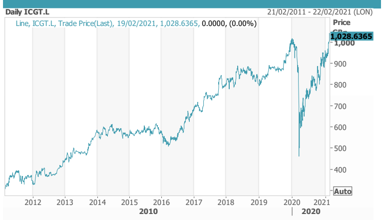
Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	1,040
12m High (p)	1,040
12m Low (p)	460
Shares (m)	68.88
Mkt Cap (£m)	715
NAV p/sh (Oct, p)	1,273
Disc. to NAV	18%
Market	Premium equity closed-ended investment funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to a portfolio of European and US investments in profitable, cash-generative unquoted companies. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
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NEDs	Lucinda Riches, Sandra Pajarola, Gerhard Fusenig
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Key shareholders

None over 3%

Diary

End-Apr	Full-year results to end-Jan

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ICG ENTERPRISE TRUST PLC

ICGT's steps to value-adding portfolio construction

In this note, we examine how ICGT's approach to active portfolio construction and management adds value to its investors. ICGT has a focused, multi-stage approach, with a stringent filtering process, which starts with the whole private equity (PE) market but then narrows down investments to buyouts – in developed markets, mainly in the mid-market/larger deals, and through leading PE managers. Individual opportunities must then meet ICGT's defensive growth strategy. Third-party manager relationships are leveraged to generate high-conviction (HC) ideas. This has all led to an 11% NAV total return over nine months and 203% over 10 years.

- **Managing returns:** ICGT optimises returns by i) managing new investments/ realisations in the HC and third-party funds, ii) General Partner (GP) manager selection, iii) optimising synergies between the businesses, and iv) supporting businesses through a cycle. Managed returns support the sustained dividend.

- **Managing risk:** ICGT's stated policy is "defensive growth". This means focusing on well-established businesses with strong competitive positions in a structural growth market, recurring revenues, high margins, strong cashflows, low customer concentration, and managing other concentration and liquidity risks.

- **Valuation:** Valuations are conservative (3Q'FY'21uplifts on realisations averaging 40% to latest book value (33% over medium term). The ratings are undemanding, and the carry value against cost modest. The 18% discount to NAV is anomalous, we believe, with defensive market-beating returns. The yield is 2.2%.

- **Risks:** PE is an above-average cost model, but post-expense returns are market-beating. Even though actual experience has been continued NAV outperformance in economic downturns, sentiment is likely to be adverse. ICGT's permanent capital structure is right for unquoted and illiquid assets.

- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, having a defensive growth investment policy and exploiting synergies from being part of ICG. The valuations and governance appear conservative. It has an appropriate balance between risks and opportunities. The risks are primarily sentiment-driven on costs and cyclicality, and the underlying assets' liquidity. As noted, it seems anomalous to have a consistent record of outperformance and trade at an 18% discount to NAV.

Financial summary and valuation

Year-end Jan (£000)	2017	2018	2019	2020	2021E	2022E
Total income	10,151	22,386	5,969	7,441	12,057	13,033
Realised gains	844	-31,257	9,329	14,686	15,568	16,869
Unrealised gains	104,350	91,381	76,440	70,974	80,000	101,213
Investment Mgr. fees	-6,209	-7,165	-7,984	-9,572	-8,691	-9,731
Other expenses	-2,783	-2,734	-2,903	-3,232	-3,319	-3,428
Rtn. on ord. act. pre-tax	109,346	73,437	81,789	80,505	96,116	117,955
NAV per share (p)	871	959	1,057	1,152	1,269	1,415
S/P discount to NAV	-20%	-15%	-22%	-16%	-18%	-27%
Investments (£m)	572	576	670	778	843	937
Dividend per share (p)	20	21	22	23	24	25

Source: Hardman & Co Research

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- high net worth companies, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order, provided that in each case the report and any materials in it are only directed at persons who are "qualified investors" as defined in article 2(1)(e) of Directive 2003/71/EC (as amended) (the "Prospectus Directive") ("Relevant Persons"). Accordingly, this report does not constitute, and does not contain the information required to be contained in, a prospectus as required under the Prospectus Directive.

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Portfolio construction

Stringent filtering to deliver defensive growth

ICGT has a focused, multi-stage approach to investing in PE, with a stringent filtering process, which starts with the whole PE market but then narrows down investments to buyouts (a lower-risk business than, say, venture capital – VC) – in developed markets (primarily in Europe and the US), mainly in the mid-market/larger deals (more likely to be resilient to the economic cycle and with stronger/deeper management teams) and through leading PE managers (with track records of investing and adding value through cycles). We detail below, in more detail, the manager selection. Having passed all these hurdles, individual opportunities must then meet ICGT's defensive growth strategy. The focus is then on how third-party relationships can be leveraged to generate HC investments, and managing the balance between this portfolio and HC opportunities.

Defensive growth

ICGT's NAV outperformed quoted markets in the past and during first few months of COVID-19

The strict filtering process above is designed to give a portfolio with defensive growth characteristics. We explored this in some detail in our note, **Defensive growth: explaining downside resilience**, published on 8 September 2020. In the section below, we summarise how the defensive growth culture has impacted on the construction and active management of the portfolio. The result was that, in the early 1990s' recession, ICGT reported just a 3% fall in NAV for one year and a rapid accretion every year thereafter. Even in the global financial crisis (GFC), the only annual fall in NAV was 14% (FY'08), which was well below stock market falls. Including intra-year numbers, the peak-to-trough drop was closer to 25%, again still below the market. The outperformance in FY'21 to date reinforces the point that PE and ICGT outperform overall markets in a downturn.

