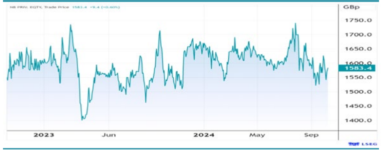
8 October 2024

Closed End Investments



Source: LSEG, 2024

Market data

EPIC/TKR	**NBPE/NBPU**
Price (£)	15.66/$21.00
12m high (£)	17.40/$22.50
12m low (£)	14.92/$18.22
Shares (m)	46.2
Mkt cap (£m)	724
NAV (Aug'24)	£20.88/$27.44
Disc. to £ NAV (%)	-25
Free float	100%
Ctry/Ccy of listing	UK - GBP/$
Market	FTSE 250, STMM

Description

NB Private Equity Partners (NBPE) leverages the platform of its manager, the PE division of Neuberger Berman (NB), and has built a portfolio of 83 direct investments diversified by manager, sector, geography and size. It focuses on investing in companies that benefit from secular tailwinds and/or lower cyclicality, with high barriers to entry, or the delivery of mission-critical products or services.

Company information

Chair	William Maltby
NEDs	Trudi Clark, Pawan Dhir, John Falla, Louisa Symington-Mills, Wilken Von Hodenberg
Key NB Mgrs.	Peter von Lehe, Paul Daggett

+44 (0)20 3214 9002

www.nbprivateequitypartners.com

Key shareholders (31 Dec'23)

Quilter Cheviot	12.4%
Evelyn Partners	8.3%
Schroders	7.0%
Treasury shares	6.8%
New Jersey Div. of Inv.	5.3%
City of London IM (Aug'24)	5.0%

Diary

Mid-Oct	Sep factsheet
6 Nov	Capital Markets Day

Analyst

Mark Thomas mt@hardmanandco.com

Discloser: the relevant analyst is a shareholder in NBPE

NB PRIVATE EQUITY PARTNERS

NB: adding value in attractive co-investment sector

In our *initiation*, we highlighted that NBPE is uniquely focused in the co-investment sector of PE. Our report underlined why this sector has especially appealing return, cashflow, asset selection, risk management, and GP access characteristics. In this note, we review how the manager, NB, adds value in this attractive market. *Inter alia,* NB has i) the resources to understand the investee company dynamics, ii) excellent GP relationships and iii) experience/skills that add value to the GPs. Its success is evidenced by the growing deal flow in a subdued PE market. Also, NB is focused on the mid-market, which, in our view, has more value creation options than large deals.

- **Evidence of value added:** We highlight NBPE's i) growing number of co-investment opportunities (3x the level of 10 years ago, in a slowing market), ii) above-peer investee company revenue and EBITDA growth in 2023, iii) broad spread of this growth, and iv) above-average 5-/10-year shareholder returns.
- **NB's value added to co-investments:** NB's platform is large (NB Private Markets $115bn of active capital commitments, incl. $37bn in co-investments and over 400 PE staff), generating the scale to optimise the co-investment process. The deal completion rate (ca.8% of opportunities presented) shows great selectivity.
- **Valuation:** The 25% discount is slightly below most direct peers (average 28%, exc. HGT), but it rose sharply in 2022, to well above historical levels (10%-15%). In this note, we review what may lead to a reversion to these levels. The discount appears absolutely and relatively anomalous with a resilient, conservative NAV.
- **Risks:** Sentiment to costs, the cycle, residual positions in highly rated listed companies following IPOs in 2020-21, the duration of the discount and valuation are the key issues for NBPE, as they are across the whole listed sector. In our view, they are sentiment issues, and do not reflect reality, as we see it. The benefits from the current strategy may not yet be fully appreciated.
- **Investment summary:** With 97% of the portfolio invested in direct equity, co-investments, NBPE is the most focused listed vehicle in the low-cost, attractive co-investment subsector of the market-beating PE sector. The company and GP selection have proved resilient in downturns, and consistent, large premiums on exit should give investors comfort in the NAV. Its portfolio is diversified by name, sector, GP, geography and size, but it has enough concentration for individual investments to add value. The discount is anomalous with long-term, market-beating returns.

Financial summary and valuation

Year-end Dec ($m)	2020	2021	2022	2023	2024E	2025E
Interest and dividend income	10	6	5	7	13	13
Net fin. assets/liab. gains (FVTPL)	224	532	(76)	58	198	225
Total expenses	48	75	38	38	47	51
Net asset change from ops.	185	463	(109)	27	164	186
PE invest.	1,255	1,569	1,401	1,321	1,497	1,643
Net debt (incl. ZDP)	(189)	(46)	(66)	(120)	(52)	(55)
NAV per share ($)	22.49	31.65	28.38	28.07	30.88	33.96
NAV per share (£)	16.45	23.37	23.59	22.02	24.32	26.74
S/P prem./disc. (-) to NAV*	-29%	-21%	-33%	-24%	-32%	-38%
Dividend p/sh ($)	0.58	0.72	0.94	0.94	0.94	0.94
Yield	2.7%	3.4%	5.0%	4.7%	4.5%	4.5%
Year-end exch. rate (£:$)	1.367	1.354	1.203	1.275	1.339	1.339

**2024-25E NAV to current s/p; Source: Hardman & Co Research*

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Please read our full disclaimer, which is contained at the end of this report.

