

Standard Life Private Equity Trust

Now with co-investments

Standard Life Private Equity Trust (SLPE), has made its first co-investment in Mademoiselle Desserts, alongside IK Investment Partners – see page 9, with more set to follow (up to 20% of NAV over time).

Shareholders approved a change to the investment policy in January to permit co-investments (an area in which the manager has a successful track record), which has increased SLPE's opportunity set. This, combined with a stronger US team, provides a foundation on which the manager can continue to build SLPE's record of outperformance. SLPE's manager (a top 10 private markets manager globally) says that it aims to ensure that 70% of the portfolio continues to be invested with managers whose funds' performance is first or second quartile. It believes that this approach will allow it to generate strong returns over the longer term.

Private equity fund of funds with a European bias

Standard Life Private Equity Trust aims to achieve long-term total returns through a diversified portfolio of private equity funds, and direct investments into private companies alongside private equity managers (co-investments), the majority of which will have a European focus. Its portfolio is also more concentrated than those of most of its peers; the top 10 underlying private equity fund managers comprise 55.1% of the net asset value as at 31 March 2019. Like many private equity funds, SLPE has no formal benchmark. Historically, the portfolio has been most closely correlated to European small cap indices and we expect this to continue. We have used the MSCI Europe Small Cap Index as a means of comparison.

Year ended	Share price total return (%)	NAV total return (%)	MSCI Europe Small Cap TR (%)	MSCI Europe total return (%)	LPX Europe total return (%)
30/04/15	1.3	8.5	8.3	6.9	16.7
30/04/16	11.0	17.0	5.6	(5.2)	(0.6)
30/04/17	45.3	16.9	28.6	26.4	36.7
30/04/18	11.6	13.3	12.6	7.4	3.6
30/04/19	16.4	8.8	(2.4)	3.2	11.3

Source: Morningstar, Marten & Co

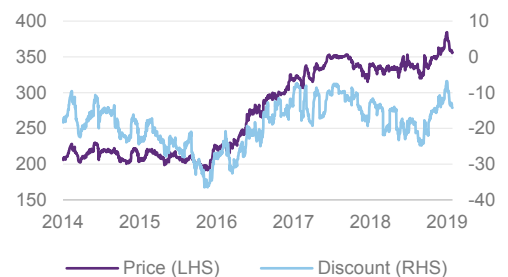
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Sector	Private equity
Ticker	SLPE LN
Base currency	GBP
Price	356.0p
NAV*	415.0p
Premium/(discount)	(14.2%)
Yield**	3.6%

* Morningstar estimate as at 28 May 2019, last published 407.3p at 30 April 2019. ** based on a prospective dividend of 12.8p per share for 2019 year.

Share price and discount

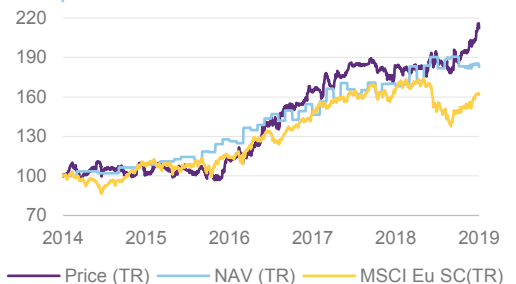
Time period 30/04/2014 to 24/05/2019



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/04/2014 to 30/04/2019



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	May 2001
Manager	SL Capital Partners
Market cap	547.3m
Shares outstanding	153.7m
Daily vol. (1-yr. avg.)	107.5k shares
Net cash	12.6%

[Click here for our annual overview note](#)

Increased opportunity set through co-investments

Historically, SLPE has been a fund of funds, with the manager making both primary and secondary investments but, until recently, its investment policy excluded co-investments (direct investments into private companies alongside private equity managers).

Co-investments will be made mainly alongside existing managers.

Following a strategic review, SLPE's board concluded that it would be beneficial to increase the opportunity set available to the manager by broadening SLPE's investment objective and policy, to allow it to make co-investments. These co-investments would be mainly alongside managers of private equity funds which SLPE and/or Aberdeen Standard Investments (ASI) has invested in. Shareholders approved the necessary changes to SLPE's investment objective and policy at the trust's AGM on 22 January 2019.

ASI's co-investment team has a strong track record and benefits from very strong deal flow

ASI has a dedicated co-investment team, run by Colin Burrow. SLPE's new lead manager, Merrick McKay (see below), says that this team has a strong track record and benefits from high quality deal flow. SLPE is permitted to purchase co-investment deals in the secondary market, but the manager says that, for now, it is focusing on new investments.

The manager highlights a number of benefits to SLPE from allocating to co-investments:

- the ability to generate outsized returns versus fund investments;
- lower fees;
- providing increased exposure to particularly attractive assets; and
- the opportunity to put more capital to work.

ASI's co-investments approach provides opportunities to 'kick the tyres' on the business.

The manager also says that one of the advantages of its co-investments approach is it generally allows plenty of opportunities to meet the management team and 'kick the tyres' on the business. It also says that, while making investments into secondaries has been useful, it has not been able to deploy as much cash as it had hoped. A very buoyant private equity market is good for exits, and SLPE has benefitted from strong realisations, but it drives up the price for secondary transactions, making it difficult to find investments of the right quality, at a price that represents good value. SLPE's manager does not want to compromise on quality and this has been a factor behind the move to expand the opportunity set to include co-investments.

