

# HarbourVest Global Private Equity

Disciplined, diversified approach to private equity

Judging by prevailing discounts to net assets, broad fund of fund investors in private equity are not a particularly favoured group within the investment company sector. However, a fund such as HarbourVest Global Private Equity (HVPE) can be seen as having appealing attributes: in addition to a still wide discount, it is structured and managed to ensure diversification by vintage, stage, geography, strategy and industry. The management team has substantial experience, a wide industry network and follows a consistent approach to investment, further mitigating the risks inherent in private equity investment. The NAV performance since inception compares well with the MSCI All World and private equity indices.

12 months ending	Share price return (%)	NAV return (%)	MSCI All World (%)	LPX 50 (%)	Morningstar IT PE ex-3i (%)
31/08/11	35.1	24.2	14.3	18.7	13.6
31/08/12	0.5	3.7	6.8	3.3	7.5
31/08/13	33.8	13.0	16.1	34.2	15.8
31/08/14	23.9	18.3	21.6	20.2	18.4
31/08/15	11.4	7.6	(5.8)	0.5	(9.6)

Source: Morningstar. Note: USD terms, total return basis.

## Investment approach: Wide network, tight criteria

HVPE's manager, HarbourVest, has been investing in private equity for over three decades and employs its network of relationships to identify potential private equity managers for the portfolio. Selection follows an extensive assessment of the qualities of the manager, the nature of the fund's exposure and strategy, and the terms of the vehicle. Investment is made through HarbourVest funds rather than directly in third-party managers, facilitating diversification of the portfolio and helping to avoid overexposure to peaks in the market, by maintaining a reasonably consistent rate of investment into underlying operating companies.

## Recent developments: An active period

HVPE has recently reported results for the six months to end July showing NAV appreciation of 6.2% compared with 4.0% for the MSCI All World index. New commitments in the period increased, pushing total unfunded commitments to \$948m, providing the basis for future investment in growth opportunities to sustain the growth in the NAV. While the manager's cash flow modelling suggests debt will not be required, the negotiation of a larger and extended credit facility provides a cushion of liquidity to help support this level of commitment. The company has also completed the move of its London listing to the Main Market, raising the profile of the company and potentially improving the liquidity in the shares.

## Valuation: Discount has narrowed but is still wide

HVPE's current discount of c 23% compares with a private equity sector average of about 19%, excluding 3i. While the discount is narrower than it has been, it is still wide in absolute terms; the performance track record and the move to the Main Market could be factors in a further tightening.

### Investment companies

6 October 2015

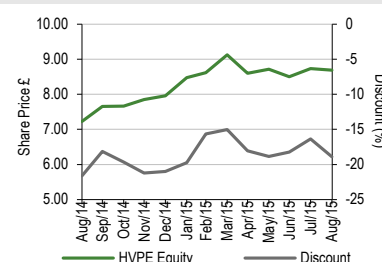
**Price** 825p/\$12.54  
**Market cap** \$1,002m

NAV per share\* 1074.65p/\$16.49  
Discount to NAV\*\* 23.2%  
Shares in issue 79.9m  
Code HVPE  
Exchanges LSE, Amsterdam

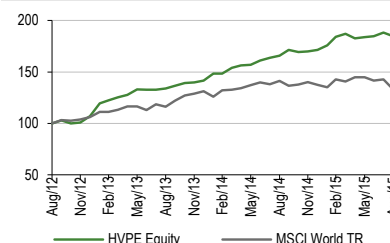
\*NAV estimated by HVPE, 31 August 2015

\*\*Based on GBP price and NAV

### Share price/discount to NAV



### Three-year cumulative perf. graph



52-week high/low 925p 796p

NAV high/low\* \$16.49 \$15.15

\*Including income

### Gearing

Gross 0.0%  
Net cash 9.8%

### Analysts

Andrew Mitchell +44 (0)20 3681 2500  
Gavin Wood +44 (0)20 3681 2503

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

**Exhibit 1: HarbourVest Global Private Equity at a glance**
**Investment objective and fund background**

HarbourVest Global Private Equity is a Guernsey-incorporated, London/Amsterdam-listed closed-end investment company that aims to deliver long-term capital appreciation, while avoiding undue risk, by investing in a portfolio of private equity investments diversified by stage, geography, strategy, and industry.

