



Apax Global Alpha

Investment companies | Update | 20 August 2021

Impressive progress

Apax Global Alpha (whose ticker is APAX, but has been abbreviated throughout this note as AGA) has made impressive progress over the first six months of 2021, as its interim results demonstrate. The pace of realisations and distributions within its private equity portfolio has continued since and we estimate that its NAV has made further progress. The record €131m of distributions from the private equity portfolio have been reinvested in both new opportunities and AGA's derived investment portfolio. In his report, AGA's chairman sounds a note of cautious optimism. We think AGA is well-positioned to continue to benefit from the widespread disruptive change underway in the global economy. The current wide discount may prove temporary.

Unique exposure to the global private equity investment expertise of Apax

AGA aims to provide its shareholders with capital appreciation from its investment portfolio (target NAV returns are 12–15% per annum) and regular dividends (5% of the NAV per annum, payable semi-annually). AGA invests as a limited partner in private equity funds raised and advised by Apax Partners LLC (Apax), and is a direct investor in debt and equity instruments which are sourced through leveraging the insight and global reach of Apax.

12 months ended	Share price TR (%)	NAV ¹ total return (%)	MSCI World TR (%)	S&P500 total return (%)	STOXX Europe 600 TR (%)
31/07/2017	29.5	12.3	16.9	16.9	20.5
31/07/2018	(5.9)	10.6	12.4	16.8	6.1
31/07/2019	23.6	16.3	11.0	15.7	3.6
31/07/2020	8.2	9.8	0.0	4.4	(6.6)
31/07/2021	36.1	29.2	27.5	28.8	25.4

Source: Morningstar, Marten & Co. Note 1) based on QuotedData's NAV estimate

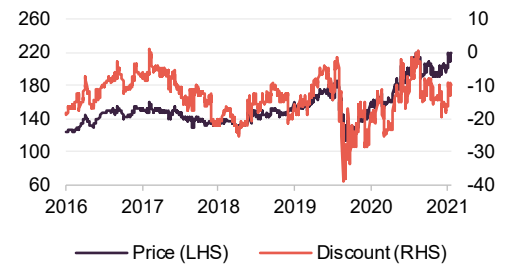
Sector	Private equity
Ticker	APAX LN
Base currency ¹	GBP/EUR
Price	220.0p
NAV (estimate 18/08/21) ²	244.3p
NAV (actual 30/06/21)	240.9p
Premium/(discount) ²	(10.0%)
Yield	5.1%

Note 1) AGA's shares trade in sterling but its accounts are prepared in euros.

Note 2) based on QuotedData's NAV estimate.

Share price and discount

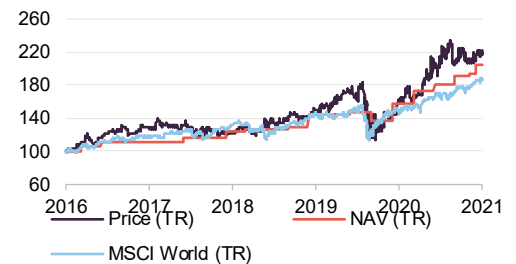
Time period 31/07/2016 to 18/08/2021



Source: Morningstar, Marten & Co Note: based on QuotedData's NAV estimate

Performance over five years

Time period 31/07/2016 to 31/07/2021



Source: Morningstar, Marten & Co. Note: based on QuotedData's NAV estimate

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Domicile	Guernsey
Inception date	15 June 2015
Manager	Apax
Market cap	1,080.4m
Shares outstanding (exc. treasury shares)	491.1m
Daily vol. (1-yr. avg.)	532,646 shares
Net cash (30/06/21)	2.1%

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[Click for an updated APAX factsheet](#)