Targeting 20% allocation to co-investments over the medium term

The intention is that SLPE's allocation to co-investments will be built up gradually to represent 20% of the portfolio's NAV. Rather than selling existing investments to fund this change, SLPE's manager will recycle the cash it receives as distributions from its underlying funds into the co-investments; SLPE's debt facilities can also be employed where the manager considers this to be appropriate.

SLPE's manager is confident that it can invest 5-6% of the portfolio per annum to develop this segment, which suggests that the 20% target could be achieved in three

to four years (the manager expects this will be achieved by 2023). It plans to do this by investing in five to six positions of around 1% of NAV each (in the £5m-£6m range) per year. It wants the fund to remain sufficiently concentrated that investments have the ability to meaningfully add value (it thinks that the ticket size needs to be above £3m) but not overly concentrated so that diversification is reduced and the co-investments become a concentration risk.

SLPE has now completed its first co-investment, alongside IK Investment Partners, in Mademoiselle Desserts.

SLPE has now completed its first co-investment. This is an investment, alongside IK Investment Partners, in Mademoiselle Desserts that was completed on 15 February 2019 (see page 9 for further discussion). IK Investment Partners is a private equity house with which SLPE's manager has a very long-standing relationship. Its funds will likely be familiar to regular followers of SLPE and readers of our research on the trust.

Revised investment policy

SLPE's principal focus is to invest in leading private equity funds; and to manage exposure through the primary and secondary funds markets, and co-investments. It aims to maintain a broadly diversified portfolio by country, industry sector, maturity and number of underlying investments. A majority of SLPE's portfolio will have a European focus.

SLPE now aims to hold around 50 active funds.

Historically, SLPE's portfolio has comprised some 35 to 40 active funds, these being funds that are in their investment periods. It excludes funds that have recently been raised, but have not yet started investing, and funds that are close to or being wound up. However, SLPE's investment policy was amended last year, so that its objective is now to hold around 50 'active' private equity fund investments. This allows for a greater diversification within the funds element, which counter-balances the additional concentration risk from the increasing allocation to co-investments (which is permitted to account for up to 20% of NAV).

SLPE will be typical making commitments in the £25m-£30m range going forward.

Previously, SLPE has been making commitments in the £40m-£50m range, but £25m-£30m will be a more typical range going forward. It is worth noting that, because of its fund-of-funds structure, SLPE has exposure to around 400 underlying companies.

Team development at Aberdeen Standard Investments

Boosted investor relations resource

SLPE's investor relations are now the responsibility of the wider ASI team, which has a deeper resource and broader network.

Prior to the merger of Aberdeen Asset Management and Standard Life Investments, the investor relations activities for SLPE were undertaken internally by a small team at SL Capital Partners. However, following the merger, the investor relations activities are the responsibility of the wider ASI team. This team has a deeper resource and a broader distribution network, allowing SLPE's investor relations efforts to be conducted on a more industrial scale.

Merrick McKay is now the lead manager

The baton of lead manager has passed from Roger Pim (who has moved to focus on other areas within the business) to Merrick McKay, who is head of Europe – Private

Merrick's career has included stints as an LP, GP, corporate financier and working within other related services.

Equity for ASI. Merrick is supported by Alan Gauld and Patrick Knechtli, with backup coming from the rest of ASI's private equity team.

Merrick has over 27 years of experience in European private equity, five of which have been with ASI. Merrick's career has included stints as an LP, GP, corporate financier and working within other private equity related services.

Merrick has previously worked for Macquarie's Private Markets division, where he was head of European Investments; and Primary Capital (a London-based, lower mid-market private equity firm) where he spent 13 years as a partner and investment committee member. During his time at Primary Capital, Merrick was responsible for leading, originating and managing numerous private equity investments in the UK. He also spent five years in lead MBO and M&A advisory services.

Merrick is a regular speaker at private equity conferences and is a member of Invest Europe's Limited Partner Council. He also holds Bachelor of Commerce and Bachelor of Law degrees from the University of Queensland.

The combined ASI private equity team has better global coverage.

Better resourced private equity team – particularly in the US

Since the merger, ASI's private equity investment teams in Europe and the US have been combined. Historically, SL Capital had a very strong European private equity team and a small team focused on the US, with Aberdeen having a stronger US presence. Combined, the two teams now have much better global coverage and, from SLPE's perspective, a superior platform from which to make US investments.

ASI has a large private equity team and all members are very familiar with SLPE.

Investment process unchanged

Despite the change in lead manager and the superior private equity resource that can be drawn on for US investments, the process by which SLPE is managed remains unchanged. Merrick says that ASI has a large private equity team and all members are very familiar with the fund. Furthermore, all team members know all of the underlying managers; Merrick, for example, has been involved with SLPE since 2014 and has led on many of its primary commitments.

Manager's view

Private equity managers are returning to the primary market quickly and in size

The ASI team are concerned about the size of some fundraises.

Merrick says that one of the biggest challenges the ASI private equity team is facing is the speed at which the underlying managers (including some of SLPE's core managers) are returning to the primary market and the amounts that they are seeking to fundraise.

Finding the capacity to make these new commitments is not in itself a problem, and it is not uncommon that, having successfully deployed a fund, GPs will tend to look to increase the size of the fund the next time around. However, the ASI team are concerned that with the size of some fundraises, the underlying managers are maybe over-stretching themselves in terms of what they will be able to deploy effectively.

Merrick cites the example of a core European manager, focused on France, in whose funds ASI has invested for much of the last 20 years. While the ASI team continue to like this manager, and may invest with them again in the future, it was unable to get comfortable with the jump in size between the last two funds (the latest fund at €4bn, is around twice the size of its predecessor). This is by no means an exception. SLPE'S manager reviewed 36 funds in 2018 for SLPE, and the trust only participated in six of these.

