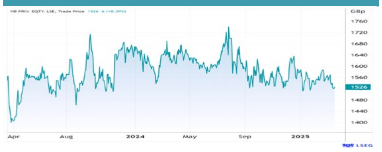
HARDMAN&CO.

18 March 2025

Closed End Investments



Source: LSEG, 2025

Market data

EPIC/TKR	NBPE/NBPU
Price (£)	15.20/$20.00
12m high (£)	17.40/$22.50
12m low (£)	14.92/$18.22
Shares (m)	45.9
Mkt cap (£m)	697
NAV (Jan'25)	£21.81/$27.10
Disc. to £ NAV (%)	-30
Free float	100%
Ctry/Ccy of listing	UK - GBP/$
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 81 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

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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

Apr'25	FY'24 results
Apr'25	March factsheet

Analyst

Mark Thomas mt@hardmanandco.com

Disclosure: the relevant analyst is a shareholder in NBPE

NB PRIVATE EQUITY PARTNERS

Update on: NAV, capital, Trump and interest rates

We highlighted our capital markets day takeaways in *CM day: 6 November fireworks*; notably, i) positive market trends, ii) NB's platform unique benefits, and iii) multiple levers for value creation. In this note, we update investors on i) the latest NAV/ portfolio, ii) NBPE's *revised capital allocation framework*, iii) the potential impact of current Trump polices, and iv) the impact of interest rate expectations, which seem to evolve daily but which, in our view, have seen a trend of higher-for-longer forecasts. The underlying message is that PE, and NBPE, reacts dynamically to changing conditions and has a track record of outperformance across a range of environments.

- **$120m buyback pool:** On *19 February*, NBPE announced an increased three-year buyback pool of $120m. The company balances new investments (currently 104% NAV invested), dividends (2025 expectation of 47c ($43m)) and now an increased pool for buybacks. This follows shareholder discussions.
- **NBPE's co-investment model:** Facing 2024 challenges, NBPE's unique approach has created i) a strong balance sheet, ii) cashflow flexibility, iii) a portfolio ready for material realisations as things open up, iv) North American domestic/mid-market buyout focus, and v) new investments performing strongly.
- **Valuation:** The 30% discount is slightly lower than most direct peers (average 35%, 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 98% 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 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 ($m)	2021	2022	2023	2024E	2025E
Interest and dividend income	6	5	7	13	13
Net fin. assets/liab. gains (FVTPL)	532	(74)	58	(6)	182
Total expenses	75	38	38	32	43
Net asset change from ops.	463	(109)	27	(25)	152
PE invest.	1,569	1,401	1,321	1,213	1,339
Net debt (incl. ZDP)	(46)	(66)	(120)	28	25
NAV per share ($)	31.65	28.38	28.07	27.01	29.37
NAV per share (£)	23.37	23.59	22.02	21.57	23.46
S/P prem./disc. (-) to NAV*	-21%	-33%	-24%	-30%	-35%
Dividend p/sh ($)	0.72	0.94	0.94	0.94	0.94
Yield	3.5%	5.1%	4.9%	4.9%	4.9%
Year-end exch. rate (£:$)	1.354	1.203	1.275	1.252	1.252

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

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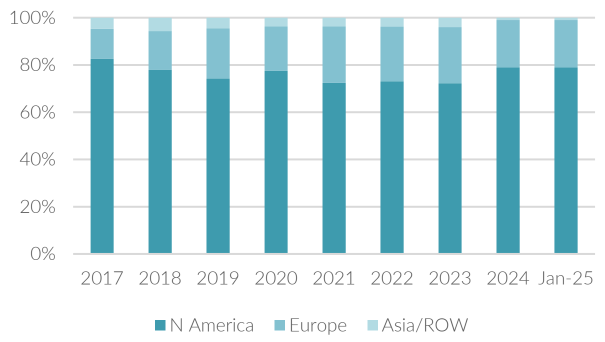
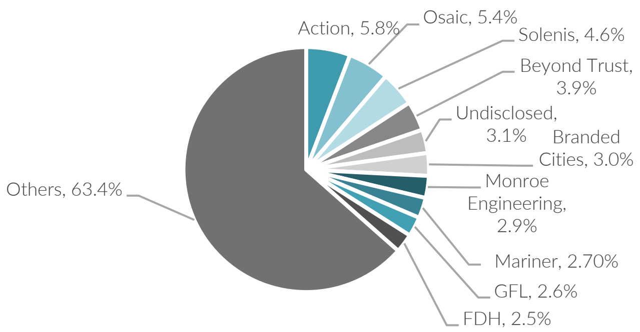
NAV/portfolio update