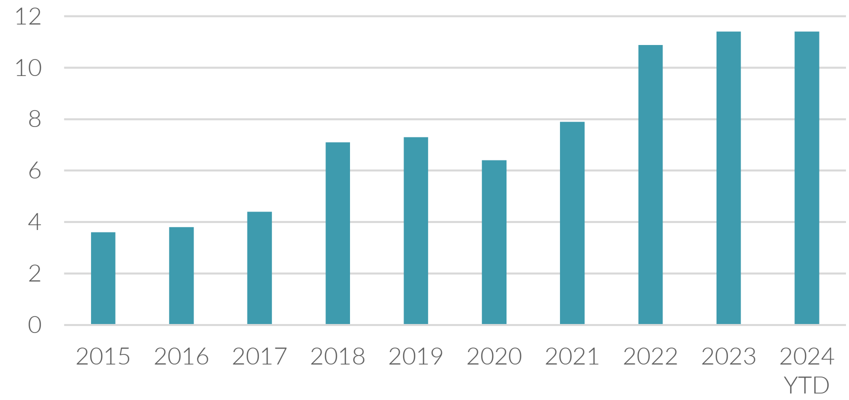
Evidence of value added

In the later sections of this note, we discuss how NB adds value. In the paragraphs below, we provide the evidence of it.

NB originating 3x number of deals of 10 years ago and is well up on 2021, despite overall PE market nearly halving

- The evidence of NB's perceived value as a co-investment partner can be seen in the chart below, which shows the opportunities originated per week. In 1H'24, 10.6 opportunities per week were reviewed, up 45% on pre-pandemic 2019 levels and nearly 3x the number seen 10 years ago. NB's scale and presence in the co-investment market means it can participate in all types of co-investment, most recently having been active in co-underwriting and mid-life deals (see page 8). The high levels of activity seen in the past couple of years is in marked contrast to the PE market as a whole, which has seen a significant slowing in activity (2023 and 1H'24 annualised PE capital invested just over half 2021 levels (see slide 26 of NBPE's interim results investor presentation,). In our view, this is especially powerful in proving the platform's traction.

Average co-investment opportunities originated per week



2024 YTD to end-August 2024; Source: NBPE interim results investor presentation, slide 33), Hardman & Co Research

Bottom-line result is superior growth from NB-backed co-investments

- The result of this selection process is a portfolio of companies that show revenue and EBITDA growth well ahead of the non-PE market. Looking at the available disclosure, NBPE's portfolio also showed faster-than-listed-peer average EBITDA growth in 2023 (on in-line revenue growth) with a lower-than-average PEG valuation and this has continued into 2024. We see these numbers as supportive of NBPE's investee companies delivering better-than-PE averages, with the caveat that company disclosures vary, the timing of specific acquisitions or exits and which companies are included in the reporting can all distort specific period numbers.

Some key portfolio metrics

	Revenue growth	EBITDA growth	EV/EBITDA	Debt/EBITDA	PEG	Period-end
NBPE	10.6	16.2	15.2	5.4	94%	Jun-24
ICGT	9.4	13.9	14.9	4.4	107%	Jul-24
HVPE	10.9	14.6	14.3	4.6	98%	Jan-24
Apax	8.7	15.6	17.1	4.3	110%	Jun-24
OCI	n/d	14	16.4		117%	Jun-24
HGT						
HGT	19	26	25.9	7.4	100%	Jun-24

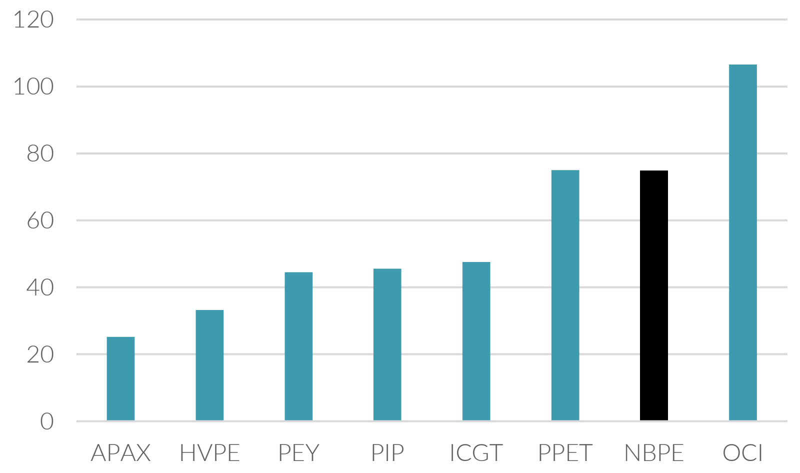
Note: Growth rates over LTM, OCI disclosure is organic only. Source: Company Report and Accounts, Hardman & Co Research

► Notably, the distribution disclosure from NBPE shows that its growth is well spread across the companies. Importantly, the concentration of the portfolio, given the co-investment approach, means that NB has good visibility on the drivers of both revenue and EBITDA growth, and the potential risks to them in the future.