What the philosophy actually means

Investments chosen for defensive growth characteristics, which should assist through current crisis

When picking investments and managers, ICGT has an overall philosophy of "defensive growth", which it outlines in detail on pages 12-13 of its 2020 Report and Accounts. It adopts a bottom-up approach, looking for key business model characteristics that should help an investee company to be resilient through the cycle, rather than adopting a top-down approach through sector or geographical allocation. The type of characteristic it is looking for includes a strong competitive position in a structural growth market, a high level of recurring revenues, high margins, strong cashflows and low customer concentration.

Looks to established businesses with robust capital structure; helped by manager having debt background

This leads to a focus on well-established businesses, rather than early-stage companies, enabling ICGT to analyse performance through the last downturn as an indication of future defensiveness. The greatest element of control is in co-investments (around a quarter of the portfolio). ICGT focuses on the capital structure of its investments, looking at debt terms and covenants to ensure that the company can maintain flexibility through a cycle. ICG, as an organisation, has a debt background that culturally gives a high consideration of downside scenarios, and ICG's funds account for just over a tenth of the book.

Applies to own investments and choice of manager

When making fund investments, ICGT looks for these characteristics in its other managers too. Again, it wants those with experience and a track record through a downturn to add to its comfort in downside scenarios.

Resulting portfolio characteristics

We see delivery of this strategy evidenced by:

- The portfolio was balanced across a range of developed markets, and has large exposures to more resilient sectors, such as healthcare and education (26% end-October 2020), business services (13%) and technology (17%).
- Exposure to industrials (11%) and consumer (20%), sectors with a higher potential impact of COVID-19, was concentrated in HC investments with defensive characteristics and that saw limited falls in value in 1Q'20. In a number of cases, there is additional structural downside protection, reflecting ICG's expertise in this area.
- There was limited exposure to energy and financials.

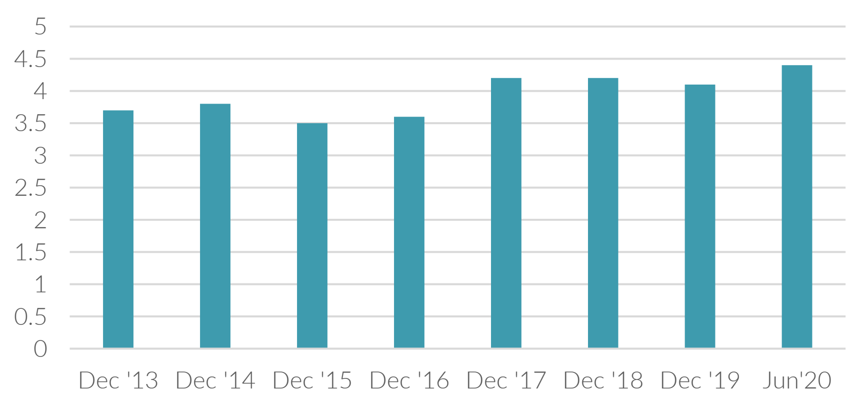
There are several investment-company-specific examples of how the policy feeds through in practice:

- The largest industrials investment (third-largest in portfolio overall) is in Minimax, which is both a manufacturer and service provider in the highly resilient fire protection sector.
- The largest leisure exposure (sixth overall) was to Roompot, where an agreement to sell was announced on 22 June, at a significant uplift to the carrying value (adding 1.3% to ICGT's NAV).
- In consumer, almost half of the exposure is concentrated in the four top 30 investments, where ICGT has strong visibility, and with all the businesses fully operational.
- Similarly, in healthcare, ca.40% of the exposure is concentrated in the three top 30 investments; all are fully operational and have a sound financial position.

Leverage stable since end-2017. Many companies reduced gearing, with some mix effects keeping average at 4.4x EBITDA (June 2020).

We note that ICGT's top 30 companies' debt to EBITDA has been broadly stable since 2017 (with some underlying company deleveraging offset by mix effects). It is also in line with peers' reported gearing levels. A prevalence of cov-lite documentation should reduce the probability of default. We also note that having a parent manager with a historical focus on debt and downside management should be considered a positive.

Net debt to EBITDA multiples



Source: ICGT Report and Accounts, Hardman & Co Research

Book fundamentally better positioned than going into GFC

Since the GFC, we note i) lower over-commitment (uncovered total commitments as a percentage of NAV at end-October were down from 41% to 32% and from over 50% in 2008), ii) increased diversification of the book (especially geographically), iii) broadly stable leverage, at 4.4x EBITDA, but lower equity gearing, iv) a relatively defensive stance in the book, and v) that the managers have experienced a severe downturn, and this experience is reflected in how they position the book. Even in like-for-like economic conditions, we would not expect such a sharp increase in the discount.

Impact on portfolio performance

Lower risk than market falls delivered in 2020 crisis

ICGT massively outperformed indices through worst stage of COVID-19 crisis

Proves value of defensive growth, with NAV declines well below those of indices

Defensive growth is the approach to each investment, and ICGT is not driven by sector/geographical allocations. Management believes the majority of the portfolio falls into a low to moderate risk range to the COVID-19 crisis. We concur, noting that, between the January and April valuations, the investment portfolio return was -3.8% (-7% local currency), with the HC portfolio (where the "defensive growth" investment-decision characteristics are most evident) falling less than 3%, and the third-party funds were down 10% (both movements in local currency). The funds' drop is around half the FTSE All-Share index and a sixth of the HC portfolio.

