ICG ENTERPRISE TRUST

CONTINUED FAVOURABLE FUNDRAISING AND EXIT ENVIRONMENT

OVERVIEW

The global economic environment has been positive for investors, with strong growth and low interest rates supporting corporate earnings growth. Incoming data in the first few months of 2018 indicates global economic growth is on track for another strong year and earnings across major markets have remained strong, supporting increased investment.

While these macro fundamentals are positive, asset valuations are generally high, geopolitical risks are on the rise and major central banks are reducing crisis era quantitative easing programmes. In our view, this makes markets more vulnerable to corrections and indicates higher volatility is here to stay. Therefore, while we remain constructive on the outlook for the global economy and corporate fundamentals, we would put a higher than usual premium on selectivity in investment exposures in 2018.

Within the private equity sector, record fundraising activity and the sizeable amount of "dry powder" available for new investments continues to drive significant exit activity, a dynamic reflected in ICG Enterprise Trust's own portfolio with record proceeds received during the year.

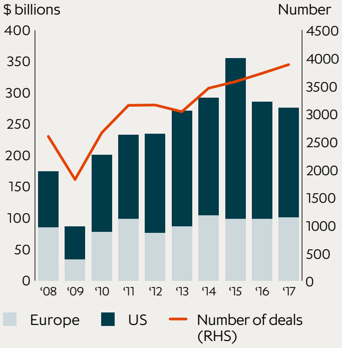
Whilst this backdrop provides an ideal environment for exits, on the investment side the intense competition for good quality assets continues to drive up pricing. With EBITDA multiples on new transactions in both Europe and the US surpassing levels seen in 2007, maintaining investment discipline and a cautious and selective approach is key.

EUROPE AND US BUYOUT MARKETS

$276BN
NEW INVESTMENTS

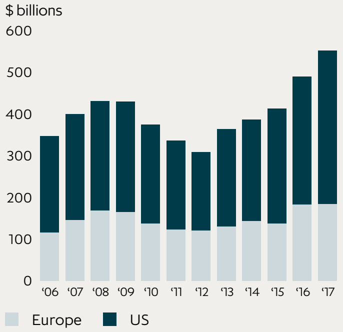
$553BN
DRY POWDER

EUROPEAN AND US BUYOUT: NEW INVESTMENTS



Source: Preqin

EUROPEAN AND US BUYOUT: OUTSTANDING DRY POWDER



Source: Preqin

NEW INVESTMENTS TRENDS

While the number of transactions increased by 8%, the value of European buyouts in 2017 was broadly stable at $101bn.

In the US, the number of buyouts increased slightly (up 2%) although the aggregate transaction value fell by 7%.

The average price paid for new European investments increased marginally to 10.3x EBITDA and to 10.6x EBITDA in the US.[1]

RESPONSE

We invest with established private equity managers that have significant experience of successfully investing through economic cycles.

We remain focused on resilient businesses, such as those benefitting from long term, positive demographic trends (e.g. DomusVi) and contracted, recurring revenues (e.g. Visma).

We have access to proprietary ICG deal flow and are selectively investing in situations featuring structural downside protection and more attractive pricing due to complex deal dynamics.

DRY POWDER TRENDS

In Europe, capital available for investment, or dry powder, remains significant, with $74bn raised by private equity managers in 2017 leading to $184bn available for new buyouts.

In the US, dry powder of $369bn represented a 20% increase on the prior year, with the region also benefitting from a strong fundraising environment with $194bn raised in the US in 2017, an increase of 15% on the prior year.

In both regions the level of dry powder is at record levels, although most particularly in the US.

RESPONSE

In terms of exits, our private equity managers are taking advantage of favourable market conditions for realising investments and during the year the Portfolio generated a record £227m of proceeds.

With new investments, we are cautious in deploying capital, and are focused on investing in the highest quality defensive businesses and situations where we have clear visibility on performance drivers.

1 Source: S&P.

AGAINST THE CURRENT MARKET BACKDROP, WE HAVE BEEN CAUTIOUS IN DEPLOYING THE HIGH LEVELS OF CASH GENERATED BY THE PORTFOLIO

$268BN[1]
EUROPEAN & US BUYOUT FUNDS RAISED IN 2017

WHERE ARE WE FINDING VALUE?

Our flexible investment mandate allows us to deploy capital into high conviction investments on a case by case basis, increasing exposure to specific companies that we believe will outperform the market and adapting the mix of investments to where we see the best relative value.

If we look at the investments we have made in the last 12 – 18 months, there are three themes that dominate:

Defensive growth

We have invested in companies with relatively low correlation to the economic cycle. These companies have high barriers to entry, leading market positions and strong recurring revenue streams. These businesses typically have high margins, low customer concentration and are also often in structural growth industries.

Structural downside protection

A number of our recent investments have structural downside protection as well as defensive growth qualities. All of the new co-investments completed in the year include a mixture of subordinated debt and equity investments. By combining the downside protection of the subordinated debt investment with the upside potential of the equity investment, these structured deals are targeting a return which is similar to a typical equity deal but with much lower downside risk. At this point in the cycle, we think this is a particularly attractive dynamic.

Relative value

We have also invested in a number of situations where the deal dynamic has facilitated investment at very attractive valuations. The best example of this is our commitment to ICG's Strategic Secondaries fund (see case study on page 14). Other examples of relative value include a number of what we call "late primary" transactions, when the fund is partially invested at the time of our commitment, such as Oak Hill (see case study on page 19).

1 DEFENSIVE GROWTH

- Highly resilient businesses with relatively low correlation to economic cycles
- Strong recurring revenue streams and high quality earnings

2 STRUCTURAL DOWNSIDE PROTECTION

- Typically ICG managed assets
- Investing across the capital structure

3 RELATIVE VALUE

- Attractive pricing due to deal dynamics
- Fund recapitalisations alongside ICG; investing at 6-7x EBITDA
- Includes certain "late primary" fund investments

OUR COMPETITIVE ADVANTAGES IN THE CURRENT ENVIRONMENT

FOCUSED
On strong and consistent growth

FLEXIBLE
Strategy allows us to be nimble and adjust mix of investments with a focus on the best risk-adjusted relative value

SELECTIVE
Investment in the best opportunities

ACCESS
Proprietary ICG deal-flow, partnering with three in-house teams, each targeting equity returns with a focus on low downside risk

THIRD PARTY FUNDS

Within our third party funds portfolio, we are invested with established managers, with strong track records of value creation through multiple cycles. These managers continue to show investment discipline and we are confident in their ability to generate attractive returns through the cycle.

1 Source: Preqin.