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Analysts

Matthew Read
mr@martenandco.com

James Carthew
jc@martendandco.com

Jayna Rana
jr@martendandco.com

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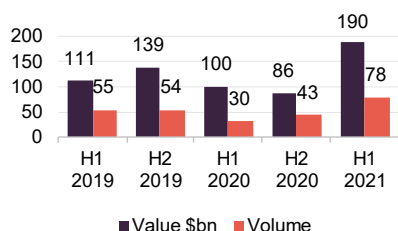


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Readers may be interested to refer back to our initiation note – [An abundance of alpha](#)

Figure 1: US private equity transactions



Source: LCD

Over the first half of 2021, AGA has returned 17.4% in NAV total return terms

Progress in nervous markets

Readers may be interested to refer back to our initiation note – [An abundance of alpha](#) – which set out AGA’s investment philosophy and approach, including its growth-focused strategy of backing good companies with the aim of turning them into great ones. It also explained the thinking behind AGA’s use of its derived investment portfolio as a way of mitigating against the cash drag that can afflict private equity funds.

AGA’s focus remains on its core sectors of technology/digital, services, healthcare and internet/consumer (since we last published, online marketplace companies have been reassigned to this sector from services). Companies within these sectors were often beneficiaries of the enforced changes to working and shopping patterns imposed by measures taken to fight COVID-19. The pandemic is generally reckoned to have accelerated the pace of change in many industries.

While COVID acted as a dampener on private equity transactions in the second half of 2020, as Figure 1 shows, the number and value of private equity transactions has rebounded over the first half of 2021.

Within listed equity markets, the promise of vaccines against the virus catalysed a rotation from growth to value last November which persisted well into the first half of 2021. Concern mounted that the significant stimulus injected into economies would trigger inflation and interest rises and the yield curve steepened. Nevertheless, credit spreads continued to tighten as defaults remained at relatively low levels.

However, towards the end of June, investors became worried about the impact of new variants of COVID on the pace of recovery and re-focused on high quality and growing companies of the type found within AGA’s portfolio. Yields on longer-dated bonds have fallen. The managers identify a tail-risk that inflation overshoots, leading to materially higher short-term and long-term rates.

AGA’s interim results for the period ended 30 June 2021

Over the first half of 2021, AGA has returned 17.4% in NAV total return terms and has announced an interim dividend of 5.97p in line with its policy of distributing 5% of NAV each year. The private equity portfolio was the main driver of returns, generating a total return of 24.5% in euros. The total return on the derived investment portfolio was 9.8%.

The NAV per share at the end of June 2021 was €2.81 or about 241p. We believe that a number of factors have helped push that higher to approximately 244.3p today.

The six-month period was a busy one, with 11 new investments closed, with a value of €85m on a look-through basis, and 12 full or partial exits achieved within the private equity portfolio and 13 new derived debt investments offset by five derived

Strong IPO market reflected in pattern of exits

debt exits and one exit from the derived equity portfolio. We discuss many of these from page 6 onwards. The exits were made at an average 25.7% uplift to unaffected valuations (reflective of the conservative nature of AGA's NAV).

A number of the exits were achieved via IPOs – InnovAge, Genius Sports, Global-e, Baltic Classifieds and Paycor have all come to the market since we last published (Paycor after 30 June). In addition, Thoughtworks, AGA's largest underlying holding, has submitted a confidential draft registration statement to list in the US.

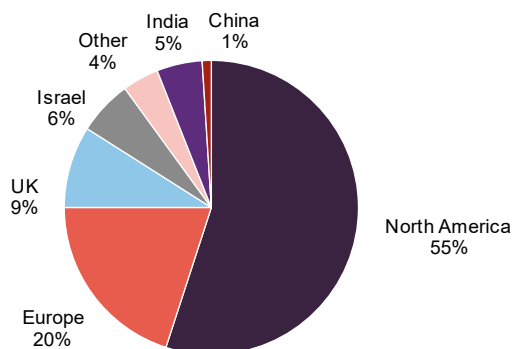
The high level of distributions from the private equity portfolio (€131m over the period) was offset by redeployment into AGA's derived investments portfolio.