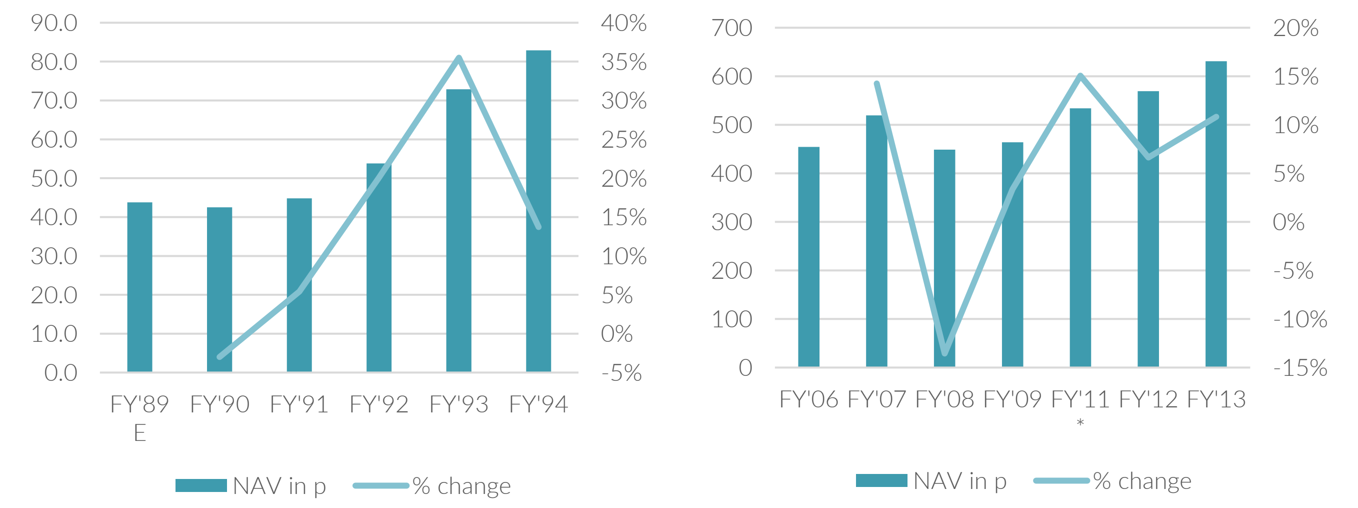
NAV performance during shock periods

Annual NAV fell only one year in each of i) early 1990s, by 3%, ii) GFC, by 14%. The peak-to-trough falls, including intra-year numbers, were somewhat higher, but still market-beating.

The charts below detail the performance of ICGT through the 1990s' recession and in GFC. We note:

- In the early 1990s' recession, ICGT's annual reported NAV was broadly stable, before rising sharply in the subsequent years.
- In the GFC, annual net assets decreased by 14% in the first year, but grew steadily thereafter. This is a materially better performance than that of some of ICGT's peers and the overall market/share price levels. The intra-year peak-to-trough was a slightly higher number but, again, still better than the market.

Annual NAV (p) and annual change in NAV (%) in early 1990s' recession (LHS) and GFC (RHS)



Source: ICGT Report and Accounts (1989 estimated following re-statement of 1990 accounts), Hardman & Co Research

Third-party manager selection

ICG managers have long experience in the market and, through ICG, broad market knowledge

A key part of the overall portfolio management is the selection of third-party managers to ensure that their approach and investments fit with the rest of the strategy. ICGT adds value in this area, given its 39-year history, the long experience of its current managers and synergies from being part of the ICG group, including a deep understanding of private capital markets.

Focus on established players who are likely to deliver steady, rather than stellar, (but potentially volatile) returns

ICGT advises that it focuses on tried and tested management teams in businesses with an "institutional" philosophy. Most of the managers are no longer founder-led but, instead, have built a broad, sustainable model without key-person dependency. We believe this, again, indicates a conservative approach. ICGT may miss out on the stellar performance that some new startups, especially in niche fields, may achieve, but it also avoids the risks of underperformance that such businesses may bring. We understand that the "churn" rate is modest – usually two to three new managers each year – and ICGT is not committed to every fund launch by its managers.

Broad balance across portfolio

The top 10 fund holdings are detailed below. As can be seen, there is a balance by year of commitment, region and across managers. The Graphite position is now out of its investment period – so the outstanding commitment is less likely to be called.

Top 10 fund investments (as at Oct'20)