NBPE delivered superior shareholder returns over five and 10 years

► Assuming NBPE is in an above-average-attractiveness sector, and NB is adding value, this, in our view, should feed through to superior shareholder returns. 3i and HGT have specific business concentrations, and scale, which have been more highly valued by investors in recent years. Of the remaining listed PE vehicles, shown in the chart below, NBPE has delivered the second-best total return over five years.

Total shareholder return, over five years



Source: LSEG, dated 8 October 2024, Hardman & Co Research

With co-investment carrying lower risk profile, risk-adjusted returns even better

► As we note in the attractiveness of co-investment table on the next page, in our view, NBPE's chosen segment carries fewer blind-pool, liquidity, underlying company performance and cash drag risks. By way of example, without the multi-year commitments made to primary funds, NBPE's real leverage is much lower than other listed vehicles. The risk-adjusted returns, therefore, look even better than the unadjusted total shareholder return chart.

Why co-investment sector is especially attractive

In our *initiation* (pages 18-22), we detailed why co-investments offer such attractive opportunities. The table below gives a summary of these benefits.

Benefits of co-investments

Factor	Rationale
Financial returns	Co-investments, typically, have no/low GP management fees or carried interest. Analysis by Cambridge Associates indicates 0.5% incremental portfolio returns for every 10% of PE allocated to co-investment over primary funds. Blackrock analysis indicates a 2.9% higher IRR from co-investment.
Better cash management	Cashflow attractions include i) co-investment does not require five-year commitments and associated cash drag effect, and ii) the pace of investment can be tailored rapidly to market conditions.
Asset selection standard	There is unlikely to be an adverse asset selection (where GPs could try to offload underperforming assets), because co-investment is good for GPs – they can do more deals, it deepens relationships with LPs and builds their own franchises. Academic research confirms that there is no asset-selection bias.
No blind-pool risk	Co-investors are buying into known companies. With a primary PE fund investment, there is blind-pool risk, as the investor is committing to a fund but not knowing what underlying assets it will eventually buy.
Robust deal flows/sensitivity	NB saw 10.6 deals per week in 1H'24, 3x the level of 10 years ago and up 45% on pre-pandemic levels, despite recent PE market slowing – evidence of strong deal flow and access.
Diversification	Diversification is chosen by the end-investor, not a GP managing its fund.
Double layer of due diligence	Co-investments are reviewed in great detail by both the GP and co-investor. While it is uncommon for a major new issue to be identified, the extra pair of eyes gives comfort that target returns are achievable.
Access to inaccessible GPs	Co-investments give the opportunity to access deals led by the best GPs, whose heavily oversubscribed funds may see only limited allocations, even to the closest LPs.
Flexibility on type of co-investment	There are three main types of co-investment deal. A co-sponsor/co-underwrite transaction is where a GP will approach a sophisticated investor like NB before final terms are agreed. In our view, it is evidence of the closest partnership between GP and LP. A traditional/syndicated co-investment is when the GP has already negotiated the final terms of the transaction, and the investment opportunity is on a "take it or leave it" basis from the co-investor perspective. The third type is mid-life co-investment, which offers potentially quicker realisations and a track record of the GP adding value. NB's platform accesses all these types of deal.

Source: Hardman & Co Research

NBPE's unique focus on co-investment sign of good corporate governance and independence from the manager

In our view, NBPE's focus is also an encouraging sign of good corporate governance. NBPE's board has chosen what it sees as the best asset class available on the NB platform. The trust itself does not need to invest in the whole range of primary, secondary and co-investments to build GP relationships, as the manager's platform delivers that with 380+ unique GP relationships. The board's decision to focus on just one area shows its independence from the manager.

NB value added to co-investment

We believe NBPE not only benefits from being in an especially attractive part of the PE market (which we see as value added as a whole), but it also benefits specifically from what NB, the manager, adds in that area. *Inter alia*, NB has scale and consequently i) the resources to understand investee company dynamics, ii) excellent GP relationships, and iii) experience/skills, which add value to the GPs.

Scale

NB has a substantial presence and experience in the PE market, and co-investment specifically

Neuberger Berman, an employee-owned asset manager, operates across 39 cities and 30 countries with $481bn AUM[1] and nearly 3,000 staff. Within this, NB Private Markets, has a team of more than 410 private markets professionals. Since inception in 1987, the PE team has made $115bn+ in active capital commitments (as of June 2024), including $37bn to co-investments.[2] It has active commitments to over 770 active PE investments and sits on 420+ advisory board seats. The PE team operates from 17 offices, and includes 77 senior investment professionals with an average of over 22 years of experience (more details on the manager can be found here).