**Recent news**

- 30 September 2015: report for half year to end-July 2015. NAV +6.2% compared with MSCI ACWI +4.0%. Net cash increased to \$136m and rate of commitments increased, with investment pipeline up from \$734m to \$948m.
- 28 September 2015: increase and renewal of credit facility announced, taking total to \$500m (see page 7).
- 9 September 2015: transfer of London listing to Main Market.

**Forthcoming announcements/catalysts**

AGM	November 2015
Annual results	May 2016
Year end	31 January
Dividend paid	N/A
Launch date	December 2007
Continuation vote	N/A

**Capital structure**

Ongoing charges	See page 7
Net cash	9.8%
Annual mgmt fee	See page 7
Performance fee	See page 7
Company life	Indefinite
Loan facilities	\$500m

**Fund details**

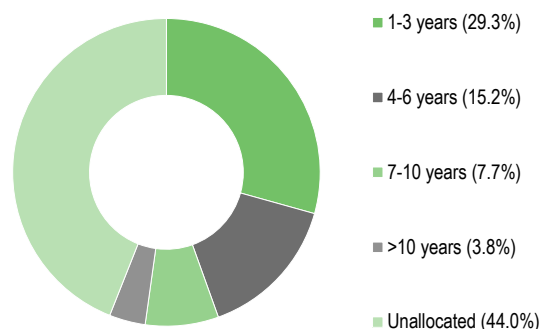
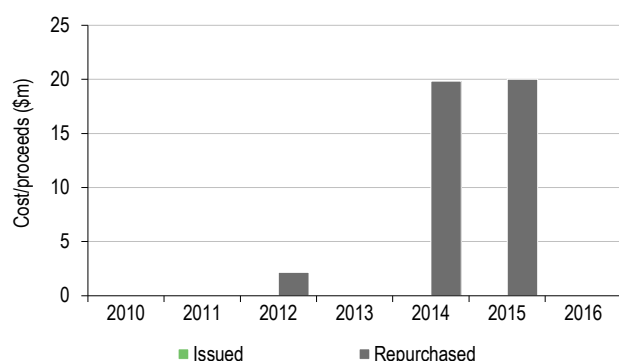
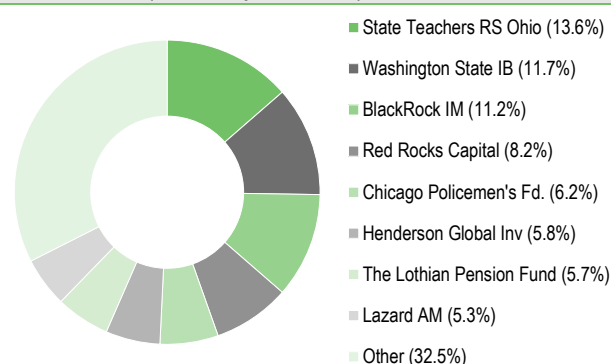
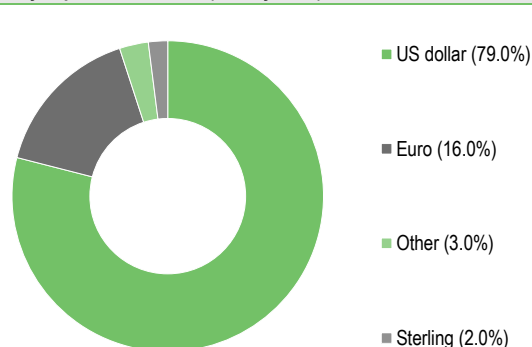
Group	HarbourVest Partners, LLC
Manager	HarbourVest LP
Address	PO Box 156, Frances House, Sir William Place, St Peter Port, Guernsey, GY1 4EU
Phone	+44 1481 702 400
Website	<a href="http://www.hvgpe.com">www.hvgpe.com</a>

**Share buyback policy and history**

HVPE has authority to purchase up to 14.99% of its issued share capital. Financial year figures shown below. 2014 and 2015 costs reflect redemptions of A shares used to distribute c 50% of profits on Absolute and Conversus investments.

**Age of the investment pipeline (31 July 2015)**

This analysis shows the breakdown of the investment pipeline (totalling \$948m) by age. Where commitments to underlying funds or HarbourVest secondary or direct funds have been made, these are classified as allocated.