Many of AGA's largest holdings are now in listed companies. The chairman notes that, with €439.2m in derived investments, net cash of €29m and an unused €140m credit facility, the fund is already well-positioned to meet future private equity calls (outstanding commitments stood at €419.2m at 30 June 2021). However, AGA continues to put money to work, with a new \$90m commitment to the planned Apax Digital Fund II announced during the period.

AGA's board stresses the importance of responsible investment. We note that in July 2021, Apax became a signatory to the Initiative Climat International, a private equity industry initiative backed by the PRI. It aims to share best practices for measuring, managing and reducing portfolio carbon emissions.

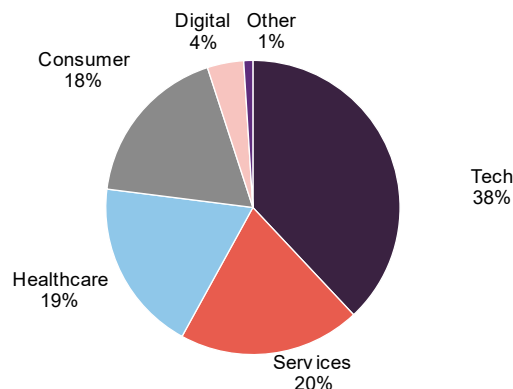
Asset allocation – private equity

Figure 2: Private equity geographic breakdown as at 30 June 2021



Source: AGA, Marten & Co

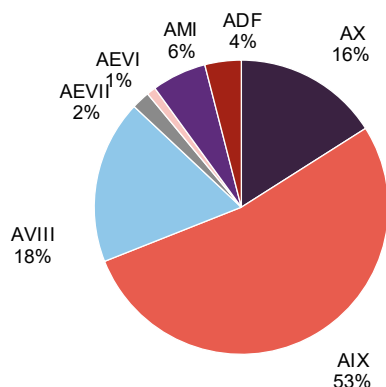
Figure 3: Private equity portfolio exposure by sector as at 30 June 2021



Source: AGA, Marten & Co

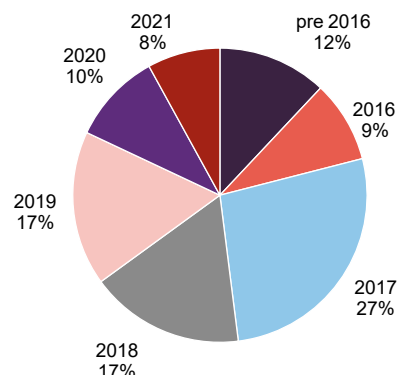
The AGA private equity portfolio has a bias to the US and Europe and only modest exposure to other parts of the world, including Asia. Regional weightings reflect the opportunities available. The portfolio is not managed on a top-down basis. The allocation to digital reflects the holding in the Apax Digital Fund (ADF), which makes investments in the software, internet and tech-enabled services sub-sectors.

Figure 4: Fund exposure as at 30 June 2021



Source: AGA, Marten & Co (see Figure 6 for more information)

Figure 5: Private equity portfolio split by vintage as at 30 June 2021



Source: AGA, Marten & Co

Apax X (AX in Figure 4) is relatively early in its life cycle. The exposures to individual funds reflect their relative maturity. AMI Opportunities is focused on investments in Israel.

On 27 May 2021, AGA announced that it had made a \$90m commitment to the new Apax Digital Fund II. As yet, we do not know how big this fund will be.

