



Private equity delivers but remains unloved

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Summary

Listed private equity was the best-performing sector in 2021, delivering excellent shareholder returns as portfolio valuations rose sharply, partly due to realisation activity remaining strong. Despite the good returns delivered in recent years, many funds continue to trade on double-digit discounts - perhaps there will be a reappraisal in 2022. In contrast, China-focused strategies struggled. The funds declined heavily as their portfolios were negatively impacted by the government crackdown on key market sectors. These losses were exacerbated as the funds de-rated from premium ratings onto discounts as investors reassessed country risk. Japanese and Biotech strategies also performed weakly over the year. The outlook for 2022 remains unclear as investors grapple with whether high inflation is going to persist or be a temporary issue.

Key Points

Market moves past Covid and focuses on inflation. Over 2021, the trust sector (ex 3i Gp) returned +15%, lagging the +18% return from the FTSE All Share index (Fig 6). This was a year where investors moved past the pandemic and focused on other factors. The market continues to be in a state of flux as investors wrestle with how transient inflation is, and how this will impact the cost of capital going forward.

Largest price risers. The list of largest share price risers is dominated by private equity funds and related strategies. Many share prices rose by +40% or more, as the underlying portfolios performed strongly, propelled by significant valuation uplifts and good realisations. Despite the sector's excellent performance over the last few years, many of the funds still trade at wide discounts, reflecting wariness over valuations and continued lack of investor enthusiasm for the sector. However, we continue to believe the macro backdrop for the sector remains favourable with low rates, strong levels of realisations and rising markets. The two strongest performing funds in price terms were BMO Private Equity (+66%) and NB Private Equity (+66%). Over the first nine months of the year, BMO

Private Equity experienced realisation levels three times those of 2020. Its share price was also boosted by its discount re-rating from -36% to -16%. NB Private Equity, which delivered NAV growth of +48% (in £) over the 11 months to the end of November, was supported by the valuation uplifts in Constellation Automotive and the IPO of AutoStore. Despite the strong returns, the fund's discount remains wide at 19% (Fig 7). **RIT Cap** saw its share price advance by +35% as the strategy's NAV TR of +20% was boosted further by the trust positively re-rating from a -10% discount onto a 2% premium. Caledonia IT also saw good portfolio returns (+23% to 30/11/21), plus a positive discount re-rating. Over 2021, the discount narrowed from -19% to -14% helped by the strong levels of realisations. It is now trading close to its highest rating for five years.

Largest price fallers. Chinese funds fell heavily as the government regulatory crackdown negatively impacted the share prices of the country's largest tech and education companies. The regulatory interference started in late 2020, but intensified last year. The largest fund share price faller was Baillie Gifford China Growth, with the price falling -29%. The fund's NAV declined by -14%, but this was exacerbated by the shares de-rating from an 18% premium onto 2% discount. Similarly, the shares of JPM China G&I also de-rated from a 4% premium onto a -1% discount. The trust's NAV declined by -22%. Surprisingly, despite the heightened country-specific risk, many of the China funds continue to trade close to NAV. Japanese funds also struggled in 2021, with many delivering negative returns and Japanese small-cap strategies faring worst. Baillie Gifford Shin Nippon and JPM Japan Small Cap G&I both experienced share price declines of -17%. Lindsell Train, a trust which has a strong retail following, saw its share price fall by -10%. The fund's actual NAV increased by +7% but the shares de-rated from a 27% premium onto a 9% premium.

Sector discount moves. Property funds and property debt funds recovered from their pandemic-related de-rating in 2020. The UK commercial property fund sector recovered from trading on an 18% discount to a 3% discount. Similarly, the property debt sector positively re-rated from a 12% discount, onto a 4% discount as investors became more comfortable with the veracity of the portfolio LTV statistics and there was no increase in borrower defaults. Despite delivering very strong returns over 2021, the Private Equity sector (ex 3i) only experienced a positive re-rating of 4% and the sector ended the year trading at an average discount of 12%, which is one of the widest discounts relative to other sectors. The Royalty sector saw its premium decline from 10% to 3% over the year, as the premium on Hipgnosis decreased. The Japanese Smaller Companies sector de-rated by -5.5% from a 4% premium to a 1% discount, with much of this driven by the deflating of the premium on Baillie Gifford Shin Nippon, which dominates the sector.