**Shareholder base (as at 30 September 2015)**

**Currency exposure of assets (31 July 2015)**

**Largest managers as at end-July 2015 (excludes HarbourVest, which is the manager of the funds through which investments are made)**

Manager	Region	Stage
The Blackstone Group	US	Buyout
DCM	US/Asia Pacific	Venture and growth equity
GTCR	US	Buyout
Health Evolution Investments	US	Venture and growth equity
Index Ventures	Europe	Venture and growth equity
Kohlberg Kravis Roberts	US	Buyout
Silverlake Management	US	Buyout
Thoma Bravo	US	Buyout
TPG Capital	US	Buyout
Welsh, Carson, Anderson & Stowe	US	Buyout and Mezzanine

Source: Edison Investment Research, HarbourVest Global Private Equity, Bloomberg.

## Recent developments

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### Listing on Main Market of the London Stock Exchange

After nearly two years of planning and preparation, the company transferred its London listing to the Main Market of the London Stock Exchange on 9 September 2015. This has the potential to increase interest and liquidity in the shares, and may facilitate inclusion in the FTSE All-Share and possibly the FTSE 250 index (depending on turnover), which in turn could further widen the investor base. As part of the preparation for the transfer all shares were enfranchised, removing a possible impediment for some investors.

### First half report issued and new credit facility

HVPE reported half year results to the end of July on 30 September.

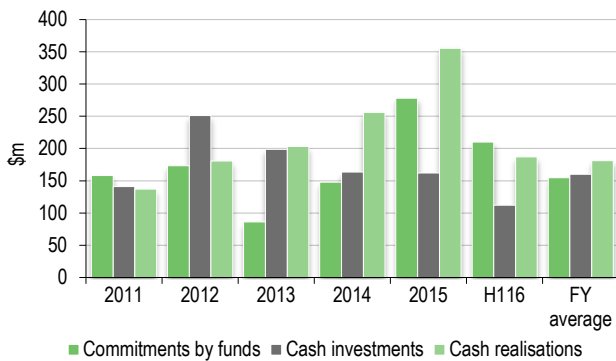
- NAV growth during the period (US\$ terms) was 6.2% including a 7.9% realised/value gain before fees and expenses, and a small negative FX movement.
- New commitments were made to HarbourVest funds totalling \$329m, taking the investment pipeline (both allocated and unallocated commitments) to \$947.5m, an increase of 29.1% compared with the year end.
- Cash received from realisations and dividends from investments was \$186.9m, compared with \$355.5m for the whole of FY15, reflecting a favourable environment for realisations. The company reports strong levels of activity in the private equity market and in total within the portfolio, there were 251 M&A and IPO events in the period, including six of HVPE's top 25 holdings. Although the number of events was somewhat below the same period last year (283), the proceeds of realisations represented a record, and the average uplift on carrying value in cases of corporate action was 37%.
- Reflecting the robust level of sales from the portfolio, the level of cash increased from \$67m at the year end to \$136m.

The significant increase in the level of unfunded commitments reflects a desire to ensure sufficient investments are made to generate future growth, and the confidence of the board and manager, based on extensive experience of past rates of cash calls and detailed cash flow modelling, which indicates that debt should not be required. Nevertheless, as a prudent measure and to provide liquidity in the event of unfavourable market conditions, an extension and increase in HVPE's credit facility has been arranged taking the total from \$300m to \$500m (see page 7 for further details).

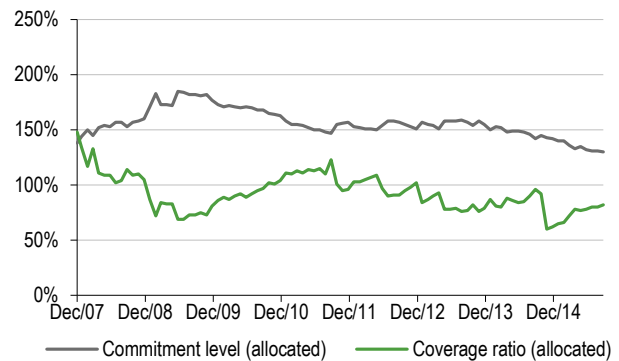
The evolution of commitments, investments and realisations is shown in Exhibit 2. Points to note here are that while levels have fluctuated from year to year, the five-year average level of each is broadly similar at around \$165m, while the increased pro rata rate of commitments in the first half is set to feed through to cash investments in future periods.

