HarbourVest Global Private Equity

Acquisition

Edison investment research

Continuing to invest

Listed private equity

HarbourVest Global Private Equity (HVPE) has joined with other HarbourVest funds to acquire Conversus Capital's (CCAP) portfolio of private equity fund-of-funds for $1.4bn. The assets are being acquired at a 14% discount to its adjusted NAV, only in line with the average global secondary transaction during H211 despite the mature cash generative nature of the portfolio. The secondary market continues to trade at a significant premium to the listed market, which is currently trading on a 36% discount. We believe one factor behind this large discount is LPE's lack of share trading liquidity, hindering shareholders from selling and discouraging new investment. The consolidation of this sector allows investors that wish to invest, like HVPE, to do so at attractive prices while providing immediate liquidity to those that do not.

Cumulative returns	Total share return (%)*	Total NAV return (%)*	Total return MSCI World (%)*	Total return LPX 50 (%)**	Total return LPX Europe (%)**
Inception*	(28.7)	15.0	(15.6)	(42.6)	(47.8)
3 years	(26.1)	50.3	36.7	52.8	42.6
2 years	30.8	34.5	24.0	23.3	14.6
1 year	(3.1)	5.4	(5.0)	(17.2)	(24.0)

Source: Morningstar, Bloomberg. Note: *HVPE inception 6 December 2007. All returns calculated as at 30 June 2012. Euronext data is used as a proxy for HVPE's performance prior to its LSE listing. **LPX Europe Index covers European LPE; LPX 50 covers global LPE.

Conversus Capital

Conversus is a publicly traded portfolio of third-party equity funds with over $1.7bn in assets under management (AUM). Last September Conversus adopted a permanent harvesting strategy in which it discontinued new investment so as to accelerate return of capital to unit holders. In February 2012 management began a strategic review, which culminated in the agreed sale to HVPE. This deal offers Conversus Capital's unit holders a 14% premium to the pre-deal share price ($20.21) and an opportunity to re-invest in listed private equity, such as HVPE, at a wider discount.

Sector consolidation

Many LPE funds came to market near the peak of the cycle in 2007. In general, share price performance has disappointed although NAV performance has kept pace with listed equities. In our view consolidation would potentially create a better structure for the listed PE sector, providing an exit to investors who no longer believe in the future performance of the asset class, and creating larger, more liquid entities for those that wish to do so.

In line with the secondary market

As discussed in our recent note on HVPE, "One-stop shop", HVPE has a strong track record of NAV growth versus peers and believes that by continuing to invest and utilising its balance sheet flexibility, it can build more value over the long term than a policy of non-investment and effective run-off. Furthermore, a consolidation of the sector should support further improvement in HVPE's share trading volume.

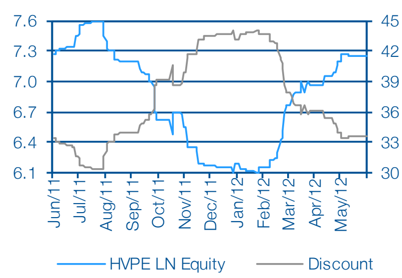
9 July 2012

Price	$7.25
Market cap	$600m
NAV	$943.4m
NAV per share	$11.41*
Discount to NAV	36%*
Yield	N/A

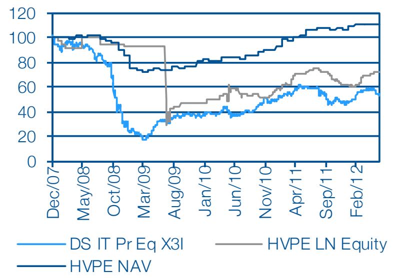
** Last published NAV as at 31 May 2012.*

Shares in issue	82.7m
Code	HVPE
Primary exchange	LSE
Other exchanges	Euronext

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	$7.6	$6.1
NAV high/low	$11.45	$10.91

Next events

September 2012 Interim report

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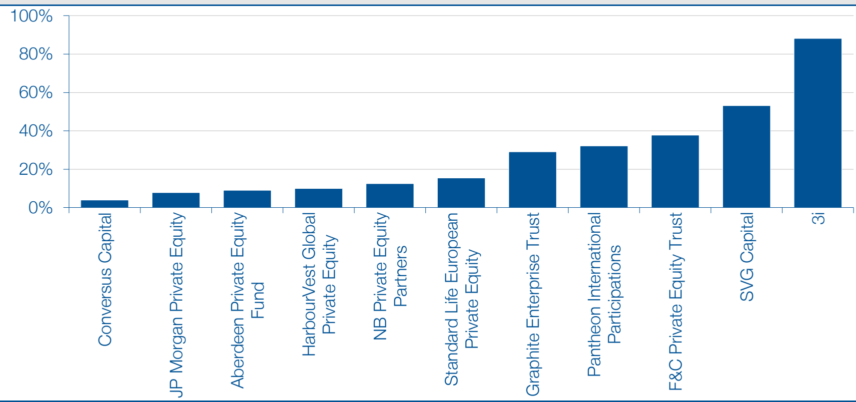
Consolidated v consolidator

Conversus Capital

Conversus Capital is invested in a portfolio that includes commitments to primary funds, funds purchased on the secondary market and direct co-investments in individual companies. The portfolio is comprised of participation in over 200 funds with exposure to over 1,800 underlying corporates. Conversus has also deployed capital to repurchase its units and has a quarterly unit holder distribution policy. The portfolio is relatively mature with 98% being of a 2008 vintage or earlier, and Conversus had been expecting substantial amounts of cash flow over the remaining life of the portfolio. Like many European LPE funds, Conversus launched at the peak of the market in July 2007 (HVPE launched in Dec 2007). Since the crash, it has continued to trade at a sizeable discount although less than the sector average. This was compounded by its share trading volumes, which were among the lowest in its peer group.