Private equity is generally injecting less debt into the capital structures and focusing more on operational improvements.

Late cycle challenges

Reflecting the lessons learned during the GFC, private equity houses are generally injecting less debt into the capital structures of their investments, on better terms, and focusing more on operational improvements (this has always been an approach that the manager favoured when selecting managers). This generally means lower returns, but less risk as a result.

Merrick comments that in the current easy-money, low-interest-rate environment, there is a wall of money looking for investments, which has driven strong pricing in private equity transactions. It has therefore been a good market for exits but a more challenging one when making purchases, and he expects this to depress returns, in absolute terms, going forward (he expects alpha of 2% to 5% per annum).

Furthermore, a significant proportion of recent gains has been driven by multiple expansion, some of which has been cycle-driven, and the global economic cycle looks long in the tooth. Market timing in private equity investing is difficult (particularly for a fund such as SLPE, as the underlying managers ultimately control this) but arguably is reflected in SLPE's current net cash position. Furthermore, SLPE also has an undrawn credit facility on which it can draw should the pricing environment improve, for example once the economic cycle has turned.

Many private equity houses are putting sensible funding structures in place.

Covenant-light debt is now much more prevalent.

Despite Merrick's concerns about the size and timing of some fundraises, he says that many private equity houses are putting sensible funding structures in place. He says that some "home run" opportunities will not be so prevalent going forward, but, if you have backed long-term sustainable businesses with secular growth and are able to maintain control and trade through the downturn, decent returns should still be achievable, albeit a longer holding period may be required. In this regard, Merrick notes that in addition to lower debt levels in general, covenant-light debt is now much more prevalent and this should make private equity investment more resilient than it was during the GFC, should the growth weaken.

Pricing in the UK market doesn't reflect risks

The UK private equity market has remained quite hot.

SLPE's manager had expected that Brexit uncertainty would create some opportunities to acquire UK businesses at compelling valuations, particularly those that are globally-focused. However, Merrick says that the UK private equity market has remained quite hot, with pricing not appearing to reflect the risks involved. As discussed in the asset allocation section, exposure to the UK is broadly unchanged since we last published. Merrick also notes that it is difficult to market time primary commitments, as the underlying general partners ultimately have control of this. However, Merrick expects that SLPE will ultimately benefit as it has exposure to European funds (for example, Equistone) that include the UK, and these should be well-positioned to take advantage of these opportunities when they arise.

Asset allocation

SLPE’s manager focuses on a core group of underlying managers that it knows and trusts.

Well-diversified portfolio with exposure to about 400 underlying companies. Cash and equivalents of £78.9m as at the 30 April 2019.

Good exposure to the ‘exit zone’ could support further NAV development.

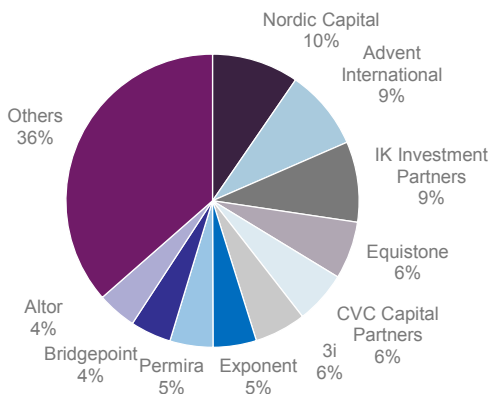
Readers interested in SLPE’s investment process should see our [July 2018 annual overview note](#), which describes this in more detail. However, to summarise, SLPE’s manager tends to build a portfolio of core underlying managers whom it knows and trusts, albeit opportunities from new and existing managers for SLPE are under constant scrutiny. In terms of underlying managers, the portfolio is concentrated; the top 10 underlying managers account for approximately 64% of SLPE’s investment portfolio (see Figure 1 overleaf). Near-term changes in allocations tend to be driven by realisations and the pace of reinvestment.

As at 30 April 2019, SLPE had total net assets of £626.3m (407.3p per share); £547.4m invested in 67 private equity funds and one co-investment; and cash of £78.9m. The portfolio provides exposure to about 400 underlying private companies and, as at 31 December 2018, the top 10 underlying private equity funds accounted for 55.1% of SLPE’s NAV. SLPE’s manager is comfortable with the trust’s portfolio – it considers the portfolio to be well-diversified but not overly so. Looking at Figures 1 to 4, SLPE’s portfolio appears to be reasonably well-balanced, but it should be noted that it can take time to shift these exposures (the underlying investments are illiquid and long-term in nature).

The fund continues to be biased towards northern Europe and has a focus on buyout managers. Exposure to the UK has held steady. Exposure to the US remains in line. Previously, this exposure has been achieved by investing through European-based managers or global groups, but in H1 2018, SLPE made its first commitment to a US-based fund, ONEX (this secondary purchase was discussed in our July 2018 note – see page 11 of that note). 2018 also saw SLPE make its first US primary commitment to Atlanta-based MSouth Equity Partners (see page 12 of our July 2018 note). More recently, SLPE’s made its second US primary commitment to operationally focused American Industrial Partners. SLPE’s manager expects to see the allocation to the US continue to move up gradually over time, aided by the additional resource that the combined ASI team has dedicated to this area.