The commitment ratio shown in Exhibit 3 is calculated by taking the total of the NAV of investments and commitments allocated to underlying partnerships or to HarbourVest secondary and direct funds and dividing this by the NAV. The commitment level was high post launch, and has recently tailed off, with the allocated level standing at 130% of net asset value at the end of August (average over the last three years was 148%). This should rise as allocations are made following the increase in commitments (the total commitment ratio, including unallocated commitments was 161%, in line with its three year average).

As a measure of the ability to meet commitments, HVPE publishes a rolling allocated coverage ratio, which compares the total of cash, available credit and current year projected realisations, with the next three-years' commitments. This stood at 82% at end August and should increase following the establishment of the increased credit facility in September.

**Exhibit 2: Commitments, investments, realisations**


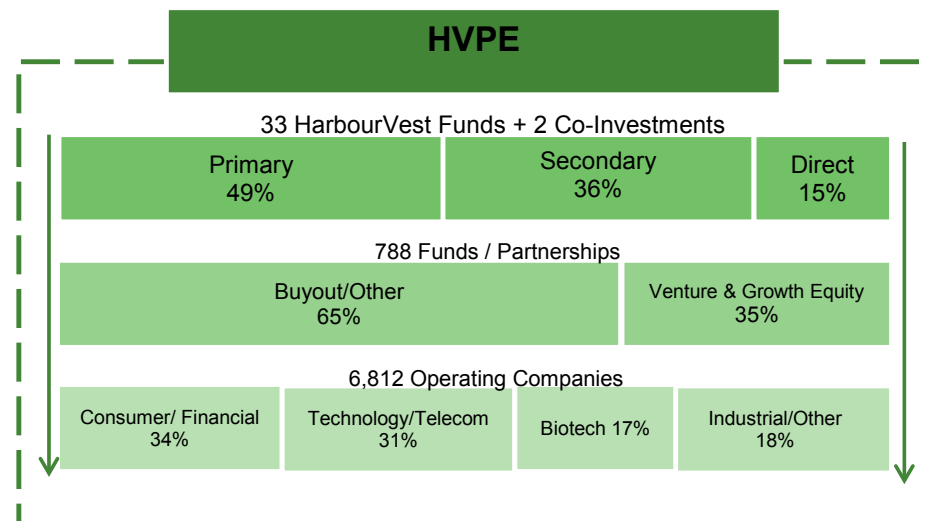
Source: HarbourVest Global Private Equity. Note: January FY.

**Exhibit 3: Commitment and coverage ratios**


Source: HarbourVest Global Private Equity. Note: Since inception.

## Fund profile: Diversified global private equity exposure

HarbourVest Global Private Equity (HVPE) is a closed-end Guernsey-incorporated investment company investing in a diversified portfolio of private equity investments aiming to deliver superior long-term capital appreciation. Initially listed on Euronext Amsterdam in December 2007 it was then also listed on the Specialist Fund Market of the London Stock Exchange in May 2010, moving to the Main Market in September this year. HVPE's manager sees it as a flagship portfolio and invests purely in HarbourVest funds that in turn invest in a range of funds, partnerships and direct private equity investments. Exhibit 4 sets out the fund of funds structure, highlighting the level of diversification in terms of fund category, stage and sector.

**Exhibit 4: HVPE outline of fund and investment structure**


Source: HarbourVest Global Private Equity

## Asset allocation

### Investment process: Applying experience, network and criteria

HVPE's manager, HarbourVest, has over 32 years' experience of managing private equity investments and in addition to its US base in Boston has an international network of offices. A four-strong investment committee leads the team of over 80 investment professionals.

HarbourVest takes an integrated approach to assessing investment opportunities across the primary, secondary and direct areas of private equity. This helps maximise the benefits of the wide network of industry relationships the team has established over time, and gives insight into managers' portfolios, capabilities and approach.

In the primary segment, (where commitments are made to funds on formation), due diligence is extensive including assessment of the skills and performance of the fund manager, the appeal of the fund's investment focus and the terms and profile of the fund.

In the secondary market, (where existing private equity assets are purchased), the manager values the portfolios of potential investments independently, projecting future performance, carrying out a bottom-up analysis by operating company and making an assessment of the fund manager responsible. HarbourVest has a track record of structuring complex transactions, including the Absolute and Conversus secondary purchases in 2011 and 2012.