Apax funds within the AGA private equity portfolio

Figure 6: Apax funds within the AGA portfolio as at 30 June 2021

Holding	Vintage	Investment phase	Commitment	Fund size	Percentage invested and committed (%)	Distributions received by AGA since launch
Apax X (AX)	2020	Investing	€199.8m + \$225m	\$11.7bn	35	-
Apax IX (AIX)	2016	Mature	€154.5m + \$175m	\$9.5bn	91	€121.3m
Apax VIII (AVIII)	2012	Harvesting	€159.5m + \$218.3m	\$7.5bn	108	€520.0m
Apax Europe VII (AEVII)	2007	Harvesting	€86.1m	€11.2bn	108	€86.1m
Apax Europe VI (AEVI)	2005	Harvesting	€10.6m	€4.3bn	107	€10.6m
AMI Opportunities (AMI)	2015	Mature	\$30.0m	\$500m	71	€13.2m
Apax Digital Fund (ADF)	2017	Mature	\$50.0m	\$1.1bn	74	€10.3m

Source: AGA

Since our initiation note was published, ADF has been reclassified from the investing phase to the mature phase. Over the past six months, AGA has received a total of €131m of distributions comprising about: €95m in distributions from AIX, €19m from AVIII, €1m from AEVII, €3m from AEVI, €3m from AMI, and €10m from ADF.

The outstanding commitment to AX is expected to be drawn down over the next two-to-three years.

10 largest underlying private equity holdings

At the end of June 2021, there were 73 underlying companies in AGA's portfolio.

Since we last published, Cole Haan, Assured Partners and Safetykleen Europe have been replaced on the list of the 10-largest private equity holdings by Candela, Global-e and Authority Brands. Global-e and Authority Brands represented two of the three strongest valuation gains over H1 2021 while Cole Haan, whose retail business was hit hard by the pandemic, was one of the worst-performers.

Apax say that Cole Haan's business is recovering, launching into new categories and seeing improving sales while cutting costs to raise margins.

Figure 7: 10 largest underlying private equity holdings as at 30 June 2021

Holding	30/06/21 (%)	31/12/20 (%)	Change (%)	Sector	Business focus
Thoughtworks	7	8	(1)	Tech	Software development and digital transformation consulting
Duck Creek Technologies	5	6	(1)	Tech	Cloud-based software for the property & casualty insurance carrier market
Unilabs	4	4	-	Healthcare	Pan-European diagnostics company, operating a laboratory and radiology services business
Paycor	4	4	-	Tech	Recruitment, HR and payroll solutions
Vyair Medical	3	3	-	Healthcare	Medical device business in respiratory diagnostics, ventilation, and anaesthesia delivery
Candela	3	n/a		Healthcare	Non-surgical aesthetic devices
Global-e	3	n/a		Technology	E-commerce solutions
Trade Me	3	3	-	Services	Online marketplace and classified advertising platform in New Zealand
Authority Brands	3	n/a		Services	Branded home-service franchiser
Genius Sports Group	3	3	-	Tech	Global leader in sports data technology
Total	38				

Source: AGA

Thoughtworks

We discussed Thoughtworks in our last note. Since then, the company has taken steps towards an IPO in the US.

Paycor

Paycor (paycor.com) held within Apax IX and is a leading US provider of payroll and HR-related software, was discussed in our last note. However, since we last published it priced its IPO on 20 July 2021 at \$23 and the stock has risen steadily since. At 18 August 2021, it was priced at \$36.16 and this significant uplift is one of main drivers of the uplift in our NAV estimate for AGA since 30 June 2021.

Candela

Apax invested in Candela (candelamedical.com) in 2017. It is a leading global non-surgical aesthetic device company offering solutions in a range of fields from tattoo removal to the treatment of acne, leg veins and cellulite. The company has a wide portfolio of products including UltraShape Power, VelaShape, CO2RE, CO2RE Intima, GentleLase, VBeam Perfecta, PicoWay, Profound and elōs Plus.

Global-e

Global-e (global-e.com) is held within the AMI portfolio. It describes itself as the world's leading end-to-end cross-border ecommerce solutions. It priced its IPO on 12 May 2021 at \$25 per share. However, since then the share price has soared (it was \$74.55 on 18 August 2021) and this is another main drivers of the uplift in our NAV estimate for AGA since 30 June 2021. Apax did not sell any shares at the time of the IPO.