Scale brings resources for co-investment selection

Co-investment requires incremental skills to investing in primary PE deals alone and NB has such resources

Primary PE fund investing is driven by the expectation that the manager will deploy well, over many years, in unknown investments the committed capital it receives from investors. Primary fund investors thus have a "blind pool" risk in that they do not know what the underlying investments will be and the skill lies in identifying the right managers. In a time of increasing dispersion between top- and lower-quartile performance (a trend we expect over the medium term), this is especially important. With co-investment, you not only need to identify the best managers but also assess the specific investment characteristics of the target companies. It requires significant resources to understand both businesses and the GP managers, and to build the co-investment relationships with leading GPs. With the scale and teams identified above, we believe NB has such a presence in the co-investment market.

Actual investment made in only ca.2%-3% of potential deals originated

NB focuses on businesses which exhibit i) sound business models, with sustainable competitive advantages, ii) multiple and clear options for value creation, and iii) a prudent capital structure. The selection process means that, in a typical year, potential deals are quickly screened down with a platform-wide conversion rate of ca.8%.

Scale assists deal execution across all co-investment types

Only a larger investor with significant resources, such as NB, can execute well

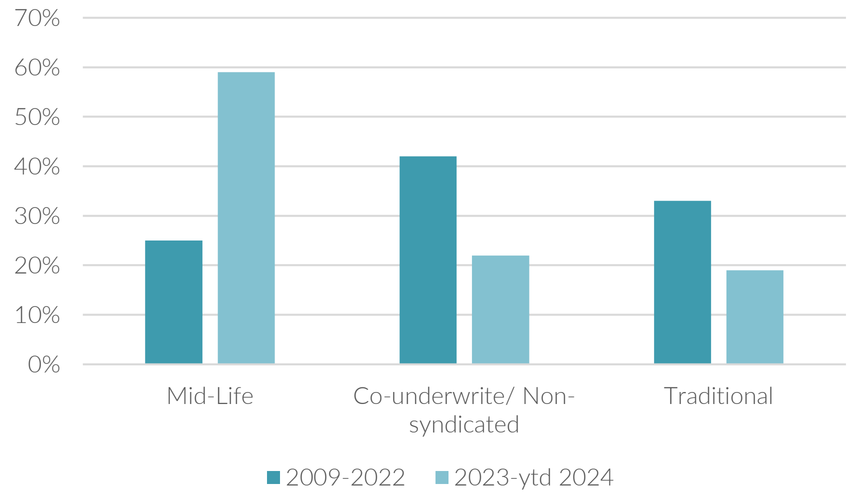
NB positioned to do all types of co-investments, including higher-margin co-underwriting

Co-investments are not the easiest asset class for PE investing. It is important to recognise that there are different types of co-investment, and NB's scale means its platform is able to access all types of co-investment. The chart, below, shows how co-investment deal flow has evolved with less than a fifth of NB's 2023-YTD'24 investments being traditional deals, where the GP syndicates a position after final terms have been agreed and where, for investors, it is a "take it or leave it" situation. Over the past couple of years, GPs have been less willing to syndicate deals given the market environment; however, when they do, they prefer to partner with trusted managers such as NB. Given the expertise and market knowledge of the NB Private Markets team, NB is often brought in early in a transaction where there may be only a small number of potential co-investors. Just over a fifth of concluded investments, over the more recent period in the chart, have been where NB is co-underwriting the deal and has all of the pre-acquisition due diligence material. From these deals,

[1] https://www.nb.com/en/global/who-we-are
[2] Source: September investor presentation

we believe NB can better understand the GP's approach and this may allow a greater size of investment than on a syndicated deal. The biggest growth in 2023-24 YTD, and where NB has been proactively targeting deal flow, leveraging the benefits from its large platform, is with respect to mid-life deals where NB makes an investment after the initial deal, often to finance bolt-on acquisitions or help support continued value-creation plans. At this stage, the progress made under PE ownership is often visible, and the duration to exit significantly reduced. Accessing these deals requires a close relationship with GPs on an ongoing basis.

Mix of deals by type, 2009-22 and 2023-YTD'24



Source: NBPE, Hardman & Co Research

NB's scale means it can review multiple deals simultaneously giving GPs better service

We also note that NB's resources mean it can review multiple deals simultaneously, giving GPs a faster decision (for the importance of this, see section on co-investment relationships below). NB's processes are designed to meet both its and a GP's needs. Initial applications see a deal team assembled with the relevant experience for the deal (this does not always have an NB employee responsible for the GP relationship). The application is reviewed by a small screening committee in order to give an initial indication to the GP as to whether the opportunity is of interest. GPs want certainty, and a quick "no" with feedback is much better than prolonged procrastination (for more detail, see our initiation).