HarbourVest's direct investments in private companies (usually co-investments with general partners) arise from its longstanding relationships with leading fund managers, which foster favourable co-investment opportunities. Sifting of the opportunities is assisted by reference to a proprietary transaction database covering 20 years, and a detailed company analysis and manager assessment is undertaken prior to investment.

HVPE invests in HarbourVest funds on launch, with allocations set to ensure portfolio diversification on a range of measures. HVPE sees a broadly consistent rate of investment as an important feature of its investment approach, as this means the portfolio is diversified by vintage. This averaging effect is enhanced by the three-tier structure, whereby commitments are made by HVPE to the relevant HarbourVest funds that typically make investment commitments to a number of partnerships over three to four years, which in turn invest in operating companies over the next three to five years.

For further detail on HarbourVest's investment approach and an introductory discussion of investment in the private equity sector see our initiation note on HVPE ([3 June 2015](#)).

## Current portfolio positioning

The diversification of the HVPE portfolio has already been illustrated in Exhibit 4, showing that the underlying investments consist of over 6,800 operating companies. These investments are diversified in terms of timing and development phase (Exhibit 5 below), with the intention that roughly half the portfolio is in the growth phase (five to nine years) and the balance evenly split between investment (one to four years) and mature (over 10 years). The average age of operating company investment is between five and six years (5.1 years at end July), providing scope for a good flow of realisations. In the six months to end July there were cash realisations of \$187m compared with \$356m for the whole of FY15.

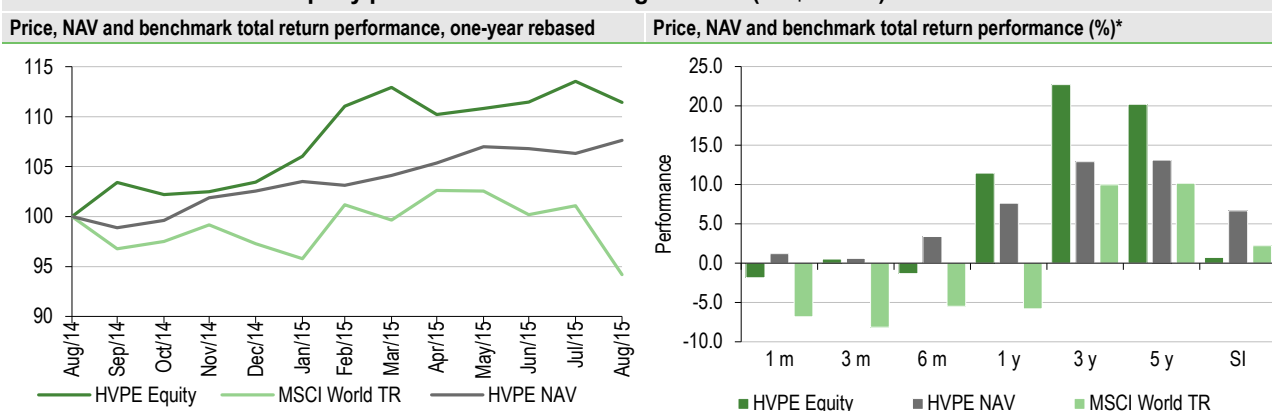
Exhibit 5: HVPE portfolio profile end August 2015 (%)									
Stage		Phase		Geography		Strategy		Industry	
Buyout	61	Investment	28	US	65	Primary	49	Consumer/financial	34
Venture and growth equity	35	Growth	51	Europe	20	Secondary	35	Technology/telecom	31
Other	4	Mature	21	Asia Pacific	10	Direct	16	Industrial/other	18
				Rest of world	5			Medical/biotech	17
	100		100		100		100		100
Source: HarbourVest Global Private Equity. Note: By phase, growth includes vintage years 2006 to 2010, mature pre-2006 and investment 2011 to 2015									

Source: HarbourVest Global Private Equity. Note: By phase, growth includes vintage years 2006 to 2010, mature pre-2006, and investment 2011 to 2015.

The portfolio is weighted towards the US (roughly two thirds of the portfolio) followed by Europe. The sector split shows that consumer/financial and technology/telecom account for 65% of the portfolio. As is the case for the private equity sector as a whole, buyout investments account for the majority of the portfolio at over 60% with 35% exposure to venture and growth investments.