The strong share price performance may reflect the results that Global-e is achieving. Its second quarter 2021 results showed a 92% year-on-year increase in revenue and higher gross margins.

Authority Brands

Authority Brands (theauthoritybrands.com) was an investment that Apax made in 2018. It is the franchiser for a range of home service brands including ASP (swimming pool services), Mister Sparky (electrical repairs and replacements) and One Hour heating & Air Conditioning. Together, these brands provide home services through more than 1,900 territories operated by more than 1,000 franchise owners in the U.S., Canada, Latin America, Kenya and Indonesia.

Recent portfolio activity

Social good software platform

In June, AGA invested in CyberGrants, a leading provider of software-as-a-service (SaaS) solutions for corporate social responsibility, employee engagement, and volunteer management. CyberGrants' network connects 10m employees and their employers with 650,000 not-for-profit organisations. AGA's look-through investment in the business was about €13.9m.

Then in August, AGA announced that it planned to combine CyberGrants with EveryAction, an omni-channel engagement platform for non-profits, and Social Solutions, a case management software provider of data-driven insights to non-profit and public sector customers, to form the backbone of a new social good software platform.

Assembling the platform through a three-way deal is the sort of transaction that falls squarely into Apax's investment approach. It is in the right subsectors – software-as-a-service, and Apax is not paying up for a fully-fledged business but instead using its expertise to build a business, thereby creating value. Apax has leveraged its extensive network to select suitable targets. This sort of complex deal – going the extra mile to create value – is also typical.

Infogain

Infogain (infogain.com) is a Silicon Valley based provider of digital platforms and outsourced software engineering and digital services. On a look-through basis, AGA's share of the investment was about €22.1m. Infogain serves companies in the travel, healthcare, retail, consumer packaged goods, insurance, and tech industries. It supports them in their artificial intelligence, user-experience design and use of cloud-based services using advanced software technologies.

The manager sees Infogain as a reasonably-priced platform on which they can build a larger business. Its experience with Thoughtworks and other similar companies helped when it came to identifying and assessing the opportunity.

Faculty

ADF made a £30m investment in Faculty (faculty.ai), a leading British artificial intelligence company, in May 2021. The business was founded in 2014 and now has a specialist team that includes over 50 PhDs and experience of working with over 200 customers across the globe on over 350 projects. The manager says the management team is one that they know well, having worked with them in the past.

The funding from ADF will be used to create around 400 new jobs, developing Faculty's 'AI as a service' model and accelerate Faculty's international expansion.

Tide

Tide (tide.co) is a financial software platform for small businesses. The Tide business financial platform offers business accounts and related banking services, as well as a comprehensive set of integrated software solutions, such as expense management tools, electronic invoicing, and API connectivity with third party SaaS providers. Tide has experienced rapid and sustained growth since launching in 2017, with 2020 seeing the business more than double its user base in the UK.

Baltic Classifieds

Baltic Classifieds (balticclassifieds.com) is a position in AIX. It owns and operates twelve leading vertical and generalist online classified ad portals in Estonia, Latvia and Lithuania. The portfolio comprises four business lines – automotive, real estate, jobs & services and generalist. It IPOd in London on 30 June 2021 and its share price has performed well since.

Revolution Prep

ADF invested in Revolution Prep (revolutionprep.com) in June 2021. It is a leading national provider of online academic tutoring and test preparation services. The company's online teaching platform makes high-quality tutoring inclusive and accessible – from any location, at any time – supporting students of all ages (from kindergarten to college). Revolution Prep has community of professional tutors, who specialise in over 100 academic and test prep subjects.

Nulo

Nulo (nulo.com) is a consumer-facing petfood business in the fast-growing US market. Its primary focus is on the dog and cat food segments where it differentiates

itself by providing nutrition designed to combat the growing trends of fatigue, immunodeficiency and obesity-related diabetes. Rather than focusing on carb fillers, Nulo's products have animal-based proteins to build muscle; low carbs and low-glycemic ingredients to maintain healthy weight; and probiotics to boost immunity.