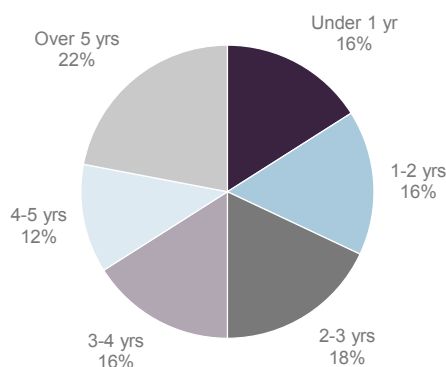
Looking at Figure 2, SLPE’s portfolio continues to be reasonably well-balanced in terms of its maturity profile. 22% of the portfolio is in the ‘five years or older’ segment, which suggests that there is still a good level of exposure to companies in the ‘exit zone’. This could bode well for SLPE’s NAV development; SLPE’s manager says that it tends to see, on average, an around-20% uplift relative to the last relevant valuation when a company exits.

Figure 1: Split by underlying manager as at 30 September 2018



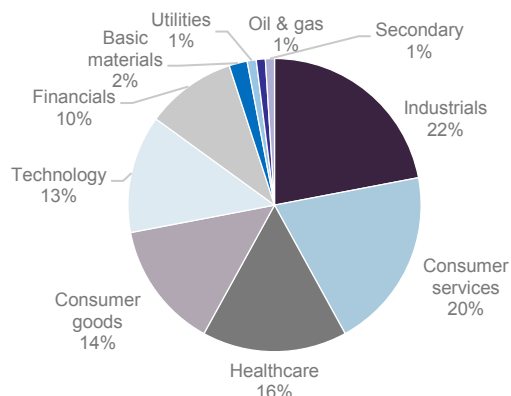
Source: Aberdeen Standard Investments, Marten & Co

Figure 2: Maturity profile as at 30 September 2018



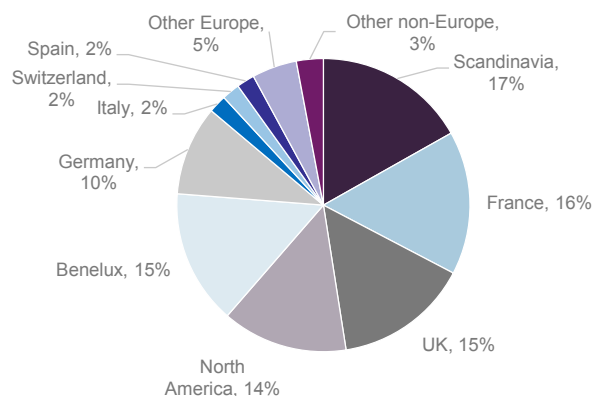
Source: Aberdeen Standard Investments

Figure 3: Sectoral exposure as at 30 September 2018



Source: Aberdeen Standard Investments

Figure 4: Geographic exposure as at 30 September 2018



Source: Aberdeen Standard Investments

Four new names have entered the top 10 underlying investments: Nemera, R1 RCM, C erelia and Trustly.

Figure 5 shows the top 10 underlying investments in the portfolio at the end of December 2018. Comparing this against the top 10 holdings as at 31 March 2018 (this being the most recently available data when we last published), four new names have entered the top 10. These are Nemera, R1 RCM, C erelia and Trustly, and these positions are discussed in more detail below. The four names that have exited the portfolio are Scandlines, Handicare, Nordax Bank and an undisclosed holding. The largest company in the portfolio continues to be Action; a brief commentary on this is provided below. Healthcare and technology are allocations that have grown.

Figure 5: 10 largest underlying holdings as at 31 December 2018

Company	Business	Fund	% of net assets 31 Dec 2018	% of net assets 31 Mar 2018	Change
Action	Non-food discount retailer	3i Eurofund V	7.9	7.2	0.7
AniCura	European animal hospitals	Nordic Capital Fund VIII	1.3	0.8	0.5
Norican	Equipment and services for metallic parts formation	Altor Fund IV	1.0	1.1	0.1
Nemera	Drug administration systems	Montagu IV	1.0	0.7	0.3
R1 RCM	Physician advisory provider	TowerBrook Investors IV	0.9	0.6	0.3
ERT	Clinical trial risk management	Nordic Capital Fund VIII	0.8	0.8	0.0
Cerelia	Ready-to-use dough	IK Investment Partners VII	0.8	0.7	0.1
Trustly	Online payment solutions	Nordic Capital Fund IX	0.8	0.0	0.8
Element	Industrial materials testing	Bridgepoint Europe V	0.8	0.9	(0.1)
Lindorff	Debt collection and accountancy services	Nordic Capital Fund VIII	0.8	0.9	(0.1)
Total			16.1		

Source: Aberdeen Standard Investments, Marten & Co

Figure 6 shows the top 10 largest private equity funds in the portfolio at the end of December 2018. Comparing this against the top 10 largest private equity funds in the portfolio as at 31 March 2018 (this being the most recently available data when we last published), two new names have entered the top 10. These are Bridgepoint Europe V and Advent GPE VIII. These have replaced Equistone Partners Europe Fund V and Nordic Capital Fund VII.