The charts below show some of the trends in the portfolio, updated for the January 2025 factsheet disclosure. There has been a continuation of trends, rather than anything dramatic, which is not surprising, given the long-term nature of NBPE's investments. The £ NAV return in January was 3.2% (NAV £21.81, $27.10). Based on information received so far, private company valuations increased by 2.8% during 4Q'24, on a constant currency basis.

Geographical mix of assets (% portfolio value)

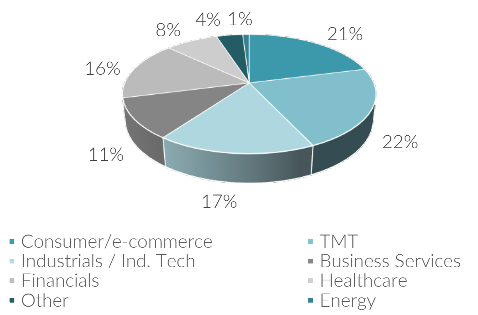


Largest holdings (% fair value)

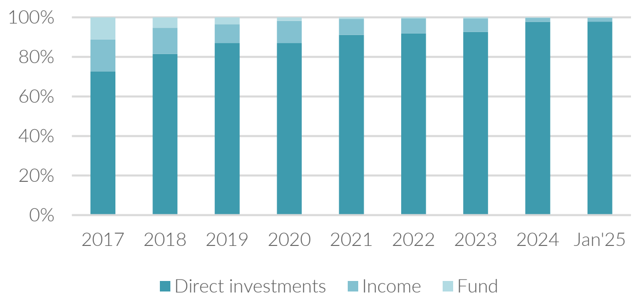


Source: NBPE Report and Accounts and January 2025 factsheet, Hardman & Co Research

Sectoral mix of investments (% portfolio value)

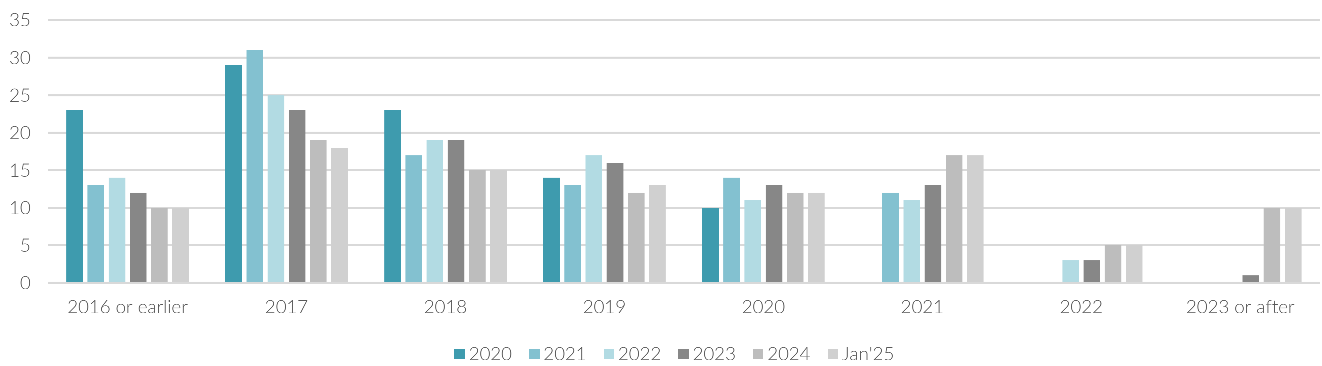


Mix by type of investment (% portfolio value)



Source: NBPE Report and Accounts and January 2025 factsheet, Hardman & Co Research

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



Source: NBPE Report and Accounts and January 2025 factsheet, Hardman & Co Research

Capital allocation

On 19 February, NBPE announced its revised capital allocation framework, which includes:

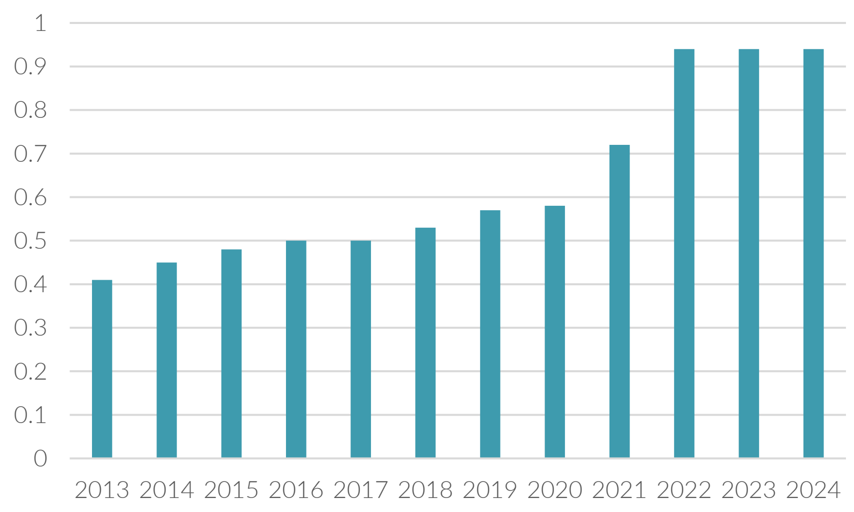
With annualised five-year sterling NAV return of 12.5%, deploying capital into new investment is principal use

- Over the long term, the board views new investment as the principal use of the company's capital. Despite a relatively weak 2024, the latest five-year annualised sterling NAV return is 12.5%, which, of course, is post all expenses. In our view, the compounding benefits from new investments is the key driver to long-term returns and hence having it as the principal use of capital appears sensible. At 31 January 2025, NBPE was 104% of NAV invested at the middle of its 100%-110% optimal range.

Dividend policy, linked to NAV, proved progressive

- NBPE's dividend policy targets an annualised yield on NAV of 3.0% or greater, with the goal of maintaining or prudently increasing the level of dividends over time. As the chart below shows, by linking the dividend to a rising NAV, NBPE has proved progressive. In periods of low returns, it has maintained, rather than cut, the annual payout. The capital allocation policy in February 2025 indicated an unchanged payout for 2025 (cost $43m, 3.5% current NAV).

Dividend ($)



Source: NBPE, Hardman & Co Research

Buyback pool increased to $120m and reviewed quarterly

- The NBPE board has increased the capital available to the buyback pool to $120m over the next three years. Non-public parameters are used, including NBPE's share price discount to NAV, market conditions, performance and other relevant information, with capital available for both regular market buybacks and more opportunistic/targeted ones. The board will re-evaluate the buyback every quarter.

Full utilisation of buybacks and just maintaining dividend would see ca.$250m returned over three years vs. $445m since inception in 2007

Maintaining the current dividend level and fully utilising the additional capital allocated to buybacks would result in NBPE returning approximately $250m to shareholders over the next three years, a meaningful acceleration on the $445m since inception in 2007.

Potential Trump impacts

In the section below, we update our thoughts from pages 7-8 of our note CM day: 6 November fireworks (13 November 2024). The exact policies, their duration and implementation, let alone their effects, remain uncertain. Accordingly, our comments below should be seen as directional indicators rather than precise forecasts. Structurally, in our view, NBPE's exposure to Trump appears a curate's egg, with both positive and negative impacts. NBPE gave its own views on the impact of Trump in its insight piece Key implications of Trump 2.0 for Private Equity. We agree with its key conclusion that, in rapidly changing markets, the ability to respond dynamically is critical as is backing PE managers with a history of performing over market cycles.

Modest exposure to countries/sectors most affected by other US-first policies

Greater national interest focus does appear likely, with a US-first approach impacting in a number of ways. In our view, the overall impact is likely to be a net positive for the US and negative for others, especially those with major trade imbalances with the US or those perceived by the President as having taken advantage of the US in the past. In terms of impact on NBPE, again the effect appears modest with limited exposure to the most at-risk countries and sectors. 79% of the portfolio is domiciled in North America, significantly with a US domestic focus.