Apax says that Nulo is offering a premium product in a very attractive end-market. The team had been following Nulo for some time before making the deal and became confident in the company's strategy and the management team's ability to execute on this. In addition, Apax believes that NULO's business would not only be resilient in the face of an economic slowdown, but plays into a trend of a shift towards higher quality and natural brands in the space.

Guesty

Guesty (www.guesty.com) provides property management software designed to automate and streamline property rental activities. This covers the full range of property rental activities from pre-stay documentation, payments, multi-unit management, extended stays, accounting tools. However, a key advantage is that it allows professional hosts and property companies to manage their rental properties across a range of platforms, such as Booking.com, AirBnb, Expedia and the like, so that all of their inventory is in one place.

Rodenstock

Rodenstock (rodenstock.com/com) is a German manufacturer of ophthalmic lenses and glasses frames. Established in the 19th century, the company is a well-known brand, particularly in the German domestic market, that is renowned for the quality of its products (the company is a global leader in prescription lenses, for example). Apax says that the company has a strong management team, which they know well, that has refocused and expanded the business. The company completed a €75m capital in June 2020, all of which was provided by existing shareholders, reflecting their conviction in the company's strategy. Apax says that the company has interesting technology and considerable experience in the medtech field.

Following the launch of its eye measurement device DNEye® scanner in 2012, the company has placed the "digital fingerprint" of each eye at the core of its strategy. Rodenstock says that its scanner enables opticians to determine the biometrics of the whole eye by measuring thousands of data points, which ultimately allows it to construct lenses that provide customers with the sharpest vision possible at any angle or with every gaze (both in the glasses' peripheral zones and at distances from mid, near and far). It claims to be the first lens manufacturer producing glasses built on an eye's individual "digital fingerprint".

Lutech

Lutech (lutech.group) is an Italian IT services, software and technology company that is focused on digital transformation. Specifically, it is recognised for its capabilities in digital customer engagement, next generation IT infrastructure, cloud, financial services solutions, cybersecurity, IoT, Big Data and eHealth.

The Apax Funds, in partnership with Lutech's management team, will look to drive the company forward through a combination of organic and inorganic growth, focusing on expanding key value drivers such as the company's digital services offering while at the same time accelerating Lutech's M&A strategy.

The Apax Tech team have a deep understanding of the IT services market, as well as specific knowledge of the Italian market through the Apax Funds' prior investment in Engineering, another leading IT services provider in the country.

Innovage

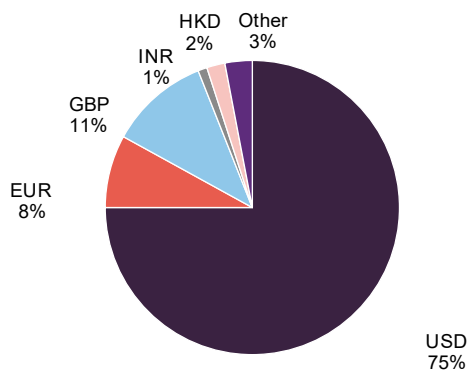
Innovage (innovage.com), which offers home support to senior citizens, priced its IPO on 4 March 2021 at \$21 per share. Apax did not sell any stock at this time. Its share price has fallen over subsequent months, and was \$14.93 on 18 August 2021.

The company is forecasting revenue of about \$627m for the year ended 30 June 2021 and adjusted EBITDA of about \$84m.

Asset allocation – derived investments

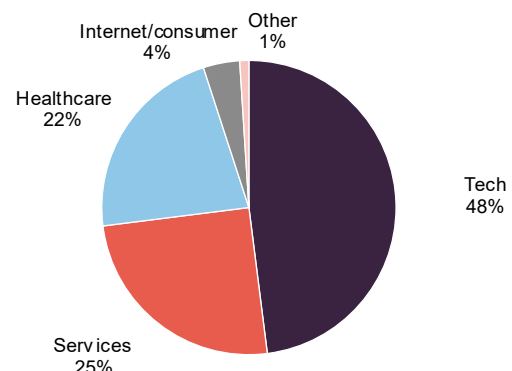
At 30 June 2021, 88% of this part of the portfolio was in derived debt and 12% in derived equity.