Consistent market presence

Scale and NB's culture mean it is a consistent investor

In good economic times, NB faces co-investment competition from many PE investors. When economic conditions become more challenging, less experienced and more short-term-orientated investors tend to withdraw. In contrast, NB has been a consistent investor through economic cycles. By way of example, the 2020 cash used by NBPE to purchase, and make contributions to, PE investments was $126m, against $121m in 2019. We believe GPs value a partner who is consistent in making investments, who they trust and who can add value, rather than one who is in and out of the market. GPs have their relationships with NB and, across the whole platform, further through-cycle investments are being made, giving a presence NBPE would not have as a standalone entity. *Inter alia*, NB's scale means that it can be, and has been, a consistent investor through cycles.

NB's GP relationships generate deal access

PE has broad distribution of returns – so picking the right GP is core. NBPE currently invested alongside 53 GPs out of 380+ NB relationships.

GP selection

PE can see sharp variances between the quartile performances. The McKinsey Global Private Market Review[3] noted that the 2012-21 average inter-quartile spread of returns was 34% (2022 was still 22%, 2023 not yet available), making GP selection critical. Neuberger Berman's co-investment strategy focuses on partnering with the right GP, whose experience matches the opportunity. To put the intensity of the selection into perspective, NBPE is invested alongside 53 GPs, with NB having 380+ unique GP relationships.

NB filters its GPs for a number of factors, which often include i) deep sector expertise, such as technology, industrials or financial services, ii) geographical focus, iii) the ability and track record of investing in complex transactions, iv) prior track record of generating strong returns across economic cycles, and v) generating value through accretive bolt-on acquisitions. This does not exclude GPs whose funds it has not yet invested in, but NB has advised that such GPs are likely to face a greater degree of caution than ones that it knows well.

GPs invite in co-investors, so GP relationships are key to deal access

GP relationship management unique to co-investment

The importance of GP relationships in co-investments is absolute. A LP, like NB Funds/NBPE, has to be invited into a deal. GPs can pick from a range of finance providers, and, so, it is important to understand NB's competitive advantages in being selected by GPs for co-investment. In our view, they are often looking for more than commoditised finance, and a partner who can bring professionalism, rapid decision-making, certainty in finance and often expertise and solutions, to the table.

Some of NB's key advantages include:

Flexibility of bite size, certainty of finance being available and intent are important considerations in capital provided

- Providing capital:
  - Across NB's platform, there is a broad spectrum of deal sizes, but it can be involved in opportunities as large as several hundred million dollars. Not all co-investors can match this range.
  - Certainty of intent is important. Hamilton Lane data (2016-18) showed that, for half the GPs it surveyed, less than a quarter of LPs who asked for co-investment opportunities were actually transacting on them. This is a huge potential waste of resource for the GPs who engage with those LPs. NB has deep relationships, and very quickly lets GPs know whether or not it has a genuine interest in a project and does not waste a GP's time at a critical point of the deal.

[3]https://www.mckinsey.com/industries/private-capital/our-insights/mckinseys-private-markets-annual-review-2023#/

GPs wanting supportive partner, in addition to just commodity finance

- GPs are often looking for more than just finance.
  - At the point of seeking co-investors, GPs are often time-constrained, and so are looking for quick feedback on proposed transactions. As noted above, NB has established procedures to deliver exactly that.

Rapid decision-making important

  - GPs may look for their co-investors to help with deal solutions, as well as finance. As noted above, nearly half of NB's co-investments are co-underwriting/non-syndication deals, when such support is of most value.

Can be input into deal structuring, providing sellers with comfort of credible finance and market information

  - They are looking for partners who can be integrated in their process and give potential sellers of businesses comfort that the proposed offer is credible. This requires a large, long-established, consistent and expert co-investor, such as NB, who has been active in co-investments since 2006.

Clear and transparent processes, and mandate to ensure rapid deal progression, also help the GP

  - They are also often looking for market information that may affect the deal and its terms. NB's broad reach across the whole PE market, large team and specialist research analysts mean that it can provide input into deals that the GP may not have.
  - Most GPs want an investor whose processes and portfolio demands are well-known and proven to limit execution risks. It is a two-way flow, as involvement in such deals provides NB with invaluable insight into the workings and mindsets of its GPs.

Post-investment input leveraging all the information flows and resources from its strong platform

- While GPs operationally manage the portfolio company, NB currently has 420+ LPAC seats on funds across its platform. Many of the information flows we identified above are relevant post-investment. NB also prides itself on the way in which its ESG controls can add value. Individual GPs in the mid-market space often do not have a dedicated ESG resource, and, without interfering in the management of the business, NB can add value post-investment.

NB not a competitor to GPs

NB is not a competitor to its GPs. The financial rewards from any potential investment do not help a GP's competitor's performance. NB has no aspirations to manage the investee companies. It is a more attractive co-investor than another GP.

