



Flash update: NB Private Equity Partners

Significant realisation should prompt investors to re-look at the discount to NAV...

Update
15 December 2020

NB Private Equity Partners has announced strong third quarter results and November 2020 NAV, and released news of an important development of material realisations totalling \$50 million to NBPE in mid-December from the sale of a portfolio company and liquidation of certain fund investments. This means that NBPE in December will be at an estimated 120% investment level, bringing gearing down to the long-term target level of 115%-120%.

November has also seen a significant increase in the value of public companies held in the portfolio, so much so that two (Petsmart / Chewy and GFL) are now in the top ten holdings. FX has been a tailwind to the USD valuation, with USD weakness relative to foreign currencies also contributing to NAV growth. These valuation gains together with the more significant uplift from the Q3 private valuations, mean that the year to date NAV total return (in USD) is 10.3%.

Kepler view

2020 has seen NBPE's discount widen dramatically, as the chart below shows. The discount has narrowed from the lows seen in March, but remains significantly wider than the level seen at the start of the year. NBPE remains on a wider discount compared to peers, which attribute to market worries about the level of gearing and the suspension of the buyback announced in March.

As we have commented before, we feel the market's worries about gearing misses the point: NBPE makes its investments in "real-time" through co-investing with third party private equity managers. Unlike peers, it does not need to have credit facilities on hand to

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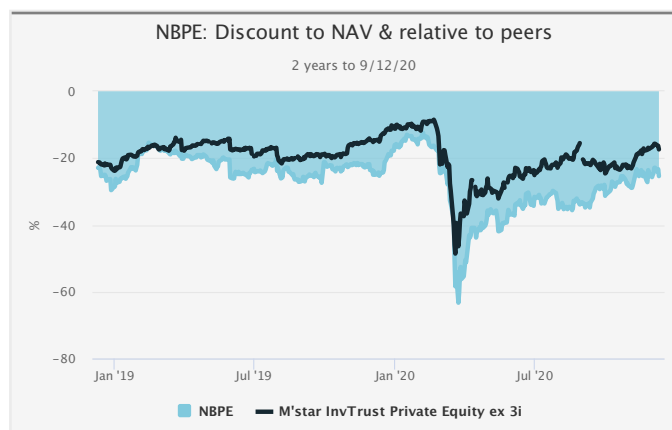
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provide for long-term unfunded commitments. The managers are directly in control of the investment programme, and as has been the case over the last few months, have recently been prioritizing repayment of the credit facility. Having now again reached an investment level within its long term target range, NBPE has more flexibility around the future uses of its capital. All this is good news for the discount, in our view.

As we highlighted in our **note published** at the end of October 2020, realisation activity should be a positive for the discount, given that it will bring down gearing and adds flexibility around future uses of capital. That the portfolio has delivered strong returns over the year is not surprising, given the manager's 'late cycle' positioning in sectors typically less impacted by COVID-19, such as technology, healthcare and certain consumer sectors. With the vast majority of the portfolio still being valued as at 30 September, assuming earnings growth and public market valuation comparables continue to be supportive, further NAV progress might be expected to the year end (31 Dec, likely to be announced in April 2021).

We believe the current discount potentially represents an attractive entry point for NBPE, which has proved it has a resilient portfolio. We understand that uplifts to valuations so far this year have significantly outweighed write-downs. With a

Fig.1: DISCOUNT TO NAV



Source: Morningstar



stronger balance sheet, the potential for the discount to narrow increases – particularly if the board finds itself in a position to resume buybacks.

BULL

Unique investment strategy, historically having delivered sector-leading returns

Manager has a high degree of control over investments, and therefore also over the balance sheet

Wider discount to historical NAV

BEAR

Geared exposure to companies which are themselves often geared

Illiquid underlying investments mean liquidity needs to be managed

Valuations on portfolio companies are performed relatively infrequently

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