# 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%.

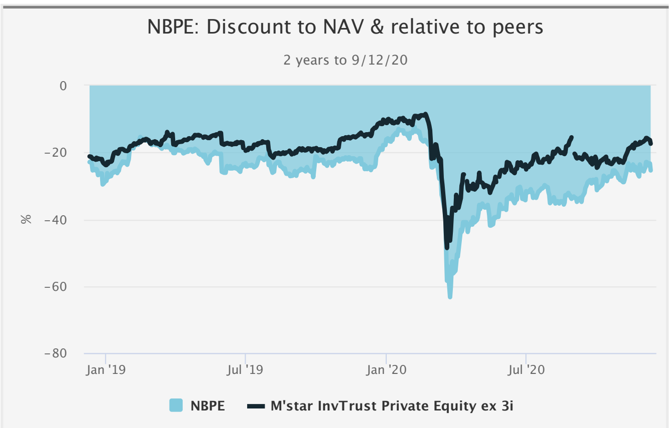


## Kepler view

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 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.

**Fig.1: DISCOUNT TO NAV**




Source: Morningstar

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 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** |

**View the recent announcement on RNS**

**Click here to read our research on NBPE**

# Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

**Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.**

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 9/10 Savile Row, London W1S 3PF with registered number OC334771.