Figure 6: 10 largest private equity funds as at 31 December 2018

Fund	Strategy	Geography	% of net assets 31 Dec 2018	% of net assets 31 Mar 2018	Change
3i Eurofund V	Mid-market buyouts	Europe	7.0	8.2	(1.2)
Nordic Capital Fund VIII	Complex buyouts global healthcare	Northern Europe	6.2	6.9	(0.7)
Exponent III	Mid-market buyouts	UK	5.8	4.7	1.1
Permira V	Transformational buyouts	Global	5.7	5.1	0.6
Altor Fund IV	Nordic Middle Market	Northern Europe	5.6	4.1	1.5
Bridgepoint Europe V	Middle market and buyouts	Europe	5.5	3.5	2.0
Advent GPE VIII	Mid-market buyouts	Global – Europe & North America	5.1	3.0	2.1
CVC Capital Partners VI	Mid-market buyouts	Europe & North America	4.9	3.7	1.2
IK Investment Partners VII	Mid-market buyouts	Northern Europe	4.7	5.0	(0.3)
BC European Capital IX	Mid-to-large buyouts	Europe, USA	4.7	4.5	(0.2)
Total of top 10			55.1		

Source: Aberdeen Standard Investments, Marten & Co

Portfolio activity and outstanding commitments

During the fourth quarter of 2018, SLPE made a new £30m commitment to Triton V and, up to the end of April 2019, SLPE had made a new €35m commitment to Altor V, a \$20m commitment to American Industrial partners capital Fund VII, a €25m commitment to InvestIndustrial VII, a €25m commitment to the Seventh Cinven Fund and a €6m co-investment in Mademoiselle Desserts. Brief commentary is provided on some of these below.

During the first four months of 2019, SLPE received distributions of £27.1m; these generated net realised gains and income of £18m. As at 30 April 2019, SLPE had total outstanding commitments of £432.1m (2018: £360.0m), cash and equivalents of £78.9m and an unused credit facility of £80m. Of the outstanding commitments, SLPE's manager expects that £60m will never be called and that through a combination of cash, the credit facility and future distributions from its investments, SLPE's outstanding commitments will be funded readily.

Triton V

SLPE has made a €30m commitment to Triton V.

Triton is an established buyout manager that has delivered consistently strong performance across cycles.

December 2018 saw Triton Partners' latest fund, Triton V, close with €5bn of commitments. This included a £30m commitment from SLPE. Its manager says that the new fund will continue Triton's 'all weather' mid-market private equity investment strategy and will seek to generate value in the geographies in which Triton has strong local knowledge, such as the Nordics, Germany, Austria, Switzerland, Spain, Italy, France, UK and Benelux.

SLPE's manager says that Triton is an established buyout manager focused on Northern Europe and Benelux, which has delivered consistently strong performance across cycles. It is a value-oriented investor that targets fundamentally-sound businesses that have been mismanaged. It uses its significant industrial and operational expertise to drive operational improvements in the business. SLPE's manager says that this investment strategy comes into its own during times of market dislocation, allowing the manager to acquire mismanaged companies at relatively low entry prices.

SLPE has made a €35m commitment to Altor V.

Altor has delivered consistently strong performance across cycles.

Altor V has a 15-year investment term and a flexible mandate.

Mademoiselle Desserts benefits from a market leading position in France and the UK.

Merrick says that he cannot see any obvious external threats to Action, and he continues to see strong upside potential.

3i is working towards a transaction that will allow investors, who wish to realise their interest in Action, to do so by November 2019.

Altor V

After a brief fundraising that was substantially oversubscribed (93% of the capital was provided by existing investors), Altor V was closed at its hard cap of €2.5bn in February 2019. This included a €35m commitment from SLPE, which is SLPE's second commitment to an Altor fund.

Altor V is the latest fund from Altor Equity Partners, a private equity firm focused on leveraged buyout and growth capital investments in Sweden, Denmark, Finland and Norway. SLPE's manager says that Altor has delivered consistently strong performance across cycles, with a strategy of targeting situations where it can capitalise on the team's experience with complex transactions involving the potential for fundamental performance improvement.

Altor says that, as with its prior funds, Altor V fund has a 15-year investment term; and investments will generally be made in private companies with revenues typically in the range of €50 to €500 million. Like its predecessors, Altor V has a flexible investment mandate that allows for minority investments in publicly traded companies and distressed debt.

Mademoiselle Desserts – SLPE's first co-investment

SLPE's made its first co-investment, alongside IK Investment Partners, on 15 February 2019 in Mademoiselle Desserts (www.mademoiselledesserts.com). Headquartered in France, Mademoiselle Desserts is a European frozen pastry business that has some 4,300 products that it manufactures at its 12 bakeries (eight in France, three in England and one in the Netherlands), employing 1,900 people. Annual turnover is in the region of €326m, a third of which is generated in France. Half of its output is delivered to food service companies, while the other half is delivered to supermarkets. SLPE's manager says that Mademoiselle Desserts benefits from a market leading position in France and the UK, is led by an excellent management team, and benefits from the backing of a high-quality sponsor.

Action (7.9% of NAV as at 31 December 2018)

Action (www.action.com) is a 3i-backed fast-growth non-food discounter with more than 1,000 stores across the Benelux, French and Germanic markets. We last discussed this holding in our [September 2016 note](#). At that time, we commented on how the company had grown revenues by more than 30% the previous year and was seeing strong organic growth. It has continued to grow strongly since.

Merrick considers that Action is a very high-quality company and one that is otherwise difficult to get exposure to in the listed market. Standard Life Aberdeen is one of the largest holders of 3i and 3i is the largest holder of Action (3i owns 44.3% of Action and also manages Eurofund V, which owns 33.2% of Action). Merrick says that he cannot see any obvious external threats to Action. Given the scale of its organic growth, there is always a degree of execution risk, but Merrick continues to see strong upside potential.

