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Business

ICG Enterprise reported its best returns in a decade – so why is the discount so wide?

Questor Trust Bargains

DANIEL GROTE

As with many private equity trusts, the shares' persistent discount is refusing to budge despite buoyant returns

FOR investment trust bargain hunters, few sectors appear to offer as many rich pickings as private equity, where discounts of 20pc are commonplace. The only problem is they show no signs of shifting.

There is certainly no concern about the performance of these trusts. Questor's picks in this area have generated strong growth in their assets, but this has yet to be reflected in a better rating for their shares.

ICG Enterprise stands out as a prime example. Last rated a "buy" by this column in April last year, the trust has just reported its best year of performance in a decade, marking the 12th consecutive year in which it has returned more than 10pc.

Yet shares in this fund, a consistently strong performer, continue to trade at a hefty discount to its assets of 24pc. That seems particularly unjustified, though depressingly familiar given Questor's experiences with other private equity trusts.

In February this column highlighted the discounts on offer from three other trusts that invest in private companies. While these discounts appeared attractive even at face value, the real discounts on offer were even larger, analysts had argued, pointing to the buoyancy in stock markets towards the end of last year that had not been reflected in their net asset values.

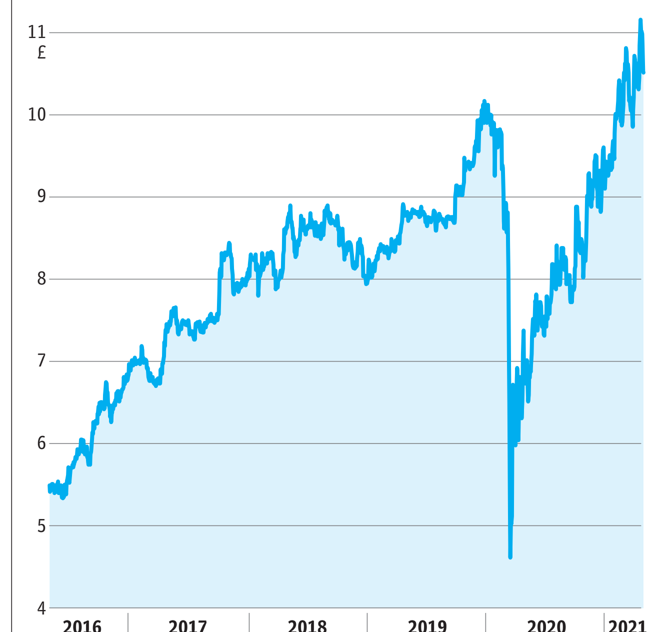
ICG Enterprise
Hold
Strong results build on an impressive long-term track record

They were right. HgCapital, HarbourVest Global Private Equity and Pantheon International surpassed even the expectations of analysts at Stifel, the broker: all reported big jumps in their assets. Yet their shares have failed to keep pace with those rises.

Shares in HarbourVest and Pantheon have risen by 6pc and 9.1pc since then, but their discounts to asset value have remained stubborn: 17.8pc in the case of Pantheon, while HarbourVest's discount has stretched from 15.6pc to 19.8pc. HgCapital's shares have fallen as its assets have risen, leading to its premium narrowing from 14pc to 8.6pc.

Results from ICG Enterprise last week meanwhile showed the trust's assets had jumped in value by 11.8pc over the three months to the end of January, outstripping the returns of rivals during a strong few months for markets and contributing to a 12-month gain of 22.5pc to that date. But its discount is also one of the widest in its peer group. Granted, it has narrowed from the 39pc that existed when we advised readers to buy the shares a year ago, since when they have rallied by 49pc. But for a trust with such a strong track record, a 24pc discount is still too high.

Peter Hewitt, who has held ICG Enterprise in his BMO Managed Growth investment trust since 2010, agreed. He acknowledged that some form of discount was warranted on shares in private equity trusts to reflect the difficulty in trading the unquoted companies they held. But he suggested that a discount of around 10pc would be appropriate for ICG, rather than the current level of more than double that.



Key numbers

- **Market value: £745m**
- **Year of listing: 1981**
- **Discount: 23.8pc**
- **Ave discount over past year: 25.1pc**
- **Yield: 2.3pc**
- **Most recent year's dividend (Jan 2021): 24p**
- **Gearing: nil**
- **Annual charge (Jan 2021): 1.5pc**

Investors appear to be overlooking the likes of ICG in favour of private equity trusts such as HgCapital and Schiehallion, both of which focus on high-growth technology companies and whose shares both trade at a premium.

ICG's focus on what it calls defensive growth companies may not quicken the pulse as much, but the firms it backs are far from plodders. Four have floated on the stock market since October; Telos, an encryption software firm since sold by the trust, was the standout thanks to its 87pc gain.

The trust's approach also leads to a more balanced portfolio and one better suited to those making their first foray into private equity investment than those trusts with a sharper focus on technology. Hold.

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