and industrials.

Limited availability of quality secondary assets at discounted prices

During the pandemic, limited partners holding high-quality private equity assets were reluctant to sell these at a discount to last carrying value in anticipation of an economic recovery. This has been partially offset by GP-led secondary deals, including single-asset carve-outs, but still translating into a 9% y-o-y decline in private equity secondaries market activity in the second half of 2020, according to GreenHill. As a result, based on our discussion with SLPET's investment manager, we understand that he is willing to selectively invest in high-quality secondaries at a price close to par or a slight premium to last carrying value (which is normally based on the last-12-month earnings of portfolio companies). While SLPET did not close any secondary deals in H121, it completed the acquisition of €3.0m commitments in Capiton IV and €8.0m in Capiton V in April 2021. These funds are focused on investing in SMEs from the pharmaceuticals, medical and industrial technology segments in the DACH region.

Three new co-investments in H121, bringing SLPET's exposure to 6.7% of NAV

Meanwhile, SLPET continues to expand its co-investment portfolio towards its mid-term target of 20% of NAV. As a result, its co-investments represented 6.7% of its NAV at end-March 2021 and may possibly reach 8–10% by the end of the financial year (September 2021), according to the investment manager. In 2021, the company completed three transactions, with the largest being the €9.9m investment into North American Science Associates (NAMSA), a medical-device-focused contract research organisation. The co-investment was made together with ArchiMed, NAMSA's

lead investor. In February 2021, SLPET closed a €9.0m co-investment alongside Latour Capital into Funecap, a French funeral services and crematoria provider. According to Unquote Data, this transaction, with overall volume estimated at c €330m, was one of the 10 largest European private-equity-backed growth capital deals in the first three months of 2021. The last co-investment, made in March 2021 through the Nordic Capital WH1 Beta vehicle, concerned an undisclosed company from the technology segment (subject to confidentiality restrictions).

Drawdowns somewhat slower, but with an increase in GPs' drawn credit facilities

Drawdowns of SLPET's fund commitments in H121 amounted to £53.7m (down from £87m in H120). This constitutes c 11.4% of the outstanding commitments level at the start of the period, suggesting that the drawdown pace was somewhat below the average level (with primary commitments normally being deployed within c 2–3 years from the launch of a private equity fund). Having said that, we note that this should be viewed together with the increase in the drawn part of underlying credit facilities of private equity funds that SLPET invested in, which increased to £66.2m as at end-March 2021, compared to £46.9m at end-September 2020 (attributable to SLPET). These are good indications of near-term drawdowns (and should be drawn within the next six to 12 months, according to SLPET), as GPs use their credit facilities to bridge the gap between larger drawdowns.

Overcommitment ratio remains below targeted range

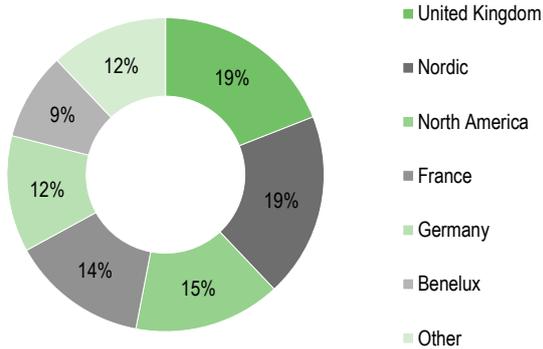
Healthy realisation activity, coupled with relatively modest drawdowns led to an increase in available cash to £62.5m as at end-March 2021 vs £33.2m at end-September 2020. Together with the fully undrawn £200m credit facility, it brings SLPET's coverage ratio (calculated as available resources to total outstanding commitments) to 57%. The uncovered commitments as at end-March 2021 amounted to £201.4m, which translates into an overcommitment ratio of c 25%, which is below SLPET's targeted range at 30–75%. Based on the last available data as at end-June 2021, outstanding commitments increased to £516.5m (including £52.2m unlikely to be drawn) which, together with available cash amounting to £70.2m and fully undrawn £200m credit facility, translated into an overcommitment ratio of 28%. Here, we note that one of the key reasons why SLPET's overcommitment ratio moved below the target range is the upsizing of its credit facility completed last year. The manager expects the overcommitment ratio to continue increasing in the coming months as new investment activity gathers pace.

Mature portfolio provides further exit opportunities

SLPET expanded its portfolio from 58 to 64 holdings in H121, with 496 underlying investments (representing 486 individual private companies, given some overlap between funds), including six co-investments. The portfolio is well diversified both geographically and by sector, as none of the exposures exceeds a 20% share in the portfolio.

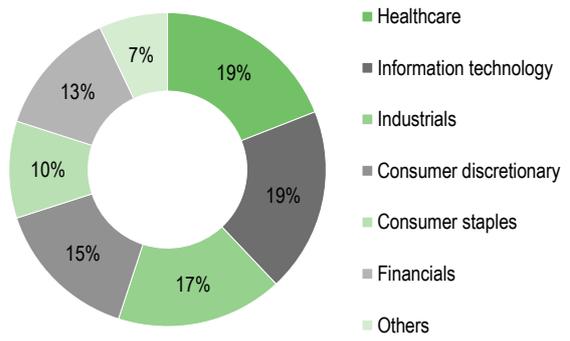
Since September 2010, SLPET's exposure to tech and healthcare companies has been steadily increasing from 7% to 19% at end-March 2021 for each of these sectors. Over the six months to end-March 2021, their combined share in SLPET's portfolio remained broadly stable (38% at end-March 2021 vs 39% at end-September 2020), which we understand is largely a function of successful exit activity in these segments, including selling down listed companies, offsetting new investments. Meanwhile, its exposure to the financial sector increased from 11% to 13%, even though the STOXX Europe 600 Financial Services index was up just 8.3% in the period (gross return in euro terms).

Exhibit 5: Geographical structure of the portfolio at 31 March 2021



Source: Standard Life Private Equity Trust

Exhibit 6: Industry structure of the portfolio at 31 March 2021



Source: Standard Life Private Equity Trust

While SLPET's portfolio is well diversified across vintages, a significant part already seems ripe for an exit at valuations in line with SLPET's track record. The five-year-plus bucket constitutes c 24% of the NAV and is held at an average multiple of 2.3x cost, while the five-year and four-year buckets make up 16% and 13%, respectively, and are held at 2.2x and 1.9x cost, respectively.

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