

# HarbourVest Global Private Equity

Diverse and selective

HarbourVest Global Private Equity's (HVPE) first-half results showed good progress in NAV (+6.8% in US\$ terms), ahead of its listed equity benchmark and a private equity index, both of which were negative over the period. Looking ahead, HVPE notes the high valuations prevailing in the private market and the risks of further listed market volatility. In this environment, the portfolio's diversification and HarbourVest's experience in manager selection are likely to be particularly valuable attributes.

12 months ending	Share price (GBP %)	NAV (GBP %)	Blended benchmark* (GBP %)	FTSE All-World (GBP %)	LPX 50 (GBP %)	LPX 50 NAV (GBP %)
30/09/14	25.5	16.0	11.8	11.8	5.9	6.0
30/09/15	8.8	16.4	0.4	0.6	7.6	6.6
30/09/16	23.1	25.8	31.3	31.3	26.4	25.0
30/09/17	18.5	9.4	15.5	15.5	22.8	11.1
30/09/18	18.9	17.9	13.4	13.4	10.7	10.4

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.

## Consistent investment using a disciplined approach

HarbourVest, the manager of HVPE, has been investing in private equity since 1982, establishing in the process a wide network of potential third-party managers and gaining experience through multiple economic and market cycles. For HVPE, this informs a steady pace of investment through HarbourVest funds to mitigate the impact of less favourable market conditions. The rigorous selection process includes assessment of the characteristics of managers and the strategy and exposure of funds. The resulting HVPE portfolio is well diversified by manager-type, stage, phase, strategy and industry, with exposure to over 1,000 companies (1,000 companies account for 84% of the portfolio). HVPE has a US orientation with target portfolio exposure of 65%, compared with 18% for Europe and 12% for Asia Pacific.

## Recent developments: H119 outperformance

HVPE's first-half report for the period to end-July showed NAV growth of 6.8% in US\$ terms, markedly ahead of both its benchmark the FTSE All World TR index (-2.7%) and the private equity, LPX 50 index (-1.3%). Strength in the US dollar meant that in sterling terms the NAV increase was 15.6%. Commitments of \$355m to HarbourVest funds during the period included \$150m to a real assets fund (expected to be less sensitive to the economic cycle) and \$135m for a diversified US fund (prospectively helping to increase the US weighting, which is currently below HVPE's target exposure).

## Valuation: Discount wider than sector peers

HVPE shares trade at a 22.7% discount to net asset value, slightly above its recent average levels and noticeably higher than the average for our selected peer group.

### Investment companies

30 October 2018

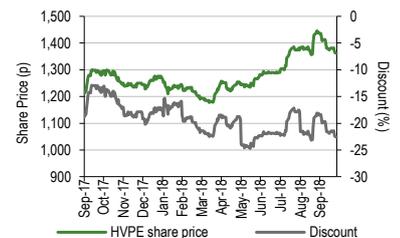
**Price** 1,360p  
**Market cap** £1,086m  
**NAV\*** £1,405m

NAV per share\* 1,759p  
Discount to NAV 22.7%

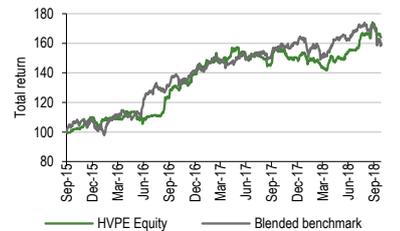
\*Estimated by HVPE as at 30 September 2018.

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 1,446p 1,178p  
NAV\*\* high/low 1,765p 1,481p

\*\*Including income.

### Gearing

Gross\* 0.0%  
Net cash\* 11.9%

\*As at 30 September 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. Its investment objective is to generate superior shareholder returns, relative to global listed equities, through long-term capital appreciation by investing primarily in a diversified portfolio of private markets investments. Performance is benchmarked against the FTSE All-World index.

#### Recent developments

- 18 October 2018: Release of H119 results (see comments on next page).
- 14 May 2018: Steven Wilderspin joined the board as a non-executive director.
- 11 May 2018: FY18 results announced.
- 16 March 2018: Strategic allocation targets revised – direct strategy from 15% to 20%, mezzanine and real assets from 5% to 10%, primary strategy from 60% to 55%, and buyout stage from 65% to 60%.
- 6 December 2017: US\$500m credit facility renewed & extended to five years.