## Performance: Outpacing world index and sector

**Exhibit 6: Investment company performance to end-August 2015 (US\$ terms)**



Source: Morningstar, Edison Investment Research. Note: \*Three and five years and since inception (6 December 2007) annualised.

**Exhibit 7: US\$ terms HVPE share price and NAV total-return performance relative to benchmarks**

	One month	Three months	Six months	One year	Three years	Five years	Since inception
Price versus MSCI World TR	5.3	9.5	4.4	18.3	38.9	54.5	(11.0)
NAV versus MSCI World TR	8.6	9.5	9.4	14.3	8.2	14.1	38.9
Price versus LPX 50 TR	4.6	6.2	(1.6)	10.9	14.0	26.2	7.6
NAV versus LPX 50 TR	7.8	6.3	3.0	7.1	(11.2)	(6.8)	67.9
Price relative to Morningstar IT PE ex-3i	(2.0)	(1.4)	(5.6)	9.0	48.9	57.6	9.8
NAV relative to Morningstar IT PE ex-3i	1.1	(1.3)	(1.1)	5.3	16.0	16.4	71.3

Source: Morningstar, Edison Investment Research. Note: Geometric calculation. Inception 6 December 2007.

HVPE's NAV total return has been ahead of the MSCI World Index over all the periods shown in Exhibit 7. It has also outperformed the Morningstar Investment Trust Private Equity (ex-3i) index for periods of one year and over. The price and NAV performance in US dollar and sterling terms is compared below. They are similar over five years but bigger differences are evident over other periods with long-term sterling weakness versus the dollar reflected in the since-inception figures.

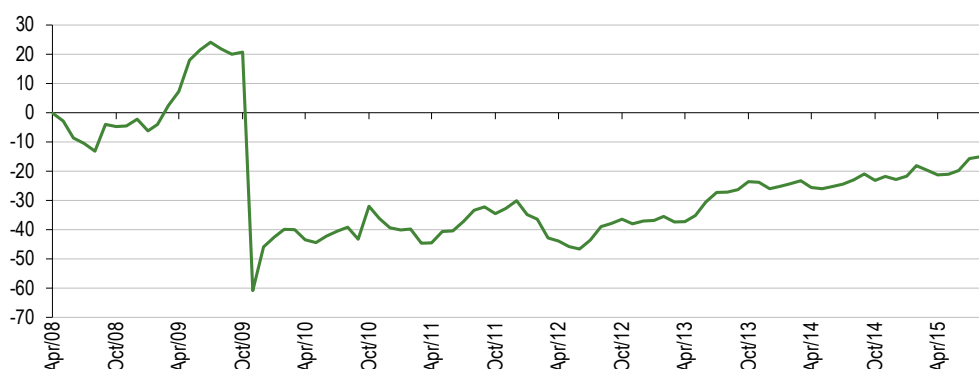
**Exhibit 8: Comparing dollar and sterling terms HVPE share price and NAV total return performance**

	One month	Three months	Six months	One year	Three years	Five years	Since inception
NAV USD	1.2	0.6	3.4	7.6	43.9	85.3	64.9
NAV GBP	2.7	(0.2)	(0.2)	16.2	48.6	85.1	117.2
Price USD	(1.9)	0.5	(1.3)	11.4	84.8	150.9	5.7
Price GBP	1.5	(0.8)	1.9	23.3	82.4	154.7	74.5

Source: Morningstar, Edison Investment Research. Note: To end-August 2015.

## Discount: Narrowing but still wide

HVPE shares currently trade at a discount of over 23% to the estimated end-August NAV of 1,074.65p (\$16.49). As shown in Exhibit 9, while still wide in absolute terms, the discount has been on a declining trend since touching 60% during the financial crisis (June 2009), and is only slightly wider than the average for its nearest peers (see page 8). If the company continues to achieve performance that matches or exceeds its peers then this, combined with the potential for improved liquidity arising from the Main Market listing and possible index inclusion, could provide the basis for a further narrowing of discount.

**Exhibit 9: Premium/discount to NAV since inception**


Source: Morningstar, Edison Investment Research. Note: Inception 6 December 2007.

## Capital structure and fees

As noted earlier, HVPE now has one class of share, with 79.9m ordinary shares in issue.