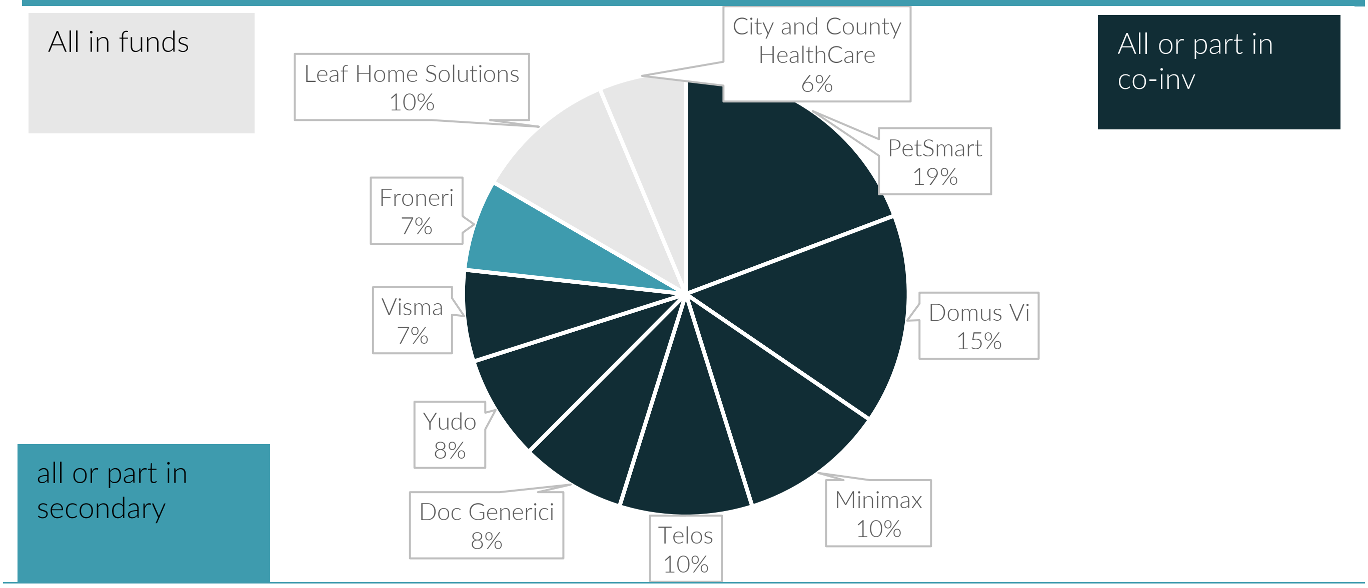
	Type	Year of comm't.	Country/Region	Value (£m)	Outstanding comm't. (£m)
Graphite Capital Partners VIII*	Mid-market buyouts	2013	UK	47	11
Gridiron Capital Fund III	Mid-market buyouts	2016	N. America	30	4
ICG Europe VII	Mezz/equity in mid-market buyouts	2018	Europe	22	18
BC European Capital IX**	Large buyouts	2011	Europe/USA	22	2
ICG Europe VI**	Mezz/equity in mid-market buyouts	2015	Europe	20	5
Sixth Cinven Fund	Large buyouts	2016	Europe	20	3
Advent Global Private Equity VIII	Large buyouts	2016	Europe/USA	19	1
Thomas H Lee Equity Fund VII	Mid-market and large buyouts	2015	USA	19	2
CVC European Equity Partners VI	Large buyouts	2013	Europe/USA	18	3
PAI Europe VI	Mid-market and large buyouts	2013	Europe	16	1

Includes the associated top-up funds. All or part of an interest acquired through a secondary fund purchase.*
Source: ICGT 3Q Update, Hardman & Co Research

Third-party fund relationships feed HC opportunities

The 36 (28 currently active) third-party managers provide much more than just diversification. The chart below shows the top 10 underlying holdings (30% of portfolio as at the end of October 2020). One sixth was held solely through exposure to funds. The vast majority of all, or part, was held directly as a co-investment or other direct investment, and it is important to understand that this is driven from the relationship with the third-party managers.

Top 10 holdings as at October 2020 by nature of investment



Source: ICGT 3Q Update, Hardman & Co Research

Being invited to be a co-investee, especially when the managers are the global powerhouses, like BC Partners (PetSmart) or PAI Partner (Roompot, Froneri), is not easy and takes considerable active management by ICGT. *Inter alia*, this involves:

ICGT invests in building deep relationships with all 28 of currently active third- party managers in whose funds it invests

- Relationship management: the GP needs to know that ICGT is actively looking for co-investments, and this involves considerable shoe leather, meeting GPs and building relationships. In a typical year, the ICGT manager will aim to meet its 28 current third-party GPs at least quarterly and when deals are announced. ICGT believes that an incredibly important part of the strategy is building relationships and that developing relationships with the GPs enables them to punch above their weight in terms of opportunities they see. Being part of a global manager, such as ICG, gives a strong internal network and local knowledge across geographies to enable them to move quickly on opportunities as they arise. ICGT's focus is on managers with whom it invests, and it aims to build the deepest possible relationship with them; currently, it has co-investments with 10 of them.

- On occasions, it will discuss co-investment with prospective managers with whom it is considering making investments, as most, at some stage, are likely to offer co-investments. It will still invest with other managers, where ICGT are unlikely to be given co-investment opportunities if the performance is particularly strong. First and foremost, ICGT is backing top-tier managers, and ICGT would not accept a "discount" of manager quality/performance just because they could co-invest.

Certainty of execution

- The GP wants to know that ICG has the expertise to understand complex deals. Partially, this confidence builds with time (e.g. multiple co-investments in the top 30 holdings with PAI and Leeds Equity Partners) and from doing deals with other GPs, and it is leveraging the skills, expertise and reputation of ICG in this regard.

Speed of execution

- In many cases, a quick "no" is more valuable than a slow "yes". A rapid decline of unattractive propositions, especially for simple reasons, such as cyclicality (we understand that ca.80% of the propositions presented to ICG are quickly turned down, principally for this reason), is important.

Value as second pair of eyes

- ICG is not a passive taker of GPs' analysis when it comes to co-investment. ICG will typically get the detailed investment committee memorandum used by, and third-party due-diligence reports commissioned by, the sponsoring PE manager before conducting its own due diligence and supplemental research. ICGT has an iterative investment committee approach, and, overall, we understand, it accepts under 10% of the propositions it receives. This whole process means that it is actively engaged with its GP partners, and it is viewed as a valuable second set of eyes on transactions – not merely as a source of finance.

Certainty of finance

- The GP wants to know that, once a deal is agreed, the finance is immediately available. We discuss ICGT's liquidity below, and how this gives the GPs the confidence they need.