#### Forthcoming

AGM	July 2019
Final results	May 2019
Year end	31 January
Dividend paid	N/A
Launch date	6 December 2007
Continuation vote	N/A

#### Capital structure

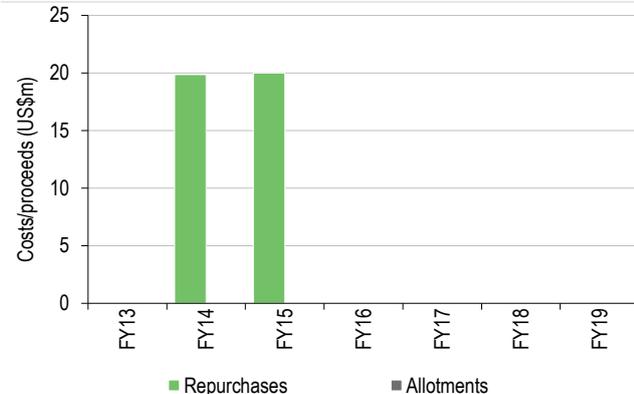
Ongoing charges	1.89% (FY18 ex perf fees)
Net cash	1.9% (end-September 2018)
Annual mgmt fee	1.01% (FY18)
Performance fee	Secondary invts & direct co-invts only
Company life	Indefinite
Loan facilities	US\$500m

#### Fund details

Group	HarbourVest Partners LLC
Manager	HarbourVest LP
Address	BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA
Phone	+44 (0)1481 750 800
Website	<a href="http://www.hvpe.com">www.hvpe.com</a>

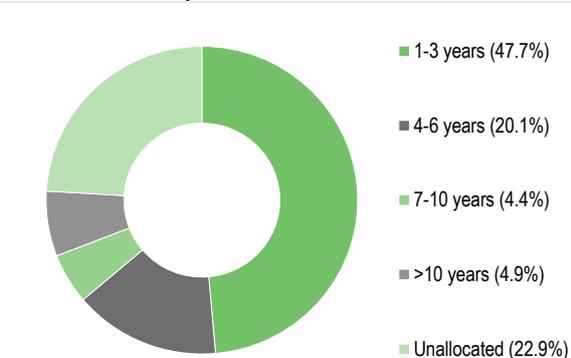
#### Share buyback policy and history (financial years)

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.

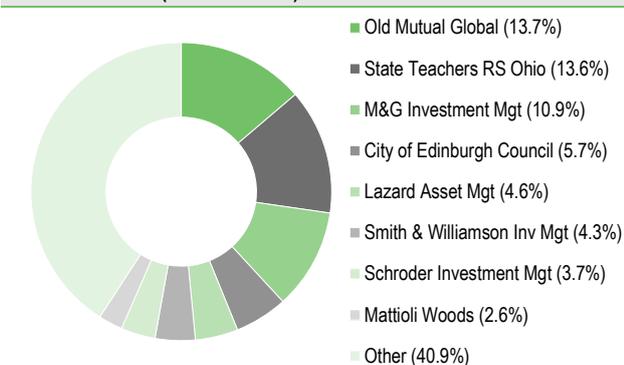


#### Age of the investment pipeline (31 July 2018)

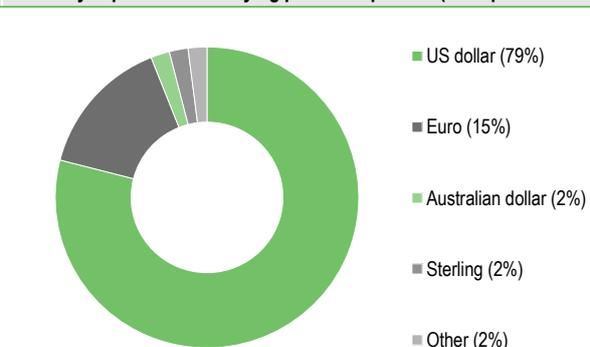
This analysis shows the age profile of HVPE's investment pipeline (totalling US\$1,383m). When commitments are made to underlying third-party funds or HarbourVest secondary or direct funds, these are classified as allocated.