Action could also be a realisation opportunity for SLPE. 3i made its investment in 2011 and in November 2019, the final extension of Eurofund V is scheduled to end (Action is one of two remaining companies in Eurofund V). 3i Group's results for the year ended 31 March 2019 say that 3i is working closely with the team at Action to facilitate a transaction that will allow those investors who wish to realise their interest in Action by November 2019 to do so. However, 3i also says that it intends to

maintain its current level of exposure in Action and it expects that a number of other investors are likely to retain a substantial part of their holdings.

Nemera (1.0% of NAV as at 31 December 2018)

Nemera represents a potential realisation opportunity for SLPE through its investment in Montagu IV.

Nemera (www.nemera.net) is a leading European manufacturer of plastic drug administration systems that SLPE has exposure to through its investment in Montagu IV. The investment is a 2014 vintage (it was formed as a carve out from REXAM Plc) putting it into the exit zone. October 2018 saw Montagu reach an agreement to sell Nemera to Astorg (a manager whose funds SLPE has invested in continuously since 2002, although SLPE's manager decided not to participate in the most recent fundraise) with an option for Montagu to reinvest as partner so as to participate in the next stage of Nemera's growth. The deal is subject to regulatory approval, but represents a potential realisation opportunity for SLPE through its investment in Montagu IV.

Nemera has developed rapidly, driven by a focus on research and development, innovation and manufacturing excellence.

Nemera sells a range of drug delivery devices including auto-injectors, inhalers, insulin pens, eye-droppers and pumps, which it produces at four manufacturing sites in France, Germany and the US. SLPE's manager says that the company has developed rapidly, driven by a focus on research and development, innovation and manufacturing excellence. The company has expanded its geographical reach and product portfolio through targeted acquisitions.

R1 RCM (0.9% of NAV as at 31 December 2018)

R1 RCM (www.r1rcm.com) describes itself as a leading provider of technology-enabled revenue cycle management services across hospitals, health systems and physician groups. The company offers its healthcare customers a fully outsourced solution that spans the entire revenue collection cycle from patient registration through to collection from patients and other third-party payers. In essence, it standardises processes to enable these to be completed more efficiently and therefore at lower cost. It says that its proprietary workflow and methods reduce variation to minimise errors, provide automation opportunities and standardise analytics across an enterprise.

Its approach has four key strands:

- standard methodology – over 150 detailed, standard methods supported by over 100 core operating measures designed for operational excellence;
- proprietary workflow solutions – order intake, scheduling and claim reimbursement;
- financial alignment – R1 RCM is aligned to the financial outcomes it produces for its customers; and
- technology enabled solutions – processes are hard-wired into customers operations using R1 RCM's technology.

The Chicago-based company is a 2015 vintage investment for TowerBrook Investors IV. TowerBrook Capital Partners is an investment management firm headquartered in both London and New York, whose private equity strategy is to pursue control-oriented investments in large and mid-market companies, principally on a proprietary basis and often in situations characterised by complexity.

Cérélia is a leading manufacturer of ready to-use dough, with a wide product range.

There has been a marked uptick in growth since IK Investment Partners took its stake in 2015.

Nordic Capital views Trustly as a highly strategic payment platform with unique capabilities.

Cérélia (0.8% of NAV as at 31 December 2018)

Cérélia (www.cerelia.com) describes itself as a dough- and batter-based food specialist. It is a leading manufacturer of ready to-use dough and has a wide product range that includes rolled pie dough, pizza dough, exotic dough, pastries, cake batter and organic dough. Its products are sold both through private labels and through its own brands (Croustipate and Pop! Bakery). The investment is a 2015 vintage for IK Investment Partners VII. IK acquired the company in July 2015 from Sagard, Capzanine, Cerea Capital and BNP Développement. Sagard had been the majority shareholder since 2012, when the company was formed from the merger of EuroDough and L'Alsacienne de Pâtes Ménagères. IK Investment Partners strategy for Cérélia has three key strands:

- expand into adjacent segments through various innovation projects;
- buy-and-build to accelerate European expansion and product range diversification; and
- continuous operating improvement.

Cérélia has production plants in France, Belgium, the UK, the Netherlands and the US. It markets its products in 50 countries globally and has sales offices in France, the Netherlands, Belgium, Italy, Spain, the UK, Malaysia, the US and Canada. There has been a marked uptick in growth since IK Investment Partners took its stake in 2015, with annual turnover increasing from €213m in 2015 to over €400m in 2017 (between 2012 and 2015 turnover increased by about 9% cumulatively – from €196m to €213m). Cérélia has over 1,500 employees, who, combined, hold over 30% of the company's capital.

Trustly (0.8% of NAV as at 31 December 2018)

Trustly (trustly.com) is an online payment provider that enables direct account-to-account payments. It aims to make online payments that are fast, simple and secure for all– merchants, consumers, and banks. Headquartered in Stockholm, Sweden, with regional offices in Spain, Malta, Germany and the UK, Trustly has approximately 200 employees and processes more than 3.5 million payments, with payment volumes of SEK 6 billion, each month. It has a presence in 29 European countries with connections to more than 3,000 banks.