At the end of August, the company had net cash of \$129m and a \$300m credit facility, with an expiry date in April 2018. HVPE has subsequently agreed a renewal and increase in this facility to \$500m, expiring in September 2019, but with an annual option to extend by one year. The commitment fee is at a similar rate to the prior facility (90bps) and Libor margins on borrowing are below the previous level, stepping up from 265bps to 350bps contingent on the level of debt. While the board reports that there is no requirement for borrowing in the manager's five-year cash flow projections, the facility provides a significant margin of liquidity should the market go through an unfavourable phase for realisations, and provides comfort at a time when the level of commitments has been significantly increased.

The general level of fees in the private equity sector is higher than for quoted equity funds, reflecting the relatively high level of management input that is a feature of investment in private companies. Listed fund of funds bring another layer of costs relating to the listed entity, and any additional fees charged by the manager. For HVPE these charges equated to management fees and operating expenses of 1.9% and performance fees or carried interest of 0.8% of average NAV in FY15.

## Peer group comparison

Our peer group shown in Exhibit 10 is a subset of the 38 funds within the Association of Investment Companies' private equity sector classification that have a fund of funds structure. HVPE ranks third in size with a market cap of just over £670m.

HVPE's NAV total return performance ranks fourth over one year and second over three and five years and also beat the weighted average of the selected funds and the whole sector over all these periods.

HVPE's discount to NAV is slightly wider than the selected stock average in the figures shown. The private equity sector weighted-average discount of 3.5% is heavily influenced by 3i's 19.6% premium, without which the sector discount is approximately 19%.



**Exhibit 10: Private equity funds of funds**

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing	Yield
HarbourVest Global Priv Equity	673.9	18.1	52.4	88.2	0.8	No	-23.8	95.0	0.0
Aberdeen Private Equity	97.8	11.7	26.6	52.1	2.0	Yes	-27.5	85.0	2.5
F&C Private Equity Trust	163.4	13.1	28.1	57.5	1.4	Yes	-20.4	118.0	4.8
Graphite Enterprise Trust	418.3	6.5	29.6	61.3	1.4	No	-18.9	100.0	1.7
JPMorgan Private Equity	207.0	21.9	23.3	6.3	2.5	Yes	-27.8	125.0	0.0
NB Private Equity Partners	379.4	18.8	51.2	77.6	2.9	Yes	-18.8	124.0	4.1
Pantheon International	853.7	12.4	37.7	69.2	1.2	Yes	-19.4	92.0	0.0
SVG Capital	800.1	20.2	71.3	165.8	0.9	No	-24.6	89.0	0.0
Standard Life Euro Private Eq	330.4	10.2	31.4	60.6	1.0	Yes	-23.6	100.0	2.3
<b>Selected stock weighted average</b>		<b>15.3</b>	<b>45.5</b>	<b>87.2</b>	<b>1.3</b>		<b>-22.1</b>	<b>99.2</b>	<b>2.9</b>
<b>Sector wtd average (38 funds)</b>		<b>13.2</b>	<b>45.6</b>	<b>54.6</b>	<b>2.7</b>		<b>-3.5</b>	<b>100.6</b>	<b>4.4</b>
<b>HVPE rank (out of 9 funds)</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>9</b>		<b>6</b>	<b>6</b>	<b>6</b>

Source: Morningstar, 30 September 2015, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

## The board

There are seven directors on HVPE's board of whom five are independent. The Chairman, Sir Michael Bunbury, Andrew Moore, Jean-Bernard Schmidt, Keith Corbin and Brooks Zug were all appointed as directors in October 2007. Alan Hodson and Peter Wilson joined in April 2013 and May 2013 respectively. While already deemed independent, two directors, Andrew Moore and Keith Corbin, have indicated that they plan to resign as directors of HarbourVest Structured Solutions II GP once that company has appointed a new director. The non-independent members of the board are Brooks Zug, who is a founder of HarbourVest and Peter Wilson, who leads HarbourVest's secondary investment activity from London. The directors have experience in financial services, equity markets and venture capital markets. As part of its preparation for joining the Main Market of the London Stock Exchange, the board agreed to follow best practice for a Guernsey-incorporated investment company. Two exceptions to this are first, that HarbourVest retains the right to appoint two directors while it remains manager and second, that independent directors will be subject to re-election every third year, while those who have served nine years or more will be subject to annual re-election.

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