#### Shareholder base (4 October 2018)



#### Currency exposure – underlying partnership funds (30 September 2018)



#### Top 10 third-party managers within HVPE's underlying portfolio

(31 July 2018)

Manager	Region	Strategy	Stage	% of portfolio
IDG Capital Partners	Asia	Secondary	Venture	2.6
Thoma Bravo	US	Primary	Mid-cap buyout	1.9
CapVest Equity Partners	Europe	Secondary	Mid-cap buyout	1.7
Insight Venture Management	US	Primary	Growth	1.6
Index Ventures	Europe	Primary	Venture and growth	1.6
Compass Partners	Europe	Secondary	Mid- to large-cap buyout	1.3
Hellman & Friedman	US	Primary	Large-cap buyout	1.2
DCM	Asia	Primary	Venture and growth	1.2
The Blackstone Group	US	Primary	Buyout	1.2
Pemba Capital	Asia	Secondary	SME buyout	1.0
<b>Top 10 (% of portfolio)</b>				<b>15.3</b>

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

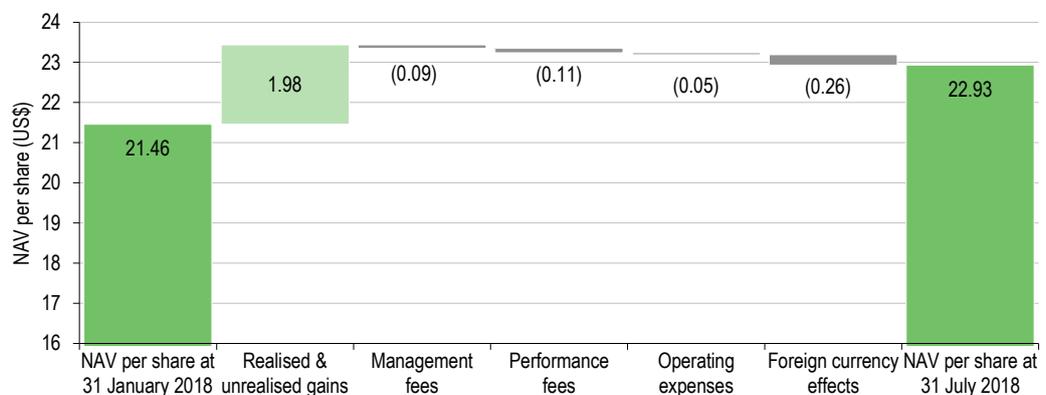
## First-half report: Strong NAV growth

### Key points

HVPE reported half-year results to the end of July on 18 October.

- NAV growth during the period in US dollar terms was 6.8%, including a 9.2% realised and unrealised valuation gain and a 1.2% negative effect from currency movements arising from US dollar strength against euro and other currency investments that account for 23% of the portfolio (see Exhibit 2).
- This performance was ahead of both the FTSE All World TR Index (-2.7%) and private equity peers as represented by the LPX 50 NAV index (-1.3%).
- Given the predominance of US investments, HVPE focuses on performance measured in dollar terms. For UK investors, who account for approximately 68% of the total share capital, US dollar strength boosted NAV performance in sterling terms, resulting in a 15.6% increase in NAV (see table on front page for discrete 12-month performance in sterling terms).
- Within the investment portfolio the strongest areas of growth were: geographically, the US (+9.3%); by strategy, direct (+8.4%); and by phase, growth equity (+11.5%).
- During the half year, HVPE made new commitments to HarbourVest funds of \$355m compared with \$162m for the prior year period and \$425m for FY18. A further \$95m has been committed to funds between the half-year-end and 17 October. Cash invested in funds was \$203m compared with distributions from investments of \$142m (\$119m and \$149m, respectively, for H118).
- HVPE continued to achieve substantial gains on carrying value on realisations, with a weighted average uplift of 53% on the 63 largest transactions (84% of the total value) in the period. The return multiple on these transactions was 5.28x cost. The average uplift for realisations on carrying value since end-July 2012 has been 41%.
- Reflecting the higher level of cash investment versus realisation, the company cash balance was lower at \$193m compared with the year-end level of \$257m. This was in line with HVPE's expectation given earlier commitment levels, and a further significant reduction is seen as possible by the year end. At end-September, the cash balance was \$217.1m and the \$500m credit facility was undrawn.
- HVPE reported a total net expense ratio of 1.23% for the period (2.46% annualised) that compares with 1.56% for H118 and 2.90% for FY18. The ratio has declined over a number of years, reflecting lower fees charged on some HarbourVest funds in recognition of the level and frequency of HVPE's investment commitments.