Figure 8: Derived investments currency breakdown as at 30 June 2021



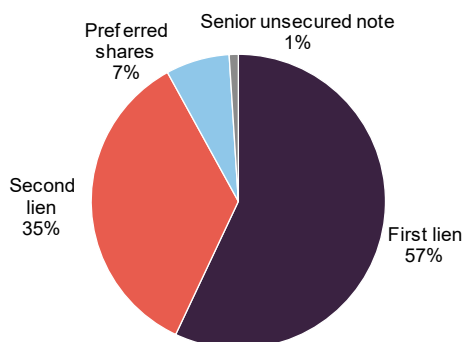
Source: AGA, Marten & Co

Figure 9: Derived investments exposure by sector as at 30 June 2021



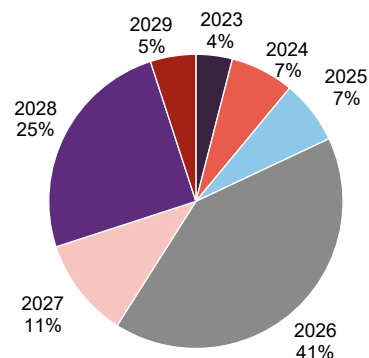
Source: AGA, Marten & Co

Figure 10: Derived debt by category as at 30 June 2021



Source: AGA, Marten & Co

Figure 11: Derived debt by maturity as at 30 June 2021



Source: AGA, Marten & Co

The derived debt is all floating rate and, at 30 June 2021, the weighted average income yield on this part of the portfolio was 6.4%, down from 7.3% at end December 2020, reflecting in part tightening credit spreads but also a higher proportion of the portfolio allocated to first lien rather than second lien debt. The yield to maturity was 6.8%. The weighted average maturity of the derived debt portfolio was 5.9 years, up from 5.7 years at end December.

One position in the derived equity portfolio was sold over H1 2021.

10 largest derived investments

Figure 12: 10 largest derived investments as at 30 June 2021

Holding	Percentage of portfolio (%)	Instrument	Sector	Business focus
Paycor	2	Preferred shares	Technology	Recruitment, HR and payroll solutions
PIB Group	2	First lien	Services	Independent specialist insurance intermediary
AccentCare	2	First lien	Healthcare	Home healthcare, hospice and personal care
HelpSystems	1	First lien	Technology	Information technology management software
=Exact	1	Second lien	Technology	Business software for SMEs and their accountants focused on Benelux markets
Boasso Global	1	Second lien	Services	Depot, maintenance, cleaning, and transportation services for ISO tank containers
Planview	1	Second lien	Technology	Portfolio and work management solutions
PSSI	1	First lien	Services	Food safety and manufacturing sanitation
EverCommerce	1	First lien	Tech	Integrated SaaS solutions to over 500,000 global service small and medium sized businesses
AmeriLife	1	Second lien	Services	Life and health insurance and annuities
Total	13			

Source: AGA

At the end of June 2021, the largest derived equity position (ranking fifteenth, down from thirteenth at the end of December 2020) was Airtel Africa, valued at around 1% of the portfolio as it was in December 2020.

Operational performance for the underlying companies in the derived debt portfolio is good. Average EBITDA growth rose from 26.2% to 37.3%, mainly due to changes in composition of the portfolio during the year.

Performance

Up-to-date information on AGA and its peers is available on [our website](#)

Note: AGA's shares trade in sterling and it pays sterling dividends. However, its accounts are prepared in euros. All returns cited in this note are in sterling unless otherwise indicated.