Commonality of interest

- All investments that are eligible for the manager's carry scheme are partially held through subsidiary limited partner (LP) entities. This structure reflects the fact that ICGT wants its co-investors to be "on the hook", so to speak, and therefore the manager puts in 0.5% of the equity in all these investments.

Relationship with ICG

ICG brings business opportunities, and is a key source of co-investment deals

The majority of the top 10 portfolio companies where there is co-investment/a direct holding are with ICG as the manager (Domus Vi, Minimax, Doc Generici, Visma, Supporting Education Group), with a very strong European business, and all but the last being since 2016 or later (when ICG became the manager). ICGT is invited to be a co-investor by ICG on normal commercial terms but, clearly, there is a broad and deep relationship with ICG sourcing new business flows. ICGT confirms that it declines ICG propositions on the same basis as it does with third-party propositions.

Secondary deals

GP-led secondary deals grew nearly 4x over 2015-19, and accessing this market requires same active management by ICGT as accessing co-investments

The secondary market has seen explosive growth over recent years. Slide 71 of HarbourVest's 27 November 2020 presentation noted that deal volumes had increased from $10bn in 2009 to $40bn in 2015 and to $88bn in 2019. Slide 72 then highlighted how, in recent years, the GP-led market had seen even faster growth (from $7bn in 2015 to $26bn in 2019). The increasing number of GP-led transactions suggests that secondary buyers need to have capital, a strong track record in complex transactions and GP relationships in order to be successful, i.e. exactly the same investment and management as for co-investments.

Managing the strategic balance

ICGT's HC and third-party fund portfolios are highly symbiotic and actively managed to be so. In this section, we review the mix ICGT considers optimal between the HC and third-party fund portfolios, and how it will achieve that position from its current holding. In the next section, we highlight third-party manager selection and the business flows that are derived from these relationships, as well as the value added by them.

ICGT's aim is to increase HC to 50%-60% of portfolio from current 46%, aiming to optimise balance between returns and volatility, as well as business flows

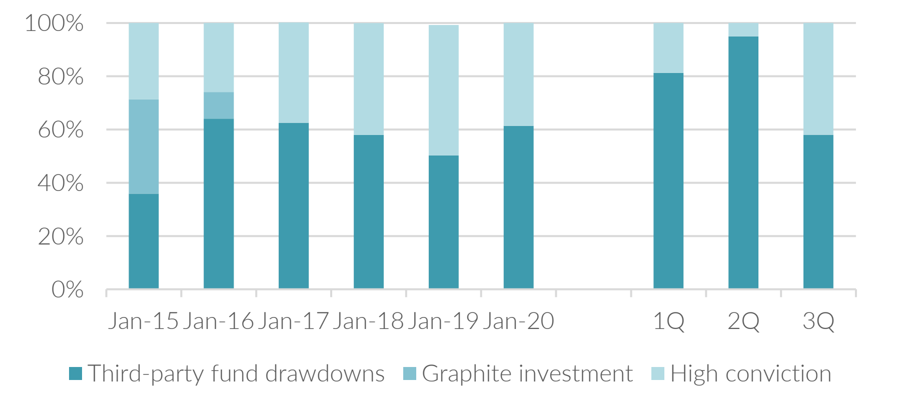
Over the medium term, the intent is that the HC portfolio will account for 50%-60% of the portfolio, and third-party funds 40%-50%. This mix is designed to provide investors with an optimal balance between the different portfolios. The third-party fund portfolio provides diversification, and a balance to the concentrated – and so potentially more volatile – HC book. Investments in the latter are selected directly by ICG managers (being ICG funds, direct and co-investments, and secondary positions), while, in the former, the underlying company selection is delegated to the third-party managers. Again, this provides a balance among managers within an overall consistent strategic framework. HC investments have, on average, yielded ca.5%-6% higher annual returns for many years (rising to 10% outperformance in 3Q'FY'21 alone).

Getting to this balance from the October 2020 level of 46%, HC will be driven by new investments, portfolio growth and realisations.

New investments actively managed to the opportunity and liquidity

The chart below shows that HC investments averaged 42% of new investments over 2017-20, having reached a high of 49% in FY'19. This reflects the high hurdle rate required before an investment is classified as HC, the availability of such investments and ICGT's liquidity. The sharp drop in 1HFY'21 (19% 1Q, 5% 2Q) is, we believe, reflective of both the limited availability of attractive deals in the middle of the crisis and ICGT managing liquidity – commitments to third-party funds could have been drawn at any time outside ICGT's control, but the timing of HC investments is directly under its control. In line with the rest of the PE market, we believe more opportunities are now available. There is greater confidence in the macro outlook, as well as clearer price visibility, especially for businesses that have been relatively unaffected by COVID-19, and so are likely to meet ICGT's defensive growth strategy. ICGT's commentary, with its results announced in early October, that it had a strong pipeline in HC investments, has seen the proportion of new investments rapidly recover to 42% – its medium-term average.

New investments by financial year (%)



Source: ICGT 3Q'FY'21 Update and Report and Accounts, Hardman & Co Research

Portfolio growth

The HC portfolio has been consistently achieving better growth (ca.19% p.a. five-year average) than the third-party fund of funds book (ca.14%). In 3Q'FY'21, the gap was 10%. *Ceteris paribus*, this relative growth would see the HC portfolio's proportion of the overall book increase by ca.1% p.a., or from 46% in October 2020 to 50% by October 2027.

Realisations

Realisations are partially outside ICGT's control in that, for underlying companies, it depends on who wants to buy them and the GP's willingness to sell. ICG may have some influence with the GP, but it does not have control. We understand that, to date, realisations across the two portfolios have shown broadly similar characteristics over the medium term. As evidenced in 9MFY'21, though, ICG managers do have control of realisation by the secondary sale of fund investments.