Additional NB value added to NBPE

Mid-market focus

NB brings bias to mid-market

NB has a bias to mid-market deals. We believe this is an especially attractive segment, as there are more tools to improve the business. For example, GPs can bring in marketing or technology expertise, which an investee company may not have the resources to do in-house. Bolt-on deals are more likely to be enhancing, and, when it comes to exit, there are more options, including larger buyout funds and trade buyers.

Portfolio management

Portfolio selection important value add, especially in diversifying risk

NB also adds value to NBPE in its portfolio construction. Key metrics in this include the diversification by GPs, sectors and geographies that we noted above. Within the overall portfolio constraints, each deal is considered on its own merits, and the portfolio is managed by deal size and the pacing of investments. We give more details in the *Portfolio* section below.

Culture

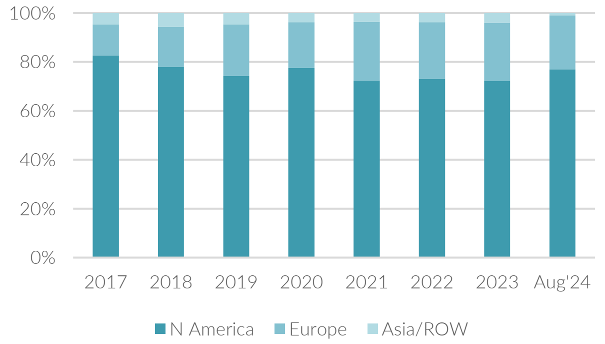
In our view, NB has a conservative culture

In our view, judging the management culture is an extremely important part of the investment process. In particular, the management appetite for risk taking/conservatism is important to both short-term investment and the long-term investment decisions. It is also one of the hardest things to quantify. In our view, *inter alia*, i) the asset allocation, returns, ii) 100% employee ownership of NB, and iii) relatively low PEG valuation ratings of NBPE investment companies are all indicative of a conservative management culture. This is also consistent with this analyst's dealings with NB in previous roles.

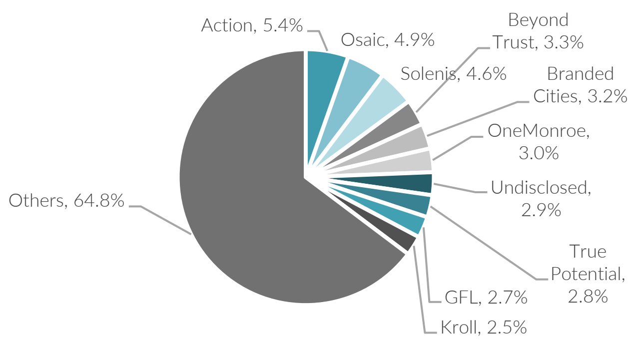
Portfolio summary (Aug'24)

The charts, below, show some of the trends in the portfolio. There has been a continuation of trends, rather than anything dramatic, which is not surprising, given the long-term nature of NBPE's investments.

Geographical mix of assets (% portfolio value)

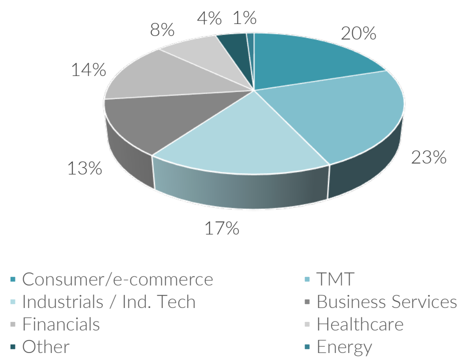


Largest holdings (% Fair Value)

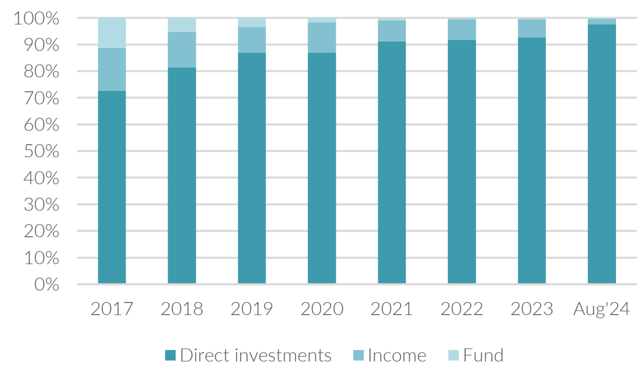


Source: NBPE Report and Accounts and August 2024 factsheet, Hardman & Co Research

Sectoral mix of investments (% portfolio value)