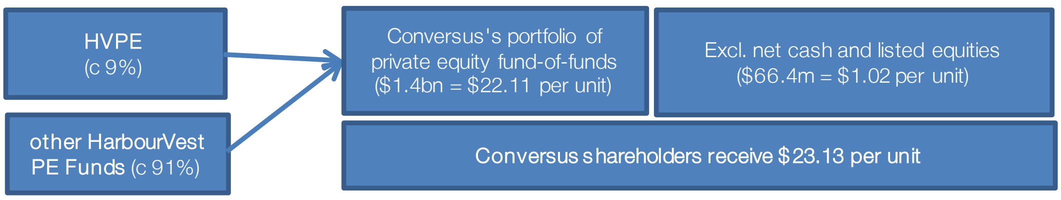
Exhibit 1: Share trading volume (historic 12-month volume versus current share capital, %)



Source: Thomson, Edison Investment Research

Management has responded to investors' frustration at the constant price discount by implementing a permanent harvesting strategy, paying a dividend and buying back stock. This harvesting strategy ($500m was returned to share holders in 2011) coupled with its maturing portfolio has helped Conversus shrink its price discount to 23%, which is the lowest among its peer group. However management has been unable to reduce this any further, which highlights the limitation of capital distribution management in reducing a funds discount to NAV. This deal with HVPE offers an alternative to Conversus Capital's shareholders in that it generates a rapid method of asset realisation at a discount it has not traded at since early 2008. We believe that more transactions of this nature are likely in the market, as it continues to polarise into companies like HVPE pursuing a continuing investment strategy and others seeking some form of run-off.

Exhibit 2: Structure of the deal*



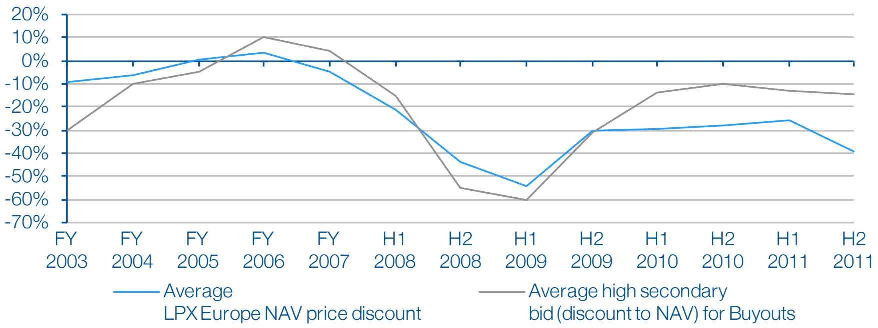
Source: Company data. *Assumes all of the cash offer is accepted.

HVPE has joined with other HarbourVest funds to acquire Conversus Capital's portfolio of private equity fund-of-funds for $1.4bn ($22.11 per unit). This deal excludes Conversus net cash and listed equities of $66.4m ($1.02 per unit) and its investment management division. Conversus Capital's shareholders that wish to remain invested may receive interest in HVPE's acquisition vehicle HarbourVest Structured Solutions II L.P; although this is limited to 49.9% in total. HVPE's direct investment is expected to be between $65-130m, depending on the number of Conversus investors that cash out, and will be funded through its existing $500m credit facility. Total gearing for the deal will not exceed 24% and is expected to be below 20%. Similar to the Absolute Private Equity deal last year, the quality and the maturity of Conversus' portfolio is expected to generate substantial amounts of cash flow and facilitate a relatively quick repayment of capital. Absolute has already become cash positive and distributed $5.8m to HVPE in May 2012.

Secondary vs LPE discounts

During the financial crisis some funds got into difficulties as their commitments to invest were drawn down faster than anticipated, while realisations dried up. Squeezed for cash, these companies (HVPE was not one of them) sought to raise dilutive equity or sell assets at depressed prices in the secondary market. This forced selling drove secondary transactions to a larger discount as shown in Exhibit 3.

Exhibit 3: Secondary vs LPE discounts



Source: Cogent Partners, LPX Group

The recovery in LPE pricing has not kept pace with that of the secondary market such that the spread between the two is back to its widest levels since 2003. We believe the lack of share trading liquidity within the LPE sector is one of the factors behind this as it prevents those shareholders that wish to sell from doing so and discourages new investment. The consolidation of the sector, of which this deal is part, allows those companies that wish to invest, like HVPE, to do so at attractive prices while providing immediate liquidity to those that do not.

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