Ongoing portfolio management

Geographical diversification

The chart below shows how the geographical distribution of the business has evolved – measured by location of the investee company head office.

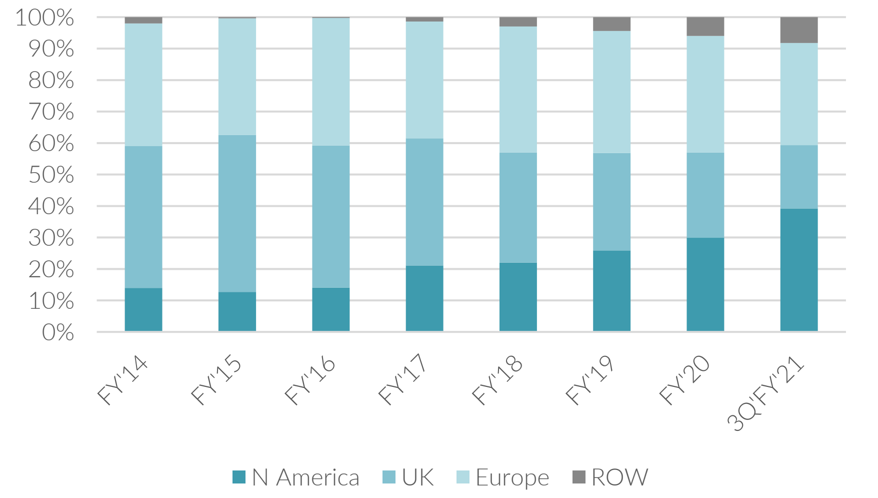
Global expansion facilitated by ICG's global presence

- Until 2016, and the move of the investment team from Graphite Enterprise to ICG, the UK accounted for broadly half the portfolio. ICG is a global business operating in 14 countries and with a strong presence in the US. This brings regional expertise and relationships that have seen the non-UK presence increase from 50% in FY'15 to 80% at end-October 2020. At that date, sterling undrawn commitments were just 10% of the total.

Secondary sales accelerated process in 9M'FY'21

- The UK has been on a steadily reducing trend, which was accelerated somewhat by the Graphite fund secondary sale. Total secondary sales in the first nine months generated £72m of proceeds and released £42m of undrawn commitments.
- It is worth noting that, while the chart below shows the headquarters of investee companies by geography, many are international/global businesses in themselves. By way of example, Berlin Packaging is registered as a US business, but it is a global provider of packaging services and supplies.

Portfolio by geography (%, by head office location of investee company)



Source: ICGT Report and Accounts and 3Q Update, Hardman & Co Research

Liquidity management

The chart below shows ICGT's liquidity evolution from December 2007 to its 3Q updates. Liquidity management is important to minimise cash drag and ensure that the balance sheet is used optimally. There are a number of trends we note, including:

Over-commitment being brought in line with peers

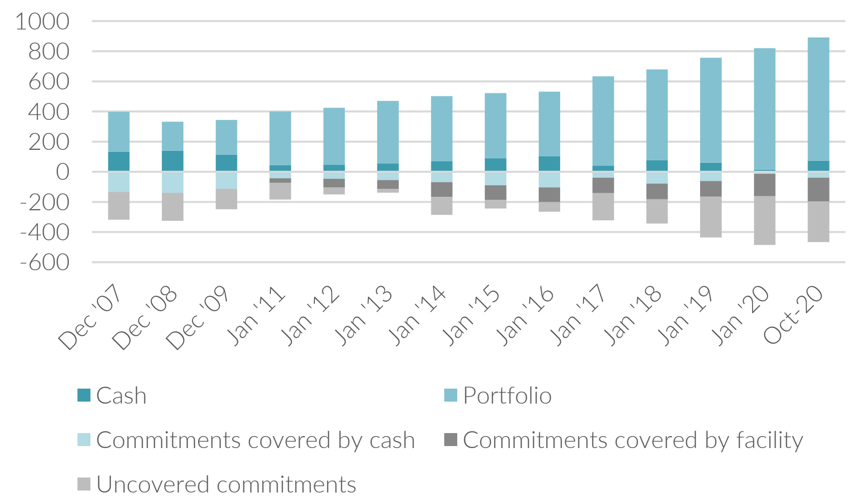
- "Over-commitment" (i.e. commitments in excess of current cash and facilities) is, we believe, a sensible policy to optimise returns, as commitments are likely to be drawn over many years, and some of them, ultimately, are never drawn (£74m of £431m end-October commitments were to funds outside their investment period). The drawings potentially represented by over-commitment may be expected to be paid from realisations. There is a strong annual correlation between realisation and commitment calls – not least as many calls are made to fund the purchase of an asset by one PE house from another. This relationship held good through the GFC, and has done so again through COVID-19. In the past, ICGT was arguably over-prudent; for example, in the years 2012-16, the average over-commitment was just £62m. This would reduce returns for investors relative to peers who were more highly geared. As can be seen in the chart below, ICGT's over-commitment level has been increased since, and it is now broadly in line with that of its peers.

Cash increased more than fivefold in nine months to end-October 2020

- When required, the balance sheet can be rapidly managed to create liquidity. In the nine months to October 2020, cash positions increased more than fivefold, and the over-commitment was reduced by a sixth. Compared with the past, secondary markets are significantly more liquid, and ICGT used these to sell some historical Graphite positions and generate cash.

- Not shown on the chart is the intra-period drawing and repayment of a funding facility, which also enhanced liquidity.