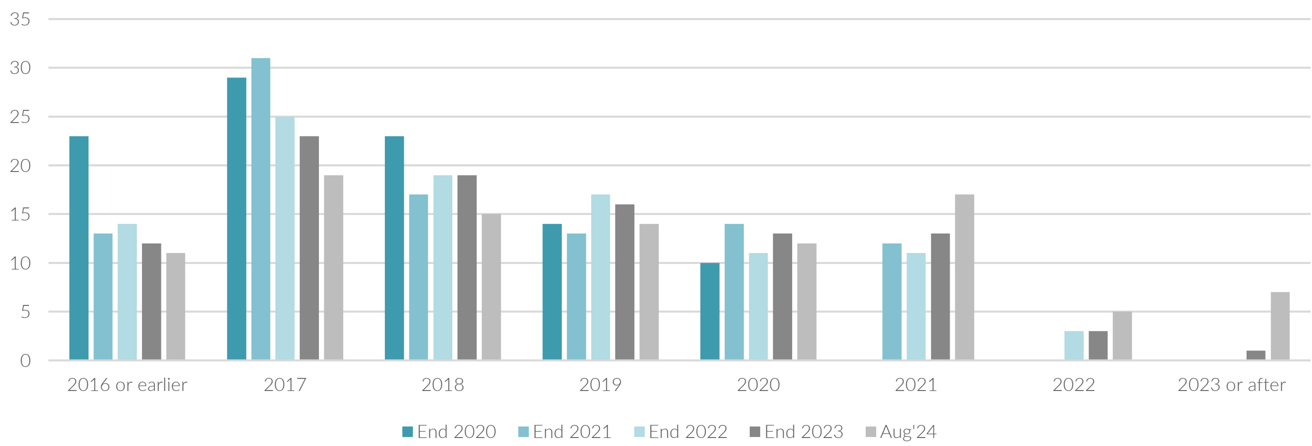


Mix by type of investment (% portfolio value)



Source: NBPE Report and Accounts and August 2024 factsheet, Hardman & Co Research

Vintage of investments at each period-end (% portfolio value)



Source: NBPE Report and Accounts and August 2024 factsheet, Hardman & Co Research

Interim results

On 25 September, NBPE published its interim results (to end-June) and its August factsheet. The portfolio update from the latter is included on the page above. In terms of the interim results. we believe the key highlights are:

- Net assets were $1.3 bn – NAV per share of $27.87 (£22.05), a return of 1.0% in the six months.

- Performance was driven by a 4.3% increase in private company valuations (ex-FX), which has been partially offset by continued volatility in quoted holdings and foreign exchange headwinds. Of the private companies, the biggest increases in value were driven by a number of positive underlying company developments, including organic growth driven by new store rollouts or customer wins, strong renewals and bookings activity, and by M&A. The weakest performances were attributed to highly specific factors in some consumer, technology, and business services companies, but broadly the result of an overall operating environment that remained difficult, particularly for companies with large consumer end-markets or an ultimate reliance on consumer demand.

- Positive operating performance continues with 11% aggregate weighted average LTM revenue growth and 16% aggregate LTM EBITDA growth from private companies. Approximately 20% of the portfolio by fair value grew LTM revenues in excess of 20%, with 41% of the portfolio by fair value growing LTM EBITDA in excess of 20%.

- As of 30 June 2024, the weighted average EV/LTM EBITDA multiple was 15.2x. Multiples have declined by approximately two turns since 2021; however, they now appear to have stabilised, with the aggregate multiple increasing slightly compared with December 2023.

- Robust investment activity: $72m invested in new and follow-on investments in the six months.

- $126m of proceeds received during the first six months of the year.

- 1H'24 dividend of $0.47 per share paid in February 2024.

- Well positioned to take advantage of investment opportunities, with $386m of cash/liquid investments and undrawn credit line available.

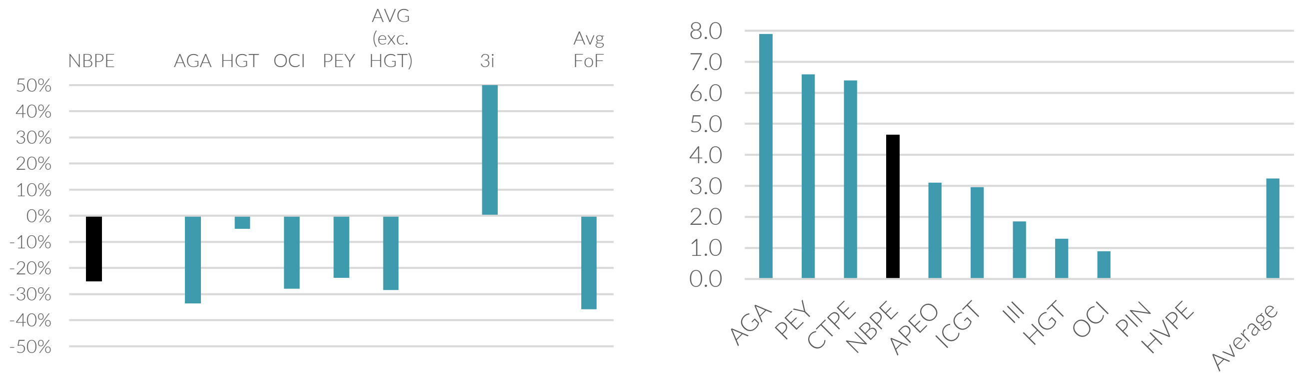
The key points from the August 2024 factsheet were i) NAV per share was $27.44 (£20.88), a total return of 0.1% in the month, ii) performance was driven by a 1.4% quarterly uplift in private company valuations (ex-FX), offset by negative FX adjustments of 0.2%, iii) YTD NAV TR of 1.2%, iv) $73m invested YTD, and v) $390m of available liquidity, as at 31 August 2024.