**Exhibit 2: Movement in NAV per share (US\$) in six months to 31 July 2018**

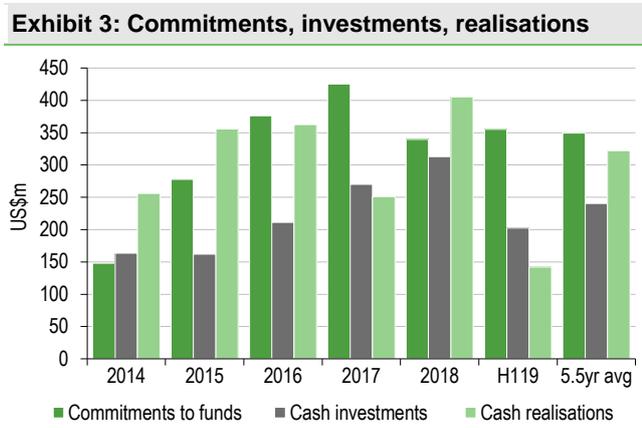


Source: HarbourVest Global Private Equity, Edison Investment Research

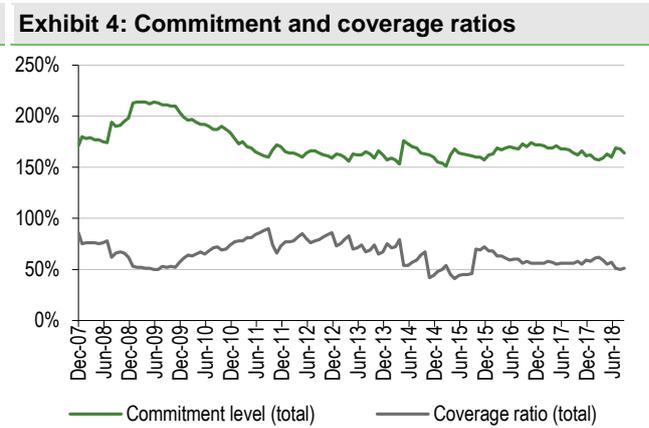
## Commitments, cash investments and realisations

As highlighted above, the uplift on realisations compared with carrying value has remained substantial. The next two exhibits provide a longer-term perspective on commitments and cash investments and distributions from funds. As a reminder, HVPE invests through a three-tier structure with its investment commitments made to specific HarbourVest funds, which make commitments to a number of partnerships over three or four years that in turn invest in operating companies over three to five years. HVPE aims for a balance in the portfolio, with approximately 25% in both investment and mature categories and 50% in the growth phase (between five and 10 years from initial capital call for primary funds).

Exhibit 3 gives a view of the progression of HVPE investments by tracking commitments and the subsequent cash outflows and inflows. Unsurprisingly, there is some lumpiness in timing between the different periods, reflecting the incidence of appropriate opportunities at each stage and the need to maintain balance in the portfolio. Looking at the averages shown in the last set of columns, the three metrics are more closely aligned than for several of the individual periods as the pace of commitment, cash investment and realisation even out over time.



Source: HarbourVest Global Private Equity, Edison Investment Research



Source: HarbourVest Global Private Equity, Edison Investment Research

Exhibit 4 illustrates how the level of commitments has been managed to maintain exposure and financing coverage within a range. The commitment level is calculated as the total value of the investment portfolio and investment pipeline divided by the net asset value and gives an indication of HVPE's total exposure to the private equity market. This is used as a measure of capacity for additional commitments to HarbourVest funds and co-investments. The coverage ratio shown is the level of cash and available credit facility as a percentage of the investment pipeline (including both allocated and unallocated commitments). This is a commonly used indicator of balance sheet risk; HVPE highlights that its investment cycle is longer than many quoted peers meaning that it requires a relatively high level of unfunded commitments to remain fully invested; its coverage ratio (latest value 51%) may therefore appear relatively low while not necessarily posing a greater risk. An alternative ratio given by HVPE that measures the medium-term exposure adds estimated realisations in the current year to cash and credit available and divides this by estimated investments over three years; at end-September, this ratio stood at 77%.