Over-commitment structure (£m)



Source: ICGT Report and Accounts and 3Q update, Hardman & Co Research

Engagement with investments through COVID-19

ICG and ICGT actively engaged in supporting GPs and investee companies

Optimal portfolio construction is not a static phenomenon. ICGT does not simply make an investment and forget about it. Rather, it is closely tapped into what is going on with underlying investments through engagement with GP managers and, through them, with its direct investments and co-investments. Additionally, there is active improvement of returns by the management of the portfolio itself – through purchases/sales.

In its 17 June 2020 1Q (to end-April) update presentation, ICGT revealed that it had carried out a detailed assessment, covering 84% of the portfolio, based on discussions with the underlying managers, as well as a review of the recent financial performance and liquidity of the underlying companies. It did not merely sit back and take the GP managers' reports; rather, it actively and regularly engaged with them to discuss options, and cross-fertilise ideas and best practices, especially where the underlying company was high-risk.

ICGT believes this process was helped by its manager selection (see earlier section), which means that its managers and ICGT have a common approach and culture. The relationship is enhanced by continued commitments to them throughout the crisis.

Visma as a case study

Visma is a leading provider of accounting, resource planning, payroll, HR and other ERP software products to SMEs and the public sector in the Nordics and Benelux. It benefits from a defensive business model, with a high proportion of contractually recurring revenue, and ca.100% cash conversion. The mission-critical nature of its software means that customer churn is low. ICGT first invested in Visma in 2014, alongside Cinven. In 2017, ICG Enterprise co-invested €9m alongside ICG Europe VI and funds managed by Hg Capital.

In August 2020, Hg Capital led a further majority investment in Visma, valuing it at $12.2bn. This investment was made alongside new investors, Warburg Pincus and TPG, as well as existing investor CPPIB, and bought out some previous investors. ICG Enterprise re-invested $5m alongside Hg Saturn 2, out of the proceeds received from a partial realisation of its original co-investment alongside ICG Europe VI.

Financials

3Q'FY'21 results highlights

- 3Q'FY'21 NAV per share stood at 1,243.0p, representing a 10.7% total return over the quarter and a 9.6% total return over the previous nine months. This was well ahead of consensus and our estimates. The July NAV was 1,126p, and announced realisation gains had taken this to 1,164p over the quarter.
- Strong underlying investment gains resulted in a 12.1% local currency portfolio return in the quarter, and a 12.5% sterling return. HC investments experienced strong local currency returns of 17.6%, while third-party funds generated 7.6% local currency returns.
- Realisations saw significant uplifts to carrying value (40% uplift to carrying value against medium-term average of 33%) and at a 2.4x multiple to cost, in line with recent historical trends. In total, realisations generated proceeds of £94m from 22 full exits and a further £72m from secondary sales (which released a further £42m of undrawn commitments).
- There was continued investment activity of £30m in the quarter, of which 42% was invested into HC investments.
- Dividends for the nine months totalled 15p per share (our full-year forecast is 24p).

Portfolio/balance sheet

- The HC portfolio increased from 41% in January to 46% of the total in October.
- Period-end cash of £73m (January £14m) and the undrawn £158m facility give ICGT liquidity of £231m against commitments of £431m (of which £74m are outside their investment period).

Outlook

Management advises that the "Momentum has continued since period-end, with a healthy pipeline for High Conviction Investments and Third-Party Funds", and talks of its "Continued commitment to progressive dividend policy". Since the period-end, there have already been £38m of agreed realisation proceeds (City & County Healthcare), £27m of investments into HC investments and £35m committed to third-party funds.

We have increased our January 2021 NAV forecast from 1,164p to 1,269p, driven by the greater-than-expected gains seen in 3Q.

Income statement (£000)

Year-end Jan	2020			2021E			2022E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends	4,186		4,186	3,892		3,892	4,217		4,217
Overseas interest & dividends	2,874		2,874	7,784		7,784	8,434		8,434
Deposit interest & other	381		381	381		381	381		381
Realised gains on investments		14,686	14,686		15,568	15,568		16,869	16,869
Unrealised gains on investments		70,974	70,974		80,000	80,000		101,213	101,213
FX gains & losses		208	208		1,000	1,000			0
Investment Manager fees	-2,393	-7,179	-9,572	-2,173	-6,518	-8,691	-2,433	-7,298	-9,731
Other expenses	-1,738	-1,494	-3,232	-1,825	-1,494	-3,319	-1,934	-1,494	-3,428
Return before finance costs & taxation	**3,310**	**77,195**	**80,505**	**8,060**	**88,556**	**96,616**	**8,665**	**109,290**	**117,955**
Interest payable & similar expenses	0	0	0	-500	0	-500	0	0	0
Return on ord. activities before taxation	3,310	77,195	80,505	7,560	88,556	96,116	8,665	109,290	117,955
Taxation	-538	538	0	-1,285	1,285	0	-1,473	1,473	0
Return on ord. activities after taxation	2,772	77,733	80,505	6,274	89,841	96,116	7,192	110,763	117,955

