



## IT OF THE MONTH

# Private eye

For UK investors looking to invest in private equity here's a trust that's representative of the global market share of the sector

The \$1.2bn (£900.6m) NB Private Equity Partners Trust invests in direct private equity investments alongside leading private equity firms globally.

Peter Von Lehe, head of investment solutions and strategy at Neuberger Berman, believes the way the trust is structured means it can be a core private equity holding for an investor.

"These are high-quality businesses alongside top-tier private equity firms in their core area of expertise," he says.

Private equity companies improve the businesses acquired and, according to Von Lehe, this makes it a "value-added asset class". "It's true alpha, not just from stock selection. It's private equity managers fundamentally making their companies better."

He adds that the team operates with a bias towards less cyclical businesses with strong secular growth themes.

### Bending the curve

Valuations across equity markets are currently high and while there are pockets of value, rising inflation and tightening monetary policy will make it harder to find growth. "The idea you can buy an asset and expect multiples to

expand isn't likely to be a winning strategy," he says. "You need a business with higher growth rates and the private equity manager needs to bend the curve and make that growth rate even better."

The two largest positions are in Constellation Automotive Group, which includes Cinch and webuyanycar.com, and AutoStore, a Norwegian-based company that underwent the biggest IPO in the country since the state oil company went public 20 years ago.

Its business is robotics automation in warehouses and increased efficiency, and e-commerce plays on several structural trends that make it a key holding. The head of investment strategy also says it is a positive environmental story due to energy efficiency.

### Geographic split

The trust is primarily invested in the US, described by Neuberger Berman as "the world's largest and deepest private equity market". Von Lehe adds: "There was a period when Europe came close, then the US over the past decade has gone up again in terms of global market share."

Despite that, he says London-listed funds are typically more European-centric.

"Our portfolio is more akin to what the global market share would be in private equity, with North America being roughly double the size of Europe.

"That's an interesting opportunity for a UK investor, because the geographic split of the private equity industry looks a lot more like NB Private Equity Partners."

### Commitment control

Trusts are, of course, closed-ended schemes that allow the managers more freedom to invest in illiquid stocks without having to sell underlying holdings to meet investor redemptions – something that is particularly important in private equity trusts.

However, Von Lehe says what makes the trust different compared with its peers is that most private equity investment trusts are running an overcommitment strategy. "When they get called out it's beyond their control.

"We're making our investments directly, on a transaction-by-transaction basis. This allows us to speed up or slow down our investment pace in real time."

The trust has a commitment coverage ratio of roughly 200% and at the end of September the investment level was at 111%. There is also an unused \$300m credit line for another nine years.

"We feel good about our capital structure, we're not taking on that overcommitment risk and are fully invested, so investors can expect full private equity returns."

According to data from FE Analytics, if an investor had bought shares in the company at the start of November last year, they would have seen a total return of roughly 80%.

"We've had a great run but does that mean the opportunity is over? No, we remain optimistic on the business opportunities for the portfolio companies we're in and are positive about the prospects for new investments."

NB Private Equity Partners is currently trading at an 18.4% discount to net asset value, is 16% geared and has a yield of 2.9%. ■

Rory Palmer is editor of What Investment.