Lower taxes – small positive

The President's intent to deliver lower personal taxes would appear to have a limited direct impact as its sectoral exposure to "consumer/e-commerce" is 20%. As we have noted in previous reports, in reality NBPE's exposure to the sector is to subsectors which have structural growth and, in many cases, offer disruptive technology. Greater consumer spending, especially in higher-worth individuals, is thus likely to have a modest effect.

Similarly, from a corporate tax perspective, many PE business have relatively low taxable income with above-overall-market average interest costs; therefore, it will be a positive to have lower corporate taxes, albeit only a modest one.

Deregulation/antitrust – moderate positive, especially for exits and sentiment

An environment of lower regulation is helpful, with fewer regulatory costs (although NBPE's exposure to the most heavily regulated business is modest – financial services 16%, Healthcare 8%). In NBPE's chosen middle-market space, the cost of regulation can be relatively high, compared with the largest players who have more economies of scale and, so, relatively speaking, it could see a bigger benefit from lower regulation.

Additionally, less regulation of competition/antitrust enforcement could see greater opportunities for NBPE to exit its businesses. One feature of its investments is that they are grown significantly under the PE managers' ownership and an easing on the rules for larger business combinations is likely to make exits more achievable.

It is also likely to have a positive impact on sentiment for M&A and deal activity overall, and, in our view, a more positive environment for M&A is likely to mean a more positive sentiment for PE generally. NBPE has a range of options on exit and realisations have been positive, at $178m, 17% of the opening portfolio NAV.

Tariffs – less impact than overall economies

The timing, scale and duration of tariffs, and retaliatory actions, remains very unclear. In terms of the impact on NBPE, we note:

- In our view, much of the noise around tariffs is the "Art of the Deal", with tariffs being temporarily used as a negotiating tool to extract other benefits. Consequently, the sustainability of tariffs may well be at a much lower level than the current noise suggests.

- What does appear likely is that some countries (e.g. China) and sectors (steel/cars) will see higher tariffs than at present. US-based domestically focused companies are already the largest part of NBPE's portfolio (NBPE discloses "North Americas", which accounted for 79% of the portfolio at end-2024, its highest level since 2017).

- Industrials only accounts for 17% of the portfolio and is not in the subsectors most affected by tariffs.

- NB's own analysis shows 81% of NBPE's NAV is completely unaffected by tariffs, with only a low single-digit percentage of NAV seeing a meaningful impact. The mix reflects a lot of service- and intellectual-property-driven businesses and limited simple manufacturers, as such, it gives NBPE a much lower sensitivity than the overall economy exposure and less than indicated by some other listed PE investment companies.

Higher rates for longer – manageable negative

We discuss the impact of interest rates in a later section. It is our view that rates are likely to stay higher for longer, driven by both inflation and US government debt issuance. As we note below, the impact appears to be a manageable negative.

Neutral factors include the impact of inflation, smaller US government, other government spending

Neutral factors include:

- Trump's policies would appear to have a mixed impact on inflation. There seems to be a strong growth bias driving up demand, immigration policies could restrict the supply of workers, higher tariffs may have a modest effect (imports are only ca.15% of GDP) and higher-for-longer rates could push up near-term wage demands. In contrast, "drill, baby, drill" could see energy prices fall, helped further if oil supplies increase with the resolution of the Russian/Ukrainian war. NBPE's investee companies generally managed the post-COVID-19 inflation well, with most passing on cost increases through higher revenue growth. Many businesses offer mission-critical services, often being a lower-cost, technology-advanced alternative.

- The Trump administration's drive to reduce the size of the US government appears to have limited, if any, impact. Again, the sectoral mix of NBPE's portfolio (see page 3) appears supportive, with limited dependence on government spending and greater exposure to companies who could benefit if the private sector "animal spirits" are reignited.

- The Trump administration appears likely to have an impact on other governments' spending, most notably European defence spending, and Mexican/Canadian border control costs. It is unclear if the other governments will reduce spending elsewhere to increase borrowing to fund these costs. NBPE's exposure to these areas of greater spending is minimal.

Higher-for-longer interest rates

We have discussed the impact of higher interest rates in previous notes, including *Value creation in a higher-rate environment* (7 March 2024), and pages 5-6 of *Wider operating company EBITDA margins in 2023* (13 May 2024). In summary:

Target IRR on new deals unchanged

- Across the NB platform, the net IRR target on new deals is still above 20%, in line with 2018.