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2015	2016	2017	2018	2019	2020	2021E	2022E
Non-current assets								
Unquoted investments	357,830	356,939	491,099	478,362	519,806	571,143	621,711	666,637
Quoted investments	4,962	0	364	1,733	1,655	1,231	692	692
Subsidiary investments	56,217	57,168	80,718	96,392	148,611	206,042	221,042	269,198
Total non-current assets	419,009	414,107	572,181	576,487	670,072	778,416	843,445	936,528
Current assets								
Cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	27,236	34,518
Receivables	4,177	4,038	2,384	10,410	548	1,142	2,189	2,569
Total assets	**513,323**	**521,976**	**613,087**	**665,286**	**731,246**	**794,028**	**872,870**	**973,615**
Creditors	6,459	634	354	963	386	483	500	500
Gross debt								
Net assets	**506,864**	**521,342**	**612,733**	**664,323**	**730,860**	**793,545**	**872,370**	**973,115**
NAV per share (p)	695.16	730.93	871.05	959.14	1,056.51	1,152.12	1,268.61	1,415.14

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end Jan	2015	2016	2017	2018	2019	2020	2021E	2022E
Sale of portfolio investments	132,953	89,941	50,338	160,712	135,461	107,179	90,000	90,000
Purch. of portfolio investments	-102,185	-56,213	-102,621	-99,601	-101,790	-95,417	-45,000	-50,000
Net cashflows to subs. investments				-12,824	-32,427	-34,446	-15,000	-15,000
Interest income	8,382	8,951	7,263	15,967	3,994	5,832	5,832	5,832
Dividend income	5,458	2,882	2,629	6,230	1,883	1,290	5,844	6,820
Other income	644	384	259	129	216	381	381	381
Investment Manager charges paid	-5,815	-5,840	-6,143	-7,090	-7,956	-9,499	-8,691	-9,731
Other expenses	-983	-1,269	-1,380	-1,456	-1,749	-1,227	-1,250	-1,250
Net cash inflow/(outflow) from op. activities	38,454	38,836	-49,655	62,067	-2,368	-25,907	32,116	27,052
Cashflows from fin. activities								
Bank facility fee	-1,651	-1,963	-1,089	-1,320	-1,081	-2,576	-2,576	-2,576
Interest paid						-61	-500	0
Proceeds from borrowing							0	0
Purchase of shares into treasury	0	-9,110	-6,201	-7,810	-709	-2,628	-770	0
Dividends	-11,302	-14,816	-11,357	-13,896	-14,543	-15,192	-16,504	-17,192
Net cash inflow from fin. activities	-12,953	-25,889	-18,647	-23,026	-16,333	-20,457	-20,350	-19,768
Net increase in cash & cash equiv.	25,501	12,947	-68,302	39,041	-18,701	-46,364	11,767	7,284
Opening cash & cash equiv.	65,390	90,137	103,831	38,522	78,389	60,626	14,470	27,236
FX effects	-754	747	2,993	826	938	208	1,000	0
Closing cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	27,236	34,518

Source: ICGT Report and Accounts, Hardman & Co Research

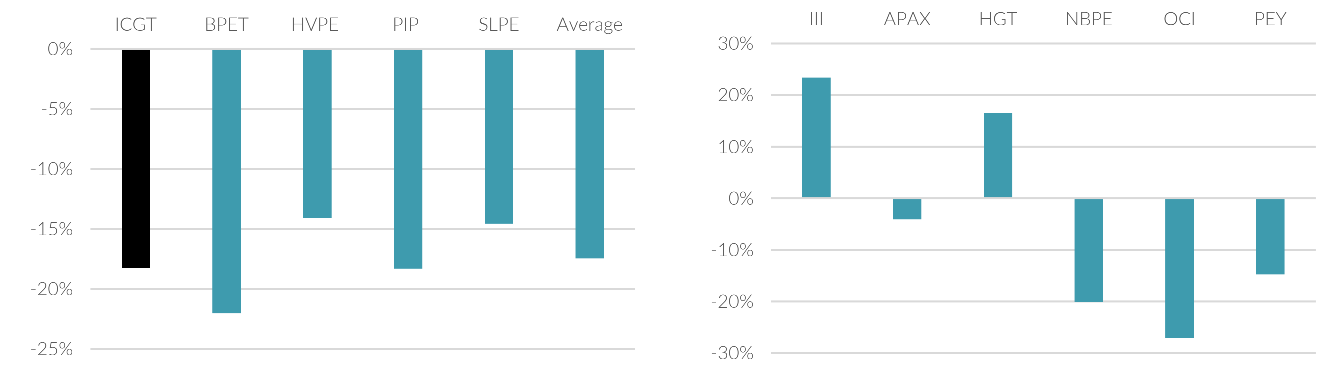
Valuation

Most fund of fund peers at similar discounts, despite differing risk/reward profiles. Given factors outlined throughout this report, ICGT's discount, in both absolute and relative terms, while shrinking, still appears anomalous.

One of the more noticeable features of the discounts for fund of fund PE investment companies is the remarkable consistency between most of the companies investing in funds and the huge variability in funds investing directly. *Prima facie*, it appears that the market has a broad concern with the whole sector (as evidenced by the fund discount). The most obvious factors would be i) sensitivity to the cycle (ICGT's NAV fell just 3% in one year in the early 1990s' hard recession), ii) lack of confidence in illiquid and unquoted assets (ICGT is structured to avoid being a forced seller, and has lower over-commitments than its peers), iii) lack of confidence that the NAV is a realistic reflection of the underlying companies – discussed in detail above, including timing issues re COVID-19 market falls, and iv) fees (ICGT's three-year return is above peers after all costs). Taking an absolute, rather than relative, rating perspective, it appears anomalous that a company with such a long track record of consistent outperformance would trade at a discount to NAV.

Since our initiation on 6 July 2020, ICGT's share price has increased by 39%, against its peers' average increase of 22%. Consequently, its discount to NAV is now in line with the peers' average.

Current share price discount to January NAV (ICGT's last reported NAV) for immediate peers (LHS) & wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 18 February 2021

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