## Portfolio positioning

In the following three exhibits, we collate HVPE disclosure on the portfolio positioning on five criteria: investment stage, geography, strategy, year of investment and industry. On page two, there are charts showing the split of funds by currency of denomination (79% US dollar) and an analysis of the investment pipeline by vintage (48% one to three years).

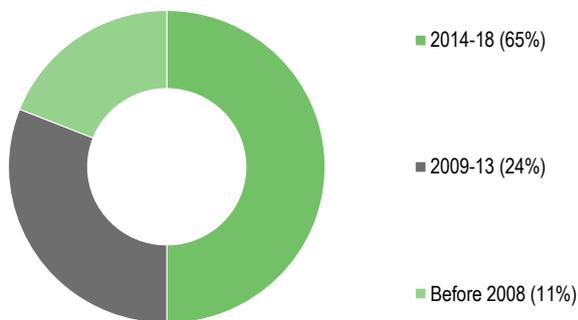
**Exhibit 5: Actual and target exposures by stage, geography and strategy (%)**

Investment stage			Geography		Strategy			
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Buyout	59	60	US	57	65	Primary	45	55
Venture and growth equity	31	30	Europe	20	18	Secondary	32	25
Mezzanine and real assets	10	10	Asia Pacific	16	12	Direct	23	20
			Rest of world	7	5			
	<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>

Source: HarbourVest Global Private Equity. Note: as at end-September 2018.

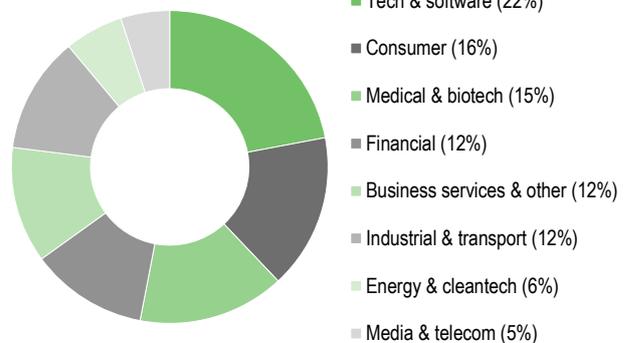
In Exhibit 5, we include the last reported portfolio position and the company's five-year rolling strategic asset allocation targets (last revised in February 2018). This shows the predominance of buyout, US and primary investments, which in turn broadly mirror the overall profile of the global private equity industry. Looking at the portfolio position compared with the allocation targets, the two more obvious differences are that the US and primary exposures are below target. The US underweight in part reflects the strong performance of Asia Pacific investments, and HVPE aims to increase the US weighting over the five-year target period. Similarly, the below-target position in primary strategies (investment in initial fund offerings) reflects strong performance in funds making secondary purchases and direct co-investments. HVPE notes that it still sees primary as core to its strategy, as it gives access to managers with strong records whose funds are less likely to be available on the secondary market. It will therefore also seek to move towards the target allocation here. A final note on this analysis is that the mezzanine and real assets weighting had increased by two percentage points to 10% since the end of FY18 and, in order to increase exposure to assets less correlated with the broader macroeconomic cycle HVPE, committed \$150m to a new HarbourVest fund in this area, where it is a seed investor and will benefit from a share in management fee income.

**Exhibit 6: Analysis by year of investment (H119)**



Source: HarbourVest Global Private Equity, Edison Inv. Research

**Exhibit 7: Analysis by industry (end-September 2018)**



Source: HarbourVest Global Private Equity, Edison Inv. Research

The analysis in Exhibit 6 shows one measure of time diversification in the portfolio. While the chart on page two shows the vintage of commitments in the investment pipeline, this illustrates the weighting of the existing portfolio by year of initial investment in underlying operating companies. Here, the weighting to the latest five years at 65% has increased compared with 59% at the same point last year, giving the portfolio a modestly younger profile following a year of relatively high cash realisations in FY18 (see Exhibit 3).