Figure 1: Largest price risers over 2021 (Total Return)

| Fund | Market Cap (£m) | % Price Change |
|--------------------------------|-----------------|----------------|
| 1 The Schiehallion Fund | 1,416 | +101 |
| 2 BMO Private Equity | 362 | +66 |
| 3 NB Private Equity | 807 | +65 |
| 4 Standard Life Private Equity | 886 | +49 |
| 5 Oakley Capital Investments | 747 | +48 |
| 6 HarbourVest Global PE | 2,292 | +47 |
| 7 Caledonia Investments | 2,227 | +44 |
| 8 India Capital Growth Fund | 134 | +43 |
| 9 Mobius | 167 | +42 |
| 10 HgCapital | 1,914 | +40 |
| 11 Strategic Equity Cap | 201 | +37 |
| 12 ICG Enterprise | 869 | +35 |
| 13 RIT Capital Partners | 4,309 | +35 |
| 14 UIL | 210 | +35 |
| 15 Middlefield Canadian Income | 125 | +34 |

Figure 2: Largest price fallers over 2021 (Total Return)

| Fund | Market Cap (£m) | % Price Change |
|-------------------------------------|-----------------|----------------|
| 1 Baillie Gifford China Growth | 230 | (29) |
| 2 JPMorgan China Growth & Income | 412 | (25) |
| 3 Biotech Growth | 489 | (25) |
| 4 Edinburgh Worldwide | 1,187 | (21) |
| 5 Syncona | 1,413 | (19) |
| 6 Fidelity China Special Situations | 1,600 | (18) |
| 7 Baillie Gifford Shin Nippon | 695 | (17) |
| 8 JPMorgan Japan Small Cap G&I | 261 | (17) |
| 9 BlackRock Latin American | 134 | (11) |
| 10 Baillie Gifford Japan | 927 | (10) |
| 11 Atlantis Japan Growth | 103 | (10) |
| 12 Lindsell Train | 255 | (10) |
| 13 JPMorgan Japanese | 1,041 | (8) |
| 14 Fidelity Emerging Markets | 748 | (8) |
| 15 Aquila European Renewables | 345 | (8) |

Source: Datastream. Excludes funds with market capitalisations of less than £100m at 31/12/21, VCTs, splits, REITs and highly geared ordinary share structures

Figure 3: Largest NAV risers over 2021 (Total Return)

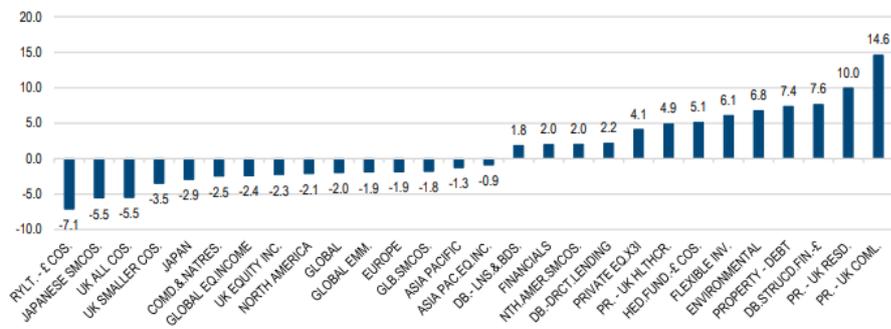
| Fund | Market Cap (£m) | % NAV Change |
|--|-----------------|--------------|
| 1 Vietnam Holding | 103 | +66 |
| 2 Ashoka India Equity | 204 | +48 |
| 3 Vietnam Enterprise | 1,634 | +47 |
| 4 CQS Natural Resources Growth & Inc | 104 | +42 |
| 5 Middlefield Canadian Income | 125 | +39 |
| 6 VinaCapital Vietnam Opportunity Fund | 855 | +38 |
| 7 India Capital Growth Fund | 134 | +37 |
| 8 Mobius | 167 | +37 |
| 9 Rights & Issues | 202 | +34 |
| 10 Montanaro European Smaller Cos | 408 | +33 |

Figure 4: Largest NAV fallers over 2021 (Total Return)

| Fund | Market Cap (£m) | % NAV Change |
|-------------------------------------|-----------------|--------------|
| 1 Biotech Growth | 489 | (23) |
| 2 JPMorgan China Growth & Income | 412 | (22) |
| 3 Syncona | 1,413 | (19) |
| 4 Fidelity China Special Situations | 1,600 | (18) |
| 5 Edinburgh Worldwide | 1,187 | (17) |
| 6 Baillie Gifford China Growth | 230 | (14) |
| 7 BlackRock Latin American | 134 | (12) |
| 8 JPMorgan Japan Small Cap G&I | 261 | (12) |
| 9 Baillie Gifford Shin Nippon | 695 | (10) |
| 10 Atlantis Japan Growth | 103 | (10) |

Source: Datastream. Excludes funds with market capitalisation of less than £100m at 31/12/21, VCTs, splits, REITs and highly geared ordinary share structures. Excludes funds which publish NAVs infrequently such as private equity, infrastructure and property, as most of these funds have yet to publish NAVs to 31/12/21

Figure 5: Key sector premium/discount changes over 2021



Source: Datastream

Figure 6: Investment Trust (ex 3i, TR) vs FTSE All Share TR over 2021



Source: Datastream

Figure 7: NB Private Equity discount (%) over 3 years to 04/01/22



Source: Datastream