For the purposes of this note, QuotedData's analysts have estimated AGA's NAV as at end July and as at 18 August 2021. We have attempted to factor in changes in exchange rates, based on the distribution of the portfolio as at end June, announcements of events impacting the NAV and changes in the share prices of significant listed holdings. This is an estimate only and the actual NAV as at those dates may be materially different.

Breaking the 17.4% return for the first half of 2021 down between the company's private equity and derived investments portfolio, the private equity portfolio added 13.4 percentage points to AGA's NAV and the derived investments portfolio 2.3 percentage points (of which equity 1.0 and debt 1.3). Currency movements worked in AGA's favour, adding 2.5 percentage points. Costs, including accrued performance fees, took off about 0.8 percentage points.

The private equity return was aided by much improved operating performance within the portfolio (on average, EBITDA grew by 42.7%) and rebounding valuations as the weighted average valuation multiple hit 18.0x.

Figure 13: Total return cumulative performance in sterling to 31 July 2021

	3 months	6 months	1 year	3 years	5 years
Apax Global Alpha share price	(1.0)	6.7	36.1	81.8	121.8
Apax Global Alpha NAV ¹	6.7	12.9	29.2	64.9	104.6
MSCI World	4.4	14.8	27.5	41.6	86.2
S&P 500	5.1	17.7	28.8	55.6	112.5
STOXX Europe 600	4.3	14.1	25.4	21.4	55.2
LPX Europe	10.2	28.6	58.6	46.6	113.6

Source: Morningstar, Marten & Co. Note 1) Based on QuotedData's estimated NAV

The average gross IRR on exits achieved within AGA's portfolio over H1 2021 was 52.4%. The average MOIC was 3.9x. The equivalent figures for the derived debt portfolio were 9.5% and 1.2x. The one exit achieved in the direct equity portfolio was done at a loss – an IRR of -13.1% and a MOIC of 0.6x.

In Figure 13, the LPX Europe Index is an index of listed private equity companies in Europe. Its returns are driven by the share prices of those companies. A comparison of the LPX Europe and AGA's share price suggests that AGA has done particularly well against its peer group over the long term but, has lagged in the short-term. Were, as we expect it will be, the recently announced uplift in NAV to be reflected in AGA's share price, that situation would look quite different.

Discount

AGA announces its NAV's quarterly. At 31 July 2021, we estimate that AGA was trading at a discount of 14.9%, and, at 18 August 2021, our model suggests that AGA was trading on a discount of 10.0%.

Both discounts may be this wide because investors underestimated the strength of AGA's interim results. We think it is likely that the share price will move higher, narrowing the discount, now that the end June NAV has been made public.

AGA's discount widened briefly as an additional tranche of 20% of its ordinary shares held by senior Apax executives was released from lock up. This has increased the liquidity of AGA's shares.

Fund profile

Access to Apax private equity funds

AGA offers a way for investors to access private equity investments through a listed vehicle. It invests predominantly in funds advised by Apax and does not invest in private equity funds managed by third parties. AGA's investments may be composed of both primary and secondary commitments to these funds. To avoid the problem of cash drag that is often associated with investment in private equity, AGA may also invest in what it terms as derived investments. These derived investments include investments in public and private debt, and may also include some investments in listed equities.

An investor in AGA has exposure to equity stakes in around 60 underlying unlisted companies and around 30 derived investments.

More information is available at the trust's website:
apaxglobalalpha.com

AGA is managed by Apax Guernsey Managers Limited (the investment manager), an independent company, and that company is advised by Apax. Apax has a nearly 50-year track record of private equity investment, initially in venture capital and, from 1993, buyouts. Over its history it has raised and advised over 30 funds. Its first fully global buyout fund (Apax VIII) was launched in 2012.

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Previous publications

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123a Kings Road, London SW3 4PL
0203 691 9430

www.QuotedData.com

www.martenandco.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Colin Edge (ce@martenandco.com)

Nick Potts (np@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Jayna Rana (jr@martenandco.com)

Richard Williams (rw@martenandco.com)