Valuation

Discount is below most direct investing PE names

As the chart below shows, NBPE's current reported discount to NAV (25%) is slightly below the average of the direct investing listed PE trusts, excluding HGT. Its dividend yield is appreciably above the sector average.

Current share price discount to latest NAV (LHS, %), and dividend yield (RHS, %) for narrow and wider peers



Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 8 October 2024

Sector-wide concerns about the validity of the current NAV and its resilience have been addressed in previous notes and appear to be more sentiment issues than reality. If NBPE were a trading company, we would use a GGM model to reflect the value added by management. Using this model, it should trade on a multiple appreciably above NAV, given returns are a long way above cost of capital and that it has grown strongly over the medium term.

What could lead to a rerating?

We reviewed in detail, in *our initiation*, our view that there are two possible elements to a rerating.

First element is sector rerating, which, arguably, has already started

The first element of a rerating would be a reversal of the 2022-1Q'23 increase in sector-wide discounts. This requires more confidence in NAV and economic resilience, driven by i) continued exit uplifts and returns, which could give investors this confidence, and ii) a risk-on rather than risk-off environment, which will help. This may coincide with further confidence that a US recession has been avoided or a market view that interest rates have peaked.

Second element is final 10%-15% of the discount to par. NBPE requires delivery of returns but may take more time.

At the end of 2018, the discount was 21%, falling to 16% at the end of 2019. This rose to 29% at the end of 2020 on COVID-19, before falling again, at end-2021, to 21%. The group's transition to being a co-investment vehicle has evolved (end-2017 nearly a third of PE investments were in income investments and funds, against just 7% at end-2023), so a migration from a fund-of-fund comparative valuation to a direct one has also been seen. Within this noise, and adjusting for the current business mix overall, we would characterise the trust as having a historical steady state discount of around 10%-15%. Given the returns in underlying companies driving market-beating investor returns, and the strong capital structure inherent in a co-investing vehicle, any discount appears to be a fundamental anomaly. In our view, eliminating it over the longer term is about delivery of returns, which, at some stage, is likely to be recognised by the market.

Financials

Following the results, our forecasts are broadly unchanged:

Profit and loss								
Year-end Dec ($m)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Interest and dividend income	17.4	12.5	9.5	5.7	4.5	7.1	13.0	13.0
Expenses								
Inv. mgt. and services	14.3	15.3	16.7	22.5	21.1	20.5	19.3	21.9
Carried interest	-	6.9	15.2	37.2	-		7.4	8.4
Finance costs								
Credit facility	4.5	8.5	6.3	4.1	6.0	8.9	13.0	13.0
ZDP shares	4.8	6.0	6.4	6.9	6.0	3.3	2.4	2.4
Administration and professional fees	3.6	3.7	3.5	4.3	4.5	4.9	5.2	5.6
Total expenses	27.3	40.4	48.1	75.1	37.7	37.6	47.4	51.3
Net investment income (loss)	**(9.9)**	**(27.9)**	**(38.6)**	**(69.3)**	**(33.1)**	**(30.5)**	**(34.4)**	**(38.3)**
Tax expense					(2.3)	(0.7)		
Net investment income (loss) after tax	**(9.9)**	**(27.9)**	**(38.6)**	**(69.3)**	**(35.4)**	**(31.3)**	**(34.4)**	**(38.3)**
Net realised gain (loss) on inv. and fx	64.4	33.8	90.2	212.4	53.4	82.5	66.1	74.9
Net change in unrealised loss	(7.8)	72.1	133.3	319.7	(127.1)	(24.1)	132.1	149.7
Net realised and unrealised gain (loss)	56.6	105.9	223.5	532.1	(73.7)	58.4	198.2	224.6
Net change in net assets from ops.	**46.6**	**78.0**	**184.9**	**462.7**	**(109.1)**	**27.1**	**163.8**	**186.2**
Non-controlling interest	-	(0.1)	(0.4)	(0.5)	0.1	(0.1)	(0.5)	(0.5)
Net change in net assets	46.6	77.9	184.6	462.2	(108.9)	27.1	163.3	185.7
Average no shares (m)	48.8	47.5	46.8	46.8	46.8	46.5	46.4	46.2
EPS ($)	0.95	1.64	3.95	9.88	(2.33)	0.58	3.52	4.02
DPS (p)	0.53	0.57	0.58	0.72	0.94	0.94	0.94	0.94

Source: NBPE, Report and Accounts, Hardman & Co Research

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research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com