In the industry analysis (Exhibit 7), tech & software is comfortably the largest sectoral exposure and this has increased from 20% in October 2018, countered by a reduction in media & telecom from 9% to 5%. The manager has noted that shifts in the technology landscape over the next 10 years are likely to be a salient investment theme (along with demographic changes and a growing global role for China) and sees its access to, and selection of, well-regarded managers as an important capability in this sector. Comparing the industry exposures with a public market index, MSCI World, the sectoral classification is not the same but, where they broadly overlap, the technology exposure

is lower in the index (19%), as is healthcare (12% versus 15% for medical & biotech at HVPE). The index exposure to financials is higher than HVPE's at 16% compared with 12%.

## Private market background and outlook

In HarbourVest's commentary on the private equity market background, key themes in the US are a focus on generating liquidity (exits) in the buyout market and continued growth in the levels of undeployed capital in both buyout and venture markets. The high level of this dry powder is also a feature outside the US and is contributing to historically high valuations that pose a challenge for managers (McKinsey's 2018 private equity sector report indicated a global median EV/EBITDA of 10.7x for acquisitions in 2017, a 10-year high). In response, managers are engaging in more complex transactions, more formal profit improvement plans, and buy and build strategies. In Europe, public market volatility has contributed to fewer IPO exits and, with fewer M&A exits, an overall decline of 39% in exits was seen in the first half of calendar 2018.

Looking ahead, equity markets have recently seen an increase in volatility but still remain close to highs, with macro uncertainties a potential source of further corrections that would have a read across to private equity pricing. Against this, the private equity investment cycle is relatively long term and HVPE's approach of consistent investment over time moderates the impact of fluctuating pricing, for example, while seeking to extract value through access to and selection of underlying managers.

## Discount: Just above average levels

At a discount of 22.7% to net asset value, HVPE shares are trading at a level that is wide in absolute terms and slightly above the average levels for one, three and five years (19.8%, 20.7% and 20.6%, respectively). Exhibit 8 shows that the discount drifted wider between January and July 2018, perhaps in response to a flat NAV return in sterling terms in the second half of FY18, and the strength of first half-FY19 performance could support a continuation of the recent discount narrowing. As noted in the next section, the current discount is also above the average for a peer group of fund of funds.

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



Source: Thomson Datastream, Edison Investment Research

## Peer group comparison

In our peer comparison (Exhibit 9), we include six other members of the AIC Private Equity sector that also have a fund of funds structure. The total returns are in sterling terms and HVPE is ahead of the peer group averages over one, three, five and 10 years. It has the second highest discount to

NAV in the group at over 22%, with two other companies trading at discounts of over 20%. The ongoing charge is at the upper end of the range within the group.

**Exhibit 9: Private equity funds of funds peer group priced as at 26 October\***

% 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	1,087.7	15.6	67.4	104.8	239.8	(22.6)	1.89	Yes	100	0.0
F&C Private Equity Trust	241.8	7.3	44.8	67.5	83.7	(6.6)	1.26	Yes	88	2.2
ICG Enterprise Trust	569.3	12.5	56.0	66.3	126.0	(20.2)	1.54	Yes	100	2.6
JPEL Private Equity	238.4	21.2	70.6	91.3	49.5	(17.0)	1.85	Yes	100	0.0
NB Private Equity Partners	512.3	13.8	59.4	109.7		(23.6)	1.91	Yes	100	3.7
Pantheon International	1,114.8	13.4	60.2	84.0	122.2	(19.9)	1.34	Yes	100	0.4
Standard Life Private Equity	521.2	8.3	57.1	83.0	73.1	(18.4)	1.17	No	100	3.7
<b>Peer group average</b>		<b>13.4</b>	<b>60.7</b>	<b>89.3</b>	<b>142.8</b>	<b>(20.0)</b>	<b>1.58</b>		<b>99</b>	<b>1.5</b>
<b>Rank</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>6</b>	<b>2</b>		<b>2</b>	<b>6=</b>

Source: Morningstar, Edison Investment Research. Note: \*performance to end-July 2018. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

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