Delivery mix changing

- How the returns will be delivered, however, has changed, with the value contribution from value organic growth up significantly; and there is a positive contribution expected from M&A (mainly bolt-on deals). In contrast, the contribution from multiple contraction is negative, and from debt paydown minimal.

More incremental organic EBITDA growth…

- The incremental organic growth options come from adding more value to companies with, *inter alia*:
  - accelerating adoption of tech-enablement;
  - market share gains as PE-backed businesses can focus on the business rather than firefighting challenging market conditions;
  - inflation pricing power; and
  - NB treasury management limiting the impact of rising rates on bottom-line earnings.

…and incremental M&A opportunities

- NBPE investee companies have a greater probability than the whole-market average of value-added deals, because of a mix of:
  - being in fragmented markets;
  - many acquisitions planned in advance, often in the original investment thesis;
  - M&A being core PE competency rather than an add-on skill in a standalone business;
  - PE managers have a broad market awareness of opportunities;
  - access to financing both equity from PE backers and the whole range of market financing that PE backers can access; and
  - greater management capacity.

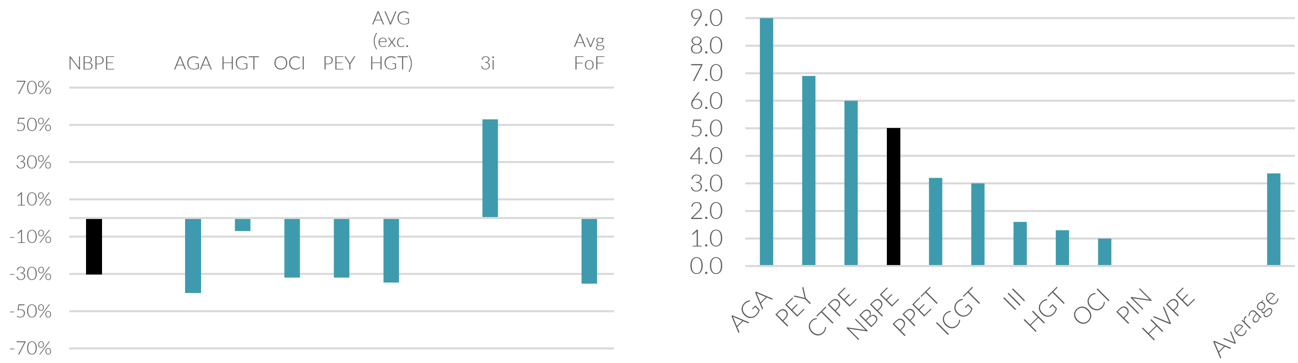
NB has published a number of articles on the interest rate sensitivity of PE, including *Navigating value creation in private equity*, *Private Equity and Rates, Part I: The Theoretical Framework* and *Private Equity and Rates: Part II, Do Rates Really Matter for Private Equity?* The key outlook conclusions are that i) PE returns depend a lot more on the general economic backdrop than on interest rates alone, ii) a continued soft landing for the US economy would bode well for US private equity's near- to mid-term future. In particular, recent history indicates that lower rates go hand-in-hand with higher private equity distributions and iii) top-performing private equity funds may be better able to capitalise on favourable economic conditions, lower rates and tighter loan spreads than lower-quartile funds.

Valuation

Discount is below most direct investing PE names

As the chart below shows, NBPE's current reported discount to NAV (30%) is 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 17 March 2025

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.

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 (at 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 level of discounts (typically higher discounts) to a direct one (typically lower) 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.

Appendix: Hardman & Co notes on NBPE

Hardman & Co has published the following reports on NBPE:

- *Co-investments generating superior performance* (initiation, 16 June 2023).
- *1H'23 results summary: continued growth* (3 October 2023).
- *2023 CMD: value creation from growing companies* (23 October 2023).
- *Value creation in a higher-rate environment* (7 March 2024).
- *Wider operating company EBITDA margins in 2023* (13 May 2024).
- *NB: adding value in attractive co-investment sector* (8 October 2024).
- *CM day: 6 November fireworks* (13 November 2024).

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