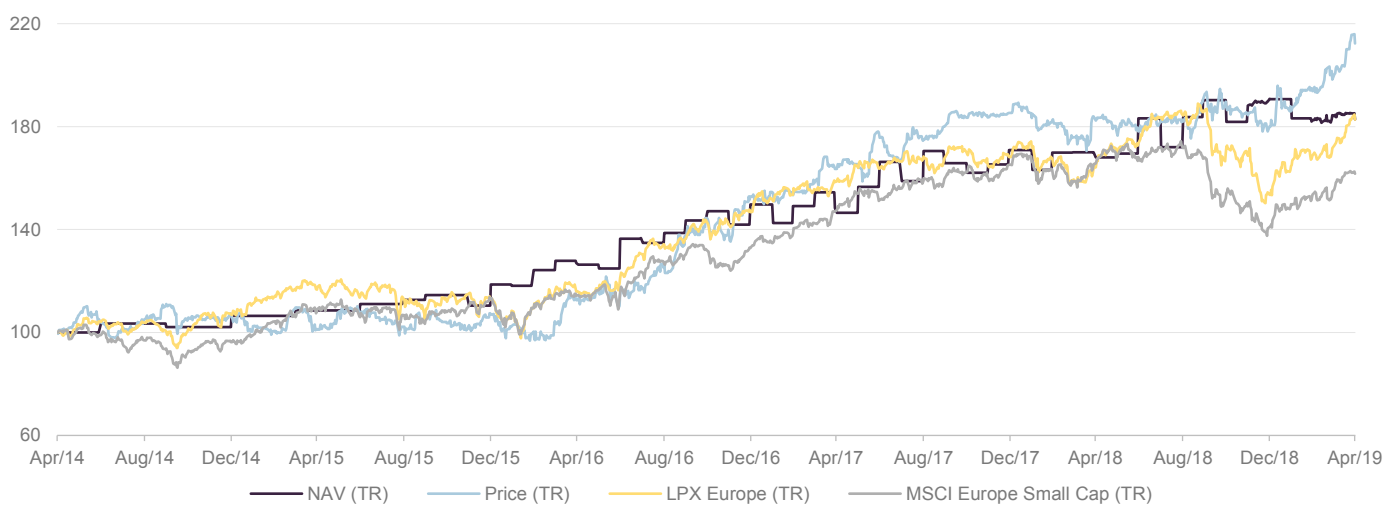
The investment is a 2018 vintage for Nordic Capital Fund IX. Nordic Capital says that it views Trustly as a highly strategic payment platform with unique capabilities, and that it will support Trustly's management in its plan to establish the company as the leading global online banking payments provider. Nordic Capital sees significant potential in supporting management to accelerate Trustly's growth agenda in current and new geographies, as well as expand the product portfolio. Part of the strategy is to support Trustly by investing in its bank network and technology platform, in order to drive payment innovation and leverage, what Nordic Capital describes as Trustly's 'first mover advantage'.

Performance

[Please click here for an up to date peer group comparison of SLPE versus its private equity peers.](#)

Further discussion of SLPE's long-term performance record can be found in our previous notes, while longer-term performance figures can be seen in Figure 8 below. However, as illustrated in Figure 7, during the last five years SLPE's NAV and share price total returns have exceeded the returns provided by the LPX Europe and MSCI Europe Small Cap Indices by comfortable margins. These have also outperformed the MSCI Europe by a significant margin during the same (see Figure 8). SLPE's superior share price performance against its NAV reflects a narrowing of the discount during the period.

Figure 7: SLPE NAV and price performance compared with the LPX Europe and MSCI Europe Small Cap. Indices (total returns) over five years to end April 2019



Source: Morningstar, Marten & Co

Figure 8: Cumulative total return performance to 30 April 2019

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NAV TR	(0.8)	(0.2)	0.5	8.8	44.1	82.9	162.2
Price TR	7.1	13.8	13.2	16.4	88.7	112.3	564.0
LPX Europe TR	6.5	10.8	6.1	11.3	57.6	82.8	379.9
MSCI Europe TR	3.7	9.0	6.7	3.2	40.0	42.0	158.5
MSCI Europe Sm Cap TR	4.5	8.2	4.9	(2.4)	41.4	61.7	286.7

Source: Morningstar, Marten & Co

Long-term time horizons are superior for assessing long-term strategy's such as SLPE's.

10-year numbers are distorted by the GFC.

For a strategy such as SLPE's, which is inherently long-term in its investment horizon, we consider that longer-term horizons are the best in terms of assessing performance. We do, however, caution that the 10-year numbers provided in Figure 8 have been distorted by the effects of the global financial crisis (GFC). In this instance, returns are calculated using a starting point of 31 March 2009, which is close to the trough of the values of these assets in the post GFC period.

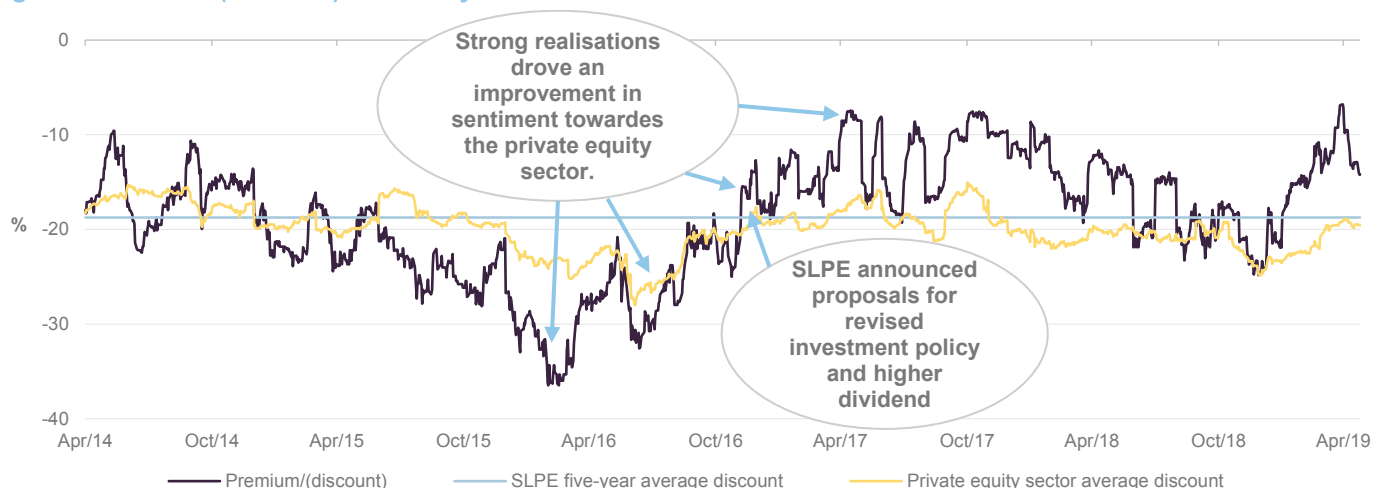
During the preceding boom, a significant number of private equity houses were following highly-leveraged strategies (by utilising debt both in their funds and in the underlying investments). When the GFC came, asset values collapsed and the debt suddenly accounted for a much larger proportion of the capital structure, with equity being squeezed as a result. Many funds broke their covenants; some were unable to meet their commitments, and some inevitably went bust, all of which was very

damaging for sentiment for the sector. This drove asset values down even further, but for those that were able to survive the downturn, this laid the foundations for the high levels of returns shown for the 10-year period in Figure 8.

These returns are therefore extraordinarily high and are not likely to be repeated on this scale, but it is fair to say that some of the best returns can be achieved by investing during a downturn when asset values are depressed. There is a variety of indicators that suggest that we are late in the economic cycle and that a recession maybe approaching. We also observe that while the exit environment is buoyant, many private equity GPs have been raising new funds, and levels of dry powder in the sector remain high. If the cycle turns, opportunities may be available more cheaply which could once again lay the foundations for a period of strong long-term performance. SLPE's manager says that it remains focused on best-in-class European managers and that it aims to ensure that 70% of the portfolio is invested with managers whose funds' performance is first or second quartile. It believes that this approach will allow it to generate very good returns over the longer term.

Premium/(discount)

Figure 9: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

SLPE is trading at a tighter discount than the broader private equity sector.

As illustrated in Figure 9, having previously been on a markedly narrowing trend between March 2016 and May 2017, driven by strong realisations, SLPE's discount has been moving within a range of mid-20s to mid-single figures. During the narrowing phases, the pace of SLPE's narrowing has generally been stronger than that of the broader private equity sector. We think this reflects the strength of its own NAV performance; the new dividend policy, revised investment policy and simplified fee structure that were announced in late 2016; and increased efforts to raise awareness of the trust with investors during this period. Marketing for the trust has recently been given a boost following the merger of Standard Life Investments and Aberdeen Asset Management, with SLPE benefitting from an increased investor relations resource.

The general widening and narrowing trends appear to be in part driven by broader market sentiment. There is evidence to suggest that the trust has benefitted during periods of market turbulence, when investors become more focused on assets that are less correlated with traditional equity markets.

Further tightening could create the opportunity to expand SLPE.

However, we also think that should SLPE's discount narrow further, this could create the opportunity for the board to consider expanding the fund. An increased asset base should benefit all shareholders by both increasing liquidity and reducing the ongoing charges ratio. We reiterate our view that the manager's approach could be readily applied to a larger asset base without diluting returns, and so we would welcome such a move. Any issuance would need to be balanced against SLPE's cash needs, although the trust continues to retain a significant cash balance that it could deploy in the event of a market dislocation.

Fund profile – European private equity

SLPE is predominantly a fund of private equity limited partnerships ('LPs' or 'funds'). It has a strong bias to (western) Europe and an increased focus on North America. Until recently, SLPE has followed a two-pronged approach that has involved making primary commitments to new funds managed by firms and teams that its manager rates highly, and purchasing private equity funds in the secondary market at attractive values. However, 2019 has seen the introduction of co-investments. The first was in Mademoiselle Desserts (see page 9), made in February 2019 but, as discussed on page 2, the manager expects to reinvest cash from realisations over the next few years, so that co-investments represents around 20% of SLPE's NAV.

History

SLPE was listed in May 2001. The trust's portfolio was seeded with a portfolio of 19 private equity funds from Standard Life's (as it was then) balance sheet and Standard Life Aberdeen remains a significant supportive shareholder in the company. SLPE's manager is SL Capital Partners (SL Capital) which is part of the Standard Life Aberdeen group.

Previous publications

Additional information is available at SLPE's website: www.slpet.co.uk

Readers interested in further information about SLPE, such as investment process, fees, capital structure, trust life and the board, may wish to read our annual overview note *Putting capital to work*, published on 17 July 2018, as well as our previous update notes (details are provided in Figure 10 below). You can read the notes by clicking on them in Figure 10 or by visiting our website.

Figure 10: Marten & Co. previously published notes on SLPE

Title	Note type	Date
Sitting in a sweet spot	Initiation	10 May 2016
Reinvestment phase underway	Update	14 September 2016
Dividend doubled to 4.0%	Update	22 February 2017
Loading the portfolio	Update	3 July 2017
A good year; more to come?	Update	8 December 2017
Putting capital to work	Annual overview	17 July 2018

Source: Marten & Co.

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